ERSTE
ABWICKLUNGS
ANSTALT

ANNUAL REPORT 2016

Contents

Rounding may result in minor deviations in the totals and percentages relative to the computed values.
Individual balance sheet and earnings items may increase within the scope of the winding-up activities.
To facilitate readability, only the masculine form of words is used. All personal designations apply to both genders, unless the content dictates otherwise.

EAA key figures

Income statement as used internally in EUR million	**1/1 - 31/12/2016**	**1/1 - 31/12/2015**
Net interest income	173.9	174.0
Net fee and commission income	11.5	44.6
Net trading result	33.6	-20.5
Total other operating income/expenses	-3.3	-0.3
General administrative expenses	-212.8	-300.2
Results from financial assets and shareholdings	14.7	129.5
Results prior to risk provisioning	**17.6**	**27.1**
Loan loss provisions	-7.4	-11.8
Results before taxes	**10.2**	**15.3**
Taxes	-0.6	-2.2
Net profit for the year	**9.6**	**13.1**

Balance sheet in EUR billion	**31/12/2016**	**31/12/2015**
Total assets	60.7	68.7
Business volume	70.3	81.7
Lending business	31.0	37.8
Trading assets	23.8	27.1
Equity	0.6	0.6

Winding-up	**31/12/2016**	**31/12/2015**
Banking book		
Notional value (before FX effect) in EUR billion	29.7	36.0
Winding-up activities (compared with previous year-end) in EUR billion	-6.3	-16.3
Winding-up activities (compared with previous year-end) in %	-17.5	-31.2
Trading portfolio		
Notional value (before FX effect) in EUR billion	258.6	341.7
Winding-up activities (compared with previous year-end) in EUR billion	-83.1	-124.4
Winding-up activities (compared with previous year-end) in %	-24.3	-26.7

Employees	**31/12/2016**	**31/12/2015**
Number of employees	178	144

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

Report of the Supervisory Board

In exercising the rights and obligations incumbent upon it under the statutory provisions and its charter in the fiscal year from 1 January 2016 to 31 December 2016, the Supervisory Board of Erste Abwicklungsanstalt convened eight times (including four conference calls). The permanent committees formed from among its members, comprising the Audit Committee and the Risk Committee, convened twice and five times (including one conference call), respectively.

The deliberations of the Supervisory Board in fiscal year 2016 dealt with various matters, including the wind-up plan for 2017 and the servicing strategy with a view to securing the operational stability of Erste Abwicklungsanstalt. Within this context, the Supervisory Board devoted its attention, among other things, to the realignment of Erste Financial Services GmbH – which was acquired by Erste Abwicklungsanstalt in fiscal year 2016 – in accordance with the needs of Erste Abwicklungsanstalt. It also approved the disposal of EAA Portfolio Advisers GmbH and the associated conclusion of a relatively long-term servicing agreement with EAA Portfolio Advisers GmbH. In addition, a resolution was adopted to sell EAA Covered Bond Bank Plc. Furthermore, the Supervisory Board advised the Managing Board and monitored its management of the company, and was involved in decisions that are of fundamental importance for Erste Abwicklungsanstalt. The Supervisory Board was kept regularly informed about the situation at Erste Abwicklungsanstalt – also outside of meetings – through the wind-up reports submitted to it and other reports brought to its attention.

The Supervisory Board followed a recommendation made by the Audit Committee and appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC) as the auditors of Erste Abwicklungsanstalt. PwC audited the annual financial statements and the management report of Erste Abwicklungsanstalt for the fiscal year ending on 31 December 2016 and issued an unqualified audit opinion. The Supervisory Board and its Audit Committee discussed in detail the auditor's report on the findings of its audit and raised no objections following the final results of the audit.

The Supervisory Board approved the annual financial statements and the management report prepared by the Managing Board at its meeting on 5 April 2017 and proposes to the Stakeholders' Meeting to ratify the annual financial statements for fiscal year 2016.

Düsseldorf, 5 April 2017

Dr Rüdiger Messal
Chairman of the Supervisory Board

Foreword

Dear Ladies and Gentlemen,

A combination of portfolio measures that had been in preparation for an extended period and discipline on the expenditure side enabled the EAA, as in previous years, to finish fiscal year 2016 with a profit. Its net profit for the year amounted to around EUR 10 million. Such a result is not a foregone conclusion. After all, as the portfolio declines, so does the EAA's source of earnings.

As at the end of the last fiscal year, a good 80% of all loans and securities transferred to the EAA since 2009/2010 have been wound up. The trading portfolio taken over in 2012 has meanwhile been reduced by around 76%. The portfolio of the former WestLB has so far been wound up not only much more quickly than originally planned but also in a way that has preserved more value.

The EAA, for instance, still had a stable buffer at the end of the last fiscal year, made up of equity, equity capital drawing rights and risk provisions, which together total to a cushion of more than EUR 2 billion to absorb potential losses. To date the EAA has not needed to utilise the liability commitments from its public stakeholders, and we are confident it will stay this way.

The EAA operates like an asset management company for its public stakeholders, pursuing a clear objective: to reduce the risk exposures of the former WestLB in a loss-minimising and value-optimising manner. Its job is to recover value on the entire product spectrum of a global bank in such a way as to prevent any burden being placed on public finances.

The EAA's success has been possible only because in the seven years since its foundation it has built up an experienced and committed personnel and effective corporate structures. The EAA will now focus on securing the expertise gained for the remaining portfolio. That is a challenge because the EAA will have to continue to adjust its costs and capacity.

We believe, however, that following a successful 2016 we are on track to continue optimising and accelerating the reduction of the portfolio. As the asset manager for the EAA's public stakeholders, we seek to safeguard their financial interests and make a positive contribution to their creditworthiness.

Sincerely yours

Matthias Wargers
Spokesman
of the Managing Board

Markus Bolder
Member
of the Managing Board

Horst Küpker
Member
of the Managing Board

Management report

For the fiscal year 2016

Principles of the EAA

Operating activities of the EAA

The EAA operates as an asset management company for its public stakeholders, pursuing a clear objective: the EAA is winding up the risk exposures and non-strategic business units (transferred assets) transferred from the former WestLB AG (now Portigon AG) and its domestic and foreign subsidiaries. In doing so, it proceeds in a value-preserving and risk-minimising manner. This serves to stabilise the financial market.

It manages its business according to commercial and economic principles, in consideration of its winding-up objectives and the principle of minimising its losses. The EAA is not a credit or financial services institution within the meaning of the German Banking Act (Kreditwesengesetz – KWG), an investment services firm as defined by the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) or an insurance company pursuant to the German Insurance Supervision Act (Versicherungsaufsichtsgesetz – VAG). In accordance with its charter, 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 German Federal Agency for Financial Market Stabilisation (Bundesanstalt für Finanzmarktstabilisierung – FMSA). It is supervised by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) with regard to those provisions of banking law that are applicable to the EAA.

The EAA's work is principally carried out on the basis of section 8a of the German Financial Market Stabilisation Fund Act (Finanzmarktstabilisierungsfondsgesetz – FMStFG), its charter, the rules of procedure for the Supervisory Board and the Managing Board plus their committees, as well as its risk strategy and wind-up plan.

The wind-up plan describes the intended wind-up activities of the EAA by classifying its asset positions into sub-portfolios (clusters) and standard strategies, and contains a schedule for the winding-up of assets. The possible methods for winding-up the portfolio include selling the assets prior to their maturity, holding them to maturity or restructuring the relevant items. The EAA reviews the wind-up plan at least once a quarter and makes adjustments, when necessary, mainly in order to take account of changes in circumstances, for example current market developments. Changes or adjustments to the wind-up plan must be approved by the FMSA. The EAA regularly submits wind-up reports to inform the FMSA, its Supervisory Board and the liable stakeholders about the progress of the winding-up and the implementation of the wind-up plan. When doing so, it also documents the wind-up result. This annual wind-up plan must be adopted by a resolution of the Supervisory Board before it is submitted to the FMSA.

The following stakeholders participate in the EAA's share capital: the German State of North Rhine-Westphalia (NRW), with a stake of around 48.2%; Rheinische Sparkassen- und Giroverband and Sparkassenverband Westfalen-Lippe, each with around 25.0%; and Landschaftsverband Rheinland and Landschaftsverband Westfalen-Lippe, each with around 0.9%.

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 three members. They are appointed by the Supervisory Board with the FMSA's approval for a maximum term of five years. Members of the Managing Board may be reappointed. The Managing Board manages the operations of the EAA and represents the EAA in and out of court.

The Supervisory Board consists of 12 members. Eleven members are appointed by the Stakeholders' Meeting, and one member is sent by the FMSA, acting on behalf of the German Financial Market Stabilisation Fund (Finanzmarktstabilisierungsfonds – FMS). The members elect a Chairman and a Vice Chairman on the recommendation of the State of NRW. The Supervisory Board advises and consults with 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 the institutions which hold a stake in the EAA's share capital. It is responsible for adopting the annual financial statements of the EAA, among other things.

Methods of transfer

Several methods were used to transfer the risk exposures and non-strategic business units of the former WestLB to the EAA in the years 2009 and 2010 (first fill) as well as in 2012 (refill). The method that was chosen in each case was based on the respective domestic, legal, supervisory and tax provisions.

In some cases, a spin-off process was used to transfer assets and liabilities in rem to the EAA, whereas in other cases, different transfer methods (sub-participation, guarantees) were used to create a synthetic transfer of the inherent risks and rewards contained in these portfolios.

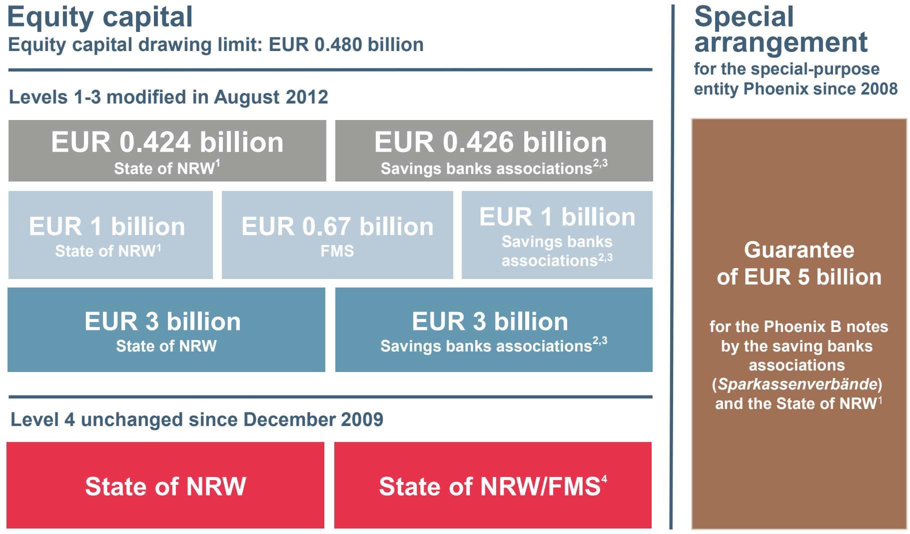
When spin-offs, sub-participations, crossings (transfer of exchange-traded derivatives via the exchange) and risk assumption agreements are used to transfer the legal or beneficial ownership of derivatives, the portfolios are reported in the balance sheet based on the portfolio classification as stipulated under commercial law. When guarantees are used, the legal and economic ownership remains with Portigon. Under the guarantee agreement, the EAA assumes the economic risks of the portfolio. In this case, Portigon pays a guarantee fee to the EAA for the assumption of the risks. The risks assumed by the EAA are taken into account by recognising contingent liabilities or provisions.

Equity base and liability

The EAA's share capital amounts to EUR 500,000. The first fill created equity totalling around EUR 3.1 billion.

The refill provided the EAA with rights to draw on additional equity that will add EUR 480 million to the capital reserves. If necessary, the liable stakeholders of the EAA and the FMS will provide these funds in specified instalments in the event that the EAA's balance sheet equity should fall below EUR 50 million.

In addition to the EAA's equity base, a factor that is particularly important for the EAA's credit rating is the duty to offset the EAA's losses that the EAA's liable stakeholders and the FMS have assumed. They are individually 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 become due, even after its equity capital has been used up. The EAA is obligated to assert this loss-offset claim against the liable stakeholders and the FMS in the appropriate volume and before any pending insolvency takes effect, in order to ensure it remains solvent at all times.



[1] For purposes of simplification, the relatively low stake of the Landschaftsverbände (Landschaftsverband Rheinland und Landschaftsverband Westfalen-Lippe) 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 the FMSA (acting on behalf of the FMS) will reach an agreement on the apportionment of the associated financial burden on the basis of the FMStFG.

Funding

The EAA was initially funded in the first fill through the nearly complete transfer of all issues and deposits of the former WestLB with guarantor liability. The EAA raised its own funds in the period thereafter. In the future, the EAA will continue to obtain funding primarily by issuing bearer bonds, by short-term borrowing and through repurchase transactions. The EAA's ratings correspond to those of the State of NRW. The risk weighting can therefore be set according to the weighting for the State of NRW. The EBA includes the EAA on the list of public-sector entities which, pursuant to Article 116 (4) CRR, may be treated for exposure purposes as exposure to the relevant regional government (in this case: the State of NRW). The good ratings received from Moody's, Standard & Poor's and Fitch Ratings, 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

The EAA prepares its annual financial statements in accordance with the German Commercial Code (Handelsgesetzbuch – HGB). It is exempt from the requirement to prepare consolidated financial statements pursuant to section 8a (1) sentence 10 FMStFG in conjunction with section 3a (4) FMStFG. However, the significant long-term equity investments, particularly EAA CBB and EAA KK, are included in the wind-up result and risk planning, risk monitoring and risk reporting.

Organisation

The EAA's organisational structure is oriented toward ensuring the performance of its key management and control functions. As the owner of its portfolio it bears responsibility for this portfolio and decides on the manner in which the portfolio will be reduced. It has outsourced significant operational activities, in particular to its subsidiaries EFS and EPA. Separate service agreements (cooperation agreements) exist with these two companies for this purpose, including separate service level agreements for specific processes and functions. The focus of EPA's activity lies in the provision of portfolio management services for the EAA. EFS's service portfolio is comprised in particular of IT and operational services.

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

Since its establishment the EAA has repeatedly adjusted its organisational structure to manage changes in the corporate environment. The gradual takeover of a multi-billion portfolio presented it with enormous challenges in developing an adequate organisation and recruiting the required experts. As the portfolio continues to be wound up, capacity and costs will have to be reduced without losing the expertise necessary to successfully complete the wind-up. Against this background the EAA acquired its main service provider EFS (the former Portigon Financial Services GmbH) from Portigon in early 2016, after having carried out a detailed due diligence. This acquisition enables the EAA to add further clarity to its profile, to increase synergies and to optimise its structures. The EAA is thereby securing key services for its portfolio. The cooperation agreement between the EAA and EFS, which has been adjusted in this connection, extends until 2022. Compared with alternative scenarios, the takeover was the economically most favourable solution to continue to guarantee the operational stability of the EAA.

In April 2016 a sale process was initiated for the service company EPA, which was established by the EAA in 2014 and took over experienced portfolio managers from the former WestLB as well as analysis experts from EFS. This sale process was successfully concluded with the signing of a purchase agreement with Mount Street Group. The transfer of ownership is still subject to regulatory approval (see also the "Subsequent events" section).

The sale of EPA, which provides a going-concern perspective for the company's employees, is intended to help ensure the continued provision of the necessary quality in the management, valuation and analysis of the EAA portfolio. Selling EPA not only secures these necessary services for the future, it also provides the EAA with greater flexibility in its costs. The amended service agreement with EPA lasts until 2020; there are also options for the EAA to extend the term of the agreement.

Securing the existing expertise in order to ensure services are provided to the requisite extent and with the requisite quality is the priority for the EAA. At the same time it seeks to achieve maximum flexibility with respect to costs. These objectives were crucial when selling EPA and also play a decisive role for the ongoing consideration of outsourcing measures at EFS (see also the "Subsequent events" section).

Ongoing optimisation of organisational and cost structures is part of the EAA's responsibility in view of the progressive reduction of the portfolio. The privatisation of EPA is a further important step in carrying out this responsibility.

Control system

The EAA draws up a wind-up plan regularly (at least once a year) and assesses as at the end of each quarter whether the plan needs to be adjusted. The wind-up plan details the intended unwinding measures, including a schedule for winding up the EAA portfolio as well as the resulting implications for the EAA's equity capital and financial situation.

One of the EAA's key control metrics is the decline in the notional volume of the portfolio. Aside from volume reduction, other control metrics are also relevant. According to section 5 (3) of the EAA's charter, the primary requirements are to minimise losses and ensure that the EAA is solvent at all times. As a result, the earnings situation, the development of equity and ensuring solvency at all times are also major performance indicators for the EAA. Each of the EAA's decisions is made in consideration of the aforementioned control metrics, and their contribution to the success of the wind-up strategy is assessed.

Administrative expenses are highly important, too. The costs of the planned reduction of portfolio volume are controlled within the scope of budget planning and ongoing cost controlling. Cost controlling plays a key role within the EAA because, due to legal provisions, it is not possible for winding-up agencies to offset operating costs through profitable new business.

Alongside planning, controlling is supported by ongoing monitoring. The reporting process, which takes place at least weekly, provides the members of the Managing Board and the department heads with a summary of all portfolio measures taken, as well as all relevant data regarding the EAA's control metrics. Alongside reporting, actual-to-plan analyses are performed to identify deviations from the wind-up plan, to explain them in detail and derive corresponding recommendations for action.

The EAA's locations

The EAA has its registered office in Düsseldorf. The EAA does not maintain any other locations. The EAA holds stakes in domestic and foreign subsidiaries, which have their own employees.

Economic report

Economic environment

The new US president wants to keep his promises

Equity markets in the United States and Europe experienced a notable year-end rally following the announcement of the election result in the US on 8 November 2016. While the S&P 500 index rose by a good 5% between 8 November 2016 and the end of 2016, the EURO STOXX 50 increased by more than 9.3% and the German DAX 30 gained 9.8%. Without the Trump rally, 2016 would have ended in a less gratifying fashion for the European equity markets. Year on year, the EURO STOXX 50 posted a small improvement of only 0.7% (DAX 30: +6.9%; S&P 500: +9.5%).

Financial markets, investors and (US) companies are placing a great deal of hope in Donald Trump. He himself indicated that he expected economic growth of 4% as a result of his policy initiatives. The swift action of the Trump administration appears to confirm the expectations of companies and their shareholders that President Trump may make greater use of fiscal stimulus. However, it also confirms that other policies expressed during the president's election campaign need to be taken very seriously. His stance on trade and foreign policy may therefore be put into action with similar speed.

In 2017 there are elections in the Netherlands, France and Germany. These could bring lasting change to the political landscape in the EU. In the Netherlands, the right-wing populist Freedom party led by Geert Wilders could emerge from the parliamentary election as the strongest force and appoint the prime minister. In France a successor to President Hollande will be elected. According to polling, Marine Le Pen, the candidate for the far-right Front National, might edge out a win in the first round. In the elections to the German parliament and the regional parliaments in NRW, Schleswig-Holstein and Saarland, the influence of the AfD party will grow, according to current forecasts ("Forschungsgruppe Wahlen" and "Infratest dimap"). In Europe as a whole, the increased popularity of politicians with nationalist or populist agendas will mean that they exert more influence on the politics of the traditional parties in 2017.

In addition, this year investors will have to keep their eye on the interest rate decisions of the ECB and the Fed that are scheduled every seven or eight weeks. At the end of last year the ECB announced that from March 2017 it would reduce its monthly asset purchases from EUR 80 billion to EUR 60 billion per month. However, with inflation rates in the eurozone rising again, the ECB will have to get used to some fundamental discussions about the future of the purchase programme and other special measures. The Fed, too, will have to be ready for some debate. Trump's spending programmes and tax cuts will act to boost growth and increase inflation. As a result, the Fed may raise interest rates more quickly than the US president might like.

Despite the accumulation of event risks, the global economic situation may currently still be described as in a state of "ongoing recovery". There is evidence to suggest that the recovery will continue unabated during 2017. The collapse in growth in many emerging economies was halted in 2016. Indeed, the outlook for 2017 and 2018 points to an acceleration in global economic growth. In the eurozone and the US, the employment situation is likely to improve further. Rising disposable incomes resulting from higher wages will give a lift to consumer sentiment.

Brexit and its consequences – the need for a parliamentary vote changes nothing

At the beginning of December 2016 the UK High Court decided that parliament (both chambers) would have to approve the triggering of Article 50 of the Lisbon Treaty to end UK membership of the EU. This obligatory parliamentary vote was then confirmed by the Supreme Court after an appeal by the government. The necessary bill was put before parliament by the government in January 2017. However, a rejection of Brexit is not to be expected. The opposition (Labour and the Liberal Democrats) has also agreed to respect the referendum decision.

What are the UK government's negotiating aims? In a speech at the beginning of January Theresa May called, among other things, for a clean and all-encompassing UK exit from the EU. In order to control immigration from the EU, the prime minister is prepared to sacrifice access to the single market. She thus rejected a Swiss or Norwegian model for relations with the EU.

In terms of the economy the consequences of the Brexit decision have been negligible. In the fourth quarter of 2016 the UK's economic performance grew by 0.6% over the previous quarter. This means that for the year as a whole, UK GDP growth, at 2%, was faster than the EU average (2016 expected growth: 1.8%) and Germany's (2016: 1.9%). The most significant driver of growth was the UK consumer. Bolstered by a healthy labour market, consumption (around 64% of UK GDP) is likely to have risen by 2.8% year on year; the unemployment rate fell by 0.5 percentage points in 2016 to 4.9%. There was significantly below-average growth in 2016 for UK exports (+1.2% year on year), government expenditure (+0.9% year on year) and investment (+0.7% year on year).

UK consumer sentiment is likely to be less upbeat this year, which means that growth can be expected to slow. Because many companies will wait until clarity is achieved regarding the economic relationship between the EU and the UK before hiring new employees, the unemployment rate will probably rise. At the same time, companies will be in no hurry with their investment plans for the same reason. The UK's economic performance is likely to grow by only 1.2% in 2017.

US economy: Obama leaves Trump in a good starting position

According to the official statistics, President Obama leaves his successor with an economy that has largely recovered from its severe recession, even though economic growth in 2016 declined somewhat compared to previous years (2016: +1.6% and 2015: +2.6% – both year on year).

Two factors contributed to this somewhat weaker economic growth in 2016. Firstly, companies invested less in 2016 than in 2015. Gross capital investment decreased by 1.5%. One key reason for this was a decline in capital expenditure in the oil and gas sector (machinery and buildings) on account of the fall in oil prices. The scale of the collapse in prices in 2016 is clear from a comparison of prices. On average for the year, a barrel of WTI oil costs USD 43.40. The lowest price was USD 26.21 per barrel (on 11 February 2016). This price decline called into question many of the investment plans in the energy and oil sector, as an oil price of between USD 50 and USD 60 per barrel must be reached for shale oil reserves and oil sands to break even. Secondly, US net exports performed unfavourably in 2016. The Fed tightened monetary policy further in 2016, while the ECB loosened monetary policy in the eurozone. There are similar discrepancies with the monetary policy pursued by the Bank of Japan. This trend weighs on US exports.

The labour market is also in good shape according to the official statistics. The employment total in the US currently stands at 145.6 million, which is almost 16 million more than at the lowest point during the height of the crisis, which was measured at 129.7 million in February 2010. However the low rates of wage growth indicate that the labour market has not yet fully returned to normality. The unemployment rate of 4.8% continues to paint too rosy a picture of the situation because many people dropped out of the official statistics during the crisis. Unemployment benefits are paid for only a limited period in the US. After their entitlement ceases those affected are categorised as not looking for work and are not included in the calculation of the unemployment rate.

Forecast for the US: Trumponomics at work?

During his election campaign the new US president made no secret of his intention to boost US economic growth. The president hopes to achieve 4% economic growth in the US this year by means of government investment in US infrastructure, additional defence spending, tax cuts for companies and individuals, and the renegotiation of trade agreements (NAFTA, TPP, TTIP). The expansionary effect of these measures could be considerable. The effect will be heightened by the fact that the government does not intend to finance the measures by making cuts elsewhere. In addition, Donald Trump has ordered a review of the rules and regulations in the financial sector put in place by the Obama administration in response to the global financial crisis. In particular, the new US administration takes a critical view of the Dodd-Frank Act, the US equivalent to the EU Bank Recovery and Resolution Directive, and may seek to abolish the rules.

While fiscal policy under the new administration is very much geared to growth-promoting measures, the Fed's policy has hitherto been heading in the opposite direction. After the end of the third bond-buying programme (Quantitative easing 3) in October 2014, the Fed began to normalise its monetary policy by raising policy rates twice so far. At its first meeting this year, the Federal Open Market Committee held rates steady. The Fed itself expects two or three rate rises of 25 bp each in 2017. In addition to the level of employment and newly created jobs, a further factor the Fed is taking account of in this interest rate cycle is wage growth rates. An acceleration in wage inflation suggests the "reservoir" of unemployed persons not officially registered is being reduced. This process of reintegration into the regular labour market continues. The further this reserve is depleted, the faster US wages will rise, increasing the pressure on the Fed as it seeks to avoid second-round effects from rising inflation expectations.

