Erste
Abwicklungsanstalt

Annual Report 2011

The EAA's self-portrait

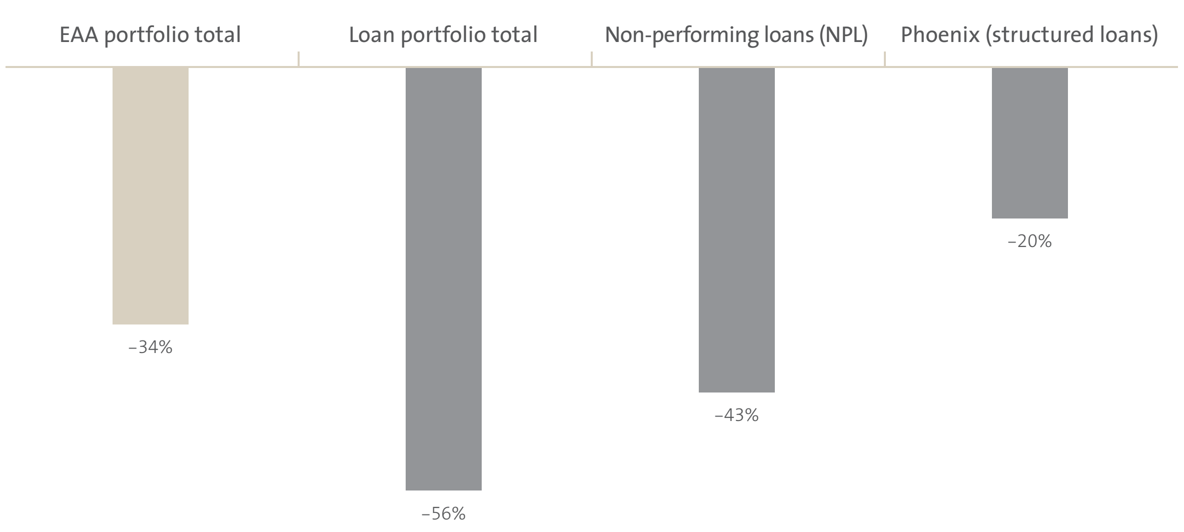
The EAA is the first winding-up agency of its kind in Germany. It has a clearly defined public function – to wind down the portfolios transferred to it with a view to minimising risk.

The EAA is 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

Portfolio reduction from 1 January 2010 to 31 December 2011



EAA Key Figures

Income statement	1 Jan. 2011–31 Dec. 2011 in EUR million	1 July 2010–31 Dec. 2010 in EUR million
Net interest income	188.6	121.3
Net fee and commission income	26.4	9.8
Other income/expenses	–5.6	7.6
General administrative expenses	–127.2	–69.2
Results from financial assets and shareholdings	–22.6	–11.0
Results prior to risk provisioning	**59.6**	**58.5**
Loan loss provisions	–935.9	–655.9
Annual earnings (before taxes)	**–876.3**	**–597.4**
Taxes on income and earnings	–1.9	–2.2
Annual earnings (after taxes)	**–878.2**	**–599.6**
Balance sheet	**in EUR billion**	**in EUR billion**
Total assets	50.8	49.3
Business volume	58.9	60.8
Loan transactions	32.1	35.0
Winding-down	**in EUR billion**	**in EUR billion**
Notional volume	51.0	63.8
Winding-down activities	–12.8	–7.5
Winding-down activities in %	–20.1	–10.5
Number of employees	**56**	**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

Content

Managing Board & Department Heads

Team

front row (left to right):
Dr. Frank Weidner (Market Risk Management),
Andreas Kandel (Finance & Tax),
Markus Bolder (Member of the Managing Board),
Gabriele Müller (Portfolio Strategy),
Matthias Wargers (Member of the Managing Board)

centre and back rows:
Hartmut Rahner (Treasury),
Christoph Kirschhöfer (Compliance),
Uwe Drangmeister (Controlling & Planning),
Dr Ulf Bachmann (Project Management),
Dr Peter Fleischer (Audit),
Torsten Hohendorff (IT & Organisation),
Sven Guckelberger (Credit Risk Management),
Dr Gregor Garten (Legal),
Dieter Jötten (Office of the Managing Board)

Dear Stakeholders,

The Erste Abwicklungsanstalt (EAA) has now been at work for a little more than two years. Our annual financial statements as of 31 December 2011 show that we have made better progress than originally expected. More than one-third of the portfolio has already been liquidated. We were even able to reduce high-risk structured loan exposures greatly.

It goes without saying that the haircut for Greece also affected our financial statements. In 2011, a balance sheet loss of approximately EUR 880 million was recorded, which resulted nearly entirely from allocations for risk provisioning due to the sovereign debt crisis. The good news: the EAA has proven to be stable. Once again, we have achieved a positive operating result before risk provisioning. Our equity capital and provisioning in the past years add up to a solid buffer against foreseeable and unexpected risks totalling approximately EUR 3.9 billion.

We therefore continue to strive to break even at the end of the winding-down process and remain committed to our goal of not having to call on the public stakeholders' guarantees for the EAA.

Our confidence is based on the fact that our team works with a high level of motivation towards these goals day after day. That goes both for employees at the EAA and at our service providers. This construction – a lean management unit plus external expertise – not only stands for the successes mentioned above. It is also something we can build upon.

On 1 July 2012, further WestLB assets will be transferred to the EAA. The extent and details of this so-called "refilling" had not been ultimately determined by the time of the 2011 financial statements. The EAA has been actively preparing for this for months. We will also take on this task with commitment.

This annual report is intended to make transparent to you in detailed figures and explain how the EAA works and its approach to the upcoming challenges. By doing so, we would also like to make our contribution to the current discussion about financial market stabilisation. We wish you stimulating reading.

Sincerely

Matthias Wargers
Member of the Managing Board

Markus Bolder
Member of the Managing Board

Progress further

The winding-up agency model is functioning

The EAA's portfolio is widely spread. It contains not only problematic exposures, but also for the most part valuable loans and securities. Precisely this mix has facilitated successful liquidation over the past two years.

The significant portfolio reduction in the energy cluster for instance shows: Risk-minimising reduction of highly complex portfolios is possible with individual strategies tailored to the individual loan exposure.

Further facts on page 10.

Portfolio reduction according to plan: hold, sell, or – in exceptional cases – restructure

The EAA's winding-down work is determined by financial market stabilisation laws and is more closely defined in its charter[1], which stipulate among other things the principle of risk minimisation and a conservative financial strategy.

Prior to the first transfer of assets from WestLB in late 2009, recognised portfolio experts prepared a winding-down plan for the EAA, which was approved by the Financial Market Stabilisation Authority (FMSA). The goal is clear: Capital injections from the guarantors for the EAA should be avoided.

The various assets were classified. Additionally, there is a schedule for the winding-down until 2027. The portfolio initially taken over is to be completely liquidated with a positive result – or at least a break-even result.

As basic portfolio strategies, the winding-down plan differentiates between hold, sell prior to maturity or – in exceptional cases – restructure.

- **Hold** – if there is not a sufficient market at the present time or if the exposures bring stable income. At the end of the 2011 financial year, this category still contained securities and loans with a volume of EUR 24.6 billion.

- **Sell** – if the price is at least equal to the value stated in the winding-down plan and, after taking account of all the expected income and costs over time, is more favourable than the alternative "hold". However, the markets must be accordingly liquid before doing so.

  At the end of 2011, a total of EUR 16.5 billion of the EAA portfolio were subject to this strategy because they were essentially fit to be sold.

- **Restructure** – if the chances of sale improve by doing so. The assets categorised as "Restructure" – currently EUR 9.9 billion – are subject to close observation due to their more difficult credit quality.

The winding-down plan and the resulting strategies are reviewed at regular intervals and adjusted to current market developments. The EAA reports to its Supervisory Board, its stakeholders – the State of North Rhine-Westphalia (NRW) as well as the Sparkassenverbände and Landschaftsverbände in NRW – and the FMSA concerning the status of its portfolio reduction.

[1] For more information, please see: https://www.aa1.de/fileadmin/aa1-website/content/downloads/20120118_EAA_Charter.pdf

For sale, but not at any price

Among other things, the EAA portfolio includes certified student loans from the USA. The Irish subsidiary EAA Covered Bond Bank plc (EAA CBB) holds a volume of USD 3.5 billion in total. Borrowers pay back their debts after taking their exams and starting their careers. The EAA CBB's tranches are due between 2019 and 2044. They are completely guaranteed by the American government.

Challenge

In the past, student loans were considered risk-free and led to low, but safe income. During the crisis, the overall scepticism of financial markets towards securitisations grew. Risk premiums increased noticeably and such securities came under continuing pressure for sale.

This is also true of the EAA CBB's student loan portfolio. These securities are still considered very safe – their ratings have hardly deteriorated, not even after the USA's creditworthiness was downgraded to AA+ in August 2011. At the same time, however, the securitisations are being traded on the market with very high price discounts of up to 25% off their notional value.

While there is no reason to sell these securities from a risk point-of-view, holding them leads to losses at many European banks because of significantly increased refinancing costs in US dollars. From today's perspective, nothing about this situation will change in the short term due to the structural changes of the capital markets.

Strategy

Nevertheless, the EAA experts in Dublin and Düsseldorf have decided not to sell the student loan portfolio at the present time, based on calculations for various future refinancing scenarios. Whether under optimal conditions, normal conditions or in the event of a further downgrade, the "hold" strategy leads in every foreseeable case to markedly lower losses than an immediate sale of the portfolio. This strategy is constantly reviewed because the market environment is subject to constant change.

Conclusion: Decision in favour of the "hold" strategy

The example of the student loan portfolio demonstrates that a winding-up agency needs not to sell at any price. The option to wait can pay off. High losses on disposal due to market value fluctuations can be avoided by waiting, as full repayment of the securities is still expected. It makes better economic sense to optimise refinancing costs and focus on redemptions or later sales.

Private Equity Funds Portfolio

Team

The successful sale of the private equity funds portfolio was made possible by close cooperation between the EAA and the Portfolio Exit Group (PEG). Various teams at several locations were involved.

EAA employees Dr Tobias Tillmann (Legal), Simone Schmidt (Credit Risk Management, right) and Gerd Schorn (Accounting, left) speaking with PEG experts.

Sales success in a tense market environment – the EAA's private equity funds portfolio

The EAA's private equity funds portfolio originally consisted of 40 investments, including investments in the energy industry, infrastructure companies and the real estate sector. The focus is on Western Europe and the USA.

Challenge

With the start of the financial crisis in 2008, these investments also lost value dramatically. But by the end of 2010, the activities and valuations in the private equity (PE) market had once again stabilised. First block sales (including by banks) could be observed, and many further transactions were planned. On behalf of the EAA, the WestLB's Portfolio Exit Group (PEG) has been systematically analysing the secondary market since spring 2010 for potential purchasers and their possible asking prices. Based on this, renowned investment bank Cogent Partners was commissioned in April 2011 with marketing the PE funds portfolio.

However, right at the start of this sales process at the end of August 2011, stock markets again began to nosedive against the backdrop of the debt crisis in Europe.

Strategy

Nevertheless, the EAA continued the sales process. The updated valuation of the funds portfolio and the results of the first round of bidding justified this decision. Of the original 87 identified potential buyers, 34 tendered an offer for individual funds investments, for groups or for the entire portfolio. After completion of the second round of bidding at the beginning of October 2011, seven bidders from Europe and the USA were selected for the purchase of 28 funds investments with a notional volume of approximately EUR 160 million.

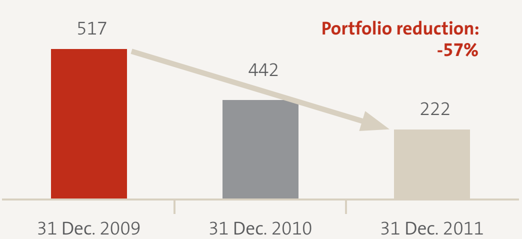
To reduce performance risk during subsequent due diligence and subsequent sale negotiations in the still-tense market environment, the contracts were signed simultaneously by compiled buyer groups in November 2011. After that, negotiations on transfer conditions with the buyers and fund managers of the 28 funds began.

Result

Thanks to the efficient cooperation between PEG and the EAA, the great commitment of the international teams in Düsseldorf, London and New York, as well as the professional support by the external consultants, all 28 transactions were successfully completed by the end of January 2012.

Portfolio reduction in the PE funds portfolio

Notional volume in EUR million[1]



[1] at a constant exchange rate of 31 December 2009

Portfolio Reduction

Team

Various experts from Portfolio Strategy and Credit Risk Management work together closely on liquidating transferred loans and securities.

left to right:
Claus Dülfer (Portfolio Transactions)
Christian Doppstadt (Credit Risk Management)
Stephen Coles (Counterparty Default Risk)
Dr Michael Schinke (Portfolio Strategy)

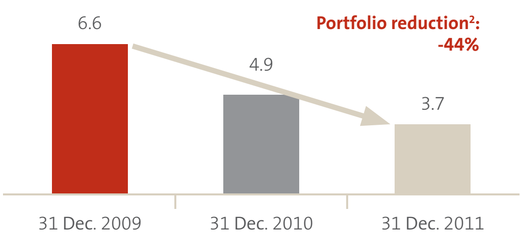
The winding-up agency model is functioning

The EAA's portfolio is widely spread. It contains not only problematic exposures, but also for the most part valuable loans and securities. Precisely this mix has facilitated successful liquidation over the past two years. The EAA's experts explain details.

"The bank bonds portfolio shows that even in a poor market environment, success can be had." **Stephen Coles**

Portfolio reduction in the financial institutions cluster

Notional volume in EUR billion[1]



[1] at a constant exchange rate of 31 December 2009
[2] deviations possible due to rounding

The further escalation of the euro debt crisis was the dominant topic on securities markets in 2011. Because European financial services providers hold bonds from eurozone crisis countries, the markets also classified their opportunities and risk profiles as very unattractive. Consequence for the EAA: The euro debt crisis barely allowed opportunities for actively liquidating European bank bonds, as the quotations did not cover the substance value.

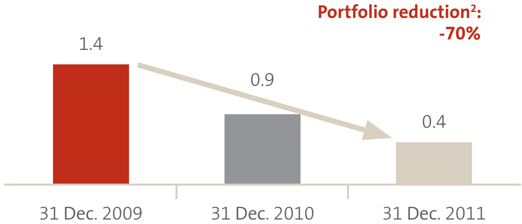
Outside of Europe, however, we consistently took advantage of opportunities for liquidation. As a result, we were able to considerably reduce exposure in this cluster in Canada. In total, the EAA disposed of a volume of EUR 500 million during 2011. This also had a very positive effect on the EAA's refinancing, as our demand for Canadian dollars was reduced noticeably. The example shows: Even in difficult clusters, success is possible.

"The large-scale redemption in the energy cluster proves: Risk-minimising reduction of highly complex portfolios is possible with individual strategies." **Claus Dülfer**

At transfer to the EAA, the energy cluster consisted of a mix of heterogeneous loan exposures, with volumes between EUR 1 million to EUR 150 million. Contractual currencies varied and the ratings also differed greatly. The business strategies of the financed companies also varied significantly and ranged from a South American bioethanol producer to an integrated power company in Western Europe.

Portfolio reduction in the energy cluster

Notional volume in EUR billion[1]



[1] at a constant exchange rate of 31 December 2009
[2] deviations possible due to rounding

Our overriding goal for the entire cluster was to reduce cluster risks and simplify structures. This suggested a quick sell-off of the exposure on the capital market. However, offers tendered as an indication for a substantial sub-portfolio quickly showed that this could have led to discounts of more than 85% of the notional value. Therefore, we quickly dismissed this option.

We focused on looking for direct contact to the companies and negotiating repayments and restructuring measures. In the process, we often had to solve difficult legal questions under the laws in the borrower's home country. This led to success in several cases.

The decision to apply the "hold" or "restructure" strategies to the sub-portfolio has more than paid off. Full repayment of only a few loans so far – compared with a possible block sale – has already led to proceeds several times higher.

The clearly successful liquidation in the energy cluster shows that risk-minimising reduction of highly complex portfolios is possible with individual strategies tailored to the individual loan exposure. The winding-up agency model has functioned successfully.

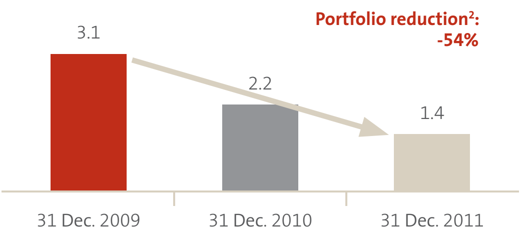
"In the case of companies with low credit ratings, we reacted quickly to short-term changes in the market. As a result, we more than halved the volume of leveraged loans." **Christian Doppstadt**

The leveraged loans sub-portfolio consists of loans to companies that are highly indebted and have accordingly lower credit rankings.

The winding-down strategy initially focused on decidedly reducing the cluster's complexity. Therefore, the first step was selling small and mid-size assets in North America. During the second half of 2010, however, there were first signs that the economic situation was improving. Above all, industrial companies increasingly recovered, in contrast to the banking sector. The credit quality improved markedly. As part of this development, the focus of investors shifted back to this market segment, as it offered attractive returns at an acceptable credit risk. The result: The capital market again became available to companies as an alternative source of (re-)financing.

Portfolio reduction in the leveraged loans cluster

Notional volume in EUR billion[1]



[1] at a constant exchange rate of 31 December 2009
[2] deviations possible due to rounding

In this environment, the EAA decided to no longer set a priority on the quick sale of loans and to accept prices below the issuing value. A key strategy was now to wait, yet become active. Active waiting means: identifying those companies that have – along with increasing investor interest – the possibility to refinance their soon-to-expire loan contracts on the capital market by way of high yield bonds. In these cases, there is a good chance that the companies can redeem their old contracts at their original value. This strategic option proved to be extremely successful, especially in the first nine months of 2011. More than 30 loans were either entirely or at least partially paid back, with a volume of just under EUR 400 million.

In the second half of 2011, the capital market clouded slightly, which changed companies approaches – and the strategic options for the EAA. Since then, companies have increasingly been focusing on amend & extend offers in order to secure their liquidity. As part of this method, existing global credit facility contracts remain in effect, although terms and loan clauses are adjusted to current conditions and the loan's terms are extended. Majority decisions by diverse creditors are usually necessary to do so, but no creditor can be forced to participate in an extension. If the original creditors pursue different paths, the existing agreements are split up into old and new contracts.

However, the majority of loan-issuing banks is – in contrast to a winding-up agency – interested in extending these contracts, as this mostly occurs on more appealing terms. If the necessary majority is achieved, the position of creditors not participating is also improved, because their outstanding loans are redeemed before the remainder of the loan exposure. As such, this offered the EAA opportunities to improve its position structurally.

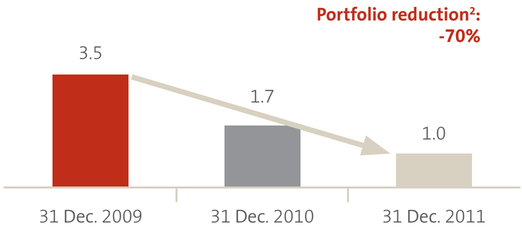
"It was possible to reduce the notional volume of liquidity commitments towards US states and municipalities by USD 900 million thanks to systematic terminations."

Dr. Michael Schinke

More effective solutions than sales were also offered in the past year in the public finance cluster. In this cluster, among other things, a portfolio of long-term lines of liquidity for US states and municipalities had been transferred to the EAA. The agreements each contained a one-time right to termination. However, this was connected with drawing rights for the debtors in question until the end of the loan period. As a result, any termination bore the risk of immediately having to provide liquidity in US dollars.

Portfolio reduction in the public finance cluster

Notional volume in EUR billion[1]



[1] at a constant exchange rate of 31 December 2009
[2] deviations possible due to rounding

A detailed analysis of the solvency of the debtors in question as well as their potential refinancing possibilities, however, indicated that a draw-down of the line of liquidity was unlikely. Despite the downgrade by Standard & Poor's, loans and advances to US municipalities, states and the federal government continued to be seen as safe havens. This status and the very low US return level made it possible for US municipalities and states to refinance cheaply. Paradoxically, the spreading euro debt crisis may likely have contributed to this development.

As a result of this, it was possible to reduce the notional volume of liquidity commitments towards US states and municipalities by USD 900 million thanks to systematic terminations.

Hospitality portfolio – the flexible strategy pays off

For the 2011 financial year, the EAA had planned to significantly liquidate the hospitality portfolio – originally 29 hotel property exposures, mostly in the USA (see Annual Report 2010, pages 22 to 25). This has been achieved. The EAA's experts reduced the loan portfolio by 42% and the notional value of this sub-portfolio decreased from approximately EUR 900 million to just over EUR 500 million most recently. To do so, it was necessary to get a picture of the situation in each location and discuss approaches to solutions with local market experts.

Negotiating successfully

A mix of measures made this success possible. The EAA has sold individual loan exposures. For other projects, it managed to negotiate the payback of loans with borrowers – such as in the case of an exposure in New York, which was fully paid back. In terms of sales, the EAA profited from its flexible strategy. In the first half of 2011, the EAA's real estate experts originally intended to dispose of a large combined package containing both problem loans and loans for which repayment is not in danger. However, continued market observation showed that only non-performing loans or investments allowed for generating sale proceeds with which the ambitious goals of the EAA's business plan could be achieved.

Therefore, the focus shifted to an adequate exit strategy for individual problem cases in the second half of 2011. For example, it was possible to dispose successfully of a loss-making exposure in Canada and two in Florida. Agreements for three further sales were signed in the first quarter of 2012.

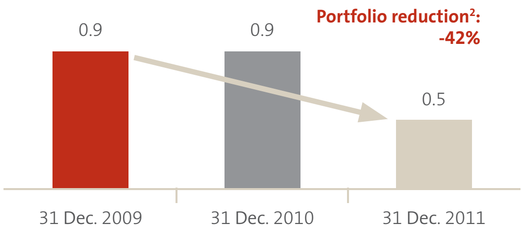
Conclusion

The realised proceeds are significantly above the offer prices for a package sale. The effort was worth it. Altogether, the strategy of treating the widely varied investments in the hospitality portfolio individually instead of looking for blanket solutions has paid off for the EAA.

If this market situation continues, it will be possible to further reduce the hospitality portfolio's risk exposure significantly in the 2012 financial year.

Portfolio reduction in the hospitality portfolio

Notional volume in EUR billion[1]



[1] at a constant exchange rate of 31 December 2009
[2] deviations possible due to rounding

3 questions for Andreas Kandel

The EAA has decidedly reduced its portfolio. How is this noticeable in the annual financial statements?

The majority of the portfolio is held directly by the EAA. Here, we see the reduction mainly in loans and advances to customers, which sank from EUR 13.3 billion to EUR 8.6 billion. However, this effect was overcompensated because the EAA is building up a liquidity buffer with the takeover of further WestLB portfolios in mind. In contrast, portfolio reduction in subsidiaries is not reflected because the EAA does not prepare consolidated financial statements.

