ERSTE ABWICKLUNGS ANSTALT

ANNUAL REPORT 2017

1

Contents

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

EAA key figures

Income statement in EUR million	1/1-31/12/2017	1/1-31/12/2016
Net interest income	142.9	173.9
Net fee and commission income	-12.8	11.5
Net trading result	13.9	33.6
Total other operating income/expenses	0.8	-3.3
General administrative expenses	-178.7	-212.8
Results from financial assets and shareholdings	94.0	14.7
Results prior to risk provisioning	**60.1**	**17.6**
Loan loss provisions	-30.5	-7.4
Results before taxes	**29.6**	**10.2**
Taxes	-15.2	-0.6
Net profit for the year	**14.4**	**9.6**

Balance sheet in EUR billion	31/12/2017	31/12/2016
Total assets	46.6	60.7
Business volume	52.0	70.3
Lending business	21.8	31.0
Trading assets	17.4	23.8
Equity	0.7	0.6

Winding-up	31/12/2017	31/12/2016
Banking book		
Notional value (before FX effect) in EUR billion	22.9	29.7
Winding-up activities (compared with previous year-end) in EUR billion	-6.7	-6.3
Winding-up activities (compared with previous year-end) in %	-22.7	-17.5
Trading portfolio		
Notional value (before FX effect) in EUR billion	205.9	258.6
Winding-up activities (compared with previous year-end) in EUR billion	-52.7	-83.1
Winding-up activities (compared with previous year-end) in %	-20.4	-24.3

Employees	31/12/2017	31/12/2016
Number of employees	174	178

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

Report of the Supervisory Board

In exercising the rights and obligations incumbent upon it under the statutory provisions and its charter in the fiscal year from 1 January 2017 to 31 December 2017, the Supervisory Board of Erste Abwicklungsanstalt convened six times. The permanent committees formed from among its members, comprising the Audit Committee and the Risk Committee, convened three and four times respectively.

The deliberations of the Supervisory Board in fiscal year 2017 dealt with various matters, including the wind-up plan for 2018 and the servicing strategy with a view to securing the operational stability of Erste Abwicklungsanstalt. In this context, the Supervisory Board agreed to outsource a large part of the services rendered by Erste Financial Services GmbH to IBM Deutschland GmbH. It also dealt with the respective implementation status concerning the implementation of the sale of EAA Portfolio Advisers GmbH. In addition, the Supervisory Board took note of the results of a preliminary review for potentially discharging the liable stakeholders of Erste Abwicklungsanstalt. Furthermore, the Supervisory Board discussed the Phoenix structure.

It also carried out a self-appraisal of the activities it performs as a supervisory board (efficiency review) for the first time in fiscal year 2017, which was concluded without any need for changes. With effect from 1 July 2017, the Supervisory Board appointed Christian Doppstadt as a Member of the Managing Board of Erste Abwicklungsanstalt as the successor to Markus Bolder, who was a Member of the Managing Board up to 30 June 2017 and who was not available for a possible reappointment. Furthermore, the Supervisory Board advised the Managing Board in fiscal year 2017, monitored its management of the company and was involved in decisions that are of fundamental importance for Erste Abwicklungsanstalt. The Supervisory Board was kept regularly informed about the situation at Erste Abwicklungsanstalt – also outside of meetings – through the wind-up reports submitted to it and other reports brought to its attention.

The Supervisory Board followed a recommendation made by the Audit Committee and appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC) as the auditors of Erste Abwicklungsanstalt. PwC audited the annual financial statements and the management report of Erste Abwicklungsanstalt for the fiscal year ending on 31 December 2017 and issued an unqualified audit opinion. The Supervisory Board and the Audit Committee formed from its members discussed in detail the auditor's report on the findings of its audit and raised no objections following the final results of the audit.

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board approved the annual financial statements and the management report prepared by the Managing Board at its meeting on 18 April 2018 and proposes to the Stakeholders' Meeting to ratify the annual financial statements for fiscal year 2017.

Düsseldorf, 18 April 2018

Dr Patrick Opdenhövel
Chairman of the Supervisory Board

Foreword

Dear Ladies and Gentlemen,

The EAA made significant progress with its mandate to wind up the former WestLB portfolio in fiscal year 2017 as well. The portfolio of loans, securities and derivatives was reduced by more than 20% in notional terms in the last 12 months. Specifically, the EAA's banking book was reduced from almost EUR 30 billion to roughly EUR 23 billion and the trading portfolio fell from about EUR 260 billion to around EUR 206 billion. The EAA's business volume, which in addition to total assets comprises irrevocable loan commitments and contingent liabilities, was even reduced by 26% and now stands at around EUR 52 billion. Total assets alone declined by EUR 14 billion and amounted to nearly EUR 47 billion as of 31 December 2017.

The wind-up of the portfolio therefore continued to progress better than expected. The notional wind-up is therefore well ahead of the original timeframes. In addition, the EAA once again achieved success in the fiscal year in its difficult restructuring processes and in the sale of participations. The result and the equity figures exceeded previous expectations for this stage of the wind-up. Net profit for the year amounted to around EUR 14 million, raising equity as of 31 December 2017 to around EUR 656 million. This shows that the rapid winding up of the WestLB portfolio did not impair the substance of the portfolio.

The winding up progress achieved thus far was only possible thanks to the EAA's experienced and committed team, which has not only optimised the organisational structures continuously since it was founded but has also adapted them flexibly to the progress made in winding up the portfolio. This is reflected in, among other things, administrative expenses, which have fallen significantly year after year since 2013 and were down 16% on the prior-year figure at around EUR 179 million at the end of 2017. The largest portion by far of administrative expenses related to portfolio management and restructuring expenses. Personnel expenses at the EAA accounted for roughly 16% thereof.

In fiscal year 2017 the EAA also took the necessary steps to manage the future portfolio reduction in a secure manner and as cost-effectively as possible. As part of its long-term service provider strategy, the former portfolio management subsidiary EPA was privatised as well as comprehensive outsourcing measures at the service subsidiary EFS were realised. Both steps are related to service agreements designed to ensure security and adequate flexibility for the future servicing of the EAA portfolio.

In view of the results achieved to date, the EAA remains optimistic of being able to reduce risk early in the interests of its liable stakeholders. Implementing this objective is also supported by a positive market environment. Even when developing future strategies, the EAA will stick by its principle of winding up portfolios in a value-preserving manner.

As an asset manager pursuing a clear, public mandate, the EAA will seek to safeguard the financial interests of the public stakeholders and make a positive contribution to their credit-worthiness. We believe, however, that in addition to a successful fiscal year 2017 we are on track to continue optimising the reduction of the portfolio.

Yours sincerely

Matthias Wargers Spokesman of the Managing Board	Christian Doppstadt Member of the Managing Board	Horst Küpker Member of the Managing Board

Management report

For the period from 1 January to 31 December 2017

Principles of the EAA

Operating activities of the EAA

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

It manages its business according to commercial and economic principles, in consideration of its winding-up objectives and the principle of minimising its losses. The EAA is not a credit or financial services institution within the meaning of the KWG, an investment services firm as defined by the German Securities Trading Act (Wertpapierhandelsgesetz) or an insurance company pursuant to the German Insurance Supervision Act (Versicherungsaufsichtsgesetz). In accordance with its charter, it does not conduct any transactions that require approval pursuant to Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 or Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004, the amendment to Directives 85/611/EEC and 93/6/EEC of the Council and Directive 2000/12/EC of the European Parliament and of the Council and for the repeal of Directive 93/22/EEC of the Council, as amended.

The EAA is subject to regulation by the FMSA. The EAA is supervised by BaFin with regard to those provisions of banking law that are applicable to the EAA.

The EAA's work is principally carried out on the basis of section 8a FMStFG, its charter, the rules of procedure for the Supervisory Board and the Managing Board plus their committees, as well as its risk strategy and wind-up plan.

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

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

The governing bodies of the EAA are the Managing Board, the Supervisory Board and the Stakeholders' Meeting.

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

Markus Bolder stepped down from the Managing Board of the EAA as of 30 June 2017. He was succeeded as of 1 July 2017 by Christian Doppstadt, who previously held the position of Head of Credit Risk Management at the EAA.

The Supervisory Board consists of twelve members. Eleven members were appointed by the Stakeholders' Meeting and one member was delegated by the FMSA. The members elect a Chairman and a Vice Chairman on the recommendation of the State of NRW. The Supervisory Board advises and consults with the EAA's Managing Board, monitors its activities and carries out additional duties set forth in the charter.

Dr Rüdiger Messal, the previous chairman of the Supervisory Board, resigned his mandate as member of the Supervisory Board as of 15 August 2017. Dr Patrick Opdenhövel was appointed member of the Supervisory Board by the Stakeholders' Meeting with effect from 16 August 2017. As of 23 August 2017, the Supervisory Board elected him as chairman of the Supervisory Board.

The Stakeholders' Meeting is composed of representatives who hold a stake in the EAA's share capital. It is responsible for adopting the annual financial statements of the EAA, among other things.

Methods of transfer

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

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

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

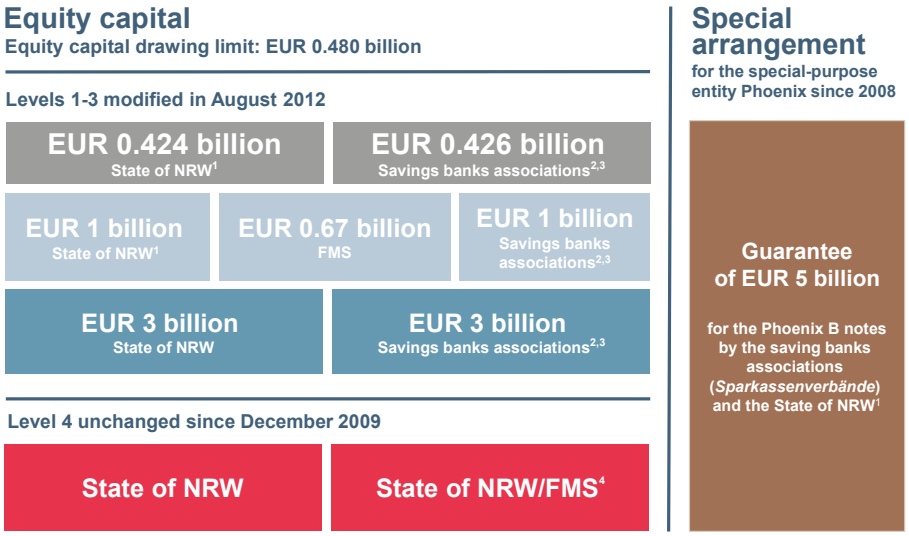
the risks. The risks assumed by the EAA are taken into account by recognising contingent liabilities or provisions.

Equity base and liability

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

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

In addition to the EAA's equity base, a factor that is particularly important for the EAA's credit rating is the duty to offset the EAA's losses that the EAA's liable stakeholders and the FMS have assumed. They are individually liable to the EAA to offset all losses in accordance with section 7 of the EAA's charter. To that end, they must provide the EAA with such funds at such times as are necessary in order to ensure that it has sufficient cash and cash equivalents at all times to meet its liabilities as they become due, even after its equity capital has been used up. The EAA is obligated to assert this loss-offset claim against the liable stakeholders and the FMS in the appropriate volume and before any pending insolvency takes effect, in order to ensure it remains solvent at all times.



[1] For purposes of simplification, the relatively low stake of the Landschaftsverbände (Landschaftsverband Rheinland und Landschaftsverband Westfalen-Lippe) is included in the figure shown for the State of NRW.
[2] Rheinischer Sparkassen- und Giroverband and Sparkassenverband Westfalen-Lippe, at 50% each.
[3] Default liability assumed by the State of NRW.
[4] The State of NRW and the FMS will reach an agreement on the apportionment of the associated financial burden on the basis of the FMStFG.

Funding

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

Accounting

The EAA prepares its annual financial statements in accordance with HGB. It is exempt from the requirement to prepare consolidated financial statements pursuant to section 8a (1a) sentence 3 FMStFG. However, the significant participations, particularly EAA CBB, Erste EAA Anstalt öffentlichen Rechts & Co. KG and Dritte EAA Anstalt & Co. KG, are included in the success of the wind-up strategy and risk planning, risk monitoring and risk reporting.

Organisation

The EAA's organisational structure is oriented toward ensuring the performance of its key management and control functions. As the owner of its portfolio it bears responsibility for this portfolio and decides on the manner in which the portfolio will be reduced. It has outsourced significant operational activities, in particular to EFS and MSPA. Separate service agreements (cooperation agreements) exist with these two companies for this purpose, including separate service level agreements for specific processes and functions. MSPA provides portfolio management services for the EAA. EFS's service portfolio is comprised in particular of IT and operational services. It sub-outsourced the vast majority of these services to IBM as of 1 December 2017 within the scope of an outsourcing agreement.

Due to the importance of the outsourced activities, the EAA has implemented a central function within the Controlling & Planning department for an integrated service provider management system. Under this system, the service relationships between the EAA, EFS and MSPA, as well as the other external service providers, are systematically managed and monitored from a legal, substantive, processual and financial perspective (see also the "Service provider management" section). The outsourcing of the EFS services to IBM is assisted by a transition project of the EAA, thus guaranteeing the continuity and quality of the provision of service to the EAA, also during the transitional period.

Since it began its operating activities, the EAA has repeatedly adjusted its organisational structure to manage changes and challenges in the corporate environment. The gradual takeover of multi-billion portfolios presented it with enormous challenges in developing an adequate organisation and recruiting the required experts. The gradual reduction of the portfolio required capacity and costs to be reduced, without compromising the expertise required to successfully complete the wind-up. Against this background, the EAA and EFS have reviewed the sub-outsourcing of a large part of the services rendered to a third party in the previous fiscal year, a process that was then successfully implemented with IBM. This step

ensures that the EAA will secure key services for its portfolio up to 2020 at least, and beyond if necessary. The EAA acquired its main service provider EFS (the former Portigon Financial Services GmbH) from Portigon in 2016, with the objective of further strengthening the profile of the service company, leveraging synergies and optimising structures. This was the precondition for the outsourcing conducted in 2017.

The service company EPA, which was established by the EAA in 2014 and, among other things, took over experienced portfolio managers from the former WestLB in addition to analysis experts from EFS, was sold to Mount Street. The transfer of ownership took place on 27 October 2017. The priority for the EAA is to secure the existing expertise in this context too in order to ensure that services are provided to the requisite extent and with the requisite quality. At the same time, it seeks to achieve the greatest possible flexibility with respect to costs. These objectives were crucial from the EAA's perspective when selling EPA and also play a decisive role for the outsourcing measures at EFS.

Ongoing optimisation of organisational and cost structures is part of the EAA's responsibility in view of the progressive reduction of the portfolio.

Control system

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

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

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

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

The EAA's locations

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

Economic report

Economic environment

Low interest rates, ample liquidity and low volatility: 2017 was a good year
The equity markets once again generated good income last year. US equities (S&P500 index) gained 19.4%. Exposure to equities in Europe paid off, too. The DAX increased by around 12.5%, while British equities were up by 7.6%.

From an economic perspective, 2017 did not yield any negative surprises. Global economic growth accelerated in 2017 by 0.5 percentage points over the previous year to 3.7%, driven in particular by stronger growth in the eurozone and in the emerging economies. Companies benefited from the growth in the form of solid demand and therefore in good sales and profit performance.

2017 can also be described as a super-election year in Europe, with presidential elections held in France and general elections in the Netherlands, UK, France and Germany. Although populist parties extended their share of the votes in some elections, they failed to join the governments of their respective countries, so that there was little change in the fundamental political direction.

The central banks also demonstrated visual judgement in 2017. Instead of the four to five interest rate hikes targeted at the start of the year, the Fed stuck with three hikes last year, so that the rise in US yields was limited to the short end of the curve. The ECB reduced the monthly purchase volume of securities from EUR 80 billion to EUR 60 billion, while announcing at the same time that it would in future reinvest maturing securities in order to stabilise total assets when the active purchases end. The ECB thus signalled that it would continue to support the markets as a significant buyer.

This combination of factors led to a marked decline in volatility. The VIX index, which reflects the volatility of the equities in the S&P500 index, reached an average of only 11 points last year, which is down considerably on previous years. Looking to the year ahead, the question is whether this constellation of a generous supply of liquidity from the central banks, low financing costs, robust growth and the absence of politically induced shocks will set the tone for 2018 as well.

The consumer is and remains the central pillar supporting US growth

The US economy continued to recover last year, with economic output growing by 2.3% over 2016. US growth was driven by consumption last year. Consumer confidence rose by nine points in the course of the year to 125.4 and is therefore very clearly ahead of the long-term average of 95. The improved sentiment is attributable to the benign situation on the US labour market. The employment total in the US currently stands at 147.6 million, which is almost 17.9 million more than at the lowest point during the height of the crisis, which was measured at 129.7 million jobs in February 2010. US consumer spending consequently increased by 2.7% in 2017.

Nonetheless, the fundamental problem of unemployed persons who are not officially registered as jobless (a situation that arose during the global financial crisis) persists to a lesser degree. Jobless benefits are only paid for a limited period in the US. After their entitlement ceases, persons who have not found employment are categorised as not actively looking for work and the payments are suspended. These persons represented a silent labour reserve, from which many of the new jobs were filled. Although this kept the pressure on US wages low, the faster pace of wage growth again (December 2017: +2.7% over the previous year) signals that this reservoir continues to be depleted.

Forecast: Back to the past – current economic policies resemble those of Reagan

Economic indicators from the US are still not showing any late cyclical patterns, such as for example a substantial increase in inflation or very high interest rates and yields. The recovery could therefore last quite some time yet.

US growth is also likely to be fuelled in 2018 by the tax cuts that were introduced in December 2017. The lower tax rates are expected to increase company profits and drive up incentives to invest, thus improving the growth potential in the long term. Higher profits should also encourage companies to increase wages and distributions. The reduced settlement tax on repatriated profits is aimed at bringing profits that had previously been transferred abroad back to the US and at limiting the negative consequences of the tax cuts for the US budget deficit.

The 40th US president Ronald Reagan also undertook such a tax cutting experiment. The tax cuts in 1981 and 1982 had a short-term expansionary effect on economic growth and helped to overcome the recession (July 1981 to November 1982) faster. However, the boost to growth soon fizzled out and growth rates fell again quickly to normal level of 2.5% to 3% - roughly the potential growth rate. This policy mix that was known as Reaganomics had long-term implications for the US budget deficit and US public debt only. Both increased noticeably. Market observers expect the latest tax cuts to lead to somewhat stronger economic growth in the medium term and a deterioration of the sovereign rating in the longer term.

US economic performance is likely to improve by 2.6% next year and drop ever so slightly to 2.2% in 2019. The good state of the US labour market is expected to endure in 2018, too. The creation of new jobs will however be somewhat slower in the future. Instead of increases of between 180,000 and 200,000 new jobs per month, it could be expected that this figure will average around 150,000 to 175,000 new jobs next year. Nonetheless, this somewhat slower growth in jobs is still sufficient to lower the unemployment rate. The rate of inflation will probably be at 2.3% at the end of 2018 (2019: 2.2%), which is about in line with the target level of the economic policy.

While fiscal policy under President Trump is very much geared to growth-promoting measures, the Fed's policy is cautiously heading in the opposite direction. After the end of the third bond-buying programme (Quantitative Easing 3) in October 2014, the Fed began to normalise its monetary policy. It will also reduce total assets next year by gradually reducing the volume of reinvestments. It has decided not to reinvest maturing securities in excess of a notional USD 10 billion every month.

