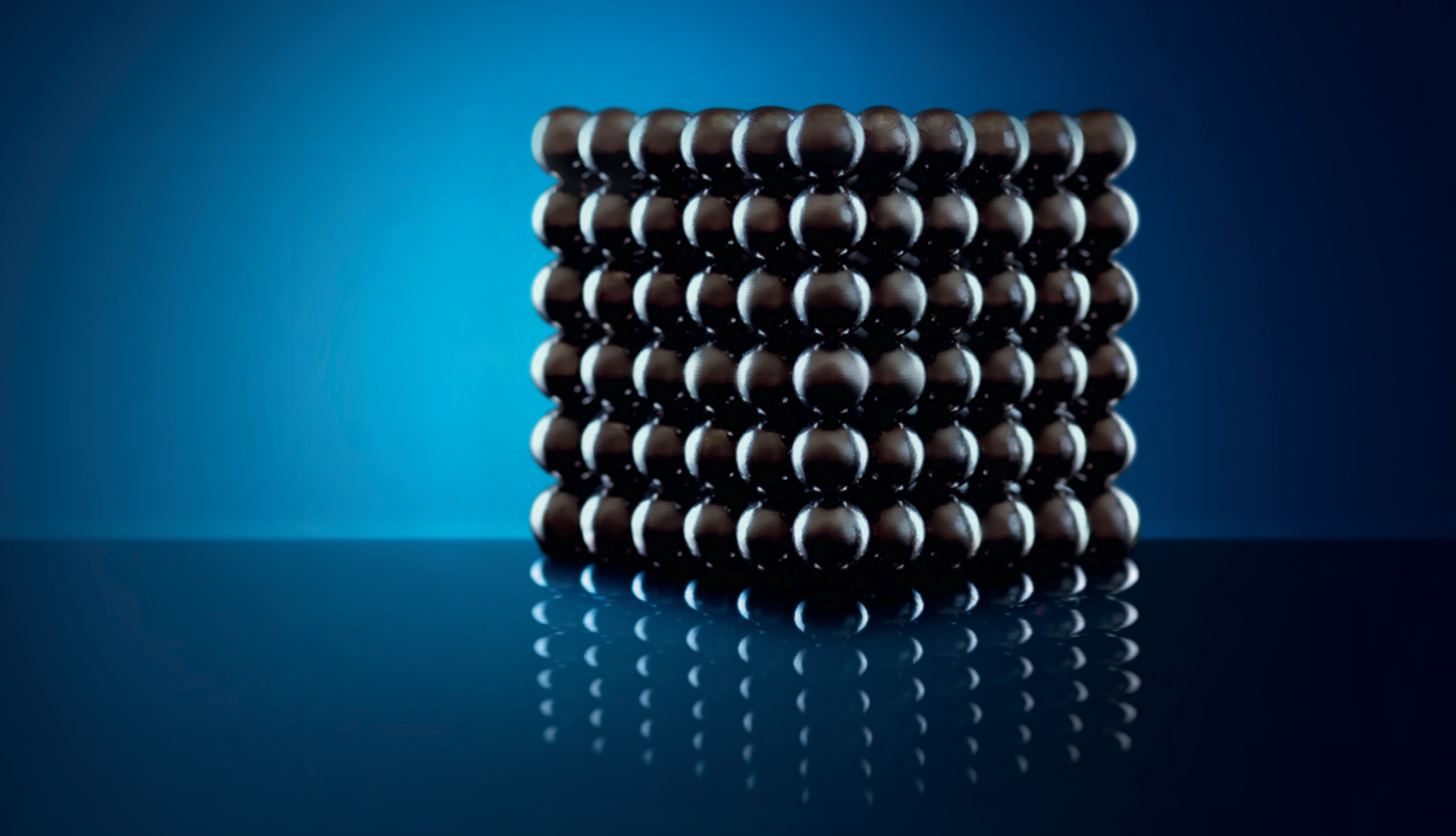
Erste Abwicklungsanstalt

Annual Report 2013

Facts & Figures



EAA Key Figures

Income Statement in EUR million	1 Jan.–31 Dec. 2013	1 Jan.–31 Dec. 2012
Net interest income	354.0	260.1
Net fee and commission income	145.1	155.5
Net trading result	83.9	–51.8
Other operating result	0.3	9.3
General administrative expenses	–398.0	–412.7
Results from financial assets and shareholdings	–12.9	–123.2
Results prior to risk provisioning	**172.4**	**–162.8**
Loan loss provisions	–110.3	171.6
Earnings before taxes	**62.1**	**8.8**
Taxes on income and earnings	–3.1	–2.2
Earnings after taxes	**59.0**	**6.6**

Balance sheet in EUR billion	31 Dec. 2013	31 Dec. 2012
Total assets	78.9	123.3
Business volume	95.1	148.6
Loan transactions	46.8	70.6
Trading portfolio	26.9	48.9
Equity	0.6	0.5

Winding-up	31 Dec. 2013	31 Dec. 2012
Banking book		
Notional value (before FX effect) in EUR billion	70.7	94.4
Winding-up activities in EUR billion	–23.7	–32.0
Winding-up activities in %	–25.2	–25.3
Trading portfolio		
Notional value (before FX effect) in EUR billion	644.5	884.8
Winding-up activities in EUR billion	–240.3	–179.3
Winding-up activities in %	–27.2	–16.8

Employees	31 Dec. 2013	31 Dec. 2012
Number of employees	123	103

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

The EAA's self-portrait

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

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

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

Contents

Report of the Supervisory Board

During the fiscal year from January 1, 2013 until December 31, 2013, the Supervisory Board of the Erste Abwicklungsanstalt held eight meetings (including two telephone conferences) in the exercise and performance of its rights and obligations under the law and its charter. The standing committees created from among its ranks, the Audit Committee and the Risk Committee, also met on two and five occasions, respectively.

In the 2013 fiscal year, among other things the Supervisory Board dealt with the appointment of an additional member of the Managing Board, the overall wind-up plan for 2013, and the ongoing strategic development of the Erste Abwicklungsanstalt. Particular focus of the latter was on the operating and legal implementation of the refill agreements and the Phoenix portfolio. The Supervisory Board advised the Managing Board and supervised its management activities and also participated in decisions of significant importance to the Erste Abwicklungsanstalt. On the basis of the wind-up reports submitted to it as well as other reports brought to its attention, the Supervisory Board has kept itself informed of the status of the Erste Abwicklungsanstalt both in and outside meetings.

The Supervisory Board appointed PricewaterhouseCoopers AG as the auditor for the Erste Abwicklungsanstalt. PricewaterhouseCoopers AG audited the Erste Abwicklungsanstalt's annual financial statements and the Management Report for the fiscal year ending December 31, 2013, and issued an unqualified audit opinion. The Supervisory Board and the Audit Committee, created from among its ranks, have discussed the auditor's report in detail and no objections were raised thereto.

At its meeting of April 8, 2014, the Supervisory Board approved the annual financial statements and the Management Report prepared by the Managing Board. The Supervisory Board recommends that the Stakeholders' Meeting adopt the annual financial statements for 2013.

Düsseldorf, April 8, 2014

Dr. Rüdiger Messal
Chairman of the Supervisory Board

Dear Stakeholders,

The 2013 fiscal year was a good year for the Erste Abwicklungsanstalt (EAA). We achieved a profit before tax of EUR 62 million. After our portfolio volume in 2012 grew again to a triple-digit billion amount, we were able to reduce it in 2013 by around EUR 46 billion or nearly one-third. This means we are significantly ahead of our original planning. The EAA is therefore successful.

The facts and figures of the previous fiscal year ended show that our team has performed well. Not only have we scaled back our portfolio – whilst simultaneously generating a profit in the process – we have also further reduced risks in the wind-up process. The share of loans and securities with good valuations as a percentage of the total portfolio has remained virtually unchanged. At the same time, we have mastered challenging new tasks – primarily the wind-up of the derivatives in the trading portfolio of the former WestLB – better than initially anticipated. We have our costs under control and our refinancing remains based on a reliable foundation. We continue to anticipate that we will conclude our work with no equity shortfall. The EAA is therefore stable.

Our wind-up work and issuing activities have established us as a recognized player on the international finance markets. At the same time, as a winding-up agency we are a tool for financial market stabilization. We therefore use this annual report to provide the interested public with a detailed insight into our work. In doing so, we deliberately go beyond regulatory requirements and report on more than just our plans, tools and successes. We also describe the challenges we see and explain how we address them because in our opinion, having a public mandate means ensuring that the EAA is transparent.

The future brings new responsibilities. Global markets are in flux, with disruptions – such as in Ukraine recently – having an effect. The conditions for banks in Europe are changing and the financial market stabilization project has still not come to an end. We analyze and then we act. One example: our service provider Portigon and its subsidiary Portigon Financial Services are continuing to develop – with direct consequences for our portfolio management. We have therefore established a service company to retain those Portigon experts who have provided EAA many years of support in its efforts to wind up the portfolio. This enables us to preserve and consolidate our expertise and allows us to continue to work in a targeted manner in the future. The EAA is therefore on track. You will learn more on the following pages.

We wish you stimulating reading.

Sincerely

Matthias Wargers
Spokesman of the Managing Board

Markus Bolder
Member of the Managing Board

Horst Küpker
Member of the Managing Board

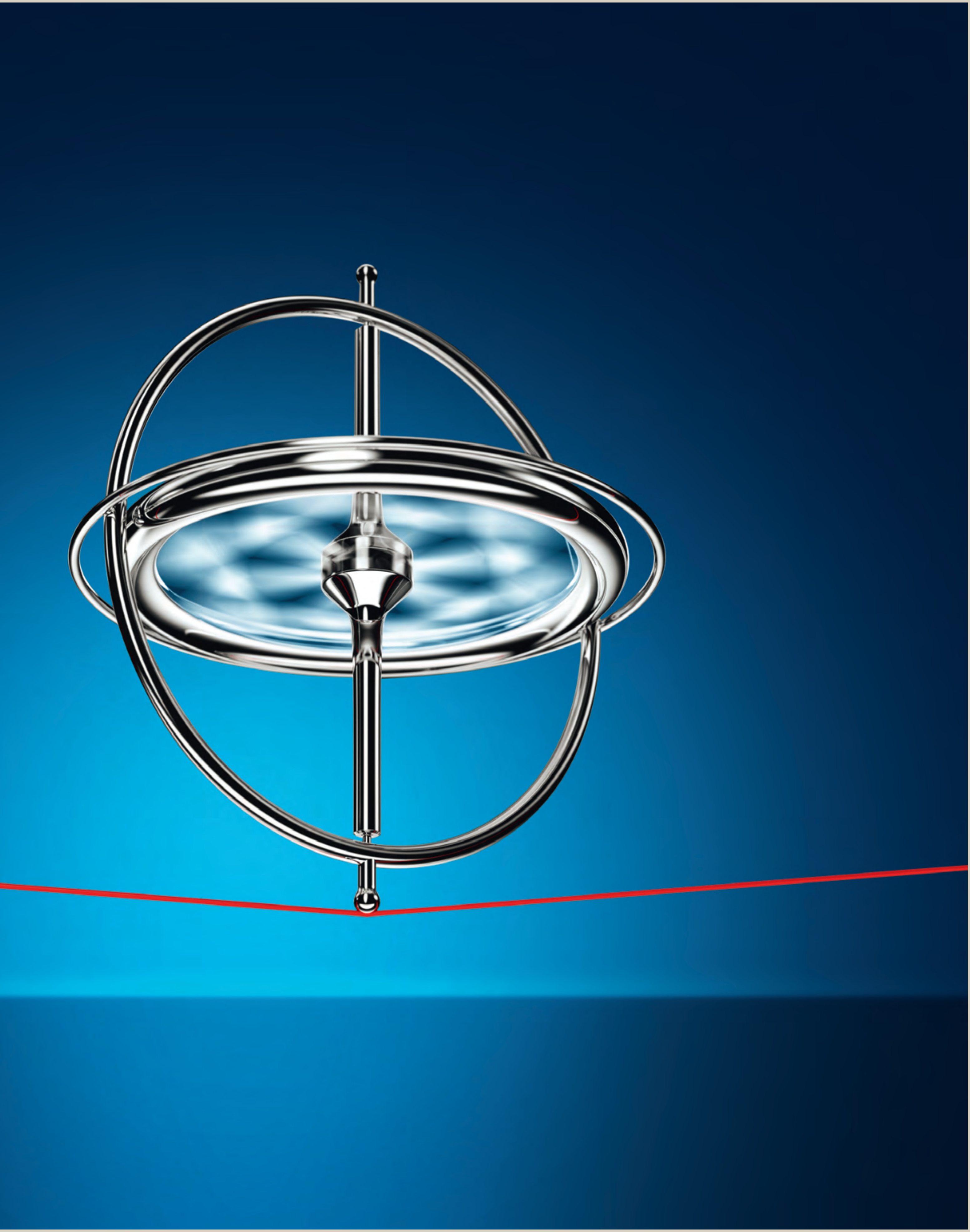
Stabilizing

Winding up the portfolio as planned

The task was clear when the EAA was set up in December 2009: wind up the portfolio assumed from the former WestLB while minimizing any associated losses. The tools to do that existed only in part, meaning the EAA had to enhance and supplement these tools, and in particular the wind-up plan.

With this as a basis, the EAA then derived a complex set of measures that it is using – for as long as necessary and as flexibly as possible – to work towards its goal of winding up the entire portfolio with no equity shortfall at the end of the wind-up period.

For more details, refer to page 12.



special purpose vehicles
global
leasing agreements
retail financings
equity investments
project financing
securities
loans
structured credit
asset-backed securities
derivatives

Winding up the portfolio

The EAA is winding up a broadly diversified, highly complex international portfolio. It assumed assets with a total volume of more than EUR 200 billion located in around 100 countries and denominated in more than 60 different currencies. These assets included ABS companies with about two million individual loans, nearly 1,400 special purpose vehicles and more than 300 direct and indirect equity investments.

decline in notional value
regulatory requirements
loss minimization
flexible
transparent processes
outsourcing
wind-up plan
equity optimization
scalability
service provider management

Steering

The EAA manages its portfolio with a planning horizon stretching until 2027. By using internally developed measurement and control parameters the EAA is able to determine the consequences of alternative measures and market scenarios for every asset. Service quality and processes are monitored and controlled by an in-house service-provider management function.

investor relations
interest benefits
US dollars
institutional investors
liquidity
benchmark bonds
own issues
club deals
foreign currencies
solvency
euros

Refinancing

Since its foundation, the EAA has issued its own securities with a volume of nearly EUR 60 billion on the capital market. Thanks to its long-term approach to investor relations, it reaches institutional investors from around the world and most particularly central banks, fund managers and banks. At the same time, it has been able to lower its interest expenses. Today the EAA funds itself more affordably than planned.

profitability improvement
portfolio quality
systemic risks
alternative restructuring
industry expertise
"out-of-the-box" solutions
exit opportunities
additional collateral
efficient network

Raising values

The EAA actively develops restructuring concepts in order to ensure that it earns returns from exposures and to improve the quality of the portfolio. Thanks to industry expertise and many years of experience, it is possible to identify systemic risks early and react to the most diverse needs in a targeted manner using innovative approaches.

exchange rate risk
risk governance
granular limit system
derivatives transactions
credit risk
market price risks
liquidity risk
default risks

Minimizing risks

The EAA has taken the tools used in financial institutions and adapted them to its mandate and portfolio. It focuses rigorously on risk minimization in order to cushion market volatility, for example, in interest rates or exchange rates. The EAA's risk management systems enable it to respond to changing market parameters or credit events in the shortest possible time.

capital market legislation
domestic and international procedures
settlement negotiations
structuring
cost control
M & A transactions
damage claims

Preserving rights

The EAA has substantial legal expertise in contract law, in banking products and capital market issues, as well as in structured products, derivatives and financing. In addition, its legal department actively manages the utilization of external attorneys from more than 20 major global law firms.

Winding up the portfolio as planned – for as long as necessary, as flexibly as possible

The task was clear when the EAA was founded in December 2009: wind up the portfolio assumed from the former WestLB while incurring the least possible losses. The tools to do that existed only in part, meaning the EAA had to enhance and supplement these tools, and particularly the wind up plan. Its approach has been perfected over the years and has proven itself successful.

For each item in the EAA portfolio, the wind-up plan describes the

- wind-up strategy,
- schedule for the wind-up,
- effects of the measures on equity and the financial position.

The current wind-up plan for 2014, which comprises around 15,000 individual items in the loan portfolio and about 35,000 positions in the trading portfolio, covers a period up until 2027. Among other things, it contains a planned balance sheet and income statement in accordance with German commercial law. There is also a liquidity plan for the entire period. Credit institutions generally do not have a planning tool that can map such a long time period.

By implementing this wind-up plan, the EAA is able to harmonize four different objectives: first, its task is to wind up the assumed portfolio as rapidly as possible. Second, the EAA's charter require that losses be minimized during the wind-up process. Third, the EAA must ensure that it is solvent at all times. Finally, the EAA must manage its equity so that there is no equity shortfall at the end of the wind-up period, i.e., its stakeholders must not be forced to absorb any losses.

The EAA assesses changes in the market or the environment within this framework and reviews its decisions accordingly. This ensures that all identifiable risks are incorporated into the planning process and that the effects of every development are assessed for the entire planning horizon. In principle, the EAA avoids those activities that might have a positive impact in the short-term, but which could result in an adverse effect for stakeholders and tax payers in the long run.

The EAA also manages its funding and costs on the basis of the wind-up plan. The planned portfolio reduction determines the budget for the EAA's internal administrative expenses and external services. The EAA finances all of the costs associated with its work solely from the current income, such as interest and commissions, which it generates from its declining portfolio. With this in mind, cost control is crucially important for the EAA.

In-house tools and methods: from Excel to a planning platform

The EAA has steadily expanded its infrastructure since 2010. Whereas the first wind-up plan had to be prepared in a simple table calculation, today the EAA has a dedicated planning platform which it can adapt at any time to changes in quantitative and qualitative requirements and that is also fully compliant with all applicable auditing requirements.

The Controlling & Planning department has also enhanced the methods it applies. For example, when it comes to loans: regardless of whether an exposure proceeds smoothly or is classified as nonperforming. Today the department's experts can calculate the loss expectations for every single item in the portfolio and take them into account in the wind-up plan.

Since 2012 the EAA, the first institution of its kind in Germany, has been faced with the task of completely winding up a trading portfolio. Here, too, it was unable to rely on common controlling tools, but instead had to once again develop the methods and tools it needed for an effective wind-up plan internally. Since then, it has drastically reduced the risks of this trading portfolio through the extensive use of hedging.

The markets are in motion – and the planning has to react

The wind-up plan is defined for the long-term, but remains flexible. The markets in which the EAA is active are constantly changing. Take, for example, the sovereign debt crisis: this development was not foreseeable when the EAA commenced its work in 2009/2010. Rigid planning harbors the risk that economic objectives are not met and that higher than necessary losses are suffered when winding up the portfolio.

As a result, the wind-up plan is reviewed on a regular basis. The entire planning is revised after one year at the latest. Risks and costs for the portfolio are then reevaluated; priorities are set for the new planning year and wind-up strategies for various sub-portfolios in loans, securities, equity investments and derivatives are updated.

Every wind-up plan consists of two higher-level stress scenarios, which are precisely calculated by item across all individual items at the EAA and across all its equity investments, and then once again for the entire planning period. In addition, product-specific stress tests are regularly performed: the EAA is therefore prepared if market trends are worse than expected.

The EAA has thus derived a complex bundle of measures from the wind-up plan that it uses – for as long as necessary and as flexibly as possible – to work towards its goal of winding up the entire portfolio with no equity shortfall at the end of the wind-up period.

By Christian Doppstadt, Head of Credit Risk Management

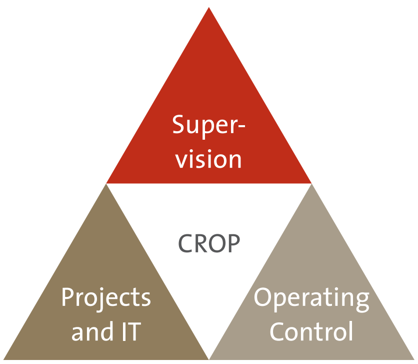
Credit Risk Operations & Processes – competence center and interface

The EAA is designed as a flexible management unit: it combines internal skills and incorporates expertise from service providers. This enables it to respond rapidly to changing conditions and new challenges. The prerequisite for this is a set of functioning interfaces. The Credit Risk Operations & Processes (CROP) team is one such interface, for instance between the EAA's credit risk management activities and its portfolio manager Portigon.

The lifetime of a winding-up agency is limited. Yet at the same time, the EAA's profile of tasks is dynamic, as the past has shown. With the assumption of additional portfolios from the former WestLB in 2012, the portfolio became not only larger, but also more diverse: exposures were added in new sectors and countries. As a result, the EAA's credit risk management function has not only been given additional tasks, but regulatory requirements have also expanded since then.

To be sure, the overall volume has become smaller again with the successful wind-up of the portfolio. But the tasks remain complex. The EAA must ensure that it continues to have the expertise it needs to handle them. Although specialized knowledge can be procured externally, the EAA must still be able to manage its processes in the future in an optimal manner. This is necessary because according to statutory provisions, it is responsible for outsourced processes as well.

The Credit Risk Management department (CRM) meets this challenge with a newly created center of excellence for processes, policies and concepts – the five-member CROP team.



- The team ensures legally compliant credit processes,
- monitors and manages outsourcing risk regarding credit-related issues,
- optimizes internal and external processes in credit risk management,
- and serves as the interface with the external service provider Portigon.

Monitoring of credit processes

Even though the EAA is not a bank, to a large extent it is still subject to the customary regulatory rules for banks. The CROP team analyzes these provisions continuously and modifies the guidelines and concepts for all credit processes in the EAA portfolio. These requirements are then set out in writing and brought to the attention of the relevant employees. This applies, for example, to the EAA's credit authorization policy, – i.e., which decisions can be made at what level – or to the guideline regarding the valuation of collateral.

In order to continuously enhance and improve internal requirements, processes are monitored both internally and externally. The CROP team not only supervises the legislative process, but it also analyzes the development of internal conditions that result from the wind-up of the portfolio. After all, changes in the portfolio can make it necessary to modify the guidelines, too.

Important interface function

Furthermore, the CROP team serves as the central point of contact for all questions related to credit processes. This ensures that these questions are continuously communicated and handled in a consistent manner within the EAA, in interaction with EAA subsidiaries, and vis-à-vis the portfolio manager Portigon.

Thus, the team manages and reviews how this crucial service provider implements the EAA's credit and rating processes. As a supplement to the individual case-related control by those credit managers in the EAA teams who look after both performing and nonperforming loans, the CROP team also monitors the overall loan portfolio.

The credit risk reports from Portigon are systematically reviewed for plausibility and checked by means of additional random samples. Using defined control parameters, the EAA ensures that the processes implemented by the portfolio manager are suitable and appropriate for compliance with regulatory requirements.

The team's wide range of tasks is complemented with topics such as working on methods for credit risk measurement in collaboration with the experts from the Controlling & Planning department, developing opportunities for process and cost optimization through the use of alternative IT solutions and serving as the interface to auditors during internal and external audits.

Conclusion: the competence center works

It has a broad scope of responsibilities. The EAA's know-how regarding the definition of credit processes is bundled in the CROP team and made usable in a targeted manner – both internally and externally. In particular, by interfacing with the portfolio manager Portigon the EAA ensures that it utilizes internal and external technical expertise in an optimal manner.

The winding-up agency model is therefore continuing in its development.

Christian Doppstadt

What would happen if …
there were a power failure at the EAA?

Nowadays, EAA is an established player on the global financial markets. It manages an international portfolio, sells portions thereof and issues its own funding instruments. The underlying technical systems and processes must function smoothly at all times because malfunctions could be expensive. The EAA has therefore defined a variety of standards for normal operations. Contingency planning is included, too.

What would happen if … for example, intensive construction work were to trigger an explosion that shook the EAA building on Düsseldorf's Kirchplatz? Windows would be shattered, the lights would go out and the computer screens on the desks would go dark. There would be a fire alarm and all employees would have to leave the building immediately.

This scenario is more than just a mind game: construction work could indeed endanger the safety of the building or a bomb could be found in the neighborhood, requiring an evacuation. The route of Düsseldorf's new metro line, which is currently under construction, also extends below Kirchplatz. Severe accidents along metro construction sites have happened in other cities; the EAA must limit this risk. If a gas line were to explode, causing power to fail and telephones to go down, how long would the EAA be cut off from the financial world?

Getting back up and running in a disaster situation

The answer is not for long, because the EAA is prepared. Immediately after the accident or alarm, the first employees would go to the so-called 'disaster recovery site' outside of Düsseldorf and start up the computers in order to, for example, monitor the EAA's trading positions. The EAA crisis management team would meet there in secure offices to initiate the necessary actions and monitor the activities.

Such scenarios can be simulated as part of an emergency drill, which is performed under the leadership of the IT/Organization department in order to prepare the EAA's employees for potential crises. And the background to it all is also the regulatory requirements that the EAA – like any commercial bank – is subject to. Measures to handle such crisis situations are part of this.

The EAA has a contingency plan in place

In parallel with the establishment and expansion of its organization, the EAA has therefore extended its contingency planning in recent years and coordinated the plans with its service providers. It has set up secure alternative workplaces and constantly monitors them. It has established and trained a crisis management team. It has identified safety-related issues, and defined, planned and implemented prioritized action items.

Standards for regular operations

Although less dramatic, the effects on the requirements of the daily work of the IT/Organization department are considerably more far-reaching. The assumption of additional portfolios from the former WestLB resulted in additional challenges for EAA in 2012. It was possible to absorb this multi-billion euro portfolio, including a trading portfolio, into the EAA only following the extension and adaptation of the data processing systems. Following the transfer, it was necessary to adapt normal operating procedures because the larger portfolio meant that the EAA's tasks had become more diverse.

The technical and organizational standards were expanded or newly developed for both the necessary expansion of systems and processes as well as for general administrative procedures. For instance, the EAA now utilizes EDOX, a completely new document management system with an integrated electronic workflow tool, in order to make business processes transparent and auditable.

Improvements in the diversification and management of service providers

The EAA has reorganized its outsourcing of technical tasks. Daily operations are now largely handled via external service providers. In addition to Portigon, the EAA has recruited other experts for these tasks using a Europe-wide tender process. This has made it possible for the EAA not only to optimize price and performance, but also to outsource special areas to multiple providers, thereby reducing risks in daily operations via this diversification.

The IT/Organization department controls the electronic data processing as part of the EAA's centralized approach to service provider management. The quality of the services rendered is measured via specifically defined reporting.

These developments enable the EAA to further optimize the technical standard that it has already reached to align the systems precisely to its strategic objectives and to optimize the costs associated with the externally provided services.

Electronic data processing functions in both daily operations as well as in the event of an unexpected power failure or even the loss of a building.

By Professor Dr. Christoph Schalast, Frankfurt School of Finance & Management

The banking union and bad banks

The experiences that Europe has had with so-called bad banks are once again relevant because the winding up of banks is a central question in the future framework of financial market regulation, both within the EU and beyond.

The turbulence in the financial markets in Europe has eased somewhat. In particular, the crisis countries in Southern Europe feel this easing through lower interest rates and – as a consequence – a gradually noticeable economic recovery. This positive development is the result of the effects and interaction of three factors:

- The resolute approach of the European Central Bank and its president, Mario Draghi, not least through the clear statements made in the summer of 2012, and the OMT decision taken in September, even though the courts, especially the German Federal Constitutional Court and, because of the decision from February 2014, also the European Court of Justice have not had their final say.
- The recovery in real estate prices/valuations, not only in Central Europe, but also in the United States and the Southern European crisis countries.
- Rising corporate results combined with high stock prices.

An important component of this positive development has been the quiet and successful work of the bad banks that have been founded in many member states since the peak of the 2008/2009 crisis to wind up the assets – formerly known as toxic assets – that are held by these institutions.

One sign of the ongoing appeal of the bad bank model are the current developments in Austria where, following intensive discussions within the country, a bad bank equipped with sovereign guarantees was founded for Hypo Alpe Adria.

1. The last component of the banking union: the European resolution authority

One of the most important demands of policymakers and the public in the financial crisis starting in September 2008 was that early identification and preventive mechanisms need to be quickly unified across national regulations within the European Union and, if possible, even beyond via the G20. In addition, the billions in guarantees and bailouts at the national level (the bank rescue fund SoFFin) and the European level (the bailout funds EFSF and later the ESM) were increasingly difficult to communicate to citizens, and also constantly exposed to the judicial Damocles sword of constitutional challenges.

Policymakers of member states and the EU Commission were therefore called upon to send a signal and prevent a future “hostage taking” of the taxpayer by systemically important financial institutions that are at risk of insolvency. Initially, the future supervisory architecture was naturally the focus of attention. Following the first few tentative steps, enhanced cooperation and coordination of today's 28 national supervisors came about in 2010/2011 within the framework of the European Banking Authority. The decisive step forward was finally taken last year with the establishment of a European Supervisory Authority under the auspices of the ECB for the member states of the Economic and Monetary Union.

And this supervisory authority, which is currently recruiting in Europe more than 1,000 highly qualified employees for its location in Frankfurt am Main, will not be a paper tiger. In its first step it will assume the monitoring of so-called systemically relevant institutions – currently 128 banks – in Europe. In Germany this relates to all important domestic and international market participants from all three pillars of the sector. It is already foreseeable that, in the future, the standards set by the ECB will become the general standards for banking both in- and outside the eurozone.

In addition, the work to coordinate and unify the rules to protect savers' deposits with banking institutions within the EU is now underway, after an agreement was reached in principle between the Council, the Commission and the Parliament in December 2013. It is unfortunate that national protection structures will remain in place. However, their work will be largely coordinated.

Finally, at the end of March 2014, the concept behind the future wind-up of European banks was clarified. This was also one of the consequences of the financial crisis: in the future, the countries and ultimately the taxpayers will not be held liable for the resolution of systemically important banks. Instead, these banks themselves will be held responsible and must prepare accordingly. This is to be implemented via a resolution fund, which the banks themselves must provide with sufficient reserves.

Furthermore, a new European agency, the resolution authority, has been created to manage any potential wind-ups of banks. Despite all the positive developments, however, the volume of nonperforming assets increased in 2013, especially in Southern Europe. But given the recent activities of the – for many market observers surprisingly successful – bad banks, not least in Germany, different models, which have proven themselves in practice, are available for the different wind-up scenarios.

2. The bad bank model

Bad banks – actually a misleading name, the German term 'Abwicklungsanstalt' would be more appropriate if it could be rendered reasonably in English – are not a consequence or an invention of the financial crisis. There was a predecessor as far back as the 1980s in the United States, where the Resolution Trust Corp. was created as a bailout and resolution company for insolvent savings banks, which are only similar in name with German savings banks. Back then, the Resolution Trust Corp. successfully liquidated assets with a volume of nearly USD 400 billion, in particular real estate and mortgages, during its six-year existence. There was also a similar situation in

Sweden, where a central bad bank was likewise created for the assumption and processing of nonperforming loans during the banking crisis of the early 1990s.

In both countries, the success was largely due to the fact that the plunge in real estate prices was halted so that losses could be significantly reduced. In that regard, previous crises have demonstrated the relationship between a real estate bubble and the massive increase in non-performing loans. A similar phenomenon was also observed in Germany in the years 2003 to 2007. But at that time the banks concerned were still able to successfully use self-regulatory mechanisms. Either they founded their own bad bank, as was the case with the Volks- and Raiffeisen banking group when it established the Bank Aktiengesellschaft (BAG), or they created an internal restructuring unit, as was the case with Dresdner Bank.

The German federal government ultimately created two alternative models for the founding of bad banks as part of its legislation regarding the stabilization of financial markets:

- the so-called special purpose vehicle (SPV) model, primarily designed for private banks, and

- the federal and state winding-up agencies set up for the public-sector banking segment.

It is interesting in this regard that the SPV model has not been used. Instead, major commercial banks, for example Commerzbank, have once again resorted to the internal restructuring model.

3. Lessons learned

Experience with bad banks, be they guaranteed and initiated by the public sector, such as was the case with the Resolution Trust Corp., the Swedish resolution bank as well as in Germany with the Erste Abwicklungsanstalt and the FMS Wert-management, or bad banks created by banking groups, such as the BAG or internal restructuring units, shows that the model works in both the public and private sector.

For the design of a European resolution authority this means, first, that the risks from today's perspective have become more predictable. The new European supervisory mechanism as well as the rules for core capital and the valuation of assets have contributed to this. The future European resolution authority can finally rely on numerous examples of successful bad bank models if – despite early warning systems – a German bank were to become insolvent in the future. Who would have expected that when the first bad banks were founded?

Funding secured, risks reduced

Minimize losses, maximize values – achieving the wind-up objectives depends not only on the asset side of the balance sheet. The EAA must also be able to fund its portfolio in the capital market in a cost-effective manner.

Since the foundation of the EAA, the Treasury/Capital Markets department has responded to changing requirements. Following the establishment of the EAA in December 2009, the department's initial task was to launch the EAA on the market and create an international investor base.

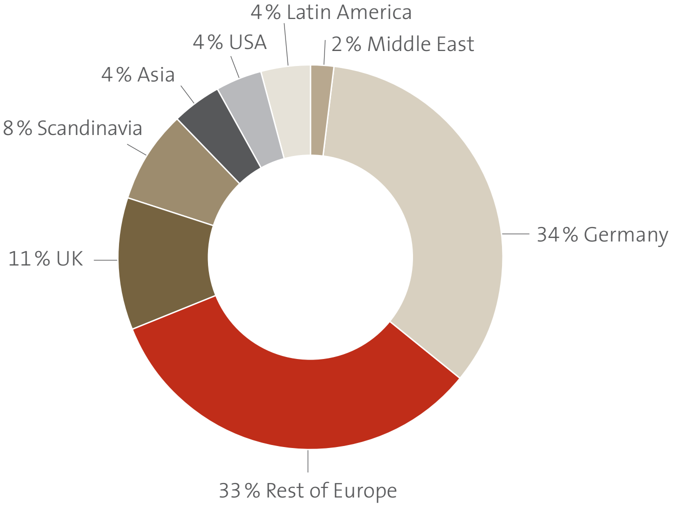
But in 2011, the experts had to prepare for a significant increase in required funding. The assumption of a second portfolio of more than EUR 100 billion, which was planned to take place in the following year, meant that it was necessary to build up a liquidity buffer. This succeeded. After this transfer was concluded at the end of 2012, the EAA returned to its original plans, which called for issues of EUR five billion annually for the coming years.

Today, the EAA issues its bonds much more cost-effectively than was initially estimated in the wind-up plan. This is attributable to more than just the fact that the interest rate environment is currently good for issues that are closely associated with the public sector (so-called agencies). In the meantime, the EAA also enjoys high acceptance among a widely diversified investor base. This is the result of the targeted approach that the EAA's Investor Relations team takes to contacting investors. Among other things, the experts explain the EAA's special liability mechanisms to interested international parties.

Today, the EAA's funding is based on several foundations, taking into account the principle of risk minimization: in accordance with its mandate, risks from interest rates and currency developments are avoided. As a result, the EAA regularly issues bonds in US dollars in order to finance those portions of the portfolio that are denominated in this currency.

By procuring liquidity at favorable prices, the Treasury/Capital Markets department not only lowers the EAA's risks, but it also contributes to a healthy cost structure. Regular contact with investors will help to continue this in the future, too.

EAA refinancing 2013: regional breakdown of investors



The EAA as a public law agency

Supervision

The EAA interacts in the market with institutional investors and international portfolio managers – alongside investment banks, insurance companies, private equity companies or hedge funds. It has the expertise and commercial leeway to be successful in this environment. Nevertheless, it remains a tool for financial market stabilization: internal and external controls ensure that the EAA reliably fulfils its public-sector mandate.

The internal system of supervision and control is designed in a similar fashion to that of public companies. According to its charter, the EAA's governing bodies are the Managing Board, the Supervisory Board and the Stakeholders' Meeting. These bodies regularly receive internal information on all commercial activities of the EAA. External auditors audit the annual financial statements and interim reports of the EAA. In addition, it is subject to specialized supervision, applicable to all participants in the financial market, by the German Federal Financial Supervisory Authority and the German Bundesbank. These two authorities determine the extent to which the EAA must comply with the specific regulatory requirements for banks, and then control the extent to which it fulfils them.

The EAA's regulated foreign subsidiaries are subject to the supervision of the respective country where they are located.

In contrast to other market participants, the EAA is an instrument for financial market stabilization. As a public law agency, it therefore has an additional comprehensive control level: the German Financial Market Stabilization Authority has the responsibility for legal oversight to ensure that the EAA, its governing bodies and its participating institutions comply with all relevant provisions of the law and its charter. In particular, the FMSA continuously reviews the overall wind-up planning – and how it is implemented. It is supported in this regard by external auditors who, for example, examine the ongoing winding-up of the portfolio twice a year.

The supervisory authorities or governing bodies adapt the requirements for the EAA – when necessary – to new developments: thus, for example, in 2013 a third Managing Board position was created due to the assumption of the Portigon trading portfolio.

The public law status of the EAA also means that it is additionally audited by the German Federal Audit Office and the Regional Audit Office of the State of North Rhine-Westphalia. In addition, the Managing Board of the EAA regularly reports to the responsible oversight committee of the German Federal Parliament (in accordance with Section 10a of the Financial Market Stabilization Fund Act) and to the Budget and Finance Committee of the North Rhine-Westphalian State Parliament.

The EAA is a tightly regulated institution and the various audits have a direct impact on its work: it subjects its rules and processes to a continuous review and enhances them accordingly. Its tools for documentation and monitoring have been gradually expanded. Today, the EAA records the results of all internal and external audits in a standardized audit system and tracks them going forward on that basis.

Principles

On behalf of and in the interest of taxpayers

The EAA is a public law agency. Its foundation is the German Financial Market Stabilization Fund Act.

- **Targeted:** it winds up the multi-billion portfolio assumed from the former WestLB in a manner that will minimize any potential losses.
- **Independent:** it operates both organizationally and commercially in an independent manner, and manages all the necessary funding measures on its own responsibility.
- **Insolvency-proof:** risks are secured through its own equity and additionally via the duty to offset losses by the shareholders and the German Financial Market Stabilization Fund.

Utilizing the advantages of the model

The EAA is not a credit, financial or securities services institution within the meaning of statutory provisions. Its accounting is based on German Commercial Code and it is not subject to any minimum equity requirements.

- **Solid:** the EAA's rating is derived from that of the state of North Rhine-Westphalia. It therefore has affordable access to the funding it needs for the assets in its portfolio.
- **Protected:** as a consequence of its conditions and its long-term orientation, it is less susceptible to short-term market fluctuations than commercial banks.
- **Strategic:** thanks to its special organizational structure it is able to wait for better conditions in the market and is not forced to make sales in the short-term.

With a clear perspective: no equity shortfall

The EAA focuses on long-term value optimization instead of short-term profit maximization. It aims to conclude its mandate by 2027 without having to utilize its loss compensation commitments.

- **Sustainable:** it does not speculate and is not oriented towards short-term sales proceeds, but rather on the long-term success of its wind-up measures.
- **Focused:** it concentrates its skills and resources on the wind-up process and does not enter new transactions.
- **Responsible:** it follows the principles of prudent commercial judgement and ensures its ability to fulfill its obligations as they fall due.

“Sales proceeds, cost discipline and affordable funding“

In 2013, the second year after the assumption of a further multi-billion euro portfolio from Portigon, the EAA once again reported a profit totaling approximately EUR 60 million. This positive result demonstrates that the EAA is stable. Managing Board member Markus Bolder explains why.

Mr. Bolder, to what do you attribute the continued positive performance in the previous fiscal year ended?

“In 2013, we were once again able to generate good sales proceeds. In addition, despite adverse restructuring cases – for instance in the real estate and energy sector – we also posted a positive result from equity investments. Our cost discipline played a role as well: the EAA’s operating costs, as well as its expenses for portfolio management and external services, were below the budget of the previous year. And finally, we secured affordable funding.”

The EAA is now entering its fifth year. Which milestones are you particularly proud of?

Markus Bolder: First, within a very short period of time the EAA has developed from a start-up into a highly efficient player on the international financial markets. Not only have we created the entire infrastructure for a successful wind-up of the portfolio, we have also optimized, standardized and completely documented the necessary internal processes. The EAA not only operates smoothly, it is also able to react rapidly to new challenges.