Which particular characteristics are there in contrast to the annual financial statements of a bank?

The EAA is not a bank under regulatory requirements and does not need to back its business with equity capital. Because it does not prepare consolidated financial statements, it also does not need to report according to the International Financial Reporting Standard (IFRS), in contrast to most banks. The EAA accounts according to the principles of the HGB, just like a bank.

Does the EAA have to pay tax on its winding-down profits?

Yes. Just like a public company, it is subject to corporate, trade and sales taxes, to name just the important ones. The same is true for local taxes abroad.

Andreas Kandel is head of the EAA's Finance & Tax department.

Finding ways

Successful refinancing

Since 2011, the EAA has been a regular issuer on the capital market. It is recognised for its good rating, strict risk minimisation and strong investor focus. The EAA's bonds are in high demand both in Germany and abroad. This is the success of the EAA's Treasury team.

Discussing with international investors, it was possible to clear up certain misunderstandings and communicate further detailed knowledge. The talks with investors have proven to be a smart course of action. In its first full year of issuance activity, the EAA was able to gather significantly more funds than originally planned.

Background information on page 26.

Guest editorial by Dr Stephan Paul, Professor at Ruhr-Universität Bochum

Five years of bank rescue – government assistance alone does not automatically mean more security

Almost five years after its outbreak, the most severe financial and economic crisis since World War II is apparently far from over. The desolate condition of public finance, especially in Southern European countries, has brought back the crisis to the banking sector, as many banks still hold a considerable amount of public debt instruments. For this reason, they – along with insurers and other capital investment companies – are particularly affected by the waiver of debts for Greece decided upon in March 2012. Five years of crisis also mean five years of activities by public authorities to rescue banks. There is still no way to estimate for certain how high their costs will ultimately be.

Since the Greek haircut at the very latest, it has been foreseeable that the total costs – estimated in 2010 at between EUR 25 billion to EUR 50 billion (Kaserer, 2010; Steltzner 2012) – are likely approaching the higher estimate.

In this connection, some are pointing to the massive bank rescue programme by *forced capitalisation* that the US government set up in October 2008. Only this intervention was able to stabilise the sector, and is increasingly becoming more and more of a "good deal" for the government. It is said that not only have large portions of the aid provisions meanwhile been paid back, but that a "billion-dollar gain" is shaping up (e.g. Vogel, 2011).

US bank rescue

On 19 September 2008, the US Department of the Treasury presented the first concept of a government bank rescue programme (Troubled Asset Relief Program, TARP). After the US Congress rejected the original concept of this programme 10 days later for reasons of content, a modified version of TARP was approved by the US Congress on 3 October 2008 and passed as part of the Emergency Economic Stabilization Act (EESA).

The original aim of TARP was to relieve the US banking sector and provide it with liquidity by government buy-up of toxic securities and/or illiquid mortgage-backed loans of up to USD 700 billion. Against the backdrop of continued uncertainty in financial markets, the US government decided on 14 October 2008 to expand the existing rescue programme and set up an additional recapitalisation programme (*Capital Purchase Program*, CPP). Based on this, the government was able to acquire up to USD 250 billion in preferred shares and/or warrants (TARP warrants) from US banks, providing them with equity capital. After the nine largest US banks were obligated to accept government capital aid of USD 125 billion in a first step, the remaining USD 125 billion were distributed to further qualifying US banks of varying size and form in a second step.

Relevant publications make varying and somewhat contradictory attempts to explain the effect of government bank rescue programmes on shareholder value as well as on the risk of supported banks (compare for example Black and Hazelwood, 2010). While the rescue measures at first have a direct effect on the banks' degree of indebtedness as well as their liquidity position, there is also an indirect effect resulting from the reinvestment of capital aid and the associated consequences for the risk profile of supported banks.

With regard to the *direct effect,* it is first assumed that capital aid increases the banks' financial stability, as it leads to a reduction in leverage and an increase in liquidity position (compare Mehran and Thakor, 2011; Bayazitova and Shivdasani, 2012) in the short term. In contrast, the sustainable influence of recapitalisation depends on the bank's prior risk position (Diamond and Rajan, 2010 and 2009). The provision of capital cannot necessarily prevent the short-term sale at high loss (fire sale) of securities if the bank was ex ante highly illiquid and held toxic investments in its portfolio. Additionally, capital market investors may interpret drawing upon government assistance as a sign of a high default risk in the loan portfolio of supported banks (Hoshi and Kashyap, 2010), leading to an increase in refinancing costs. Ultimately, it is questionable whether capital aid truly raises the market value of (economic) equity capital, resulting in an improvement of the bank's risk tolerance, or rather increases the market value of the borrowed capital (Veronesi and Zingales, 2009).

On the one hand, the direction and extent of the *indirect effect* depend on how the received funds are reinvested. On the other hand, a wide range of market factors plays a role (prevailing capital market expectations, competition in individual asset classes, regulatory and contractual requirements, etc.). Particularly in the case of TARP, maintaining lending to the real economy was an important condition for granting government capital aid. In view of poor economic growth during the financial crisis, however, the stabilising effect of capital measures for the banking sector seems doubtful (compare Black and Hazelwood, 2010; Delis and Kouretas, 2010; Altunbas et al., 2010).

Against this backdrop, Farruggio/Michalak/Uhde (2011) at Ruhr-Universität Bochum's sub-faculty for finance and banking investigated the extent to which TARP was able to restore confidence in capital markets and whether the passed measures sustainably improved the financial market's stability. The investigation took a detailed look at the influence of the first announcement of TARP (19 September 2008), the modification of the original concept (14 October 2008) as well as the effect of the actual use and repayment of capital aid on shareholder value and risk exposure of 125 listed banks. Empirical analysis shows the *advantages and disadvantages of the US bank rescue programme*.

The announcement of rescue measures first led to significantly positive, abnormal returns in the banking sector, accompanied by a reduction of systemic risk that was mainly driven by a decrease in the correlations of banks to one another. In contrast, the actual use of capital aid between October 2008 and July 2009 led to significantly negative effects on value from the perspective of shareholders in the supported considerable increase in systemic risk, which was made up both of an increase in bank-specific risk as well as a higher market risk. Positive effects on value only again became apparent upon repayment of capital aid.

In bank rescue, equity capital provided by the government accordingly offers no guarantee of success, even if the volume of the programme is as high as in the case of TARP. In view of the government's objective function in which combating systemic risks has the highest priority, it is indeed secondary that banks have already been able to repay a great deal of the funds received. This says little about the stability of the system.

Effectiveness and efficiency

Under the aspect of *effectiveness,* theoretical and empirical literature shows that more government involvement in the banking system via "forced blessings" for institutions is likely to create new problems rather than solving them.

To put it another way, it would be better to limit horsepower (by regulation) than make the airbags bigger (by government involvement). With regard to the most *efficient* solution, sustainable changes in the financial industry (e.g. by reducing the institutions to their core business, outsourcing problem and peripheral areas) are more convincing than artificially maintaining established structures.

Literature

Altunbas, Y., L. Gambacorta und D. Marques-Ibanez (2010): Does monetary policy affect bank risk-taking? BIS Working Paper, no. 298, Basel.
Bayazitova, D. und A. Shivdasani (2012): Assessing TARP. The Review of Financial Studies, vol. 25, Issue 2, S. 377–407.
Black, L. und L. Hazelwood (2010): The effect of TARP on bank risk-taking, Working Paper, Federal Reserve Bank of Chicago.
Delis, M. D. und G. Kouretas (2010): Interest rates and bank risk taking, Journal of Banking and Finance, vol. 35, S. 840–855.
Diamond, D. W. und R. G. Rajan (2009): Fear of fire sales and the credit freeze, NBER Working Paper no. 14925, Cambridge.
Diamond, D. W. und R. G. Rajan (2010): The credit crisis: Conjectures about causes and remedies, NBER Working Paper no. 14739, Cambridge.
Farruggio, C., T. C. Michalak und A. Uhde (2011): The light and dark side of TARP – Empirical Evidence, Working Paper, Ruhr-Universität Bochum.
Hoshi, T. und A. K. Kashyap (2010): Will the U.S. bank recapitalization succeed? Eight lessons from Japan, Journal of Financial Economics, vol. 97, S. 398–417.
Kaserer, C. (2010): Staatliche Hilfen für Banken und ihre Kosten, Gutachten, TU München.
Mehran, H. und A. Thakor (2011): Bank capital and value in the cross-section, Review of Financial Studies 24, no. 4 (April 2011), S. 1019–1067.
Steltzner, H. (2012): Dummer Steuerzahler, FAZ, 12 March 2012, S. 11.
Veronesi, P. und L. Zingales (2009): Paulson's Gift, NBER Working Paper no. 15458, Cambridge.
Vogel, H. (2011): Bankenrettung mit Gewinn – das amerikanische Vorbild, Handelsblatt Online, 12 Oct. 2011.

Follow-up

Phoenix: Success in liquidation achieved

The so-called Phoenix portfolio is the largest risk driver in the EAA's balance sheet. In total, the EAA has created approximately EUR 1 billion in risk provisioning for this portfolio. But even here, the EAA has been able to reduce the portfolio by 20%, thereby achieving a marked success in winding-down.

In the 2011 financial year alone, the notional volume decreased by EUR 3 billion due to repayments and sales. From today's perspective, return flows can also be expected in the future. More than 70% of the remaining notional volume is set to be paid back in coming years. For structural reasons, the EAA can only influence sales to a certain extent.

The special Phoenix construction

The Phoenix portfolio consists of those loans (Phoenix notes) with which the Phoenix Light SF Ltd. special purpose vehicle refinanced the takeover of structured loan exposures from WestLB (Phoenix assets) in 2008. Phoenix assets mainly contain securitised US mortgage loans. While the EAA holds the Phoenix notes, their repayment is based on the development of the Phoenix assets (see in detail: the EAA's Annual Report 2010, pages 15 to 18).

The Phoenix portfolio – originally just under EUR 23 billion – currently still includes assets of approximately EUR 18 billion. Development of the Phoenix assets depends to a great extent on the activities of third parties. The original Phoenix assets are contained in various special purpose vehicles and are managed there by different parties such as *trustees* and *service providers*.

A trustee provides a special purpose vehicle (SPV) with accounts and deposits for storing the vehicle's assets (cash and securities). Additionally, it processes payment transactions for the SPV, such as remitting interest and repayments to investors in the securitised loans.

A service provider collects outstanding loans for the special purpose vehicle by – among other things – sending collection letters or initiating foreclosures and other liquidation measures. Also among the tasks performed by service providers: negotiating modified loan conditions with debtors on the basis of predefined criteria.

Service providers under observation

In managing the Phoenix portfolio, the EAA therefore places great value in analysing the individual services provided for the special purpose vehicles. In particular, the service companies that manage outstanding loans are subject to scrutiny.

In individual cases, the EAA also investigates whether legal claims are applicable towards third parties such as trustees or service providers that are ultimately responsible for the success of the Phoenix assets. Usually, only the special purpose vehicle itself as the client can initiate legal action against its service providers. In such cases, the EAA establishes direct contact to the special purpose vehicles' directors and trustees. The EAA examines how it can support them, whether litigation has a chance of being successful and whether it should be taken.

Winding-down work is successful

The Phoenix portfolio contains more than 1,500 different, individually structured securities (the Phoenix assets) in which more than 2 million individual loans are securitised. First, the EAA's experts and its commissioned service providers conduct a plausibility test and prioritise their subsequent steps.

The attention to detail is paying off. The success in liquidation is apparent: since the start of Phoenix, large return flows from the securitised loan portfolios have already materialised – not only due to sales, but especially due to realised repayments.

Return flows since start in 2008 separated by repayments and sales

Repayment		Sales	
Since Phoenix issue	of which 2011	Since Phoenix issue	of which 2011
USD 6,365 million	USD 3,553 million	USD 827 million	USD 741 million
EUR 571 million	EUR 345 million	EUR 50 million	EUR 50 million

Sales by the Phoenix Light SF Ltd. special purpose vehicle are partially contained in the repayments to the EAA.
The difference is caused by the period between sale and actual repayment on the Phoenix notes, which only occurs twice annually.

3 questions for Dr Gregor Garten

In the USA, securitised loans are a matter for the courts. What does this mean for the EAA?

Many of the US mortgage loans in EAA's portfolio are directly held by special purpose vehicles. Generally speaking, the more returns these generate, the more they can distribute to EAA. In other words, EAA bears the consequences if these returns do not materialise. For this reason EAA has conducted its own thorough analysis of the special purpose vehicles' potential claims over the past few months.

Does this mean that the EAA will also take legal action against banks in the USA?

To begin with, in contrast to what you may have recently read, the EAA itself cannot be a party to such litigation. All rights rest in the hands of the individual special purpose vehicles. The management of these vehicles takes the decisions. As the EAA is indirectly affected, we do, however, advise the responsible parties there during the decision-making process; Potential costs and benefits must be carefully balanced in the process.

What is decisive in such proceedings?

The proceedings are highly complex and there is, to date, no precedence. In substance it depends on adequately substantiating the claims in a way so as to proceed to the stage of discovery. During discovery the defendants have to disclose internal documents which may possibly evidence culpable misconduct. Generally, the proceedings are important for coming to terms with potential misconduct that eventually led to the financial crisis.

Dr Gregor Garten is the EAA's general counsel.
He is also admitted to the bar in New York.

3 questions for Dr Michael Schinke

The euro crisis has escalated in the past months. How did things get to this development?

To support finance and the economy, governments intervened with huge sums of money. At the same time, income from taxes dropped. A gap between government spending and government income opened. Financial markets reacted and demanded higher interest rates. This, however, negatively impacted on the countries' abilities to shoulder debt. The EU therefore organised a haircut for Greece. This development could not have been foreseen one year ago.

Is there a risk of a domino effect? Will the large countries Spain and Italy also come under pressure?

Although Spain and Italy are also feeling pressure from markets, there is currently no sign that there will be a haircut for them. These economies are much better positioned. Both governments clearly want to master the crisis with savings and reforms.

What will happen next: What prospects does the euro have for the future?

I do not see the debt crisis as an existential threat. Europe is strengthening its institutions. The debt brake and the permanent rescue fund are important measures. Additionally, barriers to growth now need to be removed. Labour and goods markets must become more flexible.

Dr Michael Schinke is Executive Director and the EAA's Head Economist.

Government bonds portfolio – haircut covered by equity capital

In 2011, the EAA recognised gross write-downs of approximately EUR 848 million (net: approximately EUR 818 million) on Greek bonds and loans and advances. As such, it allows for the lower value principle of trading law in its 2011 annual report. At the beginning of March 2012, the Supervisory Board agreed to the Managing Board's suggestion to participate in the rescue package for Greece with bonds totalling approximately EUR 880 million. As a result, the EAA accepted a reduction in notional value of just over EUR 470 million, along with losses from worsened interest rate conditions and contracts for currency hedging. The burdens resulting from Greece's debt restructuring are covered by the EAA's equity capital.

Complex evaluation process

One year ago, assessing Greek government bonds' default risk still depended largely on the conditions of the first euro bailout package, which at the time provided for hedging Greek bonds until mid-2013. The majority of the bonds that the EAA had assumed from WestLB would have been due during this period and were therefore covered by this protective measure (see Annual Report 2010, page 11).

However, because the situation in Greece continued to become more serious, the euro member nations re-evaluated the situation during 2011 and early 2012. Further rescue packages established far worse conditions for creditors. In view of the development in Greece and the continuing risk of the country's disorderly insolvency, the Managing Board and the Supervisory Board of the Erste Abwicklungsanstalt decided to make their contribution towards the success of the rescue package. A disorderly insolvency would have resulted in further risks for the EAA.

Result

Repayments first reduced the EAA's amount of Greek bonds by 31 December 2011 from EUR 1.2 billion to EUR 1.1 billion: EUR 100 million for bank bonds and EUR 1 billion for government bonds and state-guaranteed bonds. By participating in the rescue package and due to liquidation measures, the notional volume of Greek government bonds was reduced to approximately EUR 280 million in the first weeks of 2012. In addition, there are one-year and two-year bonds issued by the European rescue fund as part of the bond exchange totalling approximately EUR 132 million as well as just under EUR 31 million in zero-coupon bonds with a maturity of six months. Exposure in other so-called eurozone crisis nations – Italy, Portugal and Spain – amounted to approximately EUR 7.7 billion on 31 December 2011. The EU nations have passed a number of measures aimed at preventing further losses for investors.

Successful refinancing

Since 2011, the EAA has been a regular issuer on the capital market. It is recognised for its good rating, strict risk minimisation and strong orientation towards investors. The EAA's bonds are in high demand both in Germany and abroad. This is the success of the EAA's Treasury team.

The year 2011 was full of travel for the Managing Board of the Erste Abwicklungsanstalt and for Hartmut Rahner, Head of Treasury, and his team. "From the start, we knew that our refinancing could not rely on the German market alone. That's already made apparent by our demand for US dollars", says Holger Dohra, Head of Investor Relations Debt Markets. The EAA explained the German model of a winding-up agency in such places as Scandinavia and England, in the USA and Asia. In direct contact with investors, the EAA's financial market experts presented the agency's public function and its refinancing strategy.

Indeed, in talks with international investors, it was possible to clear up certain misunderstandings and communicate further detailed knowledge. The new partners applied the information about the "new German agency" quickly and professionally, recalls Dohra: "Our clear principles were well-received. We do not strive to maximise profits on a short-term basis. Instead, we focus on sustainable value optimisation and conduct an issuing business oriented towards the long term." The talks with international investors have proven to be a smart course of action. In its first full year of issuance activity, the EAA was able to gather significantly more funds than originally planned.

Refinancing is one of the EAA Treasury's primary tasks. Its refinancing requirements result mainly from the maturity of the bonds it issued itself and debt instruments taken over upon its establishment by WestLB. After all, portfolio transfer contained both assets and liabilities. When the debt instruments (recorded in the balance sheet as liabilities) expire, they may need to be replaced by new bonds depending on the progress of the winding-down plan.

Risk minimisation: the highest principle

As an independent institution, the Abwicklungsanstalt takes care of its own refinancing. As foreseen in its articles of association, it plans the winding-down process in such a way as to guarantee of its own ability its solvency throughout the entire winding-down period – expected to last until 2027. For this reason, the EAA is a constant issuer on the capital market. All the while, the goal remains minimising risks, as is the case for all its activities. The Treasury avoids all interest rate speculation. Risks from exchange rates are also excluded, either by refinancing in the asset's local currency – usually euros or dollars – or by using permitted currency hedging instruments. Additionally, the Treasury strives for a refinancing that matches terms as well as possible.

Treasury

Team

The EAA Treasury specialists ensure the EAA's short-term and long-term refinancing on international capital markets.

left to right:
Dietmar Fischer and Harald Beyer (Long-term Funding) with Sina Sternberg (Investor Relations)

This means that long-term commitments should also be refinanced by long-term issues.

Refinancing requirements must be determined precisely. In consideration of the winding-down plan, the EAA so far needs an average of approximately EUR 5 billion annually. Achieving this volume was also the goal for 2011. The issued volume, however, was far greater. EUR 1.5 billion were already received with the liquid benchmark bond that was introduced to the market in early 2011. And not only the issuing volume exceeded expectations. The fact that more than 50% was successfully placed outside of Germany in the first transaction of this kind can also be seen positively. Another factor: strong demand for so-called private placements with volumes between EUR 10 million and EUR 500 million.

In total, the EAA was able to gain long-term funds (with terms starting at 1 year) totalling nearly EUR 10 billion, of which approximately four-fifths in euros and one-fifth in US dollars. For short-term liquidity management, the Commercial Paper Programme (CP) was established in the summer of 2011 for Europe and the USA. In June 2011, Euroweek reported, "Erste Abwicklungsanstalt (EAA) raised a large amount of cash in its first days of trading commercial paper this week, in one of the most impressive debuts this year". The outstanding volume in all currencies in this case totals approximately EUR 8 billion since January 2012. The EAA uses all funds that were raised in excess of the actual refinancing requirement to establish a solid liquidity buffer.

High rate of acceptance, even abroad

The EAA's target market is not private investors, but banks, insurers and institutional investors such as funds managers. "The EAA's rate of acceptance among these players is based on several factors", explains Dohra. The basis is the EAA's very good rating by rating agencies Fitch (AAA), Moody's (Aa1) and Standard & Poor's (AA-). These ratings correspond to those for the State of North Rhine-Westphalia and are based in particular on the so-called Liable Stakeholders' duty of the EAA's guarantees. According to this, the EAA would receive enough liquid funds at any time to pay its liabilities due upon the first request to do so. As a result, the Abwicklungsanstalt is protected from insolvency. The commitments of the stakeholders – the State of North Rhine-Westphalia as well as the Sparkassenverbände and Landschaftsverbände in NRW – result from the Financial Market Stabilisation Fund Act (Finanzmarktstabilisierungsfondsgesetz) and the EAA's articles of association.

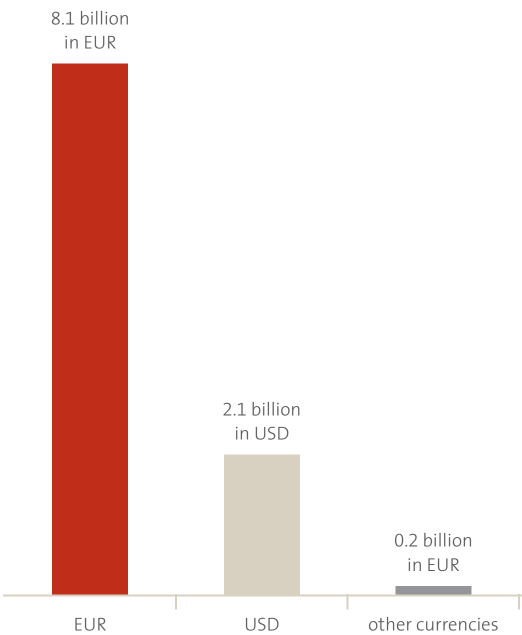
Additionally, international investors expressed great interest in investment opportunities from German issuers in 2011's troubled environment. Foreign investors rated the German winding-up agency EAA appealing and safe, just like the Kreditanstalt für Wiederaufbau (KfW). "Ultimately, the EAA's Treasury also contributed to success by way of its flexibility", says Dohra. Despite clear boundaries due to the strict principle of risk minimisation, the EAA responded to investors' needs whenever possible and legally permitted.

The Treasury can issue bearer bonds as well as registered bonds or promissory notes. Products with fixed or variable interest and the usual structured issues such as zero-coupon bonds are also possible. Additionally, the EAA was able to respond flexibly to market interest in the question of terms.

