Erste Abwicklungsanstalt

Annual Report

The EAA’s self-portrait

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

The EAA is specialised in professionally solving problems associated with complex international portfolios.

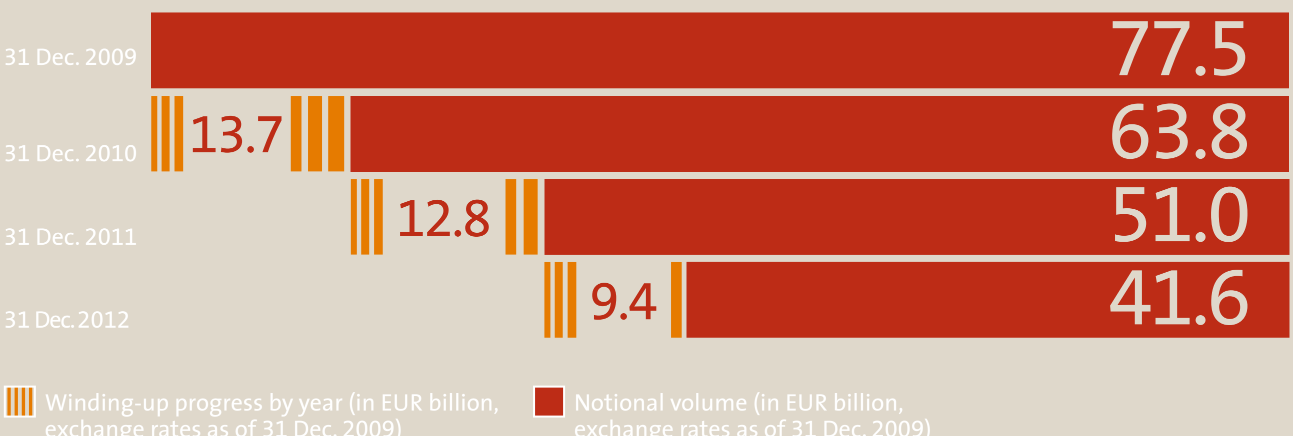
As a public law agency, the EAA has a very important social responsibility that we, the Managing Board and the employees, take very seriously.

ORIGINAL PORTFOLIO SIGNIFICANTLY REDUCED

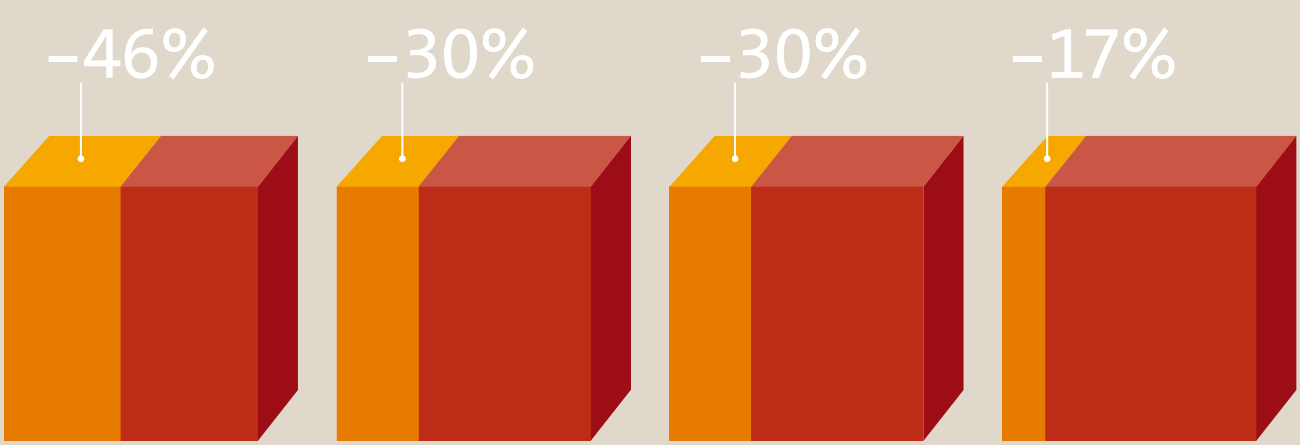
After the establishment of the EAA in December 2009, a portfolio with a notional volume of EUR 77.5 billion was transferred from the former WestLB to the EAA. The intention was to halve the portfolio volume by 2014. By the end of 2012, this target had already almost been achieved.

PROGRESS OF THE LOAN AND SECURITIES PORTFOLIO ORIGINALLY TRANSFERRED TO THE EAA (FIRST FILL)

REFERENCE DATE:



WINDING-UP OF THE PORTFOLIO



Winding-up progress of the original loan and securities portfolio 2009 to 2012

Winding-up progress of the new loan and securities portfolio in 2012

Phoenix portfolio 2009 to 2012

Derivatives portfolio 2012

EAA Key Figures

Income statement in EUR million	1 Jan.–31 Dec. 2012	1 Jan.–31 Dec. 2011
Net interest income	260.1	188.6
Net fee and commission income	155.5	26.4
Net trading result	–51.8	–
Other operating result	9.3	–5.6
General administrative expenses	–412.7	–127.2
Results from financial assets and shareholdings	–123.2	–22.6
Results prior to risk provisioning	**–162.8**	**59.6**
Loan loss provisions	171.6	–935.9
Earnings before taxes	**8.8**	**–876.3**
Taxes on income and earnings	–2.2	–1.9
Earnings after taxes	**6.6**	**–878.2**

Balance sheet in EUR billion	31 Dec. 2012	31 Dec. 2011
Total assets	123.3	50.8
Business volume	148.6	58.9
Loan transactions	70.6	32.1
Equity	0.5	0.6

Winding-up	31 Dec. 2012	31 Dec. 2011
Banking book		
Notional value (before FX effect) in EUR billion	94.4	51.0
Winding-up activities in EUR billion	–32.0	–12.8
Winding-up activities in %	–25.3	–20.1
Trading portfolio		
Notional value (before FX effect) in EUR billion	884.8	–
Winding-up activities in EUR billion	–179.3	–
Winding-up activities in %	–16.8	–

Employees	31 Dec. 2012	31 Dec. 2011
Number of employees	103	56

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

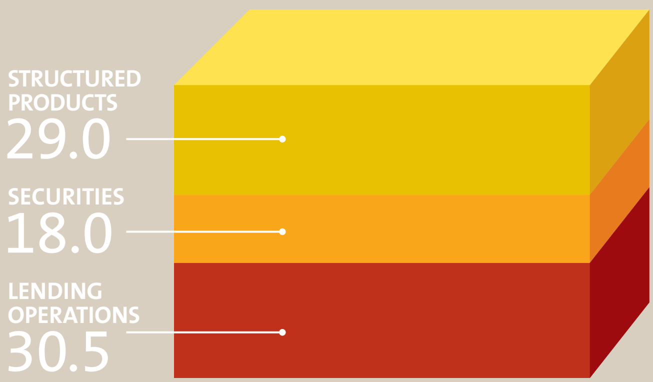
Content

THE EAA’S PORTFOLIO

In the 2012 financial year, the EAA took over a second portfolio with a volume of several billion euros. The transfer was gradual with retroactive effect to 1 January or 1 July. Since it was established, the EAA has assumed portfolios to be wound-up with a total volume of approximately EUR 200 billion.

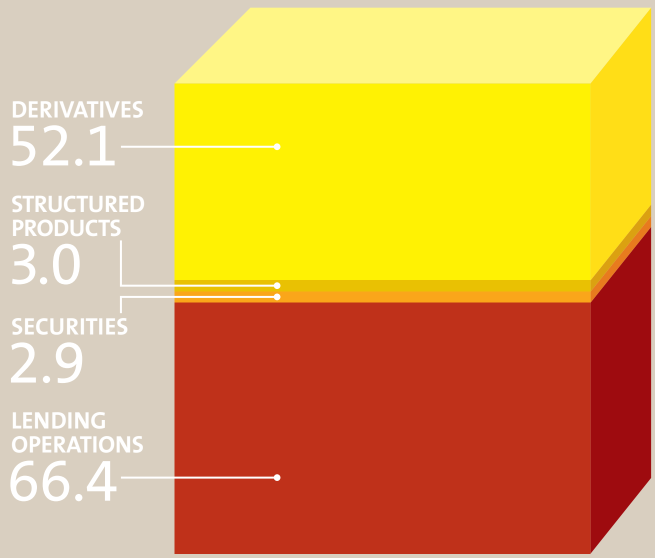
FIRST PORTFOLIO: 77.5

(volume* upon transfer as of 1 Jan. 2010 in EUR billion)



SECOND PORTFOLIO: 124.4

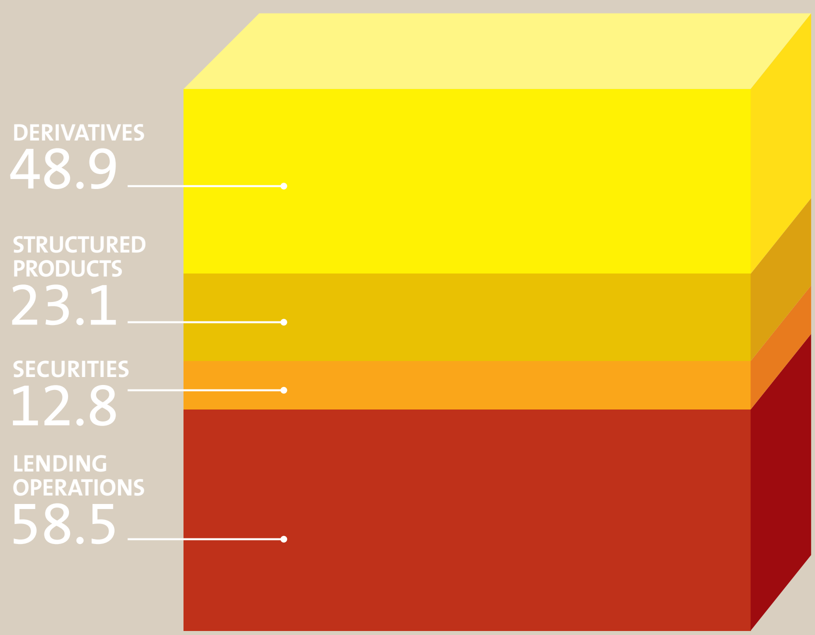
(volume* upon transfer as of 1 Jan./1 July 2012 in EUR billion)



The EAA is now creating a standardised winding-up plan for both portfolios. Based on previous winding-up plans, the EAA has already been able to reduce the portfolio volumes substantially. Calculated on the basis of a standardised exchange rate (31 December 2011), winding-up operations thus far total EUR 60.6 billion, around EUR 32.0 billion of which was achieved in 2012.

TOTAL PORTFOLIO: 143.3

(volume* as of 31 Dec. 2012, exchange rates as of 31 Dec. 2011)



* Notional values are reported in the case of lending operations, securities and structured products, market values in the case of derivatives in the trading portfolio.

Dear Stakeholders,

The EAA has grown, yet our goal stands firm. Even though we assumed an additional portfolio amounting to a three-digit billion figure in 2012, we intend to end our work with no equity shortfall.

Three reasons make us optimistic that we will be able to achieve this goal.

First, we are able to rely on our professional and motivated team. The employees at the EAA contributed – in cooperation with additional stakeholders – to making one of the most complex financial transactions of 2012 possible: the so-called refill of the EAA, the acquisition of a second portfolio from the former WestLB, has succeeded. At the same time, we have acquired additional specialists in order to expand our expertise, such as for winding-up the newly assumed trading portfolio.

Second, we are able to report a positive result for 2012. We ended the year on a plus of just under EUR 9 million before taxes. We managed to do so because we are profiting from an improved market environment and were therefore able to compensate for special burdens, such as additional administrative costs as part of the extensive transfer.

And third, the progress of the portfolio reduction so far leaves us very optimistic. We assumed EUR 77.5 billion in 2009 and 2010. Despite the continued financial crisis, we were able to nearly halve this balance by the end of the last year. Our plan did not envision this goal until 2014. We have also already reduced the newly assumed portfolio by almost one-third.

It is particularly worth noting that the quality of our original portfolio has not suffered from the winding-up so far: the share of securities with a good rating continues to be approximately 50%.

From a qualitative perspective, our portfolio has benefited from the refill. We can also expect sustainable income in future that will strengthen us and make us more resistant to risks. We have also set goals for the new portfolio: we want to at least halve the total volume by 2016.

This annual report includes for the first time the exposures that the EAA has additionally assumed as part of the refill transaction and will also wind-up. It should show in figures and words that the EAA has created the conditions to also assume its greatly expanded function optimistically and with proven instruments.

We wish you stimulating reading.

Sincerely

Matthias Wargers
Member of the Managing Board

Markus Bolder
Member of the Managing Board

Goal:

Mission: Accepted

The goal of the winding-up activities is to end with no equity shortfall.

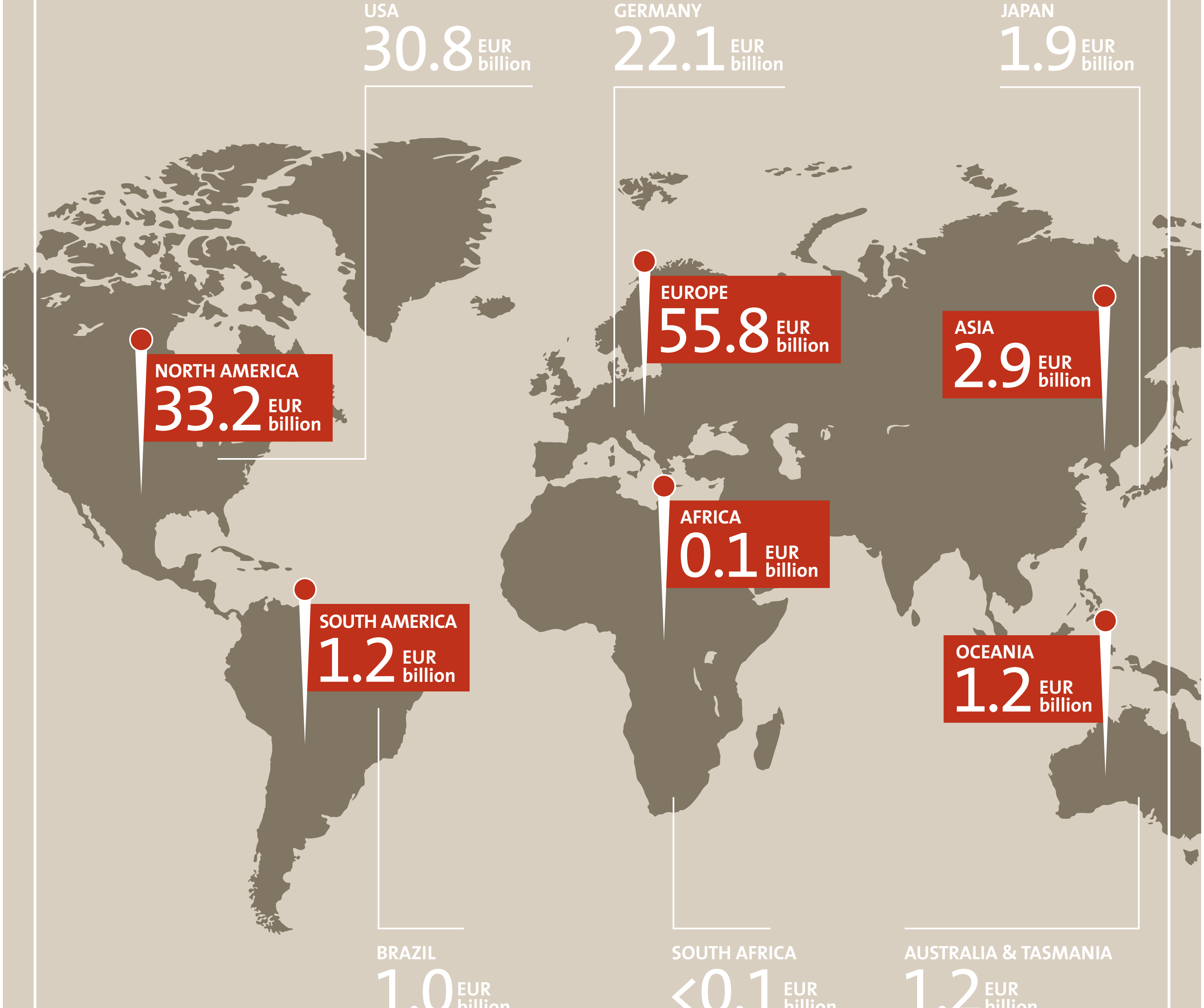
Originally the EAA's portfolio contained only loans and securities. The exposures assumed in 2012 not only led to a growth of these holdings, they also led to a new category for the winding-up activities: the derivatives from the trading portfolio of the former WestLB.

The nominal value of this derivatives portfolio is high: at the time of transfer, it was worth approximately EUR 1.1 trillion; in the financial statements for 2012, it was still worth approximately EUR 885 billion. With approximately EUR 52.1 billion to start with, the market value of this trading portfolio is significantly lower.

Facts on the trading portfolio on page 9.

REGIONAL STRUCTURE OF THE EAA PORTFOLIO

The EAA's portfolio is widely spread in terms of regions. As of 31 December 2012, the nominal volume of the loan and securities portfolio – a total of EUR 94.4 billion – was distributed among nearly 100 countries.



Exchange rates as of 31 Dec. 2011

Portfolio successfully transferred under difficult conditions

Refilling – in practice, this word meant that in 2012 the EAA assumed a further portfolio to be wound-up. The transaction included major economic, legal and technical challenges. The complex process succeeded without stalling the planned quick downsizing of assets.

Mid-2011, the basics of the WestLB restructuring were determined in a framework agreement. At its core: all business activities geared towards the cooperation with the regional savings banks were to be transferred to Landesbank Hessen-Thüringen Girozentrale (Helaba). The EAA assumed all other elements of the former WestLB's portfolio.

Following complicated negotiations, the details of the implementation were contractually fixed on 31 August 2012 and became legally binding upon entry into the commercial register on 17 September 2012. The portfolio transfer also meant that WestLB, now trading under the name Portigon, then had to completely transfer all relevant bank transaction data to the EAA's EDP systems.

Facts on the refill:

- ▲ The size of the refill transaction exceeded the previous size of the EAA by far. It had assumed a portfolio with a nominal volume of EUR 77.5 billion in December 2009 and April 2010. In 2012, it assumed loans and securities with a nominal value of EUR 72.3 billion as well as derivatives transactions with a market value of EUR 52.1 billion.

- ▲ A total of 535,000 individual business transactions had to be transferred; upon the establishment of the EAA in 2009/2010 the corresponding figure was approximately 65,000.

- ▲ The transferred transactions are distributed among 86 countries; the corresponding figure for the first portfolio acquisition was 58 countries. For the transfer, it was necessary to comply with all provisions set forth in the various legal systems, such as the counterparties' rights of consent. Therefore, not the entire portfolio was transferred by means of a spin-off. To some extent, transfer alternatives had to be employed that transferred the economic risk to the EAA while leaving the rights of ownership with Portigon.

- ▲ The systems used by the EAA now had to process more than 60 different currencies instead of the previous 25.

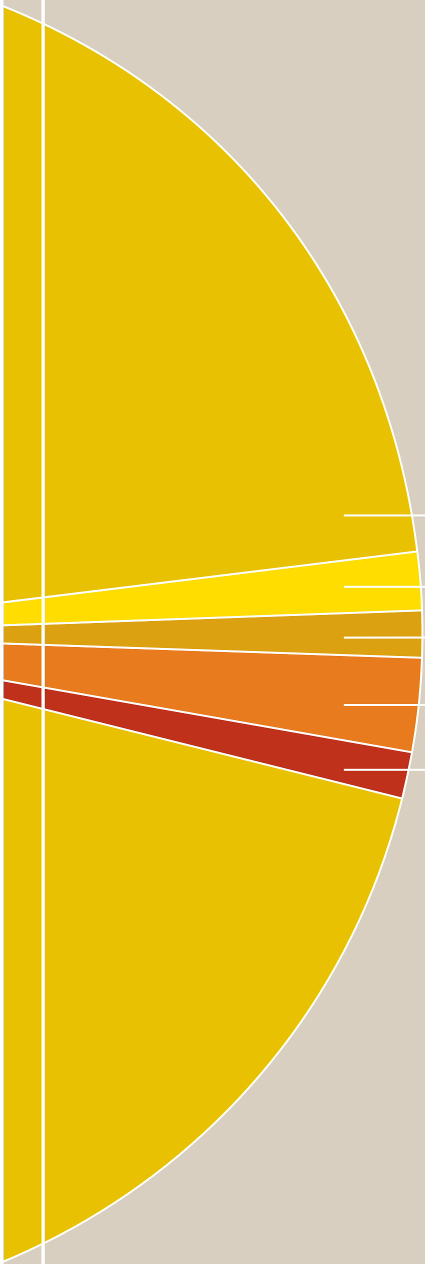
- ▲ The additional portfolio brought with it new technical tasks. The IT landscape grew from 78 to 102 different application systems that were needed for new products and investments.

Of course, the EAA's day-to-day business operations had to continue without interruption during this transformation. This was achieved; the technical transfer took place on five weekends starting in October 2012. The EAA was "refilled".

DERIVATIVES IN THE TRADING PORTFOLIO

The nominal volume of the EAA's derivatives portfolio totalled just under EUR 1.1 trillion at the time of acquisition and had been reduced to EUR 885 billion by the end of 2012. The market value is considerably lower – EUR 48.9 billion as of 31 December 2012.

NOMINAL VOLUMES OF THE TRADING PORTFOLIO ON 30 JUNE 2012 IN EUR BILLION



		REDUCTION BY 31 DECEMBER 2012
INTEREST	992.5	–14.2%
CREDIT	16.4	–24.2%
CURRENCY	14.8	–85.4%
EQUITY	28.3	–36.2%
OTHER	12.0	–95.7%
TOTAL	1,064.0	–16.8%

The EAA assumes a trading portfolio for the first time

The EAA's portfolio originally contained only loans and securities. In 2012, a new category for the winding-up activities has been added – the derivatives from the trading portfolio of the former WestLB.

This portfolio was transferred to the EAA on 17 September 2012, with retroactive effect as of 1 July 2012, from Portigon AG, formerly WestLB AG, and had already been reduced by approximately 17% by the end of 2012. The goal is to halve the nominal volume by 2016.

The nominal value of this trading portfolio is high: at the time of transfer, it was worth approximately EUR 1.1 trillion; in the financial statements for 2012, it still amounted to approximately EUR 885 billion. In contrast to the traditional lending business, however, the nominal volume is not the deciding measure for risk management. When it comes to derivatives transactions, the underlying capital amounts are often not even exchanged. Rather, key risks result from changes in market prices, such as for interest rate and currency transactions. With originally around EUR 52.1 billion to start with, the market value of the EAA trading portfolio is significantly lower.

Active risk management approach

To manage the winding-up process, the EAA has divided the trading portfolio into five clusters: the largest one – interest rate derivatives – comprised a nominal volume of a good EUR 850 billion as of 31 December 2012. This cluster is dominated by comparatively simple products, such as interest rate swaps. Further types of products are credit derivatives, currency derivatives and equity derivatives.

The EAA has been tasked with winding-up the assumed risk assets – and therefore also the trading portfolio – in a loss-minimising manner. The market price risks – for instance, due to changes in interest rates or fluctuations in share prices or exchange rates – are continually monitored. Although it is not a bank, the EAA is also subject to the regulatory Minimum Requirements for Risk Managment (MaRisk) in its management of the trading portfolio.

Sub-cluster wound-up

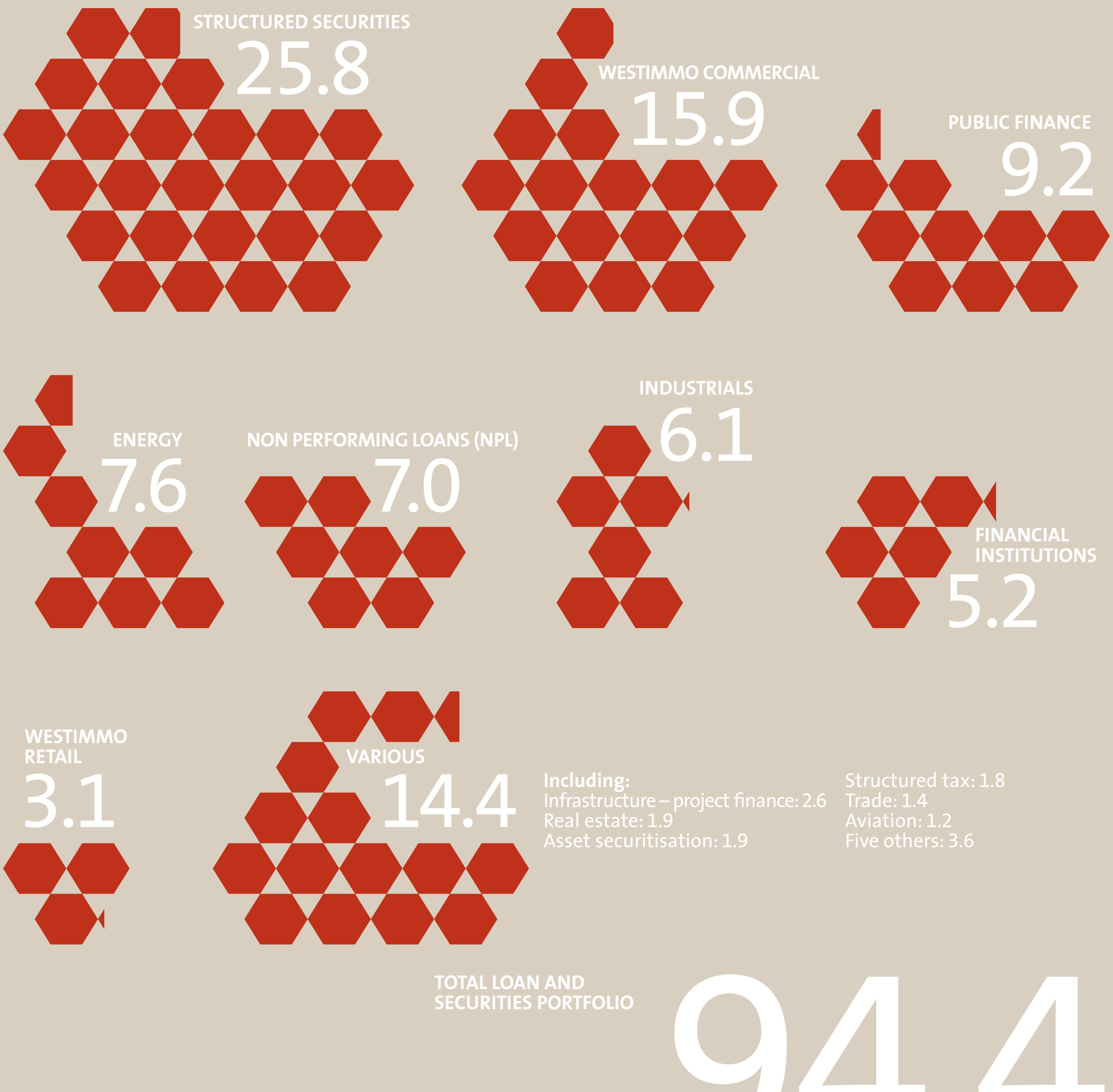
The interest of market participants in the new category in the EAA portfolio is shown on a sale in the first quarter of 2013 – the credit derivatives sub-cluster was wound-up almost completely.

In March 2013, it was possible to sell a package consisting of 30 basket default swaps (BDS) and 1,341 credit default swap hedges all at once – nominal value approximately EUR 9.5 billion. Each of these swaps hedges a basket of loans, usually for the event that a single one of these should default.

With the completion of this transaction, a special risk class in the EAA's trading portfolio has completely ceased to exist; its complexity has decreased significantly as a result.

STRUCTURE OF THE LOAN AND SECURITIES PORTFOLIO

The EAA's loan and securities portfolio is divided into 19 clusters of varying size. For better management of the portfolio, the various segments are also divided into a total of 32 further sub-clusters.



Distribution of the nominal volume as of 31 Dec. 2012
(in EUR billion, exchange rates as of 31 Dec. 2011)
Deviations possible due to rounding

Facts on the refill of the loan and securities portfolio

The originally assumed loan and securities portfolio, which the EAA had already reduced by 46%, has grown significantly once again as a result of the refill. The new exposures not only increase the volume of the EAA portfolio, they also differ from the original portfolio in terms of structure and quality.

- The loan and securities portfolio that the EAA assumed from the former WestLB on 17 September 2012, with retroactive effect to 1 January 2012, had a volume of EUR 72.3 billion as of the date of acquisition. By the end of 2012, it had been reduced to EUR 50.4 billion, based on the exchange rates on 31 December 2011.

- This refill portfolio consists primarily of loan exposures: in particular, corporate loans as well as infrastructure and project financing. Such loans show some particular characteristics in comparison to other loan transactions; they barely played a role in the EAA's original loan and securities portfolio.

- The average quality of the exposures assumed in 2012 is better than that of the exposures in the first portfolio; the share of good rating categories was 59% at mid-year. In the original portfolio, this value was approximately 50% at the same point in time.

- The refill portfolio contains non-performing loans (NPLs) with a volume of approximately EUR 3 billion. At approximately 7%, the share of NPLs in the total bank portfolio is currently considerably lower than when the EAA was established.

- The average maturity of the refill portfolio is six years, which is significantly shorter than in the first portfolio, with an average maturity of nine years.

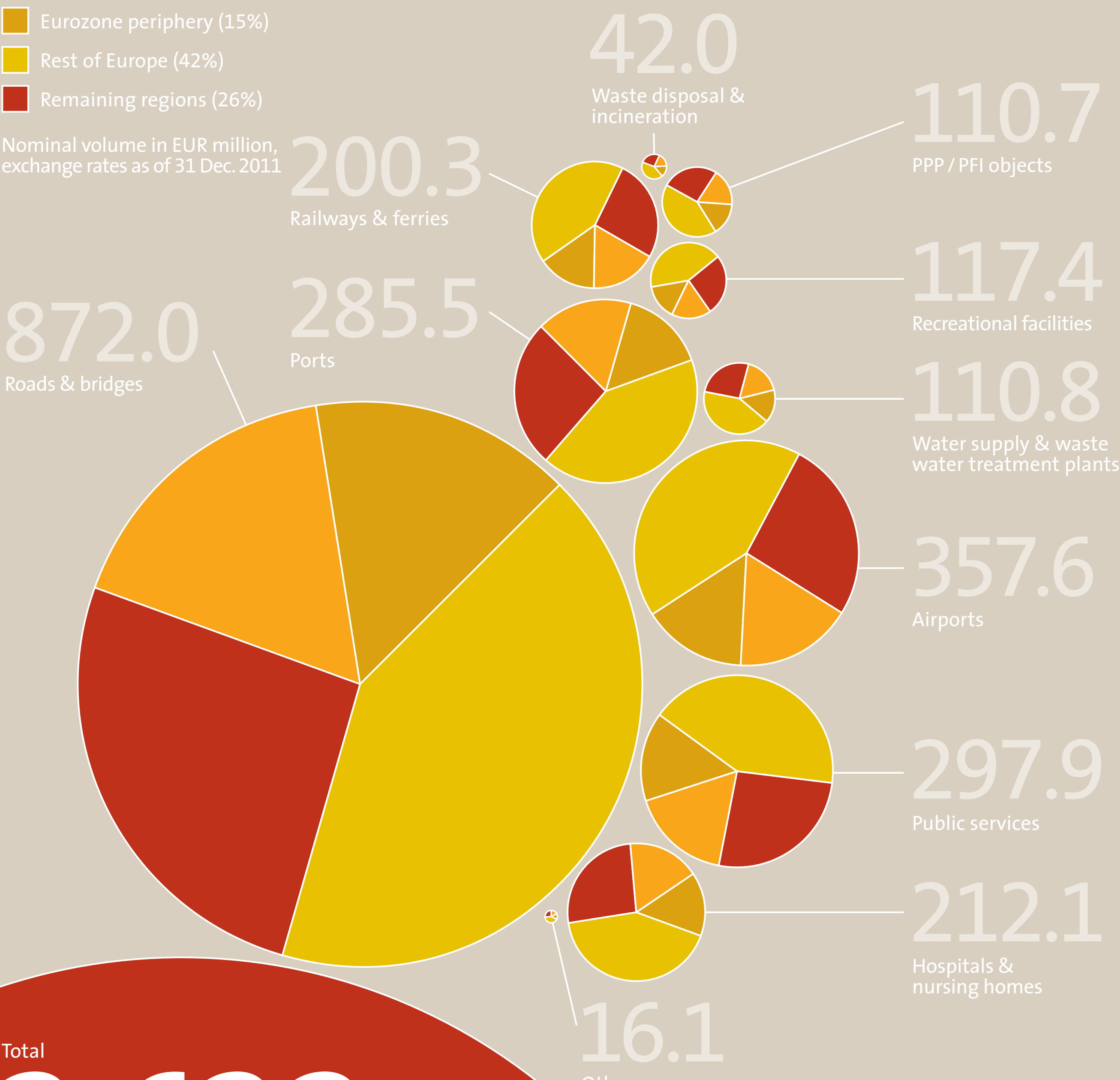
- The volume of structured products in the EAA portfolio has merely changed to a comparatively small extent on account of the refill. The structured products from the original EAA portfolio – especially the Phoenix and European Super Senior Notes – remain the most significant individual risks for the EAA.

PROJECT FINANCING: INFRASTRUCTURE

As part of the refill, the EAA assumed infrastructure projects with a total book value of EUR 2.6 billion from the former WestLB in 2012. The majority served to finance roads and bridges.

- America (17%)
- Eurozone periphery (15%)
- Rest of Europe (42%)
- Remaining regions (26%)

Nominal volume in EUR million, exchange rates as of 31 Dec. 2011



Total
2,622

*PPP: Public Private Partnership
PFI: Private Finance Initiative

Financing of infrastructure projects is attractive for long-term investors

Project loans form a focal point in the EAA's new overall portfolio. Infrastructure projects – such as the construction and operation of motorways, train stations, airports or seaports with transshipment terminals – usually have a long-term horizon. The potential public influence can be great. But, the risks are lower. The EAA's portfolio contains a total nominal volume of approximately EUR 2.6 billion distributed among 63 individual infrastructure projects.

The investors behind such infrastructure projects are generally acting for the long term and are interested in a stable, continual cash flow. These plans are often characterised by comparatively high barriers to entry, such as concessions, licences or monopolies and are accompanied by comprehensive rules and regulations.

In addition, the projects, which are often highly capital intensive, are often in the public focus. Financing issues are therefore often met with great interest. On the other hand, the risks for the capital providers involved are rather low due to comprehensive hedging.

The EAA's project financing portfolio is dominated by toll motorways, airports and seaports. Key locations and countries are the United Kingdom (25%), Australia (20%) and Spain (11%). Other peripheral European countries account for a relatively small share of this sub-portfolio.

Demand is rising

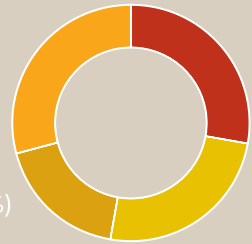
The risk-return profile of the aforementioned loans is attractive; long-term net interest surpluses speak in favour of holding these exposures. However, the EAA's goal remains to also wind-up these exposures within an appropriate period of time in a manner that optimises value.

Even though the financing of infrastructure projects does not come into question for every investor, the demand is rising; assets with stable income in the long term are currently very interesting for collection points for capital, such as insurers or pension funds. The low-interest-rate environment and the sovereign debt crisis are making it necessary to further diversify many portfolios.

In particular, insurers and pension funds have a large supply of liquid funds that they are looking to invest safely. Their capital costs – and therefore also their yield expectations – are significantly lower than those of hedge funds or private equity investors, which are also increasingly investing in this sector.

PROJECT FINANCING: ENERGY

Exposures in the energy industry make up approximately EUR 5.3 billion of the EAA loan portfolio. Financed were both renewable energies and conventional power plants.



Nominal volume in EUR million, exchange rates as of 31 Dec. 2011

Refineries	95
Supply and distribution	146
Petrochemical and chemical plants	287
Other power plants	409
Oil and gas: extraction	483
Oil and gas: logistics	775
Coal power plants	791
Gas power plants	837
Renewable energies	1,330
Other	98
Total	5,251

Financing of energy projects are characterised by long maturities

The sub-portfolio project financing in the energy sector contains a nominal volume of approximately EUR 5.3 billion distributed among a total of 167 individual projects, predominantly in the field of renewable energies. These are particularly interesting for investors with an eye on the long term.

The EAA's project financing portfolio contains mainly solar and wind power plants in addition to conventional coal and gas power plants. The investments have usually been used to finance the construction of new plants; the loans are paid back with the income from the operating phase. Owing to a major project, the key location for this portfolio is Germany, with a share of 22%, followed by the USA (18%) and Spain (15%).

The energy sector is not only shaped by the market participants, it is also strictly regulated and influenced to a great degree by political decisions. Short-term, wide-ranging changes, which were part of the energy transition in Germany marked a turning point. The ambitious plans for the expansion of renewable energies have moved the market, too. There is a need for investments and potential investors are taking a very close look at prospects for returns.

In comparison to the rest of the EAA portfolio, project loans in the energy industry have long maturities. On the other hand, the projects in this area are characterised by a low market risk – the fluctuations in price and demand are manageable from today's perspective.

Above-average margins

This constellation mainly attracts investors interested in the long term. The EAA therefore regularly receives corresponding inquiries from interested parties in the current low interest rate environment.

On the whole, the above-average margins and the long maturities promise good interest income. In these cases, it makes economic sense to hold project loans in the energy sector in the portfolio. This is why the EAA only strives to sell exposures that can be wound-up at corresponding prices or where it is possible to improve the portfolio's risk profile substantially.

The refill has been successfully financed

The acquisition of additional assets from the former WestLB brought the EAA significantly higher refinancing needs. The Treasury Team took advantage of the favourable market development in 2012 and issued medium and long-term bonds equivalent to EUR 26.3 billion. Short-term refinancing amounted to EUR 17.8 billion as of 31 December 2012.

Not least the transfer of the so-called refill portfolio with a three-digit billion amount led to the EAA intensifying its funding activities in 2012. With transfer of the portfolio on 17 September 2012, the EAA provided due refinancing of approximately EUR 40 billion as part of a liquidity buffer. This was supplemented by ongoing funding needs when issued or assumed debt instruments expired and had to be replaced with new bonds.

In 2012, the EAA's issuing activities were split among three large benchmark bonds with a total volume of EUR 5 billion, numerous medium-sized club deals (issues via a consortia of several banks) and private placements with individual investors. The EAA also made intensive use of its Commercial Paper Programme for short-term refinancing.

The EAA targeted institutional investors

These issues were accompanied by intensive marketing. In 2012, the EAA's Investor Relations team met with a total of 171 potential institutional investors in one-on-one meetings, group presentations and large investor events. A special focus was placed on foreign investors to increasingly diversify the investor basis.