In the Fed's view, the healthy state of the US labour market is likely to continue in 2017. The creation of new jobs will be somewhat slower in the future. Instead of increases of between 180,000 and 200,000 new jobs a month, we assume this figure will average around 150,000 new jobs a month in 2017. Nonetheless, this somewhat slower growth in jobs is still sufficient to lower the unemployment rate.

In addition to consumer spending, which may benefit from more employment and rising wages, investment and government expenditure will also play their part in economic growth. However, the growth target of 4% in 2017 and beyond proclaimed by Donald Trump is likely to be missed. The level of growth in US economic performance depends not least on the extent to which the Fed pulls in the opposite direction. So far, its planning has envisaged a moderate tempo of interest rate normalisation, which should not have too much of a dampening effect. The US economic performance is likely to grow by 2.3% in 2017. The inflation rate will probably be at 1.9% at the end of the year, which is about in line with the target level. The range for the Fed funds rate should lie between 1% and 1.25% at the end of the year. There are two key risks to this outlook:

- Political uncertainty:
  With its swift and seemingly uncoordinated approach, the new US government has alienated political allies, opponents and government officials. The travel ban orders appear to be meeting resistance in the US justice system. The result was the forced resignation of an acting Attorney General and a series of voluntary resignations of high-ranking staff in the State Department. There is a danger the government's ability to act will be impaired by the resignations of experienced officials. In addition, the US's economic and political relationships with other countries risk being damaged. This could curtail US growth.

- Overly aggressive approach on the part of the central bank:
  The Fed could be forced to make swifter interest rate adjustments. If Trump's investment programmes really take effect, then US growth and US inflation are likely to rise more quickly. As a consequence, the Fed would then have to tighten interest rates more aggressively than planned in order to contain US inflation. However, this could mean it risks being overly aggressive. Like the Bank of Japan at the end of the 1990s, the Fed could stifle the economic recovery through excessively aggressive interest rate moves.

Core eurozone countries: Germany is still growing faster than France

Germany's GDP grew by 1.9% in 2016, which was once again faster than the average for the eurozone (1.6%). The growth rate achieved in 2016 is encouraging compared with the potential growth rate of the German economy, which the Bundesbank estimates at around 1.25%, and also explains the further fall in Germany's unemployment rate. Driven by the healthy labour market and rising wages, consumer spending contributed to growth. The unemployment rate fell from 6.3% in December 2015 to 6.0% in December 2016.

With growth of 2%, consumption recorded an above-average rise. Government expenditure (2016: +4.2%) as well as capital investment (2016: +2.5%) are also contributing to growth. In the fourth quarter of 2016, the expansion of the German economy is likely to have accelerated. This is what is suggested by the German purchasing managers index, which has climbed by 1.4 points in the last three months to reach 56.4 points in January 2017.

France's national income grew only marginally during the years from 2012 until 2014, expanding at an annual rate of between 0.2% and 0.6%, while the economic performance grew by 1.3% in 2015. In 2016 growth will probably be 1.2%. French consumers (+1.8%), investment (+2.8%) and government expenditure (+1.5%) made above-average contributions to growth, thereby making up for a weak trend in exports. In 2016 France recorded a fall in its unemployment rate, which fell by 0.6 percentage points to 9.6%.

The ECB's purchase programme for eurozone government bonds and the appreciable decline in investors' risk appetite caused yields on government paper in the core eurozone to drop markedly. At the beginning of July 2016 the yield on ten-year German Bunds reached its lowest level in the last twelve months, falling to -18.9 bp. This means that investors were so concerned about preserving value that they were prepared to pay the German government for a secure redemption in ten years' time. The French government also benefited from this trend. The yield on its ten-year bonds dropped to 10 bp. Yields started rising again only at the end of September 2016 when rumours started circulating that the ECB might rein in its purchases (tapering).

Spain's minority government must prove itself

Spain's economic performance grew by 3.2% in 2015, which was much more than the eurozone average. Spain was also once again one of the fastest growing economies in the eurozone in 2016. The economic performance is expected to have grown by a good 3.2% in 2016. Spain's healthy performance can be explained by the positive trend in Spanish GDP, which in the crisis contracted far more than the eurozone average. The growth is therefore also attributable, at least in part, to a base effect.

The conservative government's reforms, however, also played their part in the country's growth. Spanish unit labour costs, for example, have fallen by more than 6% since peaking in 2009. Thanks to these improvements and the popularity of Spain as a holiday destination due to the crises and problems in other Mediterranean holiday regions, the Spanish economy grew by 0.8% in both the first and second quarter of 2016. In the third quarter of 2016 GDP was up once again by 0.7% (over the previous quarter), which is why the EAA raised its growth expectations for 2016 by 0.1 percentage points to 3.2%.

Further reform efforts would be necessary to maintain this fast pace of growth in the years ahead. In view of the political situation, this does not seem likely. As prime minister of a minority government Mariano Rajoy will have to cooperate with the other parliamentary parties. The draft budget for the coming year will be a litmus test of his success. This draft budget is particularly important because Spain has already received a warning from the EU Commission in 2016 for its fiscal performance.

Portugal: faster growth finally arrives in the third quarter of 2016

In the third quarter of 2016 Portuguese economic growth accelerated. The country's real economic performance expanded by 0.8% in the third quarter of 2016 compared to the second quarter of 2016, after several quarters of low growth rates. The 2015 elections put a damper on corporate and consumer sentiment. It was already apparent at the end of 2014 that forming a government would be difficult. Although the reforms in the recent past had brought some success in the form of rising economic growth, current account surpluses and a higher level of employment, the electorate felt these successes were not sufficient to keep the conservative government in office. A difficult and drawn-out process of forming a government ensued, at the end of which a Social Democratic minority government emerged with the support of two parties on the left. The new government had a number of disputes with the EU Commission on its fiscal consolidation plans and on the stabilisation of the Portuguese banking system (resolution of Banco Espírito Santo, sale of Novo Banco and recapitalisation of Caixa Geral de Depósitos). These impacted negatively on sentiment and investment activity and put a brake on Portuguese economic growth.

Portugal's sensitivity to risk remains high. Since mid-August 2016 the ten-year yield has risen by 150 bp to its current level of 4.2%. Portugal's ten-year bonds have performed worse than almost all other bonds despite support from the ECB purchase programme for eurozone government bonds. There are several reasons for this. Portugal must retain its last remaining investment grade rating so that the ECB can continue buying Portuguese government bonds. In April 2017 the agency DBRS is due to review this rating. In the past there has been speculation about the loss of an investment grade rating in the run-up to such reviews. This led to increased sales of the bonds. The yield on the bonds rose considerably. This effect is augmented by ongoing budget discussions with the EU Commission. These are traditionally marked by argument, since a compromise has to be found between the government's financing wishes and the Commission's desire for savings to be made. This should keep Portugal's yields under pressure until the end of April 2017.

After the failed referendum Italy is heading for fresh elections

Prime Minister Renzi kept his word and resigned following the failed constitutional referendum. The new government is led by Paolo Gentiloni. It has two key tasks to fulfil. Firstly, Italy needs a new electoral law. Secondly, the problems in the banking system in general and with Banca Monte dei Paschi di Siena in particular need to be resolved.

The constitutional court has declared parts of the current electoral law to be unconstitutional. The new law needs to be passed by 23 May 2018, the latest regular election date, to enable elections to take place. Current polling shows that the governing centre-left and the populist left (Five Star Movement) are more or less neck and neck. The centre-left came out with a 29.7% share of the votes in the last six surveys. The Five Star Movement is at 28%. The populists have lost some of their appeal in the recent past because the party has had to grapple with a corruption scandal in Rome's municipal government. A number of party advisors and officials are subject to investigation by the public prosecutor.

A factor hampering Italy's economic recovery is the high volume of non-performing loans (NPLs) held on the balance sheets of many regional banks. The NPL rates, which are still quite high, and the associated burden on regulatory capital restrict the banks' scope for lending, which is curbing Italy's economic growth. The lending momentum prompted by the ECB's monetary policy has therefore not reached the real economy in Italy. Low economic growth and increased unemployment are not likely to cause the volume of NPLs to be reduced. The ECB published a study reporting that in the third quarter of 2016 Italy's 14 largest banks had EUR 284.4 billion in NPLs on their books. The banks' low profitability often prevents them from resolving the problem themselves. This is aggravated by the fact that winding up problem banks could weigh on sentiment in Italy. A run on deposits held with Italian banks is a very real threat, which could lead to further bank failures and a collapse of the financial system. Whilst the Italian government wants to address this issue, its potential influence is restricted by a series of problems. A government recapitalisation of the banks is made more difficult by the new EU rules on dealing with collapsing banks. The level of government debt that Italy has reached (132.5% of GDP in 2016) does not help, either.

Italy has still not made up for the losses suffered in the financial crisis. The country's total economic performance remains a good 7% below the level it was at in 2008 before the crisis came to Italy. The process of recovery from a very severe recession is taking considerably longer in Italy than the average for the eurozone. However, one bright spot is that the Italian economy started growing again since the first quarter of 2015. The upturn is currently being driven by consumption and investment, while government expenditure is contributing relatively little. Italy has raised taxes in the past to reduce its budget deficit to a Maastricht-compatible level of less than 3% of economic performance (2015: 2.6%). The price paid for the rapid consolidation was a prolongation of the recession.

Political risks could be significant in the eurozone in 2017

More than the usual degree of uncertainty is likely to be associated with economic forecasts in 2017. The outcome of the elections in Germany, France, the Netherlands and Italy is difficult to predict. However, one thing is certain as far as sentiment is concerned: populist parties and candidates will represent real competition for the established parties in these elections, according to polling, and in the years to come they will exert greater influence on the political agenda in the EU – whether through participation in government or because the established parties take on the populists' policy objectives and arguments.

This is likely to present a significant risk for policymakers in the eurozone and the EU. In the course of the financial and debt crisis, investors and citizens have hitherto been able to rely on the EU Commission, national governments and the ECB finding a means or a compromise – usually at the last minute – to hold the eurozone together. Such compromises will probably be more difficult in the future, as EU member states' relationships with each other may become more conflict-laden overall. This is likely to prompt a lot of companies and investors to take a second look at their plans and investment decisions. More isolationism and less world trade will impair economic growth.

Despite these risks it is expected that the economic recovery will continue in the eurozone this year. There are too many positive growth factors in many areas for another crisis to occur. Consumers will be the main engine of growth this year. That is good news. Rising consumer spending is being fuelled not by increased borrowing but by falling unemployment, rising property values and relatively low inflation (particularly for energy).

Improving prospects on the labour market and relief in the form of increases in the minimum wage, tax cuts and pension changes are expected to improve consumer sentiment in 2017. The German government is also considering such measures in the run-up to the election. In addition, many eurozone countries are scaling back the austerity measures imposed by their national governments. This means a positive boost for the eurozone's economic growth. The EAA therefore assumes the economies of both the peripheral and core eurozone countries will continue to recover in 2017 as well.

Spain is likely to join Germany as one of the fastest-growing economies in the eurozone. This forecast is associated with a key risk. For Spain's economy to grow by 2.5% in 2017, it is important that the new government in Madrid does not make major changes to the reforms implemented by the conservative government that came before it. It remains to be seen whether this will be the case. Growth this year at 2.5% will nonetheless be a good 0.7 percentage points weaker than in 2016. The consequences of Brexit and of political uncertainty will hamper momentum. Though the dampening effect on economic activity is doubtless likely to be greater in the UK, the UK is an important trading and investment partner for other countries such as Spain and Germany. It is also as yet unclear how stable the minority government led by Prime Minister Rajoy will be. Investors will therefore wait and see. German's national income will grow by a good 1.5% in 2017. In 2018 the German economy is forecast to grow by 1.6%, again above its potential. The French economy will probably show growth of 1.2% in 2017 and 1.3% in 2018, and therefore grow below the average of the rest of the eurozone.

The key factor for this growth outlook is monetary support from the ECB. Low interest rates and yields make it possible to finance private and public debt. The costs of this policy are borne by investors. The ECB's asset purchase programme reduces the burden of interest payments for the eurozone periphery. A central risk factor in this regard is a rise in inflation in the eurozone. In Germany the rate of inflation increased to 1.9% in January 2017. This is now very close to the ECB inflation target. Rising inflation rates can also be expected in the other eurozone countries. Two overlapping effects will make themselves felt in this regard. Firstly, commodity and oil prices rose considerably last year. Secondly, living costs increased for weather-related reasons because poor weather in Spain, Portugal and Italy pushed up the prices of many sorts of fruit and vegetables (tomatoes, courgettes, lettuce) significantly. However, these effects are temporary and should not cause the ECB to change course.

Financial market outlook for 2017

The divergence between the ECB and Fed monetary policy is the root cause of the considerable difference that exists, and will continue to exist, in the current level of yields between the core of the eurozone and the US. While the Fed is attempting to bring about a normalisation of monetary policy, the ECB wants to continue supplying the money and financial markets with fresh central bank liquidity through its monthly asset purchases. In order to offset shortage problems associated with the recent decision to expand the purchases, the ECB started in summer 2016 to purchase corporate bonds in addition to government bonds, bonds of other government-related issuers (SSA bonds), covered bonds and securitisations. These purchases are focused on bonds with long residual maturities. As a result, the ECB is limiting the upside potential for euro yields at the long end of the yield curve. At the short end, the level of euro yields is limited by the additional easing hinted at by the ECB. In December 2016 the ECB announced that it would bring down its monthly volume of purchases from EUR 80 billion to EUR 60 billion. The effect of this cut will be absorbed by investing funds repaid on maturity but not counting them towards the purchase volume, as was previously the case.

For 2017 the EAA expects moderately rising yields at the long end in the US, while yields in the eurozone are likely to rise in broad-based fashion. This should affect both the core and the periphery (Spain, Italy and Portugal). The yield on ten-year German Bunds is likely to be at slightly more than 0.6% at the end of 2017, whereas the US equivalent is forecast to hit 2.85%.

Overview of economic development

In fiscal year 2016 the EAA's economic performance was largely determined by its wind-up mission.

The notional volume of the banking book decreased by 17.5% to EUR 29.7 billion in fiscal year 2016. The notional volume of the trading portfolio declined by 24.3% to EUR 258.6 billion during the same period.

The net profit for the year of EUR 9.6 million includes positive net interest income of EUR 173.9 million, net fee and commission income amounting to EUR 11.5 million, a net trading result totalling EUR 33.6 million and a result from financial assets and shareholdings of EUR 14.7 million. Personnel expenses totalled EUR 23.4 million. Other general administrative expenses amounted to EUR 189.4 million.

The EAA's total assets declined from EUR 68.7 billion in the previous year to their current level of EUR 60.7 billion. The business volume, which also includes off-balance-sheet components, fell 13.9% to EUR 70.3 billion (previous year: EUR 81.7 billion).

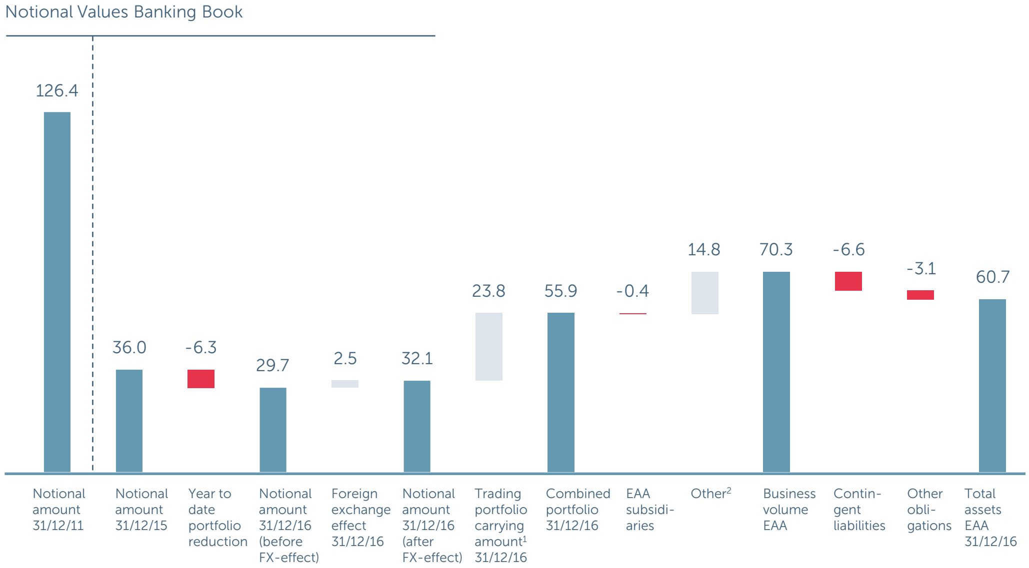
Wind-up report

The figures and developments discussed in this section are regularly reported to the FMSA and to the EAA's governing 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 separate financial statements or whether they are held via subsidiaries (look-through approach).

The following overview shows the development of the portfolio's notional amounts since 1 January 2016 and the reconciliation to the EAA's total assets as at 31 December 2016.

Reconciliation of the transferred notional volume to the balance sheet

in EUR billion



[1] Equates to the book values for trading portfolio assets.
[2] Contains money market transactions, cash collateral and other assets not relevant for the wind-up portfolio.

Under the EAA's management strategy, the success of the wind-up plan is assessed based on both the reduction of the notional volume before exchange rate effects (at constant exchange rates as at 31 December 2011 for the banking book and as at 30 June 2012 for the trading portfolio) as well as in terms of the effects on the wind-up plan. The latter takes into consideration the impact of sales proceeds, book values, expected losses, interest income and funding costs for the respective risk exposures.

Wind-up strategies

The banking book's risk exposures recorded in the wind-up plan have been allocated in accordance with three stipulated standard strategies.

Breakdown of the risk exposures of the banking book by standard strategy[1]

	31/12/2016 EUR billion	31/12/2015 EUR billion
Sellable	2.8	3.3
Hold	13.5	16.1
Restructure	13.4	16.6
Total	**29.7**	**36.0**

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

The "Sellable" category includes securities and loans for which a sale is considered possible. Assets are categorised as "Sellable" 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.

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

The allocation of risk exposures to one of these categories is regularly reviewed and documented when the wind-up plan is revised.

The wind-up plan for the trading portfolio makes no distinction based on the above strategies. The active management of the positions is modelled here. The portfolios are reduced via their normal maturities and active management.

Wind-up success in the banking book

From 1 January until 31 December 2016 the notional volume of the banking book was reduced from EUR 36.0 billion to EUR 29.7 billion (at exchange rates as at 31 December 2011, including the notional amounts of the guaranteed risk exposures and risk exposures held by the EAA's subsidiaries). That equates to a decline in notional volume of EUR 6.3 billion (17.5%). The volume at exchange rates as of 31 December 2016 is EUR 32.1 billion. Since 1 January 2012 the total banking book portfolio has decreased by EUR 96.8 billion or 76.5%.

			Notional volume (at exchange rates as of 31/12/2011)		Notional volume (at exchange rates as of 31/12/2016)	
	Notional	Notional		Change	Notional	FX effect[1]
	31/12/2016	31/12/2015		to 31/12/2015	31/12/2016	
Clusters	**EUR million**	**EUR million**	**EUR million**	**in %**	**EUR million**	**EUR million**
Structured Securities	9,388.2	12,092.8	-2,704.7	-22.4	10,270.6	882.5
Liquidity Portfolio	7,165.3	7,665.5	-500.2	-6.5	7,803.5	638.2
Energy	3,359.2	4,044.2	-685.0	-16.9	3,648.9	289.7
Public Finance	2,130.8	2,453.1	-322.3	-13.1	2,157.2	26.4
Asset Securitisation	1,569.0	1,734.5	-165.5	-9.5	1,925.8	356.8
Infrastructure - Project Finance	1,262.2	1,518.6	-256.4	-16.9	1,257.3	-4.9
Other clusters	4,775.3	6,448.5	-1,673.2	-25.9	5,058.8	283.5
Total	**29,650.0**	**35,957.2**	**-6,307.2**	**-17.5**	**32,122.1**	**2,472.1**

[1] Change in notional volume due to exchange rate effects.
Please note: The cluster structure was modified as of 31 March 2016. The NPL cluster was dissolved and its positions were reassigned to their original clusters. The presentation of the previous year has been restated accordingly. As at 31 December 2016, the total NPL portfolio amounted to EUR 4.6 billion at current exchange rates.

In the current fiscal year the EAA significantly reduced the portfolio in the Structured Securities cluster. This decrease is primarily due to partial repayments of the Phoenix A2 (USD) and A3 (EUR) notes as well as the complete repayment of the Phoenix A1 note (USD).

The notional reduction in the Other clusters is distributed over the rest of the portfolio, with the changes here attributable in particular to repayments in the Industrials cluster and to sales and repayments in the Aviation cluster.

There was a EUR +59.3 million effect on the wind-up plan in 2016 associated with sales and early repayments from the banking book portfolio.

Wind-up success in the trading portfolio

The notional volume of the trading portfolio represents the business volume underlying the derivatives, not the exposure at risk.

The notional volume of the trading portfolio amounted to EUR 258.6 billion as at 31 December 2016. The notional volume of the trading portfolio decreased by a total of EUR 83.1 billion during the period from 1 January to 31 December 2016 (at exchange rates as at 30 June 2012). Since its transfer, the notional volume of the trading portfolio has been reduced by EUR 805.4 billion or 75.7%.

			Notional volume (at exchange rates as of 30/6/2012)		Notional volume (at exchange rates as of 31/12/2016)	
Clusters[2]	**Notional 31/12/2016 EUR million**	**Notional 31/12/2015 EUR million**	**EUR million**	**Change to 31/12/2015 in %**	**Notional 31/12/2016 EUR million**	**FX effect[1] EUR million**
Rates	255,646.9	337,916.7	-82,269.8	-24.3	261,663.3	6,016.4
Equity	2,489.0	2,946.2	-457.2	-15.5	2,127.4	-361.6
Credit	225.7	511.9	-286.2	-55.9	225.8	0.1
Other clusters	242.3	325.5	-83.2	-25.6	289.4	47.1
Total	**258,603.9**	**341,700.3**	**-83,096.4**	**-24.3**	**264,305.9**	**5,702.0**

[1] Change in notional volume due to exchange rate effects.
[2] The clusters are presented in the structure of the 2016 wind-up plan.

The decline is predominantly the result of maturities as well as liquidation and the active management of transactions. The principal driving force was the Rates cluster with a total notional decrease of EUR 82.3 billion. This decline resulted primarily from maturities of around EUR 67.8 billion, active reduction measures totalling EUR 26.2 billion and offsetting hedging transactions in the amount of EUR 11.7 billion.

The Equity cluster was reduced in 2016 by EUR 0.5 billion or 15.5% compared with the previous year value (at exchange rates as at 30 June 2012). This decline can mainly be attributed to maturities.

The Credit cluster was reduced by EUR 0.3 billion or 55.9% in 2016 compared with the previous year value (at exchange rates as at 30 June 2012). The decline in the portfolio is mostly the result of maturities.

As a result of the ongoing wind-up of the portfolio, the Equity and Credit clusters now contain only a small number of transactions. The EAA plans to bundle the remaining transactions in the two clusters as of 2017 in order to streamline the cluster structure.

The notional volume of the remaining clusters did not change significantly.

EAA's overall situation

Earnings situation

The EAA's earnings situation was impacted by positive net interest income of EUR 173.9 million, net fee and commission income of EUR 11.5 million, a net trading result totalling EUR 33.6 million and a result from financial assets and shareholdings of EUR 14.7 million. Personnel expenses totalled EUR 23.4 million. Other administrative expenses of EUR 189.4 million were comprised mainly of expenses for services rendered by EFS and EPA.

After taking account of a net result of EUR -7.4 million from loan loss provisions, the results before taxes were EUR 10.2 million.

The income statement below is presented in the format used internally by the EAA.

Income statement

	1/1 - 31/12/2016	1/1 - 31/12/2015	Change	
	EUR million	EUR million	EUR million	in %
Net interest income	173.9	174.0	-0.1	-0.1
Net fee and commission income	11.5	44.6	-33.1	-74.2
Net trading result	33.6	-20.5	54.1	>100
Total other operating income/expenses	-3.3	-0.3	-3.0	>-100
Personnel expenses	-23.4	-24.6	1.2	4.9
Other administrative expenses	-189.4	-275.6	86.2	31.3
of which: expenses for service level agreements with EFS	-88.3	-194.2	105.9	54.5
Results from financial assets and shareholdings	14.7	129.5	-114.8	-88.6
Results prior to risk provisioning	**17.6**	**27.1**	**-9.5**	**-35.1**
Loan loss provisions	-7.4	-11.8	4.4	37.3
Results before taxes	**10.2**	**15.3**	**-5.1**	**-33.3**
Taxes	-0.6	-2.2	1.6	72.7
Net profit for the year	**9.6**	**13.1**	**-3.5**	**-26.7**
Net retained losses brought forward	-2,384.6	-2,397.7	13.1	0.5
Net retained losses	-2,375.0	-2,384.6	9.6	0.4

Net interest income

Net interest income, at EUR 173.9 million, was on a level with the previous year (EUR 174.0 million).

