

Annual Report 2010



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 to it with a view to minimising risk. The EAA sees itself as a financial institution specialised in professionally solving problems associated with complex international portfolios. As a public law agency, the EAA has a very important social responsibility that we, the Managing Board and the employees, take very seriously.

EAA Portfolio Development



EAA Key Figures

| | 01.07.2010– 31.12.2010 €millions | 11.12.2009– 30.06.2010 €millions | Overall year Pro Forma €millions |
|---|--|--|--|
| Income statement | | | |
| Net interest income | 121.3 | 206.8 | 328.1 |
| Net commission income | 9.8 | 18.4 | 28.2 |
| Other income/Expenses | 7.6 | 0.6 | 8.2 |
| General administrative expenses | -69.2 | -24.9 | -94.1 |
| Results prior to risk provisioning | 69.5 | 200.9 | 270.4 |
| Loan loss provisions | -655.9 | -1,255.7 | -1,911.6 |
| Results from financial assets and shareholdings | -11.0 | 6.8 | -4.2 |
| Annual earnings (before taxes) | -597.4 | -1,048.0 | -1,645.4 |
| Taxes on income and earnings | -2.2 | 0.0 | -2.2 |
| Annual earnings (after taxes) | -599.6 | -1,048.0 | -1,647.6 |
| Balance Sheet | | | |
| | €billions | €billions | €billions |
| Total assets | 49.3 | 52.5 | 49.3 |
| Business volume | 60.8 | 68.2 | 60.8 |
| Loan transactions | 35.0 | 47.3 | 35.0 |
| Winding-up | | | |
| | €billions | €billions | €billions |
| Nominal volume | 63.8 | 71.3 | 63.8 |
| Winding-up activities | -7.5 | -6.2 | -13.7 |
| Winding-up activities in % | -10.5 | -7.9 | -17.7 |
| Number of employees | 28 | 14 | 28 |

| Rating | Short-term Rating | Long-term- Rating |
|---------------------------|----------------------|----------------------|
| Moody's Investors Service | P-1 | Aa1 |
| Standard & Poor's | A-1+ | AA- |
| Fitch Ratings | F1+ | AAA |

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“ The figures presented here show that we are on the right track. At the end of 2010 we had already wound up approximately one-fifth of our original portfolio of €77.5 billion. This puts us ahead of plan. ”

Matthias Wargers and Markus Bolder, Members of the Managing Board

Dear Stakeholders,

The Erste Abwicklungsanstalt (EAA) has adjusted its financial year and is already presenting its second set of annual financial statements as at 31 December 2010. At the end of our first abridged financial year we made the following forecast: the operational start-up phase has been concluded and we are now intensively engaged in winding up our portfolio. As the latest figures demonstrate, we are certainly on the right track.

At the end of 2010 we had already liquidated approximately one-fifth of our original portfolio of €77.5 billion, exceeding our expectations in terms of both scope and net result.

Risk provisioning was another focus of our activities during the past year. Our employees systematically analysed the portfolio in order to reliably estimate the expected losses, both for the high-risk Phoenix portfolio and for the other loan portfolios. As a consequence, we recognised allowances for losses on loans and advances in the calendar year 2010 totalling approximately €2 billion in respect of possible future defaults and losses.

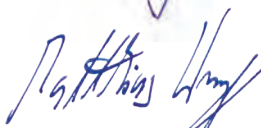
This is why the EAA was established with its own equity capital. Even after having recognised risk provisions, we have access to another €1.5 billion to cover currently unforeseeable risks over and above this amount.

We therefore remain committed to our goal of reducing the portfolio transferred to us swiftly without needing to call upon the EAA stakeholders' guarantee and their duty to offset losses.

The winding-up agency model is functioning. Our employees as well as our service providers are exceptionally committed to their work, although this may not always be easy for outsiders to understand. That is why this report contains not only our financial statements but also an open and frank discussion covering critical issues as well. Furthermore, we have invited external experts to share their comments on our work.

The objective of this annual report is to foster transparency. We wish you stimulating reading.

Sincerely



Matthias Wargers

Member of the Managing Board



Markus Bolder

Member of the Managing Board

Alternative concepts for saving troubled banks

As part of the stabilisation of the financial markets, the EAA has the task of winding up the risk exposures and businesses/assets transferred to it in a risk minimizing and cost efficient way. To fulfil this task, it received both equity capital as well as government guarantees when it was established on 11 December 2009. The extent to which this will ultimately weigh down on the public purse is the subject of – often quite controversial – discussion. Prof. Dr. Markus Rudolf of the WHU – Otto Beisheim School of Management addresses the question of how the construction of a winding-up agency can be evaluated from a public finance perspective.

Bank crises cannot be compared with those in other sectors: when systemically important financial institutions falter, they can seriously endanger the stability of an entire economy. That is why, when such cases occur, government support measures are always called for. Since the beginning of the financial crisis in 2007, the governments of many countries have intervened in the banking system, some of them drastically.

There are several ways of handling the toxic loan portfolios of banks. The decisive question is how much, in total, taxpayers are burdened under each individual method.

Basically, there are two different ways in which governments can regulate the liquidation of such “bad assets”. Firstly, direct government support for the liquidation of distressed loan portfolios as an internal unit (the so-called IRU model – or “Institutional Restructuring Unit”) and, secondly, the establishment of a legally independent or partially independent asset management company operating outside the bank (referred to as a “bad bank”).

Such an institution – having received sufficient equity capital and guarantees from the government and/or the owners – pools and manages distressed and/or non-strategic loans (see Kvarnström and Ortwein, 2006, p. 1451). Establishing a “bad bank” can offer several advantages (see Wittler, 2006).

1. Cheaper refinancing

Particularly in the wake of the financial crisis, it has been desirable to give distressed loans a higher rating. A “bad bank” receives sufficient fresh capital from the government and/or its owners. In addition, the EAA has also received guarantees. The rating of the EAA therefore equals that of its guarantor, the German federal state of North Rhine-Westphalia, and lies between AAA (Fitch) and AA- (Standard & Poor’s). As a result, a winding-up agency has lower refinancing costs than the original bank. In March 2011, the rating of WestLB was A- (Fitch) and thus lower than EAA’s.

In addition, outsourcing high-risk loans typically also relieves the equity capital of the transferring bank.



“ For the taxpayer, the formation of a winding-up agency is a so-called “option to wait”. This represents a non-cash benefit and can therefore reduce the cost of state aid. ”

Prof. Dr. Markus Rudolf, WHU – Otto Beisheim School of Management

Prof. Dr. Markus Rudolf occupies the Dresdner Bank Chair of Finance at the private university WHU - Otto Beisheim School of Management.

2. Time advantage

Moreover, the time horizon of a bad bank is typically longer than that of an IRU. As an outsourced entity, it can afford to wait for more favourable capital market conditions before selling assets. It can restructure existing assets in order to locate a better market.

For stabilisation measures such as the creation of an IRU, a rate of interest is typically charged on the government-provided capital and becomes due for payment as soon as the institution returns to profitability. This interest rate currently stands at 9% per annum in Germany.

For the taxpayer, the formation of a winding-up agency is a so-called “option to wait”. This represents a non-cash benefit and can therefore reduce the cost of state aid.

3. Targeted expertise

Given that the cost-efficient liquidation of bad assets is its only business goal, the winding-up agency can focus its expertise and resources solely on this task. This targeted expertise can be helpful when it comes to making progress in managing problem assets.

4. Relief for the original bank

Likewise, outsourcing problem loans to a winding-up agency relieves the original bank of its “non-performing loans” (NPLs) and “non-strategic loans” (NSLs), thereby freeing previously tied-up resources and ensuring that the original bank can get back to work quickly.

It was precisely the incapacity of a number of banks – caused by the illiquidity of assets – that contributed to the escalating financial crisis that started in 2007. The transferring bank can then once again focus on its core business and its “good” assets.

The bad bank eases the burden of the original bank from a regulatory perspective as well. A winding-up agency is not a bank within the meaning of Section 1 of the German Banking Act (Kreditwesengesetz – KWG) and is not subject to banking regulation but is supervised under the German Financial Market Stabilisation Act.

Conclusion:

These four points speak in favour of the bad bank model. To achieve realistic provisioning rates for distressed assets, it is useful to manage these assets in a winding-up agency. It can benefit from good refinancing terms, and its provisioning requirements are lower than those of an IRU, for instance, since a bad bank has more time in which to manage the assets.


It will be a job for future researchers to conduct further scientific analysis on both the winding-up agency model and the IRU, and not just for the purpose of estimating the expected consequences for the taxpayer using model calculations based on real numbers. A broad analysis of the work of bad banks – historically as well as across different countries – will also be helpful in drawing objective conclusions from the measures being adopted to stabilise the financial markets.

Literature: Kvarnström, J. E. und Ortwein, B. (2006), Der Einsatz des Good Bank-/Bad Bank-Modells - Eine Erfolgsstrategie bei der Restrukturierung der Dresdner Bank, in U. Hommel, T. C. Knecht und H. Wohlenberg, eds, Handbuch Unternehmensrestrukturierung, Gabler, pp. 1451 – 1471.

Pinedo, A. T. (2009), Removing toxic assets from balance sheets: Structures based on the good bank-bad bank model, *Journal of Securities Law, Regulation & Compliance* 2 (4), pp. 289 – 309.

Saunders, A. u. L. A. (2002), *Credit Risk Measurement*, 2 edn, John Wiley.

Wittler, U. (2006), Die Bedeutung einer “Bad Bank“ für die Strukturveränderung im deutschen Bankengewerbe, in H. Tietmeyer und B. Rolfes, eds, Banken auf der Suche nach strategischem Profil, Springer, pp. 107 – 118.



“ Whether it is shareholders or taxpayers – nobody wants to be confronted with further unexpected losses. The EAA’s unique and innovative structure is designed to ring-fence the portfolio from volatile market movements to allow EAA to pursue a systematic asset disposal strategy. ”

TJ Lim, UniCredit

TJ Lim is Executive Vice President, Global Co-Head of Markets for UniCredit Group in London. He has oversight of the Strategic Portfolio Assets including activities in illiquid and Special Assets.

Reality Check

The public is very keen to find out more about the assets and activities of the EAA. Yet the particular characteristics of its portfolio often give rise to a number of misconceptions. A reality check gets down to the facts.

Gabriele Müller, Head of Portfolio Strategy



Heider Mehlhorn, Portfolio Management



Claus Dülfer, Portfolio Strategy



The winding-up agency – a place for primarily worthless assets?

No. The EAA portfolio only partially consists of highly risky assets. Of the loans and tradable securities that together account for almost two-thirds of the total portfolio, less than 10% have an elevated default risk.

“ The vast majority of the assets transferred are of satisfactory quality. ”
Gabriele Müller

In the EAA portfolio, a total of 57% of the assets have very good to average ratings and nearly a quarter of them have a very good rating.

Are genuinely successful liquidations only possible at the outset? Are the valuable securities cashed in first, leaving taxpayers sitting on the rubbish?

Not at all. The EAA follows a strict winding-up plan approved by its supervisory bodies. As a rule, it only sells assets when they can be expected to positively contribute to the winding-up plan. Specific disposal proceeds, carrying amounts, expected losses as well as the interest income and the refinancing expense are taken into account.

“ It is not standard practice to routinely sell off particularly valuable assets quickly. ”
Gabriele Müller

Even the structured financial products within the EAA portfolio, many of which are classified as toxic, are not necessarily unsellable in the long run. The fact that the EAA does not have to follow a strict time schedule allows it to react flexibly to fluctuating economic conditions.

The EAA holds large quantities of government bonds from countries in crisis. Can we expect another billion-euro hole in the future?

This is not quite correct. Approximately 10% of the original EAA portfolio is comprised of bonds from the so-called PIIGS countries* – not just sovereign bonds, but also bank bonds that are largely of a good quality. The majority of these bonds, with a total value of around €5 billion, are from the more stable countries Italy and Spain. The EAA involvement with the the Irish papers is limited. The Portuguese and Greek bonds represent a total value of around €3 million. A substantial portion of the Greek bonds will mature by 2013, and until then, Greece is supported by the EU rescue package. The Portuguese bonds will mature much later. However, the EU also offers Portugal the necessary financial support should it be needed.

“ The EAA is under no pressure to sell hastily, which would mean realising current fair value losses. ”
Heider Mehlhorn

“ European politicians have implemented the measures necessary to stabilise the markets in countries suffering from financial hardships. ”
Claus Dülfer

* Portugal, Italy, Ireland, Greece and Spain

Hartmut Rahner, Head of Treasury



A large part of the portfolio is denominated in foreign currencies. Does this make the EAA even more vulnerable to losses?

Approximately 50% of the EAA assets are denominated in foreign currencies, primarily US dollars. However, the EAA hedges against exchange rate fluctuations using standard market instruments. The aim is to align the volumes of assets and liabilities in each currency such that changes in the euro equivalent caused by fluctuating exchange rates cancel each other out.

“ Ideally, the EAA refinances part of its assets directly in foreign currencies. ”
Hartmut Rahner

In the future, the EAA will regularly issue US dollar denominated bonds in the international capital markets. In the meantime, the liquidity required in US dollars will be procured by way of euro issues combined with foreign currency hedges.

The EAA's foreign exchange management is basically similar to that of a commercial bank, but operationally much simpler: the portfolio is relatively static because the EAA does not transact any new business. The risk minimisation rule defined in the management principles means that the EAA does not utilize risk positions for currency hedging purposes either.

“ It would be wrong to say there is an increased risk of loss due to exchange rate fluctuations. ”
Dr. Frank Weidner

Dr. Frank Weidner, Head of Market Risk Management





“ The EAA is deliberately creating a global network of specialised investors. In this way, it can both secure its refinancing both in the euro and dollar markets, and identify global trends at an early stage – a key condition for choosing the right timing for liquidating the portfolio. ”

Martin Schlosser, Citigroup

Martin Schlosser is a Managing Director at Citigroup Global Markets Deutschland AG in Frankfurt, where he is responsible for fixed income sales, multi-asset sales and strategic solutions.



“ The EAA bears the economic risk of the Phoenix portfolio in the event that the actual losses exceed the existing guarantee commitments totalling €5 billion. From today’s perspective, the risk provision recognised in this respect is sufficient. ”

Enno Balz, Structured Securities

Phoenix – a special case in the EAA portfolio

When people talk about high-risk assets in the EAA portfolio, they are generally referring, above all, to the so-called Phoenix portfolio. This includes structured securities that dramatically depreciated in value due to the collapse of the US real estate market. The actual structure of interest and principal payments, and of liabilities and liability mechanisms is complex.

Phoenix is a special purpose vehicle that operates under the name of “Phoenix Light SF Ltd.”, is headquartered in Dublin, Ireland, and finances its operations by way of asset-backed securities (ABS) bonds.

ABS bonds

Unlike an investment fund, an ABS company does not issue fund units but uses bonds to finance the purchase of its assets. In general, these bonds are divided into various tranches, each one having its own level of seniority (ranking) and thus a different default risk. The bonds from the most senior tranche are serviced first. This is why the ABS bonds have varying risk-return profiles: the tranches with higher rankings entail a lower risk of default – but also offer a lower return.

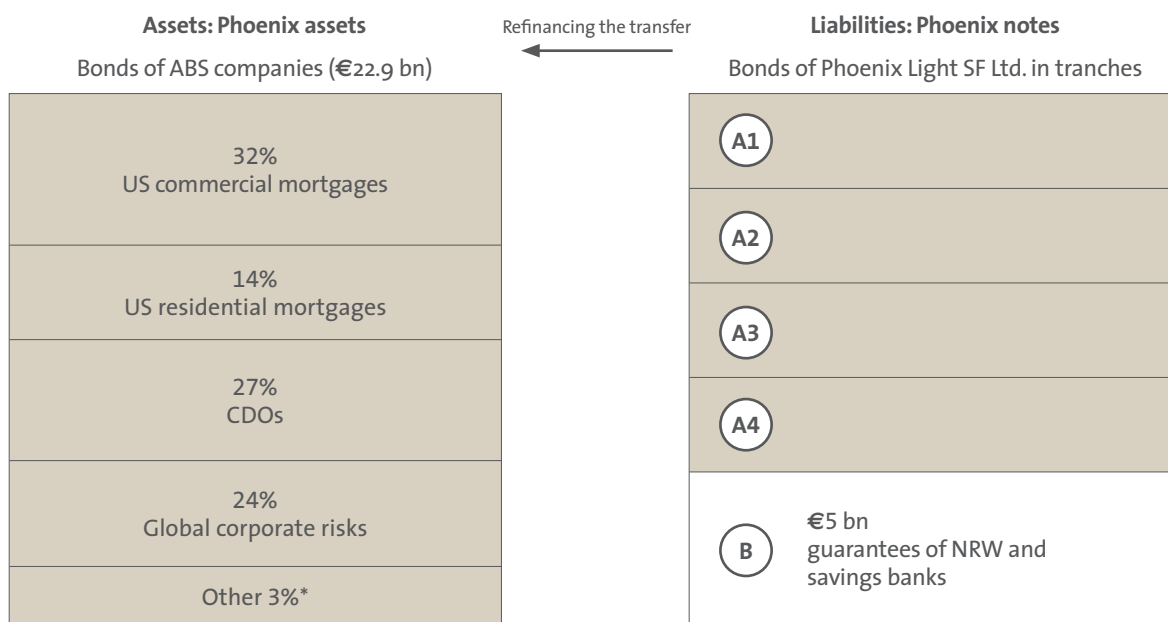
Within such a construction, the assets side is usually made up of loans. At Phoenix, it includes tranches from other ABS companies which themselves also hold portfolios of loans. These so-called “Phoenix assets” on the assets side of the Phoenix balance sheet are financed, on the liabilities side, by the so-called “Phoenix notes”. At Phoenix, there are tranches in different currencies (euro and dollar) and with different levels of seniority, which means they each have a different risk profile (see chart p. 16).

Phoenix assets and Phoenix notes

When WestLB spun off its original ABS exposures of Phoenix Light SF Ltd. as at 31 March 2008, it acquired in return all the Phoenix notes and thus safeguarded the financing of Phoenix. In this context, the repayment of the lowest-ranking B tranche was guaranteed by the German federal state of North Rhine-Westphalia and by that state’s Sparkassenverbände and Landschaftsverbände, with losses of up to approximately €2 billion being divided among them. If this amount is exceeded, the federal state bears the next €3 billion in losses alone. All in all, this means that an amount of €5 billion is covered against losses as it falls under the guarantee and counter-guarantees of the federal state and the Sparkassenverbände and Landschaftsverbände.

This commitment to provide cover served to stabilise WestLB. In this context, it was also agreed that the US capital market specialist firm Pimco – a subsidiary of Allianz Group – should manage the Phoenix assets. Since then, Pimco has been preparing all the portfolio-related decisions, although the Phoenix guarantor and the guarantors under the counter-guarantees have the final say.

Phoenix balance sheet



* Including US consumer loans etc

The EAA has only taken over the Phoenix notes

After the EAA was established, the Phoenix notes – but not the Phoenix assets – were transferred to the EAA portfolio in two steps in 2009 and 2010. This does not change the construction of the special purpose vehicle. It also means that the EAA has no direct say in the management of the Phoenix assets. The EAA acts as a moderator and in an advisory capacity in decision-making processes and, with Pimco, develops proposals aimed at achieving the strategic liquidation of the portfolio.

As the owner of the Phoenix notes, the EAA alone bears the economic risk of this portfolio in the event that the actual losses exceed the guarantee commitments provided by the federal state and the savings banks.

Portfolio structure

Around 70% of the Phoenix assets are ABS tranches whose repayment is directly or indirectly dependent on commercial or private mortgages in the United States. The other just under 30% comprises consumer or corporate loans and constitutes more than a million individual exposures overall. Given the particular structure of ABS companies with tranches of different seniority, small changes in the market and minimal shifts in default probabilities can give rise to much heavier losses on the Phoenix notes.

The repayment of the Phoenix notes depends on the performance of the Phoenix assets

For the majority of the mortgages underlying the Phoenix assets, the debtor is only liable in the amount of his invested capital. It is thought that the homeowners do not normally regard the mortgaged property as a long-term investment but expect the real estate to appreciate in value. The mortgages involved are thus speculative loans. Furthermore, under the terms of most of these mortgages, the principal balance remains untouched or largely unchanged, meaning that the principal is not paid down as part of each instalment but falls due upon maturity out of the proceeds from the sale of the property.

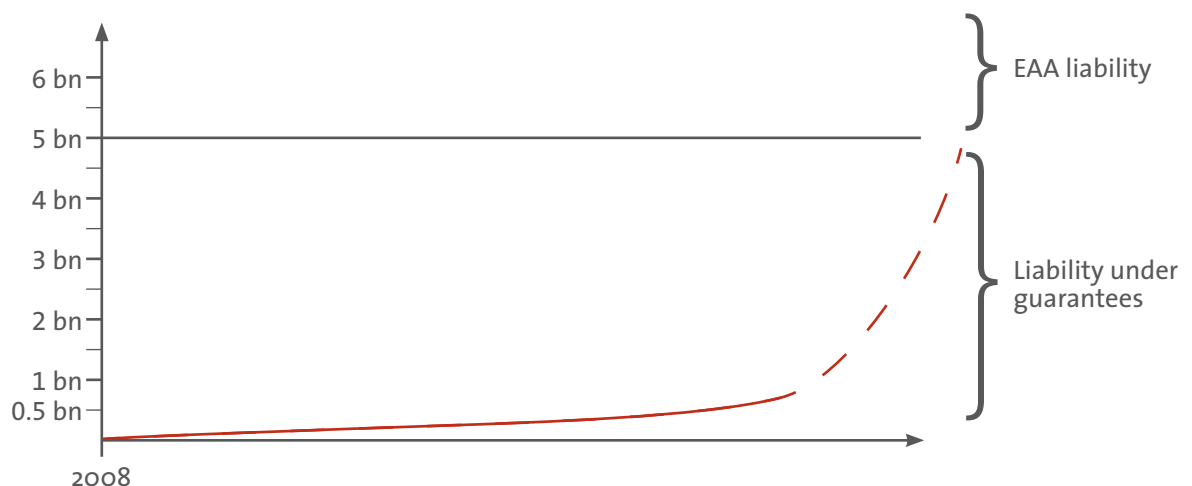
The repayment of the Phoenix notes is closely related to the development of the US residential housing market. The situation there remains difficult and may lead to a further rise in default rates.

The actual development will depend on a variety of factors: firstly, a possible increase in US interest rates. This would also raise the monthly payments for variable-rate mortgages. Many debtors may then decide to no longer service their loan.

Secondly, the legal dispute regarding foreclosures in the United States will also have an impact. There are currently millions of pending cases. The longer these take, the higher the risk of rising losses due to the resulting costs and uncertainty. And thirdly, the economy and above all the development of the labour market in the United States will also impact upon future foreclosure rates.

The higher the losses recorded by the securitised US mortgages are, the higher the defaults among the Phoenix assets will be, resulting in a higher risk profile for the Phoenix notes.

Liability for Phoenix losses



Irrespective of this, the markets are regularly examined to assess whether there are any opportunities for active portfolio measures and, if there are, appropriate steps will be taken.

When which guarantees are called upon

All the guarantees that mature in the foreseeable future for Phoenix are solely attributable to defaults among the Phoenix assets. If the special purpose vehicle is then no longer in a position to service the Phoenix notes, the issuers of the guarantee and the counter-guarantees will cover these defaults up to an aggregate total of €5 billion. Losses on the Phoenix exposures might result in these guarantees, which were issued in

2008, i.e. before the EAA was formed, being called upon to a greater extent in the years ahead. However, the EAA will only make a loss when the Phoenix notes are in default by more than this sum of €5 billion.