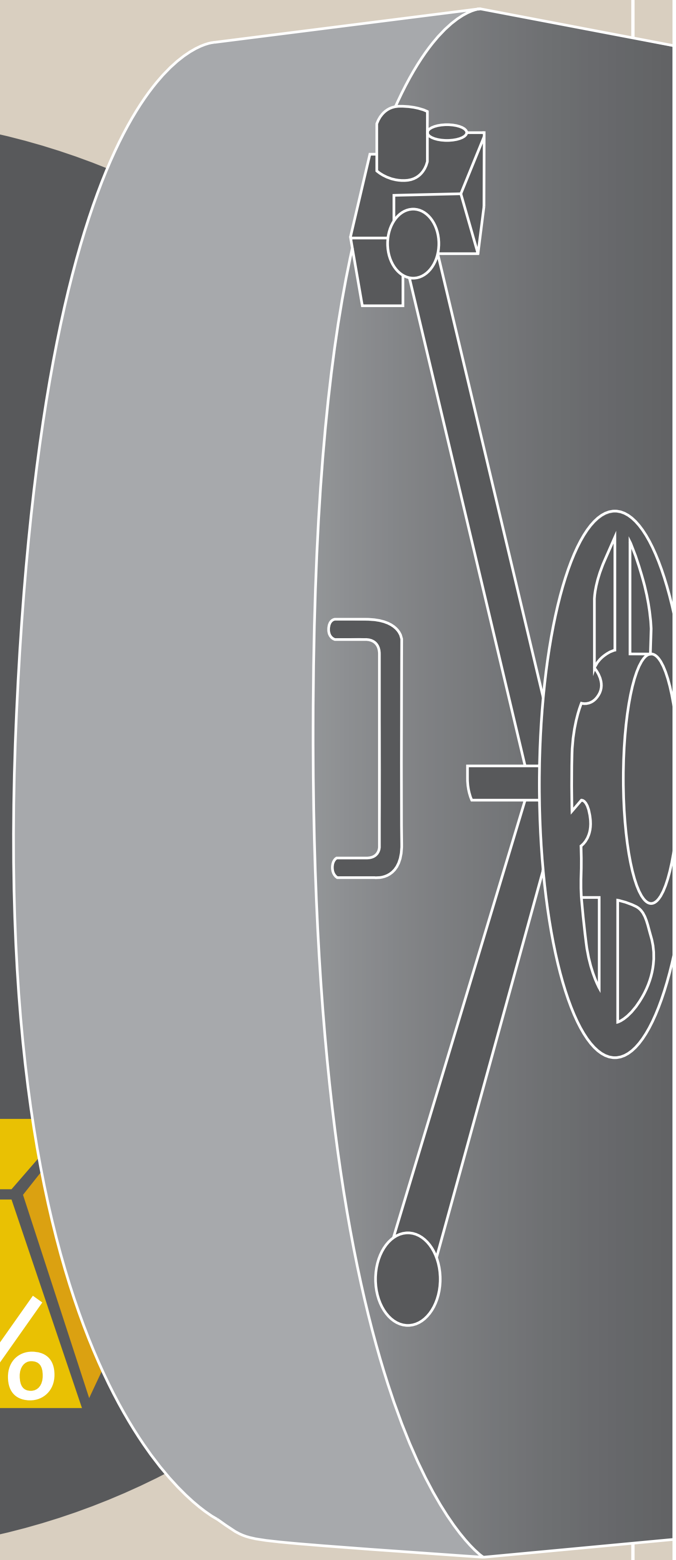
An example of the success of this measure can be seen in the five-year benchmark bond (volume: EUR 1.75 billion, coupon: 1.125%) of 30 August 2012. More than one-third of the investors were directly approached at presentations between 2010 and 2012; 42% of the orders received came from abroad.

Alongside funds and banks, central banks also increasingly subscribed to the benchmark bond (see lower chart on page 17). Overall the benchmark segment benefited from a newly introduced market making obligation – a repurchase agreement between the EAA and underwriting banks that was used to improve the liquidity of the individual bonds.

The falling trend in risk premiums for the EAA's issues in the second half of 2012 (see top chart on page 17) also demonstrates that the EAA has not only established itself on the capital market as a frequent issuer, but also that its bonds are considered a safe investment.

REFINANCING

The EAA is established on the capital market – and its bonds are considered a safe investment. This is demonstrated by the performance of the spread for the five-year benchmark bond of 30 August 2012; the issue convinced a wide range of investors in Germany and abroad.



SPREAD PERFORMANCE BENCHMARK BOND

Source: Barclays Live – Chart

FIVE-YEAR BENCHMARK, AUGUST 2012

EUR 1.75 billion benchmark, coupon: 1.125%, Aug. 2017

By Prof. Dr. Michael Hüther, Director of the Cologne Institute for Economic Research

Discussion: Banking crisis, bank regulation and bad banks

In recent years, the global economy has been greatly influenced by a series of crises in various contexts: the specific financial markets crisis (the crisis of US mortgage financing) turned into a disruption in global division of labour, which triggered an economic policy crisis and led to a sovereign debt crisis and a crisis of sovereign refinancing on the capital market. Time and again, the focus turns to banks, whose own or whose market-organised intermediary function has been, and continues to be, characterised by functional deficiencies. The criticism often fails to mention that banks provide financial services and that the demand for their services influences both their business model and their function.

In global competition, our economy is especially in need of an efficient banking system in a particular way. The complexity of structural change essentially calls for financing via banks or other non-anonymous intermediaries (such as private equity). The appropriate business model for banks has changed in the wake of shifts in their refinancing (fewer deposits, more loans, more bonds) and the spreading of financial innovations (derivatives, securitisations). Despite the securitisation crisis, the clock cannot be turned back. However, the lessons of the crisis must be reflected in regulation and in banks' business models.

Three politically significant reports that share a sceptical take on the banking business have been presented for the USA, the United Kingdom and the eurozone. Whereas the Anglo-Saxon concepts (the Volcker Rule and the Vickers Report) see the excessive assumption of risks by banks as the reason for the "Great Recession", Europe's Liikanen Report points to systemic risk and the interconnection between banks' balance sheets. What all three concepts have in common is the recommendation of separating the traditional business with private clients from investment banking, which is particularly high-risk. The aim of this is to make banks less interconnected and therefore easier to restructure in the event of a crisis. This also aims to protect savers and taxpayers.

All efforts aimed at re-regulating the financial system must deal with three aspects. First, regulation is a permanent process of learning and optimising that must react to the impact of newly issued rules and the development of financial innovations. Second, every new set of rules must be combined with the discretionary competence of a supervisory authority. Third, we must always keep in mind why we have targeted the financial system, especially banks, for intervention. Three arguments should be mentioned in this respect:

1) The protection of savers in the event of unavoidably incomplete contracts. Savers deposit their money in banks in the conviction that they will get their funds back. However, the deposit agreement is incomplete, as it does not specify the bank's deposit policies and does not contain contingency clauses pertaining to earnings fluctuations in the lending business. Economic actors cannot protect themselves as savers through contractual clauses, as they lack corresponding bargaining power and the necessary information. The asymmetry in terms of information cannot

be completely resolved by gaining information in the market and transparency due to the incomplete nature of the deposit agreement. The deficit in trust can be compensated through reliable, effective and transparent regulation and supervision of banks.

2) Implicit government guarantees and moral risk. A basic problem of the financial system, and of banks in particular, is that it is impossible to rule out government rescue of institutions affected by an all-encompassing solvency crisis despite deposit insurance, regulation and supervision. As questionable as this approach and the arguments behind it may be from a regulatory standpoint, bank rescue is – historically speaking – anything but rare on account of the systemic effects to be anticipated. Even if deliberate steps are taken to address banks' risk policies, the interaction of their balance sheets, which can hardly be forecast, makes it impossible to rule out the possibility that taxpayers could also be held liable. The implicit system guarantee can also be seen as a subsidisation of the cost of lending. While it may be possible to limit this subsidisation, it will not be possible to avoid it entirely.

3) Systemic risk without self-correction. Systemic risks can result from imbalances (illiquidity, insolvency) at a single institution or at several institutions as part of a "herd" with parallel risk structures when the entire financial system is affected due to the interconnection of balance sheets, debt multipliers, overextended financial transactions or information effects. The positive correlation between market risks and lending risks cannot be appropriately recorded on an institution-by-institution level and requires an analysis of the risk structure of the consolidated position of the financial system. But, as the experience of the crisis teaches us, even this may not go far enough when the systemic quality of the interconnection of risk exposures on banks' balance sheets does not become apparent until a stress situation arises. A massive outflow of liquidity in the wake of an information shock can thus create a situation in which no financial market prices can be calculated and markets collapse. Prevention by means of liquidity buffers, equity capital backing, leverage ratio or getting equity investors involved therefore takes on particular significance.

The financial crisis started creeping up on us in late 2006 in the form of falling prices for real estate and for structured products with sub-prime elements. It first engulfed money markets in July 2007. Since the summer of 2007, we have been observing – with varying intensity and new victims every time – widespread illiquidity, plummeting prices and massive debt reduction processes. This development has seen new, powerful momentum from the revaluation of certain countries' government bonds since late autumn 2009. Debt reduction processes are a typical sign of banking crises. They reflect the preceding overextension of the equity base through high-risk assets whose quality first became apparent under stress.

As a result, intermediaries that had until then seized structured products to refinance themselves, for instance, are forced to reduce their debt. To do so, they sell securities and bow out of their own activities as providers of financing. Structured products are not the only thing up for sale. In fact, they do not even constitute a majority of the products being sold, as they only allow sellers to mobilise little liquidity. This is another reason why the crisis spread to other securities, especially after government bond exposures were called into question. The spiral driven by the fire sale externality (the fall in asset prices resulting from wide-ranging emergency selling by the banking system) is additionally reinforced by the fact that the value corrections contain a systemic component – the optimists who had leveraged their exposures the most are affected by the value corrections. This group accounts for the most important buyers during an upturn. However, this can result in overly high demand and exaggerated prices, which leads to misallocation of capital. They must therefore play a key role during downturns.

The improperly structured securitisations are partly to blame for the crisis. However, securitisations can also make debt reduction processes easier. We must keep this in mind despite the experience of the crisis. In reality, securitisations make illiquid debts liquid. When properly structured, they result in securities that are no longer as sensitive to information and can therefore be traded without a discount and placed outside the financial system.

The bad bank solution, which can be adopted here in Germany as part of a legal framework for stabilising financial markets and is being applied, offers an attractive alternative. This wins time for restructuring and avoids emergency sales, which makes it possible to secure value, as sales can be transacted depending on the market situation. The capital acts solely as a buffer against loss. However, it does not serve to fulfil regulatory capital requirements, as a bad bank is legally seen as a non-bank financial institution. In light of government guarantees, bad banks have affordable access to refinancing. They are also allowed to refinance themselves in foreign currencies, something problem banks are usually not permitted to do.

It goes without saying that the instrument of a bad bank also justifies questionable incentives by investors. However, it provides an effective way of shaping unavoidable debt reduction processes in a manner that is acceptable to the economy as a whole. After all, crises do lead to regulatory dilemmas that require careful, sound judgement.

IN FIGURES:
PERIPHERAL EUROZONE COUNTRIES

The EAA has been able to significantly reduce the originally transferred portfolio – especially government bonds – from Greece, Ireland, Italy, Portugal and Spain. However, the loan and securities portfolio from peripheral countries grew again as a result of the refill, with corporate bonds predominating.

Exchange rates as of the reference date

GREECE

Sub-cluster	Nominal (in EUR million) as of 31 May 2010	First fill	Refill	Nominal (in EUR million) as of 31 Dec. 2012
Financial Institutions	157.8	0.0	0.0	0.0
Public Finance	1,090.7	0.0	0.0	0.0
Corporates	33.8	0.0	67.3	67.3

IRELAND

Sub-cluster	Nominal (in EUR million) as of 31 May 2010	First fill	Refill	Nominal (in EUR million) as of 31 Dec. 2012
Financial Institutions	76.2	3.8	0.0	3.8
Public Finance	95.0	80.0	35.0	115.0
Corporates	184.9	0.0	142.4	142.4

ITALY

Sub-cluster	Nominal (in EUR million) as of 31 May 2010	First fill	Refill	Nominal (in EUR million) as of 31 Dec. 2012
Financial Institutions	844.3	489.4	13.2	502.6
Public Finance	2,301.3	2,134.2	462.3	2,596.5
Corporates	374.7	236.1	1,856.5	2,092.6

PORTUGAL

Sub-cluster	Nominal (in EUR million) as of 31 May 2010	First fill	Refill	Nominal (in EUR million) as of 31 Dec. 2012
Financial Institutions	256.5	55.0	0.0	55.0
Public Finance	1,715.5	1,570.4	20.0	1,590.4
Corporates	29.1	32.9	192.9	225.8

SPAIN

Sub-cluster	Nominal (in EUR million) as of 31 May 2010	First fill	Refill	Nominal (in EUR million) as of 31 Dec. 2012
Financial Institutions	1,275.1	807.4	0.2	807.6
Public Finance	1,212.4	1,079.2	666.2	1,745.4
Corporates	613.6	304.0	2,316.6	2,620.5

Experts:

Conditions Created

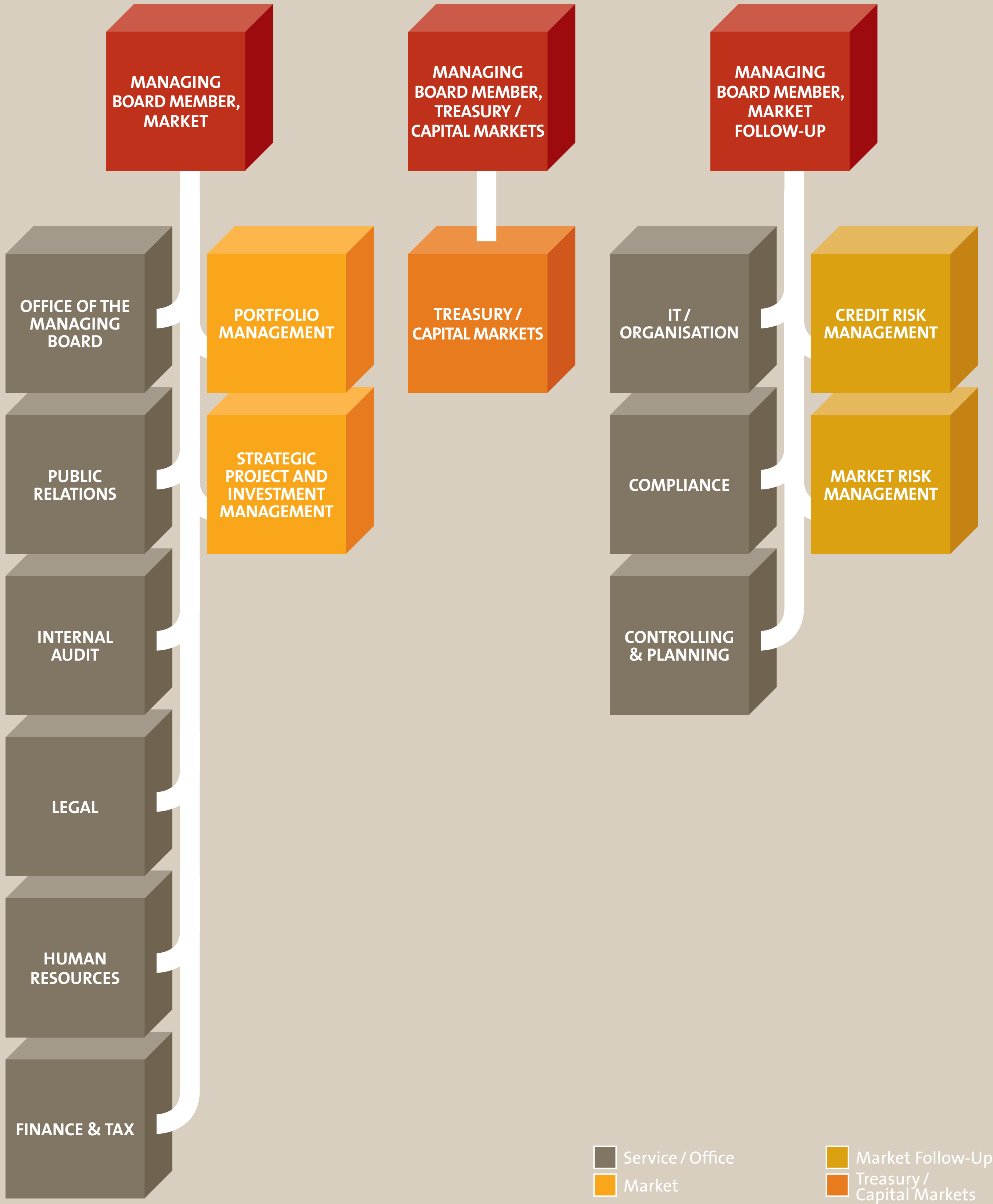
The additional requirements were accompanied by organisational and personnel changes at the EAA. Business units have been expanded and reoriented, and others have won over additional experts.

Credit Risk Management, for instance, faced new challenges; as part of the refill, the EAA's loan and securities portfolio, which had already nearly been halved, grew significantly once again. This portfolio still amounted to EUR 94.4 billion at the end of 2012. The EAA therefore strengthened itself in the course of the year, for instance, with specialists for loans needing intensive management.

The development of the winding-up agency continues. In 2013, the EAA's Managing Board will therefore also be expanded.

Details on the EAA's growth in expertise on page 25.

THE EAA'S NEW ORGANISATION CHART



New tasks taken on and expertise expanded

The growing requirements brought with them organisational and personnel changes at the EAA. Business units have been expanded and re-oriented, and others have won over additional experts. The development of the winding-up agency continues. Its Managing Board will also be expanded in 2013.

An additional Managing Board division focusing on the trading portfolio and refinancing

The EAA's Supervisory Board has decided to appoint a third member to the Managing Board. The member's main responsibility will be winding-up the trading portfolio and refinancing. In view of the expansion of the Managing Board, the responsibilities for the business units have been split up, as demonstrated by the EAA's org chart; the market and market follow-up functions have also been separated on the Managing Board level.

Newly defined business units

When it became clear that the EAA would take over additional tasks from the former WestLB, the "Project Management Office", as it was known at the time, was tasked with strategically preparing and operatively managing the refill.

Once this mammoth task had been successfully completed, the unit's scope of tasks and name changed; "Strategic Project and Investment Management", as it is known today, is now responsible for the EAA's operating and non-operating investments, including Westdeutsche Immobilienbank AG (WestImmo). In addition, the division coordinates and oversees all major projects that need to be implemented across units.

Treasury/Capital Markets also shoulders additional tasks: alongside refinancing, it is now also responsible for winding-up the trading portfolio, which consists mainly of derivatives. The division has put together a team with many years of experience with derivative financial instruments to wind-up the portfolio and manage its risks. The acquisition of the trading portfolio also changed the tasks in the Market and Credit Risk Management business units. As a result, this department, too, has hired new employees who, amongst other things check markets for potential risks every day and monitor counterparty limits.

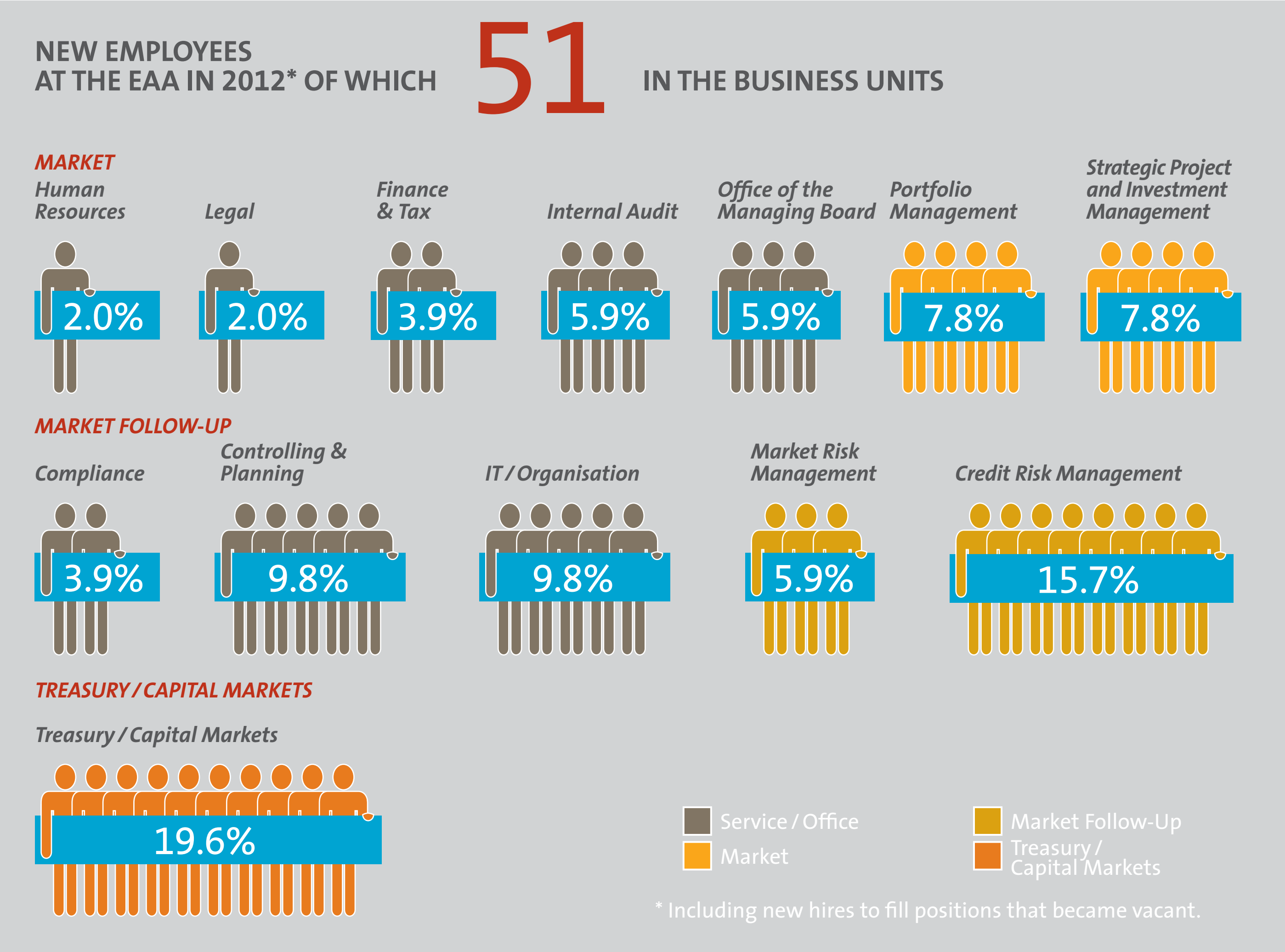
Existing expertise expanded – additional experts won over; the example of Credit Risk Management

As part of the refill, the EAA's loan and securities portfolio, which had already nearly been halved, grew significantly once again. The portfolio still amounted to EUR 94.4 billion at the end of 2012. This resulted in additional challenges for Credit Risk Management; in the course of the year the EAA therefore strengthened itself with specialists for loans needing intensive management. This so-called Workout Team brought with it expertise that is of benefit to the EAA when it comes to problematic loans as well as private equity and hedge fund investments.

The regulations that must be followed have grown along with the loan portfolio. The EAA has also hired additional employees in order to secure its processes.

An important business field for the EAA is the project financing assumed as part of the refill. Even experts with a great deal of experience in corporate loans are not automatically able to cover the operational management and winding-up of such projects, which can have very specific demands. This goes for the energy sector, for instance, where the EAA has since hired an employee with project experience under contract.

The Internal Audit and Controlling & Planning (C&P) units have also been expanded. C&P is also responsible for the management of service providers. In view of the supervisory requirements, which have also increased as a result of the refill, the EAA has also strengthened its Compliance unit.



Managing external service providers efficiently

As a lean management unit, the EAA relies on external service providers. It has built-up and optimised its own computer-aided management, monitoring and management information system in order meet the new challenges.

The EAA's task profile has become wider ranging and more diverse as its portfolio has grown. This is true, for instance, for the administration and winding-up of derivatives in the trading portfolio or for additional investments that it has assumed. However, the goal of a winding-up agency must be to reduce its own overhead to an acceptable minimum. The EAA has therefore been designed as a lean management unit that works in a scalable manner; it can shoulder additional tasks by accessing external capacities as needed.

The EAA's largest service provider – Portigon

The restructuring of WestLB also caused changes within EAA's operations. The former Landesbank was given a new name and, as Portigon, is now the EAA's largest service provider. Previously, only a part of WestLB – in particular, the Portfolio Exit Group (PEG) – had supported the EAA exclusively in market observation, portfolio management and operational winding-up activities. In August 2012, the EAA concluded a new cooperation agreement with Portigon. It stipulates in particular that the service company will take over the PEG's duties as well as additional tasks.

Portigon is positioned as a service provider in service and portfolio management with locations in Europe, America and Asia. The company's target customers include banks with internal restructuring units, capital investors and winding-up institutions. The extent and intensity of the cooperation with the EAA have increased:

- The former PEG's market observation and credit risk management tasks have been expanded significantly.
- Investment management has been expanded.
- Tasks in operational monitoring and administration of structured loans have been added.
- Additional tasks in the EAA's trading portfolio have also been taken over.

Expanded Provider Management

In the past, the EAA already managed its external service providers – which altogether have far more employees than the EEA itself – using a computer-aided programme. This system was expanded in 2012, and the team in charge received additional personnel support.

At the moment, four employees in Controlling & Planning form the point of contact between the EAA and its external service providers; they manage tasks from the tender and ordering process through to contract and invoice management, quality control and process management and optimisation.

Thus, the EAA's Provider Management team coordinates all internal service enquiries from the institution, negotiates prices (including bonus/malus provisions), creates and monitors service catalogues and conducts internal customer satisfaction surveys. The team regularly examines budgets and develops a process cost model for the EAA. In addition, the team initiates and controls measures to optimise business processes.

The individual EAA business units are involved through detailed service level agreements – i.e. service specifications, which detail the obligations of the service providers. For instance, the service specification for transaction processing also comprises tasks related to account management, network management as well as special measures in the event of misdirected payments. Service specifications specify the starting date of the agreement, the participation of EAA contacts, service times, end products, periods of validity and notice periods.

The Provider Management team has stablised dedicated KPIs to monitor the performance of the service providers. The services performed by the external service provider are evaluated on a monthly basis. The evaluation includes whether the service was performed on time, correct in terms of form and completion and whether the quality of the content was sufficient. The current status is recorded online using a traffic light system, reviewed regularly and submitted to the service provider.

Conclusion: Operational security, price stability, efficiency and transparency

The extent of provisions and details in cooperating with Portigon and other service providers has increased significantly. Among other things, regular and additional services have been further differentiated. This has resulted in a wide range of benefits:

- Differentiated and structured processes enable efficient management.
- Detailed service catalogues create operational security on both sides.
- Pricing is made easier.
- Specified service requirements allow for transparent and precise measurement of services during ongoing business operations.

Expanded Provider Management is therefore a key requirement for the EAA to be able to reliably execute its additional tasks with the support of external service providers.

IN FIGURES: THE CHALLENGE OF INVESTMENT MANAGEMENT

The number of the EAA's operating and non-operating direct investments has also grown greatly as a result of the refill. It grew initially at the beginning of 2012 to 126; by the end of the year, this figure had decreased to 118. At the end of 2012, the EAA had exposures with a volume of EUR 26.5 billion via these companies – more than a quarter of its loan and securities portfolio. The largest single investment is Westdeutsche Immobilienbank (WestImmo); its portfolio mainly contains commercial real estate loans and structured real estate transactions. One of the EAA's business units – Strategic Project and Investment Management – was restructured and given additional staff to manage the subsidiaries.

DIRECT INVESTMENTS IN THE FIRST FILL

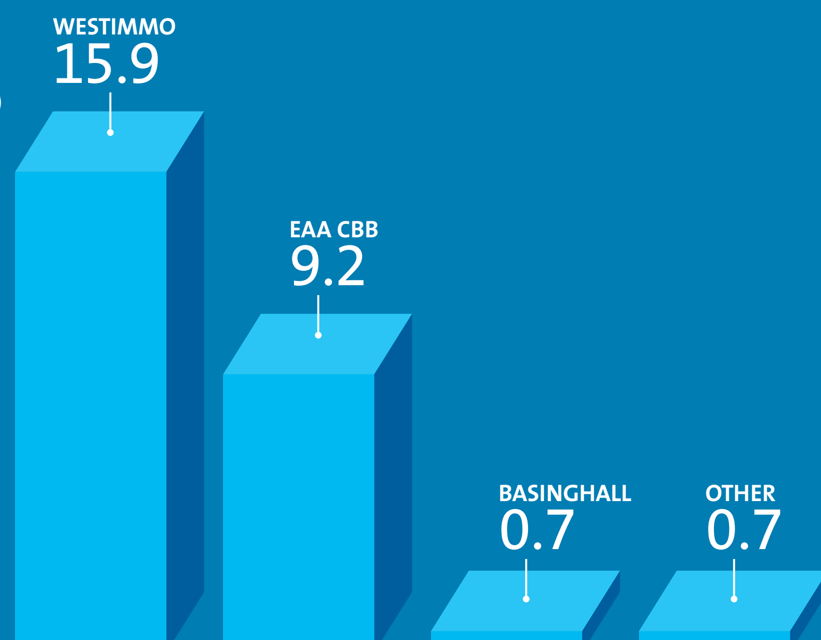
49

DIRECT INVESTMENTS IN THE REFILL

77

SUBSIDIARIES PORTFOLIO VOLUME

(in EUR billion, exchange rates as of 31 Dec. 2011)



26.5 EUR billion

Portfolio Reduction:

Goals Reached – Goals Set

In 2009 and 2010, the EAA assumed risk exposures and business units from the former WestLB that were no longer necessary with a nominal volume of EUR 77.5 billion. The planning envisioned halving this portfolio by 2014. After just three years of operational work, the goal had almost been reached at the end of 2012.

The EAA was particularly fast in winding-up its loans portfolio; in comparison with 31 December 2009 – volume then EUR 30.5 billion – it was able to reduce it by nearly two-thirds, or almost EUR 20 billion. Focused work pays off.

Overview and examples of portfolio winding-up on page 33.

WINDING-UP ACTIVITIES FROM 2009 TO 2012

At the end of 2012, the portfolio that the EAA assumed following its establishment in 2009 and 2010 had already been reduced by 46%. The winding-up of the loan portfolio has made particularly great progress.

NOMINAL VOLUME, LOAN PRODUCTS: REDUCTION 67%

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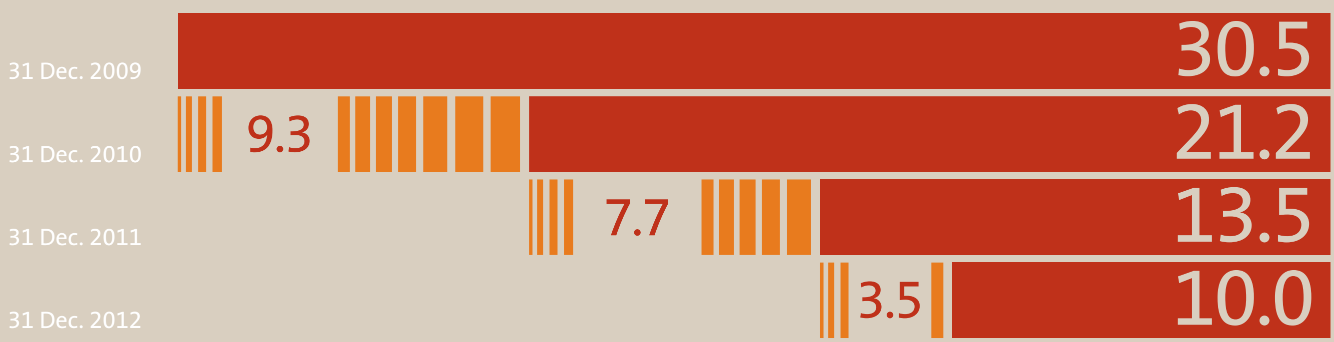

Wind-up progress by year (in EUR billion, exchange rates as of 31 Dec. 2009)
Nominal volume (in EUR billion, exchange rates as of 31 Dec. 2009)

Example: Hospitality portfolio

The EAA combined its worldwide loans for hotels and holiday properties, most of them problematic exposures, in the “Hospitality” cluster in 2010: the debtors were not meeting their obligations – often because the buildings had not been completed or their operators were not achieving the desired success.

Non-performing loans, including such financing agreements, are a focal point of the EAA experts’ work. Of the overall portfolio assumed in 2009/2010 with a nominal volume of originally EUR 3.7 billion, approximately 30%, or EUR 1.1 billion, remain today. This highlights that rapid winding-up is possible, even in problematic fields.

HOSPITALITY PORTFOLIO: REDUCTION 78%

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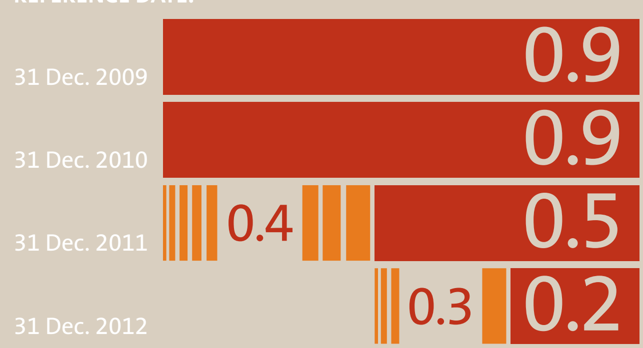


Portfolio reduction develops better than planned

In 2009 and 2010, the EAA assumed risk exposures and non-strategic assets and liabilities from the former WestLB amounting to EUR 77.5 billion. The planning envisioned halving this portfolio by 2014. After just three years of operational work, the goal had almost been reached at the end of 2012.

On 31 December 2012, the nominal value of the wound-up risk exposures adjusted for currency effects, i.e. on the basis of set exchange rates as of 31 December 2009, amounted to just over EUR 36 billion. Approximately 60% of this resulted from active measures, such as sales or early redemptions, with approximately 40% attributable to maturities. Thanks to the rapid progress of our winding-up activities, the EAA was able to significantly reduce risk provisions from previous years. The income generated during the winding-up process also make the EAA more resistant to risks.

Loan portfolio reduced by a total of 67%

The EAA was particularly fast in winding-up its loan portfolio. In comparison with 31 December 2009 (volume: EUR 30.5 billion), it was able to reduce it by two-thirds, or almost EUR 20 billion. Focused work pays off:

▲ The EAA carefully examined all agreements under which the contractual partners had undrawn lines of credit. These were mainly US municipalities. The contracts were systematically terminated as the conditions permitted; the last one was terminated in early 2013.

The winding-up of these exposures with a total volume of approximately EUR 4 billion was facilitated by the improved situation on the US lending market. Otherwise, the EAA would have had to fear that the contractual partners would indeed have drawn down their lines of credit at some point in time. At the end of 2012, this sub-portfolio still amounted to approximately EUR 500 million.

▲ In addition, the strategy of consistently approaching contractual partners to achieve early redemptions of loans was particularly effective. Some borrowers were able to refinance directly on the capital market thanks to favourable economic data in certain industries.

▲ In other cases, banks turned out to be appropriate new loan providers. Many former WestLB customers actively support the EAA's efforts in this direction because they wish for additional services in connection with the loan engagement, for instance, when it comes to payment transactions or providing guarantees. The EAA is unable to offer these services because it is not permitted to act as a commercial bank.

Conclusion

The rapid winding-up progress made on the loan portfolio is not due to the EAA first focusing on selling risk exposures with a good valuation. The credit rating of the loan exposures in the EAA's now significantly reduced original portfolio is nearly unchanged; the investment grade share, i.e. the share with good ratings, remains at approximately 50% after three years of winding-up operations. The EAA has therefore been able to fulfil its public function of winding-up the assumed exposures in a manner that minimises risk.

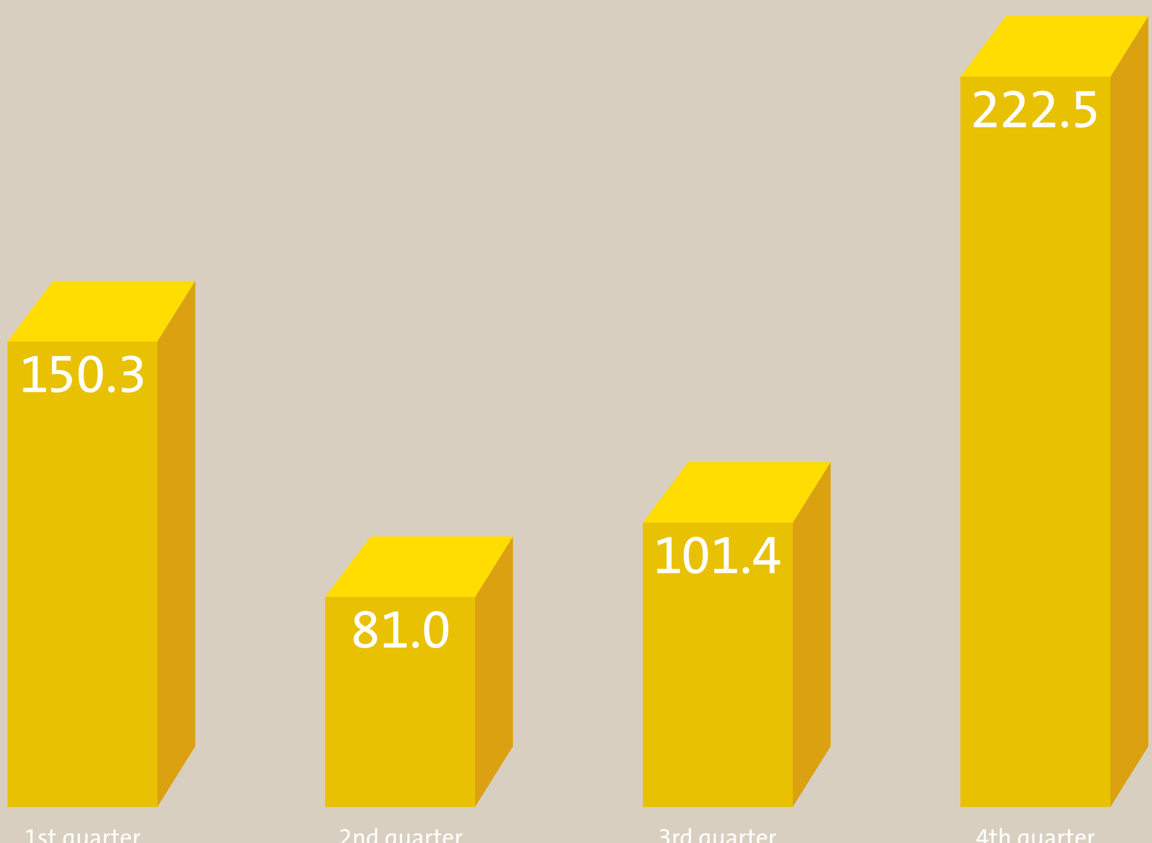
WINDING-UP IN THE SECURITIES PORTFOLIO

Bank bonds suffered particularly under the sovereign debt crisis in 2012. The EAA initially took a wait-and-see approach and stepped up its sales activities when the markets recovered in the second half of the year.

PORTFOLIO REDUCTION IN THE SECURITIES CLUSTER
(Nominal volume in EUR billion, exchange rates on 31 Dec. 2009)

31 Dec. 2009	31 Dec. 2010	31 Dec. 2011	31 Dec. 2012
18.0	15.8	13.8	10.8

SALES IN 2012
(Nominal volume in EUR million)



Not including Greece-related sales

Patience pays off in a volatile market environment

The Securities sub-portfolio consists mainly of bank bonds and bonds from public institutions. During the eurozone debt crisis, the EAA has reacted flexibly to the volatile market development – with restraint at first, then offensively. The outcome has been a success – the portfolio was reduced year on year by 22%. As a result, the originally assumed nominal volume of EUR 18 billion was wound-up by a total of 40% to EUR 10.8 billion.