In addition to the net interest result (EUR 134.4 million [previous year: EUR 117.2 million]), net interest income also includes the current income from equities, other non-fixed income securities, long-term equity investments and shares in affiliates (EUR 19.9 million [previous year: EUR 38.2 million]) as well as income from profit pooling, profit transfer and partial profit transfer agreements (EUR 19.6 million [previous year: EUR 18.6 million]).

The interest income results from lending and money market transactions totalling EUR 324.2 million (previous year: EUR 380.2 million) and from fixed-income securities and debt register claims in the amount of EUR 208.4 million (previous year: EUR 217.5 million).

The interest income is offset by interest expenses of EUR 398.3 million (previous year: EUR 480.5 million).

Net fee and commission income

The year-on-year decrease in net fee and commission income of EUR 33.1 million to EUR 11.5 million is primarily due to the wind-up activity. The portfolio still contains loans and syndicated loans that were transferred from the former WestLB to the EAA and from which the EAA generates net fee and commission income.

Net trading result

The net trading result amounts to EUR 33.6 million, and is composed of the interest, foreign exchange and valuation result in the amount of EUR 14.0 million and of changes in the model reserves totalling EUR 19.6 million.

Total other operating income/expenses

The balance of other operating income and expenses amounts to EUR -3.3 million (previous year: EUR -0.3 million).

General administrative expenses

The general administrative expenses in fiscal year 2016 totalled EUR 212.8 million (previous year: EUR 300.2 million). The EAA's personnel expenses accounted for EUR 23.4 million of this amount (previous year: EUR 24.6 million).

Other administrative expenses amounted to EUR 189.4 million (previous year: EUR 275.6 million) and are primarily due to the expenses associated with the cooperation agreement with EFS (EUR 88.3 million [previous year: EUR 194.2 million]) and the service agreement with EPA (EUR 26.2 million [previous year: EUR 30.9 million]) to support the EAA with portfolio management and all associated activities. Additional costs of EUR 14.8 million (previous year: EUR 9.6 million) were incurred in connection with asset-sustaining measures. These include, in particular, expenses relating to the restructuring of exposures at risk of default.

Loan loss provisions

There was a net addition of EUR 7.4 million to loan loss provisions in the 2016 fiscal year. The EAA has appropriately taken into account all recognisable risks.

Results from financial assets and shareholdings

Financial assets and shareholdings produced net income totalling EUR 14.7 million. This includes net expenses in the amount of EUR 35.3 million from the shareholdings of the financial asset portfolio.

The net income from securities of the financial assets portfolio in the amount of EUR 50.1 million primarily stemmed from capital gains on fixed-income securities. Of this amount, EUR 13.7 million was generated in connection with the transfer of a portfolio of structured securities with a fundamental value of EUR 101.2 million to Dritte EAA Anstalt & Co. KG, which was established specifically for that purpose. This transaction was implemented with a view to improving the opportunities for winding up the portfolio ahead of time in the future.

The net expenses from shareholdings resulted essentially from expenses associated with the loss assumption from Erste EAA-Beteiligungs GmbH in the amount of EUR 76.0 million. This was set off against other income from non-consolidated affiliates resulting from capital reductions on the part of EAA KK (EUR 14.4 million) and WestLB Asset Management (US) LLC (EUR 15.0 million).

Taxes

Taxes comprise taxes on income and earnings in the amount of EUR 0.4 million (previous year: EUR 0.7 million) which mainly relate to foreign taxes, and other taxes totalling EUR 0.1 million (previous year: EUR 1.5 million).

Net profit for the year

The net profit for the year amounts to EUR 9.6 million and reduces net retained losses, which will be brought forward to new account, to EUR 2,375.0 million.

Financial position and issuing activity

Key tasks in the refinancing process

The EAA is an issuer of securities and operates on the capital market as an independent legal entity with its own rating for the purposes of refinancing and wind-up activities. The EAA commissions financial institutions to distribute its issues to suitable investors.

The EAA's management and Asset Liability Committee (ALCO) make strategic decisions regarding the issuing schedule, the issuing prospectus, markets and pricing, while the commissioned financial institutions act as consultants.

Prior to conducting an issuance, the EAA calculates its liquidity needs in preparation for the strategic and operational decision-making process. When doing so, it factors in the maturity structure of liabilities as well as the inflow of liquidity from the repayment of assets.

The EAA draws up a long-term issuing strategy, which is regularly reviewed – supported by consultations with banks and feedback from investors – and then modified if necessary. The documentation for the issuing prospectuses is prepared jointly with the commissioned financial institutions and external legal advisors.

Current funding volume

The portfolio of issued bearer bonds, promissory note loans and commercial paper totals a notional amount of EUR 33.1 billion as at the reporting date. It includes the global Commercial Paper Programme with a notional amount equivalent to EUR 14.0 billion.

New issues for medium and long-term funding were placed in the market during the reporting period with a total notional volume equivalent to around EUR 6.1 billion, consisting of EUR 2.1 billion, USD 3.6 billion (EUR 3.4 billion) and GBP 0.5 billion (EUR 0.6 billion).

A notional amount equivalent to EUR 14.0 billion was issued during the reporting period under the global Commercial Paper Programme, consisting of USD 8.0 billion (EUR 7.6 billion), GBP 4.5 billion (EUR 5.3 billion) and EUR 1.1 billion.

As at the reporting date, the portfolio contains securities issued by the EAA with a notional volume of around EUR 51 million that were bought back from the market for liquidity management purposes.

In the liquidity stress test the EAA had net liquidity above the established threshold value at all times during the reporting period.

Asset position

The EAA's total assets as at 31 December 2016 amount to EUR 60.7 billion (previous year: EUR 68.7 billion). The business volume, which also includes off-balance-sheet components, amounts to EUR 70.3 billion (previous year: EUR 81.7 billion).

Assets

	31/12/2016	31/12/2015	Change	
	EUR million	EUR million	EUR million	in %
Cash reserve	1,696.5	-	1,696.5	>100
Loans and advances to banks	7,262.5	9,664.2	-2,401.7	-24.9
Loans and advances to customers	14,076.4	15,066.2	-989.8	-6.6
Securities (no trading portfolio)	12,900.3	15,797.5	-2,897.2	-18.3
Trading portfolio	23,750.4	27,148.2	-3,397.8	-12.5
Long-term equity investments and shares in affiliates	864.0	873.6	-9.6	-1.1
Other assets	119.2	118.5	0.7	0.6
Total assets	**60,669.3**	**68,668.2**	**-7,998.9**	**-11.6**

Liabilities and equity

	31/12/2016 EUR million	31/12/2015 EUR million	Change EUR million	in %
Deposits from banks	2,766.3	3,622.8	-856.5	-23.6
Deposits from customers	3,386.3	4,092.8	-706.5	-17.3
Debt securities in issue	30,582.4	34,233.5	-3,651.1	-10.7
Trading portfolio	22,737.6	25,383.7	-2,646.1	-10.4
Provisions	342.7	393.8	-51.1	-13.0
Other liabilities	212.8	310.0	-97.2	-31.4
Equity	641.2	631.6	9.6	1.5
Total liabilities and equity	**60,669.3**	**68,668.2**	**-7,998.9**	**-11.6**
Contingent liabilities	6,610.1	9,870.8	-3,260.7	-33.0
Other obligations/loan commitments	3,058.3	3,188.3	-130.0	-4.1
Business volume	**70,337.7**	**81,727.3**	**-11,389.6**	**-13.9**

Lending business

The lending business comprises loans and advances, payment obligations arising from irrevocable loan commitments, sureties and other guarantees. Contingent liabilities also include Portigon risk exposures that were transferred using the "guarantee" alternative. Loans and advances also contain registered and other non-marketable debt instruments, as well as time deposits and mortgage-backed loans from the retail banking business.

Lending business

	31/12/2016 EUR million	31/12/2015 EUR million	Change EUR million	in %
Loans and advances to banks	7,262.5	9,664.2	-2,401.7	-24.9
Loans and advances to customers	14,076.4	15,066.2	-989.8	-6.6
Contingent liabilities	6,610.1	9,870.8	-3,260.7	-33.0
Other obligations/loan commitments	3,058.3	3,188.3	-130.0	-4.1
Lending business	**31,007.3**	**37,789.5**	**-6,782.2**	**-17.9**

Loans and advances to banks declined by EUR 2.4 billion as at 31 December 2016 compared with year-end 2015. This was mainly the result of a reduction in reverse repo business by EUR 1.2 billion and lower deposition of cash collateral for derivative transactions (EUR 1.0 billion).

The decline in loans and advances to customers by around EUR 1.0 billion is mostly attributable to principal repayments in the traditional lending business.

Securities

The portfolio of bonds and other fixed-income securities, as well as of shares and other non-fixed income securities, amounts to EUR 12.9 billion (previous year: EUR 15.8 billion) on the reporting date, of which EUR 12.7 billion (previous year: EUR 15.5 billion) is classified under financial assets. An additional EUR 0.2 billion (previous year: EUR 0.3 billion) is allocated to the liquidity reserve.

Of the total reduction of EUR 2.9 billion, EUR 2.7 billion was accounted for by the redemption of Phoenix bonds.

The EAA had no securities lending transactions, either on the reporting date or in the previous year.

Trading portfolio

Trading assets are recognised in the balance sheet at fair value less a risk discount, or, in the case of trading liabilities, plus a valuation premium. As at 31 December 2016, the EAA reported trading assets and liabilities with book values of EUR 23.8 billion and EUR 22.7 billion respectively. These relate almost entirely to derivative transactions.

The EUR 3.4 billion reduction in trading assets was mainly due to valuation effects, while the decrease of EUR 2.6 billion in trading liabilities was caused by changes in the interest rate level.

Long-term equity investments and shares in affiliates

The EAA has taken over a number of investments in various subsidiaries of the former WestLB. As at the reporting date, the carrying amount of long-term equity investments amounted to EUR 65.7 million (previous year: EUR 95.3 million) and shares in affiliates totalled EUR 798.3 million (previous year: EUR 778.3 million).

Long-term equity investments fell by EUR 29.6 million because of sales of interests as part of the wind-up mission.

Shares in affiliates were increased slightly by further contributions in kind in the form of structured securities at Dritte EAA Anstalt & Co. KG (EUR 38.6 million) and by the addition of EFS (EUR 26.2 million). They were reduced by the sale of WestFonds (EUR 2.4 million) and by equity capital reductions at EAA KK (EUR 18.5 million) and WestLB Asset Management (US) LLC (EUR 9.6 million).

The balance sheet items long-term equity investments and shares in affiliates also include equity interests that the EAA obtained in debt-to-equity swaps to restructure loans.

Deposits from banks and customers

As at 31 December 2016, deposits from banks total EUR 2.8 billion (previous year: EUR 3.6 billion). Of this total, EUR 2.2 billion (previous year: EUR 2.6 billion) was accounted for by cash collateral received. The liabilities from registered bonds fell by EUR 0.1 billion to EUR 0.3 billion (previous year: EUR 0.4 billion).

The deposits from customers in the amount of EUR 3.4 billion (previous year: EUR 4.1 billion) mainly consist of issued registered bonds equalling EUR 2.4 billion (previous year: EUR 2.9 billion).

Issuing business

The portfolio of debt securities in issue totals EUR 30.6 billion (previous year: EUR 34.2 billion) on the reporting date.

Please see the "Financial position and issuing activity" section for more information on issuing activities.

Provisions

Provisions fell by EUR 51.1 million to EUR 342.7 million compared with the previous year. Much of this decrease stemmed from loan loss provisions in the traditional lending business. A provision of EUR 6.4 million was established for legal risks. The provisioning for uncertainty regarding legal disputes relating to transactions in the trading portfolio was recognised as a valuation haircut in the trading assets.

Equity

The EAA's subscribed capital remains unchanged at EUR 500,000 as at 31 December 2016. In addition, the first transfer of risk exposures and non-strategic business units of the former WestLB created a capital reserve in the amount of around EUR 3,013.2 million. Due to the refill in fiscal year 2012 the capital reserve was reduced by EUR 123.8 million (of which EUR 13.1 million in 2013 was due to a contractual value adjustment clause) to its current level of EUR 3.0 billion. This reduction is essentially caused by the measures agreed in the content of the key point agreement dated 29 June 2011 and the binding protocol dated 18 June 2012.

As at the reporting date, the equity capital under HGB stands at EUR 641.2 million (previous year: EUR 631.6 million). Besides the net retained losses, this amount includes other retained earnings of EUR 2.4 million resulting from the reversal of provisions whose values decreased due to revisions in the method to measure liabilities under the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG).

For further information about these changes, please refer to the section "Wind-up report".

Summary of the business situation

The realisation of a net profit in fiscal year 2016 is attributable not least to reduced administrative expenses and to robust income despite a declining portfolio.

The asset position of the EAA is in good order. Its equity as at 31 December 2016 amounts to EUR 641.2 million. Adequate liquidity was available at all times.

Significant events after the reporting date are disclosed in the notes ("Subsequent events" section).

Financial and non-financial performance indicators

Financial performance indicators

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

Return on equity, for instance, is not in the foreground of the EAA's business strategy. Instead, the EAA is managed by performance indicators that show, among other things, the effects on its earnings situation or on its wind-up result. These performance indicators include the portfolio reduction in the banking book or the trading portfolio, and net interest income and net commission income. These performance indicators are reported in the wind-up reports on a regular basis in both absolute and relative terms. 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 (see also the "Wind-up report" section).

Moreover, there are further performance indicators in the "performance indicator cockpit" of the monthly wind-up reports. These performance indicators include income statement ratios in relation to total assets, maturities for the banking book portfolio, the risk provisioning ratio on the portfolio as a whole and on sub-portfolios, and the cost/income ratio. Both historical values and current values are used to analyse these performance indicators.

The specifics of the financial performance indicators are set out in the "Wind-up report" and "EAA's overall situation" sections.

Non-financial performance indicators

Employees

Highly qualified and motivated employees with a willingness to perform and personal responsibility are a major success factor of the EAA.

Thanks to their identification with the EAA and their commitment, these employees make a pivotal contribution to the fulfilment of the public mandate of the EAA. When doing so, their talent, skills and potential are supported and encouraged through a high level of individual responsibility as well as targeted training measures. The employees are regularly assessed as part of an annual performance appraisal process.

Human resources work creates an environment in which the employees are able to develop and enhance their qualifications as best as possible based on their current phase of life.

The EAA maintains a performance-oriented culture characterised by mutual respect.

As at 31 December 2016, the EAA employed 178 members of staff (excluding three Managing Board members). The number is higher compared with the previous year (31 December 2015: 144). The increase resulted in particular from taking over work no longer performed by Portigon and the transfer of services and employees from EFS to the EAA.

Reputation and acceptance
As a public institution, the EAA needs the acceptance and trust of governments and the general public in order to successfully fulfil its mandate. Since it began its operating activities, the EAA has attracted a great deal of interest in the work it does from a wide variety of different media. The EAA also attaches special importance to its public image since it impacts its funding options on the capital market. With this in mind, potential reputational risks are extremely important for the EAA.

The EAA mitigates these risks through systematic public relations activities that are designed to deliver the greatest possible transparency. Aside from regular publications such as annual and interim reports or the latest information on the EAA's website, this also includes regular contact with representatives of the financial and consumer press.

Furthermore, the EAA's employees foster understanding for the special features of the EAA's wind-up mandate by maintaining contact with facilitator groups, for example by taking part in conferences or holding talks with political and financial representatives and with investors.

The EAA also boosts awareness of the EAA and its local anchoring in the Düsseldorf region by encouraging its employees to get involved in their communities.

Risk, opportunities and forecast report

Risk report

A common objective of the liable stakeholders, the FMS and the EAA is to minimise its strategic wind-up risk, that is to say, the risk of falling below the economic targets in the wind-up plan and suffering higher-than-planned losses from winding up the portfolio. The EAA made further progress during the reporting period towards realising the wind-up plan. Its wind-up activities are focused on continuing to reduce the assets transferred from the former WestLB and on mitigating risks.

The figures and developments discussed in this section are regularly reported to the FMSA as part of its supervision of the EAA. They relate to the entire assets transferred to the EAA, regardless of whether these figures are recorded on or off-balance-sheet in the EAA's separate financial statements, or whether they are held via subsidiaries (look-through approach).

Risk management organisation
The EAA is supervised by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) with regard to those provisions of banking law that are applicable to the EAA. The German Minimum Requirements of Risk Management (Mindestanforderungen an das Risikomanagement – MaRisk) are almost entirely applied by the EAA.

The EAA is different from a commercial bank, and this has a significant impact on its risk strategy. As the EAA does not acquire new business, but rather only increases lines of credit in exceptional instances in connection with restructuring measures and manages liquidity, the EAA does not have the same functions that are normally included in a bank's risk strategy for managing new business. Nor does the EAA have to apply capital adequacy rules. The requirement to fulfil the wind-up mission based exclusively on the existing equity and not having to call upon any other equity instruments or the liable stakeholders' duty to offset losses is a significant challenge for the quality and capability of the risk management team.

The aim of risk management at the EAA is therefore to minimise strategic wind-up risk. The risk management team's responsibility is to map, analyse, manage and monitor the EAA's risks using a comprehensive risk reporting system.

The Managing Board determines the risk strategy. The Risk Committee of the Supervisory Board discusses the risk strategy and the principles of risk policy set down therein with the Managing Board. 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 general risk management strategy forms 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. The key individual strategies relate to the risk categories of credit risks, market price risks, liquidity risks, longevity risks, operational risks and other risks. Risk management strategies are reviewed at least once a year.

The Managing Board has established a framework of various interdisciplinary committees throughout the institution to aid it in fulfilling its responsibility to manage risks. As Managing Board committees, these committees are permanent institutions of the EAA. They 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 committees which make decisions regarding risk management strategies and methods are the:

- Risk Committee (RiskCo) – covers portfolio management and in particular the management of credit risks; and the
- Asset Liability Committee (ALCO) – covers the optimisation of asset/liability management, monitoring and managing operational liquidity, funding, interest rate and foreign exchange risks, the trading portfolio as well as operational and other risks.

The Risk Controlling department is responsible for the independent monitoring and communication of the EAA's risks. Its tasks include:

- Supporting management in connection with all risk policy issues, especially in the development and implementation of the risk strategy as well as in the organisation of a system for mitigating risks;

- Conducting a risk inventory and preparing the overall risk profile; and

- Assisting management with the establishment and development of risk management and risk controlling processes.

The Risk Controlling department is responsible for monitoring market price, counterparty, liquidity and operational risks. The Credit Risk Management department comprises the back-office function in the lending business as defined by MaRisk. In particular, this department comprises the lending authority. It is also responsible for credit risk steering and credit risk controlling, and is supported by the Controlling & Planning department. The Risk Controlling and Credit Risk Management departments monitor and analyse risk exposures as well as the utilisation of the limits. They also take measures to reduce risks as necessary.

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

Risk reporting

Risks can be controlled and monitored in a sustainable manner only if they are transparent, and the underlying analysis results are prepared and communicated in a manner that is conducive to decision-making processes. Accordingly, risk reporting is among the key tasks of the Risk Controlling department, which fulfils this responsibility together with the Controlling & Planning department. 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 an impact on the institution's risk or earnings situation. Risk reporting is a component of the monthly wind-up report and the quarterly risk report.

The Managing Board keeps the Supervisory Board and its committees regularly informed of the EAA's current wind-up status and the general risk situation based on 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 risks, migration risks, counterparty risks, issuer risks and participation risks:

- Default risk comprises potential losses incurred if a borrower is unable or unwilling to comply, in part or in full, with their contractual obligations, specifically to repay their loan.

- Migration risk comprises potential losses calculated mathematically if the amount of the expected loss on interest and principle payments increases as a result of a deterioration in 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. Counterparty risk is determined for both 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.

- △ Participation risk includes potential losses due to omission of dividends, impairments, losses on disposals and a reduction in hidden reserves from the EAA's shareholdings.

Analysis and assessment of credit risks
EAA's Risk Controlling department in conjunction with the Credit Risk Management department continuously analyses and monitors the loan portfolio and its default and migration risks. In order to assess the potential consequences of systemic crises, stress tests are performed regularly to monitor how a portfolio-wide rating downgrade of several rating categories would impact the expected loss. The amount of loan loss provisions and changes to that amount are estimated at the general portfolio level. A total of three stress scenarios for default risks and inverse stress scenarios 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 classes and regions.

The EAA assesses credit risk in terms of both the overall portfolio and individual exposures. Credit quality and default probabilities are regularly assessed on the basis of balance sheet analyses and ratings. A clearly defined process facilitates the analysis of problematic exposures and the determination of alternative options, which are presented to the relevant competent individuals or bodies of the EAA for approval. Additional cluster and portfolio analyses are performed separately for significant individual exposures.

A central focus of portfolio analysis also includes problem loans. These are intensively monitored and actively managed. The "EAA Global Watch List" (EAA GW) provides a mechanism for monitoring problem loans and exposures under intensive supervision. Additional details are provided in the "Problem loans and risk provision" section. The appropriateness of risk provisioning is determined by analysing the recoverable value of the loan/advance, the expected cash flow and the existing collateral.

Management of credit risks
The most important tools used to manage credit risk are the restructuring or sale of loans – taking into account the wind-up plan. Additionally, the EAA can enter into credit default swaps and other credit derivatives 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 to the amount of the credit lines that Portigon had provided as at the date the portfolio was transferred. Increases are permitted only in connection with restructuring measures. When borrowers repay portions of their loans, the committed credit lines 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 are reviewed to check for alternative courses of action; these options may include restructuring or sale. The approach towards the borrower is then approved by the relevant individuals with the appropriate level of authority according to the authority rules.

The EAA analyses counterparty risks by monitoring and assessing the exposures using internal calculations. The method used to determine the exposure for over-the-counter derivatives (OTC derivatives) takes collateral and netting into account. Master agreements with netting and collateral agreements are used to mitigate counterparty risks.

Issuer risks from the trading portfolio are limited to the amount of the transferred exposures towards 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 credit risk of the EAA and its subsidiaries is regularly analysed so as to identify, analyse, evaluate and manage all default risks within the portfolio. A variety of parameters – such as risk type, rating categories, maturities and regions – are used to identify risk concentrations.

The notional volume of the banking book (which primarily consists of loans and securities) declined by EUR 6.3 billion during 2016 to EUR 29.7 billion (at constant exchange rates as of 31 December 2011). Please refer to the section "Wind-up report" for more detailed information on the wind-up result.

Breakdown of notional volume by internal rating category[1]

	31/12/2016 EUR billion	31/12/2015 EUR billion
A0-A2	0.7	3.1
A3-A5	10.5	10.8
B1-B3	0.9	1.3
B4-B5	3.2	4.0
C1-C2	5.3	5.0
C3-C5	2.6	4.2
D1-D3	1.0	1.1
D4-E	3.3	3.9
S.R.[2]	2.0	2.3
N.R.[3]	0.3	0.3
Total	**29.7**	**36.0**

[1] Excluding exchange rate effects (based on exchange rates as of 31 December 2011).
[2] Special rating pursuant to the not-rated concept.
[3] Not rated.
Please note: Where possible, the internal rating categories are based on the guarantor's rating.

The quality of the banking book portfolio is reflected by an investment grade rating share (rating categories A0-C2) of around 69% (31 December 2015: 67%). About 38% (31 December 2015: 39%) of the notional volume has a very good rating (A0-A5) and around 32% (31 December 2015: 29%) is assigned to the mid-rating categories B1-C2. The S.R. rating category includes the opening clauses of the rating process and has a share of around 7% of the total portfolio.

The EAA continues to aim for a portfolio reduction across all rating categories. The decrease of EUR 2.4 billion in the A0-A2 rating category is primarily the result of a shift of positions in the ABS portfolio to the A3-A5 rating category. The resulting increase in this rating category is offset by principal repayments of EUR 2.3 billion for Phoenix notes in this rating category.

The table below shows the EAA's internal ratings and their external equivalents.

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

Breakdown of notional volume by clusters[1,2]

	31/12/2016 in %	31/12/2015 in %
Structured Securities	31.7	33.6
Liquidity Portfolio	24.2	21.3
Energy	11.3	11.2
Public Finance	7.2	6.8
Asset Securitisation	5.3	4.8
Infrastructure - Project Finance	4.3	4.2
Other	16.0	18.1
Total	**100.0**	**100.0**

[1] 31 December 2016 = EUR 29.7 billion; 31 December 2015 = EUR 36.0 billion.
[2] Excluding exchange rate effects (based on exchange rates as of 31 December 2011).
Please note: The cluster structure was modified as of 31 March 2016. The NPL cluster was dissolved and its positions were reassigned to their original clusters. The presentation of the previous year has been restated accordingly.

The EAA's banking book portfolio consists of 17 clusters. The largest cluster, Structured Securities, with a total share of 31.7%, consists of three sub-portfolios: Phoenix (85.0% – please refer to "Phoenix" section for further details), Asset Backed Securities (2.0%) and EUSS (13.0%).