In addition, there are many reasons to believe that the Fed will raise key rates further in the year ahead. The US inflationary environment will continue to normalise next year. The range for the Fed funds rate should therefore lie between 2% and 2.25% at the end of the year, so that yields at the short and the long end of the US yield curve will rise. The EAA expects a yield level of around 3% at the long end and 2.6% at the short end. There are two key risks to this outlook:

△ Political uncertainty:
If the US government exhausts the new borrowing budget set by Congress, this credit limit must be raised by a Senate decision. Without this approval, the outcome is a government shutdown, which will be exploited by the opposition to demand concessions from the government. The forthcoming elections in November 2018, in which all seats in the House of Representatives and one third of seats in the Senate will be contested, could tempt the Republicans and Democrats to use this paralysis of the US government as a lever for exerting pressure, so as to raise their profile ahead of the elections.

△ Overly aggressive approach on the part of the central bank:
If the tax cuts accelerate growth and US inflation rises more quickly than expected, the Fed could be forced to make swifter interest rate adjustments and tighten interest rates more aggressively than planned in order to contain US inflation.

Core eurozone countries: Germany is still growing faster than France

2017 was a good year for the German economy. The respectable 1.9% improvement in performance in 2016 will likely be exceeded. German GDP in the third quarter of 2017 rose by 2.8% over the third quarter of 2016. The growth rate achieved is encouraging compared with the potential growth rate of the German economy, which the Bundesbank estimates at around 1.25% per annum, and also explains the further fall of 0.5 percentage points in Germany's unemployment rate to 5.5%.

Domestic factors are responsible for the robust economic growth. Due to the healthy labour market (low unemployment and rising wages) and the low inflation rates, consumer confidence is high. Government expenditure (2017: +1.4%) and private investment (2017: +3%) are currently contributing to growth. Sentiment indicators such as the ifo index or the purchasing managers'

index imply that the robust economic growth is likely to continue next year, too. This is also suggested by the lack of late-cyclical patterns such as high inflation and high yields.

France's national income tended to increase at a weak pace in recent years, with growth rates of 0.2% to 1.2% between 2012 and 2016. Economic growth has picked up for the first time since President Macron took office, based on a considerable improvement in sentiment among French consumers and companies. GDP growth in 2017 will probably be 1.9%. This growth is supported by the French consumers (+1.3%), investment activity (+2.8%) and government spending (+1.5%). The situation on the labour market also continues to improve. The unemployment rate fell by 0.5 percentage points to 9.5% in 2017.

Spain's economy has recouped the losses incurred in the global financial crisis

Spain's economic performance increased by 3.3% in 2016, which was well above the eurozone average. The country was once again one of the fastest growing economies in the eurozone in 2017. Its economic performance should have improved by 3.1% this year. This development is down to several factors:

- △ The relaxation of the protection against dismissal and lowering of unit wage costs led to an improvement in Spain's international competitiveness.

- △ Rising employment and low inflation rates drove up the private households' real income. The increase of around 2.5% in consumption in the previous fiscal year compared with the year before is therefore one of the most important factors supporting the economic recovery.

- △ The ECB's lending momentum also benefits Spanish companies and increases their investments. Spanish investments increased by 4.8% in 2017 compared with the previous year.

Further reform efforts would be necessary to maintain this fast pace of growth in the years ahead. In view of the political situation, this does not seem likely. As prime minister of a minority government Prime Minister Rajoy has to cooperate with the opposition. However, reforms are likely to fail due to a lack of common political ground between the government and the opposition. The crisis smouldering in the Catalan region that is striving for independence is another uncertain factor.

Portugal: faster growth finally arrives in the third quarter of 2017

The country's economic performance in the third quarter of 2017 increased by 0.5% over the previous quarter. The social-democratic party continued with the previous government's reforms on many issues, which facilitated this recovery. Thanks to this political continuity, Portuguese economic growth accelerated during 2017. Economic performance for the full-year is estimated to grow by 2.6%, which represents the greatest increase since the start of the global financial crisis. The robust economic growth prompted rating agencies S&P and Fitch to upgrade the sovereign rating in September 2017 and December 2017 respectively. Both agencies assigned Portugal an investment grade rating (BBB- and BBB), which led to a significant outperformance by Portuguese (government) bonds. In the course of the year, the 10-year yield fell from a high of 4.3% to 1.94%.

Italy: elections in March 2018

The Italian electorate has grown more dissatisfied with its country's political and economic situation in recent years, with many voters turning increasingly to populist parties. The Five Star Movement protest party emerged from the general election in March 2018 as the largest political force, taking 32.2% of the vote. The right-leaning Lega reached 17.7%. The centre-right alliance, including Lega and former Prime Minister Berlusconi's Forza Italia, gained around 37%. The established parties were the big losers in the election, with the previous governing party Partito Democratico losing more than half the votes and falling to 18.9%. The distribution of votes in the upper house (Senate) is roughly the same as in the Italian Parliament. The voter turnout was around 70%.

It could prove difficult to form a government. The two protest parties (Lega and Five Star Movement) are each claiming leadership in a new government. At the same time, the social democratic Partito Democratico announced its intention to go into opposition rather than being available to form a coalition. The negotiations and exploratory talks between the parties are likely to prove very protracted. Fresh elections cannot be ruled out. The previous government continues to assume interim responsibility for official business.

Despite the political uncertainties, the pace of growth in Italy is accelerating. Following growth of +0.9% in real terms in 2016, economic growth is likely to be 1.6% in 2017.

Economic recovery is being hampered by the problems in the financial sector. The volume of impaired loans held by the banks has increased significantly compared with the eurozone. Auditing company PwC has estimated that roughly EUR 250 billion of these problem assets (approximately 11% of Italian economic performance) were weighing on the portfolios of Italian banks at the end of December 2017. The banks' low profitability often prevents them from resolving the problem by themselves. This is aggravated by the fact that winding up problem banks could weigh on sentiment in Italy. A run on deposits held with Italian banks is a very real threat, which could lead to further bank failures and a collapse of the financial system.

2018: the economic recovery remains intact

Despite the political risks in Spain and Italy, it is expected that the economic recovery will continue in the eurozone in the year ahead. There are too many positive factors influencing growth to identity for another crisis to occur. Consumption will continue to be the most important driver of growth. This is good news, as rising consumer spending is being fuelled not by increased borrowing, but is driven by falling unemployment, rising wages, and by lower inflation. In addition, many eurozone countries are scaling back the government austerity measures, which means a positive boost to the eurozone's economic growth.

Spain will probably join Germany as one of the fastest-growing economies in the eurozone. This forecast is associated with a key risk. For Spain's economy to grow by 2.7% in 2018, the conservative minority government in Madrid cannot make any compromises in relation to the reform steps taken earlier. It remains to be seen how stable the minority government headed by Prime Minister Rajoy is. Investors will therefore exercise restraint. Germany's GDP will grow by a good 2.4% in 2018. The German economy is forecast to grow by 1.9% in 2019, again above potential. The French economy will probably show growth of 2% in 2018 and 1.7% in 2019, and therefore grow slightly below the average of the rest of the eurozone. Portugal's GDP is expected to grow by 2% in 2018.

In view of the very slow rise in inflation (year-end 2018: 1.6%) and the renewed pick-up in lending next year, the ECB is likely to undertake the exit from the extraordinary monetary measures. The purchases of EUR government bonds and other assets will continue up to September 2018. Thereafter, the ECB will keep its total assets constant for an undefined period of time by reinvesting the cash flows from the portfolio. For the eurozone, this means having to get used to higher yields along the entire curve. At the long end of the curve, yields are expected to rise to 1% by the end of 2018 (2019: 1.3%). Yields at the short end will be driven by expectations that ECB monetary policy will soon return to normal. The ECB is expected to raise the deposit rate from -40 bp to -25 bp at the end of 2018. As a result of this measure, yields at the short end of the curve (two years) should be around -0.4% in December 2018 (2019: +0.2%). With regard to the EUR/USD exchange rate, the EAA is predicting a price of USD 1.30 per EUR at the end of 2018. This weakness will be triggered by the US government's management of the budget. The tax cuts and increased spending will further drive up US public debt.

Overview of economic development

In fiscal year 2017 the EAA's economic performance was largely determined by its wind-up mission.

The notional volume of the banking book fell 22.7% to EUR 22.9 billion. The notional volume of the trading portfolio declined by 20.4% to EUR 205.9 billion during the same period.

The EAA's net profit for the year of EUR 14.4 million was primarily impacted by positive net interest income of EUR 142.9 million and a result from financial assets and shareholdings of EUR 94.0 million. Personnel expenses totalled EUR 29.4 million, while other general administrative expenses amounted to EUR 149.3 million.

The EAA's total assets declined from EUR 60.7 billion in the previous year to their current level of EUR 46.6 billion. The business volume, which also includes off-balance-sheet components, fell 26.1% to EUR 52.0 billion (previous year: EUR 70.3 billion).

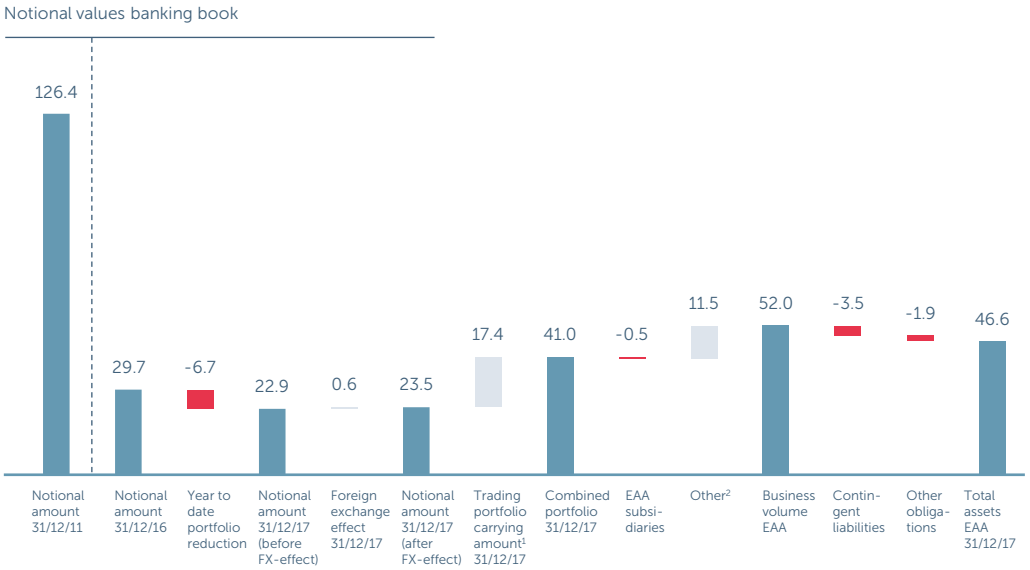
Wind-up report

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

The following overview shows the changes in the portfolio's notional amounts since 1 January 2017 and the reconciliation to the EAA's total assets as of 31 December 2017.

Reconciliation of the transferred notional volume to the balance sheet

in EUR billion



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

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

Wind-up strategies

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

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

	31/12/2017 EUR billion	31/12/2016 EUR billion
Sellable	2.2	2.8
Hold	10.2	13.5
Restructure	10.5	13.4
Total	**22.9**	**29.7**

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

The "Sellable" category includes securities and loans for which a sale is considered possible. Assets are categorised as "Sellable" based on the assumption that it is possible to sell the asset in the short or medium-term at a value that the EAA could also realise using a long-term hold strategy. This requires that the market environment has improved and that no discounts are demanded which are not attributable to the creditworthiness of the issuer or borrower.

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

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

A review of the standard strategies within the scope of preparing the wind-up plan 2018 led to a reallocation of the risk exposures as of 2018, which is also implemented in reporting. The new standard strategies will thus be oriented in future on an investor or disposal perspective, and take into consideration the categories "Self-monetisation", "Value accretion" and "Managed divestment". The "Self-monetisation" strategy comprises assets that will be repaid in full by 2020, while the "Value accretion" strategy covers assets with a strong pull-to-par effect up to 2020. The "Managed divestment" strategy takes into account assets with long-term cash flow profiles.

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

Wind-up success in the banking book

From 1 January to 31 December 2017, the notional volume of the banking book was reduced from EUR 29.7 billion to EUR 22.9 billion (at exchange rates as of 31 December 2011, including the notional amounts of the guaranteed risk exposures and the risk exposures held by the EAA's subsidiaries). That equates to a decline in notional volume of EUR 6.7 billion (22.7%). The volume at exchange rates as of 31 December 2017 is EUR 23.5 billion. The total banking book portfolio has decreased by EUR 103.5 billion or 81.9% since 1 January 2012.

Clusters	Notional 31/12/2017 EUR million	Notional 31/12/2016 EUR million	Notional volume (at exchange rates as of 31/12/2011) Change to 31/12/2016 EUR million	Change to 31/12/2016 in %	Notional volume (at exchange rates as of 31/12/2017) Notional 31/12/2017 EUR million	FX effect[1] EUR million
Structured Securities	9,704.3	11,863.4	-2,159.1	-18.2	10,090.6	386.3
Public Finance	5,064.5	5,772.9	-708.4	-12.3	5,072.2	7.7
Energy	2,876.2	3,359.2	-483.0	-14.4	2,958.1	81.9
Asset Securitisation	1,405.3	1,569.0	-163.7	-10.4	1,516.0	110.7
Other clusters	3,870.9	7,085.5	-3,214.6	-45.4	3,866.9	-4.0
Total	**22,921.2**	**29,650.0**	**-6,728.8**	**-22.7**	**23,503.8**	**582.6**

[1] Change in notional volume due to exchange rate effects.
Note: The cluster structure was modified as of 31 January 2017. The Liquidity Portfolio cluster was dissolved and the holdings distributed over the Structured Securities, Public Finance and Financial Institutions clusters. The presentation of the previous year has been restated accordingly. As of 31 December 2017, the total NPL portfolio amounted to EUR 3.0 billion at current exchange rates.

The EAA significantly reduced the portfolio in the Structured Securities cluster in the current fiscal year. This decrease is primarily due to partial repayments of the Phoenix A3 note (USD), the complete repayment of the Phoenix A2 note (USD) and the guarantee drawings of the Phoenix B note (EUR).

The notional reduction in the Other clusters is distributed over the rest of the portfolio, with the changes here attributable in particular to sales and repayments in the Structured Tax and Financial Institutions clusters.

There was a EUR +17.3 million effect on the wind-up plan in 2017 associated with sales and early repayments from the banking book portfolio. A positive wind-up plan effect of EUR +48.7 million was achieved from other measures. This effect was mainly as a result of reversals of risk provisions in connection with the divestment of loans.

Wind-up success in the trading portfolio

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

The notional volume of the trading portfolio amounted to EUR 205.9 billion as of 31 December 2017. The notional volume of the trading portfolio decreased by a total of EUR 52.7 billion during the period from 1 January to 31 December 2017 (at exchange rates as of 30 June 2012). Since its transfer, the notional volume of the trading portfolio has been reduced by EUR 858.1 billion or 80.6%.

Clusters[2]	Notional 31/12/2017 EUR million	Notional 31/12/2016 EUR million	EUR million	Notional volume (at exchange rates as of 30/6/2012) Change to 31/12/2016 in %	Notional volume (at exchange rates as of 31/12/2017) Notional 31/12/2017 EUR million	FX effect[1] EUR million
Rates	203,097.9	255,646.9	-52,549.1	-20.6	201,249.6	-1,848.3
Other	2,822.5	2,957.0	-134.4	-4.5	2,338.2	-484.3
Total	**205,920.4**	**258,603.9**	**-52,683.5**	**-20.4**	**203,587.8**	**-2,332.6**

[1] Change in notional volume due to exchange rate effects.
[2] The clusters are presented in the structure of the 2017 wind-up plan.

The decline is largely the result of maturities as well as the liquidation and active management of transactions. The principal driving force was the Rates cluster with a total notional decrease of EUR 52.5 billion. This decline resulted primarily from maturities of around EUR 48.1 billion, active reduction measures totalling EUR 12.1 billion and offsetting hedging transactions in the amount of EUR 7.7 billion.

As a result of the ongoing wind-up of the portfolio, the former Credit and Equity clusters now contain only a small number of transactions. The remaining transactions in the two clusters have been bundled since the start of 2017 in order to streamline the cluster structure. The notional volume of the remaining cluster did not change significantly.

EAA's overall situation

Earnings situation

The EAA's earnings situation was impacted by positive net interest income of EUR 142.9 million and a result from financial assets and shareholdings of EUR 94.0 million. Personnel expenses totalled EUR 29.4 million, Other administrative expenses of EUR 149.3 million were comprised mainly of expenses for services rendered by EFS and MSPA.

Negative fee and commission income compared with the previous year is mainly attributable to fees payable on the equity capital drawing limit and guarantee fees as well as the advanced legal transfer of previously guaranteed interest-bearing financial instruments and the resulting cessation of guarantee fees. Contrary to this, additional interest income is reported.

After taking account of a net result of EUR -30.5 million from loan loss provisions, the results after taxes were EUR 14.4 million.

Income statement

	1/1-31/12/2017 EUR million	1/1-31/12/2016 EUR million	Change EUR million	Change in %
Net interest income	142.9	173.9	-31.0	-17.8
Net fee and commission income	-12.8	11.5	-24.3	>-100
Net trading result	13.9	33.6	-19.7	-58.6
Total other operating income/expenses	0.8	-3.3	4.1	>100
Personnel expenses	-29.4	-23.4	-6.0	-25.6
Other administrative expenses	-149.3	-189.4	40.1	21.2
of which: expenses for service level agreements with EFS	-60.6	-88.3	27.7	31.4
Results from financial assets and shareholdings	94.0	14.7	79.3	>100
Results prior to risk provisioning	**60.1**	**17.6**	**42.5**	**>100**
Loan loss provisions	-30.5	-7.4	-23.1	>-100
Results before taxes	**29.6**	**10.2**	**19.4**	**>100**
Taxes	-15.2	-0.6	-14.6	>-100
Net profit for the year	**14.4**	**9.6**	**4.8**	**50.0**
Net retained losses brought forward	-2,375.0	-2,384.6	9.6	0.4
Net retained losses	-2,360.6	-2,375.0	14.4	0.6

Net interest income

At EUR 142.9 million, net interest income was down on the previous year (EUR 173.9 million).

In addition to the net interest result (EUR 124.6 million [previous year: EUR 134.4 million]), net interest income also included the current income from equities, other non-fixed income securities, long-term equity investments and shares in affiliates (EUR 3.2 million [previous year: EUR 19.9 million]) as well as income from profit pooling, profit transfer and partial profit transfer agreements (EUR 15.1 million [previous year: EUR 19.6 million]).

The interest income arose from lending and money market transactions totalling EUR 316.4 million (previous year: EUR 324.2 million) and from fixed-income securities and debt register claims in the amount of EUR 180.2 million (previous year: EUR 208.4 million).

The interest income was offset by interest expenses of EUR 372.0 million (previous year: EUR 398.3 million).

Net fee and commission income

The year-on-year decrease in net fee and commission income of EUR 24.3 million to EUR -12.8 million was primarily due to the wind-up activity and transfer of guaranteed exposures. In 2017, for the first time the fees payable on the equity capital drawing limit and guarantee fees were higher than the incoming fees.