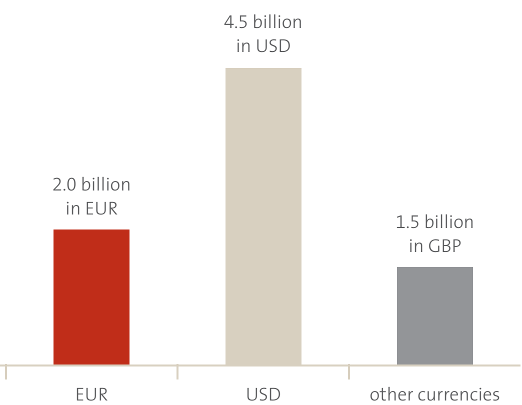
From the refinancing perspective, 2011 was a complete success for the EAA. Planned investor basis diversification went better than expected. The EAA was able to position itself as an issuer among all relevant investors and found trust thanks to its transparent and, above all, direct way of communicating. "We will continue our internationalisation strategy in 2012 and will place a special emphasis on making headway in the USA", explains Dohra. As such, benchmark bonds should in future also comply with the demands of the US jurisdiction. A further goal is a stronger presence among international central banks. "As high-volume collection points for capital, they must invest in bonds with good credit ratings," says Dohra. "The EAA's issues also belong without a doubt to this category."

Issues by the EAA

Issues by the EAA in 2011 (without CP)
Long-term refinancing



Outstanding CP issues as of 31 Dec. 2011
Short-term refinancing



Accepting challenges

“Our goal remains to break even”

Matthias Wargers: We are working hard so that we do not have to call on the EAA’s stakeholders’ guarantees.

Markus Bolder: Neither naysayers nor faith-healers have lasting success in winding-down work. We are realists and orient ourselves on solid facts and objectives. Therefore, we can be optimistic by conviction.

Interview with the Managing Board, page 39.

The EAA is growing and is ready to do so

WestLB will be split as of 30 June 2012. Its financial services will be bundled into a service and portfolio management bank to be called Portigon. The Sparkassen will take over the Verbundbank business. All other assets and business areas are to be sold or transferred to the EAA. The EAA faces a challenge – but it is well prepared for it.

The EAA is principally set up so that it can assume additional portfolios.

The EAA was established in December 2009 as a financial market stabilisation measure. The Financial Market Stabilisation Fund Act (Finanzmarktstabilisierungsfondsgesetz) also provides for the transfer of further portfolios for winding-up agencies. In the past two years, the Managing Board and the Supervisory Board have created scalable structures that can be expanded. Today's portfolio is centrally managed. Various service providers deliver analyses and recommendations. The success up to now shows that the EAA is a lean management unit that has proven its operative stability.

By July 2012, a loan and securities portfolio, certain equity investments and the trading portfolio of WestLB will have been transferred.

The politically determined process foresees that the EAA will assume those parts of WestLB that have as of 30 June 2012 not been assigned to the Verbundbank, not been assumed by members of the Sparkassen-Finanzgruppe and have not been sold by WestLB to third parties. Only after this will the details of transfer to the EAA be certain.

At the time of the 2011 financial statements, particularly the takeover agreements had not yet been signed, and the scope and details were to be defined. If measured against the banking industry, the EAA would today be among the 20 largest institutions in the financial industry in Germany, measured by its expected total assets.

However, the structure of the so-called refilling is already clear. The EAA takes over from WestLB:

- the most significant portion of its loan and securities portfolio
- a wide range of equity investments
- its trading portfolio

The EAA's experts are closely examining the additional portfolio to be taken over from WestLB.

The EAA will assume all assets at risk-appropriate carrying amounts. For the second portfolio, an individual plan for risk-minimising winding-down will be created. The EAA already began preparing for the takeover of additional tasks in July 2011.

Milestones

2009

11 Dec. 2009

Establishment of the EAA

18 Dec. 2009

Transfer of the first WestLB sub-portfolios with a notional volume of more than EUR 6 billion.

2010

30 April 2010

The EAA assumes a second sub-portfolio from WestLB with a notional volume of approximately EUR 71 billion, thereby completing the initial filling.

31 Dec. 2010

By the end of 2010, the EAA's operationalisation is also complete. The corresponding management personnel has been recruited. Infrastructure, processes and governance structures for portfolio management and steering have been implemented.

2011

1 July 2011

In mid-2011, preparations for the EAA's refilling begin. The plan in this context is to transfer all WestLB assets to the EAA that will not be transferred to the Verbundbank, assumed by members of the Sparkassen-Finanzgruppe or sold to third parties.

2012

30 June 2012

Takeover of those parts of WestLB that by 30 June 2012 will not have been outsourced to the Verbundbank, taken over by members of the Sparkassen-Finanzgruppe or sold to third parties. Start of active portfolio liquidation.

The EAA will review a sample of the refill portfolio. Recoverability and risk content have been and will be analysed. The resulting financial, organisational, technical and staffing demands form the basis for the ongoing operative preparation.

The EAA is preparing for a portfolio that will, to a great extent, be comparable with its current portfolio.

According to the latest information, type and structure of the securities and loans are not different from the EAA's current portfolio, for instance in terms of their broad regional distribution or the various legal systems to which they are subject.

The number of winding-down clusters, which are sorted according to industry and to which individual assets are attributed, will likely increase from 23 to more than 30.

In order to liquidate the additional investment portfolio, the EAA can use the previously successful strategies:

- ▲ Hold
- ▲ Sell
- ▲ Restructure

As before, the EAA is still preparing for a winding-down period lasting until 2027.

The WestLB trading portfolio is a new product category for the EAA, but the approach to liquidation corresponds to the previously used strategies.

It goes without saying that the characteristics of the trading portfolio are different than those of the investment portfolio. Nevertheless, the liquidation of this portfolio can take place in the same manner as the EAA's proven strategy. The goal here is also risk-minimising winding-down. The portfolio will also be divided into individual clusters and a corresponding winding-down strategy set for each of these clusters.

The EAA's risk profile will not essentially change due to the refilling.

In 2009 and 2010, the EAA not only assumed risk exposures from WestLB, but also business areas that were no longer necessary for the Landesbank's strategy. The EAA's portfolio has already consisted mainly of valuable investments. Even with the refilling, the risk for the EAA will not essentially increase. The goal remains to break even, both for the original portfolio and for the refill portfolio.

Up to now, the EAA was able to cover losses indicated in the balance sheet, which were mainly due to risk provisioning, with its equity capital and income. This is how it should also be in the future. The EAA's Managing Board continues to strive to not have to call on the guarantee for expected losses and the Liable Stakeholders' duty.

The operative preparations have made great progress. As a result, the planned winding-down of additional assets can begin as of 1 July 2012. The requirements are well-known…

At the EAA, a team of roughly 50 internal and external experts are working hard on creating the economic, technical, organisational and staffing conditions for the refilling. The requirements have been defined and are being operationalised:

- EAA's future real net output ratio in the various business areas
- Necessary processes and interfaces with Portigon
- Development of appropriate reporting and governance structures
- Recruitment of qualified staff needed

…and the conditions are being created.

Currently, the structures for a smooth transition of assets are being created, such as an own governance, legal conditions or IT adjustments. Additionally, the future cooperation with Portigon is being organised.

Managing service providers flexibly and efficiently

If you want to liquidate a complex and broadly-based portfolio worth billions in a risk-minimising manner, you must observe financial markets worldwide and make appropriate decisions at the right moment. However, the public expects a winding-up agency not to maintain a large administrative machinery. Therefore, the EAA has used external service providers from the very beginning. To use these experts effectively, the EAA has developed its own computer-supported steering, monitoring and management information system.

Example: Portfolio Exit Group

The central interface at EAA's largest service provider – WestLB – is the Portfolio Exit Group (PEG). Currently, some 90 employees work exclusively for the EAA in portfolio management. They perform and coordinate analyses and prepare cover sheets and analysis papers. During the 2011 financial year, the PEG produced more than 850 such reports. The EAA relies on these reports, among others, for regular decisions about their portfolio strategy. Among other things, the sale of a hotel financing portfolio in the USA was based on a recommendation by the PEG. Liquidated nominal volume: EUR 125 million. The proceeds generated were decidedly higher than estimated in the business plan.

Service provider management sets standards

The EAA manages this service provider, which has far more employees than the EAA itself, on the basis of a web-based system application. Was the service provided on time? Was it complete and did it comply with quality standards? Can possible problems be identified early? The continual evaluations are compiled and visualised via a traffic-light system.

Those responsible at the EAA can access and adapt the various criteria online any time. Once a month, the EAA's and PEG's area heads discuss the results of this monitoring. After 1 July 2012, the service provider management will be applied to the new service and portfolio management bank named Portigon.

The system is scalable. As a result, the EAA can shoulder further tasks without having to massively increase its own organisation. Other service providers – such as in revision – are also managed in this way.

Steering of PEG

Team

Once a month, the EAA's and PEG's representatives discuss the results of individual work processes and results. To do so, they use the traffic-light system developed for monitoring purposes.

front row: Sabine Keller und Uwe Drangmeister (EAA Controlling & Planning)
back row: Heribert Vossen und Birgitt Driessen (PEG)

Matthias Wargers and Markus Bolder, EAA Managing Board

Interview with the Managing Board

"Our goal remains to break even"

The Erste Abwicklungsanstalt (EAA) has now been at work for more than two years. How do you view things so far, Mr Wargers and Mr Bolder?

Matthias Wargers: We are very satisfied.

First of all, the winding-down of our portfolio is well above plan. We have liquidated more than one-third of our original total portfolio, 56% or our total loan portfolio and even 43% of non-performing loans.

Secondly, the EAA's bonds are established on the capital market. Refinancing stands on solid ground.

And thirdly, we have again achieved a positive operating result in the 2011 financial year. The costs are under control and our sales successes are also exceeding expectations.

Markus Bolder: These successes are only possible because we have created stable structures in the past two years. Our team stands and is highly motivated, not just internally, but also at our service providers who support us.

How great are the sales successes?

Markus Bolder: In portfolio sales, we have achieved a net total income of EUR 144 million in the past two years.

Nevertheless, the EAA is once again showing another balance sheet loss in its second financial year of approximately EUR 880 million. What was the cause?

Matthias Wargers: In particular, developments in Greek government bonds ruined our annual result. Allowances for risk provisioning due to the sovereign debt crisis had a decisive effect on this. The operating result before risk provisioning is very positive. This also highlights our stability.

Greece is not the only euro country in trouble. Portugal is being observed, and large countries such as Italy and Spain could also come under pressure. What would a domino effect mean for the EAA?

Markus Bolder: Currently, experts do not expect a domino effect. It goes without saying that these economies are facing great challenges. But it is important to remember that the governments in Portugal, Italy and Spain have taken necessary structural measures that are working. The capital market has already partially honoured this. While we see these countries in a difficult environment, we also assume they are on a good path.

In particular, the example of Greece shows how inaccurate forecasts can be. Is the EAA robust enough to cushion such market fluctuations in the future?

Matthias Wargers: When the EAA was established in December 2009, truly no one could have foreseen Greek government bonds' dramatic loss in value. There is no question that we have to deal with serious burdens on results. However, it does not overwhelm us – further evidence of just how stable the EAA is.

Markus Bolder: In its work, the EAA profits from its diversified portfolio, making it possible for us to create positive effects for other exposures. Take Phoenix as an example. Who would have expected that we would be able to achieve larger-scale repayments even for these "highly toxic" structured securities? The fact is: we have reduced this portfolio by 20% since takeover, both by way of repayments and first sales measures.

Due to risk provisioning, the EAA has already consumed most of its original equity capital. Greece is using up further reserves. Does it still have enough equity capital?

Matthias Wargers: After the 2011 financial statements, we still have equity capital of EUR 614 million – despite the sovereign debt crisis. For a winding-up agency, the capital solely serves to hedge unexpected losses. For all identifiable risks, we have created risk provisions. Our entire risk puffer from equity capital plus risk provisions still on-hand is therefore decidedly larger and amounts to EUR 3.9 billion in total. At the same time, the portfolio has become significantly smaller.

With EUR 3.9 billion, the risk buffer is greater than the capital provided at the EAA's establishment. How do you explain this?

Markus Bolder: Risk provisioning was taken into account when transferring carrying amounts. And last but not least, we have generated income! We were able to increase risk provisioning above equity capital from net interest and net fee commission income in particular.

The EAA's stakeholders have a Liable Stakeholders' duty. As Managing Board members, you took office with the hope of not having to call on the guarantees for the EAA. Do you have to abandon this hope?

Markus Bolder: No. Our goal remains presenting at least a balanced result at the end of the wind-down period.

Matthias Wargers: We are working hard so that we do not have to call on the EAA's stakeholders' guarantees.

How sure are you that you will be able to achieve this goal?

Matthias Wargers: No one would be truly safe from a further escalation of the sovereign debt crisis or a repeated dramatic collapse of the financial system. However, no expert currently expects such an exogenous shock.

Markus Bolder: We have a professional team. We know our portfolio and analyse the markets continuously. We act when appropriate. As a result, we have made better progress than expected and can be optimistic for the future.

The EAA will be "refilled" as of 1 July 2012 when it assumes further WestLB assets. Will it now become WestLB, but with a different name?

Markus Bolder: No. The EAA's job remains winding-down assumed exposures in a risk-minimising manner. The EAA's portfolio is growing. We are assuming additional tasks and are well prepared for them.

How has the EAA prepared itself for these challenges?

Matthias Wargers: The EAA is set up as a lean management unit. This is the reason why it can be expanded and can shoulder further tasks without having to grow in a massive way. Our business model is scalable. At present, we are subjecting the claims and liabilities to be assumed to a standard audit and creating the financial, technical and organisational requirements for the takeover.

Up to now, WestLB was an important service provider for the EAA for managing its portfolio. What will change when the Landesbank no longer exists?

Markus Bolder: Up to now, a dedicated service unit within WestLB called the Portfolio Exit Group worked exclusively for the EAA. We expect it to become part of the new service and portfolio management bank Portigon. The PEG has worked very successfully for us. The EAA's operational stability results not least from the close connection.

Matthias Wargers: We are therefore focusing on the successful development of Portigon and are supporting this process as an important anchor client. It goes without saying that we tell the people who work for us that we appreciate them and will also rely on them in the future.

Does the refilling mean that the EAA's refinancing requirements are increasing?

Matthias Wargers: Yes, we are prepared for that. We are benefiting from the fact that our bonds are being extraordinarily well received, especially by the foreign capital market. In 2011, our benchmark bond issued in spring alone brought in approximately EUR 1.5 billion. In the meantime, we have been able to gather this sum many times over through private placements amongst institutional investors.

Markus Bolder: We are establishing additional instruments and are currently increasing our presence on the US capital market in particular.

A personal question: Up to now, you have always spread optimism when speaking about results, goals and strategies. Are you not worried that this could come back to haunt you some day?

Matthias Wargers: We are not whistling past the graveyard. We are fulfilling our job together with our employees in professional, committed and motivated teams. This makes us strong and what we have achieved so far makes us optimistic.

Markus Bolder: Neither naysayers nor faith-healers have lasting success in winding-down work. We are realists and orient ourselves on solid facts and objectives. Therefore, we can be optimistic by conviction.

3 questions for Dr Rüdiger Messal

The EAA has been operating for a approximately two years. What is your opinion on what has been achieved so far?

We see that the EAA is an effective instrument for financial market stabilisation and for reshaping WestLB AG. Not only the total extent of portfolio reduction counts. The details make the difference: the EAA has so far exceeded plans and has especially reduced risk exposures greatly. In addition, core activities are going smoothly although the employees have been preparing for the transfer of a further portfolio for months.

Do you expect the reduction to continue at the same speed afterwards?

I realise that the refilling is a great challenge. But it's also clear that the EAA has created effective structures with its organisation and service provider management and will continue to develop these successfully. With these tools, even larger portfolios can be liquidated.

How safe is the taxpayers' money? The State of North Rhine-Westphalia is the EAA's main guarantor.

After all the calculations and risk analyses, the EAA can expect a balanced result at the end of the winding-down process. The EAA is stable and – so far– very successful. I think we can be cautiously optimistic and expect that we will need no financial assistance from taxpayers for the EAA.

Dr Rüdiger Messal is State Secretary in North Rhine-Westphalia's Finance Ministry and Chairman of the EAA's Supervisory Board.

Report of the Supervisory Board

During the financial year from 1 January 2011 until 31 December 2011, the Supervisory Board of the Erste Abwicklungsanstalt held five meetings in the exercise and performance of its rights and obligations under the law and its articles of association. The standing committees created from among its ranks, the Audit Committee and the Risk Committee, also met on two and five occasions, respectively.

In the 2011 financial year, the Supervisory Board dealt among other things with the 2011 winding-down plan, the winding-down strategy for Phoenix and the strategic further development of the Erste Abwicklungsanstalt. The focus of the latter was, in particular, executing the framework agreement as part of refilling. 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 Erste Abwicklungsanstalt's annual financial statements and the Management Report for the financial year ending 31 December 2011 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 30 March 2012, the Supervisory Board approved the annual financial statements and the Management Report prepared by the Managing Board. The Supervisory Board recommends that the stakeholders' meeting adopt the annual financial statements for the 2011 financial year.

Düsseldorf, 30 March 2012

Dr Rüdiger Messal
Chairman of the Supervisory Board

Financial Report

Content

Management Report

for the 2011 financial year

Business and environment

Overview of economic development

The Erste Abwicklungsanstalt (EAA), with its registered office in Düsseldorf, is responsible for winding-down 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 notional volume of approximately EUR 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 participations for a notional amount of approximately EUR 71.3 billion, was transferred to a EAA and its subsidiaries through spin off, sub-participation, guarantee and asset sale. This transfer generated a total of EUR 3.1 billion in equity for the EAA.

A letter of intent was signed on 29 June 2011 between WestLB shareholders, EAA and WestLB stakeholders and the Financial Market Stabilisation Fund represented by the Financial Market Stabilisation Authority (Bundesanstalt für Finanzmarktstabilisierung) in the form of a so-called framework agreement for WestLB's restructuring plan. This stipulates that additional WestLB portfolios are to be transferred to the EAA during the course of the 2012 financial year. At the time the EAA's financial statements for the financial year were prepared, there were no legally-binding or FMSA-authorised agreements beyond this letter of intent, meaning that the framework agreement had no direct impact on the 2011 financial year.

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. The EAA also raises cash funds by issuing debt instruments as well as through money market and securities repurchase agreements. Derivatives transactions were used to hedge interest and exchange rate risks.

The EAA's earnings situation in the 2011 financial year was primarily marked by an addition to the risk provision for the Greece portfolio of EUR 818.2 million. A total of EUR 848.1 million in depreciation, amortisation and write-downs was recognised during the course of 2011, of which EUR 29.9 million was reversed due to repayments and disposals that took place by February 2012. Risk provisioning contains a write-down of EUR 313.9 million on the book value of EAA Covered Bond Bank plc (EAA CBB) for the Greece portfolio held by this subsidiary. The basis for operating earnings before allowances for losses on loans and advances of EUR 59.6 million is provided by net interest income of EUR 188.6 million plus net fee and commission income of EUR 26.4 million after administrative expenses (personnel expenses and general and administrative expenses) amounting to EUR 127.2 million. The net loss for the year as of 31 December 2011 totalled EUR 878.2 million.

The EAA's total assets as of 31 December 2011 amounted to EUR 50.8 billion (previous year: EUR 49.3 billion). Its business volume, which also includes off-balance sheet items, amounted to EUR 58.9 billion (previous year: EUR 60.8 billion). The winding-down profits generated thus far were a result of a continuous build-up of liquidity buffers amounting to EUR 7.9 billion established in anticipation of expected additional portfolio transfers during the course of 2012 as well as foreign exchange effects of EUR 3.1 billion. Excluding liquidity buffers and before foreign exchange effects, total assets would have fallen by EUR 6.8 billion year on year. Using constant exchange rates with 31 December 2009 as a basis for calculation, the notional volume of the portfolio taken on by the EAA (incl. subsidiaries) was reduced by EUR 12.8 billion during the financial year to 31 December 2011. More than 64% of this reduction was attributable to active portfolio management. This corresponds to a winding-down of 34% of the initial portfolio since its transfer on 1 January 2010, adjusted for exchange rate effects.

General economic conditions

Global economic developments in 2011 were marked by a distinct breakthrough in the first half of the year. The second half of 2011 was characterised by a noticeable worsening of general economic conditions despite growth in many economies (eurozone, emerging economies such as China, India or Brazil), with delayed effects of economic policy stabilisation measures and credit condition improvements in 2009 and 2010 being classified as satisfactory to good.

A number of factors behind the global growth slowdown showed their effects at the end of the first quarter. On the one hand, the pace of economic expansion in the United States fell short of expectations. The US labour market failed to pick up despite the massive deployment of funds in connection with monetary and fiscal policies; this was due to the fact that the customary US economic recovery mechanisms (stimulating construction and spending) failed to get off the ground notwithstanding the very low interest-rate and yield level in the country. An additional boost, however, was given at mid-year following a tactical electoral rather than economic debate on public finance in the US, which revealed the lack of ability to seek compromise on behalf of both major US political parties (Democrats and Republicans) and thus prompted one of the three key rating agencies to downgrade the USA. The problem of political incapacity was offset, at least slightly, by the Fed's (Federal Reserve Bank) expansive monetary policy. Economic developments in the United States only appeared to stabilise towards the end of 2011.

On the other hand, the public financing crisis, which initially only affected Greece, gradually spread to other countries in the course of 2011. Initially – back in 2010 – the problem appeared to be limited to two small peripheral eurozone countries (Greece and Ireland). However, the problem also hit Portugal in spring, as the country was no longer capable of financing the rapidly rising risk premiums demanded for Portuguese bonds in the capital markets. The crisis forced the European Union (EU), the European Central Bank (ECB), and the International Monetary Fund (IMF) to provide Portugal with a bailout package. As the crisis spread, the creditworthiness of other eurozone countries, including those in the geographical core (Belgium), was increasingly called into question. Countries reacted to this by significantly scaling back government spending. Initially this action was only initiated by individual countries, but soon affected almost the entire EU, resulting in eurozone fiscal growth being markedly negative in 2011.

In light of this, and regarding the prevailing flight out of riskier asset classes – including bonds from peripheral euro states – to real “safer” havens (US government bonds, Bunds and UK government bonds), returns fell. The (ten-year) Bund yield hit an all-time low of 1.68% in mid-September 2011, with US government bonds also profiting from the demand for safe and liquid assets.

Partially massive interventions by the ECB in the market for Spanish and Italian government bonds and the launch of a new long-term refinancing operation were able to curb further escalation of the debt crisis at the end of 2011, at least for the time being. Given the sustained low returns on German Bunds and US government bonds, there is currently no evidence that these measures have restored the trust of market participants in the debt servicing capacity and willingness of most eurozone issuers. The uncertainty apparent in the widening of spreads between bonds of eurozone peripheries and German Bunds was also shown in exchange rate trends during 2011. After achieving USD 1.48 per EUR in spring 2011, the single currency was weakened by the escalation of the euro debt crisis. Inadequate attractiveness of many eurozone asset classes and a sustained worsening of the risk/reward profile have led international investors in particular to withdraw from euro-dominated capital investments. The euro levelled off at USD 1.30 per EUR at the end of the year and has moved in a relatively narrow range at this level ever since.