Breakdown of notional volume by maturities[1,2]

	31/12/2016 EUR billion	31/12/2015 EUR billion
<= 6 M	1.1	1.0
> 6 M <= 1 Y	1.9	4.7
> 1 Y <= 5 Y	10.3	11.8
> 5 Y <= 10 Y	6.4	6.3
> 10 Y <= 20 Y	5.9	7.2
> 20 Y	4.1	5.0
Total	**29.7**	**36.0**

[1] For Phoenix: expected repayment profile.
[2] Excluding exchange rate effects (based on exchange rates as of 31 December 2011).

The largest part of the portfolio, with a share of approximately 35%, consists of medium-term exposures with contractual maturities of more than one year up to five years. These are primarily exposures held in the Structured Securities (mainly Phoenix, please also refer to the "Phoenix notes capital structure" table in the "Phoenix" section) and Liquidity Portfolio clusters.

The reduction in the maturity range of six months to one year is connected in particular with the partial repayments of the Phoenix portfolio in the first and third quarters of 2016.

The other changes within the maturity ranges reflect the portfolio management measures undertaken in 2016.

Breakdown of notional volume by region[1]

	31/12/2016 EUR billion	31/12/2015 EUR billion
Americas[2]	13.8	16.9
EMEA	11.8	13.7
Germany	3.7	4.4
APAC	0.4	1.0
Total	**29.7**	**36.0**

[1] Excluding exchange rate effects (based on exchange rates as of 31 December 2011). The regional breakdown by borrowers or for securitisations is based on the main risk country of the asset pool.
[2] Contains EUR 3.6 billion for the Phoenix B note guaranteed by the state of NRW.

The regional breakdown of the notional volume has hardly changed compared with 31 December 2015. Approximately 47% of the notional volume is attributed to the Americas region (31 December 2015: 47%). Repayments in particular led to a decline of EUR 3.1 billion, with most of the decrease occurring in the Structured Securities cluster (primarily Phoenix).

About 40% of the notional volume (31 December 2015: 38%) is attributable to the EMEA region – Europe (excluding Germany), Middle East and Africa.

The notional volume for German borrowers and guarantors (share of portfolio: about 13%; 31 December 2015: 12%) is virtually unchanged.

The APAC region represents around 1% (31 December 2015: 3%) and has fallen largely because of sales and repayments in 2016.

The EAA's banking book portfolio is backed by the following collateral, of which EUR 0.2 billion (31 December 2015: EUR 0.4 billion) is attributable to EAA subsidiaries.

Breakdown of types of collateral of the banking book

	31/12/2016 EUR billion	31/12/2015 EUR billion
Guarantees	6.0	6.4
Financial collateral	1.3	1.4
Aircraft/Ships	0.3	0.5
Real estate	0.2	0.5
Other collateral[1]	5.2	7.5
Total	**13.0**	**16.3**

[1] Including market values for Phoenix tranches.

Problem loans and risk provision

Problem loan exposures are subject to special risk monitoring pursuant to MaRisk. Loan exposures with notable risk profiles are subject to intensive monitoring. Loan exposures with increased risk profiles or which have already experienced actual defaults as well as non-performing loans are transferred to the Problem Loans Processing function.

Problem loan exposures are recorded centrally in the EAA GW. It serves as a core basis for risk control and risk management of credit risks. The EAA GW is defined as an early warning system in accordance with MaRisk. It serves to record, monitor and report on individual loan exposures that have a notable or heightened risk profile, expected or actual defaults, or for which a specific risk provision has been recognised.

Exposures are included in the EAA GW in different categories based on defined risk indicators. The information and data recorded in the EAA GW are managed, monitored and regularly reported to facilitate tight control. The EAA GW also forms the basis for regular reporting to the EAA's governing bodies and to the FMSA on the current risk situation with regard to these loans and to the corresponding risk provisioning.

Result of risk provisions

	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	**263.0**	**215.7**	**-47.3**	**11.9**	**-35.4**
Credit risk	263.0	215.7	-47.3	14.2	-33.1
Other risk	-	-	-	-2.3	-2.3
Contingent counterparty default risk	**-**	**28.0**	**28.0**	**-**	**28.0**
Total	**263.0**	**243.7**	**-19.3**	**11.9**	**-7.4**

The recoverability of loans and advances is reviewed by ad hoc and regular performance of an impairment test (a test to determine whether a loan or advance is non-performing or at risk of non-performance). The assessment of a possible need for a risk provision takes into account collateral values, company valuations, discounted cash flow analysis or observable market prices. It is reviewed on a regular basis.

The general valuation allowance is based on the expected loss over a one-year period. The computation is performed using individual company-specific loss rates and conversion factors as well as ratings, after taking into account the transfer stop risk of the funding. This means that a separate model for country risk is not necessary. The general allowance for the derivatives of the banking book is not calculated using the expected loss for a one-year period, but rather through the computation of the credit valuation adjustment (CVA) of this sub-portfolio.

Special banking book issues

Phoenix

The tranches of the Phoenix Light SF Ltd. securitisation constitute a major portion of the EAA's structured loan portfolio.

The predominant part of the securitised Phoenix portfolio is denominated in US dollars and represents US risks, primarily in the real estate market.

Phoenix notes capital structure

Tranche	Amount as of 31/12/2016 in million		S&P rating	Legal maturity	Expected maturity in years
Class A2	444.7	USD	BBB+	9/2/2091	0.11
Class A3	2,386.6	USD	BBB+	9/2/2091	3.66
	545.6	EUR	BBB+	9/2/2091	2.14
Class A4	1,909.0	USD	B+	9/2/2091	8.23
	180.9	EUR	B+	9/2/2091	8.74
Class B	3,566.6	EUR	N.R.	9/2/2091	1.26

Repayments in the reporting period amounting to around EUR 2.3 billion resulted in a decrease of the notional volume reported in euros to EUR 8.0 billion as at 31 December 2016 (at constant exchange rates as of 31 December 2011).

The expected maturities shown above relate to the anticipated amortisation profile of the respective Phoenix note. At the present time, the EAA assumes the Phoenix structure will be dissolved in 2018 and the underlying portfolio will then be transferred to the EAA.

Rating breakdown by internal rating category for Phoenix notes[1]

	31/12/2016 EUR billion	31/12/2015 EUR billion
A0-A2	-	-
A3-A5	6.3	8.5
B1-B3	-	-
B4-B5	-	-
C1-C2	1.7	1.7
C3-C5	-	-
D1-D3	-	-
D4-E	-	-
S.R./N.R.	-	-
Total	**8.0**	**10.2**

[1] Excluding exchange rate effects (based on exchange rates as of 31 December 2011).
Please note: The presentation by internal rating category considers the rating (A3) of the guarantor, the state of NRW, for the Phoenix B note.

All of the Phoenix notes have an investment grade rating (rating categories A0-C2), taking into account the rating of the State of NRW (the guarantor for the Phoenix B note). Roughly EUR 1.4 billion of this guarantee has been utilised so far.

In addition to the ongoing sale of parts of the portfolio by taking advantage of market opportunities, the EAA continues to work with the parties involved in Phoenix to optimise the portfolio. These measures include both legal measures in relation to individual portfolio securities and the restructuring of non-performing securities.

Public Finance

The exposure to the public sector (including the Liquidity Portfolio) as at 31 December 2016 totals a notional amount of EUR 5.8 billion (excluding exchange rate effects, based on exchange rates as of 31 December 2011). EUR 3.7 billion of this amount is attributable to Cyprus, Ireland, Italy, Portugal, Slovenia, Spain and the UK. Further information can be found in the section “Exposures to selected EU member states”.

Securities account for 90% of the total public-sector exposure (including regional and municipal issuers). Some of these are held directly by the EAA and some by EAA CBB. The remaining 10% largely consist of lending transactions involving federal, municipal or other public-law institutions.

The largest part of the overall exposure, at 81%, is attributable to borrowers or issuers from the eurozone, with the remaining volume coming from European countries outside the eurozone, Africa and the Middle East (12%), North and South America (6%), and Asia and Australia (1%).

Credit risks – trading portfolio

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

Trading portfolio issuer risks from securities are calculated using the mark-to-market approach, while those in the banking book are determined based on book values. A distinction is made between collateralised and uncollateralised counterparties in order to determine the replacement risks (pre-settlement risks) from derivatives. The market value plus a regulatory premium is used as the replacement risk for non-collateralised counterparties. For collateralised counterparties, the market value, collateral and a premium based on Value at Risk (VaR) are calculated as the replacement risk. Settlement risks are determined using the payment due per value date. Credit risks from trading transactions are compared with the corresponding credit limits on a daily basis. Risk-mitigating measures (such as close-out netting [offsetting] and collateral in the OTC derivatives business) are used whenever possible. Active hedging of risk exposures takes place only with counterparties where corresponding master agreements are in place.

OTC derivative counterparty default risks are assessed independently from the front office using credit valuation adjustments (CVA). When doing so, externally traded credit spreads, where available, are used to determine the probability of default. The expected loss can be calculated as CVA based on expected future exposures and a statistically determined recovery rate. The CVA amounted to EUR 37.8 million as at 31 December 2016 (31 December 2015: EUR 54.9 million). The EUR 17.1 million decrease in CVA is attributable to credit rating changes (EUR -5.5 million), market fluctuations (EUR -2.4 million), derivative transactions maturing or being terminated early (EUR -7.4 million) and changes in input parameters (EUR -4.0 million). On the other hand, credit spread changes increased CVA by EUR 2.2 million.

Counterparty and issuer risks

Direct counterparty risks

As the EAA concludes OTC derivatives both from the trading portfolio as well as the banking book, and as counterparty risks are measured and controlled per counterparty, the explanations and figures below relate to both the trading portfolio and the banking book. In accordance with an established management process, risks are managed by the Treasury/Capital Markets department, a front-office function, and the Credit Risk Management and Risk Controlling departments, which are back-office functions.

The following table shows direct counterparty risks with active strategic counterparties. Direct risks are counterparty risks from those transactions which the EAA accounts for directly in its balance sheet and not those that have been transferred to it synthetically.

	31/12/2016 Exposure EUR million	31/12/2016 Limit EUR million	31/12/2015 Exposure EUR million	31/12/2015 Limit EUR million
Credit risk - money market positions[1]	2,609.7	5,563.4	2,058.2	7,547.5
Counterparty risk - OTC derivatives (pre-settlement risk)	621.3	3,692.0	1,097.3	3,835.0
Counterparty risk - repos	-	759.0	17.6	1,919.0

[1] All money market transactions with counterparties outside the EAA Group have a maximum maturity of up to six months.

The credit risk for money market positions as of 31 December 2016 rose in comparison to the previous year-end because of a significant increase in deposits due to the advance funding of larger maturities. Counterparty risks from OTC derivatives are driven by transactions for liquidity steering (foreign exchange swaps) and interest rate hedging instruments (interest rate swaps). At the end of 2016 securities eligible for GC Pooling above the Bundesbank rate were not available on the market. It was therefore financially more advantageous to park excess liquidity with the Bundesbank (or to increase money market transactions) than to engage in repo transactions. This means that utilising the limit for repos as at the end of 2016 did not make financial sense.

When evaluated by risk country, the country concentrations for money market positions, OTC derivatives and repos are as follows.

Money market positions

Risk country	31/12/2016 Exposure EUR million	31/12/2016 Limit EUR million
Germany	915.5	2,127.9
Switzerland	659.9	710.0
France	619.4	932.0
Other countries	414.9	1,793.5
Total	**2,609.7**	**5,563.4**

OTC derivatives

Risk country	31/12/2016 Exposure EUR million	31/12/2016 Limit EUR million
UK	301.5	1,630.0
Germany	168.4	785.0
France	75.8	530.0
Other countries	75.6	747.0
Total	**621.3**	**3,692.0**

Repos

Risk country	31/12/2016 Exposure EUR million	31/12/2016 Limit EUR million
Germany	-	204.0
UK	-	190.0
Ireland	-	150.0
Other countries	-	215.0
Total	**-**	**759.0**

Issuer risks

In accordance with an established management process, issuer risks are managed by the Treasury/Capital Markets department, a front-office function, and the Credit Risk Management and Risk Controlling departments, which are back-office functions.

The following table shows the issuer risks of the banking book, broken down by sub-portfolios.

	< 1 Y EUR million	1-4 Y EUR million	4-8 Y EUR million	8-15 Y EUR million	> 15 Y EUR million	Total exposure EUR million
Public Finance	389.6	1,126.9	1,015.2	1,334.8	1,543.8	5,410.3
Financial Institutions	245.2	473.2	327.5	27.0	61.0	1,133.9
Other securities	50.7	26.6	204.5	877.2	2,450.7	3,609.7
Total 31/12/2016	**685.5**	**1,626.7**	**1,547.2**	**2,239.0**	**4,055.5**	**10,153.9**
Total 31/12/2015	825.4	1,518.5	1,898.0	2,642.9	4,035.8	10,920.6

The Public Finance sub-portfolio accounts for the largest share with about EUR 5.4 billion. The remaining issuer exposures are made up of Financial Institutions securities as well as Other securities, mainly student loans.

Issuer risks of the trading portfolio are low and total only EUR 2.1 million. These are entirely due to securities and credit derivatives. As the last equity derivative positions closed on 23 December 2016, there is no longer any issuer risk for equities and equity derivatives.

Participation risks

Participation risks result from the provision of subordinated capital and equity. The EAA's Strategic Project Management and Participation department is responsible for managing participations. The EAA's Controlling & Planning department supports the participation controlling process.

Of the total portfolio of the EAA Group, a notional volume of EUR 3.2 billion (10.9%) is held by subsidiaries, mainly consisting of EAA CBB with EUR 1.5 billion (46.7%), Erste EAA-Beteiligungs GmbH with EUR 1.3 billion (39.6%), Dritte EAA Anstalt & Co. KG with EUR 0.4 billion (12.4%) and EAA KK with EUR 42 million (1.3%).

The notional volume of EAA CBB decreased during fiscal year 2016 by EUR 0.2 billion to EUR 1.5 billion, while that of EAA KK was down by EUR 0.3 billion to EUR 42 million due to sales. EAA CBB and EAA KK are included in the risk management and business management of the EAA. These participations are subject to monitoring by the EAA and the EAA's approved internal limit system. Representatives of the EAA exercise non-managerial control functions as members of the governing bodies and committees of EAA CBB.

Erste EAA-Beteiligungs GmbH founded American LLPs in 2014 and 2016 in connection with the implementation of enforcement measures. These entities hold portfolios of American life insurance policies. This company is fully funded by the EAA (EUR 1.5 billion).

Dritte EAA Anstalt & Co. KG was founded in December 2015 in connection with the transfer of a portfolio of structured securities. Because the transfer was structured as a sub-participation, the securities remain in the EAA's custody accounts. The EAA manages the transactions of Dritte EAA Anstalt & Co. KG as its general partner. As the securities continue to lie within the EAA's scope of risk, the internal reporting has remained virtually unchanged.

Ownership of EFS was transferred to the EAA at the end of March 2016 ("share deal"). This transaction ensures that going forward the EAA will continue to have at its disposal all of the services it needs to continue with the wind-up of the assets transferred from the former WestLB. In addition to EPA, EFS is the EAA's most important service provider. EFS provides mostly IT and operational services for the EAA. Compared with alternative scenarios – such as the selection of a new service provider and the migration of large quantities of data to the new provider's systems – the acquisition of EFS was the most favourable solution from a commercial perspective for the EAA and all of its stakeholders. The EAA has included the transaction in the wind-up planning from 2016 and beyond, and it will not result in any adverse consequences for the wind-up result. The State of NRW, the sole shareholder of Portigon and a stakeholder of the EAA, has reached an agreement with the other EAA stakeholders setting out the framework conditions for the transfer of EFS shares. The agreement ensures in particular that none of the participating parties will suffer a shift of liabilities as a result of the transfer of EFS to the EAA. The provisions set out in the contract on the restructuring of the former WestLB will therefore continue to apply. The EAA will manage EFS as a legally independent company and instruct its management with regard to the implementation of the restructuring measures that are already underway. In addition, the EAA will continue to regularly monitor to what extent organisational adjustments are necessary and possible to reflect the declining volume of the portfolio. The objective is to focus EFS rigorously on the requirements of the EAA in order to achieve an efficient wind-up of the EAA's assets in a value-preserving manner.

On 30 December 2016, the EAA signed an agreement with Mount Street Group, London, to sell EPA. Because EPA, as a financial service provider, is regulated by BaFin and the Bundesbank, the change of ownership is expected to take place in the first half of 2017 following approval by these authorities. EPA's portfolio management activities tailored to the needs of the EAA will continue to be carried out at its offices in Düsseldorf, London, Madrid and New York. The basis for this is a servicing agreement. The purchaser, Mount Street, has many years' experience in servicing international portfolios and specialises in the real estate sector and structured loans.

In some situations the EAA will enter into new participations via restructuring if such an approach is deemed beneficial to preserve the value of the asset (debt-to-equity swap). The total volume of new participations, apart from the addition of EFS in the second quarter of 2016, is low compared with existing participations.

Exposures to selected EU member states

The banking book exposure of the EAA and its subsidiaries to Cyprus, Greece, Ireland, Italy, Portugal, Slovenia, Spain and the UK totals EUR 7.2 billion as at 31 December 2016. This exposure has been reduced by EUR 0.9 billion since the beginning of 2016. The decline is mostly attributable to Spain (EUR 0.4 billion), Italy (EUR 0.2 billion) and the UK (EUR 0.2 billion).

The total banking book exposure of the EAA and its subsidiaries to Cyprus, Greece, Ireland, Italy, Portugal, Slovenia, Spain and the UK is shown in the table below.

Country[1]	Debtor group	31/12/2016 Notional in EUR million[2,3]	31/12/2015 Notional in EUR million[2,3]
Greece	Corporates	82.9	92.3
	Financial Institutions	0.0	0.0
Σ Greece		**82.9**	**92.3**
UK	Corporates	1,105.2	1,296.7
	Financial Institutions	82.3	87.5
	Public Finance	136.7	159.9
Σ UK[4]		**1,324.1**	**1,544.1**
Ireland	Corporates	9.4	10.2
	Financial Institutions	0.1	0.2
	Public Finance	115.0	115.0
Σ Ireland		**124.5**	**125.4**
Italy	Corporates	673.7	807.2
	Financial Institutions	101.0	103.9
	Public Finance	1,772.4	1,829.4
Σ Italy		**2,547.0**	**2,740.5**
Portugal	Corporates	18.0	18.0
	Financial Institutions	11.2	11.2
	Public Finance	855.8	904.6
Σ Portugal		**885.1**	**933.9**
Slovenia	Public Finance	40.0	40.0
Σ Slovenia		**40.0**	**40.0**
Spain	Corporates	750.7	1,004.3
	Financial Institutions	575.9	635.9
	Public Finance	784.0	855.5
Σ Spain		**2,110.7**	**2,495.7**
Cyprus	Corporates	51.8	64.2
Σ Cyprus		**51.8**	**64.2**
Total[5]		**7,166.0**	**8,036.0**
of which	Corporates	2,691.7	3,292.9
of which	Financial Institutions	770.5	838.8
of which	Public Finance	3,703.9	3,904.3

1 Economic view may differ from the borrower's legal country of residence (for Corporates and Financial Institutions).
2 Based on current exchange rates.
3 Presentation of the notional volume, including hedges (net).
4 Included as a new country in the evaluation as of June 2016.
5 Of which EAA subsidiaries: EUR 954.1 million (31 December 2015: EUR 982.0 million).

The EAA's total trading portfolio and ALM exposure to banks, companies and governments in Cyprus, Greece, Ireland, Italy, Portugal, Spain and the UK is shown in the table below.

Product[1]	Value[2]	Country[3]	31/12/2016 EUR million[4,5]	31/12/2015 EUR million[4,5]
Bonds	Notional	UK	-	0.1
Σ Bonds			**-**	**0.1**
Single name CDS	Notional	UK	-	-
		Italy	-	-
		Portugal	-	-
		Spain	-	-
Σ Single name CDS			**-**	**-**
Decomposed CDS	EaD	UK	0.0	0.0
		Italy	0.0	0.0
		Portugal	0.0	0.0
		Spain	0.0	0.0
Σ Decomposed CDS			**0.0**	**0.1**
Equities	MtM	UK	-	10.9
		Greece	-	0.0
		Italy	-	0.4
Σ Equities			**-**	**11.3**
Other derivatives and ALM	MtM	UK	469.4	701.9
		Ireland	-	0.5
		Italy	317.9	127.5
		Portugal	-	0.4
		Spain	235.7	448.2
		Cyprus	19.6	21.3
Σ Other derivatives and ALM			**1,042.6**	**1,299.7**
Other	Notional	UK	24.3	18.1
Σ Other[6]			**24.3**	**18.1**

1 CDS = credit default swaps; ALM = asset liability management (ALM cluster as part of the banking book is identified here as in the internal view and not as a banking book exposure); Derivatives = replacement risks from OTC derivatives and from CDS; Decomposed CDS = CDS positions that do not relate to an individual underlying but to a portfolio of underlying individual transactions such as a basket of reference debtors.
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.
5 Presentation of the notional volume, including hedges (net).
6 Includes mainly the HSBC nostro portfolios.

Market price risks

The EAA pursues a strategy of lowering market price risks to the greatest extent possible. Market price risk is controlled via a system of limits. Market price risks in the trading portfolio and the banking book are limited separately. Market price risk exposures are controlled on a daily basis by the Treasury/Capital Markets department and are monitored and analysed by the Risk Controlling department.

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

- Interest rate risk describes the risk to the portfolio’s net interest income or present value from changes in market interest rates.
- Foreign exchange risk describes the risk of losses from changes in exchange rates.
- Equity risk describes the risk of losses from changes in prices on the stock market.
- Credit spread risk describes the fluctuation in the value of securities resulting from a change in credit risk premiums (for example, on foreign government bonds in the Public Finance portfolio).

Market price risks – banking book
As a result of the portfolio structure, there are interest rate and foreign exchange risks (particularly in relation to the US dollar) that are largely hedged. In accordance with the risk profile, the EAA’s hedging activities are mainly focused on the hedging of interest rate and foreign exchange risks.

These risks are hedged by refinancing with analogous currencies and matching maturities, or by concluding derivatives transactions.

Interest rate risk (EAA Group)

	31/12/2016 EUR thousand	31/12/2015 EUR thousand
< 1 Y	-3.1	-60.1
1-4 Y	0.3	1.7
4-8 Y	25.9	-39.0
8-15 Y	-70.5	-21.1
> 15 Y	-22.4	-12.9
Total	**-69.8**	**-131.4**

Interest rate risk in the banking book is measured as the change in the present value when the yield rises by one basis point (interest rate sensitivity PV01).

The interest rate sensitivity PV01 is EUR -69.8 thousand, and has decreased compared with the end of 2015 (EUR -131.4 thousand) due to management measures. The utilisation is within the limits.

Foreign exchange risk (EAA Group)

	31/12/2016 EUR thousand	31/12/2015 EUR thousand
AUD	1,040.3	3,682.6
CHF	472.2	8,959.9
GBP	1,327.6	10,541.9
JPY	3,218.7	4,130.2
PLN	-1,491.7	-2,148.8
SGD	1,120.5	2,877.3
USD	6,384.1	15,226.6
Other	13,180.5	4,597.3
Total	**25,252.2**	**47,867.0**

The EAA's currency position is determined based on the principle of special cover in accordance with section 340h of the German Commercial Code (Handelsgesetzbuch – HGB). The exposures in the various currencies are within the limits. They change as a result of market fluctuations and in the course of normal business operations.

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

The wind-up strategy aims to realise the intrinsic value of the exposure. The EAA does not take into account short-term capital market fluctuations and associated credit-spread changes when managing its exposures. The exposures are monitored and, if required, decisions are made to exit specific exposures. Therefore, no limits for credit spread risks are in place.

Market price risks – trading portfolio

The trading portfolio is exposed not only to interest rate and foreign exchange risks but also to a limited amount of credit spread and equity price risks. The trading portfolio predominantly includes derivative exposures as well as non-linear options risks. In line with market practice, risks in the trading portfolio are hedged at the portfolio level. This entails residual risks which change due to market movements and developments in the portfolio, and are hedged dynamically (dynamic hedging strategy).

When monitoring and limiting risks, the EAA applies both a VaR model and risk sensitivities. A number of stress scenarios are also used for risk management purposes. On a daily basis, the VaR model calculates interest rate risks, equity risks and foreign exchange risks for the trading portfolio, including the respective volatility risks. A confidence level of 99% and a one-day holding period are assumed when calculating the VaR.

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

The relevant market price risk exposures are continuously subjected to backtesting. This involves comparing on a daily basis the actual market value changes (hypothetical income statement) to the possible market value changes forecast by the VaR model. There was one backtesting breach in the current fiscal year 2016 at the highest level of the portfolio structure of the trading portfolio. This exceeded limit resulted from strong market fluctuations after the Brexit vote. From a statistical perspective, two to three instances of exceeded limits must be expected per year for a VaR with a holding period of one trading day and a confidence level of 99%.

