

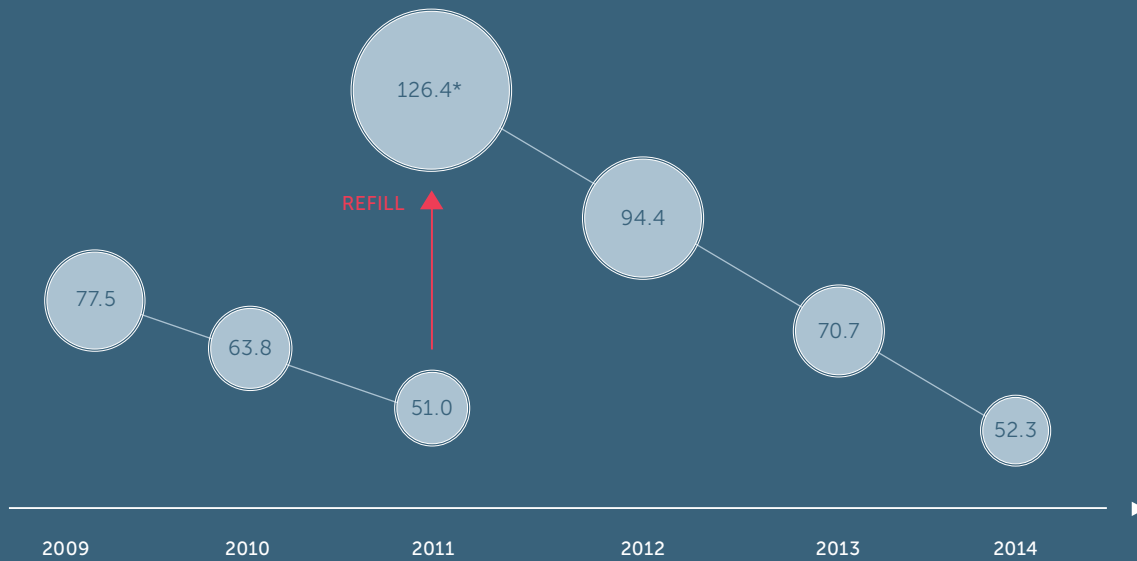
ANNUAL REPORT 2014

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EAA KEY FIGURES

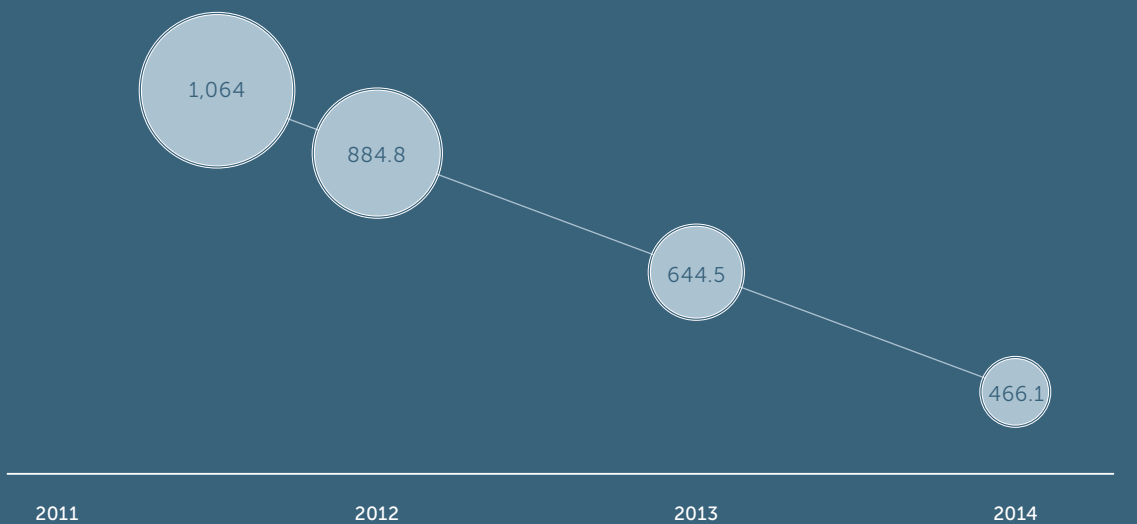
Income statement in EUR million	1/1 - 12/31/2014	1/1 - 12/31/2013
Net interest income	210.2	354.0
Net fee and commission income	54.3	145.1
Net trading result	-24.5	83.9
Other operating result	-4.0	0.3
General administrative expenses	-349.0	-398.0
Results from financial assets and shareholdings	172.6	-12.9
Results prior to risk provisioning	59.6	172.4
Loan loss provisions	4.3	-110.3
Earnings before taxes	63.9	62.1
Taxes	-1.4	-3.1
Earnings after taxes	62.5	59.0
Balance sheet in EUR billion	12/31/2014	12/31/2013
Total assets	79.5	78.9
Business volume	91.9	95.1
Loan transactions	39.9	46.8
Trading portfolio	33.8	26.9
Equity	0.6	0.6
Winding-up	12/31/2014	12/31/2013
Banking book		
Notional value (before FX effect) in EUR billion	52.3	70.7
Winding-up activities in EUR billion	-18.4	-23.7
Winding-up activities in %	-26.0	-25.2
Trading portfolio		
Notional value (before FX effect) in EUR billion	466.1	644.5
Winding-up activities in EUR billion	-178.4	-240.3
Winding-up activities in %	-27.7	-27.2
Employees	12/31/2014	12/31/2013
Number of employees	134	123
Rating	Short-term rating	Long-term rating
Moody's Investors Service	P-1	Aa1
Standard & Poor's	A-1+	AA-
Fitch Ratings	F1+	AAA

THE BANKING BOOK reduced by EUR 103 billion



Notional volume in EUR billion, 2009-2011: exchange rate as on 12/31/2009, 2012-2014: exchange rate as on 12/31/2011
 *per 01/01/2012

THE TRADING PORTFOLIO decreased by EUR 598 billion



Notional volume in EUR billion

> 2/3

WOUND UP

The EAA's banking book consists of participations, loans and securities. The winding-up agency assumed this portfolio in several tranches from the former WestLB. The total notional volume came to about EUR 155 billion based on uniform exchange rates (2011), of which about two thirds were wound up by December 31, 2014.

> 1/2

WOUND UP

In mid-2012, additionally, a trading portfolio was transferred to the EAA, which consisted mainly of derivative financial products (primarily interest rate and currency transactions). The notional value at the time of the transfer totaled more than EUR 1 trillion, which has already been reduced by one-half.

PORTFOLIO WIND-UP

is more than just the sale of securities and participations. After all, the objective is not only to scale back the portfolio. Instead, it is more important to avoid future losses as much as possible and to decrease potential risks with foresight. The EAA's experts therefore analyze the portfolio continuously in great detail in order to answer questions such as: Can problems arise? When is the best time to sell? If we wait, what are the potential returns? The resulting planning extends until 2027 and includes a specific wind-up strategy for each individual exposure. The EAA's wind-up plan is especially focused on capital preservation over the long term.

Portfolio wind-up – Graphic	4
Report of the Supervisory Board	8
Foreword of the Managing Board	9

Task

IN THE PUBLIC INTEREST, CONTRIBUTING TO GREATER STABILITY	11
A contribution to the stability of the financial market	12
In the interest of taxpayers	13

Challenges

MITIGATE RISKS, AVOID LOSSES, PRESERVE VALUE	15
A EUR 77.5 billion startup	16
An additional set of tasks in 2012	17
Reduce risks, manage liquidity	18
Active risk management:	
How the EAA reduces its loss potential	20

System

STRENGTHENING STRUCTURES AND SECURING EXPERTISE	23
EAA's self-understanding	24
Understanding and utilizing regulatory requirements as an opportunity	25
The winding-up operating model of the EAA	26
Securing operational stability and developing the EAA's model further	28

CONTENT

Performance

STRATEGY PLUS EXPERTISE EQUALS SUCCESS	31
The EAA's wind-up strategy is working: It is ahead of schedule	32
The way to wind-up success – analyzing in detail and developing individual strategies	34
Practice report: The stabilization of the EAA Covered Bond Bank	38

Perspective

ON THE WAY FROM BEING A 'BAD BANK' TO BECOMING A 'GOOD BANK'	41
A rapid wind-up reduces risks for public finances	42
"Continuing the EAA success story" Questions and answers	44

Financial report	48
List of abbreviations	162
Imprint	164

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board of Erste Abwicklungsanstalt convened six times (including two conference calls) in the fiscal year from January 1 to December 31, 2014 for the purpose of exercising its rights and fulfilling its obligations in accordance with the law and the company's charter. The standing committees formed from among its ranks (audit committee and risk committee) convened twice and six times (including two conference calls) respectively.

The topics discussed by the Supervisory Board in fiscal year 2014 included the overall wind-up planning for 2014, the integration of the Loan & Portfolio Management division (formerly the Portfolio Exit Group (PEG) of the former WestLB AG) of Portigon AG into Erste Abwicklungsanstalt, the ongoing strategic expansion of Erste Abwicklungsanstalt, and specifically the efforts to safeguard the stability of operations in this context. The Supervisory Board also advised the Managing Board and monitored its governance of the company, and participated in decisions of fundamental importance for Erste Abwicklungsanstalt. The Supervisory Board was kept regularly informed about the situation at Erste Abwicklungsanstalt – even outside of its meetings – by means of the winding-up reports submitted to it as well as other reports of which it was made aware.

The Supervisory Board engaged PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft (PwC) to audit the annual financial statements of Erste Abwicklungsanstalt. PwC audited the annual financial statements and management report of Erste Abwicklungsanstalt for the fiscal year ending on December 31, 2014, for which it issued an unqualified audit opinion. The Supervisory Board and the audit committee formed from within its ranks discussed the auditor's report on the findings of its audit in detail, and did not raise any objections following the final conclusion of the audit.

At its meeting held on April 15, 2015, the Supervisory Board approved the annual financial statements and management report prepared by the Managing Board for fiscal year 2014 and recommends them for ratification by the Stakeholders' Meeting.

Düsseldorf, April 15, 2015



Dr. Rüdiger Messal
Chairman of the Supervisory Board

Dear Readers,

Five years ago Erste Abwicklungsanstalt (EAA) commenced its operations. We, the Managing Board, would like to use this small anniversary as an opportunity not just to update you in the 2014 annual report with figures and analyses on the results of the past 12 months. As the EAA has a public mandate, it also remains important to us that we provide you with transparency not only about the complex tasks that we have dealt with in the past several years, but also the solutions we have found when doing so.

We would like to provide you a progress report looking back and an outlook going forward: the risks we are addressing, the opportunities we are exploiting and the services we are providing. All in all, the past several years have been a success:

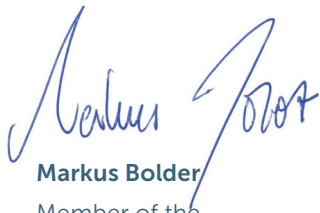
- △ The portfolio of loans and securities that we refilled in 2012 has been scaled back by more than two thirds – a reduction of more than EUR 100 billion.
- △ In 2014 we successfully privatized two of the assumed – and supposedly unsalable – operating participations, one of which was a bank.
- △ The objective of winding up a trading portfolio of derivative financial products with a notional volume of more than EUR 1 trillion is more than half complete.
- △ The EAA is recognized on the international financial markets as a reliable issuer, also of large-volume bonds in euros and dollars.
- △ The EAA has established a proven track record as a center of excellence for difficult wind-up tasks in the financial sector – developing experience that is also valuable if there is a need to stabilize or wind up banks in the future.

Our mandate was and is to make a substantial contribution to the stabilization of the financial market while avoiding, to the greatest extent possible, substantial losses for public finances. As in 2012 and 2013, we achieved a positive result in 2014 too – a net profit of EUR 62.5 million. We have therefore come another step closer to reaching our ambitious goal of concluding the wind-up process with a break-even result by 2027 at the latest.

In order for the EAA to continue its success going forward, it will have to ensure its operational stability in the coming years, as its continued success story will only be possible based on the well-founded expertise and outstanding commitment of its employees, its subsidiaries and our service providers.



Matthias Wargers
Spokesman of the
Managing Board



Markus Bolder
Member of the
Managing Board



Horst K pker
Member of the
Managing Board



▶ MEMBER OF THE
MANAGING BOARD



IN THE PUBLIC INTEREST, CONTRIBUTING TO GREATER STABILITY

Looking back, at the height of the financial crisis the EAA had a lasting stabilizing effect on the markets. The former WestLB transferred to it assets and obligations worth billions of euros. The EAA's objective was to wind up this portfolio in such a way that, in particular, looming losses for public finances could be avoided. A newly established team of proven financial experts accepted the responsibility five years ago. Markus Bolder has been a member of the EAA's Managing Board since then. Prior to joining the EAA, he was head of a service company that processed and wound up non-performing loans.

A contribution to the stability of the financial market

When the US real estate bubble burst in the summer of 2007, the value of complex securities and other financial products plunged. Banks around the world suffered dramatic losses and ran into difficulties. A chain reaction threatened to bring down the globally interconnected financial world, making it necessary for governments to intervene. Among other measures, Germany provided for a system of public guarantees in order to stabilize the economic cycle, safeguard the interests of companies and secure the private wealth of citizens. At the end of 2009, the EAA was founded as a recovery tool intended to wind up a portfolio worth many billions of euros that it had assumed from the former WestLB. In that way it was possible to remove from the market a major, internationally connected bank, without creating disruptions.

smoothly

The EAA assumed several tranches of structured financial products, securities, loans, derivatives as well as investments in projects and companies, all together worth more than EUR 200 billion. A wide variety of transactions had to be transferred within a short space of time – without negatively impacting volatile markets.

reliably

A winding-up agency is not a bank in the classic sense. It does not generate new business and rigorously minimizes risks. Instead of focusing on short-term profits, it targets long-term results. Based on this unique business model, the past several years have seen the EAA develop into a business and negotiation partner, a creditor and a debtor for numerous financial institutions. It had to build up trust among the customers of the former WestLB, investment bankers, private equity and hedge funds, insurance companies and international central banks. For its funding purposes the EAA needed to establish itself in a short space of time as an issuer of attractive bonds.

competently

The portfolio is very complex and requires expertise across a wide variety of economic sectors, not just in the traditional tasks of the banking industry. In order to control risks and safeguard assets, the EAA must be familiar not only with complex legal issues but also with specific industrial markets around the world. Its relatively small, compact organization had to develop these skills in just a few years. What was and still is needed is a recognized center of excellence with a broad scope and no overbearing bureaucracy.

In the interest of taxpayers

The EAA is a public law institution that operates on the international markets in a structurally and financially independent manner. It plans and organizes the portfolio wind-up based on commercial principles so that any potential losses will not be borne by its liable stakeholders: the German State of North Rhine-Westphalia and the North Rhine-Westphalian Associations of Giro and Savings Banks. One objective is to avoid the need to fulfil their duty to offset losses. This is an achievable goal from today's perspective – precisely because of the unique model of a winding-up agency.

▼ The EAA can plan strategically and optimize its opportunities in the long term

A winding-up agency focuses its skills and resources on reducing the portfolio. When doing so, it targets value preservation, not profit maximization, and orients itself toward the long-term success of all wind-up measures, not just on gains in the short term. This makes it possible for the EAA to operate with the long-term perspective in mind and minimize risks, thus boosting the chances of success.

▼ In particular, the option to wait pays off when markets are volatile

The EAA is not a lending, financial or investment services institution in the legal sense. Its accounting is based on German commercial law and it is not subject to Germany's laws for minimum capital requirements. The EAA is not forced to sell its exposures at any price. It is therefore less exposed to market fluctuations and can instead wait for better conditions. The EAA's staying power is thus an advantage for taxpayers.

▼ The EAA can obtain affordable funding

Even though the objective is not to utilize the public sector's obligation to offset losses, this duty still benefits the EAA. The winding-up agency is protected against insolvency as a result; its rating is currently derived from the German State of North Rhine-Westphalia (NRW). This provides the EAA with affordable funding to refinance the assets in its portfolio and to manage its operations in an independent and robust manner.

▼
"THE FOUNDATION OF A
WINDING-UP AGENCY
PROVIDES THE TAXPAYER
WITH AN OPTION TO WAIT.
THIS CAN HELP TO REDUCE
THE COST OF STATE AID."

PROF. DR. MARKUS RUDOLF
WHU – OTTO BEISHEIM SCHOOL
OF MANAGEMENT

▼ Public supervision guarantees transparency

The structure of the supervisory and control system at the EAA is similar to that of a corporation. But as a tool of financial market stabilization, it has an additional, public-sector level of supervision. The German Financial Market Stabilization Authority (Bundesanstalt für Finanzmarktstabilisierung – FMSA), the governmental supervisor, continuously monitors the overall wind-up planning and how it is being implemented. Internal and external audits, also by the German Federal and State Audit Offices, help to ensure that the EAA reliably fulfills the taxpayers' mandate.



MEMBER OF THE
MANAGING BOARD

MITIGATE RISKS, AVOID LOSSES, PRESERVE VALUE

A broadly diversified portfolio requires profound professional expertise in many different areas. The high risks associated with troubled securities must be permanently reduced in order to eliminate most potential losses. A large derivatives portfolio must be reduced, too. At the same time, it is important to continue holding performing assets in volatile markets in order to leverage future sales opportunities. Finally, cost-effective funding must be ensured. Horst K pker has been working for more than 18 years as a treasurer in management-level positions for several prestigious institutions. He was appointed to the EAA's Managing Board in May 2013.

A EUR 77.5 billion startup

The notional volume of the portfolio that the EAA assumed five years ago for its wind-up work totaled around EUR 77.5 billion. This initial package contained complex financial products, loans from multiple jurisdictions and business sectors, corporate and bank loans, as well as government and municipal bonds. In mid-2010, just nine experts were working at the EAA; by the end of that year, this figure had grown to 28. These specialists assumed a broad range of responsibilities with several very special challenges.

▼ A difficult mission – detoxifying “toxic” securities

Structured securities, particularly those in which high-risk US real estate loans were bundled, triggered the financial crisis. The “Phoenix Portfolio” of the former WestLB consisted of 10 tranches of such securities, which were considered to be “toxic” when the crisis first began. These complex structures contained around two million individual loans with an original notional volume of about EUR 23 billion.

The EAA’s task was to mitigate these toxic structures and limit the threat of billions in losses. The enormous portfolios had to be analyzed and re-evaluated, their management had to be improved so that higher repayments could be achieved, and finally, it was especially important to develop sales options for some of these securities.

▼ Preserving value in volatile markets

However, only a portion of the EAA’s portfolio was high risk; more than half had good or medium ratings. This meant that it was important to identify transactions that offered the potential for future returns in order to continue maintaining them in a competent manner in an

at-times tense environment. Fluctuating exposures had to be closely monitored and the optimal time for an exit needed to be defined, as anyone who can wait for positive market trends will be able to sell at higher prices.

What was needed was expertise in different sectors and regions. The sub-portfolio with loans to industrial companies, for example, was broadly diversified and contained about 300 individual exposures from the shipping, aviation, hotels/special real estate and energy industries.

First fill

in EUR billion

77.5



Notional volume in exchange rates as per 12/31/2009

An additional set of tasks in 2012

The total volume of the “refill” was EUR 124.4 billion. In 2012 the EAA, which by then had nearly reduced its original portfolio by half, received additional responsibilities: more loans, investments and project financing, amounting to EUR 72.3 billion in total. In addition, it assumed a trading portfolio of derivative contracts with a book value of EUR 52.1 billion. Expertise in new areas of responsibility was therefore needed.

▼ A one-trillion-euro task: winding up derivatives efficiently

Derivative financial products are sometimes based on complex agreements that are generally linked to an underlying transaction (underlying), for example a loan, and which hedge the associated interest rate or currency risk, for instance. The notional volume of these underlyings in the EAA's trading portfolio, at around EUR 1 trillion, was far higher than their book value.

The EAA had to build up additional expertise. The risks of these new products had to be reduced while at the same time developing wind-up strategies for the global market of the derivatives.

▼ Project financing: an energy transition for the EAA

Just as challenging was the wind-up of project financing, which as well was largely a new area of activity for the EAA. These projects have very long maturities and are strongly dependent on the political environment. With a notional volume of roughly EUR 5.3 billion, energy projects were the largest sub-portfolio. The EAA became involved in the European energy transition virtually overnight, and now had to take on the task of gaining new expertise without inflating its bureaucracy.

▼ More countries, additional currencies, different regulations

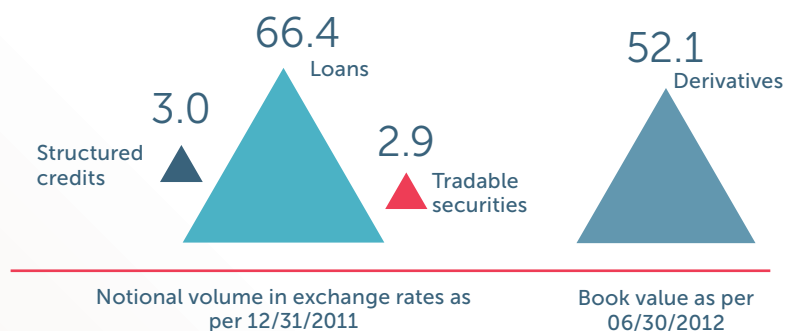
While the EAA's initial portfolio included exposures from 58 countries, its geographical scope of responsibility expanded in 2012 to around 100 countries – on all continents.

This required an enormous effort. Instead of just 25, the EAA's IT systems now had to handle 60 different currencies. And more countries mean different business practices and languages and, most importantly, new legislation to adhere to.

Refill

in EUR billion

124.4



Reduce risks, manage liquidity

The EAA is active on the international finance market with its own bonds. This is a part of the EAA's business model, namely to refinance the assumed portfolio with debt. For instance, the winding-up agency has more than just assets on its balance sheet, such as participations, loans, securities or derivatives. It also has the corresponding liabilities for nearly the same amount, which have to be serviced when they become due. The EAA can be successful only if it optimizes its funding to the same extent as it winds up its assets. In this regard, avoiding risks and keeping costs low are the primary objective of the Treasury/Capital markets department.

Investor base of the EAA

in %



▼ Addressing funding risk strategically

Funding risk exists when the necessary funds either cannot be obtained on the international finance market, or can be obtained only at an excessive price. The EAA addresses this risk strategically. Over the last five years since it commenced operations, the EAA has actively approached a growing circle of investors who have been intensively cultivated since then. Today the EAA is seen as a reliable issuer with flexible offerings of various types of debt securities that meet the respective needs of investors.

This has allowed the EAA to create a broad base of renowned institutional investors throughout the world, thus giving it regular access to the markets and achieving good terms when doing so.

▼ Deliberately avoiding liquidity risks

Like all companies, the EAA must be able to settle all of its current payment obligations when they become due. These include not only spending on operations but also expenditures resulting directly from the various transactions in the portfolio as well as any debt securities falling due.

The total financing need is determined as part of the EAA's long-term wind-up planning and is regularly monitored, for example through the use of stress scenarios. Besides determining the net balance of calculated payment flows, i.e., cash inflows and outflows, tactical liquidity management also involves deliberately building up a buffer of additional cash resources in order to be able to react to unforeseen events and avoid shortfalls.

CHALLENGES

For example, the need for liquid assets spiked in 2012 because the EAA had to prepare for the transfer of an additional multi-billion portfolio. A substantial buffer was necessary in addition to ongoing operations. The funds raised back then have already been repaid to a significant extent.

At present, the EAA has outstanding medium and long-term debt totaling around EUR 32 billion. It expects to issue a volume equivalent to about EUR 5 billion annually over the next couple of years. In the long term, however, the need for liquidity will decline as the portfolio is reduced. The level of debt will decrease accordingly.

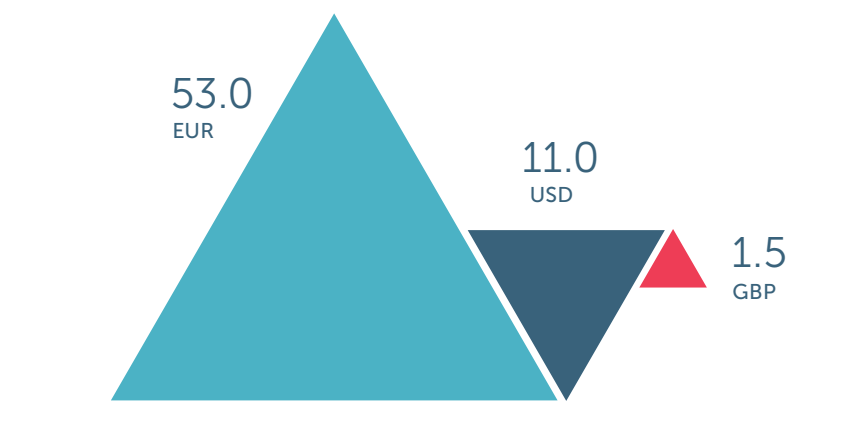
▼ Limiting market risks

The funding of a broadly diversified portfolio of loans, securities and derivatives involves market price risks. Changes in the interest rate environment or currency fluctuations can drive up the costs of winding up the portfolio. For example, a significant portion of the EAA's portfolio consists of exposures in US dollars. If the euro falls relative to the US dollar, the cost of refinancing rises and losses could result.

To avoid such potential losses, the EAA uses hedges to eliminate most of its exposure to interest rate and currency risks, thereby minimizing market price risks. The preferred manner of hedging against currency risks is to refinance directly in the relevant currency. In 2014 the EAA issued its first ever "benchmark bond" – a large-volume issuance – in US dollars, thereby lowering its risks considerably.

Bond issuance of the EAA

Placement of medium- and long-term securities since 2010 in billions



Active risk management: How the EAA reduces its loss potential

The EAA's portfolio is complex, highly diversified and contains several exposures that are particularly vulnerable to losses. Whether they are derivatives, ship financing or loans to highly indebted companies, the EAA's risk profile is similar to that of a global wholesale bank, whereas the focus of its business policy is clearly different. Potential risks are to be identified and limited, and portfolios are to be wound up in a way that preserves value.

- ▼ **A winding-up agency does not pursue an offensive business policy.** It cannot, for instance, offset loan defaults with new business and the resulting profits. The EAA must absorb potential losses with its own risk buffer. At the end of 2014 this buffer totaled more than EUR 2 billion, consisting of previously recognized risk provisions and the remainder of its equity. In addition, the EAA has at its disposal what are known as equity drawing rights. These are public funds in the amount of EUR 480 million that may be used, if necessary, to increase its capital base.
- ▼ **But being restrained does not mean being passive.** In order to recognize and manage risks, the EAA has taken typical bank analysis and management tools and enhanced them for its own purposes. It has created organizational structures to efficiently control its exposures. Risk committees meet regularly and serve as central bodies for information-sharing, decision-making and management of strategic issues. The Supervisory Board and its committees are involved on a regular basis, as is the FMSA.
- ▼ **Limiting risks initially means analyzing them in detail.** The EAA's risk management activities focus on identifying risks at an early stage. Markets and sectors are continuously monitored so that the EAA can respond quickly when the first signs start to appear that risks may rise. A closely meshed system then takes effect to intensively monitor and support the affected exposures. The EAA maintains a Global Watch List for such cases. Under this program, potential risks are constantly analyzed and, depending

on the risk potential in the individual case, different types of measures are defined to counteract them. When necessary, experts mitigate the recognized loss potential for individual exposures as early and as fast as possible by implementing a series of restructuring steps.