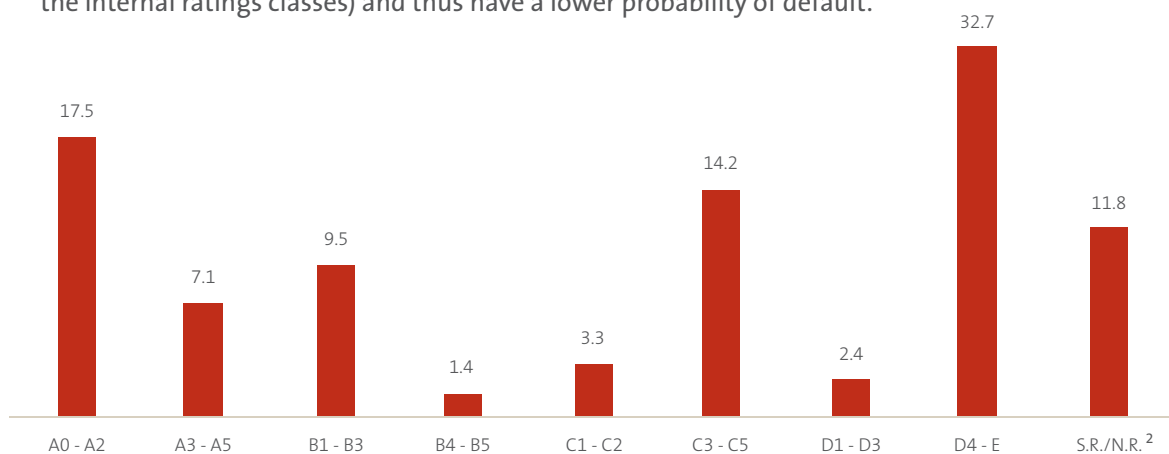
Conclusion

As things stand at the moment, the EAA assumes that the actual loss will in future amount to nearly €1 billion over and above the guarantees. The EAA has already recognised allowances for losses on loans and advances for this amount in its balance sheet for the first abridged financial year 2009/2010 (see p. 20). At the EAA, this amount is sufficient, from today's perspective, to cushion losses arising in the future in the Phoenix portfolio.

Internal Ratings for Phoenix assets

in %¹

- ▲ The ratings structure of the Phoenix assets can be broadly divided into two groups. Just under 40% of the papers are risk exposures with good ratings (up to C2 based on the internal ratings classes) and thus have a lower probability of default.



■ as at 31 December 2010

¹ Excl. exchange rate effects

² Special rating/not rated



“ The EAA is facing a special challenge. The very broad scope of its portfolio comprises a large number of low-risk assets alongside highly complex securities. To find optimum solutions, the EAA has to develop strategies specially tailored to each portfolio component. ”

Gunnar Regier, J.P. Morgan

Gunnar Regier is Head of Markets for Germany & Austria | IB Markets at J.P. Morgan Securities Limited in Frankfurt. He caters for institutional investors, particularly in the derivatives segment.

Risk provisioning – the facts

Risk provisions are recognised to take account of losses that are expected in the long term but which have not necessarily occurred yet. They have given rise to a net loss for the year under review and reduced the volume of equity capital. However, if the expected losses do materialize in the future they will not have a negative bearing on the EAA for a second time.

Principles

It is the legal mandate of a winding-up agency to analyse the possible risks of the transferred portfolio in detail and to minimise these risks as far as possible. Residual risks must then be accounted for in its annual financial statements. This is why the EAA was equipped with a total of €3.1 billion in equity capital upon its formation. This sum serves as a buffer for losses.

Implementation

The EAA experts did an initial analysis of the Phoenix portfolio during the first abridged financial year 2009/2010 (see page 15ff). Key portions of the so-called Phoenix notes, which were transferred to the EAA in December 2009 and April 2010, were last valued as at 31 December 2008. The EAA determined that over the calculated term of the papers, there was an additional risk of approximately €1 billion over and above the guarantee given for these notes.

The Phoenix portfolio was therefore re-valued and provisioned on 30 June 2010. The second abridged financial year ending 31 December 2010 is primarily characterised by the risk provisions for the rest of the portfolio, which particularly comprises loans.

The change in the market situation, particularly regarding the non-performing loans, new findings and stricter standards have resulted in risk provisions, in the form of specific allowances and direct write-offs, being stepped up by a total of approximately €529 million in the current financial statements.

Methods

In practice, there are several recognised procedures for estimating probability of default, loss given default and exposures at default for transactions entailing risks. In assessing the value of the Phoenix notes, the EAA decided, for example, to use prices stated by the US capital market specialist firm Pimco (the portfolio manager of the special purpose vehicle Phoenix). This method has led to a more sophisticated appraisal than would have resulted from a broad assessment via credit ratings and an estimation of probability of default, loss given default and exposures at default for the entire portfolio.

Practical example

The EAA is a creditor of a media company in another European country, with a credit volume of €28 million. The financial situation of the debtor has recently deteriorated. The repayment of the loan will ultimately depend on the outcome of ongoing settlement negotiations. By recording a specific loan loss provision, the EAA reflects and protects itself against the resulting risks.

Outlook

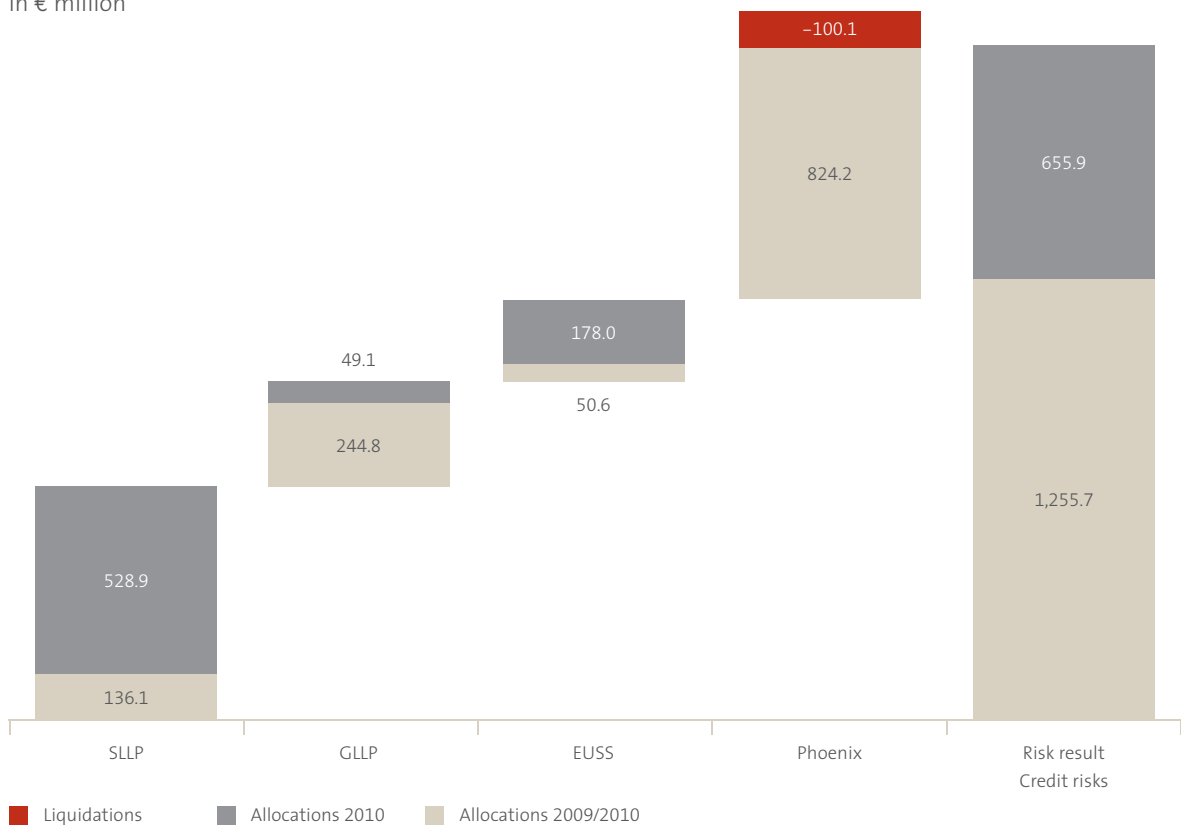
The extent to which the EAA will have to actually realise expected losses hinges on the future development of the financial markets. The allowances for losses on loans and advances

recognised by the EAA to date in the amount of approximately €2 billion take account of losses that may accrue long after the year 2010. According to current forecasts, future write-downs will not be anywhere near this amount.

Based on a current assessment, the equity capital of the EAA will therefore be sufficient to wind up the assets transferred at a minimal profit – as stipulated in the laws governing the EAA. If this succeeds, the EAA will require no financial assistance from the taxpayer under the guarantees.

EAA Risk Provisioning 11 Dec. 2009-31 Dec. 2010

in € million



Phoenix: Risk provisioning for the Phoenix notes (See page 15ff)
 EUSS: Risk provisioning for the European Super Senior Notes

SLLP: Specific loan loss provisions for the remaining loan portfolio
 GLLP: General loan loss provisions for the remaining loan portfolio

Sven Guckelberger, Head of Credit Risk Management



Thomas Wagner, Credit Risk Management



Gabriele Müller, Head of Portfolio Strategy



The EAA's day-to-day work – winding up exposures with a sense of proportion

The US market for hotel real estate has been on the road to recovery since mid-2010. And the EAA is looking to harness this upbeat trend to sell a variety of real estate exposures in its hotel portfolio (“Hospitality”) at the best-possible price. Real estate experts from around the world are providing valuable assistance.

It was gold and silver that brought wealth and prosperity to Park City in the US state of Utah in the 19th century. But then the mines succumbed to flooding and Park City, located in the Rocky Mountains, faced the unhappy prospect of becoming a ghost town. Its future only improved after the Second World War, when America discovered winter sports. Situated between three of the best skiing areas the United States has to offer, Park City became the “Kitzbühel” of the Rocky Mountains: the snowboarding, slalom and giant slalom competitions of the 2002 Winter Olympics in Salt Lake City were held here in ideal conditions. And the United States Ski and Snowboarding Association moved its headquarters to the city.

Even outside the winter season, there is still plenty of hustle and bustle in Park City thanks to the Sundance Film Festival, the most important meeting of independent filmmakers in the United States.

This small town – with around 7,000 registered inhabitants – is hugely important not only for the US skiing and tourism market, but for the EAA, too. A few years ago, WestLB financed two hotel and residential buildings in Park City. And these loans form part of the portfolio originally totalling €77.5 billion that the EAA has assumed.

Specialists for complex portfolios

The two hotel complexes in Park City are part of the so-called “Hospitality portfolio”, in which the EAA has pooled its global loan exposures for hotels and holiday properties. The loans are bundled by topic and sector within 16 portfolio segments. Most of these segments have a nominal volume of at least €500 million, with the largest amounting to around €4 billion. According to Gabriele Müller, Head of Portfolio Strategy at the EAA, every single loan exposure in each portfolio is subject to the same rules under the winding-up plan: “hold, sell, or – in exceptional cases – restructure”. Hold – if there is not a sufficient market at the present time. Sell – if the price is at least equal to the value stated in the winding-up plan, after taking account of all the expected income and costs over time, is more favourable than the alternative “hold”. Restructure – if this can improve the sales prospects. According to the winding-up plan, this overall strategy aims to halve the total assets of the EAA by the year 2014.

The segments are each managed by EAA specialists with in-depth expertise in the respective sectors – like Thomas Wagner, Executive Director at the EAA.

For nine years, Wagner, a chartered surveyor, was Head of Asset and Portfolio Management at Union Investment Real Estate, the real estate subsidiary of the fund company of Germany's Volks- und Raiffeisenbanken (cooperative banking group). He then taught at higher education establishments and advised international real estate investors.

“Real estate investments often require more intensive support than other types of exposure,” he says. “Particularly so for the 29 properties contained in the Hospitality portfolio.” 62% of the portfolio can be attributed to US projects, 30% to Europe, 8% to Asia (see chart Regional distribution of the Hospitality Portfolio).

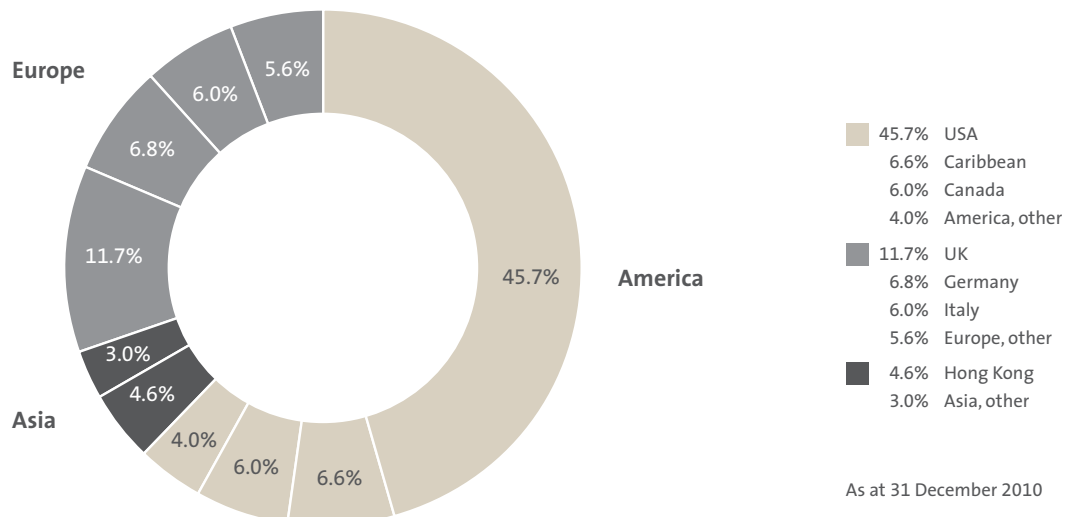
These exposures have a nominal value of around €1 billion. “However, the current book value and the winding-up target, which is largely derived from the book value and stated in the winding-up plan, are lower than that,” explains Sven Guckelberger, Head of Credit Risk Management at the EAA. This is due to a number of factors.

Firstly, the loan exposures were entered into under unfavourable conditions during the last decade. The market was already overheated, and the project developers were often driven by excessive levels of optimism. Secondly, these exposures involved special types of real estate that are subject to their own set of rules – like time share properties. And these projects were particularly affected by the real estate and financial crisis.

So while most of the 20 American properties in the hotel segment that are under the responsibility of the EAA are in the Class A segment and situated in the most exclusive locations – like the skiing resort of Park City, the Virgin Islands, Florida or New York – only a few of them have been run successfully enough over a number of years to allow the debtor to service the loans without difficulties. Others that only came onto the market more recently are proving difficult to sell, or have not even been completed. What is more, the EAA can only dispose over the properties in just a few cases – although it has the loan exposures in its books, it is not normally the owner.

Regional distribution of the Hospitality Portfolio

in % of the nominal volume



As at 31 December 2010

Intensive team work with service providers

„It would be much easier to sell 20 hotels from a budget chain,” Thomas Wagner grins, “but this is precisely why it is so important to deal intensively with the difficult cases.” After all, liability issues often need to be clarified, particularly in the Hospitality portfolio. Purchasers of time share rights go to court because their apartments still have not been completed. Or project developers go bankrupt. Or buildings are left incomplete because the money has dried up.

Almost every week, decisions need to be taken that can have an impact on the EAA's balance sheet. That is why risk management is particularly important. “The EAA's risk strategy is dedicated to minimising risk,” explains Sven Guckelberger. “The risks involved in difficult loan exposures are greater than those involved in loans to top-rated

customers.” So paying particular attention to the problematic cases is certainly a worthwhile task.

“Of course I cannot handle such a complex line of business all by myself in Düsseldorf,” says Thomas Wagner. “Managing and winding up a portfolio like this calls for a strong team and local expertise.” This is where the Portfolio Exit Group (PEG) comes in. Although PEG is a WestLB unit, the approx. 85 specialists there work exclusively on behalf and on the instructions of the EAA. PEG employees support the EAA with their specialist, market and sector expertise both locally in Düsseldorf and at important financial venues around the world: Tokyo, London and New York.

The PEG New York team was, and still is, a key player in the sales preparations for the Hospitality portfolio. The EAA approached this liquidation project with meticulous planning.

For sale, but not at any price

In the Risk Committee (RiskCo), EAA and PEG executives monitor credit risks week after week.

“So, a buyer would like to buy the loan at 100%. But do we really want to sell this loan right now?” EAA Managing Board member Markus Bolder sums up the deliberations of the Risk Committee meeting. “After all, the winding-up plan expects this loan to make a positive profit contribution.” Around a dozen senior executives of the EAA and PEG are in agreement: this loan is only to be sold if the buyer takes a loan with a lower credit rating at the same time.

To sell, or not to sell – that is often the question at the weekly meetings of the Risk Committee, one

of the standing committees of the EAA. This body subjects each individual case to a targeted analysis and, always bearing the winding-up plan in mind, passes resolutions for each one. PEG prepares detailed cover sheets and analysis papers for an average of ten to 20 loan exposures per week. Each individual case is discussed and decided upon. “It's important to discuss decisions,” says EAA Managing Board Member Matthias Wargers. “Only when risks have been assessed and evaluated transparently by all the relevant experts, can they be managed and monitored on an ongoing basis.”

At a meeting in New York last autumn, PEG and EAA employees met a variety of real estate specialists who rank among the top players in the US market – banks, real estate brokers and property developers – for a beauty contest. They asked the potential service providers to offer their assessment of three selected American properties from the Hospitality portfolio and to draw up recommendations for action.

Hotel investors display a higher interest

One of the world's biggest brokers was given the task of marketing a larger sub-portfolio, including the properties in Park City. For the most part, these objects are already up and running.


This makes it easier to find buyers and achieve a realistic price. The sales prospects look promising, at least for the majority of the properties in the marketed portfolio. This is because the EAA chose a good time to launch its marketing offensive – just as the real estate markets around the world are beginning to recover. “Since last summer we have seen an upturn in interest among hotel investors in the United States,” explains Gabriele Müller. “We want to take advantage of this window of opportunity.”

That is why the data for the relevant objects will be compiled, presented in a standardised format, and placed in a data room. Then, 30 to 35 potential investors will be given access to this information. “Ideally, we expect this approach to generate binding offers,” explains Thomas Wagner. In his expert opinion, the prospects for a successful sale are much more promising now than they were just a year ago: “Our objective is to implement this portfolio transaction by the end of the year.

It's an ambitious time scale, but it can be achieved as long as the real estate market remains upbeat.”

Furthermore, the EAA has commissioned another renowned service provider to assess the loans and real estate that have so far been classified as being less sellable. The aim here is to develop risk-minimising strategies for this part of the portfolio as well, and to take advantage of the general improvement in the market situation to dispose of these rather more sluggish properties, too.

But whatever happens, the rules of the winding-up plan are paramount. Thomas Wagner: “If the offers fall short of our expectations, the answer is always the same: we want to sell, but we don't have to.”

A black and white portrait of Wilfried Groos, a middle-aged man with dark hair and glasses, wearing a dark suit, white shirt, and patterned tie. He is looking directly at the camera with a slight smile. The background is a blurred office interior with large windows.

“ The EAA plays a key role for the savings banks, and not just when it comes to winding up risk exposures in the Landesbank sector. The winding-up agency is potentially also an important contact for the own investments of savings banks. ”

Wilfried Groos, Sparkasse Siegen

Wilfried Groos is the Chairman of the Managing Board of the Sparkasse Siegen and a member of the EAA's Supervisory Board.

Markus Bolder, Member of the Managing Board



Matthias Wargers, Member of the Managing Board



“A fifth of the portfolio has already been wound up”

EAA has presented its second set of annual financial statements. Managing Board members Markus Bolder and Matthias Wargers on risk provisions, successful wind-ups and EAA's prospects as an issuer on the capital markets.

The balance sheet shows that EAA has recorded another loss. Does this set off the alarm bells?

Markus Bolder: No. Just like in the first set of annual financial statements as at 30 June 2010, the negative result reported in this balance sheet is solely attributable to allowances for losses on loans and advances. These risk provisions are not synonymous with actual losses. Before risk provisions, we we achieved another positive net result that amounted to almost €70 million this year.

But the risk provisions are eating away at the EAA's equity capital. After just one year of operations, half of EAA's equity capital – around €1.6 billion – has already been depleted. How much longer can EAA keep its head above the water?

Matthias Wargers: Risk provisioning is not a linear process. In 2010 we focused on meticulously combing through our portfolio to pinpoint all the identifiable risks from today's perspective. In risk provisioning terms one can say that we have not *already* but rather *only* used half of our equity capital.

Markus Bolder: Over the first year we have created a kind of risk buffer by provisioning one billion euros for the particularly risky Phoenix and EUSS notes and approximately one billion for the remaining portfolio, which mainly comprises loans.

This means we still have around €1.5 billion at our disposal for any unexpected losses that might occur in the years ahead.

So in a nutshell, the taxpayer won't have to pay for the EAA in future?

Markus Bolder: That's our aim. As things stand at the moment, we don't expect that we will have to call on the guarantees we received in 2009 and 2010 to wind up the portfolios transferred to us.

But still, the public authorities expect further payments for the “Phoenix” portfolio. Isn't that a contradiction?

Matthias Wargers: No. The “Phoenix” construction is complex (see p. 15ff). The original assets are still being held and managed in Ireland by “Phoenix”, the special purpose vehicle founded in 2008. The EAA has taken over the refinancing bonds from WestLB. At that time, i.e. before the EAA was established, these bonds were in turn also covered by a guarantee totalling up to €5 billion. Only when this amount has been used up will the EAA be exposed to further risks. We have already provided for this eventuality in the annual financial statements for the abridged financial year 2009/2010.

However, the EAA has no influence over when and how the Phoenix guarantees will be called upon.

WestLB is still undergoing restructuring. Under which conditions can EAA take over further areas of the Landesbank?

Markus Bolder: The financial market stabilisation legislation is the guideline we must follow. It states that EAA can assume further assets. The first transfer serves as a role model in this respect: the assets to be transferred were identified, scrutinised to determine their risk characteristics, and liability was assumed to cover the scope of the risks involved in the form of equity capital, a guarantee or the duty to offset losses.

Is the EAA even in a position to handle such a task in organisational terms?

Matthias Wargers: The conditions have clearly improved in any case. Before the EAA portfolio of around €77.5 billion was transferred on 30 April 2010, the EAA had exactly two employees, Markus Bolder and myself. Now the operational structure of EAA as an independent management unit dealing with the liquidation of complex international portfolios is highly sophisticated. We have implemented well-established processes and structures in portfolio management and control, risk management, treasury activities and in the staff and management functions. We have succeeded in acquiring around 50 highly motivated experts to perform these tasks.

Markus Bolder: We are well equipped and have made a flying start. The results shown in this annual report underline our achievements. The progress we have achieved in winding up the portfolio is about 15% ahead of schedule for 2010.

Which figures confirm this trend?

Matthias Wargers: In aggregate, we have also already wound up just under a fifth of the €77.5 billion portfolio we originally took over, i.e. around €13.7 billion without exchange rate effects.

Markus Bolder: The positive business plan effect is also worth noting. Proceeds from sales and repaid loans in the calendar year 2010 as a whole are €72.2 million higher than the values we had initially calculated.

What drove this trend?

Markus Bolder: Among other factors, we benefited from the upbeat markets in Western Europe and in the United States. We were particularly able to sell loans in the US. The early or timely redemption of loans was another important factor. Some of our debtors managed to gain access to cheaper funding from third parties.

Did you start by mainly cashing in on the more valuable parts of your portfolio?