Value at Risk by clusters

	31/12/2016 EUR thousand	31/12/2015 EUR thousand
EAA Trading	689.1	1,324.6
Muni GIC Portfolio	585.9	404.6
Interest Rate Exotics	233.5	989.2
Interest Rate Flow	211.7	431.5
Foreign Exchange Options and Hybrids	139.7	102.6
Interest Rate Options	89.6	244.3
Credit Derivatives	5.7	8.6
Equity Structured Products	0.5	97.0
Fund Derivatives & Credit Repacks	0.1	1.3
Commodities	-	0.1

As at 31 December 2016 the VaR for the trading portfolio declined to EUR 689.1 thousand due to market movements and hedging activities (31 December 2015: EUR 1,324.6 thousand).

Liquidity risks

The EAA distinguishes between tactical and strategic liquidity risks.

- Tactical liquidity risk is the risk of not being able to generate sufficient liquidity over the short term (time horizon of up to one year) to meet contractual payment obligations.

- Strategic liquidity risk is the risk of not being able to implement funding measures set out in the funding plan on the market, in whole or in part.

The EAA's affiliates are included in the liquidity planning and management process so as to ensure optimal access to liquidity. Due to the duty of the liable stakeholders and the FMS to offset losses incurred, as well as because of their creditworthiness, the EAA is perceived positively in the capital markets. As a result, there is less risk concerning the EAA's specific funding options than there is with regard to systemic market illiquidity.

In order to assess its liquidity, the EAA analyses in detail its funding position, liquidity reserve and funding needs. On the liabilities side, liquidity is assessed by type, volume and time horizon of the funding instruments. The EAA creates a monthly capital commitment statement by comparing the expected cash flows used for liabilities with those arising from assets, taking into account the use of derivatives. This provides information on its need for net funding. To this end, the EAA considers both tactical and long-term strategic liquidity. The tactical liquidity risk is regularly assessed using stress tests.

In order to manage and monitor its liquidity risks, the EAA has implemented a system to closely monitor the implementation of the funding plan. It also maintains a liquidity reserve. Securities with short terms and the best possible credit ratings may be purchased (subject to strict limits) in order to maintain the necessary volume of the liquidity reserve. A significant portion of the EAA's assets are invested in foreign currencies (particularly the US dollar) for longer terms. Foreign currency assets are refinanced using a mixture of foreign currency liabilities, which are issued via the Commercial Paper and Debt Issuance Programme, and using liabilities in euros in combination with long and medium-term cross-currency swaps and short-term foreign exchange swaps.

All stress scenarios demonstrated a viable liquidity situation as at 31 December 2016. The liquidity reserve consists of collateralised liquidity (the portfolio's securities holdings which are highly likely to be eligible for bilateral repo transactions) and short-term investments. Liquidity reserve was always higher than the liquidity requirement during the reporting period. At the time of the stress test on the last day of December 2016, the liquidity reserve amounted to EUR 5.4 billion.

Owing to the good ratings of its liable stakeholders and the FMS, the EAA does not consider it necessary to limit the strategic liquidity risk.

Longevity risks

The EAA funds premium payments for American life insurance policies under so-called life settlement engagements. The payouts from these policies flow to the EAA when the insured individual dies. These engagements are bundled in subsidiaries of Erste EAA-Beteiligungs GmbH.

Longevity risk is the risk that insured persons live longer than originally calculated. In this respect, the insurance premiums must be paid longer than forecast. Changes to the assessment of the longevity risks are due to misjudgements made when the insurance policies were originally purchased by Portigon as well as to higher premiums demanded by the insurance companies. The EAA is currently reviewing whether such premium increases are legally permitted. The EAA has already filed initial suits in this respect.

Longevity risk is limited to the acquired portfolio. Due to the large number of policies, coupled with a correspondingly high volume of financing and long terms to maturity, longevity risk is a major risk for the EAA.

The actuaries and service providers engaged by the EAA provide monthly analyses on the life settlement exposure. Based on these analyses the EAA constantly monitors the relevant cash flows and thus the longevity risk so that deviations from the original forecast can be identified and taken into account in the valuation.

The EAA regularly monitors not only the present value of the expected cash flows (premiums, death benefits and service fees) from the policies but also the so-called net present value of Erste EAA-Beteiligungs GmbH. Besides the present value of the expected cash flows, this indicator takes into account the outstanding funding and cash on hand, making it possible to measure performance over time for the entire life settlement portfolio. As at the reporting date of 31 December 2016, the net present value had decreased by USD 63.1 million to USD -72.4 million (31 December 2015: USD -9.3 million). The reduction was caused by adjustments to the premium amount by the insurers, updates to life-expectancy estimates for policyholders and lower-than-planned insurance benefits. Under the profit and loss transfer agreement between the EAA and Erste EAA-Beteiligungs GmbH this loss is offset by the EAA.

Operational risks

The EAA differentiates between operational risks within the EAA Group (including its subsidiaries) and risks from the outsourcing of activities to 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 in respect to the service providers encompass possible losses from procuring services from third-parties. These include, in particular, the risk that contractually agreed services are not provided or do not meet the stipulated quality.

Operational risks arise from two sources, first, when EAA employees and service providers perform their tasks and second, from the surrounding environment. The management of operational risks is therefore the direct responsibility of the individual departments under the leadership of the respective department heads. The EAA's Risk Controlling department coordinates this effort.

Operational risks within the EAA

The EAA's management has established a sustainable risk management culture within the organisation in order to avoid operational risks. The EAA's Risk Controlling department is responsible for developing and introducing methods for identifying, measuring, analysing, monitoring and reporting on operational and other risks.

Operational risks are managed using uniform methods and procedures at the EAA and its subsidiaries. The operational risks of other service providers are managed using consistent methods. They are aggregated into an overview of overall risk.

Its activity focuses on the regular analysis and identification of weaknesses, and on ways to optimise all business procedures and processes. The EAA focuses on managing or mitigating material individual risks. To that end, it has established an internal system – depending on the type and scope of the operational risks – to record and measure the operational risks for the EAA as a whole. The recording of operational risk incidents and the annual risk inventory are key elements to measure operational risks. Based on the findings obtained, appropriate measures are decided upon and implemented.

This involves the following. First, losses and near losses are recorded and evaluated, and potential or actual losses are quantified. In addition to documenting operational losses and near losses, an extensive ex-post analysis of operational risk incidents offers information on weaknesses and facilitates the initiation of risk-reducing measures on the basis of this information.

Second, an annual risk inventory is performed to identify risks and assess their significance for the EAA. Appropriate risk-mitigating measures are decided upon and implemented based on the findings obtained. The Risk Controlling department gathers the information on the operational risk incidents and performs the risk inventory for the EAA. The processes at the service providers which are relevant to the EAA are also subjected to an annual risk inventory by the relevant Operational Risk Management department, which then reports the results to the EAA. If an operational risk incident occurs in these processes, it will also be reported to the EAA, including the associated risk-reducing measures and their status.

The EAA's most recent risk inventory revealed no assessment object with high risks. Of the assessment objects, 12.5% are characterised by medium risks and 87.5% by low risks. The overall risk situation therefore remains largely unchanged.

The EAA has outsourced key business processes to EFS and EPA. In the past the EAA received services from Portigon as well. Given the expected return of Portigon's banking license in connection with the implementation of the restructuring ordered by the European Commission, the EAA undertook significant projects last year in order to unbundle itself from Portigon.

A risk inventory of the EAA together with EFS, EPA, EAA KK and EAA CBB was carried out in 2016. This risk inventory showed that after acquiring EFS to secure the services provided by EFS for the EAA, risks in the high-risk area were reduced to 3% (previous year: 4.8%), particularly in the case of personnel risks.

Service provider management
The outsourcing of key business processes requires that the EAA controls and monitors the operating infrastructure of its service providers in order 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 the liable stakeholders and the FMSA as well as from supervisory and statutory requirements in terms of transparency, correctness and the adequacy of control systems.

The EAA is also subject to the legal and supervisory regulations pursuant to section 25a KWG and section AT 9 note 7 MaRisk relating to the management and monitoring of outsourcing measures and/or section AT 4.3.1 note 2 and section AT 9 note 1 (organisational rules), which require the management and monitoring of outsourced activities.

As a result, an adequate monitoring system is a key success factor for the EAA. The EAA has selected a needs-based approach to structure its service provider management in order to create a structure that fulfils the requirements, reflects its business model, meets its supervisory and reporting obligations, and minimises the operational risks associated with outsourcing. The selected approach is also innovative because it brings together the unusually broad coverage of highly different services and assessment criteria using a simple analysis matrix. The EAA's concept combines a flexible technical solution with a holistic, integrated, multidimensional and pragmatic management approach that focuses on business processes and the end product.

Service provider management monitors the interfaces between the service providers and the EAA – as the service recipient – in terms of the content, form and quality of the services. Using a continuous and timely monitoring process, the EAA accordingly ensures that its requirements, which are defined in service level agreements, are fulfilled by the service providers in the agreed form. In this process, the EAA records the outsourcing risks and assesses them by applying a traffic light system. The monitoring and assessment process is supported by an online assessment system. Any necessary service and process adjustments are additionally taken into account in a process of continuous improvements.

The EAA has agreed protective measures for data and IT security, including the data centres, with its service providers. These measures are continuously reviewed and adjusted if necessary.

There were no elevated risks in 2016, and the quality of the services rendered during the period were fundamentally stable in accordance with the service agreement.

Other risks

Reputational risks

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

Given the strong public interest in the EAA, reputational risks are especially relevant. The EAA also attaches special importance to its public image, since it impacts its funding options on the capital market.

The EAA has established behavioural rules for its employees in its "Code of Conduct". The EAA monitors all public media coverage intensely to further minimise reputational risks. This also includes public media coverage about its subsidiaries in the wind-up portfolio. Coordinated and active communication and public relations activities support the EAA's reputation.

Legal risks

Legal risks comprise risks arising from contractual agreements or statutory conditions which harbour the risk of negative effects within and outside the EAA.

The EAA is subject to legal supervision by the FMSA, which, in turn, is subject to legal and technical supervision by the German Ministry of Finance. Supervision by the FMSA ensures in particular that the EAA complies with the requirements of statutory provisions and its charter.

Significant legal risks arise for the EAA from the transferred derivatives transactions with municipalities based on the "Ille ruling" of the German Supreme Court (BGH) of March 2011. The BGH ruled that banks may be required to inform their clients about the initially negative market value of the derivative before the contract is concluded. In the event that this information is not provided, the bank is then liable for providing inappropriate investment advice, according to the BGH. The liability extends to the annulment of the derivative and the reversal of all payments. Two issues need to be taken into account when assessing this risk. First, additional rulings by the BGH from April 2015 and March 2016 have specified the area of application of this case law and significantly expanded its scope. Second, the ruling from March 2016 in particular simplified the defence against the assertion of claims. Herein the BGH set out the conditions under which a lack of disclosure about the initial negative market value is not to be deemed the cause of the conclusion of the contract. The EAA has already reached out-of-court settlements with many municipalities. Nevertheless, the risk cannot be ruled out that future judicial rulings may be unfavourable for the EAA.

Starting in April 2010 the authorities in the US and at the EU level (particularly BaFin) have investigated possible misconduct in the trading departments of several banks. The results of the investigation have not produced any evidence of wrongdoing at the former WestLB; the investigations by BaFin and the US supervisory authorities were terminated without taking any measures against Portigon. A number of investment banks active in the US were also sued in the US in various class action lawsuits due to alleged manipulative actions. These class actions have been repeatedly rejected with respect to Portigon. Whether the plaintiffs will appeal again is uncertain since a favourable judgement for them appears to be very unlikely. The EAA has no reason to doubt Portigon's claims that there are no indications of any misconduct.

When necessary, the EAA has established sufficient financial reserves and initiated other measures to cover judicial and extra-judicial disputes.

Tax risks

Tax risks may arise from changes in tax legislation, case law or errors in the application of the law as well as the special tax regulations for winding-up agencies.

The EAA uses clearly defined governance structures and processes to analyse and manage tax risks. Tax risks are clarified 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 the former WestLB and its domestic and foreign subsidiaries, and to wind these up based on a long-term wind-up plan in a value-preserving and risk-minimising manner. Value fluctuations in the interim are of less significance.

To that end in particular, wind-up agencies in accordance with section 8a FMStFG are exempt from capital requirements, the obligation to prepare consolidated financial statements and other statutory provisions that apply to commercial banks.

The EAA strives in its risk management activities to reduce the risk resulting from the wind-up of the portfolio. To that end, the wind-up result and any deviations from the wind-up plan are continually monitored and compared against the plan (see also the "Wind-up report" section).

Liquidity risk is reduced to the same extent to which the EAA raises funding on the capital markets that is largely congruous in terms of maturities and 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 management system and an internal control system in order to manage operational risks.

The Phoenix and EUSS structured credit products continue to constitute the largest individual risks. This means the US economy and the development of the US real estate market play a prominent role in the EAA's risk situation. The EAA has provided sufficiently for all known risks. Its equity – before the loss offset guarantees – is initially available as aggregate risk cover for risks that are not yet currently foreseeable.

Risks resulting from the sovereign debt crisis, particularly for exposures in peripheral eurozone countries, are being monitored closely and in a timely fashion.

Longevity risk is the risk that insured persons live longer than originally calculated. This is limited to the acquired portfolio. The longevity risks in the portfolio are regularly analysed by actuaries and service providers.

The requirements for risk-bearing capacity pursuant to section AT 4.1 MaRisk are not relevant for the EAA. Instead, the EAA performs a quarterly analysis of the development of its equity to the end of the planning period using the wind-up plan as well as updated variables and market parameters. This involves, in particular, the effects of changed framework conditions on equity in 2027. As scheduled, a new wind-up plan was prepared as at 31 December 2016. This wind-up plan shows positive equity capital as at the end of the planning period. This means that as of the end of the planning horizon for the wind-up plan, the only possibility that a loss could occur which would require utilisation of the EAA's liability mechanism would be if adverse scenarios were to materialise which, from today's perspective, are unlikely to occur.

In summary, the EAA perceives the risks it has assumed to be adequately covered, given its capital resources as well as the existing guarantee, equity instruments and loss-offset obligations of the liable stakeholders and the FMS.

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

Opportunities report

The economic recovery in the eurozone will continue this year. Nonetheless, the average pace of growth is still considerably below the levels seen before the global financial crisis. Italy is likely to report rising economic performance again in 2017. Its growth, however, is set to be below average for the eurozone, since Italy will probably have to elect a new government in 2017 after the resignation of Prime Minister Renzi. Former crisis-hit countries such as Spain or Ireland are once again among the fastest-growing economies in the eurozone in 2017 and 2018.

This benefits the valuations of euro government bonds as well as other financial products of the eurozone periphery. The process is not limited to listed products only; it also affects other segments of the euro credit markets such as promissory note loans, traditional loans and project financing. The EAA's portfolios benefit from this normalisation process because the further "pricing out" of an additional country risk premium means that prices will recover considerably. Going forward, this process will probably continue to bolster financial markets in the future too.

The ECB's OMT programme and its purchases have created new confidence in the euro periphery. At the same time, the euro crisis was a key catalyst for the region. Structural problems in Spain and Portugal, such as rigid labour and product markets, a retirement age that is too low and an inadequate export mix, have been resolved, thereby increasing competitiveness. The combination of these developments enables the euro periphery states to finance their debt servicing and new borrowing. If nothing else, this has led to a marked recovery in the value of the securities issued by these countries and the companies established there.

Besides exposures to the euro periphery, the EAA also has significant exposures in the US. US property prices in particular have largely recovered in the course of the economic development and are now only about 9% below the high of July 2006. This was already taken into account in the evaluation of the exposures, so the positive effect of the continued economic recovery in the US should be limited.

The EAA anticipates that these developments will have a fundamentally beneficial effect on the portfolio (see also the "Forecast report" section).

Forecast report

Active measures and contractual maturities are expected to reduce the notional volume of the banking book by around 13% to about EUR 26 billion in 2017.

The EAA's objective is to wind up around 82% of the banking book's portfolio as at 31 December 2011 (including the exposures held by subsidiaries and the exposures from the refill) by the end of 2018. As in previous years, the EAA's wind-up activities will focus on advance portfolio-reducing measures and active participation management.

For 2017 the plan calls for a reduction in the notional volume of the trading portfolios by around 12% to about EUR 228 billion compared with the previous year. The EAA continues to target a more than 81% reduction in the notional volume by the end of 2018 since the transfer in 2012. The EAA will continue to analyse to what extent it is possible to accelerate the reduction of the transferred trading portfolios in an effective and cost-efficient manner.

With regard to the change in notional volumes in the banking book and the trading portfolio, in the previous year the EAA anticipated that in fiscal year 2016 these would be reduced to EUR 28 billion in the banking book and EUR 277 billion in the trading portfolio. The actual notional volume of the banking book was reduced to EUR 29.7 billion. The forecast target wasn't reached caused by an unscheduled extension in the Structured Securities cluster. The actual notional volume of the trading portfolio fell to EUR 258.6 billion on account of active wind-up measures.

Net interest and net fee and commission income will fall during the 2017 fiscal year in line with the reduced portfolio and likely amount to EUR 162 million (including dividend income). A forecast for the trading result and for the result of risk provisions is difficult due to the imponderables with respect to developments on the global financial markets and other markets. The EAA is sticking with its strategy of winding up in a manner that preserves value. Losses cannot be ruled out in the next few fiscal years because of the now substantial reduction of the portfolio and the associated decline in income from ongoing operations. This possibility is taken into account in the EAA's wind-up planning.

In the previous year the EAA anticipated that its net interest income and net fee and commission income for the 2016 fiscal year would decrease due to the reduction in the portfolio. This forecast proved to be correct. The decrease, amounting to EUR 33.2 million, was smaller than anticipated. Last year the EAA decided not to make a forecast about the development of the net trading and risk provision result due to the imponderables associated with the developments on the global financial and other markets.

Further forecasts regarding earnings in the next few fiscal years on the basis of the indicators described are subject to uncertainty and are reliable only to a limited extent. Based on its wind-up planning, however, the EAA does not currently foresee the need to utilise the equity draw-down facility or the assumed loss-offset obligations.

In light of this, the EAA has once again identified for 2017 a number of exposures in the credit and securities portfolio that offer potential for sales, terminations or early redemptions. This course of action serves the overriding goal of minimising losses while taking into account expected risk developments. Independent of the sales portfolio for 2017, the EAA pursues an opportunistic approach by conducting regular analyses of market conditions and exit opportunities in order to assess early and profitable wind-up opportunities for all positions of the portfolio.

The eurozone economy appears to be improving further owing to the interventions of the ECB (purchase programme for government bonds, covered bonds, securitisations and corporate bonds). France and Italy are also reporting rising growth rates. It is nonetheless the case that, in comparison to previous recovery phases, the current economic recovery is proceeding very slowly. An attempt to overcome a debt crisis through austerity measures will take a very long time. These efforts are even more difficult when, in addition to the public sector, private households and the corporate sector must likewise make cut-backs in order to reduce excessive debt. The elections in Germany, the Netherlands and France may have an effect on the economic recovery. The adverse impact of the financial and debt crisis for citizens (higher unemployment and taxes as well as stagnating or falling wages) has boosted the influence on the electorate exerted by some populist parties with anti-EU and anti-euro agendas. The populist parties may therefore wield greater influence on the political process in the future. Furthermore, the new governments in Portugal and Spain do not necessarily appear inclined to continue with the successful reform policies of recent years. These reforms were an important factor behind the recovery of the Portuguese and Spanish economies.

Nevertheless, the EAA's objectives are bolstered by economic trends. The ECB's programme to purchase eurozone government bonds should have a particularly positive impact on the EAA's portfolios. The combination of asset purchases and the ECB's promise to stand ready as buyer of last resort within the framework of OMT has prevented the renewed flare-ups of the situation in Greece during programme reviews and budget discussions from spilling over into other countries or regions. The effect of the ECB's purchases will probably not be limited to just government bonds and will additionally radiate out to other segments. This seems likely because in today's environment of low interest rates and yields, investors are looking for investment alternatives.

The future tasks of the EAA include securing the acquired expertise for future successful wind-up activities. However, in parallel with winding up the portfolio the EAA must also reduce costs and save on staff. It is a challenge for the management to deal with these conflicting priorities while retaining specialists for the work that remains. In the coming years the EAA will optimise its structures on an ongoing basis.

Accounting-based internal control and risk management system

The objective of an accounting-based internal control and risk management system (ICS/RMS) is to ensure compliance with financial reporting standards and regulations and to guarantee the integrity of the financial reporting.

Within the framework of the service agreements concluded, the EAA and EFS have implemented an ICS and an RMS that are appropriate for their financial reporting processes and business activities. The EAA's accounting-related ICS/RMS consists primarily 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 EAA'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);
- △ appropriate control procedures are in place so that unauthorised purchases, use or sales 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 segregation of functions, compliance with established approval or authority levels, dual control principle when recording business transactions, orderly documentation); and

- the archiving and storage of documents and accounting-relevant data is regulated concerning information that provides accurate, sufficiently detailed and appropriate data on business transactions and the use of assets.

The EAA monitors the entire accounting-based ICS/RMS on an ongoing basis. Existing professional and technical controls are examined regularly by the Internal Audit department of the EAA (with the support of its external service provider) and the auditor of the EAA as well as, in cases pertaining to outsourcing to EFS, by the Internal Audit department of EFS and its auditor.

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

Moreover, the financial reporting processes are included in EAA's general risk management process with regard to operational risks. This is intended to prevent errors or misstatements to the greatest extent possible, or to uncover them early on. All processes are documented in the EAA's written rules of procedure, which are available to all employees.

The accounting policies are documented in electronic manuals. Annual, quarterly and monthly financial statements are prepared in accordance with a coordinated schedule.

New statutory and supervisory requirements are implemented and communicated promptly, depending on their respective scope and significance to the EAA. This is carried out in projects and via written instructions. All relevant departments and management levels are involved in accordance with internal project guidelines.

Employees of the Finance & Tax department participate in the meetings of the relevant risk and management committees. This participation helps ensure that strategic and risk-related developments are included promptly in the financial accounting and reporting. Transactions with new products or in new markets, which the EAA may carry out only within the scope of the portfolio wind-up and not to operate new businesses, are handled through the new product process intended for that purpose, in which the Finance & Tax department is also integrated.