△ **Example 1:** One of the larger sources of risk for the EAA is the portfolio of more than 1,400 US insurance policies that were transferred to the EAA in 2012. Wealthy privately-insured individuals in the US sold their policies to investors, financed by loans from the former WestLB. The loans are gradually redeemed as the policies are paid out; until then, they serve as collateral backing the loan. But the calculations made when the transactions were concluded are now out-of-date. Active management in this context means, among other measures, tracking the actuarial development of the portfolio on an ongoing basis and cutting costs. In addition, the EAA regularly reviews whether all parties are adhering to the contractual conditions, particularly the service providers. Moreover, it has also taken steps to ensure that it has direct and uninhibited legal access to the insurance policies backing the loans.

The EAA takes this step because one aspect of its approach to risk management includes the rigorous inclusion of collateral in its risk management activities. Collateral is contractually agreed for nearly EUR 24 billion of its portfolio in the banking book, and the value of these assets should not deteriorate, either. To achieve this, legal steps or subsequent negotiations are often necessary; in some cases, it may even be necessary to protect a building or a ship against damage.

▼ **Sometimes the EAA can also take countermeasures using established financial instruments.** Negative consequences from interest or exchange rate fluctuations can be avoided through corresponding hedging. Whenever the associated costs are reasonable, the EAA closes all open exposures, especially in the trading portfolio.

△ **Example 2:** To lower the credit risks in the derivatives portfolio, the EAA continuously works to deliberately reduce the number of contractual counterparties or the business volume with individual partners. This is done, for example, by conducting optimization negotiations with a larger number of market participants in order to identify offsetting obligations and net them accordingly.

△ **Example 3:** Furthermore, the EAA focuses on winding up specific high-priority product groups such as equity derivatives or certificates. This reduces not only product-specific risks but also the administrative effort associated with managing them.

The EAA's success at reducing risk can be seen, for example, in the development of standard performance metrics. Value at risk (VaR) quantifies the loss that statistically will not be exceeded with a 99 percent probability within one trading day. This value for the EAA's trading portfolio was EUR 1.5 million as at December 31, 2014, whereas it was twice as high when the portfolio was initially transferred.

▼ **Current decisions are reviewed using crisis scenarios.** The EAA uses regular stress tests to simulate the market conditions at the height of the financial crisis – both in isolation and combined. These reviews are performed to determine the effect of similarly dramatic losses on critical sub-portfolios. This makes it possible to identify the largest sources of potential future losses so that they can be deliberately targeted for sale.

▼
“SPECIALLY DEVELOPED ORGANIZATIONAL STRUCTURES IN THE EAA'S CREDIT RISK MANAGEMENT DEPARTMENT GUARANTEE RIGOROUS PROCESSES – FROM EARLY IDENTIFICATION TO THE IMPLEMENTATION OF DEDICATED WIND-UP STRATEGIES.”

CHRISTIAN DOPPSTADT,
HEAD OF THE EAA'S
CREDIT RISK MANAGEMENT DEPARTMENT

▼ **But it is not possible to reliably hedge against all external influences.** However, risk management has its limits. This relates to the outcome of pending litigation as well as to the economic consequences of political developments, not just in the case of military conflicts like the one in Ukraine. In recent years, for example, the Spanish government has scaled back previous government guarantees for solar energy on several occasions, causing direct negative consequences for project financing in the country. Positive market trends in recent years have facilitated the reduction in the portfolio. The EAA's strategic wind-up planning, however, focuses on being prepared – as much as possible – for the day when this is no longer the case.



► HEAD OF THE STRATEGIC
PROJECT AND PARTICIPATION
MANAGEMENT DEPARTMENT

STRENGTHENING STRUCTURES AND SECURING EXPERTISE

Since its foundation, the EAA has had a lean organizational structure. As a management entity, EAA decides on how to wind up the portfolio and sources the respective services required from outside services. Over the last five years this approach has been essential for creating a center of excellence for complex international wind-up activities. But as markets are dynamic, (regulatory) frameworks and requirements change, partly due to the fact that the portfolio is being reduced. Based on this, the EAA is constantly reviewing its processes, and adjusting them whenever necessary. Dr. Ulf Bachmann is responsible for the strategic development of the EAA.

EAA'S SELF-UNDERSTANDING

The EAA is the first winding-up agency of its kind in Germany. It has a clearly defined public function – to wind up the portfolios transferred to it with a view to minimizing risk. The EAA is specialized in professionally solving problems associated with complex international portfolios. As a public law agency, the EAA has a very important social responsibility that we, the Managing Board and the employees, take very seriously.

Understanding and utilizing regulatory requirements as an opportunity

In German, the word “Abwicklungsanstalt” implies a governmental administration. In fact, the EAA is a part of the German government’s efforts to stabilize the financial market. As a public law entity it is subject to special regulations and supervisory requirements. The resulting monitoring and reporting procedures hold a special challenge for a commercially-oriented institution, but are an indispensable building block for the success of the model.

▼ **The EAA has been successful on the international financial markets not in spite of, but rather precisely because of its status as a public law entity.**

The bad bank concept is nothing new for international business partners. Initially, however, the status of a public law winding-up agency was not classified. Over the past years the EAA has been able to establish a strong credibility and demonstrate its sustained professional expertise. Governmental supervision, equity guarantees as well as the duties of the EAA’s liable public stakeholders to offset losses demonstrate the security and reliability of the public law entity. The EAA truly benefits from these mechanisms.

▼ **Compared to other financial institutions, the EAA has more supervisory bodies and additional reporting obligations. These checks and balances help to safeguard public interest.**

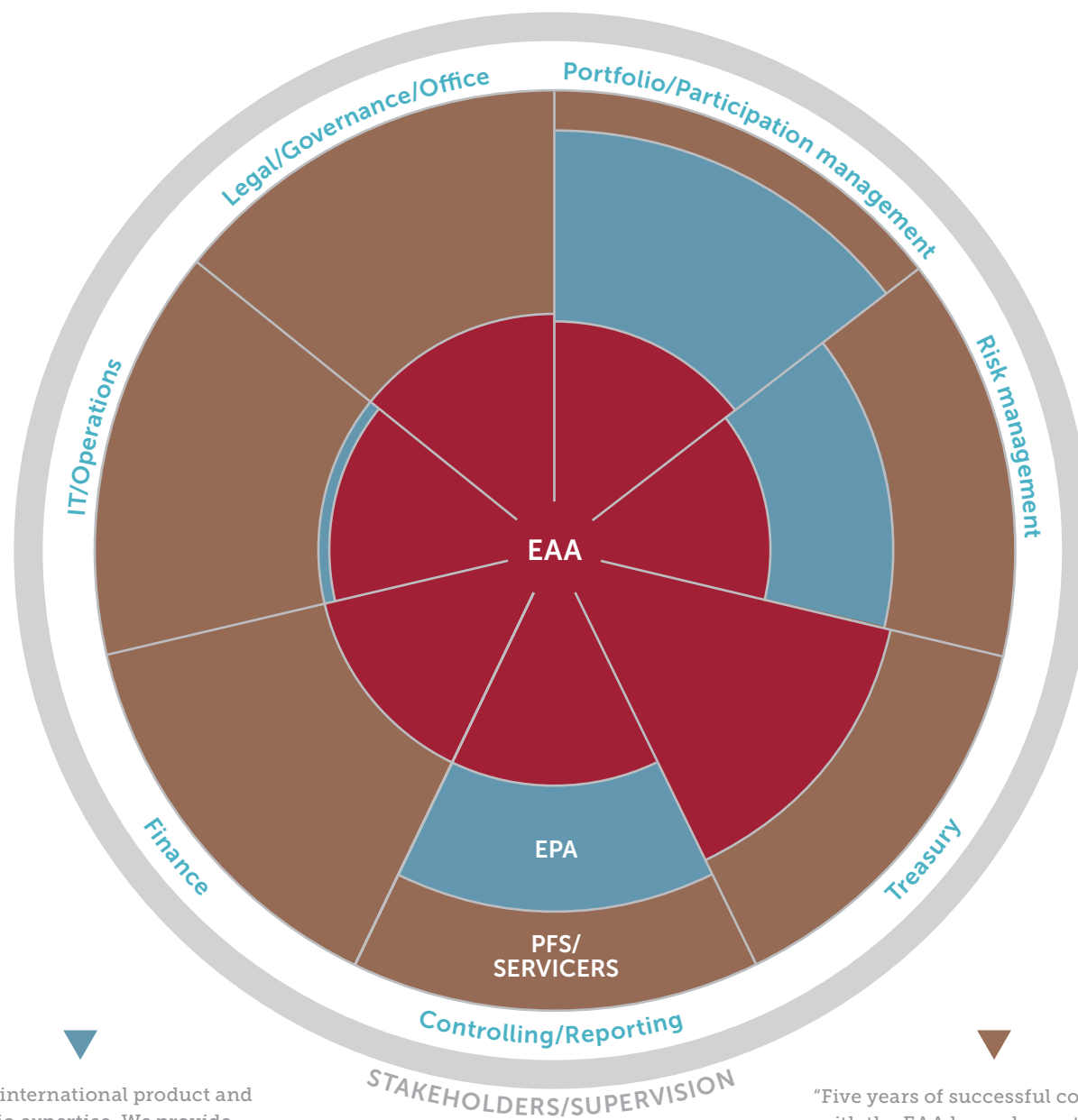
The EAA is controlled not just by external auditors, the German Federal Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) and the Deutsche Bundesbank (German central bank). It is also legally supervised by the FMSA. The German Federal Audit Office (Bundesrechnungshof) audits the management of the EAA, while NRW’s State Audit Office (Landesrechnungshof) audits its budgetary and commercial management. In addition, the EAA’s Managing Board reports to the responsible committees in the German Federal Parliament (Bundestag) and NRW’s State Parliament (Landtag) as well as to the governing bodies of the stakeholders. This degree of supervision is work-intensive, but it also means that strategic business decisions are subject to additional external reviews.

▼ **Successful financial institutions implement supervisory requirements efficiently. Today the EAA is a center of excellence for regulatory process security.**

As a result of the financial crisis experiences, business processes have become more strongly regulated and controlled at both a national and international level. This trend is growing unabated. All financial institutions must be prepared to quickly and completely meet additional requirements. An institution that can implement regulatory-compliant processes in a streamlined and efficient manner has a competitive advantage. In recent years, the EAA as a winding-up agency has steadily developed into a center of excellence in this area.

The winding-up operating model of the EAA

Operating areas of the EAA and their respective depth of value added – an overview (schematic illustration)



"EPA has international product and portfolio expertise. We provide customized solutions for the management and reporting of complex risk exposures."

Frank Malone
Managing Director of
EAA Portfolio Advisers GmbH

"Five years of successful cooperation with the EAA have shown that when interfaces work smoothly, a service provider can make a significant contribution to commercial success."

Dr. Sören Christensen
Managing Director of
Portigon Financial Services GmbH

The EAA as risk owner of the portfolio

Central responsibility

The EAA is a lean management and control unit that forms the center of a widely spread organization of different experts at several functional levels. The EAA is fully responsible for its portfolio and decides for each of its 35,000 exposures when, how and at which price the exposure is to be wound up, sold or restructured. In addition, it is responsible for refinancing the entire portfolio.

EAA's subsidiaries as portfolio managers

Expertise always within reach

The EAA delegates both upstream and downstream tasks related to its portfolio to a servicing subsidiary: EAA Portfolio Advisers (EPA) is responsible for preparing sales recommendations and implementing approved decisions. To that end, it has developed a flexible and scalable platform for comprehensive portfolio management. EPA provides detailed valuations and goal-oriented winding-up strategies.

Service providers as portfolio administrators

Tailored professional support

To perform its operational tasks, the EAA uses service providers who support the daily implementation of its wind-up processes. This is a proven approach, from managing counterparties through to managing cash. Portigon Financial Services (PFS) is responsible for the administration of the complex portfolio. As the EAA's most important service provider, it fulfills, for example, most of the EAA's IT needs and supports borrowers and other business partners.

Public institutions as supervisors

Basis and source of stability

The EAA takes on its tasks effectively. As a public law entity the EAA is subject to extensive supervisory requirements. Its public foundation provides security – for debtors, for contractual and negotiation partners as well as for investors.

A BENCHMARK FOR THE EAA'S OWN ORGANIZATION TOO: THE WIND-UP PLAN

The current wind-up planning provides the framework for EAA's organizational development. Take EPA as an example. The establishment of this subsidiary changed the EAA's cost structure. Previous expenses for external services are now expenditures for EPA's personnel. The reorganization of external and internal services was put into practice cost neutrally and has no impact on either the plan or the net profit.

The number of experts directly involved in the process of winding up the portfolio is already declining today. While in 2013 around 1,150 employees in total (full time positions) were directly involved in the portfolio wind-up process at the EAA, its primary subsidiaries and at Portigon/PFS, its most important service provider, just one year later this figure was only about 1,000.

Securing operational stability and developing the EAA's model further

By Dr. Ulf Bachmann, Head of the EAA's Strategic Project and Participation Management department

In 2009, when Germany's first winding-up agency was designed, a lean organizational structure was a core element of the new entity. Designed as an efficient decision-making and management entity that outsources its upstream and downstream activities whenever possible, the new agency, the EAA, was expected to begin its work without a lengthy start-up phase. It was intended that the initial organizational model would receive most of its required services from specialized service providers. Thus the wind-up of the portfolio could be thoroughly planned and competently and flexibly implemented.

Operational stability is one of the basic requirements for meeting the highly complex wind-up responsibilities. The EAA's degree of outsourcing is constantly reviewed in light of the following key questions: Can necessary services be procured externally with appropriate quality at a sustained and reasonable price? And going forward, does this approach make sense strategically given the steady portfolio decline and the changing environment in which the EAA operates? Against the backdrop of these questions, the EAA's model has been continuously adapted since its inception – a key factor contributing to its success to date.

▼ Development stage I – increasing the EAA's internal value chain

In 2012 another multi-billion portfolio was transferred to the EAA, including the entire trading portfolio of the former WestLB – today Portigon. The task of completely winding up such a portfolio with derivative financial products was new territory. The services which the EAA needed to fulfill this new responsibility could not be obtained externally as they had been previously for other requirements. Consequently, the EAA expanded its own value chain, particularly in the Treasury/Capital Markets, Risk Controlling and Portfolio Management departments, and hired additional specialists for this purpose.

▼ Development stage II – an in-house service subsidiary

When the EAA commenced its operations, the former WestLB had been its largest service provider, among other things, being responsible for portfolio management. At the beginning of 2014 it became apparent that this service would no longer be one of the core services of the newly founded Portigon Financial Services (PFS), which became WestLB's successor as the EAA's service provider. In the light of these developments, the EAA had to change its strategy.

- △ The specialized expertise that had been built up within the EAA over several years with respect to its international portfolio – for instance with regard to the different asset classes or their legal and regional specifics – could not be lost.
- △ The tools developed on business analysis, which were precisely tailored to the EAA's needs, had to be available to the EAA without restriction.
- △ Short decision-making paths and implementation processes needed to remain in place whenever possible.
- △ Additional efforts or even rising costs had to be avoided.
- △ Establishing its own service subsidiary was the most efficient for the EAA to meet these requirements. EAA Portfolio Advisers (EPA) was founded in 2014. About 70 employees were transferred from the Portfolio Management unit of PFS to EPA.

▼ Development stage III – insourcing of functions that are mission-critical

Changes in its environment and altering challenges in the portfolio wind-up will require further adjustments to the EAA's organizational model. Currently, two trends are emerging.

△ As of today, PFS continues to provide important services for nearly all of the EAA's departments. Irrespective of its task as EAA's service provider the Portigon Group continues to modify its business model. The EAA has to be prepared to assure the continuation of its operations even in the case of a complete reposition of the Portigon Group and will have be able to fulfill given market requirements and the expectations of the supervisory authorities and its liable stakeholders – the German State of North Rhine-Westphalia as well as the North Rhine-Westphalian Regional Giro and Savings Banks Associations.

△ The EAA has been winding up its portfolio faster than planned. It is therefore reviewing the costs and benefits of externally procured services under different circumstances. It should be noted that the

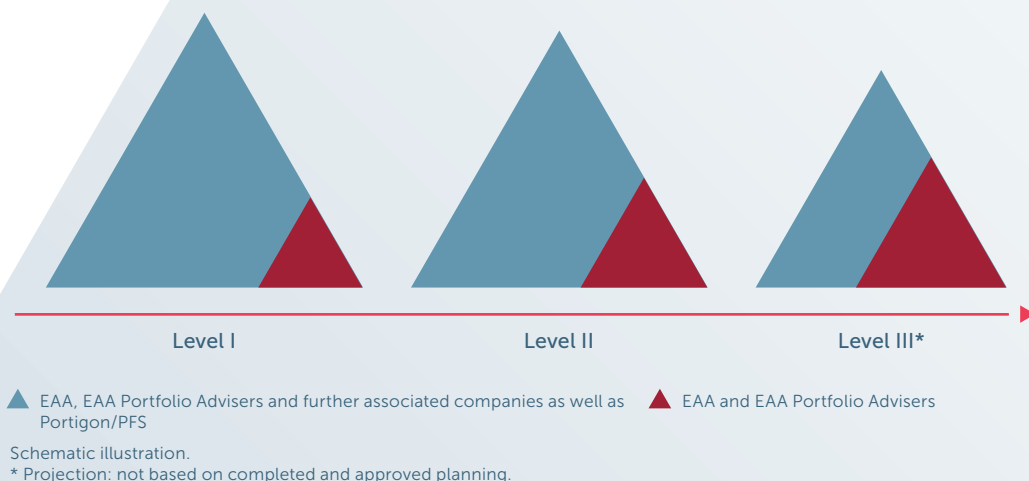
portfolio remains global and that the legal requirements continue to be high. Extensive skills and specialized knowledge will continue to be critical for a successful wind-up going forward.

If the market is not able to provide the services the EAA needs, the EAA has to take over tasks and functions that it deems to be essential for its operational stability. In other words, depending on the market situation, it may be necessary to expand the EAA's organizational structure by insourcing critical functions in the future.

Conclusion: The EAA's model works precisely because its organizational structures, particularly the depth of its value chain, have been adapted to changes in its business environment, if and when required. This has been a crucial factor enabling the EAA to achieve sustained success in the management and wind-up of the assets it assumed: To date, the wind-up plan has been outperformed in every year of the EAA's existence.

More insourcing, less outsourcing

The EAA further develops its organizational structure – with immediate implications on the required manpower: The agency's own workforce is growing in proportion to the increasing tasks that the EAA has to fulfill. At the same time, the total number of employees at the EAA, its service subsidiary EPA and further major affiliated companies as well as at Portigon/PFS – all working on winding up the portfolio – gradually declines.





HEAD OF THE PORTFOLIO
STEERING DEPARTMENT



STRATEGY PLUS EXPERTISE EQUALS SUCCESS

The facts speak for themselves. The EAA has already wound up two-thirds of its banking book and far more than half of its trading portfolio. And while doing so, it has been profitable in every quarter since 2012 and has kept the quality of the portfolio stable. The wind-up planning has been effective. There is a precisely defined wind-up strategy for each individual exposure. At the same time, this success demonstrates how well the teams involved in this effort know the markets. Gabriele Müller is the Head of the Portfolio Steering department; already prior to joining the EAA, she worked in Risk Management, including at the European Central Bank.

The EAA's wind-up strategy is working: It is ahead of schedule

The EAA's objective is to rapidly wind up the assets it has assumed – by 2027 at the latest. In the process, losses are to be minimized over the entire period and the EAA must be solvent at all times. At the same time, it strives to manage its equity capital so that it at least breaks even at the end of the planning period. In order to maximize the achievement of all of these requirements, its work is based on a strategic plan that is continuously reviewed and updated annually.

▼ **The EAA has created a long-term detailed management tool: the wind-up plan.**

The current wind-up plan extends until 2027. It is based on a detailed portfolio analysis in which a determination is made for every single exposure – in both the banking book and the trading portfolio – as to when and how the exposure is to be wound up. Furthermore, a calculation is made showing the overall effect that the planned transactions will have on liquidity, profits and equity capital. Retrospective analysis and forward-looking stress scenarios complement the planning. A methodical instrument with such depth of detail has never existed before in the world of finance. The EAA has taken existing planning and management tools and adapted, perfected and supplemented them for its specific needs.

▼ **Managing for the long term yet reacting flexibly – this strategy is working:
The EAA has considerably surpassed its original planning.**

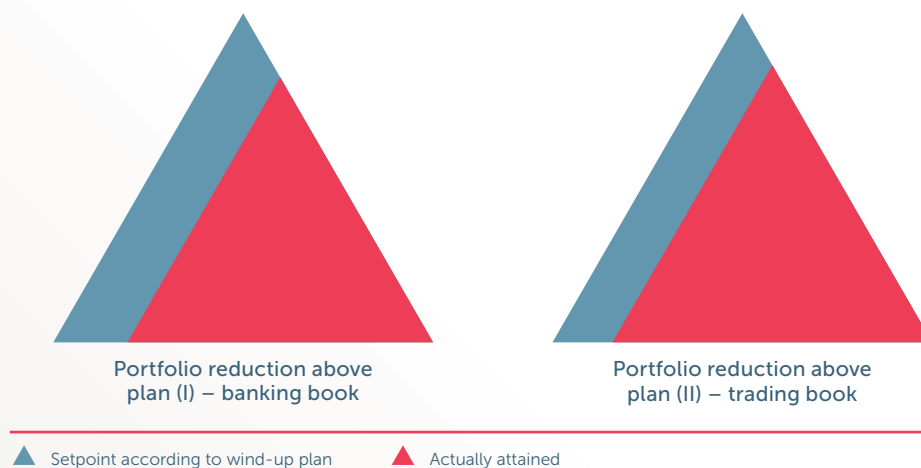
The international financial markets do not function statically, as revealed by the various waves of the financial crisis. The EAA therefore adapts its wind-up planning to changing circumstances. The mix of problematic and performing assets in its portfolio has so far made it possible to offset shortfalls, both expected and unexpected, in one area of business through recoveries in another. To date this balancing act has succeeded. The EAA has outperformed its original planning and has already reduced considerably more than half of its portfolio. So far, it has also been able to generate a net profit every year since 2012.

▼ **Winding up does not mean selling at any price. Profound knowledge of the market and clear processes are the foundation for deciding on the right time to take action.**

Investors understand that sometimes losses have to be realized in order to avoid throwing good money after bad. But a quick sale of a risk exposure is not always really the best option. The crucial consideration is whether there is a robust outlook for the future price and the expected returns over the entire contractual term. In general, the EAA sells an exposure only if the price to be realized has reached at least the intrinsic value as set out in the wind-up plan and more favorable timing is not expected. Profound knowledge of the market and clear decision-making structures are the preconditions for sustained sales success.

Portfolio reduction above plan

The wind-up plan of 2013 for the first time contained targets for the entire portfolio refilled the year before. So far, the EAA has even exceeded its objectives: At the end of 2014, the notional volume of the banking book was by one fifth smaller than the predicted EUR 65 billion, and the derivatives in the trading portfolio made up 16% less than the originally planned EUR 552 billion. The EAA is ahead of schedule – its wind-up strategy has been successful.



▼ Portfolio reduction with the long term in mind: If holding an asset means a higher return, then the strategy is to hold.

The EAA does not always sell just because a buyer is available. Instead, the business strategy also takes into account that valuable exposures result in interest income and repayments, which is income to offset losses that are unavoidable over the entire period. In these cases, the market price would have to be higher than the high value of such exposures before a sale would take place. The EAA winds up its portfolio with the long term in mind. The proof of this is that the quality of the portfolio has remained virtually unchanged over the years, with medium and good quality exposures still accounting for more than half of the overall portfolio.

▼ Holding, however, does not mean just passively waiting – the portfolio is actively managed or restructured if that leads to better prospects.

The EAA also holds troubled exposures if that is a way to avoid having to realize looming high losses. Its approach is that the risks from such exposures can sometimes be reduced. It is frequently possible to undertake targeted measures to boost the appeal of the asset for potential later buyers. Depending on the circumstances, complex packages are unwound, securities are rebundled, business models of participations are modified or unfavorable contractual conditions are renegotiated. The EAA's experts know their portfolio and utilize their opportunities.

The way to wind-up success – analyzing in detail and developing individual strategies

Winding up a troubled portfolio means the EAA must make numerous decisions in a wide variety of business areas. The key to success is knowing the contractual relationships and assets in detail, being in close contact with market partners, assessing future market developments reliably, and drawing the right conclusions for each individual set of circumstances. Here are five examples.

▼ Recognizing new developments early and responding consistently – The sale of a non-performing loan

In 2010, the former WestLB transferred to the EAA, among other exposures, aircraft financings with a notional volume of about EUR 2 billion. The portfolio also contained loans to leasing companies, which used the funding to purchase jets and lease them to airlines around the world. One loan, still totaling EUR 10.5 million after the first principal repayments were made, was used to acquire two regional aircraft. Both airplanes were being used by an Indian airline. The loan was being serviced by the corresponding leasing rates.

Looking back, five years ago the Indian airline industry was considered to be a growth market with potential. Back then, the airline that leased the jets was one of the largest in the country. The loan in question had previously been categorized as “fully performing” and was intended to be held until it matured in 2016. That was the original plan that the former WestLB had prepared.

But then in 2011 the airline began to struggle and payments were delayed. The situation worsened in 2012 and the exposure became a non-performing loan. The EAA benefited from the fact that it had adjusted its strategy in a timely manner. It had reviewed how the looming loss could be reduced:

- △ It could have taken back the aircraft that were used as collateral to back the loans. But that would have been difficult to implement under Indian law, and would have involved significant expenses.

- △ The group that owned the airline, which was also based in India, had issued a guarantee for the loan. But the creditworthiness of this commitment also appeared to be in doubt by then.

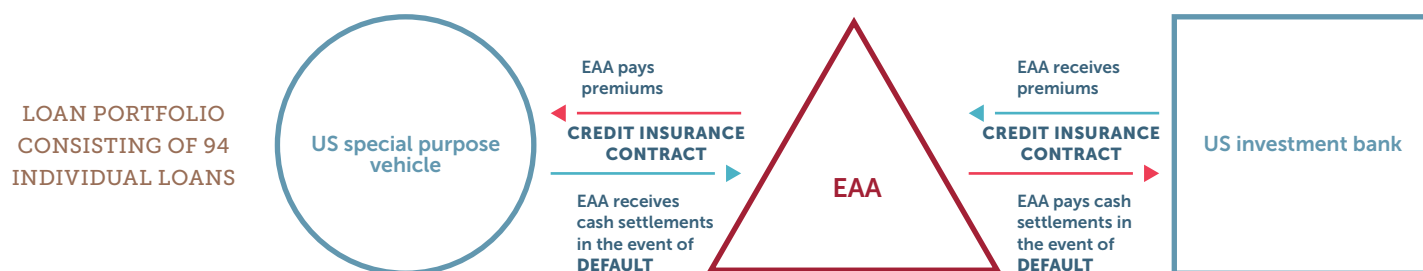
- △ In this situation, the EAA therefore decided to initiate negotiations with the borrower’s parent company, an airline based in Mauritius.

A settlement was reached in 2012, enabling the EAA to sell the loan for EUR 9.1 million, i.e., it accepted that a loss of nearly EUR 1.5 million would be realized. Nonetheless, this was the right decision for the EAA because in the meantime the wind-up plan had anticipated a loss of EUR 3.5 million for this exposure. And as it turned out, the Indian airline discontinued its operations in 2013. Other lenders were either not able to claim their collateral at all, or if so, then only after a long delay and with a considerable discount.