These unprecedented interventions by the ECB were enabled by an overall favourable inflation environment. In many countries, inflationary pressure remained moderate in 2011 in spite of significantly expanded money supplies, and has even fallen lower than in 2010. This was facilitated by a gradual fall in raw material prices during the course of the year. The growth slowdown in the second half of the year also kept inflation in check, dispelling plans at the ECB to lend the economy and the banking system a hand in the form of unorthodox monetary policies. Following the completion of support purchases for Greek and Irish government bonds in 2010, the ECB started to purchase Portuguese, Italian and Spanish bonds in summer 2011. The first line of tightening measures implemented in the spring (a 50 bps increase in the refinancing rate to 1.5%) was also reversed.

In addition, there was a genuine innovation in the ECB’s monetary policy arsenal: the execution of a long-term (3-year) tender in December, which was designed to supply the banking sector with net liquidity of EUR 200 billion. Monetary policy in 2011 remained very expansive in other areas, too. In the US, the Fed further enhanced the effects of its second quantitative easing program with Operation Twist. As part of this programme, the Fed swapped its short-term holdings of US government bonds with long-term holdings to sustainably lower long-term returns.

Sharply diverging growth rates

Global economic growth predictions at 3.3% for 2012 have been rather disappointing – close to the World Bank’s critical recession threshold of 3% – due to major growth differences between developed and emerging economies. While India and China are expected to grow by 7 and 8%, respectively in 2012, growth in the US and the eurozone is expected to be much less, at approximately 2% and -0.5 to 0%, respectively.

USA: An arduous and slow recovery

The combination of an early-stage and timid consolidation of US national budget, weak global economic growth, and continued elevated unemployment remains the main burden on growth in the USA. As a result, US growth rates are expected to be down on empirical data in 2012 and 2013.

One key reason for this unusual and slow recovery in the USA is the absence of a traditional growth driver, which would normally pull the US economy out of a crisis. The interest-rate dependent construction sector in particular cannot be classed as a growth driver in this upturn – despite low interest rates – as the problems in the US real estate market (falling prices, supply surplus) continue. This problem is expected to only improve gradually in the coming years. No additional growth impulses are expected from fiscal policy in 2012. In this election year, the two major US political parties are greatly divided, thus blocking each other in terms of a strategy to consolidate the national budget. The only thing they agree on is that new borrowings must be reduced. As a result, austerity measures are likely to be more symbolic. Despite this, we believe that the US budget will improve slightly in the course of the year. We anticipate the deficit will fall slightly to 7% of GDP in 2012, down from 8% in 2011.

The Fed will therefore have to shoulder the main responsibility for growth in 2012. As announced, the Fed will keep the base rate at between 0 and 0.25% at least until summer 2013, meaning that US returns will continue to be low in the coming 12 months.

Eurozone: Risk of a mild recession

In the eurozone, the economic braking effects of the euro debt crisis will be clearly seen in weaker growth prospects for 2012. One of the key braking factors in the eurozone is the new commitment for euro countries to consolidate budgets. This measure aims to fundamentally prevent the debt crisis from expanding by reducing structural deficits and introducing additional reform measures.

As correct and important as these efforts undertaken by countries to cut costs are for eurozone stability and growth, they will put a significant brake on the eurozone economic growth in the coming year. Based on previous austerity measures, the fiscal withdrawal will amount to 2.5 percentage points of GDP. The subdued pace of global economic growth will have a further braking effect. The result of this is that export nations, such as Germany and Finland, will see economic growth slowed in the coming year. Ireland may also be affected by this weak growth trend given its very open economic structure.

Peripheral economies will either remain in recession (Greece and Portugal) or fall back into recession (Italy, Spain and Ireland). We expect that Germany can continue to grow slowly in 2012. However, at 0.5% growth rate it is expected to be weak overall.

Despite euro countries' increased difficulties in obtaining financing on the primary market in recent times, we remain of the opinion that the euro will stabilise. We believe that this will require a concerted action by the ECB, the IMF, and the European Financial Stability Facility (EFSF). However, eurozone economic performance is likely to stagnate in 2012 before experiencing a slight positive acceleration in 2013.

Structural developments

The EAA, with its registered office in Düsseldorf, is responsible for winding-down the risk exposures and non-strategic business units taken over from WestLB as well as its domestic and foreign subsidiaries. This serves to stabilise the entire financial market.

The EAA conducts its transactions in accordance with business and economic principles under the condition of pursuing its winding-down strategy in a risk minimising way. It is not a credit institution or financial services institution in terms of the German Banking Act (Kreditwesengesetz – KWG), an investment services firm in terms of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) or an insurance company in terms 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 Stabilisation Authority (Bundesanstalt for 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 Stabilisation Fund Act (Finanzmarktstabilisierungsfondsgesetzes – FMStFG). The EAA's work is carried out on the basis of section 8a of the FMStFG, the rules of procedure for the Managing Board and the Supervisory Board plus their committees, its articles of association, as well as its defined winding-down and risk strategy. In keeping with the principles of risk minimisation and a conservative financial strategy, a winding-down plan was prepared prior to the transfer of assets, and approved by the FMSA. It sets out the measures which the EAA intends to take to wind-down its portfolio according to a breakdown of assets by sub-portfolio and three standard strategies, and includes a schedule for the full winding-down of assets within a reasonable period. The possible paths to winding-down the portfolio are by the disposal (sale) of assets prior to their maturity, by holding them to maturity, or by restructuring them.

The winding-down plan was prepared with prudent business judgment with the aim of avoiding the need for subsequent capital injections. This plan is reviewed at least once a year and adjusted as needed to take account of current market developments. The EAA submits regular wind-down reports to its Supervisory Board, shareholders and the FMSA, which keep them informed on its winding-down activities and its adherence to the winding-down plan, thus documenting its progress in winding-down 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-down portfolio with a notional value totalling approximately EUR 77.5 billion was transferred to the EAA in two tranches:

- A first portfolio comprising approximately EUR 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 participations worth approximately EUR 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 transfer way was based on an assessment of the different legal, regulatory, and fiscal provisions of the countries and supervisory authorities with 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 EUR 500,000. The transfer generated approximately EUR 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 has sufficient cash and cash equivalents at all times to meet its liabilities as they fall due, even after its equity capital has been used up. The EAA is obligated to assert this loss adjustment claim against the Liable Stakeholders to the extent necessary and in good time prior to imminent insolvency to ensure that the EAA is solvent at all times. The duty to offset losses on the part of the Liable Stakeholders RSGV and SVWL is capped at a total of EUR 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 EUR 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 Stabilisation Fund (FMS), and the State of North Rhein-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.

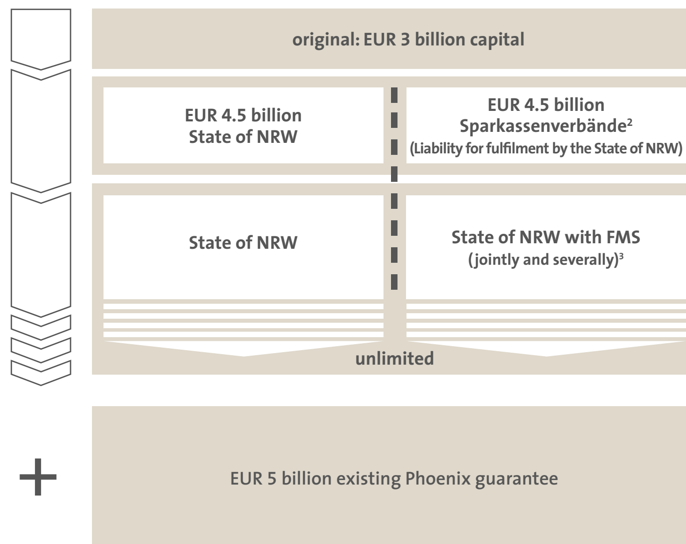
Duty to offset losses pursuant to Article 7 of EAA's Articles of Association[1]

Step 1:
Absorption by equity capital

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 EUR 4.5 billion jointly with the Financial Market Stabilisation Fund.

Step 4:
Guarantee of NRW (counter-guarantee of Sparkassen and Landschaftsverbände) for Phoenix portfolio covering the first loss piece (EUR 2 billion proportionate; EUR 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

EAA's funding was initially secured by the nearly complete transfer of all of WestLB's issues and deposits backed by guarantees. Moreover, 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 have since been replaced in their entirety. Going forward, the EAA will continue to 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 EAA's successful presence on the capital market.

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 participations – in particular EAA CBB as well as the Basinghall companies in the United Kingdom – are included in the winding-down progress and risk planning, risk monitoring and risk reporting.

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

In the financial year under report, the EAA has made further progress in winding-down the portfolio and establishing risk management processes and systems. Moreover, it has already achieved success in disposing and restructuring the risk exposures taken over. In addition, EAA issued its first own benchmark bonds. Since midyear, EAA has also undertaken and reinforced activities to prepare for the transfer of additional WestLB portfolios during the course of 2012. These activities include, among other things, adjustments to EAA's organisational structures, preparatory consultation discussions and review of a sample of the portfolio, as well as additional measures designed to check the plausibility of the winding-down plan to be filed by WestLB at a later date. This plan encompasses the refill portfolio plus preparations for the revision of the contracts between the EAA and WestLB in light of the pending refill. The EAA also used the current market opportunities to pre-finance part of the estimated financing requirements, following an effort to avoid any refill-related liquidity risk for the EAA and to safeguard liquidity.

Establishing a liquidity buffer

A number of factors resulted in the EAA maintaining a higher liquidity buffer in the 2011 financial year with the consequence of a rise in loans and advances to banks compared to the previous year end.

On the one hand, the criteria for EAA's monitoring of liquidity stress tests were tightened during the course of 2011 in accordance with industry-wide requirements resulting, in particular, in more liquidity needing to be available at very short notice as well as the quality thereof. It must also be noted that highly-liquid securities in the existing portfolio are now expiring and that the EAA cannot purchase any new securities, resulting in a rise in the structural portion of cash equivalents in the liquidity buffer, which also continue to increase.

In addition, significant liquidity has been set aside for the new commercial paper program to satisfy the rating agencies' requirements (EUR 700 million and USD 1.7 billion as of the end of the month). This liquidity will be invested in money market accounts at financial institutions that are available on a daily or short-term basis. The investments tend to have short-term money market interest rates in the relevant currency, with the refinancing of structural liquidity investments having capital market interest rates.

In the first half of 2012, the EAA will start to expand the existing liquidity buffer in order to quickly offset a significant portion of the expected compensation claims determined in the framework agreement resulting from the portfolio transfer from WestLB to the EAA in the second half of 2012. This additional and earmarked liquidity buffer will be invested in banks in the short-term so that it can be withdrawn when the expected equalisation payment is to be paid. We therefore expect loans and advances to banks to increase further in the first half of 2012.

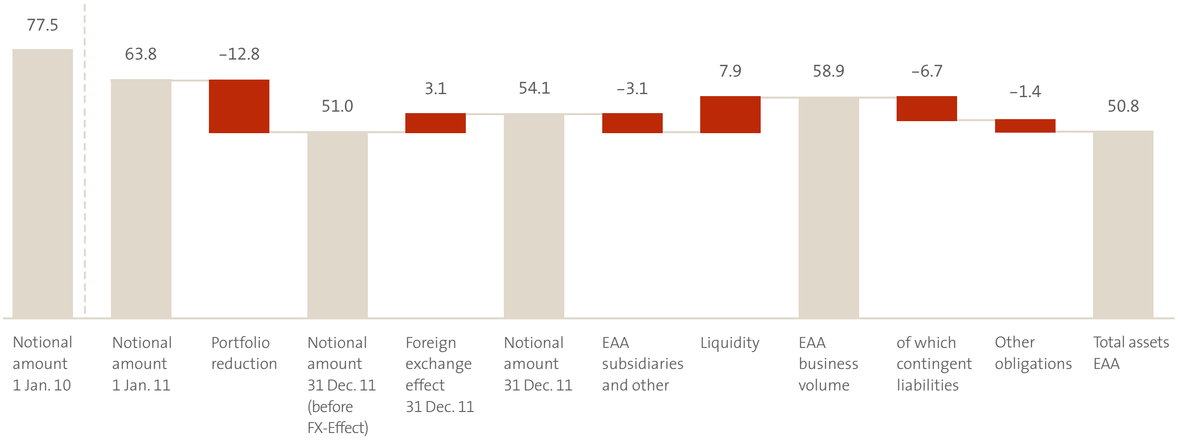
Wind-down report

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 of 31 December 2011. Therefore the amounts reported below, including in particular those related to progress in winding-down the portfolio, may only be indirectly reconciled with EAA's annual financial statements.

The following overview shows the development of the portfolio's notional amounts since 1 January 2011 and the reconciliation to EAA's balance sheet as of 31 December 2011:

Reconciliation of the notional volume transferred to the balance sheet on 31 December 2011

in EUR billion



During the reporting period, the notional volume declined from EUR 63.8 billion (as of 31 December 2010 using the exchange rate as of 31 December 2009; the notional amounts of guaranteed assets and assets held by subsidiaries of the EAA, including contingent liabilities and other obligations) to EUR 51.0 billion as of 31 December 2011. The portfolio is broken down into three sub-portfolios for asset management purposes: loans and advances, marketable securities and structured securities.

Winding-down strategies

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

▲ Sell	▲ Hold	▲ Restructure

	31 Dec. 2011 EUR billion	31 Dec. 2010 EUR billion
Sell	16.5	19.2
Hold	24.6	35.5
Restructure	9.9	9.1
Total	**51.0**	**63.8**

The "Sell" category includes securities and loans with a volume of approximately EUR 16.5 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 significant decline in the "Hold" category was driven by the expiration of loans and repayments in the Phoenix portfolio in 2011.

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-down plan.

Progress report on winding-down

Under the EAA's management philosophy, the progress made in winding-down its portfolio is assessed both on the basis of notional reduction before exchange rate effects (i.e. at constant exchange rates as of 31 December 2009), as well as in terms of business plan impacts. The latter assessment considers the impact of expected sales proceeds, carrying amounts, foregone interest income, saved funding costs and saved expected losses on the winding-down plan.

The EAA generated a positive business plan impact of EUR 263.8 million from disposals and early redemptions during the 2011 financial year. In particular, the repurchasing of individual assets from the House of Europe II structure as well as several early redemptions and sales from the lending portfolio contributed to that effect.

Given constant exchange rates (as of 31 December 2009), the EAA successfully wound up EUR 12.8 billion in assets, reducing the notional volume by -20.1% to EUR 51.0 billion during the period from 1 January 2011 to 31 December 2011. Since 1 January 2010, the notional volume has declined by -34.2% or EUR 26.5 billion from initially EUR 77.5 billion. Actively managed transactions such as disposals or early redemptions accounted for EUR 8.2 billion of this reduction during the 2011 financial year. The remainder is due to scheduled maturities. After factoring in exchange rate effects, the notional volume as of 31 December 2011 amounted to EUR 54.1 billion, primarily due to the 10.4% increase in the value of the US dollar against the euro since the transfer date (31 December 2009).

The table shows a breakdown of the portfolio by asset class as of 31 December 2010 and 31 December 2011 and also shows whether these assets are held directly or indirectly by the EAA. The associated hedging derivatives are not included in these figures.

	Notional volume (at exchange rates as of 31 Dec. 2009)				Notional volume (at exchange rates as of 31 Dec. 2011)	
	Notional 31 Dec. 2011	Notional 31 Dec. 2010	Change 31 Dec. 2010		Notional 31 Dec. 2011	FX effect[1]
Subportfolio	EUR million	EUR million	EUR million	in %	EUR million	EUR million
Lending operations	**13,498**	**21,156**	**–7,658**	**–36.2**	**14,437**	**939**
Public Finance	9,577	10,078	–500	–5.0	9,920	342
Other marketable securities	4,240	5,709	–1,470	–25.7	4,340	100
Marketable securities	**13,817**	**15.787**	**–1,970**	**–12.5**	**14,260**	**442**
Phoenix	18,256	21,112	–2,857	–13.5	19,667	1,411
EUSS[2]	2,287	2,486	–200	–8.0	2,287	–
ABS	3,172	3,274	–102	–3.1	3,493	322
Structured securities	**23,714**	**26,873**	**–3,159**	**–11.8**	**25,447**	**1,733**
Total	**51,029**	**63,816**	**–12,787**	**–20.0**	**54,143**	**3,115**
of which EAA[3]	36,773	48,444	–11,671	–24.1	39,027	2,254
of which EAA subsidiaries	9,640	10,083	–443	–4.4	10,150	510
of which guaranteed assets	4,616	5,289	–673	–12.7	4,966	350

[1] Change in notional volume due to exchange rate effects
[2] European Super Seniors
[3] Cannot be compared to the EAA's business volume or total assets as these also contain non-portfolio related assets

Within the lending operations sub-portfolio a significant winding-down progress was observable in the diversified industries and financial institutions clusters. The diversified industries cluster comprises corporate loans to international borrowers, above all industrial companies and international groups from various industries. The loan portfolio in the financial institutions cluster consists of loans and lines of liquidity for banks, funds or rating agencies, insurers and other financial institutions, mainly in the EMEA region. The financial institutions cluster primarily includes fixed-income bonds from European and US issuers of the financial industry.

As in the previous year, marketable securities were achieved by a further significant winding-down of financial institutions. The public finance cluster comprises in particular exposures in national and regional/municipal bonds of the European Economic Area and G7 countries.

The notional reduction in the Phoenix cluster is due to the partial repayment of the A1 (EUR and USD), B and X notes.

Employees

As of 31 December 2011, Erste Abwicklungsanstalt employed 56 people (previous year: 28). The EAA succeeded in sustainably building up the personnel resources it needs.

Erste Abwicklungsanstalt depends on the commitment of its employees. Continuously fostering their motivation, abilities and expertise will therefore be a key personnel management goal.

Promoting a motivating work environment is also intended to attract potential employees to secure this important key to success for the future.

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 2011 financial year was primarily marked by additions to the risk provision for the Greece portfolio of EUR 818.2 million, including the write-down of EUR 313.9 million on the book value of EAA CBB. A total of EUR 848.1 million in depreciation, amortisation and write-downs were recognised during the course of 2011, of which EUR 29.9 million was reversed due to repayments and disposals that took place prior to February 2012. The basis for operating earnings before allowances for losses on loans and advances of EUR 59.6 million is provided by net interest income of EUR 188.6 million, net fee and commission income of EUR26.4 million after administrative expenses (personnel expenses plus general and administrative expenses) of EUR 127.2 million. The net loss for the year as of 31 December 2011 amounted to EUR 878.2 million.

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 credit risk. Comparisons are made to the abridged financial year from 1 July to 31 December 2010 (6-month period).

Income statement for the period 1 January until 31 December 2011

	1 Jan. 2011–31 Dec. 2011 EUR million	1 Jul. 2010–31 Dec. 2010 EUR million	Change EUR million	Change in %
Net interest income	188.6	121.3	67.3	55.5
Net fee and commission income	26.4	9.8	16.6	>100
Total other operating income/expenses	–5.6	7.7	–13.3	>–100
Personnel expenses	–8.3	–2.1	–6.2	>–100
General and administrative expenses	**–118.9**	**–67.1**	**–51.8**	**–77.2**
of which: expenses for service level agreements with WestLB	–82.1	–52.1	–30.0	–57.6
Allowance for losses on loans and advances	–935.9	–655.9	–280.0	–42.7
Net income from investment securities and long-term equity investments	–22.6	–11.0	–11.6	>–100
Extraordinary results	–	–0.1	0.1	–
Earnings before tax	**–876.3**	**–597.4**	**–278.9**	**–46.7**
Taxes on income	–1.9	–2.2	0.3	13.6
Net loss for the year	**–878.2**	**–599.6**	**–278.6**	**–46.5**
Net retained losses brought forward	–1,647.7	–1,048.1	–599.6	–57.2
Net retained losses carried forward	**–2,525.9**	**–1,647.7**	**–878.2**	**–53.3**

Net interest income

The development of net interest income amouting to EUR 188.6 million (previous year: EUR 121.3 million) reflects both the progress made in relation to a winding-down of the portfolio and additional non-accruals of interest income on non-performing loans. In addition to net interest (EUR 184.9 million [previous year: EUR 121.0 million]), net interest income also includes the current income from equities and other non-fixed income securities (EUR 2.3 million [previous year: EUR 0.0 million]) as well as from other participations and equity investments in affiliated banks and companies (EUR 1.4 million [previous year: EUR 0.3 million]).

The interest income consisted of lending and money market transactions totalling EUR 656.8 million (previous year: EUR 400.2 million) and from fixed-income securities and debt register claims totalling EUR 469.1 million (previous year: EUR 234.9 million). The interest income was offset by interest expenses of EUR 941.0 million (previous year: EUR 514.1 million).

This shows that the EAA's constant presence on the capital market put it in a position to exploit favourable market conditions and replace old issues. The tense funding situation in US dollars seen in the second half of 2010 continued to a large extent in 2011, intensifying towards the end of the year. The required liquidity buffer, which was increased in the second half of the year, is reflected in net interest income in accordance with the interest rate difference between the capital market refinancing rate and the money market rate payable on demand.

Net fee and commission income

The EUR 16.6 million rise in net fee and commission income to EUR 26.4 million is primarily attributable to higher fee and commission income of EUR 30.6 million from guarantee fees. Fee and commission expenses, on the other hand, rose by EUR 11.9 million for marketable securities to EUR 21.5 million. This was mainly due to fee and commission payments for European and American credit default swaps.

Total other operating income/expenses

The total of other operating income and expenses, including other taxes of EUR 0.4 million, amounted to EUR -5.6 million in the 2011 financial year and is primarily due to effects from foreign currency hedges as well as offsetting between WestLB and the EAA.

General and administrative expenses

General and administrative expenses in the 2011 financial year amounted to EUR 127.2 million (previous year: EUR 69.2 million). Of this amount, EUR 8.3 million (previous year: EUR 2.2 million) was attributable to personnel expenses, which reflect the scheduled recruitment.

Other administrative expenses amounted to EUR 118.9 million (previous year: EUR 67.1 million), due primarily to the co-operation agreement with WestLB to provide the EAA assistance in managing its portfolio and all associated duties (EUR 82.1 million [previous year: EUR 52.1 million]).

Additional costs of EUR 6.8 million (previous year: EUR 0.0 million) resulted in connection with asset-sustaining measures. These included in particular expenses relating to restructuring processes for exposures at risk of default.

Allowance for losses on loans and advances

There was a net addition of EUR 935.9 million to the allowance for losses on loans and advances in the 2011 financial year. These mainly resulted from provident expenses of net EUR 818.2 million for the exposure to Greece.

The partial sale of the House of Europe II structure by auction resulted in the reversal of the risk provisioning, totalling EUR 27.5 million, created in the previous year for structured securities (excluding Phoenix). The valuation of Phoenix also necessitated write-downs of EUR 147.7 million. This meant that structured securities contributed a total of EUR 120.2 million to risk provisioning.

Provisioning for the traditional lending business continued to be marked by dissolution effects as well as lower demand for general loan loss provisions due to the advancing portfolio wind-down. Despite further necessary additions to risk provisions, the net provision amounted to a positive amount of EUR 2.5 million.