Matthias Wargers: No. This is shown by the fact that our portfolio's rating structure has not deteriorated. In 2010, we also saw a clear decline in the non-performing portfolio. Whether or not we sell an asset depends on a complex measurement model, which serves as a basis for our actions. In brief, we assess each and every asset according to its intrinsic value, i.e. what income and risks will arise in future from the asset, and how are these values reflected in today's market prices. Then we decide whether to hold, restructure or sell the asset.

Markus Bolder: Our business strategy provides that the valuable items generate interest income, which we need to cushion any losses occurring at a later date. For us to sell such an asset, the market would have to offer exceedingly attractive compensation for a high present value.

What is your projection for the coming financial years? Will the liquidation of your portfolio slow down?

Matthias Wargers: Our ambition is to maintain the pace we set in the last year. Of course, it all depends on whether the market environment remains as upbeat as it was in a number of segments in 2010. However, we remain committed to our goal of halving the EAA's total assets by the year 2014.

The EAA's costs are much higher than they were in the first annual report. Why is that?

Markus Bolder: Basically, the first annual financial statements as at 30 June 2010 reflected just two

months of operations. After all, we didn't take over the lion's share of our portfolio until 30 April 2010. The present annual financial statements cover the six months that followed, and the personnel development, the expansion of our IT and capital market services that we bought in. The main cost factor is the service fee for WestLB, which we incurred for a full six months for the first time in the second half of 2010.

Matthias Wargers: Expressed in relation to the portfolio, our total costs account for a low 20 basis points. Looking at the current market, this is a good level.

Net interest income declined.

What was the cause?

Matthias Wargers: As a winding-up agency, we are not engaged in new business. At the same time, we have already wound up large sections of our portfolio. Inevitably this has resulted in net interest income declining – all the more so, given that we are operating in what remains a very low interest rate environment.

The EAA is bolstering its activities in the capital markets. Why does a winding-up agency have to issue bonds in the first place?

Markus Bolder: Many of the refinancing items shown on our liabilities side will expire in the next five years. But our assets have much longer maturities. So we not only need to replace the liabilities we have taken over; we also have to re-finance further items falling due in the next few years. That is why we intend to establish the EAA as a firm fixture on the capital markets.

Matthias Wargers: Being able to refinance our activities independently is a core element of the winding-up agency model. Thanks to the public guarantees, we receive very good ratings and can obtain funding at favourable terms. This helps us generate interest earnings, which serves as a risk buffer for our portfolio.

Which investors are you looking to attract?

Markus Bolder: We are focused exclusively on institutional investors in Germany and abroad: banks, insurance companies, fund companies. We have been in contact with the key investors and partners on the capital markets in the first few months of 2011 and have already built up business relationships.

On your road shows, how much interest was shown in the EAA – another player from Düsseldorf alongside the state of North Rhine-Westphalia and NRW.BANK?

Markus Bolder: There is strong interest in safe German bonds because the reputation of other sovereign papers has been tarnished by the euro crisis, among others. So the response has been very good, particularly among international parties.

Looking back at the past year, is there anything that could have been improved on?

Matthias Wargers: We would have liked to have been more active on the capital markets as early as the fourth quarter of 2010. However, we could

not fully implement the requirement that the EAA refinance its activities independently before the start of 2011. But we are certain that we can now make significant progress and make up for lost time.

Markus Bolder: Sometimes I wish that the public had a clearer idea of what we do. The winding-up agency does not simply delay problems until some future date. The time we have saved is today already a clear benefit of this model. The taxpayer does not have to come to the rescue with high payment sums. The EAA holds guarantees that we will not need to call upon, provided all goes well. That is a significant difference.

And what was the greatest success for you personally?

Matthias Wargers: I was pleased that we could assemble a highly motivated and dedicated team that have joined forces with us to face up to the targets and challenges facing the EAA.

Markus Bolder: ...and which have really put in excellent work. In just a short space of time, the EAA has created a seamless infrastructure that makes it such a highly effective unit.



“ The success achieved in 2010 shows that the EAA is fulfilling its purpose: it is playing a decisive contribution in stabilising the financial markets in the long run. ”

Gerhard Heilgenberg, NRW Ministry of Finance

Gerhard Heilgenberg is Chairman of the EAA's Stakeholders' Meeting and head of Division III of the Ministry of Finance of the German federal state of North Rhine-Westphalia, which, among others, is responsible for implementing the Financial Market Stabilisation Act.

A black and white portrait of Henning Giesecke, a middle-aged man with short, light-colored hair, wearing a dark suit, white shirt, and dark tie. He is looking directly at the camera with a neutral expression. The background is dark and out of focus, showing vertical lines that suggest an office or modern interior setting.

“ The winding-up agency has proven to be highly effective when it comes to reducing risk exposures. Drawing on comprehensive analyses, the EAA experts draw up focused strategies aimed at winding up complex portfolios in the most efficient manner possible. ”

Henning Giesecke, GSW Capital Management

Henning Giesecke is the Managing Director of GSW Capital Management GmbH. Formerly the Chief Risk Management Officer of HypoVereinsbank AG and UniCredit Group, he is a member of the EAA's Supervisory Board.

Report of the Supervisory Board

During the abridged financial year from 1 July 2010 until 31 December 2010, the Supervisory Board of Erste Abwicklungsanstalt held three meetings in the exercise and performance of its rights and obligations under the law and its charter. The standing committees created from among its ranks, the Audit Committee and the Risk Committee, also met on two and three occasions respectively.

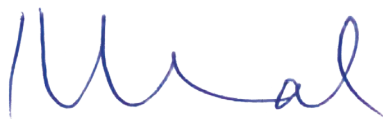
Over the past few months, the Supervisory Board focused particularly on the conclusion of the start-up phase and the initiation of the issuing activities of Erste Abwicklungsanstalt. The Supervisory Board also advised the Managing Board, supervised the latter's management activities and furthermore participated in decisions of significant importance to the Erste Abwicklungsanstalt. On the basis of the 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 31 December 2010 and issued an unqualified audit opinion. The Supervisory Board and the Audit Committee created from among its ranks have discussed the auditor's report in detail and no objections were raised thereto.

At its meeting of 12 April 2011, 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.

The Supervisory Board would like to thank the employees of Erste Abwicklungsanstalt for their commitment and dedication, and for their valuable work during the start-up phase.

Düsseldorf, dated 12 April 2011



Dr. Rüdiger Messal

Chairman of the Supervisory Board

Financial Report



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Management Report

for the Abridged Financial Year ended 31 December 2010

Business and environment

Overview of economic development

The Erste Abwicklungsanstalt (EAA), with its registered office in Düsseldorf, is responsible for winding up the risk exposures and non-strategic business units taken over from WestLB AG (WestLB) or its domestic or foreign subsidiaries.

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 approximately €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 for a nominal amount of approximately €71.3 billion, was transferred to a EAA and its subsidiaries through 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, the EAA has begun borrowing funds and concluding money market, securities repurchase agreements and securities lending agreements. Derivatives transactions were used to hedge interest and exchange rate risks.

The EAA's earnings situation in the abridged 2010 financial year was impacted by further risk provisions of €655.9 million (net). Unlike in the previous year, these risk provisions were necessary for loans and advances and (not structured securities). Such risk provisions were expected in connection with the winding-up plan for the second abridged financial year. These were offset by net interest income totalling €121.3 million and net fee and commission income of €9.8 million. General and administrative expenses were €69.2 million. In total, the EAA reported a net loss for the abridged financial year of €599.6 million as at 31 December 2010.

The EAA's total assets as at 31 December 2010 amounted to €49.3 billion (previous year: €52.5 billion). Its business volume, which also includes off-balance sheet items, amounted to €60.8 billion (previous year: €68.2 billion). Due to foreign exchange effects and the liquidation of off-balance sheet items, only some of the winding-up profits generated thus far are reflected in the total assets as at 31 December 2010. For example, foreign exchange effects – particularly the performance of the US dollar since the beginning of the year – resulted in a €2.8 billion increase in nominal volume. Given constant exchange rates with 31 December 2009 as a basis for calculation, the nominal volume of the portfolio taken on by the EAA (incl. subsidiaries) was reduced by €7.5 billion during the abridged financial year until 31 December 2010. More than 65% of this reduction was attributable to active portfolio management.

General economic conditions

The global economy continued to recover significantly from the recession during 2010. Although the wide-ranging measures taken by governments and central banks to bolster financial institutions and the economy have been effective, the extremely expansionary fiscal policy in 2008 and 2009 caused government deficits worldwide to balloon.

The Southern European Member States of the European Monetary Union (EMU) and Ireland must be mentioned first of all in this regard. Their debts are not solely attributable to governmental economic recovery programs during the crisis, but rather also grew structurally over a long period. 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 order to avert a potential default, the eurozone countries and the International Monetary Fund (IMF) granted extensive assistance loans. After the crisis initially appeared to have been brought under control and Greece used a portion of the funds in May 2010, countries such as Ireland, Portugal and Spain increasingly became the focus of the financial markets. As a result, they had to accept significant risk premiums for their sovereign debt. The eurozone countries and the IMF put into place a €750 billion bailout package to contain the crisis. The package was intended to shore up other eurozone countries in the event they were to fall 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 continuing special monetary policy measures.

The EMU debt crisis led to an increase in demand for German government bonds as a safe haven in 2010. They have seen significant price gains since the beginning of year and at the end of August the 10-year Bund yield slumped to 2.11%, and a new all-time low. However, the yield increased back to 3.2% in the meantime with the easing of the eurozone crisis. Public debate on the debt levels of Greece and other countries placed increasing pressure on the euro. For a while the euro fell below US-\$1.20/€, its lowest level since February 2006. However, it bounced back to US-\$1.33/€ at the end of 2010 – not least due to the massive state deficits in the US.

In contrast to the period before the financial and economic crisis, international economic development varied widely in 2010. The emerging markets were the primary drivers of the global economic recovery, with China, India, Indonesia, Argentina and Brazil having growth rates in excess of 6.5 percent.

Growth in the industrial nations was significantly lower. Growth in the eurozone averaged 1.9%, with very heterogeneous growth rates in the individual countries. In the USA, while the economy grew by 2.9% due to the far-reaching stimulus packages and expansionary monetary policy, the unemployment rate remains at more than 9% however, and thus continues to threaten consumer spending as the engine of the US economy. The real estate market is still undergoing corrections and is jeopardizing economic recovery. While the countries that were particularly hard hit by the euro crisis are either still in or slowly recovering from a recession, the economy in other countries continues to stabilise. The upturn in the eurozone is likely to remain moderate because capital spending remains weak and some countries have already taken measures to cut back public

spending. This includes increasing income tax rates and/or indirect taxes, or reducing salaries and job cuts in the public sector, which naturally dampens economic growth.

It is not very surprising that Germany, traditionally an exporting nation, is benefiting more from the global economic recovery and, with an annual growth rate of 3.6%, is at the peak of the G8 nations. Foreign trade with Asia's emerging markets and the USA was relatively strong, reaching €94 billion and €66 billion, respectively. However, the eurozone is by far Germany's most important market. Foreign trade with the eurozone totalled about €253 billion and rose by about €40 billion in the last year alone. Experience shows that dynamic growth in exports revitalises corporate investments, which still remain weak to date. In view of the initially high competitive pressure and low capacity utilization at the beginning of 2010 (eurozone 70%; Germany 72%; USA 68%), investments in Germany continue to focus on modernization and streamlining measures. As capacity utilization has again normalised in the meantime (85% and automotive production actually almost 100%), capital spending is likely to shift to expansion and growth projects.

This should benefit the labour market, and therefore consumer spending in Germany as well, which unlike other eurozone countries, is not yet being negatively impacted by special measures to cut public spending. All in all, Germany's annualised economic output is therefore expected to increase by 2.6% in 2011. That would mean that the gross domestic product would return to the pre-crisis level.

In many countries, inflationary pressure remained moderate in 2010 in spite of significantly expanded money supplies. Only higher quoted prices for

crude oil and other commodities caused prices to rise slightly. This trend opened the door for the major central banks to initially roll back the measures taken to increase liquidity, without raising interest rates. However, triggered by the euro crisis, for the first time in Europe, the ECB bought up European government bonds and the American Federal Reserve Bank (Fed) continued its expansionary course with the "QE2" program. About 1.8% of eurozone countries' sovereign debt is now owned by the ECB. The Fed already holds about 9% of US sovereign debt as a result of its purchases. In spite of this, inflation risks remain manageable due to the continuing weak economic development in the USA compared to the pre-crisis level and the very heterogeneous outlook for growth in Europe. A good one-fourth of the 1.9% inflation expected in the eurozone is attributable to tax increases and is hence a one-off effect. The EAA therefore does not currently expect the ECB to increase its key interest rate significantly. The central bank did clearly indicate possible future rate hikes to the financial markets at the beginning of March, but despite this, over the short term interest rate levels are expected to remain low in the money market as well as for long-term lending.

Structural developments

The EAA, with its registered office in Düsseldorf, is responsible for winding up the risk exposures and non-strategic business units taken over from WestLB or its domestic or foreign subsidiaries. This serves to stabilise not only the WestLB, but also the entire financial market.

The EAA conducts its transactions in accordance with business and economic principles under the condition of pursuing its winding up strategy in a risk minimizing way. It is not a credit institution or financial services institution within the meaning

of the German Banking Act (Kreditwesengesetz – KWG), an investment services firm within the meaning of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) or an insurance company within the meaning of the German Insurance Supervision Act (Versicherungsaufsichtsgesetz – VAG). It does not conduct any transactions that require approval pursuant to Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 or Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004, the amendment to Directives 85/611/EEC and 93/6/EEC of the Council and Directive 2000/12/EC of the European Parliament and of the Council and for the repeal of Directive 93/22/EEC of the Council, as amended.

The EAA is subject to regulation by the Financial Market Stabilization Authority (Bundesanstalt für Finanzmarktstabilisierung – FMSA). It is also subject to regulation by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) with regard to individual banking law provisions pursuant to section 8a) (5) of the Financial Market Stabilization Fund Act (Finanzmarktstabilisierungsfondsgesetzes – FMStFG).

The EAA's work is carried out on the basis of section 8 of the FMStFG, its articles of association, as well as of its defined winding-up and risk strategy. In keeping with the 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. Shareholders as well as all governing bodies 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, and

includes a schedule for the full winding-up of assets within a reasonable period. The possible paths to winding up the portfolio are by 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. This plan is reviewed at regular intervals and adjusted as needed. For example, it was first revised at the turn of the year from 2010 to 2011 to take account of current market developments. The EAA submits regular wind-up reports to its Supervisory Board, shareholders and the FMSA, which keep them informed on its winding-up activities and its adherence to the winding-up plan, thus documenting its progress in winding up its portfolio.

The following stakeholders participate in EAA's share capital: The State of North Rhine-Westphalia (NRW, approximately 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 are appointed by the Stakeholders' Meeting. The Supervisory Board consults with and advises the Managing Board, monitors its activities and carries out additional duties set forth in the EAA's articles of association. The Stakeholders' Meeting is composed of one representative from each of the institutions which hold a stake in EAA's share capital. Specifically, the Stakeholders' Meeting is responsible for adopting 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. It 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 and long-term equity investments worth approximately €71.3 billion and certain liabilities. It 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 transfer alternatives: spin off, sub-participation, asset disposal and guarantee. The alternative 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 transfer alternatives 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 expected risks of losses resulting from the transfer of the risk exposures from WestLB.

In addition to EAA's equity base, the Liable Stakeholders' duty to offset losses incurred by the EAA is of key significance for its creditworthiness. The Liable Stakeholders are severally liable to the EAA to offset all losses in proportion to their respective stakes. To that end, they must provide the EAA with such funds at such times as are necessary in order to ensure that it is in a position at all times to meet its liabilities as they fall due.

The duty to offset losses on the part of the Liable Stakeholders RSGV and SVWL is capped at a total of €4.5 billion for both stakeholders 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 losses attributable to RSGV and the SVWL exceed the total amount specified above, the FMSA, acting on behalf of the Financial Market Stabilization Fund (FMS), and the State of North Rhine-Westphalia assume the liability to offset losses attributable to the RSGV and SVWL and will come to an agreement with such parties based on the FMStFG as to the allocation of the resulting financial burden.

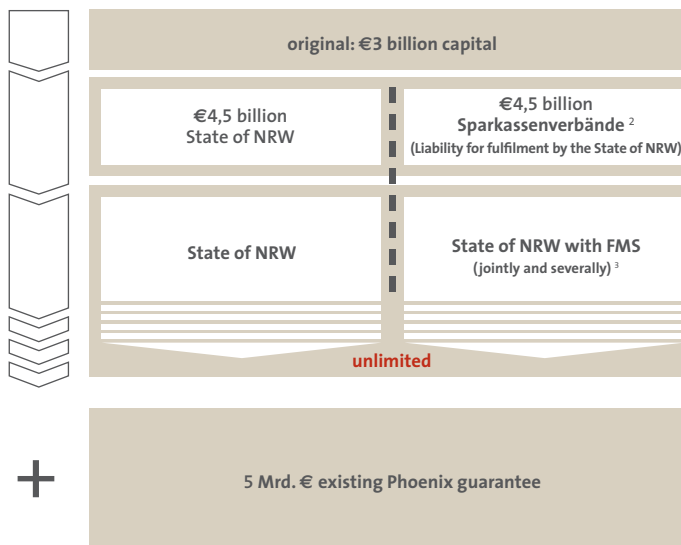
Duty to offset losses pursuant to Article 7 of the EAA's Articles of Association¹

Step 1:
Use of equity

Step 2:
Proportionate duty to offset losses
among all Liable Stakeholders

Step 3:
Assumption of full liability for all additional
losses by NRW concerning the share of the
Sparkassenverbänden in excess of €4.5 billion
jointly with the Financial Market Stabilisation
Fund.

On Top:
Guarantee of NRW (counter-guarantee of Sparkassen
und Landschaftsverbände) for Phoenix portfolio
covering the first loss piece (€2 billion proportionate;
€3 billion disproportionate by NRW)



¹ The contribution of the two regional authorities (Landschaftsverbände) is included in the above illustration, but is not shown separately due to their low participation quota.

² RSGV and SVWL each cover half

³ NRW and FMS will come to an agreement regarding how they intend to share the resulting financial burden based on the FMStFG

The EAA's funding was initially secured by the nearly complete transfer of all of WestLB's issues and deposits backed by guarantees. Moreover, the EAA has subsequently begun borrowing and concluded money market and securities repurchase transactions. Against this backdrop, securities lending transactions preferred during the EAA's start-up phase were significantly reduced. Going forward, the EAA will primarily obtain funding by issuing bearer bonds, promissory notes and registered bonds, by borrowing short-term and through repurchase 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 the EAA's successful presence on the capital market. At the same time, this is a precondition for successfully reducing WestLB's total assets as a stabilization 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. However, the significant equity investments – in particular EAA Covered Bond Bank plc in Ireland as well as the Basinghall companies in the United Kingdom – are included in the winding-up progress and risk planning, risk monitoring and risk reporting.

The EAA's organizational structure is oriented toward assuring its key management and control functions. It has outsourced all other business activities to third-party service providers, including to WestLB. To this end, the EAA has entered into a co-operation agreement with WestLB for an initial term of three years. WestLB assists the EAA in performing portfolio management duties and all related activities. The Portfo-

lio 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. Decision-making authority always remains with the EAA.

While the first abridged 2009/2010 financial year was characterised by the EAA's structural, personnel and organizational set-up (for example, the 11-member Supervisory Board was appointed, Mr. Matthias Wargers and Mr. Markus Bolder took up their positions in the EAA's Managing Board, and the structures were established to ensure the necessary management functions such as portfolio management, risk management, finance and financial control and treasury functions). The activities in the recently-concluded second abridged financial year shifted far more toward actually implementing the winding up of the portfolio. The EAA has made great progress in establishing risk management processes and systems and has already achieved significant successes in disposing and restructuring the risk exposures taken over. In addition, the EAA is significantly closer to issuing its own benchmark bond on the capital market.

The EAA gave a guarantee to WestLB for a portfolio held by Banque d'Orsay (BdO), a subsidiary of WestLB, in connection with the spin off as of 1 January 2010. The portfolio essentially contains loans and advances to customers (€915 million) and debt instruments (€373 million) as well as hedging derivatives. As BdO was sold in

November 2010, the EAA bought up the portfolio so that the existing guarantee for €598 million became inapplicable. The carryover was made at the current market value of the respective portfolio components and in individual cases it thus resulted in equalization payments by the EAA to BdO. The portfolio transfer had no impact on the EAA's total risk exposure.

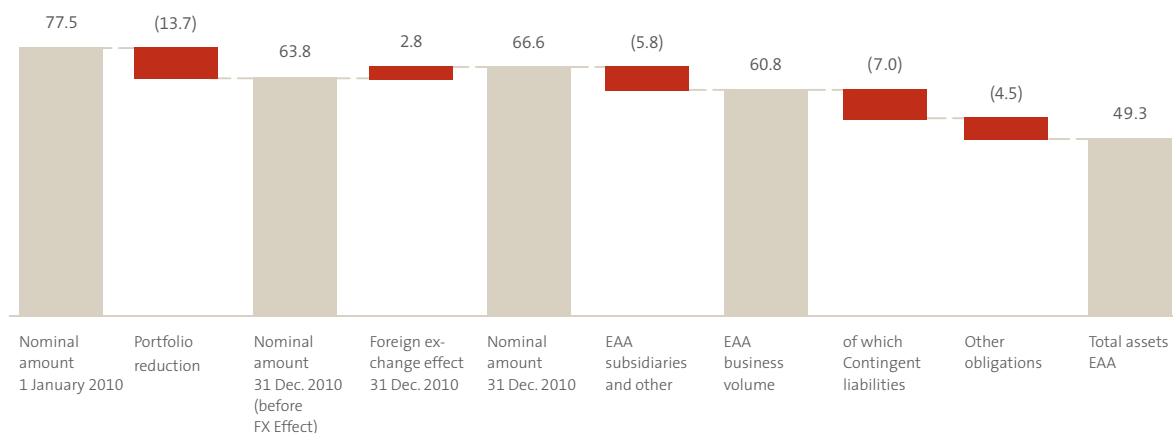
Wind-up report

The figures and developments discussed in this chapter are regularly reported to the FMSA as part of its supervision of the EAA, as well as to the EAA's supervisory bodies. They relate to the entire risk portfolio transferred to the EAA, regardless of whether these figures are recorded on or off the balance sheet in the EAA's single-entity financial statements or whether the corresponding assets are held via subsidiaries (look-through approach). The assets held by subsidiaries are included based on the companies' monthly reports. The carrying amounts of the assets held by subsidiaries were not subject to the statutory audit of EAA's annual financial statements as at 31 December 2010. Therefore the amounts reported below, including in particular those related to progress in winding-up the portfolio, may only be indirectly reconciled with EAA's annual financial statements.

The following overview shows the development of the portfolio's nominal amounts since 1 January 2010 and the reconciliation against EAA's total assets as at 31 December 2010:

Reconciliation of the nominal volume transferred to total assets since EAA's establishment as at 31 December 2010

in € billion



Looking at the abridged financial year from 1 July 2010 to 31 December 2010, the nominal volume declined from €71.3 billion (using the exchange rate as at 31 December 2009; the nominal amounts of guaranteed assets and assets held by subsidiaries of the EAA, including contin-

gent liabilities and other obligations) to €63.8 billion. The risk portfolio is broken down into three sub-portfolios for asset management purposes: loans and advances, marketable securities and structured securities.