The problems in the Spanish banking sector and the Greek sovereign debt crisis, which continues to smoulder, had a direct impact on the prices of bank bonds and bonds from public issuers in the EAA's portfolio. As in 2011 selling these securities proofed to be unattractive given the quoted prices.

The markets were plagued by concerns that the eurozone could break up. In this situation, the EAA placed its faith in patience and avoided hasty sales at a loss, since the analysis of the political and economic development of 2012 had implied that the euro rescue plan would work.

This forecast proved to be true. In September, the European Central Bank announced that it would buy bonds from eurozone countries in crisis. By doing so, it was able to stabilise the euro, and the markets recovered.

Strategy change in the second half of the year

The EAA changed its strategy and now actively sold its securities portfolio. Together with its service provider – Portigon – it intensified sales in the fourth quarter of 2012. Approximately 40% of all sales were generated during this period (see chart on page 34).

The EAA also took a targeted approach to the sales process, by either bundling securities or offering them in smaller packages during various auctions. The potential buyers – no more than five, depending on the volume – had been prescreened and identified on the basis of various criteria: Had they already purchased EAA securities? Did they offer good prices on the market? And did they have the corresponding market expertise?

In 2012, the EAA was able to take advantage of one of the main advantages of a winding-up agency – the option to wait. The flexible approach in terms of timing and addressing buyers ultimately generated better results than a continuous sale despite unfavourable market conditions.

Optimising sale prices, reducing costs

The EAA portfolio not only contains a wide range of different types of products. The exposures are also widely spread in terms of region. This opens up additional strategic options that the EAA is actively using. In Canada alone, for instance, the EAA wound-up exposures worth just under EUR 500 million in 2012, from public bonds to real estate loans.

The Canadians have been able to distance themselves clearly from the debt crisis in other western industrial nations. The result: its government bonds, as well as bonds issued by other public debtors, enjoyed fast-growing popularity last year. In an environment characterised by volatility and political instability, investors were willing to pay a premium for the relatively higher credit quality. The bonds from the EAA portfolio even developed additional appeal thanks to a relatively short maturity. Both traditional bond investors and money market funds were willing to pay a surcharge for the bonds due in the course of the year.

The EAA's experts had banked on such a development. They sold bonds, particularly those issued by Canadian provinces and municipalities, with a nominal volume of approximately EUR 300 million. The realised sales price was often above the intrinsic value – the sum of nominal volume and anticipated interest income – calculated by the EAA. As a result, it was possible to significantly exceed the targets in the winding-up plan.

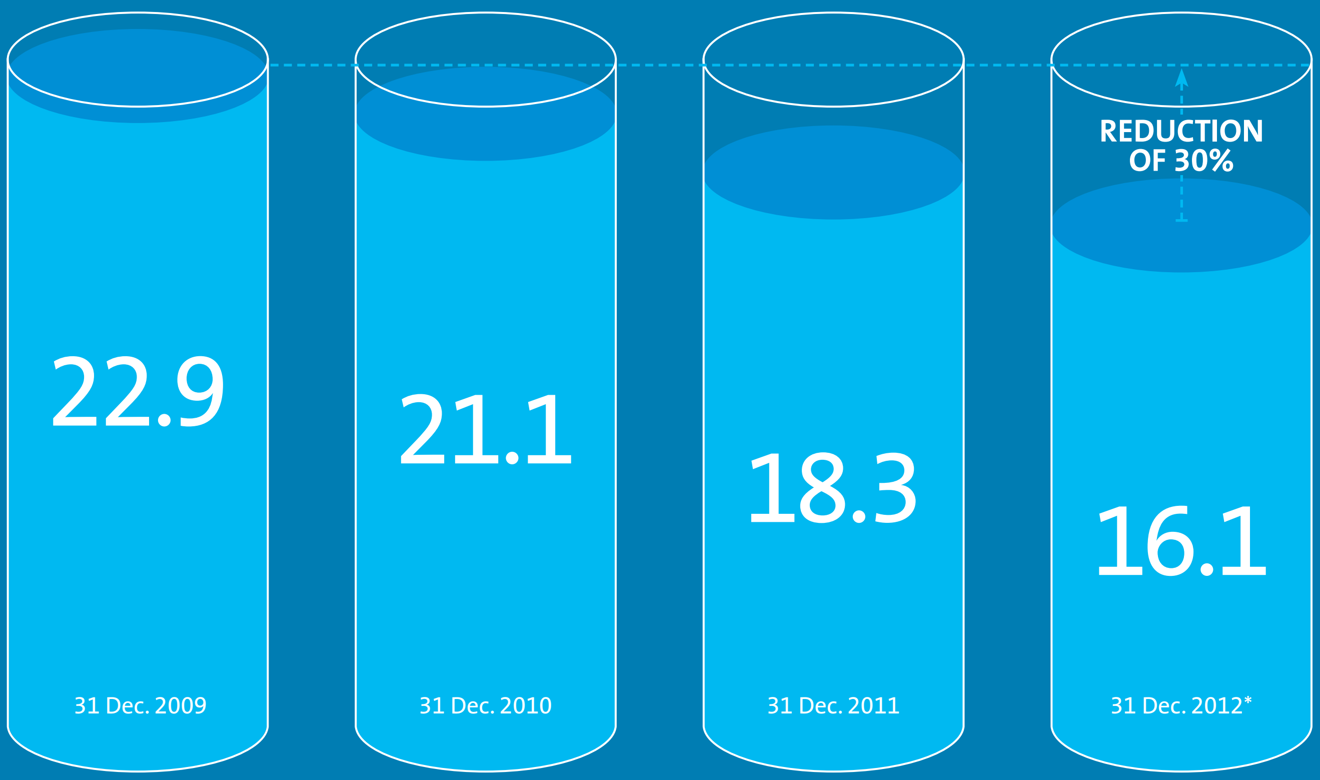
Lucrative sales of highly rated securities do not always succeed. In this case, they paid off double for the EAA's winding-up activities; not only did they strengthen the winding-up of the portfolio and income, they also reduced the complexity of tasks within the EAA which results in reduced costs. As a result of the sale, the need for US and Canadian dollars was reduced, and refinancing costs and risks were eliminated.

Canada's comparatively strong economy also encouraged the sale of larger loan packages with a volume of approximately EUR 200 million. Prime example: the financing of an office building in Edmonton. The property is held by a special purpose property fund, and the refinancing of the property would have been up for negotiation in the near future. For the EAA, this was a good reason to talk to the fund manager at an early stage and then support them in the search for a new lender. As a result of numerous talks with investors in recent years, the EAA's real estate experts knew Canadian banks that were focusing on growth in the commercial real estate segment. Indeed, the fund's asset quickly found an interested bank. It was possible to conclude the refinancing swiftly without negative financial consequences for the EAA.

IN FIGURES: PHOENIX PORTFOLIO

The greatest risk driver in the EAA's balance sheet is the so-called Phoenix portfolio. It includes structured securities that have dramatically depreciated in value due to the US real estate crisis. But only a fraction of the previously forecast losses had actually materialised by the end of 2012. Nearly one-third of the portfolio has already been wound-up.

PHOENIX PORTFOLIO HISTORY
(in EUR billion, exchange rates as of 31 Dec. 2009)



The more favourable development of the Phoenix portfolio is attributable to a recovery on the US real estate market. On the one hand, numerous loans within the portfolio were paid back as a result. On the other hand, it was possible to dispose of securities with a volume of approximately EUR 1 billion on the market.

The complex Phoenix construction is older than the EAA, which was established in December 2009; the former WestLB had already bundled the problematic securities in the Phoenix special purpose vehicle back in 2008. The state of North Rhine-Westphalia as well as North Rhine-Westphalia's Landschaftsverbände and Sparkassenverbände had given guarantees and/or counter-guarantees totalling EUR 5 billion to be used in the event of losses. At the height of the financial crisis, the forecasts predicted that this sum would be completely used up in the medium term. In fact, approximately EUR 1.3 billion in guarantee payments had fallen due by the end of 2012 – a good 70% of the total guarantees have not been used so far.

* In exchange rates as of 31 Dec. 2011 – the basis for the calculation of the new EAA portfolio – the nominal volume of Phoenix amounted to EUR 17.2 billion.

By Dr Michael Schinke, Chief Economist at the EAA

Outlook for 2013: Favourable conditions for further winding-up of portfolios

The development of the global markets has a direct influence on our winding-up progress; investor interest and prices are market-dependent. If it is to succeed, it is important that the EAA anticipates market opportunities.

In 2013, the EAA is expecting the recovery of the global economy to continue. However, regional risks will still play a major role in 2013.

Southern and Western Europe

Around one-third of the EAA portfolio currently consists of European exposure. All in all, loans and securities from the eurozone periphery, namely Portugal, Spain, Italy, Greece and Ireland, amounted to a notional volume of approximately EUR 12.8 billion as of 31 December 2012.

Thanks in no small part to the refill, the EAA not only has sovereign bonds from Southern and Western Europe in the portfolio, but also bank and corporate bonds as well as project financing. The EAA's winding-up strategy is reliant on the further course of the European sovereign debt crisis: Will it prove to be worthwhile for the EAA to hold on to project financing and securities and generate income from them in the future? Or would it be more advisable to quickly sell high-risk securities at an acceptable price if a buyer can be found?

- The example of Spanish banks: If the Spanish government is able to pay lower risk premiums on its bonds, this will also apply to bank securities. These then become less risky and can be sold more easily. At the end of 2012, the portfolio totalled approximately EUR 800 million after the EAA succeeded in offloading Spanish bank bonds and reducing cluster risks in this portfolio.

- The European sovereign debt crisis also influences the winding-up of exposure from core European economies. Midway through 2012, these economies were also at risk of being dragged into the crisis. If the markets doubt the fiscal policy and economic stability of France, potential buyers will grow cautious. French securities account for around EUR 1.6 billion of the total volume of the EAA portfolio.

After the European Central Bank provided support to weaker Euro member states, the EAA's winding-up operations benefitted from the general recovery of markets over the second half of 2012. The EAA is cautiously optimistic when it comes to future economic prospects. It is expected that peripheral eurozone economies will reach the worst point of the crisis in the second half of 2013. Europe's core economies ought to return to a course of expansion already in the first half of the year. The EAA can expect income as well as further sales of European positions.

However, one risk remains; should there be a delay in the economic recovery of peripheral eurozone countries, resistance in these countries against austerity measures could increase significantly. In this case, a further escalation in the

European sovereign debt crisis would be likely, at least temporarily, which would hinder the EAA's winding-up operations substantially.

USA

The political situation in the USA makes forecasts difficult. In early 2013, the debate on the US budget that had been simmering for a significant length of time threatened to escalate. Potentially far-reaching budget cuts could impact the US domestic economy negatively.

- ▲ This would also be likely to affect international trade and therefore also industries in which the EAA is directly involved through financing. Infrastructure projects, such as seaports, could be particularly affected.

- ▲ The stability of the US economy will also affect the entire financial industry over the long term. US banks have navigated their way through the crisis relatively well so far. However, if they are put under pressure, there could be implications for the financial markets where the EAA is on the lookout for buyers for its loan portfolio.

- ▲ However, the EAA is also reliant on the development of the US domestic economy through its involvement in the real estate sector. Demand in the US real estate market has returned to a course of growth. If this recovery proves to be sustained, the Structured Loans sub-portfolio will benefit from repayments or from the sale of further risk-laden positions.

Emerging markets

The diversified portfolio has, in the past, proved to be worthwhile for the EAA. This means that, if economic development changes direction, so will the focus of the winding-up strategy. Commitments in emerging markets play an important role here. Relatively robust growth rates are expected in these countries in 2013, for example around 3.6% in Latin America.

The refill has also resulted in the addition of commitments and project financing in the Far East, Eastern Europe and South America. In Latin America, the EAA holds items totalling EUR 1.4 billion, primarily in the region's major economies such as Brazil and Mexico. Should there be a delay in economic stabilisation across Western Europe or should the US economy fade a little, the EAA will be able to concentrate on these emerging markets in its winding-up operations.

Conclusion: The prospects for the EAA's remaining portfolio winding-up activities are good.

Interview with the Managing Board

"We want to halve the total portfolio over the next four years"

Mr Bolder and Mr Wargers, aside from the figures in the financial statements, what were the most important milestones for you in 2012?

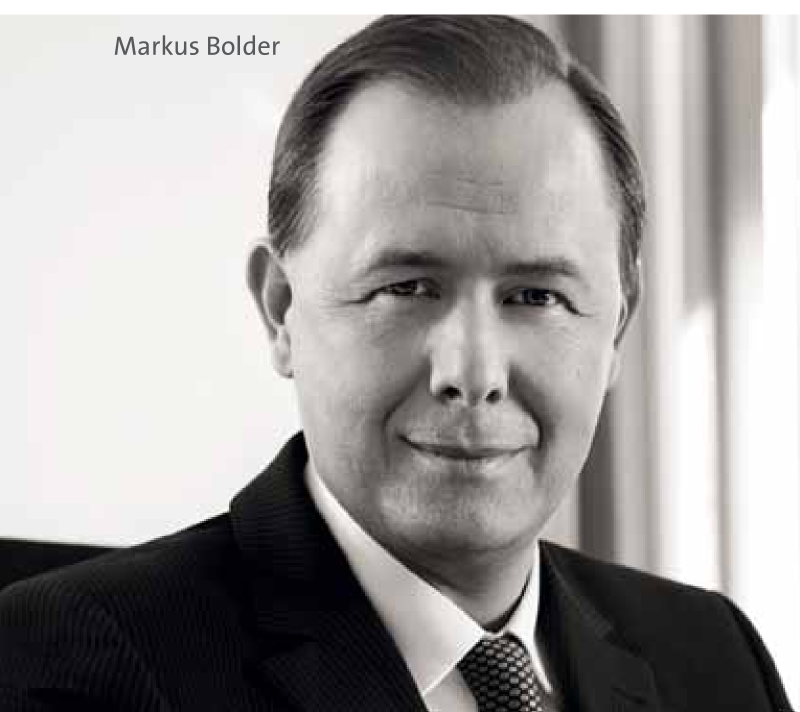
Matthias Wargers: In 2012, the EAA assumed a second portfolio in the triple-digit billion euro range, loans and securities totalling EUR 72.3 billion and a trading portfolio with a market value of approximately 52.1 billion. That was undoubtedly one of the most complex financial transactions in Europe last year. Our team mastered the challenge while simultaneously successfully managing their day-to-day work. By the end of the year, we were able to wind-up around half of our original portfolio and exceed our operational targets by a significant margin.

Markus Bolder: With the refill, we have made an important contribution to the stabilisation of the financial markets; when a major bank such as the former WestLB exits the market, it must be ensured that the assets to be taken over are refinanced. That's where the EAA came in. If that hadn't been arranged beforehand, the entire operation could have failed.

How would you assess the financial result for the 2012 financial year?

Matthias Wargers: We are satisfied. The EAA generated a slightly positive result, even though there were a number of one-off effects from the transfer of the second portfolio – such as additional administrative costs that arise from such a complex transfer.

Markus Bolder: However, the refill didn't just negatively impact our balance sheet. The additional portfolio also resulted in substantially higher net interest and commission than the previous year.



Markus Bolder

Matthias Wargers

Your balance sheet now shows equity capital of approximately EUR 510 million – around EUR 100 million less than in the 2012 half-year report. What's the explanation for this decline, given the positive result?

Markus Bolder: The EAA made a pivotal contribution to the success of WestLB's transformation. Based on the framework agreement on the restructuring of WestLB, the EAA had to meet payment obligations amounting to EUR 150 million. These obligations – coupled with other one-off effects from the transfer – led to an equity outflow as of 31 December 2012 of more than EUR 100 million.

Matthias Wargers: But the refill actually led to a strengthening of the EAA's off-balance sheet equity; the EAA received additional rights to draw on further equity capital amounting to EUR 480 million, which it can do if its equity falls below EUR 50 million.

There is still the question of whether such a small amount is sufficient to cover the risks of a significantly larger portfolio?

Markus Bolder: Yes. Equity serves purely as a buffer for unforeseen losses that are not yet evident at the current time. We have also allocated risk provisioning of EUR 2.1 billion for risks that are likely to occur from our current perspective. The total risk buffer therefore amounts to EUR 3.1 billion. This is sufficient from today's perspective.

Matthias Wargers: There's also the improvement to the portfolio's risk profile. When it was established in 2009/2010, the EAA was provided with around EUR 3 billion of equity in order to hedge a loan and securities portfolio then worth EUR 77.5 billion, the bulk of which consisted of highly problematic securities. We have been able to reduce the first portfolio by a significant amount; the additional portfolio assumed in 2012 is less high-risk.

The current loan and securities portfolio has a total volume of approximately EUR 94.4 billion of which the majority is valuable and profitable. In view of the current market climate, we expect that the EAA will succeed in generating substantially higher income with these securities and commitments than it has done in the past.

Aside from loans and securities, the EAA also assumed a trading portfolio consisting of derivatives with a notional volume of some EUR 1 trillion in 2012. How are you approaching this new challenge and the associated risks?

Markus Bolder: The trading portfolio's notional volume certainly sounds formidable, but the decisive factor here is market value and that is significantly lower – EUR 52.1 billion upon transfer. We want to wind-up these items quickly and are pursuing the same strategy that has proven so worthwhile in winding-up loans and securities, namely the precise analysis of individual segments and realistic targets in terms of price. Then we identify winding-up strategies so that we can act at exactly the right time.

Matthias Wargers: The lion's share of the trading portfolio consists of interest derivatives, standard products with currently low risk factors. The outlook looks positive for an efficient wind-up process, and we are seeing a large amount of interest from buyers, even in more complex structures. The best example of this is probably the sale of a credit derivative package at the beginning of the 2013 financial year. This not only meant that the notional volume was able to be reduced by over EUR 9 billion but we were also able to wind-up a risk loss within the trading portfolio completely.

The EAA wound-up the portfolio that was originally transferred significantly quicker than planned. How did that come about?

Markus Bolder: A number of factors were at play here. We certainly benefitted from the favourable development in certain market segments. However, we were also flexible enough to modify our marketing strategies as and when necessary. Our timing was right. The EAA was able to play to its strengths as a winding-up agency.

Matthias Wargers: This success was due in no small part to the committed and purposeful work of both the EAA's employees and our service providers, above all those at Portigon AG, who provided us with professional support in the fulfilment of our task.

In many industries the crisis is by no means over. Would it not have been more lucrative to wait for the markets – and therefore prices – to recover?

Markus Bolder: One of our principles is that we don't sell under pressure or at just any price. But it is not always the best strategy to wait. Such a strategy would be obsolete anyway if our debtors redeem loans because their financial circumstances improve. It also isn't appropriate in the case of non-performing loans where debtors only pay a portion of due interest and repayment amounts or do not pay at all. The aim here is to reduce risks as quickly as possible and minimise losses. Only around 30% of the non-performing loan commitments transferred to the EAA in 2009 and 2010 remained at the end of 2012.

Matthias Wargers: On the other hand, we have held on to items we anticipate will provide stable income in the future. So far our decisions have been the right ones. That's clear from our "post mortem" analysis, where we look back on important decisions in favour or against sales and the forecasts underpinning these decisions.

Let's move on to the Phoenix portfolio. You have utilised the public guarantee despite progress made in winding-up the portfolio. Why is that?

Matthias Wargers: This guarantee dates back to 2008 and therefore before the EAA was established. At that time, securitised mortgages were bundled by the former WestLB and transferred to the special purpose vehicle Phoenix Light SF. The owners – the State of North Rhine-Westphalia and the Sparkassenverbände and Landschaftsverbände in North Rhine-Westphalia – provided Phoenix with a guarantee worth EUR 5 billion. Any outstanding interest payments or repayments on a Phoenix security causes guarantee payments to be made up to the notional volume. This happens automatically – the EAA has absolutely no influence on the process.

Markus Bolder: However, the good news is that around three-quarters of the guarantee total remains unutilised by Phoenix. What's more, the guarantee payments aren't the same as actual losses. Debtors in the respective loans can make interest payments or repayments at a later date, which are then credited back to the guarantee amount.

How promising are the lawsuits filed in the USA against issuers of syndicated mortgage securities?

Matthias Wargers: Our public function of minimising losses for the taxpayer includes the possibility of taking legal action – if there is potential for success. This has two implications for our strategy. First of all, we continuously review potential claims in great depth. Secondly, each lawsuit is subject to a cost/benefit analysis. We do not comment on specific cases, as that may endanger the chances of success...

What kind of an effect will the larger portfolio have on the EAA's cost structure over the long term?

Matthias Wargers: It goes without saying that these new tasks will require additional resources. The major factor is the increase in the costs of administering such a large portfolio through our service providers. Overall expenditure and complexity will both increase, not least due to the winding-up of derivatives in a trading portfolio – although this will not be over the long term. As the EAA is structured as a lean management unit that relies on flexible outsourcing, it is able to trim costs to the extent at which it winds-up its portfolio. That applies in principal to all administrative expenses.

To what extent are you increasing the EAA's human resources?

Markus Bolder: Naturally we need more experts at the EAA to handle the larger portfolio. According to our plan, we required around 124 additional employees. Around 90% of these had already been recruited by early 2013. At the moment it's still unclear when we will recruit the remaining employees we require.

The EAA also took over WestImmo over the course of the restructuring of WestLB. Is there any possibility of selling this company in its entirety?

Matthias Wargers: It remains difficult to find buyers for bank institutions. The market is difficult. However, our mission remains to conduct targeted negotiations with potential investors and conclude the transaction promptly.

WestImmo is a good basis for investment. The company is stable and generated a balanced result even without engaging in new business. The WestImmo team are doing a great job and we have coordinated our processes with the company extremely well.

In view of the increase in your responsibilities, what are your goals?

Matthias Wargers: Nothing has changed in respect of our long-term target – we want to finish winding-up the EAA's portfolio with no equity shortfall.

Markus Bolder: The EAA has proven that it represents a stable operational platform for winding-up operations. That's why we are confident that we will once again be able to halve the EAA's larger portfolio by the year 2016.

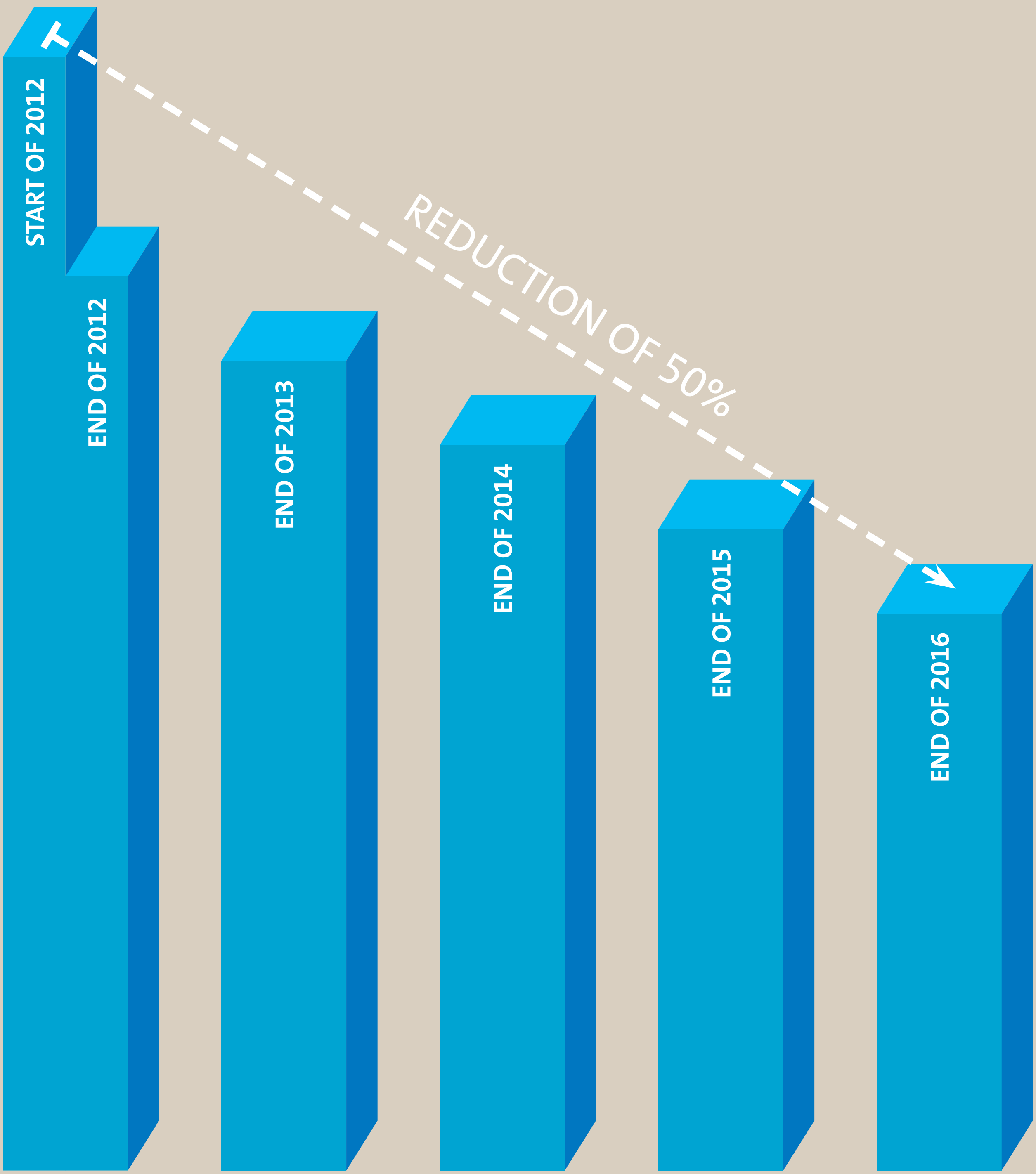
Last but not least, a more personal question. You have both been with the EAA for three years now. The extent of the EAA's responsibilities has increased over this time. What draws you to work here?

Matthias Wargers: We have the opportunity to demonstrate that it is possible to wind-up a high-risk portfolio worth billions of euros in an efficient manner that preserves value. Because we operate on international financial markets, this complex task can only be mastered with entrepreneurial commitment. That's what motivates us.

Markus Bolder: The EAA operates in the interests of the public; it makes a pivotal contribution to the stabilisation of the financial industry. In 2012, a total of around EUR 5 million went to the State of North Rhine-Westphalia, the Sparkassenverbände and Landschaftsverbände in North Rhine-Westphalia and the FMSA for the provision of rights to draw on equity capital. The "bad bank" is a good thing.

NEW TARGET: HALVE THE PORTFOLIO BY 2016

The EAA has laid the foundations for rapidly winding-up its larger portfolio. The entire portfolio – loans, securities and the derivative portfolio – is to be reduced by 50% by 2016.



Report of the Supervisory Board

During the financial year from 1 January 2012 until 31 December 2012, the Supervisory Board of the Erste Abwicklungsanstalt held eight meetings in the exercise and performance of its rights and obligations under the law and its charter. The standing committees created from among its ranks, the Audit Committee and the Risk Committee, also met on two and seven occasions (including two telephone conferences) respectively.

In the 2012 financial year, the Supervisory Board dealt among other things with the 2012 winding-up plan, the refill of the EAA and the resulting strategic further development of the Erste Abwicklungsanstalt. The focus of the latter was, in particular, the operating and legal implementation of the framework agreement 2013 as part of the refill. The Supervisory Board also advised the Managing Board, supervised the latter's management activities and also participated in decisions of significant importance to the Erste Abwicklungsanstalt. On the basis of the winding-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 2012 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 19 April 2013, 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 2012 financial year.

Düsseldorf, 19 April 2013

Dr. Rüdiger Messal
Chairman of the Supervisory Board

Financial Report

Content

Management Report

for the 2012 financial year

Principles of EAA

Operating activities of EAA

Erste Abwicklungsanstalt (EAA), with its registered office in Düsseldorf, is responsible for winding-up the risk exposures and non-strategic business units taken over from the former WestLB AG (WestLB, now Portigon AG [Portigon]) as well as its domestic and foreign subsidiaries in loss minimizing manner. This serves to stabilise the entire financial market in Germany.

The EAA conducts its transactions in accordance with business and economic principles with regard to its wind-up objectives. It is not a credit 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 für Finanzmarktstabilisierung – FMSA). It is also subject to regulation by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) with regard to individual banking law provisions pursuant to section 8a (5) of the Financial Market Stabilisation Fund Act (Finanzmarktstabilisierungsfondsgesetzes – FMStFG).

The EAA's work is principally carried out on the basis of section 8a of the FMStFG, its charter, the rules of procedure for the Supervisory Board and the Managing Board plus their committees, as well as its defined wind-up and risk strategy. In keeping with the principles of risk minimisation and a conservative financial strategy, a wind-up plan was prepared by Portigon for the EAA's respective fillings (first fill and refill) and approved by the FMSA.

The wind-up plan was prepared with the aim of avoiding the need for subsequent capital injections. This plan is reviewed at least once a year by the EAA and, if necessary, adjusted with the permission of the FMSA in order to take changes in circumstances such as current market developments into consideration. The wind-up plan sets out the measures which the EAA intends to take to wind-up its portfolio according to a breakdown of assets by sub-portfolio and standard strategies, and includes a schedule for the full wind-up of assets within a reasonable period. The possible alternatives to wind-up a portfolio are a disposal (sale) of assets prior to their maturity, holding them to maturity, by restructuring them. The EAA submits regular wind-up reports to the Supervisory Board and its shareholders, informing them on its wind-up activities and its adherence to the wind-up plan, thus documenting its success in winding-up its portfolio.

The following stakeholders participate in the 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.

The governing bodies of the EAA are the Managing Board (Vorstand), the Supervisory Board (Verwaltungsrat) and the Stakeholders' Meeting (Trägerversammlung).

The Managing Board of the EAA 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 twelve members, eleven of whom are appointed by the Stakeholders' Meeting. One member is delegated by the FMSA, acting on behalf of the Financial Market Stabilisation Fund (FMS). Members elect a Chair and a Deputy Chair on the recommendation of the State of NRW. The Supervisory Board consults with and advises the EAA's Managing Board, monitors its activities and carries out additional duties set forth in the EAA's charter.

The Stakeholders' Meeting is composed of one representative from each of the institutions which hold a stake in EAA's share capital. The Stakeholders' Meeting is responsible for adopting the annual financial statements of the EAA, among other things.

Refill

By 30 April 2010, a wind-up portfolio with a notional value totalling approximately EUR 77.5 billion was transferred to the EAA (first fill).

Within the scope of a European Commission state aid investigation that was concluded by resolution dated 20 December 2011, the former WestLB presented a restructuring plan in June 2011 with the following core elements:

- Transfer of so-called Verbundbank operations, in other words transactions oriented towards partnerships with regional Sparkassen, to the Landesbank Hessen-Thüringen Girozentrale (Helaba).
- Legal or at least economic transfer of all other portfolios from Portigon to the EAA (refill).

Prior to the creation of this restructuring plan, a principle agreement was initially signed for the restructuring plan concerning the former WestLB from 29 June 2011 in which the essential features of the transfer were described. The assets and liabilities to be transferred were contractually determined on 31 August 2012 by the conclusion of a master agreement as well as further agreements. The transfer of the portfolio is regulated by several takeover agreements, whereas the future partnership between EAA and Portigon was defined in a separate cooperation agreement. The takeover agreements were entered into the commercial register on 17 September 2012. As in the case of the first fill, refill is a stabilisation measure in accordance with section 8a (in this case in conjunction with section 13 (1b)) of the Financial Market Stabilisation Fund Act (Finanzmarktstabilisierungsfondsgesetzes – FMStFG), which can only be taken at the request of Portigon and with the approval of the FMSA. The former shareholders of WestLB were closely involved in the entire refill process at all times, including in the creation from all documentation.

These financial statements are the first in which the refill portfolio taken over by EAA in 2012 is recognised.

As was the case with the first fill, the so-called banking book assets in the refill portfolio mainly consist of loans and securities as well as their refinancing and hedge derivatives which are, in principle, to be held until their contractual maturity. They were transferred to the EAA effective as of 1 January 2012. The new business in the banking book concluded between 1 January 2012 and 30 June 2012 was transferred effective as of 1 July 2012.

Within the scope of the refill, the former trading portfolio of Portigon was transferred to the EAA as of 1 July 2012. These were predominantly derivatives which were acquired by Portigon for short-term trading and therefore require much more active and short-term management on the part of the EAA than the banking book.

Both banking and trading portfolios were transferred at carrying amounts on the respective transfer date. For the trading portfolio, the carrying amount equates to the market value on the transfer date less a risk discount in accordance with section 340e (3) German Commercial Code (Handelsgesetzbuch – HGB).

A list of the respective volumes can be found in Note 4 (refill).

The corresponding assets and liabilities were transferred on the basis of the FMStFG via a number of different alternatives:

- Spin-off:
  Transfer by means of complete legal succession in accordance with sections 123 et seq. German Reorganisation Act (Umwandlungsgesetz – UmwG), i.e. legal and economic ownership is transferred to the EAA.

- Sub-participation:
  Transfer of economic ownership while legal ownership remains with Portigon; this transfer alternative is usually possible without counterparty consent and was selected especially for items not covered by the validity of the German Reorganisation Act (foreign matters).

- Guarantee:
  Transfer of economic risks, legal and economic ownership remain with Portigon; this transfer alternative is usually possible without counterparty consent.

The vast majority of the transferred trading portfolio consists of derivatives, some of which were transferred to the EAA via other transfer alternatives.

- Crossing:
  Transfer of exchange-traded derivatives over the stock exchange.

- Spin-off:
  Affects derivatives which were concluded in accordance with the German Master Agreement for Financial Derivatives Transactions. The spin-off transfer alternative was able to be chosen for these derivatives.

- Risk transfer agreement:
  Mainly consists of the conclusion of a mirror-transaction between Portigon and the EAA, whereas the original transaction with the third party (initially) remains under the legal ownership of Portigon. The risk transfer agreement also covers the default risks associated with the original transaction and regulates the provision of the necessary liquidity.

The transfer method was based on an assessment of the different legal, regulatory, and fiscal provisions of the countries. 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 transferred financial instruments from Portigon to the EAA.

A proportion of the liabilities spun off within the scope of the first fill and refill continue to be covered by public guarantee obligations (Gewährträgerhaftung) issued by the State of North Rhine-Westphalia, the Sparkassenverbände in North Rhine-Westphalia and the Landschaftsverbände North Rhine-Westphalia (see also Note 28).

In order to compensate for the difference in the total carrying amounts of the transferred assets and liabilities, the EAA paid an initial instalment, known as an compensation claim, to Portigon in December 2012. The EAA will have to pay Portigon another instalment upon completion of the refill process. Issues arising during refill that are to be resolved are to be successively corrected and subsequently cleared in what is known as a repair period.

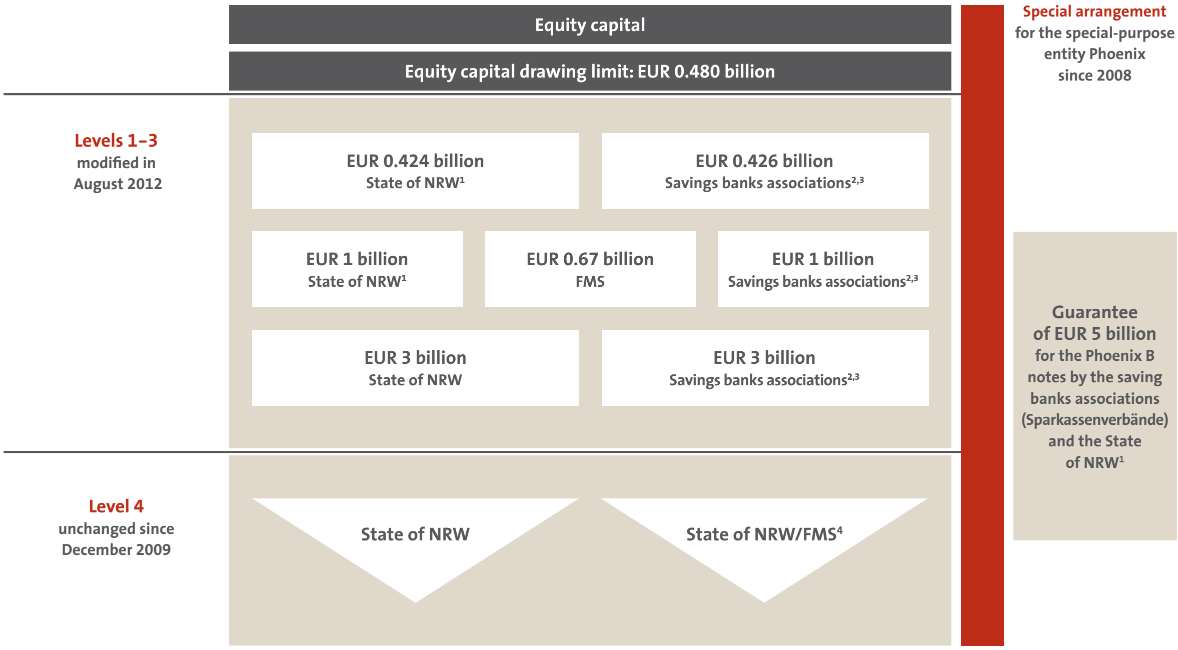
During the repair period, the possibilities of transferring back assets assigned to Helaba or the EAA that should not have been transferred for a variety of reasons (and vice-versa) are explored. A process was defined between the three parties, Helaba, Portigon and the EAA, for the purposes of this repair period. Furthermore, the process thereby defined between EAA and Portigon is also used to resolve cases between these two institutions involving transfers to the EAA which were not completed in accordance with agreements or which were not covered by a contractual provision. The timing at which the corrections and reclassifications are performed is generally determined on a case-by-case basis.

Equity base and liability

The EAA's share capital amounts to EUR 500,000. The initial transfer of former risk exposures and non-strategic business units from WestLB resulted in equity capital at the EAA of a total of around EUR 3.1 billion in 2009 and 2010 (first fill).

During the refill transaction, the EAA received rights to draw on further equity capital of EUR 480 million. If necessary, the Liable Stakeholders of the EAA and the FMS will provide these funds in defined instalments if the EAA's equity capital falls below EUR 50 million during the wind-up process.

In addition to EAA's equity base, the Liable Stakeholders' duty to offset losses incurred by the EAA and the FMS is of key significance for the EAA's credit rating. The Liable Stakeholders are severally liable to the EAA to offset all losses in accordance with section 7 of the EAA's charter. 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.



[1] For purposes of simplification, the relatively low stake of the Landschaftsverbände (regional associations of LVR and LWL) is included in the figure shown for the State of NRW

[2] Rheinischer Sparkassen- und Giroverband and Sparkassenverband Westfalen-Lippe, at 50% each

[3] Default liability assumed by the State of NRW

[4] The State of NRW and FMSA (acting on behalf of FMS) will reach an agreement on the apportionment of the associated financial burden on the basis of the FMStFG.

The EAA is obligated to assert this loss adjustment claim against the Liable Stakeholders and the FMS to the extent necessary and in good time prior to impending insolvency to ensure that it is solvent at all times.