▼ Negotiating with the long term in mind – The wind-up of a CSO transaction

CSO stands for “collateralized synthetic obligation”, a structured financial product. Investors in such a transaction assume the default risk in relation to a portfolio of loans. During the financial crisis these types of structures led to enormous losses for the participating banks. Winding up structured loans successfully requires in particular a reliable assessment of the market and drawing the right conclusions – for example, deciding to negotiate with patience and for the long term.

Five years ago the EAA assumed, among other exposures, a transaction based on two credit insurance contracts. The first transaction provided the EAA with the right to receive cash settlements from a special purpose vehicle in the event of any loan defaults. It paid premiums for this insurance. In a second, mirror-image transaction, the contractual relationships were exactly the opposite. The EAA was the debtor in an identical insurance contract and received premium payments in return. The claim to receive the corresponding cash settlements was with a US investment bank. Both agreements matured in the middle of 2014.



In principle, the EAA therefore had a closed position. Both contracts neutralized each other regarding the underlying transactions. The problem was that the solvency of the special purpose vehicle was not protected against the worsening of risks, which had occurred in the meantime. In other words, if too many reference loans were to default – a risk that had become much more substantial already when the portfolio was assumed – the EAA would not have received (full) payment. But it still would have had to fulfill its contractual obligations toward the US investment bank. These obligations had a notional volume totaling USD 225 million.

In order to determine the risk, the EAA had to do more than just analyze the likelihood of default by the special purpose vehicle. It also had to constantly monitor the trends among the individual underlying reference loans. As this was a US exposure, this involved analyzing the developments in the crisis on the US real estate market. In addition, insurance companies and banks fought fiercely to obtain potential compensation for damages from mortgage securitizations. The outcome of these negotiations could impact the risk of the transactions, too.

The risk of loss could only be completely eliminated if the agreement with the investment bank was prematurely canceled. Negotiations began at the end of 2011. The bank demanded a one-time payment of around USD 27 million to settle the transaction immediately, which the EAA declined. Its experts had meanwhile reviewed various scenarios and had made

the assessment that a holding strategy was a better approach. The risk of losing USD 27 million or more was limited at this time. And in fact, the quality of the loans continued to improve in the subsequent year so that the investment bank would have been satisfied with a settlement payment in a single-digit million amount. But once again, the EAA, supported by market analyses, declined this offer.

The positive market trend continued. After further negotiations the agreement was finally terminated in the early summer of 2013 – without any settlement payment. The EAA thus preserved the value of the transferred exposure and was furthermore able to fully exclude the possibility of further risks of unexpected losses one year before the transactions were set to mature. In other words, an exposure totaling USD 225 million was wound up early without a loss.

▼ **Targeted restructuring and then waiting for the right moment – The sale of Basinghall Finance Limited**

The fact that holding involves more than simply waiting can be seen in the case of Basinghall Finance Limited. Here the EAA was able to utilize three of its strengths: its expertise in portfolio management, its ability to reliably assess market trends, and finally, its leeway to wait for the right time to sell. Originally, the London-based firm extended real estate loans and funded itself on the capital market through the corresponding securitizations. But in the wake of the real estate crisis, it discontinued its new business activities already in 2008. Two years later, Basinghall was transferred to the EAA.

Its portfolio at that time totaled an equivalent of nearly EUR 900 million. Since then, the EAA reduced it by around EUR 260 million and in particular scaled back its portfolio of non-performing loans. At the end of 2014 it sold Basinghall to the real estate financier Bluestone Mortgages, in which prestigious international financial institutions are shareholders. The EAA benefited from its expertise and from the fact that the prices for real estate loan portfolios on the capital markets have been rising for about the last two years.

▼ **Revitalizing and privatizing –**

The sale of Westdeutsche Immobilienbank

The former WestLB itself had already attempted to sell its real estate subsidiary, but in vain. Then in 2012, Westdeutsche Immobilienbank AG (WestImmo) was transferred to the EAA. Although the bank under the umbrella of the EAA was not permitted to generate new business, it still returned to profitability. The EAA assumed some of its business activities itself – for example in Japan – and focused WestImmo on the pure Pfandbrief (German covered bond) business. After continuous discussions in the market it launched another sales process in 2014.

This new attempt succeeded in February 2015 when the Aareal Group signed the purchase agreement. The final closing of the transaction (when the shares are transferred) will take place as soon as, among other things, all necessary supervisory approvals have been obtained. In one stroke the EAA will reduce around one fifth of the banking book remaining as at the end of 2014. The sale will have a positive impact on the EAA's earnings in 2015 and on its long-term wind-up planning. The complexity of the remaining overall portfolio will be reduced and in particular the operating and economic risks will decline. The sale of the bank is thus a milestone for the wind-up of the EAA's portfolio.

The EAA believes the timing of the sale to be commercially favorable. Although WestImmo has recently generated impressive profits, the Pfandbrief bank would be subject in the future to the prohibition on new business if it remained an EAA subsidiary. This meant that a sale was a considerably more advantageous approach than a hold strategy. From the transfer to the sale, the EAA will have received more than EUR 800 million in capital repayments and income in total from the exposure, far surpassing the book value when the asset was first transferred.

▼ **Benefiting from expertise and staying power – The restructuring of a debtor**

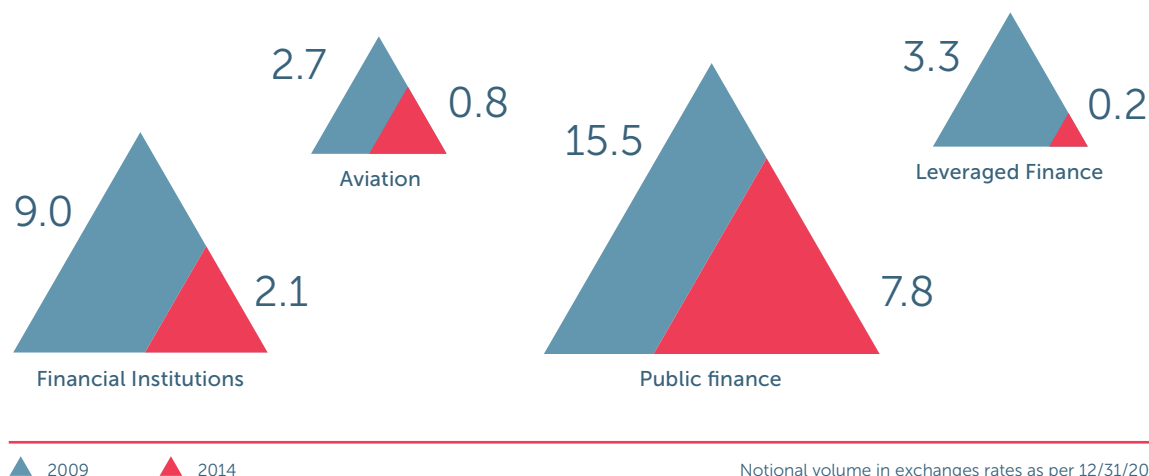
For around the last three years the EAA has supported the restructuring process of an industrial glass manufacturer in the Asia-Pacific region. The company had come under pressure and had no longer been able to service its high debts. If insolvency had taken place, the EAA would have had to write off the entire carrying amount of the exposure – nearly EUR 20 million. Instead, it has worked actively on the restructuring of the company and so far has even generated a gain of at least EUR 4 million because the company has been performing successfully again in the meantime.

The EAA team responsible for the restructuring of non-performing loans consists not just of traditional loan experts; It also has experience with participations. This helped with the search for a promising solution. After performing an in-depth review of the glass manufacturer's business prospects, the EAA decided to participate in the development of a bail-out package. In this context, the EAA continued its role as a lender in principle, but swapped an equivalent of nearly EUR 12 million in debt for an equity interest in the debtor. Several lending banks preferred a rapid termination of their exposure and therefore sold their positions with a discount to a hedge fund, far below the exposure's intrinsic value in the view of the EAA.

Once the company started to perform well again, the EAA received around EUR 15.9 million for its interest when the company was listed in 2014, and the remaining loan was completely repaid. In other words, patience and foresight paid off. And as the EAA is contractually required to hold a portion of its interests until the fall of 2015, it also has the prospect of significantly improving the final outcome even further.

Reduction of sub-portfolios between 12/31/2009 and 12/31/2014, in EUR billion

The loan and securities portfolio of the EAA is structured into sub-portfolios of different sizes depending on the nature of the individual exposure. In this way the EAA can allocate its competencies purposefully and exploit synergies. In the last five years, its experts have done well in specific segments such as almost completely reducing the risks from financing of companies with a high leverage ratio.



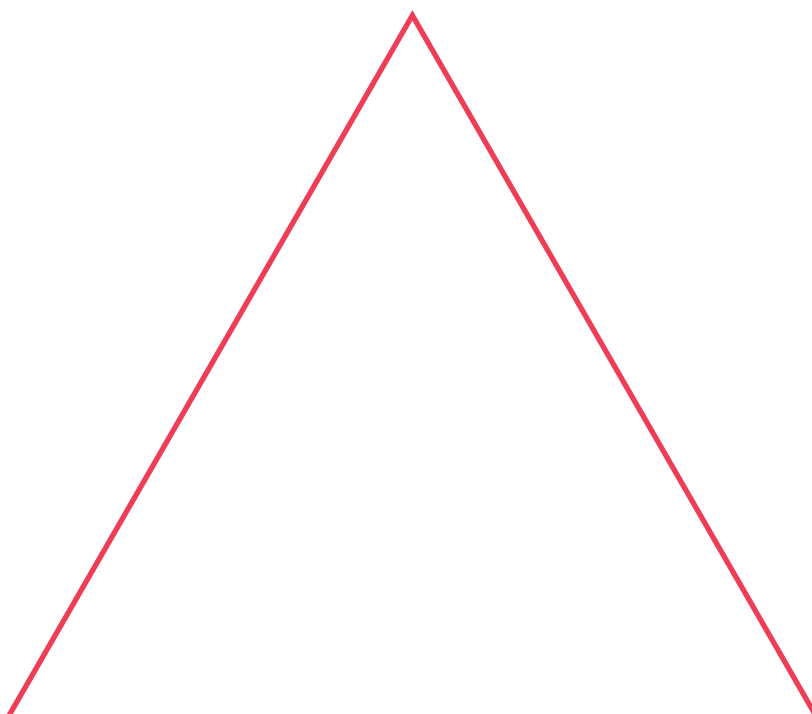
Practice report: The stabilization of the EAA Covered Bond Bank

By Gabriele Müller, Head of the EAA's Portfolio Steering department and Chair of the Board of Directors of EAA Covered Bond Bank

Since the inception of the EAA, EAA Covered Bond Bank plc (EAA CBB) in Dublin has belonged to the EAA's portfolio. EAA CBB issued Irish asset covered securities (ACS), the Irish equivalent of the German Pfandbrief. Its core business was international public sector financing. When governments started to suffer from liquidity shortages, following the difficulties experienced by banks and insurance companies, the issuers of covered bonds came under growing pressure, too. In 2010, EAA CBB had a portfolio with a notional volume of more than EUR 10 billion. This volume contained assets from European peripheral countries that were particularly affected by the crisis of around EUR 4 billion, including Portuguese, Spanish, Italian and Greek securities. As a regular issuer of ACSs, EAA CBB was an important bank in Ireland, a country that itself was one of the focal points of the banking crisis.

Immediately after the transfer, the EAA was confronted with the task of stabilizing its Irish covered-bond subsidiary. In the fall of 2010 it had appointed two of its department heads* with the necessary expertise to join the Board of Directors of EAA CBB. Their task was not just to monitor the management and ensure that all supervisory requirements were fulfilled.

Additionally, appropriate steps needed to be taken in order to firstly achieve a sustained improvement in the commercial situation of the subsidiary and secondly, in line with the EAA's wind-up mandate, to simplify the portfolio structures and thus to reduce risks. A bundle of measures led to a step-by-step stabilization of the entity.



- △ Initially, the EAA issued a global guarantee for the bank. This enabled EAA CBB to benefit from the strong rating of its German parent and thereby achieve considerably better conditions on the capital market. The costs for the refinancing of its USD exposures declined in the first year after the transfer by around USD 20 million.
- △ At the end of 2010 the EAA consolidated EAA CBB with another Irish subsidiary, EAA Bank Ireland. This measure was similar to a merger in the format of a consolidation into the remaining EAA CBB entity. This initiative improved the bank's capital situation by transferring assets and capital from its sister institution. At the same time, the step decreased the complexity of the EAA's overall portfolio. With the merger of the two Irish subsidiaries the regulatory burden of the wind-up was reduced.
- △ At the height of the euro crisis the EAA supplied its subsidiary with additional equity capital. Dramatic losses in the market value of the peripheral country portfolios in the crisis year of 2011 weighed on the bank's regulatory equity capital. The EAA acted to ensure that the bank complied with minimum regulatory capital requirements by contributing an additional EUR 1 billion in total to the bank's capital reserves. Emergency sales from the securities portfolio were therefore not necessary. The EAA has subsequently been adhering to its hold strategy with the exception of Greek securities, which were a special situation caused by the Greek debt haircut at the start of 2012.

In hindsight, a hold strategy was the right approach to take as the crisis progressed. If the EAA CBB had sold its Italian, Portuguese and Spanish exposures at that time, it would have realized a loss of more than EUR 1 billion.

In the meantime, the prices of these securities have recovered so much that the bank, as measured by regulatory requirements, is even overcapitalized. In 2014 its governing bodies therefore initiated steps to reduce the size of the balance sheet by transferring securities to the EAA and repaying surplus capital to the EAA.

Conclusion: To date, the measures taken have proven to be successful. The EAA was able to offset the capital effects on its Irish subsidiary caused by the losses in market value because the winding-up agency is able to obtain favorably-priced funding and is not subject to the capital requirements for banks. The system of a winding-up agency has thus enabled the stabilization of the bank. The next task will be to explore the further options for the EAA CBB's portfolio.

* In addition to Gabriele Müller, the other members of EAA CBB's Board of Directors include Hartmut Rahner, EAA Head of the Treasury/Capital Markets department and, in line with the regulations of the supervisor, two independent external managers.



▶ SPOKESMAN OF
THE MANAGING BOARD

ON THE WAY FROM BEING A 'BAD BANK' TO BECOMING A 'GOOD BANK'

▼

The EAA has not lost sight of its ultimate objective – do no worse than breakeven at the end of the wind-up period. By 2027 the portfolio is to be wound up without having used more than the EUR 3 billion in equity capital that was initially transferred to the EAA. The way there is clearly defined. But the EAA can do more than just wind up the portfolio. Its experts preserve value in a crisis, restructure difficult financial transactions and also place participations optimally in the market. These skills will continue to be important for the financial sector in the future. The strategic question of how a bad bank can make the best, most lasting contribution to stability is something that Matthias Wargers, Spokesman of the EAA's Managing Board, has been focused on since the very beginning of the EAA.

A rapid wind-up reduces risks for public finances

The EAA's business policy is focused in particular on preventing the need to utilize the guarantees and loss-offset obligations of its public liable stakeholders. If the EAA breaks even in 2027 at the end of the planned wind-up period, neither the German State of North Rhine Westphalia, nor the North Rhine-Westphalian Regional Giro and Savings Banks Associations, nor the federal government with its Financial Market Stabilization Fund will be required to offset any losses.

▼ A further decline in the portfolio significantly reduces the risk of loss – By 2020 around 90 percent of the banking book is expected to be wound up

The fewer risk exposures in the portfolio, the lower the risk of loss. The EAA will therefore continue with its rapid wind-up of the portfolio in a value-preserving manner. By the end of 2016 it aims to scale back the banking book to just slightly more than one fifth of the EUR 155 billion in total that it originally assumed.

The current wind-up plan anticipates that by 2020, the participations, loans and securities in the banking book will be reduced as close as possible to about 10 percent of the overall transferred portfolio; that is around EUR 16 billion.

▼ The wind-up will not take place at the expense of the portfolio's quality – A high share of exposures with a good or medium credit rating is to be maintained

The pace of the wind-up is not the only deciding factor. The ongoing good quality of the remaining portfolio also remains important in order to ensure, for example, that income can be earned until the end. To date, the EAA has wound up equal amounts of risky exposures and high-value engagements. The investment-grade share of the banking book, i.e., exposures with medium, good and very good ratings, has remained constant until now at more than 50 percent.

And that should remain so in the future, too. The EAA's restructuring experts have already been able to improve the valuation of many exposures. They will continue to utilize any contractual leeway to the benefit of the EAA, improve repayments from individual exposures through targeted negotiations, and, wherever better results appear promising, shorten maturities.

▼ Less complexity reduces risks and results in lower costs – By the end of 2016 the trading portfolio is to be reduced by more than 70 percent

The one-trillion-euro mandate that the EAA received in 2012, namely to wind up a derivatives portfolio with a notional volume of initially around EUR 1,064 billion, is more than half complete. In the coming two years the trading portfolio is to be reduced to less than a third of its original size, around EUR 300 billion. This means that not only the volume will decrease, the complexity of the portfolio will decline further, too.

This is important because complexity means risks and costs – not just for the management of the exposures, but also for the necessary hedging transactions. That is one reason why the EAA is currently focused on, among other things, the targeted reduction of equity derivatives.

▼ **Conclusion: The EAA's success improves the government's creditworthiness – Lowering liabilities relieves the burden on public debt statistics**

By 2016 the planned measures are expected to decrease the EAA's liabilities to customers, banks and investors by almost another EUR 20 billion, a reduction of more than 40 percent compared with the end of 2014. This reduction results in correspondingly lower funding expenses and a reduced level of debt.

The liabilities on the EAA's balance sheet are reflected in the national debt statistics – both for the State of North Rhine Westphalia and for all other fiscal budgets in Germany. This means EAA's success has a positive impact on the indebtedness of both the state and federal government, and thus contributes to their creditworthiness.

Liabilities of the EAA in billion EUR

Alongside the assets taken over the EAA's balance sheet sets out the corresponding liabilities. Total liabilities to banks and customers as well as securitized liabilities increased substantially in 2011: The EAA had to build up a liquidity buffer in order to refinance the transfer of additional assets in the following year. Since then it has rapidly reduced its debt.



"Continuing the EAA success story" Questions and answers

For the last five years the EAA has been winding up a highly risky portfolio worth billions of euros. Looking back, what was your most difficult task?

Matthias Wargers: To put it in terms of physics, a significant amount of energy was initially required to set the EAA into motion. The establishment of this unique organization was quite a feat. Legally, commercially, organizationally, the foundations had to be created first.

Markus Bolder: Back then, not every observer expected the model to succeed. Today, five years later, we can summarize by saying that the EAA has been a success. We have reduced our portfolio of loans and securities by more than two thirds. Risks from so-called toxic loan securitizations have been scaled back significantly, and finally, despite the euro crisis, we have also sold two operating investments, including a bank.

... and how does the story continue – is success a foregone conclusion?

Horst K pker: No, we will still have to work hard. As a tool to stabilize the financial market, the EAA has and will continue to address and respond to new developments. In 2012, for instance, not only did the size of the portfolio grow sharply, new responsibilities were added, too, including the trading portfolio. We have made good progress here as well and since then have wound up more than half of a portfolio of derivatives that had a starting notional value of more than EUR 1 trillion. Nevertheless, we must also expect that risks could materialize.

What are you thinking of in particular?

Horst K pker: I would say one example is the pending litigation with North Rhine-Westphalian municipalities against interest rate hedging and optimization transactions with the former West-LB. These legal proceedings were transferred to us. Various municipalities claim that they were wrongly advised at the conclusion of these transactions. We see the situation differently, and renowned legal experts support our legal interpretation. But it is clear that there is no guarantee of a positive ruling by the courts. Our ability to control such risks is very limited.

Markus Bolder: Although we are fully hedged economically against currency and interest rate risks, it is difficult to predict the effects of external decisions on our portfolio, not only in terms of the Euro or Ukraine crisis. For instance, if state funding commitments for solar systems in Spain are changed retroactively, the corresponding project financing in our portfolio will be massively impacted. The current decisions relating to the wind-up of Hypo Alpe Adria are another example. The Austrian Financial Services Authority has imposed a moratorium and stopped all payments until May 2016; a debt haircut is under discussion, too. This affects bonds in the EAA's portfolio, although the extent of this effect is not yet clear. In particular, the question arises whether the Austrian State of Carinthia, which until now has guaranteed these securities, will meet its obligations.

Where do you currently see the greatest need for action to continue successfully winding up the portfolio?

Matthias Wargers: Our most pressing task is to secure the operational stability of the EAA for the long term. To put it briefly, to be successful we need employees with in-depth expertise in a wide

variety of areas. Our results to date are primarily due to this professional expertise. Therefore, we must find a way to retain them for the EAA.

Where is the problem?

Matthias Wargers: The EAA is a lean management entity. We make the decisions, but the preparatory work and the actual implementation are largely outsourced. In other words, our stability depends in no small part on our most important service partners. It is known that our main service provider, Portigon Financial Services (PFS), is restructuring. It is likely that in the foreseeable future PFS will no longer provide all of the services that are essential for the EAA. If that were the case, we could lose the professional knowledge that has been built up in recent years about our asset positions. And that would be a severe blow to our wind-up process.

What actions are you taking to safeguard this know-how?

Markus Bolder: Wherever it makes sense and is possible, we are providing the services ourselves. For instance, last year we took on experts from the Portigon Group in our own subsidiary. We have consolidated our portfolio management activities in EAA Portfolio Advisers GmbH (EPA), and in doing so, we not only preserved expertise, we created synergies, too. Naturally, we are fundamentally also prepared for personnel fluctuations. Our processes are well documented and we have a functioning early warning system; we continuously evaluate external services and correct problems very quickly. But securing our core expertise involves more than just the nuts and bolts of our processes. That is why we are examining the extent to which we can soon perform additional tasks in-house and possibly also take on employees of the Portigon Group.



"THE EAA IS A LEAN MANAGEMENT ENTITY. WE MAKE THE DECISIONS, BUT THE PREPARATORY WORK AND THE ACTUAL IMPLEMENTATION ARE LARGELY OUTSOURCED."

MATTHIAS WARGERS
SPOKESMAN OF THE MANAGING BOARD

What does that mean for the capacity of the EAA, considerably more staff?

Matthias Wargers: Overall, no. It is true, that we want to outsource fewer tasks to external parties and in exchange recruit additional experts to join the EAA directly. But this does not change the overall number of staff around our complex and broadly diversified portfolio. These tasks are currently handled by almost 200 full-time positions at the EAA and its service subsidiary EPA. In addition, there are more than 800 employees at the EAA's major affiliated companies and at PFS, our main service provider. All together, that is around 1,000 people. While there might be shifts between the different companies, the overall capacity will not increase.

▼

"WE ARE FAMILIAR WITH THE LEGACIES OF THE FINANCIAL CRISIS, AND KNOW QUITE WELL THE CAUSES, CONSEQUENCES AND POTENTIAL SOLUTIONS."

MARKUS BOLDER
MEMBER OF THE MANAGING BOARD

You have continuously reduced the EAA's portfolio in recent years. Does that mean the range of responsibilities has become smaller, too?

Horst Küpker: In principle, that is the case. But the impact on the different areas of responsibility varies. For instance, we still have to fully comply with supervisory requirements even though the portfolio is shrinking. Overall, some legacy costs might remain; in other words, it might not be possible to reduce some types of spending as fast as the portfolio is reduced.

But as assets decline, income falls too, whereas personnel costs seem likely to rise in your plans. Will the EAA therefore run into difficulties?

Markus Bolder: No. Although personnel costs will rise, the expenses for external services will fall. That can be seen in 2014 when we founded EPA. We took on the employees of the Portigon Group who had been responsible for years for administering our portfolios. Establishing our own subsidiary meant we were able to retain their expertise without incurring additional costs because the expenses for Portigon Group's administration services were reduced accordingly.

But nevertheless, the question remains: What else are you planning to do to lower costs significantly?

Markus Bolder: By establishing EPA we have already developed potential savings. Overall, we have fewer employees involved with portfolio management than we did before. Furthermore, our wind-up plan includes our headcount planning as well as our total administrative expenses, and we will implement the reductions as foreseen in the plan. By the way, that will not change even if in the future we decide to perform certain tasks in-house that are currently being outsourced.

In light of this rapidly changing environment, are you still able to motivate people in an institution that is shrinking itself?

Horst Küpker: It is certainly true that a winding-up agency has a limited life span. And that is clear to every EAA employee and any candidate for vacancies here. Nevertheless, we offer a very attractive work and a broad range of challenging responsibilities. Our employees have the opportunity to gain experience in a wide variety of areas in just a short period of time. They can participate in exciting tasks in the financial sector, for example, most recently in the sale of Westdeutsche Immobilienbank.

Matthias Wargers: Within the scope of its corporate objectives, the EAA nevertheless offers its employees predictability, and the challenging tasks that they perform here open up a number of professional opportunities. In addition, one of our goals is also to maintain the efficient corporate structures that we have created here. The successful privatization of WestImmo is just one example of this. Of course, we can also imagine the possibility that at the right time, servicer units such as EPA might be privatized if there is a corresponding demand in the market.

Markus Bolder: The EAA's employees contribute to a unique center of excellence. We are recognized as an independent institution with expertise in the winding-up of troubled portfolios. We are familiar with the legacies of the financial crisis, and know quite well the causes, consequences and potential solutions. This knowledge and these skills will be just as important in the future as they are today. Just think, for example, about the new European legislation regarding the winding-up of banks. The type of experience that you gain at the EAA is in demand in the financial sector.

What are the specific wind-up objectives for the next several years?

Matthias Wargers: We want to take advantage of the favorable market trend and continue the rapid pace of our wind-up. We aim to scale back our loan and securities portfolio to a volume close to EUR 30 billion by the end of 2016 at the latest. Following the sale of our investments in Basinghall and WestImmo, we are currently reviewing possibilities for selling additional participations or also larger sub-portfolios.

Horst K pker: The pace of winding up the trading portfolio will remain high, too. In two years we aim to reduce its notional volume to around EUR 300 billion.

The EAA has generated profits since the start of 2012. What comes next? After all, its interest income declined in 2014.

Matthias Wargers: Income is declining, as provided for in the wind-up plan, because a shrinking portfolio and the lack of new business inevitably result in a lower income base. The EAA is prepared for this development, and we are regularly taking measures to reduce costs, on the one hand, and to derive incremental income from the portfolio, on the other. We achieve higher income, for example, by successfully implementing restructurings. It is true that, in principle, not least due to the economic logic of our business model, we have been provided with equity capital that is intended to cover losses as the EAA's earning power decreases.

Does that therefore mean that your goal of achieving a break-even result at the end of the wind-up period is in danger?

Markus Bolder: No, we continue to plan for a break-even result at the end of the wind-up period. This means that the EAA will not have utilized more equity capital than the EUR 3 billion that was originally contributed to it when the first portfolio was transferred.

Horst K pker: As a winding-up agency, our focus is on this long-term objective, not interim results. To be sure, our planning does not anticipate that we will be profitable in every year until 2027. In fact, our wind-up plan in its current version does indeed anticipate – as in the previous versions – that we will be in the red in some individual years. But it is important that we achieve our overall goal and make do with this equity capital, or ideally even return some of it to our stakeholders.

Does this mean you continue to believe that the risks of the remaining portfolio are manageable?

Matthias Wargers: Yes. From today's perspective they are. Of course, we are not immune to new external disturbances. But we have structured the EAA Group so that it can maintain its course even in heavy seas. If we succeed in retaining our successful and well-established teams, we are confident of achieving our goals.