Winding-up strategies

The risk exposures recorded in the winding-up plan have been broken down in accordance with the three stipulated normative strategies:

| | | |
|--------|--------|---------------|
| ▲ Sell | ▲ Hold | ▲ Restructure |
|--------|--------|---------------|

Winding-up strategy

| | 31 Dec. 2010 € billion | 30 Jun. 2010 € billion |
|--------------|---------------------------|---------------------------|
| Sell | 19.1 | 19.6 |
| Hold | 35.5 | 41.0 |
| Restructure | 9.1 | 10.7 |
| Total | 63.8 | 71.3 |

The “Sell” category includes securities and loans with a volume of approximately €19.1 billion, for which a disposal is considered possible. Assets are categorised as “Sell” based on the assumption that it is possible to sell the asset in the short- or medium-term at a value that the EAA could also realise using a long-term hold strategy. This requires that the market environment has improved and that no discounts attributable to the creditworthiness of the issuer or borrower are demanded.

The assets categorised as ‘Restructure’ are subject to close observation due to their lower credit quality. The rest of the portfolio falls under the ‘Hold’ category.

The classification of the risk exposures to one of these strategies is reviewed on a regular basis and documented as part of the modification of the winding-up plan.

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 nominal reduction before exchange rate effects (i.e. at constant exchange rates as at 31 December 2009), as well as in terms of business plan impacts. This assessment considers the impact of expected sales proceeds, carrying amounts, foregone interest income, saved funding costs and saved expected losses on the winding-up plan.

The EAA generated a positive business plan impact of €52 million from disposals and early redemptions during the abridged 2010 financial year. In particular, the sale of a private equity investment (€12.9 million) as well as several early redemptions and sales from the lending portfolio contributed to that effect.

Given constant exchange rates (as at 31 December 2009), the EAA successfully wound up €7.5 billion in assets, reducing the nominal volume by 10.5% to €63.8 billion during the period from 1 July 2010 to 31 December 2010. Since 1 January 2010, the nominal volume has declined by €13.7 billion from initially €77.5 billion. Actively managed transactions such as disposals or early redemptions accounted for €4.9 billion of this reduction during the abridged 2010 financial year. The remainder is due to scheduled maturities. After factoring in exchange rate effects, the nominal volume as at 31 December 2010 amounted to €66.6 billion, primarily due to the 7.5% increase in the value of the US dollar against the euro.

The table shows a breakdown of the portfolio by asset class as at 30 June 2010 and 31 December 2010 and also shows whether these assets are held directly or indirectly by the EAA. The associated hedging derivatives are not included in these figures.

Breakdown of the transferred portfolio asset class

| Sub-portfolio | Nominal volume (at exchange rates as at 31 Dec. 2009) | | | | Nominal volume (at exchange rates as at 31 Dec. 2010) | |
|------------------------------|---|--|--|---------------|---|---------------------------------------|
| | Nominal 31 Dec. 2010 (€ million) | Nominal 30 Jun. 2010 (€ million) | Change 30 Jun. 2010 (€ million) in % | | Nominal 31 Dec. 2010 (€ million) | FW-Effekt ¹ (€ million) |
| Lending operations | 21,156 | 26,429 | (5,273) | (20.0) | 22,250 | 1,094 |
| Public finance | 10,078 | 10,205 | (127) | (1.2) | 10,357 | 279 |
| Other marketable securities | 5,709 | 6,961 | (1,252) | (18.0) | 5,795 | 85 |
| Marketable securities | 15,787 | 17,166 | (1,379) | (8.0) | 16,152 | 365 |
| Phoenix | 21,112 | 21,762 | (650) | (3.0) | 22,238 | 1,125 |
| EUSS ² | 2,486 | 2,656 | (170) | (6.4) | 2,486 | - |
| ABS | 3,274 | 3,304 | (30) | (0.9) | 3,504 | 230 |
| Structured securities | 26,873 | 27,722 | (849) | (3.1) | 28,228 | 1,355 |
| Total | 63,816 | 71,317 | (7,501) | (10.5) | 66,630 | 2,814 |
| of which EAA | 48,444 | 54,191 | (5,747) | (10.6) | 50,575 | 2,131 |
| of which EAA subsidiaries | 10,083 | 10,640 | (557) | (5.2) | 10,479 | 396 |
| of which guaranteed assets | 5,289 | 6,487 | (1,198) | (18.5) | 5,576 | 287 |

¹ Change in nominal volume due to exchange rate effects

² European Super Seniors

Within the lending operations sub-portfolio a significant winding up progress was observable in the diversified industries and leveraged loans clusters. The progress made in winding up marketable securities is primarily attributable to financial institutions.

The diversified industries cluster comprises corporate loans to international borrowers, above all industrial companies and international

groups from various industries. The public finance cluster comprises in particular exposures in national and regional/municipal bonds of the European Economic Area, G7 countries and Switzerland. The majority of the leveraged loans cluster consists of a diversified portfolio of syndicated loans to sub-investment grade companies (rating BB+ and below). The financial institutions cluster includes exposures primarily to European and US issuers of the financial industry.

Employees

An important task in the 2010 financial year was for the EAA to continue to obtain qualified staff. After largely staffing the management levels below the Managing Board already in the previous abridged financial year, the recruiting goal in this financial year was to further build up the departments.

Thus far, the EAA has hired 42 employees, of which 28 including the Managing Board have taken up work by 31 December 2010.

Recruiting is thus largely concluded and will be continued only in selected areas of responsibility. Human resources support, and in particular HR development, will be of core strategic importance in the coming financial year due to the growth in staffing.

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 their own employees.

Earnings situation, cash flows and financial position

Earnings situation

The EAA's earnings situation in the abridged 2010 financial year was marked by further risk provisions of €655.9 million (net). Unlike in the previous year, these expenses were essentially necessary for loans and advances as opposed to structured securities. Such risk provisions were expected in connection with the winding-up plan for the second abridged financial year. These were offset by net interest income totalling €121.3 million and net fee and commission income of €9.8 million. General and administrative expenses were €69.2 million. In total, the EAA reported a net loss for the financial year of €599.6 million as at 31 December 2010.

The figures from the financial statements for the first abridged financial year from 11 December 2009 to 30 June 2010 are provided as comparative figures to those for the second abridged financial year. The transfer effected in 2009 took retroactive effect for accounting purposes on 1 January 2009. For this reason, the income statement for the first abridged financial year includes income generated and expenses incurred before the beginning of the abridged financial year. This limits the comparability of the amounts.

The income statement below is presented in the format used internally by the EAA. Accordingly, write-downs on 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.

Income statement for the period 1 July until 31 December 2010

| | 1 Jul. 2010– 31 Dec. 2010 Mio. € | 11 Dec. 2009– 30 Jun. 2010 Mio. € | Change | |
|--|--|---|---------------|-----------------|
| | | | Mio. € | in% |
| Net interest income | 121.3 | 206.8 | -85.5 | -41.3 |
| Net fee and commission income | 9.8 | 18.4 | -8.6 | -46.7 |
| Total other operating income/expenses | 7.7 | 0.6 | 7.1 | >100 |
| Personnel expenses | -2.1 | -0.6 | -1.5 | >-100 |
| General and administrative expenses | -67.1 | -24.3 | -42.8 | >-100 |
| of which: expenses for service level agreements with WestLB | -52.1 | -18.2 | -33.9 | >-100 |
| Allowance for losses on loans and advances | -655.9 | -1,255.7 | 599.8 | 47.8 |
| Net income from investment securities and long-term equity investments | -11.0 | 6.8 | -17.8 | >-100 |
| Extraordinary results | -0.1 | - | -0.1 | - |
| Earnings before tax | -597.4 | -1,048.0 | 450.6 | 43.0 |
| Taxes on income | -2.2 | 0.0 | -2.2 | - |
| Net loss for the year | -599.6 | -1,048.0 | 448.4 | 42.8 |
| Net retained losses brought forward | -1,048.0 | - | -1,048.0 | - |
| Net retained losses carried forward | -1,647.6 | -1,048.0 | -599.6 | -57.2 |

Net interest income

The development of the net interest income of €121.3 million (previous year: €206.8 million) reflects the successes, among others, in reducing our portfolio. In addition to net interest (€121.0 million [previous year: €203.6 million]), net interest income also includes the current income from equities and other non-fixed income securities (€0 [previous year: €2.8 million]) as well as from other long-term equity investments (€0.3 million [previous year: €0.4 million]). The interest income consisted of lending and money market transactions totalling €400.2 million (previous year: €473.6 million) and from fixed-income securities and debt register claims totalling €234.9 million (previous year: €369.6 million). In addition to the reduction in the portfolio, the decline in interest income from lending transactions is due to, among other items, the non-accrual of interest

income on non-performing loans. The interest income was offset by interest expense of €514.1 million (previous year: €639.6 million). In this respect, it must be noted that the comparison period includes interest income and expenses for a period of 18 months for the portfolio transferred in 2009. In addition, the advantageous situation for the EAA in the first half of 2010 with respect to currency hedges for US dollar refinancing did not continue.

Net fee and commission income

The €8.6 million decline in net fee and commission income to €9.8 million is primarily attributable to lower income of €5.2 million from lending and syndicated lending transactions. In addition, income from guarantee fees and commissions declined by €4.5 million to €7.8 million. Guarantee fees and commissions were attributable primarily

to guarantee fees paid by WestLB for assets guaranteed by EEA. In addition, a considerable amount of waiver fees were collected during the first half of 2010. These fees relate to compensation payments by borrowers to settle for less stringent contractual covenants. In contrast to the other transfer alternatives, in cases where the EAA assumes a guarantee, the guaranteed assets remain on WestLB's balance sheet (carrying amount as at 31 December 2010: €5.4 billion [30 Jun 2010: €6.6 billion]).

Total other operating income/expenses

The total of other operating income and expenses of €7.7 million during the abridged 2010 financial year is primarily due to effects from foreign currency hedges.

General and administrative expenses

General and administrative expenses for the abridged 2010 financial year were €69.2 million (previous year: €24.9 million); of which €2.1 million (previous year: €0.6 million) were attributable to personnel expenses. Other administrative expenses amounted to €67.1 million (previous year: €24.3 million), due primarily to the co-operation agreement with WestLB to provide the EAA assistance in managing its portfolio and all associated duties (€52.1 million [previous year: €18.2 million]). It must be noted in this regard that no portfolio management fee was incurred for the period from January through April 2010, while there is a charge for six months in the current reporting period. Consulting fees and legal expenses comprise an additional material item (€12.6 million [previous year: €5.7 million]), the majority of which arose in connection with the formation and establishment of the EAA, as a consequence of the takeover of WestLB's risk assets.

Allowance for losses on loans and advances

There was a net addition of €655.9 million to the allowance for losses on loans and advances in the abridged 2010 financial year, primarily resulting from increases within lending operations. The additions primarily concerned the clusters asset securitization, hospitality and diversified industries. The winding-up plan had already anticipated additional risk provisions from the loan portfolio. For a more detailed breakdown, please refer to the section entitled "Problem loans and allowances for losses on loans and advances". The addition recognised on the Phoenix portfolio in the previous year was reduced by €100.1 million in connection with a change of methodology, while at the same time additional risk provisions of €178 million were recognised on the European Super Senior notes (EUSS). Detailed disclosures on the change of methodology are provided in Note 3. The EAA has appropriately taken into account all recognizable risks.

Net income from investment securities and long-term equity investments (incl. securities in the liquidity reserve)

Investment securities and long-term equity investments gave rise to a net expense of €11.0 million. This resulted from the net income of €21.8 million from investment securities and the liquidity reserve and net expenses of €32.8 million from equity investments. In addition to write-downs and additions to risk provisions for long-term equity investments, the expenses from equity investments also resulted from guarantee drawings of assets on WestLB's balance sheet guaranteed by the EAA.

Extraordinary result

The extraordinary expenses of €0.1 million resulted from increased provisions resulting from the change in the measurement of obligations under the German Accounting Law Modernization Act (Bilanzrechtsmodernisierungsgesetz – BilMoG). No extraordinary result was incurred in the previous year.

Taxes on income

The result from ordinary activities of the EAA incurred taxes on income of €2.2 million (previous year: €19 thousand). These taxes primarily concern foreign withholding taxes.

Net loss for the financial year

The EAA's net loss for the abridged 2010 financial year was €599.6 million and increases the net retained losses as at 31 December 2010 to €1,647.6 million, which will be carried forward to a new account.

Financial position and issuing activity

Key tasks in the refinancing process

The EAA receives its funding exclusively from institutional investors. No EAA financing instruments are offered to the general public. 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 EEA'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 to launch 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 refinancing volume

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 repurchase and, to a now significantly lesser extent, securities lending transactions. As at 31 December 2010, the EAA has received funds totalling €18.3 billion on the capital market.

The primary partner in this funding was initially WestLB. To date, all new issuances on the capital market by the EEA have been denominated in euros. Foreign-denominated funding requirements are currently covered through securities repurchase 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, investor road shows are being held in Germany and abroad. In addition, the EAA has entered into master agreements for derivatives and securities repurchase transactions with additional counterparties, thus significantly improving its access to these products. Ultimately, the EAA will continue to contact additional money market participants so as to enable it to secure short-term liquidity

from a broad base. EAA's affiliates are actively included in its liquidity planning and management so as to ensure optimal access to liquidity.

Financial position

The EAA's total assets as at 31 December 2010 amounted to €49.3 billion (previous year: €52.5 billion). Its business volume, which also includes off-balance sheet items, amounted to €60.8 billion (previous year: €68.2 billion).

Assets

| | 31 Dec. 2010 € billion | 30 Jun. 2010 € billion | Change | |
|---|---------------------------|---------------------------|-------------|-------------|
| | | | € billion | in% |
| Loans and advances to banks | 10.2 | 15.8 | -5.6 | -35.4 |
| Loans and advances to customers | 13.3 | 15.8 | -2.5 | -15.8 |
| Securities | 24.0 | 18.9 | 5.1 | 27.0 |
| Long-term equity investments and shares in affiliates | 0.7 | 0.7 | - | - |
| Other assets | 1.1 | 1.3 | -0.2 | -15.4 |
| Total assets | 49.3 | 52.5 | -3.2 | -6.1 |

Liabilities and equity

| | 31 Dec. 2010 € billion | 30 Jun. 2010 € billion | Change | |
|-------------------------------------|---------------------------|---------------------------|-------------|--------------|
| | | | € billion | in% |
| Deposits from banks | 9.8 | 11.5 | -1.7 | -14.8 |
| Deposits from customers | 4.5 | 4.7 | -0.2 | -4.3 |
| Debt securities in issue | 31.6 | 32.4 | -0.8 | -2.5 |
| Provisions | 0.1 | 0.1 | 0.0 | - |
| Other liabilities | 1.8 | 1.7 | 0.1 | 5.9 |
| Equity | 1.5 | 2.1 | -0.6 | -28.6 |
| Total liabilities and equity | 49.3 | 52.5 | -3.2 | -6.1 |
| Contingent liabilities | 7.0 | 8.7 | -1.7 | -19.5 |
| Other obligations/loan commitments | 4.5 | 7.0 | -2.5 | -35.7 |
| Business volume | 60.8 | 68.2 | -7.4 | -10.9 |

Lending business

The lending business comprises receivables, payment obligations arising from irrevocable loan commitments pledges and other guarantees. A portion of the contingent liabilities was a result of risk positions transferred via the “guarantees” route.

Receivables also include registered and other non-marketable debt instruments as well as

time deposits and mortgage-backed loans from the retail banking business.

Loans and advances to banks include €4.7 billion (previous year: €12.3 billion) in return claims from securities lending transactions. The previous year’s figure included €0.5 billion in return claims from securities lending transactions using registered bonds.

Lending business

| | 31 Dec. 2010 € billion | 30 Jun. 2010 € billion | Change | |
|------------------------------------|---------------------------|---------------------------|--------------|--------------|
| | | | € billion | in% |
| Loans and advances to banks | 10.2 | 15.8 | -5.6 | -35.4 |
| Loans and advances to customers | 13.3 | 15.8 | -2.5 | -15.8 |
| Contingent liabilities | 7.0 | 8.7 | -1.7 | -19.5 |
| Other obligations/loan commitments | 4.5 | 7.0 | -2.5 | -35.7 |
| Lending business | 35.0 | 47.3 | -12.3 | -26.0 |

Securities

The portfolio of bonds and other fixed-income securities amounted to €24.0 billion (previous year: €18.9 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 foreign exchange risk. As at the balance sheet date, the EAA had lent €4.7 billion (previous year: €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. In addition, securities totalling €4.1 billion on the balance sheet are subject to repurchase agreements with WestLB.

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 and shares in affiliates remained unchanged at €0.1 billion and €0.6 billion, respectively.

The carrying amount of shares in affiliates is mainly characterised by the investment in EAA Covered Bond Bank plc, Dublin, Ireland. The assets and liabilities held by the former EAA Bank Ireland plc, Dublin, Ireland, were transferred to EAA Covered Bond Bank plc during the abridged 2010 financial year.

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

Deposits from banks and customers

Deposits from other banks amounted to €9.8 billion (previous year: €11.5 billion) as at 31 December 2010. Of that amount €1.5 billion (previous year: €6.9 billion) was attributable to overnight deposits and term money, and an additional €3.8 billion (previous year: €4.3 billion) to registered securities. Overall, €3.9 billion (previous year: €4.4 billion) in deposits from banks were backed by guarantees.

Deposits from customers amounted to €4.5 billion (previous year: €4.7 billion) and consisted almost exclusively of registered bonds, €4.2 billion (previous year: €4.6 billion) of which are backed by guarantees.

Together with the debt securities (see the section on “Issuing business”), the total volume backed by guarantees was €23.5 billion (previous year: €25.8 billion).

Issuing business

Debt securities amounted to €31.6 billion (previous year: €32.4 billion) as at 31 December 2010. This included securities with a nominal volume of €15.4 billion (previous year: €16.8 billion) that had originally been issued by WestLB and are backed by guarantees.

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 remained unchanged at €0.5 million as at 31 December 2010. Moreover, the transfers from WestLB resulted in a €3.1 billion capital reserve. Factoring in the other reserves totalling €2.4 million, which resulted from the reversal of provisions due to the change in the measurement of liabilities under the BilMoG, as well as the net retained loss, equity under HGB accounting amounted to €1.5 billion.

Summary of the business situation in 2010

As shown, the net loss for the abridged 2010 financial year was primarily attributable to the allowance for losses on loans and advances for the loan portfolio. Necessary risk provision additions for EUSS were partially offset by reversals due to an improved Phoenix measurement. Apart from these effects, the net interest and net fee and commission income was used to finance expenses for ongoing operations, and above all, the further establishment of the EAA.

The EAA's financial position is in good order, and its equity amounted to €1.5 billion as at 31 December 2010. It had sufficient liquidity at all times.

Risk report

The common objective of the Liable Stakeholders and EAA is to minimise the strategic winding-up risk.

The EAA has made further progress in implementing the winding-up plan during the reporting period. Winding-up activities focused primarily on continuing to reduce the size of the risk portfolio acquired from WestLB and to mitigate risks.

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, 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 companies' monthly reports. The carrying amounts attributable to the subsidiaries were not subject to the statutory audit of EAA's annual financial statements as at 31 December 2010.

An overview of risk management

Risk management organization

In accordance with section 8a (5) FMStFG, the EAA is subject in part to the German Banking Act (Kreditwesengesetz – KWG). For the EAA's risk management regime, this means that the bulk of the BaFin's Minimum Requirements for Risk Management (MaRisk) apply *mutatis mutandis*. The EAA ensures that the key principles anchored in MaRisk are adhered to. However, the EAA is different from a commercial bank and this fact has a significant impact on its risk strategy:

As the EAA does not acquire new business, but rather only increases lines of credit in exceptional instances in connection with restructurings, the EAA does not have the same functions that are normally included in a bank's risk strategy for managing new business. Complexity is also reduced by the fact that capital adequacy requirements do not apply. The requirement to fulfil the winding-up mission based exclusively on the existing equity and not having to call upon liable Stakeholders' additional duty to offset losses is a significant challenge on the quality and capability of the risk management regime.

The EAA's risk management regime is therefore aimed at minimizing its strategic winding-up risk, that is the risk of falling below the economic targets in the winding-up plan and suffering higher losses than planned from winding up the portfolio. The risk management organization's responsibility is to map, analyze, manage and monitor EAA's risks using a comprehensive risk reporting system.

The Managing Board formulates the principles relating to risk assumption and management, and discusses these with the Supervisory Board's Risk Management Committee.

The EAA's risk management framework forms the basis of its overarching risk management strategy. It contains the basic principles for risk

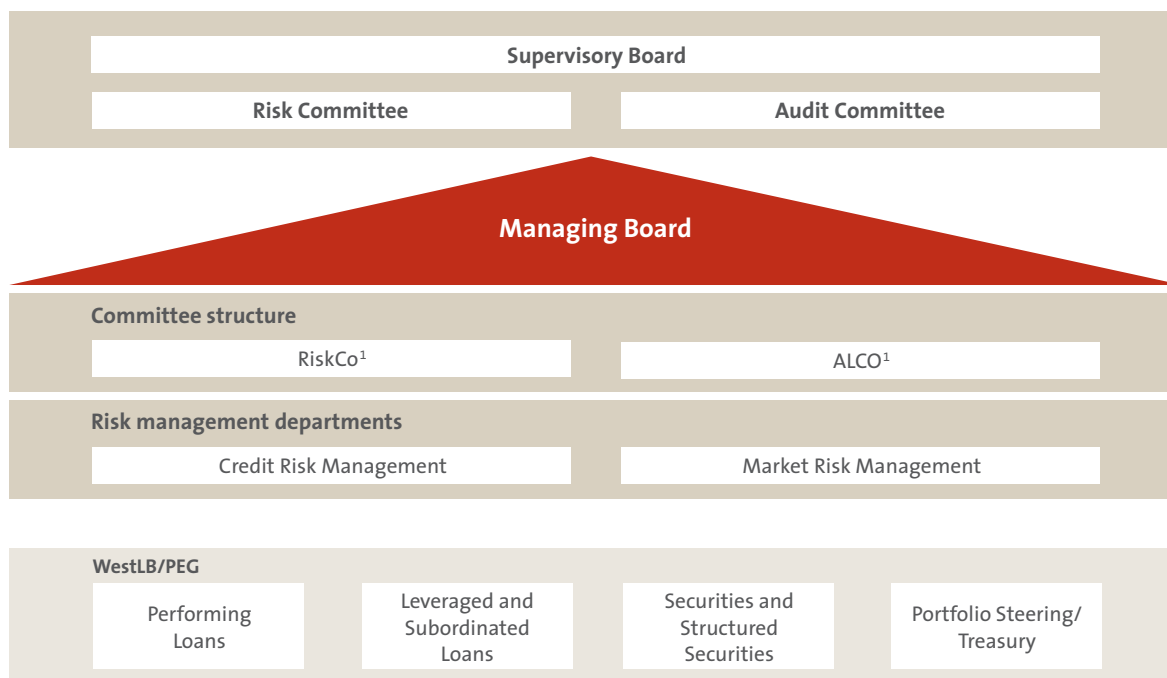
management, defines the key risk categories and identifies the core elements of the risk management process. The overarching risk management strategy is underpinned by specific strategies for managing individual risks while taking into account the relevant strategies for liquidating the portfolio. Specifically, this means that the EAA has devised individual strategies for five risk categories: credit risk, market risk, liquidity risk, operational risk and other risks.

Risk management strategies are reviewed and fine-tuned on an annual basis.

The Managing Board has established a framework of various interdisciplinary committees throughout the institution to aid it in fulfilling its responsibility to manage risks.

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

Risk Management



¹ RiskCo = Risk Committee; ALCO = Asset Liability Committee

As Managing Board Committees, these standing committees are permanent institutions of the EAA. Each responsible PEG portfolio manager attends committee meetings as a non-voting guest.