Funding

The EAA's funding was initially secured by the nearly complete transfer of all of the former WestLB's issuances and deposits backed by guarantees. Moreover, the EAA has subsequently begun borrowing itself. Going forward, the EAA will continue to primarily obtain funding by issuing bearer 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 and the FMS form the foundation for the EAA's successful presence on the capital market.

Accounting

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 Westdeutsche ImmobilienBank AG (WestImmo), EAA Covered Bond Bank plc (EAA CBB) as well as Basinghall Finance plc – are included in the wind-up success and risk planning, risk monitoring and risk reporting.

Organisation

EAA's organisational structure is oriented toward assuring its key management and control functions. The EAA has outsourced all other business activities to third-party service providers, particularly Portigon. The EAA has concluded a cooperation agreement with Portigon for this purpose. Portigon assists the EAA in performing portfolio management duties and all related activities. Special service level agreements (service specifications) for specific processes and functions were defined as components of the cooperation agreement. Decision-making authority always remains with the EAA. The cooperation agreement can only be terminated as of 31 December 2016 at the earliest. The EAA requires the consent of the FMSA to terminate the cooperation agreement.

Due to the key importance of the outsourced activities, the EAA has established, tested and implemented a central structure within the Controlling & Planning department as well as an integrated service provider management system. Under this system, the service relationships between the EAA and Portigon as well as further external service providers are systematically managed and monitored from a legal, substantive, process and financial perspective (see also the "Service provider management" section).

Winding-up and liquidity buffer

The EAA made further progress in terms of winding-up portfolios in the financial year under report and successfully sold and restructured risk exposures transferred in the initial and refill transaction.

Moreover, the EAA is also focused on the operative implementation of the refill and the establishment of risk management processes and systems.

Activities required to manage the new refill portfolio started mid-2011, and as far as they haven't been completed are very continued.

These activities include the adjustment of the EAA's organisational structures. The EAA also developed a control concept to identify the core risks of the migration process and the ongoing operations. These include measures aimed at checking the plausibility of the wind-up plan filed by Portigon as well as preparations for the revision of the contracts with service providers.

Part of the liquidity buffer established in the financial year under report in order to settle the compensation claim resulting from the portfolio transfer from Portigon to the EAA, as defined in the principle agreement, was used to settle a first installment in December 2012.

Control system

The EAA prepares a wind-up plan on a regular basis, at least once a year. The wind-up plan details the intended liquidation measures, including a schedule for winding-up the EAA portfolio, as well as the implications for the EAA's equity capital and financial situation.

One major control parameter for the EAA is therefore the decline of the portfolio's notional volume. Along with the volume reduction, other control parameters are also relevant. According to section 5 (3) of the EAA's charter, the primary requirements are the aim of minimising losses and ensuring that the EAA is solvent at all times. As a result, the income statement, the development of equity and ensuring solvency at all times are also major performance indicators for the EAA. Every one of the EAA's (active) decisions is made in consideration of the aforementioned control parameters and their contribution to the success of the wind-up strategy is assessed.

Administrative expenses are also of great significance. The cost side of the scheduled reduction of portfolio volume is controlled within the scope of budget planning and ongoing cost controlling. Cost controlling has a key role within the EAA, as it is not possible to offset operating costs through profitable new business in winding-up agencies due to legal provisions.

Alongside planning, controlling is accompanied by ongoing monitoring. Within the scope of the reporting process, which takes places on at least a weekly basis, Managing Board members and department heads are given a summary of all portfolio measures that have been taken as well as all relevant data regarding the EAA's control parameters. Alongside reporting, there is also the task of using target/performance comparisons to identify deviations from the wind-up plan, elucidate these in detail and derive necessary recommendations for action.

EAA's location

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

Economic report

Macroeconomic and industry-specific conditions

In July 2012, the President of the European Central Bank (ECB) announced that the ECB was willing to buy sovereign bonds from crisis-hit EU member states under its new Outright Monetary Transactions (OMT) programme. This statement significantly improved the risk appetite in the markets in view of highly indebted peripheral member states. Shortly before these measures were announced, extremely high capital outflows were recorded in these member states. As a direct consequence yields of Spanish and Italian bonds rose sharply. Yields on ten-year Spanish bonds reached a record level of 7.62% on 24 July 2012, while ten-year benchmark bonds from Italy were valued at 6.6% on the same day. Over the course of the second half of 2012, Spanish, Irish, Portuguese and Italian sovereign bonds were able to recover substantially to the extent that market stakeholders' confidence in the ECB's more active approach increased. As a result, risk premiums versus German Bunds fell considerably.

A look back at 2012

Sovereign debt crises are long-term, laborious processes; just as the causes of such a crisis develop over a substantial period of time, any potential resolution cannot be developed overnight. In the past, it has taken an average of 20 to 25 years to completely eradicate and correct the aberrations of sovereign debt crises. The first five to ten years of a sovereign debt crisis are characterised by negative growth. As we now find ourselves in the fifth year of the European sovereign debt crisis, factors that are hindering eurozone growth should slowly begin to fade into the background.

Eurozone: Recession on the periphery...

With the anticipated 1.4% contraction in the Spanish economy in 2012, fiscal withdrawal resulted in tax increases and cuts to public spending. In spite of the fact that Spain has been the subject of widespread praise from the Troika and eurozone partners, the country's budget deficit remained at a high level of an estimated 8% of gross domestic product (GDP) in 2012 despite reforms and highlighted the need for further austerity measures. In neighbouring Portugal, the worst of the recession is likely to have been reached in 2012. National income declined by an estimated 3%. Portugal has already implemented a lot of reforms to overcome the European sovereign debt and financial crises, however, it is taking a significant amount of time for the positive effects of these efforts to become evident.

The economic climate in Italy is somewhat different. Italy has become caught up in the European sovereign debt crisis as a result of high sovereign debt and the leadership of Prime Minister Berlusconi, which consisted more of a reform backlog than progressive action. The technocrat government led by Mario Monti that came to power following Berlusconi's resignation was able to stabilise the national budget relatively quickly in 2012 by means of spending cuts and tax hikes (including the introduction of an unpopular property tax). With an annual deficit of an estimated 2.9% of GDP, Italy has met the requirements of the Maastricht Treaty again for the first time since 2008. However, these aggressive measures to clean up the budget came at the cost of a return to recession. Economic output in Italy fell by 2.1%.

… and marginal growth at the core

The effects of the sovereign debt crisis are also being felt by more economically stable member states at the core of the eurozone (Germany, the Netherlands and Finland) and the semi-core member states (France and Belgium) due to the economic problems affecting important buyers of exports such as Italy, Spain and Portugal. Economic activity was subject to major fluctuations over the course of 2012 on account of this problematic environment. The German Manufacturing Purchasing Managers' Index (PMI) dropped from 51 points in January 2012 to 43 points in July 2012. However, the index has since stabilised. At 49.8 points in December 2012, the index was just short of the expansion threshold of 50 points, showing that the German economy appears to be back on course after a weak second half of 2012. The variances in economic growth within the eurozone confirm these developments. While peripheral member states continue to struggle through recession, the core of the eurozone has been able to escape a return to recession. By contrast, the semi-core of the eurozone, and in particular France, is likely to have stagnated in 2012. In such a weak economic climate, the orientation of the European Central Bank's monetary policy is very expansive and it is contributing to the increased economic stability within the currency union.

US economic growth somewhat more robust in 2012

Despite the fact that the self-imposed "fiscal cliff" and the continuing blockade of US politics following the presidential elections were seen as major obstacles to growth in the second half of 2012, US economic growth was still remarkably robust. The country was able to overcome the growth slowdown experienced in the summer, at least according to the latest economic indicators. The ISM Manufacturing Index reached 53.1 points in December 2012 and was therefore significantly above the growth threshold of 50 points. Positive impetus is also arriving from the labour market and the US real estate market. Over the course of 2012, the unemployment rate fell from 8.7% to 7.8%. In the construction industry, the number of new projects rose to approximately 954,000 (December 2012). House prices also continued to rise. According to the Case-Shiller Composite 20 index, house prices in the USA were up 5.5% year-on-year in December 2012.

From a US perspective, developments in the construction industry (recovery), on the labour market (unemployment down) and on the real estate market (house prices up) are extremely important. An important factor that has hampered economic recovery in the USA, despite the unrivalled deployment of funds in connection with fiscal and monetary policies, was the surplus in properties available for sale. Therefore, the construction industry has not yet been able to recover fully after the US real estate bubble burst, despite the low interest rate environment. This, coupled with the drop in construction projects, made redundancies inevitable. Falling house prices have hit the private wealth of Americans significantly, with further implications for consumer demand.

2013 not set to be a repeat of 2011 and 2012

The initiatives of the European Central Bank appear to have ensured that economic development in 2013 will not follow in the footsteps of 2011 and 2012, which were characterised by parallel development in themes and topics driving the market. A major issue in both years was the solvency of EU member states caused by the European sovereign debt crisis and the Greek debt swap; developments on financial markets and in the real economy were correspondingly volatile.

This high level of volatility was coupled with the lack of market confidence in the solvency as well as the willingness of governments in peripheral eurozone countries to pay their off debts. Concerns on the financial markets noticeably abated after the ECB declared its intention to intervene. From a macroeconomic perspective themes and topics relating to the debt crisis and governmental credit worthiness will continue to wield their influence – as has been the case in 2011 and 2012. Still development over the course of 2013 ought to differ from the two preceding years. As a result, it is anticipated that the degree of fluctuation in terms of macroeconomic indicators and financial market data will decline. Fundamental indicators are anticipated to continue on their path toward recovery.

Development in the real economy

There are a range of developments that give reason for a mildly positive outlook. The improvements seen in the construction and real estate industries and the continuing decline in unemployment have provided positive growth impulses. As a result, there is a good chance that the USA will be able to regain momentum in 2013 – albeit at a marginal level. The EAA is therefore exercising caution when it comes to forecasting US economic growth. The EAA anticipates that economic growth in 2013 is likely to reach 2.0%. Some of the positive effects of developments seen in the construction industry and the US consumer industry will be offset by the start of fiscal consolidation in the USA. The EAA only expects economic activity to accelerate in 2014. Due to the historically high level of unemployment, inflationary pressure remains contained. Low price rises and sluggish economic growth have given the Federal Reserve justification to cling to its extremely expansive monetary policy in 2013 and particularly its strategy of treasury purchases.

Key economic indicators	Growth (%)		Inflation (%)		Unemployment (%)		Budget balance (% GDP)	
	2013	2014	2013	2014	2013	2014	2013	2014
USA	2.0	2.8	1.9	2.1	7.7	7.2	–5.8	–4.8
Euro zone	–0.1	1.1	1.9	1.8	12.0	11.8	–2.6	–2.3
Core & semi core								
Germany	0.7	1.7	1.9	1.9	6.9	6.8	–0.4	–0.1
France	0.0	1.0	1.7	1.7	10.7	10.6	–3.5	–2.8
Periphery								
Greece	–4.3	–0.5	0.1	0.2	27.0	27.4	–5.9	–4.7
Ireland	1.0	2.0	1.2	1.4	14.9	15.1	–7.5	–5.1
Portugal	–2.1	0.3	1.2	0.9	16.8	17.3	–4.9	–3.8
Spain	–1.5	0.4	2.2	1.4	26.2	26.4	–6.0	–5.0
Italy	–0.9	0.6	2.1	1.8	11.4	11.4	–2.1	–1.9
Emerging Markets								
Asia	6.7	6.9	4.1	4.2	4.0	4.0	–2.3	–2.0
Latin America	3.6	4.0	6.6	6.3	6.1	6.1	–2.1	–1.9
Eastern Europe & Africa	2.9	3.7	5.4	5.0	9.5	9.3	–1.9	–1.6
BRIC countries								
Brazil	3.5	4.0	5.8	5.5	5.5	5.4	–2.4	–2.3
Russia	3.3	3.8	6.5	5.7	5.8	5.6	–0.6	–0.4
India	5.5	6.5	9.2	7.7	NA	NA	–5.8	–5.3
China	8.1	8.0	3.1	3.6	4.1	4.2	–2.0	–1.8

Source: Bloomberg, EAA

There will continue to be significant divergence in terms of economic growth in the eurozone in 2013. Whereas members of the eurozone's (semi-) core are set to experience moderate growth or periods of stagnation, most members of the eurozone periphery will remain in recession. For Germany, the EAA is forecasting moderate economic growth of 0.7% in 2013. Further recovery of the global economy and members of the euro-zone periphery is only anticipated to take hold in 2014, which should trigger accelerated growth. Compared to members of the eurozone periphery and France, Germany will emerge from the crisis relatively unharmed.

However, the situation is more problematic in the periphery of the eurozone. Spain will continue to struggle through recession this year. National income in Spain is set to fall by some 1.5% on average in 2013. This decline is particularly due to the need for further austerity measures. As a result, Spain will remain at the forefront of the European sovereign debt crisis in 2013. Similar developments in terms of economic growth are likely to affect neighbouring Portugal. However, with forecasts of negative growth of between 2% and 2.1% in 2013, the decline of Portuguese economic output has slowed year-on-year. Nevertheless, it is likely to be 2014 before the Portuguese economy returns to a course of moderate growth. It is probable that Italy will continue to suffer from the effects of the European sovereign debt crisis in 2013. The country's economic output is forecast to fall by just under 1% in 2013. Italy is only likely to escape from this period of recession at the end of 2013 or in early 2014, with extremely weak growth of around 0.6% forecast for 2014. This expectation is based on further stabilisation of the global economy as well as a handful of structural reforms implemented on the pension system and employment market.

Financial market outlook for 2013

All indications point to further recovery in terms of the global real economy. This will manifest itself in an acceleration of economic growth in emerging economies, robust growth in the USA and further improvement in terms of the eurozone's fundamental indicators. Further effects will be felt in the form of lower risk premiums for sovereign bonds in peripheral eurozone members and slight increases in the yields of German and US government bonds. Yields on ten-year German Bunds are likely to be at around 2% by the end of 2013, whereas the US equivalent is forecast to hit 2.25%. The driving force behind these increases in yields is economic growth, which is likely to accelerate by the end of 2013.

Fixed income markets in 2013

	Policy rate (%)	2Y yield (%)	10Y yield (%)
USA	0.25	0.40	2.25
Euro zone	0.75	0.40	2.00
Core & semi core			
Germany	0.75	0.40	2.00
France	0.75	1.00	2.75
Periphery			
Spain	0.75	3.50	5.30
Italy	0.75	2.00	4.60

Source: Bloomberg, EAA

Given that members of the eurozone periphery are also likely to stabilise further, risk premiums versus German Bunds may fall even further. However, going by past experiences, this is expected to occur in waves. There may be increases in the spreads or yields of bonds issued by peripheral eurozone countries in the run-up to Troika appraisals of programme countries or during periods of increased political insecurity. However, the OMT, also referred to as the "Draghi put", should successfully limit the extent of the fluctuations in these phases.

The euro/dollar exchange rate will remain largely the same in 2013. At the end of the year, the EAA expects rates to reach around USD 1.30 / EUR. This is primarily due to the fact that the differences in economic growth between the eurozone and the USA are likely to be relatively small. Moreover, monetary policy in both the USA and the eurozone is extremely expansive, giving the EAA reason to believe that neither currency is likely to be noticeably stronger or weaker than the other.

Business development

Overview of economic development

The EAA is responsible for winding-up the risk exposures and non-strategic business units taken over from Portigon as well as its domestic and foreign subsidiaries in a loss minimizing manner. The transfer of the risk exposures and non-strategic businesses/assets from Portigon to the EAA is a two-phase process – first fill in 2009/2010 and refill in 2012 (see section "Operating activities of EAA").

The EAA's funding comes on the one hand from the spin-off of the former WestLB's own issuances, which continue to be backed public guarantee obligations. The EAA also raises cash funds by issuing bearer bonds as well as through money market and repurchase transactions. Derivatives transactions were used to hedge interest and exchange rate risks.

The EAA's economic situation was predominantly characterised by the refill transaction in 2012.

The EAA's earnings situation primarily comprises positive net interest income of EUR 260.1 million, net fee and commission income of EUR 155.5 million and net trading income of EUR -51.8 million. Loan loss provisioning for the lending business contributed EUR 171.6 million to annual earnings.

The EAA's total assets as of 31 December 2012 amounted to EUR 123.3 billion (previous year: EUR 50.8 billion). Its business volume, which also includes off-balance sheet items, amounted to EUR 148.6 billion (previous year: EUR 58.9 billion).

Wind-up report

The figures and developments discussed in this chapter are regularly reported to the FMSA as part of its supervision of the EAA, as well as to the EAA's supervisory bodies. They relate to the entire risk portfolio transferred to the EAA, regardless of whether these figures are recorded on or off balance sheet in the EAA's single-entity financial statements or whether they are held via subsidiaries (look-through approach). The assets held by subsidiaries are included based on the companies' monthly reports.

The EAA took over a second banking book amounting to EUR 72.3 billion (notional volume) from Portigon with retroactive effect as of 1 January 2012. As of 31 December 2012, the entire banking book amounted to EUR 94.4 billion (at exchange rates as of 31 December 2011).
The first fill portfolio volume has been reduced by around 46% since it was taken over in 2010. Moreover, the EAA has also taken over a trading book portfolio with a notional volume of EUR 1,064.0 billion and new banking book positions issued by Portigon between 1 January and 30 June 2012 (see also Note 4 [refill]).

In the first half of 2012, the notional volume of the banking book from the first fill and refill decreased by EUR 13.8 billion (at exchange rates as of 31 December 2011). This reduction reflects the decline in notional value coupled with counter-effects from the aforementioned new Portigon business. The EAA has generated profit and loss from the refill banking book since 1 January 2012.

Given that both new Portigon business from the first half of 2012 as well as the trading portfolio in the EAA's overall portfolio (in other words the combined first fill and refill portfolios) are only included after 30 June 2012, this date is used as the reference date in tables and graphs included in the wind-up report and risk report.

The following overview shows the development of the portfolio's notional amounts since 1 July 2012 and the reconciliation to EAA's balance sheet as of 31 December 2012:

Reconciliation of the notional volume transferred to the balance sheet on 31 December 2012

in EUR billion

[1] Equates to the book values for trading portfolio assets.

[2] Details for the refill adjusted for WestImmo retail portfolio already transferred within the first fill via a guarantee

Under the EAA's management strategy, the progress made in winding-up 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 2011 for the banking book and as of 30 June 2012 for the trading portfolio) as well as in terms of business plan impacts. The latter takes into consideration the impact of sale proceeds, book values, expected losses, interest income and scheduled funding costs in the wind-up plan. The calculation of the business plan impact on the entire portfolio is intended to start in 2013.

Wind-up strategies

The banking book's risk exposures have been allocated to three different wind-up strategies in the wind-up plan:

Saleable	Hold	Restructure

	31 Dec. 2012 EUR billion[1]	30 June 2012 EUR billion[1]
Saleable	13.9	7.3
Hold	52.8	92.5
Restructure	27.7	12.8
Total	**94.4**	**112.6**

[1] Excluding exchange rate effects (on the basis of exchange rates as of 31 December 2011)

The "Saleable" category includes securities and loans with a volume of approximately EUR 13.9 billion, for which a disposal is considered possible. Assets are categorised as "Saleable" 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 monitored closely due to their lower credit quality. The increase in the "Restructure" category is primarily due to the inclusion of the entire Phoenix portfolio in this category as well as the reclassification of non-performing loans previously categorised as "Hold" into the "Restructure" category.

The rest of the portfolio falls under the "Hold" category. The significant decline in the "Hold" category was on the one hand driven by maturing loans and portfolio repayments in 2012, on the other hand and due to the reclassification of parts of the "Hold" portfolio to "Saleable" and "Restructure" categories as part of the annual review.

The assignment of the risk exposures to one of these standard strategies is reviewed on a regular basis and documented as part of the annual update of the wind-up plan.

There is no differentiation between the aforementioned strategies in the wind-up plan for the trading portfolio. In this case, active asset management is modelled. The portfolio matures according to expected maturities. Remaining risks in the trading portfolio must be actively managed.

Wind-up success

Success in winding-up the banking book

The notional volume of the banking book (total portfolio from first fill and refill) declined from EUR 112.6 billion as of 30 June 2012 to EUR 94.4 billion as of 31 December 2012 (at exchange rates as of 31 December 2011, including the notional amounts of guaranteed risk exposures and risk exposures held by subsidiaries of the EAA, including contingent liabilities and other obligations). That equates to a decline in notional value of EUR 18.2 billion (16.2%). At current exchange rates as of 31 December 2012, the volume is EUR 93.6 billion.

The following table shows the transferred portfolio as of 31 December 2012 and 30 June 2012 according to the asset classes newly defined for the combined portfolio.

	Notional volume (at exchange rates as of 31 Dec. 2011)				Notional volume (at exchange rates as of 31 Dec. 2012)	
	Notional 31 Dec. 2012	Notional 30 June 2012	Delta to 30 June 2012		Notional 31 Dec. 2012	FX effect[1]
Clusters	**EUR million**	**EUR million**	**EUR million**	**in %**	**EUR million**	**EUR million**
Structured Securities	25,806	27,459	–1,653	–6.0	25,468	–338
WestImmo Commercial	15,908	17,974	–2,066	–11.5	15,829	–79
Public Finance	9,248	10,277	–1,029	–10.0	9,174	–74
Energy	7,573	9,282	–1,709	–18.4	7,501	–72
NPL	6,957	5,806	1,151	19.8	6,899	–58
Industrials	6,075	8,522	–2,447	–28.7	6,043	–32
Other clusters	22,865	33,308	–10,443	–31.4	22,719	–146
EAA (banking book) total	**94,432**	**112,628**	**–18,196**	**–16.2**	**93,633**	**–799**

[1] Change in notional volume due to exchange rate effects

In the banking book, a reduction was achieved in the second half of 2012 in particular in the Asset Securitisation, Financial Institutions (both clusters are recognised under “Other clusters”), Industrials and WestImmo Commercial clusters. In the Financial Institutions cluster, the reduction was driven mainly by the Commercial & Investment Banks, Emerging Markets Banks and Non-Banks sub-clusters. In the Industrials cluster, a significant decline in the Manufacturing & Engineering sub-cluster was reported. The increase in the Non-Performing Loans (NPL) cluster was due to reclassification from other clusters. The notional reduction in the Structured Securities cluster is due to the partial repayments of the Phoenix A1 (EUR and USD), B and X notes.

Success in winding-up the trading portfolio

	Notional volume (at exchange rates as of 30 June 2012)				Notional volume (at exchange rates as of 31 Dec. 2012)	
	Notional 31 Dec. 2012	Notional 30 June 2012	Delta to 30 June 2012		Notional 31 Dec. 2012	FX effect[1]
Clusters	**EUR million**	**EUR million**	**EUR million**	**in %**	**EUR million**	**EUR million**
Rates	851,603	992,535	–140,932	–14.2	839,092	–12,511
Credit	12,407	16,377	–3,970	–24.2	12,032	–375
FX	2,161	14,763	–12,602	–85.4	2,110	–51
Equity	18,084	28,358	–10,274	–36.2	18,004	–80
Other clusters	519	12,014	–11,495	–95.7	501	–18
EAA (trading portfolio) total	**884,774**	**1,064,047**	**–179,273**	**–16.8**	**871,739**	**–13,035**

[1] Change in notional volume due to exchange rate effects

The notional volume of the trading portfolio is determined by the business volume underpinning the derivatives and not by risk exposure.

In total, the notional volume of the trading portfolio declined by around EUR 179.3 billion (at exchange rates as of 30 June 2012) in the second half of 2012. The main driving force behind the decline was the Rates cluster with a volume of EUR 140.9 billion. The notional volume of the other clusters declined by EUR 38.4 billion, including the transfer of cash collateral amounting to EUR 9.2 billion to Asset Liability Management (ALM) in the trading portfolio. As this concerns business that is used to control hedging and funding, there is no assessment or recording of wind-up success for cash collateral, as is the case for ALM as a whole. The main cause of the decline in the notional volume was maturities. The wind-up success listed here has already been adjusted for an FX effect of approximately EUR 12.9 billion.

The EAA's overall situation

Earnings situation

In 2012, the EAA's net income was mainly characterised by the transfer of the second portfolio from Portigon.

The EAA's earnings situation was marked by positive net interest income of EUR 260.1 million, net fee and commission income of EUR 155.5 million and net trading income of EUR -51.8 million. The EAA's administrative expenses amounted to EUR 412.7 million as of 31 December 2012.

In the lending business, provisioning was negatively impacted by the refill and overcompensated for by the effects of the first fill portfolio. Total provisioning amounted to EUR 171.6 million, including the valuation of the structured products Phoenix and European Super Senior Notes (EUSS) and effects from the conditions agreed as part of the Greek debt swap.

Net income from investment securities and participations of EUR -123.2 million was primarily due to the recognition of a provision for portfolios in the USA for which the EAA assumed a guarantee within the scope of the refill process.

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.

Income statement for the period 1 January until 31 December 2012

	1 Jan.– 31 Dec. 2012	1 Jan.– 31 Dec. 2011	Delta	
	EUR million	EUR million	EUR million	in %
Net interest income	260.1	188.6	71.5	37.9
Net fee and commission income	155.5	26.4	129.1	>100.0
Net trading result	–51.8	–	–51.8	–
Total other operating income/expenses	9.3	–5.6	14.9	>100.0
Personnel expenses	–13.2	–8.3	–4.9	–59.0
Other administrative expenses	–399.5	–118.9	–280.6	>-100.0
of which: expenses for service level agreements with Portigon	–328.4	–82.1	–246.3	>-100.0
Net income from investment securities and long-term equity investments	–123.2	–22.6	–100.6	>-100.0
Results prior to risk provisioning	**–162.8**	**59.6**	**–222.4**	**>–100.0**
Loan loss provisions	171.6	–935.9	1,107.5	>100.0
Earnings before taxes	**8.8**	**–876.3**	**885.1**	**>100.0**
Taxes on income and earnings	–2.2	–1.9	–0.3	–15.8
Net profit for the year/Net loss for the year	**6.6**	**–878.2**	**884.8**	**>100.0**
Net retained losses brought forward	–2,525.9	–1,647.7	–878.2	–53.3
Net retained losses	**–2,519.3**	**–2,525.9**	**6.6**	**0.3**

Net interest income

Net interest income amounting to EUR 260.1 million (previous year: EUR 188.6 million) was increased through the successful transfer of further interest-bearing portfolios. However, the structural development of net interest income was characterised by substantial progress made in winding-up both the old and new portfolio.

In addition to net interest (EUR 240.5 million [previous year: EUR 184.9 million]), net interest income also includes the current income from equities, other non-fixed income securities, participations and equity investments in affiliated banks and companies (EUR 6.5 million [previous year: EUR 3.6 million]) as well as income from profit-pooling, profit-pooling agreements and partial profit-pooling agreements (EUR 13.1 million [previous year: EUR 0.0 million]).

The interest income consisted of lending and money market transactions totalling EUR 1,364.1 million (previous year: EUR 656.8 million) and of fixed-income securities and debt register claims totalling EUR 508.1 million (previous year: EUR 469.1 million).

The interest income was offset by interest expenses of EUR 1,631.7 million (previous year: EUR 941.0 million). It also included interest on the compensation claim from Portigon.

Net fee and commission income

The year-on-year rise in net fee and commission income by EUR 129.1 million to EUR 155.5 million was primarily due to the transfer of the refill portfolio. As part of this transfer, the EAA guarantees Portigon further assets. The guarantee fees relating to this amounted to EUR 93.6 million.

Moreover, the lending and syndicated lending businesses were transferred from Portigon to the EAA and the EAA generates additional net fee and commission income from these.

Net expense from the trading portfolio

Net income from the trading portfolio recognised for the first time in the EAA'S single-entity financial statement amounted to EUR -51.8 million. This includes interest income from the trading portfolio amounting to EUR 184.6 million as well as the FX result of EUR 16.7 million. Together with the valuation changes of EUR -205.1 million, this meant that a relatively balanced net income was reported in terms of the trading portfolio.

Furthermore, net income from the trading portfolio also included changes to the model reserves totaling EUR -48.0 million.

Total other income and expenses

Total other operating income and expenses amounted to EUR 9.3 million for the 2012 financial year, including other taxes amounting to EUR 9.6 million. This was due to offsetting effects from the refill portfolio.

General administrative expenses

General administrative expenses in the 2012 financial year amounted to EUR 412.7 million (previous year: EUR 127.2 million). Of this amount, EUR 13.2 million (previous year: EUR 8.3 million) was attributable to personnel expenses, which reflect the continuation of the scheduled recruitment strategy.

Other administrative expenses amounted to EUR 399.5 million (previous year: EUR 118.9 million), due primarily to the cooperation agreement with Portigon to provide the EAA assistance in managing its portfolio and all associated duties (EUR 328.4 million [previous year: EUR 82.1 million]). This year-on-year increase was a result of the transfer of the refill portfolio. Costs purely attributable to the refill amounted to EUR 29.5 million.

Additional costs of EUR 9.3 million (previous year: EUR 6.8 million) resulted in connection with asset-sustaining measures. These included in particular expenses relating to restructuring processes for exposures at risk of default.

Loan loss provisions

There was a net release of EUR 171.6 million to the provisions for losses on loans and advances in the 2012 financial year. This mainly resulted from the reversal of risk provision from the Phoenix and EUSS structures amounting to EUR 512.3 million. Net expense of EUR 53.3 million resulted from the Greek exposure that was fully wound-up in the first half of 2012.

Not including Phoenix, EUSS or Greece, risk provisioning amounted to EUR -282.4 million. Risk provisioning in the traditional lending business amounted to EUR 287.4 million in the 2012 financial year. Net income from securities in the liquidity reserve amounted to EUR 5.0 million.

The EAA has appropriately taken into account all recognisable risks.

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 123.2 million. This includes net expenses of EUR 110.0 million from investment securities and net expenses of EUR 13.2 million from participations.

Net income from investment securities mainly consisted of the recognition of a provision for portfolios in the United States for which the EAA assumed a guarantee for Portigon within the scope of the refill process.

Net income from participations primarily resulted from write-downs and additions to provisions for participations.

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

Net profit of the year
The EAA's net profit for the 2012 financial year amounted to EUR 6.6 million and reduced net retained losses carried forward to EUR 2,519.3 million as of 31 December 2012.

Financial situation and issuing activities

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 for the purposes of refinancing and wind-up activities. The EAA commissions 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 programmes, markets and pricing, while the portfolio manager Portigon and commissioned financial institutions act as consultants.

The portfolio manager calculates EAA's liquidity needs in preparing 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 third-party banks and in light of investor feedback. The documentation for the issuing programmes 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 issues by the former WestLB which are covered by public guarantee obligations and were transferred to it by way of a spin-off, as well as increasingly by way of new capital market transactions.

In 2012, the EAA succeeded in covering its funding requirements and was able to establish a liquidity buffer for the refill. Three benchmark transactions with a notional volume of EUR 5 billion were issued in the liquid benchmark segment. Including these, the notional volume of new issues for the EAA's medium and long-term refinancing (mainly bearer bonds) in 2012 amounted to EUR 20.0 billion and USD 3.3 billion.

Moreover, bearer bonds with maturities of under one year amounting to a notional volume of EUR 2.5 billion, USD 0.6 billion and GBP 1.1 billion were issued on the capital market in 2012 via the Debt Issuance Programme.

The EAA also used its access to the capital market via the global Commercial Paper Programme for the purposes of short-term liquidity management. The notional volume of outstanding Commercial Papers as of the end of 2012 was EUR 3.0 billion, USD 13.4 billion and GBP 3.4 billion.

The refill also resulted in the transfer of outstanding debt securities (bearer bonds and certificates) from Portigon to the EAA at a carrying amount of EUR 1.8 billion.

Issuing activity, the term structure, progress made in winding-up the portfolio and the market environment are regularly reviewed and the issuing schedule is adjusted accordingly. In the liquidity stress test, the EAA reported net liquidity above the defined minimum threshold throughout 2012. The EAA aims its new issues exclusively at institutional investors such as insurers, fund managers, central banks, and banks. An issuance programme for well-diversified market access was set up in accordance with European regulations. 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 situation

The EAA's total assets as of 31 December 2012 amounted to EUR 123.3 billion (previous year: EUR 50.8 billion). Its business volume, which also includes off-balance sheet items, amounted to EUR 148.6 billion (previous year: EUR 58.9 billion).

Due to the retroactive transfer of the second portfolio from Portigon as of the transfer dates of 1 January 2012 and 1 July 2012, it is difficult to compare balance sheet items as of the balance sheet date with those as of the previous year's balance sheet date. In the following table, the balance sheet amount adjusted for the refill is also provided.

Assets

	31 Dec. 2012	31 Dec. 2011 adjusted	31 Dec. 2011	Delta 31 Dec. 2012 to 31 Dec. 2011 adjusted	
	EUR billion	EUR billion	EUR billion	EUR billion	in %
Cash reserve	2.5	–	–	2.5	–
Loans and advances to banks	22.6	26.0	15.4	–3.4	–13.1
Loans and advances to customers	22.7	30.2	8.6	–7.5	–24.8
Securities (banking book)	24.3	31.5	25.0	–7.2	–22.9
Trading portfolio	48.9	52.1	–	–3.2	–6.1
Long-term equity investments and shares in affiliates	1.9	2.0	1.4	–0.1	–5.0
Other assets	0.4	0.6	0.4	–0.2	–33.3
Total assets	**123.3**	**142.4**	**50.8**	**–19.1**	**–13.4**

Liabilities and equity

	31 Dec. 2012	31 Dec. 2011 adjusted	31 Dec. 2011	Delta 31 Dec. 2012 to 31 Dec. 2011 adjusted	
	EUR billion	EUR billion	EUR billion	EUR billion	in %
Deposits from banks	7.8	11.0	5.6	–3.2	–29.1
Deposits from customers	7.5	13.0	5.7	–5.5	–42.3
Debt securities in issue	57.7	39.3	37.5	18.4	46.8
Trading portfolio	48.9	52.1	–	–3.2	–6.1
Provisions	0.4	0.2	0.1	0.2	100.0
Other liabilities	0.5	26.3	1.3	–25.8	–98.1
Equity	0.5	0.5	0.6	0.0	0.0
Total liabilities and equity	**123.3**	**142.4**	**50.8**	**–19.1**	**–13.4**
Contingent liabilities	19.7	24.7	6.7	–5.0	–20.2
Other obligations/loan commitments	5.6	8.6	1.4	–3.0	–34.9
Business volume	**148.6**	**175.7**	**58.9**	**–27.1**	**–15.4**

Lending business

The lending business comprises receivables, payment obligations arising from irrevocable loan commitments, pledges and other guarantees. Contingent liabilities also include risk exposures from Portigon transferred via the “guarantee” transfer 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.

Lending business

	31 Dec. 2012	31 Dec. 2011 adjusted	31 Dec. 2011	Delta 31 Dec. 2012 to 31 Dec. 2011 adjusted	
	EUR billion	EUR billion	EUR billion	EUR billion	in %
Loans and advances to banks	22.6	26.0	15.4	–3.4	–13.1
Loans and advances to customers	22.7	30.2	8.6	–7.5	–24.8
Contingent liabilities	19.7	24.7	6.7	–5.0	–20.2
Other obligations/loan commitments	5.6	8.6	1.4	–3.0	–34.9
Lending business	**70.6**	**89.5**	**32.1**	**–18.9**	**–21.1**

Securities

The portfolio of bonds and other fixed-income securities amounted to EUR 24.3 billion (previous year: EUR 25.0 billion) at the balance sheet date, of which EUR 23.5 billion (previous year: EUR 24.4 billion) was classified under investment securities. An additional EUR 0.7 billion (previous year: EUR 0.6 billion) in own, repurchased issues was allocated to the liquidity reserve.

Through the active wind-up of the portfolio, the portfolio could be reduced by around EUR 7.2 billion in the 2012 financial year, including the refill portfolio.

The EAA only concluded a small volume of securities lending transactions in 2012 amounting to approximately EUR 31.2 million. No securities were sold under repurchase agreements.

Repayments on the Phoenix portfolio in the amount of EUR 2.4 billion resulted in a further reduction of securities.

Trading portfolio

The trading portfolio is recognised in the balance sheet at its fair value less a risk discount.

As of 31 December 2012, the EAA posted trading assets of EUR 48.9 billion, of which EUR 48.2 billion is attributable to derivative financial instruments and EUR 0.7 billion to loans and advances and securities.

Trading liabilities of EUR 48.9 billion chiefly consist of derivatives transactions of EUR 48.6 billion.

Participations and equity investments in affiliated banks and companies
Over the course of the first fill and refill processes, the EAA took over a number of Portigon's participations. Participations amounted to EUR 85.8 million (previous year: EUR 86.3 million) as of the reporting date and equity investments in affiliated banks and companies of EUR 1.8 billion (previous year: EUR 1.3 billion).

The increased carrying amount of participations in affiliated banks and companies is primarily due to the transfer of WestImmo and the former WestLB Europa Holding GmbH (now: EAA Europa Holding GmbH) carried out within the scope of the refill.

Deposits from banks and customers
As of 31 December 2012, deposits from banks and customers amounted to EUR 7.8 billion (previous year: EUR 5.6 billion). Of that amount, EUR 3.3 billion (previous year: EUR 1.7 billion) was attributable to overnight deposits and current term money, and an additional EUR 3.7 billion (previous year: EUR 3.5 billion) to registered securities. Overall, EUR 3.3 billion (previous year: EUR 3.5 billion) in deposits from banks were backed by public guarantee obligations.

Deposits from customers in the amount of EUR 7.5 billion (previous year: EUR 5.7 billion) primarily consisted of registered bonds of EUR 6.7 billion (previous year: EUR 4.2 billion) as well as current liabilities from overnight deposits and current term money amounting to EUR 0.7 billion (previous year: EUR 1.1 billion). Overall, EUR 2.6 billion (previous year: EUR 3.1 billion) in deposits from customers were backed by public guarantee obligations.

Together with debt securities, a volume of EUR 23.4 billion (previous year: EUR 19.2 billion) was subject to the public guarantee obligations.

Issuing business
Debt securities amounted to EUR 57.7 billion (previous year: EUR 37.5 billion) as of the reporting date. This included securities with a notional volume of EUR 10.4 billion (previous year: EUR 12.6 billion) that had originally been issued by the former WestLB and are backed by public guarantee obligations. Please see the "Financial situation and issuing activities" section for more information on issuing activities.

Provisions
Provisions rose by EUR 278.2 million in the last year to EUR 379.2 million. The increase in provisions was mainly the result of the refill.

A major effect of this was the recognition of a provision for portfolios in the USA which remain in the possession of Portigon and are guaranteed by the EAA. A provision of EUR 14.7 million was made for legal risks. Provisioning for uncertainty regarding legal disputes relating to trading portfolio transactions was recognised as a valuation discount in the trading assets. EUR 57.1 million was set aside for the service fees to be paid to Portigon as part of the new cooperation agreement.

Equity
The EAA's subscribed capital remained unchanged and amounted to EUR 500,000 as of 31 December 2012. Moreover, the first transfers of risk exposures and non-strategic business units from the former WestLB resulted in a capital reserve of approximately EUR 3.1 billion.

The capital reserved declined by EUR 110.7 million over the course of the refill in the 2012 financial year. This decline was primarily due to the refill of the EAA and the measures agreed as part of the principle agreement dated 29 June 2011 and the binding protocol dated 18 June 2012.