Second, I am naturally proud of our successes: we have wound up much faster than planned not only the portfolio we assumed in 2009/2010, but also the portfolio expansion that we obtained in 2012. While doing so, the EAA has been profitable the entire time since the first quarter of 2012 – and without allowing our risk profile to deteriorate significantly. We have not, for example, focused solely on winding up our valuable positions.

Third, we have succeeded at creating a team of experts who are committed to a pioneering task: to wind up a complex multi-billion portfolio on behalf of the taxpayer in a risk-minimizing and value-preserving manner. Without the skills and commitment of our employees it would have been very difficult – if not impossible.

A farsighted wind-up of the portfolio

"The EAA is not primarily interested in achieving wind-up successes in the short-term. Farsightedness pays off: we intend to realize our wind-up work in the medium- and long-term without generating losses, while ensuring affordable and sustainable funding at the same time. Such a strategic wind-up of the portfolio is not a foregone conclusion; it requires detailed work on the portfolio day in and day out because the markets do not stand still."

What does the strategic wind-up of the portfolio look like on a daily business?

Markus Bolder: We work proactively: our experts know the portfolio inside out. We have a detailed wind-up plan and we analyze the markets to recognize trends early. Then we identify interested investors, make decisions and implement them. Our approach has proven itself – the EAA is well positioned.

In 2013, the EAA considerably reduced its portfolio again following a previous increase. What impact did the wind-up have on the loss buffer?

Markus Bolder: Hardly any, because during the winding up we preserved our substance. In our Risk Committee we make about 500 to 600 individual portfolio decisions every year. These naturally also include those exposures in which we realize losses and for which we have to utilize our risk provisioning. But overall, the risk buffer against losses consisting of equity and risk provision has remained largely stable despite the reduction in the portfolio. In addition, the EAA has rights to draw on further equity capital.

A winding-up agency is part of the government's financial market stabilization program. What effect does this structure have when the EAA operates on the international financial markets?

Markus Bolder: In the beginning, we were forced to explain the peculiarities of the EAA quite frequently. But that is now a thing of the past. The successes in recent years have demonstrated that our public-sector structure has more than proven itself for the wind-up of a large international portfolio. We are met with great trust in the markets as a negotiation partner, seller and also as an issuer, which is international publicity for the "German model."

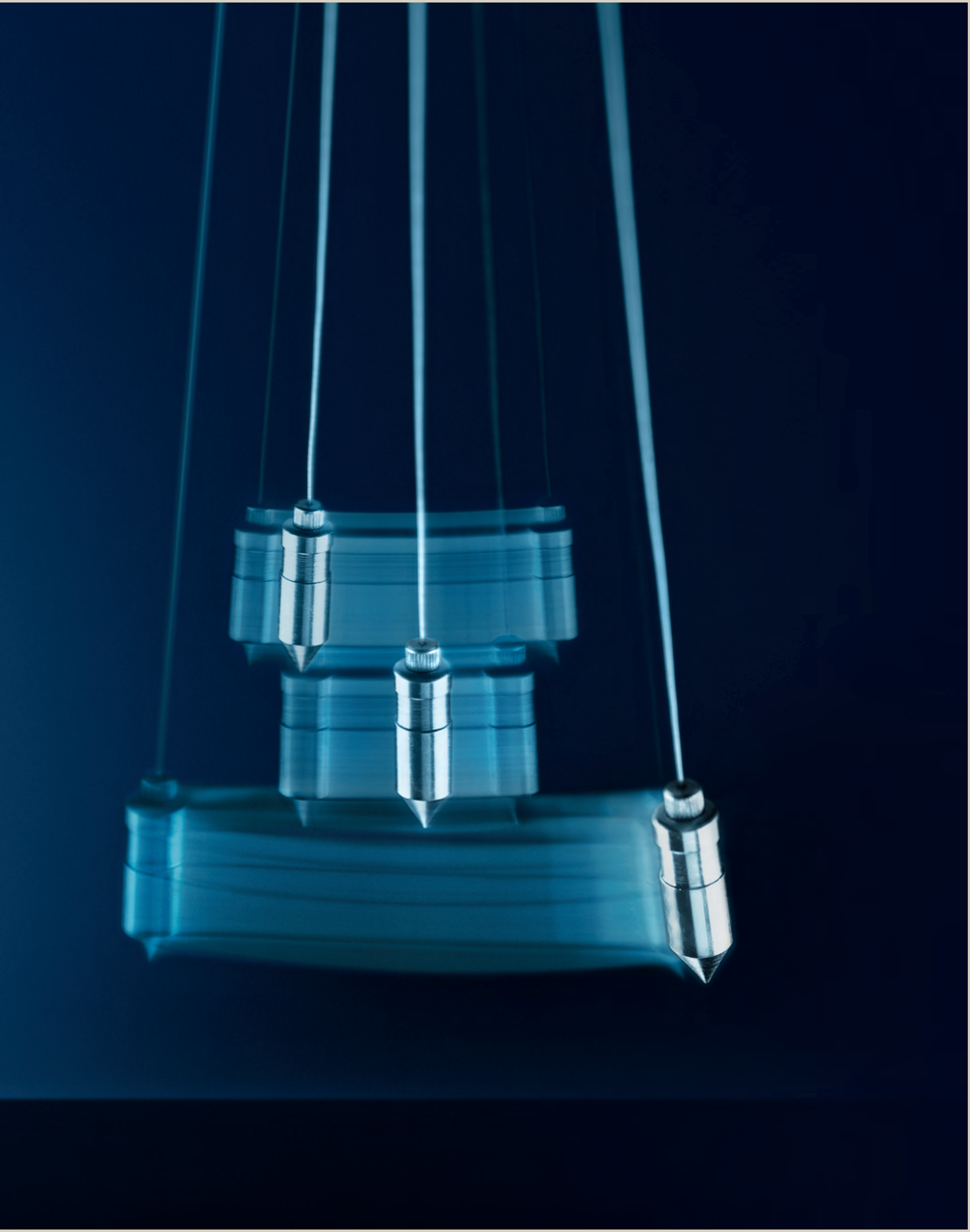
Sounding out

Good business for the EAA

The EAA is winding up its portfolio rapidly – but not at any price. Thanks to its special structure, it always has the option of waiting for a more favorable market environment.

This can pay off in negotiations, as can be seen in the example of the shares of a US retail company in the portfolio: the EAA sold its stake at the end of 2013 for four times the original offer.

Further background information is available on page 32.



By Uwe Drangmeister, Head of Controlling & Planning

How EAA controls the wind-up and measures its success

Planning, monitoring, readjusting – success can only be controllable if the wind-up work is both measurable and comparable. As a counterpart to wind-up planning, the EAA has therefore developed a tightly knit reporting system. It makes actual-to-budget differences transparent in an early manner and provides specific recommendations for action for both short- and long-term measures. The key criterion: the effect on the wind-up plan.

In its currently applicable version, the wind-up plan sets the priorities for the wind-up work of the current fiscal year and therefore also defines the strategies for the individual sub-portfolios: in the entire loan, securities and derivatives business as well as for all equity investments. As part of this process, the individual assets are classified into three basic strategies:

- The "sell" portfolio combines all assets for which it is likely that a price can be achieved that is in line with or exceeds the values in the wind-up plan.
- The "restructure" portfolio includes nonperforming exposures that can become more profitable in the long run through targeted measures.
- The "hold" portfolio includes all positions that promise a better outcome by holding them until maturity rather than through a sale in the near term.

After planning comes controlling, and that is because current market parameters and risk assessments can change during the course of a year. For example, if a loan from the "sell" portfolio does not come close to attaining the expected bid in an auction on the secondary market, then the transaction is withdrawn, possibly even for an extended period. If it appears that the repayment of a bond from the "hold" portfolio might be at risk due to unexpected problems of the debtor, the EAA must at least investigate the possibility of an early sale despite the negative effects on the wind-up plan.

The key parameter is the effect on the wind-up plan

Whether and what is actually sold is always determined by the EAA's experts based on current market and risk assessments. In 2013, there were several hundred such decisions on sales and early repayments. The pivotal point in these decisions is the effect on the wind-up plan: the effect is positive if the individual measures improve the overall situation compared with the current plan – taking into account all contributions to earnings that are triggered thereby until the end of the wind-up period, including the effects on equity.

Whether sell, restructure or hold – according to the internal guidelines of the EAA the effect on the wind-up plan must be calculated in every decision. This way the long-term effects of all decisions are made highly transparent.

With success: every year since 2010 the EAA has been able to achieve positive effects on the wind-up plan using active measures, such as sales, and early repayments of exposures.

Monitoring ensures flexibility and transparency

Efficient controlling is only possible if trends in the portfolio are constantly tracked and regularly documented: every week, every month, per quarter and in the annual report. When doing so, the EAA measures how the notional volume of its portfolio develops at the level of the individual asset as well as in aggregated form for individual asset groups. Variances that result when compared with the planning are made transparent. This applies to both current developments and over the entire wind-up period until 2027 in order to initiate the necessary countermeasures. This process makes the current status understandable at all times for the EAA's Managing Board, the Supervisory Board and for the FMSA as the statutory supervisor.

In order to control the wind-up process via concrete recommendations for actions, this complete set of data is used to define methods, key figures, and control parameters. In order to monitor the wind-up process, monthly analyses of all relevant risk types in the EAA are performed, covering credit, market price and liquidity risk through to operational risk. Time series analyses show the changes

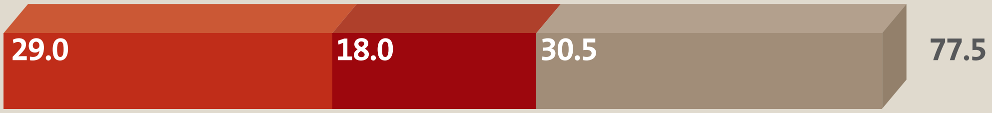
- in the individual portfolio segments,
- to the quality of the portfolio,
- in the collateral and
- in the interest income.

Special reports provide additional data for the systematic management of the portfolio: they analyze the changes in sub-groups, such as the shipping portfolio, or in individual regions, such as in Spain or Russia. In addition to the overall exposure to peripheral countries of the eurozone, the Phoenix portfolio is under special observation: for example, four times a year the Portfolio Management department reviews the market and fundamental values of approximately 1,000 securities; it evaluates more than 100 asset and sector reports and creates portfolio reports on ten different sectors in Europe and the USA.

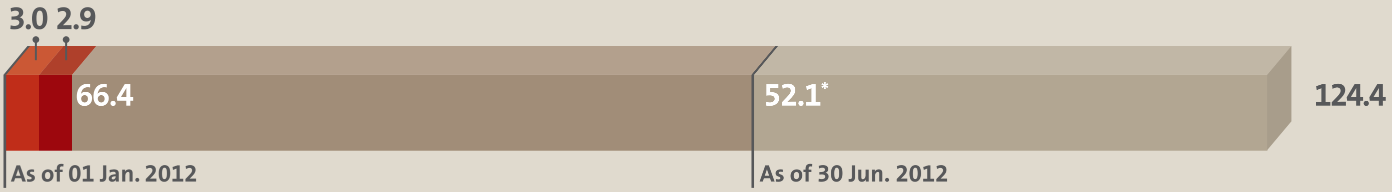
A specific, timely reporting schedule has also been installed for the derivatives portfolio: for instance, the Risk Controlling department prepares a daily report on the risk situation in the individual subportfolios such as equity derivatives and interest rate hedges. The Asset Liability Committee meets on a weekly basis to discuss the risk situation of the portfolios in detail.

Uwe Drangmeister

FIRST FILL (Notional volume in EUR billion, exchange rates as of 31 Dec. 2009)

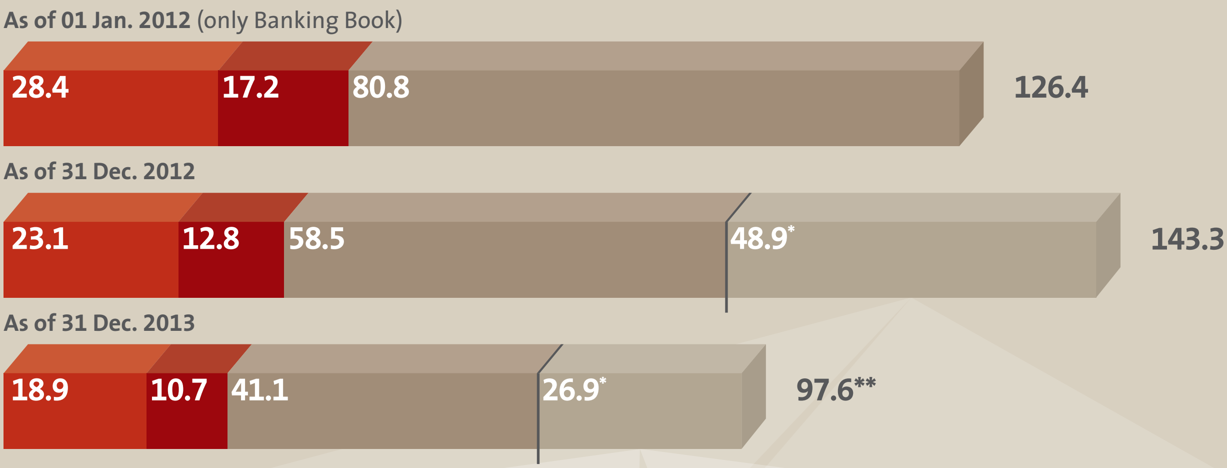


REFILL (Notional volume in EUR billion, exchange rates as of 31 Dec. 2011)



Structured Credit Securities Loans Trading Portfolio

COMBINDED PORTFOLIO (Notional volume in EUR billion, exchange rates as of 31 Dec. 2011)



PROGRESS OF EAA TRADING PORTFOLIO
(Notional volume in EUR billion, deviations possible due to rounding)

	31 Dec. 2013	31 Dec. 2012	30 Jun. 2012
Interest	634.217	851.602	992.535
Loans	1.969	12.406	16.377
Foreign exchange	0.376	2.161	14.763
Equities	7.471	18.084	28.358
Others	0.507	0.519	12.014
Total	**644.541**	**884.774**	**1,064.047**

PROGRESS OF EAA TRADING PORTFOLIO
(Book values of assets in EUR billion)

	31 Dec. 2013	31 Dec. 2012	30 Jun. 2012
Interest	26.416	47.056	44.566
Loans	0.044	0.532	0.533
Foreign exchange	0.014	0	0
Equities	0.564	1.274	1.277
Others	–0.140	0.068	5.729
Total	**26.898**	**48.930**	**52.105**

* Equates to the book values

** Based on current exchange rates to notional values stands at EUR 95.4 billion (see page 75)

The wind-up portfolio and its development

The task

To reduce a portfolio worth billions while preserving value

The EAA assumed assets amounting to a total of EUR 200 billion in a first fill transaction in 2009/2010 as well as in a refill transaction in 2012 (see chart: top left).

Portfolio wind-up in 2013

The EAA back in the double digits

–32 percent – this is the aggregate amount by which the portfolio has been wind up in 2013: the EAA reduced its combined total portfolio by approximately EUR 46 billion to just under EUR 100 billion, meaning that it has returned back to the double-digits billion amount. At the same time, the notional volume of loans and securities declined by just under EUR 24 billion. The book value of the derivatives held in the trading portfolio dropped by around EUR 22 billion (see chart: bottom left).

EAA total assets

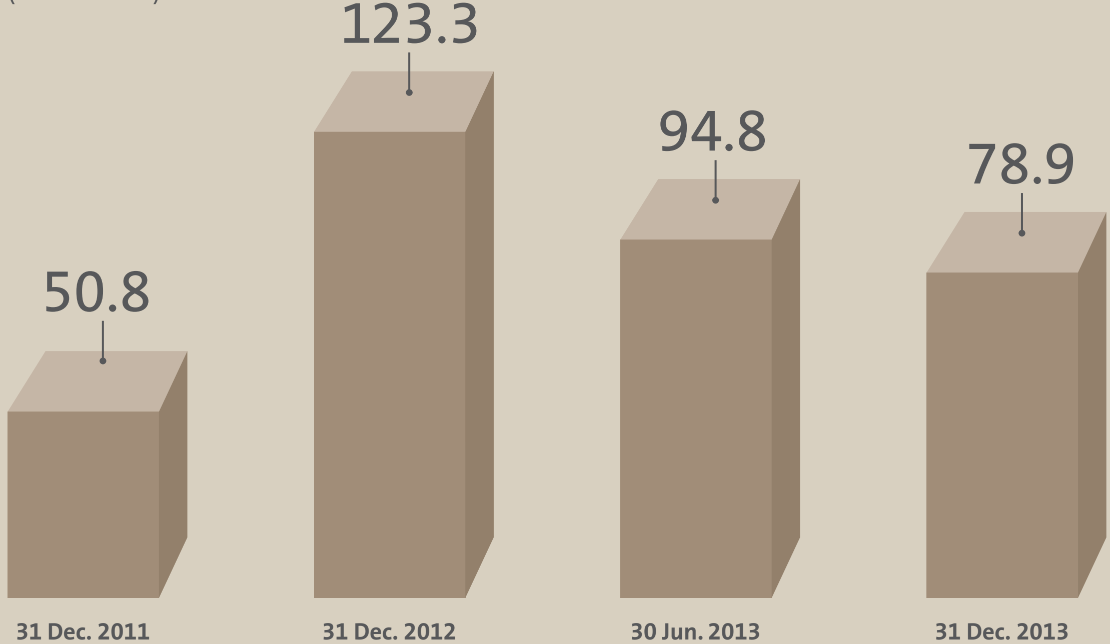
Reduction in equity and liabilities eases the German debt statistics

In the fiscal year ended, the EAA's total assets decreased by around EUR 44 billion. This reflects the significant reduction in the portfolio in 2013 in contrast to earlier years, in which the progress made in winding up the portfolio had been concealed by the accumulation of liquidity to fund the assumption of a second portfolio.

Together with total assets, the EAA's liabilities dropped: the change in this item of the balance sheet shows up in the debt statistics recorded by the Federal Republic of Germany. Thus, the success achieved by the EAA helps to reduce government debt.

DEVELOPMENT OF THE EAA'S TOTAL ASSETS

(in EUR billion)



Good business for the EAA

The EAA is winding up its portfolio swiftly – but not at any price. Thanks to its unique structuring, it always has the option of waiting for more favorable market conditions. This may pay off in negotiations, as the example of the investment in a US Internet merchant held in the EAA portfolio shows: the EAA sold this investment at the end of 2013 at a price four times higher than the original offer.

It is wrong to assume that a winding-up agency holds only toxic assets. Seldom was the term "bad bank" less appropriate for the EAA than in this case: the former WestLB had financed a fund holding shares in various US retail companies. After this fund was wound up, WestLB retained a part of this package, namely a good four percent of the shares in a Californian Internet merchant, which it transferred to the EAA in 2012.

The strategy with minority interests

Such equity investments require a different winding-up approach to loans. Whereas the EAA engages in active portfolio management in the latter case, the only exit option for minority equity interests is generally a sale – or no sale, as the case may be. The exit strategy depends on the company's business success. The EAA must assess the value of the share, something which requires the expertise of a specialist in the relevant industry. With the US economy recovering in 2013, the Internet merchant's business flourished and provided the EAA with a good exit opportunity.

The EAA bides its time – and achieves a better price

In January 2013, the majority shareholder offered USD 750,000 for the package. The analysts at the EAA compared the offer with the company's enterprise value derived from the results of its operations and rejected it. This was followed in the spring by an increased offer of one million US dollars. Again, the EAA experts declined. They assumed that the majority shareholder – a US private equity fund – was not in it for the long haul and, sure enough, it sold its stake at the end of November. Under the contractual "drag-along" right, the new owners also assumed the shares held by the EAA for just under three million US dollars, four times the price originally offered.

This example provides a clear illustration of how the EAA goes about its business. Priority is given to winding up the portfolio – but not at any price. Winding-up work calls for knowledge of the market, a careful analysis and the ability to wait for the right time.

A decision with prospects

To sell or restructure – this was the question faced by the EAA as the creditor of a partially nationalized European utility company. After a careful analysis it decided not to sell the EUR 50 million loan at a loss. Instead, it played an active role in the restructuring negotiations: and thus kept its options open to cap the threatened loss.

"Better a terrible end than unending terror" is a German saying that does not always apply in the case of pending insolvencies. Rather, it may be worthwhile for the creditors to support restructuring efforts – even in an apparently bleak situation. With a 2.5 percent tranche of outstanding senior loans to the utility company, the EAA was a minority creditor in an international banking syndicate. This placed it in a difficult bargaining position when, in summer 2012, the utility company's heavy debt and weak operating business took it to the brink of insolvency.

The decision was to restructure rather than sell

Sell the loan immediately? That was an obvious thought especially as the government concerned, which held a good third of the company's capital, had in the past practically imposed the restructuring terms on the creditors in comparable situations.

Yet, after a comprehensive analysis of the company's viability, the EAA took a different decision. Instead of accepting the heavy discounts which would have arisen in a fire sale, it assumed an active role in the negotiations, working with the other creditors and developing a restructuring plan with the assistance of a specialist consulting company.

One year and many rounds of negotiations later, the job was done and the restructuring plan accepted by all parties involved. At its core, it provides for the senior creditors to assume all of the company's capital including the shares held by the government in what is a first in the relevant national market.

The EAA only had to accept a moderate discount. If the company manages to restart its operating business, the EAA stands to benefit. In this case, the loss is likely to be substantially lower than would have been the case had it sold its loan immediately.

Persistence in a business thriller

In 2008, the former WestLB had provided finance for a security company via a private equity investor. After becoming distressed, the borrower required a restructuring in 2010. The agreed sale had all the makings of a genuine business thriller. The company's management wanted to accept a bid which was well below its fundamental value. The EAA, which had since taken over the finance, held a share of just under EUR 43 million of the total package. It maintained a tough stance throughout the negotiations and ultimately prevailed.

The market for security services is highly competitive. After the company funded by the EAA fell massively short of its budget, the banks, the company and the private-equity investor commenced restructuring negotiations in summer 2010. A good year later in October 2011 the owner decided to sell the group.

Long-winded sales process

A valuation report put the company's enterprise value in a broad range in the two- to three-digit millions; however, no investor was willing to pay such a price. In the course of the sales process, the original number of more than 150 interested parties thinned out significantly and by spring 2012 only two private equity investors were left. Both bids fell well short of the price being sought by the seller and differed substantially from each other: one bid was for just under EUR 25 million and the other a mere EUR 3 million.

The negotiations went on for a protracted period of time. In September 2012, the lender's management entered into exclusive negotiations with the investor who had submitted the lower bid on the grounds that negotiations with the other bidder had been delayed. It was not only the low cash inflow but also the complex terms of the contract that made the bid preferred by management unappealing to the EAA and the banks involved. Consequently, they refused to accept it.

Insolvency as a bargaining chip

Consequently, the EAA braced itself for the worst, namely an almost total loss. On the basis of the remaining bids submitted in the tender process, it stepped up its provisioning for this loan substantially.

Meanwhile, relations between the company and the creditor banks had deteriorated rapidly. The management had threatened to file for insolvency should the banks continue to refuse the bid, which fell well short of the company's enterprise value, and fail to fully finance the company.

Such a step would have had dire consequences. For one thing, the large number of subsidiaries in numerous countries would have led to extremely complex insolvency proceedings. For another, the company's main customers had secured a right of immediate termination in the event of insolvency, meaning that a heavy loss would have arisen. These two factors would not only have threatened the employees' jobs, but also minimized the banks' hopes of ever having their loans repaid.

All in all, it was a difficult situation characterized by highly divergent interests on the part of the shareholders, the company's management and the creditor banks. To protect its own interests to a reasonable extent, EAA took the initiative. Together with the other banks, it managed to have the share in the company transferred to a trustee, who was instructed to sell the company in the light of the creditor banks' interests.

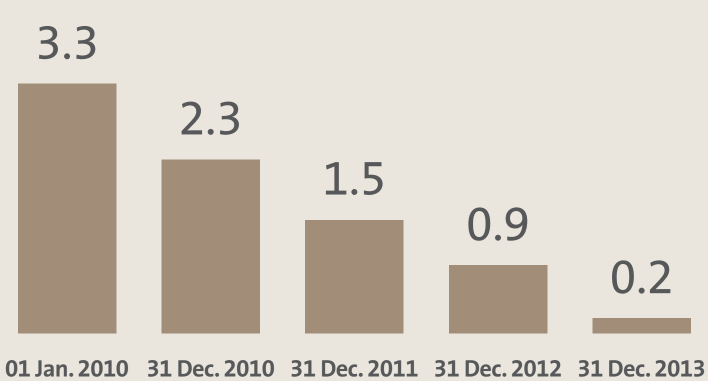
Higher bid accepted

The inclusion of a trustee untied the knot. The previous managing director left the company. The remaining management was then reinforced with the appointment of a restructuring expert in consultation with the trustee. In this constellation, management, the trustee and the banks all worked together to save the company from insolvency.

At the same time, the EAA resumed negotiations with the bidders. On November 28, 2012, a contract for the sale of the company was finally signed with the party which had lodged the higher offer in the bidding process. Following on from the execution of the contract in mid-February 2013, the EAA was already able to book amounts in the double-digit millions. Further proceeds are expected in 2014 from the active management of further claims under the contracts. The EAA's persistence thus paid off.

Wind-up of the sub-portfolio „Leveraged Finance"

(Notional amount in EUR billion, exchange rates as of December 31, 2011)



The EAA has aggregated financing from highly indebted companies in the sub-portfolio "Leveraged Finance." This portfolio has nearly been completely wound up in the last few years.

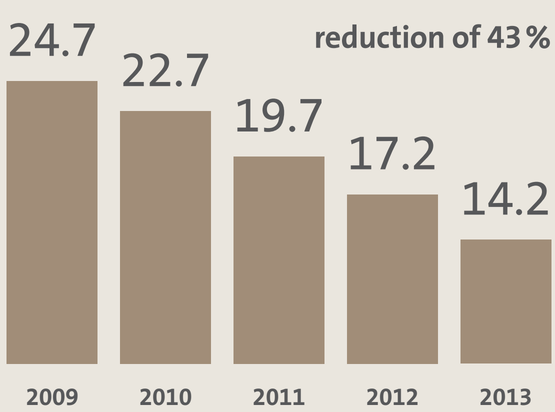
Phoenix: More than 40 percent wound up

The special-purpose entity Phoenix Light SF Ltd. primarily holds real estate mortgage-backed securities. In the financial crisis, these had drastically lost value, threatening the former WestLB's viability. Thereupon, they were offloaded to a special purpose entity, with the EAA assuming the refinancing notes of this entity in 2009/2010. At that time, Phoenix was one of the largest risk drivers in the EAA portfolio. However, progress has since been made on winding up this exposure and the risk has been reduced.

The US economy – and along with it real estate prices – have recovered from the financial crisis. The amounts received on the underlying loans have exceeded expectations, making selected bonds attractive to buyers as well. Since the establishment of Phoenix, asset-backed securities equivalent to a notional EUR 1.3 billion – calculated at exchange rates as of the set-up date – have been sold and repayments of some EUR 8 billion have been received.

Development of the Phoenix Notes

(Notional amount in EUR billion, exchange rates as of December 31, 2011)



This positive trend is also reflected in the utilization of the guarantee/back-to-back-guarantee which the state of North Rhine-Westphalia as well as the North Rhine-Westphalian Landschaftsverbände and Sparkassenverbände had granted in favour of Phoenix prior to the establishment of the EAA. According to the forecasts made in 2008, the entire guarantee of five billion euros would have been drawn in the medium-term. Contrary to original expectations, however, a sum of only EUR 1.4 billion has been drawn to date.

The assumption that even those securities which had been deemed to be "toxic" in the financial crisis can offer upside potential has so far proved to be correct for Phoenix. Now, the core question is whether the securities will continue to rise in value or if forced sales are advisable to avert possible heightened risks.

All sales decisions for the Phoenix portfolio are made in accordance with the principle of optimizing value. Either the selling price exceeds the present value of the expected cash flows – or a so called "binary risks" can be reduced. This involves weighing up the opportunities and risks in base and stress scenarios to determine whether the sale of an individual security may result in a moderate loss which should be tolerated to avert potentially greater risks – such as a total default – in the future.

Reduction of trading portfolio ahead of schedule

After assuming the derivatives from the former WestLB's trading portfolio in the second half of 2012, the EAA set itself the ambitious goal of halving the notional value at the time of EUR 1.1 trillion within three years. And, indeed, by the end of 2013 it was already managed to reduce the holdings by 40 percent to EUR 644.5 billion and generate positive net trading income. Accordingly, this goal of halving the portfolio should already be achieved in 2014.

In this regard, active risk management has particularly proved its merits. The EAA treasury experts analyzed the entire trading portfolio in detail for potential risks. As with the efforts to wind-up loans and securities, the schedule for winding up the trading portfolio defines the strategy to be adopted for each individual item:

- The EAA monitors the derivatives market closely and embarks on negotiations if a sale can be executed on a cost-neutral basis. Market conditions have improved over the past few months, with demand rising and the EAA able to capitalize on the mounting interest. The greatest individual success was achieved in March 2013 with the sale of 30 basket default swaps and 1,341 credit default swap hedges. Overall, a wind-up volume amounting to EUR 9.5 billion was achieved. Used to hedge a basket of different loans, these swaps have since been liquidated.

- The EAA has also been very successful with portfolio compression: using a multilateral platform, it is possible to liquidate opposite positions in OTC derivatives with counterparties. In this way, the derivatives experts at the EAA were able to additionally reduce the trading volume by a notional EUR 60 billion in 2013.

- Via regular analysis and utilization of early liquidation clauses, further derivatives transactions with individual counterparties have been liquidated, with this process still ongoing.

Thus, the EAA was able to remove individual sub-portfolios from its trading portfolio in one fell swoop. Accordingly, the risk classes which they entailed have been eliminated, meaning that they no longer have to be hedged. A good example of this is the gold active sub-cluster. This entailed registered bonds whose coupon is tied to the price of gold and the US dollar. After the liquidation of this sub-portfolio in 2013, its previously required ongoing complex hedging transactions were also able to be terminated.

“We’re making good progress”

The EAA took over the former WestLB’s trading portfolio in mid-2012. The scope and structure of the derivatives portfolio resembles that of a large international bank: almost three-quarters comprise interest rate swaps, supplemented by further credit, currency and equity derivatives. Horst Küpker has been on the Managing Board of the EAA since 2013 and is responsible for winding up the trading portfolio.

Mr. Küpker, how would you characterize the progress you have made in the first few months in your new position?

“We reduced the notional volume of the trading portfolio by around EUR 240 billion in 2013. This puts us well ahead of our wind-up plan. The EAA took over the former WestLB’s trading portfolio in mid-2012, the notional volume at the time was around EUR 1.1 trillion. By the middle of 2014 we expect to have halved this volume.”

What prompted you to join the Managing Board of Erste Abwicklungsanstalt in May 2013?

Horst Küpker: The task of winding up such a large trading portfolio is a challenge that has no equivalent in the financial services sector. Although I oversaw the wind-up of a derivatives portfolio worth one trillion euros during my time as a member of the Postbank managing board, the goal being pursued by the EAA differs from that of a commercial bank.

In this case, the purpose is not to generate trading gains. Our task is to eliminate risk. What this specifically means is that we reduce our trading portfolio when the possibility for doing so arises and hedge the remaining portfolio. If all the problems of 2008 were to return to the financial markets at the same time, the maximum loss from market value risks to which the EAA’s trading portfolio is exposed would not exceed EUR 50 million on the basis of scenario analyses.

You joined Erste Abwicklungsanstalt after working for a commercial bank. Was that a culture shock?

Horst Küpker: No, despite the differences in business goals, the day-to-day work is comparable. What is more, I found a highly profession team when I arrived here. My colleagues enjoy a good reputation in the market. They are all highly competent in their jobs, the team works together excellently and we are able to manage a portfolio worth billions of euros very successfully with only a small number of experts.

Derivatives are not the devil's work

"As I see it, derivatives were not the main problem in the crisis. They are financial instruments and not 'bets.' Such forward transactions can be used to cushion the effects of fluctuations in interest rates and stock prices. Ultimately, they stabilize and protect value. The opportunities and risks are calculable. Problems particularly arise if – as was the case in the crisis – the underlying assets or counterparties default on their obligations."

What is your forecast? Will work on winding up the trading portfolio continue at the same pace?

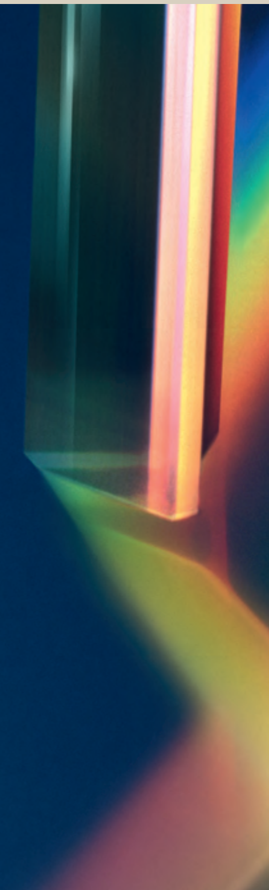
Horst Küpker: To date, market conditions have been favourable, allowing us to complete our work very effectively. The sector has been at pains since 2008/2009 to reduce what, at the time, was the bloated market for derivatives. This means, for example, that banks which have transacted several of these forward transactions with each other offset them or liquidate them completely.

Even so, the rate at which the portfolio is being run off will slow down sooner or later in notional terms. Some structures are highly complex and simply take more time to unwind.

That's why we are increasingly working on winding up individual sub-portfolios – such as equity certificates – in full as quickly as possible. This eases the EAA's risk management efforts while simultaneously reducing costs, of course.

Finally, may I take the liberty of asking you a personal question? As an enthusiastic yachtsman, how do you view your work on the EAA Managing Board?

Horst Küpker: The EAA is not a four-master but a small and agile yacht. This has advantages; after all, our success hinges on conditions in the market: we are able to manoeuvre more swiftly and with less effort. That's why we are better at returning to our original course even if the wind changes direction.



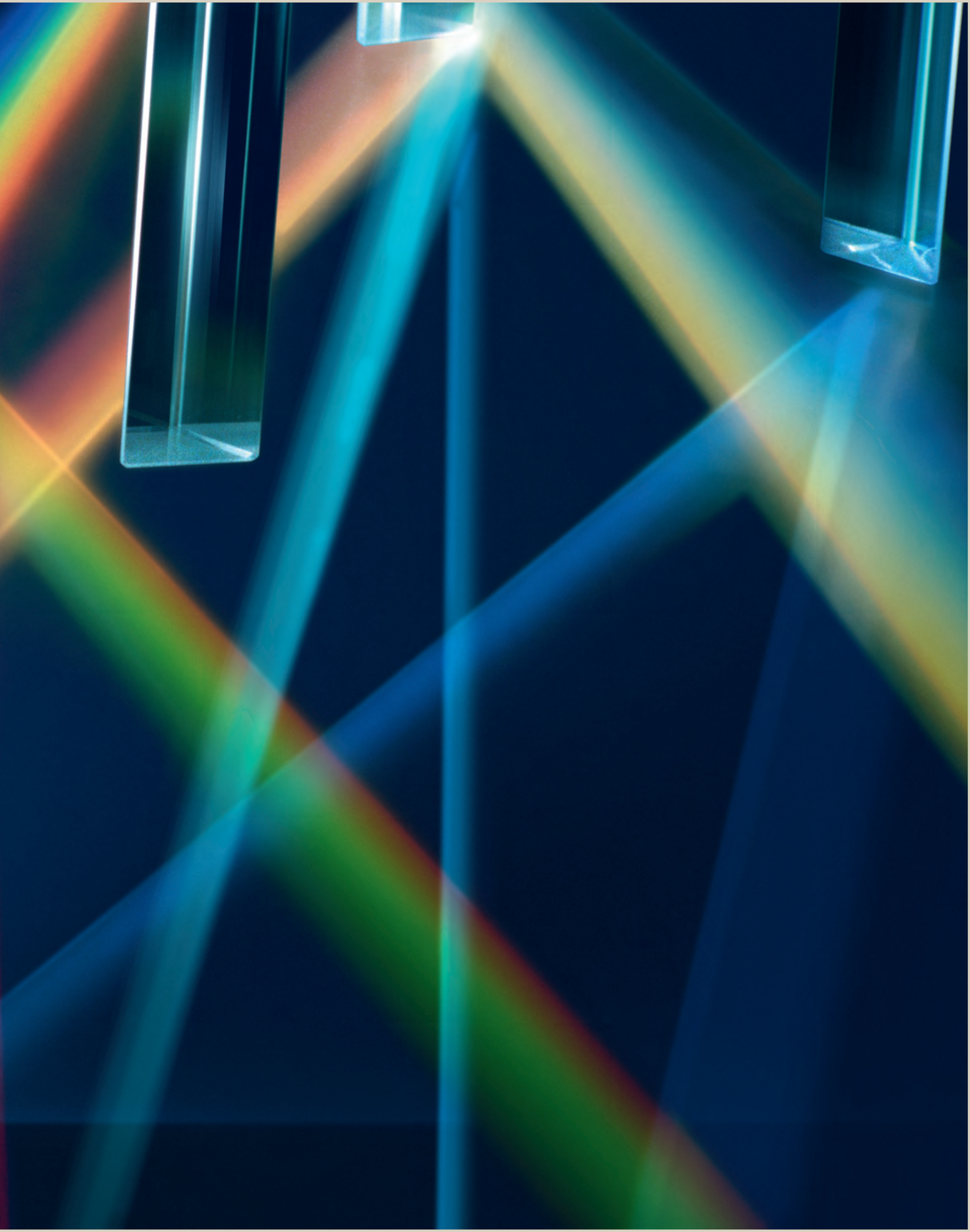
Focussing

Diverse tasks, new approaches

In the first stage of its existence – during which it has evolved from being a start-up to becoming an established financial institution – the EAA has been buoyed by the legislative framework within which it operates and the favourable macroeconomic conditions.

The remaining portfolio and its complexity as well as the momentum of the markets pose new challenges for the EAA in the next phase of the winding-up process. It is relying on its expertise and its endurance in order to wind up the portfolio within a reasonable time while preserving as much of its value as it can and reducing risks.

Seven key tasks on page 42.



Diverse tasks, new approaches

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1. To stabilize the quality of the portfolio

In just under four years of swift winding-up activities, there has hardly been any deterioration in the quality of the portfolio as a whole. At the end of December 2013, the proportion of good rating classes still stood at 55 percent. And this is how things are to remain in the future.

However, when a portfolio contracts sharply, the requirements of active management become increasingly more complex. Thus, a significant part of the exposure must be restructured comprehensively in a time-consuming manner.

At the same time, new scenario analyses are gaining importance for winding-up activities. Following the recovery of many market prices, the EAA must now decide how it is to address or completely eliminate the downside risks, i.e., a renewed deterioration in the value of assets.

2. To continue hedging complex high-risk portfolios

One key aspect of the EAA's work will continue to revolve around the Phoenix portfolio, which comprises bonds issued to finance US real estate mortgage-backed securities. This entails two main tasks: on the one hand, it is necessary to identify risks which, in the future, may increase by a disproportionately strong rate. On the other hand, the EAA systematically assesses which legal steps can be taken to achieve greater recoveries on the portfolio. The article on page 36 also deals with the Phoenix portfolio.

Monitoring the portfolio assumed in 2012 comprising over 1,400 life insurance policies which US nationals sold to specialist investors is equally intensive. The former WestLB had provided loans to fund these transactions, with the corresponding policies pledged as collateral. The EAA has made use of extensive analyses performed by internal and external specialists to minimize the resultant risks and to appropriately include them in the wind-up plan. More details can be found in the following article on page 45.

3. To address the fallout from the eurozone crisis

Conditions in the public-sector finance of the periphery countries of the eurozone have not merely impacted sovereign bonds over the last few years. Austerity programs established to overcome the crisis have also exerted pressure on these countries' economies, particularly impairing capital spending in individual sectors.

Despite the now emerging economic recovery, this has affected a number of project finance contracts which the EAA assumed in 2012. Accordingly, ongoing monitoring with an increased number of analyses and model calculations is necessary for many of the infrastructure and industrial projects based in the periphery countries.

4. Prepare the portfolio for the turnaround of energy policy

The radical changes in the European energy market – particularly the legislative changes expected in 2014 – will exert a lasting effect on the EAA's energy portfolio. Here as well, many project finance contracts are affected. This calls for a careful analysis of trends and risks. Where necessary, new measures may be required to mitigate the risks which have been identified.