**"IT IS IMPORTANT THAT WE
ACHIEVE OUR OVERALL GOAL AND
MAKE DO WITH THIS EQUITY CAPITAL,
OR IDEALLY EVEN RETURN SOME
OF IT TO OUR STAKEHOLDERS."**

**HORST K PKER
MEMBER OF THE MANAGING BOARD**

Content

Management report

PRINCIPLES OF THE EAA	50
ECONOMIC REPORT	55
SUBSEQUENT EVENTS	80
SUMMARY OF THE BUSINESS SITUATION	81
RISK, OPPORTUNITIES AND FORECAST REPORT	81
ACCOUNTING-BASED INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM	114

Balance sheet	116
----------------------	------------

Income statement	120
-------------------------	------------

Cash flow statement	122
----------------------------	------------

Statement of changes in equity	123
---------------------------------------	------------

Notes

GENERAL DISCLOSURES	124
NOTES TO THE BALANCE SHEET AND THE INCOME STATEMENT	131
OTHER DISCLOSURES	144

Responsibility statement	159
---------------------------------	------------

Auditors' report	160
-------------------------	------------

List of abbreviations	162
------------------------------	------------

Management Report

For the fiscal year 2014

Principles of the EAA

Operating activities of the EAA

The EAA is winding up the risk exposures transferred from the former WestLB AG (now Portigon AG) and its domestic and foreign subsidiaries, as well as non-strategic business units. When doing so, it proceeds in a value-preserving and risk-minimizing manner. This serves to stabilize the financial market.

It manages its business according to commercial and economic principles in consideration of its winding-up objectives. It is not a credit or financial services institution in terms of the German Banking Act (Kreditwesengesetz – KWG), an investment services firm as defined by the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) or an insurance company pursuant to the German Insurance Supervision Act (Versicherungsaufsichtsgesetz – VAG). It does not conduct any transactions that require approval pursuant to Directive 2006/48/EC of the European Parliament and of the Council of June 14, 2006 or Directive 2004/39/EC of the European Parliament and of the Council of April 21, 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. It is also supervised by the BaFin with regard to banking law provisions applicable to the EAA.

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

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

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

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

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

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

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

Since its founding, the EAA has outsourced key business processes to Portigon and since February 2014 to PFS, Portigon's service subsidiary. As of July 1, 2014, a portion of these outsourced services, especially portfolio management activities, has been transferred to EPA, an EAA subsidiary. The EPA's employees were primarily recruited from the former employees of the Portfolio Exit Group, which was established in the former WestLB when the EAA was founded, as well as from EAA employees. The EAA provides two of the three managing directors of EPA. The service fee paid to PFS has been reduced to the extent that services have been transferred from it to EPA. These services between EAA and EPA, in contrast to PFS services, are not subject to value-added tax.

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

When spin-off, subparticipation, crossing and risk assumption agreement are used to transfer the legal or beneficial ownership of derivatives, the reporting of the portfolios in the balance sheet is based on the portfolio classification as stipulated under commercial law. When guarantees are used, the legal and economic ownership remains with Portigon. Under the guarantee agreement the EAA assumes the economic risks of the portfolio. In this case, Portigon

MANAGEMENT REPORT

pays a guarantee fee to the EAA for the assumption of the risks. The risks assumed by the EAA are taken into account by recognizing contingent liabilities or provisions.

Equity base and liability

The share capital of the EAA amounts to EUR 500,000. The first fill created equity totaled around EUR 3.1 billion.

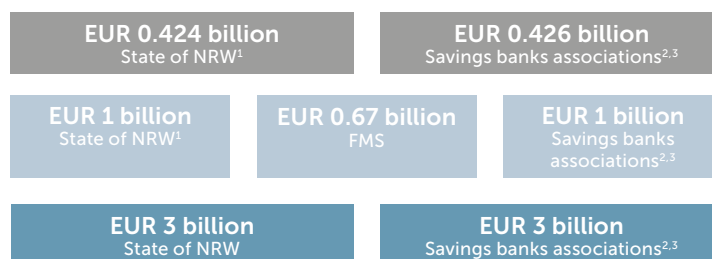
The refill provided the EAA with rights to draw on additional equity that will add EUR 480 million to capital reserves. If necessary, the liable stakeholders of the EAA and the FMS will provide these funds in specified installments in the event that the EAA's balance sheet equity should fall below EUR 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 to the extent necessary to ensure that it remains solvent at all times.

Equity capital

Equity capital drawing limit: EUR 0.480 billion

Levels 1-3 modified in August 2012



Level 4 unchanged since December 2009


Special arrangement

for the special-purpose entity Phoenix since 2008

**Guarantee
of EUR 5 billion**

for the Phoenix B notes
by the saving banks
associations (Sparkassen-
verbände) and the State
of NRW¹

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

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

³ Default liability assumed by the State of NRW

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

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; therefore the risk weighting of the State of NRW can be applied to the EAA accordingly. The good ratings received from Moody's, Standard & Poor's and Fitch Ratings, as well as the duty to offset losses on the part of the liable stakeholders and the FMS, form the foundation for the EAA's successful presence on the capital market.

Accounting

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

Organization

The EAA's organizational structure is oriented toward ensuring the performance of its key management and control functions. The EAA has outsourced all other business activities to third-party service providers, particularly PFS and EPA. To that end, the EAA has concluded separate service agreements (cooperation agreements) with both of these parties. Special service level agreements (service specifications) for the respective outsourced processes and functions were defined as components of the cooperation agreements. However, decision-making authority in all cases remains with the EAA. The cooperation agreement with PFS cannot be terminated until as of December 31, 2016 at the earliest and the service agreement with EPA for the first time as of June 30, 2016. The EAA requires the consent of the FSMA in order to terminate the cooperation agreement with PFS.

The EAA is currently reviewing, in consideration of its operational stability and the future business orientation of whether selective activities currently outsourced to PFS can or should be reintegrated into the EAA and EPA.

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

MANAGEMENT REPORT

Control system

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

One of the EAA's key control metrics is the decline in the notional volume of the portfolio. Aside from volume reduction, other control metrics are also relevant. According to section 5 (3) of the EAA's charter, the primary requirements are to minimize losses and ensure that the EAA is solvent at all times. As a result, the income statement, the development of equity and ensuring solvency at all times are also major performance indicators for the EAA. Each of the EAA's 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 location

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

Economic Report

Economic environment

2014: a turbulent year comes to an end

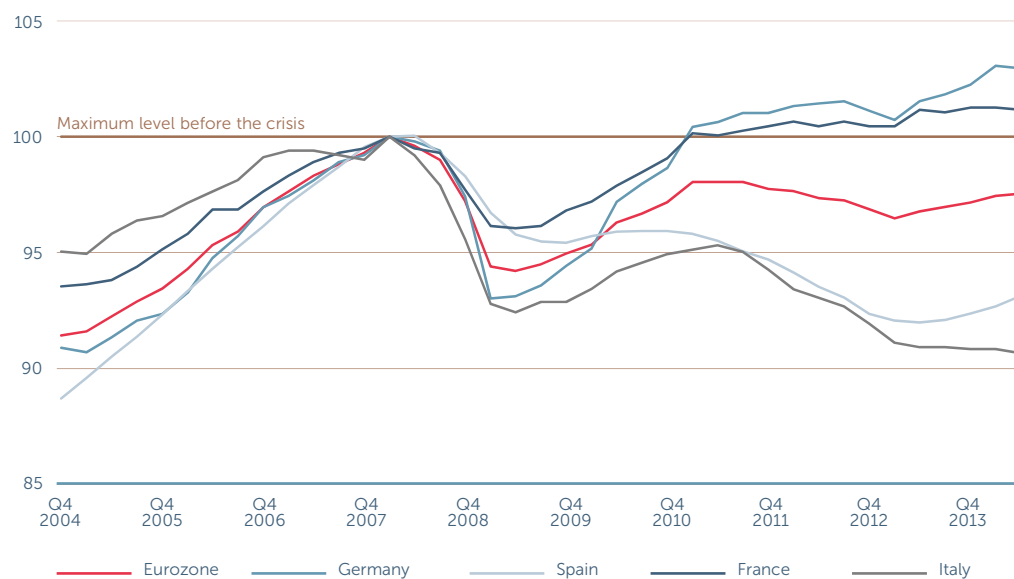
2014 is likely to remain etched in the memories of many market participants as a turbulent year. The Ebola epidemic in West Africa and the crisis in Syria were quite worrying for the financial markets. The main crisis, however, was and is the conflict in Eastern Ukraine. In the first quarter, Russia engineered a coup to annex the Crimean peninsula with troops operating without insignia in order to secure access to the important naval bases on the peninsula, the home base of the Russian Black Sea fleet. This crisis, which was initially limited to Crimea, spread to Eastern Ukraine towards the end of the first quarter of 2014.

At the end of 2014, a hot spot in the eurozone flared up again that most observers thought was under control: Greece. Greek Prime Minister Samaras attempted to boost support for his reform and austerity policy by bringing forward the country's presidential elections. When this step failed, new elections were called, which were won by the left-wing populist opposition party Syriza. The new Greek government is pursuing a political policy that has not been agreed with Greece's eurozone partners. This has prompted renewed speculation about a potential exit of Greece from the eurozone.

How far is the economy lagging behind the peaks of 2008?

Better than 2008: Germany and France

Indexed GDP level: Q1 2008 = 100

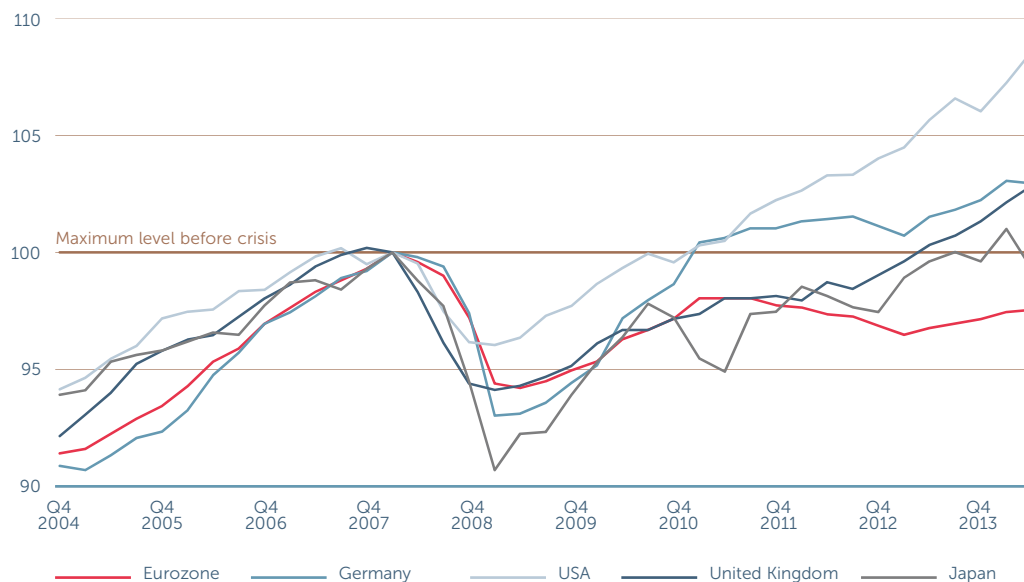


Source: Bloomberg, EAA

MANAGEMENT REPORT

Euro zone: a very sluggish recovery

Indexed GDP level: Q1 2008 = 100



Source: Bloomberg, EAA

Many of these developments and crises have left their mark on the economy – particularly in the core of the eurozone. The Ukraine crisis, combined with the sanctions and counter-sanctions, have led to a deterioration in important sentiment indicators in Germany (Ifo Index, Purchasing Managers Index, ZEW) beginning in the spring of 2014. Companies have put their investment plans on hold pending clarification of the situation. This curbed economic growth in Germany and many other countries in 2014. Take Italy as an example: The global financial crisis, the years of stagnation prior to the outbreak of the crisis and reform deadlock have pushed the Italian economy back to levels seen in the mid-1990s. On the other hand, the economy was more robust in the US, the United Kingdom and also in Spain.

It appears these developments and crises have not dampened the buying mood of investors. Euro-denominated government bonds from both the periphery – with the exception of Greek securities – and the core are still in good demand. The fundamental data of these countries are clearly not influencing this trend. In most eurozone countries, debt in the economy – of both the private and public sector – has risen sharply. It is obvious that investors have largely ignored fundamental arguments, such as debt levels, in their purchasing decisions, which is due to the far-reaching interventions and promises of the ECB. With the purchase of euro covered bonds and securitizations, combined with the new, targeted long-term tenders (TLTROs), the bank already signaled in 2014 that it intends to continue its very loose monetary policy in 2015 and may flood the financial markets with even more liquidity.

MANAGEMENT REPORT

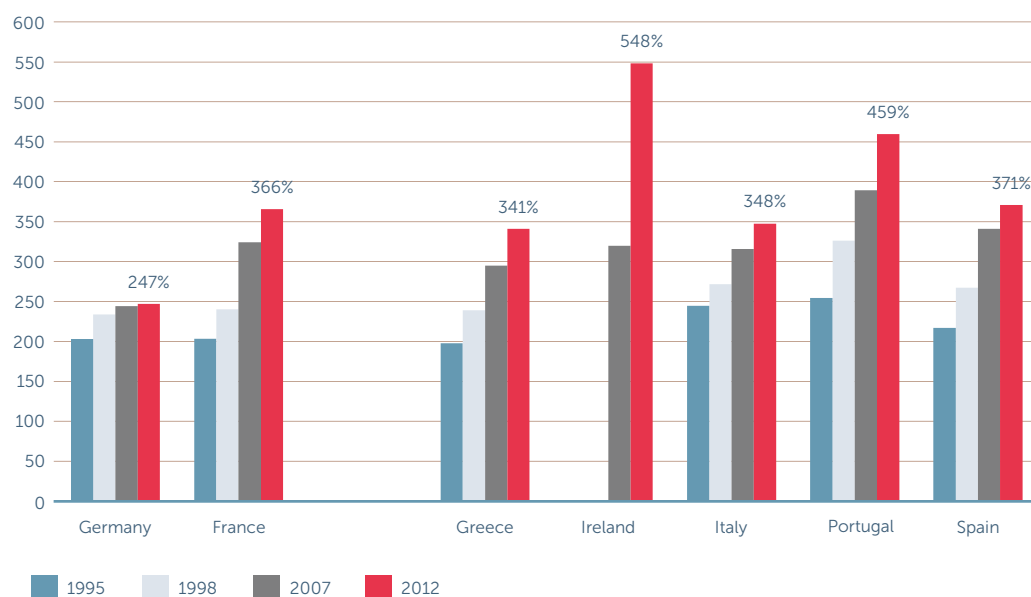
In 2014 the prospect of an ECB purchase program for government bonds already buoyed the markets, leading to interesting price patterns in the markets for euro government bonds:

- △ Investors remain interested in safe, euro investments from the eurozone's core, such as German Bunds. Furthermore, the target announced by ECB President Draghi for the ECB's balance sheet – around EUR 3 trillion in total assets – can be achieved only with purchases of euro government bonds. This expectation put pressure on German Bund yields in 2014, causing a decline of 139 basis points (bp) to 0.54%.
- △ But investors are buying more than just safe havens. The yield on the ten-year Spanish bond, for example, narrowed from 4.15% at the end of December 31, 2013 to 1.61% on December 31, 2014 (-254 bp).
- △ The government bonds of Portugal and Italy benefited from this expectation, too. Yields on Portugal's ten-year benchmark bond fell from 6.13% to 2.69% (-344 bp) between December 31, 2013 and December 31, 2014. Italy's fell as well. At the end of 2014, the ten-year Italian bond traded at a yield of 1.89% (-224 bp).

Debt levels in the eurozone by sector: selected countries

Total indebtedness of the economy excluding banks

in % of gross domestic product (GDP)

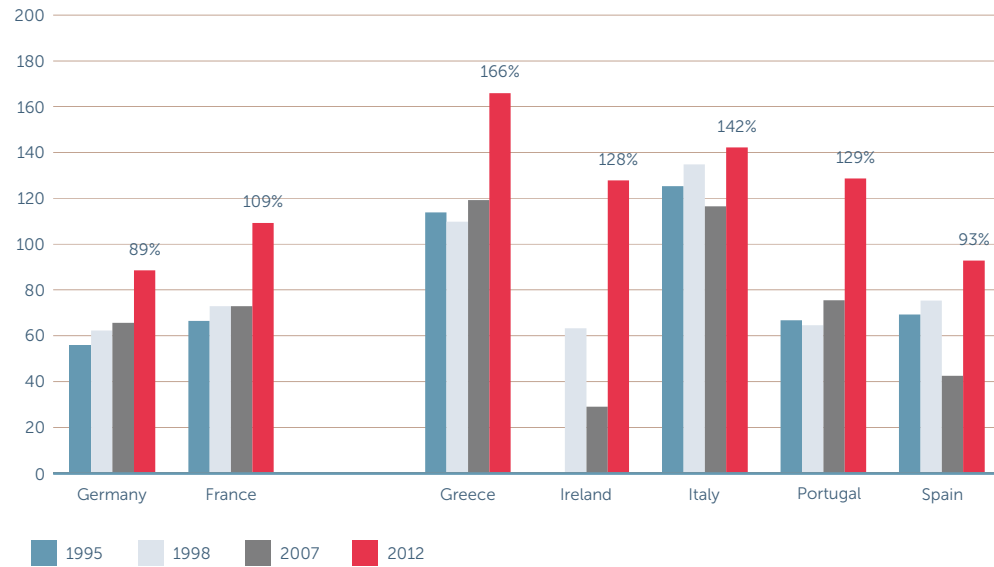


Source: Bloomberg, EAA

MANAGEMENT REPORT

Gross government debt

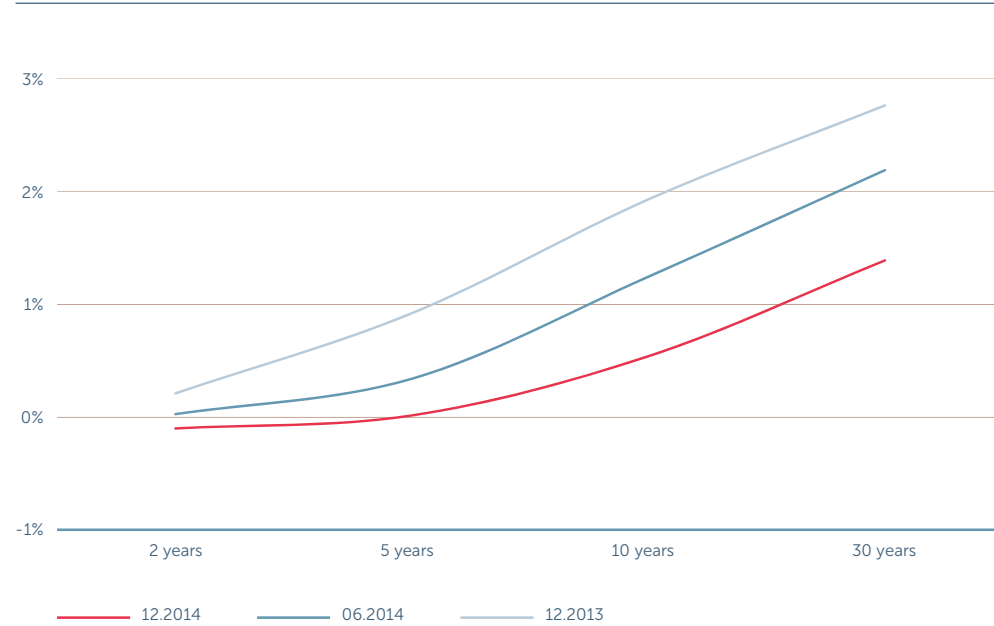
as percentage of GDP



Source: Bloomberg, EAA

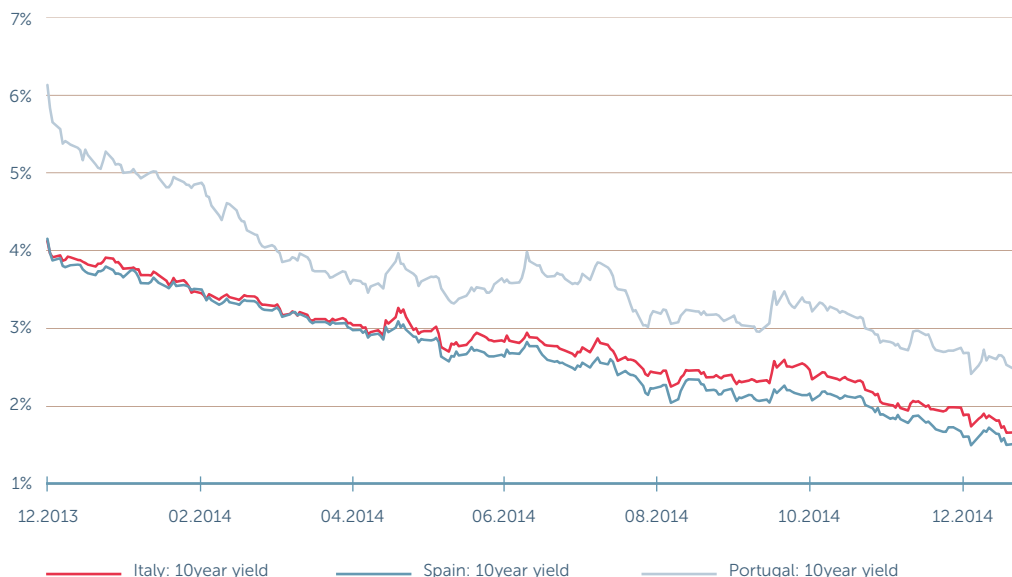
Financial markets in the eurozone

2014: yields on German Bunds edge sharply lower



Source: Bloomberg, EAA

Government bonds for the euro periphery were much sought after in 2014



Two updates on the crisis in Ukraine and the political situation in Greece

On the Ukraine crisis: In September 2014 the general hope still prevailed that following the talks in Normandy and the Minsk Agreement, a viable compromise had been found to resolve the conflict between the Ukrainian government and the pro-Russian separatists in Donetsk and Luhansk. But the ceasefire that was part of the first Minsk Agreement did not hold, making it necessary to hold renewed ceasefire talks in Minsk in February 2015 between Ukraine, Russia and the pro-Russian separatists. The combatants are now adhering to this ceasefire and the agreed withdrawal of heavy weapons from the conflict zone, although a confirmation of this from the Organization for Security and Cooperation in Europe is still pending.

The consequences and damage from the crisis on Ukraine are already large and continue to grow. Ukraine's economy is expected to contract by 6.9% in 2014. A further decline of 3% is forecast for 2015. At the same time, unemployment and inflation are significantly higher than before the crises, while the country's foreign currency reserves have reached an alarmingly low level. Currently, Ukraine's remaining monetary reserves total just USD 6.6 billion (as of December 2014), meaning they have plunged 64.7% within just one year. The crisis has left its mark on Russia, too. Economic growth has slumped as a result of the sanctions imposed by the US and the EU. Russia's economic output grew by only about 0.6% in 2014, and Russian GDP is expected to contract sharply by around 4% in 2015. The variability of the economic forecasts for Russia is quite high at the moment. The forecasts for 2015 range between -2.7%, which is too optimistic, and -6.8%, which is likely too pessimistic. The expectations of market participants for 2016 remain quite vague as well. While the average forecast anticipates a minimal increase of 0.5%, the variation within this range of forecasts is high – the most pes-

MANAGEMENT REPORT

simistic estimate is a contraction of 3.4%, whereas strong optimists expect growth of 2.5% in 2016.

On Greece: The former Premier Samaras had obviously hoped that the concern about the monetary allowances for members of parliament would provide his candidate to succeed President Papoulias, the former EU Commissioner Dimas for Environment Protection, with the necessary 60% consent of the members, at least in the last vote in the Greek parliament on December 29, 2014. This gamble did not work out. The election results from January 25, 2015 show that Greece's euro partners must now adapt to a different government and a new political course. Since taking office at the end of January 2015, the new government has emphatically insisted on a new debt haircut, putting the government on a collision course with the other members of the eurozone, and in particular with the German government and the EU.

In addition, other portions of the government program of the new administration in Athens are not a source of confidence either. The minimum wage is to be increased and a tax-free allowance is to be reinstated; new doctors and nurses are going to be hired. How these and other election promises are to be paid remains unclear. Greece, however, is still dependent on aid from its euro partners. This could potentially come from a four-month extension of the current aid program for Greece. But until now, the Institutions (the new name for the Troika) have refused to pay out the remaining aid totaling around EUR 7 billion, because Greece has not fulfilled the reform requirements. This puts Greece once again on the brink of insolvency, and speculation about a potential Greek exit from the eurozone is mounting. After reaching a low of 5.6% in the summer, ten-year Greek government bonds have lately been trading at a yield of 9.3%.

The ECB has decided to suspend the special rules for the submission of Greek government bonds as collateral for refinancing operations. Greek banks can therefore use Greek government bonds as collateral only on an emergency basis at the Greek Central Bank. This is a measure that the ECB also applied after the Greek debt restructuring in March 2012. Bonds and shares of Greek banks are therefore coming under selling pressure. In addition, there are growing signs that Greek banking customers are emptying their accounts again in anticipation of a possible currency conversion. The EAA's core scenario continues to be that Greece will remain in the eurozone. However, the probability of a Greek exit has increased significantly, a prospect that will remain valid even if the EU assistance program is extended. The EAA believes there is more than a 30% likelihood that this scenario comes about.

USA: 2014 was like 2013

The latest figures on the US economy are encouragingly robust. In the fourth quarter of 2014 the US economy grew sequentially by more than 0.7% (2.6% on an annualized basis) compared with the previous quarter. The US economy is indeed in much better shape today than it has been at any time over the last six years since President Obama took office in 2009. Many obstacles to growth have been successfully addressed in the recent past. The ritual, mutual blockades between the Obama administration and Congress regarding the raising of the public debt limit have been settled. The United States once again has a constitutionally compliant federal budget until the next presidential election in 2016.

The positive effect on the business climate and consumer confidence should not be underestimated. Consumers know there will be no further general tax increases. In addition, the fact that there will be no across-the-board cutbacks in government spending is good for the sectors and companies that depend on government orders. The fact that US economic growth in 2014 (2.4% for the full year) was only minimally above the level reached in 2013 despite this agreement, is mostly due to weather effects in the first quarter of 2014. An extremely harsh winter caused economic output to plunge by just over 0.5% (-2.1% annualized) because in many places US workers could not get to their jobs for several days. Overall, however, the robust economic growth over the other three quarters paid off on the US labor market. The unemployment rate fell from 7% in the fourth quarter of 2013 to 5.7% in December 2014.

Progress is being made in the euro periphery (in many places)

Spain's economic output probably grew by more than 1.3% in 2014, following contractions of -1.2% and -1.6% in the previous two years. The news from the fourth quarter of 2014 is good, too. The Spanish economy is set to post an increase of 0.7% (compared with the previous quarter); indicating that momentum in the Spanish economy has accelerated during the course of 2014. The drivers of this turnaround are the reform and consolidation program of the Spanish government, and the realignment of the Spanish growth model. A reform of the pension system has secured the financing of pension payments while simultaneously easing the pressure on the Spanish state budget. As a result of these and other measures, 2014's general government deficit – i.e., the municipalities, the regions and the federal government – has probably fallen by 1.2% to 5.6% of GDP.

Labor market reforms are paying off, too. In the fourth quarter of 2014 the country's unemployment rate stood at 23.8%. Although this rate is quite high when measured against the average unemployment rate between 1999 and 2014 (14.7%), it is nevertheless two percentage points lower than one year ago. The realignment that has taken place in Spain, with its stronger focus on export-driven economic growth, can be seen in the positive development of the country's current account, which has been in surplus since 2013.