As of the balance sheet date, equity under HGB (German Commercial Code) amounted to EUR 510.0 million (previous year: EUR 614.0 million). Alongside the net retained losses, this also includes other revenue reserves amounting to 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).

Financial and non-financial performance indicators

Financial performance indicators

As the EAA's aim is to wind-up transferred portfolios in a manner that preserves value and minimises risk, the financial performance indicators used for the EAA's internal management are not comparable with those normally used by banks.

Return on equity, for instance, is not the focal point of the EAA's business strategy. In fact, the EAA is managed according to parameters that are oriented toward effects on the earnings situation or wind-up success. These parameters are reported in the wind-up reports on a regular basis both in absolute and relative terms and both for the banking book as well as the trading portfolio. The starting point for the analysis of the overall portfolio's wind-up success is 31 December 2011 for the banking book and 30 June 2012 for the trading portfolio.

Moreover, there are further performance indicators in the so-called performance indicator cockpit of the monthly wind-up reports. These performance indicators show income statement components in relation to the balance sheet total, the maturities for the banking book, the risk provisioning ratio on the portfolio as a whole and on parts of the portfolio and the ratio of costs and income. Both historical values and current values are detailed for these performance indicators in order to improve comparability.

Non-financial performance indicators

Employees

Qualified, highly motivated employees whose willingness to perform and assume responsibility is a cut above the norm represent a decisive factor in the success of the EAA.

As of 31 December 2012, the EAA employed a total of 103 people (including two Managing Board members). This represents a substantial year-on-year increase (31 December 2011: 56) as a result of additional requirements as part of the refill.

Thanks to their identification with the EAA and their commitment, employees make a critical contribution to the success of the company. In addition, existing talent, skills and potential are supported and encouraged through a high level of individual responsibility.

Reputation and acceptance

As a public institution, the EAA needs the acceptance and trust of governments and the general public in order to fulfil its purpose successfully. Since it began operating activities, the EAA has attracted a great deal of interest in the work it does from a wide variety of different media sources. The EAA's public image is of great significance, particularly in view of refinancing opportunities on the capital market. Against this backdrop, potential reputation risks are extremely important for the EAA.

The EAA's mitigates these risks through its systematic public relations activities geared towards the greatest possible transparency. Aside from regular publications such as annual reports and interim reports and the latest information on the EAA's website, these also include maintaining regular contact to representatives of the world's financial and consumer press. Furthermore, the EAA's employees foster understanding for the special qualities of the EAA's wind-up activities by maintaining constant contact with multiplier groups, for example by taking part in conferences, giving speeches, holding talks with political and financial representatives and meeting a great number of investors. Since 2012, the EAA has also been enhancing its reputation and identification with its Düsseldorf base through social commitments on the part of its employees (fundraising campaign for a local children's refuge).

Subsequent events

After the close of the financial year, the EAA and Portigon have continued to work intensively toward the operative implementation of the refill. This also includes the implementation of contractual agreements, which involves the final settlement of mutual claims and liabilities from the transfer agreements. These items were recognised as liabilities or provisions in these financial statements, depending on whether their amount had already been determined. Activities pursued in relation to the refill process were continued in order to allow the EAA to manage the other portfolios.

The spin-off agreement between Portigon and the EAA stipulates a repair period until 30 April 2013 that allows portfolio assets assigned to Helaba, but which should not have been transferred, to be transferred to EAA or assets to be transferred from the EAA to Helaba. Any known transfers performed during the repair period were recognised in these financial statements. A common process has been established between Portigon, Helaba and the EAA for all pending cases in order to guarantee an eventual transfer.

In March 2013, the wind-up of the trading portfolio was accelerated through the sale of a Basket Default Swap portfolio. The sale positively impacted the wind-up plan to the tune of EUR 1.2 million thanks to the elimination of hedging costs and the portfolio's negative interest rate difference. The portfolio consisted of 30 basket default swap transactions (notional value of approximately EUR 300 million) and 1,341 credit default swap hedges (notional value of approximately EUR 9.2 billion). This allowed all market price risks and issuer risks in this subcluster to be wound-up, leading to a substantial reduction in the complexity of managing the Credit cluster as a whole.

No other procedures relating to risk exposures transferred to or guaranteed by the EAA are reportable.

Summary of the business situation

The relatively balanced annual result reported by the EAA shows the progress that has been made in winding-up operations both in terms of the refill portfolio and the associated effects.

The major reason for the increase in the balance sheet total was the transfer of further portfolios from Portigon. The EAA's financial position was in good order, and its equity amounted to EUR 510.0 million. It had sufficient liquidity at all times.

Risk, opportunities and forecast report

Risk report

The common objective of the shareholders, FMS and the EAA is to minimise the strategic wind-up risk. During the reporting period, the EAA made further progress in realising the wind-up plan. Wind-up activities focused primarily on the reduction of the portfolio transferred from Portigon and mitigating risks.

The agreements regarding the splitting up of Portigon notarised effective 31 August 2012 meant that an additional wind-up portfolio with a notional value of EUR 72.3 billion (banking book) and assets held for trading of EUR 52.1 billion (trading portfolio) were each transferred to EAA on two dates. (Please refer to Note 4 [refill] for more details).

The newly transferred portfolios are integrated in the existing, functional management modules. Risk management is currently being adjusted to then meet the additional requirements of reducing the trading portfolio.

The figures and developments discussed in this section are regularly reported to the FMSA as part of its supervision of the EAA. They relate to the entire risk portfolio transferred to the EAA, 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 (look-through approach). 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 2012.

Risk management organisation

In accordance with section 8a (5) of the Financial Market Stabilisation Fund Act (Finanzmarktstabilisierungsfondsgesetz – FMStFG), the EAA is subject to select provisions of the German Banking Act (Kreditwesengesetz – KWG). For the EAA's risk management, 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 no capital adequacy requirements need be applied. The requirement to fulfil the wind-up mission based exclusively on the existing equity and not having to call upon Liable Stakeholders' additional duty to offset losses is a significant challenge for the quality and capability of the risk management.

EAA's risk management is therefore aimed at minimising its strategic wind-up risk, that is the risk of falling below the economic targets in the wind-up plan and suffering higher losses than planned from winding-up 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 defines the principles of risk management and steering, 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 overall risk management strategy is the basis for its risk management framework. It contains the basic principles for risk management, defines the key risk categories and identifies the core elements of the risk management process. The general risk management strategy is supplemented by specific strategies for managing individual risks including the related wind-up strategies. Specifically, this means that the EAA has defined individual strategies for five risk categories: credit risk, market price risk, liquidity risk, operational risk and other risks.

Risk management strategies are reviewed and fine-tuned at least once every year. The market risk handbook was supplemented by amendments resulting from the refill. The handling of trading risks has also been stipulated in the "Market Risk Governance".

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:

* Initial structure of Portigon AG on 1 January 2013

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 wind-up plan. The responsible Portigon representative attends committee meetings as a non-voting guest. This ensures regular and timely communication between the EAA and Portigon before any portfolio-related decisions are taken under the wind-up 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, trading, operational and other risk management.

The Risk Management departments are responsible for the following:

- Credit risk management: Credit risk management and controlling (specifically also credit risk reporting), analysing the EAA's credit risk exposures (in accordance with the wind-up plan), approval of individual and portfolio management decisions as well as approval and, if necessary, escalation of credit risk limit overruns.

- Market risk management: Responsible for managing and controlling the EAA's market price, liquidity, operational and other risks (specifically risk reporting) as well as its overall risk exposure in line with the wind-up plan and reviewing market price and liquidity risk limits.

The Loan & Portfolio Management (L&PM) department from the Portfolio Services business unit and other Portigon departments (especially Risk Services and Credit Services from the Platform Services business unit) support EAA in providing risk management services.

The EAA's risk management system is regularly reviewed by the EAA's Internal Audit department.

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 FMSA, 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-up report. In addition, detailed risk analyses are prepared for the meetings of the RiskCo and the ALCO as a basis for operational risk management. L&PM and other Portigon departments 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 wind-up success and the general risk situation based on the wind-up reports and a separate Risk Report which is adapted to suit the needs of the governing bodies.

Credit risks

Under credit risk, the EAA distinguishes between default risk, migration risk, counterparty risk investment 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.

- Counterparty risk comprises potential losses if counterparties to derivatives transactions fail to perform or their creditworthiness deteriorates. Counterparty risk also includes settlement risk. The counterparty risk is determined both for the banking book and the trading portfolio.

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

- Investment risk includes potential losses due to lost dividends, impairments, losses on disposals and a reduction in hidden reserves from the EAA's participations.

Specific banking book credit risks are described in more detail in the section on credit risks. These relate to the Phoenix and Public Finance sub-portfolios.

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 L&PM in stipulated, tightly-defined work processes.

In order to assess the potential consequences of systemic crises, the Risk Services department performs regular stress tests to monitor how a portfolio-wide rating downgrade by up to two rating classes would impact the expected loss. The amount of provisions for losses on loans and advances, and changes to that amount, are estimated at the general portfolio level. A total of three stress scenarios for default risks and inverse stress risks for the peripheral eurozone exposure are applied when preparing the wind-up plan. 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 portfolio manager regularly assesses credit quality and the probability of default based on analyses of financial accounting and ratings by the Credit Services department. 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 for approval. Additionally, cluster and portfolio analyses detail major individual exposures.

A central focus of portfolio analysis lies on problem loans. These are closely observed by L&PM's Non-Performing Loans/Special Situations Team and actively managed in close consultation with the EAA's Credit Risk Management department. The "EAA Global Watch List" (EAA GW) provides a mechanism for monitoring problem loans and placing exposures under intense supervision. Additional details on this are provided in the section on "Problem loans and provisions for losses on loans and advances".

The appropriateness of 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 – taking into account the wind-up plan – 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 Portigon 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 rating distributions within the portfolio are monitored regularly and reported to the EAA's relevant supervisory bodies. Rating downgrades for individual exposures are assessed as part of the credit process and the exposures concerned reviewed to check for alternative trading options; these options may include restructuring or sale. The next course of action against the borrower is then approved by the relevant competent persons with the appropriate level of authority.

EAA analyses counterparty risks by monitoring and assessing the exposures, using the portfolio manager's calculations. The method used to determine the exposure for over-the-counter derivatives (OTC derivatives) takes collateral and netting into account. Master agreements involving netting and symmetric hedges are used to minimise counterparty risks.

Issuer risks from the trading portfolio are limited by exposures assumed from individual issuers as part of the refill. Issuer risks are monitored and managed in the same manner as default risks.

Credit risks – banking book

The EAA and its subsidiaries regularly analyse the EAA's credit risk volume in detail so as to identify, analyse, evaluate, and manage all default risks within the portfolio. A variety of parameters – such as risk type, rating class, term and region – are used to identify risk concentrations.

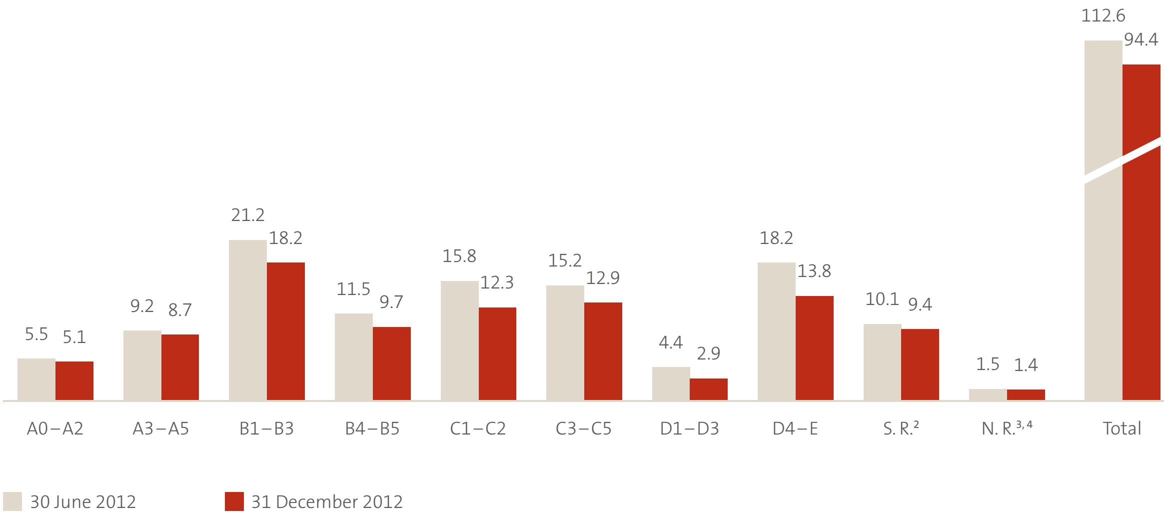
In the following, banking book credit risks as of 1 January 2012 cannot be reported as the new Portigon business had not been taken into account at this date.

In the second half of 2012 the notional volume of the banking book was reduced by EUR 18.2 billion to EUR 94.4 billion (at constant exchange rates as of 31 December 2011). The EAA itself holds or guarantees 72% of total banking book notional volume, and the remaining 28% is held by its subsidiaries. Please refer to the chapter "Wind-up report" for more detailed information on the wind-up success.

The following relates to the notional volume including the subsidiaries EAA CBB, WestImmo and Basinghall using a look-through approach.

Notional volume by internal rating categories

in EUR billion[1]



[1] Excluding exchange rate effects (based on exchange rates on 31 December 2011)
[2] Special rating pursuant to the not rated concept
[3] Not rated
[4] Including EUR 1.1 billion of securities issued and repurchased by WestImmo
Please note: Where possible, the internal rating categories are based on the guarantor's rating.

The quality of the overall banking book is reflected by an investment grade rating share (rating categories A0–C2) of around 57% (30 June 2012: 56%). Approximately 15% (30 June 2012: 13%) of the notional volume has a very good rating (A0–A5) and close to 42% (30 June 2012: 43%) has a medium rating of B1–C2. The EAA continues to aim for a reduction across all rating categories.

The changes in the second half of 2012 were primarily driven by the portfolio reductions in the B1–B3 and C1–C2 rating categories. The decline in the B1–B3 category is mainly due to the partial repayment of the Phoenix A1 note as well as the portfolio reduction in the Asset Securitisation Cluster. The decline in the D4–E category is due to the rating upgrade for the Phoenix B note, from E to A3, as this is now based on the rating of the guarantor (State of NRW). The corresponding rise in the A3–A5 rating category is offset by material portfolio reduction measures and maturities. The S. R. category includes the opening clauses of rating process, the EAA's non-rating concept. The final category, N. R., mainly includes WestImmo Commercial portfolio items.

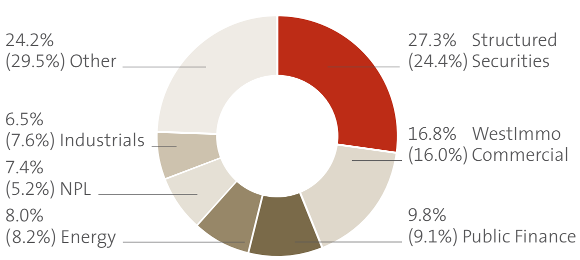
The table below shows a reconciliation of EAA's internal ratings to external ratings:

INTERN	EXTERN			
EAA	Moody's	S&P	Fitch	
A0	Aaa	AAA	AAA	Investment Grade
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+	Non-Investment Grade
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	

Notional volume by headline clusters as of 31 December 2012

100% = EUR 94.4 billion[1]

(in brackets: amounts as of 30 June 2012)

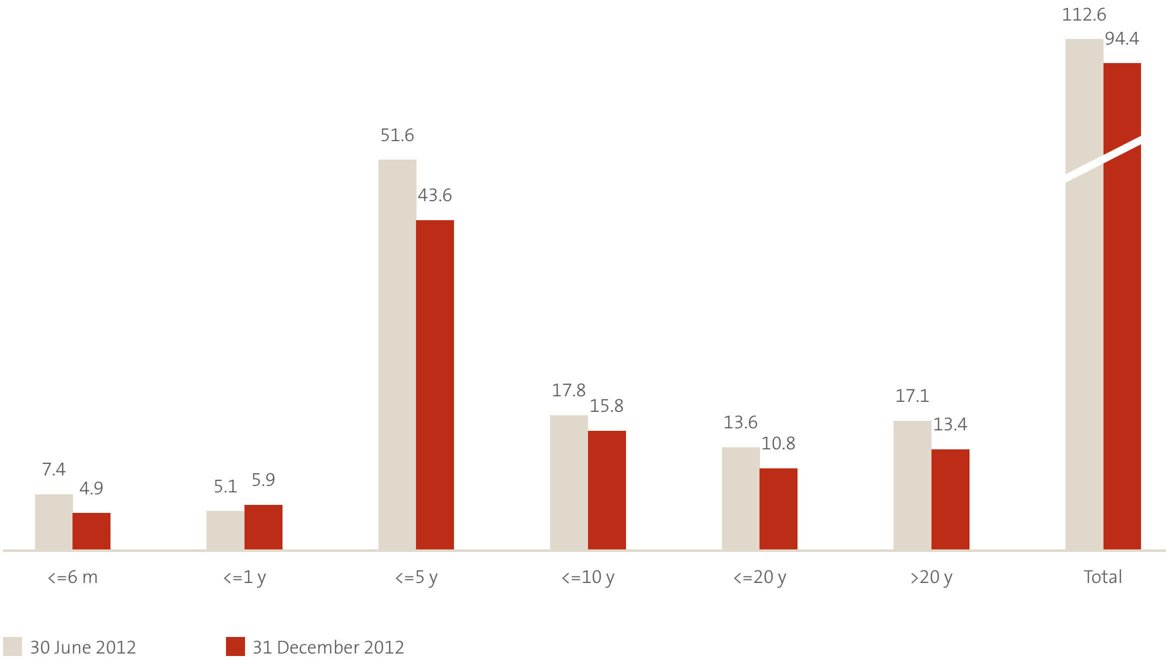


[1] Excluding exchange rate effects

The EAA's banking book consists of 19 clusters. The largest cluster is Structured Securities, which makes up approximately 27%. This portfolio consists of three sub-portfolios: Phoenix (67% – please refer to section "Phoenix" for further details), Asset Backed Securities (25%) and EUSS (8%). The WestImmo Commercial portfolio, newly transferred as part of the refill, makes up approximately 17% of the overall portfolio.

Notional volume by maturities[1]

in EUR billion[2]



[1] For Phoenix: expected repayment profile

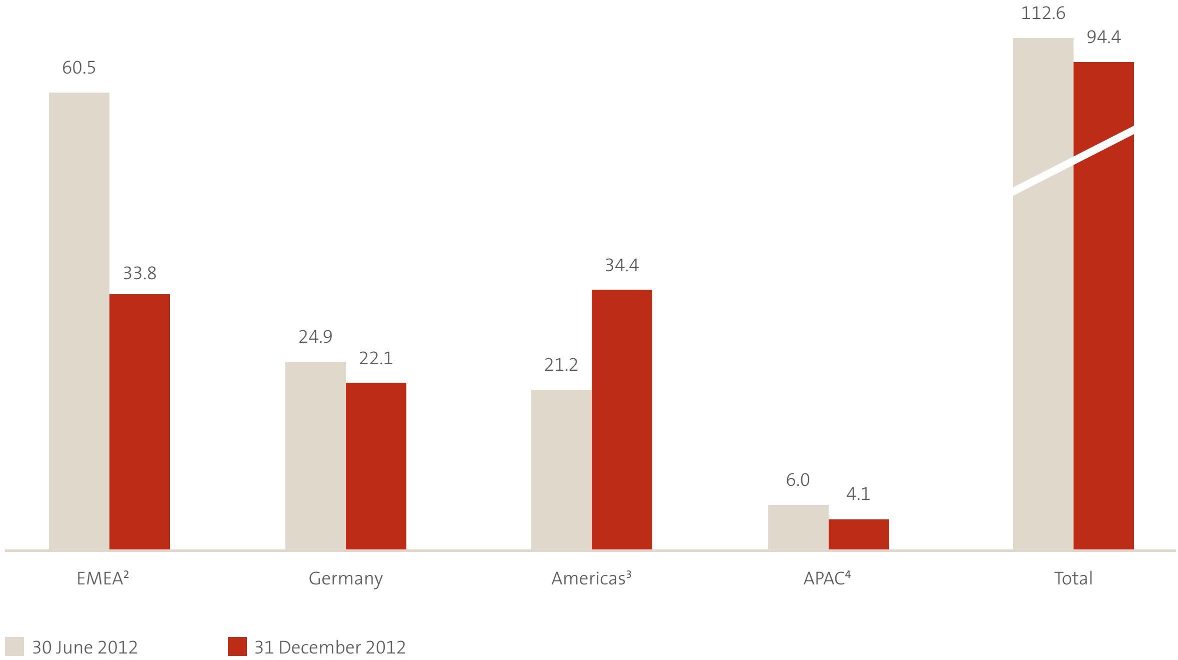
[2] Excluding exchange rate effects (based on exchange rates on 31 December 2011)

The largest part of the portfolio, with a share of approximately 46%, is comprised of medium-term exposures with maturities of one to five years. These are primarily exposures from the Structured Securities (mainly Phoenix, please also refer to the "Phoenix Notes Capital Structure" table in the "Phoenix" chapter), NPL, Industrials and Public Finance Clusters. Some 14% of the exposures in the banking book have contractual maturities of more than 20 years. The reduction in the Asset Securitisation and Industrials Clusters resulted in a considerable decline in the "up to five years" maturity band. The significant drop in the "less than 20 years" maturity band is due to the decline in the expected repayment profile for Phoenix A3 notes (reported in the "up to 10 years" maturity band as of 31 December 2012) and a reduction in the Asset Securitisation Cluster. The rise in the "up to 10 years" maturity band (related to the Phoenix A3 note) is offset by, among other things, the reduction of the WestImmo Commercial portfolio, a Partial repayment of the Phoenix B note, the shift of the Phoenix A2 note into the "up to five years" maturity band and portfolio sales. The decline in the "more than 20 years" maturity band is primarily driven by wind-up measures for guaranteed refill portfolio items.

The other changes within the maturity ranges reflect the portfolio management measures during the second half of 2012.

Notional volume by region

in EUR billion[1]



[1] Excluding exchange rate effects (based on exchange rates on 31 December 2011). Regional distribution by borrower or guarantor, and for securities based on the main risk country in the asset pool

[2] Europe, Middle East and Africa; excluding Germany

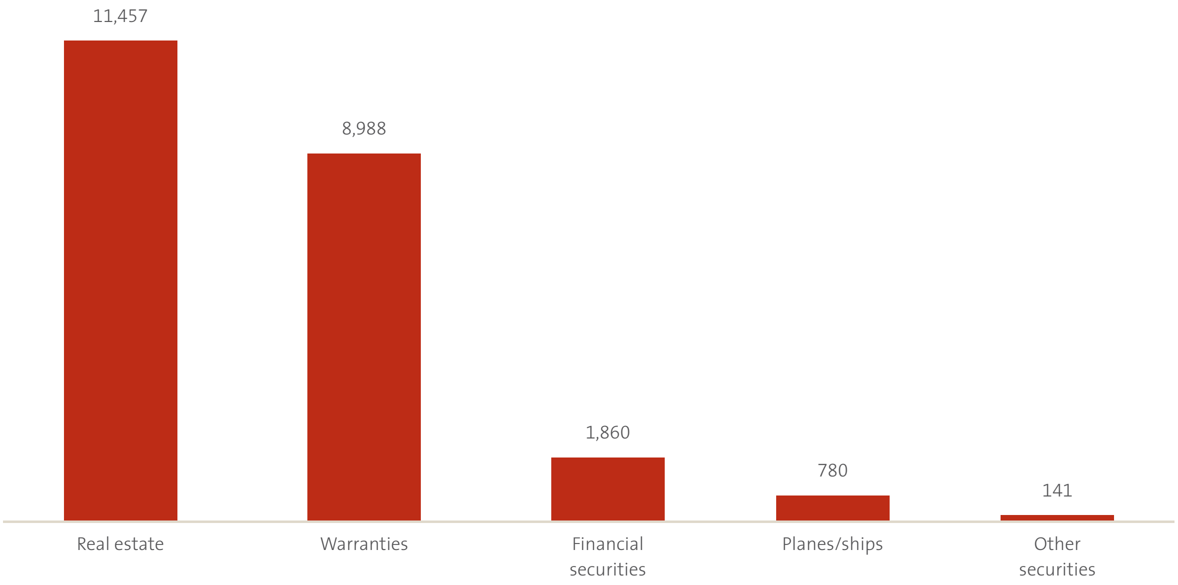
[3] Includes EUR 3.7 billion for the Phoenix B note, guaranteed by the state of NRW

[4] Asia, Pacific and Japan

About 36% of notional volume can be attributed to the EMEA region – Europe (excluding Germany), the Middle East and Africa. A further 23% of notional volume are with German issuers and guarantors. Approximately 37% of notional volume is allocated to the Americas. The APAC region amounts to approximately 4%.

Since the reporting date, the allocation of structured securities by country has been based on the underlying assets. This led to changes in the notional volumes reported in EMEA region and the Americas compared to 30 June 2012, especially due to the Phoenix portfolio, which is now reported entirely under "Americas" (previously EMEA).

The following collateral is available for the banking book (in EUR million):



Problem loans and loan loss provisions

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. 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.

Problem loan exposures are captured centrally in the EAA GW. This serves as a core tool for managing credit risks.

The EAA GW also acts as an early warning system, as defined in MaRisk. It is used to record, monitor and report individual loan exposures, with a distinct or increased risk profile, due to expected or actual defaults, or for which a specific provision for losses on loans and advances has been recognised.

Exposures are included in the EAA GW based on specific risk indicators in various categories. The information and data recorded in the EAA GW is maintained and monitored by Portigon's Credit Services department, largely in cooperation with L&PM; this is then reported regularly to the EAA so as to enable close monitoring. The EAA GW also forms the basis 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.

Result of risk provisions – loans and advances/securities/long-term equity investments due to credit risk

	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	**–406.3**	**569.6**	**163.3**	**10.4**	**173.7**
Credit risk	–403.7	561.8	158.1	–8.1	150.0
Country risk	–2.6	7.8	5.2	0.0	5.2
Other risk	0.0	0.0	0.0	18.5	18.5
Contingent counterparty default risk	**–2.1**	**0.0**	**–2.1**	**0.0**	**–2.1**
Total	**–408.4**	**569.6**	**161.2**	**10.4**	**171.6**

The recoverability of the receivables is assessed on the basis of regular impairment tests (i.e., checks on defaults or imminent defaults).

The measurement of possible risk provisioning required takes into account collateral values, an enterprise valuation, a discounted cash flow analysis or observable market prices. This is reviewed regularly.

General loan loss provisions are based on one-year expected losses. Since the financial statements for 2012, this has been calculated using loss rates and conversion factors as well as ratings taking into account the financing transfer stop risk specific to individual transactions. Prior to this, the calculation had been based on flat-rate loss rates and conversion factors as well as ratings that did not take into account the transfer stop risk. This change in the method used to determine the general loan loss provision means that no separate modelling need be performed for the country risk. General loan loss provisions for banking book derivatives are not calculated using the one-year expected loss, but rather using the calculation of the credit value adjustments (CVA) for this sub-portfolio.

Direct counterparty risk (total exposure in EUR million)

	Exposure	Limit
Counterparty risk OTC derivatives	2,176.7	9,737.0
Credit risk money market[1]	8,370.2	16,010.0
Counterparty risk repos	248.2	2,475.0

[1] All money market transactions with counterparties outside the EAA Group have a maximum term of three months with the exception of transactions with the Central Bank of Ireland and with Portigon; these transactions have terms of more than three months.

Counterparty risks from OTC derivatives are driven by transactions for liquidity steering (foreign currency swaps) and interest rate hedging instruments (interest rate swaps) transactions. 75% of the credit risks for money market result from deposits at Portigon. The remaining 25% result almost entirely from deposits from business partners with ratings of A or better. As the EAA has sufficient liquidity, the utilisation of repurchases (EUR 248 million) is only approximately 10% of the limit. When evaluated by risk country, the country concentrations for money market items, repurchases and OTC derivatives are as follows:

OTC derivatives (in EUR million)

Risk country	Exposure	Limit
Germany	1,043	4,014
UK	739	2,910
Other countries	395	2,814
Total exposure	**2,177**	**9,737**

Money market positions (in EUR million)

Risk country	Exposure	Limit
Germany	6,929	9,615
Spain	200	205
UK	200	205
Denmark	200	205
Netherlands	200	205
Belgium	200	205
Other countries	441	5,370
Total exposure	**8,370**	**16,010**

Repos (in EUR million)

Risk country	Exposure	Limit
USA	136	425
UK	81	470
Germany	18	225
Other countries	13	1,355
Total exposure	**248**	**2,475**

Issuer risks for the initial portfolio may be broken down according to sub-portfolios.

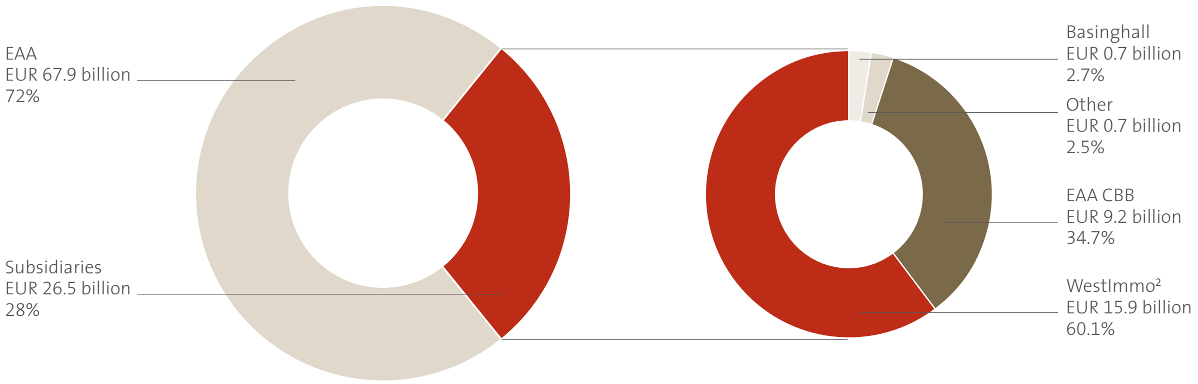
Issuer risk (total exposure in EUR million)

	< 1 y	1–4 y	4–8 y	8–15 y	> 15 y	Total exposure
First fill						
Public Finance	667	2,918	1,400	1,765	1,367	8,117
Financial Institutions	454	885	482	359	5	2,185
Other securities	80	85	126	914	1,952	3,157
Refill	829	623	501	547	759	3,259
Total	**2,030**	**4,511**	**2,509**	**3,585**	**4,083**	**16,718**

At EUR 8.1 billion, the Public Finance sub-portfolio accounts for the largest share. The remaining issuer exposures are made up of Financial Institutions securities as well as other securities, mainly student loans.

Subsidiaries and Participations

Notional volumes held by subsidiaries
in EUR billion[1]



[1] Excluding exchange rate effects (based on exchange rates on 31 December 2011)
[2] Only WestImmo Commercial, excluding the retail portfolio

WestImmo was spun off to the EAA as part of the refill. As of 31 December 2012, WestImmo held a portfolio with a notional volume of EUR 15.9 billion (excluding the retail portfolio), making it the EAA's largest subsidiary. The WestImmo portfolio primarily consists of commercial real estate financing and structured real estate transactions.

"Other" comprises Banco WestLB do Brasil, for which the EAA has provided a guarantee. An agreement to sell the company was concluded in 2012. However, the transaction had not yet been completed as of the reporting date as it is still subject to approval by the local regulatory authorities.

The EAA CBB and Basinghall subsidiaries have already been incorporated as part of the first fill. They have been unchanged by the refill.

Participation risks

Participation risks result from the provision of equity and subordinated capital. The EAA's participation risk is primarily driven by the Irish subsidiary, EAA CBB, as well as in WestImmo that had been transferred to EAA as part of the refill. The EAA's Strategic Project Management and Participation department is responsible for managing participations, with the EAA's Controlling & Planning department providing financial control assistance.

The Strategic Project Management and Participation department provides continuous analyses of existing and future risks. This information enables the EAA to support and manage participations from a shareholder's perspective. The EAA's Credit Risk Management department is involved in monitoring risks.

Moreover, Basinghall and the EAA CBB 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-executive members of the supervisory bodies and therefore exercise a control function. In addition, a number of representatives of the EAA collaborate on these subsidiaries' various committees.

WestImmo generally acts independently. Monitoring for the EAA is conducted by the Supervisory Board. Procedures relating to the inclusion of WestImmo in the EAA's limit system are currently under discussion.

Special banking book issues

Phoenix

A significant part of the EAA's Structured Credit portfolio consists of the ten tranches of the Phoenix Light SF Ltd. securitisation.

The by far largest part of the securitised Phoenix portfolio (approximately 90%) is denominated in US dollars and represents US risks, primarily in the real estate market. Repayments in the reporting period resulted in a decrease of the Phoenix nominal volume to EUR 17.2 billion as of 31 December 2012 (calculated at constant exchange rates as of 31 December 2011).

Phoenix Notes Capital Structure

in million

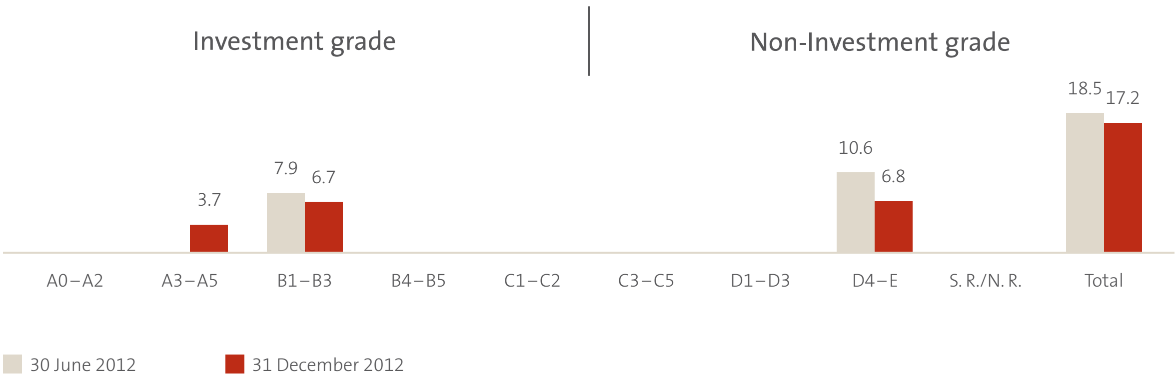
Tranche	Amount as of 31 Dec. 2012	S&P Rating	Legal maturity	Weighted average maturity
Class X	33 EUR	A-	09 Feb. 2015	1.07
Class A1	7,932 USD 532 EUR	A- A-	09 Feb. 2091 09 Feb. 2091	1.66 0.32
Class A2	3,102 USD 226 EUR	B- B-	09 Feb. 2091 09 Feb. 2091	3.78 2.50
Class A3	2,387 USD 701 EUR	CCC- CCC-	09 Feb. 2091 09 Feb. 2091	5.02 6.44
Class A4	1,909 USD 181 EUR	CCC- CCC-	09 Feb. 2091 09 Feb. 2091	11.89 12.50
Class B	3,700 EUR	not rated	09 Feb. 2091	3.93

In terms of the EAA's internal rating structure, the Phoenix portfolio is split into two parts. Some 60% consist of risk exposures with an investment grade rating (taking into account the rating of the guarantor, the State of NRW, for the Phoenix B notes) and consequently a lower likelihood of default. The internal rating of the Phoenix B note improved from E to A3 during the reporting period. A3 is the rating of the guarantor, the State of NRW.

The remaining Phoenix notes were significantly downgraded over the course of the past four years. The reported, average weighted 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.

Ratings for Phoenix notes

in EUR billion[1]



[1] Excluding exchange rate effects (based on exchange rates on 31 December 2011)

Note: The internal rating classes for the Phoenix B note take into account the rating given to the guarantor, the State of NRW as of 31 December 2012 (A3).

In addition to the ongoing sale of parts of the portfolio subject to market conditions, the EAA is actively working with the parties involved in Phoenix towards the implementation of further measures to optimise the wind-up result. These measures include both the active pursuit of legal measures in relation to individual portfolio securities and the restructuring of non-performing securities in order to increase the fundamental value compared to the "hold" scenario. Efforts are also being made to amend transaction documentation to enable the EAA to use the Phoenix portfolio to improve the overall funding situation and therefore reduce US dollar funding costs.

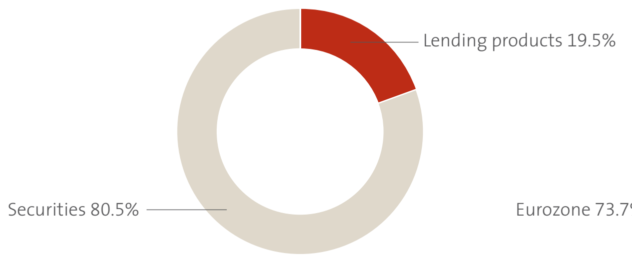
Public Finance

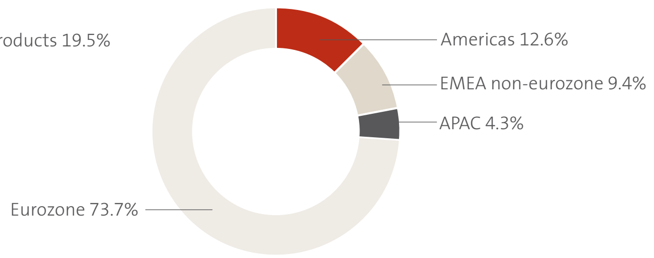
The public sector exposure as of 31 December 2012 comprised a total notional amount of EUR 9.2 billion (of which EUR 2.1 billion from the refill).

Securities account for 81% of the public sector exposure, in particular bonds issued in EU member states (including regional and municipal issuers). These are held in part directly by the EAA and in part by the EAA CBB. The majority of the remaining 19% are loans with states, municipalities or other public institutions in Europe and North America.

Public Finance exposure by products and regions as of 31 December 2012

100% = EUR 9.2 billion[1]





[1] Excluding exchange rate effects (based on exchange rates on 31 December 2011). Regional distribution by borrower or guarantor

Note: The regions for the securities result from the main risk country for the asset pool, for projects at the location of the project as well as other items from the borrower or guarantors' country.

Credit risks – trading portfolio

Trading portfolio credit risks are divided into counterparty risks (pre-settlement risk and settlement risk) from derivatives and the issuer risk from security transactions.

Trading portfolio issuer risks from securities are calculated using mark-to-market approach, while those in the banking book are determined based on book values. When calculating replacement risks from derivatives, the EAA applies a portfolio simulation tool based on a Monte Carlo method. Settlement risks are determined using the payment due per value date. Trading credit risks are calculated daily using the corresponding credit lines. Risk-reducing measures (such as close-out netting and OTC derivative collateral) are used wherever possible. Active new business to hedge against risk positions only takes place with counterparties where corresponding master agreements are in place.

OTC derivative counterparty default risks are assessed independently using CVA. If available, externally traded credit spreads are used to determine the likelihood of default. The expected loss can be determined as CVA based on expected future exposures and a statistically calculated recovery rate. As of 31 December 2012, the CVA was EUR 73.7 million, of which 40.9% relate to transactions with counterparties in the United States and a further 18.9% to German counterparties.