Consequently, the EAA has started accumulating specialist knowledge in this segment of the market as it is necessary to factor in technical as well as local requirements among other things. Where necessary, the EAA consults with external specialists.

5. To minimize the legal risks

One of the challenges in the future also entails the large volume of court litigation which the EAA is required to conduct. This is because the task of reducing or even avoiding future losses in the tax payer's interests includes the possibility of going to court either to successfully assert the EAA's own legal rights or to ward off unjustified third-party claims.

The interest rate swap litigation initiated by North Rhine-Westphalian municipalities against the former WestLB is particularly complex and involves a high degree of risk. The EAA acceded to the court actions in 2012 when it assumed the derivatives in the trading portfolio from Portigon in 2012. Details of the EAA's position can be found on pages 46 and 47.

6. To exploit the strong demand in the markets

Most recently, the EAA has been making successful use of the persistently high liquidity in the financial markets to wind up its portfolio. With the countries of the eurozone periphery now gradually recovering and the yields on their sovereign bonds declining, various loans have gained substantially in value and been sold on a broad basis.

Major investors are currently seeking large-volume placements. On the one hand, there is intensive competition in the secondary market for loans while, on the other hand, the resource requirements for due diligence exercises can be optimized with large-scale transactions. International brokers are therefore tending to initially place these positions on their books so that they can subsequently offer correspondingly dimensioned packages.

Given this trend, the EAA will increasingly concentrate on bundling securities itself. The portfolio manager and decision-making bodies at the EAA closely monitor changes in market conditions and develop new winding-up solutions based on the specific needs of investors and market partners.

7. To secure the expertise that has been accumulated to date

The decisive questions in terms of planning and financial aspects have thus been identified. However, the challenges arising from winding up the portfolio go beyond this. As the EAA contracts in size, it must take steps to ensure that its specialist knowledge remains available to it in the next phase of the winding-up process. It cannot afford to lose neither its market analysis skills nor the expertise which it now has in winding up nonperforming loans or structured credit portfolios.

Over the last few years, the EAA has been working with the former WestLB's Portfolio Exit Group (PEG) to assemble highly specialized project teams, who have amassed specialist knowledge which it would otherwise not have been readily accessible in the market for EAA. These teams have proven themselves highly capable in the efforts to wind up international finance contracts and portfolios.

It is now imperative for these skills to be retained to ensure professionalism and quality throughout all stages of the process. Accordingly, the EAA will be binding the PEG portfolio managers by establishing a subsidiary. The article on pages 48 and 49 provides background information.

US life insurance policies – the task: to actively restructure the portfolio

In 2012, the EAA assumed a portfolio of US life insurance policies from Portigon. The former WestLB had granted loans to finance the premature payout of more than 1,400 policies. Comparatively wealthy US nationals had sold the rights accruing under these policies to specialized investors as part of their personal wealth planning. The policies were pledged as collateral, with the loan to be repaid upon the maturation of the policies.

At the time, the amount of the payouts to individual beneficiaries had been calculated in accordance with actuarial principles on the basis of US statistical life expectancy data. The ensuing premium payments required to fund the policies were also financed via the loan agreement with the former WestLB.

The problem with the portfolio was that medical progress has rendered the calculations underlying the transaction obsolete. This is a trend affecting the entire insurance industry. A further aspect in connection with the former WestLB's portfolio is that, due to their wealth and education, the insured persons are likely to benefit from the positive health trend to a greater extent than the average US citizen. Accordingly, the original loan amount will generally probably be repaid at a later date than initially assumed. Consequently, the costs of the necessary premium payments and refinancing of the loans have since risen.

After assuming the portfolio, EAA re-evaluated its value. To this end, it collected current data, requested medical studies and sought actuarial advice. The EAA incorporated the revised – conservative – forecasts for the portfolio in its current wind-up plan for 2014. At the same time, it began to analyse the complex contractual structures.

To give an example, like structured credits, numerous parties are involved in life insurance policy business – in addition to the creditor bank and the initiator, they include the trustee as well as various providers, who, for example, manage the underlying policies. They are all responsible for ensuring that the complex contracts are duly performed.

In talks with the parties involved, the EAA was able to systematically pinpoint errors and loopholes. As a result, EAA experts started restructuring the transaction and lowering the cost of the portfolio-related services. Where necessary, they replaced the portfolio service providers. In addition, the EAA has direct access to the individual policies – and hence the loan collateral – in special cases. It is working actively on minimising risks arising from this portfolio.

By Dr. Gregor Garten, Head of Legal & Governance

To the point: municipal government interest rate swaps – the EAA's position

The EAA's winding-up mandate involves complex legal disputes in Germany and other countries. The agency must assert its own rights and avert unjustified claims. In mid-2012, the EAA took over more than just the former WestLB's interest derivatives portfolio. Since then, it has also been dealing with the court actions initiated by some 45 municipalities who had engaged in interest rate swaps and were now seeking to have these transactions ruled void in several court actions.

Interest rate swaps are derivative products in which two parties agree on interest payments fixed for the future on certain notional amounts. Many interest rate swap contracts are currently resulting in negative values for towns and municipalities, comparable to fixed-rate loans which can only be discharged before maturity if an early repayment penalty is paid. This situation is, if nothing else, due to the protracted low interest rates but can change again quickly. The municipalities argue that they were not aware of the risk of such transactions when they entered into the contracts and that WestLB did not advise them properly.

To date, there has been no conclusive court ruling and those judgements that have been passed do not reveal any clear trend

In the intervening period, more than 20 rulings have been served by the regional courts and one decision by the Düsseldorf Court of Appeal in North Rhine-Westphalia, where action has mostly been taken against the EAA as the legal successor of the former WestLB. Further decisions have also been made by Courts of Appeal in other German states. In a large number of the North Rhine-Westphalian cases, the municipalities' arguments have been largely accepted by the courts. However, as of the end of 2013, none of these judgements was final.

Indeed, an analysis of the court decisions across Germany indicates that no clear trend has yet emerged in the rulings on interest rate swaps. The decisions of the North Rhine-Westphalian courts exhibit great differences in the assessment of the questions of fact. Thus, the question of the municipalities' contributory responsibility is seen very differently by the various judges.

Differences in product structures and advisory duties must be taken into account

In particular, the EAA rejects the argument that the bank was on the "opposite side of the bet" in the swap transactions with its customers and that out of its own interests therefore failed to advise them properly. It is also not true that the loss sustained by the municipalities is matched by a corresponding gain on the part of the former WestLB. Rather, the fact of the matter is that the performance of a swap transaction does not have any influence on income earned by the bank which has made the contract with the customer.

In any case, it is doubtful whether a uniform legal appraisal of all cases is appropriate given the large degree of variation in the individual transactions and the fact that the legal risks must be examined on a case-by-case basis. Thus, there are very substantial differences between the products underlying the disputed interest rate derivatives in some cases. By far the majority of the still existing contracts with municipalities are relatively simple interest rate hedges of a type that has been customary for years. Other cases involve more complex products for interest rate optimization, which are used by municipalities and may, for example, involve foreign currencies. The municipalities were fully aware of the resultant exchange rate risks.

A detailed review of each individual case is therefore appropriate. This applies not only to the contracts themselves, but also to the bank's advisory duties. The EAA takes the view that it is also necessary to examine the extent of the individual municipalities' contributory liability for the loss sustained. Thus, for example, it needs to be determined whether in the situation prevailing at that time the municipality representatives would not have signed these contracts if they had received further information from the bank.

And, finally, each individual case must be examined to determine whether the claims have exceeded that limitation period.

To sum up, the EAA argues – and to this extent it agrees with the expert opinions and the ruling of individual courts – that each case must be viewed on its own merits, particularly with respect to the products concerned and the municipalities' contributory responsibility. As the EAA sees it, this has not yet been done in all the court cases.

The EAA is taking legal recourse but is also amenable to out-of-court settlements

Given these major differences, the EAA has lodged appeals against all judgements even in cases in which it predominantly prevailed. In response to the ruling of the court of appeals, it lodged an appeal against denial of leave to appeal with the German Federal Court of Justice.

In addition, the EAA is considering litigation in cases in which municipalities have failed to honour their standing payment obligations on the basis of prior court rulings. A preliminary action was brought before the regional court of Bonn in January 2014.

However, the EAA is not resorting solely to litigation. It is also engaging in intensive talks to identify the scope for out-of-court settlements. To work out the necessary basis for this, it has conducted extensive analyses of the individual cases, the products concerned, the contractual framework, the advisory documentation and the parties' actions. It has documented the special factors of each case and is thus able to negotiate appropriate settlements.

Dr. Gregor Garten

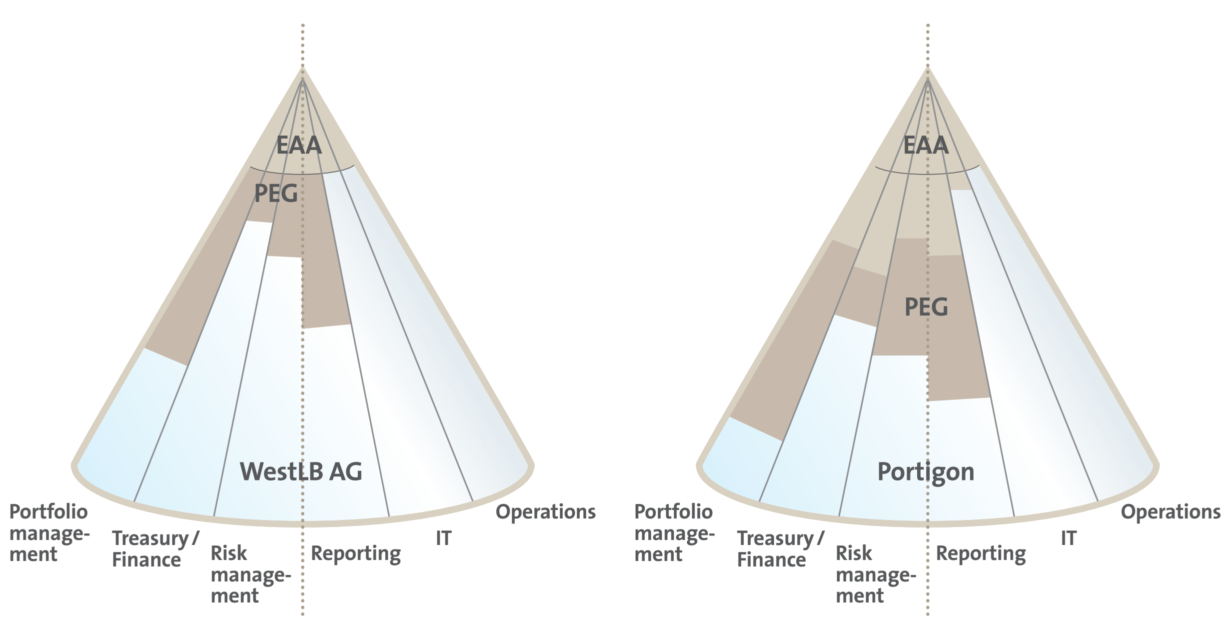
The EAA establishes its own portfolio management subsidiary

The EAA can only perform its mandate properly if it safeguards its operating stability and efficiency in the long-term. With its lean structures, it must have access to the necessary expertise at all times – if not internally then externally, and vice versa. For this reason, the EAA established a portfolio management service company in 2014. Portigon portfolio experts are to be transferred to this new company.

Since its establishment in December 2009, the EAA has been working closely with the Portfolio Exit Group (PEG). The latter's employees perform duties exclusively for the EAA, previously as a segment within the former WestLB and, most recently, in the Portigon Group. PEG supplies analyses and input for decisions. The EAA's experts and decision-making bodies also use this data to plan the winding-up of the portfolio and to implement these plans – likewise with PEG's support. PEG has made a significant contribution to the progress made in winding up the portfolio over the past four years.

The PEG employees work in close consultation with the EAA. The joint activities have given rise to closely intermeshed and efficient teams of experts. The portfolio winding-up expertise which they have amassed is not available to the EAA in this specific form from the market. And it is crucial if the EAA is to continue performing its public mandate.

Depth of value chain at establishment and refill of the EAA



The EAA's interest in preserving its operating strength is closely linked to the Portigon Group's performance as its core service provider. And Portigon is also continuing to develop strategically.

With this in mind, the EAA and Portigon reached an agreement in spring 2014 to reallocate and to optimize the previous tasks in the light of future requirements.

Securing special expertise, harnessing synergistic effects

The core element of the new agreements entails the transfer of some 70 PEG employees to a newly established EAA subsidiary. This step is in the EAA's core interests as it ensures that the expertise amassed over the last few years in handling the winding-up portfolio is preserved. At the same time, however, it allows skills to be pooled, efficiency to be additionally enhanced and synergistic benefits to be utilized. From the Portigon Group's point of view, this agreement permits a greater focus on Portigon Financial Services as a provider of platform services, which was launched in February 2014, and hence its privatization.

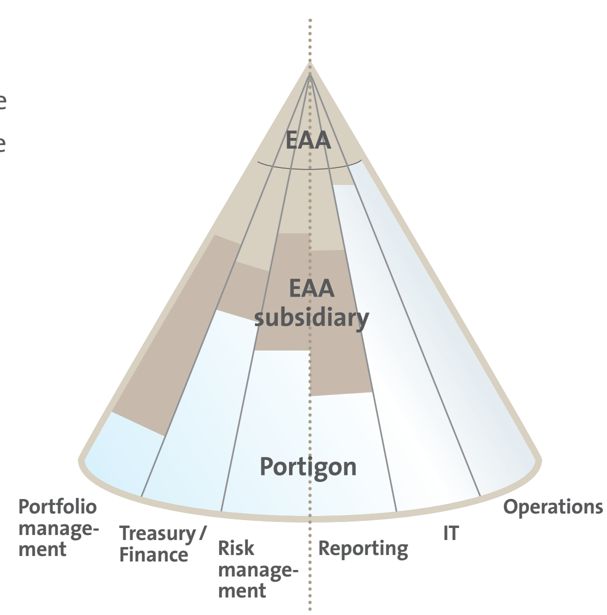
The requirements which the EAA must fulfil have changed over the last few years. In particular, the assumption of the second portfolio in 2012 – the "refill" – posed new challenges. The EAA reacted to these by increasing its depth of own value chain activities.

In establishing the new subsidiary, it is securing what it has already gained, simultaneously creating the basis for achieving the greatest possible efficiency in the future.

No impact on the EAA's wind-up plan

The planned transfer of the former PEG employees to the EAA will occur on a cost-neutral basis. The establishment of the subsidiary will not have any impact on the wind-up plan.

Depth of value chain through the new subsidiary



The EAA assumed a total of around 120 direct and some 200 indirect corporate investments from the former WestLB in 2009/2010 and in 2012. The business models range from an investment in a business school to real estate funds and management companies as well as private equity companies and banks. A large number of these companies are domiciled in Germany, the United Kingdom and the United States.

The size of the shares range from small minority interests to 100% holdings. This calls for a wide variety of different exit strategies. However, the foremost goal is always to optimize enterprise value. The EAA drafts a detailed business plan for each investment to achieve precisely this and to obtain better prices when it sells the investment. However, it is not under any pressure to sell. If the EAA is able to substantially boost the value of an asset by means of active management, it will also retain the investment on a long-term basis.

At the end of 2013, the EAA reduced the number of investments to around 100 direct and 160 indirect ones.

EAA investment management: enhancing enterprise value

Westdeutsche ImmobilienBank AG

The EAA's largest investment is Westdeutsche ImmobilienBank AG (WestImmo) in Mainz, a credit institution specialising in commercial real estate finance. On December 31, 2013, it had total assets of EUR 13.8 billion.

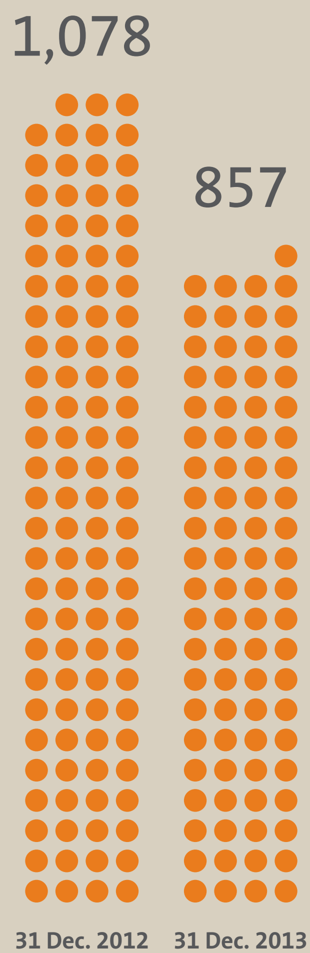
The EAA holds 100 percent of the bank's capital. Its goal is to retain WestImmo and sell it to a private investor. It is currently holding intensive talks with several interested parties. In order to heighten the bank's appeal to potential buyers and to maximize the selling price, WestImmo is being restructured as a pure credit institution licensed to issue covered bonds. Corresponding steps in this direction were taken in the year under review, with the transfer of Japanese real estate business – WIB Real Estate Finance K.K. – to the EAA. The EAA is continuing on this route in close consultation with WestImmo's Managing Board. The next step will be for further parts of the portfolio which cannot be used as cover assets to be transferred from the subsidiary to the parent company.

WESTIMMO PORTFOLIO
(Notional volume in EUR billion, exchange rates as of 31 Dec. 2011)

Special Purpose Entities (SPEs)

In addition to investments in real estate companies, the EAA has assumed some 1,400 special purpose entities (SPEs) – e.g., for structured finance as well as leasing, real estate and bank investment business. The strategy adopted for these special purpose entities is to mitigate risks and wind them up incurring minimum expense – in most cases, this will entail liquidation. This is also something which calls for painstaking attention to detail. The companies are domiciled in different jurisdictions, meaning that very diverse legal requirements must be observed. Similarly, the scope which the EAA has for exerting influence also varies.

The first main step after the transfer of the SPEs was therefore to perform a detailed analysis of the risks. These must now be managed actively.

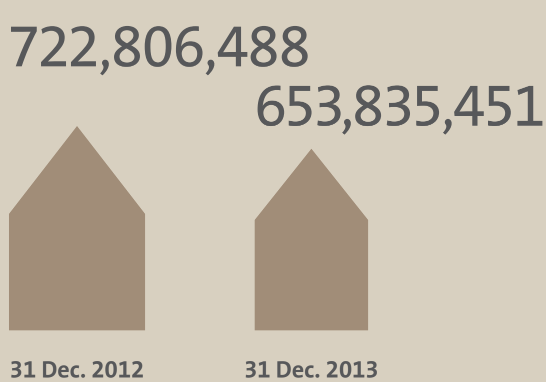


Basinghall Finance Plc

Basinghall Finance Plc. in London is likewise a 100% subsidiary of the EAA. With a current notional value of approximately EUR 650 million, it is its third largest investment. Its original business purpose was to directly grant residential mortgages and to acquire corresponding portfolios in the capital market. The company's new business was discontinued in 2008.

Since assuming the company, the EAA has wound up part of the Basinghall portfolio and has now initiated an international bidding process, in which the company is to be sold in its entirety.

BASINGHALL PORTFOLIO
(Notional volume in EUR billion, exchange rates as of 31 Dec. 2011)



By Dr. Michael Schinke, Chief Economist at the EAA

Outlook 2014 – good prospects for progressing the wind-up

The EAA has recently been benefiting from the continued upbeat market sentiment. The European Central Bank (ECB) stabilized the market for eurozone periphery bonds in 2013. Other central banks also generously provided liquidity, triggering a further market recovery. The EAA was able to successfully exploit these opportunites in 2013 to further wind up its portfolio. Despite the turbulence which may arise from the capital outflows from a number of the emerging market countries and the crisis in Ukraine, the outlook for 2014 remains predominantly favourable.

2013 was a good year for winding up challenging asset classes. Market liquidity remained strong and international investors were in search of investment opportunities. This supported the EAA's negotiations for an early termination of loan agreements. Moreover, the signals sent by central banks had a positive effect on sovereign and corporate bonds, with significant further price recovery in the secondary market during the last quarter of 2013. This was also reflected in the decline of risk premium. Whereas the premium to cover the risk of default on European investment-grade companies amounted to 120 basis points at the beginning of 2013, by the end of the year this spread had narrowed to a mere 70 basis points. This development was also favourable to the EAA. It became possible to use the high demand of international investors for a targeted wind-up – in particular with regard to Spanish exposures – with positive business-plan effects. This underlying trend will also continue this year and may contribute to achieve another successful year of winding-up progress. The economies in the United States, the United Kingdom and the eurozone are gaining momentum and there are currently signs of relatively robust growth. This is likely to continue whetting the risk appetite of many investors. They are focusing their interest on securities offering higher potential returns and are willing to accept the connected higher risks. With the economy currently picking up, default rates should remain at their present low level.

Further progress made in winding up eurozone periphery assets

At the height of the sovereign debt crisis, eurozone periphery securities were considered to be one of the core risk drivers – not just in the EAA portfolio. In the meantime, this trend has reversed. After arduous and difficult reforms, the eurozone partners and the Troika are now permitting more moderate austerity policies. This implies that the fiscal drag on these economies will be substantially lower in 2014.

The realigned economic and growth models adopted by the periphery countries are reflected in a brighter economic outlook, a trend which continues to support valuations of sovereign and corporate bonds. For example, yields on Spanish sovereign bonds dropped by 110 basis points from 5.3 percent at the beginning of the year to 4.2 percent at the end of December 2013. Similar positive trends could be observed in Portugal and Italy. At the end of the fiscal year, the EAA portfolio held eurozone periphery loans and securities with a notional value of around EUR 11 billion. The close analysis of these markets will remain one of the focus areas of the EAA's portfolio managers and decision making bodies throughout 2014.

However, a number of factors or events could tarnish the upbeat sentiment. Political decisions in the European energy sector, for example, could negatively impact the EAA portfolio. Moreover, the upcoming stress test for European banks could exert pressure not only on individual institutions but also on some of the eurozone countries with regard to banks' heightened capitalization requirements. This would rekindle uncertainty and precipitate greater portfolio sell-offs by banks and other market participants, thus exerting pressure on prices.

Emerging markets as a risk factor

The capital outflows from emerging markets, which triggered heavy market turmoil in spring 2013, are a further risk factor. Many international investors are reappraising their exposure to the emerging markets. Hopes of an upswing in the United States, rising interest rates and, not least of all, a strengthening US dollar are offering investors sufficient alternatives in North America.

Also in this context, the EAA is closely monitoring the impact of these trends on its portfolio. Many of the emerging markets assets comprise project financing and secured loans. In these cases, the effects of heightened volatility are alleviated by contractual mechanisms and collateral. The concern that the capital outflows could trigger a financial crisis comparable to the Asian Crisis of the late 1990ies is currently not being shared by the EAA. The framework for addressing crises has improved decisively in recent years. For example, many emerging markets have flexible exchange rates or have adopted managed exchange rate regimes such as crawling-pegs. What is more, many of these economies have built up sizeable foreign currency reserves.

In summary: The overall outlook is favorable

The EAA's wind-up plan assumes that the macro economic environment will remain positive, with a moderate risk of rising interest rates. Thus, a too early and too sharp increase in interest rates in the United States is conceivable but, from the point of view of the EAA, currently not likely. At this point, however, the impact from the Crimean crisis cannot be fully gauged. The EAA has a notional exposure of EUR 800 million to Russia. Substantive sanctions may have a negative impact. The EAA has only minimal exposure to the Ukraine itself.

Dr. Michael Schinke

“Becoming better to stay good”

In its start-up phase, the EAA operated very efficiently with lean structures. It was scalable and able to handle the “refill,” an additional portfolio worth billions of euros received from the former WestLB. Now, however, it faces new challenges. Its portfolio is declining and it is repeatedly having to contend with changes in the market. Matthias Wargers, the Spokesman of the Managing Board, explains how the EAA is responding to this.

Mr. Wargers, how is the EAA addressing its future tasks?

“The success which we have achieved to date shows that the EAA is well positioned. Having said that, however, ‘He who stops being better stops being good’ – to quote Oliver Cromwell. Thus, our intention is to secure the EAA’s operational stability and, at the same time, to continue improving its efficiency: We are working on optimizing our processes and value chains.”

How are you specifically implementing these plans?

Matthias Wargers: We are looking at the areas in which we can improve internally and are pooling our skills. To give a specific example: we will be integrating the employees of the Portfolio Exit Group (PEG) – the Portigon department which manages our portfolio – within the EAA. We have established a subsidiary specifically for this purpose and will thus be retaining this expertise. This means that our efficient, established teams, in which decisions and their operational implementation are executed to optimum effect, will continue to work efficiently.

In addition, we will be making a contribution towards the planned privatization of Portigon, which will remain our provider for the technical platform.

Will you also be altering the structure of your other investments?

Matthias Wargers: Yes. We will be simplifying corporate structures and pooling tasks. In this way, we can prepare the investments for the market and thus heighten the chances of successful privatization.

This also applies to Westdeutsche Immobilienbank (WestImmo), for which we are stepping up our exit plans. We are restructuring WestImmo to make it a clearly focused institution licensed to issue covered bonds, something which is met by investor interest. In 2013, EAA assumed WestImmo’s Japanese real estate business – WIB Real Estate Finance K.K. – and this will be followed by further international WestImmo portfolios.

New wind-up products

"The EAA monitors the market all the time and adjusts its strategy accordingly. To date, we have mostly sold loan commitments individually. However, we are now noting that more and more investors are interested in large packages. Accordingly, we will be increasingly preparing such structures for sale."

The portfolio wind-up is progressing more quickly than planned. Does this means that the EAA will now be able to complete its work well before 2027?
Matthias Wargers: It's not possible to make such a forecast. Obviously, we want to maintain the present pace. But we can only be as quick as the market allows us to be and we have benefited from the upbeat market conditions of the past few years. Looking forward, we expect a continuation of the favourable environment. By the same token, however, we are all aware that the global economy is exposed to the risk of several potential crises.

Even if the underlying conditions remain favourable, we will not be selling at any just price. This is because value optimization and not speed is our guiding principle. To revert to the metaphor: as we will not be taking any risky manoeuvres, we will not capsize should the wind unexpectedly turn or pick up sharply.

Mr. Wargers, you have been on the EAA's Managing Board ever since it was established. What has surprised you most about the winding-up work?
Matthias Wargers: It never ceases to amaze me how swiftly the financial world changes and how much we take 'bad banks' for granted today. When we started out, a winding-up agency was something quite exotic for many people. We had a lot of explaining to do. Today, the model is at the core of discussion on the banking union and the convergence of the financial markets in Europe.

It was the experts at the EAA who turned the theoretical idea of a bad bank into a successful enterprise. Day for day, they demonstrate how winding-up work is done and what can be achieved.

Financial Report

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Management report

for the fiscal year 2013

Principles of the EAA

Operating activities of the EAA

The EAA is winding up the risk exposures taken over from the former WestLB AG (WestLB, now Portigon AG [Portigon]) and its domestic and foreign subsidiaries as well as their nonstrategic business units to preserve value. This serves to stabilize the financial market in Germany.

It manages its business according to commercial and economic principles in consideration of its winding-up objectives. It is not a credit institution or financial services institution in terms of the German Banking Act (Kreditwesengesetz – KWG), an investment services firm in terms of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) or an insurance company in terms of the German Insurance Supervision Act (Versicherungsaufsichtsgesetz – VAG). It conducts no transactions that require approval according to Directive 2006/48/EC of the European Parliament and the Commission dated June 14, 2006, or Directive 2004/39/EC of the European Parliament and the Commission dated April 21, 2004, regarding the change of Directives 85/611/EEC and 93/6/EEC of the Commission and Directive 2000/12/EC of the European Parliament and the Commission and regarding the repeal of Directive 93/22/EEC of the Commission in their respectively valid versions.

The EAA is subject to regulation by the Financial Market Stabilization Authority (Bundesanstalt für Finanzmarktstabilisierung – FMSA). The Federal Financial Supervisory Authority (BaFin) monitors the EAA with respect to stipulations under the banking supervision act to the extent that these are applicable to the EAA.

In principle, the EAA's work is carried out on the basis of section 8a of the FMStFG, its charter, the rules of procedure for the Supervisory Board and the Managing Board plus their committees, as well as its wind-up and risk strategy. An order wind-up plan was created by the former WestLB and approved by the FMSA for both the first fill and the refill. These wind-up plans were prepared with the aim of avoiding the need for subsequent capital injections. In the meantime, an overall wind-up plan is in place that is checked by the EAA on a quarterly basis at least and adjusted, if required, to take into account changed circumstances – for example current market developments. Changes or adjustments to the wind-up plan are to be approved by the FMSA. The wind-up plan describes the intended wind-up activities of EAA by classifying asset positions into subportfolios (clusters) and standard strategies, and contains a schedule for the winding-up. The possible methods of winding up the portfolio are by sale of assets prior to their maturity, by holding them to maturity, or by restructuring them. The EAA regularly submits wind-up reports to inform the FMSA, its Supervisory Board and shareholders about the progress of the winding up, and about the implementation of the wind-up plan, while also documenting the wind-up result.

The following contribute to the share capital of the EAA: the State of North Rhine-Westphalia (NRW), approximately 48.2 %; the Rheinische Sparkassen- und Giroverband (RSGV) and the Sparkassenverband Westfalen-Lippe (SVWL), approximately 25 % each; and the Landschaftsverband Rheinland (LVR) and the Landschaftsverband Westfalen-Lippe (LWL) approximately 0.9 % each.

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

The Managing Board of the EAA was expanded by one member on May 15, 2013, and consists since then of Matthias Wargers (Spokesman of the Managing Board), Markus Bolder and Horst Küpker. The members are appointed by the Supervisory Board with the consent of the FMSA for a maximum of four years; reappointment is permissible. The Managing Board manages the operations of the EAA and represents the institution in and out of court.

The Supervisory Board is composed of twelve members. Eleven members are appointed by the Stakeholders' Meeting. One member is delegated by the FMSA, acting on behalf of the Financial Market Stabilization Fund (FMS). The members elect a Chairman and a Deputy Chairman on the recommendation of the state of NRW. The Supervisory Board consults with the EAA and monitors its activities and carries out additional duties set forth in the EAA's charter.

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

Forms of transfer

The transfer to the EAA of the former WestLB's risk exposures and operations not requiring a strategic restructuring occurred in the years 2009, 2010 (first fill) and 2012 (refill). The portfolios were transferred in several forms of transfer. The transfer method was based on an assessment of the different legal, regulatory, and fiscal provisions of the countries.

When spun off, the assets and liabilities were physically transferred to the EAA, while all other forms of transfer (subparticipation, guarantee), the opportunities or risks of these are only transferred synthetically. Assets and liabilities transferred to the EAA as part of a spin-off or a subparticipation are accounted for by the EAA as the economic ownership has been transferred. The legal and economic ownership remains with Portigon when the guarantee is spun off. The guarantee agreement means that the EAA assumes the economic risks of the assets. Portigon pays the EAA guarantee fees for the assumption of the risks. The risk assumed by the EAA is taken into consideration through reporting in the contingent liabilities or accrued liabilities.

Spinning-off, crossing and risk assumption agreement for the transfer of the legal or economic ownership of derivatives results in the assets being reported in the balance sheet depending on the portfolio assignment pursuant to the German Commercial Code (Handelsgesetzbuch – HGB).

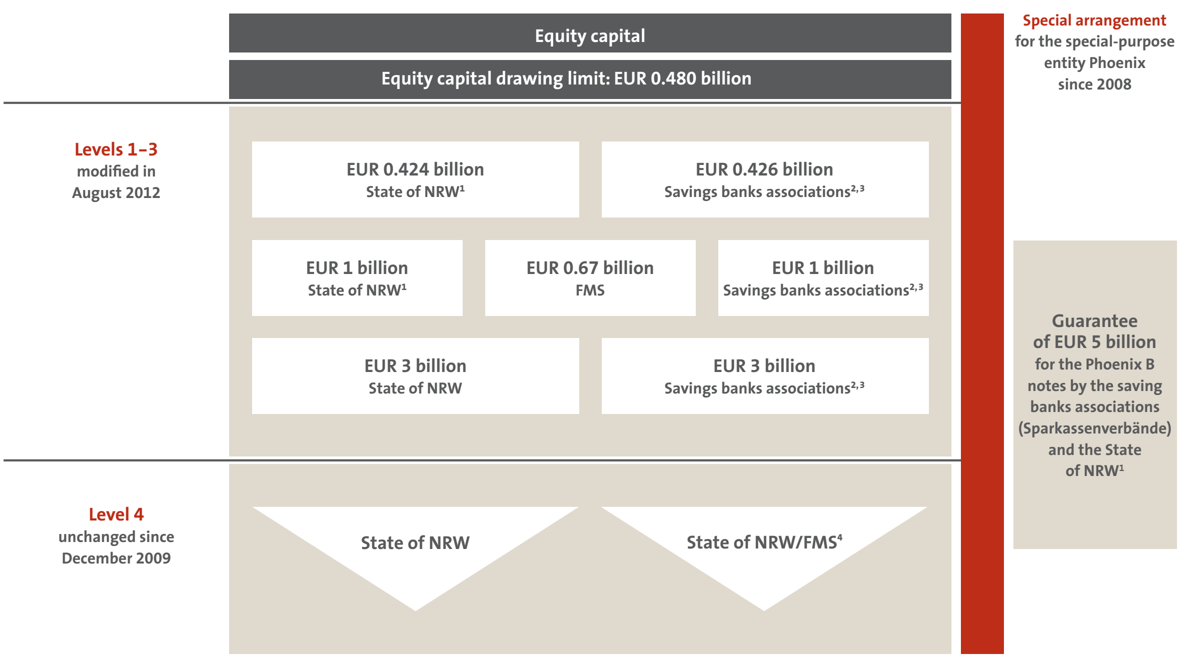
Reference is made to the chapter "Operating activities of EAA" in the management report for the fiscal year 2012 to give an extensive account of the refill.

Equity base and liability

The share capital of the EAA is 500,000.00 EUR. The initial transfer of former risk exposures and nonstrategic business units from the former WestLB resulted in equity capital at the EAA of a total of around EUR 3.1 billion in 2009 and 2010 (first fill).

Within the scope of the refill, EAA received additions to the capital reserve in the amount of EUR 480 million. These assets will be provided by the liable stakeholders of the EAA and of the FMS, if necessary, to provide specified installments in the event that the balance sheet equity should fall below a value of EUR 50 million.

In addition to EAA's equity base, the EAA's and FMS's liable stakeholders' duty to offset losses incurred by the EAA and the FMS is of key significance for the EAA's credit rating. The liable stakeholders are 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.



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

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

[3] Default liability assumed by the State of NRW

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

The EAA is obligated to assert this loss adjustment claim against the liable stakeholders and the FMS to the extent necessary to ensure that it remains solvent at all times.

Funding

The EAA's funding was initially secured by the nearly complete transfer of all of the former WestLB's issues and deposits backed by guarantees. The EAA secured its own financial resources during the ensuing period. In the future, the EAA will continue to primarily obtain funding by issuing bearer bonds, by borrowing short-term and through repurchase transactions. The good ratings received from Moody's, 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 creates an individual financial statement according to the Commercial Code and is exempt from creating a consolidated financial statement according to section 8a, para. 1, sentence 10 of FMStFG in conjunction with section 3a, para. 4 of FMStFG. However, the significant participations – in particular Westdeutsche ImmobilienBank AG (WestImmo), EAA Covered Bond Bank Plc (EAA CBB) as well as Basinghall Finance PLC (Basinghall) and the EAA Japan K.K. (EAA KK) – are included in the wind-up success and risk planning, risk monitoring and risk reporting.

Organization

EAA's organizational structure is oriented toward assuring its key management and control functions. The EAA has outsourced all other business activities to third-party service providers, particularly Portigon. The EAA has concluded a cooperation agreement with Portigon for this purpose.

Portigon assists the EAA in performing portfolio management duties and all related activities. Special service level agreements (service specifications) for specific processes and functions were defined as components of the cooperation agreement. Decision-making authority always remains with the EAA. The cooperation agreement cannot be terminated until December 31, 2016, at the earliest. The EAA requires the consent of the FMSA to terminate the cooperation agreement.

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

Control system

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

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

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

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

The EAA's location

The registered office of the EAA is 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

Macroeconomic and industry-specific conditions

A lot that could have gone wrong in 2013 turned out fine ...

Harboring much potential for conflict or disaster 2013 could well be described as a year of catastrophes that failed to appear or were circumnavigated. The list of potential candidates was long and not just limited to the periphery of the eurozone. The unsolved budgetary crisis in the USA could, for instance, have resulted in a severe downturn in US economic prospects. Finally, the fiscal drag stemming from the so called fiscal cliff and the partial shutdown of the US federal government shaved up to three percentage points off US gross domestic product (GDP).

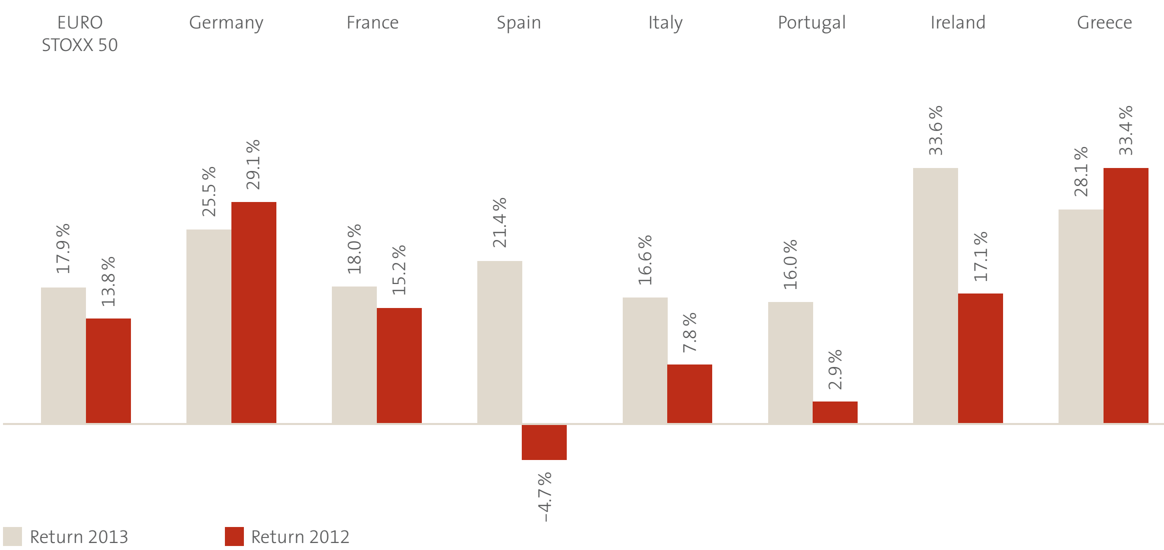
This side of the Atlantic also faced challenges. The attempt at a political comeback staged by former Italian prime minster Berlusconi and the good election results obtained by the protest party "5-star movement" hindered the formation of a stable coalition government in Rome. Despite its measurable reform successes and positive evaluations by the Troika, over the summer even the Portuguese government coalition suffered an extreme bout of fatigue with respect to implementing reforms and governing the nation, so severe that it cast doubt on the survival of the ruling coalition. In Spain, on the other hand, a corruption scandal at the top level of the ruling party "Partido Popular" threatened its ability to govern and reform.

... as the worldwide financial crisis enters a new stage

The fact that these crises – each of which had the potential to jeopardize the economic recovery of at least the national economy concerned – turned out to be mild and relatively contained is particularly evident from the positive performance of the equity markets in Spain, Italy, Portugal, Greece and Ireland. Similarly, albeit not to the same extent, government bonds from the peripheral states clearly outperformed highly secure assets (such as German government bonds) and somewhat riskier securities (such as French government bonds).