Net trading result

The net trading result amounted to EUR 13.9 million, and is composed of the interest, foreign exchange and valuation result in the amount of EUR 16.5 million and of changes in the model reserves totalling EUR -2.7 million.

Total other operating income/expenses

The balance of other operating income and expenses amounted to EUR 0.8 million (previous year: EUR -3.3 million).

General administrative expenses

The general administrative expenses in the previous fiscal year totalled EUR 178.7 million (previous year: EUR 212.8 million). The EAA's personnel expenses accounted for EUR 29.4 million of this amount (previous year: EUR 23.4 million).

Of the other administrative expenses amounting to EUR 149.3 million (previous year: EUR 189.4 million), EUR 60.6 million (previous year: EUR 88.3 million) was due to the cooperation agreement with EFS and EUR 20.4 million (previous year: EUR 26.2 million) to the service agreement with MSPA to support the EAA with portfolio management and all associated activities. Additional costs of EUR 7.5 million (previous year: EUR 14.8 million) were incurred in connection with asset-sustaining measures. These include, in particular, expenses relating to the restructuring of exposures at risk of default.

Loan loss provisions

There was a net addition of EUR 30.5 million to loan loss provisions in fiscal year 2017. The EAA has appropriately taken into account all recognisable risks.

Results from financial assets and shareholdings

Financial assets and shareholdings produced net income totalling EUR 94.0 million. This included net income in the amount of EUR 23.1 million from long-term equity investments of the financial investment portfolio.

The net income from securities of the financial investment portfolio in the amount of EUR 70.9 million primarily stemmed from capital gains on fixed-income securities. Of this amount, EUR 44.7 million was generated in connection with the transfer of a portfolio of structured securities (Carnuntum) with a value of EUR 794.5 million to Dritte EAA Anstalt & Co. KG. This transaction was implemented with a view to improving the opportunities for winding up the portfolio ahead of time in the future.

The net income from shareholdings arose essentially from income from selling long-term equity investments (EUR 25.6 million), reversals of write-offs (EUR 5.1 million) and the resolution of EAA KK (EUR 6.5 million). This was offset by material expenses from write-downs on shareholdings (EUR 18.1 million).

Taxes

Taxes comprise taxes on income and earnings in the amount of EUR 15.1 million (previous year: EUR 0.4 million), which mainly relate to corporation tax and other taxes totalling EUR 0.1 million (previous year: EUR 0.1 million).

Net profit for the year

The net profit for the year amounted to EUR 14.4 million and reduced net retained losses, which will be brought forward to new account, to EUR 2,360.6 million.

Financial position and issuing activity

Key tasks in the refinancing process

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

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

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

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

Current funding volume

The portfolio of issued bearer bonds, promissory note loans and commercial paper totalled a notional amount of EUR 25.8 billion as of the reporting date. It included the global Commercial Paper Programme with a notional amount equivalent to EUR 11.0 billion.

The notional volume of new issues for medium and long-term funding during the reporting period totalled USD 2.6 billion (EUR 2.2 billion) and EUR 1.1 billion.

A notional amount equivalent to EUR 11.0 billion was issued during the reporting period under the global Commercial Paper Programme, consisting of USD 6.5 billion (EUR 5.4 billion), GBP 3.9 billion (EUR 4.4 billion) and EUR 1.2 billion.

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

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

Asset position

The EAA's total assets as of 31 December 2017 amounted to EUR 46.6 billion (previous year: EUR 60.7 billion). The business volume, which also includes off-balance-sheet components, amounted to EUR 52.0 billion (previous year: EUR 70.3 billion).

Assets

	31/12/2017 EUR million	31/12/2016 EUR million	Change EUR million	in %
Cash reserve	2,048.4	1,696.5	351.9	20.7
Loans and advances to banks	5,464.8	7,262.5	-1,797.7	-24.8
Loans and advances to customers	10,981.2	14,076.4	-3,095.2	-22.0
Securities (no trading portfolio)	9,277.2	12,900.3	-3,623.1	-28.1
Trading portfolio	17,447.1	23,750.4	-6,303.3	-26.5
Long-term equity investments and shares in affiliates	1,302.1	864.0	438.1	50.7
Other assets	73.4	119.2	-45.8	-38.4
Total assets	**46,594.2**	**60,669.3**	**-14,075.1**	**-23.2**

Liabilities and equity

	31/12/2017 EUR million	31/12/2016 EUR million	Change EUR million	in %
Deposits from banks	2,099.2	2,766.3	-667.1	-24.1
Deposits from customers	3,014.9	3,386.3	-371.4	-11.0
Debt securities in issue	23,478.4	30,582.4	-7,104.0	-23.2
Trading portfolio	16,949.4	22,737.6	-5,788.2	-25.5
Provisions	201.6	342.7	-141.1	-41.2
Other liabilities	195.1	212.8	-17.7	-8.3
Equity	655.6	641.2	14.4	2.2
Total liabilities and equity	**46,594.2**	**60,669.3**	**-14,075.1**	**-23.2**
Contingent liabilities	3,485.0	6,610.1	-3,125.1	-47.3
Other obligations/loan commitments	1,917.9	3,058.3	-1,140.4	-37.3
Business volume	**51,997.1**	**70,337.7**	**-18,340.6**	**-26.1**

Lending business

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

Lending business

	31/12/2017 EUR million	31/12/2016 EUR million	Change EUR million	in %
Loans and advances to banks	5,464.8	7,262.5	-1,797.7	-24.8
Loans and advances to customers	10,981.2	14,076.4	-3,095.2	-22.0
Contingent liabilities	3,485.0	6,610.1	-3,125.1	-47.3
Other obligations/loan commitments	1,917.9	3,058.3	-1,140.4	-37.3
Lending business	**21,848.9**	**31,007.3**	**-9,158.4**	**-29.5**

Loans and advances to banks declined by EUR 1.8 billion as of 31 December 2017 compared with the end of the previous year, with most of the decline attributable to cash collateral (EUR 1.1 billion); a further EUR 0.7 billion relates to time deposits and repurchase agreements.

The decline of around EUR 3.1 billion in loans and advances to customers is mostly attributable to principal repayments in the traditional lending business and to the transfer of assets to a subsidiary.

Securities

The portfolio of bonds and other fixed-income securities, as well as of shares and other non-fixed income securities, amounted to EUR 9.3 billion (previous year: EUR 12.9 billion) as of the reporting date, of which EUR 9.2 billion (previous year: EUR 12.7 billion) was classified under financial assets. An additional EUR 0.1 billion (previous year: EUR 0.2 billion) was allocated to the liquidity reserve.

Of the total reduction of EUR 3.6 billion, EUR 1.9 billion was accounted for by the redemption of Phoenix bonds.

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

Trading portfolio

Trading assets are recognised in the balance sheet at fair value less a risk discount, or, in the case of trading liabilities, plus a valuation premium. As of 31 December 2017, the EAA reported trading assets and liabilities with carrying amounts of EUR 17.4 billion and EUR 16.9 billion respectively. These relate almost entirely to derivative transactions.

The EUR 6.3 billion reduction in trading assets and decrease of EUR 5.8 billion in trading liabilities was mainly due to progress made in reducing the portfolio and to valuation effects or changes in the interest rate level.

Long-term equity investments and shares in affiliates

The EAA has taken over shares of a large number of companies from the former WestLB. As of the reporting date, the carrying amount of long-term equity investments amounted to EUR 48.2 million (previous year: EUR 65.7 million) and shares in affiliates totalled EUR 1,253.9 million (previous year: EUR 798.3 million).

Long-term equity investments fell by EUR 17.6 million because of ten sales of shares as part of the wind-up mission.

Shares in affiliates rose by EUR 455.6 million. The change was mainly due to Dritte EAA Anstalt & Co. KG, whose carrying amount rose particularly as a result of another contribution in kind in the form of structured securities and the conclusion of an offsetting agreement in the amount of EUR 463.7 million as well as the sale of EPA (EUR 2.75 million).

The balance sheet items long-term equity investments and shares in affiliates also include equity interests from loan restructuring (debt-to-equity swap).

Deposits from banks and customers

As of 31 December 2017, deposits from banks totalled EUR 2.1 billion (previous year: EUR 2.8 billion). Of this total, EUR 1.5 billion (previous year: EUR 2.2 billion) was accounted for by cash collateral received. The liabilities from registered bonds fell by EUR 0.2 billion to EUR 2.4 billion.

The deposits from customers in the amount of EUR 3.0 billion (previous year: EUR 3.4 billion) mainly consisted of issued registered bonds equalling EUR 2.2 billion (previous year: EUR 2.4 billion).

Issuing business

The portfolio of debt securities in issue totalled EUR 23.5 billion (previous year: EUR 30.6 billion) as at the reporting date.

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

Provisions

Provisions fell by EUR 141.1 million compared with the previous year to EUR 201.6 million. Much of this decrease stemmed from loan loss provisions in the traditional lending business. The EAA also created provisions of EUR 13.1 million for tax liabilities. A provision of EUR 2.8 million was established for legal risks. The provisioning for uncertainty regarding legal disputes relating to transactions in the trading portfolio was recognised as a valuation haircut in the trading assets.

Equity

The EAA's subscribed capital remained unchanged at EUR 500,000 as of 31 December 2017. In addition, the first transfer of risk exposures and non-strategic business units of the former WestLB created a capital reserve in the amount of around EUR 3,013.2 million. Due to the refill in fiscal year 2012 the capital reserve was reduced by EUR 123.8 million (of which EUR 13.1 million in 2013 were due to a contractual value adjustment clause) to its current level of EUR 3.0 billion. This reduction was essentially caused by the measures agreed in the content of the key point agreement dated 29 June 2011 and the binding protocol dated 18 June 2012.

As of the reporting date, the equity capital under HGB stood at EUR 655.6 million (previous year: EUR 641.2 million). Besides the net retained losses, this amount included other retained earnings of EUR 2.4 million resulting from the reversal of provisions whose values decreased due to revisions in the method to measure liabilities under BilMoG.

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

Summary of the business situation

The realisation of a net profit in fiscal year 2017 was attributable not least to reduced administrative expenses and to the net interest income, despite a declining portfolio, as well as to the result from financial assets and shareholdings.

The EAA's assets are in good order. Its equity as of 31 December 2017 amounted to EUR 655.6 million. Adequate liquidity was available at all times.

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

Financial and non-financial performance indicators

Financial performance indicators

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

Return on equity, for instance, is not in the foreground of the EAA's business strategy. Instead, the EAA is managed by performance indicators that show, among other things, the effects on its earnings situation or on its wind-up result. These performance indicators include the portfolio reduction in the banking book or the trading portfolio, and net interest income and net fee and commission income. These performance indicators are reported in the wind-up reports on a regular basis in both absolute and relative terms. The starting point for the analysis of the overall portfolio's wind-up success is 31 December 2011 for the banking book and 30 June 2012 for the trading portfolio (see also the "Wind-up report" section).

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

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

Non-financial performance indicators

Employees

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

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

Human resources work creates an environment in which the employees are able to develop and enhance their qualifications as best as possible based on their current phase of life. This is a key factor in employee loyalty and identification with the EAA. In winding up the portfolio, the EAA has taken on a complex public mandate and therefore has high standards when it comes to its employees. To secure this expertise, personnel management tools are offered, including multidisciplinary projects and job rotation.

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

As of 31 December 2017, the EAA employed 174 members of staff (excluding three Managing Board members). The number was lower compared with the previous year (31 December 2016: 178). Occasional recruitment is carried out via fixed-term contracts to take account of the progress made in reducing the portfolio.

Reputation and acceptance

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

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

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

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

Risk, opportunities and forecast report

Risk report

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

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

Risk management organisation

The EAA is supervised by BaFin with regard to those provisions of banking law that are applicable to the EAA. MaRisk are almost entirely applied by the EAA.

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

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

The Managing Board determines the risk strategy. The Risk Committee of the Supervisory Board discusses the risk strategy and the principles of risk policy set down therein with the Managing Board. On the recommendation of the Risk Committee, the Supervisory Board will decide on the principles relating to risk assumption contained in the risk strategy.

The general risk management strategy forms the basis 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 key individual strategies relate to the risk categories of credit risks, market price risks, liquidity risks, longevity risks, operational risks and other risks. The risk management strategies are reviewed at least once a year.

The Managing Board has established a framework of various interdisciplinary committees throughout the institution to aid it in fulfilling its responsibility to manage risks. As Managing Board committees, these committees are permanent institutions of the EAA. They serve as central decision-making, management and information-gathering bodies which assist in dealing with strategic issues related to portfolio management and the wind-up plan.

The committees which make decisions regarding risk management strategies and methods are the:

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

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

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

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

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

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

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

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

Risk reporting

Risks can be controlled and monitored in a sustainable manner only if they are transparent, and the underlying analysis results are prepared and communicated in a manner that is conducive to decision-making processes. Accordingly, risk reporting is among the key tasks of the Risk Controlling department, which fulfils this responsibility together with the Controlling & Planning department. The FMSA, the responsible committees, the Managing Board as well as the Supervisory Board and its committees are informed on a regular basis of any and all developments that might have an impact on the institution's risk or earnings situation. Risk reporting is a component of the monthly wind-up report and the quarterly risk report.

The Managing Board keeps the Supervisory Board and its committees regularly informed of the EAA's current wind-up status and the general risk situation, based on wind-up reports and a separate risk report that is adapted to fulfil the information requirements of the governing bodies.

Credit risks

Under credit risk, the EAA distinguishes between default risks, migration risks, counterparty risks, issuer risks and participation risks:

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

- △ Migration risk comprises potential losses calculated mathematically if the amount of the expected loss on interest and principle payments increases as a result of a deterioration in a borrower's creditworthiness.

- △ Counterparty risk comprises potential losses from the default of counterparties of derivatives transactions or where their creditworthiness deteriorates. Counterparty risk also includes settlement risk. Counterparty risk is determined for both the banking book and the trading portfolio.

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

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

Analysis and assessment of credit risks

EAA's Risk Controlling department in conjunction with the Credit Risk Management department continuously analyses and monitors the loan portfolio and its default and migration risks. In order to assess the potential consequences of systemic crises, stress tests are performed regularly to monitor how a portfolio-wide rating downgrade of several rating categories would impact the expected loss. The amount of loan loss provisions and changes to that amount are estimated at the general portfolio level. A total of three stress scenarios for default risks and inverse stress scenarios for the peripheral eurozone exposure are applied when preparing the wind-up plan. Moreover, the portfolio is monitored for concentration risks in individual sub-portfolios, asset classes and regions.

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

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

Management of credit risks

The most important tools used to manage credit risk are the restructuring or sale of loans, taking into account the effect of the wind-up plan. Additionally, the EAA can enter into credit default swaps and other credit derivatives to hedge individual exposures.

Default risks are generally limited to the amount of the credit lines that Portigon had provided as of the date the portfolio was transferred. Increases are permitted exceptionally only in connection with restructuring measures, provided they contribute to the loss reduction. When borrowers repay portions of their loans, the committed credit lines and the limits are reduced by a corresponding amount.

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

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

Issuer risks from the trading portfolio are limited to the amount of the transferred exposures towards individual issuers as part of the refill. Issuer risks are monitored and managed in the same manner as default risks.

Credit risks – banking book

The credit risk of the EAA and its subsidiaries is regularly analysed so as to identify, analyse, evaluate and manage all default risks within the portfolio. The EAA uses a variety of parameters – such as risk type, rating categories, maturities and regions – to identify risk concentrations.

The notional volume of the banking book portfolio (which primarily consists of loans and securities) declined by EUR 6.7 billion during 2017 to EUR 22.9 billion (at constant exchange rates as of 31 December 2011). Please refer to the section "Wind-up report" for more detailed information on the wind-up success.

Breakdown of notional volume by internal rating category[1]

	31/12/2017 EUR billion	31/12/2016 EUR billion
A0-A2	1.3	0.7
A3-A5	6.9	10.5
B1-B3	1.1	0.9
B4-B5	2.4	3.2
C1-C2	3.8	5.3
C3-C5	2.7	2.6
D1-D3	1.0	1.0
D4-E	2.5	3.3
S.R.	0.5	2.0
N.R.	0.8	0.3
Total	**22.9**	**29.7**

[1] Excluding exchange rate effects (based on exchange rates as of 31 December 2011).
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 68% (31 December 2016: 69%). About 36% (31 December 2016: 38%) of the notional volume has a very good rating (A0-A5) and around 32% (31 December 2016: 32%) is assigned to the mid-rating categories B1-C2. The S.R. rating category includes the opening clauses of the rating process and has a share of around 2% of the total portfolio.

The EAA continues to aim for a portfolio reduction across all rating categories. The EUR 3.6 billion reduction in the A3-A5 rating category is largely due to principal repayments of EUR 1.7 billion for Phoenix notes in this rating category, to improvements in credit ratings and to the structural resolution of the Carnuntum transaction (EUSS cluster). In the course of the resolution of the Carnuntum transaction, the underlying securities were transferred to the EAA and the refinancing notes held by the EAA up to then were repaid in full by Carnuntum in return. The underlying securities are assigned to different rating categories, especially to the N.R. rating category. This leads to a shift from rating category A3-A5 (rating of the previously held refinancing notes) to other rating categories (mainly N.R.).

The following table shows the reconciliation of the 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+	Investment grade
B2	A2	A	A	
B3	A3	A-	A-	
B4	Baa1	BBB+	BBB+	
B5	Baa2	BBB	BBB	
C1	Baa2	BBB	BBB	
C2	Baa3	BBB-	BBB-	
C3	Ba1	BB+	BB+	
C4	Ba2	BB	BB	
C5	Ba3	BB-	BB-	
D1	B1	B+	B+	
D2	B2	B	B	Non-investment grade
D3	B2	B	B	
D4	B3	B-	B-	
D5	Caa1 to C	CCC+ to C	CCC+ to C	
E	C	C	C	

Breakdown of notional volume by clusters[1,2]

	31/12/2017 in %	31/12/2016 in %
Structured Securities	42.3	40.0
Public Finance	22.1	19.5
Energy	12.5	11.3
Asset Securitisation	6.1	5.3
Other clusters	16.9	23.9
Total	**100.0**	**100.0**

[1] 31 December 2017 = EUR 22.9 billion; 31 December 2016 = EUR 29.7 billion.
[2] Excluding exchange rate effects (based on exchange rates as of 31 December 2011).
Note: The cluster structure was modified as of 31 January 2017. The Liquidity Portfolio cluster was dissolved and the holdings distributed over the Structured Securities, Public Finance and Financial Institutions clusters. The presentation of the previous year was restated accordingly.

The EAA's banking book portfolio consists of 13 clusters. The largest cluster, Structured Securities, with a total share of 42.3%, consists of four sub-portfolios: Phoenix (65.1% – please refer to the section "Phoenix" for further details), ABS liquidity portfolio (23.9%), EUSS (10.2%) and ABS (0.8%).

Breakdown of notional volume by maturities[1,2]

	31/12/2017 EUR billion	31/12/2016 EUR billion
<= 6 M	0.5	1.1
> 6 M <= 1 Y	0.5	1.9
> 1 Y <= 5 Y	7.6	10.3
> 5 Y <= 10 Y	5.2	6.4
> 10 Y <= 20 Y	5.8	5.9
> 20 Y	3.3	4.1
Total	**22.9**	**29.7**

[1] For assets with no fixed or with very long maturities: expected repayment profile.
[2] Excluding exchange rate effects (based on exchange rates as of 31 December 2011).