Greece, Spain and other EU countries

The exposure of the EAA and its subsidiaries to Greece, Ireland, Italy, Portugal, Spain and the European Financial Stability Facility (EFSF) rose by EUR 8.2 billion as part of the refill and amounted to EUR 12.8 billion as of 31 December 2012. Of this amount, some EUR 1.5 billion is allocated to the WestImmo portfolio. The Corporates exposure increased due to the refill. At the end of the year, EUR 4.6 billion of the EUR 5.1 billion from all Corporates exposures were attributable to the refill. Public Finance saw additional items with a notional volume of around EUR 1.3 billion due to the refill. The new items primarily comprise securities issued by Spanish regions and cities as well as bonds issued by the Italian government.

Following the exit of the Greece portfolio that was transferred in the first fill, the EAA is refocusing on risks in other peripheral countries and is proactively working on economically viable solutions to reduce risks. The risk exposures to Greek Corporates shown in the table result from the refill.

EAA's exposure in Spain (including governmental plus other public and private borrowers) amounted to a notional amount of EUR 5.2 billion as of 31 December 2012. The refill resulted in Corporates exposures rising to EUR 2.6 billion and Public Finance exposures (largely from regions and cities) climbed to EUR 1.7 billion.

Risk premiums for Spanish government, regional and bank bonds declined at the end of the third quarter of 2012 and continued to do so in the fourth quarter. The market sentiment was supported by a possible ECB guarantee (OTM), thereby defying an overall poorer economic climate in Spain. On 10 October 2012, S&P downgraded Spain to "BBB-", outlook negative; this was followed one week later by the downgradings of five regions

(Andalusia, Aragon, the Canary Islands, Galicia and Madrid). Moody's followed suit, downgrading Andalusia, Catalonia, Extremadura, Castilla-La Mancha and Murcia on 23 October 2012.

The number of regions requesting the support of the national FLA rescue fund rose from five at the end of the third quarter of 2012 to nine at the end of 2012. The recession in Spain continued in the fourth quarter of 2012; unemployment rose from 25.7% in September 2012 to 26.1% in December 2012, while the preliminary GDP estimate for this period declined by more than had been expected. Despite this, the market believes that the ECB has credibly decreased the tail risk of state bankruptcies with the OMT, while restructuring plans for four banks (BFA-Bankia, NCG Banco, Catalunya Banc and Banco de Valencia), in which the Fund for Orderly Bank Restructuring (FROB) holds a majority stake, have received a positive response.

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

Country[1]	**Debtor group**	**Notional in EUR million[2, 3]**
Greece	Corporates Financial Institutions Public Finance	67.3 0.0 0.0
Σ Greece		**67.3**
Ireland	Corporates Financial Institutions Public Finance	142.4 3.8 115.0
Σ Ireland		**261.2**
Italy	Corporates Financial Institutions Public Finance	2,092.6 502.6 2,596.5
Σ Italy		**5,191.7**
Portugal	Corporates Financial Institutions Public Finance	225.8 55.0 1,590.4
Σ Portugal		**1,871.2**
Spain	Corporates Financial Institutions Public Finance	2,620.5 807.6 1,745.4
Σ Spain		**5,173.5**
EFSF	Public Finance	192.7
Σ EFSF		**192.7**
Total[4]		**12,757.6**
which of	Corporates	5,148.6
which of	Financial Institutions	1,369.0
which of	Public Finance	6,240.0

[1] Economic view, may differ from the borrower's legal country of residence (for Corporates and Financial Institutions)
[2] Based on current exchange rates as of 31 December 2012
[3] Presentation of the notional volume, including hedges (net)
[4] Including WestImmo Commercial (EUR 1,468.4 million) and EAA CBB (EUR 3,716.4 million)

The table below shows the total trading portfolio and ALM exposure by the EAA to banks, companies and governments in Ireland, Italy, Portugal and Spain:

Product[1]	**Value**[2]	**Country**[3]	**EUR million**[4, 5]
Bonds	Notional	Italy	0.5
Σ Bonds			**0.5**
Single CDS	Notional	Ireland Italy Portugal Spain	1.2 32.5 25.0 4.3
Σ Single CDS			**63.0**
Decomposed CDS	EaD	Italy Portugal Spain	–24.2 –38.7 –41.8
Σ Decomposed CDS			**–104.7**
Equities	MtM	Ireland Italy Spain	0.3 3.8 2.1
Σ Equities			**6.2**
Equity derivatives	EaD	Ireland Italy Spain	0.0 4.0 –0.1
Σ Equity derivatives			**3.9**
Other derivatives	MtM	Ireland Italy Portugal Spain	17.4 821.6 19.3 279.8
Σ Derivatives			**1,138.1**
ALM	MtM	Ireland Italy Spain	25.9 67.0 200.0
Σ ALM			**292.9**

[1] CDS = Credit Default Swaps; ALM = Asset Liability Management; Derivate = Replacement risks from OTC derivatives and CDS
[2] EaD = Exposure at Default; MtM = Mark to Market
[3] Economic view, may differ from the borrower's legal country of residence (for Corporates and Financial Institutions)
[4] Based on current exchange rates as of 31 December 2012
[5] Presentation of the notional volume, including hedges (net)

Market price risks

The EAA largely manages banking book and trading portfolio market price risks separately. In both areas, the risk is minimised in line with the wind-up plan where economically viable.

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

- Interest rate risk is the risk that changes in market interest rates that reduce the portfolio's net interest income or present value.
- Foreign exchange risk describes the risk of losses induced by changes in foreign currency exchange rates
- Equity risk describes the risk of losses from changes in prices on the stock market.
- Option risks described the risk of losses from the exercising of sold options.
- 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).

Banking book market price risks

As a result of the existing portfolio structure, there are interest rate and foreign exchange risks (particularly in relation to the US dollar) which are nearly fully hedged in line with the provisions of the wind-up plan. In accordance with the risk profile the EAA's hedging activities are mainly focussed on interest rate and foreign exchange risks.

Interest rate risk is hedged by matched refinancing or via derivatives transactions. Foreign exchange risks are managed through corresponding hedging transactions and by 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 risk[1] – banking book

in TEUR	1 w	1 m	3 m	6 m	1 y	2 y	3 y	5 y	7 y	10 y	15 y	30 y	Total
First fill 31 December 2012	17	142	139	93	–8	–8	–12	–6	–19	–27	–50	–19	**242**
Refill 31 December 2012	–5	–61	–205	–23	–37	–95	–211	–222	–34	40	–8	–130	**–991**

[1] The interest rate risk is measured as the charge in the present value when the yield rises by one basis point (interest rate sensitivity PV01).

The interest rate risks from the refill portfolio are largely characterised by the current modelling of some securities and participations with theoretically unlimited maturities. These result in an interest rate risk of approximately TEUR 480. This modelling is currently being analysed and the future handling of these risks is being assessed. The interest margin of transferred loans resulted in interest rate risks of approximately TEUR 515; this is because these can only being transferred using internal interest rates. Details on dealings with these risks are being prepared and the hedging of these risks will be concluded in due time.

Foreign exchange risks – banking book

in TEUR	AUD	CAD	CHF	CZK	DKK	GBP	HKD	JPY	NOK	NZD	PLN	RUB	SEK	SGD	TRY	USD	Other	Total
First fill 31 December 2012	-3,208	370	150	31	0	-984	95	366	57	337	84	0	62	-347	0	155,119	0	152,132
Refill 31 December 2012	-35,624	3,620	5,164	863	1,994	-3,159	193	2,543	110	53	-183	4,851	2,668	2,717	-579	132,369	-13	117,587

The foreign currencies item on the balance sheet is represented by the foreign currency position. The reduction in the loan loss provisions for the Phoenix portfolio generates the currency position in first fill portfolio. In the refill portfolio, the foreign exchange risk is primarily caused by the positive accrued interest of the loan portfolio.

Due to EAA's long-term perspective and the applicable accounting policies, changes in credit spreads have no direct impact on the EAA. The wind-up strategy aims to realise the intrinsic value of the exposure rather than steering based on short-term capital market fluctuations. The exposures are monitored and if required, decisions are made to exit specific exposures. Therefore, no limits for credit spread risks are in place.

All non-linear risks in the portfolio are eliminated using micro-hedges resulting in a simple, linear risk profile. Micro-hedge effectiveness is assessed regularly.

Equity risk is of minor significance to the EAA's banking book.

Trading portfolio market price risks
Market price risks result from uncertainties regarding price, exchange rate and volatility changes on the financial markets as well as correlations between different markets and products. As the trading portfolio was still held by Portigon on 30 June 2012, no comparison is made to that reporting date below.

When monitoring and limiting risks, the EAA applies both a Value at Risk model (VaR model) and risk sensitivities. Risk management also makes use of a number of stress scenarios. The VaR model calculates daily interest rate changes, equities and foreign exchange risks (including commodity risks) for the trading portfolio, and also determines the relevant volatility risks. A confidence interval of 99% and a one-day holding period are assumed when calculating the VaR.

Historic and parametric stress tests are calculated weekly. These also simulate the effects of market price risks not covered by the VaR, independent of statistically observed probabilities of occurrence.

Pursuant to the requirements of the German banking regulators, the relevant market price risk items are constantly subjected to back testing. The actual market value changes (hypothetical income statement) are compared to the possible market value changes forecasted by the VaR model on a daily basis. No back testing breaches occurred during the reporting period (since July 2012).

Value at Risk per portfolio

in TEUR	31 Dec. 2012	Risk-based interest rate curve	Non risk-based interest rate curve	Foreign exchange risk	Equity risk	Month-on-month comparison
EAA Trading	**3,548**	**2,215**	**1,326**	**253**	**258**	**1,124**
Credit Trading	320	22	310	7	0	–167
FX & Local Markets Trading	152	215	68	27	0	–101
Liquid Markets Trading	115	105	5	24	0	–464
Struc. IR Trading	3,046	2,077	6	145	0	1,366
Muni GiC	1,311	519	1,287	0	0	–86
Equity Derivatives	279	58	0	96	258	–55

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 (timeframe of up to one year) to meet contractual payment obligations.
- Strategic liquidity risk is the risk of not being able to implement funding measures set out in the funding plan on the market, in whole or in part.

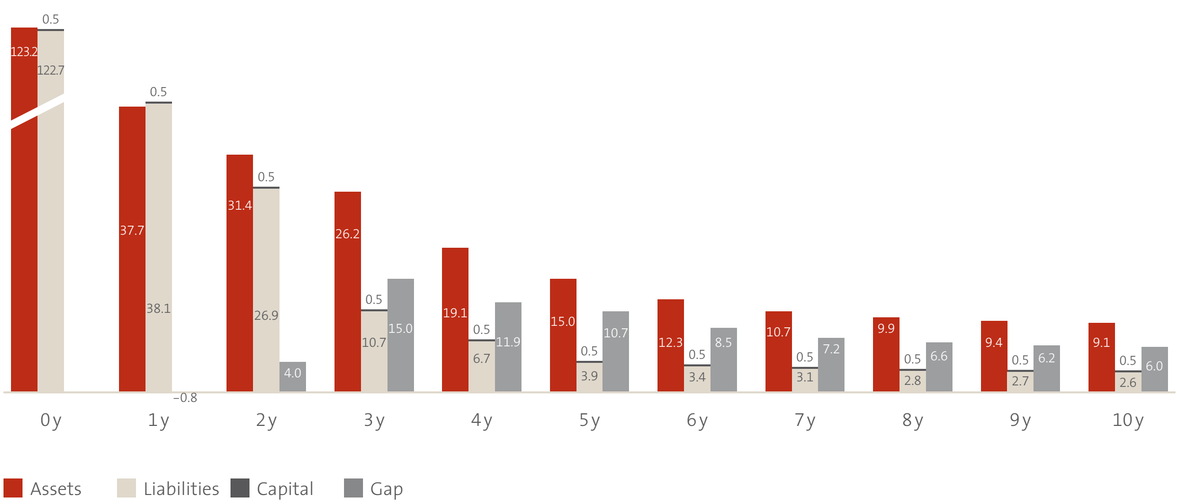
The EAA's affiliates and subsidiaries are included in its liquidity planning and management process so as to ensure an optimal access to liquidity.

Due to the Liable Stakeholders' duty to offset losses incurred by the EAA and the rating 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.

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 timeframe 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. The capital commitment statement, which depicts the strategic liquidity as of 31 December 2012, shows that refinancing will not be needed for another two years.

Capital commitment statement as of 31 December 2012

in EUR billion



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 Programme, 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 on the basis of 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 market-oriented institutions from MaRisk. 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 70% roll ratio for collateralised funding in USD, 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. Limits on collateralised liquidity are shown in the stress test by the fact that only securities eligible for GC Pooling (ECB-eligible securities with increased creditworthiness, for which additional quality requirements, such as a minimum rating of A-/A3, are needed) and all ECB-eligible securities get a 10% discount after the first week. Funding gaps denominated in foreign currencies are translated into euros.

As at the end of 2012, all stress scenarios were given the green light, meaning that even scenarios combining liquidity crisis and discounts showed sufficient liquidity for the above-mentioned 12-week period.

Liquidity reserves as of 31 December 2012 amounted to EUR 6.4 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 L&PM prepares reports for EAA's ALCO, as well as the wind-up report for the Managing Board and the governing bodies of the EAA and the FMSA. Owing to the good ratings of its guarantors, EAA does not consider it necessary to limit strategic liquidity risk.

Operational risks

With respect to operational risks, the EAA distinguishes between

- Operational risks within the EAA itself and
- Risks from outsourcing to Portigon or other service providers.

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 Portigon 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 additional operational risks arising from the refill will in future be covered by the existing range of instruments. In the project phase of the refill, regular cross-divisional meetings were also held; these discussed and assessed the EAA's refill sub-projects and processes in a traffic light system.

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 these efforts.

The EAA's 2012 risk inventory did not reveal any real estate under valuation with high risks; 11% have medium risks and 89% have low risks.

The EAA has outsourced key business processes to Portigon, which is undergoing a process of transformation to implement a restructuring ordered by the European Commission. It had not yet completed the adjustment of its structures and processes as of 31 December 2012.

Operational risks within the EAA

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

An annual risk inventory identifies risks and assesses their significance for the EAA. Appropriate measures are resolved and implemented based on the findings obtained. Market Risk Management collates a risk incident report and performs the risk inventory for the EAA. The processes within Portigon relevant to the EAA are also subjected to an annual risk inventory by Portigon's Operational Risk Management, which then reports the results to the EAA. In the event that these processes uncover losses, these are also reported to the EAA.

Service provider management

The outsourcing of key business processes calls for the managing and monitoring of the operating infrastructure by the EAA so as to ensure proper business operations. The monitoring requirements for the EAA are far-reaching and result from both the EAA's original task and its accountability to its stakeholders and the FMSA as well as from regulatory and statutory requirements in terms of transparency, correctness and having adequate control systems. For example, the EAA is required to manage the risk items it has been entrusted with in terms of the liquidity, risk, cash flow and financial conditions.

In addition, the EAA is subject to the statutory and regulatory provisions of section 25a of the KWG and minimum risk management requirements (MaRisk) Article 9 note 7 (management and monitoring of outsourcing measures) and Article 4.3.1 note 2 and Article 9 note 1 (organisational provisions), which allow the necessity of the management and monitoring of the outsourced activities to be derived.

As a result, an adequate monitoring system is a central key to success for the EAA. The EAA has selected an innovative approach for the structuring of the service provider management, to create a structure to comply with the monitoring requirements, to meet the regulatory and reporting obligations for its business model and to minimise the operational outsourcing risks. The approach selected is innovative as it brings together the unusually broad coverage of different services and assessment criteria using a simple analysis matrix. The EAA's concept combines a holistic, integrated, multi-dimensional and pragmatic business process and end-product oriented management approach with a flexible technical solution.

Service provider management monitors the interface between the service provider and the EAA – as the service receiver – in terms of content, form and quality. The use of a continual and timely monitoring process enables the EAA to ensure that the EAA's requirements stated in the service level agreements are understood, accepted and regularly met by the portfolio managers. In this process, the EAA records the outsourcing risks and assesses them by applying the traffic light principle. No increased risks were recorded in the first three quarters of 2012. The fourth quarter was marked by the characteristics of the phase of transition regarding the provision of services as well as the technical migration of the portfolios into the EAA's IT systems. The EAA limited the risks in this phase by instituting manual workarounds and by closely managing the project.

The monitoring and assessment process is supported by an online assessment system. Possible service and process and adjustments are taken into account in a process of continuous improvements. The service level agreements are expected to be finalised by 31 March 2013.

Other risks

Reputational risks

Reputational risks encompass the risk that public reporting on the EAA or the transactions in which it engages result 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.

Pursuant to section 8a (2) no. 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 charter.

The European Commission gave its final confirmation to the restructuring plan for Portigon and the associated transfer of assets from Portigon to EAA.

Pursuant to section 8a (4) no. 5 of the FMStFG, Portigon was legally obligated to disclose the risks from the transfer of the portfolio and the subsidiaries. As a result, the EAA was only required to conduct a limited standard audit of the assets and liabilities.

When the assets of the refill portfolio were transferred, certain other risks were also transferred to the EAA. These include legal risks from municipal lawsuits and residual risks.

Material risks for the EAA result from the municipal derivatives assumed following the "Ille verdict" delivered by the Bundesgerichtshof (German Federal Supreme Court – BGH) in March 2011. The BGH has resolved that when signing contracts for highly structured swaps, banks are required to inform their customers of the initial market values of the derivatives. In the event that said information is not provided, the bank is then liable for providing incorrect investment advice. The liability extends to the annulment of the derivative and the reversal of all payments. The reach of this case law is unclear. Even if lower courts in some cases, such as in those relating to simply structured derivatives, do not apply the case law, banks are often subject to the decision rendered by the BGH when dealing with the lower courts. The EAA expects that only the higher courts will adopt a differentiated view.

Regulators in the United States, the United Kingdom and the EU have been investigating the possible manipulation of LIBOR interest rates since April 2010. Under investigation are the 16 banks that together make up the LIBOR panel of the British Bankers' Association (BBA) and reported their interest rates daily. Almost all of these 16 banks were also sued in the United States in three class-action lawsuits. The investigations and civil suits will continue for a number of years. The EAA currently has no reason to doubt Portigon's claims that it had not been involved in the manipulation.

The EAA has built up sufficient reserves and provisions to cover judicial and extra-judicial disputes.

EAA has appointed Portigon to manage the transferred assets. Consequently, Portigon – as the portfolio manager – must identify and communicate the legal risks arising in this connection in good time 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 Portigon 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 the risk situation

The EAA was established in order to assume the risk exposures and non-strategic business units of Portigon and its domestic and foreign subsidiaries, and to wind these up based on a long-term wind-up plan while preserving value. Value fluctuations in the interim are of less significance.

To that end in particular, winding-up agencies in accordance with section 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 its risk management activities, the EAA strives to reduce the credit risk resulting from the wind-up of the portfolio. To that end, wind-up success and deviations from the wind-up plan are continually monitored and held against the plan. Please refer to the section "Wind-up report" for more detailed information.

The EAA's liquidity risk will decrease to the extent that the EAA can continue to obtain funding on the capital market at matching maturities and in matching currencies. Due to its good rating, the EAA enjoys a stable funding situation.

Market price risks are largely limited.

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

The newly transferred portfolios are integrated in the existing, functional management model. Risk management was adjusted to meet the additional requirements of reducing the trading portfolio.

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 sufficiently for any known risks. Its equity is available as aggregate risk cover for unexpected risks that are not yet currently foreseeable.

Risks resulting from the sovereign debt crisis, including risks from the additional exposures in peripheral euro countries assumed within the context of the refill, are being monitored closely and in a timely fashion.

As the provisions regarding risk tolerance pursuant to Article 4.1 MaRisk are not relevant for the EAA, this is replaced here by the charter and the arising wind-up plan. As a result, the EAA performs a comprehensive analysis of the development of the EAA's equity requirements at the end of the planning period using the wind-up plan as well as up-to-date variables and market parameters. The main objective is to present an analysis of the effects of changed conditions on equity in 2027 as well as a well-founded basis for decision-making with regard to the necessity of adjustment to the wind-up plan over the course of the year. The analyses in 2012 did not call for the wind-up plan to be adjusted during the year.

To summarise, the EAA believes that it has sufficiently covered the risks it incurs due to its capital base as well as the existing guarantee and the shareholders' duty to offset losses.

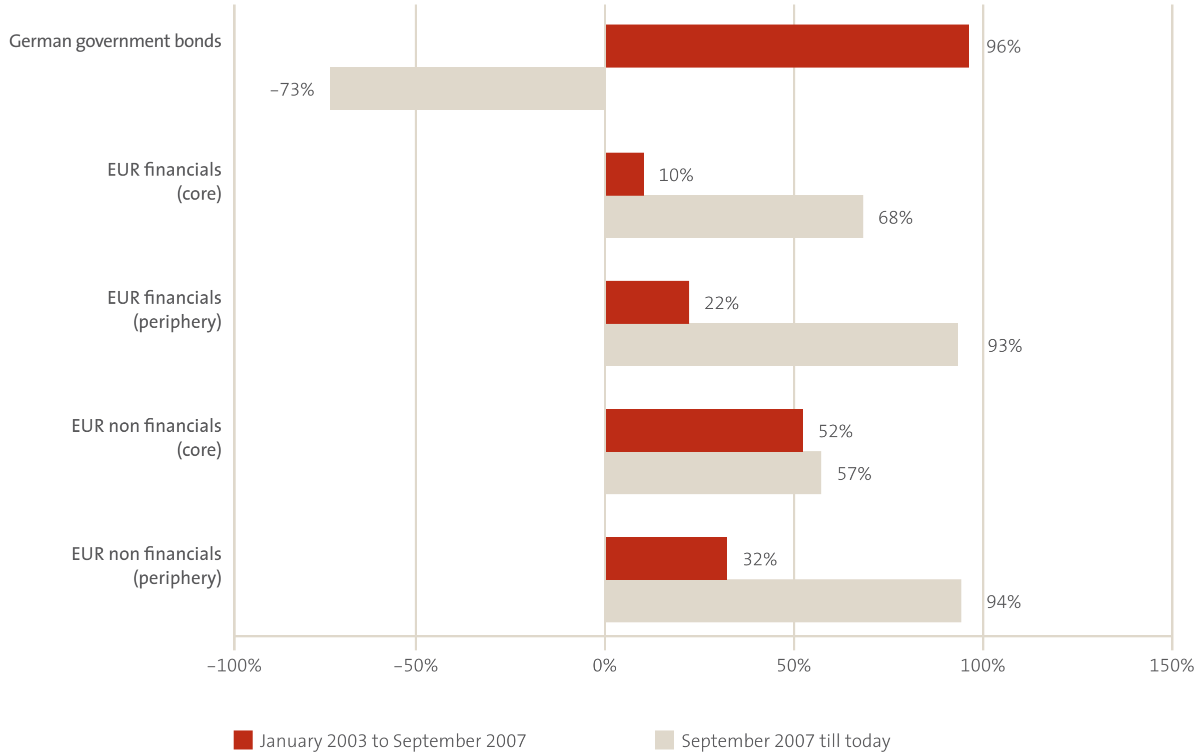
The EAA will continue to place a special focus on sustainable and consistent risk management.

Opportunities in 2013: Less stress on the periphery

The euro debt crisis has redefined the structure of correlations between the different types of financial products. Prior to the outbreak of the major financial crisis in September 2007, EUR government bonds in particular displayed a remarkable parallelism in their performance on the financial markets.

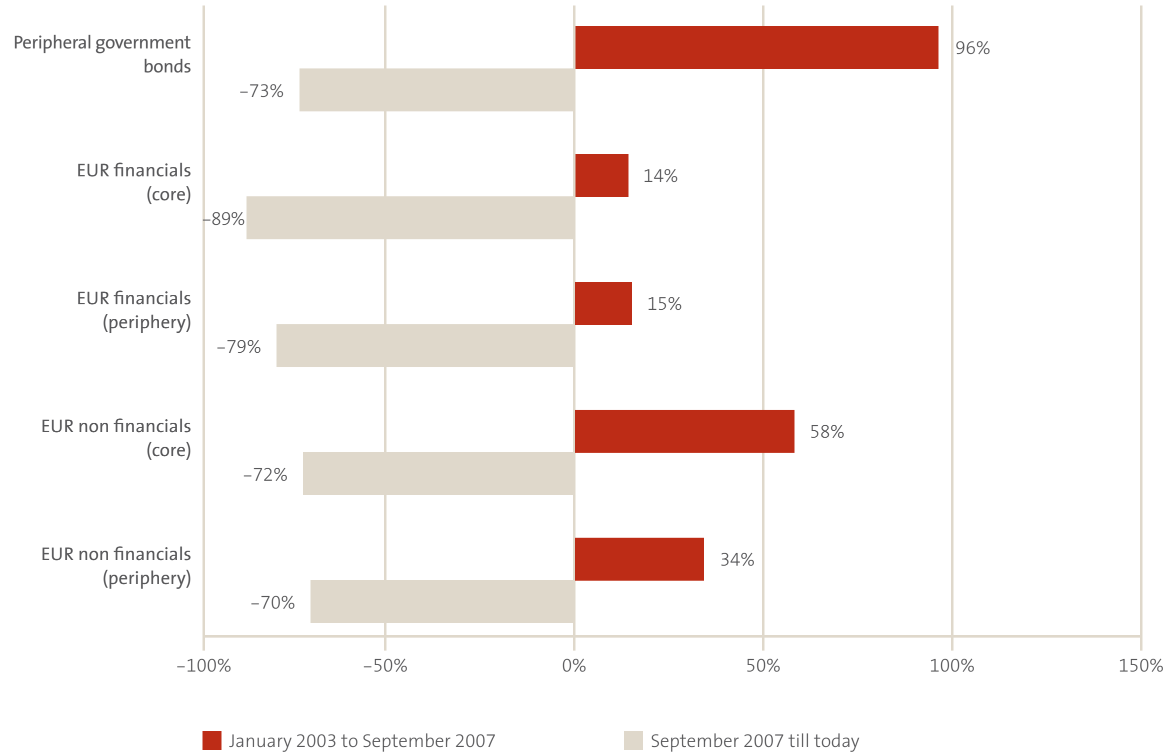
The stable correlation between EUR government bonds only collapsed with the onset of the financial market crisis. Regional risk premiums were factored in for government bonds issued by euro peripheral countries. However, this did not just apply to government bonds: Bank bonds, corporate bonds, Pfandbriefe and loans increasingly also included country risk premiums, resulting in the need for additional charges and value adjustments.

End of the convergence: Correlation of risk premiums for various assets with...
...Spanish government bonds



Source: Bank of America Merrill Lynch, Bloomberg

...German Bunds



Source: Bank of America Merrill Lynch, Bloomberg

The measurement of risky financial products in the eurozone will likely only normalise following the presentation of the European Central Bank's new programme to acquire government bonds issued by peripheral countries. This process is not just limited to listed financial products; it also applies to other parts of the credit market (such as promissory notes, traditional loans, project financing). The EAA believes that this process of normalisation will have a positive effect. The use of country risk premiums resulted in prices recovering considerably.

This process is likely to continue in 2013. The ECB's OMT programme has increased the trust in the European peripheral countries. At the same time, the euro crisis was a key catalyst for the region. A great many structural problems in the peripheral states (such as rigid labour and product markets, retirement age) have been resolved, thereby increasing the competitiveness of these countries. The process is expected to continue in 2013.

Forecast report

In general and beyond 2013, the EAA aims to have wound-up more than 60% of the notional volume of the banking book transferred to it by the end of 2016 (including the items held by subsidiaries). This corresponds to a total assets reduction of more than 50%.

According to current estimates, the acquired trading portfolios are expected to be reduced by more than 50% by the end of 2015.

As in previous years, the EAA's wind-up activities in 2013 and beyond will focus on active portfolio reducing measures. The establishing of effective control and management instruments for the overall portfolio will play a key role in light of the takeover, intensive analysis and evaluation of the extensive refill portfolio.

For 2013, the EAA has again defined a disposal portfolio. To that end, a number of exposures in the credit and securities portfolio have been identified, which hold potential for sales, terminations, early redemptions and similar measures. It should be noted that this course of action is subject to the overarching goal of minimising losses and takes into account expected risk developments.

Independent of these goals for 2013, the EAA continues to pursue an opportunistic approach; this means that it will try to wind-up its entire portfolio prematurely if possible, conducting regular analyses of market conditions and possible exit opportunities.

The EAA will analyse in 2013 the extent to which a faster wind-up of the acquired trading portfolio can be conducted in an effective and cost-effective manner.

The EAA complies with the provisions of the MaRisk that apply to winding-up agencies. In order to identify required adjustments to be made, the company conducted a deviation analysis with regard to the amendments to the MaRisk effective 1 January 2013 and to aspects of the refill. The small changes that are required will be implemented over the course of 2013.

The presentation of economic conditions clearly shows that attempts to emerge from the debt crisis just by making cutbacks will be a very long process. Empirical studies of sovereign debt crises have revealed that such crises tend to last a good 25 years. Nevertheless, a number of developments give reason to hope that the medium-term future may be positive after all. In real economic terms, the global economy looks as though it will continue to recover. This is apparent in the acceleration in growth seen in the emerging economies, robust growth in the US and further improvements to fundamental data in the eurozone.

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 Portigon have implemented an ICS/RMS that is appropriate for their financial reporting processes and business activities. Adjustments are being made to the ICS as part of the restructuring of Portigon. 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

- When these are outsourced to Portigon by Portigon's Internal Audit department and its auditors as well as the EAA's auditors,
- When EAA-internal ICS/RMS are performed by the EAA's Internal Audit department (with support from an external service provider) and its auditors.

The EAA's Internal Audit department also monitors audit activities at Portigon for effectiveness and appropriateness and can also perform audits.

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 greatest 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 coordinated schedule. Compliance with the schedule is supported and monitored by a system. The EAA receives assistance in this from Portigon's Finance Services 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 instructions. 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.

Balance Sheet

as of 31 December 2012

Assets	Note	EUR	EUR	31 Dec. 2012 EUR	31 Dec. 2011 adjusted* EUR	31 Dec. 2011 EUR
1. Cash reserve						
a) Balances with central banks			2,500,000,000.00		(0.00)	(0.00)
of which:				2,500,000,000.00	0.00	0.00
with Deutsche Bundesbank						
EUR 2,500,000,000.00 (py: EUR 0.00)						
2. Loans and advances to banks	4, 5, 32					
a) Payable on demand			9,650,059,716.99		(12,190,878,975.99)	(4,129,050,651.21)
b) Other loans and advances			12,957,905,903.42		(13,843,840,516.84)	(11,216,815,960.08)
				22,607,965,620.41	26,034,719,492.83	15,345,866,611.29
3. Loans and advances to customers	4, 6, 7, 17, 32			22,671,003,682.69	30,181,275,317.93	8,636,218,423.45
of which:						
secured by mortgage charges						
EUR 398,665,155.22 (py: EUR 429,798,867.66)						
public-sector loans						
EUR 1,022,257,874.76 (py: EUR 362,779,021.97)						
4. Bonds and other						
fixed-income securities	4, 8, 15, 17, 18, 32					
a) Money market instruments issued by						
aa) public issuers		0.00			(0.00)	(0.00)
of which:						
eligible as collateral with Deutsche Bundesbank						
EUR 0.00 (py: EUR 0.00)						
ab) other issuers		0.00			(1,978,589,029.10)	(0.00)
of which:			0.00		(1,978,589,029.10)	(0.00)
eligible as collateral with Deutsche Bundesbank						
EUR 0.00 (py: EUR 0.00)						
b) Bonds issued by						
ba) public issuers		2,101,019,228.69			(2,847,778,556.28)	(1,759,912,113.68)
of which:						
eligible as collateral with Deutsche Bundesbank						
EUR 1,880,943,821.76 (py: EUR 1,672,160,259.90)						
bb) other issuers		21,446,372,204.55			(25,975,717,801.71)	(22,641,941,870.56)
of which:			23,547,391,433.24		(28,823,496,357.99)	(24,401,853,984.24)
eligible as collateral with Deutsche Bundesbank						
EUR 3,477,038,381.02 (py: EUR 2,525,995,784.77)						
c) Own bonds						
notional value EUR 648,296,516.30 (py: EUR 601,128,626.63)			670,255,111.20		(626,736,724.06)	(613,330,328.10)
				24,217,646,544.44	31,428,822,111.15	25,015,184,312.34
5. Equities and other						
non-fixed-income securities	4, 9, 15			49,795,134.83	102,559,461.39	26,319,877.36
5a. Trading portfolio	4, 10			48,930,585,494.70	52,104,468,285.48	–
6. Long-term equity investments	4, 11, 15			85,848,147.20	112,916,592.52	86,313,504.06
of which:						
in banks						
EUR 12,580,328.91 (py: EUR 15,517,912.50)						
in financial service providers						
EUR 2,700.64 (py: EUR 0.00)						
7. Shares in affiliates	4, 12, 15			1,827,323,881.85	1,917,392,356.02	1,288,458,999.85
of which:						
in banks						
EUR 1,714,297,094.52 (py: EUR 1,184,297,094.52)						
in financial service providers						
EUR 25,447,584.25 (py: EUR 9,616,191.04)						
			Subtotal:	122,890,168,506.12	141,882,153,617.32	50,398,361,728.35

* For reasons of comparability, the audited figures as of 31 December 2011 were adjusted by the effects of the refill as of 1 January 2012 and as of 1 July 2012, including the calculated settlement obligation to Portigon.

Liabilities and equity	Note	EUR	EUR	31 Dec. 2012 EUR	31 Dec. 2011 adjusted* EUR	31 Dec. 2011 EUR
1. Deposits from						
banks	4, 16, 19					
a) Payable on demand			2,665,151,031.35		(3,516,360,765.97)	(218,233,101.26)
b) With an agreed maturity						
or withdrawal notice			5,179,361,555.89		(7,509,758,925.75)	(5,378,056,853.52)
				7,844,512,587.24	11,026,119,691.72	5,596,289,954.78
2. Deposits from						
customers	4, 16, 20					
other deposits						
a) Payable on demand			353,835,504.84		(942,461,453.20)	(3,758,042.85)
b) With an agreed maturity						
or withdrawal notice			7,108,136,797.61		(12,022,665,971.53)	(5,695,576,924.27)
				7,461,972,302.45	12,965,127,424.73	5,699,334,967.12
3. Debt securities in issue	4, 16, 21					
a) Bonds			8,004,414,501.25		(12,641,712,568.45)	(12,009,117,663.27)
b) Other debt securities in issue			49,648,951,557.80		(26,690,645,641.68)	(25,540,314,287.04)
of which:				57,653,366,059.05	39,332,358,210.13	37,549,431,950.31
money market instruments						
EUR 18,193,972,331.42 (py: EUR 10,834,636,627.18)						
3a. Trading portfolio	4, 22			48,899,990,367.48	52,095,371,733.21	–
4. Trust liabilities	4, 23			923,133.17	5,003,294.96	0.00
of which:						
trust loans						
EUR 923,133.17 (py: EUR 0.00)						
5. Other liabilities	4, 24			449,934,675.45	25,912,703,903.81	916,475,823.86
6. Accruals/Deferred income	4, 25			94,254,556.59	390,442,746.46	370,278,108.50
7. Provisions	4, 26					
a) Tax provisions			6,065,519.70		(2,200,998.17)	(1,200,998.17)
b) Other provisions			373,154,120.02		(152,631,110.70)	(99,797,835.15)
				379,219,639.72	154,832,108.87	100,998,833.32
			Subtotal:	122,784,173,321.15	141,881,959,113.89	50,232,809,637.89

* For reasons of comparability, the audited figures as of 31 December 2011 were adjusted by the effects of the refill as of 1 January 2012 and as of 1 July 2012, including the calculated settlement obligation to Portigon.

Assets	Note	EUR	EUR	31 Dec. 2012 EUR	31 Dec. 2011 adjusted* EUR	31 Dec. 2011 EUR
			Subtotal:	122,890,168,506.12	141,882,153,617.32	50,398,361,728.35
8. Trust assets	4, 13			923,133.17	5,003,294.96	0.00
of which:						
trust loans						
EUR 923,133.17 (py: EUR 0.00)						
9. Intangible assets	15					
a) Paid concessions,						
trademarks and similiar						
rights and values such as licenses						
in such rights			79,100.62		(100,728.38)	(100,728.38)
				79,100.62	100,728.38	100,728.38
10. Tangible fixed assets	15			136,449.42	21,246.98	21,246.98
11. Other assets	4, 14			296,052,137.84	123,750,563.76	92,037,162.24
12. Prepaid expenses/Accrued income	4, 16			106,773,540.34	374,301,964.61	356,330,180.13
Total assets				**123,294,132,867.51**	**142,385,331,416.01**	**50,846,851,046.08**

* For reasons of comparability, the audited figures as of 31 December 2011 were adjusted by the effects of the refill as of 1 January 2012 and as of 1 July 2012, including the calculated settlement obligation to Portigon.

Liabilities and equity	Note	EUR	EUR	31 Dec. 2012 EUR	31 Dec. 2011 adjusted* EUR	31 Dec. 2011 EUR
			Subtotal:	122,784,173,321.15	141,881,959,113.89	50,232,809,637.89
8. Equity	4, 27					
a) Called capital						
subscribed capital		500,000.00			(500,000.00)	(500,000.00)
less uncalled						
outstanding capital		0.00			(0.00)	(0.00)
			500,000.00		(500,000.00)	(500,000.00)
b) Capital reserves			3,026,337,213.51		(3,026,337,213.51)	(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		(2,431,408.07)	(2,431,408.07)
d) Net retained losses carried forward			–2,519,309,075.22		(–2,525,896,319.46)	(–2,525,896,319.46)
				509,959,546.36	503,372,302.12	614,041,408.19
Total liabilities and equity				**123,294,132,867.51**	**142,385,331,416.01**	**50,846,851,046.08**
1. Contingent liabilities	4, 35					
liabilities on guarantees						
and warrantees			19,747,139,270.24		(24,651,249,661.75)	(6,709,114,681.50)
				19,747,139,270.24	24,651,249,661.75	6,709,114,681.50
2. Other obligations	4, 35					
irrevocable loan commitments			5,583,034,699.91		(8,645,813,937.36)	(1,383,924,348.01)
				5,583,034,699.91	8,645,813,937.36	1,383,924,348.01

* For reasons of comparability, the audited figures as of 31 December 2011 were adjusted by the effects of the refill as of 1 January 2012 and as of 1 July 2012, including the calculated settlement obligation to Portigon.