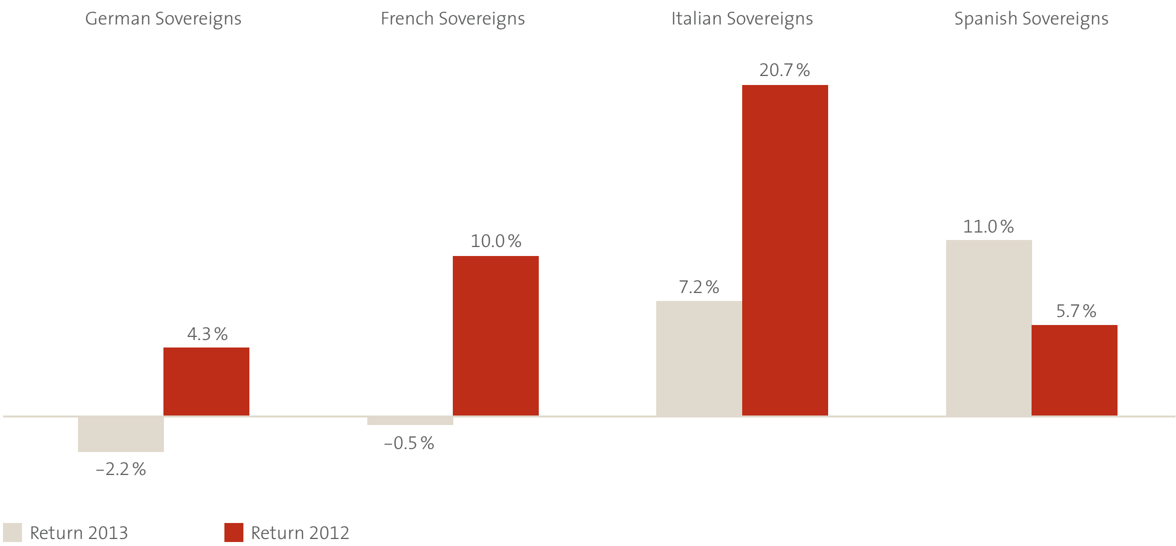
Financial markets in the eurozone:
Positive performance of risky asset classes thanks to "accidents" that failed to happen

Equity markets



Source: Bloomberg, EAA

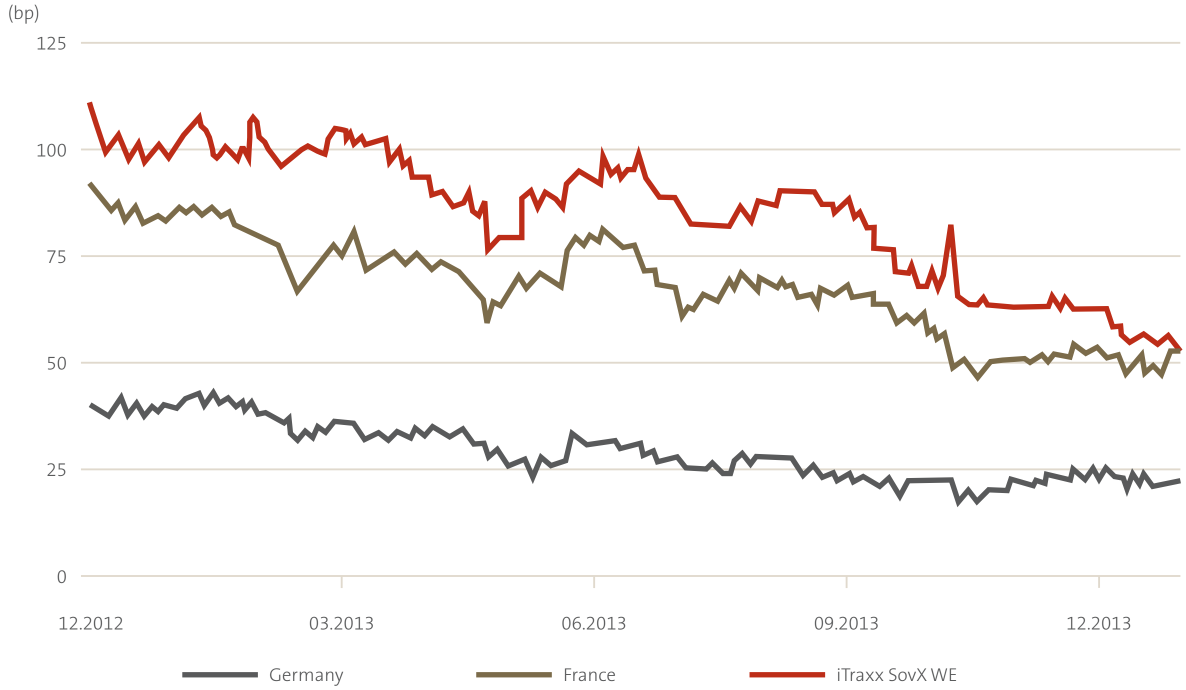
Bond markets

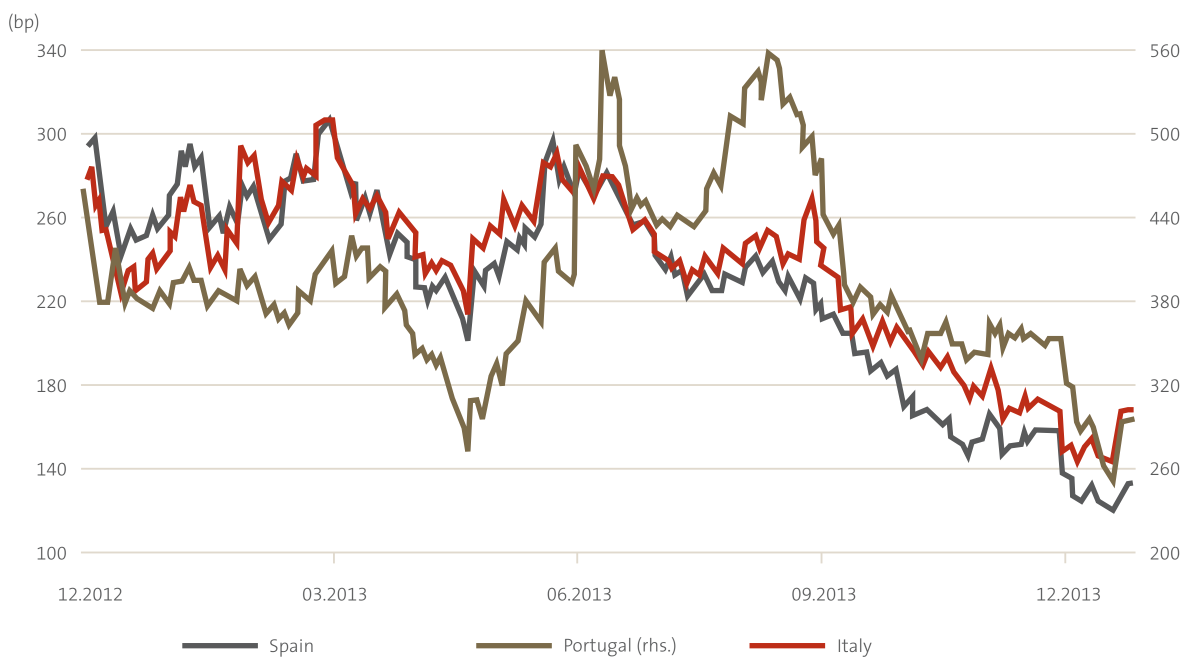


Source: Bloomberg, EAA

This constructive attitude on the part of investors shows that the worldwide financial crisis and the euro debt crisis have entered a new stage. The acute or contagious stage of the crisis, during which even small problems and crises triggered massive asset sales and thus a collapse in asset prices and a flight for safe havens as well as other contagion effects appears to be over. The current stage is characterized by the following: The causes of the crisis continue to exist in one form or another. Yet, due to the extensive use of monetary policy and the reforms initiated in the crisis states, the upheavals on the financial markets are abating (as evidenced by the falling risk premiums for peripheral assets) as investors' confidence is restored.

Credit default swaps on euro member states (five years): massive spread rally in 2013 particularly at the periphery





Source: Bloomberg, EAA

No further fiscal cliffhangers in the USA

A major surprise in 2013 was the US national economy's robust growth of +1.9 %. Even the smoldering budgetary crisis and the resulting massive automatic cuts in expenditure as well as the partial US federal government shutdown caused only a minor setback for US growth. The US labor market continues to normalize following the sharp collapse in 2008/2009. The unemployment rate dropped by 0.9 percentage points to 7.0 % between December 2012 and December 2013.

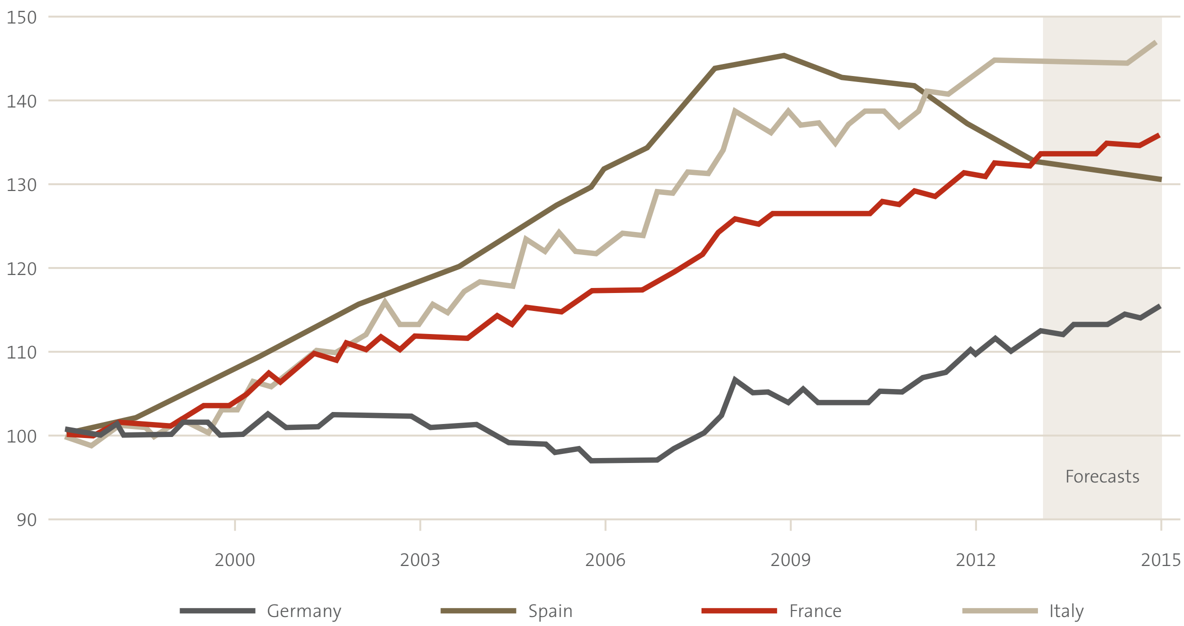
Euro periphery: There is some light at the end of the tunnel …

The recession reached its nadir in many national economies of the eurozone in 2013. Economic activity in Spain, for instance, has been increasing again since the third quarter of 2013 on a quarter-on-quarter basis. For the first time in nine quarters of recession, Spanish national income recorded a small increase of 0.1 % again in the third quarter of 2013. This economic trend reversal is driven by the Spanish government's reform and consolidation program. The pension system reform which has been implemented has prevented a cost explosion in the future. The reform's initial positive effects on the national budget are expected to bite as early as 2014.

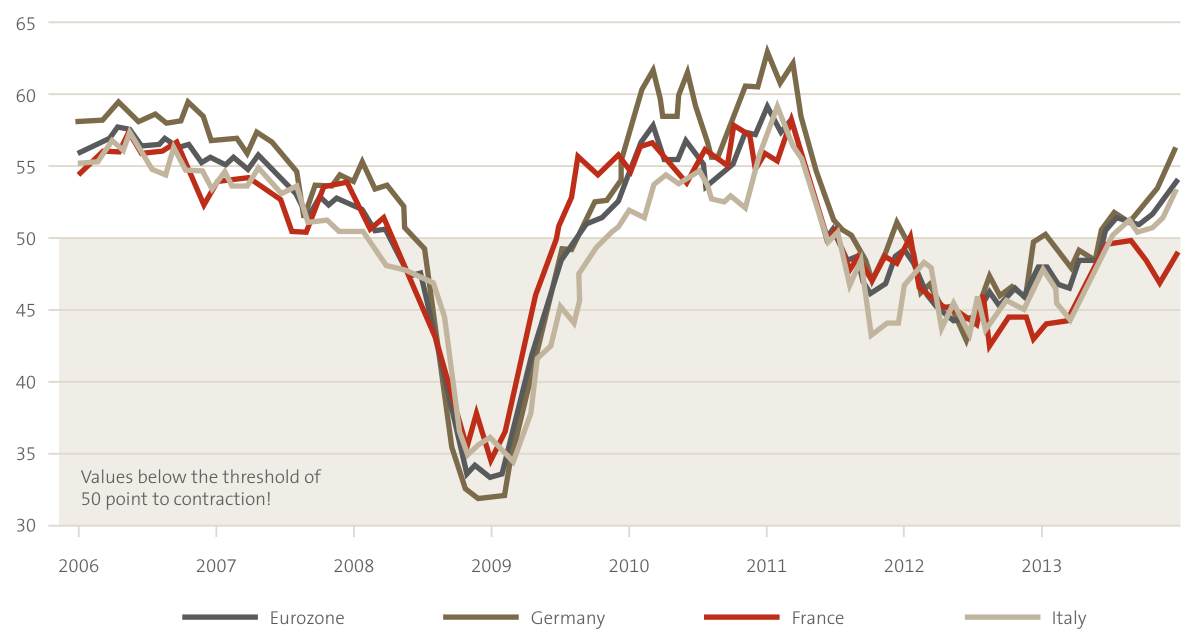
The labor market reforms have increased the efficiency of the Spanish labor market. Nonetheless, the tax increases and high employment continue to dampen Spanish consumption even though the realignment of the Spanish growth model is on the right path. This is also shown by the positive development of the Spanish current account: At the end of 2013 the current account surplus should amount to 1.1 % of GDP. Spain would have closed the year with an annual surplus for the first time since 1995.

Portugal is also showing signs that the worst of the recession might be over. Even though Portugal's economic output was still shrinking in 2013 (a decline of 1.7 % is anticipated), the very good tourist season generated a remarkable 1.1 % increase in GDP in the second quarter and an increase of 0.2 % in the third quarter (both quarter on quarter).

Economic recovery in many national economies of the eurozone
Unit labor costs: Improvement in Spain
Indexed values: January 1998 = 100



Selected purchasing manager indexes



Source: Bloomberg, EAA

... but unfortunately there are still some shadows, too

The economic situation in Italy is somewhat different. The early elections and the political comeback attempt by former prime minister Silvio Berlusconi had a sizeable negative influence on the mood in Italy in 2013. However, the situation in parliament has improved since Berlusconi's legally binding conviction for tax evasion and his forced withdrawal from his seat in the Senate. Compared to the reforming eurozone members Portugal and Spain, it appears that Italy is falling behind. Consequently, in order to implement its issuance plans Italy has to offer higher yields than Spain on its offerings in the primary bond markets for comparable maturities in order to implement its issuance plans.

The program of the former Italian government under prime minister Letta did not offer much hope of any marked acceleration of the reform efforts. Overall, the Letta government pursued a slower consolidation. It would be ideal, if the new coalition government under prime minister Matteo Renzi were to show more eagerness to reform. However, despite the fact that Renzi has criticized the former prime minister Letta for his lack of progress in reform, this does not seem likely at the moment. Instead, it must be assumed that Italy may fail the Maastricht deficit criterion in 2013 (2013: 3.1% expected). A positive side effect of the slower pace however is that the economic slowdown is losing some of its momentum. After a 2.5% decline in economic output in 2012, the decline in 2013 will probably be less pronounced, at just –1.8%. The Italian economy is likely to start growing again in 2014 provided there is relative political stability under the new government.

Core and semi-core of the eurozone: no contraction in 2013

This growth scenario for the economically more robust core of the eurozone and the nations of the semi-core, for example France, means that the sky is not the limit here either. The recovery in Spain and Portugal is still too weak for that. Despite the difficult start to 2013, the economic activity of Germany recovered over the course of the year. Following the 0.5% decline in GDP in the fourth quarter of 2012 and the stagnation in the first quarter of the following year, the overall increase in economic performance of 0.4% for the whole of 2013 is very moderate.

Economic growth in France, the second largest economy of the eurozone, is similarly weak. On the one hand, France is feeling the pinch from crisis-related decline in demand from its major trading partners on the European periphery. On the other hand, France's competitiveness has clearly decreased as a result of ill-advised state intervention in the labor market (for example the introduction of the 35-hour week). The government of the socialist president Hollande has been very reticent in tackling these problems so far. As a result of the existing problems, French economic output increased by only 0.2% in 2013.

Outlook: 2014 will be better than 2013

There are a number of reasons to look ahead to 2014 with some optimism, however. This is primarily due to the fact that the basic formula for propping up the euro (financial support in return for reforms) has not been changed. In the USA on the other hand, both houses of Congress decided on a regular budget again in 2013 for the first time since 2009. Thus, global, nondifferentiated cutbacks and tax increases in the USA are not to be expected in 2014.

Real economic development in the USA in 2014

The budget agreement reached between the Republicans and Democrats means that the unpleasant habitual bickering between the budgetary politicians of the two parties as well as the US government's impaired ability to act are now consigned to the past – at least until the upcoming elections in 2016. Even if the influence of the "fiscal cliff" and the "government shutdown" on US growth was heavily overestimated by economists, the impact of said political discussion or conflict if you will on economic confidence should not be underestimated. US growth relied significantly on consumption in 2013. Investment activities, on the other hand, remained below expectations due to the uncertainty caused by the budgetary crisis. The compromise reached in this conflict should mean that the investment activities will increase noticeably in 2014 because sentiment in the US economy is currently good and continues to improve – at least according to the Purchasing Managers' Index for the manufacturing sector (PMI). In December 2013 the index stood at 56.5 points, or +6.1 points higher than one year before. Furthermore, capacity utilization in the US economy has clearly recovered since the collapse in 2009. This also signals an increasing need for investment.

2014 will be a very interesting year for the US Federal Reserve (FED) and its new Chair, Janet Yellen. Under her predecessor at the FED, Ben Bernanke, the central bank had already started to reduce the third round of the purchasing programs of US government bonds and of mortgage-backed bonds from a total USD 85 billion per month to the current level of USD 65 billion. The FED has acted successfully in this process so far. The feared loss of trust has not materialized in the financial markets so far.

Alongside this "tapering" process, the FED must at the same time anchor the expectations of key interest rates by means of a credible self-imposed forward guidance at the present level of between 0 % and 0.25 % in order to avoid an unwanted and excessively fast increase in interest rates. The FED will probably have to define a new target level for the US unemployment rate during 2014. Instead of the current commitment to leave the interest rate at its zero level until an unemployment rate of 6.5 % is reached, Janet Yellen will be compelled to define a new, similarly clear objective. The ongoing low inflation rate (a core rate of 1.5 % and a headline rate of 1.6 % are expected in 2014), the still unusually high unemployment rate, and the fact that many potential employees have fallen out of the official statistics due to the length of the crisis should provide Janet Yellen with sufficient justification for doing this. Due to the still extremely accommodative US monetary policy and the overall positive mood in the US economy, it may be assumed that the US economy will achieve potential growth of roughly 2.8 % in 2014.

Summary of important macroeconomic forecasts

	Key economic indicators							
	Growth (%)		Inflation (%)		Unemployment (%)		Budget balance (% GDP)	
	2014	2015	2014	2015	2014	2015	2014	2015
USA	2.8	3.0	1.6	2.0	6.6	6.0	–3.5	–2.8
Eurozone	1.0	1.4	1.1	1.5	12.1	11.8	–2.6	–2.3
Core & semi core								
Germany	1.7	1.9	1.5	1.9	6.8	6.5	0.0	0.2
France	0.8	1.3	1.3	1.4	10.9	10.8	–3.7	–3.2
Periphery								
Greece	0.0	1.5	–0.9	0.4	27.6	26.7	–2.3	–1.9
Ireland	1.9	2.3	0.7	1.3	12.6	11.8	–4.9	–3.0
Portugal	0.5	1.0	0.5	1.1	16.4	16.1	–4.5	–3.2
Spain	0.6	1.2	0.7	1.1	26.3	25.4	–6.0	–4.8
Italy	0.4	0.9	1.0	1.3	12.4	12.1	–2.8	–2.5
Emerging Markets								
Asia	6.2	6.3	3.9	4.0	4.0	3.9	–2.0	–1.9
Latin America	2.8	3.2	8.7	8.1	6.2	6.3	–3.4	–2.8
Eastern Europe & Africa	2.5	3.1	4.9	4.6	9.1	8.9	–2.0	–1.8
BRIC countries								
Brazil	2.1	2.6	6.0	5.6	5.8	6.0	–3.9	–3.4
Russia	2.2	2.6	5.5	4.9	5.7	5.6	–0.7	–0.8
China	7.4	7.2	3.1	3.4	4.1	4.1	–2.0	–1.9
India	4.7	5.4	9.6	8.4	NA	NA	–5.0	–4.7

Source: Bloomberg, EAA

Recovery at varying speeds in the eurozone

As was previously the case in 2012 and 2013, the marked divergence of growth between the periphery of the eurozone and its core also continues to exist in 2014. Following a period of near stagnation in 2013, growth in Germany – and also in France – is accelerating. However, growth rates as observed prior to the outbreak of the worldwide financial crisis in 2007, will not be reached. Boosted by the recovery of the world economy, the situation will improve in 2014. Germany's GDP will probably grow by 1.7 % in 2014. Compared to the weak growth in 2013, this is a noticeable increase and is above Germany's potential growth which is estimated to be around 1.25 % per year according to the Bundesbank. In France, a slight increase in growth to about 0.8 % is expected. This should suffice for moderate growth in most nations of the European periphery. Even Greece could escape the recession in 2014 and reach at least zero growth.

Spain's economy is expected to grow by at least 0.6 % in 2014. Improvements in Spain's competitiveness are bearing fruit and are the driving factor behind this acceleration. However, it is important that the recovery of the Spanish financial system makes further progress. Spanish banks remain burdened by continuously falling house prices. Increasing numbers of nonperforming loans are, therefore, causing banks to restrict their lending to Spanish businesses and households. In Portugal the turning point may be reached in 2014. Italy also should grow in 2014, albeit slowly. The economic output of Portugal is expected to increase by 0.5 % in 2014. At the turn of the year 2013/2014, Italy will emerge from the recession and return to very weak growth of around 0.4 % in 2014.

Financial market outlook for 2014

In terms of the real economy, the signs continue to point to recovery for the world economy – albeit at a very slow pace. This is reflected in the relatively low economic growth rate in the eurozone and in a further improvement of the fundamental data. This development will lead to risk premiums on government bonds of the euro periphery (spreads) continuing to drop in 2014 and modest increases in the yields of German and US government bonds. Yields on ten-year German federal bonds are likely to be at around 2.3 % by the end of 2014, whereas their US counterparts are forecast to hit 3.4 %.

Overview of key financial markets

	Fixed income markets 2014		
	Policy rate (%)	2Y yield (%)	10Y yield (%)
USA	0.25	0.90	3.40
Eurozone	0.25	0.50	2.30
Core & semi core			
Germany	0.25	0.50	2.30
France	0.25	0.60	3.00
Periphery			
Spain	0.25	1.60	4.20
Italy	0.25	1.60	4.20

Source: Bloomberg, EAA

As the peripheral economies will continue to stabilize, risk premiums should drop further compared to German government bonds. However, this will occur in waves. Ahead of the scheduled dates for the Troika's country reviews or during phases of heightened political insecurity, peripheral bond spreads and yields will increase. However, the Outright Monetary Transactions (OMT), also referred to as the "Draghi put", should successfully limit the extent of such fluctuations. Since the US economy may be the most robust economy among the developed economies in 2014, it is anticipated that the US dollar will appreciate against the euro. The difference in growth and the beginning of the end of the FED's exceptional measures will support the US dollar. It is anticipated that the exchange rate will be around USD/EUR 1.30 to USD/EUR 1.25 by the end of 2014.

Business development

Overview of economic development

The EAA is responsible for winding up the risk exposures and nonstrategic business units taken over from Portigon or its domestic or foreign subsidiaries in order to preserve value. The transfer of risk exposures and the nonstrategic business units of Portigon to the EAA took place in the years 2009, 2010 (first fill) and 2012 (refill).

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

The EAA's economic situation was predominantly characterized by its winding-up mandate in 2013.

The EAA's earnings situation is marked by positive net interest income of EUR 354.0 million, net fee and commission income of EUR 145.1 million and a net trading result of EUR 83.9 million. The administrative expense amounts to EUR 398.0 million and primarily consists of expenditures in the amount of EUR 318.8 million for the provision of services by Portigon. The credit risk provision in fiscal year 2013 is equal to EUR –110.3 million net.

The total assets of the EAA as at December 31, 2013, amounted to EUR 78.9 billion (previous year: EUR 123.3 billion). The business volume, which includes off-balance sheet components, amounted to EUR 95.1 billion (previous year: EUR 148.6 billion).

Wind-up report

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

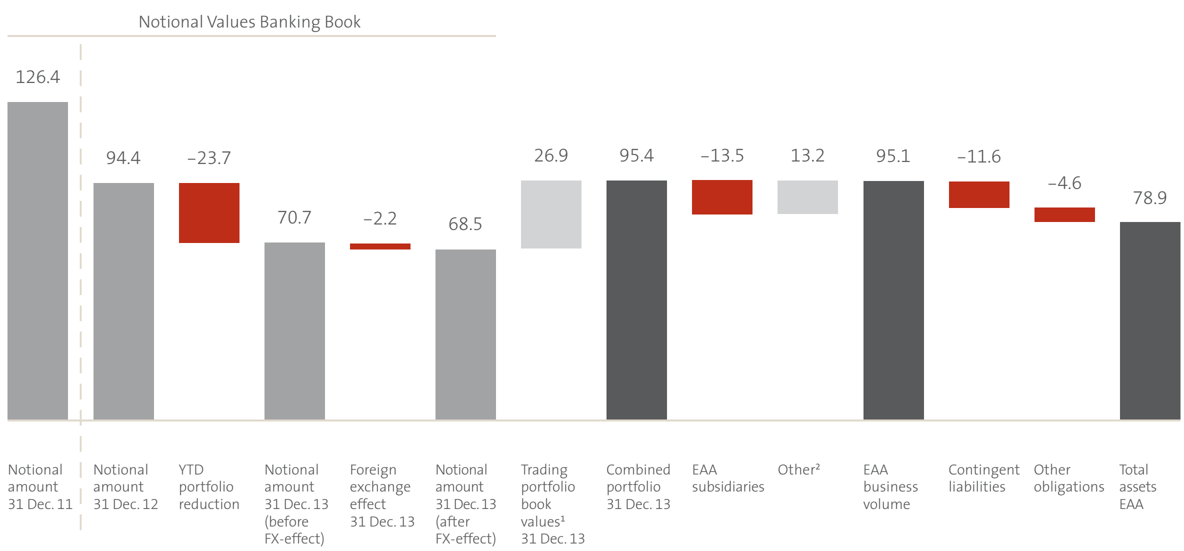
As at December 31, 2013, the banking book portfolio amounted to EUR 70.7 billion (at exchange rates as at December 31, 2011). The notional volume in fiscal year 2013 decreased by EUR 23.7 billion. Since January 1, 2012, the banking book portfolio has decreased by EUR 55.7 billion or 44.1 %.

The trading portfolio as at December 31, 2013, amounted to a notional EUR 644.5 billion. Overall, the notional volume of the trading portfolio dropped by EUR 240.3 billion (at exchange rates as at June 30, 2012) in the period from January 1, 2013, until December 31, 2013. Since its transfer, the trading portfolio has declined by EUR 419.6 billion or 39.4 %.

The development of the portfolio's notional amounts since January 1, 2013, and the reconciliation into the balance sheet of the EAA as at December 31, 2013, are shown in the following overview:

Reconciliation of the transferred notional volume to the balance sheet as at December 31, 2013

in billion EUR



[1] Equates to the book value for trading portfolio assets

[2] Contains money market transactions, cash collaterals and other assets not relevant for the wind-up portfolio

According to EAA's management logic, wind-up success is assessed by the reduction of the notional volume before exchange rate effects (meaning at constant exchange rates as at December 31, 2011, for the banking book and as at June 30, 2012, respectively, for the trading portfolio), as well as in terms of wind-up plan impacts. The latter assessment considers the impact of sales proceeds, carrying amounts, expected losses, interest income and funding costs on the wind-up plan.

In 2013, the EAA achieved a positive wind-up plan impact of EUR 26.6 million from sales and early repayments from the entire banking book portfolio. Measures in the Equity/Mezzanine, Financial Institutions, Nonperforming Loans (NPL) and Structured Securities portfolios contributed to this.

A positive wind-up plan impact of EUR 2.3 million was generated in 2013 for the trading portfolio.

Wind-up strategies

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

▲ Sell	▲ Hold	▲ Restructure

	31 Dec. 2013 EUR billion[1]	**31 Dec. 2012** EUR billion[1]
Sell	11.7	13.9
Hold	37.1	52.8
Restructure	21.9	27.7
Total	**70.7**	**94.4**

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

The "Sell" category includes securities and loans with a volume of EUR 11.7 billion, for which a sale is considered possible. Assets are categorized as "Sell" based on the assumption that it is possible to sell the asset in the short- or medium-term at a value that the EAA could also realize 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 categorized as "Restructure" are subject to close observation due to their lower credit quality. The rest of the portfolio falls under the "Hold" category. The decline in the "Hold" category was driven by repaid credits in 2013 on the one hand, while, on the other hand, part of the "Hold" portfolio was reclassified as belonging to the "Sell" and "Restructure" category, respectively.

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

There is no differentiation between the aforementioned strategies in the trading portfolio's wind-up plan, which is based on an active asset-management model. The portfolio is reduced according to normal maturities. Remaining risks in the trading portfolio must be actively managed.

Wind-up success

Wind-up success in the banking book

Between January 1, 2013, and December 31, 2013, the banking book's notional volume was reduced from EUR 94.4 billion as at December 31, 2012 (at exchange rates as at December 31, 2011, including the notional values of guaranteed risk exposures and those held by the subsidiaries of EAA) to EUR 70.7 billion. This is equivalent to a decline in notional value of EUR 23.7 billion (25.2 %). The volume at the current exchange rates as at December 31, 2013, amounts to EUR 68.5 billion.

	Notional volume (at exchange rates as of 31 Dec. 2011)				Notional volume (at exchange rates as of 31 Dec. 2013)	
	Notional 31 Dec. 2013	Notional 31 Dec. 2012	Delta to 31 Dec. 2012		Notional 31 Dec. 2013	FX effect[1]
Clusters	**EUR million**	**EUR million**	**EUR million**	**in %**	**EUR million**	**EUR million**
Structured Securities	21,618.5	25,806.3	–4,187.8	–16.2	20,725.9	–892.6
WestImmo Commercial	11,115.4	15,907.5	–4,792.1	–30.1	11,054.1	–61.3
Public Finance	7,353.6	9,248.4	–1,894.8	–20.5	7,207.4	–146.2
NPL	6,320.9	6,957.2	–636.3	–9.1	6,034.9	–286.0
Energy	5,878.6	7,573.2	–1,694.6	–22.4	5,691.8	–186.8
Financial Institutions	3,678.0	5,165.0	–1,487.0	–28.8	3,617.3	–60.7
Other clusters	14,689.5	23,774.2	–9,084.7	–38.2	14,124.1	–565.4
EAA (banking book) total	**70,654.5**	**94,431.8**	**–23,777.3**	**–25.2**	**68,455.5**	**–2,199.0**

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

The banking book recorded a considerable reduction in Structured Securities, WestImmo Commercial and Public Finance clusters in 2013. Essentially, the notional reduction in the Structured Securities cluster is due to the partial repayments of the Phoenix A1 (EUR and USD), B and X notes. The change in the WestImmo Commercial cluster was caused by the acquisition of WIB Real Estate Finance K.K. (WIB KK) by the EAA, in addition to the portfolio reduction. WIB KK changed its company name to EAA Japan K.K. (EAA KK) in the third quarter. The portfolio of EAA KK, with a notional volume of EUR 0.5 billion (at exchange rates on December 31, 2011), is now largely reported in the Real Estate cluster (under Other clusters). The notional decline in Other clusters is distributed over the rest of the portfolio with changes primarily recorded in the Industrials, Asset Securitization (partially caused by recategorizations to the NPL cluster), Leverage Finance and Trade clusters.

Wind-up success in the trading portfolio

	Notional volume (at exchange rates as of 30 June 2012)				Notional volume (at exchange rates as of 31 Dec. 2013)	
	Notional 31 Dec. 2013	Notional 31 Dec. 2012	Delta to 31 Dec. 2012		Notional 31 Dec. 2013	FX effect[1]
Clusters	**EUR million**	**EUR million**	**EUR million**	**in %**	**EUR million**	**EUR million**
Rates	634,217.1	851,603.0	–217,385.9	–25.5	612,238.3	–21,978.8
Credit	1,969.4	12,407.0	–10,437.6	–84.1	1,913.3	–56.1
FX	376.1	2,161.0	–1,784.9	–82.6	359.4	–16.7
Equity	7,471.1	18,084.0	–10,612.9	–58.7	7,193.4	–277.7
Other clusters	507.0	519.0	–12.0	–2.3	474.7	–32.3
EAA (trading portfolio) total	**644,540.7**	**884,774.0**	**–240,233.3**	**–27.2**	**622,179.1**	**–22,361.6**

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

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

The notional volume of the trading portfolio decreased from EUR 884.8 billion on December 31, 2012, to EUR 644.5 billion in the period from January 1, 2013, to December 31, 2013 (at exchange rates as at June 30, 2012). Essentially, the decline results from maturities and the active wind-ups. The principal driving force behind the decline was the Rates cluster with a total decline of EUR 217 billion. This is divided into maturities of EUR 157 billion and wind-ups of EUR 60 billion. The notional volume of the remaining clusters decreased by EUR 23 billion. The reduction of EUR 7 billion in the Credit cluster results from the sale of the Basket Default portfolio. The decline in the Equity cluster contains the complete reduction of the Equity Flow subcluster (EUR 6 billion). The wind-up success stated here is adjusted by an FX effect of around EUR –22 billion.

The EAA's overall situation

Earnings situation

The EAA's earnings situation is marked by positive net interest income of EUR 354.0 million, net fee and commission income of EUR 145.1 million and a net trading result of EUR 83.9 million. The EAA's administrative expenses amounts to EUR 398.0 million as at December 31, 2013.

The Loan loss provision was negatively affected by reorganization measures in the US business as well as the measurement of the structured products Phoenix and EUSS. The provision amounts to EUR –110.3 million net.

Essentially, the net income from investment securities and long-term equity investments in the amount of EUR –12.9 million results from wind-ups in the structured financial transactions and expenditures from loss assumptions.

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

Income statement for the period 1 January until 31 December 2013

	1 Jan.– 31 Dec. 2013 EUR million	1 Jan.– 31 Dec. 2012 EUR million	Delta	
			EUR million	in %
Net interest income	354.0	260.1	93.9	36.1
Net fee and commission income	145.1	155.5	–10.4	–6.7
Net trading result	83.9	–51.8	135.7	>100.0
Total other operating income/expenses	0.3	9.3	–9.0	–96.8
Personnel expenses	–20.3	–13.2	–7.1	–53.8
Other administrative expenses	–377.7	–399.5	21.8	5.5
of which: expenses for service level agreements with Portigon	–318.8	–328.4	9.6	2.9
Net income from investment securities and long-term equity investments	–12.9	–123.2	110.3	89.5
Results prior to risk provisioning	**172.4**	**–162.8**	**335.2**	**>100.0**
Loan loss provisions	–110.3	171.6	–281.9	>–100.0
Earnings before taxes	**62.1**	**8.8**	**53.3**	**>100.0**
Taxes on income and earnings	–3.1	–2.2	–0.9	–40.9
Net profit of the year	**59.0**	**6.6**	**52.4**	**>100.0**
Net retained losses brought forward	–2,519.3	–2,525.9	6.6	0.3
Net retained losses	**–2,460.3**	**–2,519.3**	**59.0**	**2.3**

Net interest income
The net interest income in the amount of EUR 354 million (previous year: EUR 260.1 million) increased compared to the previous year by means of profit transfers from associated companies. However, the structural development of net interest income is characterized by the substantial progress made in winding up both the old and new portfolio (part of which was not transferred until July 1, 2012).

In addition to net interest (EUR 285.0 million [previous year: EUR 240.5 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 9.6 million [previous year: EUR 6.5 million]) as well as income from profit pooling, profit transfer and partial profit transfer agreements (EUR 59.4 million [previous year: EUR 13.1 million]).

The interest income consists of lending and money market transactions totaling EUR 878.3 million (previous year: EUR 1,364.1 million) and of fixed-income securities and debt register claims totaling EUR 264.1 million (previous year: EUR 508.1 million).

The interest income is offset by interest expenses of EUR 857.4 million (previous year: EUR 1,631.7 million).

Net fee and commission income

The year-on-year decrease in net fee and commission income of EUR 10.4 million to EUR 145.1 million is primarily due to the wind-up activity. The guarantee fees relating to this amount to EUR 148.7 million net.

Moreover, there are lending and syndicated lending transactions, which were transferred from Portigon to the EAA and from which the EAA generates additional net fee and commission income.

Net profit from the trading portfolio

The net profit of the trading portfolio identified in the financial statement of the EAA amounts to EUR 83.9 million. Essentially, the positive contribution of the trading profit can be attributedto the improved risk situation in the trading portfolio.

The trading portfolio's net profit is composed of the interest, foreign exchange and valuation result in the amount of EUR 12.6 million and of changes in the model reserves in the amount of EUR 71.3 million. The changes in the model reserves contain an amount of EUR 9.3 million which the EAA allocated to the special items for general bank risks from the net trading result for the first time in fiscal year 2013 according to section 340e (4) of the HGB.

Total other income and expenses

The total other expenses and income in fiscal year 2013 amounts to EUR 0.3 million (previous year: EUR 9.3 million). The latter is composed of the other operating income and expenses, impairments and write-downs on immaterial assets and fixed assets as well as other taxes.

General administrative expenses

The general administrative expenses in fiscal year 2013 amounted to EUR 398.0 million (previous year: EUR 412.7 million). EUR 20.3 million (previous year: EUR 13.2 million) of this amount was allocated to personnel expenses that reflect further scheduled recruitment.

Other administrative expenses amounted to EUR 377.7 million (previous year: EUR 399.5 million), due primarily to the cooperation agreement with Portigon to provide the EAA assistance in managing its portfolio and all associated duties (EUR 318.8 million [previous year: EUR 328.4 million]). Additional costs of EUR 12.5 million (previous year: EUR 9.3 million) resulted in connection with asset-sustaining measures. These include in particular expenses relating to restructuring processes for exposures at risk of default.

Loan loss provisions

There is a net allocation of EUR 110.3 million to the loan loss provisions in fiscal year 2013. This results mainly from the restructuring of credit exposures.

The loan loss provision excluding Phoenix and EUSS is equal to EUR –162.4 million. This includes the profit from securities of the liquidity reserve in the amount of EUR 13.2 million.

The EAA has appropriately taken into account all recognizable risks.

Net income from investment securities and long-term equity investments
The investment securities and long-term equity investments produced net expenses in the total amount of EUR 12.9 million. This contains net income in the amount of EUR 7.5 million from securities of the financial investment portfolio and net expenses amounting to EUR 20.4 million from long-term equity investments.

Net income from investment securities mainly consists of the recognition of a provision for portfolios in the USA for which the EAA has assumed a guarantee with regard to Portigon within the scope of the refill.

The profit from long-term equity investments results mainly from transfers of losses from subsidiaries in the amount of EUR –7.3 million as well as further net allocations to provisions for long-term equity investments.

Taxes on income and earnings
Taxes on income and earnings amounting to EUR 3.1 million (previous year: EUR 2.2 million) primarily concern foreign taxes.

Net profit for the year
The EAA's net profit for fiscal year 2013 amounts to EUR 59.0 million and reduces the net retained losses carried forward to EUR 2,460.3 million as at December 31, 2013.

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 on the capital market.

The EAA's management and governing bodies reach strategic decisions regarding the issuing schedule, issuing prospectus, markets and pricing, while the portfolio manager Portigon and commissioned financial institutions act as consultants.

The portfolio manager calculates together with the EAA the liquidity needs of the EAA in preparation of the strategic and operational decision-making process. It factors in the term structure of liabilities as well as the inflow of liquidity from the sale of assets, and prepares such analyses as a basis for the decision makers mentioned above.

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

Current funding volume
The EAA is currently funded through an existing portfolio of guaranteed issues by the former WestLB which were transferred to it by way of a spin-off, as well as increasingly by way of new capital market transactions.