The reduction in the maturity range of one year to five years relates in particular to the amortisation of the Phoenix A3 note and drawings of the Phoenix B note.

The maturity range of 10 to 20 years includes the expected repayment profile of the assets held by one of the participations.

The other changes within the maturity ranges reflect the portfolio management measures undertaken in 2017.

Breakdown of notional volume by region[1]

	31/12/2017 EUR billion	31/12/2016 EUR billion
Americas[2]	11.4	13.8
EMEA	8.9	11.8
Germany	2.3	3.7
APAC	0.3	0.4
Total	**22.9**	**29.7**

[1] Excluding exchange rate effects (based on exchange rates as of 31 December 2011). The regional breakdown by borrowers or for securitisations is based on the main risk country of the asset pool.
[2] Contains EUR 3.2 billion for the Phoenix B note guaranteed by the State of NRW.

The regional breakdown of the notional volume hardly changed compared with 31 December 2016. Approximately 50% of the notional volume was attributable to the Americas region (31 December 2016: 47%). Repayments were mainly responsible for a decline of EUR 2.4 billion in the Americas region, particularly in the Structured Securities cluster (largely Phoenix).

About 39% of the notional volume (31 December 2016: 40%) was attributable to the EMEA region – Europe (excluding Germany), Middle East and Africa.

The share of German borrowers and guarantors (share of portfolio: about 10%; 31 December 2016: 13%) fell slightly.

The APAC region represents around 1% (31 December 2016: 1%) and was also almost unchanged.

The EAA's banking book portfolio was backed by the following collateral, of which EUR 31 million (31 December 2016: EUR 0.2 billion) was attributable to EAA subsidiaries. This decline was based on the maturities of exposures booked by the subsidiary EAA CBB in 2017.

Breakdown of types of collateral of the banking book

	31/12/2017 EUR billion	31/12/2016 EUR billion
Guarantees	4.7	6.0
Real estate	0.3	0.2
Financial collateral	0.2	1.3
Aircraft/Ships	0.2	0.3
Other collateral[1]	3.2	5.2
Total	**8.6**	**13.0**

[1] Including market values for Phoenix tranches.

Problem loans and risk provision

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

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

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

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

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

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	**194.4**	**98.5**	**-95.9**	**51.2**	**-44.7**
Credit risk	194.4	98.5	-95.9	28.3	-67.6
Other risk	-	-	-	22.9	22.9
Contingent counterparty default risk	**-**	**14.2**	**14.2**	**-**	**14.2**
Total	**194.4**	**112.7**	**-81.7**	**51.2**	**-30.5**

Other expenditures/income due to risk primarily include recoveries from written-off receivables.

Special banking book issues

Phoenix

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

The majority of the securitised Phoenix portfolio is denominated in US dollars and represents US risks, primarily in the property market there.

Phoenix notes capital structure

Tranche	Amount as of 31/12/2017 in million		S&P rating	Legal maturity
Class A3	1,265.1	USD	BBB+	9/2/2091
	503.8	EUR	BBB+	9/2/2091
Class A4	1,909.0	USD	B+	9/2/2091
	180.9	EUR	B+	9/2/2091
Class B	3,158.6	EUR	N.R.	9/2/2091

Repayments in the reporting period amounting to EUR 1.7 billion resulted in a decrease of the notional volume reported in euros to EUR 6.3 billion as of 31 December 2017 (calculated at constant exchange rates as of 31 December 2011). At the present time, the EAA assumes the Phoenix structure will be dissolved before 2024.

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

	31/12/2017 EUR billion	31/12/2016 EUR billion
A0-A2	-	-
A3-A5	4.6	6.3
B1-B3	-	-
B4-B5	-	-
C1-C2	1.7	1.7
C3-C5	-	-
D1-D3	-	-
D4-E	-	-
S.R./N.R.	-	-
Total	**6.3**	**8.0**

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

All of the Phoenix notes have an investment grade rating (rating categories A0-C2), taking into account the rating of the State of NRW (the guarantor for the Phoenix B note). Roughly EUR 1.8 billion of this guarantee had been utilised up to 31 December 2017.

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

Public Finance

The exposure to the public sector (including the Liquidity Portfolio) as of 31 December 2017 totals a notional amount of EUR 5.1 billion (excluding exchange rate effects, based on exchange rates as of 31 December 2011). EUR 3.1 billion of this amount is attributable to the UK, Ireland, Italy, Portugal and Spain. Further information can be found in the section "Exposures to selected EU member states".

Securities account for 87% of the total public-sector exposure (including regional and municipal borrowers). Some of these are held directly by the EAA and some by EAA CBB. The remaining 13% largely consist of lending transactions involving federal, municipal or other public-law institutions.

The largest part of the overall exposure, at 79%, is attributable to borrowers or issuers from the eurozone, with the remaining volume coming from other European countries outside the eurozone, Africa and the Middle East (13%), North and South America (6%), and Asia and Australia (2%).

Credit risks – trading portfolio

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

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

OTC derivative counterparty default risks are assessed independently from the front office using CVA. When doing so, externally traded credit spreads, where available, are used to determine the probability of default. The expected loss can be calculated as CVA based on expected future exposures and a statistically determined recovery rate. The CVA in the trading portfolio amounted to EUR 11.9 million as of 31 December 2017 (31 December 2016: EUR 37.8 million). The EUR 25.9 million decrease in CVA is attributable to novations (EUR -11.9 million), market fluctuations (EUR -5.9 million), changes in credit spreads (EUR -3.6 million), changes in credit ratings (EUR -2.8 million) and expired derivatives (EUR -1.7 million).

Counterparty and issuer risks

Direct counterparty risks

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

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

	31/12/2017 Exposure EUR million	31/12/2017 Limit EUR million	31/12/2016 Exposure EUR million	31/12/2016 Limit EUR million
Credit risk - money market positions[1]	1,791.4	5,430.5	2,609.7	5,563.4
Counterparty risk - OTC derivatives (pre-settlement risk)	374.5	3,143.0	621.3	3,692.0
Counterparty risk - repos	3.4	694.0	-	759.0

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

The credit risk for money market positions as of 31 December 2017 is significantly lower compared with year-end 2016 because of the progress made in reducing the portfolio. Counterparty risks from OTC derivatives are driven by transactions for liquidity steering (foreign exchange swaps) and interest rate hedging instruments (interest rate swaps).

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

Money market positions

Risk country	31/12/2017 Exposure EUR million	31/12/2017 Limit EUR million
Germany	844.8	2,457.0
Switzerland	442.7	710.0
Sweden	283.9	315.0
Other countries	220.0	1,948.5
Total	**1,791.4**	**5,430.5**

OTC derivatives

Risk country	31/12/2017 Exposure EUR million	31/12/2017 Limit EUR million
UK	169.9	1,340.0
Germany	128.5	748.0
France	45.7	530.0
Other countries	30.4	525.0
Total	**374.5**	**3,143.0**

Repos

Risk country	31/12/2017 Exposure EUR million	31/12/2017 Limit EUR million
Germany	3.4	159.0
UK	-	190.0
Ireland	-	150.0
Other countries	-	195.0
Total	**3.4**	**694.0**

Issuer risks

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

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

	< 1 Y EUR million	1-4 Y EUR million	4-8 Y EUR million	8-15 Y EUR million	> 15 Y EUR million	Total exposure EUR million
Public Finance	312.8	833.0	743.1	1,363.9	1,272.1	4,524.9
Financial Institutions	180.1	122.7	103.1	24.8	-	430.7
Other securities	12.0	-	242.5	512.5	2,179.5	2,946.5
Total 31/12/2017	**504.9**	**955.7**	**1,088.7**	**1,901.2**	**3,451.6**	**7,902.1**
Total 31/12/2016	685.5	1,626.7	1,547.2	2,239.0	4,055.5	10,153.9

The Public Finance sub-portfolio accounts for the largest share with EUR 4.5 billion. The remaining issuer exposures are made up of Financial Institutions securities as well as Other securities, mainly US student loans.

Issuer risks of the trading portfolio are low and total only EUR 1.9 million.

Participation risks

Participation risks result from the provision of subordinated capital and equity. Managing participations is the responsibility of the EAA's Legal & Strategy department. The EAA's Controlling & Planning department supports the participation controlling process.

Of the total portfolio of the EAA Group, a notional volume of EUR 3.4 billion (14.9%) is held by subsidiaries, mainly consisting of EAA CBB with EUR 1.3 billion (39.3%), Erste EAA Anstalt öffentlichen Rechts & Co. KG with EUR 1.2 billion (35.0%) and Dritte EAA Anstalt & Co. KG with EUR 0.9 billion (25.7%).

EAA CBB was included in the risk management and business management of the EAA. The subsidiary is subject to monitoring by the EAA and the EAA's approved internal limit system. Representatives of the EAA exercise non-managerial control functions as members of the governing bodies and committees of EAA CBB. EAA CBB was sold at the start of 2017. The sale will not be effective until approval is received from the supervisory authorities. This approval has not yet been given.

Erste EAA Anstalt öffentlichen Rechts & Co. KG holds a portfolio of US life insurance contracts through partnerships under US law. This company is fully funded by the EAA (EUR 1.2 billion).

Dritte EAA Anstalt & Co. KG holds a portfolio of structured securities. The EAA manages the transactions of Dritte EAA Anstalt & Co. KG as its general partner. As the securities continue to lie within the EAA's scope of risk management, on the basis of the look-through approach, the internal reporting has remained virtually unchanged. Additional securities were transferred to Dritte EAA Anstalt & Co. KG in the first half of 2017.

Ownership of EFS was transferred to the EAA at the end of March 2016 ("share deal"). Within the scope of a cooperation agreement between the EAA and EFS, EFS sub-outsourced a large part of the service provision to IBM with effect from 1 December 2017. This transaction ensured that the EAA will continue to have at its disposal all of the services it needs to continue with the wind-up of the assets transferred from the former WestLB. For the time being, EFS remains a subsidiary of the EAA and will concentrate on service provider management. This function is currently being integrated in the EAA. On the basis of the outsourcing agreement with EFS, IBM will provide the EAA with both IT and operational services for loan, securities and derivatives portfolios.

EPA, which has meanwhile been renamed MSPA, was sold to Mount Street with effect from 27 October 2017.

In some situations, the EAA will enter into new participations via restructuring if such an approach is deemed beneficial to preserve the value of the assets (for example with debt-to-equity swaps).

Exposures to selected EU member states

The banking book exposure of the EAA and its subsidiaries to Greece, the UK, Ireland, Italy, Portugal, Slovenia, Spain and Cyprus totals EUR 5.4 billion as of 31 December 2017. This exposure has been reduced by EUR 1.7 billion since the beginning of 2017. The decline is mostly attributable to Spain (EUR 0.8 billion), the UK (EUR 0.4 billion) and Italy (EUR 0.4 billion).

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

Country[1]	Debtor group	31/12/2017 Notional in EUR million[2]	31/12/2016 Notional in EUR million[2]
Greece	Corporates	40.9	82.9
	Financial Institutions	-	0.0
Σ Greece		**40.9**	**82.9**
UK	Corporates	780.3	1,105.2
	Financial Institutions	18.3	82.3
	Public Finance	131.9	136.7
Σ UK		**930.4**	**1,324.1**
Ireland	Corporates	24.7	9.4
	Financial Institutions	0.1	0.1
	Public Finance	30.0	115.0
Σ Ireland		**54.8**	**124.5**
Italy	Corporates	506.6	673.7
	Financial Institutions	0.0	101.0
	Public Finance	1,653.7	1,772.4
Σ Italy		**2,160.3**	**2,547.0**
Portugal	Corporates	18.0	18.0
	Financial Institutions	11.2	11.2
	Public Finance	853.0	855.8
Σ Portugal		**882.2**	**885.1**
Slovenia	Public Finance	-	40.0
Σ Slovenia		**-**	**40.0**
Spain	Corporates	594.9	750.7
	Financial Institutions	210.0	575.9
	Public Finance	488.0	784.0
Σ Spain		**1,292.9**	**2,110.7**
Cyprus	Corporates	63.0	51.8
Σ Cyprus		**63.0**	**51.8**
Total[3]		**5,424.6**	**7,166.0**
of which	Corporates	2,028.4	2,691.7
of which	Financial Institutions	239.6	770.5
of which	Public Finance	3,156.6	3,703.9

[1] Economic view; may differ from the borrower's legal country of residence (for Corporates and Financial Institutions).
[2] Based on current exchange rates. Presentation of the notional volume, including hedges (net).
[3] Of which EAA subsidiaries: EUR 1,323.2 million (31 December 2016: EUR 954.1 million).

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

Product[1]	Value	Country[2]	31/12/2017 EUR million[3]	31/12/2016 EUR million[3]
Decomposed CDS	EaD	UK	-	0.0
		Italy	-	0.0
		Portugal	-	0.0
		Spain	-	0.0
Σ Decomposed CDS			**-**	**0.0**
Other derivatives and ALM	MtM	UK	241.9	469.4
		Ireland	0.0	-
		Italy	39.5	317.9
		Spain	122.4	235.7
		Cyprus	-	19.6
Σ Other derivatives and ALM			**403.8**	**1,042.6**
Other	Notional	UK	26.0	24.3
Σ Other[4]			**26.0**	**24.3**

[1] ALM = cluster ALM as part of the banking book is identified here as in the internal view and not as a banking book exposure; Derivatives = replacement risks from OTC derivatives and from CDS; decomposed CDS = CDS positions that do not relate to an individual underlying but to a portfolio of underlying individual transactions such as a basket of reference debtors.
[2] Economic view; may differ from the borrower's legal country of residence (for Corporates and Financial Institutions).
[3] Based on current exchange rates. Presentation of the notional volume, including hedges (net).
[4] Includes mainly the HSBC nostro portfolios.

Market price risks

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

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

△ Interest rate risk describes the risk to the portfolio's net interest income or present value from changes in market interest rates.

△ Foreign exchange risk describes the risk of losses from changes in exchange rates.

△ Equity risk describes the risk of losses from changes in prices on the stock market.

△ Credit spread risk describes the fluctuation in the value of securities resulting from a change in credit risk premiums (for example, on foreign government bonds in the Public Finance portfolio).

Market price risks – banking book

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

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

Interest rate risk (EAA Group)

	31/12/2017 EUR thousand	31/12/2016 EUR thousand
< 1 Y	82.9	-3.1
1-4 Y	51.9	0.3
4-8 Y	69.9	25.9
8-15 Y	36.8	-70.5
> 15 Y	-41.3	-22.4
Total	**200.2**	**-69.8**

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

The interest rate sensitivity PV01 is now EUR 200.2 thousand compared with year-end 2016 (EUR -69.8 thousand), due to management and maturity effects. The utilisation is within the limits.

Foreign exchange risk (EAA Group)

	31/12/2017 EUR thousand	31/12/2016 EUR thousand
AUD	3,346.7	1,040.3
CHF	-907.3	472.2
GBP	2,535.1	1,327.6
JPY	4,914.4	3,218.7
PLN	454.4	-1,491.7
SGD	1,062.3	1,120.5
USD	-2,295.6	6,384.1
Other	2,362.6	13,180.5
Total	**11,472.6**	**25,252.2**

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

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

Market price risks – trading portfolio

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

When monitoring and limiting risks, the EAA applies both a VaR model and risk sensitivities. A number of stress scenarios are also used for risk management purposes. The VaR model calculates interest rate risks, equity risks and foreign exchange 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.

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

The relevant market price risk exposures are continuously subjected to backtesting. This involves comparing the actual market value changes (hypothetical income statement) to the possible market value changes forecast by the VaR model on a daily basis. There was no backtesting breach in the current fiscal year 2017 at the highest level of the portfolio structure of the trading portfolio. From a statistical perspective, two to three instances of exceeded limits must be expected per year for a VaR with a holding period of one trading day and a confidence level of 99%.

Value at Risk by clusters

	31/12/2017 EUR thousand	31/12/2016 EUR thousand
EAA Trading	455.6	689.1
Muni GIC Portfolio	372.8	585.9
Interest Rate Flow	148.6	211.7
Interest Rate Exotics	123.7	233.5
Interest Rate Options	91.4	89.6
Foreign Exchange Options and Hybrids	70.4	139.7
Credit and Equities	3.5	6.3

As of 31 December 2017 the VaR for the trading portfolio declined to EUR 455.6 thousand due to market movements and hedging activities (31 December 2016: EUR 689.1 thousand).

Liquidity risks

The EAA distinguishes between tactical and strategic liquidity risks.

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

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

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

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

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

The limited stress scenarios ("liquidity crisis and downgrade", "liquidity crisis and downgrade USD") demonstrated a viable net liquidity situation as of 31 December 2017 (defined as the total of cumulated cash flows and the liquidity reserve). The liquidity reserve comprises highly-liquid securities which are very likely to be eligible for repo transactions, in order to generate new liquidity. The liquidity reserve was around EUR 3.6 billion when the stress test was performed.

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

Longevity risks

The EAA funds premium payments for US life insurance policies under so-called life settlement engagements. The payouts from these policies flow to the EAA when the insured individual dies. These policies are bundled in subsidiaries of Erste EAA Anstalt öffentlichen Rechts & Co. KG (formerly Erste EAA-Beteiligungs GmbH).

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

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

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

The EAA regularly monitors not only the present value of the expected cash flows (premiums, death benefits and service fees) from the policies but also the so-called net present value of Erste EAA Anstalt öffentlichen Rechts & Co. KG. Besides the present value of the expected cash flows, this indicator takes into account the outstanding funding and cash on hand, making it possible to measure performance over time for the entire life settlement portfolio.

Operational risks

The EAA differentiates between operational risks within the EAA Group (including its subsidiaries) and risks from the outsourcing of activities to service providers.

Operational risks in the EAA comprise all risks arising from inappropriate reactions or from the failure of internal processes, systems, and individuals, as well as risks resulting from external events.

Outsourcing risks in respect to the service providers encompass possible losses from procuring services from third-parties. These include, in particular, the risk that contractually agreed services are not provided or do not meet the stipulated quality.

Operational risks arise from errors made by employees or service providers in processing the business or through fraud. Alternatively, they may arise from the surrounding environment, such as cybercrime. The management of operational risks is therefore the direct responsibility of the individual departments under the leadership of the respective department heads. The EAA's Risk Controlling department monitors this effort.

Operational risks within the EAA

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

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

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

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

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

The EAA's most recent risk inventory revealed no assessment object with high risks. Of the assessment objects, 14% are characterised by medium risks and 86% by low risks. The overall risk situation remained largely unchanged.

A risk inventory of the EAA together with EFS, EPA and EAA CBB was carried out in 2017. This risk inventory showed that after acquiring EFS to secure the services provided by EFS for the EAA, risks in the high-risk area were once again reduced to 2.2% (previous year: 3%), particularly in the case of personnel risks.

Service provider management

The outsourcing of key business processes requires that the EAA controls and monitors the operating infrastructure of its service providers in order to ensure proper business operations. The monitoring requirements for the EAA are far-reaching and result from both the EAA's original task and its accountability to the liable stakeholders and the FMSA as well as from supervisory and statutory requirements in terms of transparency, correctness and the adequacy of control systems.

The EAA is also subject to the legal and supervisory regulations pursuant to section 25a KWG and applies MaRisk AT 9 (outsourcing) and AT 4.3.1 note 2, which require the management and monitoring of outsourced activities.