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 are:

- ▲ Risk Committee (RiskCo) – comprises portfolio management and in particular the management of credit risks and acts as an operational interface between the EAA and the PEG.
- ▲ Asset Liability Committee (ALCO) – comprises optimizing asset/liability management, monitoring and steering operational liquidity, refinancing, interest rate, foreign exchange, operational and other risk management.

The Risk Management department is responsible for the following:

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

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 underlying 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 on a regular basis of any and 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 Asset Liability

Committee (ALCO) as a basis for operational risk management. Based on the requirements formulated by the EAA, PEG's Portfolio Steering/Treasury function is responsible for preparing the necessary reports and analyses as well as its quality assurance. Various departments at WestLB provide information. The EAA's market and credit risk management functions analyze the reports prepared, resolve any open items with PEG and monitor the utilization of credit lines, possible limit breaches and open risk exposures.

The Managing Board keeps the Supervisory Board and its committees apprised regularly of EAA's current winding-up progress and the general risk situation based on the wind-up reports and a 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 comprises potential losses 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 comprises potential losses calculated if the amount of the expected loss on interest and principle payments increases as a result of a deterioration of a borrower's creditworthiness.
- ▲ 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 comprises potential losses if counterparties to derivatives transactions fail to perform or their creditworthiness deteriorates. Counterparty risk also includes settlement risk.

▲ Issuer risk comprises potential losses if issuers of securities held in the portfolio fail to perform or if their creditworthiness deteriorates.

Analysis and assessment of credit risk

The EAA's credit risk managers continually analyze and monitor the loan portfolio and its default and migration risk based on reports prepared by PEG in stipulated, tightly-defined work processes. In order to assess the potential consequences of systemic crises, PEG performs regular stress tests to monitor how a portfolio-wide ratings downgrade by up to two notches would impact the expected loss. Retail portfolios are excluded from this review. The amount of allowances for losses on loans and advances, and changes to that amount, are estimated at the general portfolio level.

Moreover, the portfolio is monitored for concentration risks in individual sub-portfolios, asset categories and regions.

A central focus of portfolio analysis lies on problem loan exposures. These are closely observed and actively managed by PEG's non-performing loans team. The "EAA Global Watch List" provides an additional mechanism for monitoring problem loan exposures. Additional details on this are provided in the section on 'Problem loans and allowances for losses on loans and advances'. Exposures pending decisions are analyzed with respect to the recoverability of the underlying receivable. This checks whether the allowance for losses on loans and advances is appropriate.

The portfolio's largest individual problem exposures are monitored carefully for concentrations.

The EAA assesses credit risk in terms of the entire portfolio as well as in terms of individual exposures. The PEG regularly assesses credit quality and the probability of default based on analyses of financial accounting and ratings. An orderly process where responsibilities are clearly defined facilitates the analysis of problematic exposures and the definition of alternative paths of action, which are presented to the relevant competent individuals or bodies of the EAA for approval. Additionally, cluster and portfolio analysis ensure that major individual exposures are regularly reviewed – also beyond the statutorily prescribed annual credit monitoring.

Management of credit risk

The restructuring or sale of loans represents 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 a sale – the preferred method – is an advantageous alternative.

Default risks are generally limited on the basis of the lines of credit that WestLB had extended as at the date the portfolio was transferred. Increases are permitted only in connection with restructuring measures. 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. Any ratings downgrades for individual exposures are reported to the competent supervisory bodies

as part of credit reporting. In the event of significant downgrades, EAA's relevant bodies decide on the next course of action against the borrower, e.g. 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 PEG's calculations. The PEG conducts the calculations using methods that conform to Basel II (mark-to-market and regulatory add-on) and reports them to the EAA. A conversion to a new method that also includes collateral in the calculation is planned for 2011. In addition, changes in counterparty ratings are analyzed as part of the regular review of the risk situation. Master agreements involving netting and symmetric hedges are used to minimise counterparty risks.

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

The lending business portfolio

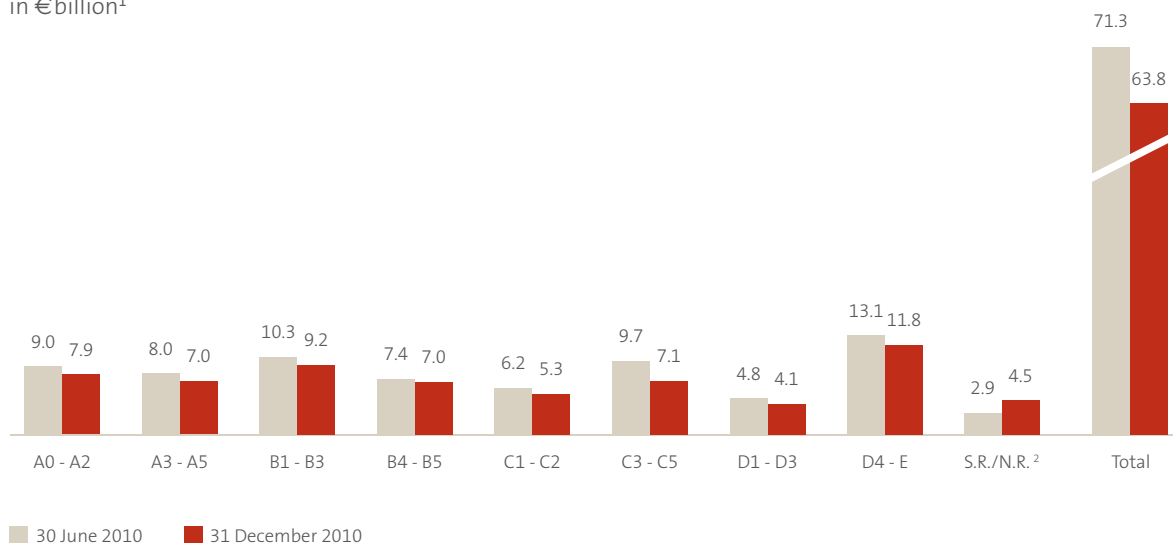
The EAA and its subsidiaries regularly analyze the EAA's credit risk volume in detail so as to identify, analyze, evaluate, and internally manage all default risks within the portfolio. It uses a variety of parameters – such as risk type, rating class, term and region – to identify risk concentrations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

The EAA itself holds 84% of total nominal volume, and the remaining 16% is held by its subsidiaries.

The nominal value of the overall portfolio declined by €7.5 billion to €63.8 billion in the last six months of 2010 (given constant exchange rates as at 31 December 2009). The section entitled "Wind-up report" contains more detailed information on the progress made in winding up the portfolio.

Nominal volume by internal ratings classes

in €billion¹



¹ Excl. exchange rate effects

² Special rating/not rated

The quality of the overall portfolio is reflected by, among others, an investment grade share of around 57%, about 23% of the nominal volume carries a very good rating (A0-A5), and around 34% falls in the middle ratings classes of B1-C2. The changes compared to the financial statements as at 30 June 2010 are essentially attributable to the winding up of the portfolio. The lower rating classes primarily consist of the subordinated

tranches of the Phoenix and EUSS structured securities. The reduction was substantially the same across all ratings classes. The increase in the “Special rating/not rated” class is attributable to the Phoenix portfolio now being presented differently than in the previous annual financial statements. Additional details on this are presented in the section entitled “Phoenix”.

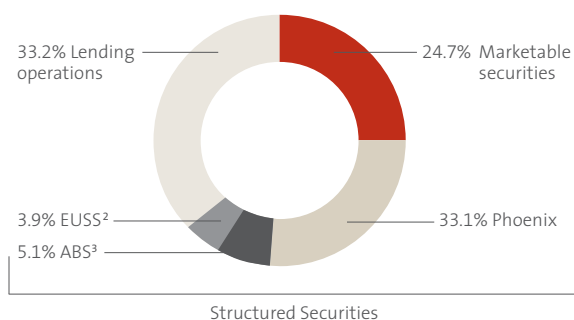
The table below presents a reconciliation of EAA's internal ratings to external ratings:

| INTERN | EXTERN | | |
|--------|------------|------------|------------|
| 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 |

| EXTERN | | | INTERN |
|------------|------------|------------|--------|
| Moody's | S&P | Fitch | EAA |
| 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 |
| D | D | D | D5 |

Sub-portfolios by nominal volume as at 31 December 2010

100% = 63.8 €billion¹



¹ Excluding exchange rate effects

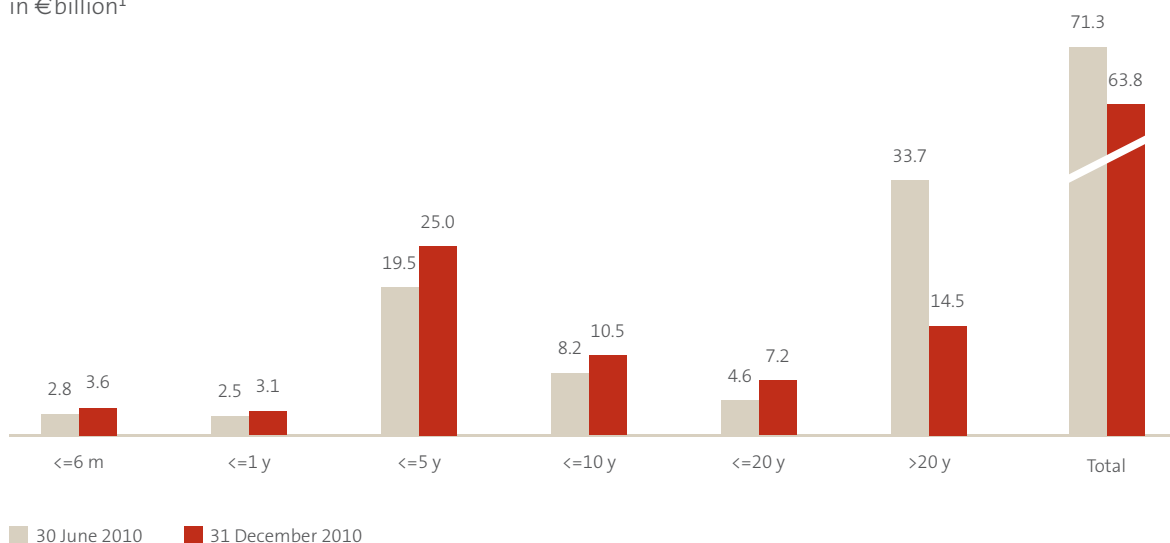
² European Super Senior

³ Asset Backed Securities

The EAA Group consists of three sub-portfolios: Loans (33.2%, of which 25.7% in the real estate sector, 11.4% in the transportation sector, 11.2% to industrial customers and 10.4% in leveraged finance), Structured Securities (42.1%) and Marketable Securities (24.7%). The largest Structured Securities sub-portfolio is Phoenix, which accounts for 33.1% of structured securities (see the sections entitled "Phoenix" for further details).

Nominal volume by term

in €billion¹



¹ Excluding exchange rate effects

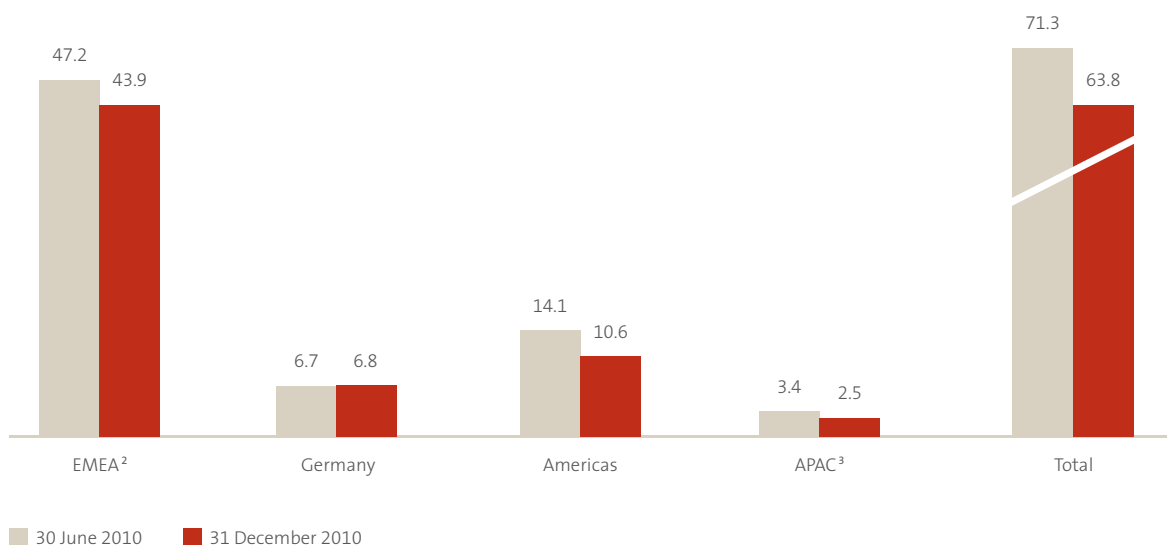
The breakdown of the portfolio by term as at the 31 December 2010 is only partially comparable with the breakdown as at 30 June 2010 because part of the Phoenix portfolio was re-classified. For structured securities, the more meaningful term of the underlying collateral securities is now used. This explains the significant decline in the 'more than 20 years' category. Structured securities with long legal terms are recorded here.

The medium-term exposures with terms of six months to five years now comprise the portfolio's focus with a 44% share. These are primarily loan commitments (in particular, real estate financing, banks and industrial customers).

The other changes within the maturity ranges reflect the portfolio measures executed during the abridged financial year. A partial repayment of several Phoenix tranches with a total volume of €650 million was made in the reporting period (given constant exchange rates as at 31 December 2009).

Nominal volume by region

in €billion¹



¹ Excluding exchange rate effects

² Europe, Middle East and Africa; excluding Germany

³ Asia Pacific and Japan

The chart above detailing the portfolio's regional distribution is based on the countries in which the individual borrowers are domiciled. According to that breakdown, some two-thirds of nominal volume can be attributed to the EMEA region – Europe (excluding Germany), the Middle East and Africa. This includes the EAA's Irish subsidiaries, which have significant investments in US transactions as well as the Phoenix portfolio. A further 11% of nominal volume is attributable to German borrowers. The share of borrowers from North and Latin America declined by about one-fourth due to early redemptions and disposals in the reporting period. Accounting for 4% of total nominal volume, the Far East APAC region is of relatively minor significance.

Phoenix

A significant portion of the EAA's Structured securities portfolio consists of ten tranches of the Phoenix Light SF Ltd. securitization. In order to free itself from the burdens of the financial market crisis using a risk shield, WestLB structured a €23 billion portfolio as at 31 Mar 2008 and spun it off into the Phoenix special purpose vehicle. All of the securitization's tranches were transferred to the EAA; a first-loss guarantee by the WestLB owners totalling €5 billion from 2008 still exists.

The vast majority of the Phoenix securitised portfolio (approximately 87%) is denominated in US dollars and represents US risks, primarily centred on the real estate market there. Because Phoenix Light SF Ltd. is domiciled in Dublin, the exposure is presented as part of the EMEA region.

Repayments in the reporting period resulted in a decline in Phoenix' euro-denominated nominal volume to €21.1 billion as at 31 December 2010 (calculated at constant exchange rates as at 31 December 2009).

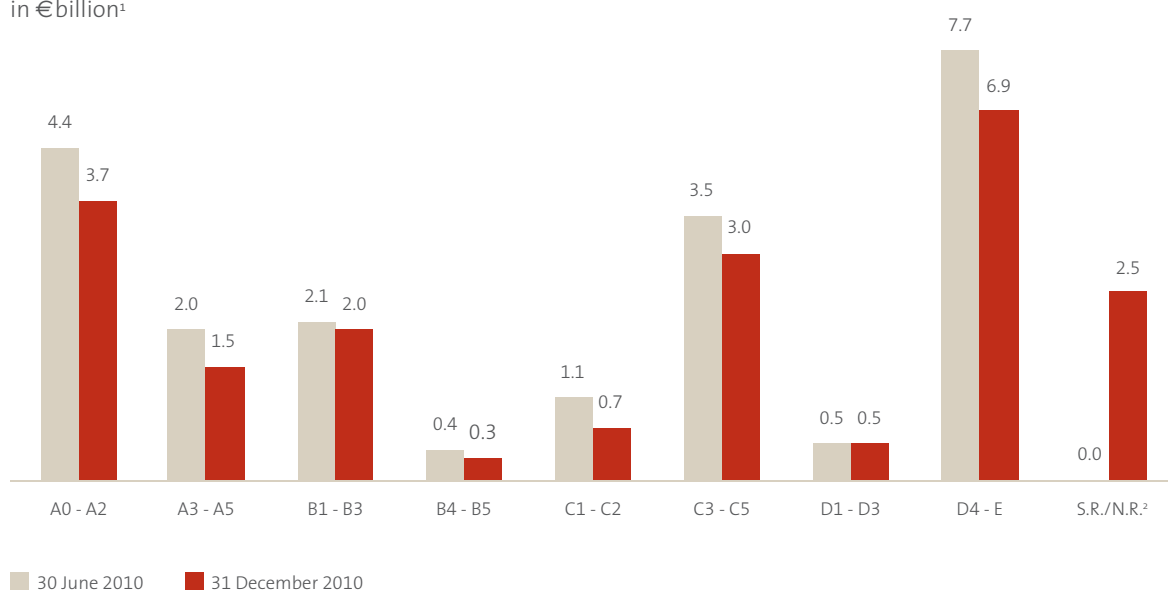
Phoenix Notes Capital Structure

in €billion

| Tranche | Amount as at 31 Dec. 2010 | S&P Rating | Legal maturity | Weighted average maturity |
|----------|---------------------------|------------|----------------|---------------------------|
| Class X | 60 € | A- | 09.02.2015 | 2.07 |
| Class A1 | 13,350 US-\$ | A- | 09.02.2091 | 2.65 |
| | 863 € | A- | 09.02.2091 | 2.14 |
| Class A2 | 3,102 US-\$ | B- | 09.02.2091 | 6.04 |
| | 226 € | B- | 09.02.2091 | 4.92 |
| Class A3 | 2,387 US-\$ | CCC- | 09.02.2091 | 7.79 |
| | 701 € | CCC- | 09.02.2091 | 7.12 |
| Class A4 | 1,909 US-\$ | CCC- | 09.02.2091 | 1.54 |
| | 181 € | CCC- | 09.02.2091 | 4.95 |
| Class B | 4,701 € | Not rated | 09.02.2091 | 11.14 |

Internal ratings for Phoenix assets

in €billion¹



¹ Excluding exchange rate effects

² Special rating/not rated

The ratings distribution was adjusted following the closing of the financial year as at 30 Jun 2010 in order to take into account the cash on hand within the Phoenix portfolio. This is still held by the Harrier SIV and is therefore presented in the “not rated (S.R./N.R.)” category in the above chart. The cash on hand is held in fiduciary accounts at international banks with at least an investment-grade rating.

In terms of ratings, the Phoenix portfolio is split down the middle. Around 40% consists of risk exposures with a good investment-grade rating and consequently a lower likelihood of default. The remainder 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 negotiations with the parties involved in Phoenix concerning how to proceed with the EAA’s core portfolio. The intent is to simplify the structure of the Phoenix portfolio as much as possible and comply with the new framework conditions following the transfer to the EAA. In addition, disposal options that

could be realised during the course of 2011 are being jointly analyzed with the manager of the Phoenix portfolio.

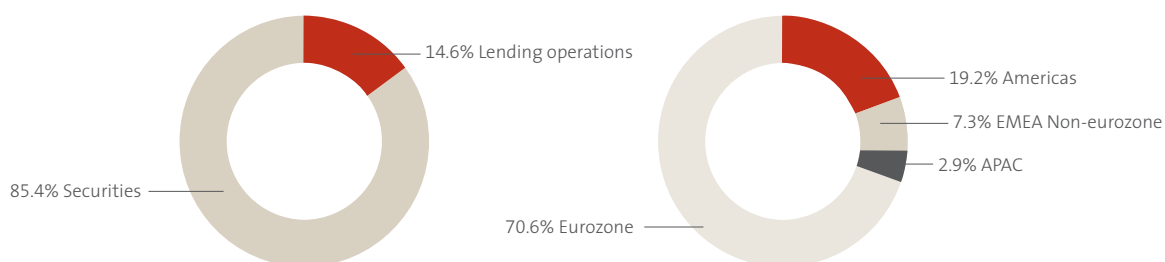
Public finance

The public sector exposure as at 31 December 2010 comprised a total nominal amount of €11.8 billion. The volume is thus lower than in the financial statements as at 30 June 2010 (€12.7 billion). This 7% decline essentially resulted from the sale of European government bonds and the repayment of lines of credit by municipal borrowers in the USA. The EAA thus significantly exceeded its targets for this sub-portfolio in the reporting period.

Of the total volume, 85% of the public sector exposure consists of marketable securities, specifically bonds issued in EU member states. These are primarily held through the Irish subsidiary, EAA Covered Bond Bank plc (EAA CBB). The majority of the remaining 15% are loan transactions with state, city, or other municipal institutions in North America.

Public Finance exposure by product and region as at 31 December 2010

100% = €11.8 billion¹



¹ Excluding exchange rate effects. Regional distribution by borrower or guarantor

As at 31 December 2010, the EAA's exposure to governmental and other public borrowers in Portugal, Italy, Greece, Ireland and Spain amounted to €6.3 billion and was thus virtually the same as at 30 June 2010. In the bond markets, the second half of 2010 was characterised by continued volatility in the peripheral eurozone countries. This resulted in a further widening of spreads, in particular for Irish bonds. However, public borrowers in Ireland only play just an insignificant role in the EAA's portfolio.

Investment risks

Investment risks result from the provision of equity and subordinated capital. The EAA's investment risk is primarily rooted in the Irish subsidiary, EAA Covered Bond Bank plc, as well as the Basinghall companies. The former EAA Bank Ireland plc transferred its on-balance sheet transactions, and thus the significant risks to the sister company, EAA Covered Bond Bank plc, returned its banking license, and changed its name to EAA Corporate Services plc. There are no longer any significant risks from this investment. The EAA's Portfolio Strategy department is responsible for managing equity investments, with the MIS Reporting & Controlling department providing financial control assistance.

The controlling of EAA's investments provides continuous analyses of existing and future risks. This information enables the EAA to support and manage equity investments from a shareholder perspective. Moreover, the key subsidiaries are fully integrated into EAA's risk management and business administration structure. Equity investments are subject to governance by the EAA and EAA's approved internal limit system.

EAA representatives are non-managing members of the supervisory bodies of all significant equity investments and therefore exercise a control function. In addition, several representatives of the EAA collaborate on these subsidiaries' various committees.

Problem loans and allowances for losses on loans and advances

Problem loan exposures are captured centrally in the EAA Global Watch List (EAA GW). This serves as a core basis for managing credit risks as well as an early warning system, as defined in MaRisk, to record, monitor and report individual loan exposures and credit portfolios,

- ▲ which have a distinct or increased risk profile, due to expected or actual defaults pursuant to Basel II, or
- ▲ for which a specific allowance for losses on loans and advances has been recognised.

Exposures are included in the EAA GW in accordance with stipulated risk indicators in various categories. The information and data recorded in the EAA GW is maintained and monitored by WestLB's CAD department in order to ensure a regular reporting of the current risk situation of these loans as well as the levels of risk provisions to the EAA's supervisory bodies.

In addition, the intensive care function monitors loan exposures with distinct or increased risk profiles. Loans with increased risk profiles loans which have already experienced actual defaults as well as non-performing loans are transferred to the Problem Loans Processing function in accordance with MaRisk.