It also appears that Portugal is easily able to raise money in the capital markets without support from the Troika. The new bond issues of the Republic of Portugal were well received on the market. In fact, the investors' search for yield has even made it possible to issue bonds with very long maturities (30-year maturity segment). At the same time, Portuguese reforms are starting to pay off. Portugal's economy is likely to have grown by 0.8% in 2014 (2012: -3.3%, 2013: -1.3%). The unemployment rate has decreased from 17.5% in the first quarter of 2013 to 13.5% at the moment.

Following 13 quarters of stagnation, Italy's economy continued to shrink in the third quarter of 2014 (the most recent data). Italian GDP decreased by 0.1% compared with the second quarter of 2014. This means that Italy's real economic performance in the third quarter of 2014 was roughly at the same level as it was at the start of 2000. Since the beginning of the current recession in the third quarter of 2011, national income (in total) has shrunk by 5%. The main factors behind this contraction are a decline in consumer spending (-7% cumulative) and sharply lower capital spending (-16% cumulative). The only small silver lining is exports (+4.3%), but this positive factor is much too small and only curbs the overall downturn.

MANAGEMENT REPORT

The Italian economy contracted by 0.4% for 2014 as a whole, placing it even further behind Portugal (+0.8%) and Spain (+1.3%).

It appears that the Italian government under the leadership of Premier Renzi has recognized the reasons for this weakness in growth. The core of his reform program is a reform of the Italian labor market. Renzi's reforms go beyond what his pre-predecessor Mario Monti accomplished while he was in office. The government under Mario Monti was able to restructure the Italian fiscal budget so that it complied once again with the EU's 3% budget deficit criterion. But the mix of measures he chose, consisting of tax increases, improved tax collection and some spending cuts (pensions and other social benefits), did little to address the causes of the weak country's economic growth.

However, the labor market reforms of the Renzi government might actually be able to address the country's problems in the labor market. The reform act has already been passed by the two houses of the Italian Parliament and must now still be implemented in regulations and decrees. The content of the reform act has probably addressed a range of problems. Firstly, Italian companies will be granted the possibility to lay off staff in order to adapt the number of employees to actual needs. This has not been possible until now because it has been easy for dismissed employees to challenge their terminations in court in order to reinstate their employment. Instead, secondly, Italy is to follow an approach similar to regulations used in other eurozone countries and will take the length of employment into account in order to minimize social hardship. Third, the amount of unemployment benefits is to be increased. There are, however, some risks associated with the implementation.

Despite the reforms (labor market and Senate), Renzi has high approval ratings. His party receives good ratings of around 37% in current opinion polls. The strongest opposition party (the 5-Star Movement) has lost ground and is now at just 20%. Berlusconi's Forza Italia comes in at only 17% – a dramatic collapse for a former ruling party. Moreover, the election of Renzi's candidate for president, constitutional court judge Sergio Mattarella from the Christian Democrats party – which took place quickly for Italian standards in just four rounds of voting – has strengthened Renzi's power base even further.

Core and semi-core of the eurozone: recovery – yes, but from a low base

This growth scenario at the periphery means that the sky is not the limit for the economically more robust core of the eurozone and the nations of the semi-core, for example France. The recovery in Spain and Portugal is still too weak for that. Moreover, the crises that have erupted in 2014 have tarnished sentiment. As a result, Germany's economic output declined somewhat in the second quarter. German GDP decreased by 0.1% sequentially after actually starting the year strongly with growth of 0.8% in the first quarter. The dampening effects of the crises and the introduction of a new minimum wage curbed economic growth in the third quarter of 2014 as well (+0.1% compared with the second quarter). However, since economic growth started to pick up again somewhat in the fourth quarter of 2014, the output of the German economy has probably grown by more than 1.5% for the full year.

France is feeling the effects of the crisis-related drop in demand from its major trading partners in the eurozone periphery. In addition, France's international competitiveness has decreased significantly due to incorrect government interventions in the labor market (for example, the introduction of the 35-hour working week). Yet until now, the government of

socialist President Hollande has made only tentative attempts at addressing these problems. In the summer Hollande reshuffled his government cabinet under the leadership of Premier Valls and thereby strengthened the more reform-minded members of the French socialist party. Nevertheless, resistance within the party remains strong. The French economy probably grew by 0.4% in 2014.

Outlook: the look forward

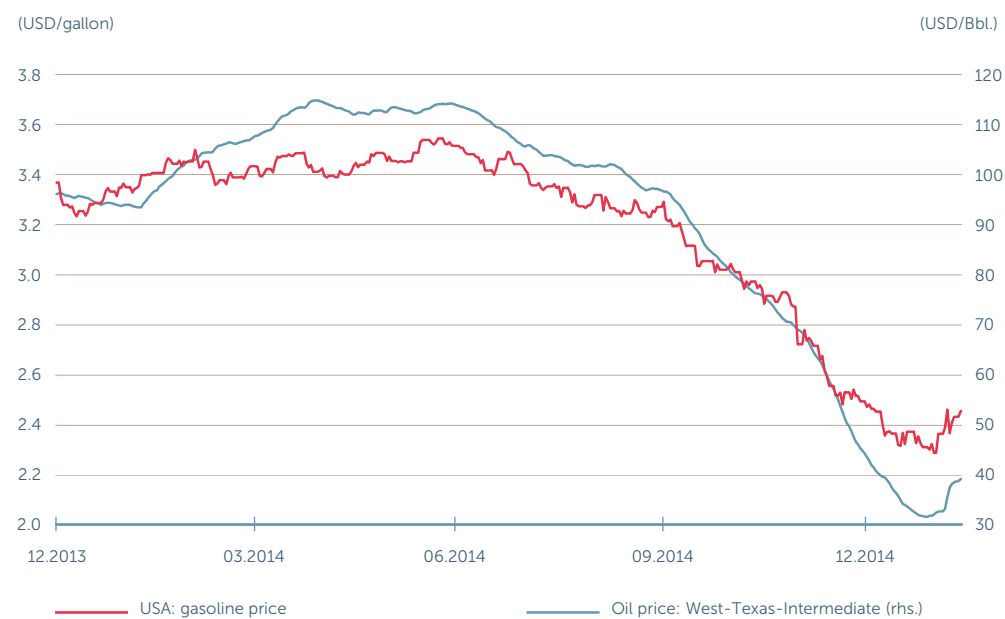
The crises of 2014 have slowed, but not stopped, the recovery in many regions of the world. The better underlying conditions that prevailed in many places during 2014 failed to provide the desired boost to the growth of the global economy. Only the US and the United Kingdom experienced an improvement.

Nevertheless, the prospects for the coming twelve months are positive on the whole. So far not even the smallest detail has been changed in the basic approach to rescuing the euro (financial support in exchange for reforms), in spite of the new Greek government. The loosening of austerity requirements from Brussels will probably support the economy. The collapse in the price of oil, which was particularly dramatic in the fourth quarter of 2014, will also provide a boost to growth in the eurozone and the US. Lower oil prices redistribute purchasing power away from oil producers to consumers in the US and Europe. This phase of low oil prices will also probably continue because oil producers are only now just beginning to adjust their production to the new situation. Yet despite this assistance, the fact remains that following the sharp downturn, the economic recovery is not automatic everywhere.

MANAGEMENT REPORT

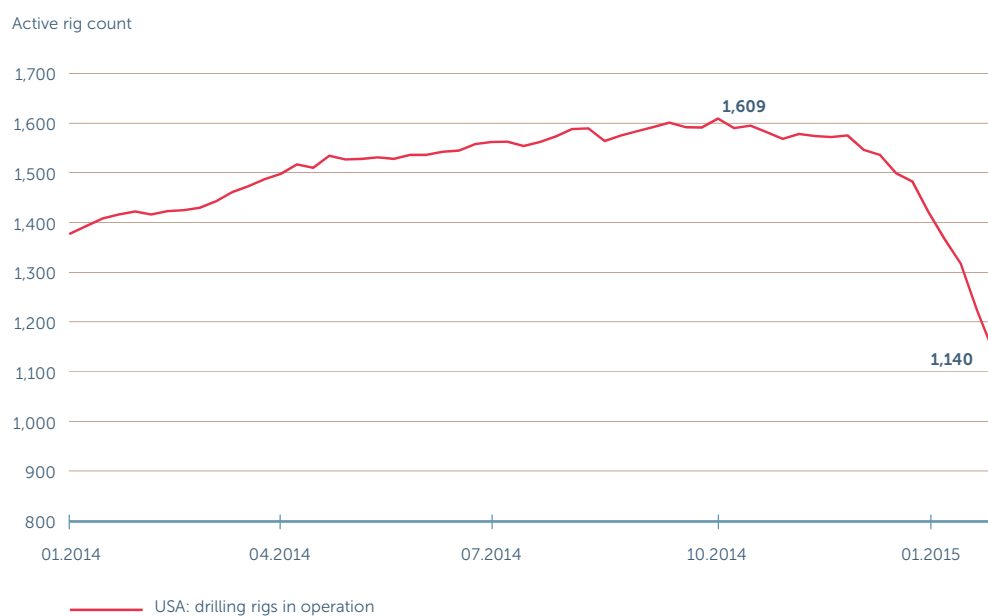
Crude oil price decline

The price for one barrel of crude oil dropped by 40.1% since April



Source: Bloomberg, EAA

Direct consequence: the development of new wells drops sharply



Source: Bloomberg, EAA

Economic prospects for the US: 2015 will be better than 2014

All data and recent economic indicators demonstrate that the US economy continues to recover from the deep recession and the global financial crisis. For January 2015 the purchasing managers' index (for the manufacturing industry) stood at 53.5 points – comfortably above the threshold signaling expansion of 50. The decline of 1.6 points since December 2014 is largely due to the weather and seasonal factors. We are increasingly receiving positive news from the US labor market. 257,000 new jobs were created in the US in January 2015. Market observers had expected a gain of only about 230,000. The revision of December's data was even more significant, with the figure for new job creation increasing from 252,000 to 329,000. At the moment there are about 140.8 million jobs in the US – around 2.5 million more than in January 2008, the previous peak.

2015 will be another crucial year for the US Federal Reserve (Fed) and its Chair Janet Yellen. After successfully carrying out the tapering process (the gradual reduction in the Fed's securities buying program) in 2014 and then concluding the program altogether, it remains to be seen in 2015 whether the Fed will attempt to normalize US monetary policy. So far it has been relatively successful in this process. The feared loss of trust in the financial markets following the end of the buying program has not materialized. With a look to the first interest rate hike, the Fed will have to answer two important questions in 2015:

- △ When the employment target is sufficiently achieved? The Fed's published comments have repeatedly criticized that the quality of US employment has changed in the wake of the global financial crisis. The share of temporary employment and part-time employment has risen because of the financial crisis, which is one reason why most of the US population has not benefited from the upturn in the economy. This trend can especially be seen in the rather modest wage growth in the US, which, at 2.2% in January 2015, is far behind the growth rates seen in the years prior to the financial crisis. As a result, the Fed is currently closely monitoring the rate of wage growth as well as the number of jobs and their structure. By contrast, the unemployment rate is not seen as decisive because many unemployed people drop-out from the unemployment statistics once they reach the maximum duration of unemployment assistance.
- △ How fast should (benchmark) interest rates rise once the employment target has been sufficiently met? Here there is some indication that the Fed will take more time than it did in earlier tightening cycles. Instead of the usual rhythm of +25 bp per meeting, a significantly slower increase will be pursued. The EAA anticipates the Fed will raise rates by +25 bp at every second session, beginning on July 29, 2015. This means that interest rates would reach 0.75% by the end of the year.

Nevertheless, the risks and difficulties of an exit from the Fed's extraordinary monetary measures should not be underestimated. The Fed is not the first central bank to implement a program of government bond buying. And so far, only a few have succeeded at exiting from these measures. The Bank of Japan at the beginning of the 2000s is likely to be one particularly daunting example. With a premature interest rate hike and a too-rapid exit from its quantitative easing program, the Bank of Japan stalled the economic recovery process and thus extended the recession.

MANAGEMENT REPORT

Summary of important macroeconomic forecasts

Key economic indicators	Growth		Inflation		Unemployment		Budget balance (% GDP)	
	2015	2016	2015	2016	2015	2016	2015	2016
	in %	in %	in %	in %	in %	in %	in %	in %
USA	3.2	2.8	0.8	2.2	5.4	5.1	-2.9	-2.9
Eurozone	1.2	1.6	0.2	1.2	11.3	11.0	-2.4	-2.2
Core & semi core								
Germany	1.3	1.7	0.6	1.6	6.5	6.4	0.1	0.2
France	0.8	1.4	0.3	1.1	10.4	10.2	-4.3	-3.9
Periphery								
Greece	1.9	2.5	-0.8	0.7	24.3	23.7	-0.5	-0.1
Ireland	3.2	3.3	0.9	1.4	10.3	9.5	-2.6	-2.3
Portugal	1.3	1.5	0.4	1.0	13.1	12.6	-3.2	-2.8
Spain	2.0	2.1	-0.2	1.0	23.1	21.9	-4.6	-3.8
Italy	0.4	1.0	0.1	1.0	12.8	12.6	-2.8	-2.4
Emerging Markets				0.0				
Asia	6.0	6.0	2.7	3.0	4.1	4.1	-2.3	-2.2
Latin America	1.5	2.8	9.6	9.0	6.1	6.3	-4.1	-3.4
Eastern Europe & Africa	-0.2	2.1	7.8	5.4	9.3	9.0	-2.6	-2.1
BRIC countries			0.0					
Brazil	0.3	1.2	6.3	6.3	5.0	5.6	-4.0	-3.8
Russia	-4.0	0.5	13.0	7.0	6.6	6.5	-2.5	-1.8
China	7.0	6.8	1.8	2.5	4.1	41.0	-2.4	-2.5
India	5.5	6.3	6.5	6.3	n.s.	n.s.	-4.2	-4.0

Source: Bloomberg, EAA

The success of this strategy is not ensured. Despite all the communication tricks the Fed undoubtedly possesses, the markets already expect interest rates to rise. The two-year US Treasury note currently trades at a yield of 0.65%, i.e., the first small rate hike of 25 bps to 0.5% is already completely priced in. A view of the futures contracts on the US benchmark interest rate shows that market participants expect this first interest rate hike to take place in the second half of 2015 (November). The strategists at the Fed have kept open a loophole in their communication for the event that they would like to wait with rate hikes. The Fed's decision will take into account how the US export industry is coping with dollar appreciation versus the euro and the Japanese yen. This is also intended as a counter-balance to avoid the possibility that the level of yields in the US rises hastily and thereby chokes off the recovery of the US economy.

The current inflation environment in the US fits in perfectly with the Fed's objectives, making it unnecessary to change policy with regards to the inflation target. The core rate is likely to be 1.7% at the end of 2015, with a headline rate of 1.5%. And although the expected rates for 2016 have risen somewhat, they are currently forecast to be 1.9% and 2.2%, respectively, i.e., they remain fully compatible with the Fed's comfort zone. A first increase in US interest rates, in line with what the EAA expects, is also another sign that the US economy is returning to

normal. And after all, even in this case monetary policy would still remain historically very accommodative. The EAA thus anticipates a noticeable acceleration of the US economy in 2015, with growth reaching 3.2% in 2015 and 2.8% in 2016.

Eurozone: the recovery from the financial market crisis and the debt crisis will take time

The multiple speed recovery in the eurozone will continue in the second half of 2014 and 2015. Germany's GDP will probably grow by a good 1.3% in 2015. This is slightly above Germany's growth potential, which the Bundesbank, Germany's central bank, estimates to be about 1.25% per year. The German economy is forecast to grow by 1.7% in 2016 as well, meaning the positive trend on the German labor market is likely to continue, albeit at a slower pace. With low growth of 0.8%, France will probably just barely avoid stagnation. A further acceleration to 1.4% is anticipated for 2016.

The EAA expects a moderate improvement for the countries in the euro periphery. Spain's economy is likely to grow by more than 2% in 2015, reaching one of the top spots in the eurozone behind Ireland (+3.2%). Improvements in Spain's competitiveness are bearing fruit and are the driving factor behind this acceleration. Growth of 2.1% is possible again for Spain in 2016. This pickup in the economy will go hand-in-hand with a further improvement in the labor market. An unemployment rate of 23% (currently 23.8%) is expected at the end of 2015. However, it is important that the recovery of the Spanish financial system makes further progress. Spain's banks are plagued by a high number of problem loans. The ECB's comprehensive review of the banking system has shown that Spanish banks have made encouraging progress to restore the health of their balance sheets. But until now, they have been reluctant to lend to Spanish companies and households. However, should lending start to pick up again, Spain would have significant potential for positive surprises in 2015. Portugal's economy is likewise anticipated to grow both this year (+1.3%) and in 2016 (+1.5%). The problem child at the periphery remains Italy. In 2014, the country remained mired in a recession that has lingered since September 2011. With luck, it might succeed in 2015 at escaping from the grasps of this protracted downturn. The EAA hopes the country will achieve growth of 0.4% this year.

The key factor for this growth outlook is the monetary support from the ECB. Low interest rates and yields make it possible in the first place for eurozone countries to finance their sharply higher levels of debt (private and public). The costs of this policy are borne by investors. With the ECB's planned bond-buying program, the interest burden for the euro periphery will probably fall further and thus ease the pressure on debtors even more.

Financial market outlook for 2015

In terms of the real economy, signs continue to point to a recovery for the world economy – albeit at a very slow pace. The trend in yields in the eurozone and the US will largely develop in parallel. International bond markets will therefore ensure that an interest and yield increase in the US will also be reflected in German Bunds. Ten-year German Bund yields are likely to be at slightly more than 0.9% by the end of 2015, whereas the US equivalent is forecast to hit 2.7%.

MANAGEMENT REPORT

Overview of key financial markets

Fixed income markets 2015	Policy rate in %	2-Y-yield in %	10-Y-yield in %
USA	0.75	1.40	2.70
Eurozone	0.05	0.15	0.90
Core & semi core			
Germany	0.05	0.15	0.90
France	0.05	0.10	1.30
Periphery			
Spain	0.05	0.50	2.00
Italy	0.05	0.40	2.10

Source: Bloomberg, EAA

As the peripheral economies will also continue to stabilize, risk premiums compared to German government bonds should remain low. The ECB's monetary policy, with its program to purchase euro government bonds, will contribute to this, too. The ECB intends to use these tools to drastically inflate its balance sheet – by about half – from EUR 2.2 trillion at the moment to around EUR 3.1 trillion, and will purchase EUR 60 billion of securitizations, government bonds and covered bonds per month, beginning in March 2015 and extending until at least September 2016. The total volume of this intervention will be at least EUR 1.14 trillion. The ECB's additional demand for securities will continue to support the trend towards the narrowing of spreads in 2015. The different monetary-policy orientations of the Fed and the ECB will also have an impact on the foreign exchange market. The dollar will appreciate further against the euro. It is anticipated that the exchange rate will be around USD/EUR 1.10 by the end of 2015.

Business development

Overview of economic development

In 2014 the EAA's economic performance was largely determined by its wind-up mission.

The EAA's net profit of EUR 62.5 million was primarily impacted by positive net interest income of EUR 210.2 million, net fee and commission income of EUR 54.3 million and a financial investment result of EUR 172.6 million. Administrative expenses amounted to EUR 349.0 million and mainly consisted of expenses for the provision of services by PFS.

The total assets of the EAA as at December 31, 2014 amount to EUR 79.5 billion (previous year: EUR 78.9 billion). The business volume, which includes off-balance-sheet components, amounts to EUR 91.9 billion (previous year: EUR 95.1 billion).

Wind-up report

The figures and developments discussed in this section are regularly reported to the FMSA as part of its supervision of the EAA, as well as to the EAA's governing bodies. They relate to the entire risk portfolio transferred to the EAA, regardless of whether these figures are recorded

MANAGEMENT REPORT

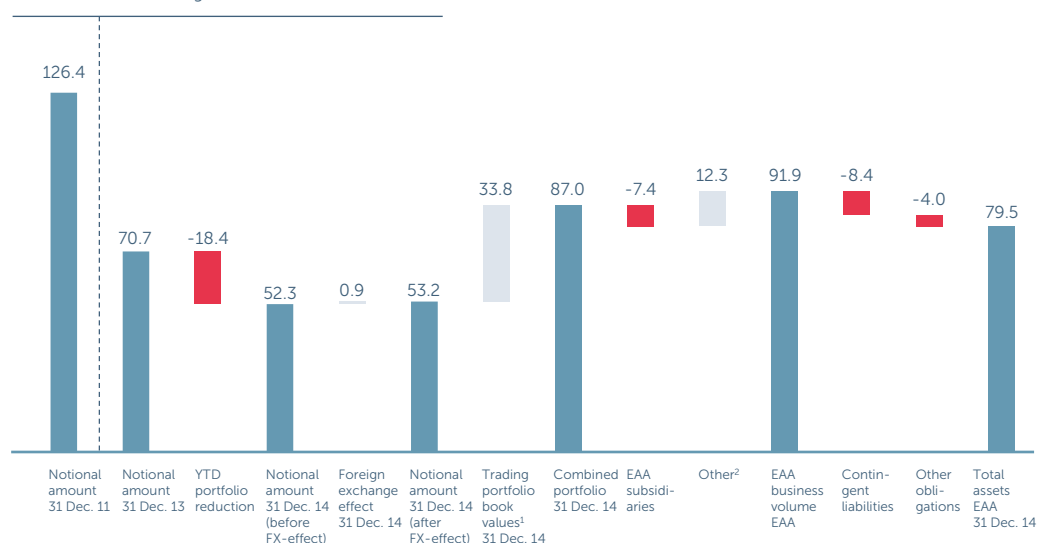
on- or off-balance-sheet in the EAA's single-entity financial statements or whether they are held via subsidiaries (look-through approach).

The following overview shows the development of the portfolio's notional amounts since January 1, 2014 and the reconciliation to the EAA's balance sheet as of December 31, 2014:

Reconciliation of the transferred notional volume to the balance sheet

in EUR billion

Notional Values Banking Book



¹ Equates to the book values for trading portfolio assets

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

Under the EAA's management strategy, the success of the wind-up plan is assessed based on both the reduction of the notional volume before exchange rate effects (i.e., at constant exchange rates as at December 31, 2011 for the banking book and as at June 30, 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 sale proceeds, book values, expected losses, interest income and funding costs for the respective risk exposures.

Wind-up strategies

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

MANAGEMENT REPORT

Breakdown of the risk exposures of the banking book by normative strategies¹

	12/31/2014 EUR billion	12/31/2013 EUR billion
Sellable	9.3	11.7
Hold	22.7	37.1
Restructure	20.3	21.9
Total	52.3	70.7

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

The "Sellable" category includes securities and loans with a volume of EUR 9.3 billion, for which a sale is considered possible. Assets are categorized 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 realize using a long-term hold strategy. This requires that the market environment has improved and that no discounts attributable to the creditworthiness of the issuer or borrower are demanded.

Assets categorized as "Restructure" are subject to close observation due to their lower credit quality. The rest of the portfolio falls under the "Hold" category. The decline in the "Hold" category was caused by repaid loans in 2014 on the one hand, while, on the other hand, part of the "Hold" portfolio was reclassified as belonging to either the "Sellable" or the "Restructure" category.

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

There is no difference to the aforementioned strategies in the trading portfolio's wind-up plan, which is based on an active asset-management model. The portfolios are reduced via their normal maturities and active management.

Wind-up success in the banking book

From January 1 until December 31, 2014, the notional volume of the banking book was reduced from EUR 70.7 billion to EUR 52.3 billion (at exchange rates as of December 31, 2011, including the notional amounts of the guaranteed risk exposures held by the EAA's subsidiaries). That equates to a decline in notional volume of EUR 18.4 billion (26.0%). At current exchange rates as of December 31, 2014, the volume is EUR 53.2 billion. Since January 1, 2012, the total banking book portfolio has decreased by EUR 74.1 billion or 58.6%.

Clusters	Notional volume (at exchange rates as of 12/31/2011)				Notional volume (at exchange rates as of 12/31/2014)	
	Notional	Notional	Delta	in %	Notional	FX effect ¹
	12/31/2014 EUR million	12/31/2013 EUR million	to 12/31/2013 EUR million		12/31/2014 EUR million	EUR million
Structured Securities	16,824.0	21,618.5	-4,794.5	-22.2	17,497.1	673.1
Public Finance	7,799.2	7,353.6	445.6	6.1	7,810.1	10.9
WestImmo Commercial	7,520.0	11,115.4	-3,595.4	-32.3	7,606.2	86.2
Energy	4,398.8	5,878.6	-1,479.8	-25.2	4,511.6	112.8
NPL	4,129.5	6,320.9	-2,191.4	-34.7	4,197.6	68.1
WestImmo Retail	2,173.9	2,651.0	-477.1	-18.0	2,173.9	0.0
Other clusters	9,422.2	15,716.5	-6,294.3	-40.0	9,410.3	-11.9
EAA (banking book) total	52,267.6	70,654.5	-18,386.9	-26.0	53,206.8	939.2

¹ Change in notional volume due to exchange rate effects

In 2014 the banking book recorded a considerable reduction in the Structured Securities, WestImmo Commercial and NPL clusters. The notional reduction in the Structured Securities cluster is primarily due to partial repayments of the Phoenix A1 (USD) and A2 (EUR) notes as well as the complete repayment of the Phoenix A1 note (EUR). The notional reduction in the NPL and WestImmo Commercial clusters stands in contrast to a notional increase in the Public Finance cluster. Besides the portfolio reduction, the notional decrease in the NPL cluster is primarily caused by a recategorization of Portuguese exposures from NPL to Public Finance due to the improved risk situation.

The change in the WestImmo Commercial cluster was partially caused by the transfer of the WestImmo Carve Out portfolio to the EAA. In this respect, bonds issued by the Republic of Italy with a notional volume of EUR 315 million were reclassified in June 2014 to the Public Finance cluster, and a loan portfolio with a notional volume of EUR 488 million was reallocated to the Real Estate cluster (contained in Other clusters). Both of these actions were taken to improve the saleability of WestImmo. As of December 31, 2014, the Carve Out loan portfolio has been reduced to EUR 441 million. The portfolio still contains securities of the Republic of Italy.

The notional reduction in the Other clusters is distributed over the rest of the portfolio, with the main changes taking place in the Industrials and Financial Institutions clusters.

In 2014 the EAA generated a positive wind-up-plan impact of EUR 35.1 million from sales and early repayments from the banking book portfolio. Measures in the NPL and Leverage Finance portfolios made a particularly strong contribution.

MANAGEMENT REPORT

Wind-up success in the trading portfolio

Clusters ²	Notional volume (at exchange rates as of 6/30/2012)				Notional volume (at exchange rates as of 12/31/2014)	
	Notional	Notional	Delta		Notional	FX effect ¹
	12/31/2014 EUR million	12/31/2013 EUR million	to 12/31/2013 EUR million	in %	12/31/2014 EUR million	EUR million
Rates	459,544.9	634,593.2	-175,048.3	-27.6	456,815.8	-2,729.1
Equity	4,804.6	7,471.1	-2,666.5	-35.7	4,232.6	-572.0
Credit	1,384.3	1,969.4	-585.1	-29.7	1,398.5	14.2
Other clusters	375.3	507.0	-131.7	-26.0	385.5	10.2
EAA (trading portfolio) total	466,109.1	644,540.7	-178,431.6	-27.7	462,832.4	-3,276.7

¹ Change in notional volume due to exchange rate effects² The clusters are presented in the new structure of the 2014 wind-up plan; to improve comparability, the previous year values were restated accordingly

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

The notional volume of the trading portfolio amounted to EUR 466.1 billion as at December 31, 2014. All in all, the notional volume of the trading portfolio decreased by EUR 178.4 billion during the period from January 1 to December 31, 2014 (stated at exchange rates as at June 30, 2012). Since its transfer, the trading portfolio has been reduced by EUR 597.9 billion or 56.2%.