Income Statement

for the period from 1 January to 31 December 2012

	Note	EUR	EUR	1 Jan.– 31 Dec. 2012 EUR	1 Jan.– 31 Dec. 2011 EUR
1. Interest income from	30				
a) Lending and money market transactions		1,364,121,598.50			(656,826,372.97)
b) Fixed-income securities and debt register claims		508,106,897.02			(469,121,037.82)
			1,872,228,495.52		(1,125,947,410.79)
2. Interest expense			1,631,703,281.16		(941,008,392.54)
				240,525,214.36	184,939,018.25
3. Current income from	30				
a) Equities and other non-fixed-income securities			2,911,518.48		(2,253,414.22)
b) Long-term equity investments			3,353,082.50		(1,227,603.96)
c) Shares in affiliates			188,134.53		(142,600.93)
				6,452,735.51	3,623,619.11
4. Income from profit pooling, profit transfer and partial profit transfer agreements	30			13,135,502.94	0.00
5. Fee and commission income	30		186,845,498.34		(50,994,373.22)
6. Fee and commision expense			31,347,272.68		(24,618,530.87)
				155,498,225.66	26,375,842.35
7. Net trading result				–51,764,759.20	–
8. Other operating income	30, 31			7,586,140.25	766,311.23
9. General and administrative expenses	40				
a) Personnel expenses					
aa) wages and salaries		12,331,531.60			(7,819,210.15)
ab) compulsory social security contributions and expenses for pensions and other employee benefits		859,536.77			(483,174.62)
of which:			13,191,068.37		(8,302,384.77)
for pensions EUR 0.00 (py: EUR 0.00)					
b) Other administrative expenses			399,462,512.13		(118,911,895.06)
				412,653,580.50	127,214,279.83
10. Depreciation and write-offs on intangible assets and tangible fixed assets	15			54,416.90	13,804.10
11. Other operating expenses	31			7,971,867.10	5,878,201.39
12. Depreciation and write-offs of claims and certain securities as well as from the reversal of accruals in the lending business	26, 32			732,543,328.50	0.00
13. Income from reversals of write-offs of loans and advances and certain securities, and from reversals of loan loss provisions	26, 32			0.00	10,638,620.32
14. Depreciation and write-offs on long-term equity investments, shares in affiliates and long-term securities	15, 32			0.00	969,155,505.03
15. Income from reversals of write-offs on long-term equity investments, shares in affiliates and long-term securities	15, 32			780,950,212.18	0.00
16. Expenses from the assumption of losses				7,652.57	0.00
17. Result from ordinary activities				–847,573.87	–875,918,379.09
18. Taxes on income and earnings	33			2,191,714.09	1,924,593.09
19. Other taxes not reported under item 11				–9,626,532.20	400,332.73
20. Net income for the year/net loss for the year				6,587,244.24	–878,243,304.91
21. Net retained losses brought forward				–2,525,896,319.46	–1,647,653,014.55
22. Net retained losses carried forward				**–2,519,309,075.22**	**–2,525,896,319.46**

Cash Flow Statement

for the period from 1 January to 31 December 2012

			1 Jan.– 31 Dec. 2012 EUR	1 Jan.– 31 Dec. 2011 EUR
1.		**Net loss for the period before extraordinary items**	6,587,244.24	–878,243,304.91
		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	–91,139,641.45	994,798,916.08
3.	+/-	Increase/decrease in provisions	278,220,806.40	7,060,839.89
4.	+/-	Other non-cash income/expense	0.00	0.00
5.	-/+	Gain/loss on disposal of long-term financial assets and tangible fixed assets	–56,760,990.79	–7,448,716.37
6.	-/+	Other adjustments (net)	–244,786,235.78	–186,638,044.27
7.	=	Sub-total	–107,878,817.38	–70,470,309.58
		Change in operating assets and liabilities		
8.		Loans and advances (no trading portfolio)		
8 a.	+/-	– to banks	–7,400,109,332.91	–5,085,250,996.47
8 b.	+/-	– to customers	–14,632,503,882.82	4,667,979,741.68
9.	+/-	Securities (no trading portfolio)	1,574,865,171.43	–1,704,425,113.79
10.	+/-	Trading assets	–48,105,266,985.05	–
11.	+/-	Other operating assets	–189,046,625.45	245,260,203.48
12.		Deposits (no trading portfolio)		
12 a.	+/-	– from banks	2,087,758,018.66	–4,167,364,471.68
12 b.	+/-	– from customers	1,709,171,925.30	1,215,289,967.19
13.	+/-	Debt securities in issue	20,051,783,015.46	6,003,814,664.04
14.	+/-	Trading liabilities	48,904,461,034.10	–
15.	+/-	Other operating liabilities	–469,230,915.08	–74,986,131.92
16.	+	Interest and dividends received	725,855,968.10	697,368,369.70
17.	-	Interest paid	–1,283,804,317.83	–568,434,530.16
18.	+	Extraordinary receipts	0.00	0.00
19.	-	Extraordinary payments	0.00	0.00
20.	+/-	Income tax payments	–1,901,149.97	–2,518,620.49
21.	=	**Cash flows from operating activities**	**2,864,153,106.56**	**1,156,262,772.00**
22.		Proceeds from disposal of		
22 a.	+	– long-term financial assets	152,712,912.82	68,162,063.06
22 b.	+	– tangible fixed assets	0.00	0.00
23.		Purchase of		
23 a.	-	– long-term financial assets	–699,562,632.36	–1,064,392,535.02
23 b.	-	– tangible fixed assets	–147,991.58	–121,377.09
24.	+	Receipts from disposal of consolidated subsidiaries and other business units	0.00	0.00
25.	-	Purchase of consolidated subsidiaries and other business units	0.00	0.00
26.	+/-	Changes in cash due to other investing activities (net)	0.00	0.00
27.	=	**Cash flows from investing activities**	**–546,997,711.12**	**–996,351,849.05**
28.	+	Cash receipts from issue of capital	0.00	0.00
29.		Cash payments to owners and minority shareholders		
29 a.	-	– dividend payments	0.00	0.00
29 b.	-	– other payments	0.00	0.00
30.	+/-	Changes in other capital (net)	–110,669,106.07	0.00
31.	=	**Cash flows from financing activities**	**–110,669,106.07**	**0.00**
32.		Net change in cash funds (sum of 21, 27, 31)	2,206,486,289.37	159,910,922.95
33.	+/-	Effect on cash funds of exchange rate movements, changes in reporting entity structure and remeasurement	0.00	0.00
34.	+	Cash funds at beginning of period	160,991,899.35	1,080,976.40
35.	=	**Cash funds at end of period**	**2,367,478,188.72**	**160,991,899.35**

Cash and cash equivalents include the clearing accounts (demand deposits) held at Portigon and, for the first time in the 2012 financial year, at Deutsche Bundesbank. Further cash funds in the sense of DRS 2.16 et seq. do not exist at the current time.

Statement of Changes in Equity

for the period from 1 January to 31 December 2012

	Balance as of 1 Jan. 2012 EUR	Transfer related changes	Other change in capital EUR	Appropriation of net loss EUR	Balance as of 31 Dec. 2012 EUR
Subscribed capital	500,000.00	0.00	0.00	0.00	500,000.00
Capital reserves	3,137,006,319.58	–110,669,106.07	0.00	0.00	3,026,337,213.51
Other revenue reserves	2,431,408.07	0.00	0.00	0.00	2,431,408.07
Net retained losses	–2,525,896,319.46	0.00	0.00	6,587,244.24	–2,519,309,075.22
Equity under HGB	**614,041,408.19**	**–110,669,106.07**	**0.00**	**6,587,244.24**	**509,959,546.36**

	Balance as of 1 Jan. 2011 EUR	Transfer related changes	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	0.00	500,000.00
Capital reserves	3,137,006,319.58	0.00	0.00	0.00	3,137,006,319.58
Other revenue reserves	2,431,408.07	0.00	0.00	0.00	2,431,408.07
Net retained losses	–1,647,653,014.55	0.00	0.00	–878,243,304.91	–2,525,896,319.46
Equity under HGB	**1,492,284,713.10**	**0.00**	**0.00**	**–878,243,304.91**	**614,041,408.19**

Notes to the Financial Statements

for the period from 1 January to 31 December 2012

General disclosures

1. Legal framework of the EAA

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 it was entered into the commercial register at the Düsseldorf Local Court on 23 December 2009. In accordance with section 8a (1) no. 10 in conjunction with section 3a (4) of the Financial Market Stabilisation Fund Act (Finanzmarkt-stabilisierungsfondsgesetz – FMStFG), the EAA is not obliged to produce consolidated financial statements.

The EAA's task is to assume and wind-up risk exposures and non-strategic businesses/assets of Portigon 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 wind-up objectives and the principle of risk minimisation.

The EAA is not a credit institution within the meaning of the German Banking Act (Kredit-wesengesetz) 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 the non-strategic business/assets from Portigon to the EAA will be a two-step process: an first fill in 2009/2010 and a refill in 2012 (please refer to management report chapter "Operating activities of EAA").

As part of the first fill and 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.

Please refer to Note 4 for more details on the transfer of the wind-up portfolio as part of the refill.

2. Preparation of the financial statements for the financial year

In accordance with section 8a (1) no. 10 in conjunction with section 3a (4) of the FMStFG and the additional guidance of the EAA's charter, the financial statements of the EAA for the 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.

Due to the renewed assumption of the assets and liabilities of Portigon in 2012, it is difficult to compare these with the figures reported in the previous year (see Notes 3 and 4). As a result, the audited balance sheet figures as of 31 December 2011, based on the effects of the transfer, were recognised in accordance with the IDW Accounting Principle: Figures from the previous year's annual financial statements (IDW RS HFA 39) are reported in a third column. Material effects on the income statement are explained in the relevant sections of the Notes and the Management Report.

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 and measurement principles

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

Receivables are reported at their 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 loss 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. The EAA takes into account the risk from lending to borrowers in countries with acute transfer risks by recognising country-specific provisions. To do so, the EAA develops a risk factor depending on the country's rating and takes into account the likelihood of default posed by either the borrower or the guarantor. According to calculations by the EAA, the effect of the changes described as of 31 December 2012 resulted, ceteris paribus, in a roughly EUR 10 million decline in the general loan loss provisions. This was calculated by taking into account the ratings after the transfer stop (EUR +1.71 million), the greater flexibility in loss given defaults (EUR -6.21 million) and the decline in the relevant portfolios (EUR -5.49 million).

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 valued 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-ups 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 fair values of the equities, bonds, derivatives and other assets reported in the trading portfolio are calculated as of the reporting date and are then determined for each transaction individually and independently of the trading. The calculation uses either the market or book values as of 31 December 2012, for which a mean is calculated for reasons of simplicity, or recognised accounting methods; both methods take into account the interest on shares, non-recurring payments and option premiums. If the market or book prices do not exist or cannot be determined reliably, especially for derivatives, then the fair values will be calculated using standard pricing models or the discounted cash flow.

The EAA applies a discount to some of the figures determined on the basis of a valuation model, as in these cases not all of the factors used by market participants are taken into account in the models. These discounts primarily relate to creditworthiness, model and liquidity risks. The EAA also applied discounts in the year under review due to uncertainties resulting from legal disputes.

In applying risk-adjusted market valuation methods, the EAA also groups together the transaction measured at fair value in the relevant portfolio divisions based on the risk management. The summarised valuations of each portfolio are then discounted by the Value at Risk (VaR) as calculated by the Monte Carlo simulation. The VaR discounts – based on methods used by the EAA's risk management division – are calculated in such a way that it is 99% certain that a maximum expected loss from open trading positions with a ten-day holding period can be offset. The period of observation used in the calculation is 250 days, retroactively from the date of observation.

The EAA applies the following measurement methods and parameters for the relevant product categories:

Interest rate products: Listed liquid products (such as futures) are measured at market price. Many non-listed (OTC) derivatives have standardised specifications (such as swaps, caps, swaptions) and measurement procedures (Black 76) as well as reliable market quotes (swap rates, cap volatilities). These are measured where available. Specially-developed models are used for exotic OTC derivatives (such as Bermudan swaptions, CMS spread swaps); these are based on the Markov functional model. Securities with exotic coupons are always measured at the corresponding OTC derivative, whereby the present value and the credit spread of the relevant issuer is applied.

Bonds are measured at market price. Less liquid securities for which market prices are not immediately available are either measured at the observable market prices of comparable instruments or at discounted cash flow taking into account the credit spread, determined from the observable prices of comparable instruments.

Equities and commodities: Traded liquid products (futures contracts, options) are measured at market price. The prices for traditional equity and commodity derivatives with a single underlying asset (call and put options, knock-out options, digital options) are determined using finite difference methods for the Black-Scholes differential equation. In contrast, exotic derivatives that possibly have multiple underlying assets are measured using Monte Carlo simulations. The routines applied here are developed based on models established by the market. Dividend estimates are also to be taken into account for equities and utility curves for commodities. Utility curves reflect the monetary advantages and disadvantages of commodities trading. If derivatives include option components, the volatility of the underlying assets must also be taken into account. In the event of multiple underlying assets, the calculation is to include the correlation between them. Exchange rate volatilities and the correlations between underlying assets and exchange rates are always relevant if the derivatives and underlying asset(s) use different currencies. Fund derivatives equate to the dividends paid on the equities. If the derivatives in question relate to participation certificates, no simulation need be applied, just an analytical equation. In this case, no fund volatilities need be taken into account.

Credit products: Securities with exotic coupons or credit components such as credit linked notes and other products derived from credit derivatives such as perfect asset swaps are always measured with the corresponding OTC derivatives. Where necessary, the present value and the credit spread of the relevant issuer is applied.

In terms of hedged derivatives, the discounting of future cash flows is measured at the EONIA swap curves ("OIS discounting"). The risk-adjusted market valuation method took into account a discount of EUR 48.0 million as of 31 December 2012.

	Product	Valuation method	Valuation parameters
Interest rate products	Standard swaps	Present value method	Interest rates
	Exotic swaps	Markov-functional model	Interest rates Interest rate volatility
	Forward rate agreements	Present value method	Interest rates
	Standard caps, floors and collars	Black 76	Interest rates Interest rate volatility
	Exotic caps and floors	Markov-functional model	Interest rates Interest rate volatility
	European standard swaptions	Black 76	Interest rates Interest rate volatility
	Exotic swaptions	Markov-functional model	Interest rates Interest rate volatility
Exchange rate products	FX-swaps	Present value method	Interest rates Exchange rates
	Options	Black 76	Interest rates Exchange rates Exchange rate volatility
	Forward cross-currency interest rate swaps	Present value method	Interest rates Currency rates
Equity, fund and raw material products (including precious metals)	Futures contracts	Finite difference method	Price of the underlying asset, interest rates Dividend payments
	Standard options (single underlying asset)	Finite difference method	Price of the underlying asset, interest rates Dividend payments (shares, indices) Utility curves (raw materials) Volatility (underlying assets, currency rates) Correlation currency rate/underlying asset
	Exotic options	Monte Carlo simulation	Price of the underlying asset, interest rates Dividend payments (shares, indices) Utility curves (raw materials) Volatility (underlying assets, currency rates) Correlation currency rate/underlying asset
	Particification certificates	Analytic formula	Price of the underlying asset, interest rates
	Capital-guaranteed certificates	Analytic formula, Finite difference method	Price of the underlying asset, interest rates Fund distributions Fund volatility
Credit products	Credit default swaps (single reference debtor)	Hazard rate Bootstrapping model	Credit spreads
	Basket credit default swaps (homogeneous correlations and log leverage ratios)	Hazard rate Bootstrapping model Gaussian one-factor model	Credit spreads Correlation factors (derived from market consensus data)
	Basket credit default swaps (inhomogeneous correlations and log leverage ratios)	Hazard rate Bootstrapping model Monte Carlo simulation	Credit spreads Correlation factors (derived from market consensus data)
	Collateralized synthetic obligation	Hazard rate Bootstrapping model Gaussian one-factor model	Credit spreads Correlation factors (derived from market consensus data)
	Securitised assets	Bloomberg cash flow model	Credit spreads Conditional prepayment rate

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 significant impact on our cash flows, financial condition and results of operations. In the EAA's opinion, the parameters used are appropriate and justifiable.

Realised and unrealised valuations, current interest expenses and income, dividend income as well as fee and commission expenses and income from transactions with trading financial instruments are reported under the net trading portfolio result.

Pursuant to section 340e (4) of the HGB, at least 10% of any net trading portfolio income generated by the EAA in any financial year is recognised in the fund for general banking risks item pursuant to section 340g of the HGB and reported separately. This item may only be dissolved to offset trading portfolio net expenses, provided that it exceeds 50% of the average of the trading portfolio's net expenses for the last five years. The trading portfolio assumed as of 1 July 2012 reported net trading portfolio expenses as of 31 December 2012.

Trading portfolio financial instruments are reported as trading portfolio assets or liabilities on the balance sheet.

Advanced and received collateral for derivatives of all transfer alternatives are reported under loans and advances to banks and customers as well as deposits from banks and customers depending on the actual external counterparty.

No financial instruments were reclassified from the trading portfolio pursuant to section 340e (3) no. 3 of the HGB in the second half of 2012; no changes were made to the EAA's internal criteria for the inclusion of financial instruments in the trading portfolio.

Long-term equity investments and shares in affiliates are reported at cost of acquisition. For impairments expected to be permanent, depreciation is made at the lower net realisable value. Pursuant to section 8a (4) no. 4 of the FMStFG, income from the consideration received for the assumption of risk positions from participations was reported under fees and commission income.

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.

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.

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 established additional micro hedges for repurchased own issues with a notional value of EUR 105.0 million as well as corresponding interest rate swaps. The EAA applies the net hedge presentation method.

The EAA manages general interest rate risk in the banking book centrally as part of its asset/liability management activities. This does not constitute a micro hedge within the meaning of section 254 HGB, but rather an economic funding relationship ("Refinanzierungsverbund"), whereby the interest rate components of the banking book loans or financial assets are measured as a whole.

Currency translation for assets and liabilities not allocated to the trading portfolio follows the provisions of sections 256a and 340h HGB. Trading portfolio transactions denominated in foreign currencies are measured and recognised pursuant to section 340e (3) no. 1 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 converted at the ECB reference rates as of 31 December 2012. Accordingly, all expenses and income from currency conversion are recognised in the income statement in accordance with section 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 profit from individually based valuation of the open foreign exchange transactions is reported under other assets.

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 2012.

4. Refill

The transfer of the wind-up portfolio as part of the refill (please refer to management report chapter "Operating activities of EAA") was completed in a number of different ways.

When spun off, the assets and liabilities were physically transferred to the EAA, while all other forms of transfer the opportunities or risks of these are only transferred synthetically. Assets and liabilities transferred to the EAA as part of a spin-off or a sub-participation are accounted for by the EAA, as economic ownership has been transferred. However, with the guarantee alternative the legal and economic ownership of the guaranteed assets remain with Portigon. The guarantee agreement means that the EAA assumes the economic risks of the guaranteed assets. Portigon pays the EAA guarantee fees for the assumption of the risks. The EAA takes reports the assumed risks under contingent liabilities.

Spinning-off, crossing and risk assumption agreement for the transfer of the legal or economic ownership of derivatives results in the assets being reported in the balance sheet depending on the portfolio assignment pursuant to HGB. Pursuant to section 340e (3) HGB, trading portfolio derivatives are recognised at market value less a risk discount.

The transfer of the second portfolio resulted in assets rising by EUR 91.5 billion and liabilities by a total of EUR 67.2 billion, with retroactive effect to 1 January 2012 and 1 July 2012. The spin-off and sub-participation resulted in contingent liabilities and other liabilities climbing to a total of EUR 25.2 billion.

The transfers effective 1 January 2012 and 1 July 2012 were based on the balance sheets of Portigon as of 31 December 2011 and 30 June 2012, on which Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft had given an unqualified audit opinion.

The following tables show the assets and liabilities assumed from Portigon by balance sheet item at the carrying amounts at the relevant transfer dates:

	1 Jan. 2012 EUR million	1 July 2012 EUR million	Total EUR million
Loans and advances to banks	2,668.7	8,020.2	10,688.9
Loans and advances to customers	20,207.5	1,337.5	21,545.0
Bonds and other fixed-income securities	5,721.1	692.6	6,413.7
Equities and other non-fixed-income securities	76.2	–	76.2
Trading portfolio	–	52,104.5	52,104.5
Long-term equity investments	26.6	–	26.6
Shares in affiliates	612.9	16.1	629.0
Trust assets	5.0	–	5.0
Other assets	8.1	23.6	31.7
Prepaid expenses/Accrued income	17.6	0.3	17.9
Total assets	**29,343.7**	**62,194.8**	**91,538.5**

	1 Jan. 2012 EUR million	1 July 2012 EUR million	Total EUR million
Deposits from banks	1,870.2	3,559.6	5,429.8
Deposits from customers	3,947.9	3,317.9	7,265.8
Debt securities in issue	1,774.8	8.1	1,782.9
Trading portfolio	–	52,095.4	52,095.4
Trust liabilities	5.0	–	5.0
Other liabilities	503.4	153.0	656.4
Accruals/deferred income	20.1	0.1	20.2
Provisions	43.1	10.7	53.8
Equity	–	–110.7	–110.7
Total liabilities and equity	**8,164.5**	**59,034.1**	**67,198.6**

As with the first fill, the banking books of the refill portfolio primarily consists of loans and securities as well as the related refinancing and hedge derivatives; these are generally held until maturity. These portfolios were transferred to the EAA effective 1 January 2012. New banking book transactions concluded in the period from 1 January 2012 to 30 June 2012 were transferred as of 1 July 2012. Portigon's former trading portfolio was also transferred to the EAA as of 1 July 2012 as part of the refill.

The refill resulted in an additional guarantee volume of EUR 16.9 billion as of 1 January 2012 and EUR 15.6 billion as of 1 July 2012. The resulting guarantee volume from the refill as of 31 December 2012 amounted to EUR 12.0 billion.

The refill had a material impact on both the balance sheet and the income statement. It is very difficult to compare the expenses and income reported in the income statement for the period from 1 January to 31 December 2012 with those of the previous year.

The considerable rise in expenses and income in the key items, such as net interest income and fees and commission income, is due to the significant rise in balance sheet assets resulting from the refill. Net interest income is up due to higher margins in the refill portfolio.

The rise in expenses with the takeover of the wind-up portfolio is reflected in the management expenses. This includes expenses for the management of the much larger Portigon portfolio of EUR 328.4 million.

As a result of the assumption of the portfolio assets, this will be the first set of financial statements to include a net trading portfolio result. Net trading portfolio expenses – despite the largely hedged trading portfolio items – are primarily due to the adjustment of measurement methods following the assumption of assets.

In the period to 31 December 2012, EAA generated net income of EUR 102.1 million (previous year: EUR 15.1 million) from guarantee fees paid by Portigon to the EAA for assuming the default risk; of this amount, EUR 93.6 million relates to the guaranteed amounts of the refill.

5. Loans and advances to banks

	31 Dec. 2012 EUR million	31 Dec. 2011 EUR million
Carrying amount	**22,608.0**	**15,345.9**
of which:		
- to affiliated companies	4,287.1	3,281.6
- to other investees and investors	17.0	–
payable on demand	9,650.1	4,129.1
due		
- within 3 months	9,963.9	9,390.2
- 3 months to 1 year	1,256.0	362.8
- 1 to 5 years	1,288.0	930.6
- after 5 years	450.0	533.2

Loans and advances to banks rose by EUR 10.7 billion due to the refill from Portigon.

Receivables also include registered and other non-marketable debt instruments. As of 31 December 2012, these include hidden reserves of EUR 0.9 million.

6. Loans and advances to customers

	31 Dec. 2012 EUR million	31 Dec. 2011 EUR million
Carrying amount	**22,671.0**	**8,636.2**
of which:		
- to affiliated companies	870.1	437.8
- to other investees and investors	338.9	4.4
due		
- within 3 months	2,005.6	555.2
- 3 months to 1 year	3,849.0	1,526.3
- 1 to 5 years	11,332.8	3,222.1
- after 5 years	5,448.2	3,073.0
No stated maturity	35.4	259.6

Loans and advances to customers rose by EUR 21.5 billion due to the refill from Portigon.

Receivables also include registered and other non-marketable debt instruments. As of 31 December 2012, these include hidden reserves of EUR 311.2 million.

7. Loans and advances secured by mortgages

	31 Dec. 2012 EUR million	31 Dec. 2011 EUR million
Carrying amount	**398.7**	**429.8**
Loans and advances to customers due		
- within 3 months	5.7	12.3
- 3 months to 1 year	20.9	15.2
- 1 to 5 years	106.5	111.0
- after 5 years	265.6	291.3

8. Bonds and other fixed-income securities

	31 Dec. 2012 EUR million	31 Dec. 2011 EUR million
Carrying amount	**24,217.6**	**25,015.2**
of which:		
Amounts due in the following year	2,282.7	1,528.7
Breakdown		
- Money market instruments	–	–
- Bonds issued by public issuers	2,101.0	1,759.9
- Bonds issued by other issuers	21,446.4	22,642.0
- Own bonds	670.2	613.3
Breakdown by marketability		
- Marketable securities	24,217.6	25,015.2
of which:		
- listed	6,690.9	5,590.5
- unlisted	17,526.7	19,424.7
Breakdown by type		
- Liquidity reserve	684.4	613.3
- Investment securities	23,533.2	24,401.9
Breakdown by affiliation		
- Securities of affiliated companies	–	–
- Securities of other investees and investors	–	–

Bonds and other fixed-income securities rose by EUR 6.4 billion due to the refill from Portigon.

In the first half of 2012, the EAA received EFSF money market instruments with a notional value of EUR 23.6 million in exchange for Greek bonds. These securities were allocated to investment securities.

The bonds and other fixed-income securities amounting to EUR 23.5 billion (previous year: EUR 24.4 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 19.6 billion (previous year: EUR 23.0 billion) and thus higher than their fair value of EUR 16.6 billion (previous year: EUR 18.3 billion), due to its long-term wind-up 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 1.0 billion (previous year: EUR 1.6 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 18.6 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.

9. Equities and other non-fixed-income securities

	31 Dec. 2012 EUR million	31 Dec. 2011 EUR million
Carrying amount	**49.8**	**26.3**
Breakdown by marketability		
- Marketable securities	36.4	22.9
of which:		
- listed	16.8	22.9
- unlisted	19.6	–
Breakdown by type		
- Liquidity reserve	16.9	22.9
- Investment securities	32.9	3.4

Equities and other non-fixed-income securities rose by EUR 76.2 million due to the refill from Portigon.

10. Trading portfolio

	31 Dec. 2012 EUR million
Carrying amount	**48,930.6**
of which:	
- Derivative financial instruments	48,177.0
- Loans and advances	53.0
- Bonds and other fixed-income securities	316.4
- Equities and other non-fixed-income securities	395.4
- Risk allowance pursuant to sec. 340 e (3) sentence 1 HGB	–11.2

The EAA reported its first trading portfolio in 2012 following the refill from Portigon. EUR 52.1 billion in assets were transferred as of 1 July 2012.

11. Long-term equity investments

	31 Dec.2012 EUR million	31 Dec. 2011 EUR million
Carrying amount	**85.8**	**86.3**
of which:		
- in banks	12.6	15.5
- in financial service providers	–	–
Breakdown by marketability		
- Marketable securities	25.5	30.8
of which:		
- unlisted	24.3	30.8

Long-term equity investments rose by EUR 26.6 million due to the refill from Portigon.

12. Shares in affiliates

	31 Dec. 2012 EUR million	31 Dec. 2011 EUR million
Carrying amount	**1,827.3**	**1,288.5**
of which:		
- in banks	1,714.3	1,184.3
- in financial service providers	25.4	9.6
Breakdown by marketability		
- Marketable securities	1,184.8	1,184.8
of which:		
- unlisted	1,184.8	1,184.8

Shares in affiliates rose by EUR 629.0 million due to the refill from Portigon.

The lower net realisable value of the long-term equity investments and shares in affiliates, which have a volume of EUR 74.1 million (previous year: EUR 62.0 million), is EUR 7.3 million (previous year: EUR 0.7 million) less than their carrying amount. The EAA does not expect this difference to be permanent.

13. Trust assets

	31 Dec. 2012 EUR million
Carrying amount	**0.9**
of which:	
- Loans and advances to customers	0.9

The EAA reported its first assets held in trust in 2012 following the refill from Portigon. EUR 5.0 million in assets held in trust were transferred as of 1 January 2012.

14. Other assets

	31 Dec. 2012 EUR million	31 Dec. 2011 EUR million
Carrying amount	**296.1**	**92.0**
of which:		
- Currency translation adjustments	224.8	–
- Guarantee fees and commissions	32.1	42.8
- Premiums for options	15.4	47.4
- Tax refund claims	0.7	0.3
- Claims from swap transactions	0.1	1.1

Other assets rose by EUR 31.7 million due to the refill from Portigon.

15. Fixed assets

<table>
<tr><th>EUR million</th><th>Cost</th><th>Transfer related additions</th><th>Additions</th><th>Usage</th><th>Reclassifi-cations</th><th>Reversals of write-offs</th><th>Accumu-lated depre-ciation, amorti-sation, write-offs</th><th>Depre-ciation, amorti-sation, write-offs in the financial year</th><th>Carrying amount</th><th>Carrying amount</th></tr>
<tr><th></th><th>1 Jan.2012</th><th></th><th></th><th></th><th></th><th></th><th>31 Dec. 2012</th><th></th><th>31 Dec. 2012</th><th>31 Dec. 2011</th></tr>
<tr><td>Bonds and other long-term fixed income securities</td><td>24,401.9</td><td>5,724.3</td><td colspan="5" rowspan="4">Net change according to section 34 (3) sentence 2 of the RechKredV; −7,094.6 EUR million</td><td>–</td><td>23,533.2</td><td>24,401.9</td></tr>
<tr><td>Equities and other long-term non-fixed-income securities</td><td>3.4</td><td>76.2</td><td>–</td><td>32.9</td><td>3.4</td></tr>
<tr><td>Long-term equity investments</td><td>107.1</td><td>26.6</td><td>13.9</td><td>85.9</td><td>86.3</td></tr>
<tr><td>Shares in affiliates</td><td>1,605.4</td><td>629.0</td><td>–</td><td>1,827.3</td><td>1,288.5</td></tr>
<tr><td>Intangible assets</td><td>0.1</td><td>–</td><td>0.0</td><td>–</td><td>–</td><td>–</td><td>0.0</td><td>0.0</td><td>0.1</td><td>0.1</td></tr>
<tr><td>Office and operating equipment</td><td>0.0</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>0.0</td></tr>
</table>

The net change in securities during the 2012 financial year related to additions and reductions, as well as portfolio changes as the result of the pro rata reversal of premiums and discounts.

16. Prepaid expenses/accrued income

	31 Dec. 2012 EUR million	31 Dec. 2011 EUR million
Carrying amount	**106.8**	**356.3**
of which:		
- Non-recurring payments on swaps	74.5	303.5
- Discount on issuing business	25.6	45.4
- Discount on liabilities	4.7	3.6
- Other	2.0	3.8

The transfer of hedges as of 1 July 2012 concluded as part of the first fill between the EAA and Portigon resulted in consolidated upfront payments reported in the prepaid expenses/accrued income and accruals/deferred income of these transactions. This led to a drop in accruals/deferred income.

17. Subordinate assets

Subordinated assets are included in:

	31 Dec. 2012 EUR million	31 Dec. 2011 EUR million
Loans and advances to customers	120.7	33.5
of which: to affiliates	34.3	33.5
of which: to other long-term investees and investors	–	–
Bonds and other fixed-income securities	–	2.6
of which: to affiliates	–	–
of which: to other long-term investees and investors	–	–
Total	**120.7**	**36.1**

18. Assets sold under repurchase agreements

The EAA held no assets sold under repurchase agreements as of 31 December 2012. The carrying amount of assets sold under repurchase agreements reported on the balance sheet in the previous year was EUR 1.3 billion.

19. Deposits from banks

	31 Dec. 2012 EUR million	31 Dec. 2011 EUR million
Carrying amount	**7,844.5**	**5,596.3**
of which:		
- to affiliates	144.0	112.3
- to other long-term investees and investors	–	–
Payable on demand	2,665.2	218.2
due		
- within 3 months	597.7	1,504.8
- 3 months to 1 year	988.6	632.9
- 1 to 5 years	3,335.7	3,170.2
- after 5 years	257.3	70.2

Deposits from banks rose by EUR 5.4 billion due to the refill from Portigon.

20. Deposits from customers

	31 Dec. 2012 EUR million	31 Dec. 2011 EUR million
Carrying amount	**7,462.0**	**5,699.3**
of which:		
- to affiliates	22.8	–
- to other long-term investees and investors	–	–
Other deposits	7,462.0	5,699.3
of which:		
- payable on demand	353.8	3.8
due		
- within 3 months	341.9	1,141.0
- 3 months to 1 year	594.5	738.5
- 1 to 5 years	2,831.6	2,561.4
- after 5 years	3,340.2	1,254.6

Deposits from customers rose by EUR 7.3 billion due to the refill from Portigon.

21. Debt securities in issue

	31 Dec. 2012 EUR million	31 Dec. 2011 EUR million
Carrying amount	**57,653.4**	**37,549.4**
of which:		
- to affiliates	–	–
- to other long-term investees and investors	–	–
Bonds	8,004.4	12,009.1
of which:		
Amounts due in the following year	5,169.8	6,513.1
Other debt securities in issue	49,649.0	25,540.3
of which due:		
- within 3 months	12,261.0	7,017.6
- 3 months to 1 year	11,936.1	6,405.4
- 1 to 5 years	25,267.4	12,117.3
- after 5 years	184.5	–

Debt securities in issue rose by EUR 1.8 billion due to the refill from Portigon.

22. Trading portfolio

	31 Dec. 2012 EUR million
Carrying amount	**48,900.0**
of which:	
- Derivative financial instruments	48,606.9
- Liabilities	293.1

The EAA reported its first trading portfolio in 2012 following the refill from Portigon. EUR 52.1 billion in liabilities were transferred as of 1 July 2012.

23. Trust liabilities

	31 Dec. 2012 EUR million
Carrying amount	**0.9**
of which:	
- Deposits from banks	0.2
- Deposits from customers	0.7

The EAA reported its first liabilities held in trust in 2012 following the refill from Portigon. EUR 5.0 million in trust liabilities were transferred as of 1 January 2012.

24. Other liabilities

	31 Dec. 2012 EUR million	31 Dec. 2011 EUR million
Carrying amount	**449.9**	**916.5**
of which:		
- Compensation liability for refill	409.6	–
- Premiums from options	15.4	40.5
- Payable syndication fees	2.4	–
- Obligations from swap transactions	0.1	0.2
- Currency translation adjustments	–	874.7

Other liabilities rose by EUR 656.4 million due to the refill from Portigon.

25. Accruals/Deferred income

	31 Dec. 2012 EUR million	31 Dec. 2011 EUR million
Carrying amount	**94.3**	**370.3**
of which:		
- Non-recurring payments on swaps	81.5	366.0
- Premium on issuing business	9.6	2.3
- Premiums for sold interest rate caps and floors	1.5	1.8
- Other	1.7	0.2

Accruals/deferred income rose by EUR 20.2 million due to the refill from Portigon.

Please refer to Note 16 for more details on the reduction of accruals/deferred income as against 31 December 2011.

26. Provisions

	Balance as of 31 Dec. 2011 EUR million	Transfer related changes 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. 2012 EUR million
Taxes	1.2	1.0	5.0	–	1.2	–	0.1	6.1
Other provisions	99.8	52.8	320.0	0.5	79.1	23.4	2.5	373.1
- Loans	69.5	25.4	106.7	0.0	40.0	16.4	2.7	147.9
- Long-term equity investments	15.0	5.2	–	–	4.4	–	–0.2	15.6
- Legal actions	–	9.8	10.0	0.2	2.8	2.5	0.0	14.7
- Personnel	0.2	–	0.4	–	0.2	–	–	0.4
- Other	15.1	12.4	202.9	0.3	31.7	4.5	0.0	194.5
Total	**101.0**	**53.8**	**325.0**	**0.5**	**80.3**	**23.4**	**2.6**	**379.2**

Other provisions rose by EUR 53.8 million due to the refill from Portigon.

Other provisions include additions for the outstanding service fee to Portigon as well as for the portfolio in the United States guaranteed as part of the refill.

27. Equity

The EAA's subscribed capital amounted to EUR 500,000 as of 31 December 2012.

The EAA received additions to its capital reserve amounting to EUR 3,137.0 million from transfers as part of the first fill. The refill in financial year 2012 reduced the capital reserve by EUR 110.7 million. The reduction primarily relates to the refill of the EAA and the measures agreed in the letter of intent dated 29 July 2011 and the binding protocol dated 18 June 2012.

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 German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG).

The EAA's net profit for the 2012 financial year amounted to EUR 6.6 million and decreased net retained losses carried forward to EUR 2,519.3 million as of 31 December 2012.

28. Legacy liabilities – grandfathering

To the extent that Liable Stakeholders were liable as guarantors for liabilities of the former 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 public guarantee obligations (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 until maturity by public guarantee obligations.

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

The guarantors of the former Westdeutsche Landesbank Girozentrale will meet their obligations under public guarantee obligations 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 at maturity. A legal notification is not required in such cases.

A total volume of EUR 23.4 billion (previous year: EUR 19.2 billion) was subject to the guarantor liability.

29. Assets/Liabilities denominated in foreign currency

Assets denominated in foreign currencies amounted to EUR 33.3 billion as of the balance sheet date (previous year: EUR 24.5 billion) and liabilities denominated in foreign currencies amounted to EUR 20.4 billion (previous year: EUR 8.4 billion).

Notes to the income statement

Please refer to Note 4 (refill) for details on the development of the individual income statement items in light of the refill.

30. Geographical breakdown of income components

The EAA's key income statement income components were generated in the following geographical markets:

1.Jan.-31 Dec. 2012 EUR million	Interest income	Current income	Fees and commission income	Other operating income
Germany	1,228.7	17.2	149.7	7.5
United Kingdom	372.8	2.2	31.2	–
Rest of Europe	10.5	–	0.2	–
Far East and Australia	67.4	–	0.3	0.1
North America	192.8	0.2	5.4	–
Income statement amount	**1,872.2**	**19.6**	**186.8**	**7.6**

The geographical allocation of income depends on the location of the asset's accounting or managing branch. Current income includes income from profit-pooling and from partial or full profit-transfer agreements.

31. Other operating and prior-period expenses and income

Net other operating expenses and income in the 2012 financial year amounted to EUR -0.4 million (previous year: EUR -5.1 million) and consisted of EUR 8.0 million (previous year: EUR 5.9 million) in expenses and EUR 7.6 million (previous year: EUR 0.8 million) in income. Other operating expenses included EUR 0.7 million in currency conversion (previous year: EUR 5.1 million); other operating income included EUR 0.1 million in currency conversion (previous year: EUR 0.0 million).

There were no material prior-period expenses and income in either the 2012 financial year or in the previous year.

32. Risk provision

Depreciation and write-offs in accordance with section 340f (3) and section 340c (2) of the HGB

	1 Jan.–31 Dec. 2012 EUR million	1 Jan.–31 Dec. 2011 EUR million
Risk result	**48.4**	**–958.5**
Loans and securities income/expense	–732.5	10.6
of which:		
- Lending operations	–737.5	1.2
- Securities	5.0	9.4
Equity investments and securities income/expenses	780.9	–969.1
of which:		
- Long-term equity investments	–13.2	–348.4
- Securities	794.1	–620.7
Result of risk provisions – loans and advances/securities/long-term equity investments due to credit risk	171.6	–935.9
of which		
- Lending operations	–287.4	–32.5
- Structured securities	512.3	–120.2
- Other securities	–53.3	–469.3
- Long-term equity investments due to Greece	–	–313.9
Net income from investment securities	–123.2	–22.6

The EAA always makes use of the options available under section 340f (3) and section 340c (2) of the HGB. Under section 340f (3) of the HGB, income and expenses resulting from changes to allowances for loans and advances in the lending business may be reported on a net basis with risk provisions for securities and income from the reversal of risk provisions on securities in the liquidity reserve. Net expenses amounted to EUR 732.5 million (previous year: net income of EUR 10.6 million). Under section 340c (2) of the HGB, the expenses for long-term equity investments, shares in affiliated and long-term securities may be offset against the respective income. In total, the EAA posted income of EUR 780.9 million (previous year: expenses of EUR 969.1 million) under the risk result for long-term equity investments and securities.