Balance sheet

Assets

	Notes	EUR	EUR	31/12/2016 EUR	31/12/2015 EUR
1. Cash reserve					
a) Balances with central banks			1,696,544,165		(3,518)
of which:					
with Deutsche Bundesbank EUR 1,696,544,165 (py: EUR 3,518)					
				1,696,544,165	3,518
2. Loans and advances to banks	4, 31				
a) Payable on demand			4,328,984,532		(5,810,475,286)
b) Other loans and advances			2,933,556,878		(3,853,691,759)
				7,262,541,410	9,664,167,045
3. Loans and advances to customers	5, 6, 16, 31			14,076,435,205	15,066,219,181
of which:					
secured by mortgage charges EUR 274,699,385 (py: EUR 353,030,633)					
Public-sector loans EUR 1,288,200,852 (py: EUR 1,281,840,228)					
4. Bonds and other fixed-income securities	7, 13, 17, 31				
a) Bonds issued by					
aa) public issuers		2,145,836,799			(2,333,706,212)
of which:					
eligible as collateral with Deutsche Bundesbank EUR 1,914,722,558 (py: EUR 1,988,362,403)					
ab) other issuers		10,702,207,986			(13,327,383,624)
of which:					
eligible as collateral with Deutsche Bundesbank EUR 1,248,846,030 (py: EUR 1,165,299,097)					
			12,848,044,785		(15,661,089,836)
b) Own bonds notional value: EUR 50,751,000 (py: EUR 132,924,675)			52,278,609		(136,088,750)
				12,900,323,394	15,797,178,586
5. Equities and other non-fixed-income securities	8, 13			2	285,976
5a. Trading portfolio	9			23,750,386,362	27,148,168,184

BALANCE SHEET

	Notes	EUR	EUR	31/12/2016 EUR	31/12/2015 EUR
6. Long-term equity investments	10, 13			65,719,209	95,289,395
of which:					
in banks EUR 12,421,102 (py: EUR 12,421,102)					
7. Shares in affiliates	11, 13			798,317,785	778,291,621
of which:					
in banks EUR 434,297,095 (py: EUR 452,806,288)					
in financial service providers EUR 29,045,760 (py: EUR 16,736,565)					
8. Trust assets	12			25,577	26,626
of which:					
trust loans EUR 25,577 (py: EUR 26,626)					
9. Intangible assets	13				
a) paid concessions, trademarks and similar rights and values such as licenses in such rights			4,413,903		(4,857,699)
				4,413,903	4,857,699
10. Tangible fixed assets	13			273,803	256,979
11. Other assets	14			66,061,566	67,051,964
12. Prepaid expenses/accrued income	15			48,226,705	46,374,981
Total assets				**60,669,269,086**	**68,668,171,755**

Liabilities and equity

	Notes	EUR	EUR	31/12/2016 EUR	31/12/2015 EUR
1. Deposits from banks	15, 18				
a) Payable on demand			2,244,426,131		(2,865,358,433)
b) With an agreed maturity or withdrawal notice			521,875,443		(757,411,932)
				2,766,301,574	3,622,770,365
2. Deposits from customers	15, 19				
other deposits					
a) Payable on demand			135,106,811		(140,400,864)
b) With an agreed maturity or withdrawal notice			3,251,147,389		(3,952,435,756)
				3,386,254,200	4,092,836,620
3. Debt securities in issue	15, 20, 24				
a) Bonds			16,551,269,139		(18,920,288,732)
b) Other debt securities in issue			14,031,089,669		(15,313,243,645)
of which:					
money market instruments EUR 14,031,089,669 (py: EUR 15,313,243,645)					
				30,582,358,808	34,233,532,377
3a. Trading portfolio	21			22,737,617,054	25,383,746,584
4. Trust liabilities	22			25,577	26,626
of which:					
trust loans EUR 25,577 (py: EUR 26,626)					
5. Other liabilities	23			190,450,788	295,030,126
6. Accruals/deferred income	24			22,438,331	14,868,334
7. Provisions	25				
a) Tax provisions			0		(828,715)
b) Other provisions			342,659,598		(392,962,969)
				342,659,598	393,791,684

BALANCE SHEET

	Notes	EUR	EUR	31/12/2016 EUR	31/12/2015 EUR
8. Equity	26				
a) Called capital					
Subscribed capital		500,000			(500,000)
less uncalled outstanding capital		0			(0)
			500,000		(500,000)
b) Capital reserves			3,013,237,214		(3,013,237,214)
c) Revenue reserves					
Other revenue reserves		2,431,408			(2,431,408)
			2,431,408		(2,431,408)
d) Net retained losses			-2,375,005,466		(-2,384,599,583)
				641,163,156	631,569,039
Total liabilities and equity				**60,669,269,086**	**68,668,171,755**
1. Contingent liabilities	27				
a) Liabilities from guarantees and warranties			6,610,052,169		(9,870,795,153)
				6,610,052,169	9,870,795,153
2. Other obligations	27				
a) Irrevocable loan commitments			3,058,261,529		(3,188,268,112)
				3,058,261,529	3,188,268,112

Income statement

	Notes	EUR	EUR	1/1 - 31/12/2016 EUR	1/1 - 31/12/2015 EUR
1. Interest income from	29				
a) Lending and money market transactions		324,245,160			(380,183,370)
b) Fixed-income securities and debt register claims		208,437,623			(217,461,040)
			532,682,783		(597,644,410)
2. Interest expense			398,288,522		(480,478,482)
				134,394,261	117,165,928
3. Current income from	29				
a) Equities and other non-fixed-income securities			25,409		(193,085)
b) Long-term equity investments			19,900,653		(38,034,023)
c) Shares in affiliates			4,313		(9,753)
				19,930,375	38,236,861
4. Income from profit pooling, profit transfer or partial profit transfer agreements	29			19,581,268	18,608,488
5. Fee and commission income	29		34,634,035		(68,245,528)
6. Fee and commission expense			23,135,006		(23,645,874)
				11,499,029	44,599,654
7. Net trading result	29			33,638,772	-20,497,832
8. Other operating income	29, 30			11,996,135	13,894,165
9. General administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		20,771,519			(22,237,056)
ab) Compulsory social security contributions and expenses for pensions and other employee benefits		2,645,546			(2,351,895)
of which:					
for pensions EUR 724,618 (py: EUR 721,635)					
			23,417,065		(24,588,951)
b) Other administrative expenses			188,861,451		(275,150,390)
				212,278,516	299,739,341

INCOME STATEMENT

	Notes	EUR	EUR	1/1 - 31/12/2016 EUR	1/1 - 31/12/2015 EUR
10. Depreciation and write-offs on intangible assets and tangible fixed assets	13			503,586	478,312
11. Other operating expenses	30			15,429,361	14,104,804
12. Depreciation and write-offs on claims and certain securities as well as additions to provisions in the lending business	13, 25, 31			7,516,969	10,398,965
13. Income from appreciations of long-term equity investments, shares in affiliates and long-term securities	13, 31			92,991,362	138,959,409
14. Expenses from loss assumption	31			78,156,617	10,911,452
15. Result from ordinary activities				10,146,153	15,333,799
16. Taxes on income and earnings	32			422,501	651,851
17. Other taxes not reported under item 11	32			129,535	1,543,130
18. Net profit for the year				9,594,117	13,138,818
19. Net retained losses brought forward				-2,384,599,583	-2,397,738,401
20. Net retained losses				-2,375,005,466	-2,384,599,583

Cash flow statement

			1/1 - 31/12/2016 EUR	1/1 - 31/12/2015 EUR
1.	+/-	Result for the period	9,594,117	13,138,819
		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	-2,554,324	27,591,176
3.	+/-	Increase/decrease in provisions	-51,132,087	-16,497,424
4.	+/-	Other non-cash income/expense	486,967,113	-750,944,196
5.	+/-	Gain/loss on disposal of long-term financial assets	-54,198,851	-189,267,731
6.	=	Subtotal	388,675,968	-915,979,356
		Change in operating assets and liabilities		
7.	+/-	Increase/decrease of loans and advances to banks (no trading portfolio)	2,457,753,488	4,884,742,491
8.	+/-	Increase/decrease of loans and advances to customers (no trading portfolio)	984,194,700	-2,083,548,860
9.	+/-	Increase/decrease of securities (no financial assets and no trading portfolio)	2,944,295,922	487,161,209
10.	+/-	Trading assets	879,983,365	403,272,703
11.	+/-	Increase/decrease of other operating assets	7,959,241	72,662,509
12.	+/-	Increase/decrease of deposits from banks (no trading portfolio)	-854,642,920	-1,383,801,772
13.	+/-	Increase/decrease of deposits from customers (no trading portfolio)	-684,379,163	-1,425,938,360
14.	+/-	Increase/decrease of debt securities in issue	-3,626,342,533	-445,860,010
15.	+/-	Trading liabilities	-615,298,186	-522,559,736
16.	+/-	Increase/decrease of other operating liabilities	-89,467,905	52,005,101
17.	+/-	Interest expenses/interest income	-154,324,637	-155,402,789
18.	+/-	Tax expenses/tax income	422,501	651,851
19.	+	Interest payments and dividend payments received	552,375,583	605,695,788
20.	-	Interest paid	-452,600,143	-578,547,186
21.	+/-	Income tax payments	-11,303,437	-16,498,500
22.	=	Cash flows from operating activities (sum of 6 to 21)	1,727,301,844	-1,021,944,917
23.	+	Proceeds from disposal of long-term financial assets	164,594,923	1,410,468,774
24.	-	Purchase of long-term financial assets	-139,499,841	-435,271,838
25.	-	Purchase of tangible fixed assets	0	-68,335
26.	-	Purchase of intangible assets	-76,615	-83,107
27.	=	Cash flows from investing activities (sum of 23 to 26)	25,018,467	975,045,494
28.	+/-	Changes in other capital (net)	0	0
29.	=	Cash flows from financing activities (sum of 28)	0	0
30.		Net change in cash funds (sum of 22, 27, 29)	1,752,320,311	-46,899,423
31.	+	Cash funds at beginning of period	8,073,446	54,972,869
32.	=	Cash funds at end of period (sum of 30 to 31)	1,760,393,757	8,073,446

The cash flow statement is prepared in accordance with DRS 21. The cash funds include the current accounts maintained at HSBC and Deutsche Bundesbank (demand deposits). Further cash funds as defined by DRS 21 do not exist at the present time.

Statement of changes in equity

	Balance as of 1/1/2016 EUR	Appropriation of the result EUR	Balance as of 31/12/2016 EUR
Called capital	500,000	0	500,000
Capital reserves	3,013,237,214	0	3,013,237,214
Other revenue reserves	2,431,408	0	2,431,408
Net retained losses	-2,384,599,583	9,594,117	-2,375,005,466
Equity under HGB	**631,569,039**	**9,594,117**	**641,163,156**

	Balance as of 1/1/2015 EUR	Appropriation of the result EUR	Balance as of 31/12/2015 EUR
Called capital	500,000	0	500,000
Capital reserves	3,013,237,214	0	3,013,237,214
Other revenue reserves	2,431,408	0	2,431,408
Net retained losses	-2,397,738,401	13,138,818	-2,384,599,583
Equity under HGB	**618,430,221**	**13,138,818**	**631,569,039**

Notes

For the period from 1 January to 31 December 2016

General disclosures

1. Legal framework of the EAA

The EAA is a structurally and commercially independent public law entity with partial legal capacity operating under the umbrella of the German Financial Market Stabilisation Authority (Bundesanstalt für Finanzmarktstabilisierung – FMSA). It has its registered office in Düsseldorf. The EAA was set up by the FMSA on 11 December 2009, and entered into the commercial register of the District Court of Düsseldorf (HRA 20869) on 23 December 2009.

The EAA is winding up the risk exposures and non-strategic business units transferred from the former WestLB and its domestic and foreign subsidiaries (transferred assets). When doing so, it proceeds in a value-preserving and risk-minimising manner. This serves to stabilise the financial market. The risk exposures and non-strategic business units of the former WestLB were transferred to the EAA in the years 2009 and 2010 (first fill) as well as in 2012 (refill) using several different methods. The method that was chosen in each case was based on the respective domestic, legal, supervisory and tax provisions. There is an ongoing process of legally and fully transferring exposures from Portigon's balance sheet to the balance sheet of the EAA where originally only the economic risk was transferred by way of guarantee without a legal transfer of the exposures themselves. For further information on the transfer methods, please refer to the "Operating activities of the EAA" section.

The EAA manages its business according to commercial and economic principles, in consideration of its winding-up objectives and the principle of minimising loss. It is not classified as a credit institution for the purposes of the German Banking Act (Kreditwesengesetz – KWG), nor does it carry out activities requiring a permit for the purposes of EU Directive 2006/48/EC dated 14 June 2006. It is subject to regulation by the FMSA. The EAA is supervised by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) with regard to those provisions of banking law that are applicable to the EAA.

2. Preparation of annual financial statements

In accordance with section 8a (1) sentence 10 in conjunction with section 3a (4) FMStFG and the additional guidance of the EAA's charter, the annual financial statements have been prepared under the provisions of the HGB for large public companies and the German Ordinance on Accounting for Banks and Financial Service Providers (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV). The EAA is not required under the FMStFG to prepare consolidated financial statements. Information that may be disclosed in either the balance sheet or the notes to the financial statements has been disclosed in the notes to the financial statements.

The annual financial statements are submitted electronically to the operator of the German Federal Gazette (Bundesanzeiger) and published in the German Federal Gazette (www.bundesanzeiger.de).

3. Accounting and measurement principles

Assets, liabilities and pending transactions are measured in accordance with section 252 et seq. and section 340 et seq. HGB.

Loans and advances are stated at nominal value less discounts and any allowances. Liabilities are recognised at their settlement values, and the applicable discounts are recorded as prepaid expenses. Premiums on loans and advances or liabilities are reported as prepaid expenses or deferred income. The prorated interest amounts calculated as of the reporting date are reported together with the underlying loan/advance or liability. Premiums and discounts from the issue and loans business are recognised in profit and loss using the effective interest method.

Sufficient consideration is given to identifiable risks in the lending business by recognising specific bad debt allowances and provisions. General bad debt allowances are recognised for the latent credit risk in the portfolio of loans and advances, and contingent receivables. General bad debt allowances are calculated using a model. The EAA takes into account the risk associated with lending to borrowers in countries with an acute transfer risk by basing its model-based calculation of the general bad debt allowance on ratings reflecting the transfer stop risk. This involves developing a risk factor based on each country's rating, which is then taken into account in the likelihood of default for a particular borrower or guarantor.

Securities in the liquidity reserve are measured using the lower of their market price or carrying amount. Securities treated as fixed assets (financial assets portfolio) are measured at acquisition costs. The differences between the acquisition costs and the amounts repayable are recognised pro rata temporis through profit and loss. In the case of an anticipated permanent impairment the value is written down to the lower recoverable amount. If securities included in the financial assets portfolio are reported at values higher than their current market value in accordance with the diluted lower-of-cost-or-market principle, these differences are referred to in the notes to the financial statements. This information changes over time in response to changes in the portfolio as well as interest rates and prices.

Structured financial instruments are accounted for in accordance with the "IDW accounting opinion: on the uniform or separate reporting of structured financial instruments (IDW RS HFA 22)". Most of the portfolio of structured securities comprises the Phoenix notes and the European Super Senior positions (EUSS positions). There are also smaller exposures in various other structured asset classes (other ABS).

Structured securities are measured on the basis of price information supplied by EPA, which is modelled using measurement methods agreed on with the EAA and subjected to analysis within the EAA.

Objective information on changes to the underlyings in the securitised portfolio is applied from the relevant contractual documentation and portfolio reports to determine the anticipated future cash flows and consequently the relevant discounted net present values for reporting in the balance sheet. The projected cash flows for the underlying transactions are also translated into a cash flow profile in accordance with the provisions governing distribution (waterfall) for the relevant overall transaction (Phoenix notes, EUSS positions) and then into a net present value for the individual tranches of the overall transaction. The appropriateness of the measurements in the underlyings and notes of Phoenix and EUSS are also verified by means of an internal validation process at the EAA.

The fair values of the equities, bonds, derivative products and other items reported in the trading portfolio are calculated as of the reporting date, initially with respect to individual transactions and irrespective of their trading status. Measurement is based on the exchange or market prices as of 30 December 2016, with averages and/or recognised measurement methods used in the interest of convenience. Proportionate interest, one-off payments and option premiums are taken into account. If exchange or market prices do not exist or cannot be reliably determined (especially in the case of derivative instruments), fair values are determined on the basis of the pricing models typically used in the market or discounted cash flows.

The EAA applies haircuts to some of the values calculated using a measurement model since the models used in these cases do not take into account all of the factors considered by market participants. These include haircuts for creditworthiness, modelling and liquidity risks. Haircuts were also required due to uncertainties in connection with legal disputes.

In a second step, applying the risk-adjusted market measurement method, the EAA compiles the trading transactions measured at fair value into portfolios in accordance with the risk management of the various business units. The summarised measurement results for each portfolio are reduced by the potential loss (VaR) calculated using a mathematical method (variance-covariance method). The VaR discounts (based on the calculation methods applied by the EAA's Risk Controlling department) are calculated so that the maximum anticipated loss from outstanding trading positions with a holding period of ten days can be offset with a likelihood of 99%. The observation period on which the calculation is based is 250 days, equally weighted with retroactive effect from the cut-off date.

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

Interest rate products: liquid, exchange-traded products (such as futures) are measured at their exchange prices. There are standardised specifications for many OTC derivatives (such as swaps, caps, swaptions) as well as measurement models (Black 76) and reliable market quotas (swap rates, cap volatilities). These are used for the purposes of measurement if they are available. Internally developed models based on the Markov functional model are used for exotic OTC derivatives (such as Bermudan swaptions). Securities with exotic coupons are measured based on the corresponding hedging OTC derivatives. The credit spread of the issuer is additionally used to calculate the present value.

In fiscal year 2015, the EAA refined its method of measuring interest rate products with optional components and adjusted the assumptions used in its model in response to the reduced interest rates. Instead of assuming a log-normal distribution of interest rates, a "shifted" log-normal distribution is used.

Bonds are measured on the basis of market prices. Less liquid securities for which no market prices are directly available are measured using either the observable market prices of comparable instruments or by means of the discounting of cash flows taking credit spreads into account that are based on the observable prices for comparable instruments.

Equity products: liquid, exchange-traded products (forward contracts, options) are measured at their exchange prices. The prices of conventional equity options with a single underlying (such as call and sell options, knock-out options, digital options) are determined using the Black-Scholes formula. Dividend estimates also need to be included for equity products. If derivatives contain optional components, the volatility of the underlyings is taken into account. If the derivatives correspond to participation certificates, an analytical formula is used without simulation for the purpose of measurement. No fund volatilities are required in this case.

Credit products: securities with exotic coupons or credit components (such as credit linked notes) and other products based on credit derivatives (such as perfect asset swaps) are measured on the basis of the corresponding OTC derivatives. The credit spread of the issuer is also used to calculate the present value if necessary.

When measuring derivatives collateralised using cash, future cash flows for the main portfolios are discounted on the basis of EONIA swap curves ("OIS discounting"). As part of the risk-adjusted market measurement method, this discounting was taken into account by means of a markdown amounting to EUR 16.4 million (previous year: EUR 26.3 million) as of 31 December 2016.

	Product	Valuation method	Valuation parameters
Interest rate products	Standard swaps	Present value method	Interest rates
	Exotic swaps	Markov functional	Interest rates, interest rate volatility, correlation
	Forward rate agreements	Present value method	Interest rates
	Standard-Caps, -Floors, -Collars	Black 76	Interest rates, interest rate volatility
	Exotic caps, floors	Markov functional	Interest rates, interest rate volatility, correlation
	European standard-swaptions	Black 76	Interest rates, interest rate volatility
	Exotic swaptions	Markov functional	Interest rates, interest rate volatility, correlation
Exchange rate products	FX swaps	Present value method	Interest rates, exchange rates
	Options	Black 76	Interest rates, exchange rates, exchange rate volatility
	Forward interest rate FX swaps	Present value method	Interest rates, exchange rates
Equity products	Standard options (single underlying asset)	Black Scholes	Price of the underlying asset, interest rates, dividend yield, volatility (base value, exchange rate)
Credit products	Credit default swaps (single underlying issuer)	Hazard rate bootstrapping model	Credit spreads
	Basket credit default swaps	Hazard rate bootstrapping model, Monte Carlo simulation	Credit spreads, correlation factors (derived from market consensus data)
	Collateralised synthetic obligation	Hazard rate bootstrapping model, Gaussian one-factor model	Credit spreads, correlations (derived from market 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 therefore entail projection uncertainties. Even if the available information, historical experience and other evaluation factors have been relied upon to prepare the estimates, actual future events may differ from the estimates. This may also have a material impact on the asset position, financial position and earnings situation. In the EAA's opinion, the parameters used are appropriate and acceptable.

Realised and unrealised valuation results, ongoing interest expenses and income, dividend income and fee and commission expenses and income from transactions involving financial instruments in the trading portfolio are reported in the net trading result.

Financial instruments in the trading portfolio are reported in the trading portfolio balance sheet items on the assets and liabilities sides of the balance sheet.

Cash collateral provided and received for derivatives is reported as loans and advances to banks and customers as well as deposits from banks and customers, depending on the external counterparty involved.

No financial instruments were reclassified out of the trading portfolio pursuant to section 340e (3) sentence 3 HGB in fiscal year 2016. No changes were made to the EAA's internal criteria for including financial instruments in the trading portfolio.

Long-term equity investments and shares in affiliates are recognised at acquisition cost. In the case of an anticipated permanent impairment the value is written down to the lower recoverable amount. Income from payments received in return for the assumption of risk positions in connection with participations pursuant to section 8a (4) No. 4 FMStFG is reported in net fee and commission income.

Pension, (reverse) repo and securities lending transactions are reported in accordance with the applicable principles of section 340b HGB. If the EAA remains the beneficial owner as the pension provider or lender in accordance with a binding on-lending agreement, the security continues to be capitalised. Any purchase price or cash collateral received is recognised as a deposit from banks or customers. As a pension recipient or borrower, the EAA capitalises only the purchase price paid or the cash collateral provided.

Tangible fixed assets and purchased intangible assets are depreciated/amortised in accordance with their anticipated useful lives (up to a maximum of 12 years). The EAA expenses low-value assets in full in the year in which they are acquired.

Increases in costs and prices are taken into account in the measurement of provisions. Provisions with a residual term of more than a year are discounted based on the average market interest rate for the last seven fiscal years, taking into account the remaining terms of the provisions or the underlying obligations. The yield curve is calculated at the end of each month and published on Deutsche Bundesbank's website.

The calculation of the provisions for the Muni GIC portfolio is mainly based on a regression of historical data in order to project future GIC deposits.

If the EAA uses financial instruments to hedge concrete risks in connection with assets, liabilities, pending transactions or transactions that are very likely to take place, and in doing so creates a valuation unit for this purpose, the general accounting principles (especially the principle of individual valuation as well as the acquisition cost, realisation and imparity principle) are not to be applied to this hedge arrangement insofar as the hedge is effective. The ineffective portion and other, unhedged risks are still governed by the general accounting provisions. The EAA's balance sheet does not contain any further valuation units for own bonds repurchased.

The EAA manages the general interest rate risk in the banking book centrally as part of its asset liability management. This is not a valuation unit for the purposes of section 254 HGB but rather an interest-based financial instrument in which the lending transactions or financial assets in the banking book are evaluated as a whole with respect to their interest component.

The translation of currencies for assets and liabilities is carried out in accordance with the provisions of sections 256a and 340h HGB. Assets and liabilities denominated in foreign currencies, unsettled foreign exchange spot transactions and pending transactions are classified in every currency as being specifically covered pursuant to section 340h HGB, and converted using the ECB reference exchange rates as of 30 December 2016. As a result, all expenses and income from the conversion of currencies are recorded in accordance with section 340h HGB. In the case of pending forward exchange contracts used to hedge interest-bearing balance sheet positions, the forward exchange rate is divided into a spot rate and a swap rate. The agreed swap amounts are accrued pro rata temporis. The positive net result from the evaluation of individual pending forward exchange transactions is reported under other liabilities.

Deferred taxes are calculated based on the temporary differences concept. In its annual financial statements as of 31 December 2016, the EAA has once again not exercised its option to capitalise deferred taxes.

In accordance with section 14 of the EAA's charter, profits are to be accumulated until the EAA is dissolved and the final accounts are drawn up.

Notes on the balance sheet and the income statement

4. Loans and advances to banks

	31/12/2016 EUR million	31/12/2015 EUR million
Carrying amount	**7,262.5**	**9,664.2**
of which:		
- to affiliates	742.4	972.3
Payable on demand	4,329.0	5,810.5
due		
- within 3 months	2,868.5	3,601.1
- 3 months to 1 year	10.0	176.3
- 1 to 5 years	31.1	43.3
- after 5 years	23.9	33.0

These loans and advances also include registered and other non-marketable bonds.

5. Loans and advances to customers

	31/12/2016 EUR million	31/12/2015 EUR million
Carrying amount	**14,076.4**	**15,066.2**
of which:		
- to affiliates	1,778.0	1,583.7
- to long-term equity investments	9.7	15.7
due		
- within 3 months	1,731.1	1,929.1
- 3 months to 1 year	2,233.8	2,274.9
- 1 to 5 years	2,628.9	3,246.1
- after 5 years	7,482.6	7,616.1

These loans and advances also include registered and other non-marketable bonds.

6. Loans and advances secured by mortgages

	31/12/2016 EUR million	31/12/2015 EUR million
Carrying amount	**274.6**	**353.0**
Loans and advances to customers due		
- within 3 months	5.4	12.0
- 3 months to 1 year	7.1	22.9
- 1 to 5 years	34.4	42.7
- after 5 years	227.7	275.4

7. Bonds and other fixed-income securities

	31/12/2016 EUR million	31/12/2015 EUR million
Carrying amount	**12,900.3**	**15,797.2**
of which:		
Amounts due in the following year	553.1	705.6
Breakdown		
- Bonds issued by public issuers	2,145.8	2,333.7
- Bonds issued by other issuers	10,702.2	13,327.4
- Own bonds	52.3	136.1
Breakdown by marketability		
- Marketable securities	12,900.3	15,797.2
of which:		
- listed	3,905.5	4,164.6
- unlisted	8,994.8	11,632.6
Breakdown by type		
- Liquidity reserve	159.1	290.9
- Investment securities	12,741.2	15,506.2

The bonds and other fixed-income securities in the amount of EUR 12.7 billion (previous year: EUR 15.5 billion) are included in the financial assets portfolio. As at the reporting date, financial assets with a book value of EUR 9.9 billion (previous year: EUR 12.1 billion) were recognised above their fair value of EUR 9.4 billion (previous year: EUR 11.4 billion) because the EAA expects to receive repayments totalling at least the amount of the book value. This judgement is based on the EAA's long-term wind-up strategy and the expected performance of the financial assets. The difference of EUR 0.5 billion is primarily attributable to structured loan products.

Of the aforementioned financial assets with a book value of EUR 9.9 billion, EUR 0.5 billion (previous year: EUR 0.1 billion) relates to bonds that were acquired in connection with asset swaps. The EAA funds the portion of the investment portfolio that was not hedged with asset swaps (EUR 9.4 billion) either with financing that is congruous in terms of maturities and currencies, or it hedges the balance at the portfolio level against changes in value caused by fluctuations in interest rates and currencies.

8. Equities and other non-fixed-income securities

	31/12/2016 EUR million	31/12/2015 EUR million
Carrying amount	**-**	**0.3**
Breakdown by marketability		
- Marketable securities	-	0.3
of which:		
- listed	-	0.3
Breakdown by type		
- Liquidity reserve	-	0.3

9. Trading portfolio

	31/12/2016 EUR million	31/12/2015 EUR million
Carrying amount	**23,750.4**	**27,148.2**
of which:		
- Derivative financial instruments	23,750.6	27,137.0
- Equities and other non-fixed-income securities	2.0	15.3
- Loans and advances	-	0.1
- Risk allowance pursuant to section 340e (3) sentence 1 HGB	-2.2	-4.2

10. Long-term equity investments

	31/12/2016 EUR million	31/12/2015 EUR million
Carrying amount	**65.7**	**95.3**
of which:		
- in banks	12.4	12.4
Breakdown by marketability		
- Marketable securities	18.5	27.2
of which:		
- listed	7.2	11.1
- unlisted	11.2	16.1

The decline in long-term equity investments compared with 31 December 2015 is primarily the result of the wind-up mission.