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

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

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

There were no elevated risks during 2017, and the quality of the services rendered during the period was fundamentally stable in accordance with the service agreement.

The EAA Group underwent considerable structural changes in the fourth quarter of 2017. EPA was sold to Mount Street with effect from 27 October 2017 and a large part of the EFS services were outsourced to IBM at the start of December 2017. Accordingly, governance structures already in existence with EFS were extended to include IBM employees. The Group-wide standards for provider management are also being applied gradually for the new re-outsourcing. A corresponding project was launched in the EAA at the start of 2018 to support the transition/transformation of the processes to IBM or within IBM.

Other risks

Reputational risks

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

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

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

Legal risks

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

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

Since April 2010 the authorities in the US and in the EU (particularly BaFin) had been investigating possible misconduct in the trading departments of several banks. The results of the investigation have not produced any evidence of wrongdoing at the former WestLB; the investigations by BaFin and the US supervisory authorities were terminated without any measures being undertaken against Portigon. A large number of investment banks active in the US were also sued in the US in various class action lawsuits due to alleged manipulative actions with regard to exchange rates. Certain aspects of these class actions were repeatedly rejected with respect to Portigon. The plaintiffs launched an appeal against this, the outcome of which led in part to a referral back to the Court of First Instance and in part to an uncertain outcome as things currently stand. The Court of First Instance has yet to make a final decision in favour of the plaintiffs. This is currently rather unlikely, however, given the facts and the evidence, and in particular also because of the disputed jurisdiction of US courts. The EAA has no reason to doubt Portigon's claims that there are no indications of any misconduct.

The legal disputes arising from the derivatives transactions with municipalities based were largely ended through out-of-court settlements.

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

Tax risks

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

The EAA uses clearly defined governance structures and processes to analyse and manage tax risks. Tax risks are clarified through active communication with tax authorities and other government institutions. Where necessary, external specialists are engaged to consult on legal and tax issues.

Summary of the risk situation

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

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

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

Due to its good rating, the EAA has a stable funding situation. The stress scenarios demonstrated reasonable net liquidity as of 31 December 2017.

Market price risks are largely limited.

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

Longevity risk is the risk that insured individuals live longer than originally calculated or the insurance companies increase the premiums. It is limited to the acquired portfolio. The longevity risks in the portfolio are regularly analysed.

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

The EAA has provided sufficiently for all known risks. Its equity – before the loss offset guarantees – is initially available as aggregate risk cover for risks that are not yet foreseeable at present.

The requirements for risk-bearing capacity pursuant to section AT 4.1 MaRisk are not relevant for the EAA. Instead, the EAA performs a quarterly analysis of the changes in its equity to the end of the planning period using the wind-up plan as well as updated variables and market parameters. This involves, in particular, analysing the effects of changed framework conditions on equity in 2027. The wind-up plan shows positive equity capital as of the end of the planning period. This means that the only possibility of a loss occurring that would require

utilisation of the EAA's liability mechanism in the period to the end of the planning horizon for the wind-up plan would be if adverse scenarios were to materialise which, from today's perspective, are unlikely to occur.

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

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

Opportunities report

The economic recovery in the eurozone will continue. Former crisis-hit countries (Spain, Portugal and Ireland) will be among the fastest-growing economies in the eurozone in 2018 and 2019. The euro crisis was a key catalyst for reforms and improvements, in particular for Spain and Portugal. Structural problems were addressed and the reforms improved the international competitiveness of these countries. Italy's economy is likely to grow further in 2018, despite the general election in March 2018. Even so, the growth of 1.5% expected for the year as a whole will still lag behind the eurozone average. The eurozone's faster pace of growth will have a positive effect on the countries' credit quality and ratings. Higher growth and falling unemployment will drive up tax revenues and social security contributions. At the same time, the necessary social spending will fall, which the rating agencies will reward with rating upgrades. The improved economic situation and better ratings will benefit the valuations of euro government bonds and other financial products that are valued based on their respective country's bond curves. The process will not be limited to listed products only; it will also affect other segments of the euro credit market such as promissory note loans, traditional loans and project financing.

The ECB's monetary policy is also expected to support the valuation of EUR government bonds in 2018, even if it is recalibrating its purchase programmes and reducing monthly purchases volume for securities from EUR 60 billion to EUR 30 billion. It will continue to make these purchases up to September 2018. Thereafter, the ECB will only purchase securities within the scope of reinvesting cash inflows from its portfolio. It will continue to have a positive influence on the valuation level through these purchases, which will be made for reinvestment purposes. This should limit price and spread volatility. The return of other investors who were replaced by the ECB is also likely to limit the valuation risks. The ECB will probably have reached the maximum degree of easing in September 2018. Further support initiatives are unlikely to follow. The status quo thus reached should be retained over the coming 18 months. The combination of very loose monetary policy and economic recovery is allowing the eurozone states and the companies and project finance established there to service their debt on much better terms.

Besides exposures to the euro periphery, the EAA also has significant exposures in the US. US property prices in particular have largely recovered in line with the economic trend and are now only about 4% below the high of July 2006. This was already taken into account in the valuation of the exposures, so the positive effect of the continued economic recovery in the US should be limited.

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

Forecast report

Active measures and contractual maturities are expected to reduce the notional volume of the banking book by around 17% to about EUR 19 billion in 2018.

The EAA's objective is to wind up around 87% of the banking book's portfolio as of 31 December 2011 (including the exposures held by subsidiaries and the exposures from the refill) by the end of 2019. As in previous years, the wind-up activities will focus on advance portfolio-reducing measures and active participation management.

For 2018 the plan calls for a reduction in the notional volume of the trading portfolios by around 13% to about EUR 180 billion compared with the previous year. Since the transfer in 2012 the EAA has continued to target a reduction in the notional volume of more than 85% by the end of 2019. The EAA will continue to analyse how the trading portfolios can be reduced at an accelerated pace effectively and cost efficiently.

With regard to the change in notional volumes in the banking book and the trading portfolio, in the previous year the EAA anticipated that these would be reduced to EUR 26 billion in the banking book and EUR 228 billion in the trading portfolio in fiscal year 2017. Thanks to active measures in particular, this forecast was surpassed by a substantial margin.

Mainly as a result of the significantly reduced portfolio compared with 2017, net interest income, net fee and commission income, and the results from financial assets and shareholdings is expected to decline during fiscal year 2018 to EUR 104 million (including dividend income). A forecast for the trading result and for the result of risk provisions is difficult due to the imponderables with respect to developments on the global financial markets and other markets. The EAA is sticking with its strategy of winding up in a value-preserving manner. Losses cannot be ruled out in the next few fiscal years because of the now substantial reduction of the portfolio and the associated decline in income from ongoing operations. This possibility is taken into account in the EAA's wind-up planning.

In the previous year the EAA anticipated that its net interest income and net fee and commission income for fiscal year 2017 would decrease due to the reduction in the portfolio. This forecast proved to be correct. The decrease amounted to EUR 55 million and is therefore greater than anticipated. At the time of the projections, a larger non-recurring amount was forecast in net interest income, which was however incurred during the year in the results from financial assets and shareholdings. Adjusted for this shift in the income statement, the positive deviation from projections amounted to EUR 45 million, which was achieved largely through more favourable refinancing. Last year the EAA decided not to make a forecast about the changes in the net trading and risk provision result due to the imponderables associated with the developments on the global financial and other markets.

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

The EAA fundamentally pursues an opportunistic approach by conducting regular analyses of market conditions and exit opportunities in order to assess early and profitable wind-up opportunities for all positions of the portfolio. It is currently intensely reviewing whether it can reach the wind-up objectives ahead of schedule.

The EAA's objectives are supported by current economic developments. In particular, the ECB's programme to purchase euro government bonds had a positive impact on the EAA's portfolios. At the Executive Board meeting in September 2017, the ECB decided to extend the net purchase of covered bonds, corporate bonds and securitisations up to September 2018. Nevertheless, the ECB will continue to purchase bonds after September 2018. Within the scope of reinvesting cash inflows from the portfolio, it will buy an estimated EUR 15 billion to EUR 25 billion in bonds per month to prevent its balance sheet from shrinking.

The combination of further asset purchases and the ECB's promise to stand ready as buyer of last resort within the framework of OMT has prevented crises from spreading from one euro-zone state to other states or regions. This also explains why, for example, the crisis in the Spanish region of Catalonia hardly impacted on the financing conditions of Spain and other countries. The effect of the ECB purchases is not limited to just government bonds. It is also radiating out to other segments, as investors are looking for investment alternatives in the current environment of low interest rates and yields.

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

Accounting-based internal control and risk management system

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

Within the framework of the service agreements concluded, the EAA, MSPA and EFS (together with IBM since December 2017) have implemented an ICS and an RMS that are appropriate for the financial reporting processes and business activities of the EAA. The accounting-related ICS/RMS consists primarily of guidelines and processes which offer reasonable assurance that business transactions are fully, promptly and accurately measured and recorded on an accrual basis in accordance with statutory and other provisions so that

- public financial reporting provides a true and fair view of the EAA's financial standing (integrity and reliability of financial reporting);
- decision-makers and governing bodies are regularly and promptly informed of financial reporting data relevant to the management of the institution (internal reporting);
- appropriate control procedures are in place so that unauthorised purchases, use or sales of assets having a material impact on the financial reporting can be prevented or identified early on;
- an appropriate control and documentation environment is created (such as the segregation of functions, compliance with established approval or authority levels, dual control principle when recording business transactions, orderly documentation); and
- the archiving and storage of documents and accounting-relevant data is regulated concerning information that provides accurate, sufficiently detailed and appropriate data on business transactions and the use of assets.

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

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

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

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

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

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

Balance sheet

Assets

	Notes	EUR	EUR	31/12/2017 EUR	31/12/2016 EUR
1. Cash reserve					
a) Balances with central banks			2,048,446,807		(1,696,544,165)
of which:					
with Deutsche Bundesbank EUR 2,048,446,807 (py: EUR 1,696,544,165)					
				2,048,446,807	1,696,544,165
2. Loans and advances to banks	4, 30				
a) Payable on demand			3,295,501,985		(4,328,984,532)
b) Other loans and advances			2,169,320,444		(2,933,556,878)
				5,464,822,429	7,262,541,410
3. Loans and advances to customers	5, 6, 15, 30			10,981,205,434	14,076,435,205
of which:					
secured by mortgage charges EUR 210,898,911 (py: EUR 274,699,385)					
Public-sector loans EUR 1,389,301,223 (py: EUR 1,288,200,852)					
4. Bonds and other fixed-income securities	7, 12, 16, 30				
a) Bonds issued by					
aa) public issuers		1,791,982,174			(2,145,836,799)
of which:					
eligible as collateral with Deutsche Bundesbank EUR 1,641,231,640 (py: EUR 1,914,722,558)					
ab) other issuers		7,433,127,403			(10,702,207,986)
of which:					
eligible as collateral with Deutsche Bundesbank EUR 457,221,085 (py: EUR 1,248,846,030)					
			9,225,109,577		(12,848,044,785)
b) Own bonds notional value: EUR 50,569,000 (py: EUR 50,751,000)			52,120,334		(52,278,609)
				9,277,229,911	12,900,323,394
5. Equities and other non-fixed-income securities	12			1	2
5a. Trading portfolio	8			17,447,078,399	23,750,386,362

BALANCE SHEET

	Notes	EUR	EUR	31/12/2017 EUR	31/12/2016 EUR
6. Long-term equity investments	9, 12			48,151,064	65,719,209
of which:					
in banks EUR 12,421,102 (py: EUR 12,421,102)					
7. Shares in affiliates	10, 12			1,253,940,954	798,317,785
of which:					
in banks EUR 434,297,095 (py: EUR 434,297,095)					
in financial service providers EUR 26,214,000 (py: EUR 29,045,760)					
8. Trust assets	11			24,657	25,577
of which:					
trust loans EUR 24,657 (py: EUR 25,577)					
9. Intangible assets	12				
a) Paid concessions, trademarks and similar rights and values such as licences in such rights			3,977,779		(4,413,903)
				3,977,779	4,413,903
10. Tangible fixed assets	12			224,934	273,803
11. Other assets	13			24,616,970	66,061,566
12. Prepaid expenses/accrued income	14			44,491,424	48,226,705
Total assets				**46,594,210,763**	**60,669,269,086**

Liabilities and equity

	Notes	EUR	EUR	31/12/2017 EUR	31/12/2016 EUR
1. Deposits from banks	17				
a) Payable on demand			1,618,232,108		(2,244,426,131)
b) With an agreed maturity or withdrawal notice			480,937,323		(521,875,443)
				2,099,169,431	2,766,301,574
2. Deposits from customers	18				
other deposits					
a) Payable on demand			44,705,624		(135,106,811)
b) With an agreed maturity or withdrawal notice			2,970,162,785		(3,251,147,389)
				3,014,868,409	3,386,254,200
3. Debt securities in issue	19				
a) Bonds			12,534,414,318		(16,551,269,139)
b) Other debt securities in issue			10,943,994,265		(14,031,089,669)
of which:					
money market instruments EUR 10,943,994,265 (py: EUR 14,031,089,669)					
				23,478,408,583	30,582,358,808
3a. Trading portfolio	20			16,949,357,227	22,737,617,054
4. Trust liabilities	21			24,657	25,577
of which:					
trust loans EUR 24,657 (py: EUR 25,577)					
5. Other liabilities	22			171,630,108	190,450,788
6. Accruals/deferred income	23			23,510,081	22,438,331
7. Provisions	24				
a) Tax provisions			13,121,644		(0)
b) Other provisions			188,525,941		(342,659,598)
				201,647,585	342,659,598

BALANCE SHEET

	Notes	EUR	EUR	31/12/2017 EUR	31/12/2016 EUR
8. Equity	25				
a) Called capital					
Subscribed capital		500,000			(500,000)
less uncalled outstanding capital		0			(0)
			500,000		(500,000)
b) Capital reserves			3,013,237,214		(3,013,237,214)
c) Revenue reserves					
Other revenue reserves		2,431,408			(2,431,408)
			2,431,408		(2,431,408)
d) Net retained losses			-2,360,573,940		(-2,375,005,466)
				655,594,682	641,163,156
Total liabilities and equity				**46,594,210,763**	**60,669,269,086**
1. Contingent liabilities	26				
a) Liabilities from guarantees and warranties			3,484,983,937		(6,610,052,169)
				3,484,983,937	6,610,052,169
2. Other obligations	26				
a) Irrevocable loan commitments			1,917,913,981		(3,058,261,529)
				1,917,913,981	3,058,261,529

Income statement

	Notes	EUR	EUR	1/1-31/12/2017 EUR	1/1-31/12/2016 EUR
1. Interest income from	28				
a) Lending and money market transactions		316,380,262			(324,245,160)
b) Fixed-income securities and debt register claims		180,224,111			(208,437,623)
			496,604,373		(532,682,783)
2. Interest expense			372,002,226		(398,288,522)
				124,602,147	134,394,261
3. Current income from	28				
a) Equities and other non-fixed-income securities			0		(25,409)
b) Long-term equity investments			3,217,339		(19,900,653)
c) Shares in affiliates			2,556		(4,313)
				3,219,895	19,930,375
4. Income from profit pooling, profit transfer or partial profit transfer agreements	28			15,056,560	19,581,268
5. Fee and commission income	28		9,208,365		(34,634,035)
6. Fee and commission expense			21,972,494		(23,135,006)
				-12,764,129	11,499,029
7. Net trading result	28			13,855,899	33,638,772
8. Other operating income	28, 29			14,730,294	11,996,135
9. General administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		26,434,175			(20,771,519)
ab) Compulsory social security contributions and expenses for pensions and other employee benefits		2,970,494			(2,645,546)
of which:					
for pensions EUR 789,785 (py: EUR 724,618)					
			29,404,669		(23,417,065)
b) Other administrative expenses			148,806,742		(188,861,451)
				178,211,411	212,278,516

INCOME STATEMENT

	Notes	EUR	EUR	1/1-31/12/2017 EUR	1/1-31/12/2016 EUR
10. Depreciation and write-offs on intangible assets and tangible fixed assets	12			486,539	503,586
11. Other operating expenses	29			13,854,829	15,429,361
12. Depreciation and write-offs on claims and certain securities as well as additions to provisions in the lending business	12, 24, 30			30,533,149	7,516,969
13. Income from appreciations of long-term equity investments, shares in affiliates and long-term securities	12, 30			94,104,065	92,991,362
14. Expenses from loss assumption	30			72,509	78,156,617
15. Result from ordinary activities				29,646,294	10,146,153
16. Taxes on income and earnings	31			15,062,038	422,501
17. Other taxes not reported under item 11	31			152,731	129,535
18. Net profit for the year				14,431,525	9,594,117
19. Net retained losses brought forward				-2,375,005,465	-2,384,599,583
20. Net retained losses				-2,360,573,940	-2,375,005,466

Cash flow statement

			1/1-31/12/2017 EUR	1/1-31/12/2016 EUR
1.	+/-	Result for the period	14,431,525	9,594,117
		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	45,309,750	-2,554,324
3.	+/-	Increase/decrease in provisions	-141,012,012	-51,132,087
4.	+/-	Other non-cash income/expense	-141,744,945	486,967,113
5.	+/-	Gain/loss on disposal of long-term financial assets	-98,877,545	-54,198,851
6.	=	Subtotal	-321,893,227	388,675,968
		Change in operating assets and liabilities		
7.	+/-	Increase/decrease of loans and advances to banks (no trading portfolio)	1,798,728,224	2,457,753,488
8.	+/-	Increase/decrease of loans and advances to customers (no trading portfolio)	2,265,746,493	984,194,700
9.	+/-	Increase/decrease of securities (no financial assets and no trading portfolio)	3,663,041,699	2,944,295,922
10.	+/-	Trading assets	734,502,550	879,983,365
11.	+/-	Increase/decrease of other operating assets	17,553,136	7,959,241
12.	+/-	Increase/decrease of deposits from banks (no trading portfolio)	-669,218,651	-854,642,920
13.	+/-	Increase/decrease of deposits from customers (no trading portfolio)	-369,680,218	-684,379,163
14.	+/-	Increase/decrease of debt securities in issue	-7,090,708,577	-3,626,342,533
15.	+/-	Trading liabilities	-77,709,469	-615,298,186
16.	+/-	Increase/decrease of other operating liabilities	-16,631,498	-89,467,905
17.	+/-	Interest expenses/interest income	-127,822,043	-154,324,637
18.	+/-	Tax expenses/tax income	15,062,037	422,501
19.	+	Interest payments and dividend payments received	526,459,687	552,375,583
20.	-	Interest paid	-389,203,615	-452,600,143
21.	+/-	Income tax payments	16,906,300	-11,303,437
22.	=	Cash flows from operating activities (sum of 6 to 21)	-24,867,172	1,727,301,844
23.	+	Proceeds from disposal of long-term financial assets	748,504,038	164,594,923
24.	-	Purchase of long-term financial assets	-375,668,426	-139,499,841
25.	-	Purchase of tangible fixed assets	-1,546	0
26.	-	Purchase of intangible assets	0	-76,615
27.	=	Cash flows from investing activities (sum of 23 to 26)	372,834,066	25,018,467
28.	+/-	Changes in other capital (net)	0	0
29.	=	Cash flows from financing activities (sum of 28)	0	0
30.		Net change in cash funds (sum of 22, 27, 29)	347,966,894	1,752,320,311
31.	+	Cash funds at beginning of period	1,760,393,757	8,073,446
32.	=	Cash funds at end of period (sum of 30 to 31)	2,108,360,651	1,760,393,757

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

Statement of changes in equity

	Balance as of 1/1/2017 EUR	Appropriation of the result EUR	Balance as of 31/12/2017 EUR
Called capital	500,000	0	500,000
Capital reserves	3,013,237,214	0	3,013,237,214
Other revenue reserves	2,431,408	0	2,431,408
Net retained losses	-2,375,005,466	14,431,525	-2,360,573,940
Equity under HGB	**641,163,156**	**14,431,525**	**655,594,682**

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

Notes

For the period from 1 January to 31 December 2017

General disclosures

1. Legal framework of the EAA

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

The EAA is winding up the risk exposures and non-strategic business units transferred from the former WestLB and its domestic and foreign subsidiaries (transferred assets). In doing so, it proceeds in a value-preserving and risk-minimising manner. This serves to stabilise the financial market. The risk exposures and non-strategic business units of the former WestLB were transferred to the EAA in the years 2009 and 2010 (first fill) as well as in 2012 (refill) using several different transfer methods. In an ongoing process, transactions that were synthetically transferred initially will be transferred legally and fully from Portigon to the EAA. For further information on the transfer methods, please refer to the "Operating activities of the EAA" section.