The decline is predominantly the result of maturities and active liquidation measures. The principal driving force behind the reduction was the Rates cluster with a total notional decrease of EUR 175.0 billion. This decline resulted primarily from maturities of around EUR 157.4 billion and active reduction measures totaling about EUR 17.6 billion.

The Equity cluster was reduced in 2014 by EUR 2.7 billion or 35.7% compared with the prior-year figure (at exchange rates as of June 30, 2012). The decline is mostly the result of maturities of transferred positions.

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

The EAA's overall situation

Earnings situation

The EAA's earnings situation was primarily impacted by positive net interest income of EUR 210.2 million, net fee and commission income of EUR 54.3 million and a financial investment result of EUR 172.6 million. Administrative expenses amounted to EUR 349.0 million and mainly consisted of expenses for the provision of services by PFS.

A net result of EUR 4.3 million was derived from net allocations to and releases from loan loss provisions.

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

	1/1 - 12/31/2014	1/1 - 12/31/2013	Delta	
	EUR million	EUR million	EUR million	in %
Net interest income	210.2	354.0	-143.8	-40.6
Net fee and commission income	54.3	145.1	-90.8	-62.6
Net trading result	-24.5	83.9	-108.4	>-100
Total other operating income/expenses	-4.0	0.3	-4.3	>-100
Personnel expenses	-29.3	-20.3	-9.0	-44.3
Other administrative expenses	-319.7	-377.7	58.0	15.4
of which: expenses for service level agreements with PFS	-246.9	-318.8	71.9	22.6
Net income from investment securities and long-term equity investments	172.6	-12.9	185.5	>100
Results prior to risk provisioning	59.6	172.4	-112.8	-65.4
Loan loss provisions	4.3	-110.3	114.6	>100
Earnings before taxes	63.9	62.1	1.8	2.9
Taxes	-1.4	-3.1	1.7	54.8
Net profit of the year	62.5	59.0	3.5	5.9
Net retained losses brought forward	-2,460.2	-2,519.2	59.0	2.3
Net retained losses	-2,397.7	-2,460.2	62.5	2.5

Net interest income

The decline in net interest income to EUR 210.2 million (previous year: EUR 354.0 million) reflects the rapid progress made at winding up the portfolio.

In addition to net interest (EUR 126.7 million [previous year: EUR 285.0 million]), net interest income also includes the current income from equities, other non-fixed income securities, long-term equity investments and shares in affiliates (EUR 4.0 million [previous year: EUR 9.6 million]) as well as income from profit pooling, profit transfer and partial profit transfer agreements (EUR 79.5 million [previous year: EUR 59.4 million]).

The interest income consists of lending and money market transactions totaling EUR 545.1 million (previous year: EUR 878.3 million) and of fixed-income securities and debt register claims in the amount of EUR 216.4 million (previous year: EUR 264.1 million).

The interest income is offset by interest expense of EUR 634.9 million (previous year: EUR 857.4 million).

Net fee and commission income

The year-on-year decrease in net fee and commission income of EUR 90.8 million to EUR 54.3 million is primarily due to the wind-up activity.

The portfolio still contains loans and syndicated lending transactions that were transferred from the former WestLB to the EAA and from which the EAA generates net fee and commission income.

MANAGEMENT REPORT

Net trading result

The reported net trading result is EUR -24.5 million. The negative amount of the trading result is mostly the consequence of changes in the model reserves.

The net trading result is composed of the interest, foreign exchange and valuation result in the amount of EUR -0.5 million and of changes in the model reserves totaling EUR -24.0 million. The changes in the model reserves include a reversal in the amount of EUR 9.3 million, which the EAA allocated for the first time in fiscal year 2013 from the net trading result to a special item for general banking risks in accordance with section 340e (4) HGB.

Total other operating income/expenses

The balance of other income and expenses in fiscal year 2014 amounts to EUR -4.0 million (previous year: EUR 0.3 million). This is composed of other operating income and expenses.

General administrative expenses

The general administrative expenses in fiscal year 2014 totaled EUR 349.0 million (previous year: EUR 398.0 million). EUR 29.3 million (previous year: EUR 20.3 million) of this amount was attributable to personnel expenses of the EAA that reflect recruitment and future cut-backs in staff.

Other administrative expenses amounted to EUR 319.7 million (previous year: EUR 377.7 million) and are primarily due to the expenses associated with the cooperation agreement with PFS (EUR 246.9 million [previous year: EUR 314.2 million]) and the service agreement with EPA (EUR 13.1 million) to support the EAA with portfolio management and all associated activities. Additional costs of EUR 11.9 million (previous year: EUR 12.5 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 release of EUR 4.3 million from the loan loss provisions in the 2013 fiscal year. This release is mainly the result of loan restructurings. The EAA has appropriately taken into account all recognizable risks.

Net income from investment securities and long-term equity investments

Investment securities and long-term equity investments produced net income totaling EUR 172.6 million. This contains net income in the amount of EUR 163.4 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 9.2 million are primarily the result of capital gains on fixed-income securities.

The net income from long-term equity investments results mainly from a split-off gain from the WestImmo Carve Out portfolio in the amount of EUR 174.7 million; write-downs on shares in affiliates, net allocations to provisions for long-term equity investments and gains on the disposal of long-term equity investments totaling EUR 3.9 million; and transfers of losses from subsidiaries in the amount of EUR 15.2 million.

Taxes

Taxes comprise taxes on income and earnings in the amount of EUR 1.1 million (previous year: EUR 3.1 million) which mainly relate to foreign taxes, and other taxes totaling EUR 0.3 million (previous year: EUR 0.0 million).

Net profit of the year

The EAA's net profit for the fiscal year 2014 amounts to EUR 62.5 million and decreases net retained losses carried forward to EUR 2,397.7 million as at December 31, 2014.

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 governing bodies reach 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 repayments 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 EAA is funded through an existing portfolio of guaranteed issues by the former WestLB, which were transferred to it by way of a spin-off, as well as increasingly through new capital market transactions.

As at the reporting date, the EAA's outstanding portfolio of issued bearer bonds, registered bonds, promissory note loans and commercial paper totals EUR 40.7 billion. It includes the global Commercial Paper Program with a notional amount equivalent to EUR 8.4 billion.

During the reporting period, the notional volume of new issues for medium and long-term funding totaled an amount equivalent to around EUR 4.0 billion, consisting of EUR 1.8 billion, USD 2.7 billion (EUR 2.2 billion) and GBP 40 million (EUR 51.3 million).

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

MANAGEMENT REPORT

Asset position

EAA's total assets as at December 31, 2014 amount to EUR 79.5 billion (previous year: EUR 78.9 billion). The business volume, which includes off-balance-sheet components, amounts to EUR 91.9 billion (previous year: EUR 95.1 billion).

Assets

	12/31/2014 EUR million	12/31/2013 EUR million	Delta EUR million	in %
Loans and advances to banks	14,591.4	14,885.1	-293.7	-2.0
Loans and advances to customers	12,961.4	15,711.9	-2,750.5	-17.5
Securities (no trading portfolio)	16,141.2	18,856.8	-2,715.6	-14.4
Trading portfolio	33,768.3	26,897.8	6,870.5	25.5
Long-term equity investments and shares in affiliates	1,801.9	1,896.0	-94.1	-5.0
Other assets	210.4	663.5	-453.1	-68.3
Total assets	79,474.6	78,911.1	563.5	0.7

Liabilities and equity

	12/31/2014 EUR million	12/31/2013 EUR million	Delta EUR million	in %
Deposits from banks	5,013.1	5,984.3	-971.2	-16.2
Deposits from customers	5,545.1	6,732.0	-1,186.9	-17.6
Debt securities in issue	34,747.9	38,123.5	-3,375.6	-8.9
Trading portfolio	32,874.1	27,119.6	5,754.5	21.2
Provisions	410.3	341.4	68.9	20.2
Other liabilities	265.7	54.4	211.3	>100
Equity	618.4	555.9	62.5	11.2
Total liabilities and equity	79,474.6	78,911.1	563.5	0.7
Contingent liabilities	8,410.6	11,595.4	-3,184.8	-27.5
Other obligations/loan commitments	3,970.0	4,633.1	-663.1	-14.3
Business volume	91,855.2	95,139.6	-3,284.4	-3.5

The EAA obtained assets and liabilities from WestImmo in a spin-off retroactive to January 1, 2014 in the amount of EUR 0.7 billion and EUR 0.3 billion, respectively. The book value of the long-term equity investment was modified to reflect the lower business volume of WestImmo. WestImmo's equity was reduced in this respect by EUR 448.7 million.

Lending business

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

Lending business

	12/31/2014 EUR million	12/31/2013 EUR million	Delta EUR million	in %
Loans and advances to banks	14,591.4	14,885.1	-293.7	-2.0
Loans and advances to customers	12,961.4	15,711.9	-2,750.5	-17.5
Contingent liabilities	8,410.6	11,595.4	-3,184.8	-27.5
Other obligations/loan commitments	3,970.0	4,633.1	-663.1	-14.3
Lending business	39,933.4	46,825.5	-6,892.1	-14.7

Securities

The portfolio of bonds and other fixed-income securities, as well as of shares and other non-fixed income securities amounts to EUR 16.2 billion (previous year: EUR 18.9 billion) on the reporting date, of which EUR 16.1 billion (previous year: EUR 18.4 billion) is classified under investment securities. An additional EUR 0.1 billion (previous year: EUR 0.5 billion) in own, repurchased bonds is allocated to the liquidity reserve.

The EAA had no securities lending transactions as at the reporting date (previous year: EUR 14.6 million). Repayments on the Phoenix portfolio in the amount of EUR 2.4 billion resulted in a further reduction of the securities portfolio. This reduction was offset by securities transferred from WestImmo in the amount of EUR 0.3 billion.

Trading portfolio

The trading portfolio is recognized in the balance sheet at its fair value less a risk discount. The EAA's assets include trading portfolios with a volume of EUR 33.8 billion as at December 31, 2014. Most of this volume relates to derivative financial instruments.

Trading liabilities of EUR 32.9 billion consist solely of derivative transactions.

Long-term equity investments and shares in affiliates

The EAA has taken over various shares in subsidiaries of the former WestLB. As at the reporting date, the carrying amount of long-term equity investments amounted to EUR 109.4 mil-

MANAGEMENT REPORT

lion (previous year: EUR 105.1 million) and shares in affiliates totaled EUR 1.7 billion (previous year: EUR 1.8 billion). This includes long-term equity investments that the EAA obtained in debt-to-equity swaps to restructure loans.

Deposits from banks and customers

As of December 31, 2014, deposits from banks total EUR 5.0 billion (previous year: EUR 6.0 billion). Of that amount, EUR 3.1 billion (previous year: EUR 2.8 billion) is attributable to overnight deposits and short-term time deposits, and an additional EUR 1.7 billion (previous year: EUR 2.6 billion) to registered securities. Overall, deposits from banks totaling EUR 1.4 billion (previous year: EUR 2.3 billion) are backed by the guarantor liability.

The deposits from customers in the amount of EUR 5.5 billion (previous year: EUR 6.7 billion) mainly consist of issued registered bonds equaling EUR 4.5 billion (previous year: EUR 5.4 billion). Overall, deposits from customers totaling EUR 1.1 billion (previous year: EUR 1.9 billion) are backed by the guarantor liability.

Together with the securitized liabilities, a total volume of EUR 10.8 billion (previous year: EUR 14.4 billion) is backed by the guarantor liability.

Issuing business

The portfolio of securitized liabilities is equal to EUR 34.7 billion (previous year: EUR 38.1 billion) on the reporting date. This includes securities with a notional volume of EUR 5.7 billion (previous year: EUR 7.4 billion) that were originally issued by the former WestLB and are backed by the guarantor liability.

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

Provisions

Provisions increased by EUR 68.9 million to EUR 410.3 million compared with the previous year. A major component of this increase was the recognition of loan loss provisions in the traditional lending business. A provision of EUR 21.5 million was established for legal risks. The provisioning for uncertainty regarding legal disputes relating to transactions in the trading portfolio was recognized as a valuation discount in the trading assets.

Equity

The EAA's subscribed capital remains unchanged at EUR 500,000 as at December 31, 2014. 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 3.1 billion. Due to the refill in fiscal year 2012 the capital reserve was reduced by EUR 123.8 million, of which EUR 13.1 million in 2013 was due to a contractual value adjustment clause, to now EUR 3.0 billion. This reduction is essentially caused by the measures agreed in the content of the key point agreement dated June 29, 2011 and the binding transcript dated June 18, 2012.

As of the reporting date, the equity capital under commercial law stands at EUR 618.4 million (previous year: EUR 555.9 million). This amount includes, besides the net retained losses, other retained earnings of EUR 2.4 million resulting from the reversal of provisions whose

values decreased due to revisions in the method to measure liabilities under the German Accounting Law Modernization Act (Bilanzrechtsmodernisierungsgesetz – BilMoG).

Financial and non-financial performance indicators

Financial performance indicators

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

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

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

Non-financial performance indicators

Employees

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

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

The human resources work that the EAA carries out creates an environment in which EAA employees are able to develop and enhance their qualifications as best as possible based on their current phase in life.

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

As at December 31, 2014, the EAA employed 134 members of staff (including three Managing Board members). The number has increased compared with the previous year (December 31, 2013: 123) due to additional work requirements.

Reputation and acceptance

As a public institution, the EAA needs the acceptance and trust of governments and the general public in order to successfully fulfill its mandate. Since it began its operating activities,

MANAGEMENT REPORT

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 world's financial and consumer press.

Furthermore, the EAA's employees foster understanding for the special features of the EAA's wind-up activities by maintaining constant contact with facilitator groups, for example by taking part in conferences, giving speeches, holding talks with political and financial representatives and meeting a great number of investors.

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

Subsequent events

On January 15, 2015, the Swiss National Bank changed its exchange rate policy and abandoned its peg of the Swiss franc to the euro. The resulting change in the exchange rates for the Swiss franc will not have a material impact on the earnings situation of the EAA because it does not hold any significant exposures in this currency. However, the value of some transferred derivative transactions with municipalities (for further information, refer to the "Legal risks" section) depends on the Swiss franc exchange rate. If necessary, the EAA will adjust its risk provisioning for these transactions.

In the first week of February 2015, EAA CBB transferred to the EAA assets in the amount of around EUR 4.5 billion. This transaction, which has no impact on earnings or the success of the wind-up plan, ultimately resulted in no additional economic risk for the EAA because of the existing global guarantee that the EAA has issued on behalf of EAA CBB.

On February 22, 2015, the EAA concluded an agreement to sell its stake in WestImmo to the Aareal Group. The closing of the transaction (when the shares are transferred) will take place as soon as all necessary approvals have been obtained. The sale of WestImmo means that the EAA's portfolio of loans and securities will decrease by around EUR 10 billion compared with the end of 2014. The sale will have a positive impact on the EAA's earnings in 2015 and on its long-term wind-up planning. When the closing takes place, all of WestImmo's funding liabilities to the EAA as well as all of the financial guarantees that the EAA has issued on behalf of the WestImmo portfolio will be redeemed.

On March 1, 2015, the Austrian Financial Market Authority imposed a moratorium on all liabilities of HETA Asset Resolution AG (HETA) until May 31, 2016. In particular, all senior unsecured bonds are impacted, and all interest payment obligations have been suspended, too. At

the moment there are no clear figures on the amount of the over-indebtedness and the liabilities of HETA, nor is there a clear determination of the ranking of the individual liabilities. Nevertheless, the EAA has developed three scenarios for the potential losses based on currently available information. Using the indebtedness that has been identified through the preliminary asset quality reviews and taking into account the waterfall logic for creditor participation in the subordinated liabilities in accordance with the Austrian Federal Act on the Recovery and Resolution of Banks (Bundesgesetz über die Sanierung und Abwicklung von Banken – BaSAG), these scenarios indicate that the potential losses – before utilization of the state guarantee – range between 4% and 43% of the EAA's exposure (EUR 75 million) to the bonds. In light of the substantial uncertainties associated with this situation, the EAA is currently reviewing whether to establish a risk provision.

Otherwise, there are no reportable events affecting any risk exposures held or guaranteed by the EAA.

Summary of the business situation

As shown, the net profit reported was attributable to the progress made in winding up the portfolio. The reduction in the portfolio had a significant influence on interest income as well as fee and commission income. Loan loss provisions and the financial investment result were impacted as well.

The asset position of the EAA is in good order. Its equity as at December 31, 2014 amounts to EUR 618.4 million. Adequate liquidity was available at all times.

Risk, opportunities and forecast report

Risk report

The common objective of the liable stakeholders, the FMS and the EAA is to minimize the strategic wind-up risk. During the reporting period, the EAA made further progress toward realizing the wind-up plan. Its wind-up activities focused primarily on continuing to reduce the portfolio transferred from the former WestLB and 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 risk portfolio transferred to the EAA, regardless of whether these figures are recorded on- or off-balance-sheet in the EAA's single-entity financial statements or whether they are held via subsidiaries (look-through approach).

Risk management organization

The EAA is supervised by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) with regard to banking law provisions applicable to the EAA. The German Minimum Requirements of Risk Management (Mindestanforderungen an das Risikomanagement – MaRisk) are applied by the EAA, with a few exceptions.

MANAGEMENT REPORT

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

The EAA's risk management strategy is therefore aimed at minimizing its strategic wind-up risk, that is to say, the risk of falling below the economic targets in the wind-up plan and suffering higher-than-planned losses from winding up the portfolio. The risk management team's responsibility is to map, analyze, manage and monitor the EAA's risks using a comprehensive risk reporting system.

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

The EAA's general risk management strategy is the basis for its risk management framework. It contains the basic principles for risk management, defines the key risk categories and identifies the core elements of the risk management process. The general risk management strategy is supplemented by specific strategies for managing individual risks including the related wind-up strategies. The key individual strategies relate to the risk categories of credit risk, market price risk, liquidity risk, operational risk and other risks. Risk management strategies are reviewed at least once a year.

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

The committees make decisions regarding risk management strategies and methods:

- △ Risk Committee (RiskCo) – comprises portfolio management and in particular the management of credit risks
- △ Asset Liability Committee (ALCO) – comprises the optimization of asset/liability management, monitoring and managing operational liquidity, refinancing, 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:

- △ Supporting management in all risk policy issues, especially in the development and implementation of the risk strategy as well as in the organization of a system for mitigating risks,
- △ Conducting a risk inventory and preparing the overall risk profile, and
- △ Supporting management in the establishment and development of risk management and risk controlling processes.

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

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

Risk reporting

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

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

MANAGEMENT REPORT

Sustainability in risk management

The EAA is aware of the environmental and social risks that can arise in connection with project financings. Prior to their original approval by the former WestLB, these financings were reviewed by a department that specialized in the assessment of sustainability risks. Their risk potential was identified and categorized based on the Equator Principals and other environmental and social standards. If sustainability aspects were particularly relevant in individual project financings and the risks were reduced through contractual conditions in the loan agreements, the EAA incorporates compliance with these agreements into its regular – at least once a year – reviews. This takes place in close coordination with PFS and EPA.

Credit risks

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

- △ Default risk comprises potential losses incurred if a borrower is unable or unwilling to comply, in part or in full, with their contractual obligations, specifically to repay their loan.
- △ Migration risk comprises potential losses calculated mathematically if the amount of the expected loss on interest and principle payments increases as a result of a deterioration in a borrower's creditworthiness.
- △ Counterparty risk comprises potential losses if counterparties to derivatives transactions fail to perform or their creditworthiness deteriorates. Counterparty risk also includes settlement risk. Counterparty risk is determined for both the banking book and the trading portfolio.
- △ Issuer risk comprises potential losses if issuers of securities held in the portfolio fail to perform or if their creditworthiness deteriorates.
- △ Participation risk includes potential losses due to omission of dividends, impairments, losses on disposals and a reduction in hidden reserves from the EAA's long-term equity investments.

Analysis and assessment of credit risks

The EAA's Credit Risk Management department continuously analyzes 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 up to two rating categories would impact the expected loss. The amount of loan loss provisions and changes to that amount are estimated at the general portfolio level. A total of three stress scenarios for default risks and inverse stress 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 com-

petent individuals or bodies of the EAA for approval. Additionally, cluster and portfolio analyses are separately performed for significant individual exposures.

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

Management of credit risks

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

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

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

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

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

Credit risks – banking book

The EAA and its subsidiaries regularly analyze their credit risk in detail so as to identify, analyze, evaluate, and manage all default risks within the portfolio. A variety of parameters – such as risk type, rating categories, maturities and regions – are used to identify risk concentrations.

The notional volume of the banking book (which primarily consists of loans and securities) declined by EUR 18.4 billion during the reporting year 2014 to EUR 52.3 billion (at constant exchange rates as of December 31, 2011). The EAA holds or guarantees 70% of the total

MANAGEMENT REPORT

banking book notional volume, and the remaining 30% is held by its subsidiaries. Please refer to the section "Wind-up report" for more detailed information on the wind-up success.

The following schedules show the respective notional volume of the exposures of the WestImmo, EAA CBB, and EAA KK subsidiaries on a look-through basis.

Breakdown of notional volume by internal rating category¹

EUR billion	A0-A2	A3-A5	B1-B3	B4-B5	C1-C2	C3-C5	D1-D3	D4-E	S.R. ²	N.R. ^{3,4}	Total
12/31/2014	2.3	9.0	6.1	5.0	7.0	5.3	4.2	8.5	4.6	0.3	52.3
12/31/2013	4.0	6.9	10.3	8.6	9.3	7.6	4.7	11.3	7.6	0.4	70.7

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

² Special rating pursuant to the not-rated concept

³ Not rated

⁴ Including own bonds repurchased by WestImmo

Please note: where possible, the internal rating categories are based on the guarantor's rating.

The quality of the banking book portfolio is reflected by an investment grade rating share (rating categories A0-C2) of around 56% (December 31, 2013: 55%). About 22% (December 31, 2013: 15%) of the notional volume has a very good rating (A0-A5) and around 35% (December 31, 2013: 40%) has a medium rating of B1-C2. The S.R. rating category includes the opening clauses of the rating process, the EAA's non-rating concept, and has a share of around 9% of the total portfolio.

The EAA continues to aim for a portfolio reduction across all rating categories. The wind-up in fiscal year 2014 is largely distributed across all rating categories, with the exception of the A3-A5 category, which increased by EUR 2.1 billion. This was caused in part by a shift in exposures in the Structured Securities portfolio from the rating category A0-A2 to A3-A5. The decline in the B1-B3 category is mostly attributable to partial repayments of the Phoenix A1 note (USD) in the amount of EUR 2.3 billion. The reduction in the D4-E rating categories is primarily the result of the wind-up in the Structured Loans cluster.

Due to changed conditions, portions of the exposure in the energy sector (EUR 4.4 billion in total) are also subject to close monitoring, particularly project financings in the euro periphery. As of the reporting date, around 48% of the total exposures are included in the B1-C2 middle rating categories.

The remaining rating category, N.R., mainly includes WestImmo Commercial portfolio exposures.

MANAGEMENT REPORT

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

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

Breakdown of notional volume by headline clusters^{1,2}

	Structured Securities	Public Finance	WestImmo Commercial	Energy	NPL	WestImmo Retail	Other	Total
12/31/2014	32.2%	14.9%	14.4%	8.4%	7.9%	4.2%	18.0%	100.0%
12/31/2013	30.6%	10.4%	15.7%	8.3%	8.9%	3.8%	22.3%	100.0%

¹ December 31, 2014 = EUR 52.3 billion; December 31, 2013 = EUR 70.7 billion

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

MANAGEMENT REPORT

The EAA's banking book portfolio consists of 19 headline clusters. The largest headline cluster is Structured Securities with a total share of around 32%. This portfolio consists of three sub-portfolios: Phoenix (70% – please refer to section "Phoenix" for further details), Asset Backed Securities (21%) and EUSS (9%). The Public Finance and WestImmo Commercial clusters account for around 15% and 14%, respectively, of the total portfolio. For further information, please refer to the sections "Public Finance" and "Participation risks".

Breakdown of notional volume by maturities^{1,2}

EUR billion	<= 6 M	> 6 M <= 1 Y	> 1 Y <= 5 Y	> 5 Y <= 10 Y	> 10 Y <= 20 Y	> 20 Y	Total
12/31/2014	2.5	3.8	21.3	7.5	10.9	6.3	52.3
12/31/2013	3.8	5.3	33.3	8.6	12.2	7.5	70.7

¹ For Phoenix: expected repayment profile

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

The largest part of the portfolio, with a share of approximately 41%, is comprised of medium-term exposures with contractual maturities of one to five years. These are primarily exposures held in the clusters Structured Securities (mainly Phoenix, please also refer to the "Phoenix notes capital structure" table in the "Phoenix" section), WestImmo Commercial, Public Finance, NPL and Financial Institutions.

The decline in the maturity range of up to five years is primarily the result of the wind-up in structured loans and repayments in NPL and in the WestImmo Commercial portfolio.

The other changes within the maturity ranges reflect the portfolio management measures undertaken during 2014.

Breakdown of notional volume by region¹

EUR billion	EMEA	Germany	Americas ²	APAC	Total
12/31/2014	20.0	11.0	19.6	1.7	52.3
12/31/2013	26.1	15.4	26.3	2.9	70.7

¹ Excluding exchange rate effects (based on exchange rates on December 31, 2011). Regional breakdown by borrowers, or for securitizations based on the main risk country of the asset pool

² Contains EUR 3.6 billion for the Phoenix B note guaranteed by the state of NRW

The regional breakdown of the notional volume has changed only insignificantly compared to December 31, 2013. About 38% of notional volume (December 31, 2013: 37%) is attributable to the EMEA region – Europe (excluding Germany), Middle East and Africa. The decline in this region's notional volume in the amount of EUR 6.1 billion is mainly attributable to active measures and maturities in the WestImmo Commercial, Financial Institutions and Industrials clusters.

The notional volume for German borrowers and guarantors (share in portfolio: 21%, December 31, 2013: 22%) was reduced by EUR 4.4 billion. The wind-up here relates mostly to the WestImmo Commercial, Industrials and Public Finance clusters.

Approximately 38% of the notional volume (December 31, 2013: 37%) is attributable to the Americas. Repayments and maturities in the Structured Securities cluster (predominantly Phoenix) as well as in the Energy and WestImmo Commercial clusters led to a decrease of EUR 6.7 billion.

The APAC region represents approximately 3% (December 31, 2013: 4%). The APAC region recorded a decline of EUR 1.2 billion.

The EAA's banking book portfolio is backed by the following collateral, of which EUR 6.6 billion (December 31, 2013: EUR 9.6 billion) is attributable to EAA subsidiaries, particularly for collateral at WestImmo for real estate financings.

Breakdown of types of collateral of the banking book

EUR billion	Real Estate	Guarantees	Financial collateral	Aircraft/Ships	Other collateral ¹	Total
12/31/2014	6.5	7.0	1.5	0.6	8.3	23.9
12/31/2013	9.5	7.8	1.7	0.6	9.3	28.9

¹ Including market values for Phoenix tranches A1-A4/X

Problem loans and risk provision

Problem loan exposures are subject to special risk monitoring pursuant to 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 captured 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 recognized.

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 supervisory bodies of the EAA and the FMSA on the current risk situation of these loans and the corresponding risk provisioning.