11. Shares in affiliates

	31/12/2016 EUR million	31/12/2015 EUR million
Carrying amount	**798.3**	**778.3**
of which:		
- in banks	434.3	452.8
- in financial service providers	29.0	16.7
Breakdown by marketability		
- Marketable securities	434.3	434.3
of which:		
- unlisted	434.3	434.3

The slight increase is attributable to the addition of EFS and other contributions in kind at Dritte EAA Anstalt & Co. KG. This was offset by sales and equity capital reductions at individual companies.

12. Trust assets

The EAA's trust assets as at 31 December 2016 comprise loans and advances to customers amounting to EUR 25.6 thousand (previous year: EUR 26.6 thousand).

13. Fixed assets

<table>
<tr><th></th><th>1/1/2016</th><th></th><th></th><th></th><th></th><th>31/12/2016</th><th></th><th>31/12/2016</th><th>31/12/2015</th></tr>
<tr><th>EUR million</th><th>Cost</th><th>Additions</th><th>Usage</th><th>Reclassi-fications</th><th>Reversals of write-offs</th><th>Accumu-lated deprecia-tion, write-offs</th><th>Deprecia-tion, write-offs in the financial year</th><th>Carrying amount</th><th>Carrying amount</th></tr>
<tr><td>Bonds and other long-term fixed income securities</td><td>15,506.2</td><td colspan="5" rowspan="4">Net change according to § 34 (3) sentence 2 RechKredV;
-3,122.9</td><td>-</td><td>12,741.2</td><td>15,506.2</td></tr>
<tr><td>Equities and other long-term non-fixed-income securities</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Long-term equity investments</td><td>113.4</td><td>6.7</td><td>65.7</td><td>95.3</td></tr>
<tr><td>Shares in affiliates</td><td>1,108.5</td><td>19.1</td><td>798.3</td><td>778.3</td></tr>
<tr><td>Intangible assets</td><td>5.5</td><td>-</td><td>-</td><td>-</td><td>-</td><td>1.1</td><td>0.5</td><td>4.4</td><td>4.9</td></tr>
<tr><td>Office and operating equipment</td><td>0.4</td><td>0.1</td><td>-</td><td>-</td><td>-</td><td>0.2</td><td>0.1</td><td>0.3</td><td>0.3</td></tr>
</table>

As well as additions and disposals, the net change in securities in fiscal year 2016 also comprises changes in the portfolio due to the prorated reversal of premiums and discounts.

14. Other assets

	31/12/2016 EUR million	31/12/2015 EUR million
Carrying amount	**66.1**	**67.1**
of which:		
- Tax refund claims	42.7	32.5
- Receivables from profit and loss pooling agreements	18.6	17.7
- Guarantee fees and commissions	4.7	15.8

The guarantee fees and commissions included in other assets consist of receivables from Portigon totalling EUR 4.4 million (previous year: EUR 15.5 million).

15. Prepaid expenses/accrued income

	31/12/2016 EUR million	31/12/2015 EUR million
Carrying amount	**48.2**	**46.4**
of which:		
- Non-recurring payments on swaps	36.3	33.5
- Discounts from issuing business	7.7	8.3
- Discounts from liabilities	3.4	3.4
- Other	0.8	1.2

16. Subordinated assets

Subordinated assets are included in:

	31/12/2016 EUR million	31/12/2015 EUR million
Loans and advances to customers	**781.9**	**737.2**
of which:		
- to affiliates	366.0	306.6
- to long-term equity investments	-	1.9

The increase in subordinated assets is primarily due to the provision of liquidity for a subsidiary.

17. Assets sold under repurchase agreements

No assets were sold under repurchase agreements as at 31 December 2016 and at the previous year-end.

18. Deposits from banks

	31/12/2016 EUR million	31/12/2015 EUR million
Carrying amount	**2,766.3**	**3,622.8**
of which:		
- Deposits from affiliates	20.5	16.3
Payable on demand	2,244.4	2,865.4
due		
- within 3 months	134.5	289.9
- 3 months to 1 year	26.2	8.5
- 1 to 5 years	207.2	223.7
- after 5 years	154.0	235.3

19. Deposits from customers

	31/12/2016 EUR million	31/12/2015 EUR million
Carrying amount	**3,386.3**	**4,092.8**
of which:		
- Deposits from affiliates	16.7	0.1
Other deposits	3,386.3	4,092.8
of which:		
- payable on demand	135.1	140.4
due		
- within 3 months	287.9	1,197.6
- 3 months to 1 year	901.2	242.1
- 1 to 5 years	671.4	748.1
- after 5 years	1,390.7	1,764.6

20. Debt securities in issue

	31/12/2016 EUR million	31/12/2015 EUR million
Carrying amount	**30,582.4**	**34,233.5**
Bonds	16,551.3	18,920.3
of which:		
Amounts due in the following year	6,665.7	8,460.7
Other debt securities in issue	14,031.1	15,313.2
of which due:		
- within 3 months	11,618.9	13,204.9
- 3 months to 1 year	2,412.2	2,108.3
- 1 to 5 years	-	-
- after 5 years	-	-

21. Trading portfolio

	31/12/2016 EUR million	31/12/2015 EUR million
Carrying amount	**22,737.6**	**25,383.7**
of which:		
- Derivative financial instruments	22,737.6	25,383.5
- Liabilities	-	0.2

22. Trust liabilities

The EAA's trust liabilities as at 31 December 2016 comprise deposits from customers amounting to EUR 25.6 thousand (previous year: EUR 26.6 thousand).

23. Other liabilities

	31/12/2016 EUR million	31/12/2015 EUR million
Carrying amount	**190.5**	**295.0**
of which:		
- Currency translation adjustments	106.6	268.6
- Deposits from the assumption of losses	78.1	11.8
- Obligations from swap transactions	-	0.1
- Other	5.8	14.5

Other liabilities mostly include unpaid invoices.

24. Accrued expenses/deferred income

	31/12/2016 EUR million	31/12/2015 EUR million
Carrying amount	**22.4**	**14.9**
of which:		
- Premium on issuing business	13.2	5.6
- Non-recurring payments on swaps	8.1	8.0
- Premiums for sold interest rate caps and floors	1.1	1.2
- Other	-	0.1

25. Provisions

	Balance as of 31/12/2015 EUR million	Additions EUR million	Accumulation EUR million	Utilisation EUR million	Reversals EUR million	Other changes EUR million	Final balance 31/12/2016 EUR million
Taxes	**0.8**	**-**	**-**	**-**	**0.8**	**-**	**-**
Other provisions	**393.0**	**104.7**	**1.6**	**81.7**	**45.8**	**-29.1**	**342.7**
- Loans	229.1	34.8	-	14.2	35.8	-39.7	174.2
- Shareholdings	26.7	10.5	0.2	8.0	5.1	0.8	25.1
- Legal actions	17.1	0.3	0.2	8.7	2.6	0.1	6.4
- Personnel	0.4	0.5	-	0.4	-	-	0.5
- Other	119.7	58.6	1.2	50.4	2.3	9.7	136.5
Total	**393.8**	**104.7**	**1.6**	**81.7**	**46.6**	**-29.1**	**342.7**

When loans previously guaranteed by the EAA were transferred to the EAA, the provisions that had been recognised until then for the guaranteed exposures had to be converted into allowances for the assumed exposures. This effect is included in the category "Other changes" in provisions for loans in the table shown above.

Other provisions primarily include amounts for risks that cannot be classified under any other type of provision.

26. Equity

The EAA's subscribed capital amounts to EUR 500,000 as at 31 December 2016.

The capital reserve totalling EUR 3,013.2 million results from the transfer of risk exposures and non-strategic business units of the former WestLB.

Other reserves amount to EUR 2.4 million and originate from the reversal of provisions for which the book values were reduced as a result of the change in the valuation of obligations under the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG).

The net profit for fiscal year 2016 amounts to EUR 9.6 million and reduces net retained losses to EUR 2,375.0 million as at 31 December 2016.

27. Contingencies

Contingent liabilities

Contingent liabilities amounting to EUR 6.6 billion (previous year: EUR 9.9 billion) primarily result from guarantees for Portigon's risk exposures and the liabilities inherited from WestImmo. The volume of these legacy WestImmo liabilities stood at EUR 3.7 billion as at 31 December 2016 (previous year: EUR 5.0 billion). This volume is constantly decreasing as a result of scheduled and unscheduled repayments. The EAA has also agreed on precautions with the Aareal Group that significantly reduce the likelihood of claims being asserted against the EAA. Firstly, it was decided that the Aareal Group would provide a liquidity facility to WestImmo, and secondly, a profit and loss transfer agreement was concluded between the Aareal Group and WestImmo.

The contingent liabilities include obligations from credit default swaps amounting to EUR 110.9 million (previous year: EUR 194.5 million). The EAA has no detailed knowledge of whether, when or to what extent these contingencies will materialise. A provision will be made as soon as there are sufficient concrete indications of probable losses resulting from a materialisation.

Other obligations

The reported volume of EUR 3.1 billion (previous year: EUR 3.2 billion) is due to the lending business. The EAA constantly reviews whether losses from other obligations are to be expected and if a provision needs to be made for impending losses from pending transactions.

28. Assets and liabilities in foreign currencies, and foreign exchange result

Assets denominated in foreign currencies amounted to EUR 16.3 billion as of the reporting date (previous year: EUR 20.7 billion), while liabilities denominated in foreign currencies amounted to EUR 24.0 billion (previous year: EUR 25.7 billion). The foreign exchange result of EUR -115.0 million (previous year: EUR -100.4 million) is included in the net trading result. This is mainly offset by income in the other trading result from the separation of complex derivative instruments.

29. Geographical breakdown of income components

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

	Interest income 1/1 - 31/12/2016 EUR million	Current income 1/1 - 31/12/2016 EUR million	Fees and commission income 1/1 - 31/12/2016 EUR million	Net trading result 1/1 - 31/12/2016 EUR million	Other operating income 1/1 - 31/12/2016 EUR million
Germany	403.3	38.7	32.7	33.6	12.0
UK	79.4	0.8	1.4	-	-
Rest of Europe	12.3	-	0.2	-	-
Far East and Australia	2.0	-	-	-	-
North America	35.7	-	0.3	-	-
IS amount	**532.7**	**39.5**	**34.6**	**33.6**	**12.0**

The geographic split of income is based on the operating branch office structure of Portigon in which the transactions were concluded prior to the transfer to the EAA.

Current income also includes the income from profit pooling, profit and loss transfer and partial profit and loss transfer agreements, if such agreements exist.

30. Other operating and prior-period expenses and income

Net other operating expenses and income in fiscal year 2016 comprised EUR 15.4 million (previous year: EUR 14.2 million) in expenses and EUR 12.0 million (previous year: EUR 13.9 million) in income. The expenses include EUR 7.9 million (previous year EUR 0.0 million) from the foreign exchange result in the banking book, while the income includes a one-off payment from legal disputes of EUR 4.9 million.

31. Risk provision

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

	1/1 - 31/12/2016 EUR million	1/1 - 31/12/2015 EUR million
Risk provision and financial investment result including loss assumption (pursuant to RechKredV)	**7.3**	**117.7**
Loans and securities income/expense	**-7.5**	**-10.4**
of which: - Lending operations	-7.7	-15.9
- Securities	0.2	5.5
Shareholdings and securities income/expenses	**93.0**	**139.0**
of which: - Shareholdings	42.9	47.4
- Securities	50.1	91.6
Expenses from loss assumption	**-78.2**	**-10.9**
Risk provision and financial investment result including loss assumption (pursuant to risk report)	**7.3**	**117.7**
Result of risk provisions - loans and advances/securities due to credit risk	**-7.4**	**-11.8**
of which: - Lending operations	-36.6	-13.8
- Structured securities	29.2	2.0
Results from financial assets, shareholdings and loss assumption	**14.7**	**129.5**

The EAA always makes use of the options available under section 340f (3) and section 340c (2) HGB. Under section 340f (3) HGB, income and expenses resulting from the valuation 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 of the liquidity reserve. The net expenses amount to EUR 7.5 million (previous year: net expenses EUR 10.4 million). This also includes income from the reversal of valuation allowances established in previous years on structured registered securities recognised in loans and advances to customers amounting to EUR 29.0 million. According to section 340c (2) HGB, the expenses for long-term equity investments, shares in affiliates and long-term investment securities may be offset against the corresponding income. Overall, the EAA shows income of EUR 93.0 million (previous year: income of EUR 139.0 million) as the risk result for shareholdings and securities, including EUR 13.5 million from the dissolution of a securitisation structure.

32. Taxes

Taxes on income and earnings amounting to EUR 0.4 million (previous year: EUR 0.7 million) primarily relate to foreign taxes.

In the current fiscal year, the EAA incurred other taxes in the amount of EUR 0.1 million, mainly comprising insurance tax (previous year: EUR 1.5 million, consisting primarily of foreign stamp duties).

33. Auditors’ fees

The full fee paid to the auditors in accordance with section 285 (17) HGB amounted to EUR 2.1 million (previous year: EUR 2.0 million).

The auditors received EUR 1.1 million for auditing services (previous year: EUR 1.6 million) and EUR 1.0 million for other assurance services (previous year: EUR 0.4 million).

Other disclosures

34. Liability for inherited debts

Insofar as the stakeholders were liable for the liabilities of the former WestLB as guarantors in accordance with article 1 section 11 of the law restructuring the legal framework for public-law banks in North Rhine-Westphalia dated 2 July 2002 in conjunction with article 1 section 4 (6) of the law restructuring Landesbank Nordrhein-Westfalen as a promotional bank for the State of North Rhine-Westphalia and amending other laws dated 16 March 2004, this liability remains in effect to the same extent following the transfer of the liabilities to the EAA.

The following grandfathering regulations apply with respect to guarantor liability for liabilities agreed prior to 19 July 2005:

- All liabilities and obligations of the Westdeutsche Landesbank Girozentrale that had already been agreed as of the cut-off date of 18 July 2001 are covered by unrestricted guarantor liability until the end of their terms.

- Liabilities and obligations entered into by the Westdeutsche Landesbank Girozentrale or WestLB in the period from 19 July 2001 to 18 July 2005 are still covered by guarantor liability in their original form insofar as their terms do not extend beyond 31 December 2015. Liabilities and obligations with terms that extend beyond this date are not covered by guarantor liability.

The guarantors of the former Westdeutsche Landesbank Girozentrale will fulfil their obligations towards the EAA in connection with guarantor liability without delay as soon as they have determined, properly and in writing, that creditors cannot take recourse against the EAA’s assets upon the maturity of the liability in question. This expressly includes the possibility of settling liabilities at a time that directly coincides with their maturity. Notification in accordance with the law governing state aid is not required in this case.

A total volume of EUR 1.9 billion (previous year: EUR 2.2 billion) is covered by guarantor liability.

35. Global guarantee and letter of comfort

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

The EAA has issued a letter of comfort for EAA KK.

36. Transactions not reported in the balance sheet

The following collateral was provided for the EAA's liabilities during the fiscal year:

Collateral type	Balance sheet position of the collateralised liabilities	31/12/2016 EUR million	31/12/2015 EUR million
Cash collateral provided for securities lending	Trading portfolio *)	5,044.7	5,901.7
Claims assigned	Deposits from banks	36.4	40.4
Securities pledged	Trading portfolio	36.9	28.7

*) The EAA provided cash collateral for transactions concluded in connection with an ISDA master agreement or a comparable master agreement with a corresponding agreement on collateral. The measurement of cash collateral takes into account the entirety of all transactions with a particular counterparty that are covered by a master agreement. Cash collateral is therefore provided for transactions whose reporting in the balance sheet depends on their allocation to the trading or non-trading portfolio as well as their market value. The allocation of cash collateral provided on the basis of a master agreement to liabilities by amount is not informative. This applies mutatis mutandis to cash collateral covered by the OTC derivatives risk assumption agreement.

37. Other obligations

Letter of comfort

The EAA had issued letters of comfort for WestImmo's liabilities incurred prior to 31 May 2015 (the day on which the sale of WestImmo became effective). These letters of comfort have been rendered invalid for the future with the reduction of the shareholding to 0%. The EAA is still liable for the old liabilities of WestImmo that were incurred prior to the completion of the sale on the basis of one of these letters of comfort. These legacy liabilities are recognised under contingent liabilities. This volume is constantly decreasing as a result of scheduled and unscheduled repayments. The EAA has also agreed on precautions with the Aareal Group that significantly reduce the likelihood of claims being asserted against the EAA. Firstly, it was decided that the Aareal Group would provide a liquidity facility to WestImmo, and secondly, a profit and loss transfer agreement was concluded between the Aareal Group and WestImmo.

Guarantor liability

Portigon's statutory guarantor liability for liabilities of Rheinland-Pfalz Bank, Mainz, HSH Nordbank AG, Hamburg/Kiel, DekaBank Deutsche Girozentrale, Frankfurt am Main and WestImmo was transferred to the EAA in 2012 as part of the spin-off. Since these institutions' new liabilities since 19 July 2005 are no longer covered by guarantor liability, the volume of liabilities covered is constantly falling as a result of the repayment of amounts as they fall due.

Other contingencies

There are other financial obligations totalling EUR 495.0 million (previous year: EUR 256.4 million) stemming from service agreements, rental contracts, outstanding capital contributions and lines from private equity investments that have not yet been called. Of these obligations, EUR 416.3 million (previous year: EUR 112.3 million) are attributable to affiliates and EUR 5.4 million (previous year EUR 5.6 million) to long-term equity investments.

38. Forward contracts/derivative financial instruments

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

- **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

The total volume of forward transactions and derivatives transactions as at the reporting date amounts to EUR 333.2 billion based on notional values (previous year: EUR 436.3 billion). The focus remains on interest-rate-related products, whose share stands at 86.2% (previous year: 84.8%) of the total volume.

If they are exchange-traded, derivative financial instruments are measured at the market price on the reporting 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 and exchange rates).

Derivative financial instruments – volume as of the balance sheet date

	Notional amount		Positive market values		Negative market values	
	31/12/2016 EUR million	31/12/2015 EUR million	31/12/2016 EUR million	31/12/2015 EUR million	31/12/2016 EUR million	31/12/2015 EUR million
Interest rate-related products	**287,259.8**	**370,046.1**	**22,604.9**	**25,353.5**	**23,335.8**	**25,540.9**
OTC products	283,888.5	363,924.6	22,604.9	25,353.5	23,335.8	25,540.9
Exchange-traded products	3,371.3	6,121.5	-	-	-	-
Currency-related products	**43,470.1**	**62,869.9**	**1,502.2**	**2,074.2**	**824.2**	**1,140.8**
OTC products	43,470.1	62,869.9	1,502.2	2,074.2	824.2	1,140.8
Equity- and other price-related products	**2,105.9**	**2,666.2**	**105.1**	**127.4**	**105.1**	**146.7**
OTC products	2,105.9	2,443.7	105.1	118.5	105.1	138.9
Exchange-traded products	-	222.5	-	8.9	-	7.8
Credit derivatives	**366.2**	**767.2**	**2.5**	**5.9**	**3.6**	**7.9**
OTC products	366.2	767.2	2.5	5.9	3.6	7.9
Total	**333,202.0**	**436,349.4**	**24,214.7**	**27,561.0**	**24,268.7**	**26,836.3**
OTC products	329,830.7	430,005.4	24,214.7	27,552.1	24,268.7	26,828.5
Exchange-traded products	3,371.3	6,344.0	-	8.9	-	7.8

The average annual notional volume of forward contracts and derivatives transactions amounted to EUR 385.6 billion in the current fiscal year 2016 (previous year: EUR 472.9 billion).

Derivative financial instruments – average volumes

	Notional amount		Positive market values		Negative market values	
	31/12/2016 EUR million	31/12/2015 EUR million	31/12/2016 EUR million	31/12/2015 EUR million	31/12/2016 EUR million	31/12/2015 EUR million
Interest rate-related products	**320,226.5**	**394,235.7**	**23,836.7**	**28,907.4**	**24,013.3**	**29,121.4**
OTC products	317,401.0	390,185.9	23,836.7	28,907.4	24,013.3	29,121.4
Exchange-traded products	2,825.5	4,049.8	-	-	-	-
Currency-related products	**59,537.3**	**72,111.3**	**1,976.3**	**2,391.1**	**1,344.1**	**1,572.3**
OTC products	59,537.3	72,111.3	1,976.3	2,391.1	1,344.1	1,572.3
Equity- and other price-related products	**4,507.4**	**5,040.6**	**186.6**	**212.1**	**223.7**	**253.1**
OTC products	2,193.4	2,682.1	113.1	136.8	141.3	169.1
Exchange-traded products	2,314.0	2,358.5	73.5	75.3	82.4	84.0
Credit derivatives	**1,377.7**	**1,531.1**	**7.7**	**8.9**	**9.3**	**10.9**
OTC products	1,377.7	1,531.1	7.7	8.9	9.3	10.9
Total	**385,648.9**	**472,918.7**	**26,007.3**	**31,519.5**	**25,590.4**	**30,957.7**
OTC products	380,509.4	466,510.4	25,933.8	31,444.2	25,508.0	30,873.7
Exchange-traded products	5,139.5	6,408.3	73.5	75.3	82.4	84.0

Without exception, forward contracts and derivatives transactions are concluded for hedging purposes.

The received and paid option premiums for derivative financial instruments of the non-trading portfolio are reported in other assets and other liabilities.

Derivative financial instruments – maturities

	Interest rate-related products		Currency-related products		Equity- and other price-related products		Credit derivatives	
	31/12/2016 EUR million	31/12/2015 EUR million	31/12/2016 EUR million	31/12/2015 EUR million	31/12/2016 EUR million	31/12/2015 EUR million	31/12/2016 EUR million	31/12/2015 EUR million
Due								
- within 3 months	35,916.4	43,818.7	11,239.7	17,855.9	-	118.3	13.3	363.7
- 3 months to 1 year	35,334.1	51,092.7	4,668.2	12,374.1	-	507.5	251.0	34.8
- 1 to 5 years	97,939.0	136,751.1	17,160.2	19,876.0	2,105.9	575.5	80.0	345.0
- after 5 years	118,070.3	138,383.6	10,402.0	12,763.9	-	1,464.9	21.9	23.7
Total	**287,259.8**	**370,046.1**	**43,470.1**	**62,869.9**	**2,105.9**	**2,666.2**	**366.2**	**767.2**

39. Remuneration paid to executive bodies

The remuneration of members of the Managing Board amounted to EUR 1,537 thousand in fiscal year 2016 (previous year: EUR 1,485 thousand).

Remuneration paid to Managing Board members

	31/12/2016 EUR	31/12/2015 EUR
Matthias Wargers	500,000	500,000
Markus Bolder	500,000	500,000
Horst Küpker	450,000	450,000
	1,450,000	**1,450,000**
Remuneration in kind	36,950	34,960
Expenses for pensions	50,000	-
Total	**1,536,950**	**1,484,960**

The total remuneration of all members of the Supervisory Board and its committees, amounting to EUR 154 thousand net (previous year: EUR 155 thousand net) and EUR 174 thousand gross (previous year: EUR 177 thousand gross), represents compensation for work performed and is divided into a basic salary and an attendance fee for each Supervisory Board meeting and – if a membership exists – for each committee meeting.

Remuneration to Supervisory Board members

	31/12/2016 EUR	31/12/2015 EUR
Member appointed by the Stakeholders' Meeting		
Dr Rüdiger Messal	23,000	23,000
Joachim Stapf	11,100	10,200
Dr Karlheinz Bentele (until 30 April 2016)	1,953	6,800
Michael Breuer	12,700	12,700
Hans Buschmann (since 16 March 2016)	12,044	-
Rolf Einmahl (since 1 May 2016)	4,847	-
Henning Giesecke	23,791	23,600
Wilfried Groos	14,600	15,500
Matthias Löb	6,500	5,900
Angelika Marienfeld (since 2 May 2016)	5,433	-
Hans Martz (until 31 December 2015)	-	14,300
Michael Stölting	20,867	13,000
Jürgen Wannhoff	11,800	12,700
Dr h.c. Uwe Zimpelmann (until 1 May 2016)	5,600	17,100
Member delegated by the FMSA		
Günter Borgel	-	-
Total (net)	**154,235**	**154,800**

The basic salary paid to a simple member of the Supervisory Board or a committee, and the attendance fees paid to members of the Supervisory Board or a committee for each meeting, is identical. The basic salary paid to the chairman and vice chairman of the Supervisory Board and each committee is higher. With regard to the determination of the payment of compensation for work undertaken, the Stakeholders' Meeting decided that travel costs incurred by members of the Supervisory Board and its committees are to be reimbursed individually by the EAA in the customary amount upon application.

In cases where membership of the Supervisory Board and potentially the relevant committee does not start or end at the start or end of the year, the basic salaries are paid pro rata for each full or partial month of membership in accordance with a resolution of the Stakeholders' Meeting.

The member delegated by the FMSA does not receive any compensation.