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

2. Preparation of annual financial statements

In accordance with section 8a (1a) FMStFG in conjunction the additional guidance of the EAA's charter, the EAA's annual financial statements have been prepared under the provisions of the HGB for large public companies and RechKredV. The EAA is not required under section 8a (1a) sentence 3 FMStFG to prepare consolidated financial statements. Information that may be disclosed in either the balance sheet or the notes to the financial statements has been disclosed in the notes to the financial statements.

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

3. Accounting and measurement principles

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

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

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

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

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

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

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

ateness of the measurements in the underlyings and notes of Phoenix and EUSS are also verified by means of an internal validation process at the EAA.

The fair values of the equities, bonds, derivative products and other items reported in the trading portfolio are calculated as of the reporting date, initially with respect to individual transactions and irrespective of their trading status. Measurement is carried out using exchange or market prices as of 29 December 2017, with averages and/or recognised measurement methods used in the interest of convenience. Proportionate interest, one-off payments and option premiums are taken into account. If exchange or market prices do not exist or cannot be reliably determined (especially in the case of derivative instruments), fair values are determined on the basis of the pricing models typically used in the market or discounted cash flows.

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

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

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

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

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

Equity products: liquid, exchange-traded products (forward contracts, options) are measured at their exchange prices. The prices of conventional equity options with a single underlying are determined using the Black-Scholes formula. Dividend estimates also need to be included for equity products.

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

When measuring derivatives collateralised using cash, future cash flows for the main portfolios are discounted on the basis of EONIA swap curves ("OIS discounting"). As part of the risk-adjusted market measurement method, this discounting was taken into account by means of a markdown amounting to EUR 6.7 million (previous year: EUR 16.4 million) as of 31 December 2017.

	Product	Valuation method	Valuation parameters
Interest rate products	Standard swaps	Present value method	Interest rates
	Exotic swaps	Markov functional	Interest rates, interest rate volatility, correlation
	Forward rate agreements	Present value method	Interest rates
	Standard-caps, -floors, -collars	Black 76	Interest rates, interest rate volatility
	Exotic caps, floors	Markov functional	Interest rates, interest rate volatility, correlation
	European standard-swaptions	Black 76	Interest rates, interest rate volatility
	Exotic swaptions	Markov functional	Interest rates, interest rate volatility, correlation
Exchange rate products	FX swaps	Present value method	Interest rates, exchange rates
	Options	Black 76	Interest rates, exchange rates, exchange rate volatility
	Forward interest rate FX swaps	Present value method	Interest rates, exchange rates
Equity products	Standard options (single underlying asset)	Black Scholes	Price of the underlying asset, interest rates, dividend yield, volatility (base value, exchange rate)
Credit products	Credit default swaps (single underlying issuer)	Hazard rate bootstrapping model	Credit spreads
	Securitised assets	Bloomberg cash flow model	Credit spreads, conditional prepayment rate

The assumptions and estimates required, in particular in connection with illiquid portfolios, are based on subjective management judgement and therefore entail projection uncertainties. Even if the available information, historical experience and other evaluation factors have been relied upon to prepare the estimates, actual future events may differ from the estimates. This may also have a material impact on the asset position, financial position and earnings situation. In the EAA's opinion, the parameters used are appropriate and acceptable.

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

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

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

No financial instruments were reclassified out of the trading portfolio pursuant to section 340e (3) sentence 3 HGB in fiscal year 2017. No changes were made to the EAA's internal criteria for including financial instruments in the trading portfolio.

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

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

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

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

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

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

The translation of currencies for assets and liabilities is carried out in accordance with the provisions of sections 256a and 340h HGB. Assets and liabilities denominated in foreign currencies, unsettled foreign exchange spot transactions and pending transactions are classified in every currency as being specifically covered pursuant to section 340h HGB, and converted using the ECB reference exchange rates as of 29 December 2017. As a result, all expenses and income from the conversion of currencies are recorded in accordance with section 340h HGB. In the case of pending forward exchange contracts used to hedge interest-bearing balance sheet positions, the forward exchange rate is divided into a spot rate and a swap rate. The agreed swap amounts are accrued pro rata temporis. The positive net result from the evaluation of individual pending forward exchange transactions is reported under other liabilities.

Deferred taxes are calculated based on the temporary differences concept. In the annual financial statements as of 31 December 2017, the EAA once again did not exercise its option to capitalise deferred taxes.

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

Notes on the balance sheet and the income statement

4. Loans and advances to banks

	31/12/2017 EUR million	31/12/2016 EUR million
Carrying amount	**5,464.8**	**7,262.5**
of which:		
- to affiliates	451.5	742.4
Payable on demand	3,295.5	4,329.0
due		
- within 3 months	2,130.4	2,868.5
- 3 months to 1 year	8.7	10.0
- 1 to 5 years	8.2	31.1
- after 5 years	22.0	23.9

5. Loans and advances to customers

	31/12/2017 EUR million	31/12/2016 EUR million
Carrying amount	**10,981.2**	**14,076.4**
of which:		
- to affiliates	1,416.6	1,778.0
- to long-term equity investments	7.3	9.7
due		
- within 3 months	1,540.0	1,731.1
- 3 months to 1 year	1,639.5	2,233.8
- 1 to 5 years	1,962.2	2,628.9
- after 5 years	5,839.5	7,482.6

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

6. Loans and advances secured by mortgages

	31/12/2017 EUR million	31/12/2016 EUR million
Carrying amount	**210.9**	**274.6**
Loans and advances to customers due		
- within 3 months	6.3	5.4
- 3 months to 1 year	4.8	7.1
- 1 to 5 years	23.9	34.4
- after 5 years	175.9	227.7

7. Bonds and other fixed-income securities

	31/12/2017 EUR million	31/12/2016 EUR million
Carrying amount	**9,277.2**	**12,900.3**
of which:		
Amounts due in the following year	483.2	553.1
Breakdown		
- Bonds issued by public issuers	1,792.0	2,145.8
- Bonds issued by other issuers	7,433.1	10,702.2
- Own bonds	52.1	52.3
Breakdown by marketability		
- Marketable securities	9,277.2	12,900.3
of which:		
- listed	2,559.5	3,905.5
- unlisted	6,717.7	8,994.8
Breakdown by type		
- Liquidity reserve	70.7	159.1
- Investment securities	9,206.6	12,741.2

Bonds and other fixed-income securities in the amount of EUR 9.2 billion (previous year: EUR 12.7 billion) are included in the financial assets portfolio. As of the reporting date, financial assets with a carrying amount of EUR 6.8 billion (previous year: EUR 9.9 billion) were recognised above their fair value of EUR 6.6 billion (previous year: EUR 9.4 billion) because the EAA expects to receive repayments totalling at least the amount of the carrying amount. This judgement is based on the EAA's long-term wind-up strategy and the expected performance of the financial assets. The difference of EUR 0.2 billion is primarily attributable to structured credit products.

Of the aforementioned financial assets with a carrying amount of EUR 6.8 billion, EUR 0.1 billion (previous year: EUR 0.5 billion) relates to bonds that were acquired in connection with asset swaps. The EAA funds the portion of the investment portfolio that was not hedged with asset swaps (EUR 6.7 billion) either with financing that is congruous in terms of maturities and currencies, or it hedges the balance at the portfolio level against changes in value caused by fluctuations in interest rates and currencies.

8. Trading portfolio

	31/12/2017 EUR million	31/12/2016 EUR million
Carrying amount	**17,447.1**	**23,750.4**
of which:		
- Derivative financial instruments	17,446.6	23,750.6
- Equities and other non-fixed-income securities	1.9	2.0
- Risk allowance pursuant to section 340e (3) sentence 1 HGB	-1.4	-2.2

9. Long-term equity investments

	31/12/2017 EUR million	31/12/2016 EUR million
Carrying amount	**48.2**	**65.7**
of which:		
- in banks	12.4	12.4
Breakdown by marketability		
- Marketable securities	11.2	18.5
of which:		
- listed	-	7.2
- unlisted	11.2	11.2

10. Shares in affiliates

	31/12/2017 EUR million	31/12/2016 EUR million
Carrying amount	**1,253.9**	**798.3**
of which:		
- in banks	434.3	434.3
- in financial service providers	26.2	29.0
Breakdown by marketability		
- Marketable securities	434.3	434.3
of which:		
- unlisted	434.3	434.3

The increase is attributable mainly to another contribution in kind at Dritte EAA Anstalt & Co. KG.

11. Trust assets

The EAA's trust assets as of 31 December 2017 comprise loans and advances to customers amounting to EUR 24.7 thousand (previous year: EUR 25.6 thousand).

12. Fixed assets

EUR million	1/1/2017 Cost	Additions	Usage	Reclassifications	Reversals of write-offs	31/12/2017 Accumulated depreciation, write-offs	Depreciation, write-offs in the financial year	31/12/2017 Carrying amount	31/12/2016 Carrying amount
Bonds and other long-term fixed income securities	12,741.2						-	9,206.6	12,741.2
Equities and other long-term non-fixed-income securities	-		Net change according to § 34 (3) sentence 2 RechKredV; -3,440.8				-	-	-
Long-term equity investments	85.5						2.9	48.2	65.7
Shares in affiliates	1,122.8						15.2	1,253.9	798.3
Intangible assets	5.5	-	-	-	-	1.5	0.4	4.0	4.4
Office and operating equipment	0.4	-	-	-	-	0.2	0.1	0.2	0.3

As well as additions and disposals, the net change in securities in fiscal year 2017 also comprises changes in the portfolio due to the prorated reversal of premiums and discounts.

13. Other assets

	31/12/2017 EUR million	31/12/2016 EUR million
Carrying amount	**24.6**	**66.1**
of which:		
- Receivables from profit and loss pooling agreements	15.1	18.6
- Tax refund claims	8.8	42.7
- Guarantee fees and commissions	0.6	4.7

The guarantee fees and commissions included in other assets consist of receivables from Portigon totalling EUR 0.4 million (previous year: EUR 4.4 million).

14. Prepaid expenses/accrued income

	31/12/2017 EUR million	31/12/2016 EUR million
Carrying amount	**44.5**	**48.2**
of which:		
- Non-recurring payments on swaps	32.9	36.3
- Discounts from issuing business	7.2	7.7
- Discounts from liabilities	2.9	3.4
- Other	1.5	0.8

15. Subordinated assets

Subordinated assets are included in:

	31/12/2017 EUR million	31/12/2016 EUR million
Loans and advances to customers	**682.3**	**781.9**
of which:		
- to affiliates	286.4	366.0

16. Assets sold under repurchase agreements

No assets were sold under repurchase agreements as of 31 December 2017 and at the previous year-end.

17. Deposits from banks

	31/12/2017 EUR million	31/12/2016 EUR million
Carrying amount	**2,099.2**	**2,766.3**
of which:		
- Deposits from affiliates	32.7	20.5
Payable on demand	1,618.2	2,244.4
due		
- within 3 months	143.0	134.5
- 3 months to 1 year	34.4	26.2
- 1 to 5 years	156.0	207.2
- after 5 years	147.6	154.0

18. Deposits from customers

	31/12/2017 EUR million	31/12/2016 EUR million
Carrying amount	**3,014.9**	**3,386.3**
of which:		
- Deposits from affiliates	8.4	16.7
Other deposits	3,014.9	3,386.3
of which:		
- payable on demand	44.7	135.1
due		
- within 3 months	881.1	287.9
- 3 months to 1 year	74.8	901.2
- 1 to 5 years	709.5	671.4
- after 5 years	1,304.8	1,390.7

19. Debt securities in issue

	31/12/2017 EUR million	31/12/2016 EUR million
Carrying amount	**23,478.4**	**30,582.4**
Bonds	12,534.4	16,551.3
of which:		
Amounts due in the following year	4,847.4	6,665.7
Other debt securities in issue	10,944.0	14,031.1
of which due:		
- within 3 months	7,757.9	11,618.9
- 3 months to 1 year	3,186.1	2,412.2
- 1 to 5 years	-	-
- after 5 years	-	-

20. Trading portfolio

	31/12/2017 EUR million	31/12/2016 EUR million
Carrying amount	**16,949.4**	**22,737.6**
of which:		
- Derivative financial instruments	16,949.4	22,737.6

21. Trust liabilities

As of 31 December 2017, the EAA's trust liabilities comprise deposits from customers amounting to EUR 24.7 thousand (previous year: EUR 25.6 thousand).

22. Other liabilities

	31/12/2017 EUR million	31/12/2016 EUR million
Carrying amount	**171.6**	**190.5**
of which:		
- Currency translation adjustments	157.7	106.6
- Deposits from the assumption of losses	-	78.1
- Other	13.9	5.8

"Other" liabilities mostly include unpaid invoices.

23. Accrued expenses/deferred income

	31/12/2017 EUR million	31/12/2016 EUR million
Carrying amount	**23.5**	**22.4**
of which:		
- Premium on issuing business	13.5	13.2
- Non-recurring payments on swaps	9.2	8.1
- Premiums for sold interest rate caps and floors	0.8	1.1

24. Provisions

	Balance as of 31/12/2016 EUR million	Additions EUR million	Accumulation EUR million	Utilisation EUR million	Reversals EUR million	Other changes EUR million	Final balance 31/12/2017 EUR million
Taxes	**-**	**13.1**	**-**	**-**	**-**	**-**	**13.1**
Other provisions	**342.7**	**45.3**	**1.2**	**74.2**	**25.7**	**-100.8**	**188.5**
- Loans	174.2	7.8	-	22.0	10.2	-99.3	50.5
- Shareholdings	25.6	-	-	21.7	0.3	-0.2	3.4
- Legal actions	6.4	2.5	0.1	2.3	3.3	-0.6	2.8
- Personnel	0.5	-	-	-	-	0.1	0.6
- Other	136.0	35.0	1.1	28.2	11.9	-0.8	131.2
Total	**342.7**	**58.4**	**1.2**	**74.2**	**25.7**	**-100.8**	**201.6**

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

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

25. Equity

As of 31 December 2017, the EAA's subscribed capital amounted to EUR 500,000.

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

Other reserves amounted to EUR 2.4 million and originate from the reversal of provisions for which the reported amounts were reduced as a result of the change in the valuation of obligations under BilMoG.

For fiscal year 2017 the net profit for the year amounted to EUR 14.4 million and reduced net retained losses to EUR 2,360.6 million as of 31 December 2017.

26. Contingencies

Contingent liabilities

Contingent liabilities amounting to EUR 3.5 billion (previous year: EUR 6.6 billion) primarily arose from guarantees for Portigon's risk exposures and the old liabilities of WestImmo. The volume of legacy WestImmo liabilities stood at EUR 2.7 billion as of 31 December 2017 (previous year: EUR 3.7 billion). This volume is constantly decreasing as a result of repayments. All material bank-related assets and liabilities were transferred to Aareal Bank AG as of 30 June 2017 by way of a spin-off and takeover agreement concluded between Aareal Bank AG and WestImmo. This rendered obsolete the measures for reducing the likelihood of claims being asserted against the EAA (Aareal Bank AG liquidity line for the WestImmo and profit and loss transfer agreement between Aareal Bank Group and WestImmo).

As of 31 December 2017, there were no longer any contingent liabilities from credit default swaps (previous year: EUR 110.9 million).

The EAA has no detailed knowledge of whether, when or to what extent any contingencies will materialise. Provisions will be made as soon as there are sufficient concrete indications of probable losses resulting from a materialisation.

Other obligations

The reported volume of EUR 1.9 billion (previous year: EUR 3.1 billion) was due to the lending business. The EAA constantly reviews whether losses from other obligations are to be expected and if a provision needs to be made for impending losses from pending transactions.

27. Assets and liabilities in foreign currencies

Assets denominated in foreign currencies amounted to EUR 10.3 billion as of the reporting date (previous year: EUR 16.3 billion), while liabilities denominated in foreign currencies amounted to EUR 16.8 billion (previous year: EUR 24.0 billion).

28. Geographical breakdown of income components

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

	Interest income 1/1-31/12/2017 EUR million	Current income 1/1-31/12/2017 EUR million	Fees and commission income 1/1-31/12/2017 EUR million	Net trading result 1/1-31/12/2017 EUR million	Other operating income 1/1-31/12/2017 EUR million
Germany	16.0	16.3	6.7	13.9	14.7
UK	23.8	-	-	-	-
Rest of Europe	314.8	1.3	1.5	-	-
Far East and Australia	46.9	0.3	0.5	-	-
North America	95.1	0.4	0.5	-	-
IS amount	**496.6**	**18.3**	**9.2**	**13.9**	**14.7**

The geographic split of income is generally based on where the business partner is domiciled.

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

29. Other operating and prior-period expenses and income

Net other operating expenses and income in fiscal year 2017 comprised EUR 13.9 million (previous year: EUR 15.4 million) in expenses and EUR 14.7 million (previous year: EUR 12.0 million) in income. The expenses included EUR 4.5 million (previous year: EUR 7.9 million) from the foreign exchange result in the banking book, while the income includes reversals of provisions in the amount of EUR 7.7 million (previous year: EUR 3.8 million).

30. Risk provision

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

	1/1-31/12/2017 EUR million	1/1-31/12/2016 EUR million
Risk provision and financial investment result including loss assumption (pursuant to RechKredV)	**63.5**	**7.3**
Loans and securities income/expense	**-30.5**	**-7.5**
of which: - Lending operations	-30.5	-7.7
- Securities	-	0.2
Shareholdings and securities income/expenses	**94.1**	**93.0**
of which: - Shareholdings	23.2	42.9
- Securities	70.9	50.1
Expenses from loss assumption	**-0.1**	**-78.2**
Risk provision and financial investment result including loss assumption (pursuant to risk report)	**63.5**	**7.3**
Result of risk provisions - loans and advances/securities due to credit risk	**-30.5**	**-7.4**
of which: - Lending operations	-30.3	-36.6
- Structured securities	-0.2	29.2
Results from financial assets, shareholdings and loss assumption	**94.0**	**14.7**

The EAA always makes use of the options available under section 340f (3) and section 340c (2) HGB. Under section 340f (3) HGB, income and expenses resulting from the valuation in the lending business may be reported on a net basis with risk provisions for securities and income from the reversal of risk provisions on securities of the liquidity reserve. The net expenses amounted to EUR 30.5 million (previous year: net expenses EUR 7.5 million). According to section 340c (2) of the HGB, the expenses for long-term equity investments, shares in affiliates as well as for long-term investment securities may be offset against the corresponding income. Overall, the EAA posted a net income of EUR 94.1 million (previous year: net income EUR 93.0 million) as the risk result for shareholdings and securities.