MANAGEMENT REPORT

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	261.8	239.9	-21.9	1.8	-20.1
Credit risk	261.8	239.9	-21.9	2.9	-19.0
Other risk	-	-	-	-1.1	-1.1
Contingent counterparty default risk	-	24.4	24.4	-	24.4
Total	261.8	264.3	2.5	1.8	4.3

The recoverability of the receivables is reviewed on a regular basis by performing an impairment test (a test to determine whether a receivable is non-performing or at risk of non-performance). The assessment of a possible need for a risk provision takes into account collateral values, a company valuation, a discounted cash flow analysis or observable market prices.

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

Special banking book issues**Phoenix**

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

By far the largest part of the securitized Phoenix portfolio (approximately 90%) is denominated in US dollars and represents US risks, primarily in the real estate market. Repayments in the reporting period resulted in a decrease of the notional volume reported in euros to EUR 11.7 billion as at December 31, 2014 (calculated at constant exchange rates as of December 31, 2011).

Phoenix notes capital structure

Tranche	Amount as of 12/31/2014 in million	S&P Rating	Legal maturity	Expected maturity in years
Class X	6.4 EUR	AAA	2/9/2015	0.11
Class A1	1,809.1 USD	A	2/9/2091	1.11
Class A2	3,102.0 USD	B	2/9/2091	1.61
	104.3 EUR	B	2/9/2091	1.11
Class A3	2,386.6 USD	CCC-	2/9/2091	3.11
	701.1 EUR	CCC-	2/9/2091	6.61
Class A4	1,909.0 USD	CCC-	2/9/2091	11.12
	180.9 EUR	CCC-	2/9/2091	13.62
Class B	3,566.6 EUR	N.R.	2/9/2091	3.25

In the 2014 reporting year, repayments were made totaling EUR 2.5 billion, which led in particular to a complete repayment of the EUR A1 tranche and a nominal decline in the remaining USD A1 and EUR X tranches.

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

Rating breakdown by internal rating category for Phoenix notes¹

EUR billion	A0-A2	A3-A5	B1-B3	B4-B5	C1-C2	C3-C5	D1-D3	D4-E	S.R./N.R.	Total
12/31/2014	0.0	3.6	1.4	-	-	-	2.5	4.2	-	11.7
12/31/2013	0.0	3.6	3.8	-	-	-	2.6	4.2	-	14.2

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

Please note: The presentation by internal rating category considers the rating (A3) of the guarantor, the state of NRW, for the Phoenix B note.

Around 43% of the Phoenix notes consist of risk exposures with an investment grade rating (rating classes A0-C2), taking into account the rating of the State of NRW, the guarantor, for the Phoenix B note and a low probability of default. So far, EUR 1.4 billion of the total EUR 5 billion guarantee from the State of NRW for the Phoenix B note has been utilized.

While the favorable market situation in the first half of 2014 was used to selectively sell particularly risky securities, an additional active measure was taken in the second half of 2014. 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 optimize the portfolio. These measures include both legal measures in relation to individual portfolio securities and the restructuring of non-performing securities.

MANAGEMENT REPORT

Public Finance

The exposure to the public sector (including the Public Finance positions from the NPL portfolio) as of December 31, 2014 comprise a total notional amount of EUR 7.8 billion. EUR 4.8 billion of this amount is attributable to Cyprus, Ireland, Italy, Portugal, Slovenia and Spain. Further information can be found in the section "Exposures to selected EU member states".

Securities account for 87.6% of the total public sector exposure (including regional and municipal issuers). These are held directly by the EAA in part and partly by EAA CBB. The remaining 12.4% is largely lending transactions with federal, municipal or other public-law institutions. 77.7% of the total portfolio is attributable to borrowers or issuers from the eurozone, with 6.1% coming from North and South America and 3.5% from Asia and Australia. The remainder stems from European countries outside the eurozone, Africa and the Middle East.

Credit risks – trading portfolio

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

Trading portfolio issuer risks from securities are calculated using the mark-to-market approach, while those in the banking book are determined based on book values. When calculating replacement risks (pre-settlement risks) from derivatives, the EAA applies a portfolio simulation tool based on the Monte Carlo method. Settlement risks are determined using the payment due per value date. Credit risks from trading transactions are booked daily against the corresponding credit limits. Risk-mitigating measures (such as close-out netting [offsetting] and collateral in the OTC derivatives business) are used whenever possible. Active hedging of risk exposures takes place only with counterparties where corresponding master agreements are in place.

OTC derivative counterparty default risks are assessed independently from the Front Office using credit valuation adjustments (CVA). When doing so, externally traded credit spreads, where available, are used to determine the probability of default. The expected loss can be calculated as CVA based on expected future exposures and a statistically determined recovery rate. As at December 31, 2014, CVA amounted to EUR 72.1 million (at December 31, 2013: EUR 35.9 million). The increase is mostly the result of higher market values and changes in ratings.

Counterparty and issuer risks

Direct counterparty risk

As the EAA concludes OTC derivatives both from the trading portfolio as well as the banking book, and counterparty risks are measured and controlled per counterparty, the explanations and figures below relate to the trading portfolio and the banking book. The following schedule shows direct counterparty risks. These are counterparty risks from those transactions which EAA accounts for directly in its balance sheet and not those that have been transferred to it synthetically through back-to-back transactions.

MANAGEMENT REPORT

	12/31/2014 Exposure EUR million	12/31/2014 Limit EUR million	12/31/2013 Exposure EUR million	12/31/2013 Limit EUR million
Counterparty risk OTC derivatives	845.1	3,570.0	974.8	7,963.5
Credit risk money market positions ¹	691.9	8,342.5	2,941.5	11,045.0
Counterparty risk Repos	10.3	2,730.0	214.7	3,101.0

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

Counterparty risks from OTC derivatives are driven by transactions for liquidity steering (for-
eign exchange swaps) and interest rate hedging instruments (interest rate swaps). 83.3% of
the credit risk for money market exposures stems from monetary investments with Portigon.
As the EAA has sufficient liquidity on the reporting date, the utilization of the limits for repo
transactions (EUR 10.3 million) is only approximately 0.4%.

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

OTC derivatives

Risk country	12/31/2014 Exposure EUR million	12/31/2014 Limit EUR million
Great Britain	455.7	1,685.0
Germany	166.5	840.0
France	107.0	365.0
Denmark	42.6	125.0
Other countries	73.3	555.0
Total exposure	845.1	3,570.0

MANAGEMENT REPORT

Money market positions

Risk country	12/31/2014 Exposure EUR million	12/31/2014 Limit EUR million
Germany	586.8	5,572.5
Spain	100.0	210.0
Other countries	5.1	2,560.0
Total exposure	691.9	8,342.5

Repos

Risk country	12/31/2014 Exposure EUR million	12/31/2014 Limit EUR million
Great Britain	7.5	575.0
France	2.7	95.0
Germany	0.1	1,330.0
USA	-	510.0
Other countries	-	220.0
Total exposure	10.3	2,730.0

Issuer risk

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	1,322.2	1,062.5	1,257.6	1,888.0	1,456.2	6,986.5
Financial Institutions	320.5	622.5	588.9	31.6	-	1,563.5
Other securities	164.1	281.8	67.7	1,103.9	2,414.5	4,032.0
Total 12/31/2014	1,806.8	1,966.8	1,914.2	3,023.5	3,870.7	12,582.0
Total 12/31/2013	1,812.5	3,146.3	2,032.6	3,145.8	3,741.7	13,878.9

The Public Finance sub-portfolio accounts for the largest share with about EUR 7.0 billion. The remaining issuer exposures are made up of Financial Institutions securities as well as Other securities, mainly student loans.

Issuer risks of the trading portfolio are low at only EUR 77.2 million. EUR 65.2 million of this amount is attributable to securities and credit derivatives, with equities and equity derivatives accounting for an additional EUR 12.0 million.

Participation risks

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

Of the total portfolio of the EAA Group, EUR 15.7 billion (30.0%) is held by subsidiaries, primarily WestImmo (47.8%), EAA CBB (47.1%) and EAA KK (5.1%). The sale of Basinghall (notional volume of EUR 0.7 billion as at December 31, 2013) to the real estate financier Bluestone Mortgages was successfully concluded in December 2014.

As at December 31, 2014, WestImmo holds a portfolio with a notional volume of EUR 7.5 billion (excluding the retail portfolio guaranteed by the EAA). The total notional reduction of EUR 3.6 billion includes the transfer of the "carve-out portfolio" to the EAA in June 2014, which took effect retroactively as of January 1, 2014 in the amount of EUR 803 million. The WestImmo portfolio primarily consists of commercial real estate financing and structured real estate transactions. WestImmo generally acts independently. The EAA monitors WestImmo via the Supervisory Board, among other means. After the end of the reporting period an agreement was signed to sell WestImmo to the Aareal Group. Please refer to the "Subsequent events" section for more information.

The notional volume of EAA CBB decreased during the reporting year by EUR 1.1 billion to EUR 7.4 billion. The notional volume of EAA KK increased by EUR 0.3 billion to EUR 0.8 billion due to the transfer of assets. EAA CBB and EAA KK are included in the risk management and business management of the EAA. These participations are subject to governance 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.

In some situations the EAA will enter into a new participations via a restructuring (debt-to-equity swap) if such an approach is deemed beneficial to preserve the value of the asset. The total volume of new participations is low compared with the existing participations.

During the reporting year measures were undertaken to restructure the loan exposures used to finance US life insurance policies. These measures involved transferring the underlying collateral (trust certificates) backing these policies to companies held by Erste EAA-Beteiligungs GmbH, a newly founded subsidiary. This company was fully funded by the EAA (EUR 1.0 billion).

MANAGEMENT REPORT

Exposures to selected EU states

The banking book exposure of the EAA and its subsidiaries to Greece, Ireland, Italy, Portugal, Slovenia, Spain, Cyprus and the EFSF totals EUR 8.8 billion as at December 31, 2014. EUR 0.5 billion of this amount is attributable to the WestImmo portfolio. This exposure was reduced by EUR 2.2 billion by the end of the fourth quarter of 2014. This decline is mostly attributable to Italy (EUR -1.4 billion) and Spain (EUR -0.5 billion). To standardize the definition of a risk country within the EAA, the definition was reviewed and modified in April 2014. In general, the risk country is derived from the main risk carrier; the risk country for securitization transactions is based on the main country of the asset pool of the respective transaction, and for project financings the economic land of the project is used. This change caused a notional decline in Portugal, Ireland, Italy and mainly Spain, whereas the notional value increased in Greece and Cyprus. The net effect of this definition change in April 2014 was a notional reduction of EUR 0.3 billion.

MANAGEMENT REPORT

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

Country ¹	Debtor group	12/31/2014 Notional in EUR million ^{2,3}	12/31/2013 Notional in EUR million ^{2,3}
Greece	Corporates	122.2	31.5
	Financial Institutions	-	-
	Public Finance	-	-
Σ Greece		122.2	31.5
Ireland	Corporates	76.7	108.8
	Financial Institutions	0.1	7.3
	Public Finance	115.0	115.0
Σ Ireland		191.8	231.1
Italy	Corporates	1,106.3	1,793.0
	Financial Institutions	174.7	383.8
	Public Finance	2,069.8	2,525.6
Σ Italy		3,350.7	4,702.4
Portugal	Corporates	50.9	157.2
	Financial Institutions	-	15.0
	Public Finance	1,444.0	1,573.2
Σ Portugal		1,494.8	1,745.4
Slovenia	Financial Institutions	-	-
	Public Finance	40.0	40.0
Σ Slovenia		40.0	40.0
Spain	Corporates	1,674.9	2,093.9
	Financial Institutions	636.1	735.9
	Public Finance	1,202.4	1,216.0
Σ Spain		3,513.4	4,045.8
Cyprus	Corporates	69.6	66.0
	Public Finance	0.2	0.5
Σ Cyprus		69.8	66.5
EFSF	Public Finance	-	83.1
Σ EFSF		-	83.1
Total⁴		8,782.7	10,945.8
of which	Corporates	3,100.5	4,250.5
of which	Financial Institutions	810.9	1,142.0
of which	Public Finance	4,871.3	5,553.4

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

² Based on current exchange rates

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

⁴ Including WestImmo Commercial (EUR 505.6 million) and EAA CBB (EUR 2,925.1 million)

MANAGEMENT REPORT

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

Product ¹	Value ²	Country ³	12/31/2014 EUR million ^{4,5}	12/31/2013 EUR million ^{4,5}
Bonds	Notional	Italy	-	0.7
Σ Bonds			-	0.7
Single CDS	Notional	Italy	-	-
		Portugal	-	-
		Spain	-	-
Σ Single CDS			-	-
Decomposed CDS	EaD	Italy	-	0.1
		Portugal	-	-
		Spain	-	-
Σ Decomposed CDS			-	0.1
Equities	MtM	Greece	-	0.1
		Italy	1.7	1.6
Σ Equities			1.7	1.7
Equity derivatives	EaD	Greece	-	-
		Italy	-0.3	-0.1
Σ Equity derivatives			-0.4	-0.1
Other derivatives	MtM	Ireland	0.4	5.1
		Italy	509.8	553.7
		Portugal	0.2	-
		Spain	275.0	198.4
		Cyprus	24.1	18.1
Σ Other derivatives			809.5	775.3
ALM	MtM	Ireland	5.1	0.1
		Italy	43.4	31.9
		Spain	100.0	-
Σ ALM			148.5	32.0

¹ CDS = credit default swaps; ALM = asset liability management (ALM cluster as part of the banking book is identified here as in the internal view and not as a banking book exposure); Derivatives = replacement risks from OTC derivatives and from CDS; Decomposed CDS = CDS positions that do not relate to an individual underlying but to a portfolio of underlying individual transactions such as a basket of reference debtors

² EaD = exposure at default; MtM = mark to market

³ Economic view may differ from the borrower's legal country of residence (for Corporates and Financial Institutions)

⁴ Based on current exchange rates

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

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 analyzed by the Risk Controlling department.

In terms of market price risk, 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 the credit risk premiums (for example, foreign government bonds in the Public Finance portfolio).

Market price risks – banking book

As a result of the existing portfolio structure, there are interest rate and foreign exchange risks (particularly in relation to the US dollar) which are nearly fully hedged. In 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

EUR thousand	< 1 Y	1-4 Y	4-8 Y	8-15 Y	> 15 Y	Total
EAA Group 12/31/2014	141.3	-98.0	-46.6	119.3	20.2	136.2
EAA Group 12/31/2013	264.0	-106.5	-152.7	-232.3	-21.3	-248.8

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 is EUR 136.3 thousand, which is higher than at the end of 2013 (EUR -248.8 thousand) due to the inclusion of the Phoenix notes and the expected losses in the interest rate risk calculation for the banking book. The utilization is within the limits.

MANAGEMENT REPORT

Foreign exchange risk

EUR thousand	AUD	CZK	GBP	JPY	PLN	RUB	SGD	TRY	USD	Other	Total
EAA Group 12/31/2014	1,574.0	108.1	8,151.3	7,305.9	63.9	228.9	1,724.6	136.6	31,815.6	159.3	51,268.2
EAA Group 12/31/2013	1,924.0	389.6	-13,234.9	-322.9	73.1	33.6	227.6	75.9	23,371.0	1,521.5	14,058.5

The EAA's currency position is determined based on the principle of special cover in accordance with section 340h HGB. The higher year-on-year currency exposure is the result of stronger utilization of the limit to manage foreign exchange exposures, particularly in the US dollar, British pound and Japanese yen.

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

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

Market price risks – trading portfolio

In the trading portfolio, equity price risks and, to a small extent, credit spread and commodity risks also exist alongside interest rate and foreign exchange risks. The trading portfolio predominantly includes derivative exposures and thus also bears 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. Risk management also makes use of a number of stress scenarios. On a daily basis, the VaR model calculates interest rate risks, equity risks and foreign exchange risks (including commodity risks) for the trading portfolio including the respective volatility risks. A confidence level of 99% and a one-day holding period are assumed when calculating the VaR.

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

The relevant market price risk exposures are continuously subjected to back testing. This involves comparing on a daily basis the actual market value changes (hypothetical income statement) to the possible market value changes forecasted by the VaR model. In 2014 there was one backtesting breach at the highest level of the portfolio structure of the trading portfolio. From a statistical perspective, two to three exceeded limits must be taken into account per year for a VaR with a holding period of one trading day and a confidence level of 99%.

Value at Risk by clusters

	Value at Risk 12/31/2014 EUR thousand	Value at Risk 12/31/2013 EUR thousand
EAA Trading	1,486.2	1,864.0
Interest Rate Options	201.3	264.9
Interest Rate Exotics	985.6	1,038.8
Interest Rate Flow	275.0	652.0
Contingent Credit Risk	-	22.3
Corporate Synthetic Obligations	-	-
Basket Default Swaps	-	7.6
Credit Default Swaps	-	4.6
Credit Derivatives ¹	9.0	-
Fund Derivs & Credit Repacks	0.8	18.8
Foreign Exchange Options and Hybrids	75.1	203.0
Foreign Exchange Forwards ¹	-	15.5
Equity Flow Products ²	-	13.9
Equity Structured Products	43.2	311.9
Muni GIC Portfolio	500.4	828.3
Commodities	0.6	13.6

¹ The sub-cluster structure changed as at January 2, 2014. The Contingent Credit Risk, Corporate Synthetic Obligations, Basket Default Swaps and Credit Default Swaps sub-clusters are now included as subunits in the Credit Derivatives sub-cluster. The Foreign Exchange Forwards sub-cluster is now part of the Interest Rate Flow sub-cluster.

² The Equity Flow Products sub-cluster is no longer disclosed because no further risk exists.

The VaR for the trading portfolio declined to EUR 1,486.2 thousand (December 31, 2013 EUR 1,864.0 thousand). This is mostly the result of the portfolio reduction and changes in market parameters.

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 its liquidity planning and management process so as to ensure an 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. Therefore, there is less risk concerning the EAA's specific funding options than there is with regard to systemic market illiquidity.

MANAGEMENT REPORT

In order to assess its liquidity, the EAA analyzes in detail its funding position, liquidity reserve and funding needs. On the liabilities side, liquidity is assessed by type, volume and time horizon of the funding instruments. The EAA creates a monthly capital commitment statement by comparing the expected cash flows used for liabilities with those arising from assets, taking into account the use of derivatives. This sheds light 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. A significant portion of the EAA's assets is 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 Program, as well as by using liabilities in euros in combination with long and medium-term cross-currency swaps and short-term FX swaps.

As at December 31, 2014, all stress scenarios demonstrated a viable liquidity situation. The liquidity reserve consists of collateralized liquidity (the portfolio's securities holdings which are highly likely to be eligible for bilateral repo transactions) and short-term investments. Liquidity reserves were always higher than the liquidity reserve requirement during the reporting period. At the time of the stress test on the last day of December 2014, the liquidity reserve amounted to EUR 8.3 billion.

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

Operational risks

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

Operational risks in the EAA comprise all risks arising from inappropriate reactions or from the failure of internal processes, systems, and individuals, as well as risks resulting from external events. Due to organizational changes in the fiscal years 2013 and 2014, such as the integration of EAA KK and the foundation of EPA, the control of operational risks was also extended to the subsidiaries.

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

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

The EAA has established a service provider management system to monitor the interface between the service provider and the EAA – as the recipient of services – in terms of the

content, form and quality of the services. Using a continuous and timely process, the EAA accordingly ensures that its requirements, which are defined in service level agreements, are fulfilled by the service provider in the agreed form. In this process the EAA records the outsourcing risks and assesses them by applying a traffic light logic.

Operational risks within the EAA

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

Its activity focuses on the regular analysis and identification of weaknesses and ways to optimize all business procedures and processes. The EAA's operational risks arise both in the EAA itself (including its subsidiaries) and at its outsourcing service providers. Operational risks are measured and managed in both organizations in a consistent manner. They are also aggregated into an overview of overall risk.

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

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

Second, an annual risk inventory is performed to identify risks and assess their significance for the EAA. Appropriate risk-mitigating measures are decided upon and implemented based on the findings obtained. Risk Controlling gathers the information on the operational risk incidents and performs the risk inventory for the EAA. The processes within Portigon Group that are relevant to the EAA are also subjected to an annual risk inventory by PFS's Operational Risk Management, 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 one valuation object (1%) with high risks. Of the valuation objects, 11% are characterized by medium risks and 88% by low risks. Overall, the EAA's risk situation has therefore improved slightly following the successful implementation of risk mitigation measures to address last year's high risks and the general stabilization after the refill.

EAA has outsourced key business processes to PFS and EPA. Portigon continues to undergo a process of transformation to implement a restructuring ordered by the European Commis-

MANAGEMENT REPORT

sion. In this connection, for example, PFS was split off from Portigon during the last fiscal year. As a consequence of this split-up, Portigon's service obligations were transferred to PFS. PFS reserves the right, however, to procure some services from Portigon for provision to the EAA. Any operational risks possibly associated with the separation are covered by the EAA's existing range of instruments.

The most recent risk inventory at Portigon Group regarding the processes attributable to the EAA showed a high risk for 3% of the evaluated risks, especially in the case of measurements related to personnel. The EAA has been monitoring this development and has prepared measures to take, if necessary, in order to minimize the operational risk. The foundation of EPA and the transfer of essential portfolio management services from PFS to EPA are an example of such a measure to stabilize the EAA.

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. For instance, the EAA must manage the risk exposures entrusted to it from a liquidity, risk and financial position perspective.

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

As a result, an adequate monitoring system is a key success factor for the EAA. The EAA has selected a needs-based approach for the structuring of its service provider management in order to create a structure that fulfills the monitoring requirements, meets the supervisory and reporting obligations for its business model and minimizes 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 holistic, integrated, multidimensional and pragmatic business process and an end-product-oriented management approach with a flexible technical solution.

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

There were no elevated risks during 2014, and the quality of the services rendered during the period was fundamentally stable in accordance with the service agreement.

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 service level agreements have been individually tailored to PAG, PFS and EPA.

The EAA is currently reviewing the operational stability of this arrangement and the future business orientation of PFS in order to determine whether some of the activities currently outsourced to PFS can or should be reintegrated into the EAA and EPA.

MANAGEMENT REPORT

Other risks

Reputational risks

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

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

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

Legal risks

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

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

The EAA has appointed PFS to manage the transferred assets. Accordingly, PFS is responsible for promptly recognizing any legal risks arising in this context, and for communicating them in order to then mitigate or eliminate these risks to the greatest possible extent in consultation with the EAA. When fulfilling its responsibilities PFS may, in turn, involve Portigon.

Significant legal risks arise for the EAA from the transferred derivatives transactions with municipalities based on the so-called "Ille ruling" of the German Supreme Court (BGH) of March 2011. In the case of a highly structured swap, the BGH ruled that banks are required to inform their clients about the initially negative market value of the derivative before the contract is concluded. In the event that said information is not provided, the bank is then liable for providing inappropriate investment advice, according to the BGH. The liability extends to the annulment of the derivative and the reversal of all payments. The scope of this case law is controversial. Even though there have been some cases where lower courts did not apply this case law, such as in lawsuits relating to simply structured derivatives, banks are currently often subject solely to the decision rendered by the BGH when dealing with the lower courts. In the meantime, however, there have been a mounting number of rulings in which courts make clear that the special requirements which the BGH applied in the "Ille" case do not apply in the cases to be decided.

The EAA has currently filed with the BGH a complaint against refusal of leave to appeal or an appeal against judgments of German State Supreme Courts. In December 2014 the BGH admitted an EAA complaint against refusal of leave to appeal in a municipal proceeding concerning interest rate swaps.

In a ruling on January 20, 2015 about a swap transaction, the BGH rejected the lawsuit of an investor against another institution because of incorrect investment advice. As far as can be seen from the BGH's press release, the "Ille" ruling by the BGH cannot be generalized in the way that is currently practiced by some courts. The BGH also confirmed that the so-called "initial negative market value" is not a peculiarity of swap agreements, and in particular does not reflect the probable success or failure of a transaction about which an investor must be informed. The EAA believes that this ruling confirms significant elements of its interpretation of the law regarding legal proceedings with municipalities about interest rate swaps.

The EAA continues to believe that future BGH rulings will enable a differentiated view of these lawsuits to prevail.

Since April 2010 the authorities in the US, the United Kingdom and at the EU level (particularly BaFin) have been investigating possible misconduct in the trading departments of several banks. A number of investment banks active in the US were also sued in the US in various so-called class action lawsuits due to alleged manipulative actions. The initial results of the investigations have not produced any evidence of wrongdoing at the former WestLB; BaFin's investigations against Portigon were terminated without taking any measures against Portigon. One aspect of the civil suits (antitrust claims) was rejected in the first instance. Any investigations and civil suits that are still open will continue for a number of years. The EAA currently has no reason to doubt Portigon's claims that there are no indications of any misconduct.

The EAA has established sufficient reserves and initiated other measures, when necessary, 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.

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

MANAGEMENT REPORT

Longevity risks

Under so-called life settlement engagements the EAA funds premium payments for US life insurance policies. The payouts from these policies flow to the EAA when the insured individual dies. Longevity risks exist when the insured individual lives longer than originally calculated. In this case, the insurance premiums must be paid longer than forecast, and the death benefits are paid to the EAA at a later date.

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

The EAA has engaged external actuarial advisors and service providers who provide the EAA with monthly analyses on the life settlement engagements. Based on these analyses the EAA constantly monitors the relevant cash flows and thus the longevity risk so that potential deviations from the original forecast can be identified.

Summary of risk situation

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

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

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

The liquidity risk is reduced to the same extent to which the EAA raises funding on the capital markets that is largely congruous in terms of maturities and currencies. Due to its good rating, the EAA enjoys a stable funding situation.

Market price risks are largely limited.

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

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

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

The requirements for risk-bearing capacity pursuant to section AT 4.1 MaRisk are not relevant for the EAA. Instead, the EAA performs a quarterly analysis of the development of its equity to the end of the planning period using the wind-up plan as well as up-to-date variables and market parameters. This involves, in particular, the effects of changed framework conditions on equity in 2027. The analyses conducted as at September 30, 2014 have not given rise to any need for adjustments to the wind-up plan during the year. As at December 31, 2014, a new wind-up plan was prepared, as scheduled. This wind-up plan shows positive equity capital as at the end of the planning period. This means that as of the end of planning horizon for the wind-up plan, the only possibility that a loss would occur which would require utilization of the EAA's liability mechanism would be if adverse scenarios were to materialize which, from today's perspective, are highly 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 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 ECB entered uncharted monetary-policy territory for the eurozone when it announced in January 2015 the launch of a program to purchase euro government bonds. This announcement follows on the year 2014, which already saw a mounting degree of quantitative easing by the ECB with its introduction of TLTROs and its purchases of securitizations and covered bonds. However, it was already obvious to many market observers in the second half of 2014 that to achieve the targeted size of the balance sheet of around EUR 3 trillion, the ECB would have to buy EUR government bonds. The ECB's plans to buy euro government bonds for around EUR 60 billion per month (from March 2015 to September 2016) means an even further dramatic increase in the supply of liquidity in the financial markets. This purchase program will join the other mechanisms already in place, such as the ECB's OMT program, with which Draghi and the ECB have raised new confidence among euro member countries during the euro sovereign debt crisis.

After all, these measures or the anticipation of the bond-buying program that has now been adopted are seen as having been a major reason why the multitude of crises in 2014 had no noticeable effect on public finances in the eurozone. Another evidence of the effectiveness of ECB policy is the absence of contagion. Despite a new government in Greece and renewed speculation about Greece's exit from the eurozone, there have not been any significant increases in spreads and yields on euro government bonds.