This does not take into account any payment obligations on the part of the mandate holders or payments already made. The payment of value added tax by the EAA depends on the individual tax situation in each case.

No compensation is paid to the representatives of stakeholders in the Stakeholders' Meeting.

40. Loans to executive bodies

No advances or loans were provided to members of the EAA's Managing Board or Supervisory Board either in fiscal year 2016 or in the previous year.

41. Number of employees

The average number of employees (headcount) during the reporting period was as follows:

	Male	Female	Total 1/1 - 31/12/2016	Total 1/1 - 31/12/2015
Number of employees	92	66	158	137

As at 31 December 2016 the EAA employed 165 (previous year: 129) full-time equivalents.

The increase in the number of employees resulted in particular from taking over work no longer performed by Portigon and the transfer of services and employees from EFS to the EAA.

42. Stakeholders of the EAA

	31/12/2016 in %	31/12/2015 in %
State of NRW	48.202	48.202
Rheinischer Sparkassen- und Giroverband	25.032	25.032
Sparkassenverband Westfalen-Lippe	25.032	25.032
Landschaftsverband Rheinland	0.867	0.867
Landschaftsverband Westfalen-Lippe	0.867	0.867
Total	**100.000**	**100.000**

43. Memberships of other bodies held by Managing Board members

The following members of the Managing Board of the EAA are 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) HGB. Details of the memberships of other bodies marked with * are provided on a voluntary basis as the companies are not classed as large public companies pursuant to section 340a (4) No. 1 in conjunction with section 267 (3) HGB.

Matthias Wargers
EAA Portfolio Advisers GmbH *
Erste Financial Services GmbH (since 7 April 2016)

Markus Bolder
EAA Portfolio Advisers GmbH * (until 31 January 2017)
Erste Financial Services GmbH (since 7 April 2016)

Horst Küpker
Börse Düsseldorf AG *

44. Memberships of other bodies held by employees

The following employees of the EAA are 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) HGB. Details of the memberships of other bodies marked with * are provided on a voluntary basis as the companies are not classed as large public companies pursuant to section 340a (4) No. 1 in conjunction with section 267 (3) HGB.

Dr Ulf Bachmann
EAA Portfolio Advisers GmbH * (since 1 February 2017)
Erste Financial Services GmbH (since 7 April 2016)

Gabriele Müller
EAA Covered Bond Bank Plc
EAA Portfolio Advisers GmbH *

Hartmut Rahner
EAA Covered Bond Bank Plc

45. Executive bodies of the EAA

Members of the Managing Board of the EAA
Matthias Wargers (Spokesman)
Markus Bolder
Horst Küpker

Members of the Supervisory Board of the EAA
Dr Rüdiger Messal
Chairman | State Secretary in the Finance Ministry of NRW

Joachim Stapf
Vice Chairman | Undersecretary (Leitender Ministerialrat) in the Finance Ministry of NRW

Dr Karlheinz Bentele (until 30 April 2016)
Former President of the Rheinischer Sparkassen- und Giroverband,
Former member of the Executive Committee (Leitungsausschuss) of the FMSA

Günter Borgel
Member of the Executive Committee (Leitungsausschuss) of the FMSA

Michael Breuer
President of the Rheinischer Sparkassen- und Giroverband

Hans Buschmann (since 16 March 2016)
Deputy Association Director of the Rheinischer Sparkassen- und Giroverband

Rolf Einmahl (since 1 May 2016)
Lawyer,
Member of the Landschaftsversammlung of the Landschaftsverband Rheinland

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

Matthias Löb
Director of the Landschaftsverband Westfalen-Lippe

Angelika Marienfeld (since 2 May 2016)
Former State Secretary in the Finance Ministry of NRW

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 h.c. Uwe Zimpelmann (until 1 May 2016)
Former Chairman of the Landwirtschaftliche Rentenbank

Stakeholders' Meeting of the EAA

The Stakeholders' Meeting is made up of representatives of the stakeholders (see Note 42).

46. Information on shareholdings

Supplementary disclosures pursuant to section 285 (11) and (11a), and section 340a (4) No. 2 HGB

Shareholdings in a foreign currency converted into EUR using the balance sheet rate
Disclosure of capital share and voting rights in %, amounts in EUR thousand
Disclosure of voting rights only if the percentage share differs from the share of capital

Other shareholdings

No.	Name	Location	Capital share	Voting rights	CCY	Equity	Result
1	Achte EAA-Beteiligungs GmbH [9)]	Düsseldorf	100.00		EUR	25	0
2	ANC Handels GmbH & Co. KG [1)]	Mörfelden-Walldorf	1.00			n.s.	n.s.
3	APAX Europe V-C GmbH & Co. KG [1)]	Munich	0.33			n.s.	n.s.
4	Börse Düsseldorf AG [9)]	Düsseldorf	21.95		EUR	52,747	473
5	Castello di Casole Agricoltura S.r.l. società agricola [1) 9)]	Casole d'Elsa, Italy	100.00		EUR	50	-17
6	Castello di Casole S.r.l. [9)]	Casole d'Elsa, Italy	100.00		EUR	2,308	11,287
7	Castello Resort Villas S.r.l. [9)]	Casole d'Elsa, Italy	100.00		EUR	391	-259
8	CBAL S.A. [2) 11)]	Brussels, Belgium	100.00		EUR	1,753	448
9	CLS Group Holdings AG [9)]	Lucerne, Switzerland	0.47		CHF	527,977	-1,627
10	COREplus Private Equity Partners GmbH & Co. KG [1) 9)]	Düsseldorf	36.52	0.00	EUR	12,767	-335
11	COREplus Private Equity Partners II - Diversified Fund, L. P. [9)]	Wilmington, US	24.75	0.00	USD	38,737	4,017
12	Corsair III Financial Services Capital Partners L.P.	Wilmington, US	1.84	0.00		n.s.	n.s.
13	Corsair III Financial Services Offshore Capital Partners L.P.	George Town, Cayman Islands	1.84	0.00		n.s.	n.s.
14	Deutsche Anlagen-Leasing Service & Co. Objekt ILB Potsdam KG [1) 9)]	Mainz	67.44	67.16	EUR	3,134	2,975
15	Dritte EAA Anstalt & Co. KG [2) 9)]	Düsseldorf	100.00		EUR	246,108	-2,173
16	Düsseldorfer Börsenhaus GmbH [9)]	Düsseldorf	5.00		EUR	815	48
17	Dusskapital Zwanzig Beteiligungsgesellschaft mbH [9)]	Düsseldorf	100.00		EUR	33	5
18	EAA Charity LLP [1)]	Wilmington, US	100.00			n.s.	n.s.
19	EAA Covered Bond Bank Plc [9) 12)]	Dublin 1, Ireland	100.00		EUR	471,006	-299,641
20	EAA DLP I LLP [1) 9)]	Wilmington, US	100.00		USD	113,012	28,561
21	EAA DLP II LLP [1) 9)]	Wilmington, US	100.00		USD	132,162	12,612
22	EAA DLP III LLP [1) 9)]	Wilmington, US	100.00		USD	164,540	31,647
23	EAA do Brasil Participacoes, Representacoes e Negocios Ltda. [9)]	Sao Paulo, Brazil	100.00		BRL	3,414	333
24	EAA Europa Holding GmbH [4) 9)]	Düsseldorf	100.00		EUR	12,706	0
25	EAA Greenwich LLP [1)]	Wilmington, US	100.00			n.s.	n.s.

Other shareholdings

No.	Name	Location	Capital share	Voting rights	CCY	Equity	Result
26	EAA Japan K.K. [3) 9)]	Tokyo, Japan	100.00		JPY	40,300	-694
27	EAA LAT ABC LLP [1) 9)]	Wilmington, US	100.00		USD	193,568	-1,807
28	EAA LAT II LLP [1) 9)]	Wilmington, US	100.00		USD	216,261	-14,397
29	EAA LS Holdings LLC [1) 9)]	Wilmington, US	100.00		USD	124	n.s.
30	EAA PF LLP [1) 9)]	Wilmington, US	100.00		USD	145,822	14,780
31	EAA Portfolio Advisers GmbH [9)]	Düsseldorf	100.00		EUR	8,253	1,228
32	EAA Portfolio Advisers LLC [1) 9)]	New York, US	100.00		USD	83	16
33	EAA Spyglass Holdings LLC [1) 9)]	Wilmington, US	100.00		USD	17,657	-8
34	EAA Triskele LLP [1) 9)]	Wilmington, US	100.00		USD	222,067	-4,914
35	EAA US Holdings Corporation [9)]	Wilmington, US	100.00		USD	27,797	811
36	ECIP Europcar S.a.r.l [9)]	Luxembourg, Luxembourg	4.09		EUR	79,761	8,380
37	EMG Projekt Gewerbepark Ludwigsfelde/Löwenbruch GmbH [9)]	Potsdam	47.50		EUR	0	-360
38	Entertainment Asset Holdings C.V. [1) 7)]	Amsterdam, Netherlands	36.36		USD	0	0
39	EQT III GmbH & Co. KG [1)]	Munich	1.18			n.s.	n.s.
40	Erste EAA-Beteiligungs GmbH [4) 9)]	Düsseldorf	100.00		EUR	16	0
41	Erste Financial Services GmbH [9)]	Düsseldorf	100.00		EUR	102,744	668
42	Eurazeo Partners SCA, SICAR [9)]	Luxembourg, Luxembourg	5.80	0.00	EUR	278,007	61,826
43	Europcar Groupe S.A. [1) 9)]	Guyancourt, France	0.00		EUR	562,356	-55,758
44	GKA Gesellschaft für kommunale Anlagen mbH [1) 9)]	Düsseldorf	100.00		EUR	129	582
45	Indigo Holdco LLC [1) 9)]	New York, US	100.00		USD	2,674	n.s.
46	Indigo Land Groveland LLC [1)]	New York, US	100.00			n.s.	n.s.
47	Indigo Land Progresso Lofts, LLC [1)]	New York, US	100.00			n.s.	n.s.
48	Indigo Real Estate LLC [1)]	New York, US	100.00			n.s.	n.s.
49	Kassiterit Beteiligungs GmbH [9)]	Düsseldorf	100.00		EUR	0	-9
50	Leasing Belgium N.V. [1) 9)]	Antwerp, Belgium	100.00		EUR	452	-36
51	Life.Value Properties GmbH [1) 9)]	Düsseldorf	100.00		EUR	369	42
52	Liquiditäts-Konsortialbank Gesellschaft mit beschränkter Haftung i.L. [1) 6)]	Frankfurt am Main	6.55		EUR	236,224	7,629
53	MCC Bradley LLC [1) 9)]	East Hartford, US	100.00		USD	713	-438
54	MCC Divot Place LLC [1) 9)]	Wilmington, US	100.00		USD	n.s.	32
55	MCC Lake Unity LLC [1) 9)]	Wilmington, US	100.00		USD	4	479
56	MCC Paris LLC [1) 9)]	Wilmington, US	100.00		USD	2,248	-107
57	MCC SB Condo LLC [1) 9)]	Wilmington, US	100.00		USD	1,441	-1,675
58	MCC Tern Landing LLC [1) 9)]	Wilmington, US	100.00		USD	1,089	364
59	MCC WK Commercial LLC [1) 9)]	Wilmington, US	100.00		USD	653	-110
60	MCC WK Residential LLC [1) 9)]	Wilmington, US	100.00		USD	350	-80
61	Meritech Capital Partners II L.P. [1)]	Palo Alto, US	0.06			n.s.	n.s.

Other shareholdings

No.	Name	Location	Capital share	Voting rights	CCY	Equity	Result
62	Methuselah Life Markets Limited [9)]	London, UK	100.00		GBP	76	-8
63	MFC AOLS LLC [1)]	New York, US	100.00			n.s.	n.s.
64	MFC Eagle Realty LLC [1)]	New York, US	100.00			n.s.	n.s.
65	MFC Holdco LLC [1) 9)]	New York, US	100.00		USD	10,214	-3,773
66	MFC Pinecrest LLC [1)]	New York, US	100.00			n.s.	n.s.
67	MFC Real Estate LLC [1) 9)]	New York, US	100.00		USD	3,140	-1,834
68	MFC Waterfront LLC [1)]	Wilmington, US	100.00			n.s.	n.s.
69	Mod CapTrust Holding LLC [1) 9)]	Dover, US	100.00		USD	-10	3,542
70	Monolith Grundstücksverwaltungsgesellschaft mbH [1) 9)]	Mainz	100.00		EUR	103	5
71	Monolith Grundstücksverwaltungsgesellschaft mbH & Co. Objekt Neubau Sparkassen-Versicherung Sachsen OHG [1) 9)]	Mainz	5.00	76.00	EUR	-17,049	2,060
72	Nephelin Grundstücksverwaltungsgesellschaft mbH [1) 9)]	Mainz	100.00		EUR	-56	-4
73	Neunte EAA-Beteiligungs GmbH i.L.	Düsseldorf	100.00			n.s.	n.s.
74	New NIB Partners LP [9)]	New York, US	1.59	0.00	EUR	984,538	28,201
75	Nine Entertainment Co Holdings Limited [10)]	Willoughby, Australia	1.14		AUD	845,327	222,496
76	ParaFin LLC [1) 9)]	New York, US	100.00		USD	-8	-8
77	Pathos Bay LLC [9)]	Dover, US	100.00		USD	-634	-2,992
78	PM Portfolio Management GmbH [1) 9)]	Düsseldorf	100.00		EUR	64	1
79	Projekt Carrée am Bahnhof GmbH & Co. Bürozentrum KG in Insolvenz [1) 5)]	Bad Homburg	51.00		EUR	-3,572	-117
80	Projekt Carrée am Bahnhof Verwaltungs GmbH in Insolvenz [1) 5)]	Bad Homburg	51.00		EUR	-13	0
81	S-Chancen-Kapitalfonds NRW GmbH i.L. [9)]	Haan	50.00		EUR	2,065	-39
82	Sechste EAA-Beteiligungs GmbH [9)]	Düsseldorf	100.00		EUR	11	-9
83	Siebte EAA-Beteiligungs GmbH [9)]	Düsseldorf	100.00		EUR	25	0
84	Special PEP II GP Investors, L.L.C. [9)]	Wilmington, US	50.00	0.00	USD	289	-324
85	Special Private Equity Partners II, L.P. [9)]	Wilmington, US	18.79	0.00	USD	28,332	-1,583
86	ThyssenKrupp Aufzugswerke GmbH [8)]	Neuhausen auf den Fildern	0.50		EUR	13,951	0
87	ThyssenKrupp Electrical Steel GmbH [8)]	Gelsenkirchen	0.42		EUR	96,622	0
88	thyssenkrupp Materials Processing Europe GmbH [8)]	Krefeld	0.42		EUR	57,903	0
89	thyssenkrupp Materials Services GmbH [8)]	Essen	0.16		EUR	745,235	0
90	ThyssenKrupp Rasselstein GmbH [8)]	Andernach	0.50		EUR	247,021	0
91	True Sale International GmbH [9)]	Frankfurt am Main	7.69	9.09	EUR	4,763	71
92	Welsh, Carson, Anderson & Stowe IX GmbH & Co. KG [1)]	Munich	2.90			n.s.	n.s.
93	West Life Markets GmbH & Co. KG [4) 9)]	Düsseldorf	100.00		EUR	1,312	0
94	West Merchant Limited [9)]	London, UK	100.00		GBP	37	-21
95	West Zwanzig GmbH [4) 9)]	Düsseldorf	100.00		EUR	25	0
96	Westdeutsche ImmobilienHolding GmbH [4) 9)]	Düsseldorf	94.60		EUR	5,539	0

Other shareholdings

No.	Name	Location	Capital share	Voting rights	CCY	Equity	Result
97	WestGKA Management Gesellschaft für kommunale Anlagen mbH [2) 9) 13)]	Düsseldorf	100.00		EUR	642	0
98	WestInvest Gesellschaft für Investmentfonds mbH [1) 9)]	Düsseldorf	0.00		EUR	11,339	0
99	WestLB Asset Management (US) LLC [9)]	Wilmington, US	100.00		USD	27,784	502
100	WestLeasing International GmbH [1) 9)]	Düsseldorf	100.00		EUR	175	-7
101	WestLeasing Westdeutsche Leasing Holding GmbH [4) 9)]	Düsseldorf	94.90		EUR	11,625	0
102	WestProject & Consult Gesellschaft für Projektentwicklung und Consulting mbH i.L. [1) 9) 13)]	Düsseldorf	100.00		EUR	276	0
103	WestVerkehr Beteiligungsgesellschaft mbH [1) 9)]	Düsseldorf	100.00		EUR	102	-10
104	Winoa Steel Co. S.A. [9)]	Luxembourg, Luxembourg	3.12		EUR	1,423	-119
105	WIV GmbH & Co. Beteiligungs KG [9)]	Frankfurt am Main	5.10		EUR	12,864	784
106	WLB CB Holding LLC [1) 9)]	New York, US	100.00		USD	-9	1,104
107	WMB Beteiligungs GmbH [1) 9)]	Düsseldorf	100.00		EUR	10	-8

Interest greater than 5% (large corporations)

No.	Name	Location	Capital share	Voting rights	CCY	Equity	Result
108	AKA Ausfuhrkredit-Gesellschaft mbH [9)]	Frankfurt am Main	5.02		EUR	212,967	16,035
109	Banco Finantia S.A. [9)]	Lisbon, Portugal	8.57		EUR	348,369	27,629

Other companies for which the EAA assumes unlimited liability

No.	Name	Location	Capital share	Voting rights	CCY	Equity	Result
110	GbR Industrie- und Handelskammer Rheinisch-Westfälische-Börse	Düsseldorf	5.88	5.00		n.s.	n.s.
111	GLB GmbH & Co. OHG	Frankfurt am Main	15.47			n.s.	n.s.

[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] Data as of 31 December 2009.
[6] Data as of 31 July 2014.
[7] Data as of 31 December 2014.
[8] Data as of 30 September 2015.
[9] Data as of 31 December 2015.
[10] Data as of 30 June 2016.
[11] Data as of 31 October 2016.
[12] A global guarantee exists.
[13] A profit and loss transfer agreement is in place between the company and its immediate parent; a profit and loss transfer agreement is also in place between the parent company and the EAA.

The list of shareholdings was expanded based on the amendment to section 285 (11) HGB as required under the German Accounting Directive Implementation Act (Bilanzrichtlinie Umsetzungsgesetz – BilRUG). The list now includes companies in which the EAA holds an interest of less than 20%. The resulting first-time inclusion of a company in the list of shareholdings does not mean, however, that the shareholding was actually made after 31 December 2015. Under section 286 (3) HGB, the reporting of long-term equity investments and affiliates was occasionally waived where these are of minor importance for the presentation of the asset position, financial position and earnings situation of the company.

Subsequent events

The EAA concluded the sale process for EAA CBB at the beginning of 2017. The Supervisory Board of the EAA approved the sale to the investor that submitted the most financially advantageous offer for the EAA in a non-discriminatory bid process. On this basis the purchase agreement for EAA CBB was signed. However, this agreement will not be effective until approval is received from the supervisory authorities, after which the transaction will be completed.

In April 2016 a sale process was initiated for the service company EPA established by the EAA in 2014. The process was successfully completed with the signing of a purchase agreement with Mount Street Group. The transfer of ownership is subject to regulatory approval and is expected to take place in the first half of 2017.

After successful completion of the examination of outsourcing measures at EFS, a large part of the service operations of EFS may be moved. Results in this regard are expected in the first half of 2017.

No other significant events requiring disclosure have occurred after the reporting date.

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 asset position, financial position and earnings situation of the institution, and the management report includes a true and fair review of the development and performance of the business and the position of the institution, together with a description of the material opportunities and risks associated with the expected development of the institution.

Düsseldorf, 14 March 2017

Erste Abwicklungsanstalt

Matthias Wargers
Spokesman
of the Managing Board

Markus Bolder
Member
of the Managing Board

Horst Küpker
Member
of the Managing Board

Review report

We have audited the annual financial statements – comprising the balance sheet, income statement, notes, cash flow statement and statement of changes in equity – of Erste Abwicklungsanstalt, Düsseldorf, for the fiscal year from 1 January 2016 to 31 December 2016, taking the accounts and the management report into account. The maintenance of the accounts and the preparation of the annual financial statements and management report in accordance with the provisions of German commercial law and the additional guidance of the EAA's charter are the responsibility of the institution's Managing Board. Our responsibility is to issue an opinion on the annual financial statements – taking the accounts and management report into account – based on our audit.

We conducted our audit of the annual financial statements in accordance with section 317 HGB and the German generally accepted principles 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 asset position, financial position and earnings situation in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Audit activities are defined based on familiarity with the institution's business activities and its commercial and legal environment, as well as expectations with respect to potential errors. 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 an assessment of the accounting principles applied and the main estimates made by the Managing Board, as well as an appraisal of the general 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.

Based on the findings of our audit, we believe the annual financial statements comply with statutory provisions and the additional guidance of the charter, and that they provide a true and fair view of the institution's asset position, financial position and earnings situation in accordance with generally accepted accounting principles. The management report is consistent with the annual financial statements, complies with legal requirements and provides a true and fair view of the institution's circumstances on the whole, and accurately reflects the opportunities and risks associated with its future development.

Düsseldorf, 15 March 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Michael Peters
Wirtschaftsprüfer (German Public Auditor)

ppa. Ralf Scherello
Wirtschaftsprüfer (German Public Auditor)

List of abbreviations

ABS	Asset backed securities
AfD	Alternative for Germany
ALM	Asset liability management
APAC	Asia, Pacific and Japan
AT	General part (Allgemeiner Teil)
BaFin	German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht)
BGH	German Supreme Court (Bundesgerichtshof)
BilMoG	German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz)
BilRUG	German Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz)
Bp	Basis points
CCY	Currency code
CDS	Credit default swaps
CRR	Capital Requirements Regulation
CVA	Credit valuation adjustments
DAX	German equities index
DBRS	Dominion Bond Rating Service
DRS	German Accounting Standard (Deutscher Rechnungslegungsstandard)
EAA	Erste Abwicklungsanstalt, Düsseldorf
EAA CBB	EAA Covered Bond Bank Plc, Dublin/Ireland
EAA GW	EAA Global Watchlist
EAA KK	EAA Japan K.K., Tokyo/Japan
EaD	Exposure at default
EBA	European Banking Authority
EC	European Community
ECB	European Central Bank
EEC	European Economic Community
EFS	Erste Financial Services GmbH, Düsseldorf (until 28 June 2016 Portigon Financial Services GmbH)
EMEA	Europe, Middle East and Africa
EONIA	Euro Overnight Index Average
EPA	EAA Portfolio Advisers GmbH, Düsseldorf
EU	European Union
EURO STOXX	European equity index
EUSS	European Super Senior Notes
Fed	Federal Reserve
Fitch	Fitch Ratings
FMS	German Financial Market Stabilisation Fund (Finanzmarktstabilisierungsfonds)
FMSA	German Federal Agency for Financial Market Stabilisation (Bundesanstalt für Finanzmarktstabilisierung)
FMStFG	German Financial Market Stabilisation Fund Act (Finanzmarktstabilisierungsfondsgesetz)
FX effect	Foreign exchange effect
GC	General collateral
GDP	Gross domestic product

HGB	German Commercial Code (Handelsgesetzbuch)
HRA	Commercial register department A (Handelsregister Abteilung A)
HSBC	HSBC Trinkaus & Burkhardt AG, Düsseldorf
ICS/RMS	Internal control and risk management system
IDW	Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer)
IDW RS HFA	IDW Auditing and Accounting Board (Hauptfachausschuss) accounting positions
IS	Income statement
ISDA	International Swaps and Derivatives Association
IT	Information technology
KWG	German Banking Act (Kreditwesengesetz)
LLP	Limited liability partnership
MaRisk	German Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement)
Moody´s	Moody´s Investors Service
Mount Street	Mount Street Loan Solutions LLP, London/United Kingdom
MtM	Mark to market
Muni GIC	Municipal guaranteed investment contracts
NAFTA	North American Free Trade Agreement
No.	Number
NPL	Non-performing loans
N.R.	Not rated
NRW	North Rhine-Westphalia
n.s.	Not specified
OIS	Overnight indexed swap
OMT	Outright Monetary Transactions
OTC	Over the counter
Portigon	Portigon AG, Düsseldorf (until 2 July 2012 WestLB AG)
RechKredV	German Ordinance on Accounting for Banks and Financial Service Providers (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute)
S&P	Standard and Poor's Corporation
S&P 500	US equity index
S.R.	Special rating
SSA	Sub-Sovereigns, supranationals, agencies
TTIP	Transatlantic Trade and Investment Partnership
TTP	Trans-Pacific Partnership
VaR	Value at Risk
WestFonds	WestFonds Immobilien-Anlagegesellschaft mbH, Düsseldorf
WestImmo	Westdeutsche ImmobilienBank AG, Mainz
WestLB	WestLB AG, Düsseldorf (since 2 July 2012 Portigon AG)
WTI	West Texas Intermediate

Imprint

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

Concept and design
Instinctif Partners
Im Zollhafen 6
50678 Köln
www.instinctif.de

Financial Reporting System
firesys GmbH
Kasseler Straße 1a
60486 Frankfurt am Main
www.firesys.de