The EAA was also able to successfully cover its need for refinancing in the year 2013. A benchmark transaction with a notional volume of EUR 1.0 billion was issued in the liquid benchmark segment. Including these, the notional volume of new issues for the EAA's medium- and long-term refinancing (mainly bearer bonds) in 2013 amounted to EUR 2.2 billion and USD 3.3 billion.

The EAA also used its access to the capital market via the global Commercial Paper Programme for the purposes of short-term liquidity management. The notional volume of outstanding Commercial Papers as at the end of 2013 was EUR 459.0 million, USD 8.0 billion and GBP 390.0 million.

The issuing activity, the term structure, the wind-up success and the market environment are regularly reviewed and the issuing schedule is accordingly adjusted. In the liquidity stress test, the EAA reported net liquidity above the defined minimum threshold throughout 2013.

The EAA aims its new issues exclusively at institutional investors such as insurers, fund managers, central banks, and banks. An issuing program for well-diversified market access was set up in accordance with European regulations. Presentations to both German and international investors aim to promote acceptance of the EAA. These measures, which are part of the EAA's issuing strategy, will be continued in the future.

Asset position

The total assets of the EAA as at December 31, 2013, amount to EUR 78.9 billion (previous year: EUR 123.3 billion). The business volume, which includes off-balance sheet components, amounts to EUR 95.1 billion (previous year: EUR 148.6 billion).

Assets

	31 Dec. 2013	31 Dec. 2012	Delta	
	EUR billion	EUR billion	EUR billion	in %
Cash reserve	–	2.5	-2.5	-100.0
Loans and advances to banks	14.9	22.6	-7.7	-34.1
Loans and advances to customers	15.7	22.7	-7.0	-30.8
Securities (no trading portfolio)	18.9	24.3	-5.4	-22.2
Trading portfolio	26.9	48.9	-22.0	-45.0
Long-term equity investments and shares in affiliates	1.9	1.9	0.0	0.0
Other assets	0.6	0.4	0.2	50.0
Total assets	**78.9**	**123.3**	**-44.4**	**-36.0**

Liabilities and equity

	31 Dec. 2013 EUR billion	31 Dec. 2012 EUR billion	Delta EUR billion	Delta in %
Deposits from banks	6.0	7.8	–1.8	–23.1
Deposits from customers	6.7	7.5	–0.8	–10.7
Debt securities in issue	38.1	57.7	–19.6	–34.0
Trading portfolio	27.1	48.9	–21.8	–44.6
Provisions	0.3	0.4	–0.1	–25.0
Other liabilities	0.1	0.5	–0.4	–80.0
Equity	0.6	0.5	0.1	20.0
Total liabilities and equity	**78.9**	**123.3**	**–44.4**	**–36.0**
Contingent liabilities	11.6	19.7	–8.1	–41.1
Other obligations/loan commitments	4.6	5.6	–1.0	–17.9
Business volume	**95.1**	**148.6**	**–53.5**	**–36.0**

Lending business

The lending business comprises receivables, payment obligations arising from irrevocable loan commitments pledges and other guarantees. Contingent liabilities also include risk exposures from Portigon transferred via the “guarantee” transfer alternative. Among the receivables are also bearer and other nonnegotiable debentures. In addition, time deposits and loans secured by mortgages of the retail business are included in receivables.

Lending business

	31 Dec. 2013 EUR billion	31 Dec. 2012 EUR billion	Delta EUR billion	Delta in %
Loans and advances to banks	14.9	22.6	–7.7	–34.1
Loans and advances to customers	15.7	22.7	–7.0	–30.8
Contingent liabilities	11.6	19.7	–8.1	–41.1
Other obligations/loan commitments	4.6	5.6	–1.0	–17.9
Lending business	**46.8**	**70.6**	**–23.8**	**–33.7**

Securities

The portfolio of bonds and other fixed-income securities, as well as of shares and other non-fixed-income securities amounts to EUR 18.9 billion (previous year: EUR 24.3 billion) on the reporting date, of which EUR 18.4 billion (previous year: EUR 23.6 billion) is classified under investment securities. An additional EUR 0.5 billion (previous year: EUR 0.7 billion) in own, repurchased bonds is allocated to the liquidity reserve.

Through the active wind-up of the portfolio, it was possible to reduce the portfolio by around EUR 5.3 billion in fiscal year 2013.

The EAA had concluded only a small volume of securities lending transactions amounting to approximately EUR 14.6 million as at the reporting date. Furthermore, securities in the amount of EUR 0.2 million (previous year: EUR 0.0 million) were sold under repurchase agreements.

Repayments on the Phoenix portfolio in the amount of EUR 3.0 billion resulted in a further reduction of securities.

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

The assets side of the EAA shows trading portfolios with a volume of EUR 26.9 billion as at December 31, 2013. Of this volume, EUR 26.8 billion is allotted to derivative financial instruments and EUR 0.1 billion to receivables and securities.

Trading liabilities of EUR 27.1 billion chiefly consist of derivative transactions.

Long-term equity investments and shares in affiliates
The EAA has taken over various shares in subsidiaries of Portigon. Long-term equity investments amounted to EUR 105.1 million (previous year: EUR 85.8 billion) and shares in affiliates totaled EUR 1.8 billion (previous year: EUR 1.8 billion) as at the reporting date. The increase in long-term equity investments results mainly from a debt equity swap within the scope of a restructuring.

Deposits from banks and customers
The deposits from banks equal EUR 6.0 billion (previous year: EUR 7.8 billion) as at December 31, 2013. Of that amount, EUR 2.8 billion (previous year: EUR 3.3 billion) is attributable to overnight deposits and short-term time deposits, and an additional EUR 2.6 billion (previous year: EUR 3.7 billion) to registered securities. Overall, EUR 2.3 billion (previous year: EUR 3.3 billion) in deposits from banks are backed by the guarantor liability.

The deposits from customers in the amount of EUR 6.7 billion (previous year: EUR 7.5 billion) mainly consist of issued registered bonds equaling EUR 5.4 billion (previous year: EUR 6.7 billion). Overall, EUR 1.9 billion (previous year: EUR 2.6 billion) in deposits from customers are backed by the guarantor liability.

Together with debt securities in issue, a volume of EUR 14.4 billion (previous year: EUR 23.4 billion) is subject to the guarantor liability.

Issuing business
The portfolio of debt securities in issue is equal to EUR 38.1 billion (previous year: EUR 57.7 billion) on the reporting date. This contains securities with a notional volume of EUR 7.4 billion (previous year: EUR 10.4 billion) which were originally issued by the former WestLB and are backed by the guarantor liability. Please see the “Financial position and issuing activity” section for more information on issuing activities.

Provisions
Provisions decreased by EUR 37.8 million to EUR 341.4 million compared to the previous year.

A major component of this was the recognition of a provision for portfolios in the USA which remain in the possession of Portigon and are guaranteed by the EAA. A provision of EUR 16.0 million was made for legal risks. Provisioning for uncertainty regarding legal disputes relating to trading portfolio transactions was recognized as a valuation discount in the trading assets.

Equity
The subscribed capital of the EAA is still EUR 500,000.00 as at December 31, 2013. Furthermore, the first transfers of former WestLB risk exposures and nonstrategic business units produced a capital reserve in the amount of around EUR 3.1 billion. The capital reserve was reduced by EUR 123.8 million to EUR 3.0 billion due to the refill in fiscal year 2012, of which EUR 13.1 million in 2013 were due to a contractual value adjustment clause. This decline is essentially caused by the measures agreed in the context of the key point agreement dated June 29, 2011, and the binding transcript dated June 18, 2012.

The equity under the HGB as at the reporting date is EUR 555.9 million (previous year: EUR 510.0 million). Alongside the net retained losses, this also includes other revenue reserves amounting to EUR 2.4 million which resulted from the release of provisions due to the change in the measurement of liabilities under the German Accounting Law Modernization Act (Bilanzrechtsmodernisierungsgesetz – BilMoG).

Financial and nonfinancial performance indicators

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

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

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

Nonfinancial performance indicators

Employees

Qualified and motivated employees whose willingness to perform and assume responsibility represent a major factor in the success of the EAA.

As at December 31, 2013, the EAA employed a total of 123 people (including three Managing Board members). Consequently, the number of employees compared to the previous year (December 31, 2012: 103) increased due to additional requirements in the course of the refill.

Thanks to their identification with the EAA and their commitment, employees make a pivotal contribution to the fulfillment of the public mandate of the EAA. Existing talent, skills and potential is thereby supported and encouraged through a high level of individual responsibility.

Reputation and acceptance

As a public institution, the EAA needs the acceptance and trust of governments and the general public in order to successfully fulfill 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 sources. The EAA's public image is of great significance, particularly in view of refinancing opportunities on the capital market. With this in mind, potential reputation 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 reports and interim reports or the latest information on the EAA's website, this also includes regular contact with representatives of the world's financial and consumer press. Furthermore, the EAA's employees foster understanding for the special qualities of the EAA's wind-up activities by maintaining constant contact with multiplier groups, for example by taking part in conferences, giving speeches, holding talks with political and financial representatives and meeting a great number of investors.

Subsequent events

Portigon Financial Services GmbH (PFS) started operating on February 1, 2014. The EAA and Portigon AG (PAG) had agreed that the entire existing cooperation agreement relationship should be transferred to PFS in the course of spinning PFS off from PAG. The parties entered into the so-called "triangular agreement" on January 31, 2014, for the purpose of this contract transfer.

After the triangular agreement takes effect, PFS is mainly obligated to provide all services owed under the cooperation contract in the third-party relations with the EAA. The triangular agreement provides for the fact that services requiring a banking license (for example depositing business, account management, payment transactions) as well as services which PFS has not identified as being strategic, continue to be provided by PAG.

This does not provide an increased risk and no additional duty of compensation for the EAA.

The integration of the former Portfolio Exit Group into the EAA is planned in order to support the aspired privatization of PFS while maintaining the interests of the EAA and to optimize the organization of functions between EAA, PAG and PFS. This should be accomplished in 2014 by the transfer of the employees concerned of PAG and PFS, respectively, to EAA Service GmbH, a subsidiary of EAA, that was founded for that purpose. The neutrality of the wind-up plan is secured for these measures through a reduction of the portfolio management fee payable to PFS and through financial compensation for the scheduled personnel reduction.

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

Summary of the business situation

The disclosure of a positive net result is, as shown, due to the wind-up success. The net interest income and the net fee and commission income were used to fund expenses of the operational business.

The asset position of the EAA is in good order. The equity as at December 31, 2013, amounts to EUR 555.9 million. Adequate liquidity was available at all times.

Risk, opportunities and forecast report

Risk report

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

The portfolios transferred in 2012 in the course of the refill were integrated in the existing management modules. Risk management was adjusted to meet the additional requirements of reducing the trading portfolio.

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

Risk management organization

The BaFin supervises the EAA with respect to stipulations under the Banking Supervision Act inasmuch as these are applicable to the EAA. The minimum requirements of risk management (MaRisk) are to be applied by the EAA.

However, the EAA is different from a commercial bank and this fact has a significant impact on its risk strategy. As the EAA does not conduct new business, but rather only increases lines of credit in exceptional instances in connection with restructurings, the EAA does not have the same functions that are normally included in a bank's risk strategy for managing new business. Complexity is also reduced by the fact that no capital adequacy requirements need to be applied. The requirement to fulfill the wind-up mission based exclusively on the existing equity and not having to call upon Liable Stakeholders' additional duty to offset losses is a significant challenge for the quality and capability of the risk management team.

EAA's risk management strategy is therefore aimed at minimizing 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 losses than planned from winding up the portfolio. The risk management team's responsibility is to map, analyze, manage and monitor EAA's risks using a comprehensive risk reporting system.

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

The overall risk management strategy constitutes the framework for the 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 main individual strategies are established for the risk classes of credit, market price, liquidity, operational and other risks. Risk management strategies are reviewed and fine-tuned at least once every year.

The Managing Board has established a framework of various interdisciplinary committees throughout the institution to aid it in fulfilling its responsibility to manage risks. As Managing Board committees, these standing committees are permanent institutions of the EAA. These serve as central decision-making, management and information-gathering bodies which assist in dealing with strategic issues related to portfolio management and the wind-up plan. The responsible representative of Portigon attends committee meetings as a nonvoting guest. This ensures regular and timely communication between the EAA and Portigon before any portfolio-related decisions are discussed and communicated with which the wind-up plan must be implemented.

The committees make decisions regarding risk management strategies and methods:

- Risk Committee (RiskCo) – comprises portfolio management and in particular the management of credit risks.

- Asset Liability Committee (ALCO) – comprises the optimization of asset/liability management, monitoring and steering operational liquidity, refinancing, interest rate and foreign exchange risks, the trading portfolio, operational and other risks.

The Market Risk Management department assumed the risk controlling function in the sense of the MaRisk in the second quarter of 2013 and was renamed 'Risk Controlling'. It is responsible for the independent monitoring and communication of EAA's risks, whereby it specifically assumes the following tasks:

- supporting management in all questions relating to risk policy, especially in the development and implementation of the risk strategy, as well as in the organization of a system for mitigating risks;

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

- supporting management in the establishment and continued development of the risk management and risk controlling processes.

The Risk Controlling department is responsible for market price and liquidity risks as well as for operational risks. The Credit Risk Management department comprises the back office function in the lending business as defined by the MaRisk. This department comprises the credit competence in particular. The latter is responsible for credit risk steering and credit risk control. It receives the support of the Controlling & Planning department. The Risk Controlling and Credit Risk Management departments monitor and analyze the risk exposures, as well as the utilization of the limits and will initiate risk minimizing measures if necessary.

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

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

Risk reporting

Risks can only be controlled and monitored in a sustainable manner if they are transparent and if the underlying analysis results are processed and communicated in a manner conducive for decisions. Accordingly, in particular the risk reporting function is among the key tasks of Risk Controlling, which fulfills 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 a bearing on the institution's risk or earnings situation. Risk reporting is an integral component of the monthly wind-up report. In addition, detailed risk analyses are prepared for the meetings of the RiskCo and the ALCO as a basis for operational risk control.

The Managing Board keeps the Supervisory Board and its committees regularly apprised of EAA's current wind-up success and the general risk situation based on the wind-up reports and a separate Risk Report which is adapted to suit the needs of the governing bodies.

Credit risks

Under credit risk, the EAA distinguishes between default 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 its contractual obligations, specifically to make loan payments.
- Migration risk comprises potential losses calculated if the amount of the expected loss on interest and principle payments increases as a result of a deterioration 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. The counterparty risk is determined both for the banking book and the trading portfolio.
- Issuer risk comprises potential losses if issuers of securities held in the portfolio fail to perform or if their creditworthiness deteriorates.
- Participation risk includes potential losses due to omission of dividends, impairments, losses on disposals and a reduction in hidden reserves from the EAA's participations.

In addition to the description of credit risks specific banking book credit risks are described in more detail. These relate to the Phoenix and Public Finance subportfolios.

Analysis and assessment of credit risks

The EAA's Credit Risk Management department continuously analyzes and monitors the credit portfolio and its risk of default and migration. In order to assess the potential consequences of systemic crises, stress tests are performed regularly to monitor how a portfolio-wide rating downgrade of up to two 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 risks for the peripheral eurozone exposure are applied when preparing the wind-up plan. Moreover, the portfolio is monitored for concentration risks in individual subportfolios, asset categories and regions.

The EAA assesses credit risk in terms of the entire portfolio as well as in terms of individual exposures. Credit quality and defaulting probability are regularly assessed on the basis of balance sheet analyses and ratings. A clearly defined process facilitates the analysis of problematic exposures and the definition of alternative paths of action, which are presented to the relevant competent individuals or bodies of the EAA for approval. Additionally, cluster and portfolio analyses detail major individual exposures.

A central focus of portfolio analysis is on problem loans. These are intensively monitored and actively processed. The "EAA Global Watch List" (EAA GW) provides a mechanism for monitoring problem loans and placing exposures under intensive supervision. Additional details on this are provided in the section on "Problem loans and risk provision."

The appropriateness of risk provisioning is determined by analyzing the recoverability of the receivable, the expected cash flow, and existing collateral.

Management of credit risks

The restructuring or sale of loans – taking into account the wind-up plan – represent the most important tools used to manage credit risk. Additionally, the EAA can enter into credit default swaps and other credit derivatives to hedge individual exposures. Each exposure is reviewed to determine whether a sale – the preferred method – is an advantageous alternative.

Default risks are generally limited on the basis of the credit lines that Portigon had extended as at the date the portfolio was transferred. Increases are permitted only in connection with restructuring measures. If borrowers repay portions of their loans, the credit lines committed and the limits are reduced by a corresponding amount.

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

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

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

Credit risks – banking book

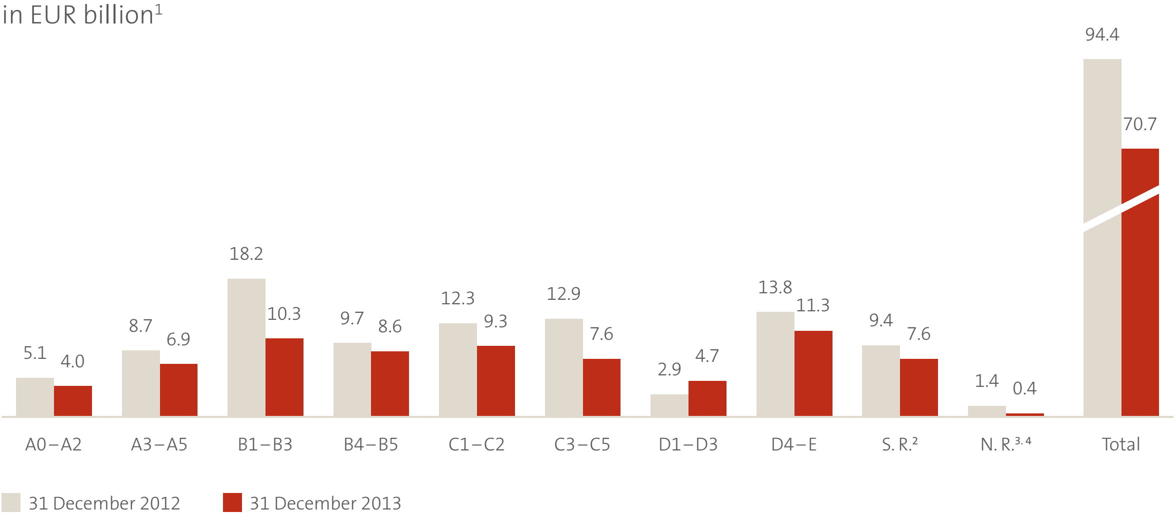
The EAA and its subsidiaries regularly analyze the EAA's credit risk volume in detail so as to identify, analyze, evaluate, and manage all default risks within the portfolio. The EAA uses a variety of parameters – such as risk types, rating categories, maturities and regions – to identify risk concentrations.

The notional volume of the banking book portfolio (essentially consisting of loans and securities) declined in fiscal year 2013 by EUR 23.7 billion to EUR 70.7 billion (at constant exchange rates as at December 31, 2011). At the level of the general banking book portfolio, the EAA holds and guarantees 71 % of total notional volume, and the remaining 29 % is held by its subsidiaries. Please refer to the chapter "Wind-up report" for more detailed information on the wind-up success.

The following relates to the notional volume of the EAA and its subsidiaries EAA CBB, WestImmo, EAA KK and Basinghall (look-through approach).

Notional volume by internal rating category

in EUR billion[1]



[1] Excluding exchange rate effects (based on exchange rates on December 31, 2011)
[2] Special rating pursuant to the not rated concept
[3] Not rated
[4] Including EUR 0.27 billion from own bonds repurchased by WestImmo
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 55 % (previous year: 57 %). About 15 % (previous year: 15 %) of the notional volume has a very good rating (A0–A5) and around 40 % (previous year: 42 %) belong to the middle rating categories B1–C2.

The EAA continues to aim for a reduction of the portfolio across all rating categories. The wind-up in fiscal year 2013 is mostly distributed over all rating categories. The reduction in the category B1–B3 is primarily due to the partial repayments of the Phoenix A1 notes to the amount of EUR 2.9 billion. There was a shift from the rating category D4–E to the rating category D1–D3, which was caused by the rating improvement of the Phoenix A2 notes (EUR 2.6 billion) from D4 to D3. In addition to the Phoenix A3 notes and A4 notes, the rating category D4–E also includes structured securities from the ABS portfolio and transactions in connection with US term life insurance policies. The transactions in connection with US term life insurance policies had a volume of EUR 1.4 billion as at December 31, 2013. The credit risk essentially originates from the risk that the performance date of the insurance policies is uncertain.

Due to changed conditions, the exposure in the energy sector, just over half of which was identified as being in the middle rating categories on the reporting date, is subject to closer monitoring.

The S. R. category includes the opening clauses of the rating process, the EAA's nonrating concept. The remaining category, N. R., mainly includes WestImmo Commercial portfolio exposures.

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

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

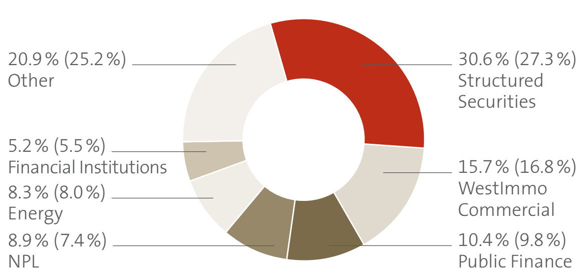
Investment Grade

Non-Investment Grade

Breakdown of notional volume by headline clusters as at December 31, 2013

100 % = EUR 70.7 billion[1]

(in parentheses: values as at December 31, 2012)

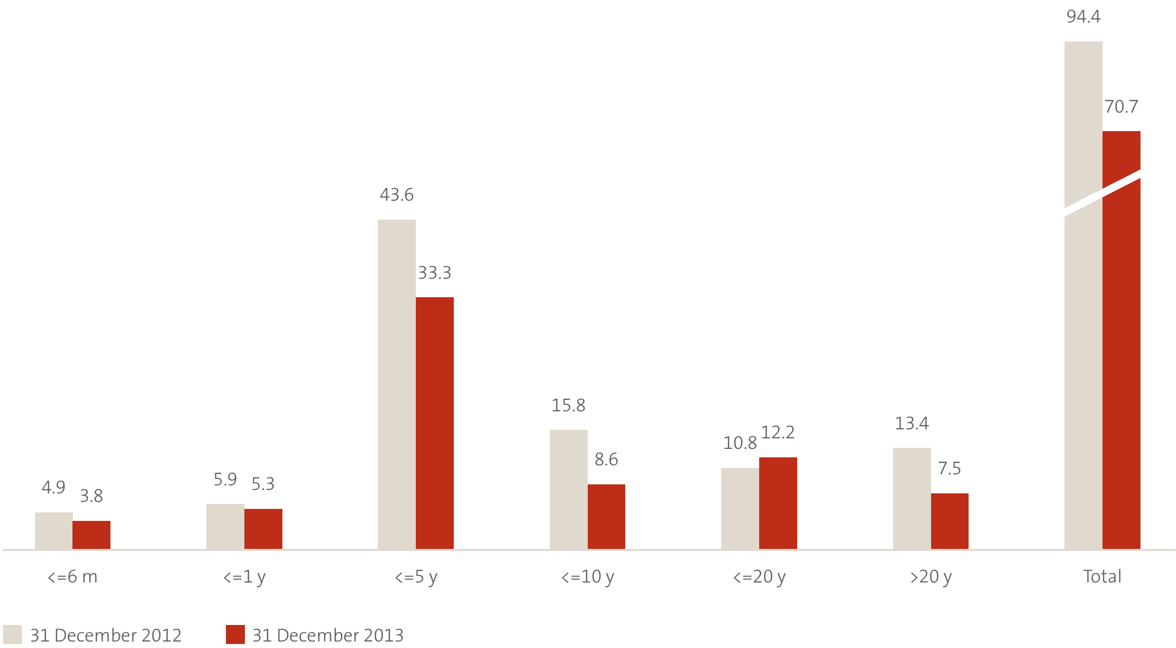


[1] Excluding exchange rate effects

The EAA's banking book portfolio consists of 19 headline clusters. The largest headline cluster is Structured Securities with a total share of 31 %. This portfolio consists of three subportfolios: Phoenix (66 % – please refer to section "Phoenix" for further details), Asset Backed Securities (26 %) and EUSS (8 %). The WestImmo Commercial portfolio accounts for around 16 % of the total portfolio.

Breakdown of notional volume by maturity[1]

in EUR billion[2]



[1] For Phoenix: expected repayment profile

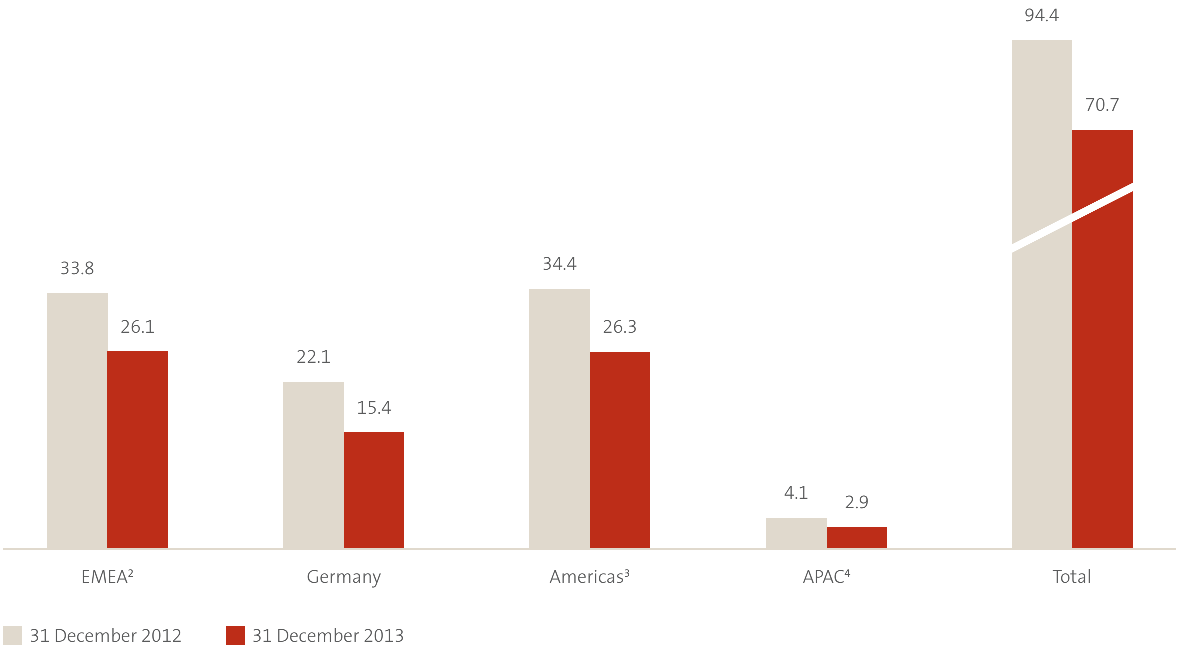
[2] Excluding exchange rate effects (based on exchange rates on December 31, 2011)

The largest part of the portfolio, with a share of approximately 47 %, is comprised of medium-term exposures with maturities of one to five years. These are primarily exposures held in the Structured Securities cluster (largely Phoenix, also see the table 'Phoenix notes capital structure' in the 'Phoenix' section), and the WestImmo Commercial, NPL, Public Finance, Energy and Industrials clusters. Approximately 11 % of the exposures in the banking book have a maturity of more than 20 years.

The increase in maturities of up to 20 years results from the shift of the Phoenix A4 USD note as well as certain Public Finance and Energy positions from the maturity range of more than 20 years. The decrease in the maturity range of up to ten years is mainly caused by the shift of the Phoenix B note into the maturity range of up to five years. The increase in the maturity range of up to five years related to this was partly compensated by the repayment of the Phoenix A1 note.

The other changes within the maturity ranges reflect the portfolio management measures executed during 2013.

Breakdown of notional volume by region
in EUR billion[1]



[1] Excluding exchange rate effects (based on exchange rates on December 31, 2011). Regional breakdown by borrowers, or the main risk country of the asset pool for securitizations
[2] Europe, Middle East and Africa; excluding Germany
[3] Includes EUR 3.6 billion for the Phoenix B note, guaranteed by the state of NRW
[4] Asia, Pacific and Japan

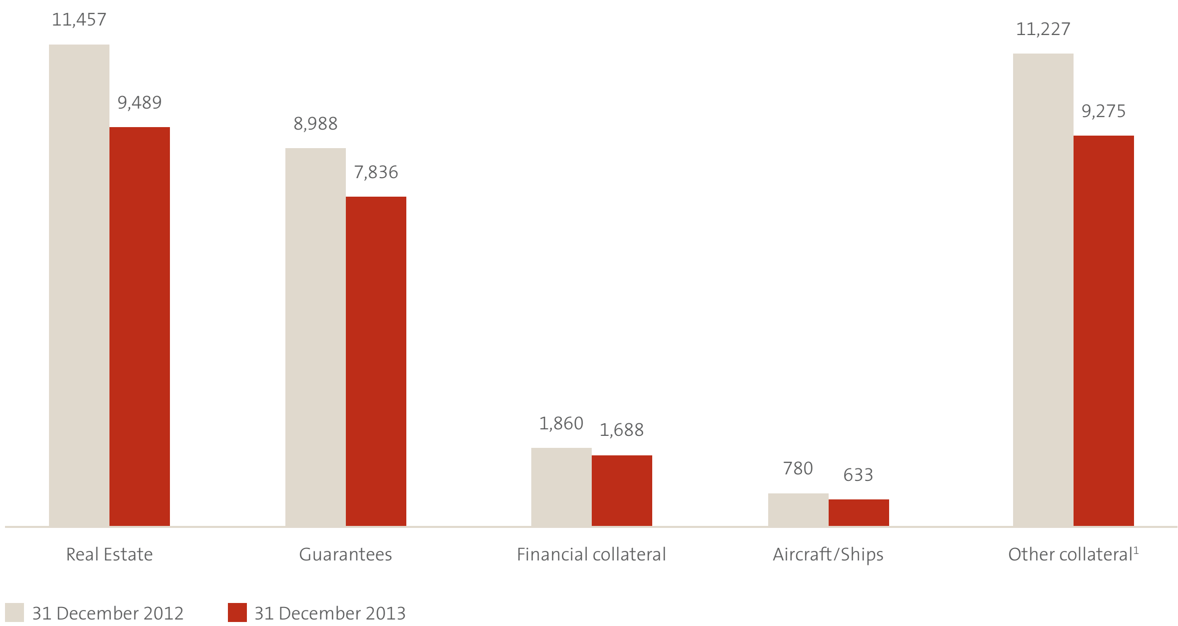
The breakdown of the notional volume has changed only insignificantly compared to the previous year. About 37 % of the notional volume (previous year: 36 %) is attributable to the EMEA region – Europe (excluding Germany), the Middle East and Africa. The decline in the notional volume in the amount of EUR 7.7 billion is mainly attributable to active measures and maturities in the Public Finance, Industrials and WestImmo Commercial clusters.

The notional volume for the German borrowers and guarantors, respectively (share in portfolio 22 %, previous year: 23 %) was reduced by EUR 6.7 billion. The wind-up here relates primarily to the WestImmo Commercial and Industrials clusters.

Approximately 36 % of the notional volume (previous year: 37 %) is allocated to the Americas. Repayments and maturities in the Structured Securities (mainly Phoenix) and WestImmo Commercial as well as the sale of Banco WestLB do Brasil resulted in a decrease of EUR 8.1 billion.

The APAC region represents approximately 4 % (previous year: 4 %). The APAC region recorded a decrease of EUR 1.2 billion.

The banking book portfolio is accompanied by the following collateral (data in million EUR); of which EUR 9,593 million (previous year: EUR 11,559 million) are allotted to EAA subsidiaries, particularly to WestImmo securities.



[1] Including market values for Phoenix tranches A1–A4/X

Problem loans and risk provision

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

Problem loan exposures are captured centrally in the EAA GW. This serves as a core basis for risk control and managing credit risks. The EAA GW also acts as an early warning system, as defined in the MaRisk. It serves to record, monitor and report individual loan exposures, which have a notable or heightened risk profile, due to expected or actual defaults, or for which a specific risk provision has been recognized.

Exposures are included in the EAA GW in accordance with stipulated risk indicators in various categories. The information and data recorded in the EAA GW are managed, monitored and regularly reported to facilitate tight control. The EAA GW also forms the basis for ensuring a regular reporting of the current risk situation of these loans, as well as the levels of risk provisions to the supervisory bodies of the EAA and the FMSA.

Result of risk provisions

	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	**–359.8**	**180.4**	**–179.4**	**1.1**	**–178.3**
Credit risk	–359.8	180.4	–179.4	19.0	–160.4
Country risk	0.0	0.0	0.0	0.0	0.0
Other risk	0.0	0.0	0.0	–17.9	–17.9
Contingent counterparty	**0.0**	**68.0**	**68.0**	**0.0**	**68.0**
Total	**–359.8**	**248.4**	**–111.4**	**1.1**	**–110.3**

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

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

The general loan loss provision is based on one-year expected losses. This has been calculated using loss rates and conversion factors as well as ratings taking into account the financing transfer stop risk specific to individual transactions. Using this method to determine the general loan loss provision means that no separate modeling needs to be performed for the country risk. The general loan loss provision for banking book derivatives is not calculated using the one-year expected loss, but using the calculation of the credit valuation adjustments (CVA) for this subportfolio.

Special banking book issues

Phoenix

A significant part of the EAA's structured credit portfolio consists of ten tranches of the Phoenix Light SF Ltd. securitization.

By far the largest part of the securitized Phoenix portfolio (around 90 %) is denominated in US dollars and reflects US risks with a concentration in the US real estate market. Repayments in the reporting period have led to a decrease of the notional volume denominated in euros; as at December 31, 2013, it stands at EUR 14.2 billion (calculated at constant exchange rates as at December 31, 2011).

Phoenix notes capital structure

in million

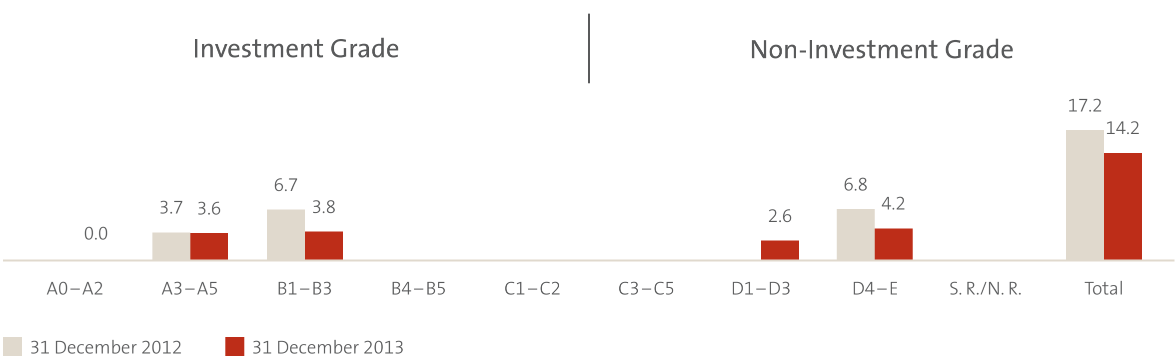
Tranche	Amount as of 31 Dec. 2013	S&P Rating	Legal maturity	Weighted average maturity
Class X	20 EUR	AAA	9/Feb/2015	0.58
Class A1	4,813 USD 27 EUR	A A	9/Feb/2091 9/Feb/2091	1.14 0.08
Class A2	3,102 USD 226 EUR	B B	9/Feb/2091 9/Feb/2091	2.43 1.21
Class A3	2,387 USD 701 EUR	CCC– CCC–	9/Feb/2091 9/Feb/2091	3.50 4.33
Class A4	1,909 USD 181 EUR	CCC– CCC–	9/Feb/2091 9/Feb/2091	7.27 12.84
Class B	3,589 EUR	not rated	9/Feb/2091	2.91

Approximately 52 % of the Phoenix notes consist of risk positions with an investment grade rating (after taking into consideration the rating of the guarantor, the state of NRW, for the Phoenix B note), and have a reduced default probability. The guarantee of the state of NRW for the Phoenix B note of EUR 5 billion was utilized in the meantime in the amount of EUR 1.4 billion.

The rest of the Phoenix notes also remained stable during 2013. There was even a slight rating improvement for the A2 notes. The reported, average weighted maturities relate to the expected amortization profile of the underlying portfolio. At the present time, EAA assumes that the Phoenix structure will be prematurely dissolved in 2018 and that the underlying portfolio will be transferred to EAA.

Rating breakdown by internal rating category for Phoenix notes

in EUR billion[1]



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

In addition to the ongoing sale of parts of the portfolio by taking advantage of market opportunities, the EAA continues to implement measures with the parties involved in Phoenix in order to optimize the liquidation. These measures include the active pursuit of legal measures with regard to individual securities in the portfolio as well as the restructuring of nonperforming securities. In cooperation with PIMCO, the manager of the Phoenix structure, the EAA is working on optimizing the hedging of the market price and credit risks in the Phoenix portfolio.

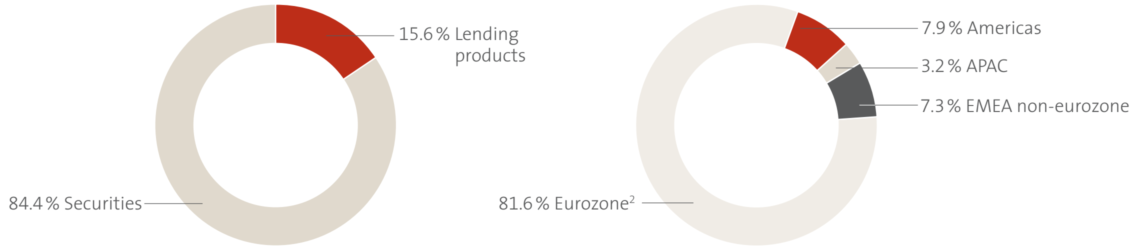
Public finance

The exposure to the public sector (including the Public Finance position of the NPL portfolio) has an overall notional value of EUR 9.0 billion as at December 31, 2013.

Securities account for 84 % of the public sector exposure, in particular bonds issued by EU member states (including regional and municipal issuers). These are held in part directly by the EAA and in part by EAA CBB. The remaining, approximately 16 % are largely lending transactions with federal state, municipal or other public law institutions in Europe.

Breakdown of Public Finance exposure by product and region as at December 31, 2013

100 % = EUR 9.0 billion[1]



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

[2] Of which EUR 5.3 billion (exposure without subsidiaries) is allotted to Greece, Ireland, Italy, Portugal, Slovenia, Spain, Cyprus and the EFSF. Further information can be found in the section “Exposures to selected EU states”

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

Credit risks – trading portfolio

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

Trading portfolio issuer risks from securities are calculated using a mark-to-market approach, while those in the banking book are determined on the basis of book values. For the measurement of the replacement risks (pre-settlement risks) from derivatives transactions, EAA uses a portfolio simulation instrument based on a Monte Carlo method. Settlement risks are determined using the payment due per value date. Trading portfolio credit risks are calculated daily using the corresponding credit lines. Risk-minimizing measures (such as close-out netting [offsetting] and collateral in the OTC derivatives business) are used to the greatest possible extent. Active hedging against risk positions only takes place with counterparties where corresponding master agreements are in place.

OTC derivative counterparty default risks are assessed independently using CVA. If available, externally traded credit spreads are used to determine the likelihood of default. The expected loss can be determined as CVA based on expected future exposures and a statistically calculated recovery rate. The CVA as at December 31, 2013, amounted to EUR 35.9 million (previous year: EUR 73.7 million). The decline results from measurement changes due to market movements, rating migrations and effects from the reduction of the portfolio.

Counterparty and issuer risks

Direct counterparty risk

total exposure in EUR million

	31 Dec. 2013		31 Dec. 2012	
	Exposure	Limit	Exposure	Limit
Counterparty risk OTC Derivatives	974.8	7,963.5	2,176.7	9,737.0
Credit risk money market[1]	2,941.5	11,045.0	8,370.2	16,010.0
Counterparty risk repos	214.7	3,101.0	248.2	2,475.0

[1] All money market transactions with counterparties outside of the EAA Group have a maximum maturity of three months, with the exception of transactions involving the Central Bank of Ireland and those involving Portigon, for which the maturities are in part longer than three months

As EAA concludes OTC derivatives, both based on the trading portfolio as well as the banking book, and because the counterparty risk is measured and controlled per counterparty, the stated explanations and figures refer to the trading portfolio and the banking book.