Allowances for losses on loans and advances/securities due to credit risks

| | Provisions for loan losses € million | Charge-offs € million | Net change in loan loss provision € million | Other exp./ inc. due to risk € million | Total allow. for losses € million |
|---|--|--------------------------|--|--|---|
| Acute counterparty default risk | -693.4 | 144.5 | -548.9 | -57.9 | -606.8 |
| Credit risk | -693.3 | 142.6 | -550.7 | -14.6 | -565.3 |
| Country risk | -0.1 | 1.9 | 1.8 | - | 1.8 |
| Other risk | - | - | - | -43.3 | -43.3 |
| Contingent counterparty default risk | -49.1 | - | -49.1 | - | -49.1 |
| | -742.5 | 144.5 | -598.0 | -57.9 | -655.9 |

Market risk

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

- ▲ Interest rate risk is the risk that changes in market interest rates reduce the portfolio's net interest income or present value.
- ▲ Foreign exchange risk describes the risk that changes in foreign currency exchange rates induce losses.
- ▲ Equity risk describes the risk of losses from changes in prices on the stock market.
- ▲ Credit spread risk describes the fluctuation in the value of securities resulting from a change in the credit risk premiums (e.g., foreign government bonds in the public finance portfolio).

Due to the structure of the portfolio, there are interest rate and foreign exchange 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. All equity risks in the portfolio were eliminated using micro-hedges giving a simple, linear risk profile.

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. Credit spread risks are not explicitly managed due to the temporary nature of a (pure) expansion of spreads (excluding a change in creditworthiness) in conjunction with the basic holding intention. The EAA considers credit spread risks to be a credit risk. Accordingly, presumed default risks are recognised using specific loan loss provisions. All key loan exposures are monitored individually. Where necessary, affected exposures are liquidated. Spread risks are not limited.

Equity risk is of minor significance to the EAA.

Managing market risks

In accordance with the winding-up plan, market risks are to be eliminated to the extent economically feasible. The EAA's hedging activities concentrate primarily on interest rate and foreign exchange risks in accordance with the risk profile.

The interest rate risk is hedged through refinancing at matching maturities or concluding derivative transactions.

Foreign exchange risks are managed through corresponding hedging transactions and refinancing in matching currencies.

Interest rate and foreign exchange positions are managed continually by the Treasury department and monitored and analyzed by the market risk managers.

Interest rate risks are analyzed based on interest rate sensitivity (PVo1), i.e., the effect of a shift in the interest rate curve by one basis point (0.01%) on the net present value of the portfolio. This sensitivity is analyzed separately for various individual maturity ranges and currencies. By segmenting its portfolio in this way, the EAA is able to not only analyze sensitivity to parallel shifts in the interest rate curve, but also to analyze interest rate risks in greater detail. The portfolio is also analyzed separately by currency in addition to by maturity range. In addition, interest rate exposure is also regularly assessed using appropriate stress tests (e.g., parallel shifts by a various number of basis points).

The interest rate risk is limited based on sensitivity in all maturity ranges with all foreign currencies translated into euros. That means that the maximum variability of the total net present values of maturity ranges and currencies is limited. A limit

of €250,000 was placed on the daily change in interest rate risks in August 2010 and has been monitored since then. The Managing Board is informed and appropriate measures initiated if the limit is exceeded. Any changes in excess of €1 million are escalated to the Risk Committee.

Analogously to interest rate risks, foreign exchange risk is also limited by a limit on the change in the net foreign currency exposure. The change limit was set at an equivalent of €25 million.

Liquidity risks

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 creditworthiness of its guarantors, the EAA has been positively received on the capital markets. Therefore, the risk concerning the EAA's specific 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 expected cash flows used for liabilities with those arising from assets, taking into account the use of derivatives, the EAA creates a liquidity maturity statement detailing its net funding requirements. This funding matrix enables the EAA to consider both tactical and long-term strategic liquidity. Tactical liquidity risk is regularly assessed using stress tests.

Management of liquidity risks

In order to manage and monitor its liquidity risks, the EAA has implemented a system for closely monitoring the implementation of the funding plan and 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 EAA's assets is invested in foreign currencies (particularly the US dollar) over the long-term. At present, the majority of foreign-denominated assets are refinanced using liabilities in euros in combination with 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 controlled 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 being wound up. 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 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 by way of guarantees. Limitations on collateralised liquidity and on assets eligible as collateral with central banks are not considered in the stress test scenario. Funding gaps denominated in foreign currencies are translated into euros. As at 31 December 2010, the liquidity reserve was €4.0 billion ("Liquidity crisis and downgrade" stress test scenario); it was not necessary to draw down from that reserve in the year just ended.

The capital commitment statement, which is used to manage strategic liquidity, is prepared each month by the PEG. The PEG also prepares reports for the EAA's ALCO, as well as the wind-up report for the Managing Board and the governing bodies of the EAA and the FMSA. The EAA does not consider it necessary to limit strategic liquidity risk due to the good ratings of its guarantors.

Operational risk

With respect to operational risks, the EAA distinguishes between risks from processes within the EAA itself on the one hand and risks from outsourcing to WestLB's Portfolio Exit Group or other service providers on the other:

- ▲ Operational risks in the EAA comprise all risks arising from inappropriate reactions or from the failure of internal processes, systems, and individuals, as well as risks resulting from external events.
- ▲ Outsourcing risks with regard to the PEG or other service providers encompass possible losses from awarding services. This includes, in particular, the risk that contractually stipulated services are not provided or do not meet the stipulated quality. The outsourcing relationship to the PEG is presented separately due to its significance for the EAA.

Management of operational risks

Operational risks arise on the one hand by EAA's employees and service providers performing their tasks and from the surrounding environment on the other. Therefore, the management of operational risks is the direct responsibility of the individual departments under the leadership of the respective department heads. The EAA's head of Operational Risk Management coordinates this effort. In a general effort to avoid operational risks, the EAA's management aims to establish a sustainable risk management culture within the organization.

The Market Risk Management department is responsible for developing and introducing methods for identifying, measuring, analyzing, monitoring and reporting operational and other risks. Its activity focuses on the regular analysis

and identification of weak points and approaches for optimizing all business procedures and processes.

The EAA's operational risks arise both in the EAA and at its outsourcing service provider, the PEG. Operational risks are consistently measured and managed in both organizations and are also aggregated into an overview of overall risk. Where appropriate, the operational risks of other service providers are managed using consistent methods.

The EAA concentrates on identifying material individual risks, continually monitoring them, and if necessary, managing or mitigating such risks. To that end it has established an internal system for recording and measuring the operational risks for the EAA as a whole, as necessary based on the type and scope of the operational risks.

The collating of operational risk incidents and the annual risk inventory are key elements for measuring operational risks. Appropriate measures are resolved and implemented based on the findings obtained.

A risk incident database is used to record and analyze losses incurred and instances of near losses. Potential or actual losses are quantified. In addition to documenting losses and near losses, the database enables an extensive ex post facto analysis of individual losses as well as the systematic identification of weak points. The EAA then develops a specific risk strategy based on that analysis.

An annual risk inventory identifies potential risks and assesses their significance for the EAA. Appropriate measures are resolved and implemented based on the findings obtained.

Operational Risk Management at WestLB/ PEG collates a risk incident report and performs the risk inventory using methods recognised by regulatory authorities.

Other risks

Reputational risks

Reputational risks encompass the risk that public reporting on 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.

The EAA has set forth directives for its employees in its Code of Conduct which serve to ensure an appropriate public portrayal. The EAA monitors all public reporting intensely to further minimise reputational risks. A coordinated and active external communication and public relations support the EAA's reputation.

Legal risks

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

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 articles of association.

On 22 June 2010, the EU Commission provisionally extended its approval dated 22 December 2009 of the transfer of WestLB's risky and non-core assets 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 as the EU Commission is not calling the completed transfer into question.

The EAA did not perform its own legal due diligence on the risk exposures and liabilities transferred from WestLB and its subsidiaries prior to the transfer of the risk 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, litigation risks related to the portfolio's assets were also transferred to the EAA. The EAA analyzed the pending litigation as at the transfer date and does not expect any imminent losses from such litigation.

The EAA has transferred the management of the assets transferred to it to WestLB. Consequently, WestLB must identify and manage the legal risks arising in this connection so that it can then, in coordination with the EAA, use the requisite measures to comprehensively mitigate or eliminate them.

Tax risks

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

The EAA uses clearly defined governance structures and processes to analyze 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 a clarification of these risks in advance through active communication with tax 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 established in order to assume WestLB's risk exposures, and to wind these up in a manner that preserves value determined in 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 exempted from capital adequacy rules, 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 available capital for risk coverage, the EAA has a capital base that was calculated on the basis of stressed anticipated losses. In addition, it 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 continually monitored and held against the plan. Please refer to the section entitled "Wind-up report" for more detailed information.

The EAA's liquidity risk will continue to diminish as soon as the EEA can begin to obtain funding on the capital market at matching maturities and in matching currencies. Thanks to its good rating, the EAA enjoys a stable funding situation.

By contrast, market and foreign exchange risks must largely be contained.

The EAA has introduced a strict service provider management system and an internal control system in order to manage operational risks.

The Phoenix and EUSS structured securities continue to constitute the largest individual risks. In addition, the US economy and development of the US real estate market play a prominent role in the EAA's risk situation. The EAA has provided for any known risks in its annual financial statements. Its equity is available as aggregate risk cover for unexpected risks that are not yet currently foreseeable.

The EAA will continue to place a special focus on sustainable and consistent risk management.

Accounting internal control and risk management system

The objective of an accounting-based 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, segregation of duties control in recording business transactions, orderly documentation);

- ▲ the archiving and filing of documents and accounting-relevant data 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's Internal Audit Officer is responsible for co-ordinating and monitoring the internal audit functions of WestLB's Internal Audit department and for engaging an external consultant to perform internal audits of the EAA.

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 a 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 or new markets are subject to the New Product Process which is also implemented by the Finance/Tax department.

Events after the close of the abridged financial year

The severe earthquake that struck Japan and its catastrophic aftermath could dramatically impact the Japanese – if not the global – economy in ways which cannot presently be foreseen. However, it is impossible to predict how these events will affect the EAA's financial position and performance. Given the absolute magnitude of the risk exposures to Japan and the collateral pledged, the EAA presently sees no reason to increase the allowances recognised for losses. However, the EAA will continue to closely monitor further developments and react accordingly.

Beyond this, there were no reportable events after the close of the abridged financial year affecting the risk exposures transferred to or guaranteed by the EAA. Given that the EAA was established to assume WestLB risk exposures and to wind them up in a manner that would not adversely affect the financial system in the Federal Republic of Germany, further developments – particularly in connection with the pending EU proceedings

concerning potential aid granted to WestLB – may have an impact on the EAA going forward.

To date, the EAA is not a party in the EU-proceedings and has had no involvement in them whatsoever. Public information indicates that it cannot be ruled out that a not inconsiderable amount of additional risk exposures may be transferred to the EAA under certain conditions in the 2011 financial year. For further information on the proceedings, please refer to the press release published by the European Commission on 16 February 2011 (http://ec.europa.eu/deutschland/press/pr_releases/9747_de.htm).

Outlook

Growth in the global economy is expected to slow from 4.5% in 2010 to 3.8% in 2011. At 2.6%, Germany's economic growth is likely to outpace that of other eurozone countries in 2011 but the recovery is now no longer driven solely by exports, but also by rising private consumption and increasing corporate investment. By contrast, the reduction of government deficits, demographic changes – particularly the shortage of skilled workers – and the sharp increase in the price of raw materials are likely to slow economic growth in many industrialised countries over the longer term.

Real GDP growth in the US was based largely on non-recurring factors such as fiscal stimulus packages and the replenishment of inventories. Going forward, economic growth in the US is therefore likely to depend to a greater extent on a sustained recovery in consumer demand, and in that respect, the development of the labour market, real estate prices and the availability of credit in the US. In that light, it was encouraging to see

consumer spending increase sharply again at the end of 2010. The EAA expects economic growth in the US to amount to 3.2% in 2011. Although the EAA does not entirely rule out a double-dip recession, this presently does not appear likely.

Inflation was not an acute problem for most industrialised countries in 2010. The underlying trend towards rising prices – i.e., core inflation – is likely to remain moderate in 2010 due to the persistent under-utilisation of production capacity, particularly in the US. However, significant inflation risks may arise in the long term as a result of the central banks' expansionary monetary and fiscal policies, combined with continued stability in the economy.

The latest economic data appear to corroborate this trend, stoking renewed fears of inflation on the capital markets, particularly on the back of increasing energy prices. This also explains the ECB's rhetoric that it may yet raise its base rate before the end of the first half of 2011. Yet, even if it does raise the base rate by 0.25 percentage points at short notice in order to signal its readiness to take action, the extremely mixed economic outlooks throughout Europe will render it likely that the ECB will chart a careful course through the remainder of the year. By contrast, the Fed is likely to maintain its "easy money policy" in the US due to the fact that capacity utilisation remains low. An interest rate increase at the end of the year is likely. The all-time low ten-year Bund yield will not be repeated; the EAA expects the yield to increase moderately from approximately 3.2% at present to 3.5% at the end of 2011. The yield on ten-year US Treasuries is expected to increase as well, from 3.6% at present to 3.95%.

The intermittent depreciation of the euro reflects the turbulence surrounding the peripheral countries of the eurozone. Until a credible economic or fiscal stabilisation plan is presented to the capital market, the euro will remain exposed to further fluctuations in value. On the other hand, many countries are interested in a strong "second" reserve currency in addition to the US dollar, and certain states in the US are also facing major budget deficits. Therefore, depending on the focus of the capital markets, exchange rates may be subject to brief, yet pronounced, fluctuations. Given the current focus on the European debt crisis and the persistent overvaluation of the euro – as measured by purchase price parity – the US dollar can be expected to solidify at an exchange rate of US-\$1.30 per Euro towards the end of the year.

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 macroeconomic risks primarily arising from a rekindling of the euro crisis and from the continued weakness in the US real estate market. It manages these risks by closely monitoring market and borrower risks in these sectors and by reducing selected US exposures from its portfolio.

The EAA intends to establish its issuing programme in the 2011 financial year by issuing its first benchmark bond and aims to further 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 repurchase transactions with

further counterparties in order to broaden its access to these products. Finally, the EAA intends to expand its group of money market counterparties to enhance its ability to obtain short-term liquidity as well.

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.

The reporting, IT and service provider management functions largely went live by the end of 2010, meaning that the EAA will be able to focus more and more on its core activities over the course of the coming financial year. In addition, the EAA is evaluating its options for the preferred course of action after expiry of the co-operation agreement with WestLB, particularly the issue as to whether the agreement should be extended or whether the conditions for switching to one or more external providers should be met.

The detailed activities are dependent on the transfer of additional risk exposures from WestLB (see also “Events after the close of the abridged financial year” above). The EAA is monitoring this process on a continuing basis to assess the potential impacts on the EAA in order to enable it the implementation of strategic solutions quickly and flexibly.

Assuming the general economic conditions stabilise, the EAA anticipates that net additions to loan loss provisions will be reduced and its earnings position will continue to 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 at 31 December 2010

| Assets | Note | € | 31 Dec. 2010 € | 30 Jun. 2010 T € |
|---|-------------------|-------------------|--------------------------|---------------------|
| 1. Loans and advances to banks | 4, 14, 26 | | | |
| a) payable on demand | | 1,442,546,783.18 | | (12,439,731) |
| b) other loans and advances | | 8,721,359,875.17 | | (3,360,715) |
| | | | 10,163,906,658.35 | 15,800,446 |
| 2. Loans and advances to customers | 5, 6, 14, 26 | | 13,312,855,031.62 | 15,843,689 |
| of which: | | | | |
| secured by mortgage charges | | | | |
| €584,642,252.52 (py: €593,055 thousand) | | | | |
| Public-sector loans | | | | |
| €444,543,723.42 (py: €251,469 thousand) | | | | |
| 3. Bonds and other | | | | |
| fixed-income securities | 7, 12, 14, 15, 26 | | | |
| Bonds issued by | | | | |
| a) public issuers | | 2,163,234,013.55 | | (0) |
| of which: | | | | |
| eligible as collateral with Deutsche Bundesbank | | | | |
| €2,101,783,615.85 (py: €0 thousand) | | | | |
| b) other issuers | | 21,815,095,474.45 | | (18,836,739) |
| of which: | | | 23,978,329,488.00 | 18,836,739 |
| eligible as collateral with Deutsche Bundesbank | | | | |
| € 4,102,371,164.72 (py: €0 thousand) | | | | |
| 4. Equities and other non- | | | | |
| fixed-income securities | 8, 12 | | 24,284,517.19 | 25,830 |
| 5. Long-term equity investments | 9, 12, 43 | | 134,907,721.03 | 153,797 |
| of which: | | | | |
| in banks | | | | |
| € 15,517,912.50 (py: €498,238 thousand) | | | | |
| in financial service providers | | | | |
| €0 (py: €0 thousand) | | | | |
| 6. Shares in affiliates | 10, 12, 43 | | 561,806,620.25 | 559,363 |
| of which: | | | | |
| in banks | | | | |
| € 498,237,850.52 (py: €498,238 thousand) | | | | |
| in financial service providers | | | | |
| € 9,616,191.04 (py: €9,616 thousand) | | | | |
| 7. Tangible fixed assets | 12 | | 14,402.37 | 0 |
| 8. Other assets | 11, 35 | | 327,139,693.06 | 430,590 |
| 9. Prepaid expenses/Accrued income | 13, 35 | | 787,651,536.80 | 891,540 |
| Total assets | 24 | | 49,290,895,668.67 | 52,541,994 |

| Liabilities and equity | Note | € | € | 31 Dec. 2010 € | 30 Jun. 2010 T € |
|---|------------|--------------|-------------------|--------------------------|---------------------|
| 1. Deposits from banks | 13, 16 | | | | |
| a) payable on demand | | | 31,679,560.52 | | (6,894,975) |
| b) with an agreed maturity or withdrawal notice | | | 9,815,112,040.60 | | (4,579,985) |
| | | | | 9,846,791,601.12 | 11,474,960 |
| 2. Deposits from Customers | 13, 17 | | | | |
| other deposits | | | | | |
| a) payable on demand | | | 11,775,749.24 | | (0) |
| b) with an agreed maturity or withdrawal notice | | | 4,474,746,526.04 | | (4,752,001) |
| | | | | 4,486,522,275.28 | 4,752,001 |
| 3. Debt securities in issue | 13, 18 | | | | |
| a) Bonds | | | 20,375,151,481.12 | | (20,851,052) |
| b) Other debt securities in issue | | | 11,201,736,504.25 | | (11,539,482) |
| of which: | | | | 31,576,887,985.37 | 32,390,534 |
| Money market instruments | | | | | |
| €0 (py: €0 thousand) | | | | | |
| 4. Other liabilities | 19, 35 | | | 982,941,446.31 | 814,193 |
| 5. Accruals/Deferred income | 20, 35 | | | 811,529,654.06 | 900,452 |
| 6. Provisions | 21 | | | | |
| other provisions | | | 93,937,993.43 | | (120,395) |
| | | | | 93,937,993.43 | 120,395 |
| 7. Equity | 22 | | | | |
| a) Subscribed capital | | | 500,000.00 | | (500) |
| b) Capital reserves | | | 3,137,006,319.58 | | (3,137,006) |
| c) Revenue reserves | | | | | |
| Other revenue reserves | | 2,431,408.07 | | | (0) |
| | | | 2,431,408.07 | | (0) |
| d) Net retained losses carried forward | | | -1,647,653,014.55 | | (-1,048,047) |
| | | | | 1,492,284,713.10 | 2,089,459 |
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| | | | | | |
| Total liabilities and equity | 24 | | | 49,290,895,668.67 | 52,541,994 |
| 1. Contingent liabilities | 31, 32, 34 | | | | |
| Liabilities on guarantees and warrantees | | | 6,987,939,905.00 | | (8,683,657) |
| | | | | 6,987,939,905.00 | 8,683,657 |
| 2. Other obligations | 31 | | | | |
| irrevocable loan commitments | | | 4,517,917,932.72 | | (7,013,589) |
| | | | | 4,517,917,932.72 | 7,013,589 |

Income statement

for the period from 1 July to 31 December 2010

| | Note | € | € | 1 Jul. 2010– 31 Dec. 2010 € | 11 Dec. 2009– 30 Jun. 2010 T € |
|---|--------|----------------|----------------|-----------------------------------|--------------------------------------|
| 1. Interest income from | 25 | | | | |
| a) Lending and money market transactions | | 400,151,252.00 | | | (473,529) |
| b) Fixed-income securities and debt register claims | | 234,903,860.19 | | | (369,627) |
| | | | 635,055,112.19 | | (843,156) |
| 2. Interest expense | | | 514,091,427.09 | | (639,606) |
| | | | | 120,963,685.10 | 203,550 |
| 3. Current income from | 25 | | | | |
| a) Equities and other non- fixed-income securities | | | 0.00 | | (2,764) |
| b) Long-term equity investments | | | 324,921.76 | | (396) |
| | | | | 324,921.76 | 3,160 |
| 4. Fee and commission income | 25 | | 20,386,223.97 | | (28,891) |
| 5. Fee and commission expense | | | 10,573,788.77 | | (10,470) |
| | | | | 9,812,435.20 | 18,421 |
| 6. Other operating income | 25 | | | 8,572,840.60 | 618 |
| 7. General and administrative expenses | | | | | |
| a) Personnel expenses | | | | | |
| aa) Wages and salaries | 36 | 2,057,671.50 | | | (559) |
| ab) Social security, post-employment and and other employee benefit costs | 21, 36 | 101,701.94 | | | (17) |
| of which: | | | 2,159,373.44 | | (576) |
| cost of old-age pensions €0 (income) (py: €0 thousand) | | | | | |
| b) Other administrative expenses | | | 67,083,691.68 | | (24,328) |
| | | | | 69,243,065.12 | 24,904 |
| 8. Depreciation, amortisation and write-offs on intangible assets and tangible fixed assets | 12 | | | 1,900.41 | 0 |
| 9. Other operating expenses | | | | 865,860.51 | 0 |
| 10. Allowances for losses on loans and advances and write-offs on certain securites | 21, 26 | | | 753,790,195.84 | 431,499 |
| 11. Depreciation, amortisation and write-offs on long-term equity investments, shares in affiliates and long-term securities | 12, 26 | | | 0.00 | 817,374 |
| 12. Income from the reversal of write-offs on long-term equity investments, shares in affiliates and long-term securities | 12, 26 | | | 86,887,555.15 | 0 |
| 13. Result from ordinary activities | | | | -597,339,584.07 | -1,048,028 |
| 14. Extraordinary expenses | 27 | | 54,762.96 | | (0) |
| 15. Extraordinary result | 27 | | | -54,762.96 | 0 |
| 16. Taxes on income | 29 | | | 2,211,192.81 | 19 |
| 17. Net loss for the year | | | | -599,605,539.84 | -1,048,047 |
| 18. Net retained losses brought forward | | | | -1,048,047,474.71 | 0 |
| 19. Net retained losses carried forward | | | | -1,647,653,014.55 | -1,048,047 |

Cash flow statement

for the period from 1 July to 31 December 2010

| | | 1 Jul. 2010– 31 Dec. 2010 € |
|------|--|-----------------------------------|
| 1. | Net loss for the period (including minority interest) before extraordinary items | -599,605,539.84 |
| | Non-cash items included in net loss for the period and reconciliation to cash flows from operating activities | |
| 2. | +/- Allowances for losses on loans and advances and write-offs on certain securities, depreciation, amortisation on tangible fixed assets and long term financial assets as well as the reversal thereof | 647,606,771.16 |
| 3. | +/- Increase/decrease in provisions | -26,457,408.19 |
| 4. | +/- Other non-cash income/expense | 0.00 |
| 5. | -/+ Gain/loss on disposal of long-term financial assets and tangible fixed assets | -267,699.52 |
| 6. | -/+ Other adjustments (net) | -119,073,888.26 |
| 7. | = Sub-total | -97,797,764.65 |
| | Change in operating assets and liabilities | |
| 8. | Loans and advances | |
| 8a. | +/- - to banks | 5,457,183,445.98 |
| 8b. | +/- - to customers | 1,785,923,352.95 |
| 9. | +/- Securities (other than long-term financial assets) | -4,931,304,118.48 |
| 10. | +/- Other operating assets | 105,247,392.23 |
| 11. | Deposits | |
| 11a. | +/- - from banks | -1,635,671,039.66 |
| 11b. | +/- - from customers | -256,674,751.82 |
| 12. | +/- Debt securities in issue | -937,430,902.34 |
| 13. | +/- Other operating liabilities | 141,967,025.95 |
| 14. | + Interest and dividends received | 473,596,924.25 |
| 15. | - Interest paid | -290,366,724.42 |
| 16. | + Extraordinary receipts | 0.00 |
| 17. | - Extraordinary payments | 0.00 |
| 18. | +/- Income tax payments | -2,209,640.12 |
| 19. | = Cash flows from operating activities | -187,536,800.13 |
| 20. | Proceeds from disposal of | |
| 20a. | + - long-term financial assets | 7,357,670.90 |
| 20b. | + - tangible fixed assets | 0.00 |
| 21. | Purchase of | |
| 21a. | - - long-term financial assets | -4,105,851.45 |
| 21b. | - - tangible fixed assets | -16,302.78 |
| 22. | + Receipts from disposal of consolidated subsidiaries and other business units | 0.00 |
| 23. | - Purchase of consolidated subsidiaries and other business units | 0.00 |
| 24. | +/- Changes in cash due to other investing activities (net) | 0.00 |
| 25. | = Cash flows from investing activities | 3,235,516.67 |
| 26. | + Cash receipts from issue of capital (capital increases, sale of treasury shares, etc.) | 0.00 |
| 27. | Cash payments to owners and minority shareholders | |
| 27a. | - - Dividend payments | 0.00 |
| 27b. | - - other payments | 0.00 |
| 28. | +/- Changes in other capital (net) | 0.00 |
| 29. | = Cash flows from financing activities | 0.00 |
| 30. | Net change in cash funds (sum of 19, 25 and 29) | -184,301,283.46 |
| 31. | +/- Effect on cash funds of exchange rate movements, changes in reporting entity structure and remeasurement | 0.00 |
| 32. | + Cash funds at beginning of period | 185,382,259.86 |
| 33. | = Cash funds at end of period | 1,080,976.40 |

The cash funds reported consist entirely of current clearing accounts (demand deposits) held with WestLB.