33. Taxes on income and other taxes

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

Other taxes to EUR 9.6 million primarily relate to sales tax refunds (previous year: expense of EUR 0.4 million).

34. Fees paid to the auditors

Fees paid to the auditors for auditing the financial statements amounted to EUR 8.9 million (previous year: EUR 0.7 million). The rise is primarily due to audit services as part of the refill.

Further assurance fees in accordance with section 285 no. 17 b HGB amount to EUR 0.5 million (previous year: EUR 0.7 million) and tax advisory services pursuant to section 285 no. 17 c HGB of TEUR 5 (previous year: 0). In addition, EUR 0.5 million (previous year: EUR 0.9 million) was charged by the FMSA for monitoring activities carried out by the auditor, until the auditor was replaced with another auditor by FMSA in mid-2012.

Other disclosures

35. Contingencies

Contingent liabilities

Contingent liabilities amounting to EUR 19.7 billion (previous year: EUR 6.7 billion) primarily resulted from guarantees for Portigon's risk exposures. They include obligations from credit default swaps amounting to EUR 1,145.5 million (previous year: EUR 1,501.3 million). Contingent liabilities rose by EUR 17.9 billion due to the refill from Portigon. The EAA does not know whether, when, or the extent to which these specific contingent liabilities will be realised. A provision will be made 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 5.6 billion (previous year: EUR 1.4 billion) was due to the lending business. Other liabilities rose by EUR 7.3 billion due to the refill from Portigon. The EAA monitors on a continuing basis whether losses from other obligations are imminent and whether a provision must be recognised for anticipated losses from off-balance sheet transactions.

36. Global guarantee and letter of comfort

The EAA has introduced a global guarantee for EAA CBB. It will hold for as long as the EAA has an equity interest in this bank.

The EAA has issued a letter of comfort in favour of WestImmo. With the exception of political risks, the EAA ensures that WestImmo, in which the EAA currently holds a 100% stake, is in a position to fulfil its obligations, apart from political risks, up to the level of its participation quota. The EAA's commitment arising from the above letter of comfort declines by the extent to which the EAA's shareholding decreases in the future with regard to such commitments of the relevant company that did not arise until after the EAA's shareholding decreased. If the EAA's commitment drops below a majority stake, the letter of comfort will lapse with regard to such commitments of the relevant company that did not arise until after the EAA's shareholding decreased. The EAA has also issued a third-party letter of comfort in favour of WestImmo.

37. Off-balance-sheet transactions

Provision of collateral for own liabilities

Collateral type	Balace sheet position of the collateralized liabilities	Carrying amount of the collateral EUR million	
		31 Dec. 2012	31 Dec. 2011
Cash collateral provided for securities lending	Trading portfolio*	7,612.4	1,485.6
Claims assigned	Deposits from banks	122.7	2.9
Securities pledged	Trading portfolio	2.1	–

* The EAA has provided collateral for transactions concluded within the context of a master agreement pursuant to the provisions of the International Swaps and Derivatives Association (ISDA) or a comparable master agreement with a corresponding collateral agreement. When measuring the collateral, all transactions with a certain counter-party recorded in the master agreement are taken into account. Depending on their balance sheet allocation, collateral for transactions is provided at banking book or trading portfolio and market value. The allocation based on the collateral provisions on liabilities included in a master agreement is not conclusive. The same also applies to collateral recorded in an OTC derivative risk transfer agreement.

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 Portigon and external service providers.

The EAA concluded a co-operation agreement with Portigon; this cannot be terminated prior to 31 December 2016. FMSA must approve any termination by the EAA.

According to the co-operation agreement, Portigon supports the EAA in portfolio management and all related activities. The co-operation agreement includes separate service level agreements for specific processes and functions. They include in particular the operational wind-up of the securities and lending business and of payment transactions. In addition, Portigon carries out risk management, management reporting, accounting and liquidity management. All portfolio management transactions are subject to Portigon's established wind-up process, in compliance with the Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement – MaRisk). Portigon is obliged to perform the management functions assigned to it in such a way that they are in line with the wind-up plan.

However, decision-making authority remains fully with the EAA. Due to the key importance of the outsourced activities for EAA, it has established a Service Provider Manager department and 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 Portigon as well as the external service providers are systematically managed and monitored from a legal, substantive, process and financial perspective. Please refer to the section "Service provider management" for more detailed information.

38. Other financial commitments

Guarantor liability

The mandatory legal guarantor liability for Portigon for liabilities of Rheinland-Pfalz Bank, Mainz, Germany, HSH Nordbank AG, Hamburg/Kiel, Germany, der DekaBank Deutsche Girozentrale, Frankfurt/Main, Germany and WestImmo together with other Portigon assets and liabilities were transferred to the EAA in 2012 by means of a spin-off. As new liabilities of this bank have not been backed by guarantees since 19 July 2005, the volume of the covered liabilities continues to drop due to the redemption of amounts that have since become due.

Other contingencies

As part of the refill, the EAA has assumed various letters of undertaking issued by Portigon for residual value guarantees issued by third parties. These letters of undertaking include provisions which, once they come into force, entitle the EAA to counterguarantees for the obligations of third parties resulting from the residual value guarantees. Counterguarantees were issued in two cases in 2006; a further two cases are currently being negotiated.

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 963.2 million (previous year: EUR 103.3 million) (of which with affiliates: TEUR 22; previous year: EUR 0).

39. 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, 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 notional values, the total volume of forward contracts and derivative financial instruments was EUR 932.5 billion (previous year: EUR 101.3 billion) as of the balance sheet date. The focus remained on interest rate-related products, which accounted for 84.3% of the total volume, up from 71.6% in the previous year.

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. 2012**	**31 Dec. 2011**	**31 Dec. 2012**	**31 Dec. 2011**	**31 Dec. 2012**	**31 Dec. 2011**
Interest rate-related products	**786,535**	**72,484**	**42,672**	**3,008**	**41,994**	**2,910**
OTC products	783,274	72,484	42,672	3,008	41,994	2,910
Exchange-traded products	3,261	0	0	0	0	0
Currency-related products	**139,015**	**25,223**	**5,506**	**245**	**4,848**	**854**
OTC products	139,015	25,223	5,506	245	4,848	854
Equity and other price-related products	**3,858**	**848**	**606**	**41**	**697**	**14**
OTC products	3,858	848	606	41	697	14
Credit derivatives	**3,138**	**2,734**	**300**	**200**	**310**	**232**
OTC products	3,138	2,734	300	200	310	232
Total derivative financial instruments	**932,546**	**101,289**	**49,084**	**3,494**	**47,849**	**4,010**
OTC products	929,285	101,289	49,084	3,494	47,849	4,010
Exchange-traded products	3,261	0	0	0	0	0

The average annual notional amounts of forward contracts and derivatives transactions amounted to EUR 514.5 billion during the 2012 financial year (previous year: EUR 102.4 billion).

Derivative financial instruments – average volumes

Average 1 Jan. to 31 Dec. 2012	Notional values		Positive market values		Negative market values	
EUR million	2012	2011	2012	2011	2012	2011
Interest rate-related products	**428,838**	**73,769**	**21,378**	**2,531**	**23,947**	**2,729**
OTC products	427,207	73,769	21,378	2,531	23,947	2,729
Exchange-traded products	1,631	0	0	0	0	0
Currency-related products	**80,745**	**24,660**	**2,703**	**245**	**2,760**	**887**
OTC products	80,745	24,660	2,703	245	2,760	887
Equity and other price-related products	**2,074**	**1,581**	**312**	**120**	**355**	**21**
OTC products	2,074	1,581	312	120	355	21
Credit derivatives	**2,851**	**2,400**	**217**	**131**	**241**	**157**
OTC products	2,851	2,400	217	131	241	157
Total derivative financial instruments	**514,508**	**102,410**	**24,610**	**3,027**	**27,303**	**3,794**
OTC products	512,877	102,410	24,610	3,027	27,303	3,794
Exchange-traded products	1,631	0	0	0	0	0

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.

All derivatives are medium to long term with remaining maturities of more than one year.

Derivative financial instruments – maturities

Notional amount	Interest rate-related products		Currency-related products		Equity and other price-related products		Credit derivatives	
EUR million	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011
Due								
- within 3 months	72,358	8,341	14,488	10,658	116	422	225	105
- 3 months to 1 year	114,836	6,349	25,931	5,931	413	343	190	196
- 1 to 5 years	354,636	38,786	77,172	7,063	3,319	83	2,619	2,233
- after 5 years	244,705	19,008	21,424	1,571	10	0	104	200
Total	**786,535**	**72,484**	**139,015**	**25,223**	**3,858**	**848**	**3,138**	**2,734**

40. Remuneration paid to executive bodies

Remuneration paid to members of the Managing Board amounted to TEUR 1,023 during the 2012 financial year (2011 financial year: TEUR 923).

The amounts paid to members of the Supervisory Board (TEUR 185; previous year: TEUR 170) included an allowance, divided into base and per-meeting pay.

41. 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 2012 financial year or in the previous year.

42. 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. 2012	Total 1 Jan.– 31 Dec. 2011
	29	56	85	49

43. EAA shareholders

Shareholders	Ownership Interest	
	31 Dec. 2012 in %	31 Dec. 2011 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**

44. Memberships of other bodies held by Managing Board members

In the 2012 financial year, the following members of the Managing Board of the EAA were members of a supervisory board or other supervisory bodies of large public companies pursuant to section 340a (4) no. 1 in conjunction with section 267 (3) of the HGB.

Markus Bolder
Westdeutsche ImmobilienBank AG
(since 19 September 2012)

Matthias Wargers
Westdeutsche ImmobilienBank AG
(since 19 September 2012)

45. Memberships of other bodies held by employees

In the 2012 financial year, the following employees of the EAA were members of a supervisory board or other supervisory bodies of public companies pursuant to section 340a (4) no. 1 in conjunction with section 267 (3) of the HGB. Details of the memberships of other bodies marked * were provided voluntarily as the companies are not classed as large public companies pursuant to section 340a (4) no. 1 in conjunction with section 267 (3) of the HGB.

Dr. Ulf Bachmann
Westdeutsche ImmobilienBank AG
(since 19 September 2012)

Sven Guckelberger
Basinghall Finance plc

Gabriele Müller
Basinghall Finance plc
EAA Corporate Services plc *
EAA Covered Bond Bank plc

Hartmut Rahner
EAA Corporate Services plc *
EAA Covered Bond Bank plc

46. Executive bodies of the EAA

Members of the Managing Board of the EAA

Markus Bolder
Matthias Wargers

Members of the Supervisory Board of the EAA

Dr. Rüdiger Messal
Chairman
State Secretary in the Finance Ministry of North Rhine-Westphalia

Joachim Stapf
Vice 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 Executive Committee (Leitungsausschuss) of the Federal Agency for Financial Market Stabilisation (Bundesanstalt für Finanzmarktstabilisierung)

Günter Borgel
(since 27 September 2012)
Member of the Executive Committee (Leitungsausschuss) of the Federal Agency for Financial Market Stabilisation (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 Officer of HypoVereinsbank AG and UniCredit Group

Wilfried Groos
Chairman of the Managing Board of the Sparkasse Siegen

Dr. Wolfgang Kirsch
Director of the Landschaftsverband Westfalen-Lippe

Hans Martz
Chairman of the Managing Board of the Sparkasse Essen

Michael Stölting
Member of the Managing Board of NRW.BANK

Jürgen Wannhoff
Vice President and Member of the Managing Board of the Sparkassenverband Westfalen-Lippe

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 43).

47. Information on shareholdings

List of shareholdings

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

Disclosing party: Erste Abwicklungsanstalt
Dated: 31 December 2012
Target currence/unit: EUR / in TEUR (all currency exchange rates have been converted into EUR as of 31 Dec. 2012)
Interest and voting rights in %

Other shareholdings

Ct.No.	Name	Location	Capital share	Voting rights	Currency	Equity	Profit/loss
1	Allvaris GmbH[1,10]	Düsseldorf, Germany	100.00		EUR	855.39	-11.39
2	Basinghall Commercial Finance Limited[10]	London, United Kingdom	100.00		GBP	6,186.38	30.06
3	Basinghall Finance Plc[10]	London, United Kingdom	100.00		GBP	-4,042.40	2,215.42
4	BfP Beteiligungsgesellschaft für Projekte mbH[1,10]	Düsseldorf, Germany	80.00		EUR	25.37	0.00
5	Börse Düsseldorf AG [10]	Düsseldorf, Germany	21.95		EUR	33,276.50	2,404.17
6	CBAL S.A.[2,11]	Braine l`Alleud, Belgium	100.00		EUR	61.50	818.02
7	COREplus Private Equity Partners GmbH & Co. KG[1,10]	Düsseldorf, Germany	36.52	0	EUR	29,447.90	4,448.76
8	COREplus Private Equity Partners II - Diversified Fund, L. P.[10]	Wilmington, USA	24.75	0	USD	33,272.10	-254.40
9	CWB Capital Partners Limited[7]	London, United Kingdom	25.00		GBP	3,658.87	2,329.37
10	Dussinvest2 Beteiligungs-gesellschaft mbH[4,10]	Düsseldorf, Germany	100.00		EUR	232.20	0.00
11	Dusskapital Zwanzig Beteiligungs-gesellschaft mbH[13]	Düsseldorf, Germany	100.00		EUR	22.70	-3.30
12	EAA Corporate Services plc[10]	Dublin 1, Ireland	100.00		EUR	-1,199.00	917.00
13	EAA Covered Bond Bank plc[10,14]	Dublin 1, Ireland	100.00		EUR	271,328.00	-334,819.00
14	EAA Europa Holding GmbH[4,10]	Düsseldorf, Germany	100.00		EUR	42,569.95	0.00
15	EMG Projekt Gewerbepark Ludwigs-felde/Löwenbruch GmbH[1,10]	Berlin, Germany	47.50		EUR	140.58	-310.19
16	Erste EAA-Beteiligungs GmbH[12]	Düsseldorf, Germany	100.00		EUR	25.00	n/a
17	Euro-Equity Holding GmbH i.L.[7]	Düsseldorf, Germany	100.00		EUR	49.61	0.00
18	Fischerinsel Beteiligungs-GmbH[1,10]	Mainz, Germany	100.00		EUR	17.10	-1.50
19	Fischerinsel Vermietungs GmbH & Co. KG[1,10]	Mainz, Germany	100.00		EUR	971.70	-715.08
20	Frankonia Eurobau Max-Viertel GmbH[1,6]	Nettetal, Germany	25.00		EUR	3,240.37	50.75
21	GID Gesellschaft für Innenstadt-entwicklung in Duisburg mbH[1,7]	Hamburg, Germany	45.00		EUR	-2.89	-1.44
22	GKA Gesellschaft für kommunale Anlagen mbH[1,10]	Düsseldorf, Germany	100.00		EUR	187.94	24.58
23	GkA Grundstücksgesellschaft Hilden mbH[1,10]	Düsseldorf, Germany	48.00	60	EUR	70.26	11.14
24	GML Gewerbepark Münster-Lod-denheide GmbH[1,10]	Münster, Germany	33.33		EUR	14,490.74	622.07
25	Grundstücksentwicklungsgesell-schaft Krohnstieg-Süd mbH[1,10]	Bremen, Germany	45.00		EUR	-2,708.10	84.03

Other shareholding

Ct.No.	Name	Location	Capital share	Voting rights	Currency	Equity	Profit/loss
26	Heber Avenue Partners, LLC	Dover, USA	100.00			n/a	n/a
27	Home Partners Holdco LLC	Dover, USA	100.00			n/a	n/a
28	IFV ImmobilienFonds Verwaltungs-gesellschaft Objekte Halle, Essen und Magdeburg mbH[10]	Ingelheim am Rhein, Germany	40.00		EUR	28.32	–2.92
29	International Leasing Solutions Japan KK[7]	Tokyo, Japan	100.00		JPY	249.69	1.73
30	KA Deutschland Beteiligungs GmbH & Co KG[1,10]	Düsseldorf, Germany	100.00		EUR	4,881.19	4,034.00
31	Kassiterit Beteiligungs GmbH[1,10]	Düsseldorf, Germany	100.00		EUR	22.16	–0.48
32	KB Zwei Länder Beteiligungs- und Verwaltungs GmbH & Co. KG[1,10]	Düsseldorf, Germany	100.00		EUR	721.81	0.91
33	KB Zwei Länder Beteiligungs-gesellschaft mbH[1,10]	Düsseldorf, Germany	100.00		EUR	520.77	37.63
34	Klenk Holz AG[10]	Oberrot, Germany	21.87		EUR	–20,565.56	–13,263.18
35	Leasing Belgium N.V.[1,10]	Antwerpen, Belgium	100.00		EUR	738.39	–56.87
36	LIFE.VALUE Construction GmbH[1,10]	Düsseldorf, Germany	100.00		EUR	–2,472.79	–3,101.13
37	LIFE.VALUE GmbH & Co. 11/14 Centre KG[1,10]	Düsseldorf, Germany	100.00		EUR	–283.02	–23.19
38	LIFE.VALUE GmbH & Co. Building 1 KG [1,10]	Düsseldorf, Germany	100.00		EUR	–3.86	–2,095.81
39	LIFE.VALUE GmbH & Co. LivingLofts KG[1,10]	Düsseldorf, Germany	100.00		EUR	–16.05	–100.52
40	LIFE.VALUE GmbH & Co. Loft 1 KG[1,10]	Düsseldorf, Germany	100.00		EUR	–3.79	–1,256.12
41	LIFE.VALUE GmbH & Co. Palace 1 KG[1,10]	Düsseldorf, Germany	100.00		EUR	–4.71	–3,641.54
42	Life.Value Properties GmbH[1,10]	Düsseldorf, Germany	100.00		EUR	–455.34	–529.56
43	Methuselah Life Markets Limited[10]	London, United Kingdom	100.00		GBP	15,808.48	808.40
44	MFC 1100 Columbia York LLC[1]	New York, USA	100.00			n/a	n/a
45	MFC ABW LLC[1]	New York, USA	100.00			n/a	n/a
46	MFC BDM LLC[1]	New York, USA	100.00			n/a	n/a
47	MFC CMark LLC[1]	New York, USA	100.00			n/a	n/a
48	MFC Eagle Realty LLC[1]	New York, USA	100.00			n/a	n/a
49	MFC Holdco, LLC	New York, USA	100.00			n/a	n/a
50	MFC Jamestown LLC[1]	New York, USA	100.00			n/a	n/a
51	MFC JCD LLC[1]	New York, USA	100.00			n/a	n/a
52	MFC Jennings Gateway LLC[1]	New York, USA	100.00			n/a	n/a
53	MFC Jordan Contracting LLC[1]	New York, USA	100.00			n/a	n/a

Other shareholding							
Ct.No.	Name	Location	Capital share	Voting rights	Cur-rency	Equity	Profit/loss
54	MFC Leominster LLC[1]	New York, USA	100.00			n/a	n/a
55	MFC New Paradigm LLC[1]	New York, USA	100.00			n/a	n/a
56	MFC Pinecrest LLC[1]	New York, USA	100.00			n/a	n/a
57	MFC PS Royal Louisville LLC[1]	New York, USA	100.00			n/a	n/a
58	MFC PS Royal Prosper LLC[1]	New York, USA	100.00			n/a	n/a
59	MFC Real Estate LLC[1]	New York, USA	100.00			n/a	n/a
60	MFC Spanish Trails LLC[1]	New York, USA	100.00			n/a	n/a
61	MFC Twin Builders LLC[1]	New York, USA	100.00			n/a	n/a
62	MIG Immobilien-gesellschaft mbH i.L.[5]	Mainz, Germany	40.91		EUR	0.00	–150.77
63	Monolith Grundstücksverwal-tungsgesellschaft mbH[1,10]	Mainz, Germany	100.00		EUR	81.09	5.01
64	Montelucia Phoenix Inc.[1]	Dover, USA	100.00			n/a	n/a
65	Nephelin Grundstücksverwal-tungsgesellschaft mbH[1,10]	Mainz, Germany	100.00		EUR	–41.06	–3.57
66	ParaFin LLC	New York, USA	100.00			n/a	n/a
67	Pathos Bay LLC	Dover, USA	100.00			n/a	n/a
68	PE Projekt-Entwicklungsgesell-schaft mbH[1,10]	Düsseldorf, Germany	100.00		EUR	25.06	0.00
69	PE Projekt-Entwicklungsgesell-schaft mbH & Co. Büro- und Busi-nesscenter Leipzig Park KG[2,10]	Düsseldorf, Germany	94.90	98.11	EUR	457.23	–340.18
70	PM Portfolio Management GmbH[1,10]	Düsseldorf, Germany	100.00		EUR	62.50	–0.16
71	Projekt Carrée am Bahnhof GmbH & Co. Bürozentrum KG in Insolvenz[1,6]	Bad Homburg, Germany	51.00		EUR	–3,571.86	–116.54
72	Projekt Carrée am Bahnhof Verwal-tungs GmbH in Insolvenz[1,6]	Bad Homburg, Germany	51.00		EUR	–13.19	–0.17
73	Projekt Zeppelin-Center Friedrichs-hafen Verwaltungs GmbH i.L.[1]	Bonndorf, Germany	25.00			n/a	n/a
74	Projektentwicklungsgesellschaft Gar-tenstadt Wildau Röthegrund II mbH[1,10]	Wildau, Germany	94.00		EUR	–6,253.66	–39.85
75	Projektgesellschaft Klosterberg mbH[1,10]	Münster, Germany	94.00		EUR	–546.90	–26.81
76	S-Chancen-Kapitalfonds NRW GmbH[10]	Münster, Germany	50.00		EUR	24,887.09	–1,124.32
77	Special PEP II GP Investors, L.L.C.[10]	Wilmington, USA	50.00	0	USD	360.46	18.69
78	StadtGalerie Witten GmbH[1,10]	Düsseldorf, Germany	40.00		EUR	–2,144.39	–1,245.46
79	StadtGalerie Witten Marketing GmbH[1,10]	Düsseldorf, Germany	40.00		EUR	16.08	24.82
80	Standard Chartered (SFD No.2) Limited[10]	London, United Kingdom	25.00		USD	0.14	0.00
81	Tanzbar CH Holdings, LLC	New York, USA	100.00			n/a	n/a
82	Tanzbar DB Holdings, LLC	New York, USA	100.00			n/a	n/a
83	Ulisse GmbH i.L.[7]	Düsseldorf, Germany	100.00		EUR	44.47	0.40
84	Vierte EAA-Beteiligungs GmbH[12]	Düsseldorf, Germany	100.00		EUR	25.00	n/a
85	Vivaldis Gesellschaft für struktu-rierte Lösungen S.A.[10]	Luxembourg, Luxembourg	100.00		EUR	–14.26	–16.02
86	West Equity Fonds GmbH[4,10]	Düsseldorf, Germany	100.00		EUR	25.00	0.00
87	West Life Markets GmbH & Co. KG[2,4,6]	Düsseldorf, Germany	100.00		EUR	1,287.16	0.00

Other shareholding							
Ct.No.	Name	Location	Capital share	Voting rights	Currency	Equity	Profit/loss
88	West Merchant Limited[10]	London, United Kingdom	100.00		GBP	58.46	3.19
89	West Participation One GmbH[4,10]	Düsseldorf, Germany	100.00		EUR	44,827.20	0.00
90	West Zwanzig GmbH[1,4,10]	Mainz, Germany	100.00		EUR	25.23	0.00
91	Westdeutsche Immobilien Fonds Beteiligungsgesellschaft mbH[1,10]	Düsseldorf, Germany	100.00		EUR	41.73	0.00
92	Westdeutsche ImmobilienBank AG[3,4,10]	Mainz, Germany	100.00		EUR	876,577.27	0.00
93	Westdeutsche ImmobilienHolding GmbH[1,4,10]	Mainz, Germany	94.60		EUR	5,539.47	0.00
94	Westfälische Textil-Gesellschaft Klingenthal & Co. mit beschränkter Haftung[8]	Salzkotten, Germany	25.26		EUR	10,486.55	−172.10
95	Westfonds 5 Büropark Aachen Laurensberg KG[1,10]	Düsseldorf, Germany	49.11		EUR	4,527.31	175.76
96	WestFonds 5 Palazzo Fiorentino Frankfurt KG[1,10]	Düsseldorf, Germany	45.62		EUR	5,988.08	3,809.05
97	WestFonds 5 Walle-Center Bremen KG[1,10]	Düsseldorf, Germany	46.06	46.03	EUR	14,426.75	119.06
98	WestFonds Geschäftsführungs-gesellschaft 1 mbH[1,10]	Düsseldorf, Germany	100.00		EUR	42.00	14.35
99	WestFonds Geschäftsführungs-gesellschaft 2 mbH[1,10]	Düsseldorf, Germany	100.00		EUR	25.31	−4.07
100	WestFonds Gesellschaft für geschlossene Immobilienfonds mbH[1,10]	Düsseldorf, Germany	100.00		EUR	70.03	−3.47
101	WestFonds Holland Grundstücksgesellschaft Voorburg und s'Hertogenbosch mbH[1,10]	Düsseldorf, Germany	100.00		EUR	9.24	−12.76
102	WestFonds Immobilien Gesellschaft Objekt Halle/Saale Charlottenstraße mbH[1,10]	Düsseldorf, Germany	100.00		EUR	−2,965.19	−1,918.06
103	WestFonds Immobilien Gesellschaft Objekt Magdeburg An der Steinkuhle 2-2e mbH[1,10]	Düsseldorf, Germany	100.00		EUR	−980.33	−763.71
104	WestFonds Immobilien Gesellschaft Objekt Magdeburg Rogätzer Str. 8 mbH[1,10]	Düsseldorf, Germany	100.00		EUR	−60.93	−53.94
105	WestFonds Immobilien Gesellschaft Objekt Wien Heiligenstädter Lände 29 mbH[1,7]	Düsseldorf, Germany	100.00		EUR	32.60	27.18
106	WestFonds Immobilien-Anlage-gesellschaft mbH[4]	Düsseldorf, Germany	94.90		EUR	4,302.13	2,190.09
107	WestFonds Immobiliengesellschaft Objekt Essen Schnieringshof 10-14 mbH[1,10]	Düsseldorf, Germany	100.00		EUR	−926.89	−883.69
108	WestFonds Premium Select Management GmbH[1,10]	Düsseldorf, Germany	100.00		EUR	33.03	−1.21
109	WestFonds Premium Select Verwaltung GmbH[1,10]	Düsseldorf, Germany	100.00		EUR	32.44	0.92
110	WestFonds Verwaltung GmbH[1,10]	Schönefeld, Germany	100.00		EUR	71.86	47.44
111	WestFonds-PHG Gesellschaft RWI-Fonds 120 mbH[1,10]	Düsseldorf, Germany	100.00		EUR	25.10	−6.13

Other shareholding

Ct.No.	Name	Location	Capital share	Voting rights	Currency	Equity	Profit/loss
112	WestFonds-PHG Gesellschaft RWI-Fonds 125 mbH[1,10]	Düsseldorf, Germany	100.00		EUR	25.10	–6.13
113	WestFonds-PHG Gesellschaft RWI-Fonds 140 mbH[1,10]	Düsseldorf, Germany	100.00		EUR	26.41	–3.62
114	WestFonds-PHG Gesellschaft RWI-Fonds 43 mbH[1,10]	Düsseldorf, Germany	100.00		EUR	26.08	–4.40
115	WestFonds-PHG Gesellschaft RWI-Fonds 47 mbH[1,10]	Düsseldorf, Germany	100.00		EUR	27.32	–4.35
116	WestFonds-PHG Gesellschaft WestFonds 1 mbH[1,10]	Düsseldorf, Germany	100.00		EUR	28.09	–3.09
117	WestFonds-PHG Gesellschaft WestFonds 2 D mbH[1,10]	Düsseldorf, Germany	100.00		EUR	27.62	–3.60
118	WestFonds-PHG Gesellschaft WestFonds 2 H mbH[1,10]	Düsseldorf, Germany	100.00		EUR	27.62	–3.60
119	WestFonds-PHG Gesellschaft WestFonds 5 Aachen mbH[1,10]	Düsseldorf, Germany	100.00		EUR	25.15	–6.08
120	WestFonds-PHG Gesellschaft WestFonds 5 Bremen mbH[1,10]	Düsseldorf, Germany	100.00		EUR	25.10	–6.13
121	WestFonds-PHG Gesellschaft WestFonds 5 Frankfurt mbH[1,10]	Düsseldorf, Germany	100.00		EUR	25.15	–6.09
122	WestFonds-PHG Gesellschaft Westfonds 6 mbH[1,10]	Düsseldorf, Germany	100.00		EUR	27.80	–1.78
123	WestFonds-PHG Gesellschaft WestFonds 7 mbH[1,10]	Düsseldorf, Germany	100.00		EUR	27.97	–2.06
124	WestFonds-PHG Gesellschaft WestFonds Wien 2 mbH[1,10]	Düsseldorf, Germany	100.00		EUR	26.78	–5.64
125	WestFonds-PHG-Gesellschaft BI-Fonds 12 mbH[1,10]	Düsseldorf, Germany	100.00		EUR	23.95	–6.08
126	WestFonds-PHG-Gesellschaft BI-Fonds 14 mbH[1,10]	Düsseldorf, Germany	100.00		EUR	23.95	–6.08
127	WestFonds-PHG-Gesellschaft BI-Fonds 17 mbH[1,10]	Düsseldorf, Germany	100.00		EUR	9.22	–6.28
128	WestFonds-PHG-Gesellschaft BI-Fonds 18 S mbH[1,10]	Düsseldorf, Germany	100.00		EUR	23.95	–6.08
129	WestFonds-PHG-Gesellschaft BI-Fonds 19 S mbH[1,10]	Düsseldorf, Germany	100.00		EUR	23.95	–6.08
130	WestFonds-PHG-Gesellschaft BI-Fonds 23 mbH[1,10]	Düsseldorf, Germany	100.00		EUR	23.95	–6.08
131	WestFonds-PHG-Gesellschaft BI-Fonds 6 mbH[1,10]	Düsseldorf, Germany	100.00		EUR	26.37	–6.08
132	WestFonds-PHG-Gesellschaft KA Deutschland Beteiligungsgesell-schaft mbH[1,10]	Düsseldorf, Germany	100.00		EUR	26.65	–4.54
133	WestFonds-PHG-Gesellschaft KB Zwei Länder Beteiligungsgesell-schaft mbH[1,10]	Düsseldorf, Germany	100.00		EUR	26.28	–4.94
134	WestFonds-PHG-Gesellschaft RWI-Fonds 25 mbH[1,10]	Düsseldorf, Germany	100.00		EUR	27.32	–4.35
135	WestFonds-PHG-Gesellschaft RWI-Fonds 34 mbH[1,10]	Düsseldorf, Germany	100.00		EUR	26.08	–4.40

Other shareholding

Ct.No.	Name	Location	Capital share	Voting rights	Currency	Equity	Profit/loss
136	WestFonds-PHG-Gesellschaft RWI-Fonds 40 mbH[1,10]	Düsseldorf, Germany	100.00		EUR	26.08	–4.40
137	WestFonds-PHG-Gesellschaft WestFonds 3 Berlin mbH[1,10]	Düsseldorf, Germany	100.00		EUR	28.85	–3.56
138	WestFonds-PHG-Gesellschaft WestFonds 3 Düsseldorf mbH[1,10]	Düsseldorf, Germany	100.00		EUR	28.10	–4.15
139	WestFonds-PHG-Gesellschaft WestFonds 4 mbH[1,10]	Düsseldorf, Germany	100.00		EUR	25.10	–6.13
140	WestGKA Management Gesellschaft für kommunale Anlagen mbH[2,4,10]	Düsseldorf, Germany	100.00		EUR	1,127.70	0.00
141	WestLB Asset Management (US) LLC[6]	Wilmington, USA	100.00		USD	26,126.74	3,289.61
142	WestLB CapTrust Holding LLC	Dover, USA	100.00			n/a	n/a
143	WestLB do Brasil Participacoes, Representacoes e Negocios Ltda.[10]	Sao Paulo, Brazil	100.00		BRL	2,608.74	139.07
144	WestLB Limited[10]	London, United Kingdom	100.00		GBP	30.88	–7.84
145	WestLB Servicios S.A.[1,11]	Buenos Aires, Argentina	94.86		ARS	0.00	–1.65
146	WestLB Venture Capital Management GmbH & Co. KG[10]	Munich, Germany	50.00		EUR	132.92	–8.25
147	WestLeasing International GmbH[1,10]	Düsseldorf, Germany	100.00		EUR	206.22	–13.03
148	WestLeasing Westdeutsche Leasing Holding GmbH[4,10]	Düsseldorf, Germany	94.90		EUR	11,624.75	0.00
149	WestMerchant Beteiligungs GmbH[1,10]	Düsseldorf, Germany	100.00		EUR	26.15	–0.06
150	WestProject & Consult Gesellschaft für Projektentwicklung und Consulting mbH i.L.[1,4,10]	Düsseldorf, Germany	100.00		EUR	1,559.56	0.00
151	WestTA Beteiligungsgesellschaft mbH[4,13]	Düsseldorf, Germany	100.00		EUR	646.36	0.00
152	WestVerkehr Beteiligungsgesellschaft mbH[1,10]	Düsseldorf, Germany	100.00		EUR	115.56	89.99
153	WIB Real Estate Finance Japan K.K.[1,9]	Minato-ku, Japan	100.00		JPY	7,149.20	–2,670.74
154	WIP Westdeutsche Immobilien Portfolio Managementgesellschaft mbH[1,4,10]	Düsseldorf, Germany	100.00		EUR	615.78	1.73
155	WLB CB Holding LLC	New York, USA	100.00			n/a	n/a
156	WMB Beteiligungs GmbH[1,10]	Düsseldorf, Germany	100.00		EUR	112.84	0.41
157	WMO Entwicklungsgesellschaft mbH[1,10]	Bonn, Germany	100.00		EUR	33.73	1.26
158	WMO Erste Entwicklungsgesellschaft mbH & Co. KG[1,10]	Bonn, Germany	50.25		EUR	–5,607.87	954.95
159	WPW Immobilienentwicklungsgesellschaft Nr. 1 mbH i.L.[1]	Trier, Germany	33.33			n/a	n/a

Interest greater than 5% (large corporations)							
Ct.No.	**Name**	**Location**	**Capital share**	**Voting rights**	**Currency**	**Equity**	**Profit/loss**
160	AKA Ausfuhrkredit-Gesellschaft mbH[10]	Frankfurt am Main, Germany	5.02		EUR	176,547.10	16,775.00
161	Banco Finantia S.A.[10]	Lisboa, Portugal	8.69		EUR	337,125.00	3,136.00

Other companies for whom EAA assumes unlimited liability							
Ct.No.	**Name**	**Location**	**Capital share**	**Voting rights**	**Currency**	**Equity**	**Profit/loss**
162	GBR Industrie- und Handelskammer Rheinisch-Westfälische-Börse	Düsseldorf, Germany	5.88	5		n/a	n/a
163	GLB GmbH & Co. OHG	Frankfurt am Main, Germany	15.47			n/a	n/a

1 Indirect shareholdings.
2 Including indirectly held shares.
3 A letter of comfort exists.
4 A profit and loss transfer agreement is in place with this company.
5 Only data as of 31 December 2008 is available.
6 Only data as of 31 December 2009 is available.
7 Only data as of 31 December 2010 is available.
8 Only data as of 30 June 2011 is available.
9 Only data as of 30 November 2011.
10 Only data as of 31 December 2011 is available.
11 Only data as of 31 October 2012 is available.
12 Opening balances (data as of 23 November 2012).
13 Data as of 31 December 2012 is available.
14 A global guarantee exists.

Düsseldorf, 28 March 2013

Erste Abwicklungsanstalt

The Managing Board

Matthias Wargers

Markus Bolder

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, 28 March 2013

Erste Abwicklungsanstalt

The Managing Board

Matthias Wargers

Markus Bolder

Auditor’s Opinion

We have audited the annual financial statements, comprising the balance sheet, the income statement, the notes to the financial statements, the cash flow statement and the statement of changes in equity, together with the bookkeeping system, and the management report of the Erste Abwicklungsanstalt, Düsseldorf, for the business year from 1 January to 31 December 2012. 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 supplementary provisions set forth in the charter of Erste Abwicklungsanstalt are the responsibility of the institution’s Managing Board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB (Handelsgesetzbuch: German Commercial Code) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (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 the supplementary provisions set forth in the charter of Erste Abwicklungsanstalt 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 supplementary 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, 28 March 2013
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Michael Peters
Wirtschaftsprüfer
(German Public Auditor)

ppa. Susanne Beurschgens
Wirtschaftsprüferin
(German Public Auditor)

List of Abbreviations

ABS
Asset Backed Securities

ALCO
Asset Liability Committee

ALM
Asset Liability Management

APAC
Asia Pacific region

BaFin
German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht)

BBA
British Bankers Association

BGH
German Federal Court of Justice (Bundesgerichtshof)

BilMoG
German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz)

CDS
Credit Default Swaps

CVA
Credit Value Adjustments

DRS
German Accounting Standard (Deutscher Rechnungslegungsstandard)

EAA
Erste Abwicklungsanstalt

EAA CBB
EAA Covered Bond Bank plc, Dublin/Ireland

EAA GW
EAA Global Watchlist

EaD
Exposure at Default

ECB
European Central Bank

EEC
European Economic Community

EFSF
European Financial Stability Facility

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

EMEA
Europe, Middle East and Africa region

EONIA
Euro Overnight Index Average

EU
European Union

EUSS
European Super Senior Notes

FLA
Fondo de Liquidez Autonómico

FMS
Financial Market Stabilisation Fund

FMSA
Financial Market Stabilisation Authority (Bundesanstalt für Finanzmarktstabilisierung)

FMStFG
Financial Market Stabilisation Fund Act (Finanzmarktstabilisierungsfondsgesetz)

FROB
Fondo de Reestructuración Ordenada Bancaria

FX-Effekt
Foreign Exchange Effect

GDP
Gross Domestic Product

Helaba
Landesbank Hessen-Thüringen Girozentrale

HGB
German Commercial Code (Handelsgesetzbuch)

ICS
Internal control system

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

ISDA
International Swaps and Derivatives Association

L&PM
Loan & Portfolio Management

LIBOR
London Interbank Offered Rate

LVR
Landschaftsverband Rheinland

LWL
Landschaftsverband Westfalen-Lippe

MaRisk
Minimum requirements for risk management

Moody´s
Moody's Investors Service

MtM
Mark to Market

NPL
Non-Performing Loans

N.R.
Not rated

NRW
North Rhine-Westphalia

OIS
Overnight Indexed Swap

OMT
Outright Monetary Transactions

OTC-Derivate
Over the Counter Derivatives

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

Portigon
Portigon AG (until 2 July WestLB AG)

RechKredV
Ordinance on Accounting for Banks

RiskCo
Risk Committee

RMS
Risk Management system

RSGV
Rheinischer Sparkassen- und Giroverband

S&P
Standard and Poor's Corporation

S.R.
Special rating

SVWL
Sparkassenverband Westfalen-Lippe

UmwG
German Reorganisation Act (Umwandlungsgesetz)

VaR
Value at Risk

WestImmo
Westdeutsche ImmobilienBank AG, Mainz

Imprint

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