Counterparty risks from OTC derivatives are driven by liquidity steering transactions (foreign exchange swaps) and interest rate hedging instruments (interest rate swaps). As much as 99.5 % of the credit risk for money market transactions stems from monetary investments with Portigon. Upon completion of the refill, the limits for money market transactions were considerably reduced compared to December 31, 2012. As EAA has sufficient liquidity on the reporting date, the utilization of the limits for repo transactions at EUR 214.7 million is around 7 %.

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

OTC derivatives

in EUR million

Risk country	Exposure	Limit
Germany	456.2	4,650.5
UK	245.7	1,360.0
France	119.6	498.0
USA	66.9	450.0
Other countries	86.4	1,005.0
Total exposure	**974.8**	**7,963.5**

Money market positions

in EUR million

Risk country	Exposure	Limit
Germany	2,937.6	8,095.0
Ireland	3.9	250.0
Other countries	–	2,700.0
Total exposure	**2,941.5**	**11,045.0**

Repos

in EUR million

Risk country	Exposure	Limit
USA	94.4	605.0
Germany	64.2	1,481.0
UK	46.1	620.0
France	10.0	135.0
Other countries	–	260.0
Total exposure	**214.7**	**3,101.0**

Issuer risk

total exposure in EUR million

Issuer risks may be broken down by subportfolio:

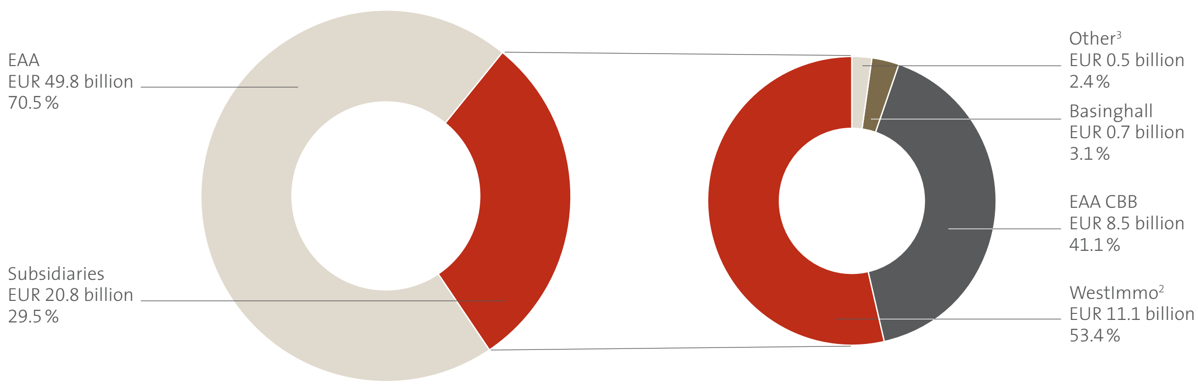
	< 1 y	1–4 y	4–8 y	8–15 y	> 15 y	Total exposure
Public Finance	971.9	1,903.6	1,400.6	1,887.0	1,514.8	7,677.9
Financial Institutions	747.0	891.6	517.6	189.0	5.4	2,350.6
Other securities	93.6	351.1	114.4	1,069.8	2,221.5	3,850.4
Total 31 Dec. 2013	**1,812.5**	**3,146.3**	**2,032.6**	**3,145.8**	**3,741.7**	**13,878.9**
Total 31 Dec. 2012	2,030.0	4,511.0	2,509.0	3,585.0	4,083.0	16,718.0

At EUR 7.7 billion, the largest share is allotted to the Public Finance subportfolio. The remaining issuer exposures are made up of Financial Institutions securities as well as other securities, mainly student loans.

Participation risks

Notional volumes held by subsidiaries

in EUR billion[1]



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

Participation risks result from the provision of subordinated capital and equity. The Strategic Project Management and Participation department of the EAA is responsible for the control of participations. The participation controlling is supported by the Controlling & Planning department of the EAA.

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

EAA's participation risk is primarily due to EAA CBB and WestImmo.

WestImmo holds a portfolio with a notional volume of EUR 11.1 billion as at December 31, 2013 (without Retail portfolio). The WestImmo portfolio primarily consists of commercial real estate financing and structured real estate transactions. WestImmo generally acts independently. The EAA is monitoring the WestImmo via the Supervisory Board. The EAA continues the privatization process of WestImmo that was initiated by the former WestLB at that time.

The notional volume of EAA CBB has declined by EUR 646.5 million in the reporting year 2013 and the notional volume of Basinghall was reduced by EUR 69.0 million. The position 'Other' primarily includes EAA KK, which was transferred from WestImmo to EAA in the second quarter of 2013. The sale of Banco WestLB do Brasil, for which EAA had provided a book value guarantee, was successfully completed in the third quarter of 2013.

EAA CBB, EAA KK as well as Basinghall are integrated in EAA's risk management and business administration structure. These participations are subject to governance by the EAA and 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 and Basinghall.

Exposures to selected EU States

The exposure of EAA and its subsidiaries to Cyprus, Greece, Ireland, Italy, Portugal, Slovenia, Spain and the European Financial Stability Facility (EFSF) amounts to EUR 10.9 billion as at December 31, 2013, of which EUR 1.2 billion are attributed to the WestImmo portfolio. In fiscal year 2013, the outstanding notional from these states decreased by EUR 1.9 billion. The reduction is mainly attributed to Spain (EUR –1.1 billion, especially Corporates and Public Finance) and Italy (EUR –0.5 billion, especially Corporates and Financial Institutions).

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

Country[1]	Borrower-Unit	Notional in EUR million[2,3] 31 Dec. 2013	Notional in EUR million[2,3] 31 Dec. 2012
Cyprus	Corporates	66.0	68.9
	Financial Institutions	0.0	0.0
	Public Finance	0.5	0.8
Σ Cyprus		**66.5**	**69.7**
Greece	Corporates	31.5	67.3
	Financial Institutions	0.0	0.0
	Public Finance	0.0	0.0
Σ Greece		**31.5**	**67.3**
Ireland	Corporates	108.8	142.4
	Financial Institutions	7.3	3.8
	Public Finance	115.0	115.0
Σ Ireland		**231.1**	**261.2**
Italy	Corporates	1,793.0	2,092.6
	Financial Institutions	383.8	502.6
	Public Finance	2,525.6	2,596.5
Σ Italy		**4,702.4**	**5,191.7**
Portugal	Corporates	157.2	225.8
	Financial Institutions	15.0	55.0
	Public Finance	1,573.2	1,590.4
Σ Portugal		**1,745.4**	**1,871.2**
Slovenia	Corporates	0.0	0.0
	Financial Institutions	0.0	3.0
	Public Finance	40.0	40.0
Σ Slovenia		**40.0**	**43.0**
Spain	Corporates	2,093.9	2,620.5
	Financial Institutions	735.9	807.6
	Public Finance	1,216.0	1,745.4
Σ Spain		**4,045.8**	**5,173.5**
EFSF	Public Finance	83.1	192.7
Σ EFSF		**83.1**	**192.7**
Total[4]		**10,945.8**	**12,870.3**
thereof	Corporates	4,250.5	5,217.5
thereof	Financial Institutions	1,142.0	1,372.0
thereof	Public Finance	5,553.4	6,280.8

[1] Economic view, may differ from the borrower's legal country of residence (for Corporates and Financial Institutions)

[2] Based on current exchange rates on December 31, 2013

[3] Presentation of the notional volume, including hedges (net)

[4] Including WestImmo Commercial (EUR 1,198.2 million) and EAA CBB (EUR 3,429.1 million)

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

Product[1]	Value[2]	Country[3]	in EUR million[4,5] 31 Dec. 2013	in EUR million[4,5] 31 Dec. 2012
Bonds	Notional	Italy	0.7	0.5
Σ Bonds			**0.7**	**0.5**
Single CDS	Notional	Ireland	0.0	1.2
		Italy	0.0	32.5
		Portugal	0.0	25.0
		Spain	0.0	4.3
Σ Single CDS			**0.0**	**63.0**
Decomposed CDS	EaD	Italy	0.1	–24.2
		Portugal	0.0	–38.7
		Spain	0.0	–41.8
Σ Decomposed CDS			**0.1**	**–104.7**
Equities	MtM	Greece	0.1	0.0
		Ireland	0.0	0.3
		Italy	1.6	3.8
		Spain	0.0	2.1
Σ Equities			**1.7**	**6.2**
Equity Derivatives	EaD	Ireland	0.0	0.0
		Italy	–0.1	4.0
		Spain	0.0	–0.1
Σ Equity Derivatives			**–0.1**	**3.9**
Other Derivatives	MtM	Ireland	5.1	17.4
		Italy	553.7	821.6
		Portugal	0.0	19.3
		Spain	198.4	279.8
		Cyprus	18.1	24.7
Σ Other Derivatives			**775.3**	**1,162.8**
ALM	MtM	Ireland	0.1	25.9
		Italy	31.9	67.0
		Spain	0.0	200.0
Σ ALM			**32.0**	**292.9**

[1] CDS = credit default swaps; ALM = asset liability management (Cluster ALM as part of the banking book is identified as in the internal view here and not as banking book exposure); derivatives = replacement risks from OTC derivatives and from CDS; Decomposed CDS = CDS positions that do not relate to an individual basic asset 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 on December 31, 2013

[5] Presentation of the notional volume, including hedges (net)

Market price risks

The EAA pursues a strategy of the greatest possible reduction of market price risks. The market price risk is controlled through a system of limits. In this case, the market price risks of the trading portfolio and the banking book are limited separately. The market risk positions are controlled on a daily basis by the Treasury/Capital Markets department and are monitored and analyzed by the Risk Controlling department.

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

- The interest rate risk describes the risk to the portfolio's net interest income or present value from changes in market interest rates.
- The foreign exchange risk describes the risk of losses from changes in exchange rates.
- The equity risk describes the risk of losses from changes in prices on the stock market.
- The option risk describes the risk of losses from the exercising of sold options.
- The credit spread risk describes the fluctuation in the value of securities resulting from a change in the credit risk premiums (for example, foreign government bonds in the Public Finance portfolio).

Banking book market price risks

As a result of the existing portfolio structure, there are interest rate and foreign exchange risks (particularly in relation to the US dollar), which are nearly fully hedged. Based on the risk profile, EAA's hedging activities are essentially concentrated on the hedging of risks for interest rate and foreign exchange risks.

These risks are hedged by refinancing with analogous currencies or by concluding derivatives transactions.

Interest risk[1] – banking book

in TEUR	< 1 y	1–4 y	4–8 y	8–15 y	> 15 y	Total
EAA Group 31 Dec. 2013	264.0	–106.5	–152.7	–232.3	–21.3	–248.8

[1] The interest rate risk in the banking book, including the US term life insurance policies, is measured as the charge in the present value when the yield rises by one basis point (interest rate sensitivity PV01)

The interest rate sensitivity of EUR –248.8 thousand proves to be substantially lower than at the end of 2012 (EUR –749 thousand). The utilizations are within the limits.

The identified interest rate sensitivity does not include a permanent convertible bond with variable interest since the interest margin is very uncertain due to the wide rights of termination and conversion and since the value development is not primarily determined by the interest level.

The interest rate risks of Phoenix are not contained in the above table. These are managed separately. The Phoenix notes will be incorporated in the interest risk management for the banking book as at January 1, 2014.

Foreign exchange risk – banking book

in TEUR	AUD	CZK	GBP	JPY	PLN	RUB	SGD	TRY	USD	Other	Total
EAA Group 31 Dec. 2013	1,924.0	389.6	–13,234.9	–322.9	73.1	33.6	227.6	75.9	23,371.0	1,521.5	14,058.5

The currency position on the balance sheet as at December 31, 2012, (net per currency) for the banking book was still around EUR 270 million. Essentially, the position was significantly reduced by the payment of the compensation liability vis-à-vis Portigon.

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

The option risks in the portfolio were eliminated using micro-hedges resulting in a simple, linear risk profile. Micro-hedge effectiveness is assessed regularly.

The wind-up strategy aims to realize the intrinsic value of the exposure rather than steering based on short-term capital market fluctuations and associated credit spread changes. The exposures are monitored and, if required, decisions are made to exit specific exposures. Therefore, no limits for credit spread risks are in place.

Trading portfolio market price risks

In addition to interest rate and foreign exchange risks, the trading portfolio also includes equity price risks and, to a lesser extent, credit spread and commodity risks. The trading portfolio predominantly includes derivative positions and thus also bears nonlinear option risks. In line with the market practice, risks in the trading portfolio are hedged at portfolio level. This entails residual risks that 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 Value at Risk model (VaR model) and risk sensitivities. Risk management also makes use of a multitude of stress scenarios. The VaR model calculates interest rate risks, equity risks and foreign exchange risks (including commodity risks) for the trading portfolio including the respective volatility risks on a daily basis. A confidence level of 99 % and a one-day holding period are assumed when calculating the VaR.

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

The relevant market price risk positions are continuously subjected to so-called back testing. The actual market value changes (hypothetical income statement) are compared to the possible market value changes forecast by the VaR model on a daily basis. In the second quarter of 2013, the back testing was exceeded at the highest level of the portfolio structure of the trading portfolio as a result of strong market fluctuations of the swap curves of the euro and appertaining volatilities. An analysis of this exceedance produced no indications of a diminished forecast quality of the VaR model. Statistically speaking, two to three exceeded limits must be taken into account per year for a VaR with a holding period of one trading day and a confidence level of 99 %.

The changeover of the management of the trading portfolio to the 'target structure' (EAA subcluster structure) took place in the first half of 2013. The limit monitoring was converted to limits according to the EAA wind-up plan. Accordingly, a comparison with December 31, 2012, is only possible at the overall trading level.

Value at Risk per Subcluster

in TEUR	31 Dec. 2013	Risk-based interest rate curve	Non risk-based interest rate curve	Foreign exchange risk	Equity risk
EAA Trading	**1,864.0**	**1,600.2**	**468.2**	**589.0**	**147.7**
Interest Rate Options	264.9	319.6	0.0	0.0	0.0
Interest Rate Exotics	1,038.8	1,111.7	0.0	121.2	0.0
Interest Rate Flow	652.0	349.8	0.0	379.5	0.0
Contingent Credit Risk	22.3	6.0	17.7	11.2	0.0
Corporate Synthetic Obligation	0.0	0.0	0.0	0.0	0.0
Fund Derivs & Credit Repacks	18.8	17.5	0.8	2.3	0.0
Basket Default Swaps	7.6	1.1	4.9	5.5	0.0
Credit Default Swaps	4.6	0.4	0.6	4.5	0.0
Foreign Exchange Options and Hybrids	203.0	62.4	0.0	173.5	0.0
Foreign Exchange Forwards	15.5	14.6	0.0	6.4	0.0
Equity Flow Products	13.9	13.9	0.0	0.0	0.0
Equity Structured Products	311.9	209.8	4.0	101.9	147.7
MUNI GIC Portfolio	828.3	776.9	469.9	0.0	0.0
Commodities	13.6	0.6	0.0	7.2	0.0
Gold Aktiv Portfolio	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0

The VaR for the trading portfolio decreased to EUR 1,864 thousand (previous year: EUR 3,548 thousand). This is specifically a result of the portfolio reduction and the changed market parameters.

Liquidity risks

EAA differentiates between tactical and strategic liquidity risks.

- The 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.

- The 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 subsidiaries are included in the liquidity planning and management process so as to ensure an optimal access to liquidity. Because of the liable stakeholders' and FMS' duty to offset losses incurred and thanks to their creditworthiness, the EAA has been positively received on the capital markets. Accordingly, there is less of a risk in relation to EAA-specific refinancing options but rather in the occurrence of a systemic lack of liquidity of the market.

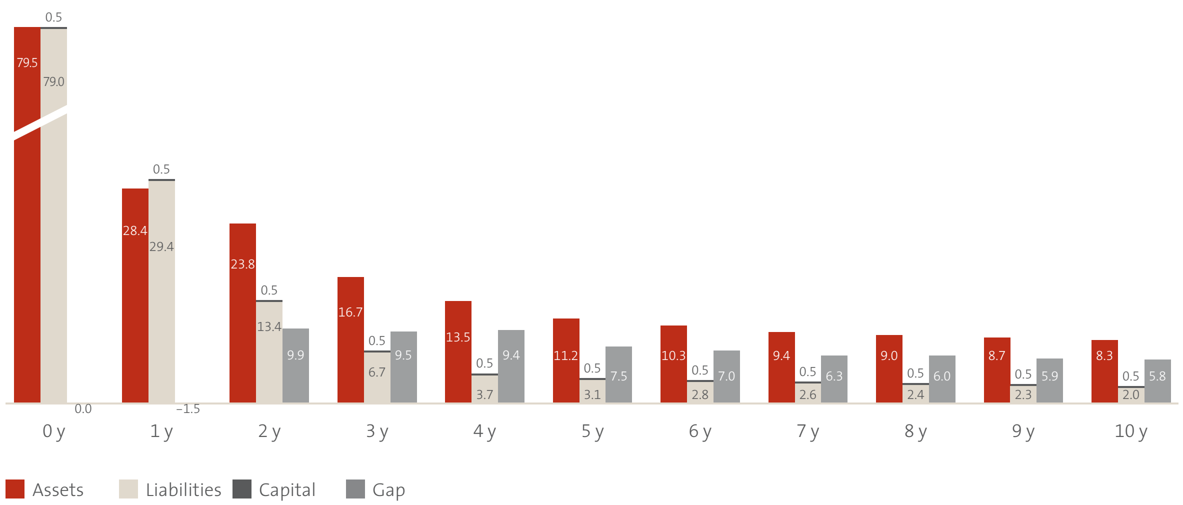
In order to assess its liquidity, EAA analyzes its funding position in detail, as well as its liquidity reserve and funding needs. On the liabilities side, liquidity is assessed by type, volume and time horizon of the funding instruments. By comparing the expected cash flows used for liabilities with those arising from assets, taking into account the use of derivatives, the EAA creates a monthly capital commitment statement. It sheds light on its need for net refinancing. 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 and maintains a liquidity reserve. A significant portion of EAA's assets is invested in foreign currencies (particularly the US dollar) over the long-term. Foreign currency assets are now refinanced using a mixture of foreign currency liabilities, which are issued via the Commercial Paper and Debt Issuance Programme, as well as by using liabilities in euros in combination with long- and middle-term cross-currency swaps and short-term FX swaps. In the future, the EAA expects to further reduce the replacement risk in foreign currencies by issuing more foreign currency liabilities.

As at December 31, 2013, all stress scenarios demonstrated a viable liquidity situation. The capital commitment statement on December 31, 2013, identifies a debit carryover in the long-term comparable to the previous year. The debit carryover is EUR 1.5 billion. The liquidity reserve consists of the collateralized liquidity (securities holdings of the portfolio, which can be used in bilateral repo transactions with high probability) and short-term investments. For the reporting period, the liquidity reserve was always above the liquidity reserve threshold. At the time of the stress test on the last day of December 2013, the liquidity reserve amounted to EUR 8.1 billion.

Capital commitment statement as at December 31, 2013

in EUR billion



Owing to the good ratings of its guarantors, EAA does not consider it necessary to limit the strategic liquidity risk.

Operational risks

EAA differentiates between operational risks within the EAA (including its subsidiaries) and risks from the outsourcing to Portigon and other service providers.

Operational risks in the EAA comprise all risks arising from inappropriate reactions or from the failure of internal processes, systems, and individuals, as well as risks resulting from external events. Based on organizational changes in fiscal year 2013, such as the integration of EAA KK, the control of the operational risks was also extended to the subsidiaries.

Outsourcing risks with regard to Portigon or other service providers encompass possible losses from awarding services. These include, in particular, the risk that contractually stipulated services are not provided or do not meet the stipulated quality.

Operational risks arise on the one hand from EAA's employees and service providers performing their tasks and from the surrounding environment on the other. Therefore, the management of operational risks is the direct responsibility of the individual departments under the leadership of the respective department heads. The EAA's head of Risk Controlling coordinates this effort.

EAA has established a service provider management system in substantive, formal and qualitative respects in order to monitor the interface between the service provider and the EAA as the service recipient. Using a continuous and on-time process, the EAA accordingly ensures that EAA's requirements, which are defined in the service agreements (service level agreements) of the service provider and also fulfilled in the agreed form. In this process, the EAA records the outsourcing risks and assesses them by applying the traffic light principle.

Operational risks within the EAA
In a general effort to avoid operational risks, the EAA's management aims to establish a sustainable risk management culture within the organization. The EAA's Risk Controlling department is responsible for developing and introducing methods for identifying, measuring, analyzing, monitoring and reporting operational and other risks.

Its activity focuses on the regular analysis and identification of weak points and approaches for optimizing all business procedures and processes. The EAA's operational risks arise both in the EAA (including its subsidiary) and at its outsourcing service provider. Operational risks are consistently measured and managed in both organizations. They are also aggregated into an overview of overall risk.

The operational risks of other service providers are managed using consistent methods. The EAA concentrates on identifying material individual risks, continually monitoring them, and if necessary, managing or mitigating such risks. To that end, it has established an internal system to record and measure the operational risks for the EAA as a whole, which is necessary due to the type and scope of the operational risks. The collating of operational risk incidents and the annual risk inventory are key elements to measure operational risks. Appropriate measures are resolved and implemented based on the findings obtained.

Firstly, losses and near losses are recorded and evaluated. Specific, potential or actual losses are quantified.

In addition to documenting operational losses and near losses, an extensive ex-post analysis of the operational risk incidents offers information on the weaknesses and facilities the initiation of risk-reducing measures on the basis of that.

An annual risk inventory identifies risks and assesses their significance for the EAA. Appropriate measures are resolved and implemented based on the findings obtained. Risk Controlling collates a risk incident report and performs the risk inventory for the EAA. The processes within Portigon relevant to the EAA are also subjected to an annual risk inventory by Portigon's Operational Risk Management, which then reports the results to the EAA. In the event that operational risk incidents occur in these processes, these will also be reported to the EAA, including the risk-reducing measures associated with it and their status.

The operational risks within EAA are assessed by way of a risk inventory taken at regular intervals. The last risk inventory at EAA revealed four valuation objects (1 %) with high risks. Of the valuation objects, 13 % are characterized by medium risks and 86 % by low risks. The slight deterioration of the risk inventory was a result of uncertainties associated with service providers and possible regulatory changes.

EAA has outsourced key business processes to Portigon. Portigon is in the process of implementing the restructuring ordered by the EU Commission as part of an ongoing transformation process. In this context, the separation of Portigon into PAG and PFS, for example, was prepared and implemented within the last fiscal year. Any additional operational risks possibly associated with the separation will, in the future, be covered by the existing range of instruments. In order to avoid additional operational risks which may arise from the separation and to secure the same scope of services as before, a new agreement is being or has been negotiated between EAA, PAG and PFS, also involving the respectively concerned specialist departments. The adjustment of Portigon's structures and processes had not been completed as at December 31, 2013.

The risk inventory at Portigon regarding the processes attributed to EAA showed a high risk for 8.1 % of the valuation objects, especially in the case of valuation accounts related to personnel.

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

Furthermore, the EAA is subject to the legal and regulatory decrees of section 25a of the KWG and section 9 note 7 (management and monitoring of outsourcing measures) as well as section 4.3.1 note 2 and section 9 note 1 (organizational regulations) of the MaRisk from which the necessity of management and monitoring of the outsourced activities can be derived.

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

Service provider management monitors the interface between the service provider and the EAA – as the service receiver – in terms of content, form and quality. Using a continuous and timely monitoring process, EAA accordingly ensures that EAA's requirements, which are defined in the service agreements (service level agreements), are understood and accepted by the service provider and also fulfilled in the agreed form. In this process, the EAA records the outsourcing risks and assesses them by applying the 'traffic light' principle.

The year 2013 shows no increased risks and, in principle, features stable quality of the service provision according to the service agreement.

The monitoring and assessment process is supported by an online assessment system. Possible service and process adjustments are taken into account in a process of continuous improvements. The service level agreements have already been agreed with regard to the separation into PAG and PFS.

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 of particular relevance. The EAA also attaches particular importance to its public image with respect to its funding options on the capital market.

The EAA has established behavioral rules for its employees in its "Code of Conduct." The EAA monitors all public reporting intensively in order to further minimize reputational risks. This also includes public reporting about its subsidiaries in the wind-up portfolio. Coordinated and active communication and public relations maintain the EAA's reputation.

Legal risks

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

Pursuant to section 8a (2) sentence 1 FMStFG, EAA is subject to the 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 statutory provisions and its charter.

EAA has appointed Portigon to manage the transferred assets. Accordingly, it is also within Portigon's responsibility to preemptively recognize legal risks arising in this context, and to communicate these in order to then mitigate or exclude such risks to the greatest possible extent in consultation with EAA by means of the required measures.

Significant legal risks arise for the EAA from the transferred derivatives transactions with communities based on the so-called "Ille ruling" of the Supreme Court (BGH) of March 2011. In the case of a highly structured swap, the Supreme Court has decided that banks are required to inform their clients about the initially negative market value of the derivative before the contract is concluded. In the event that said information is not provided, the bank is then liable for issuing inappropriate investment advice. The liability extends to the annulment of the derivative and the reversal of all payments. The extent of this jurisdiction is unclear. Even if some lower courts, such as in those relating to simply structured derivatives, do not always apply the jurisdiction, banks often solely refer to the decision rendered by the BGH when dealing with the lower courts. The EAA expects that only the higher courts will adopt a differentiated view.

Authorities in the USA, Great Britain and at EU level have been investigating possible misconduct in the commercial departments of several banks since April 2010. A number of investment banks active in the USA were also sued in the USA in three so-called class action lawsuits due to alleged manipulative actions. The initial results of the investigations have not produced any evidence of wrongdoing in the former WestLB. The civil suits were rejected at first instance. The investigations and civil suits will continue for a number of years yet. The EAA currently has no reason to doubt Portigon's claims that there are no indications of any misconduct.

The EAA has built up sufficient reserves and initiated other measures to cover judicial and extrajudicial disputes.

Tax risks

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

The EAA uses clearly defined governance structures and processes to analyze and manage tax risks. Risks in terms of tax laws are clarified by means of active communication with the tax authorities and other state authorities. If necessary, external specialists are engaged to consult on legal and tax issues.

Summary of risk situation

The EAA was established to take over risk positions and nonstrategic business units from Portigon (formerly WestLB) and its domestic and foreign subsidiaries, and to reduce these while preserving value under a long-term wind-up plan. Value fluctuations in the interim are of less significance.

To that end in particular, wind-up agencies in accordance with section 8a FMStFG are exempted from capital requirements, the obligation to prepare consolidated financial statements and other statutory provisions that apply to commercial banks. The EAA is thus primarily geared toward assuming credit and market price risks.

In its risk management activities, the EAA strives to reduce the risk resulting from the wind-up of the portfolio. For this purpose, the wind-up success and any deviation from the wind-up plan are monitored constantly and compared to the requirements (in this regard also see the section “Wind-up report”).

The liquidity risk is reduced at the same rate at which EAA progresses in borrowing refinancing loans at the capital markets that are 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 steering system and an internal control system in order to manage operational risks.

The portfolios transferred in 2012 were integrated in the existing management modules. Risk management was adjusted to meet the additional requirements of reducing the trading portfolio.

The structured securities Phoenix and EUSS continue to constitute the largest individual risks. 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 any known risks. Its equity is available as aggregate risk cover for risks that are not yet currently foreseeable.

Risks arising from the sovereign debt crisis, especially for exposure to the euro peripheral countries are closely monitored in a prompt fashion.

The requirements for the risk-bearing capacity according to section 4.1 of the MaRisk are not relevant for the EAA. Instead, the EAA performs a quarterly analysis of the development in the equity of the EAA in application of the wind-up plan and updated variables as well as market parameters at the end of the planning period. This specifically involves the effects of changed framework conditions on equity capital in 2027. The analyses conducted in 2013 have not given rise to any adjustments in the wind-up plan during the year.

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

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

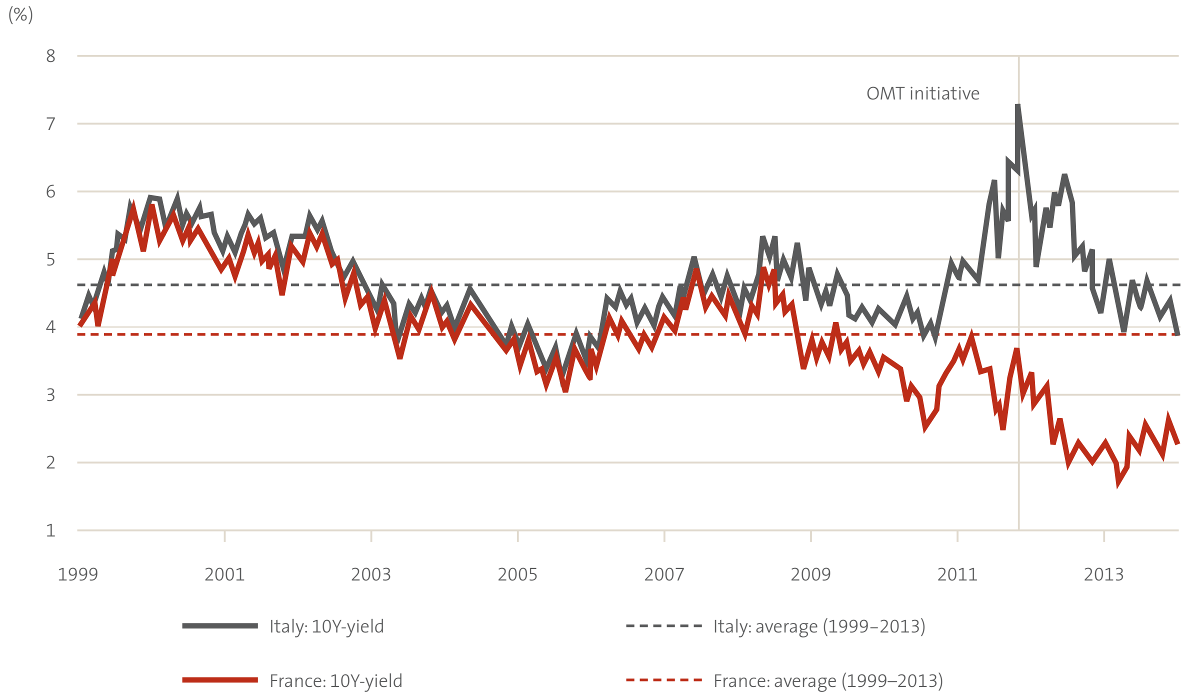
Opportunities report

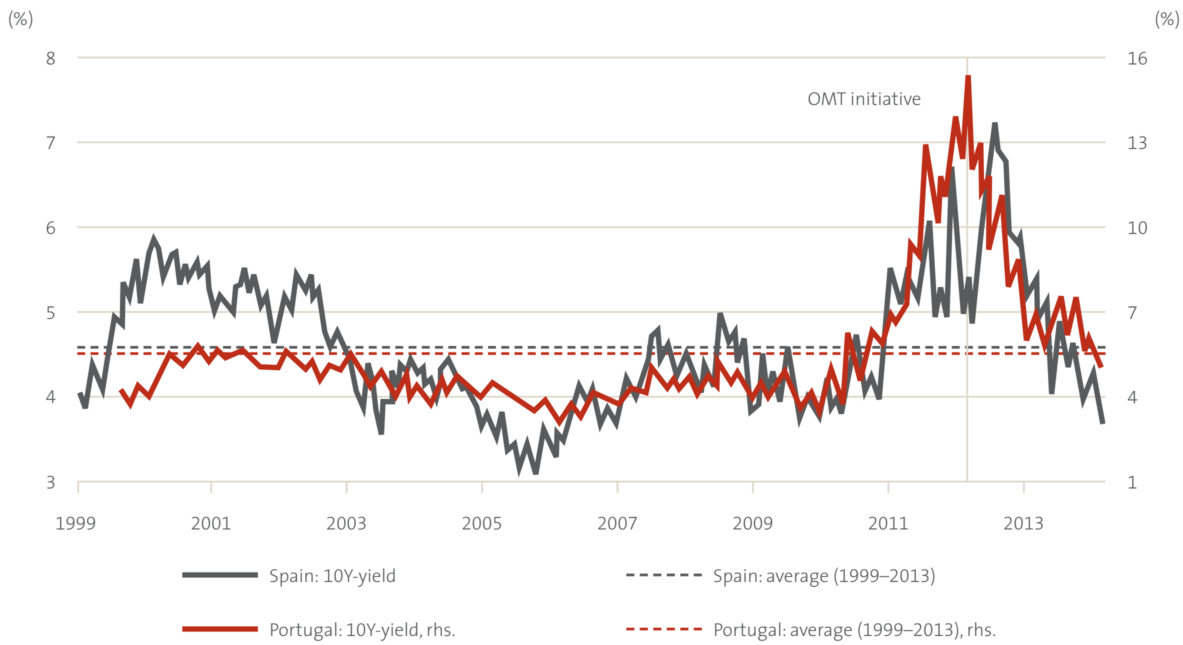
With the OMT program of the European Central Bank (ECB) the euro debt crisis entered a new phase in the summer of 2012. Prior to the announcement of this program, political crises or accelerating downturns in the euro periphery had led with depressing regularity to notable declines in economic confidence that also triggered spread widenings in other economies that had not initially been affected. While at first only the very weakest of the peripheral nations (Ireland, Portugal and Greece) were affected by these contagion effects, the phenomenon spread to larger nations such as Italy and Spain and later on in the crisis even to the so-called semi-core or high-beta nations such as France and Belgium.

The creditworthiness of euro economies is at the heart of the euro debt crisis. Because banks had exposed themselves heavily to government bonds from the euro periphery prior to the outbreak of the debt crisis, the deterioration in the credit quality of these peripheral economies soon affected the creditworthiness of the eurozone's banking sector in general. For the banking sectors in Spain, Greece, Italy, Portugal and Ireland the impact of the lower creditworthiness of national governments often proved catastrophic. The implicit guarantee of these nations as "buyer of last resort" had become increasingly worthless in the view of the financial markets because only the affluent economies at the core of the eurozone were able to provide credible government support for their ailing banks. This caused a further loss of confidence in the periphery and an additional deterioration in the creditworthiness of peripheral governments. The already high and fast-growing debt levels of peripheral economies made it impossible to recapitalize and stabilize stricken or faltering banks.

Consequently, the credit quality of the banks also deteriorated. A country risk premium (risk surcharge compared to German government bonds), became increasingly prevalent in the government bond markets. It was applied to the pricing of bank bonds, corporate bonds, debentures and loans as well as sovereign and subsovereign debt. For banks exposed to the euro debt crisis this created a need for additional write-downs. The process of pricing in different country risk premiums has nullified the integration of the euro financial markets.

Re-Convergence of yields in the eurozone





Source: Bloomberg

This phenomenon, known as 'fragmentation of the eurozone's financial markets', has been on the retreat since the announcement of the new ECB purchase program for peripheral government bonds. This triggered a normalization of the valuation of risky assets in the eurozone. This process is not restricted to stock exchange listed financial products, but also affects other areas of the euro credit market (promissory note bonds, traditional loans, project financing, ...). The EAA's portfolios are profiting from this normalization process because the fact that these additional country-risk premiums have been "priced out" again has led to a significant recovery in the portfolios' value.

In the coming months, this effect may become even more pronounced. As described in the section "Macroeconomic and industry-specific conditions," many national economies in the eurozone (especially Spain and Portugal) appear to have bottomed out in terms of economic activity. Should this growth trend reversal be confirmed, it would increase risk appetite and therefore lead to more readiness to assume risk for investments in these countries. Should European banks continue their balance sheet repairs, this will mean further progress in the resolution of the crisis. As the balance sheets of the banks recover in the euro periphery, these banks will again be able to perform their primary function in the monetary alimentation of real growth by issuing new loans. This would result in a further boost to growth in the euro periphery as access to new loans has been difficult for businesses in Spain, Portugal or Italy in the recent past.

This process is set to continue in 2014. With its OMT program, the ECB has created new confidence in the European periphery and its ability to fulfill its obligations. At the same time, the euro crisis was a key catalyst for change and reform in the region. Many structural problems (rigid labor and product markets, too low a retirement age, inappropriate export mix, ...) have been remedied and the peripheral states' competitiveness has improved accordingly. This process should continue in 2014.

Even though conditions in the eurozone are progressively improving and most forecasts by economic analysts suggest that economically speaking 2014 will be a better year than 2013 or 2012, this does not mean that the financial markets are free from dangers. The consequence of the improved growth prospects of the developed economies – in particular the USA and Great Britain, but also those of the eurozone – is that investors are withdrawing more capital from the emerging markets. These outflows of capital are reducing the growth prospects of these nations to the extent that they could lose their momentum as drivers of global growth. Such a development would negatively affect the EAA's project-finance portfolio.

Forecast report

Fiscal year 2013 continued to be significantly influenced by the refill portfolio. Despite this special situation, it was possible to push ahead efficiently with the portfolio wind-up. Since the transfer of the refill portfolio it has been possible to reduce the notional volume of the banking book portfolio by around 44 % and that of the trading portfolio by about 39 %.

The EAA aims to have wound up around 50 % of the current notional volume by the end of 2016 in the banking book on December 31, 2013 (including the exposures held by subsidiaries). This corresponds to a comparable total reduction of the EAA's assets (46 %).

The original wind-up plan for reduction of the total assets remains on schedule. The EAA still aims to have wound up more than 75% of the transferred banking book by 2016 (including the exposures held by the subsidiaries).

The current wind-up plan for 2014 provides for a reduction of the notional volume in the banking book of around 18% to EUR 58 billion through active measures and contractual maturities.

The net interest and the net fee and commission income are expected to decline with the decreased portfolio in fiscal year 2014. 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 and other markets. The EAA maintains its value-preserving wind-up strategies.

As for the transferred trading portfolios, the EAA aims to reduce this by more than 70% of the transferred value by the end of 2016. This corresponds to a total reduction of the EAA's trading portfolio of more than 60%.

The current wind-up plan for 2014 provides for a reduction of the notional volume of the trading portfolios of around 22% to EUR 501 billion. The EAA will analyze the extent to which a faster wind-up of the acquired trading portfolio can be conducted in an effective and cost-efficient manner.

Additionally, the EAA's wind-up planning does not include any provision for making use of the existing liability guarantees.

As in previous years, the EAA's wind-up activities in 2014 and beyond will focus on premature portfolio reducing measures and active participation management.

For 2014, the EAA has again defined a sale portfolio as its objective. In light of this, a number of exposures in the credit and securities portfolio have been identified, which hold potential for sales, terminations or early redemptions. It should be noted that this course of action is subject to the overriding goal of minimizing losses while taking into account expected risk developments.

Independent of the sale portfolio for 2014, the EAA continues to pursue an opportunistic approach. This means that it will try to wind up its entire portfolio prematurely and profitably as far as possible, conducting regular analyses of market conditions and possible exit opportunities.

The presentation of economic conditions has made it clear that attempting to emerge from the debt crisis by means of cutbacks will be a very long process. Empirical studies of government debt crises have revealed that such crises tend to last a good 25 years. Nevertheless, the EAA's ambitious long-term goals continue to be supported by the current economic development. Despite difficult framework conditions in individual countries, there have been positive developments in global economic activity and this gives us good reason to have a positive outlook for the medium term. The economic situation in the industrial countries in particular has improved noticeably. This is evident in the robust growth in the USA as well as further improvement of the fundamental data in the eurozone for which GDP growth was again forecast in 2014.

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.

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

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

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

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

Moreover, the financial reporting processes are included in EAA's general risk management process with regard to operational risks. This is in order to prevent errors or misstatements to the greatest extent possible, or to uncover them early on. All processes are documented in the 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. Compliance with the schedule is maintained and monitored at a system level. The EAA receives assistance in this from Portigon's Finance Services department.

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

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

Transactions with new products or in new markets, which the EAA may only carry out within the scope of the portfolio wind-up and not to operate new businesses, are run through the new product process intended for that purpose in which the Finance & Tax department is also integrated.