At present, the EAA has no other cash funds as defined under GAS 2.16 et seq.

Statement of changes in equity

for the period from 1 July to 31 December 2010

| | Balance as at 1 Jun. 2010 € million | Other change in capital € million | Appropriation of net loss € million | Balance as at 31 Dec. 2010 € million |
|-------------------------|---|---|---|--|
| Subscribed capital | 0.5 | - | - | 0.5 |
| Capital reserves | 3,137.0 | - | - | 3,137.0 |
| Other revenue reserves | - | 2.4 | - | 2.4 |
| Net retained losses | -1,048.0 | - | -599.6 | -1,647.6 |
| Equity under HGB | 2,089.5 | 2.4 | -599.6 | 1,492.3 |

Notes to the financial statements

for the abridged financial year
beginning on 1 July and ending on 31 December 2010

General disclosures

1. Legal framework of Erste Abwicklungsanstalt

The EAA is a structurally and financially independent public law entity with partial legal capacity operating under the umbrella of the 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 at the Düsseldorf Local Court 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.

The EAA's task is to assume and wind up risk exposures and non-strategic businesses/assets of WestLB in order to stabilise them and the financial market as a whole. The EAA conducts its transactions in accordance with economic principles with 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. It is subject to the legal supervision of the FMSA as well as

regulation by BaFin with regard to individual banking law provisions. It is thus not a fully regulated credit institution.

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 alternatives.

With retroactive economic effect as at 1 January 2009 and 1 January 2010, €49.2 billion in assets and €26.6 billion in liabilities were transferred (each at their respective HGB carrying amount and including hedging transactions). The two transfer phases were based on the balance sheets of WestLB as at 31 December 2008 (transfer balance sheet) and 31 December 2009, which Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft had given an unqualified audit opinion.

Henceforth, assets and liabilities transferred by means of spin-off, sub-participation and contractual transfer will still be accounted for by the EAA, while assets guaranteed by the EAA will 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 31 December 2010, the EAA generated income of €9.7 million (previous year: €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 in North Rhine-Westphalia (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 articles of association, the financial statements of the EAA for the second abridged financial year from 1 July 2010 to 31 December 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). The provisions amended by the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG) of 25 May 2009 have been taken into account. We have opted not to adjust the prior-year figures due to the first-time full adoption of the provisions amended by the BilMoG. 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 figures from the first abridged financial year from 11 December 2009 to 30 June 2010 are

provided as comparative figures for the second abridged financial year. The transfer effected in 2009 took retroactive effect for accounting purposes on 1 January 2009. For this reason, the income statement for the first abridged financial year includes expenses incurred and income generated before the beginning of the abridged financial year. This limits the comparability of the amounts.

The financial statements for the abridged financial year will be submitted to and published by the operator of the electronic Federal Gazette (www.ebundesanzeiger.de).

3. Accounting policies

Assets, liabilities and off-balance sheet transactions are measured in accordance with sections 252 et seq. and sections 340 et seq. of the HGB.

Receivables are reported at their nominal values, less discounts and loan loss provisions, if any. Liabilities are recognised at their settlement amount; the associated discounts are reported as prepaid expenses. Premiums on receivables or liabilities are reported as prepaid expenses or deferred income. The accrued interest determined as at the balance sheet date is either capitalized on the underlying receivable or carried as part of the underlying 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 loan loss and provisions. General loan loss provisions have been recognised for the contingent credit risk exposure of receivables and contingent receivables. General loan loss provisions are

calculated on the basis of models. For loans granted to borrowers in countries with acute transfer risk, the EAA recognises country-specific provisions. The level of the country-specific provisions is derived from the yield difference between top-rated government bonds and the prices for government securities of the country concerned observable in the market with the respective set of remaining maturities. For countries that do not have observable market prices for government bonds, regularly updated loan loss provision 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 value. Securities treated as fixed assets (investment securities) are measured at amortized cost. Any differences between amortized cost and redemption amount are recognised on an accruals basis through profit and loss. For impairments 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 in response to volume, interest rate or price changes.

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

The EAA's portfolio of structured securities consists primarily of the Phoenix notes and the European Super Senior exposures ("EUSS exposures"). In addition, there are smaller commitments in various other structured asset classes ("Other ABSs").

Their value is determined by using, as far as possible, prices quoted for the respective securities by an external market data provider having a semi-regulatory character for the US insurance industry. This data is plausibility checked using suitable methods. The present value of the remaining securities is calculated based on the forecast cash flows.

The prices supplied and the expected weighted average terms stated are tested for plausibility at both the level of the underlying assets of the Phoenix and EUSS portfolios and at the level of the Phoenix and EUSS tranches. Objective market price and performance data for the securitised portfolio, taken from the relevant contractual documentation and portfolio reports, are used at the level of the underlyings. This made it possible to determine individual prices and expected weighted average terms for a representative share of the securities analysed. These, in turn, were compared against the data supplied and outliers were analysed separately. The results of these plausibility checks confirmed the validity of the data supplied on the Phoenix and EUSS underlyings.

Once deemed plausible, these prices and expected weighted average terms are fed into a cash flow profile based on assumptions regarding the timing of losses and the waterfall logic for the overall transaction under consideration. In a further step, this data is used to determine the present value of the individual tranches. A comparison of these present values with the prices supplied confirmed the validity of the data supplied for the Phoenix and EUSS notes.

The net realisable value of the Phoenix and EUSS notes as at 30 June 2010 was calculated on the basis of forecast cash flows. For the underlying benchmark portfolio, future expected cash flows – at the individual asset level – were estimated using a ratings-based model. In the case of major CDO exposures, there was a further analysis of their pool of underlyings, applying an identical method. The forecast cash flows were aggregated and bucketed according to when they are estimated to be incurred, taking into account a modelled structure of the liabilities (waterfall principle) of the Phoenix and EUSS transactions, and then discounted to the balance sheet date to calculate the write-down to be recognised.

The EAA considers the new valuation method based on price data supplied by an external market data provider to be more appropriate, since this method permits fewer subjective components in the valuation. Due to the dependence on the market data provider, the value of the Phoenix and EUSS notes will fluctuate more strongly below the historical cost in future. Had the previous method been used, the value of the Phoenix notes would have been €150.8 million lower and the value of the EUSS notes would have been €27.8 million higher.

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 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 the EAA's opinion, the parameters used are appropriate and justifiable.

Long-term equity investments and shares in affiliates are reported at amortised cost. For impairments 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 as for securities. Any differences from the lower net realisable value are included in the figure reported for bonds.

The introduction of the BilMoG resulted in changes in the recognition and measurement of provisions for contingent liabilities and expected losses. Pursuant to the BilMoG, increases in expenses and rising prices must be factored into the measurement of provisions. In addition, the new law made it obligatory to discount provisions with remaining terms longer than one year. Provisions are to be discounted based on the average market interest rate over the past seven financial years, factoring in the remaining term of the provisions or the obligations underlying such provisions. The yield curve is calculated at the end of each month by the German Bundesbank and made available to the public via its website.

Pursuant to Article 67 (1) sentence 2 EGHGB, there is an option to retain any provisions for which the carrying amounts had to be reduced due to a change in the measurement of the underlying obligation due to the BilMoG, provided that the difference would have to be reversed by no later than 31 December 2024. The EAA elected not to make use of this option and transferred the entire €2.4 million resulting from the reversal of these provisions directly to revenue reserves. The carrying amount of one provision increased due to the change in the measurement of provisions introduced under the BilMoG. The necessary addition of €55 thousand was recognised immediately, thus reducing the extraordinary result.

The BilMoG also introduced section 254 HGB, relating to the recognition of hedge accounting. Where the EAA uses financial instruments to hedge specific risks arising from assets, liabilities, off-balance sheet transactions or highly probable transactions and recognises micro hedges for this purpose, the general accounting policies (particularly, itemised measurement, the historical cost convention, the realisation principle and the imparity principle) do not apply to such micro hedges if the hedges are effective. The general accounting policies still apply to the ineffective portion of the hedges and to other, non-hedged, risks. The EAA's micro hedges relate to outstanding certificates amounting to €222.9 million, which are fully hedged against equity price risks.

The EAA manages general interest rate risk in the non-trading portfolio centrally as part of its asset/liability management activities. The prevailing opinion is that this does not constitute a micro hedge within the meaning of section 254 HGB, but rather a measurement convention according to which all derivative and

non-derivative financial instruments in the non-trading portfolio reflect an economic funding relationship (“Refinanzierungsverbund”). Thus when measuring interest rate risks in the non-trading portfolio at the lower of cost or market, the EAA determines whether the aggregate value of the obligations is offset by a sufficiently high claim to compensation. If the non-trading portfolio's overall interest rate exposure results in a net obligation, the recognition of a provision in accordance with section 249 (1) sentence 1 no. 2 HGB (provision for expected losses) would satisfy the prudence principle codified in the HGB.

The BilMoG changed the accounting provisions relating to currency translation. Under the change, section 256a HGB, a standard applicable to all entities, was introduced into the law for the first time. In accordance with section 256a HGB, assets and liabilities denominated in foreign currencies must be translated at the mid spot rate as at the settlement date and must generally be treated in accordance with the general accounting policies. In addition, the bank-specific currency translation provision, section 340h HGB, now stipulates that section 256a HGB shall apply to the extent that currency translation gains shall be recognised in the income statement if assets, liabilities or forward transactions are specifically hedged using assets, liabilities or forward transactions in the same currency. If the foregoing condition has been met, section 340h HGB shall take precedence over section 256a HGB when measuring items denominated in a foreign currency.

Assets and liabilities denominated in foreign currencies, open foreign currency spot transactions and off-balance sheet transactions are treated and measured as specially hedged in each currency in accordance with section 340h HGB and have been translated at the ECB reference rates as at 31 December 2010.

Accordingly, all expenses and income from currency translation are recognised in the income statement in accordance with section 340h HGB. The total net loss from individually measuring all open foreign exchange transactions is reported under other liabilities.

The introduction of the BilMoG also resulted in changes to the calculation of deferred taxes. In a departure from the income statement-based method (“timing differences concept”), the balance sheet-based method (“temporary differences concept”) must now be applied. The EAA has opted not to recognise deferred tax assets in the annual financial statements as at 31 December 2010.

Notes to the balance sheet

4. Loans and advances to banks

| | 31 Dec. 2010 € million | 30 Jun. 2010 € million |
|------------------------------------|---------------------------|---------------------------|
| Carrying amount | 10,163.9 | 15,800.4 |
| of which: | | |
| - to affiliated companies | 1,035.3 | 275.1 |
| - to other investees and investors | - | - |
| payable on demand | 1,442.5 | 12,439.7 |
| due | | |
| - within 3 months | 6,497.1 | 816.7 |
| - 3 months to 1 year | 326.3 | 404.4 |
| - 1 to 5 years | 1,250.1 | 1,437.4 |
| - after 5 years | 647.9 | 702.2 |

Loans and advances to banks included €4.7 billion (previous year: €12.3 billion) in return claims from securities lending transactions.

The amount reported in the previous year included €0.5 billion in return claims from securities lending transactions with registered bonds.

5. Loans and advances to customers

| | 31 Dec. 2010 € million | 30 Jun. 2010 € million |
|------------------------------------|---------------------------|---------------------------|
| Carrying amount | 13,312.9 | 15,843.7 |
| of which: | | |
| - to affiliated companies | 576.6 | 469.1 |
| - to other investees and investors | 4.8 | 13.1 |
| due | | |
| - within 3 months | 360.7 | 3.6 |
| - 3 months to 1 year | 1,763.8 | 2,709.4 |
| - 1 to 5 years | 6,544.5 | 7,356.4 |
| - after 5 years | 4,024.5 | 5,158.8 |
| No stated maturity | 619.4 | 615.5 |

Receivables also include registered and other non-marketable bonds.

6. Receivables secured by mortgage charges

| | 31 Dec. 2010 € million | 30 Jun. 2010 € million |
|-------------------------------------|---------------------------|---------------------------|
| Loans and advances to customers due | | |
| - within 3 months | 2.5 | 56.5 |
| - 3 months to 1 year | 120.8 | 80.4 |
| - 1 to 5 years | 370.1 | 104.8 |
| - after 5 years | 91.2 | 351.4 |
| Carrying amount | 584.6 | 593.1 |

7. Bonds and other fixed-income securities

| | 31 Dec. 2010 € million | 30 Jun. 2010 € million |
|---|---------------------------|---------------------------|
| Carrying amount | 23,978.3 | 18,836.7 |
| of which: | | |
| Amounts due in the following year | 1,435.3 | 141.5 |
| Breakdown | | |
| - Bonds issued by public issuers | 2,163.2 | - |
| - Bonds issued by other issuers | 21,815.1 | 18,836.7 |
| Breakdown by marketability | | |
| - Marketable securities | 23,978.3 | 18,836.7 |
| of which: | | |
| - listed | 6,924.5 | 233.9 |
| - unlisted | 17,053.8 | 18,602.8 |
| Breakdown by type | | |
| - Investment securities | 23,978.3 | 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 €4.7 billion (previous year: €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, long-term financial assets were recognised at a carrying amount of €26.3 billion (previous year: €28.3 billion) and thus higher than their fair value of €22.2 billion (previous

year: €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 securities. The portfolio includes €1.8 billion (previous year: €1.8 billion) of bonds acquired as part of asset swaps. The EAA refinances the portion of the above investment portfolio not hedged through asset swaps on an individual basis (€24.5 billion) either at matching maturities and in matching currencies or hedges it at portfolio level against interest-rate-induced and currency-induced changes in value.

8. Equities and other non-fixed-income securities

| | 31 Dec. 2010 € million | 30 Jun. 2010 € million |
|----------------------------|---------------------------|---------------------------|
| Carrying amount | 24.3 | 25.8 |
| Breakdown by marketability | | |
| - Marketable securities | 24.3 | 25.8 |
| of which: | | |
| - listed | 24.3 | 25.8 |
| - unlisted | - | - |
| Breakdown by type | | |
| - Liquidity reserve | 24.3 | 25.4 |
| - Investment securities | 0.0 | 0.4 |

9. Long-term equity investments

| | 31 Dec. 2010 € million | 30 Jun. 2010 € million |
|----------------------------------|---------------------------|---------------------------|
| Carrying amount | 134.9 | 153.8 |
| of which: | | |
| - in banks | 15.5 | 15.5 |
| - in financial service providers | - | - |
| Breakdown by marketability | | |
| - Marketable securities | 34.0 | 40.6 |
| of which: | | |
| - unlisted | 34.0 | 40.6 |

10. Shares in affiliates

| | 31 Dec. 2010 € million | 30 Jun. 2010 € million |
|----------------------------------|---------------------------|---------------------------|
| Carrying amount | 561.8 | 559.4 |
| of which: | | |
| - in banks | 498.2 | 498.2 |
| - in financial service providers | 9.6 | 9.6 |
| Breakdown by marketability | | |
| - Marketable securities | 498.7 | 498.7 |
| of which: | | |
| - unlisted | 498.7 | 498.7 |

The carrying amount of shares in affiliates consists primarily of the equity interest in EAA Covered Bond Bank plc, Dublin, Ireland. The assets and liabilities held by the EAA Corporate Services plc (former EAA Bank Ireland plc), Dublin, Ireland, were transferred to EAA Covered Bond Bank plc during the 2010 abridged financial year.

The increase in shares in affiliates is due primarily to the addition of a special purpose vehicle in relation to the restructuring of loans subsequent to bankruptcy proceedings.

The lower net realisable value of the long-term equity investments and shares in affiliates, which have a volume of €108.9 million (previous year: €150.6 million), is €2.1 million (previous year: €14.3 million) less than their carrying amount. The EAA does not expect the impairment to be permanent.

11. Other assets

| | 31 Dec. 2010 € million | 30 Jun. 2010 € million |
|----------------------------------|---------------------------|---------------------------|
| Carrying amount | 327.1 | 430.6 |
| of which: | | |
| - Premiums for options | 267.8 | 345.4 |
| - Guarantee fees and commissions | 56.7 | 80.8 |
| - Claims from swap transactions | 0.9 | 2.2 |

12. Fixed assets

| € million | Cost | Additions | Usage | Reclassi- fications | Reversals of write- downs | Accumu- lated de- preciation, amortisa- tion, write- downs | Depreciati- on, amor- tisation, write- downs in abridged fin. year | Carrying amount | Carrying amount |
|---|-------------|-----------|-------|------------------------|---------------------------------|---|--|--------------------|--------------------|
| | 1 Jul. 2010 | | | | | 31 Dec. 2010 | 31 Dec. 2010 | 30 Jun. 2010 | |
| Bonds and other long-term fixed- income securities | 19,846.6 | | | | | | - | 23,978.3 | 18,836.7 |
| Equities and other long-term non-fixed-income securities | 0.4 | | | | | | - | 0.0 | 0.4 |
| Long-term equity investments | 151.3 | | | | | | 13.0 | 134.9 | 153.8 |
| Shares in affiliates | 559.1 | | | | | | 0.5 | 561.8 | 559.4 |
| Office and operating equipment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0,0 | - |

Net change according to section 34 (3)
sentence 2 of the RechKredV;
4,117.6 € million

Additions to bonds and other fixed-income securities are related to the expiry of securities lending transactions with WestLB amounting to €7.1 billion and the addition of securities of Banque d'Orsay.

The net change in securities during the abridged financial year related to additions and reductions, as well as portfolio changes as the result of the pro rata reversal of premiums and discounts, the €100.1 million reversal of the write-down to the Phoenix notes in connection with the change in

accounting methods; the write-downs on the EUSS notes, also measured in accordance with the new method, are reported under allowances for losses on loans and advances (see Note 26). During the abridged financial year in 2010, the EAA did not recognise any write-downs on long-term securities due to expected permanent impairment.

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

13. Prepaid expenses/Accrued income

| | 31 Dec. 2010 € million | 30 Jun. 2010 € million |
|---------------------------------|---------------------------|---------------------------|
| Non-recurring payments on swaps | 711.9 | 780.6 |
| Discount on issuing business | 68.8 | 102.2 |
| Discount on liabilities | 6.5 | 8.1 |
| Other | 0.5 | 0.6 |
| Carrying amount | 787.7 | 891.5 |

14. Subordinated assets

Subordinated assets are included in:

| | 31 Dec. 2010 € million | 30 Jun. 2010 € million |
|---|---------------------------|---------------------------|
| Loans and advances to banks | - | 45.1 |
| of which: to affiliates | - | - |
| of which: to other long-term investees and investors | - | - |
| Loans and advances to customers | 66.6 | 89.7 |
| of which: to affiliates | 32.6 | 34.3 |
| of which: to other long-term investees and investors | - | 8.2 |
| Bonds and other fixed-income securities | 11.6 | - |
| of which: to affiliates | - | - |
| of which: to other long-term investees and investors | - | - |
| Total | 78.2 | 134.8 |

15. Assets sold under repurchase agreements

The carrying amount of assets sold under repurchase agreements reported on the balance sheet was €4,091.8 million.

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

16. Deposits from banks

| | 31 Dec. 2010 € million | 30 Jun. 2010 € million |
|---|---------------------------|---------------------------|
| payable on demand | 31.7 | 6,895.0 |
| due | | |
| - within 3 months | 5,640.9 | 658.6 |
| - 3 months to 1 year | 759.5 | 404.8 |
| - 1 to 5 years | 3,267.4 | 2,103.2 |
| - after 5 years | 147.3 | 1,413.4 |
| Carrying amount | 9,846.8 | 11,475.0 |
| of which: | | |
| - to affiliates | 28.0 | - |
| - to other long-term investees and investors | - | - |

17. Deposits from customers

| | 31 Dec. 2010 € million | 30 Jun. 2010 € million |
|---|---------------------------|---------------------------|
| Other deposits | 4,486.5 | 4,752.0 |
| of which: | | |
| - payable on demand | 11.8 | - |
| due | | |
| - within 3 months | 127.9 | 217.0 |
| - 3 months to 1 year | 253.5 | 395.7 |
| - 1 to 5 years | 3,756.2 | 2,845.5 |
| - after 5 years | 337.1 | 1,293.8 |
| Carrying amount | 4,486.5 | 4,752.0 |
| of which: | | |
| - to affiliates | 17.7 | 0.0 |
| - to other long-term investees and investors | - | - |

18. Debt securities in issue

| | 31 Dec. 2010 € million | 30 Jun. 2010 € million |
|--|---------------------------|---------------------------|
| Bonds | 20,375.2 | 20,851.0 |
| of which: | | |
| Amounts due in the following year | 8,216.5 | 9,633.0 |
| Other debt securities in issue | 11,201.7 | 11,539.5 |
| of which due: | | |
| - within 3 months | 184.7 | 86.6 |
| - 3 months to 1 year | 175.3 | 386.5 |
| - 1 to 5 years | 10,841.7 | 7,085.4 |
| - after 5 years | - | 3,981.0 |
| Carrying amount | 31,576.9 | 32,390.5 |
| of which: | | |
| - to affiliates | - | - |
| - to other long-term investees and investors | - | - |

19. Other liabilities

| | 31 Dec. 2010 € million | 30 Jun. 2010 € million |
|--|---------------------------|---------------------------|
| Carrying amount | 982.9 | 814.2 |
| of which: | | |
| - Currency translation adjustments | 927.9 | 721.2 |
| - Premiums from options | 52.5 | 57.0 |
| - Outstanding fees from syndication operations | 1.3 | 2.9 |
| - Obligations from swap transactions | 0.9 | 0.4 |

20. Accruals/Deferred income

| | 31 Dec. 2010 € million | 30 Jun. 2010 € million |
|---|---------------------------|---------------------------|
| Non-recurring payments on swaps | 805.2 | 888.5 |
| Premium on issuing business | 4.1 | 4.9 |
| Premiums for sold interest rate caps and floors | 1.8 | 2.0 |
| Other | 0.4 | 5.1 |
| Carrying amount | 811.5 | 900.5 |

21. Provisions

| | Balance as at 30 Jun. 2010 € million | Additions € million | Unwinding of discount € million | Charge-offs € million | Reversals € million | Other changes € million | Final balance 31 Dec. 2010 € million |
|------------------|---|------------------------|---------------------------------------|--------------------------|------------------------|-------------------------------|---|
| Other provisions | 120.4 | 31.7 | 1.4 | 50.1 | 6.6 | -2.9 | 93.9 |
| - Loans | 110.0 | 16.6 | 1.4 | 39.7 | 6.6 | -2.9 | 78.8 |
| - Personnel | 0.1 | 0.1 | - | 0.1 | - | - | 0.1 |
| - Other | 10.3 | 15.0 | - | 10.3 | - | - | 15.0 |
| Total | 120.4 | 31.7 | 1.4 | 50.1 | 6.6 | -2.9 | 93.9 |

The EAA elected not to make use of the option given under Article 67 (1) sentence 2 EGHGB to retain the carrying amount recorded for provisions, and transferred the entire €2.4 million resulting from the reversal directly to revenue reserves. The carrying amount of one provision increased due to the change in the measurement of provisions introduced under the BilMoG. The necessary addition of €55 thousand was recognised immediately, thus reducing the extraordinary result.