The EAA has appropriately taken into account all recognisable risks.

House of Europe II

The "House of Europe II" transaction, in which the EAA holds the majority share, experienced an event of default in the 2011 financial year. This allowed the EAA to release the securitisation structure and thus better wind-down individual assets. In order to appropriately reflect the market value of the portfolios, risk provisions amounting to EUR 178 million were already established in 2010.

As a result, this underlying portfolio was disposed in part to an external market participant in June 2011 as the market value exceeded the fundamentals as determined by the EAA.

Of the total of 80 transactions with a notional value of EUR 553.9 million, 55 were purchased directly by the EAA for EUR 398.9 million (including accrued interest) in order to profit from an expected future reversal of risk provision. Overall, the market prices at the time of the auction were up at the end of 2010 and, in connection with the dissolution of the structure, resulted in a positive profit contribution from the reversal of the specific loan loss provision for this.

Net income from investment securities and participations (incl. securities in the liquidity reserve)

Investment securities and participations gave rise to a net expense of EUR 22.6 million. This resulted from income of EUR 11.3 million from investment securities and the liquidity reserve and expenses of EUR 33.9 million from participations.

Net income from participations primarily resulted from write-downs and additions to risk provisions for participations. The disposal of the private equity portfolio in December 2011 is reflected by EUR -5.1 million.

Net income from investment securities and participations also contains guarantee drawings of assets on the balance sheets of WestLB and Westdeutschen Immobilien Bank AG (WestImmo) guaranteed by the EAA.

Extraordinary result

No extraordinary result was recorded in the current financial year (previous year: EUR -0.1 million).

Taxes on income

The result from ordinary activities of the EAA is mainly subject to taxes on income of EUR 1.9 million (previous year: EUR 2.2 million). These taxes primarily concern foreign taxes.

Net loss for the year

The EAA's net loss for the 2011 financial year amounted to EUR 878.2 million and increased net retained losses carried forward to new account to EUR 2,525.9 million as of 31 December 2011.

Financial position and issuing activity

Key tasks in the refinancing process

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

The portfolio manager calculates EAA's liquidity needs in preparation of the strategic and operational decision-making process. It factors in the term structure of liabilities as well as the inflow of liquidity from the disposal of assets, 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 as well as external legal advisors.

Current funding volume

The EAA is currently funded through an existing portfolio of guaranteed issues by WestLB which were transferred to it by way of a spin-off, as well as increasingly by way of new capital market transactions. In the period from 1 January 2011 to 31 December 2011, the EAA received funds equivalent to approximately EUR 10 billion on the capital market, which are primarily split in EUR 8 billion and USD 2 billion. The EAA issued its first so-called benchmark bond in March 2011. This enabled the successful placement of EUR 1.5 billion with a maturity of five years. In line with its strategy, the EAA has achieved a high degree of diversification in terms of international institutional investors. The EAA has used its commercial paper program for short-term liquidity planning since June 2011. Outstanding issues in this programme amounted to approximately EUR 2 billion, USD 4.5 billion as well as GBP 1.5 billion as of 31 December 2011.

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

The EAA aims its new issues exclusively at institutional investors such as insurers, fund managers, central banks, and banks. An issue programme for well-diversified market access was set up in accordance with European regulations. The EAA also plans a further issue programme under US jurisdiction to cover USD refinancing requirements using investors from the United States. Presentations to both German and international investors aim to promote acceptance of the EAA. These measures, which are part of the EAA's issue strategy, will continue in the future.

Financial position

EAA's total assets as of 31 December 2011 amounted to EUR 50.8 billion (previous year: EUR 49.3 billion). Its business volume, which also includes off-balance sheet items, amounted to EUR 58.9 billion (previous year: EUR 60.8 billion).

Assets

	31 Dec. 2011 EUR billion	31 Dec. 2010 EUR billion	Change EUR billion	Change in %
Loans and advances to banks	15.4	10.2	5.2	51.0
Loans and advances to customers	8.6	13.3	–4.7	–35.3
Securities	25.0	24.0	1.0	4.2
Long-term equity investments and shares in affiliates	1.4	0.7	0.7	100.0
Other assets	0.4	1.1	–0.7	–63.6
Total assets	**50.8**	**49.3**	**1.5**	**3.0**

Liabilities and equity

	31 Dec. 2011 EUR billion	31 Dec. 2010 EUR billion	Change EUR billion	in %
Deposits from banks	5.6	9.8	–4.2	–42.9
Deposits from customers	5.7	4.5	1.2	26.7
Debt securities in issue	37.5	31.6	5.9	18.7
Provisions	0.1	0.1	0.0	0.0
Other liabilities	1.3	1.8	–0.5	–27.8
Equity	0.6	1.5	–0.9	–60.0
Total liabilities and equity	**50.8**	**49.3**	**1.5**	**3.0**
Contingent liabilities	6.7	7.0	–0.3	–4.3
Other obligations/loan commitments	1.4	4.5	–3.1	–68.9
Business volume	**58.9**	**60.8**	**–1.9**	**–3.1**

Lending business

The lending business comprises receivables, payment obligations arising from irrevocable loan commitments pledges and other guarantees. Contingent liabilities include guarantees transferred in full to the EAA as well as WestLB risk positions, which were transferred using the “guarantee” alternative. 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 as of 31 December 2011 included no return claims from securities lending transactions (previous year: EUR 4.7 billion). The partial disposal of securities from the House of Europe II structure resulted in a EUR 0.6 billion decline in loans and advances to customers.

Lending business

	31 Dec. 2011 EUR billion	31 Dec. 2010 EUR billion	Change EUR billion	in %
Loans and advances to banks	15.4	10.2	5.2	51.0
Loans and advances to customers	8.6	13.3	–4.7	–35.3
Contingent liabilities	6.7	7.0	–0.3	–4.3
Other obligations/loan commitments	1.4	4.5	–3.1	–68.9
Lending business	**32.1**	**35.0**	**–2.9**	**–8.3**

Securities

The portfolio of bonds and other fixed-income securities amounted to EUR 25.0 billion (previous year: EUR 24.0 billion) at the balance sheet date, of which EUR 24.4 billion (previous year: EUR 24.0 billion) was classified under investment securities. An additional EUR 0.6 billion (previous year: EUR 0.0 billion) in own, repurchased issues was allocated to the liquidity reserve.

Both types are largely hedged against interest rate and foreign exchange risk. The EAA concluded no new securities lending agreements in 2011. The EAA lent EUR 4.7 billion in bonds and other fixed-income securities to WestLB for the last time as of 31 December 2010. Repayments on the Phoenix portfolio in the amount of EUR 3.0 billion resulted in a further reduction of securities.

In addition, securities worth EUR 1.3 billion (previous year: EUR 4.1 billion) were sold under repurchase agreements. Of this amount, EUR 0.6 billion (previous year: EUR 4.1 billion) are subject to repurchase agreements with WestLB.

Participations and equity investments in affiliated banks and companies

Through the spin-off, the EAA acquired an interest in various WestLB companies. Participations amounted to EUR 86.3 million (previous year: EUR 134.9 billion) as of the reporting date and equity investments in affiliated banks and companies of EUR 1.3 billion (previous year: EUR 0.6 billion).

The rise in the carrying amount of equity investments in affiliated banks and companies is mainly due to an increase in deposits at the EAA CBB. The assets and liabilities held by the former EAA Bank Ireland plc, Dublin, Ireland, were transferred to EAA CBB at the end of 2010.

The fall in the carrying amount of participations is mainly due to write-downs on and reductions to individual private equity investments.

Deposits from banks and customers

Deposits from other banks amounted to EUR 5.6 billion (previous year: EUR 9.8 billion) as of 31 December 2011. Of that amount, EUR 0.5 billion (previous year: EUR 1.5 billion) was attributable to overnight deposits and term money, and an additional EUR 3.5 billion (previous year: EUR 3.8 billion) to registered securities. Liabilities from securities repurchase transactions fell by EUR 3.2 billion to EUR 0.9 billion. Overall, EUR 3.5 billion (previous year: EUR 3.9 billion) in deposits from banks were backed by guarantees.

Deposits from customers in the amount of EUR 5.7 billion (previous year: EUR 4.5 billion) primarily consisted of registered bonds of EUR 4.3 billion (previous year: EUR 4.4 billion) as well as current liabilities from term money and securities re-purchase transaction amounting to EUR 1.4 billion (previous year: EUR 0.0 billion). Overall, EUR 3.1 billion (previous year: EUR 4.2 billion) in deposits from customers were backed by guarantees.

Together with debt securities, a volume of EUR 19.2 billion (previous year: EUR 23.5 billion) was subject to the guarantor liability.

Issuing business

Debt securities amounted to EUR 37.5 billion (previous year: EUR 31.6 billion) as of the reporting date. This included securities with a notional volume of EUR 12.6 billion (previous year: EUR 15.4 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 rose by EUR 7.1 million in the last year to EUR 101.0 million. This is mainly due to the creation of provisions for the Greece exposure amounting to EUR 12.1 million.

Equity

The EAA's share capital remained unchanged at EUR 0.5 million as of 31 December 2011. Moreover, the transfers from WestLB resulted in a capital reserve of approximately EUR 3.1 billion. Factoring in the other reserves totalling EUR 2.4 million, which resulted from the release of provisions due to the change in the measurement of liabilities under the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG), as well as the net retained loss, equity under HGB accounting amounted to EUR 614 million (previous year: EUR 1.5 billion).

Summary of the business situation in 2011

As shown, the net loss for the 2011 financial year was primarily attributable to the addition to the risk provision for the Greece portfolio. Apart from this effect, 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. EAA's financial position remains in good order, and its equity amounted to EUR 614 million as of 31 December 2011. It had sufficient liquidity at all times.

Events after the close of the financial year

On 21 February 2012, representatives of the Eurogroup under the direction of Luxembourg's Prime Minister Juncker agreed to the terms of a debt exchange with representatives of Greece. Compared to the conditions originally communicated, the finalised catalogue of conditions deteriorated once again for private creditors. Instead of a 50% haircut on the nominal value of the outstanding bonds, the creditors will now have to forego 53.5% of the nominal value. Given the tiered coupon payments averaging 3.6% p.a., the bond exchange means cash value losses of a good 75% for institutional investors.

In light of these developments, EAA increased its risk provisions for Greece to a net amount of EUR 818.2 million in the annual financial statements as of 31 December 2011 (please refer to the notes on Greece and other EU countries in the Risk Report for more information).

The exchange of old Greek government bonds, issued pursuant to Greek law with a total volume of EUR 177 billion, for new Greek government bonds was launched on 9 March 2012. The utilisation of collective action clauses brought the approval rate to approximately 96% of bond investors. The EAA also participated in this debt exchange with a total notional amount of EUR 670 million. Greece as well as Greek government-backed companies issued bonds pursuant to foreign law of EUR 29 billion. In contrast to bonds issued under Greek law, some of these bonds have stricter approval requirements to make a majority decision binding on all using the collective action clauses. At an approval rate of 69%, the necessary quorum was missed, which is why Greece extended the exchange deadline to 23 March 2012. The EAA has already exchanged the bonds it holds under international law (volume of EUR 210 million). Following the successful bond exchange as well as the release of funds by the EU, the rating agency Fitch downgraded Greece to B-.

Risk report

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

The EAA has made further progress in implementing the winding-down plan during the reporting period. Winding-down activities focused primarily on continuing to reduce the size of the 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 of 31 December 2011.

An overview of risk management

Risk management organisation

In accordance with section 8a (5) FMStFG, the EAA is subject to select provisions of 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 conduct 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-down mission based exclusively on the existing equity and not having to call upon Liable Stakeholders' additional duty to offset losses is a significant challenge for the quality and capability of the risk management regime.

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

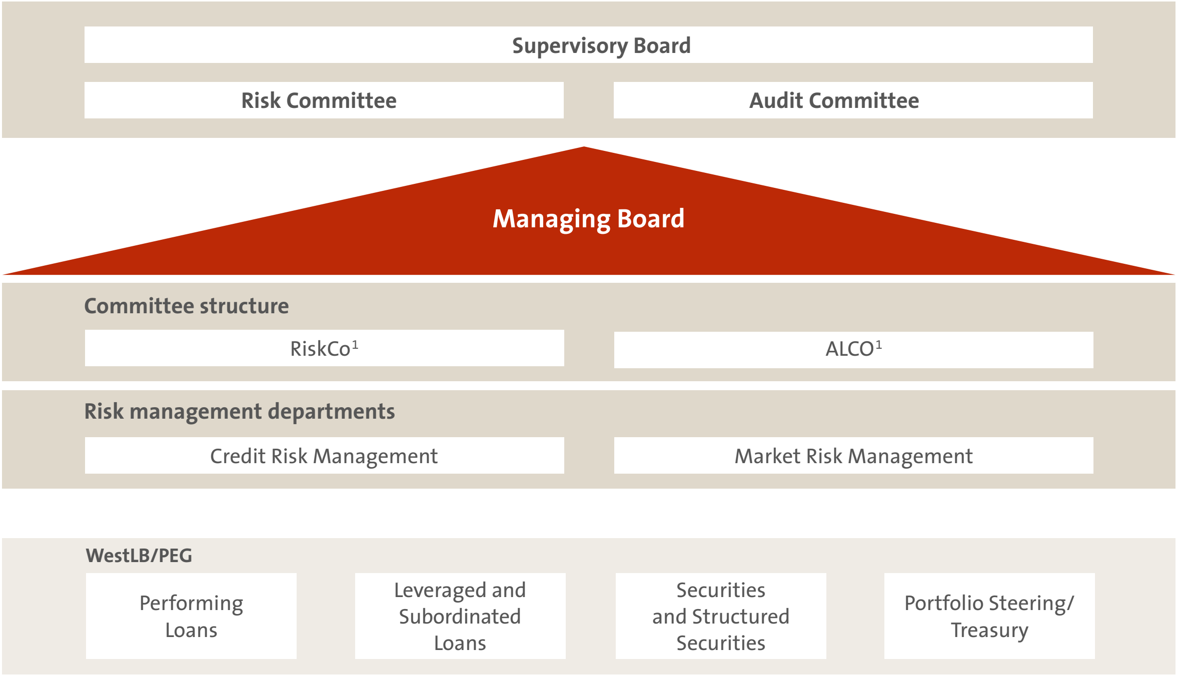
The Managing Board formulates the principles relating to risk assumption and management, and discusses these with the Supervisory Board's Risk Management Committee. On recommendation by the Risk Committee, the Supervisory Board will decide on the principles relating to risk assumption contained in the risk strategy.

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 at least once every year.

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:



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

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

The committees implement risk management strategies and methods:

- Risk Committee (RiskCo) – comprises portfolio management and in particular the management of credit risks.
- Asset Liability Committee (ALCO) – comprises optimising asset/liability management, monitoring and steering operational liquidity, refinancing, interest rate, foreign exchange, operational and other risk management.

The Risk Management departments are responsible for the following:

- Credit risk management and control (specifically also credit risk reporting), analysing the EAA's credit risk exposures (in accordance with the winding-down 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-down plan and reviewing market and liquidity risk limits.

PEG also leverages its access to WestLB's Global Risk Management & Control (GRMC) and Credit Analysis & Decision (CAD) 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.

Risk reporting is an integral component of the monthly wind-down report. In addition, detailed risk analyses are prepared for the meetings of the RiskCo and the ALCO as a basis for operational risk management. The PEG and WestLB's various divisions prepare the required information, reports and analyses. The EAA's market and credit risk management functions analyse the reports and monitor risk positions, as well as the utilisation of credit lines. They also take measures to reduce risks as and when necessary.

The Managing Board keeps the Supervisory Board and its committees regularly apprised of EAA's current winding-down progress and the general risk situation based on the wind-down reports and a separate Risk 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 participations.

- 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 analyse 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 rating downgrade by up to two rating classes 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.

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 by the CAD. A clearly defined process 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 as well as to a member of the Supervisory Board and the FMSA for approval. Additionally, cluster and portfolio analysis ensure that major individual exposures are regularly reviewed.

A central focus of portfolio analysis lies on problem loans. These are closely observed and actively managed by PEG's non-performing loans/special situations team. The "EAA Global Watch List" (EAA GW) provides an additional mechanism for monitoring problem loans and placing exposures under intense supervision. Additional details on this are provided in the section on "Problem loans and allowances for losses on loans and advances". The appropriateness of possible risk provisioning is determined by analysing the recoverability of the receivable, the expected cash flow, and existing collateral.

Management of credit risk

The restructuring or sale of loans represent the most important tools used to manage credit risk. Additionally, the EAA can enter into credit default swaps and other credit derivatives transactions to hedge individual exposures. Each exposure is reviewed to determine whether 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 of 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. Rating downgrades for individual exposures are reported to the supervisory body with the appropriate level of authority and the FMSA if the Supervisory Board is responsible 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 limited by exposures assumed from individual issuers. Issuer risks are monitored and managed in the same manner as default risks.

EAA analyses counterparty risks by monitoring and assessing the exposures, using PEG's calculations. The PEG conducts the calculations using methods that conform to regulations (mark-to-market and regulatory add-on) and reports them to EAA. A new method was used in 2011 to determine OTC derivative exposure that also includes collateral. Master agreements involving netting and symmetric hedges are thereby used to minimise counterparty risks. In addition, changes in counterparty ratings are analysed as part of the regular review of the risk situation.

Individual limits were granted to counterparties with master agreements involving netting and symmetric hedges. Risks for counterparties without master agreements are limited by exposures assumed from individual counterparties.

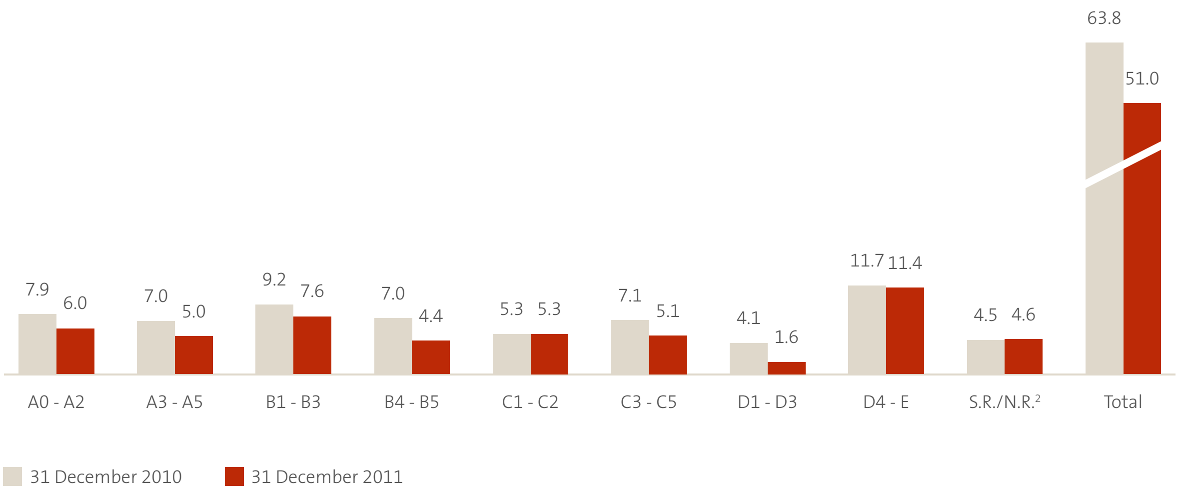
The lending business portfolio

The EAA and its subsidiaries regularly analyse the EAA's credit risk volume in detail so as to identify, analyse, 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.

The EAA itself holds and guarantees 81% of total notional volume, and the remaining 19% is held by its subsidiaries.

The notional value of the overall portfolio declined by EUR 12.8 billion in the 2011 financial year to EUR 51.0 billion (given constant exchange rates as of 31 December 2009). The section entitled "Wind-down report" contains more detailed information on the progress made in winding down the portfolio.

Notional volume by internal rating classes
in EUR billion[1]



[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 (rating classes A0-C2) of around 56%, approximately 22% of the notional volume carries a very good rating (A0-A5), and around 34% falls in the middle ratings classes of B1-C2. EAA continues to aim for a reduction across all ratings classes. The changes compared to the financial statements as of 31 December 2010 are essentially attributable to the winding-down of the portfolio. The change in the presentation of loan ratings for the WestImmo retail portfolio in 2011 resulted in a change in ratings distribution, which in turn reduced the volumes in categories B1-B3 and B4-B5, and resulted in an increase in category C1-C2. The lower rating classes primarily consist of the subordinated tranches of the Phoenix and European Super Senior Notes (EUSS) structured securities. The ratings class S.R./N.R. mainly contains cash from Phoenix positions.

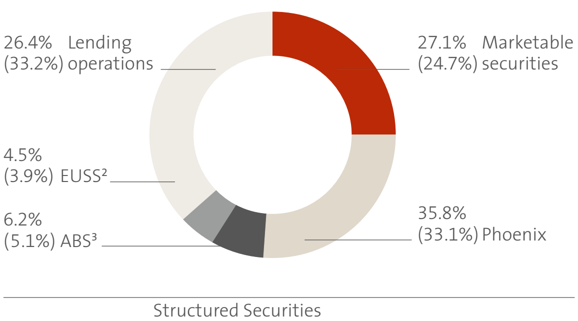
The table below presents a reconciliation of EAA's internal ratings to external ratings:

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

Sub-portfolios by notional volume as of 31 December 2011

100% = EUR 51.0 billion (previous year: EUR 63.8 billion)[1]

(in brackets: amounts as of 31 December 2010)

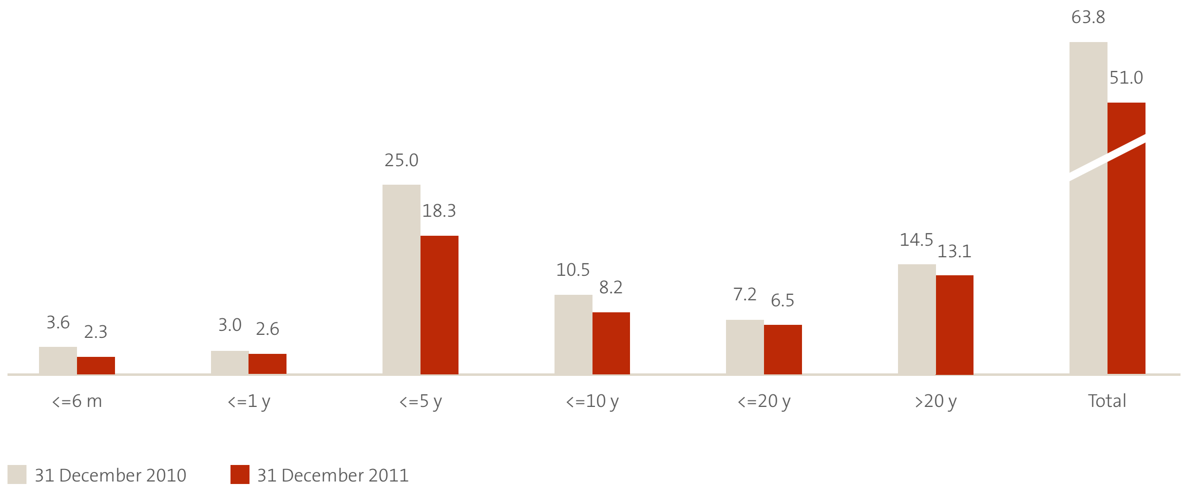


The EAA Group consists of three sub-portfolios: Loans (26%, of which 35% are in the real estate sector, 14% in the transportation sector, 11% in leveraged finance, and 9% in asset securitisation), Structured Securities (47%), and Marketable Securities (27%). The largest Structured Securities sub-portfolio is Phoenix, which accounts for 36% of structured securities (see the sections entitled "Phoenix" for further details).