Balance sheet

as at December 31, 2013

Assets	Note	EUR	EUR	31 Dec. 2013 EUR	31 Dec. 2012 EUR
1. Cash reserve					
a) Balances with central banks			230.00		(2,500,000,000.00)
of which:				230.00	2,500,000,000.00
with Deutsche Bundesbank					
EUR 230.00 (py: EUR 2,500,000,000.00)					
2. Loans and advances to banks	3, 4, 31				
a) payable on demand			6,671,729,501.04		(9,650,059,716.99)
b) other loans and advances			8,213,339,020.84		(12,957,905,903.42)
				14,885,068,521.88	22,607,965,620.41
3. Loans and advances to customers	3, 5, 6, 16, 31			15,711,872,872.73	22,671,003,682.69
of which:					
secured by mortgage charges					
EUR 324,108,660.48 (py: EUR 398,665,155.22)					
Public-sector loans					
EUR 945,382,322.73 (py: EUR 1,022,257,874.76)					
4. Bonds and other					
fixed-income securities	3, 7, 14, 16, 17, 31				
a) Money market instruments issued by					
aa) public issuers		0.00			(0.00)
of which:					
eligible as collateral with Deutsche Bundesbank					
EUR 0.00 (py: EUR 0.00)					
ab) other issuers		0.00			(0.00)
of which:			0.00		(0.00)
eligible as collateral with Deutsche Bundesbank					
EUR 0.00 (py: EUR 0.00)					
b) Bonds issued by					
ba) public issuers		1,919,896,884.69			(2,101,019,228.69)
of which:					
eligible as collateral with Deutsche Bundesbank					
EUR 1,785,526,384.60 (py: EUR 1,880,943,821.76)					
bb) other issuers		16,493,114,112.74			(21,446,372,204.55)
of which:			18,413,010,997.43		(23,547,391,433.24)
eligible as collateral with Deutsche Bundesbank					
EUR 2,015,135,877.34 (py: EUR 3,477,038,381.02)					
c) Own bonds					
Notional value EUR 442,411,000.00 (py: EUR 648,296,516.30)			443,756,946.34		(670,255,111.20)
				18,856,767,943.77	24,217,646,544.44
5. Equities and other non-fixed-income securities	3, 8, 14			35,713,403.15	49,795,134.83
5a. Trading portfolio	3, 9			26,897,754,743.05	48,930,585,494.70
6. Long-term equity investments	3, 10, 14			105,112,448.06	85,848,147.20
of which:					
in banks					
EUR 12,421,102.17 (py: EUR 12,580,328.91)					
in financial service providers					
EUR 0.00 (py: EUR 2,700.64)					
7. Shares in affiliates	3, 11, 14			1,790,922,574.71	1,827,323,881.85
of which:					
in banks					
EUR 1,722,941,373.13 (py: EUR 1,714,297,094.52)					
in financial service providers					
EUR 10,719,705.49 (py: EUR 25,447,584.25)					
			Subtotal:	78,283,212,737.35	122,890,168,506.12

Liabilities and equity	Note	EUR	EUR	31 Dec. 2013 EUR	31 Dec. 2012 EUR
1. Deposits from					
banks	3, 15, 18				
a) payable on demand			2,144,560,920.14		(2,665,151,031.35)
b) with an agreed maturity					
or withdrawal notice			3,839,763,161.57		(5,179,361,555.89)
				5,984,324,081.71	7,844,512,587.24
2. Deposits from					
customers	3, 15, 19				
other deposits					
a) payable on demand			122,221,081.05		(353,835,504.84)
b) with an agreed maturity					
or withdrawal notice			6,609,753,907.59		(7,108,136,797.61)
				6,731,974,988.64	7,461,972,302.45
3. Debt securities in issue	3, 15, 20				
a) Bonds			2,786,995,201.13		(8,004,414,501.25)
b) Other debt securities in issue			35,336,527,749.34		(49,648,951,557.80)
of which:				38,123,522,950.47	57,653,366,059.05
Money market instruments					
EUR 6,733,598,661.60 (py: EUR 18,193,972,331.42)					
3a. Trading portfolio	3, 21			27,119,574,618.78	48,899,990,367.48
4. Trust liabilities	3, 22			915,070.46	923,133.17
of which:					
trust loans					
EUR 915,070.46 (py: EUR 923,133.17)					
5. Other liabilities	3, 23			9,687,796.52	449,934,675.45
6. Accruals/deferred income	3, 24			34,552,072.19	94,254,556.59
7. Provisions	3, 25				
a) Tax provisions			2,338,097.32		(6,065,519.70)
b) Other provisions			339,033,315.53		(373,154,120.02)
				341,371,412.85	379,219,639.72
8. Fund for general bank risks	3			9,323,140.22	0.00
of which special item pursuant to § 340e (4) HGB					
EUR 9,323,140.22 (py: EUR 0.00)					
			Subtotal:	78,355,246,131.84	122,784,173,321.15

Assets	Note	EUR	EUR	31 Dec. 2013 EUR	31 Dec. 2012 EUR
			Subtotal:	78,283,212,737.35	122,890,168,506.12
8. Trust assets	3, 12			915,070.46	923,133.17
of which:					
trust loans					
EUR 915,070.46 (py: EUR 923,133.17)					
9. Intangible assets	14				
a) paid concessions,					
trademarks and similiar					
rights and values such as licenses					
in such rights			50,035.91		(79,100.62)
				50,035.91	79,100.62
10. Tangible fixed assets	14			186,673.59	136,449.42
11. Other assets	3, 13			559,917,010.09	296,052,137.84
12. Prepaid expenses/accrued income	3, 15			66,866,533.74	106,773,540.34
Total assets				**78,911,148,061.14**	**123,294,132,867.51**

Liabilities and equity	Note	EUR	EUR	31 Dec. 2013 EUR	31 Dec. 2012 EUR
			Subtotal:	78,355,246,131.84	122,784,173,321.15
9. Equity	3, 26				
a) Called capital					
Subscribed capital		500,000.00			(500,000.00)
less uncalled					
outstanding capital		0.00			(0.00)
			500,000.00		(500,000.00)
b) Capital reserves			3,013,237,213.51		(3,026,337,213.51)
c) Revenue reserves					
Other revenue reserves		2,431,408.07			(2,431,408.07)
			2,431,408.07		(2,431,408.07)
d) Net retained losses			–2,460,266,692.28		(–2,519,309,075.22)
				555,901,929.30	509,959,546.36
Total liabilities and equity				**78,911,148,061.14**	**123,294,132,867.51**
1. Contingent liabilities	3, 34				
Liabilities on guarantees					
and warrantees			11,595,387,164.06		(19,747,139,270.24)
				11,595,387,164.06	19,747,139,270.24
2. Other obligations	3, 34				
Irrevocable loan commitments			4,633,129,161.48		(5,583,034,699.91)
				4,633,129,161.48	5,583,034,699.91

Income statement

for the period from January 1, 2013, to December 31, 2013

	Note	EUR	EUR	1 Jan.– 31 Dec. 2013 EUR	1 Jan.– 31 Dec. 2012 EUR
1. Interest income from	29				
a) Lending and money market transactions		878,313,675.16			(1,364,121,598.50)
b) Fixed-income securities					
and debt register claims		264,038,293.98			(508,106,897.02)
			1,142,351,969.14		(1,872,228,495.52)
2. Interest expense			857,415,668.86		(1,631,703,281.16)
				284,936,300.28	240,525,214.36
3. Current income from	29				
a) Equities and other non-					
fixed-income securities			1,316,721.08		(2,911,518.48)
b) Long-term equity investments			1,090,695.89		(3,353,082.50)
c) Shares in affiliates			7,183,446.92		(188,134.53)
				9,590,863.89	6,452,735.51
4. Income from profit pooling,					
profit transfer or partial					
profit transfer agreements	29			59,425,426.59	13,135,502.94
5. Fee and commission income	29		179,903,712.95		(186,845,498.34)
6. Fee and commission expense			34,840,103.55		(31,347,272.68)
				145,063,609.40	155,498,225.66
7. Net trading result	3, 29			83,908,261.86	–51,764,759.20
of which additions pursuant to § 340e (4) HGB					
EUR 9,323,140.22 (py: EUR 0.00)					
8. Other operating income	29, 30			4,255,985.13	7,586,140.25
9. General and administrative expenses	39				
a) Personnel expenses					
aa) wages and salaries		18,930,276.65			(12,331,531.60)
ab) compulsory social security contributions					
and expenses for pensions and					
other employee benefits		1,371,035.19			(859,536.77)
of which			20,301,311.84		(13,191,068.37)
for pensions EUR 0.00 (py: EUR 0.00)					
b) Other administrative expenses			377,671,647.38		(399,462,512.13)
				397,972,959.22	412,653,580.50
10. Depreciation and write-offs					
on intangible assets and					
tangible fixed assets	14			73,705.58	54,416.90
11. Other operating expenses	30			3,808,757.77	7,971,867.10
12. Depreciation and write-offs					
of claims and certain securities					
as well as additions to provisions					
in the lending business	25, 31			275,502,375.29	732,543,328.50
13. Income from reversals of					
write-offs of loans and advances					
and certain securities, and from					
reversals of loan loss provisions	25, 31			0.00	0.00
14. Depreciation and write-offs					
on long-term equity investments					
shares in affiliates and long-term					
securities	14, 31			0.00	0.00
15. Income from appreciations					
of long-term equity investments,					
shares in affiliates and long-term					
securities	14, 31			159,575,527.65	780,950,212.18
16. Expenses from the assumption of losses	31			7,245,645.72	7,652.57
17. Result from ordinary activities				62,152,531.22	–847,573.87
18. Taxes on income and earnings	32			3,082,260.02	2,191,714.09
19. Other taxes not reported					
under item 11				27,888.26	–9,626,532.20
20. Net profit of the year				59,042,382.94	6,587,244.24
21. Net retained losses brought forward				–2,519,309,075.22	–2,525,896,319.46
22. **Net retained losses**				**–2,460,266,692.28**	**–2,519,309,075.22**

Cash flow statement

for the period from January 1, 2013, to December 31, 2013

			1 Jan.–31 Dec. 2013 EUR	1 Jan.–31 Dec. 2012 EUR
1.		**Result for the period before extraordinary items**	**59,042,382.94**	**6,587,244.24**
		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	150,115,627.97	–91,139,641.45
3.	+/–	Increase/decrease in provisions	–37,848,226.87	278,220,806.40
4.	+/–	Other non-cash income/expense	–437,544,511.26	0.00
5.	–/+	Gain/loss on disposal of long-term financial assets and tangible fixed assets	–45,975,759.39	–56,760,990.79
6.	–/+	Other adjustments (net)	–291,444,904.15	–244,786,235.78
7.	=	Subtotal	–603,655,390.76	–107,878,817.38
		Change in operating assets and liabilities		
8.		Loans and advances (no trading portfolio)		
8a.	+/–	– to banks	7,865,047,399.38	–7,400,109,332.91
8b.	+/–	– to customers	6,656,464,166.35	–14,632,503,882.82
9.	+/–	Securities (no trading portfolio)	5,494,269,027.58	1,574,865,171.43
10.	+/–	Trading assets	3,706,931,249.58	–48,105,266,985.05
11.	+/–	Other operating assets	–239,211,167.22	–189,046,625.45
12.		Deposits (no trading portfolio)		
12a.	+/–	– from banks	–1,689,307,951.02	2,087,758,018.66
12b.	+/–	– from customers	–713,048,562.02	1,709,171,925.30
13.	+/–	Debt securities in issue	–19,401,291,117.57	20,051,783,015.46
14.	+/–	Trading liabilities	–3,007,648,595.15	48,904,461,034.10
15.	+/–	Other operating liabilities	–449,228,454.74	–469,230,915.08
16.	+	Interest and dividends received	1,197,615,737.19	725,855,968.10
17.	–	Interest paid	–999,885,576.79	–1,283,804,317.83
18.	+	Extraordinary receipts	0.00	0.00
19.	–	Extraordinary payments	0.00	0.00
20.	+/–	Income tax payments	–12,730,370.78	–1,901,149.97
21.	=	**Cash flows from operating activities**	**–2,195,679,605.97**	**2,864,153,106.56**
22.		Proceeds from disposal of		
22a.	+	– long-term financial assets	102,570,239.78	152,712,912.82
22b.	+	– tangible fixed assets	0.00	0.00
23.		Purchase of		
23a.	–	– long-term financial assets	–97,934,614.17	–699,562,632.36
23b.	–	– tangible fixed assets	–94,865.04	–147,991.58
24.	+	Receipts from disposal of consolidated subsidiaries and other business units	0.00	0.00
25.	–	Purchase of consolidated subsidiaries and other business units	0.00	0.00
26.	+/–	Changes in cash due to other investing activities (net)	0.00	0.00
27.	=	**Cash flows from investing activities**	**4,540,760.57**	**–546,997,711.12**
28.	+	Cash receipts from issue of capital	0.00	0.00
29.		Cash payments to owners and minority shareholders		
29a.	–	– Dividend payments	0.00	0.00
29b.	–	– Other payments	0.00	0.00
30.	+/–	Changes in other capital (net)	–13,100,000.00	–110,669,106.07
31.	=	**Cash flows from financing activities**	**–13,100,000.00**	**–110,669,106.07**
32.		Net change in cash funds (sum of 21, 27, 31)	–2,204,238,845.40	2,206,486,289.37
33.	+/–	Effect on cash funds of exchange rate movements, changes in reporting entity structure and remeasurement	0.00	0.00
34.	+	Cash funds at beginning of period	2,367,478,188.72	160,991,899.35
35.	=	**Cash funds at end of period**	**163,239,343.32**	**2,367,478,188.72**

The reported cash and cash equivalents contain the current accounts maintained at Portigon and Deutsche Bundesbank (demand positions). Further cash funds in the sense of DRS 2.16 et seq. do not exist at the current time.

Statement of changes in equity

for the period from January 1, 2013, to December 31, 2013

	Balance as of 1 Jan. 2013 EUR	transfer related changes EUR	Other change in capital EUR	Appropriation of the result EUR	Balance as of 31 Dec. 2013 EUR
Called capital	500,000.00	0.00	0.00	0.00	500,000.00
Capital reserves	3,026,337,213.51	–13,100,000.00	0.00	0.00	3,013,237,213.51
Other revenue reserves	2,431,408.07	0.00	0.00	0.00	2,431,408.07
Net retained losses	–2,519,309,075.22	0.00	0.00	59,042,382.94	–2,460,266,692.28
Equity under HGB	**509,959,546.36**	**–13,100,000.00**	**0.00**	**59,042,382.94**	**555,901,929.30**

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

Notes to the financial statements

for the period from January 1, 2013, to December 31, 2013

General disclosures

1. Legal framework of the EAA

The EAA is a structurally and financially independent public law entity with partial legal capacity operating under the umbrella of the FMSA. Its registered office is in Düsseldorf. The EAA was founded by the FMSA on December 11, 2009, and was entered in the commercial register at the District Court of Düsseldorf on December 23, 2009.

The EAA is responsible for winding up the risk exposures and nonstrategic business units taken over from Portigon or its domestic or foreign subsidiaries to preserve value. This serves to stabilize the financial market in Germany. The transfer of risk exposures and the nonstrategic business units of Portigon to the EAA took place in the years 2009, 2010 (first fill) and 2012 (refill).

The EAA conducts its transactions in accordance with business and economic principles that take into account its wind-up objectives and the principle of risk minimization. It is neither a credit institute in terms of the German Banking Act, nor does it conduct transactions requiring licenses in respect of EU Directive 2006/48/EC of June 14, 2006. It is subject to the legal supervision of the FMSA. The BaFin supervises the EAA with respect to stipulations under the Banking Supervision Act inasmuch as these are applicable to the EAA.

2. Preparation of the financial statements for the fiscal year

In accordance with section 8a (1) sentence 10 in conjunction with section 3a (4) of the FMStFG and the additional guidance of the EAA's charter, the financial statements of the EAA for the fiscal year have been prepared under the provisions of the German Commercial Code (Handelsgesetzbuch – HGB) for large public companies and the German Ordinance on Accounting for Banks (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV). If there is a choice of disclosure in either the balance sheet or the notes to the financial statements, the disclosure is made in the notes.

The financial statements for the fiscal year will be submitted electronically to and published by the operator of the Federal Gazette (www.bundesanzeiger.de).

3. Accounting and measurement principles

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

Receivables are reported at their notional values, less discounts and loan loss provisions, if any. Liabilities are recognized at their settlement amount; the associated discounts are reported as prepaid expenses. Premiums on receivables or liabilities are reported as prepaid expenses or deferred income. The accrued interest determined as at the balance sheet date is either capitalized on the underlying receivable or carried as part of the underlying liability. The premiums/discounts from the issuing and lending business are recognized according to the effective interest method.

Adequate account has been taken of identifiable risks in the lending business by recognizing specific loan loss provisions. General loan loss provisions have been recognized for the contingent credit risk exposure of receivables and contingent receivables. General loan loss provisions are calculated on the basis of models. The EAA takes into account the risk from lending to borrowers in countries with acute transfer risks by recognizing country-specific provisions. To this end, the EAA develops a risk factor depending on the country's rating and takes into account the likelihood of default posed by either the borrower or the guarantor.

The securities of the liquidity reserve are measured according to the strict principle of the lower of market or book value. The securities, which are treated as fixed assets (investment securities), are valued at amortized cost. Any differences between amortized cost and redemption amount are recognized on an accruals basis through profit and loss. For impairments expected to be permanent, write-ups are made to the lower net realizable value. If securities from the financial assets valuated using the modified lowest value principle are recognized at amounts in excess of their current market value, the differences must be disclosed separately in the notes. The amount disclosed changes over time in response to volume, interest rate or price changes.

The structured financial instruments are entered in the balance sheet according to the "IDW accounting principle: on the uniform or separated accounting of structured financial instruments (IDW RS HFA 22)."

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

As before, the value of the structured securities is determined by using, as far as possible, prices quoted for the respective securities by an external market data provider with a semi-regulatory character for the US insurance industry and subjected to plausibility checks using suitable methods.

The market prices supplied and the fundamentals stated are tested for plausibility at both the level of the underlying assets of the Phoenix and EUSS portfolios and at the level of the Phoenix and EUSS tranches. Objective market price and performance data for the securitized portfolio, taken from the relevant contractual documentation and portfolio reports, are used at the level of the underlyings. This method was used to determine market prices and fundamentals for the entire portfolio. These, in turn, were compared against the data supplied and outliers were analyzed separately. The results of these plausibility checks confirmed the validity of the data supplied on the Phoenix and EUSS underlyings. Once deemed plausible, these fundamentals and expected weighted average terms are fed into a cash flow profile based on assumptions regarding the timing of losses and the waterfall logic for the overall transaction under consideration. In a further step, this data is used to determine the present value of the individual tranches. A comparison of these present values with the fundamentals supplied confirmed the validity of the data supplied for the Phoenix and EUSS notes.

The fair values of the equities, bonds, derivatives and other assets reported in the trading portfolio are calculated as at the reporting date and are then determined for each transaction individually and independently of the trading. The calculation uses either the market or book values as at December 31, 2013, for which a mean is calculated for reasons of simplicity, or recognized accounting methods. Both methods take into account the interests on bonds, nonrecurring payments and option premiums. If the market or book prices do not exist or cannot be determined reliably, especially for derivatives, then the fair values will be calculated using standard pricing models or the discounted cash flow.

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

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

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

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

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

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

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

In terms of cash collateralized derivatives, the discounting of future cash flows for the relevant portfolios is measured at the EONIA swap curves ("OIS discounting"). The risk-adjusted market valuation method took into account a discount of EUR 15.6 million (previous year: EUR 48.0 million) as at December 13, 2013.

	Product	Valuation method	Valuation parameters
Interest rate products	Standard swaps	Present value method	Interest rates
	Exotic swaps	Markov functional	Interest rates Interest rate volatility
	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
	European Standard Swaptions	Black 76	Interest rates Interest rate volatility
	Exotic Swaptions	Markov functional	Interest rates Interest rate volatility
Exchange rate products	FX-swaps	Present value method	Interest rates Exchange rates
	Options	Black 76	Interest rates Exchange rates Exchange rate volatility
	Forward cross-currency interest rate swaps	Present value method	Interest rates Exchange rates
Equity, fund and raw material products (including precious metals)	Futures contracts	Finite differences	Price of the underlying asset, interest rates Dividend payments
	Standard options (single underlying asset)	Finite differences	Price of the underlying asset, interest rates Dividend payments (shares, share indices) Utility curves (raw materials) Volatility (underlying assets, exchange rates) Correlation exchange rate/underlying asset
	Exotic Options	Monte Carlo simulation	Price of the underlying asset, interest rates Dividend payments (shares, share indices) Utility curves (raw materials) Volatility (underlying assets, exchange rates) Correlations (underlying assets, exchange rates)
	Particification certificates	Analytic formula	Price of the underlying asset, interest rates
	Capital-guaranteed certificates	Analytic formula, Finite differences	Price of the underlying asset, interest rates Fund distributions Fund volatility
Credit products	Credit default swaps (single reference debtor)	Hazard rate bootstrapping model	Credit spreads
	Basket credit default swaps (homogeneous correlations and log leverage ratios)	Hazard rate bootstrapping model, Gaussian one-factor model	Credit spreads Correlation factors (derived from market consensus data)
	Basket Credit Default Swaps (inhomogeneous correlations and log leverage ratios)	Hazard rate bootstrapping model, Monte Carlo simulation	Credit spreads Correlation factors (derived from market consensus data)
	Collateralized synthetic obligation	Hazard rate bootstrapping model, Gaussian one-factor model	Credit spreads 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 judgment and inevitably entail projection uncertainties. Even if, in the scope of the estimates, the available information, historical experience and other evaluation factors have been relied upon, the actual future results may differ from the estimates. This may also have a material impact on the asset and financial position as well as the earnings situation. In the EAA's opinion, the parameters used are appropriate and acceptable.

Realized and unrealized valuation results, current interest expenses and income, dividend income as well as fee and commission expenses and income from transactions with trading financial instruments are reported under the net trading result.

Pursuant to section 340e (4) of the HGB, at least 10 % of any net trading income generated by the EAA in any fiscal year is recognized in the fund for general banking risks item pursuant to section 340g of the HGB and reported separately. This item may only be used or dissolved to offset net trading expenses, provided that it exceeds 50 % of the average of the net trading expenses for the last five years. The EAA applied an amount of EUR 9.3 million from the net trading result to the fund for general bank risks for the first time in fiscal year 2013. The trading portfolio assumed as at July 1, 2012, reported net trading expenses as at December 31, 2012.

Financial instruments of the trading portfolio are reported as trading assets or trading liabilities on the balance sheet.

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

No financial instruments were reclassified from the trading portfolio pursuant to section 340e (3) sentence 3 of the HGB in fiscal year 2013 and in the second half of 2012; no changes were made to the EAA's internal criteria for the inclusion of financial instruments in the trading portfolio.

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

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

In the case of securities lending transactions, the lender transfers the legal ownership of the securities to the borrower for a certain period of time. The borrower commits to transferring back securities of the same type and quantity upon expiration of the lending period. Furthermore, the borrower is obligated to forward interest, dividends, disbursements, options, et cetera to the lender. The EAA has changed the balancing of the securities lending transaction in the fiscal year in such a way that an interim discharge on the part of the lender of securities and a registration of a noncash loan to the borrower no longer takes place. As borrower, the EAA does not disclose lent securities on its balance sheet. The EAA has adjusted its accounting principles as at December 31, 2013, accordingly.

Tangible fixed assets and acquired intangible assets are depreciated over their probable economic life; EAA writes off low-value items in full in the year of acquisition.

Increases in expenses and rising prices must be factored into the measurement of provisions. Provisions with remaining terms longer than one year are to be discounted based on the average market interest rate over the past seven fiscal years, factoring in the remaining term of the provisions or the obligations underlying such provisions. The interest rate curve is calculated at the end of each month by the German Bundesbank and made available to the public via its website.

The determination of the provisions for the MuniGIC portfolio (municipal guaranteed investment contracts) was changed in a few aspects. A significant effect of the model adjustment is the projection of the future GIC investments with the aid of a regression of historical data instead of expert estimates. Furthermore, the integration of an agency spread in terms of the assessment was waived and the assessment reserve was determined on the basis of a stress regression due to uncertainties in the modeling of the GIC investments.

Where the EAA uses financial instruments to hedge specific risks arising from assets, liabilities, pending transactions or highly probable expected transactions and recognizes a valuation unit for this purpose, the general accounting policies (particularly, itemized measurement, the historical cost convention, the realization principle and the imparity principle) do not apply to such hedging relationship if the hedges are effective. The general accounting and measurement principles still apply to the ineffective portion of the hedges and to other, nonhedged, risks. The EAA established additional hedges for repurchased own bonds with a notional value of EUR 11.1 million (previous year: EUR 105.0 million) as well as corresponding interest rate swaps in the same amount. These hedges are included in two hedging relationships pursuant to section 254 of the HGB. The EAA applies the net hedge presentation method. The hedging relationships end when the underlying transaction or the hedge matures, is sold or is exercised or the requirements of the formation of hedging relationships are no longer fulfilled. The effectiveness is secured by regular monitoring of the opposing effects of underlying transactions and hedges. The hedge relationships are essentially formed during the remaining term of the underlying transactions.

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

The currency translation for assets and liabilities follows the provisions of sections 256a and 340h of the HGB. Assets and liabilities denominated in foreign currencies, open foreign currency spot transactions and pending transactions are treated as specially hedged in each currency in accordance with section 340h of the HGB. They have been translated at the ECB reference rates as at December 31, 2013. Accordingly, all expenses and income from currency translation are recognized in the net trading result in accordance with section 340h of the HGB. The forward rate of pending currency forwards, which serve to hedge interest-bearing balance sheet items, are split into spot rate and swap. The stipulated swap amounts are recognized on a pro rata basis. The total net profit from individually measuring all pending foreign exchange transactions is reported under other assets.

Deferred taxes are calculated using the temporary differences concept. The EAA has also opted not to exercise its right to recognize deferred tax assets in the annual financial statements as at December 31, 2013.

4. Loans and advances to banks

	31 Dec. 2013 EUR million	31 Dec. 2012 EUR million
Carrying amount	**14,885.1**	**22,608.0**
of which:		
- to affiliated companies	4,388.1	4,287.1
- to other investees and investors	–	17.0
payable on demand	6,671.7	9,650.1
due		
- within 3 months	6,736.8	9,963.9
- 3 months to 1 year	377.1	1,256.0
- 1 to 5 years	820.9	1,288.0
- after 5 years	278.6	450.0

Receivables also include registered and other bonds, which are nonmarketable. These do not contain hidden liabilities as at December 31, 2013 (previous year: EUR 0.9 million).

5. Loans and advances to customers

	31 Dec. 2013 EUR million	31 Dec. 2012 EUR million
Carrying amount	**15,711.9**	**22,671.0**
of which:		
- to affiliated companies	734.6	879.0
- to other investees and investors	308.5	347.3
due		
- within 3 months	2,412.0	2,005.6
- 3 months to 1 year	2,187.2	3,849.0
- 1 to 5 years	6,263.2	11,332.8
- after 5 years	4,766.9	5,448.2
No stated maturity	82.6	35.4

Receivables also include registered and other bonds which are nonmarketable. As at December 31, 2013, these include hidden liabilities in the amount of EUR 166.1 million (previous year: EUR 311.2 million).

6. Loans and advances secured by mortgages

	31 Dec. 2013 EUR million	31 Dec. 2012 EUR million
Carrying amount	**324.1**	**398.7**
Loans and advances to customers due		
- within 3 months	5.3	5.7
- 3 months to 1 year	36.7	20.9
- 1 to 5 years	57.4	106.5
- after 5 years	224.7	265.6

7. Bonds and other fixed-income securities

	31 Dec. 2013 EUR million	31 Dec. 2012 EUR million
Carrying amount	**18,856.8**	**24,217.6**
of which:		
- Amounts due in the following year	1,404.6	2,282.7
Breakdown		
- Money market instruments	–	–
- Bonds issued by public issuers	1,919.9	2,101.0
- Bonds issued by other issuers	16,493.1	21,446.4
- Own bonds	443.8	670.2
Breakdown by marketability		
- Marketable securities	18,856.8	24,217.6
of which:		
- listed	4,836.5	6,690.9
- unlisted	14,020.3	17,526.7
Breakdown by type		
- Liquidity reserve	443.8	684.4
- Investment securities	18,413.0	23,533.2
Breakdown by affiliation		
- Securities of affiliated companies	477.1	1,232.7
- Securities of other investees and investors	–	–

Bonds and other fixed-income securities amounting to EUR 18.4 billion (previous year: EUR 23.5 billion) were classified under investment securities and are part of the fixed assets. As at the reporting date, long-term financial assets were recognized at a carrying amount of EUR 15.2 billion (previous year: EUR 19.6 billion) and thus higher than their fair value of EUR 13.9 billion (previous year: EUR 16.6 billion). Due to its long-term wind-up strategy and expected performance EAA expects to receive redemption payments amounting to at least the carrying amount. This difference is primarily attributable to the structured credit products. The portfolio includes EUR 0.4 billion (previous year: EUR 1.0 billion) of bonds acquired as part of asset swaps. The EAA refinances that portion of the above-mentioned investment portfolio that is not hedged using asset swaps on an individual basis (EUR 14.8 billion) either at matching maturities and in matching currencies or hedges it at portfolio level against interest-rate-induced and currency-induced changes in value.

8. Equities and other non-fixed-income securities

	31 Dec. 2013 EUR million	31 Dec. 2012 EUR million
Carrying amount	**35.7**	**49.8**
Breakdown by marketability		
- Marketable securities	25.7	36.4
of which:		
- listed	6.1	16.8
- unlisted	19.6	19.6
Breakdown by type		
- Liquidity reserve	5.4	16.9
- Investment securities	30.3	32.9

9. Trading portfolio

	31 Dec. 2013 EUR million	31 Dec. 2012 EUR million
Carrying amount	**26,897.8**	**48,930.6**
of which:		
- Derivative financial instruments	26,844.0	48,177.0
- Loans and advances	2.2	53.0
- Bonds and other fixed-income securities	4.6	316.4
- Equities and other non-fixed-income securities	52.9	395.4
- Risk allowance pursuant to § 340e (3) sentence 1 HGB	–5.9	–11.2

10. Long-term equity investments

	31 Dec. 2013 EUR million	31 Dec. 2012 EUR million
Carrying amount	**105.1**	**85.8**
of which:		
- in banks	12.4	12.6
- in financial service providers	–	–
Breakdown by marketability		
- Marketable securities	22.4	26.7
of which:		
- listed	–	1.2
- unlisted	22.4	25.5

The increase in long-term equity investments compared to December 31, 2012, essentially results from the restructuring of loans.

11. Shares in affiliates

	31 Dec. 2013 EUR million	31 Dec. 2012 EUR million
Carrying amount	**1,790.9**	**1,827.3**
of which:		
- in banks	1,722.9	1,714.3
- in financial service providers	10.7	25.4
Breakdown by marketability		
- Marketable securities	1,184.6	1,184.8
of which:		
- unlisted	1,184.6	1,184.8

The lower net realizable value of the long-term equity investments and shares in affiliates, which have a volume of EUR 44.2 million (previous year: EUR 74.1 million), is EUR 0.5 million (previous year: EUR 7.3 million) less than their carrying amount. The EAA does not expect this difference to be permanent.

12. Trust assets

	31 Dec. 2013 EUR million	31 Dec. 2012 EUR million
Carrying amount	**0.9**	**0.9**
of which:		
- Loans and advances to customers	0.9	0.9

13. Other assets

	31 Dec. 2013 EUR million	31 Dec. 2012 EUR million
Carrying amount	**559.9**	**296.1**
of which:		
- Currency translation adjustments	432.5	224.8
- Receivables from profit and loss pooling agreements	61.6	13.1
- Compensation claim for refill	29.4	–
- Guarantee fees and commissions	21.8	32.1
- Tax refund claims	11.3	0.7
- Premiums for options	2.1	15.4
- Claims from swap transactions	0.0	0.1

14. Fixed assets

<table>
<tr><th>EUR million</th><th>Cost

1 Jan. 2013</th><th>Additions</th><th>Usage</th><th>Reclassifications</th><th>Reversals of write-offs</th><th>Accumulated depreciation, write-offs

31 Dec. 2013</th><th>Depreciation, write-offs in the financial year</th><th>Carrying amount

31 Dec. 2013</th><th>Carrying amount

31 Dec. 2012</th></tr>
<tr><td>Bonds and other long-term fixed income securities</td><td>23,533.2</td><td colspan="5" rowspan="4">Net change according to § 34 (3) sentence 2 of the RechKredV; −5,480.7</td><td>–</td><td>18,413.0</td><td>23,533.2</td></tr>
<tr><td>Equities and other long-term non-fixed-income securities</td><td>32.9</td><td>–</td><td>30.3</td><td>32.9</td></tr>
<tr><td>Long-term equity investments</td><td>113.6</td><td>0.2</td><td>105.1</td><td>85.9</td></tr>
<tr><td>Shares in affiliates</td><td>2,140.3</td><td>17.7</td><td>1,790.9</td><td>1,827.3</td></tr>
<tr><td>Intangible assets</td><td>0.1</td><td>0.0</td><td>–</td><td>–</td><td>–</td><td>0.1</td><td>0.1</td><td>0.0</td><td>0.1</td></tr>
<tr><td>Office and operating equipment</td><td>0.1</td><td>0.1</td><td>–</td><td>–</td><td>–</td><td>0.0</td><td>0.0</td><td>0.2</td><td>0.1</td></tr>
</table>

The net change in securities during the fiscal year 2013 includes additions and reductions as well as portfolio changes resulting from the pro rata reversal of premiums and discounts.

15. Prepaid expenses/accrued income

	31 Dec. 2013 EUR million	31 Dec. 2012 EUR million
Carrying amount	**66.9**	**106.8**
of which:		
- Non-recurring payments on swaps	42.5	74.5
- Discount on issuing business	19.6	25.6
- Discount on liabilities	3.8	4.7
- Other	1.0	2.0

16. Subordinated assets

Subordinated assets are included in:

	31 Dec. 2013 EUR million	31 Dec. 2012 EUR million
Loans and advances to customers	392.1	476.4
of which:		
- to affiliates	–	34.3
- to other long-term investees and investors	1.9	–
Equities and other non-fixed-income securities	29.6	29.6
of which:		
- to affiliates	–	–
- to other long-term investees and investors	–	–
Total	**421.7**	**506.0**

17. Assets sold under repurchase agreements

The carrying amount of the assets sold under repurchase agreements is EUR 0.2 million. As at December 31, 2012, the EAA had not sold assets under repurchase agreements.

18. Deposits from banks

	31 Dec. 2013 EUR million	31 Dec. 2012 EUR million
Carrying amount	**5,984.3**	**7,844.5**
of which:		
- to affiliates	185.5	144.0
- to other long-term investees and investors	–	–
Payable on demand	2,144.6	2,665.2
due		
- within 3 months	641.1	597.7
- 3 months to 1 year	965.6	988.6
- 1 to 5 years	1,987.4	3,335.7
- after 5 years	245.6	257.3

19. Deposits from customers

	31 Dec. 2013 EUR million	31 Dec. 2012 EUR million
Carrying amount	**6,732.0**	**7,462.0**
of which:		
- to affiliates	0.0	22.8
- to other long-term investees and investors	–	–
Other deposits	6,732.0	7,462.0
of which:		
- payable on demand	122.2	353.8
due		
- within 3 months	1,340.6	341.9
- 3 months to 1 year	675.7	594.5
- 1 to 5 years	1,911.0	2,831.6
- after 5 years	2,682.5	3,340.2

20. Debt securities in issue

	31 Dec. 2013 EUR million	31 Dec. 2012 EUR million
Carrying amount	**38,123.5**	**57,653.4**
of which:		
- to affiliates	–	–
- to other long-term investees and investors	–	–
Bonds	2,787.0	8,004.4
of which:		
- Amounts due in the following year	1,806.9	5,169.8
Other debt securities in issue	35,336.5	49,649.0
of which due:		
- within 3 months	9,650.0	12,261.0
- 3 months to 1 year	4,037.5	11,936.1
- 1 to 5 years	21,494.5	25,267.4
- after 5 years	154.5	184.5

21. Trading portfolio

	31 Dec. 2013 EUR million	31 Dec. 2012 EUR million
Carrying amount	**27,119.6**	**48,900.0**
of which:		
- Derivative financial instruments	27,119.4	48,606.9
- Liabilities	0.2	293.1

22. Trust liabilities

	31 Dec. 2013 EUR million	31 Dec. 2012 EUR million
Carrying amount	**0.9**	**0.9**
of which:		
- Deposits from banks	0.2	0.2
- Deposits from customers	0.7	0.7

23. Other liabilities

	31 Dec. 2013 EUR million	31 Dec. 2012 EUR million
Carrying amount	**9.7**	**449.9**
of which:		
- Deposits from the assumption of losses	4.3	0.0
- Payable syndication fees	2.3	2.4
- Premiums from options	2.1	15.4
- Obligations from swap transactions	0.1	0.1
- Compensation liability for refill	–	409.6

24. Accruals/deferred income

	31 Dec. 2013 EUR million	31 Dec. 2012 EUR million
Carrying amount	**34.6**	**94.3**
of which:		
- Non-recurring payments on swaps	23.5	81.5
- Premium on issuing business	8.9	9.6
- Premiums for sold interest rate caps and floors	1.3	1.5
- Other	0.9	1.7

25. Provisions

	Balance as of 31 Dec. 2012 EUR million	transfer related changes EUR million	Additions EUR million	Unwinding of discount EUR million	Charge-offs EUR million	Reversals EUR million	Other changes EUR million	Final balance 31 Dec. 2013 EUR million
Taxes	6.1	–	1.5	–	0.2	–	–5.0	2.4
Other provisions	373.1	25.9	254.7	0.3	273.4	73.6	32.0	339.0
- Loans	147.9	–	83.3	0.0	60.5	70.2	98.0	198.5
- Long-term equity investments	15.6	–	4.9	–	–	0.2	–0.4	19.9
- Legal actions	14.7	–1.0	4.2	0.0	1.7	0.2	0.0	16.0
- Personnel	0.4	–	0.3	–	0.4	–	–	0.3
- Other	194.5	26.9	162.0	0.3	210.8	3.0	–65.6	104.3
Total	**379.2**	**25.9**	**256.2**	**0.3**	**273.6**	**73.6**	**27.0**	**341.4**

Unlike in the previous annual report, the reversal and additions for the existing provision for the MuniGIC-portfolio in the amount of EUR 56.8 million (previous year: EUR 106.5 million) are no longer shown in the financial investments result but in the loan loss provision. This reclassification as well as received provisions resulting in neither profit nor loss based on the so-called repair business from the refill are included in the column "Other changes". The other provisions primarily contain provisions for risks from the refill that cannot be allocated to other provision positions.

26. Equity

The EAA's subscribed capital amounts to EUR 500,000.00 as at December 31, 2013.

From the transfers in the scope of the first fill, EAA received additions to the capital reserve in the amount of EUR 3,137.0 million. The capital reserve was reduced by EUR 123.8 million due to the refill in business year 2012, of which EUR 13.1 million in 2013 was due to a contractual value adjustment clause. This reduction is essentially caused by the measures agreed in the context of the key point agreement dated June 29, 2011, and the binding transcript dated June 18, 2012.

Other reserves amount to EUR 2.4 million and result from the reversal of provisions for which the carrying amounts were reduced as a result of the change in the measurement of obligations under the German Accounting Law Modernization Act (Bilanzrechtsmodernisierungsgesetz – BilMoG).

The EAA's net profit for fiscal year 2013 amounts to EUR 59.0 million and decreases net retained losses carried forward to EUR 2,460,3 million as at December 31, 2013.

27. Legacy liabilities – grandfathering

To the extent that liable stakeholders were liable as guarantors for liabilities of the former WestLB in accordance with article 1 section 11 of the German Act on the Reorganization of the Legal Relationships of the Public Law Banks in North Rhine-Westphalia (Gesetz zur Neuregelung der Rechtsverhältnisse der öffentlich-rechtlichen Kreditinstitute in Nordrhein-Westfalen) of July 2, 2002, in conjunction with article 1 section 4 (6) of the German Act on the Restructuring of the Landesbank of North Rhine-Westphalia into the Development Bank of North Rhine-Westphalia and the amendment of other acts (Gesetz zur Umstrukturierung der Landesbank Nordrhein-Westfalen zur Förderbank des Landes Nordrhein-Westfalen und zur Änderung anderer Gesetze) of March 16, 2004, this guarantor liability continues to the same extent after the transfer of the liabilities to the EAA.