The EAA currently does not anticipate any losses from legal risks.

Other provisions includes provisions for equity investments and for services rendered but not yet invoiced.

22. Equity

The EAA's subscribed capital amounted to €500,000.00 as at 31 December 2010.

From the transfers, the EAA received additions to its capital reserve amounting to €3,137.0 million. The other reserves amounted to €2.4 million and resulted from the reversal of provisions for which the carrying amounts were reduced as a result of the change in the measurement of obligations under the BilMoG.

The EAA's net loss for the abridged financial year 2010 amounted to €599.6 million and increased net retained losses carried forward to new account to €1,647.6 million as at 31 December 2010.

23. Legacy liabilities – grandfathering

If the liable stakeholders were liable as guarantors for liabilities of WestLB 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 guarantor 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 it has been duly established in writing at the time of maturity of the respective liability that it is not sufficiently covered by the EAA's assets. This specifically includes the possibility that liabilities may be required to be met specifically at maturity. Notification of state aid is not required in such cases.

A total volume of €23.5 billion (previous year: €25.8 billion) was subject to the guarantor liability.

24. Assets/liabilities denominated in foreign currency

Assets denominated in foreign currencies amounted to €27.2 billion as at the balance sheet date (previous year: €30.7 billion) and liabilities denominated in foreign currencies amounted to €1.7 billion (previous year: €1.7 billion).

25. Geographical breakdown of income components

| 1 Jul.–31 Dec. 2010 € million | Interest income | Current income | Fee and com- mission income | Other operating income |
|----------------------------------|--------------------|-------------------|--------------------------------|---------------------------|
| Düsseldorf | 354.9 | 0.3 | 20.4 | 6.9 |
| London | 134.6 | - | - | 1.5 |
| New York | 145.6 | - | - | 0.2 |
| Income statement amount | 635.1 | 0.3 | 20.4 | 8.6 |

The earnings are allocated to geographical segments on the basis of EAA's chart of accounts.

26. Allowances for losses on loans and advances and write-downs

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

| | 1 Jul.–31 Dec. 2010 € million | 11 Dec. 2009– 30 Jun. 2010 € million |
|---|-------------------------------------|--|
| Loans and securities income/expense | -753.8 | -431.5 |
| of which: | | |
| - Lending operations | -756.0 | -431.5 |
| - Securities | 2.2 | - |
| Equity investments and securities income/expense | 86.9 | -817.4 |
| of which: | | |
| - Long-term equity investments | -32.8 | - |
| - Securities, due to credit risk* | 100.1 | -824.2 |
| - Securities | 19.6 | 6.8 |
| Risk result | -666.9 | -1,248.9 |
| of which: | | |
| - Allowances for losses on loans and advances/securities due to credit risk | -655.9 | -1,255.7 |
| - Net income from investment securities | -11.0 | 6.8 |

* incl. effects from foreign currency hedges

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 resulting from changes to allowances for loans and advances in the lending business may be reported on a net basis with risk provisions for securities and income from the reversal of risk provisions on securities in the liquidity reserve. Net expense amounted to €753.8 million (previous year: €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. In total, the EAA posted earnings of €86.9 million (previous year: €817.4 million) under the risk result for long-term equity investments and securities. The €824.2 million addition to the risk provisions on the Phoenix portfolio recorded in the previous year was reduced by €100.1 million in connection with the change in measurement methods; at the same time, €178.0 million was

added to the risk provision of the EUSS portfolio. Internally, these effects are reported as part of the allowances for acute counterparty credit risk.

27. Extraordinary result

The extraordinary result in the abridged financial year 2010 amounted to €55 thousand resulting from the addition to a provision for which the carrying amount increased as a result of the change in the measurement of obligations under the BilMoG. No extraordinary result was recognised in the previous year.

28. Other operating and prior-period expenses and income

Net other operating expenses and income in the abridged 2010 financial year amount to €7.7 million (previous year: €0.6 million) and consist of €0.9 million (previous year: €0.0) in

expenses and €8.6 million (previous year: €0.6 million) in income. Other operating income includes €6.7 million in currency translation gains. Other operating expenses includes €0.2 million in currency translation losses.

29. Taxes on income

The result from ordinary activities of the EAA is subject to taxes on income of €2.2 million (previous year: €19 thousand).

30. Fees paid to the auditors

The fees paid to the auditors for auditing the financial statements amounted to €0.2 million (previous year: €0.2 million). Further assurance fees in accordance with section 285 no. 17 b HGB were paid particularly for assurance-related services, such as projects relevant to the EAA's accounting department in the scope of EAA's operationalisation, as well as the modifications made to the winding-up plan amounting to €0.6 million (previous year: €0). In addition, €1.2 million (previous year: €0) was charged by the FMSA for monitoring activities carried out by the auditor on behalf of the FMSA.

Other disclosures

31. Contingencies

Contingent liabilities

Contingent liabilities are primarily the result of guarantees for WestLB's risk exposures (see Note 1). They include obligations from credit default swaps amounting to €968.7 million (previous year: €1,150.1 million). The decrease from €8.7 billion to €7.0 billion was due primarily to the transfer of holdings from the Banque d'Orsay and the resulting guarantees. The EAA does not know whether, when, or the extent to which these specific contingent liabilities will be realised. A provision will be recognised as soon there are sufficient concrete indications of probable losses as the result of contingent liabilities being realised.

Other obligations

The reported volume of €4.5 billion (previous year: €7.0 billion) was due to the lending business (please refer to the appropriate sections in the management report for information regarding the management of credit and liquidity risks arising from irrevocable loan commitments). The EAA monitors on a continuing basis whether losses from other obligations are imminent and whether a provision must be recognised for anticipated losses from off-balance sheet transactions.

32. Global guarantee

The EAA has assumed by way of universal succession all obligations under a global guarantee provided by WestLB for EAA Covered Bond Bank plc, Dublin. The global guarantee will hold for as long as the EAA has an equity interest in this bank.

33. 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:

| | 31 Dec. 2010 € million | 30 Jun. 2010 € million |
|---|---------------------------|---------------------------|
| Cash collateral deposited for derivative transactions | 1,252.0 | 393.5 |
| Assignment of receivables for public lending programmes | 2.9 | 2.9 |
| Total collateral transferred | 1,254.9 | 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 entered into a three-year co-operation agreement with WestLB, under which WestLB supports the EAA in portfolio management and all related activities. This co-operation 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 of the outsourced activities for the EAA, the EAA has established and tested an integrated service provider management system, which it launched in March 2011. Under this system, the service relationships between the EAA and WestLB as well as the external service providers are systematically managed and monitored from a legal, substantive, process and financial perspective.

34. 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 €209.4 million (previous year: €257.6 million) (of which with affiliates: €0; previous year: €0).

35. 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 €107.3 billion (previous year: €102.5 billion) as at the balance sheet date. The focus remained on interest-rate-related products, which accounted for 68.5% of the total volume, up from 64.3% in the previous year.

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 on the market (including interest rates, interest rate volatilities, exchange rates).

Derivative financial instruments – volume as at the balance sheet date

| € million | Nominal values | | Positive market values | | Negative market values | |
|---|----------------|----------------|------------------------|--------------|------------------------|--------------|
| | 31 Dec. 2010 | 30 Jun. 2010 | 31 Dec. 2010 | 30 Jun. 2010 | 31 Dec. 2010 | 30 Jun. 2010 |
| Interest-rate-related products | 73,540 | 65,840 | 1,695 | 1,686 | 2,457 | 1,424 |
| OTC products | 73,540 | 65,840 | 1,695 | 1,686 | 2,457 | 1,424 |
| Currency-related products | 28,349 | 31,391 | 245 | 123 | 1,045 | 677 |
| OTC products | 28,349 | 31,391 | 245 | 123 | 1,045 | 677 |
| Equity- and other price-related products | 2,889 | 3,563 | 255 | 337 | 26 | 39 |
| OTC products | 2,889 | 3,563 | 255 | 337 | 26 | 39 |
| Credit derivatives | 2,508 | 1,667 | 63 | 98 | 83 | 105 |
| OTC-Produkte | 2,508 | 1,667 | 63 | 98 | 83 | 105 |
| Total derivative financial instruments | 107,286 | 102,461 | 2,258 | 2,244 | 3,611 | 2,245 |
| OTC products | 107,286 | 102,461 | 2,258 | 2,244 | 3,611 | 2,245 |

The average annual nominal amounts of forward contracts and derivative transactions amounted

to €104.9 billion during the abridged 2010 financial year.

Derivative financial instruments – average volumes as at the balance sheet date

| Average from 1 July to 31 Dec. 2010 | Nominal values | Positive market values | Negative market values |
|---|----------------|------------------------|------------------------|
| € million | 2010 | 2010 | 2010 |
| Interest-rate-related products | 69,690 | 1,690 | 1,941 |
| OTC products | 69,690 | 1,690 | 1,941 |
| Currency-related products | 29,870 | 184 | 861 |
| OTC products | 29,870 | 184 | 861 |
| Equity- and other price-related products | 3,226 | 296 | 32 |
| OTC-Produkte | 3,226 | 296 | 32 |
| Credit derivatives | 2,088 | 81 | 94 |
| OTC products | 2,088 | 81 | 94 |
| Total derivative financial instruments | 104,874 | 2,251 | 2,928 |
| OTC products | 104,874 | 2,251 | 2,928 |

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/Accrued income” as well as under “Other liabilities” and “Accruals/Deferred income” on the balance sheet.

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

Derivative financial instruments - maturities

| Nominal values € million | Interest-rate-related products | | Currency-related products | | Equity- and other price-related products | | Credit derivatives | |
|-----------------------------|--------------------------------|---------------|---------------------------|---------------|--|--------------|--------------------|--------------|
| | 31 Dec. 2010 | 30 Jun. 2010 | 31 Dec. 2010 | 30 Jun. 2010 | 31 Dec. 2010 | 30 Jun. 2010 | 31 Dec. 2010 | 30 Jun. 2010 |
| due | | | | | | | | |
| - within 3 months | 3,717 | 16,410 | 1,767 | 731 | 488 | 317 | 283 | 89 |
| - 3 months to 1 year | 5,042 | 8,150 | 14,091 | 5,205 | 1,925 | 1,914 | 630 | 55 |
| - 1 to 5 years | 56,315 | 29,429 | 11,971 | 24,913 | 476 | 1,239 | 1,357 | 1,141 |
| - after 5 years | 8,466 | 11,851 | 520 | 542 | 0 | 93 | 238 | 382 |
| Total | 73,540 | 65,840 | 28,349 | 31,391 | 2,889 | 3,563 | 2,508 | 1,667 |

36. Remuneration paid to executive bodies

Remuneration paid to members of the Managing Board amounted to €450 thousand during the abridged financial year. Remuneration paid to members of the Managing Board and interim Managing Board during the abridged 2009/2010 financial year amounted to €440 thousand.

The members of the Supervisory Board received remuneration amounting to €163 thousand during the abridged 2010 financial year. This remuneration included base pay and per-meeting fees for the 2009 and 2010 calendar years.

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 period under review:

| Number of employees | female | male | total | total |
|---------------------|--------|------|------------------------------|-------------------------------|
| | | | 1 Jun. 2010– 31 Dec. 2010 | 11 Dec. 2009– 30 Jun. 2010 |
| | 7 | 17 | 24 | 6 |

39. EAA shareholders

| Shareholders | Interest | |
|--|----------------------|----------------------|
| | 31 Dec. 2010 in % | 30 Jun. 2010 in % |
| North Rhine-Westphalia | 48.202 | 48.202 |
| Rheinischer Sparkassen- und Giroverband (RSGV) | 25.032 | 25.032 |
| Sparkassenverband Westfalen-Lippe (SVWL) | 25.032 | 25.032 |
| Landschaftsverband Rheinland (LVR) | 0.867 | 0.867 |
| Landschaftsverband Westfalen-Lippe (LWL) | 0.867 | 0.867 |
| Total | 100.000 | 100.000 |

40. Memberships of other bodies held by Managing Board members

In the abridged 2010 financial year, no 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.

41. Memberships of other bodies held by employees

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

Sven Guckelberger

Basinghall Finance Plc (since 12 November 2010)

Gabriele Müller

EAA Covered Bond Bank plc

(since 25 November 2010)

EAA Corporate Services plc

(formerly EAA Bank Ireland plc)

(since 25 November 2010)

Basinghall Finance Plc

(since 12 November 2010)

Hartmut Rahner

EAA Covered Bond Bank plc

(since 25 November 2010)

EAA Corporate Services plc

(formerly EAA Bank Ireland plc)

(since 25 November 2010)

42. Executive bodies of the EAA

Members of the Managing Board of the EAA

Matthias Wargers

Markus Bolder

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)

Chairwoman (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

Prof. 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 representatives of the shareholders (see Note 39).

43. Information on shareholdings

Supplementary disclosures pursuant to section 285 nos. 11 and 11a HGB

Disclosing party: Erste Abwicklungsanstalt

Dated: 31 December 2010

Carrying amounts in € thousand

Interest and voting rights in %

| Other shareholding | | | | | | | |
|--------------------|--|--|----------|---------------|----------|------------|-------------|
| Ct. No. | Name | Location | Interest | Voting rights | Currency | Equity | Profit/loss |
| 1 | Basinghall Commercial Finance Limited ⁴ | London, United Kingdom | 100.00 | | GBP | 5,815.36 | 87.41 |
| 2 | Basinghall Finance Plc ⁴ | London, United Kingdom | 100.00 | | GBP | -6,978.65 | -1,504.94 |
| 3 | Candover 2001 GmbH & Co. KG ⁴ | Frankfurt am Main | 26.89 | 0 | EUR | 36,798.55 | 6,661.76 |
| 4 | CCP VII GmbH & Co. KG ⁴ | Frankfurt am Main | 27.75 | 0 | EUR | 12,106.12 | -433.29 |
| 5 | CORE plus Private Equity Partners II – Diversified Fund, L.P. ⁴ | Washington, USA | 24.75 | 0 | USD | 21,313.44 | 1,693.63 |
| 6 | CWB Capital Partners Limited ⁴ | London, United Kingdom | 25.00 | | GBP | 269.53 | 2.35 |
| 7 | EAA Corporate Services Plc (formerly EAA Bank Ireland Plc) ⁴ | Dublin, Ireland | 100.00 | | EUR | 241,510.00 | 7,522.00 |
| 8 | EAA Covered Bond Bank Plc ⁴ | Dublin, Ireland | 100.00 | | EUR | 246,788.00 | 17,325.00 |
| 9 | Euro-Equity Holding GmbH ^{2,4} | Düsseldorf | 100.00 | | EUR | 49.61 | 0.00 |
| 10 | GSC European Mezzanine Offshore Unleveraged Parallel Fund II L.P. ⁴ | George Town, Grand Cayman, Cayman Island | 27.11 | 0 | EUR | 21,821.54 | 3,510.62 |
| 11 | Heber Avenue Partners, LLC | New York, USA | 100.00 | | EUR | n/a | n/a |
| 12 | Home Funding Ltd. ^{1,4} | Tenterden, United Kingdom | 40.00 | | GBP | 898.70 | 497.68 |
| 13 | International Leasing Solutions Japan K.K. ⁴ | Tokyo, Japan | 100.00 | | JPY | 274.09 | -1,343.87 |
| 14 | Klenk Holz AG ⁴ | Oberrot | 21.87 | | EUR | -8,270.50 | -6,680.52 |
| 15 | MIG Immobiliengesellschaft mbH ³ | Mainz | 40.91 | | EUR | 0,00 | -150.77 |
| 16 | Special PEP II GP Investors, L.L.C. ⁴ | Wilmington, USA | 50.00 | 0 | USD | 432,64 | 28.20 |
| 17 | Standard Chartered (SFD No.2) Limited ⁴ | London, United Kingdom | 25.00 | | USD | 0,13 | 0.00 |
| 18 | Tanzbar CH Holdings, L.L.C. | New York, USA | 100.00 | | | n/a | n/a |
| 19 | Tanzbar DB Holdings, L.L.C. | New York, USA | 100.00 | | | n/a | n/a |
| 20 | Ulisse GmbH ³ | Düsseldorf | 100.00 | | EUR | 65.46 | -33.61 |
| 21 | WestLB Asset Management (US) LLC ³ | Wilmington, USA | 100.00 | | USD | 25,798.25 | 3,248.25 |
| 22 | WestLB Equity Fonds GmbH ^{2,4} | Düsseldorf | 100.00 | | EUR | 25.00 | 0.00 |
| 23 | WestLB Participation One GmbH ^{2,4} | Düsseldorf | 100.00 | | EUR | 43,327.20 | 0.00 |
| 24 | WestLB Venture Capital Management GmbH & Co. KG ⁴ | Munich | 50.00 | | EUR | 130.05 | 64.65 |

Interest greater than 5% (large corporations)

| Ct. No. | Name | Location | Interest | Voting rights | Currency | Equity | Profit/loss |
|---------|----------------------------------|------------------|----------|---------------|----------|------------|-------------|
| 25 | Banco Finantia S.A. ⁴ | Lisboa, Portugal | 8.32 | 8.46 | EUR | 353,200.00 | 12,100.00 |

¹ Indirect shareholding

² Profit and loss transfer agreement in place with this company

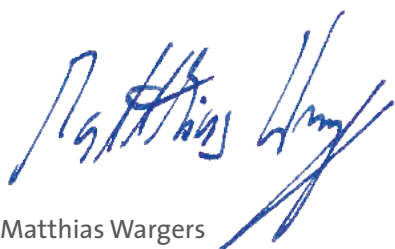
³ Only data as at 31 Dec. 2008 is available

⁴ Only data as at 31 Dec. 2009 is available

Düsseldorf, 22 March 2011

Erste Abwicklungsanstalt

The Managing Board

A handwritten signature in blue ink, appearing to read 'Matthias Wargers', with a stylized flourish at the end.

Matthias Wargers

A handwritten signature in blue ink, appearing to read 'Markus Bolder', with a stylized flourish at the end.

Markus Bolder

Auditors' Report

We have audited the annual financial statements, comprising the balance sheet, the income statement, the cash flow statement, the statement of changes in equity and the notes to the financial statements, together with the bookkeeping system, and the management report of the Erste Abwicklungsanstalt, Düsseldorf, for the abridged financial year from 01 July to 31 December 2010. The maintenance of the books and records and the preparation of the annual financial statements as well as the management report in accordance with German commercial law and additional provisions set forth in the charter of Erste Abwicklungsanstalt 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 and

additional provisions set forth in the charter of Erste Abwicklungsanstalt. 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 23 March 2011
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Clemens Koch
German public auditor

ppa. Susanne Beurschgens
German public auditor

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

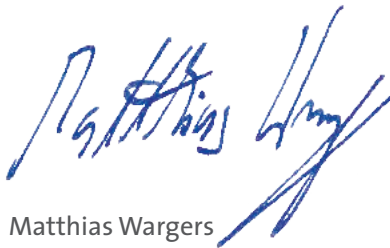
To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and the management

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, 22 March 2011

Erste Abwicklungsanstalt

The Managing Board



Matthias Wargers



Markus Bolder

List of abbreviations

ABS

Asset backed securities

ALCO

Asset Liability Committee

APAC

Asia Pacific region

BaFin

German Federal Financial Supervisory Authority
(Bundesanstalt für Finanzdienstleistungsaufsicht)

BdO

Banque d'Orsay

BilMoG

German Accounting Law Modernization Act
(Bilanzrechtsmodernisierungsgesetz)

CDO

Collateralized Debt Obligation

EAA

Erste Abwicklungsanstalt
(First Winding-up Agency)

EAA CBB

EAA Covered Bond Bank plc

EAA GW

EAA Global Watch List

ECB

European Central Bank

EGHGB

Introductory Act to the German Commercial Code
(Einführungsgesetz zum Handelsgesetzbuch)

EMEA

Europe, Middle East and Africa region

EMU

European Monetary Union

EUSS

European Super Senior Notes

Fed

Federal Reserve Bank

FMS

Financial Market Stabilization Fund

FMSA

Financial Market Stabilization Authority

FMStFG

Financial Market Stabilization Fund Act
(Finanzmarktstabilisierungsfondsgesetz)

FRA

Forward rate agreement

FX-Effect

Foreign Exchange Effect

GDP

Gross Domestic Product

HGB

German Commercial Code (Handelsgesetzbuch)

ICS

Internal control system

IDW

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

IDW AcP HFA 22

IDW Accounting Principle: Uniform or Separate
Accounting for Structured Financial Instruments

IMF

International Monetary Fund

IRU

Institutional Restructuring Unit

KWG

German Banking Act (Kreditwesengesetz)

LVR

Landschaftsverband Rheinland

LWL

Landschaftsverband Westfalen-Lippe

MaRisk

Minimum Requirements for Risk Management

MIS

Management Information System
Reporting and Controlling

NPL

Non Performing Loans

N.R.

Not rated

NSL

Non Strategic Loans

NRW

State of North-Rhine Westphalia

OTC Products

Over-the-Counter products

PEG

Portfolio Exit Group

PIIGS states

Portugal, Italy, Ireland, Greece and Spain

PV01

Effect of a shift in the interest rate curve by one basis point in the net present value of the portfolio

QE2 program

Second Quantitative Easing of
Federal Reserve System

Rech-KredV

Ordinance on Accounting for Banks

RiskCo

Risk Committee

RMS

Risk management system

RSGV

Rheinische Sparkassen- und Giroverband

SIV

Structured Investment Vehicle

S.R.

Special Rating

SVWL

Sparkassenverband Westfalen-Lippe

UmwG

German Reorganisation Act (Umwandlungsgesetz)

VAG

German Insurance Supervision Act
(Versicherungsaufsichtsgesetz)

WestLB

WestLB AG

WpHG

German Securities Trading Act
(Wertpapierhandelsgesetz)

Imprint

Erste Abwicklungsanstalt

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