[1] Excluding exchange rate effects
[2] European Super Senior
[3] Asset Backed Securities

Notional volume by term

in EUR billion[1]



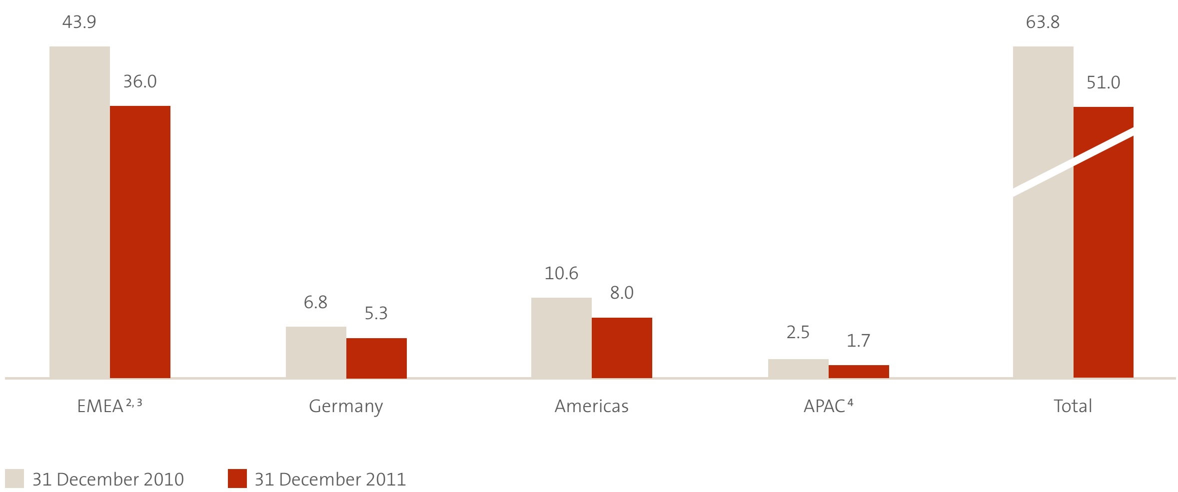
[1] Excluding exchange rate effects

The core of the portfolio, with a share of 46%, is comprised of medium-term exposures with terms of six months to five years. These are primarily loan commitments, as well as securities from public borrowers and Phoenix. The increased winding-down in the “one to five years” maturity band is primarily due to portfolio reductions in the loans and advances, as well as marketable securities sub-portfolios.

The other changes within the maturity ranges reflect the portfolio measures executed during the 2011 financial year. Partial repayments of several Phoenix tranches with a total volume of EUR 2.9 billion were made in the reporting period (given constant exchange rates as of 31 December 2009).

Notional volume by region

in EUR billion[1]



[1] Excluding exchange rate effects. Regional distribution by borrower or guarantor
[2] Europe, Middle East and Africa; excluding Germany
[3] Contains EUR 4.0 billion for the Phoenix B note, guaranteed by the state of NRW
[4] Asia Pacific and Japan

The breakdown of the notional volume by regions reflects the progress made in winding-down the portfolio in the 2011 financial year. According to that breakdown, some 71% of notional volume can be attributed to the EMEA region – Europe (excluding Germany), the Middle East and Africa. This includes the EAA's Irish subsidiaries – especially EAA CBB –, which have significant investments in the US, as well as the Phoenix portfolio. A further 10% of notional volume is attributable to German borrowers and guarantees. The share of borrowers from North and Latin America declined by about one-fourth due to early redemptions and disposals in the reporting period. The share of borrowers from the Far East APAC region remained at 3% in the 2011 financial year.

Phoenix

A significant portion of the EAA's structured securities portfolio consists of ten tranches of the Phoenix Light SF Ltd. securitisation.

The vast majority of the Phoenix securitised portfolio (approximately 92%) is denominated in US dollars and represents US risks, primarily centred on the real estate market. Because Phoenix Light SF Ltd., as a single purpose vehicle, 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 EUR 18.3 billion as of 31 December 2011 (calculated at constant exchange rates as of 31 December 2009).

Phoenix Notes Capital Structure

in EUR million

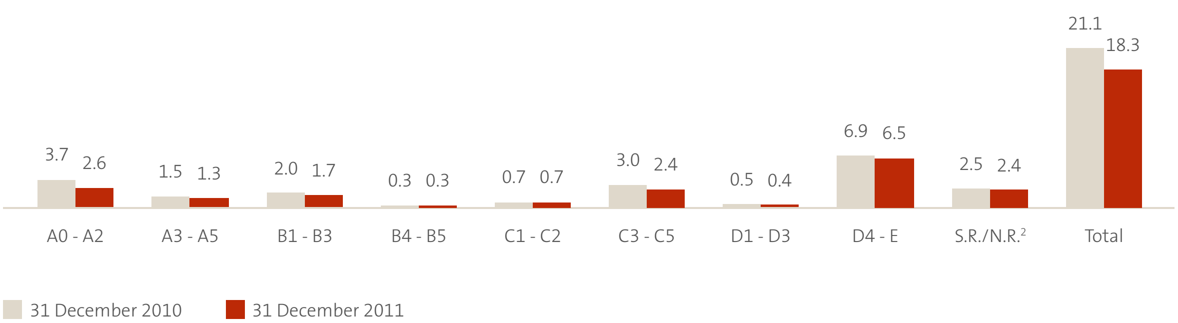
Tranche	Amount as of 31 Dec. 2011	S&P Rating	Legal maturity	Weighted average maturity
Class X	47 EUR	A-	09.02.2015	1.31
Class A1	10,537 USD 650 EUR	A- A-	09.02.2091 09.02.2091	1.82 1.51
Class A2	3,102 USD 226 EUR	B- B-	09.02.2091 09.02.2091	4.67 4.59
Class A3	2,387 USD 701 EUR	CCC- CCC-	09.02.2091 09.02.2091	7.28 7.24
Class A4	1,909 USD 181 EUR	CCC- CCC-	09.02.2091 09.02.2091	12.78 7.13
Class B	4,002 EUR	Not rated	09.02.2091	2.08

In terms of rating structure, the Phoenix portfolio is split into two parts. 36% consists of risk exposures with an 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 stated maturities relate to the expected amortisation profile of the underlying portfolio. The EAA currently anticipates that the Phoenix structure will be dissolved prematurely in 2018, and the underlying portfolio transferred directly to EAA's balance sheet.

Internal ratings for Phoenix assets

in EUR billion[1]



[1] Excluding exchange rate effects

[2] Special rating/not rated (mainly Harrier liabilities (cash items) and cash equivalents)

EAA is currently involved in negotiations with the parties involved in Phoenix concerning how to proceed with EAA's core portfolio. The Phoenix portfolio manager, on behalf of the EAA and with the approval of Phoenix B note guarantee and counter-guarantee issuers, actively started to implement sales opportunities with regard to clearly specified securities over the course of the year. Overall, disposal measures of USD 741 million and EUR 49.6 million were carried out in 2011. These were distributed in the form of repayments of Phoenix notes in August 2011 (USD 157 million and EUR 49.6 million). The outstanding repayments of USD 584 million were affected by a portfolio wind-down in February 2012. Selected disposal measures will continue to be pursued, although current market conditions are making the implementation at economically-reasonable conditions more difficult.

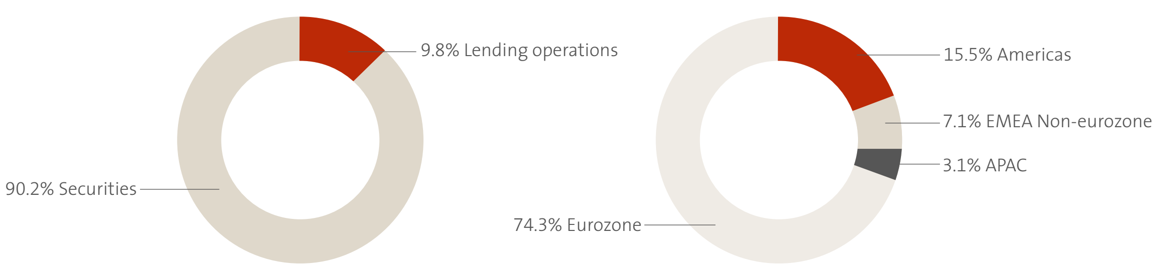
Public finance

The public sector exposure as of 31 December 2011 comprised a total notional amount of EUR 10.6 billion. The volume is thus down EUR 1.2 billion on the financial statements as of 31 December 2010. This 10% decline essentially resulted from the early termination of lines of credit to municipal borrowers in the United States, as well as from expired transactions.

Of the total volume, 90% of the public sector exposure consists of the marketable securities cluster, specifically bonds issued in EU member states. These are held in part directly by the EAA and in part through the Irish subsidiary, EAA CBB. The majority of the remaining 10% are loan transactions with state, municipal, or other public institutions in North America.

Public Finance exposure by product and region as of 31 December 2011

100% = EUR 10.6 billion[1]



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

Greece and other EU countries

EAA's exposure in Greece (including governmental plus other public and private borrowers) amounted to approximately EUR 1.1 billion as of 31 December 2011.

The IMF's December 2011 report concluded that Greece's growth forecasts have deteriorated further and that the expected relief for the national budget could not be realised due to delays in the implementation of structural reforms. The estimated haircut of 50% no longer appeared to be sufficient. Given the new circumstances, EAA has therefore decided to increase its write-downs on Greek government bonds in the fourth quarter from 50% to 75%.

EAA's overall Greek risk amounts approximately to a notional amount of EUR 1.1 billion, mainly due to government bonds and state guarantees. Of this amount, the EAA holds assets with a notional amount of EUR 705.4 million, as well as EAA CBB holding a further EUR 384.4 million.

The EAA applied a 75% discount on the present value of the total claim, meaning that the EAA's income statement has been subject to a net expense of EUR 818.2 million since the beginning of the year.

Eurozone finance ministers agreed on a second bailout for Greece after the balance sheet date (21 February 2012). The bailout still needs to be ratified by a number of eurozone countries and requires the implementation of appropriate legislation in Greece, as well as the participation of a sufficient number of private creditors in an extensive debt exchange. The related debt waiver is still expected to be implemented in the first quarter of 2012. Consideration must be given to the fact that outstanding details regarding the arrangement of planned measures may exceed or fall short of the write-downs recorded for the actual expenses.

The table below shows the total exposure by the EAA and its subsidiaries to Greece, Ireland, Italy, Portugal and Spain:

Country[1]	Borrower group	Notional in EUR million[3]
Greece	Financial Institutions Public Finance[2]	100.0 989.9
Greece		**1,089.9**
Ireland	Corporates Financial Institutions Public Finance	73.4 11.1 80.0
Ireland		**164.5**
Italy	Corporates Financial Institutions Public Finance	314.2 643.1 2,169.0
Italy		**3,126.3**
Portugal	Corporates Financial Institutions Public Finance	62.9 135.0 1,636.2
Portugal		**1,834.1**
Spain	Corporates Financial Institutions Public Finance	506.1 1,026.4 1,181.8
Spain		**2,714.4**
Total		**8,929.2**
of which:	Corporates	956.6
of which:	Financial Institutions	1,915.6
of which:	Public Finance	6,057.0

[1] Economic viewpoint, may differ from the borrower's legal domicile (for Corporates and Financial Institutions)

[2] includes EUR 135 million in a state-backed issue from Hellenic Railways

[3] based on current exchange rates as of 31 December 2011

Participation risks

Participation risks result from the provision of equity and subordinated capital. EAA's participation risk is primarily rooted in the Irish subsidiary, EAA CBB, 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 CBB, returned its banking license, and changed its name to EAA Corporate Services plc. There are no longer any significant risks from this investment. EAA's Portfolio Strategy department is responsible for managing participations, with the Controlling & Planning department providing financial control assistance.

The controlling of EAA's participations provides continuous analyses of existing and future risks. This information enables the EAA to support and manage participations from a shareholder's perspective. Moreover, the key subsidiaries are fully integrated into EAA's risk management and business administration structure. Participations 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 participations 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 subject to additional risk monitoring pursuant to MaRisk. Loan exposures with distinct or increased risk profiles are subject to intensive monitoring pursuant to MaRisk. Loans with increased risk profiles which have already experienced actual defaults as well as non-performing loans are transferred to the Problem Loans Processing function in accordance with MaRisk.

Problem loan exposures are captured centrally in the EAA Global Watch List (EAA GW). This serves as a core basis for managing credit risks.

It also acts as an early warning system, as defined in MaRisk, to record, monitor and report individual loan exposures,

- which have a distinct or increased risk profile, due to expected or actual defaults, 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, largely together with PEG, 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 supervisory bodies of the EAA and the FMSA.

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

	Provisions for loan losses EUR million	Charge-offs EUR million	Net change in loan loss provision EUR million	Other exp./inc. due to risk EUR million	Total allow. losses EUR million
Acute counterparty default risk	**–1,136.0**	**115.0**	**–1,021.0**	**–27.2**	**–1,048.2**
Credit risk	–315.3	113.9	–201.4	–1.5	–202.9
Country risk	–2.5	1.1	–1.4	0.0	–1.4
Country risk: Greece	–818.2	0.0	–818.2	0.0	–818.2
Other risk	0.0	0.0	0,0	–25.7	–25.7
Contingent counterparty default risk	**0.0**	**112.3**	**112.3**	**0.0**	**112.3**
	–1,136.0	**227.3**	**–908.7**	**–27.2**	**–935.9**

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-down plan. All non-linear risks in the portfolio were eliminated using micro-hedges resulting in a simple, linear risk profile. Evidence of the linear risk profile is generally provided every quarter.

Given EAA's long-term perspective and the applicable accounting policies, short-term changes in credit spreads have no direct influence on the winding-down 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, factoring in possible winding-down plan effects. Spread risks are not limited.

Equity risk is of minor significance to the EAA.

Managing market risks

In accordance with the winding-down 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 analysed by the market risk managers.

Interest rate risks are analysed based on interest rate sensitivity (PV01), 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 analysed separately for maturity ranges and currencies. By segmenting its portfolio in this way, EAA is able to not only analyse sensitivity to parallel shifts in the interest rate curve, but also to analyse interest rate risks in greater detail. The portfolio is also analysed 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/twists in the interest rate curve by a various number of basis points).

The analysis of foreign exchange risks is based on the foreign exchange position in the original currency and on a euro equivalent as net position per currency.

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 EUR 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 EUR 1 million are escalated to the Risk Committee.

Analogously to interest rate risks, foreign exchange risk is also limited by the change in the net foreign currency exposure. The change limit was set at an equivalent of EUR 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 affiliated banks and companies are actively included in its liquidity planning and management process so as to ensure an optimal access to liquidity.

Thanks to the Liable Stakeholders' duty to offset losses incurred by the EAA and the creditworthiness of its guarantors, the EAA has been positively received on the capital markets. Therefore, the risk concerning 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, 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 capital commitment 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.

A significant portion of EAA's assets is invested in foreign currencies (particularly the USD) over the long-term. Foreign-denominated assets are now refinanced using a mixture of foreign-denominated liabilities, which are issued via the Commercial Paper and Debt Issuance programmes, as well as by using liabilities in euros in combination with cross-currency swaps and FX-swaps. In the future, EAA expects to further reduce the replacement risk in foreign currencies by increasingly issuing foreign currency liabilities.

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 EAA also met the stress testing additional requirements of capital marketoriented institutions from the MaRisk 2010 amendment. The stress test assumes a reduction in the roll ratios for non-collateralised funding in EUR and USD to 0% in the first week followed by 70%, a 40% increase in draw-downs on free lines of credit, as well as a 20% decline in the EUR/USD exchange rate with a corresponding impact on collateral calls. There will be no change in uncollateralised liquidity for the first two weeks. Limits on collateralised liquidity will be implemented in the stress test by a haircut on free assets eligible as collateral with central banks, as well as a limited collateral repo-eligibility in the first two weeks. Funding gaps denominated in foreign currencies are translated into euros.

Liquidity reserves as of 31 December 2011 amounted to EUR 4.6 billion. Liquidity reserves consist of collateralised liquidity (portfolio securities that are very likely to be used in bilateral repo transactions), as well as cash reserves and short-term investments. During the course of the year, liquidity reserves were always higher than the internally set required liquidity reserve requirements.

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

Operational risks

With respect to operational risks, 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. These include, 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 from 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 Market 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 organisation.

The Market Risk Management department is responsible for developing and introducing methods for identifying, measuring, analysing, monitoring and reporting operational and other risks. Its activity focuses on the regular analysis and identification of weak points and approaches for optimising all business procedures and processes.

The EAA's operational risks arise both in the EAA and at its outsourcing service provider. Operational risks are consistently measured and managed in both organisations and are also aggregated into an overview of overall risk. 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 analyse 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 implements risk-reducing measures 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 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 organisational or business structures or employee error.

Pursuant to article 8a (2) sentence 1 FMStFG, 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 ensures in particular that the EAA complies with the statutory provisions and its articles of association.

On 20 December 2011, the European Commission gave its final confirmation to the restructuring plan for WestLB and the associated transfer of assets from WestLB to EAA.

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 portfolio. Rather, the EAA relied solely on the completeness of WestLB's disclosure of risks pursuant to article 8a (4) no. 5 FMStFG. When the assets were transferred, litigation risks related to the portfolio's assets were also transferred to the EAA. EAA analysed the pending litigation as of the transfer date and does not expect any imminent losses from such litigation.

EAA has assigned the management of the assets transferred 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 analyse and manage tax risks. The close co-operation between the governing bodies of 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 the risk exposures and non-strategic business units of WestLB and its domestic and foreign subsidiaries, and to wind these up in a manner that preserves value determined in a long-term winding-down plan. Short- and medium-term fluctuations in value are of less significance.

To that end in particular, winding-up agencies in accordance with article 8a FMStFG were exempted from capital requirements, 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, EAA has a capital base that was calculated on the basis of stressed anticipated losses. A guarantee for expected losses and Liable Stakeholders' duty to offset losses are also in place.

In its risk management activities, the EAA strives to reduce the credit risk resulting from the winding-down of the portfolio. To that end, progress made in winding-down the portfolio and deviations from the winding-down plan are continually monitored and held against the plan. Please refer to the section entitled "Wind-down report" for more detailed information.

The EAA's liquidity risk will diminish to the extent that the EAA can continue 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.

Market and foreign exchange risks are largely 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. 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.

Risks resulting from the government debt crisis, also beyond Greece, are monitored closely and in a timely fashion.

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 control 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 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.

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 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.

Outlook

A letter of intent was signed on 29 June 2011 between WestLB shareholders, EAA and WestLB stakeholders and the Financial Market Stabilisation Fund represented by the FMSA in the form of a so-called framework agreement for WestLB’s restructuring plan. This stipulates that additional WestLB portfolios are to be transferred to the EAA during the course of the 2012 financial year. At the time the EAA’s financial statements for the financial year were prepared, there were no legally-binding or FMSA-authorised agreements beyond this letter of intent.

Since mid-2011, the EAA has also undertaken and reinforced activities to prepare for the pending transfer of additional WestLB portfolios. These activities include, among other things, adjustments to the EAA’s organisational structures, preparatory consultation discussions and a review of a sample of the portfolio. The EAA also developed a control concept to identify the core risks of the migration process and the subsequent operations. In particular, this refers to measures designed to check the plausibility of the winding-down plan to be filed by WestLB, the preparations for the revision of the contracts between the EAA and WestLB, as well as establishing a liquidity buffer for the rising refinancing volume resulting from the portfolio transfer.

Our forecasts of general economic conditions contain a very subdued picture for eurozone and global growth. Growth in 2012 is expected to vary greatly, especially within the eurozone. While Germany and other core eurozone countries are likely to avoid renewed recession, growth in peripheral countries will be rather disappointing. We anticipate a further rise in the expected loss from affected exposures. The growth differential between the eurozone and the United States is in favour of the USA.

As a result, the EAA believes that the refinancing of USD-dominated assets will likely remain expensive and will impact earnings in 2012.

Earnings will largely be determined by WestLB’s other risk positions to be taken over in 2012. The effect that these changes will have on earnings is currently impossible to estimate as neither the type nor the extent of the pending refill has been finalised.

We again anticipate liquidity to be satisfactory in 2012, especially in light of the previously mentioned existing liquidity buffer.

The EAA’s successful winding-down strategy continued in the first few months in 2012, with the definition of an extensive disposal portfolio for 2012. In addition to contractual maturities, the EAA is also actively pushing for early redemptions or sale of risk positions if this proves to be more favourable than the main hold strategy, i.e., especially when disposal gains can be generated or expected winding-down costs can be cut. All in all, the EAA plans to reduce its portfolio by approximately EUR 10 billion in 2012. Restructuring is anticipated to focus on Asset Securitisation, Leveraged Loans, Diversified Industries and Hospitality clusters. Our regional focus will be on the Americas, the Middle East and France. Here the EAA strives to continue to reduce complexities, especially those resulting from foreign currency financing and derivatives.