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

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

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

The shareholders of the former Westdeutsche Landesbank Girozentrale will meet their obligations under the guarantor liability vis-à-vis the EAA immediately, if it has been duly established in writing at the time of maturity of the respective liability that it is not sufficiently covered by the EAA's assets. This specifically includes the possibility that liabilities may be required to be met specifically at maturity. Notification of state aid is not required in such cases.

A total volume of EUR 14.4 billion (previous year: EUR 23.4 billion) was subject to the guarantor liability.

28. Foreign currency assets/foreign currency liabilities and foreign exchange profit

As at the reporting date, assets denominated in foreign currencies amounted to EUR 20.3 billion (previous year: EUR 33.3 billion), and liabilities denominated in foreign currencies amounted to EUR 8.6 billion (previous year: EUR 20.4 billion). The foreign exchange profit in the amount of EUR –31.7 million (previous year: EUR 16.8 million) is included in the net trading result.

29. Geographical breakdown of income components

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

1 Jan.–31 Dec. 2013 EUR million	**Interest income**	**Current income**	**Fee and commission income**	**Net trading result**	**Other operating income**
Germany	740.6	61.9	172.8	65.2	1.6
United Kingdom	226.8	0.0	2.8	18.7	2.7
Rest of Europe	6.0	–	1.5	–	–
Far East and Australia	37.2	–	0.3	–	0.0
North America	131.8	7.1	2.5	0.0	0.0
Income statement amount	**1,142.4**	**69.0**	**179.9**	**83.9**	**4.3**

The geographical attribution of the income is applied depending on the domicile of corporate entities and the operating branch office of Portigon before the assets were transferred. Current income includes also income from profit-pooling and from partial or full profit-transfer agreements.

30. Other operating and prior-period expenses and income

Net other operating expenses and income in fiscal year 2013 amount to EUR 0.5 million (previous year: EUR –0.4 million) and consist of EUR 3.8 million (previous year: EUR 8.0 million) in expenses and EUR 4.3 million (previous year: EUR 7.6 million) in income. Other operating expenses include EUR 0.0 million in currency translation (previous year: EUR 0.7 million); other operating income include EUR 0.0 million in currency translation (previous year: EUR 0.1 million).

There were no material prior-period expenses and income in either fiscal year 2013 or in the previous year.

31. Risk provision

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

	1 Jan.– 31 Dec. 2013 EUR million	1 Jan.– 31 Dec. 2012 EUR million
Risk result	**–115.9**	**48.4**
Loans and securities income/expense	–275.5	–732.5
of which:		
- Lending operations	–288.7	–737.5
- Securities	13.2	5.0
Equity investments and securities income/expenses	159.6	780.9
of which:		
- Long-term equity investments	–13.2	–13.2
- Securities	172.8	794.1
Result of risk provisions	–110.3	171.6
of which:		
- Lending operations	–162.4	–287.4
- Structured securities	52.1	512.3
- Other securities	–	–53.3
Net income from investment securities	–12.9	–123.2

The EAA always makes use of the options available under section 340f (3) and section 340c (2) of the HGB. Under section 340f (3) of the HGB, income and expenses resulting from the validation 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 expense amounts to EUR 275.5 million (previous year: EUR 732.5 million).

According to section 340c (2) of the HGB, the expenses for long-term equity investments, shares in affiliates as well as for securities of the fixed assets may be offset against the corresponding earnings. Overall, EAA shows an income of EUR 159.6 million (previous year: EUR 780.9 million) as the risk result for equity investments and securities.

Furthermore, fiscal year 2013 saw expenditures accrued from loss assumption in the subsidiaries in the amount of EUR 7.3 million, which are included in the profit from long-term equity investments and shares in affiliates. The corresponding expenditures of the previous year were EUR 8 thousand.

32. Taxes on income and earnings and other taxes

Taxes on income and earnings amounting to EUR 3.1 million (previous year: EUR 2.2 million) primarily relate to foreign taxes.

Other taxes accrued in the amount of EUR 28 thousand in fiscal year 2013. In the previous year these were primarily sales tax refunds (EUR 9.6 million).

33. Fees paid to the auditors

The total fees of the auditor according to section 285, no. 7 of the HGB were EUR 2.5 million (previous year: EUR 9.4 million). The decline compared to the previous year results primarily from the auditing services that were rendered in 2012 within the scope of the refill.

The auditor received EUR 2.2 million (previous year: EUR 8.9 million) for auditing services, EUR 0.2 million (previous year: EUR 0.5 million) for other confirmation services, EUR 0 thousand (previous year: EUR 5 thousand) for tax consulting services as well as EUR 0.1 million (previous year: EUR 0.0 million) for other services.

Activities of the auditor within the scope of the monitoring as ordered by FMSA were no longer performed in fiscal year 2013 due to the change of the monitoring role by FMSA in mid-2012 to another auditor (fees of the previous year: EUR 0.5 million).

Other disclosures

34. Contingencies

Contingent liabilities
Contingent liabilities amounting to EUR 11.6 billion (previous year: EUR 19.7 billion) primarily result from guarantees for Portigon's risk exposures. They include obligations from credit default swaps amounting to EUR 739.7 million (previous year: EUR 1,145.5 million). Regarding these contingent liabilities, EAA has no detailed knowledge whether, when or the extent to which these specific contingent liabilities will be realized. A provision will be made as soon as there are sufficient concrete indications of probable losses being realized on the contingent liabilities.

Other obligations
The reported volume of EUR 4.6 billion (previous year: EUR 5.6 billion) is due to the lending business. The EAA constantly reviews whether losses from other liabilities are impending and if a provision needs to be made for impending losses from pending transactions.

35. Global guarantee and letter of comfort

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

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

36. Off-balance-sheet transactions

Provision of collateral for own liabilities

Collateral type	Balance sheet position of the collateralized liabilities	Carrying amount of the collateral EUR million	
		31 Dec. 2013	31 Dec. 2012
Cash collateral provided for securities lending	Trading portfolio*	5,554.4	7,612.4
Claims assigned	Deposits from banks	70.5	122.7
Securities pledged	Trading portfolio	5.5	2.1

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

Outsourcing

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

The EAA entered into a cooperation agreement with Portigon which cannot be terminated until December 31, 2016, at the earliest. The EAA requires the consent of the FMSA to terminate the cooperation agreement.

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

However, decision-making authority remains fully with the EAA. Due to the key importance of the outsourced activities, the EAA has established, tested and implemented a central structure within the Controlling & Planning department ("Service provider management") as well as an integrated service provider management system. Under this system, the service relationships between the EAA and Portigon and also other service providers are systematically managed and monitored from a legal, substantial, procedural and financial perspective.

37. Other financial commitments

Guarantor liability

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

Other contingencies

As part of the refill, the EAA has assumed various letters of undertaking issued by Portigon for residual value guarantees issued by third parties. These letters of undertaking include provisions which, once they come into force, entitle the EAA to counterguarantees for the obligations of third parties resulting from the residual value guarantees. Corresponding counterguarantees were issued in two cases in 2006 and in another two cases in 2013. Of these counterguarantees, one lapsed in November 2013 and two others in January 2014. The fourth counterguarantee relates to a residual value guarantee that expires on October 1, 2014. It is not expected that EAA will assert a claim under this counterguarantee.

There are other financial commitments from service agreements and from uncalled outstanding capital contribution commitments and as yet undrawn lines from private equity investments totaling EUR 645.7 million (previous year: EUR 963.2 million) (of which with affiliates EUR 0 thousand [previous year: EUR 22 thousand]).

38. Forward contracts/derivative financial instruments

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

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

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

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

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

The total volume of forward transactions and derivatives transactions on the reporting date amounts, based on notional values, to EUR 669.9 billion (previous year: EUR 932.5 billion). The focus is unchanged on interest rate-related products whose share declined to 83.8 % (previous year: 84.3 %) of the total volume.

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

Derivative financial instruments – Volume as of the balance sheet date

	Notional amount		Positive market values		Negative market values	
EUR million	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012
Interest rate-related products	**561,039.4**	**786,534.9**	**25,098.7**	**42,672.3**	**24,504.7**	**41,994.2**
OTC products	560,153.2	783,274.3	25,098.7	42,672.3	24,504.7	41,994.2
Exchange-traded products	886.2	3,260.6	0.0	0.0	0.0	0.0
Currency-related products	**105,662.5**	**139,015.4**	**2,290.4**	**5,505.6**	**1,780.4**	**4,847.8**
OTC products	105,662.5	139,015.4	2,290.4	5,505.6	1,780.4	4,847.8
Equity- and other price-related products	**843.1**	**3,858.0**	**201.2**	**606.5**	**300.8**	**696.5**
OTC products	843.1	3,858.0	201.2	606.5	300.8	696.5
Credit derivatives	**2,346.8**	**3,138.2**	**41.4**	**300.2**	**48.0**	**310.3**
OTC products	2,346.8	3,138.2	41.4	300.2	48.0	310.3
Total derivative financial instruments	**669,891.8**	**932,546.5**	**27,631.7**	**49,084.6**	**26,633.9**	**47,848.8**
OTC products	669,005.6	929,285.9	27,631.7	49,084.6	26,633.9	47,848.8
Exchange-traded products	886.2	3,260.6	0.0	0.0	0.0	0.0

The average annual notional amounts of forward contracts and derivative transactions amounted to EUR 752.9 billion (previous year: EUR 514.5 billion) during fiscal year 2013. The lower average value in 2012 is attributable to the proportionate consideration of the trading portfolio of Portigon transferred to the EAA within the scope of the refill as at July 1, 2012, when determining the average value.

Derivative financial instruments – Average volumes

Average 1 Jan. to 31 Dec.	Notional amount		Positive market values		Negative market values	
EUR million	2013	2012	2013	2012	2013	2012
Interest rate-related products	**631,352.2**	**428,837.3**	**29,897.9**	**21,377.7**	**29,240.5**	**23,947.0**
OTC products	630,067.4	427,207.0	29,897.9	21,377.6	29,240.5	23,947.0
Exchange-traded products	1,284.8	1,630.3	0.0	0.1	0.0	0.0
Currency-related products	**117,413.8**	**80,745.5**	**3,960.9**	**2,702.9**	**3,604.7**	**2,760.1**
OTC products	117,413.8	80,745.5	3,960.9	2,702.9	3,604.7	2,760.1
Equity and other price-related products	**1,380.0**	**2,073.8**	**373.7**	**312.2**	**459.5**	**355.0**
OTC products	1,380.0	2,073.8	373.7	312.2	459.5	355.0
Credit derivatives	**2,721.1**	**2,851.4**	**157.2**	**216.9**	**164.6**	**241.3**
OTC products	2,721.1	2,851.4	157.2	216.9	164.6	241.3
Total derivative financial instruments	**752,867.1**	**514,508.0**	**34,389.7**	**24,609.7**	**33,469.3**	**27,303.4**
OTC products	751,582.3	512,877.7	34,389.7	24,609.6	33,469.3	27,303.4
Exchange-traded products	1,284.8	1,630.3	0.0	0.1	0.0	0.0

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

The option premiums for derivative financial instruments not included in the trading portfolio are reported in Other assets and Other liabilities.

Derivative financial instruments – Maturities

Notional amount	Interest rate-related products		Currency-related products		Equity- and other price-related products		Credit derivatives	
EUR million	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012
Due								
- within 3 months	62,766.2	72,357.6	10,981.2	14,488.0	17.5	116.1	273.0	224.7
- 3 months to 1 year	71,315.4	114,835.6	24,056.2	25,930.5	155.0	412.8	382.6	189.7
- 1 to 5 years	232,609.5	354,636.4	53,145.1	77,172.9	670.6	3,319.1	1,571.5	2,619.5
- after 5 years	194,348.3	244,705.3	17,480.0	21,424.0	0.0	10.0	119.7	104.3
Total	**561,039.4**	**786,534.9**	**105,662.5**	**139,015.4**	**843.1**	**3,858.0**	**2,346.8**	**3,138.2**

39. Remuneration paid to executive bodies

The remuneration of the members of the Managing Board in fiscal year 2013 was equal to EUR 1,315 thousand. It was equal to EUR 1,023 thousand in fiscal year 2012.

The amounts paid to members of the Supervisory Board of EUR 178 thousand (previous year: EUR 185 thousand) consist of an allowance, divided into base remuneration and attendance fees.

40. Loans to executive bodies

No advance money or loans and advances were granted to members of the Managing Board or the Supervisory Board of the EAA in either fiscal year 2013 or in the previous year.

41. Number of employees

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

Number of employees	Female	Male	Total 1 Jan. to 31 Dec. 2013	Total 1 Jan. to 31 Dec. 2012
	44	75	119	85

42. EAA shareholders

Shareholders	Ownership interest 31 Dec. 2013 in %	Ownership interest 31 Dec. 2012 in %
North Rhine-Westphalia	48.202	48.202
Rheinischer Sparkassen- und Giroverband (RSGV)	25.032	25.032
Sparkassenverband Westfalen-Lippe (SVWL)	25.032	25.032
Landschaftsverband Rheinland (LVR)	0.867	0.867
Landschaftsverband Westfalen-Lippe (LWL)	0.867	0.867
Total	**100.000**	**100.000**

43. Memberships of other bodies held by Managing Board members

In fiscal year 2013, the following members of the Managing Board of the EAA were members of a Supervisory Board or other supervisory bodies of large public companies pursuant to section 340a (4) no. 1 in conjunction with section 267 (3) of the HGB. 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) of the HGB.

Matthias Wargers
Börse Düsseldorf AG (since June 24, 2013)*
Westdeutsche ImmobilienBank AG

Markus Bolder
Westdeutsche ImmobilienBank AG

Horst Küpker
Börse Düsseldorf AG (since December 5, 2013)*

44. Memberships of other bodies held by employees

In fiscal year 2013, the following employees of the EAA were members of a Supervisory Board or other supervisory bodies of public companies pursuant to section 340a (4) no. 1 in conjunction with section 267 (3) of the HGB. Details of the memberships of other bodies marked 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) of the HGB.

Dr. Ulf Bachmann
Basinghall Finance Plc (since February 13, 2014)
Westdeutsche ImmobilienBank AG

Sven Guckelberger
Basinghall Finance Plc (until December 9, 2013)

Gabriele Müller
Basinghall Finance Plc
EAA Corporate Services Public Limited Company*
EAA Covered Bond Bank Plc

Hartmut Rahner
EAA Corporate Services Public Limited Company*
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 (since May 15, 2013)

Members of the Supervisory Board of the EAA

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

Joachim Stapf
Vice Chairman | Undersecretary (Leitender Ministerialrat) in the Finance Ministry of North Rhine-Westphalia

Dr. Karlheinz Bentele
Former President of the Rheinischer Sparkassen- und Giroverband,
Former Member of the Executive Committee (Leitungsausschuss) of the Federal Agency for Financial Market Stabilization (Bundesanstalt für Finanzmarktstabilisierung)

Günter Borgel
Member of the Executive Committee (Leitungsausschuss) of the Federal Agency for Financial Market Stabilization (Bundesanstalt für Finanzmarktstabilisierung)

Michael Breuer (since July 1, 2013)
President of the Rheinischer Sparkassen- und Giroverband

Ralf Fleischer (until June 30, 2013)
Managing Director of the Rheinischer Sparkassen- und Giroverband

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

Wilfried Groos
Chairman of the Managing Board of Sparkasse Siegen

Dr. Wolfgang Kirsch
Director of the Landschaftsverband Westfalen-Lippe

Hans Martz
Chairman of the Managing Board of Sparkasse Essen

Michael Stölting
Member of the Managing Board of NRW.BANK

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

Dr. Uwe Zimpelmann
Former Chairman of the Landwirtschaftliche Rentenbank

Stakeholders' Meeting of the EAA

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

46. Information on shareholdings

List of shareholdings

Supplementary disclosures pursuant to § 285 Nos. 11 and 11a HGB

Disclosing party: Erste Abwicklungsanstalt
Dated: 31 December 2013
Target currency/unit: EUR / TEUR (all currency exchange rates have been convered into EUR as of 31 December 2013)
Interest and voting rights in %

Other shareholdings

Ct.No.	Name	Location	Capital share	Voting rights	Currency	Equity	Profit/loss
1	Basinghall Finance Plc [11]	London, United Kingdom	100.00		GBP	−2,091.88	1,865.18
2	BfP Beteiligungsgesellschaft für Projekte mbH [1, 11]	Düsseldorf	80.00		EUR	25.37	0.00
3	Börse Düsseldorf AG [11]	Düsseldorf	21.95		EUR	34,293.20	2,459.58
4	Castello di Casole Agricoltura S.r.l. società agricola [1, 11]	Casole d'Elsa, Italy	100.00		EUR	100.00	−39.61
5	Castello di Casole S.r.l. [11]	Casole d'Elsa, Italy	100.00		EUR	6,046.02	−14,731.01
6	Castello Resort Villas S.r.l. [11]	Casole d'Elsa, Italy	100.00		EUR	978.38	5.45
7	CBAL S.A. [2, 13]	Braine l'Alleud, Belgium	100.00		EUR	889.39	3.72
8	COREplus Private Equity Partners GmbH & Co. KG [1, 11]	Düsseldorf	36.52	0	EUR	27,721.53	5,001.37
9	COREplus Private Equity Partners II – Diversified Fund, L.P. [11]	Wilmington, USA	24.75	0	USD	33,628.51	−308.08
10	Dussinvest2 Beteiligungsgesellschaft mbH [4]	Düsseldorf	100.00		EUR	232.20	0.00
11	Dusskapital Zwanzig Beteiligungsgesellschaft mbH	Düsseldorf	100.00		EUR	27.94	5.23
12	EAA Corporate Services Public Limited Company [11]	Dublin 1, Ireland	100.00		EUR	−1,160.00	39.00
13	EAA Covered Bond Bank Plc [11, 16]	Dublin 1, Ireland	100.00		EUR	512,109.00	30,522.00
14	EAA do Brasil Participacoes, Representacoes e Negocios Ltda. [11]	Sao Paulo, Brazil	100.00		BRL	2,178.90	13.81
15	EAA Europa Holding GmbH [4, 11]	Düsseldorf	100.00		EUR	42,569.95	0.00
16	EAA Japan K. K. [15]	Minato-ku, Japan	100.00		JPY	67,163.07	4,183.01
17	EAA Service GmbH [14]	Düsseldorf	100.00		EUR	25.00	n. s.
18	EMG Projekt Gewerbepark Ludwigsfelde/Löwenbruch GmbH [1, 11]	Berlin	47.50		EUR	634.25	493.67
19	Erste EAA-Beteiligungs GmbH	Düsseldorf	100.00		EUR	15.64	−8.18
20	Fischerinsel Beteiligungs-GmbH i.L. [1, 11]	Mainz	100.00		EUR	15.55	−1.56
21	Fischerinsel Vermietungs GmbH & Co. KG i.L. [1, 11]	Mainz	100.00		EUR	935.12	−536.58
22	Frankonia Eurobau Max-Viertel GmbH [1, 7]	Nettetal	25.00		EUR	−31,483.94	−2,917.63
23	GID Gesellschaft für Innenstadtentwicklung in Duisburg mbH [1, 11]	Hamburg	45.00		EUR	−3.17	−0.35
24	GKA Gesellschaft für kommunale Anlagen mbH [1, 11]	Düsseldorf	100.00		EUR	190.97	3.03

Other shareholdings

Ct.No.	Name	Location	Capital share	Voting rights	Currency	Equity	Profit/loss
25	GML Gewerbepark Münster-Loddenheide GmbH [1, 11]	Münster	33.33		EUR	13,451.41	760.67
26	Heber Avenue Partners LLC [11]	Dover, USA	100.00		USD	–5,904.63	–7,387.50
27	Home Partners Holdco LLC [11]	Dover, USA	100.00		USD	241.06	–262.11
28	IFV ImmobilienFonds Verwaltungsgesellschaft Objekte Halle, Essen und Magdeburg mbH i.L. [11]	Ingelheim am Rhein	40.00		EUR	25.76	–0.56
29	International Leasing Solutions Japan KK [6]	Tokyo, Japan	100.00		JPY	196.01	1.36
30	KA Deutschland Beteiligungs GmbH & Co. KG [1, 11]	Düsseldorf	100.00		EUR	2,982.88	–1,898.31
31	Kassiterit Beteiligungs GmbH [1, 11]	Düsseldorf	100.00		EUR	19.24	–2.92
32	KB Zwei Länder Beteiligungs- und Verwaltungs GmbH & Co. KG [1, 11]	Düsseldorf	100.00		EUR	711.33	–10.48
33	KB Zwei Länder Beteiligungsgesellschaft mbH [1, 11]	Düsseldorf	100.00		EUR	467.05	–53.73
34	Leasing Belgium N.V. [1, 11]	Antwerp, Belgium	100.00		EUR	681.67	–56.72
35	LIFE.VALUE Construction GmbH [1, 11]	Düsseldorf	100.00		EUR	–2,659.54	–186.75
36	LIFE.VALUE GmbH & Co. 11/14 Centre KG [1, 11]	Düsseldorf	100.00		EUR	426.94	709.96
37	Life.Value Properties GmbH [1, 11]	Düsseldorf	100.00		EUR	–398.47	56.87
38	Methuselah Life Markets Limited [11]	London, United Kingdom	100.00		GBP	15,525.22	50.47
39	MFC Black Horse LLC [1]	New York, USA	100.00			n. s.	n. s.
40	MFC CMark LLC [1, 11]	New York, USA	100.00		USD	165.53	157.42
41	MFC Eagle Realty LLC [1]	New York, USA	100.00			n. s.	n. s.
42	MFC Holdco LLC [11]	New York, USA	100.00		USD	8,320.05	–2,778.73
43	MFC Jennings Gateway LLC [1]	New York, USA	100.00			n. s.	n. s.
44	MFC Leominster LLC [1]	New York, USA	100.00			n. s.	n. s.
45	MFC MAR-COMM LLC [1]	New York, USA	100.00			n. s.	n. s.
46	MFC New Paradigm LLC [1]	New York, USA	100.00			n. s.	n. s.
47	MFC ParcOne LLC [1]	New York, USA	100.00			n. s.	n. s.
48	MFC Pinecrest LLC [1]	New York, USA	100.00			n. s.	n. s.
49	MFC Real Estate LLC [1, 11]	New York, USA	100.00		USD	8,076.97	–1,866.05
50	MFC Spanish Trails LLC [1]	New York, USA	100.00			n. s.	n. s.
51	MFC Twin Builders LLC [1, 11]	New York, USA	100.00		USD	77.55	–45.12
52	MIG Immobiliengesellschaft mbH i.L. [10]	Mainz	40.91		EUR	19.95	–12.62
53	Mod CapTrust Holding LLC [11]	Dover, USA	100.00		USD	0.00	n. s.
54	Monolith Grundstücksverwaltungsgesellschaft mbH [1, 11]	Mainz	100.00		EUR	86.72	5.63
55	Montelucia Phoenix Inc. [1, 11]	Dover, USA	100.00		USD	1,772.78	–179.06
56	Nephelin Grundstücksverwaltungsgesellschaft mbH [1, 11]	Mainz	100.00		EUR	–44.50	–3.44
57	ParaFin LLC [11]	New York, USA	100.00		USD	0.00	90.35
58	Pathos Bay LLC [11]	Dover, USA	100.00		USD	4,654.28	–1,588.81

Other shareholdings

Ct.No.	Name	Location	Capital share	Voting rights	Currency	Equity	Profit/loss
59	PE Projekt-Entwicklungs-gesellschaft mbH [1, 11]	Düsseldorf	100.00		EUR	27.19	–2.13
60	PE Projekt-Entwicklungsgesellschaft mbH & Co. Büro- und Businesscenter Leipzig Park KG [2, 11]	Düsseldorf	94.90	83.33	EUR	354.08	–103.15
61	PM Portfolio Management GmbH [1, 11]	Düsseldorf	100.00		EUR	61.98	–0.51
62	Projekt Carrée am Bahnhof GmbH & Co. Bürozentrum KG in Insolvenz [1, 5]	Bad Homburg	51.00		EUR	–3,571.86	–116.54
63	Projekt Carrée am Bahnhof Verwaltungs GmbH in Insolvenz [1, 5]	Bad Homburg	51.00		EUR	–13.19	–0.17
64	Projektentwicklungs-gesellschaft Gartenstadt Wildau Röthegrund II mbH [1, 11]	Wildau	94.00		EUR	–6,261.01	–7.35
65	Projektgesellschaft Klosterberg mbH [1, 11]	Münster	94.00		EUR	–548.40	–1.50
66	S-Chancen-Kapitalfonds NRW GmbH i.L. [11]	Haan	50.00		EUR	4,971.37	84.28
67	Special PEP II GP Investors, L.L.C. [11]	Wilmington, USA	50.00	0	USD	283.99	–22.11
68	Standard Chartered (SFD No.2) Limited [8]	London, United Kingdom	25.00		USD	0.13	0.00
69	Tanzbar CH Holdings LLC [11]	New York, USA	100.00		USD	0.00	96.09
70	Tanzbar DB Holdings LLC [11]	New York, USA	100.00		USD	0.00	484.74
71	Vierte EAA-Beteiligungs GmbH	Düsseldorf	100.00		EUR	15.18	–8.22
72	Vivaldis Gesellschaft für strukturierte Lösungen S.A. [11]	Luxembourg, Luxemburg	100.00		EUR	34.10	48.36
73	West Equity Fonds GmbH [4, 11]	Düsseldorf	100.00		EUR	25.00	0.00
74	West Life Markets GmbH & Co. KG [4, 11]	Düsseldorf	100.00		EUR	1,312.00	0.00
75	West Merchant Limited [11]	London, United Kingdom	100.00		GBP	33.96	–23.26
76	West Zwanzig GmbH [1, 4, 11]	Mainz	100.00		EUR	25.23	0.00
77	Westdeutsche Immobilien Fonds Beteiligungsgesellschaft mbH [1, 11]	Düsseldorf	100.00		EUR	41.73	0.00
78	Westdeutsche ImmobilienBank AG [3, 4]	Mainz	100.00		EUR	876,577.27	0.00
79	Westdeutsche Immobilien-Holding GmbH [1, 4, 11]	Mainz	94.60		EUR	5,539.47	0.00
80	Westfälische Textil-Gesellschaft Klingenthal & Co. mit beschränkter Haftung [12]	Salzkotten	25.26		EUR	10,164.82	–88.77
81	WestFonds 5 Büropark Aachen Laurensberg KG [1, 11]	Düsseldorf	49.16	49.11	EUR	3,751.19	–776.12
82	WestFonds 5 Palazzo Fiorentino Frankfurt KG [1, 11]	Düsseldorf	45.64	45.62	EUR	4,765.09	–1,222.98
83	WestFonds 5 Walle-Center Bremen KG [1, 11]	Düsseldorf	46.03		EUR	14,449.72	22.97
84	WestFonds Dachfonds Schiffe GmbH [1, 11]	Düsseldorf	100.00		EUR	25.63	–5.39

Other shareholdings

Ct.No.	Name	Location	Capital share	Voting rights	Currency	Equity	Profit/loss
85	WestFonds Geschäftsführungsgesellschaft 1 mbH [1, 11]	Düsseldorf	100.00		EUR	103.27	61.28
86	WestFonds Geschäftsführungsgesellschaft 2 mbH [1, 11]	Düsseldorf	100.00		EUR	21.12	–4.19
87	WestFonds Gesellschaft für geschlossene Immobilienfonds mbH [1, 11]	Düsseldorf	100.00		EUR	65.65	–4.38
88	WestFonds Holland Grundstücksgesellschaft Voorburg und s’Hertogenbosch mbH [1, 11]	Düsseldorf	100.00		EUR	13.48	–12.52
89	WestFonds Immobilien Gesellschaft Objekt Halle/Saale Charlottenstraße mbH [1, 11]	Düsseldorf	100.00		EUR	–4,586.34	–1,621.14
90	WestFonds Immobilien Gesellschaft Objekt Magdeburg An der Steinkuhle 2–2e mbH [1, 11]	Düsseldorf	100.00		EUR	33.13	186.54
91	WestFonds Immobilien Gesellschaft Objekt Magdeburg Rogätzer Str. 8 mbH [1, 11]	Düsseldorf	100.00		EUR	38.02	–22.91
92	WestFonds Immobilien Gesellschaft Objekt Wien Heiligenstädter Lände 29 mbH [1, 11]	Düsseldorf	100.00		EUR	323.29	–23.43
93	WestFonds Immobilien-Anlagegesellschaft mbH [4, 11]	Düsseldorf	94.90		EUR	4,302.13	0.00
94	WestFonds Immobiliengesellschaft Objekt Essen Schnieringshof 10–14 mbH [1, 11]	Düsseldorf	100.00		EUR	–1,348.96	–422.07
95	WestFonds Premium Select Management GmbH [1, 11]	Düsseldorf	100.00		EUR	29.16	–3.87
96	WestFonds Premium Select Verwaltung GmbH [1, 11]	Düsseldorf	100.00		EUR	37.58	6.07
97	WestFonds Verwaltung GmbH [1, 11]	Schönefeld	100.00		EUR	51.20	26.20
98	WestFonds-PHG Gesellschaft RWI-Fonds 120 mbH [1, 11]	Düsseldorf	100.00		EUR	19.92	–5.18
99	WestFonds-PHG Gesellschaft RWI-Fonds 125 mbH [1, 11]	Düsseldorf	100.00		EUR	19.93	–5.16
100	WestFonds-PHG Gesellschaft RWI-Fonds 140 mbH [1, 11]	Düsseldorf	100.00		EUR	23.68	–2.73
101	WestFonds-PHG Gesellschaft RWI-Fonds 43 mbH [1, 11]	Düsseldorf	100.00		EUR	20.17	–5.91
102	WestFonds-PHG Gesellschaft RWI-Fonds 47 mbH [1, 11]	Düsseldorf	100.00		EUR	19.52	–7.79
103	WestFonds-PHG Gesellschaft WestFonds 1 mbH [1, 11]	Düsseldorf	100.00		EUR	22.14	–5.95
104	WestFonds-PHG Gesellschaft WestFonds 2 D mbH [1, 11]	Düsseldorf	100.00		EUR	24.95	–2.68
105	WestFonds-PHG Gesellschaft WestFonds 2 H mbH [1, 11]	Düsseldorf	100.00		EUR	24.95	–2.68
106	WestFonds-PHG Gesellschaft WestFonds 5 Aachen mbH [1, 11]	Düsseldorf	100.00		EUR	19.92	–5.23
107	WestFonds-PHG Gesellschaft WestFonds 5 Bremen mbH [1, 11]	Düsseldorf	100.00		EUR	19.92	–5.18

Other shareholdings

Ct.No.	Name	Location	Capital share	Voting rights	Currency	Equity	Profit/loss
108	WestFonds-PHG Gesellschaft WestFonds 5 Frankfurt mbH [1, 11]	Düsseldorf	100.00		EUR	19.92	–5.23
109	WestFonds-PHG Gesellschaft WestFonds 6 mbH [1, 11]	Düsseldorf	100.00		EUR	26.26	–1.54
110	WestFonds-PHG Gesellschaft WestFonds 7 mbH [1, 11]	Düsseldorf	100.00		EUR	27.79	–0.18
111	WestFonds-PHG Gesellschaft WestFonds Wien 2 mbH [1, 11]	Düsseldorf	100.00		EUR	20.75	–6.03
112	WestFonds-PHG-Gesellschaft BI-Fonds 12 mbH [1, 11]	Düsseldorf	100.00		EUR	20.34	–3.61
113	WestFonds-PHG-Gesellschaft BI-Fonds 14 mbH [1, 11]	Düsseldorf	100.00		EUR	20.17	–3.78
114	WestFonds-PHG-Gesellschaft BI-Fonds 18 S mbH [1, 11]	Düsseldorf	100.00		EUR	20.17	–3.78
115	WestFonds-PHG-Gesellschaft BI-Fonds 19 S mbH [1, 11]	Düsseldorf	100.00		EUR	19.99	–3.91
116	WestFonds-PHG-Gesellschaft BI-Fonds 23 mbH [1, 11]	Düsseldorf	100.00		EUR	18.72	–5.23
117	WestFonds-PHG-Gesellschaft BI-Fonds 6 mbH [1, 11]	Düsseldorf	100.00		EUR	21.14	–5.23
118	WestFonds-PHG-Gesellschaft KA Deutschland Beteiligungs-gesellschaft mbH [1, 11]	Düsseldorf	100.00		EUR	23.11	–3.54
119	WestFonds-PHG-Gesellschaft KB Zwei Länder Beteiligungs-gesellschaft mbH [1, 11]	Düsseldorf	100.00		EUR	22.60	–3.68
120	WestFonds-PHG-Gesellschaft RWI-Fonds 25 mbH [1, 11]	Düsseldorf	100.00		EUR	23.68	–3.63
121	WestFonds-PHG-Gesellschaft RWI-Fonds 34 mbH [1, 11]	Düsseldorf	100.00		EUR	22.49	–3.58
122	WestFonds-PHG-Gesellschaft RWI-Fonds 40 mbH [1, 11]	Düsseldorf	100.00		EUR	19.97	–6.10
123	WestFonds-PHG-Gesellschaft WestFonds 3 Berlin mbH [1, 11]	Düsseldorf	100.00		EUR	26.13	–2.72
124	WestFonds-PHG-Gesellschaft WestFonds 3 Düsseldorf mbH [1, 11]	Düsseldorf	100.00		EUR	24.89	–3.21
125	WestFonds-PHG-Gesellschaft WestFonds 4 mbH [1, 11]	Düsseldorf	100.00		EUR	19.92	–5.18
126	WestGKA Management Gesellschaft für kommunale Anlagen mbH [2, 4, 11]	Düsseldorf	100.00		EUR	1,127.70	0.00
127	WestLB Asset Management (US) LLC [11]	Wilmington, USA	100.00		USD	23,199.60	–324.11
128	WestLB Limited [11]	London, United Kingdom	100.00		GBP	0.00	0.00
129	WestLB Servicios S.A. [1, 9]	Buenos Aires, Argentinia	94.86		ARS	0.00	–1.19
130	WestLB Venture Capital Management GmbH & Co. KG [11]	Köln	50.00		EUR	45.84	–5.29
131	WestLeasing International GmbH [1, 11]	Düsseldorf	100.00		EUR	201.33	–4.89
132	WestLeasing Westdeutsche Leasing Holding GmbH [4, 11]	Düsseldorf	94.90		EUR	11,624.75	0.00

Other shareholdings

Ct.No.	Name	Location	Capital share	Voting rights	Currency	Equity	Profit/loss
133	WestMerchant Beteiligungs GmbH [1, 11]	Düsseldorf	100.00		EUR	25.56	–4.07
134	WestProject & Consult Gesellschaft für Projektentwicklung und Consulting mbH i.L. [1, 4, 11]	Düsseldorf	100.00		EUR	1,559.56	0.00
135	WestVerkehr Beteiligungsgesellschaft mbH [1, 11]	Düsseldorf	100.00		EUR	123.14	–17.41
136	WIP Westdeutsche Immobilien Portfolio Managementgesellschaft mbH [1, 4, 11]	Düsseldorf	100.00		EUR	631.96	16.18
137	WLB CB Holding LLC [11]	New York, USA	100.00		USD	0.00	88.17
138	WMB Beteiligungs GmbH [1, 11]	Düsseldorf	100.00		EUR	25.56	–3.08
139	WMO Entwicklungsgesellschaft mbH [1, 11]	Bonn	100.00		EUR	34.99	1.26

Interest greater than 5% (large corporations)

Ct.No.	Name	Location	Capital share	Voting rights	Currency	Equity	Profit/loss
140	AKA Ausfuhrkredit-Gesellschaft mbH [11]	Frankfurt am Main	5.02		EUR	183,872.10	11,425.00
141	Banco Finantia S.A. [11]	Lisbon, Portugal	8.57		EUR	372,103.00	3,144.00

Other companies for whom the EAA assumes unlimited liability

Ct.No.	Name	Location	Capital share	Voting rights	Currency	Equity	Profit/loss
142	GBR Industrie- und Handelskammer Rheinisch-Westfälische Börse	Düsseldorf	5.88	5		n. s.	n. s.
143	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 Only data as of 31 December 2009 is available.
6 Only data as of 31 December 2010 is available.
7 Only data as of 31 October 2011 is available.
8 Only data as of 31 December 2011 is available.
9 Only data as of 31 October 2012 is available.
10 Only data as of 16 December 2012 is available.
11 Only data as of 31 December 2012 is available.
12 Only data as of 30 June 2013 is available.
13 Only data as of 31 October 2013 is available.
14 Only data as of 8 November 2013 is available (opening balance sheet).
15 Only data as of 30 November 2013 is available.
16 A global guarantee exists.

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 and financial position as well as the earnings situation of the institution, and the management report includes a 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, March 19, 2014

Erste Abwicklungsanstalt

The Managing Board

Matthias Wargers	**Markus Bolder**	**Horst Küpker**
Spokesman	Member	Member
of the Managing Board	of the Managing Board	of the Managing Board

Auditors’ report

We have audited the annual financial statements consisting of the balance sheet, income statement, notes, cash flow statement and statement of changes in equity – including the accounting and status report of the Erste Abwicklungsanstalt, Düsseldorf, for the fiscal year from January 1 until December 31, 2013. The accounting and itemization of the annual financial statements and status report according to the German regulations under commercial law and the additional stipulations of the charter are the responsibility of the managing board of the institution. Our responsibility is to express an opinion on the annual financial statements, together with the accounting system, and the management report based on our audit.

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

Our audit did not lead to any objections.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the asset and financial position as well as the earnings situation of the institution in accordance with principles of proper accounting and additional provisions set forth in the charter.

The management report is consistent with the annual financial statements and as a whole provides a suitable view of the institution's position and suitably presents the opportunities and risks of future development.

Düsseldorf, March 20, 2014

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Michael Peters	ppa. Susanne Beurschgens
Auditor	Auditor

List of abbreviations

ABS
Asset backed securities

ALCO
Asset Liability Committee

ALM
Asset Liability Management

APAC
Asia-Pacific region

BaFin
German Federal Financial Supervisory Authority
(Bundesanstalt für Finanzdienstleistungsaufsicht)

Basinghall
Basinghall Finance Plc, London/United Kingdom

BilMoG
German Accounting Law Modernization Act
(Bilanzrechtsmodernisierungsgesetz)

CDS
Credit default swaps

CVA
Credit valuation adjustments

DRS
German Accounting Standard
(Deutscher Rechnungslegungsstandard)

EAA
Erste Abwicklungsanstalt

EAA CBB
EAA Covered Bond Bank Plc, Dublin/Ireland

EAA GW
EAA Global Watchlist

EAA KK
EAA Japan K.K., Minato-ku
(formerly WIB Real Estate Finance K.K. [WIB KK])

EaD
Exposure at default

ECB
European Central Bank

EEC
European Economic Community

EFSF
European Financial Stability Facility

EMEA
Europe, Middle East and Africa region

EONIA
Euro Overnight Index Average

EU
European Union

EUSS
European Super Senior Notes

FED
US Federal Reserve

FMS
Financial Market Stabilization Fund

FMSA
Financial Market Stabilisation Authority
(Bundesanstalt für Finanzmarktstabilisierung)

FMStFG
Financial Market Stabilisation Fund Act
(Finanzmarktstabilisierungsfondsgesetz)

FX Effect
Foreign exchange effect

GDP
Gross domestic product

HGB
German Commercial Code (Handelsgesetzbuch)

ICS
Internal control system

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

ISDA
International Swaps and Derivatives Association

LVR
Landschaftsverband Rheinland

LWL
Landschaftsverband Westfalen-Lippe

MaRisk
Minimum requirements for risk management

Moody's
Moody's Investors Service

MtM
Mark to market

NPL
Nonperforming Loans

N. R.
Not rated

NRW
North Rhine-Westphalia

OIS
Overnight indexed swap

OMT
Outright monetary transactions

OTC Derivatives
Over-the-counter derivatives

P&L
Income statement

PAG/Portigon
Portigon AG (until July 2 WestLB AG)

PFS
Portigon Financial Services GmbH, Düsseldorf

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

PIMCO
Pacific Investment Management Company, LLC

RechKredV
Ordinance on Accounting for Banks

RiskCo
Risk Committee

RMS
Risk management system

RSGV
Rheinischer Sparkassen- und Giroverband

S&P
Standard and Poor's Corporation

S. R.
Special rating

SVWL
Sparkassenverband Westfalen-Lippe

VaR
Value at risk

WestImmo
Westdeutsche ImmobilienBank AG, Mainz

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