The net income from securities of the financial assets portfolio in the amount of EUR 70.9 million primarily stemmed from capital gains on fixed-income securities. Of this amount, EUR 44.7 million was generated in connection with the transfer of a portfolio of structured securities (Carnuntum) with a value of EUR 794.5 million to Dritte EAA Anstalt & Co. KG. This transaction was implemented with a view to improving the opportunities for winding up the portfolio ahead of time in the future.

31. Taxes

Taxes on income and earnings amounting to EUR 15.1 million (previous year: EUR 0.4 million) primarily relate to corporation tax.

In the current fiscal year, the EAA incurred other taxes in the amount of EUR 0.2 million (previous year: EUR 0.1 million), mainly comprising insurance tax.

32. Foreign exchange result

The foreign exchange result of EUR -30.8 million (previous year: EUR -115.0 million) is included in the net trading result. This was mainly offset by income in the other trading result from the separation of complex derivative instruments.

33. Auditors' fees

The full fee paid to the auditors in accordance with section 285 No. 17 HGB amounted to EUR 1.3 million (previous year: EUR 2.1 million).

The auditors received EUR 1.2 million for auditing services (previous year: EUR 1.1 million) and EUR 0.1 million (previous year: EUR 1.0 million) for other assurance services primarily in connection with a letter of comfort.

Non-audit services performed by the auditors were approved by the Audit Committee in accordance with article 5 (4) sentence 1 of Regulation No. 537/2014 of the European Parliament and of the Council of 16 April 2014.

Other disclosures

34. Liability for inherited debts

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

All liabilities and obligations of the Westdeutsche Landesbank Girozentrale that had already been agreed as of the cut-off date of 18 July 2001 are covered by unrestricted guarantor liability until the end of their terms. Liabilities or obligations that were entered into after 18 July 2001 are no longer covered by the guarantor liability.

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

A total volume of EUR 1.6 billion (previous year: EUR 1.9 billion) is covered by guarantor liability.

35. Global guarantee

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

36. Transactions not reported in the balance sheet

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

Collateral type	Balance sheet position of the collateralised liabilities	31/12/2017 EUR million	31/12/2016 EUR million
Cash collateral provided for securities lending	Trading portfolio *)	4,079.0	5,044.7
Securities pledged	Trading portfolio	33.0	36.9
Claims assigned	Deposits from banks	-	36.4

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

37. Other obligations

Letter of comfort

The EAA had issued letters of comfort for WestImmo's liabilities incurred prior to 31 May 2015 (the day on which the sale of WestImmo became effective). These letters of comfort have been rendered invalid for the future with the reduction of the shareholding to 0%. The EAA is still liable for the old liabilities of WestImmo that were incurred prior to the completion of the sale on the basis of one of these letters of comfort. These legacy liabilities are recognised under contingent liabilities. This volume is constantly decreasing as a result of scheduled and unscheduled repayments.

Guarantor liability

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

Other contingencies

There are other financial obligations totalling EUR 339.8 million (previous year: EUR 495.0 million) stemming from service agreements, rental contracts, outstanding capital contributions and lines from private equity investments that have not yet been called. Of these obligations, EUR 244.7 million (previous year: EUR 416.3 million) are attributable to affiliates and EUR 4.2 million (previous year EUR 5.4 million) to long-term equity investments.

38. Forward contracts/derivative financial instruments

The EAA enters into the following types of forward contracts and derivative financial instruments:

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

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

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

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

The total volume of forward transactions and derivatives transactions as of the reporting date amounted to EUR 256.0 billion based on notional values (previous year: EUR 333.2 billion). The focus remains on interest rate-related products, whose share stands at 86.1% (previous year: 86.2%) of the total volume.

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

Derivative financial instruments – volume as of the reporting date

	Notional amount		Positive market values		Negative market values	
	31/12/2017 EUR million	31/12/2016 EUR million	31/12/2017 EUR million	31/12/2016 EUR million	31/12/2017 EUR million	31/12/2016 EUR million
Interest rate-related products	**220,506.5**	**287,259.8**	**17,097.9**	**22,604.9**	**17,700.5**	**23,335.8**
OTC products	218,488.5	283,888.5	17,097.9	22,604.9	17,700.5	23,335.8
Exchange-traded products	2,018.0	3,371.3	-	-	-	-
Currency-related products	**33,400.5**	**43,470.1**	**802.6**	**1,502.2**	**650.0**	**824.2**
OTC products	33,400.5	43,470.1	802.6	1,502.2	650.0	824.2
Equity and other price-related products	**1,972.1**	**2,105.9**	**47.5**	**105.1**	**47.5**	**105.1**
OTC products	1,972.1	2,105.9	47.5	105.1	47.5	105.1
Credit derivatives	**80.0**	**366.2**	**0.9**	**2.5**	**1.5**	**3.6**
OTC products	80.0	366.2	0.9	2.5	1.5	3.6
Total	**255,959.1**	**333,202.0**	**17,948.9**	**24,214.7**	**18,399.5**	**24,268.7**
OTC products	253,941.1	329,830.7	17,948.9	24,214.7	18,399.5	24,268.7
Exchange-traded products	2,018.0	3,371.3	-	-	-	-

The average annual notional volume of forward contracts and derivatives transactions amounted to EUR 289.5 billion in fiscal year 2017 (previous year: EUR 385.6 billion).

Derivative financial instruments – average volumes

	Notional amount		Positive market values		Negative market values	
	31/12/2017 EUR million	31/12/2016 EUR million	31/12/2017 EUR million	31/12/2016 EUR million	31/12/2017 EUR million	31/12/2016 EUR million
Interest rate-related products	**249,556.7**	**320,226.5**	**19,426.7**	**23,836.7**	**20,094.6**	**24,013.3**
OTC products	246,798.5	317,401.0	19,426.7	23,836.7	20,094.6	24,013.3
Exchange-traded products	2,758.2	2,825.5	-	-	-	-
Currency-related products	**37,690.8**	**59,537.3**	**1,013.2**	**1,976.3**	**696.3**	**1,344.1**
OTC products	37,690.8	59,537.3	1,013.2	1,976.3	696.3	1,344.1
Equity and other price-related products	**2,056.5**	**4,507.4**	**70.2**	**186.6**	**70.2**	**223.7**
OTC products	2,056.5	2,193.4	70.2	113.1	70.2	141.3
Exchange-traded products	-	2,314.0	-	73.5	-	82.4
Credit derivatives	**197.8**	**1,377.7**	**1.6**	**7.7**	**2.0**	**9.3**
OTC products	197.8	1,377.7	1.6	7.7	2.0	9.3
Total	**289,501.8**	**385,648.9**	**20,511.7**	**26,007.3**	**20,863.1**	**25,590.4**
OTC products	286,743.6	380,509.4	20,511.7	25,933.8	20,863.1	25,508.0
Exchange-traded products	2,758.2	5,139.5	-	73.5	-	82.4

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

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

Derivative financial instruments – maturities

	Interest rate-related products		Currency-related products		Equity and other price-related products		Credit derivatives	
	31/12/2017 EUR million	31/12/2016 EUR million	31/12/2017 EUR million	31/12/2016 EUR million	31/12/2017 EUR million	31/12/2016 EUR million	31/12/2017 EUR million	31/12/2016 EUR million
Due								
- within 3 months	22,414.3	35,916.4	9,199.8	11,239.7	-	-	-	13.3
- 3 months to 1 year	23,588.9	35,334.1	4,009.0	4,668.2	-	-	20.0	251.0
- 1 to 5 years	75,256.1	97,939.0	11,135.1	17,160.2	1,972.1	2,105.9	60.0	80.0
- after 5 years	99,247.1	118,070.3	9,056.6	10,402.0	-	-	-	21.9
Total	**220,506.4**	**287,259.8**	**33,400.5**	**43,470.1**	**1,972.1**	**2,105.9**	**80.0**	**366.2**

39. Number of employees

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

	Male	Female	Total 1/1-31/12/2017	Total 1/1-31/12/2016
Number of employees	100	78	178	158

As of 31 December 2017 the EAA employed 162 (31 December 2016: 165) full-time equivalents.

The temporary increase in the number of employees resulted in particular from taking over work no longer performed by Portigon, EFS and MSPA.

40. Stakeholders in the EAA

	31/12/2017 in %	31/12/2016 in %
State of NRW	48.202	48.202
Rheinischer Sparkassen- und Giroverband	25.032	25.032
Sparkassenverband Westfalen-Lippe	25.032	25.032
Landschaftsverband Rheinland	0.867	0.867
Landschaftsverband Westfalen-Lippe	0.867	0.867
Total	**100.000**	**100.000**

41. Memberships of other bodies held by Managing Board members

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

Matthias Wargers
EAA Portfolio Advisers GmbH * (until 26 October 2017)
Erste Financial Services GmbH (until 15 December 2017)

Markus Bolder (until 30 June 2017)
EAA Portfolio Advisers GmbH * (until 31 January 2017)
Erste Financial Services GmbH (until 30 April 2017)

Christian Doppstadt (since 1 July 2017)
Mount Street Portfolio Advisers GmbH * (since 26 October 2017)
Erste Financial Services GmbH (since 16 December 2017)

Horst Küpker
EDD AG * (formerly Börse Düsseldorf AG)
Erste Financial Services GmbH (since 16 December 2017)

42. Memberships of other bodies held by employees

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

Dr Ulf Bachmann (until 14 January 2018)
EAA Portfolio Advisers GmbH * (1 February 2017 until 26 October 2017)
Erste Financial Services GmbH (until 15 December 2017)

Gabriele Müller (until 30 June 2017)
EAA Covered Bond Bank Plc (mandate continues to be held)
EAA Portfolio Advisers GmbH * (until 26 October 2017)

Hartmut Rahner
EAA Covered Bond Bank Plc

43. Executive bodies of the EAA

Members of the Managing Board of the EAA

Matthias Wargers (Spokesman)
Markus Bolder (until 30 June 2017)
Christian Doppstadt (since 1 July 2017)
Horst Küpker

Members of the Supervisory Board of the EAA

Dr Patrick Opdenhövel (since 16 August 2017)
Chairman (since 23 August 2017)
State Secretary in the Ministry of Finance of NRW

Dr Rüdiger Messal (until 15 August 2017)
Chairman
Former State Secretary in the Ministry of Finance of NRW

Joachim Stapf
Vice Chairman
Senior Assistant Secretary (Leitender Ministerialrat) in the Ministry of Finance of NRW

Günter Borgel (until 9 January 2018)
Member of the Executive Committee (Leitungsausschuss) of the FMSA

Michael Breuer
President of the Rheinischer Sparkassen- und Giroverband

Hans Buschmann
Former Deputy Association Director of the Rheinischer Sparkassen- und Giroverband

Dr Jutta A. Dönges (since 9 January 2018)
Member of the Executive Board of Federal Republic of Germany – Finance Agency GmbH

Rolf Einmahl
Lawyer,
Member of the Landschaftsversammlung of the Landschaftsverband Rheinland

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

Wilfried Groos
Chairman of the Managing Board of the Sparkasse Siegen

Matthias Löb
Director of the Landschaftsverband Westfalen-Lippe

Angelika Marienfeld
Former State Secretary in the Ministry of Finance of NRW

Michael Stölting
Member of the Managing Board of NRW.BANK

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

Stakeholders' Meeting of the EAA
The Stakeholders' Meeting is made up of representatives of the stakeholders (see Note 40).

44. Remuneration paid to executive bodies

The remuneration of members of the Managing Board amounted to EUR 1,531 thousand in fiscal year 2017 (previous year: EUR 1,537 thousand).

Remuneration paid to Managing Board members

	31/12/2017 EUR	31/12/2016 EUR
Matthias Wargers	500,000	500,000
Markus Bolder (until 30 June 2017)	250,000	500,000
Christian Doppstadt (since 1 July 2017)	207,500	-
Horst Küpker	450,000	450,000
	1,407,500	**1,450,000**
Remuneration in kind	39,460	36,950
Expenses for pensions	83,544	50,000
Total	**1,530,504**	**1,536,950**

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

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

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

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

Remuneration to Supervisory Board members

	31/12/2017 EUR	31/12/2016 EUR
Member appointed by the Stakeholders' Meeting		
Dr Patrick Opdenhövel (since 16 August 2017)	8,474	-
Dr Rüdiger Messal (until 15 August 2017)	14,238	23,000
Joachim Stapf	10,200	11,100
Dr Karlheinz Bentele (until 30 April 2016)	-	1,953
Michael Breuer	13,000	12,700
Hans Buschmann (since 16 March 2016)	15,200	12,044
Rolf Einmahl (since 1 May 2016)	6,800	4,847
Henning Giesecke	23,000	23,791
Wilfried Groos	14,600	14,600
Matthias Löb	5,900	6,500
Angelika Marienfeld (since 2 May 2016)	6,500	5,433
Michael Stölting	23,900	20,867
Jürgen Wannhoff	12,700	11,800
Dr h.c. Uwe Zimpelmann (until 1 May 2016)	-	5,600
Member delegated by the FMSA		
Günter Borgel	-	-
Total (net)	**154,512**	**154,235**

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

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

45. Loans to executive bodies

No advances or loans were provided to members of the EAA's Managing Board or Supervisory Board either in fiscal year 2017 or in the previous year.

46. Information on shareholdings

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

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

Other shareholdings

No.	Name	Location	Capital share	Voting rights	CCY	Equity	Result
1	Achte EAA-Beteiligungs GmbH [10]	Düsseldorf	100.00		EUR	19	-6
2	ANC Handels GmbH & Co. KG [1]	Mörfelden-Walldorf	1.00			n. s.	n. s.
3	APAX Europe V-C GmbH & Co. KG [1] [10]	Munich	0.33	0.00	EUR	4	11
4	BNYM GCS 2 GP Investors, LLC 10)	Wilmington, US	50.00	0.00	USD	170	-45
5	Castello di Casole Agricoltura S.r.l. società agricola [1] [10]	Casole d'Elsa, Italy	100.00		EUR	38	-62
6	Castello di Casole S.r.l. [10]	Casole d'Elsa, Italy	100.00		EUR	-82	-2,390
7	Castello Resort Villas S.r.l. [10]	Casole d'Elsa, Italy	100.00		EUR	237	-154
8	CBAL S.A. [2] [8]	Brussels, Belgium	100.00		EUR	1,753	448
9	CLS Group Holdings AG [10]	Lucerne, Switzerland	0.47		CHF	489,843	2,817
10	COREplus Private Equity Partners GmbH & Co. KG [1] [10]	Frankfurt am Main	36.52	0.00	EUR	8,992	9,175
11	COREplus Private Equity Partners II - Diversified Fund, L. P. [10]	Wilmington, US	24.75	0.00	USD	34,238	1,657
12	Corsair III Financial Services Capital Partners L.P.	Wilmington, US	1.84	0.00		n. s.	n. s.
13	Corsair III Financial Services Offshore Capital Partners L.P.	George Town, Cayman Islands	1.84	0.00		n. s.	n. s.
14	Deutsche Anlagen-Leasing Service & Co. Objekt ILB Potsdam KG [1] [10]	Aschheim	92.20	91.82	EUR	4,292	3,089
15	Deutsche Anlagen-Leasing Service & Co. Sparkassenneubau Teltow-Fläming KG [1]	Aschheim	66.37	65.70		n. s.	n. s.
16	Dritte EAA Anstalt & Co. KG [2] [10]	Düsseldorf	100.00		EUR	288,533	3,931
17	Dusskapital Zwanzig Beteiligungsgesellschaft mbH [10]	Düsseldorf	100.00		EUR	34	1
18	EAA Charity LLP [1] [10]	Wilmington, US	100.00		USD	15,033	8,164
19	EAA Covered Bond Bank Plc [10] [11]	Dublin 1, Ireland	100.00		EUR	419,981	-23,057
20	EAA DLP I LLP [1] [10]	Wilmington, US	100.00		USD	118,912	-4,763
21	EAA DLP II LLP [1] [10]	Wilmington, US	100.00		USD	102,518	3,660
22	EAA DLP III LLP [1] [10]	Wilmington, US	100.00		USD	153,645	4,928
23	EAA do Brasil Participacoes, Representacoes e Negocios Ltda. [6]	Sao Paulo, Brazil	100.00		BRL	2,948	287
24	EAA Europa Holding GmbH [3] [10]	Düsseldorf	100.00		EUR	5,731	0
25	EAA Greenwich LLP [1] [10]	Wilmington, US	100.00		USD	141,755	-1,463
26	EAA LAT ABC LLP [1] [10]	Wilmington, US	100.00		USD	167,685	-4,879

Other shareholdings

No.	Name	Location	Capital share	Voting rights	CCY	Equity	Result
27	EAA LAT II LLP [1) 10)]	Wilmington, US	100.00		USD	177,034	-16,272
28	EAA LS Holdings LLC [1) 10)]	Wilmington, US	100.00		USD	123	n. s.
29	EAA PF LLP [1) 10)]	Wilmington, US	100.00		USD	142,876	-12,083
30	EAA Spyglass Holdings LLC [1) 10)]	Wilmington, US	100.00		USD	15,519	4,308
31	EAA Triskele LLP [1) 10)]	Wilmington, US	100.00		USD	197,021	5,163
32	EAA US Holdings Corporation [10)]	Wilmington, US	100.00		USD	38,459	5,692
33	EDD AG [10)]	Düsseldorf	21.95		EUR	32,245	-542
34	EMG Projekt Gewerbepark Ludwigsfelde/Löwenbruch GmbH [10)]	Potsdam	47.50		EUR	0	-165
35	Entertainment Asset Holdings C.V. [1) 5)]	Amsterdam, Netherlands	36.36		USD	0	0
36	EQT III GmbH & Co. KG [1) 5)]	Munich	1.18	0.00	EUR	261	-6,151
37	Erste EAA Anstalt öffentlichen Rechts & Co. KG [2) 3) 10)]	Düsseldorf	100.00		EUR	16	0
38	Erste Financial Services GmbH [10)]	Düsseldorf	100.00		EUR	104,785	2,041
39	GKA Gesellschaft für kommunale Anlagen mbH i.L. [1) 10)]	Düsseldorf	100.00		EUR	115	87
40	Indigo Holdco LLC [1) 10)]	Dover, US	100.00		USD	2,319	-31
41	Indigo Land Groveland LLC [1)]	Wilmington, US	100.00			n. s.	n. s.
42	Indigo Land Progresso Lofts LLC [1)]	Dover, US	100.00			n. s.	n. s.
43	Indigo Real Estate LLC [1)]	Dover, US	100.00			n. s.	n. s.
44	Leasing Belgium N.V. [1) 10)]	Antwerp, Belgium	100.00		EUR	443	-9
45	Liquiditäts-Konsortialbank Gesellschaft mit beschränkter Haftung i.L. [1) 4)]	Frankfurt am Main	6.55		EUR	236,224	7,629
46	MCC Bradley LLC [1) 10)]	East Hartford, US	100.00		USD	289	-178
47	MCC Paris LLC [1) 10)]	Wilmington, US	100.00		USD	1,975	199
48	MCC SB Condo LLC [1) 10)]	Wilmington, US	100.00		USD	1,447	-216
49	MCC SB Unit 144 LLC [1)]	South Bend, US	100.00			n. s.	n. s.
50	MCC SB Unit 145 LLC [1)]	South Bend, US	100.00			n. s.	n. s.
51	MCC SB Unit 146 LLC [1)]	South Bend, US	100.00			n. s.	n. s.
52	MCC SB Unit 147 LLC [1)]	South Bend, US	100.00			n. s.	n. s.
53	MCC Tern Landing LLC [1) 10)]	Wilmington, US	100.00		USD	957	-124
54	MCC WK Commercial LLC [1) 10)]	Wilmington, US	100.00		USD	558	-89
55	Meritech Capital Partners II L.P. [1) 10)]	Palo Alto, US	0.06	0.00	USD	84,886	1,678
56	Methuselah Life Markets Limited [6)]	London, UK	100.00		GBP	74	-7
57	MFC Holdco LLC [1) 10)]	Dover, US	100.00		USD	8,582	-551
58	MFC Pinecrest LLC [1)]	Wilmington, US	100.00			n. s.	n. s.
59	MFC Real Estate LLC [1) 10)]	Dover, US	100.00		USD	2,849	-272
60	MFC Waterfront LLC [1)]	Wilmington, US	100.00			n. s.	n. s.
61	Mod CapTrust Holding LLC [1) 10)]	Dover, US	100.00		USD	0	1,771
62	Monolith Grundstücksverwaltungsgesellschaft mbH [1) 10)]	Mainz	100.00		EUR	108	5
63	Monolith Grundstücksverwaltungsgesellschaft mbH & Co. Objekt Neubau Sparkassen-Versicherung Sachsen OHG [1) 10)]	Mainz	5.00	76.00	EUR	-14,671	2,378