Balance sheet

as of 31 December 2011

Assets	Note	EUR	EUR	31 Dec. 2011 EUR	31 Dec. 2010 EUR
1. Loans and advances to banks	4, 27				
a) payable on demand			4,129,050,651.21		(1,442,546,783.18)
b) other loans and advances			11,216,815,960.08		(8,721,359,875.17)
				15,345,866,611.29	10,163,906,658.35
2. Loans and advances to customers	5, 6, 14, 27			8,636,218,423.45	13,312,855,031.62
of which:					
secured by mortgage charges					
EUR 429,798,867.66 (py: EUR 584,642,252.52)					
Public-sector loans					
EUR 362,779,021.97 (py: EUR 444,543,723.42)					
3. Bonds and other					
fixed-income securities	7, 12, 14, 15, 27				
a) Bonds issued by					
aa) public issuers		1,759,912,113.68			(2,163,234,013.55)
of which:					
eligible as collateral with Deutsche Bundesbank					
EUR 1,672,160,259.90 (py: EUR 2,101,783,615.85)					
ab) other issuers		22,641,941,870.56			(21,815,095,474.45)
of which:			24,401,853,984.24		(23,978,329,488.00)
eligible as collateral with Deutsche Bundesbank					
EUR 2,525,995,784.77 (py: EUR 4,102,371,164.72)					
b) Own bonds					
Notional value EUR 601,128,626.63 (py: EUR 0.00)			613,330,328.10		(0.00)
				25,015,184,312.34	23,978,329,488.00
4. Equities and other non-					
fixed-income securities	8, 12			26,319,877.36	24,284,517.19
5. Long-term equity investments	9, 12, 43			86,313,504.06	134,907,721.03
of which:					
in banks					
EUR 15,517,912.50 (py: EUR 15,517,912.50)					
in financial service providers					
EUR 0.00 (py: EUR 0.00)					
6. Shares in affiliates	10, 12, 43			1,288,458,999.85	561,806,620.25
of which:					
in banks					
EUR 1,184,297,094.52 (py: EUR 498,237,850.52)					
in financial service providers					
EUR 9,616,191.04 (py.: EUR 9,616,191.04)					
7. Intangible assets	12				
a) paid concessions,					
trademarks and similiar					
rights and values such as licenses					
in such rights			100,728.38		(0.00)
				100,728.38	0.00
8. Tangible fixed assets	12			21,246.98	14,402.37
9. Other assets	11, 35			92,037,162.24	327,139,693.06
10. Prepaid expenses/accrued income	13, 35			356,330,180.13	787,651,536.80
Total assets	24			**50,846,851,046.08**	**49,290,895,668.67**

Liabilities and equity

	Note	EUR	EUR	31 Dec. 2011 EUR	31 Dec. 2010 EUR
1. Deposits from					
banks	13, 16				
a) payable on demand			218,233,101.26		(31,679,560.52)
b) with an agreed maturity					
or withdrawal notice			5,378,056,853.52		(9,815,112,040.60)
				5,596,289,954.78	9,846,791,601.12
2. Deposits from					
customers	13, 17				
other deposits					
a) payable on demand			3,758,042.85		(11,775,749.24)
b) with an agreed maturity					
or withdrawal notice			5,695,576,924.27		(4,474,746,526.04)
				5,699,334,967.12	4,486,522,275.28
3. Debt securities in issue	13, 18				
a) Bonds			12,009,117,663.27		(20,375,151,481.12)
b) Other debt securities in issue			25,540,314,287.04		(11,201,736,504.25)
of which:				37,549,431,950.31	31,576,887,985.37
Money market instruments					
EUR 10,834,636,627.18 (py: EUR 0.00)					
4. Other liabilities	19, 35			916,475,823.86	982,941,446.31
5. Accruals/deferred income	20, 35			370,278,108.50	811,529,654.06
6. Provisions	21				
a) Tax provisions			1,200,998.17		(0.00)
b) Other provisions			99,797,835.15		(93,937,993.43)
				100,998,833.32	93,937,993.43
7. Equity	22				
a) Called capital					
Subscribed capital		500,000.00			(500,000.00)
Less uncalled					
outstanding capital		0.00			(0.00)
			500,000.00		(500,000.00)
b) Capital reserves			3,137,006,319.58		(3,137,006,319.58)
c) Revenue reserves					
Other revenue reserves		2,431,408.07			(2,431,408.07)
			2,431,408.07		(2,431,408.07)
d) Net retained losses carried forward			–2,525,896,319.46		(–1,647,653,014.55)
				614,041,408.19	1,492,284,713.10
Total liabilities and equity	24			**50,846,851,046.08**	**49,290,895,668.67**
1. Contingent liabilities	31, 32, 34				
Liabilities on guarantees					
and warrantees			6,709,114,681.50		(6,987,939,905.00)
				6,709,114,681.50	6,987,939,905.00
2. Other obligations	31				
irrevocable loan commitments			1,383,924,348.01		(4,517,917,932.72)
				1,383,924,348.01	4,517,917,932.72

Income statement

for the period from 1 January to 31 December 2011

	Note	EUR	EUR	1 Jan.–31 Dec. 2011 EUR	1 Jul.–31 Dec. 2010 EUR
1. Interest income from	25				
a) Lending and money market transactions		656,826,372.97			(400,151,252.00)
b) Fixed-income securities					
and debt register claims		469,121,037.82			(234,903,860.19)
			1,125,947,410.79		(635,055,112.19)
2. Interest expense			941,008,392.54		(514,091,427.09)
				184,939,018.25	120,963,685.10
3. Current income from	25				
a) Equities and other non-					
fixed-income securities			2,253,414.22		(0.00)
b) Long-term equity investments			1,227,603.96		(324,921.76)
c) Shares in affiliates			142,600.93		(0.00)
				3,623,619.11	324,921.76
4. Fee and commission income	25		50,994,373.22		(20,386,223.97)
5. Fee and commission expense			24,618,530.87		(10,573,788.77)
				26,375,842.35	9,812,435.20
6. Other operating income	25, 26			766,311.23	8,572,840.60
7. General and administrative expenses					
a) Personnel expenses					
aa) Wages and salaries	36	7,819,210.15			(2,057,671.50)
ab) Social security, post-employment and					
and other employee					
benefit costs	36	483,174.62			(101,701.94)
of which:			8,302,384.77		(2,159,373.44)
cost of old-age pensions EUR 0.00 (py: EUR 0.00)					
b) Other administrative expenses			118,911,895.06		(67,083,691.68)
				127,214,279.83	69,243,065.12
8. Depreciation, amortisation and write-offs					
on intangible assets and					
tangible fixed assets	12			13,804.10	1,900.41
9. Other operating expenses	26			5,878,201.39	865,860.51
10. Allowances for losses					
on loans and advances					
and write-offs					
on certain securites	21, 27			0.00	753,790,195.84
11. Income from reversals of					
write-downs of loans and advances					
and certain securities, and from					
reversals of loan loss provisions	27			10,638,620.32	0.00
12. Allowances from the write-up					
of claims and certain securities					
as well as from the reversal of					
accruals in the lending business	12, 27			969,155,505.03	0.00
13. Income from the reversal of write-offs					
on long-term equity investments,					
shares in affiliates and long-term					
securities	12, 27			0.00	86,887,555.15
14. Result from ordinary activities				−875,918,379.09	−597,339,584.07
15. Extraordinary expenses	28		0.00		(54,762.96)
16. Extraordinary result	28			0,00	−54,762.96
17. Taxes on income	29			1,924,593.09	2,211,192.81
18. Other taxes not reported under item 9				400,332.73	0.00
19. Net loss for the year				−878,243,304.91	−599,605,539.84
20. Net retained losses brought forward				−1,647,653,014.55	−1,048,047,474.71
21. Net retained losses carried forward				**−2,525,896,319.46**	**−1,647,653,014.55**

Cash flow statement

for the period from 1 January to 31 December 2011

			1 Jan.–31 Dec. 2011 EUR	1 Jul.–31 Dec. 2010 EUR
1.		**Net loss for the period before extraordinary items**	–878,243,304.91	–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	994,798,916.08	647,606,771.16
3.	+/-	Increase/decrease in provisions	7,060,839.89	–26,457,408.19
4.	+/-	Other non-cash income/expense	0.00	0.00
5.	-/+	Gain/loss on disposal of long-term financial assets and tangible fixed assets	–7,448,716.37	–267,699.52
6.	-/+	Other adjustments (net)	–186,638,044.27	–119,073,888.26
7.	=	Sub-total	–70,470,309.58	–97,797,764.65
		Change in operating assets and liabilities		
8.		Loans and advances		
8 a.	+/-	– to banks	–5,085,250,996.47	5,457,183,445.98
8 b.	+/-	– to customers	4,667,979,741.68	1,785,923,352.95
9.	+/-	Securities	–1,704,425,113.79	–4,931,304,118.48
10.	+/-	Other operating assets	245,260,203.48	105,247,392.23
11.		Deposits		
11 a.	+/-	– from banks	–4,167,364,471.68	–1,635,671,039.66
11 b.	+/-	– from customer	1,215,289,967.19	–256,674,751.82
12.	+/-	Debt securities in issue	6,003,814,664.04	–937,430,902.34
13.	+/-	Other operating liabilities	–74,986,131.92	141,967,025.95
14.	+	Interest and dividends received	697,368,369.70	473,596,924.25
15.	-	Interest paid	–568,434,530.16	–290,366,724.42
16.	+	Extraordinary receipts	0.00	0.00
17.	-	Extraordinary payments	0.00	0.00
18.	+/-	Income tax payments	–2,518,620.49	–2,209,640.12
19.	=	**Cash flows from operating activities**	**1,156,262,772.00**	**–187,536,800,13**
20.		Proceeds from disposal of		
20 a.	+	– long-term financial assets	68,162,063.06	7,357,670.90
20 b.	+	– tangible fixed assets	0.00	0.00
21.		Purchase of		
21 a.	-	– long-term financial assets	–1,064,392,535.02	–4,105,851.45
21 b.	-	– tangible fixed assets	–121,377.09	–16,302.78
22.	+	Receipts from disposal of consolidated subsidiaries and other business units	0.00	0.00
23.	-	Purchase of consolidated subsidiaries and other business units	0.00	0.00
24.	+/-	Changes in cash due to other investing activities (net)	0.00	0.00
25.	=	**Cash flows from investing activities**	**–996,351,849.05**	**3,235,516.67**
26.	+	Cash receipts from issue of capital	0.00	0.00
27.		Cash payments to owners and minority shareholders		
27 a.	-	– Dividend payments	0.00	0.00
27 b.	-	– other payments	0.00	0.00
28.	+/-	Changes in other capital (net)	0.00	0.00
29.	=	**Cash flows from financing activities**	**0.00**	**0.00**
30.		Net change in cash funds (sum of 19, 25 and 29)	159,910,922.95	–184,301,283.46
31.	+/-	Effect on cash funds of exchange rate movements, changes in reporting entity structure and remeasurement	0.00	0.00
32.	+	Cash funds at beginning of period	1,080,976.40	185,382,259.86
33.	=	**Cash funds at end of period**	**160,991,899.35**	**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 January to 31 December 2011

	Balance as of 1 Jan. 2011 EUR	Other change in capital EUR	Appropriation of net loss EUR	Balance as of 31 Dec. 2011 EUR
Subscribed capital	500,000.00	0.00	0.00	500,000.00
Capital reserves	3,137,006,319.58	0.00	0.00	3,137,006,319.58
Other revenue reserves	2,431,408.07	0.00	0.00	2,431,408.07
Net retained losses	–1,647,653,014.55	0.00	–878,243,304.91	–2,525,896,319.46
Equity under HGB	**1,492,284,713.10**	**0.00**	**–878,243,304.91**	**614,041,408.19**

	Balance as of 1 Jul. 2010 EUR	Other change in capital EUR	Appropriation of net loss EUR	Balance as of 31 Dec. 2010 EUR
Subscribed capital	500,000.00	0.00	0.00	500,000.00
Capital reserves	3,137,006,319.58	0.00	0.00	3,137,006,319.58
Other revenue reserves	0.00	2,431,408.07	0.00	2,431,408.07
Net retained losses	–1,048,047,474.71	0.00	–599,605,539.84	–1,647,653,014.55
Equity under HGB	**2,089,458,844.87**	**2,431,408.07**	**–599,605,539.84**	**1,492,284,713.10**

Notes to the financial statements

for the period from 1 January
to 31 December 2011

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 article 8a (1) sentence 10 in conjunction with article 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-down risk exposures and non-strategic businesses/ assets of WestLB and its domestic and foreign subsidiaries in order to stabilise them and the financial market as a whole. The EAA conducts its transactions in accordance with business and economic principles with regard to its winding-down 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 fully regulated as a 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 articles 123 (2) no. 1 of the German Reorganisation Act (Umwandlungsgesetz – UmwG) in conjunction with article 8a (8) of the FMStFG. It was completed in two phases. In addition to the spin-off, further transfer alternatives also include asset sale, sub-participation and guarantee.

With retroactive economic effect as of 1 January 2009 and 1 January 2010, EUR 49.2 billion in assets and EUR 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 of 31 December 2008 (transfer balance sheets) and 31 December 2009, on which Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft had given an unqualified audit opinion.

Henceforth, assets and liabilities transferred by means of spin-off, sub-participation and asset sale will still be accounted for by the EAA, while assets guaranteed by the EAA will remain on the balance sheet of 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 2011, EAA generated net income of EUR 15.1 million (previous year: EUR 9.7 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 financial year

In accordance with article 8a (1) sentence 10 in conjunction with article 3a (4) of the FMStFG and the additional guidance of the EAA's articles of association, the financial statements of the EAA for the financial year 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). 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 audited figures for the abridged financial year from 1 July to 31 December 2010 represent comparative figures for both the balance sheet and the income statement.

The financial statements for the 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 articles 252 et seq. and articles 340 et seq. of the HGB.

Receivables are reported at their notional 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 of the balance sheet date is either capitalised 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 less 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. The securities, which are treated as fixed assets (investment securities), are valuated at amortised cost. Any differences between amortised 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 securities from the financial assets valuated using the modified lowest value principle 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 RS 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 ABS).

As before, the value of the structured securities 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 checked for plausibility using suitable methods. The market prices supplied and the fundamentals 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 market prices and fundamentals for the overall portfolio. 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 fundamentals 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 fundamentals supplied confirmed the validity of the data supplied for the Phoenix and EUSS notes.

The assumption regarding the repayment date of the Phoenix Class B note changed in the process of determining the plausibility of the prices received for the Phoenix transaction. The date was moved forward substantially as it now appears sufficiently probable that the optional dissolution of the structure will occur prior to legal maturity in 2091 due to new indications of the benefit for parties involved. The resulting reversal of impairment losses for the Class B note of EUR 193.6 million were significantly offset by counter-effects from the updated market data as of 31 December 2011, which resulted in an impairment of the entire Phoenix structure in the amount of EUR 147.7 million compared with 31 December 2010.

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.

Genuine repurchase agreements or (reverse) repo agreements combine the spot purchase or sale of securities with their forward sale or repurchase, the counterparty being identical in both cases. Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are generally treated as collateralised financing transactions. The securities sold under repurchase agreements (spot sale) are still accounted for and measured as part of the securities portfolio. The cash contributions received in connection with the repo agreements, including accrued interest, are recognised as liabilities. A corresponding receivable is recognised for reverse repo transactions. The securities bought under repurchase agreements which underlie the financial transaction (spot purchase) are not carried in the balance sheet and are thus not measured.

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 non-current 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.

Tangible non-current assets and acquired tangible assets are depreciated over their probable useful lives; EAA depreciates low-value items in full in the year of acquisition.

As of 31 March 2011, premiums received from warrants of certain products in the amount of EUR 170.2 million were reported under other liabilities for the first time; these had been reported under debt securities until 31 December 2010. Premiums received from these warrants fell to EUR 15.8 million as of 31 December 2011.

Increases in expenses and rising prices must be factored into the measurement of provisions. Provisions with remaining terms longer than one year 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.

As of 1 July 2010, an amount of TEUR 55 allocated to a provision was calculated using case-by-case valuation in connection with the first-time adoption of the provisions amended by the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG); this had previously been recorded in the abridged 2010 financial year reducing the extraordinary result. Excess cover was determined for other provisions, for which EAA chose not to make use of the option given under Article 67 (1) sentence 2 EGHGB to retain the excess, and transferred the entire EUR 2.4 million resulting from the reversal directly to retained earnings.

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 EUR 26.6 million, which are fully hedged against equity price risks. The EAA established additional micro hedges for repurchased own issues with a notional value of EUR 601.1 million as well as corresponding interest rate swaps.

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.

Currency translation for assets and liabilities follows the provisions of articles 256a and 340h HGB. Assets and liabilities denominated in foreign currencies, open foreign currency spot transactions and off-balance sheet transactions are treated and measured as hedged in each currency in accordance with section 340h HGB and have been translated at the ECB reference rates as of 30 December 2011. Accordingly, all expenses and income from currency translation are recognised in the income statement in accordance with article 340h HGB. The forward rate of open currency forwards, which serve to hedge interest-bearing balance sheet items, was split into spot rate and swap and the stipulated swap amounts recognised on a pro rata basis. The total net loss from individually measuring all open foreign exchange transactions is reported under other liabilities.

Deferred taxes are calculated using the temporary differences concept. The EAA has also opted not to recognise deferred tax assets in the annual financial statements as of 31 December 2011.

4. Loans and advances to banks

	31 Dec. 2011 EUR million	31 Dec. 2010 EUR million
Carrying amount	**15,345.9**	**10,163.9**
of which:		
- to affiliated companies	3,281.6	1,035.3
- to other investees and investors	–	–
payable on demand	4,129.1	1,442.5
due		
- within 3 months	9,390.2	6,497.1
- 3 months to 1 year	362.8	326.3
- 1 to 5 years	930.6	1,250.1
- after 5 years	533.2	647.9

Loans and advances to banks included EUR 4.7 billion in return claims from securities lending transactions as of 31 December 2010. No other securities lending agreements were concluded in the 2011 financial year. The rise in the 2011 financial year is mainly due to the investment of available liquidity.

5. Loans and advances to customers

	31 Dec. 2011 EUR million	31 Dec. 2010 EUR million
Carrying amount	**8,636.2**	**13,312.9**
of which:		
- to affiliated companies	437.8	576.6
- to other investees and investors	4.4	4.8
due		
- within 3 months	555.2	360.7
- 3 months to 1 year	1,526.3	1,763.8
- 1 to 5 years	3,222.1	6,219.3
- after 5 years	3,073.0	4,349.7
No stated maturity	259.6	619.4

Receivables also include registered and other non-marketable bonds.

6. Receivables secured by mortgage charges

	31 Dec. 2011 EUR million	31 Dec. 2010 EUR million
Loans and advances to customers due		
- within 3 months	12.3	2.5
- 3 months to 1 year	15.2	120.8
- 1 to 5 years	111.0	142.0
- after 5 years	291.3	319.3
Carrying amount	**429.8**	**584.6**

7. Bonds and other fixed-income securities

	31 Dec. 2011 EUR million	31 Dec. 2010 EUR million
Carrying amount	**25,015.2**	**23,978.3**
of which:		
Amounts due in the following year	1,528.7	1,435.3
Breakdown		
- Bonds issued by public issuers	1,759.9	2,163.2
- Bonds issued by other issuers	22,642.0	21,815.1
- Own bonds	613.3	–
Breakdown by marketability		
- Marketable securities	25,015.2	23,978.3
of which:		
- listed	5,590.5	6,924.5
- unlisted	19,424.7	17,053.8
Breakdown by type		
- Liquidity reserve	613.3	–
- Investment securities	24,401.9	23,978.3
Breakdown by affiliation		
- Securities of affiliated companies	–	–
- Securities of other investees and investors	–	–

As of 31 December 2010, EAA had lent EUR 4.7 billion in bonds and other fixed-income securities to WestLB. These securities are not included in the above carrying amount as of 31 December 2010; instead the corresponding return claims are reported under loans and advances to banks.

EAA purchased own bonds with a notional value of 601.1 million for market support for the first time in the 2011 financial year. These securities were allocated to the liquidity reserve.

All bonds and other fixed-income securities amounting to EUR 24.4 billion (previous year: EUR 24.0 billion) were classified under investment securities and are part of non-current assets. As of the balance sheet date, long-term financial assets were recognised at a carrying amount of EUR 23.0 billion (previous year: EUR 26.3 billion) and thus higher than their fair value of EUR 18.3 billion (previous year: EUR 22.2 billion), due to its long-term winding-down strategy and expected performance 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 EUR 1.6 billion (previous year: EUR 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 (EUR 21.4 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. 2011 EUR million	31 Dec. 2010 EUR million
Carrying amount	**26.3**	**24.3**
Breakdown by marketability		
- Marketable securities	22.9	24.3
of which:		
- listed	22.9	24.3
- unlisted	–	–
Breakdown by type		
- Liquidity reserve	22.9	24.3
- Investment securities	3.4	0.0

9. Long-term equity investments

	31 Dec. 2011 EUR million	31 Dec. 2010 EUR million
Carrying amount	**86.3**	**134.9**
of which:		
- in banks	15.5	15.5
- in financial service providers	–	–
Breakdown by marketability		
- Marketable securities	30.8	34.0
of which:		
- unlisted	30.8	34.0

10. Shares in affiliates

	31 Dec. 2011 EUR million	31 Dec. 2010 EUR million
Carrying amount	**1,288.5**	**561.8**
of which:		
- in banks	1,184.3	498.2
- in financial service providers	9.6	9.6
Breakdown by marketability		
- Marketable securities	1,184.8	498.7
of which:		
- unlisted	1,184.8	498.7

The increase in shares in affiliates was primarily due to the payment made to the capital reserve of the Irish affiliate EAA CBB in an amount of EUR 1.0 billion, which served to comply with local regulatory capital adequacy rules. Impairment of receivables related to the Greece portfolio resulted in a write-down on the book value in an amount of EUR 313.9 million due to the assets held by the EAA CBB. Shares were added to four special purpose vehicles in relation to the restructuring of loans.

The lower net realisable value of the long-term equity investments and shares in affiliates, which have a volume of EUR 62.0 million (previous year: EUR 108.9 million), is EUR 0.7 million (previous year: EUR 2.1 million) less than their carrying amount. The EAA does not expect this difference to be permanent.

11. Other assets

	31 Dec. 2011 EUR million	31 Dec. 2010 EUR million
Carrying amount	**92.0**	**327.1**
of which:		
- Premiums for options	47.4	267.8
- Guarantee fees and commissions	42.8	56.7
- Claims from swap transactions	1.1	0.9

12. Non-current assets

<table>
<tr><th>EUR million</th><th>Cost
1 Jan. 2011</th><th>Additions</th><th>Usage</th><th>Reclassifications</th><th>Reversals of write-downs</th><th>Accumulated depreciation, amortisation, write-downs
31 Dec. 2011</th><th>Depreciation, amortisation, write-downs in the financial year</th><th>Carrying amount
31 Dec. 2011</th><th>Carrying amount
31 Dec. 2010</th></tr>
<tr><td>Bonds and other long-term fixed-income securities</td><td>23,978.3</td><td colspan="5" rowspan="4">Net change according to section 34 (3) sentence 2 of the RechKredV; EUR 1,090.4 million</td><td>–</td><td>24,401.9</td><td>23,978.3</td></tr>
<tr><td>Equities and other long-term non-fixed-income securities</td><td>0.0</td><td>–</td><td>3.4</td><td>0.0</td></tr>
<tr><td>Long-term equity investments</td><td>148.8</td><td>8.3</td><td>86.3</td><td>134.9</td></tr>
<tr><td>Shares in affiliates</td><td>562.6</td><td>317.3</td><td>1.288.5</td><td>561.8</td></tr>
<tr><td>Intangible assets</td><td>–</td><td>0.1</td><td>–</td><td>–</td><td>–</td><td>0.0</td><td>0.0</td><td>0.1</td><td>–</td></tr>
<tr><td>Office and operating equipment</td><td>0.0</td><td>0.0</td><td>–</td><td>–</td><td>–</td><td>0.0</td><td>0.0</td><td>0.0</td><td>0.0</td></tr>
</table>

The net change in securities during the 2011 financial year related to additions and reductions, as well as portfolio changes as the result of the pro rata reversal of premiums and discounts.