Other shareholdings

No.	Name	Location	Capital share	Voting rights	CCY	Equity	Result
64	Nephelin Grundstücksverwaltungsgesellschaft mbH [1) 10)]	Mainz	100.00		EUR	-59	-4
65	Neunte EAA-Beteiligungs GmbH i.L. [9)]	Düsseldorf	100.00		EUR	28	-7,102
66	New NIB Partners LP [10)]	New York, US	1.59	0.00	EUR	1,032,903	48,365
67	S-Chancen-Kapitalfonds NRW GmbH i.L. [10)]	Haan	50.00		EUR	2,032	-33
68	Sechste EAA-Beteiligungs GmbH [10)]	Düsseldorf	100.00		EUR	22	-13
69	Siebte EAA-Beteiligungs GmbH [10)]	Düsseldorf	100.00		EUR	17	-8
70	Special Private Equity Partners II, L.P. [10)]	Wilmington, US	18.79	0.00	USD	16,530	-4,729
71	ThyssenKrupp Aufzugswerke GmbH [7)]	Neuhausen auf den Fildern	0.50		EUR	13,951	0
72	thyssenkrupp Electrical Steel GmbH [7)]	Gelsenkirchen	0.42		EUR	96,622	0
73	thyssenkrupp Materials Processing Europe GmbH [7)]	Krefeld	0.42		EUR	57,903	0
74	thyssenkrupp Materials Services GmbH [7)]	Essen	0.16		EUR	745,235	0
75	ThyssenKrupp Rasselstein GmbH [7)]	Andernach	0.50		EUR	247,021	0
76	True Sale International GmbH [10)]	Frankfurt am Main	7.69	9.09	EUR	4,809	46
77	Welsh, Carson, Anderson & Stowe IX GmbH & Co. KG [1) 10)]	München	2.90	0.00	EUR	0	-207
78	West Life Markets GmbH & Co. KG [3) 10)]	Düsseldorf	100.00		EUR	1,312	0
79	West Merchant Limited [10)]	London, UK	100.00		GBP	118	-41
80	West Zwanzig GmbH [3) 10)]	Düsseldorf	100.00		EUR	25	0
81	Westdeutsche ImmobilienHolding GmbH [3) 10)]	Düsseldorf	100.00		EUR	5,539	0
82	WestGKA Management Gesellschaft für kommunale Anlagen mbH i.L. [2) 10) 12)]	Düsseldorf	100.00		EUR	642	0
83	WestInvest Gesellschaft für Investmentfonds mbH [1) 10)]	Düsseldorf	0.00		EUR	11,339	0
84	WestLB Asset Management (US) LLC [1) 10)]	Wilmington, US	100.00		USD	3,088	-70
85	WestLeasing International GmbH [1) 10)]	Düsseldorf	100.00		EUR	174	-1
86	WestLeasing Westdeutsche Leasing Holding GmbH [3) 10)]	Düsseldorf	94.90		EUR	11,625	0
87	WestProject & Consult Gesellschaft für Projektentwicklung und Consulting mbH i.L. [1) 10)]	Düsseldorf	100.00		EUR	276	0
88	WestVerkehr Beteiligungsgesellschaft mbH [1) 10)]	Düsseldorf	100.00		EUR	98	-5
89	Windmill Investments Limited	Grand Cayman, Cayman Islands	5.07	0.00		n. s.	n. s.
90	Winoa Steel Co. S.A. [10)]	Luxembourg, Luxembourg	3.12		EUR	1,288	-135
91	WIV GmbH & Co. Beteiligungs KG [10)]	Frankfurt am Main	5.10		EUR	12,857	757
92	WLB ASA Ethanol, LLC [1) 10)]	Wilmington, US	100.00		USD	0	n. s.
93	WMB Beteiligungs GmbH [1) 10)]	Düsseldorf	100.00		EUR	55	45

Interest greater than 5% (large corporations)

No.	Name	Location	Capital share	Voting rights	CCY	Equity	Result
94	AKA Ausfuhrkredit-Gesellschaft mbH [10]	Frankfurt am Main	5.02		EUR	231,752	22,885
95	Banco Finantia S.A. [10]	Lisbon, Portugal	8.93		EUR	408,022	30,713

Other companies for which the EAA assumes unlimited liability

No.	Name	Location	Capital share	Voting rights	CCY	Equity	Result
96	GLB GmbH & Co. OHG	Frankfurt am Main	15.47			n. s.	n. s.

[1] Indirect shareholdings.
[2] Including indirectly held shares.
[3] A profit and loss transfer agreement is in place with this company.
[4] Data as of 31 July 2014.
[5] Data as of 31 December 2014.
[6] Data as of 31 December 2015.
[7] Data as of 30 September 2016.
[8] Data as of 31 October 2016.
[9] Data as of 30 November 2016.
[10] Data as of 31 December 2016.
[11] A global guarantee exists.
[12] A profit and loss transfer agreement is in place between the company and its immediate parent; a profit and loss transfer agreement is also in place between the parent company and the EAA.

Subsequent events

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

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the asset position, financial position and earnings situation of the institution, and the management report includes a true and fair review of the development and performance of the business and the position of the institution, together with a description of the material opportunities and risks associated with the expected development of the institution.

Düsseldorf, 22 March 2018

Erste Abwicklungsanstalt

Matthias Wargers
Spokesman
of the Managing Board

Christian Doppstadt
Member
of the Managing Board

Horst Küpker
Member
of the Managing Board

Independent Auditor's Report

To the Erste Abwicklungsanstalt Anstalt öffentlichen Rechts, Düsseldorf

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Audit Opinions

We have audited the annual financial statements of Erste Abwicklungsanstalt, Düsseldorf, which comprise the balance sheet as at 31 December 2017, and the statement of profit and loss, statement of equity and statement of cash flow for the financial year from 1 January to 31 December 2017, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Erste Abwicklungsanstalt for the financial year from 1 January to 31 December 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Anstalt as at 31 December 2017 and of its financial performance for the financial year from 1 January to 31 December 2017 in compliance with German Legally Required Accounting Principles, and

- the accompanying management report as a whole provides an appropriate view of the Anstalt's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § [Article] 322 Abs. [paragraph] 3 Satz [sentence] 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Anstalt in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

△ Valuation of structured securities

△ Valuation of the Life Settlement Portfolio

△ Resolution of the Carnuntum securitization structure

Our presentation of these key audit matters has been structured in each case as follows:

△ Matter and issue

△ Audit approach and findings

△ Reference to further information

Hereinafter we present the key audit matters:

Valuation of structured securities

In connection with a stabilization measure pursuant to § 8a FMStFG (Finanzmarktstabilisierungsfondsgesetz: German Financial Market Stabilization Fund Act), Erste Abwicklungsanstalt acquired several portfolios with structured securities from the former WestLB AG between 2009 and 2012 which were reported as of 31 December 2017 under the balance sheet items "Bonds and other fixed-income securities" (EUR 6.6 billion or 14.2% of total assets) and "Loans and advances to customers" (EUR 2.9 billion or 6.2% of total assets). Internal valuation models were developed and used in collaboration with Erste Abwicklungsanstalt for the purpose of valuating the structured securities, since no market prices are available. The valuation of these structured securities is carried out by Mount Street Portfolio Advisers GmbH, Düsseldorf. The results are reviewed by Erste Abwicklungsanstalt. In regard to the expected future cash flows included in the valuation and the valuation parameters used, which must be estimated in some cases if they are not observable in the market, the valuation of the structured securities involves significant judgment on the part of the executive directors. Against this background, this matter was of particular significance for our audit.

As part of the audit of the annual financial statements, we firstly assessed the effectiveness of the relevant internal control systems of Mount Street Portfolio Advisers GmbH and of Erste Abwicklungsanstalt for the valuation of these securities. In doing so, we have also considered the relevant organizational structures and processes in this assessment together with the IT systems. In addition, we have evaluated the valuation models and the material parameters relevant to the valuation. We have also involved our valuation specialists for this purpose.

Overall, the valuation parameters used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

Erste Abwicklungsanstalt's disclosures relating to the accounting treatment and valuation of the structured securities are included in sections 3, 5 and 7 of the notes to the financial statements.

Valuation of the Life Settlement Portfolio

Erste Abwicklungsanstalt indirectly holds all the rights and obligations from American life insurance policies, known as the Life Settlement Portfolio, via its subsidiary Erste EAA Anstalt öffentlichen Rechts und Co. KG (Erste EAA). Beneficial ownership of the policies is conveyed by trust certificates held by partnerships under US law which are subsidiaries of Erste EAA. The EAA reports the shares in Erste EAA with a carrying amount of EUR 25 thousand under shares in affiliates. Erste Abwicklungsanstalt financed the acquisition of the rights and obligations from the life insurance policies by means of a loan to Erste EAA and reports the resulting receivable amounting to EUR 1,145 million under "Loans and advances to customers", of which an amount of EUR 286 million is presented as "Subordinated assets". The life settlement engagements are valuated by American actuaries by means of a present value calculation based on an analysis of the expected future cash flows from the underlying insurance contracts. Risks can arise for Erste Abwicklungsanstalt if, for example, insurance premiums are expected to be payable for longer than originally forecast as a result of increased life expectancy. Additional risks arise as a result of higher costs for the insurance companies which they pass on in the form of higher premiums on the basis of contractual provisions; the Anstalt and its subsidiaries dispute whether these cost recharges are permissible and appropriate, including by means of legal action in some cases. Against this background, the valuation of the Life Settlement Portfolio involves material scope for judgment with the result that this matter was of particular significance for our audit.

As part of our audit of the annual financial statements, we have firstly assessed the effectiveness of the relevant internal control system for reviewing the valuation of the Life Settlement Portfolio. In doing so, we have also considered the relevant organizational structures and processes in this assessment together with the IT systems. In addition, we have evaluated the valuation model and the material data relevant to the valuation by analysing the cash flows and we have verified the parameters underlying the valuation and, where possible, reconciled them with comparable market data. We have also reperformed the valuations on a sample basis. We have received assistance from our actuarial specialists for this purpose. With respect to the legal actions brought by Erste Abwicklungsanstalt, we have obtained an explanation of the current state of affairs with the involvement of the attorneys responsible and evaluated the estimate of the expected outcome of the respective proceedings. Overall, the valuation parameters used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable. In our view, the executive directors' estimates with respect to the legal proceedings are adequately documented and substantiated.

Erste Abwicklungsanstalt's disclosures relating to the accounting treatment and valuation of the life settlement portfolio are included in sections 3, 5 and 15 of the notes to the financial statements.

Resolution of the Carnuntum securitization structure

Erste Abwicklungsanstalt had held securities forming part of the Carnuntum securitization structure. In preparation for the resolution of this structure, it firstly acquired further securities subject to the structure in order to reach the majority, necessary for an early resolution of the structure. It then initiated the resolution of the structure by means of an auction call by the trustee and the resolution was carried out in March 2017. The underlying securities were then acquired by Erste Abwicklungsanstalt and recognized under the balance sheet items "Bonds and other fixed-income securities" in the amount of EUR 120.5 million and under "Loans and advances to customers" in the amount of EUR 622.7 million. The securities now held by the Anstalt were transferred to Dritte EAA Anstalt & Co. KG (Dritte EAA) later in 2017. Erste Abwicklungsanstalt recorded income in connection with this transfer amounting to EUR 44.7 million in its income statement under the item "Capital gains on fixed-income securities". Internal valuation models were developed and used for the valuation of the structured securities, since no market prices are available for the relevant securities. In regard to the expected future cash flows included in the valuation and the valuation parameter used, the valuation of these securities involves material scope for judgment on the part of the executive directors. Against this background and in regard to the size of the underlying portfolio and the material amount of income associated with the resolution and the subsequent transfer, this matter is in our view of particular significance for the audit.

As part of our audit of the annual financial statements, we have first of all obtained explanations of the economic impact of an early resolution of the securitization structure and the proposed treatment in the accounting system. We have also acquired an understanding of the underlying contractual structure and evaluated its reflection in the Anstalt's accounting records. In this connection, we have firstly assessed the recognition in the financial statements of the securities acquired by Erste Abwicklungsanstalt as part of the resolution of the securitization structure. In addition, we have evaluated the subsequent contribution of the securities to Dritte EAA. In this connection, we have evaluated the valuation of the securities by assessing the valuation models and the appropriateness of the underlying parameters. In our view, the executive directors' estimates with respect to the reflection of the transaction in the accounting records are adequately documented and substantiated; overall, the valuations parameters used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

Erste Abwicklungsanstalt's disclosures relating to the resolution of the Carnuntum securitization structure and the income from the transfer of the securities underlying the structure are included in section 30 of the notes to the financial statements.

Other Information

The executive directors are responsible for the other information

The other information comprises the annual report – excluding cross-references to external information – with the exception of the audited annual financial statements, the audited management report and our auditor's report.

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

△ is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or

△ otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Anstalt in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Anstalt's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Anstalt's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Anstalt's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Anstalt's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- △ Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- △ Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Anstalt.

- △ Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Anstalt's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Anstalt to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Anstalt in compliance with German Legally Required Accounting Principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Anstalt's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the supervisory board on 5 April 2017. We were engaged by the supervisory board on 6 June 2017. We have been the auditor of the Erste Abwicklungsanstalt, Düsseldorf, without interruption since the financial year from 11 December 2009 to 30 June 2010.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Michael Peters.

Düsseldorf, 23 March 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Michael Peters
Wirtschaftsprüfer
(German Public Auditor)

ppa. Ralf Scherello
Wirtschaftsprüfer
(German Public Auditor)

List of abbreviations

ABS	Asset backed securities
ALM	Asset liability management
APAC	Asia Pacific; Asia-Pacific economic area
AT	General part (Allgemeiner Teil)
AUD	Australian dollar
BaFin	German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht)
BilMoG	German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz)
BilRUG	German Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz)
bn	billion
Bps	Basis points
BRL	Brazilian real
CCY	Currency code
CDS	Credit default swaps
CHF	Swiss franc
CRR	Capital Requirements Regulation
CVA	Credit valuation adjustments
DAC	Designated activity company
DAX	German equities index
DRS	German Accounting Standard (Deutscher Rechnungslegungsstandard)
EAA	Erste Abwicklungsanstalt, Düsseldorf
EAA CBB	EAA Covered Bond Bank Plc, Dublin/Ireland
EAA GW	EAA Global Watchlist
EAA KK	EAA Japan K.K., Tokyo/Japan
EaD	Exposure at default
EBA	European Banking Authority
EC	European Community
ECB	European Central Bank
EEC	European Economic Community
EFS	Erste Financial Services GmbH, Düsseldorf (Portigon Financial Services GmbH until 28 June 2016)
EMEA	Europe, Middle East and Africa
EONIA	Euro Overnight Index Average
EPA	EAA Portfolio Advisers GmbH, Düsseldorf (Mount Street Portfolio Advisers GmbH since 15 November 2017)
et seqq.	and the following
EU	European Union
EUR	Euro
EUSS	European Super Senior Notes
Fed	Federal Reserve
Fitch	Fitch Ratings
FMS	German Financial Market Stabilisation Fund (Finanzmarktstabilisierungsfonds)

LIST OF ABBREVIATIONS

FMSA	German Federal Agency for Financial Market Stabilisation (Bundesanstalt für Finanzmarktstabilisierung)
FMStFG	German Financial Market Stabilisation Fund Act (Finanzmarktstabilisierungsfondsgesetz)
FX effect	Foreign exchange effect
GBP	Pound sterling
GDP	Gross domestic product
HGB	German Commercial Code (Handelsgesetzbuch)
HRA	Commercial register department A (Handelsregister Abteilung A)
HSBC	HSBC Trinkaus & Burkhardt AG, Düsseldorf
IBM	IBM Deutschland GmbH, Ehningen
ICS/RMS	Internal control and risk management system
IDW	Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer)
ifo	German Institute for Economic Research (Institut für Wirtschaftsforschung)
IS	Income statement
ISDA	International Swaps and Derivatives Association
IT	Information technology
JPY	Japanese yen
KWG	German Banking Act (Kreditwesengesetz)
M	million
MaRisk	German Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement)
Moody's	Moody's Investors Service
Mount Street	Mount Street Loan Solutions LLP, London/UK
MSPA	Mount Street Portfolio Advisers GmbH, Düsseldorf (EAA Portfolio Advisers GmbH until 15 November 2017)
MtM	Mark to market
Muni GIC	Municipal guaranteed investment contracts
N.R.	Not rated
n.s.	Not specified
No.	Number
Note	Note
NPL	Non-performing loans
NRW	North Rhine-Westphalia
OIS	Overnight indexed swap
OMT	Outright Monetary Transactions
OTC	Over the counter
Para.	Paragraph
PLN	Polish zloty
Portigon	Portigon AG, Düsseldorf (WestLB AG until 2 July 2012)
PwC	PricewaterhouseCoopers International
py	Previous year
RechKredV	German Ordinance on Accounting for Banks and Financial Service Providers (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute)
S&P	Standard and Poor's Corporation
S&P 500	US equity index

LIST OF ABBREVIATIONS

S.R.	Special rating
SGD	Singapore dollar
TEUR	EUR thousand
US	United States
USA	United States of America
USD	US dollar
VaR	Value at Risk
VIX	Chicago Board Options Exchange Volatility Index
WestImmo	Westdeutsche ImmobilienBank AG, Mainz (Westdeutsche Immobilien Servicing AG since 30 June 2017)
WestLB	WestLB AG, Düsseldorf (Portigon AG since 2 July 2012)

Imprint

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