13. Prepaid expenses/accrued income

	31 Dec. 2011 EUR million	31 Dec. 2010 EUR million
Non-recurring payments on swaps	303.5	711.9
Discount on issuing business	45.4	68.8
Discount on liabilities	3.6	6.5
Other	3.8	0.5
Carrying amount	**356.3**	**787.7**

14. Subordinate assets

Subordinated assets are included in:

	31 Dec. 2011 EUR million	31 Dec. 2010 EUR million
Loans and advances to customers	33.5	66.6
of which: to affiliates	33.5	32.6
of which: to other long-term investees and investors	–	–
Bonds and other fixed-income securities	2.6	11.6
of which: to affiliates	–	–
of which: to other long-term investees and investors	–	–
Total	**36.1**	**78.2**

15. Assets sold under repurchase agreements

The carrying amount of assets sold under repurchase agreements reported on the balance sheet was EUR 1,313.0 million (previous year: EUR 4,091.8 million).

16. Deposits from banks

	31 Dec. 2011 EUR million	31 Dec. 2010 EUR million
Payable on demand	218.2	31.7
due		
- within 3 months	1,504.8	5,640.9
- 3 months to 1 year	632.9	759.5
- 1 to 5 years	3,170.2	3,267.4
- after 5 years	70.2	147.3
Carrying amount	**5,596.3**	**9,846.8**
of which:		
- to affiliates	112.3	28.0
- to other long-term investees and investors	–	–

17. Deposits from customers

	31 Dec. 2011 EUR million	31 Dec. 2010 EUR million
Other deposits	5,699.3	4,486.5
of which:		
- payable on demand	3.8	11.8
due		
- within 3 months	1,141.0	127.9
- 3 months to 1 year	738.5	253.5
- 1 to 5 years	2,561.4	3,756.2
- after 5 years	1,254.6	337.1
Carrying amount	**5,699.3**	**4,486.5**
of which:		
- to affiliates	–	17.7
- to other long-term investees and investors	–	–

18. Debt securities in issue

	31 Dec. 2011 EUR million	31 Dec. 2010 EUR million
Bonds	12,009.1	20,375.2
of which:		
Amounts due in the following year	6,513.1	8,216.5
Other debt securities in issue	25,540.3	11,201.7
of which due:		
- within 3 months	7,017.6	184.7
- 3 months to 1 year	6,405.4	175.3
- 1 to 5 years	12,117.3	10,841.7
- after 5 years	–	–
Carrying amount	**37,549.4**	**31,576.9**
of which:		
- to affiliates	–	–
- to other long-term investees and investors	–	–

19. Other liabilities

	31 Dec. 2011 EUR million	31 Dec. 2010 EUR million
Carrying amount	**916.5**	**982.9**
of which:		
- Currency translation adjustments	874.7	927.9
- Premiums from options	40.5	52.5
- Obligations from swap transactions	0.2	0.9
- Outstanding fees from syndication operations	–	1.3

20. Accruals/deferred income

	31 Dec. 2011 EUR million	31 Dec. 2010 EUR million
Non-recurring payments on swaps	366.0	805.2
Premium on issuing business	2.3	4.1
Premiums for sold interest rate caps and floors	1.8	1.8
Other	0.2	0.4
Carrying amount	**370.3**	**811.5**

21. Provisions

	Balance as of 31 Dec. 2010 EUR million	Additions EUR million	Unwinding of discount EUR million	Charge-offs EUR million	Reversals EUR million	Other changes EUR million	Final balance 31 Dec. 2011 EUR million
Taxes	–	1.2	–	–	–	–	1.2
Other provisions	93.9	47.2	1.2	38.5	6.1	2.1	99.8
- Loans	78.8	18.1	1.2	24.6	5.9	1.9	69.5
- Personnel	0.1	0.4	–	0.3	–	–	0.2
- Other	15.0	28.7	–	13.6	0.2	0.2	30.1
Total	**93.9**	**48.4**	**1.2**	**38.5**	**6.1**	**2.1**	**101.0**

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

Other provisions include provisions for necessary loss assumptions for equity investments and for services rendered but not yet invoiced.

22. Equity

The EAA's subscribed capital amounted to EUR 500,000.00 as of 31 December 2011.

From the transfers, the EAA received additions to its capital reserve amounting to EUR 3,137.0 million.

The other reserves amounted to EUR 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 2011 financial year amounted to EUR 878.2 million and increased net retained losses carried forward to EUR 2,525.9 million as of 31 December 2011.

23. Legacy liabilities – grandfathering

To the extent that 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 to amend 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 of 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 EUR 19.2 billion (previous year: EUR 23.5 billion) was subject to the guarantor liability.

24. Assets/liabilities denominated in foreign currency

Assets denominated in foreign currencies amounted to EUR 24.5 billion as of the balance sheet date (previous year: EUR 27.2 billion) and liabilities denominated in foreign currencies amounted to EUR 8.4 billion (previous year: EUR 1.7 billion).

Notes to the income statement

25. Geographical breakdown of income components

1 Jan.–31 Dec. 2011 EUR million	Interest income	Current income	Fees and commission income	Other operating income
Düsseldorf	978.5	3.6	40.0	0.8
London	114.3	–	9.9	–
New York	33.1	–	1.1	–
Income statement amount	**1,125.9**	**3.6**	**51.0**	**0.8**

26. Other operating and prior-period expenses and income

Net other operating expenses and income in the 2011 financial year amounted to EUR -5.1 million (previous year: EUR 7.7 million) and consisted of EUR 5.9 million (previous year: EUR 0.9 million) in expenses and EUR 0.8 million (previous year: EUR 8.6 million) in income. Other operating expenses include EUR 5.1 million in currency conversion losses (previous year: EUR 0.2 million). The previous year included EUR 8.2 million in currency conversion gains.

There were no material prior-period expenses and income in either the 2011 financial year or in the previous year.

27. 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 Jan.– 31 Dec. 2011 EUR million	1 Jul.– 31 Dec. 2010 EUR million
Loans and securities income/expense	10.6	–753.8
of which:		
- Lending operations	1.2	–756.0
- Securities	9.4	2.2
Equity investments and securities income/expenses	–969.1	86.9
of which:		
- Long-term equity investments	–348.4	–32.8
- Securities	–620.7	119.7
Risk result	**–958.5**	**–666.9**
of which:		
- Lending operations	–32.5	–578.0
- Structured securities	–120.2	–77.9
- Other securities	–469.3	–
- Long-term equity investments due to Greece	–313.9	–
Allowances for losses on loans and advances/securities/long-term equity investments due to credit risk/affiliated companies	–935.9	–655.9
Net income from investment securities	–22.6	–11.0

The EAA always makes use of the options available under article 340f (3) and article 340c (2) of the HGB. Under article 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 income amounted to EUR 10.6 million (previous year: EUR 753.8 million). Under article 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 expenses of EUR 969.1 million (previous year: EUR 86.9 million) under the risk result for long-term equity investments and securities.

28. Extraordinary result

The extraordinary result in the previous year amounted to TEUR -55 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 2011 financial year.

29. Taxes on income

Taxes on income amounting to EUR 1.9 million (previous year: EUR 2.2 million) primarily concern foreign taxes.

30. Fees paid to the auditors

Fees paid to the auditors for auditing the financial statements amounted to EUR 0.7 million (previous year: EUR 0.2 million). At EUR 0.7 million (previous year: EUR 0.6 million), further assurance fees in accordance with section 285 no. 17 b HGB were paid particularly for assurance-related services. In addition, EUR 0.9 million (previous year: EUR 1.2 million) was charged by the FMSA for monitoring activities carried out by the auditor.

Other disclosures

31. Contingencies

Contingent liabilities
Contingent liabilities amounting to EUR 6.7 billion (previous year: EUR 7.0 billion) are primarily the result of guarantees for WestLB's risk exposures (see Note 1). They include obligations from credit default swaps amounting to EUR 1,501.3 million (previous year: EUR 968.7 million). The increase was a result of the implementation of EAA's strategy in connection with a comprehensive and efficient market presence and an efficient managing of equity investments to assume a transmission function for subsidiaries' over-the-counter (OTC) derivatives, as well as for all subsidiaries' existing and future derivative hedging transactions to be taken over by the EAA. Using novation agreements, the EAA has entered into all EAA CBB derivatives in place of WestLB. The EAA has concluded hedging agreements with daily margin calls to hedge the counterparty risk.

The EAA does not know whether, when, or the extent to which these specific contingent liabilities will be realised. A provision will 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 EUR 1.4 billion (previous year: EUR 4.5 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). 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 introduced a global guarantee for EAA Covered Bond Bank plc, Dublin/Ireland. It 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
As of the balance sheet date, the EAA has provided cash collateral for derivative as well as securities repurchase transactions in the amount of EUR 1.5 billion (previous year: EUR 1.3 billion). Of that amount, EUR 5.6 million (previous year: EUR 48.9 million) was attributable to securities repurchase transactions reported under deposits from banks.

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

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-down 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-down 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-down plan.

However, decision-making authority remains fully with the EAA. Due to the key importance of the outsourced activities for EAA, it 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 EUR 103.3 million (previous year: EUR 209.4 million) (of which with affiliates: EUR 0; previous year: EUR 0).

35. Forward contracts/derivative financial instruments

As part of its business activities, 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 EUR 101.3 billion (previous year: EUR 107.3 billion) as of the balance sheet date. The focus remained on interest-rate-related products, which accounted for 71.6% of the total volume, up from 68.5% 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 of the balance sheet date

	Notional values		Positive market values		Negative market values	
EUR million	31 Dec. 2011	31 Dec. 2010	31 Dec. 2011	31 Dec. 2010	31 Dec. 2011	31 Dec. 2010
Interest-rate-related products	**72,484**	**73,540**	**3,008**	**1,695**	**2,910**	**2,457**
OTC products	72,484	73,540	3,008	1,695	2,910	2,457
Currency-related products	**25,223**	**28,349**	**245**	**245**	**854**	**1,045**
OTC products	25,223	28,349	245	245	854	1,045
Equity- and other price-related products	**848**	**2,889**	**41**	**255**	**14**	**26**
OTC products	848	2,889	41	255	14	26
Credit derivatives	**2,734**	**2,508**	**200**	**63**	**232**	**83**
OTC products	2,734	2,508	200	63	232	83
Total derivative financial instruments	**101,289**	**107,286**	**3,494**	**2,258**	**4,010**	**3,611**
OTC products	101,289	107,286	3,494	2,258	4,010	3,611

The average annual notional amounts of forward contracts and derivative transactions amounted to EUR 102.4 billion during the 2011 financial year (previous year: EUR 104.9 billion).

Derivative financial instruments – presentation of average volumes

Average 1 Jan. to 31 Dec. 2011 and 1 July to 31 Dec. 2010	Notional value		Positive market value		Negative market value	
EUR million	2011	2010	2011	2010	2011	2010
Interest-rate-related products	**73,769**	**69,690**	**2,531**	**1,690**	**2,729**	**1,941**
OTC products	73,769	69,690	2,531	1,690	2,729	1,941
Currency-related products	**24,660**	**29,870**	**245**	**184**	**887**	**861**
OTC products	24,660	29,870	245	184	887	861
Equity- and other price-related products	**1,581**	**3,226**	**120**	**296**	**21**	**32**
OTC products	1,581	3,226	120	296	21	32
Credit derivatives	**2,400**	**2,088**	**131**	**81**	**157**	**94**
OTC products	2,400	2,088	131	81	157	94
Total derivative financial instruments	**102,410**	**104,874**	**3,027**	**2,251**	**3,794**	**2,928**
OTC products	102,410	104,874	3,027	2,251	3,794	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

Notional values	Interest-rate-related products		Currency-related products		Equity- and other price-related products		Credit derivatives	
EUR million	31 Dec. 2011	31 Dec. 2010	31 Dec. 2011	31 Dec. 2010	31 Dec. 2011	31 Dec. 2010	31 Dec. 2011	31 Dec. 2010
Due								
- within 3 months	8,341	3,717	10,658	1,767	422	488	105	283
- 3 months to 1 year	6,349	5,042	5,931	14,091	343	1,925	196	630
- 1 to 5 years	38,786	56,315	7,063	11,971	83	476	2,233	1,357
- after 5 years	19,008	8,466	1,571	520	0	0	200	238
Total	**72,484**	**73,540**	**25,223**	**28,349**	**848**	**2,889**	**2,734**	**2,508**

36. Remuneration paid to executive bodies

Remuneration paid to members of the Managing Board amounted to TEUR 923 during the 2011 financial year (abridged 2010 financial year: TEUR 450).

The members of the Supervisory Board received remuneration amounting to TEUR 170 during the 2011 financial year. This remuneration included an allowance, divided into base and per-meeting pay. The amount of TEUR 163 paid in the abridged 2010 financial year included 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 in either the 2011 financial year or in the previous year.

38. Number of employees

The average number of employees was as follows in the period under review:

Number of employees	Female	Male	Total 1 Jan.– 31 Dec. 2011	Total 1 Jul.– 31 Dec. 2010
	17	32	49	24

39. EAA shareholders

Shareholders	Interest	
	31 Dec. 2011 in %	31 Dec. 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 2011 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 article 340a (4) no. 1 in conjunction with article 267 (3) of the HGB.

41. Memberships of other bodies held by employees

In the 2011 financial year, the following employees of the EAA were members of a Supervisory Board or other supervisory bodies of public companies pursuant to article 340a (4) no. 1 in conjunction with article 267 (3) of the HGB.

Sven Guckelberger
Basinghall Finance plc

Gabriele Müller
EAA Covered Bond Bank plc
EAA Corporate Services plc
(formerly EAA Bank Ireland plc)
Basinghall Finance plc

Hartmut Rahner
EAA Covered Bond Bank plc
EAA Corporate Services plc
(formerly EAA Bank Ireland plc)

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
Chairman
State Secretary 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 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
(until 31 October 2011)
Vice president
Member of the Managing Board of the Sparkassenverband Westfalen-Lippe

Dr. Wolfgang Kirsch
Director of the Landschaftsverband Westfalen-Lippe

Hans Martz
(since 1 August 2011)
Chairman of the Managing Board of the Sparkasse Essen

Michael Stölting
Member of the Managing Board of NRW.BANK

Adolf Terfloth
(until 31 July 2011)
Chairman of the Managing Board of the Sparkasse Düren

Jürgen Wannhoff
(since 1 November 2011)
Chairman of the Managing Board of the Sparkasse Detmold

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 2011
Target currency/unit: TEUR
Interest and voting rights in %

Other shareholding

Ct. No.	Name	Location	Capital share	Voting rights	Currency	Equity	Profit/loss
1	Basinghall Commercial Finance Limited[6]	London, United Kingdom	100.00		GBP	6,015	22
2	Basinghall Finance plc[6]	London, United Kingdom	100.00		GBP	-10,007	-951
3	Candover 2001 GmbH & Co. KG[5]	Frankfurt am Main	26.89	0	EUR	36,799	6,662
4	Clavis Securities plc[1,6]	London, United Kingdom	0.00		GBP	1,708	524
5	COREplus Private Equity Partners II – Diversified Fund, L.P.[5]	Wilmington, USA	24.75	0	USD	22,010	1,749
6	CWB Capital Partners Limited[6]	London, United Kingdom	25.00		GBP	3,575	2,276
7	EAA Corporate Services Public Limited Company[6]	Dublin, Ireland	100.00		EUR	1,002	-340,104
8	EAA Covered Bond Bank plc[2,6]	Dublin, Ireland	100.00		EUR	85,142	-34,986
9	Euro-Equity Holding GmbH i.L.[3,6]	Düsseldorf	100.00		EUR	50	0
10	Heber Avenue Partners LLC	Dover, USA	100.00			k.A.	k.A.
11	Home Funding Ltd.[1,6]	Tenterden, United Kingdom	40.00		GBP	937	11
12	Home Partners Holdco LLC	Dover, USA	100.00			k.A.	k.A.
13	International Leasing Solutions Japan K.K.[6]	Tokyo, Japan	100.00		JPY	283	2
14	Klenk Holz AG[5]	Oberrot	21.87		EUR	-8,270	-6,681
15	MFC 1100 Columbia York LLC[1]	New York, USA	100.00			k.A.	k.A.
16	MFC ABW LLC[1]	New York, USA	100.00			k.A.	k.A.
17	MFC BDM LLC[1]	New York, USA	100.00			k.A.	k.A.
18	MFC CMARK LLC[1]	New York, USA	100.00			k.A.	k.A.
19	MFC Eagle Realty LLC[1]	New York, USA	100.00			k.A.	k.A.
20	MFC Holdco, LLC	New York, USA	100.00			k.A.	k.A.
21	MFC Jamestown LLC[1]	New York, USA	100.00			k.A.	k.A.
22	MFC JCD LLC[1]	New York, USA	100.00			k.A.	k.A.
23	MFC Jennings Gateway LLC[1]	New York, USA	100.00			k.A.	k.A.
24	MFC Jordan Contracting LLC[1]	New York, USA	100.00			k.A.	k.A.
25	MFC Leominster LLC[1]	New York, USA	100.00			k.A.	k.A.
26	MFC New Paradigm LLC[1]	New York, USA	100.00			k.A.	k.A.
27	MFC Pinecrest LLC[1]	New York, USA	100.00			k.A.	k.A.
28	MFC PS Royal Louisville LLC[1]	New York, USA	100.00			k.A.	k.A.
29	MFC PS Royal Prosper LLC[1]	New York, USA	100.00			k.A.	k.A.
30	MFC Real Estate LLC[1]	New York, USA	100.00			k.A.	k.A.
31	MFC Spanish Trails LLC[1]	New York, USA	100.00			k.A.	k.A.
32	MFC Twin Builders LLC[1]	New York, USA	100.00			k.A.	k.A.
33	MIG Immobiliengesellschaft mbH i. L.[4]	Mainz	40.91		EUR	0	-151
34	ParaFin LLC	New York, USA	100.00			k.A.	k.A
35	Special PEP II GP Investors LLC[6]	Wilmington, USA	50.00	0	USD	371	20

Other shareholding							
Ct. No.	**Name**	**Location**	**Interest**	**Voting rights**	**Currency**	**Equity**	**Profit/loss**
36	Standard Chartered (SFD No.2) Limited[6]	London, United Kingdom	25.00		USD	0	0
37	Tanzbar CH Holdings LLC	New York, USA	100.00			k.A.	k.A.
38	Tanzbar DB Holdings LLC	New York, USA	100.00			k.A.	k.A.
39	Ulisse GmbH i.L.[6]	Düsseldorf	100.00		EUR	44	0
40	WestLB Asset Management (US) LLC[5]	Wilmington, USA	100.00		USD	26,642	3,354
41	WestLB Equity Fonds GmbH[3,6]	Düsseldorf	100.00		EUR	25	0
42	WestLB Participation One GmbH[3,6]	Düsseldorf	100.00		EUR	44,827	0
43	WestLB Venture Capital Management GmbH & Co. KG[5]	Munich	50.00		EUR	130	65
44	WLB CB Holding LLC	New York, USA	100.00			k.A.	k.A.

Interest greater than 5% (large corporations)							
Ct. No.	**Name**	**Location**	**Interest**	**Voting rights**	**Currency**	**Equity**	**Profit/ loss**
45	Banco Finantia S.A.[6]	Lisboa, Portugal	8.32	8.46	EUR	349,238	10,882

[1] Indirect shareholding
[2] A global guarantee exists
[3] Profit and loss transfer agreement in place with this company
[4] Only data as of 31 Dec. 2008 is available
[5] Only data as of 31 Dec. 2009 is available
[6] Only data as of 31 Dec. 2010 is available

Düsseldorf, 15 March 2012

Erste Abwicklungsanstalt

The Managing Board

Matthias Wargers

Markus Bolder

Auditors' Report

We have audited the annual financial statements, comprising the balance sheet, the income statement, 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 EAA, Düsseldorf, for the financial year from 1 January to 31 December 2011. 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 statement s 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, 16 March 2012
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Clemens Koch)
German public auditor

(ppa. Susanne Beurschgens)
German public auditor

Responsibility statement

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, 15 March 2012

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)

BilMoG
German Accounting Law Modernisation Act
(Bilanzrechtsmodernisierungsgesetz)

CAD
Credit Analysis & Decision

CP
Commercial Paper

CPP
Capital Purchase Program

DRS
German Accounting Standard
(Deutscher Rechnungslegungsstandard)

EAA
First Winding-up Agency
(Erste Abwicklungsanstalt)

EAA CBB
EAA Covered Bond Bank plc, Dublin/Irland

EAA GW
EAA Global Watchlist

EESA
Emergency Economic Stabilization Act

EFSF
European Financial Stability Facility

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

EMEA
Europe, Middle East and Africa region

EU
European Union

EUSS
European Super Senior Notes

EEC
European Economic Community

ECB
European Central Bank

FED
Federal Reserve Bank, USA

FMS
Financial Market Stabilisation Fund

FMSA
Financial Market Stabilisation Authority

FMStFG
Financial Market Stabilisation Fund Act
(Finanzmarktstabilisierungsfondsgesetz)

FRA
Forward Rate Agreement

FX-Effect
Foreign Exchange Effectt

GDP
Gross Domestic Product

GRMC
Global Risk Management & Control

G7 countries
Germany, the United States, Japan, the United Kingdom, Canada, France and Italy

HGB
German Commercial Code (Handelsgesetzbuch)

ICS
Internal control system

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

IFRS
International Financial Reporting Standard

IMF
International Monetary Fund

KfW
Kreditanstalt für Wiederaufbau

LVR
Landschaftsverband Rheinland

LWL
Landschaftsverband Westfalen-Lippe

MaRisk
Minimum requirements for Risk Management

MiFID
Markets in Financial Instruments Directive

N.R.
Not rated

NRW
North Rhine-Westphalia

OTC-Products
Over-the-counter products

PE
Private Equity

PEG
Portfolio Exit Group

Phoenix Light SF Ltd.
ABS special purpose vehicles, headquartered in Dublin/Ireland

PV01
Effect of a shift in the interest rate curve

RechKredV
Ordinance on Accounting for Banks

RiskCo
Risk Committee

RMS
Risk management system

RSGV
Rheinischer Sparkassen- und Giroverband

SPM
Service and portfolio management bank

SPV
Special purpose vehicle

S.R.
Special rating

SVWL
Sparkassenverband Westfalen-Lippe

TARP
Troubled Asset Relief Program

UmwG
German Reorganisation Act (Umwandlungsgesetz)

WestImmo
Westdeutsche ImmobilienBank AG, Mainz

WestLB
WestLB AG, Düsseldorf

Imprint

Erste Abwicklungsanstalt
Elisabethstraße 65
40217 Düsseldorf
Germany
T. +49 211 826 7800
F. +49 211 826 7883
info@aa1.de
www.aa1.de

Graphic Concept & Design
ITABRAND GmbH
Düsseldorferstr. 64
44143 Dortmund
Germany
www.itabrand.de

Erste Abwicklungsanstalt
Elisabethstraße 65
40217 Düsseldorf
Germany
T. +49 211 826 7800
F. +49 211 826 7883
info@aa1.de
www.aa1.de