The different degrees of growth rates that have prevailed for several months in the eurozone remain in place. Growth rates remain relatively robust at the core of the eurozone (especially in Germany). But at the periphery and in the semi-core, the economies are mostly stagnating – especially in countries, such as France or Italy, that have so far not taken sufficient steps to improve their international competitiveness. Besides Ireland, Spain and Portugal are the exceptions in this regard. In these countries the difficult reform measures are starting to pay off in the form of higher economic growth and lower unemployment.

The solvency of eurozone countries is at the core of the European sovereign debt crisis. Because the banks invested heavily in government bonds from the euro periphery prior to the outbreak of the debt crisis, the deterioration in the credit quality of these peripheral economies very rapidly affected the creditworthiness of the eurozone's banking sector in general. At the same time, the implied guarantee of eurozone governments as the buyers of last resort had become increasingly worthless in the view of the financial markets. Only the most affluent countries in the core of the eurozone could afford to provide public support for their banks. As a result, the crisis rapidly spread from governments to banks, simultaneously causing an even further deterioration in the creditworthiness of the governments. The high and growing indebtedness of peripheral economies made it impossible to recapitalize and stabilize stricken or faltering banks.

Consequently, the credit quality of the banks deteriorated, too. A country risk premium (risk surcharge over German government bonds), like the one seen in the markets for government bonds, became increasingly prevalent in the pricing of bank bonds, corporate bonds, covered bonds and loans. This led to further adverse effects and created a need for additional write-downs at banks. The process of pricing-in various country risk premiums had reversed

the integration of the eurozone's financial markets and threatened to develop into a negative downward spiral.

This phenomenon, called the fragmentation of the euro financial markets, has only started to recede since the introduction of the OMT program. The ECB's idea is that the TLTRO will improve the provision of credit to the eurozone's real economy. The bank will require evidence that these funds are used to make loans to the real economy only starting in 2016. Banks will therefore initially invest the liquidity they receive from the ECB in euro government bonds with attractive risk premiums versus German Bunds. Furthermore, the ECB's bond-buying program (quantitative easing) for government bonds will help lower spreads and yields in the eurozone.

This means that valuations, not only of euro government bonds of the periphery but also of other risky financial products of the eurozone, will improve further. This process is not limited to just listed financial products; it will also affect other segments of the euro credit markets such as promissory notes, traditional loans and project financing. The EAA's portfolios can benefit from this normalization process because the further "pricing out" of an additional country risk premium means that prices will recover considerably.

Going forward, this process will probably continue in 2015, too. The ECB's OMT program has created new confidence in the euro periphery. At the same time, the euro crisis was a key catalyst for the region. Structural problems in Spain and Portugal, such as rigid labor and product markets, a retirement age that is too low and an incorrect export mix, have been resolved, thereby increasing competitiveness. This process should continue. The improved prospects for growth in the developed economies – above all in the US and the UK – mean that investors are increasingly withdrawing their capital from emerging markets. These outflows of capital are tarnishing the growth prospects of these nations to the extent that they could lose their momentum as drivers of global growth. Such a slowdown would have a negative effect on the EAA's project finance portfolio in particular.

Forecast report

The EAA's objective, based on the notional volume in the banking book as of December 31, 2013, is to wind up more than 50% of the portfolio in the banking book (including the exposures held by subsidiaries) by the end of 2016. In this case, the remaining notional volume would be just EUR 33.5 billion. This corresponds to a comparable balance sheet reduction of 44%.

To date, the original plan for the wind-up of the total portfolio has been met or even exceeded. For instance, Basinghall was sold in December 2014, triggering a notional reduction of EUR 0.6 billion that was not anticipated in the wind-up plan. According to this wind-up plan, the EAA's objective is to wind up around 75% of the banking book's portfolio as at December 31, 2011 (including the exposures held by subsidiaries and the refill) by the end of 2016.

Overall, the EAA has been winding up the portfolio much faster than forecasted in the previous year. While the planning had assumed that the banking book portfolio could be wound up to around EUR 58 billion as of December 31, 2014, the EAA actually reduced an additional

MANAGEMENT REPORT

EUR 5.7 billion in notional volume and therefore decreased the ending balance down to EUR 52.3 billion as at December 31, 2014.

For 2015 the EAA aims to reduce the notional volume in the banking book compared with the previous year by around 18% to EUR 44.7 billion. This is to be accomplished through both contractual maturities and active measures.

As for the transferred exposures in the trading portfolios, the EAA continues to target a more than 70% reduction in the notional volume by the end of 2016 since the transfer in 2012. The carrying amounts are to decrease to the same extent during this period – depending on market valuations.

The planning anticipated that the trading portfolio could be reduced to EUR 501 billion by the end of 2014. In fact, around EUR 35 billion more than planned was reduced, bringing the notional volume of the trading portfolio down to EUR 466.1 billion as at December 31, 2014.

For 2015 the plan calls for a reduction in the notional volume of the trading portfolios by around 23% compared with the previous year to about EUR 363 billion. The EAA will continue to analyze to what extent it is possible to accelerate the reduction of the assumed trading portfolios in an effective and cost efficient manner.

Net interest income and net fee and commission income will probably decrease in the 2015 fiscal year as the volume of the portfolio declines. The plan is to generate close to EUR 174 million (including dividend income) from this portfolio. A forecast for the trading result and for the result of risk provisions is difficult due to the imponderables with respect to developments on the global financial and other markets. The EAA continues to adhere to its value-preserving reduction strategies and expects – based on the assumptions listed above – that it can achieve a balanced to positive result for the 2015 fiscal year.

In the prior year the EAA anticipated that its net interest income and net fee and commission income for the 2014 fiscal year will decrease sharply due to the reduction in the portfolio. This forecast proved to be correct. While net interest income decreased by around EUR 144 million compared with the previous year, net fee and commission income declined from EUR 145.1 million to EUR 54.3 million. Last year the EAA decided not to make a forecast about the development of the net trading and risk provision result due to the imponderables associated with the developments on the global financial and other markets.

In addition, the EAA's wind-up planning currently does not foresee the need to utilize the existing liability guarantees.

As in previous years, the EAA's wind-up activities in 2015 and beyond will focus on premature portfolio-reducing measures and active participation management.

For 2015 the EAA has again defined a sale portfolio as its objective. In light of this, a number of exposures in the credit and securities portfolio have been identified that hold potential for sales, terminations or early redemptions. This course of action serves the overriding goal of minimizing losses while taking into account expected risk developments. Independent of the sales portfolio for 2015, the EAA pursues an opportunistic approach by conducting regular

analyses of market conditions and exit opportunities in order to assess premature and profitable wind-up potentials for all positions of the portfolio.

The fact that the economic recovery in 2014 has faltered somewhat due to a variety of stress factors shows how fragile the eurozone's economy still is in the fourth year after the outbreak of the euro debt crisis. An attempt to overcome a debt crisis through austerity measures will take a very long time. Empirical studies of sovereign debt crises have shown that on average, such crises tend to last a good 25 years.

These efforts are even more difficult when additional economic sectors, such as private households and the (non-financial) corporate sector, must likewise make cut-backs in order to reduce excessive, unsustainable debt. Nevertheless, the ambitious objectives that the EAA has established for the long term are supported by current economic trends. The ECB's program to purchase euro government bonds should have a particularly positive impact on the EAA's portfolios. In fact, this positive effect will probably not be limited to just government bonds and will instead likely radiate out to other segments, because investors, particularly those focused on the euro as their investment currency, must find investment alternatives. The recovery may have taken a brief time-out in the second half of 2014; nevertheless, it is likely to continue in 2015, albeit only slowly. That is reason enough to have a positive outlook for the future over the medium term. The economic recovery continues in industrial countries – although the pace has been somewhat slower recently. This can be seen in the further improvement in the fundamentals of the eurozone, where GDP is forecast to grow for 2015.

Accounting-based internal control and risk management system

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

As part of their function as service providers, the EAA and Portigon have implemented an ICS and an RMS that are appropriate for their financial reporting processes and business activities. Adjustments are being made to the ICS and RMS as part of the restructuring of Portigon. The EAA's 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 institution's financial standing (integrity and reliability of financial reporting);
- △ decision-makers and governing bodies are regularly and promptly informed of financial reporting data relevant to the management of the institution (internal reporting);
- △ appropriate control procedures are in place so that unauthorized 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);
- △ 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 Portigon, by the Internal Audit department of Portigon and its auditor.

The EAA's Internal Audit department also monitors audit activities at Portigon 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. Compliance with the schedule is maintained and monitored at a system level. The EAA receives assistance with this from PFS's Finance/Data department.

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

Employees of the Finance & Tax department have the right to review the minutes of relevant risk and management committees. This 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

Balance sheet

Assets

	Note	EUR	EUR	12/31/2014 EUR	12/31/2013 EUR
1. Cash reserve					
a) Balances with central banks			50		(230)
of which:					
with Deutsche Bundesbank EUR 50 (py: EUR 230)				50	230
2. Loans and advances to banks	3, 4, 31				
a) payable on demand			6,715,689,869		(6,671,729,501)
b) other loans and advances			7,875,689,956		(8,213,339,021)
				14,591,379,825	14,885,068,522
3. Loans and advances to customers	3, 5, 6, 16, 31			12,961,376,080	15,711,872,873
of which:					
secured by mortgage charges EUR 301,149,719 (py: EUR 324,108,660)					
Public-sector loans EUR 1,029,743,537 (py: EUR 945,382,323)					
4. Bonds and other fixed-income securities	3, 7, 14, 16, 17, 31				
a) Bonds issued by					
aa) public issuers		2,018,642,403			(1,919,896,885)
of which:					
eligible as collateral with Deutsche Bundesbank EUR 1,884,254,808 (py: EUR 1,785,526,385)					
ab) other issuers		14,030,821,225			(16,493,114,113)
of which:					
eligible as collateral with Deutsche Bundesbank EUR 1,075,968,037 (py: EUR 2,015,135,877)					
			16,049,463,628		(18,413,010,998)
b) Own bonds Notional value EUR 91,237,000 (py: EUR 442,411,000)			91,746,421		(443,756,946)
				16,141,210,049	18,856,767,944
5. Equities and other non-fixed-income securities	3, 8, 14			25,345,144	35,713,403
5a) Trading portfolio	3, 9			33,768,281,602	26,897,754,743
6. Long-term equity investments	3, 10, 14			109,378,843	105,112,448
of which:					
in banks EUR 12,421,102 (py: EUR 12,421,102)					

BALANCE SHEET

	Note	EUR	EUR	12/31/2014 EUR	12/31/2013 EUR
7. Shares in affiliates	3, 11, 14			1,692,481,177	1,790,922,575
of which:					
in banks EUR 1,611,828,596 (py: EUR 1,722,941,373)					
in financial service providers EUR 10,797,344 (py: EUR 10,719,705)					
8. Trust assets	3, 12			262,425	915,070
of which:					
trust loans EUR 262,425 (py: EUR 915,070)					
9. Intangible assets	14				
a) paid concessions, trademarks and similar rights and values such as licenses in such rights			5,212,861		(50,036)
				5,212,861	50,036
10. Tangible fixed assets	14			228,686	186,674
11. Other assets	3, 13			123,011,147	559,917,009
12. Prepaid expenses/accrued income	3, 15			56,456,587	66,866,534
Total assets				79,474,624,476	78,911,148,061

BALANCE SHEET

Liabilities and Equity

	Note	EUR	EUR	12/31/2014 EUR	12/31/2013 EUR
1. Deposits from banks	3, 15, 18				
a) payable on demand			2,544,876,905		2,144,560,920
b) with an agreed maturity or withdrawal notice			2,468,239,131		3,839,763,162
				5,013,116,036	5,984,324,082
2. Deposits from customers	3, 15, 19				
other deposits					
a) payable on demand			144,809,684		122,221,081
b) with an agreed maturity or withdrawal notice			5,400,251,820		6,609,753,908
				5,545,061,504	6,731,974,989
3. Debt securities in issue	3, 15, 20				
a) Bonds			26,334,620,862		31,388,778,686
b) Other debt securities in issue			8,413,263,553		6,734,744,264
of which:					
Money market instruments EUR 8,412,117,951 (py: EUR 6,733,598,662)					
				34,747,884,415	38,123,522,950
3a. Trading portfolio	3, 21			32,874,091,231	27,119,574,619
4. Trust liabilities	3, 22			262,425	915,070
of which:					
trust loans EUR 262,425 (py: EUR 915,070)					
5. Other liabilities	3, 23			242,797,550	9,687,796
6. Accruals/deferred income	3, 24			22,691,986	34,552,072
7. Provisions	3, 25				
a) Tax provisions			828,715		2,338,097
b) Other provisions			409,460,393		339,033,316
				410,289,108	341,371,413
8. Fund for general bank risks	3			0	9,323,140
of which special item pursuant to section 340e (4) HGB EUR 0 (py: EUR 9,323,140)					

BALANCE SHEET

	Note	EUR	EUR	12/31/2014 EUR	12/31/2013 EUR
9. Equity	3, 26				
a) Called capital					
Subscribed capital		500,000			500,000
less uncalled outstanding capital		0			0
			500,000		500,000
b) Capital reserves			3,013,237,214		3,013,237,214
c) Revenue reserves					
Other revenue reserves		2,431,408			2,431,408
			2,431,408		2,431,408
d) Net retained losses			-2,397,738,401		-2,460,266,692
				618,430,221	555,901,930
Total liabilities and equity				79,474,624,476	78,911,148,061
1. Contingent liabilities	3, 34				
a) Liabilities on guarantees and warranties			8,410,571,795		(11,595,387,164)
				8,410,571,795	11,595,387,164
2. Other obligations	3, 34				
a) Irrevocable loan commitments			3,969,976,758		(4,633,129,161)
				3,969,976,758	4,633,129,161

INCOME STATEMENT

Income statement

	Note	EUR	EUR	1/1 - 12/31/2014 EUR	1/1 - 12/31/2013 EUR
1. Interest income from	29				
a) Lending and money market transactions		545,145,134			(878,313,675)
b) Fixed-income securities and debt register claims		216,444,530			(264,038,294)
			761,589,664		(1,142,351,969)
2. Interest expense			634,870,901		(857,415,669)
				126,718,763	284,936,300
3. Current income from	29				
a) Equities and other non-fixed-income securities			146,597		(1,316,721)
b) Long-term equity investments			2,705,515		(1,090,696)
c) Shares in affiliates			1,126,699		(7,183,447)
				3,978,811	9,590,864
4. Income from profit pooling, profit transfer or partial profit transfer agreements	29			79,530,978	(59,425,427)
5. Fee and commission income	29		82,513,876		(179,903,713)
6. Fee and commission expense			28,241,058		(34,840,104)
				54,272,818	145,063,609
7. Net trading result	3			-24,497,534	83,908,262
of which					
transfer to / reversal of § 340e (4) HGB reserve EUR 9,323,140 (py: EUR -9,323,140)					
8. Other operating income	29, 30			3,406,333	4,255,985
9. General and administrative expenses	39				
a) Personnel expenses					
aa) Wages and salaries		27,191,342			(18,930,277)
ab) Compulsory social security contributions and expenses for pensions and other employee benefits		2,111,134			(1,371,035)
of which					
for pensions EUR 589,210 (py: EUR 0)					
			29,302,476		(20,301,312)
b) Other administrative expenses			319,575,535		(377,671,647)
				348,878,011	397,972,959
10. Depreciation and write-offs of intangible assets and tangible fixed assets	14			140,848	73,706
11. Other operating expenses	30			7,428,835	3,808,757

INCOME STATEMENT

	Note	EUR	EUR	1/1 - 12/31/2014 EUR	1/1 - 12/31/2013 EUR
12. Depreciation and write-offs of claims and certain securities as well as additions to provisions in the lending business	25, 31			0	275,502,375
13. Income from reversals of write-offs of loans and advances and certain securities and from reversals of loan loss provisions	25, 31			2,588,376	0
14. Income from appreciations of long-term equity investments, shares in affiliates and long-term securities	14, 31			189,548,813	159,575,528
15. Expenses from loss assumption	31			15,195,901	7,245,646
16. Result from ordinary activities				63,903,763	62,152,532
17. Taxes on income and earnings	32			1,058,674	3,082,260
18. Other taxes not reported under item 11				316,798	27,888
19. Net profit of the year				62,528,291	59,042,384
20. Net retained losses brought forward				-2,460,266,692	-2,519,309,076
21. Net retained losses				-2,397,738,401	-2,460,266,692

CASH FLOW STATEMENT

Cash flow statement

	1/1 - 12/31/2014	1/1 - 12/31/2013
	EUR	EUR
1. +/- Result for the period	62,528,291	59,042,384
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, amortization on tangible fixed assets and long term financial assets as well as the reversal thereof	-276,635,417	150,115,628
3. +/- Increase/decrease in provisions	68,917,696	-37,848,227
4. +/- Other non-cash income/expense	-119,286,982	-437,544,512
5. +/- Gain/loss on disposal of long-term financial assets	-28,116,626	-45,975,760
6. = Subtotal	-292,593,038	-312,210,487
Change in operating assets and liabilities		
7. +/- Increase/decrease loans and advances to banks (no trading portfolio)	173,681,903	7,865,047,399
8. +/- Increase/decrease loans and advances to customers (no trading portfolio)	2,855,629,917	6,656,464,166
9. +/- Increase/decrease securities (no financial assets and no trading portfolio)	2,728,404,898	5,494,269,028
10. +/- Trading assets	258,906,413	3,706,931,250
11. +/- Increase/decrease other operating assets	446,797,695	-239,211,167
12. +/- Increase/decrease of deposits from banks (no trading portfolio)	-939,680,897	-1,689,307,951
13. +/- Increase/decrease of deposits from customers (no trading portfolio)	-1,168,850,859	-713,048,562
14. +/- Increase/decrease debt securities in issue	-3,313,612,221	-19,401,291,118
15. +/- Trading liabilities	-1,246,306,537	-3,007,648,595
16. +/- Increase/decrease other operating liabilities	213,001,040	-449,228,455
17. +/- Interest expenses/Interest income	-130,697,573	-294,527,164
18. +/- Tax expenses/-income	1,058,674	3,082,260
19. + Interest payments and dividend payments received	781,657,756	1,197,615,737
20. - Interest paid	-735,682,647	-999,885,577
21. +/- Income tax payments	-5,616,482	-12,730,371
22. = Cash flows from operating activities (sum of 1 to 21)	-373,901,958	-2,195,679,607
23. + Proceeds from disposal of long-term financial assets	523,248,425	102,570,240
24. - Purchase of long-term financial assets	-252,267,256	-97,934,614
25. - Purchase of tangible fixed assets	-182,860	-94,865
26. - Purchase of immaterial assets	-5,162,825	0
27. = Cash flows from investing activities (sum of 23 to 26)	265,635,484	4,540,761
28. +/- Changes in other capital (net)	0	-13,100,000
29. = Cash flows from financing activities (sum of 28)	0	-13,100,000
30. Net change in cash funds (sum of 22, 27, 29)	-108,266,474	-2,204,238,846
31. + Cash funds at beginning of period	163,239,343	2,367,478,189
32. = Cash funds at end of period (sum of 30 to 31)	54,972,869	163,239,343

The cash flow statement as of December 31, 2014 has been prepared based on the new provisions of DRS 21. The previous year has been restated as well. The cash funds contain the current accounts maintained at Portigon and Deutsche Bundesbank (payable-on-demand items). No further cash and cash equivalents as defined under DRS 21 exist at this time.

STATEMENT OF CHANGES IN EQUITY

Statement of changes in equity

	Balance as of 1/1/2014 EUR	Transfer related changes EUR	Other change in capital EUR	Appropriation of the result EUR	Balance as of 12/31/2014 EUR
Called capital	500,000	0	0	0	500,000
Capital reserves	3,013,237,214	0	0	0	3,013,237,214
Other revenue reserves	2,431,408	0	0	0	2,431,408
Net retained losses	-2,460,266,692	0	0	62,528,291	-2,397,738,401
Equity under HGB	555,901,930	0	0	62,528,291	618,430,221

	Balance as of 1/1/2013 EUR	Transfer related changes EUR	Other change in capital EUR	Appropriation of the result EUR	Balance as of 12/31/2013 EUR
Called capital	500,000	0	0	0	500,000
Capital reserves	3,026,337,214	-13,100,000	0	0	3,013,237,214
Other revenue reserves	2,431,408	0	0	0	2,431,408
Net retained losses	-2,519,309,076	0	0	59,042,384	-2,460,266,692
Equity under HGB	509,959,546	-13,100,000	0	59,042,384	555,901,930

NOTES

Notes

For the period from January 1 to December 31, 2014

General disclosures

1. Legal framework of the EAA

The EAA is a structurally and financially independent public law entity with partial legal capacity, operating under the umbrella of the Financial Market Stabilization Authority (Bundesanstalt für Finanzmarktstabilisierung – FMSA) and headquartered in Düsseldorf. The EAA was founded by the FMSA on December 11, 2009, and was entered in the commercial register at the District Court of Düsseldorf on December 23, 2009.

The EAA winds up the risk exposures and non-strategic business units transferred from the former WestLB and its domestic and foreign subsidiaries. When doing so, it proceeds in a value-preserving manner. This serves to stabilize the financial market. The transfer of the risk exposures and non-strategic business units of the former WestLB to the EAA took place in the years 2009 and 2010 (first fill) as well as in 2012 (refill).

The EAA conducts its transactions in accordance with business and economic principles that take into account its wind-up objectives and the principle of risk minimization. It is neither a credit institute in terms of the German Banking Act (Kreditwesengesetz – KWG), nor does it conduct transactions requiring licenses in respect of EU Directive 2006/48/EC of June 14, 2006. It is subject to regulation by the FMSA. It is also supervised by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) with regard to banking law provisions applicable to the EAA.

2. Preparation of the financial statements for the fiscal year

In accordance with section 8a (1) sentence 10 of the German Financial Market Stabilization Fund Act (Finanzmarktstabilisierungsfondsgesetz – FMStFG) in conjunction with section 3a (4) FMStFG and the additional guidance of the EAA's charter, these annual financial statements of the EAA have been prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB) for large public companies and the German Ordinance on Accounting for Banks (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV); pursuant to the FMStFG the EAA is exempt from the requirement to prepare consolidated financial statements. If there is a choice of disclosure in either the balance sheet or the notes to the financial statements, the disclosure is made in the notes.

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

NOTES

3. Accounting and measurement principles

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

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

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

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

Structured financial instruments are recognized in the balance sheet according to the accounting principle "On the uniform or separated accounting of structured financial instruments" promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW) under number IDW RS HFA 22. The EAA's portfolio of structured securities consists primarily of the Phoenix notes and the European Super Senior exposures (EUSS exposures). In addition, there are smaller commitments in various other structured asset classes (Other ABS).

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

The market prices and fundamentals that have been supplied are tested for plausibility at both the level of the underlying assets of the Phoenix and EUSS portfolios and at the level of

NOTES

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

The fair values of the equities, bonds, derivatives and other assets reported in the trading portfolio are first calculated as at the reporting date for each transaction individually and independently of the trading. The calculation uses either market values as at December 31, 2014, for which a mean is calculated for reasons of simplicity, or they are measured using recognized valuation methods based on accounting data. Both methods take into account pro rata interest on bonds, non-recurring payments and option premiums. If market prices do not exist or cannot be determined reliably, especially for derivatives, then the fair values are calculated using standard pricing models or discounted cash flows.

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

When applying risk-adjusted market valuation methods, the EAA undertakes a second step by grouping together into portfolios the trading transactions accounted for at fair value in accordance with the risk management in the respective business areas. The summarized valuations of each portfolio are then reduced by the loss potential (VaR) as calculated by a Monte Carlo simulation. The VaR discounts – based on methods used by the EAA's Risk Management – are calculated in such a way that it is 99% certain that a maximum expected loss from open trading positions with a ten-day holding period can be offset. The observation period used in the calculation is 250 days, equally weighted and retroactive from the date of observation.

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

Interest rate products: Listed liquid products (such as futures) are measured at their market price. Many non-listed (OTC) derivatives have standardized specifications (such as swaps, caps, swaptions) and valuation techniques (Black 76) as well as reliable market quotes (swap rates, cap volatilities). These are used for measurement where available. Proprietary models are used for exotic OTC derivatives (such as Bermudan swaptions, CMS spread swaps); these are based on the Markov functional model. Securities with exotic coupons are consistently assessed with the corresponding hedging OTC derivatives. When doing so, the credit spread of the relevant issuer is used for the calculation of present value.

NOTES

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

Equities and commodities: Traded liquid products (futures contracts, options) are measured at their market price. The prices for traditional equity and commodity derivatives with a single underlying asset (call and put options, knock-out options, digital options) are determined using finite difference methods for the Black Scholes differential equation. In contrast, exotic derivatives that possibly have multiple underlying assets are measured using Monte Carlo simulations. The methods used here are proprietary routines based on market-established models. Dividend estimates are also taken into account for equities and utility curves are used for commodities. Utility curves reflect the monetary advantages and disadvantages of commodities trading. If the derivatives include optional components, the volatility of the underlying assets must also be taken into account. In the event of multiple underlying assets, the calculation includes the correlation between them. Exchange rate volatilities and the correlations between underlying assets and exchange rates are relevant if the derivatives and underlying asset(s) use different currencies. Fund derivatives equate to the dividends paid on the equities. If the derivatives in question relate to participation certificates, no simulation need be applied, but just an analytical equation. In this case, fund volatilities are not necessary.

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

When measuring cash-collateralized derivatives, future cash flows for the relevant portfolios are discounted using EONIA swap curves ("OIS discounting"). When applying the risk-adjusted market valuation method as at December 31, 2014, this discounting took into account a discount of EUR 33.8 million (previous year: EUR 15.6 million).

NOTES

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

NOTES

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

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

Based on the amendment to section 340e (4) sentence 2 no. 3 HGB as part of the amendment to the German Act on the Amendment of Laws in the Field of the Financial Market (Gesetz zur Anpassung von Gesetzen auf dem Gebiet des Finanzmarkts – FinMarktAnpG), the EAA has reversed the fund for general banking risks in accordance with section 340g HGB in the amount of EUR 9.3 million. This release was made to the net trading result. According to new legislation, the special item may be reversed in accordance with section 340e (4) no. 3 HGB to offset a loss carried forward from the previous year if the loss is not covered by the current year's net profit. The EAA allocated EUR 9.3 million from the net trading result to the fund for general bank risks for the first time in fiscal year 2013 based on the mandatory legislation applicable at that time. Financial instruments of the trading portfolio are reported on the balance sheet as trading assets or trading liabilities.

Advanced or received cash collateral for derivatives are reported in accordance with the corresponding counterparty either in loans and advances to banks and customers or in deposits from banks and customers.

In the fiscal year 2014 no financial instruments were reclassified from the trading portfolio pursuant to section 340e (3) sentence 3 HGB; the EAA internal criteria to include financial instruments in the trading portfolio were not changed.

Long-term equity investments and shares in affiliates are reported at amortized cost. For impairments expected to be permanent, write-downs are made to the lower net realizable value. Income from consideration received for the assumption of risk exposures from long-term equity investments are reported in net fee and commission income in accordance with section 8a (4) no. 4 FMStFG.

Repurchase, (reverse) repo and securities lending transactions are reported in accordance with the applicable provisions of section 340b HGB. If due to a binding repurchase agreement the EAA, as a borrower or a lender, remains the economic owner, it continues to recognize the security. Purchase consideration received or cash collateral is recognized as liabilities under deposits from banks or customers. As the lender or the borrower under repurchase agreements, the EAA must only recognize either the purchase consideration paid or the cash collateral issued.

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

NOTES

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

The determination of the provisions for the Muni-GIC portfolio (municipal guaranteed investment contracts) is based primarily on the effect of the model adjustment for the forecast of the future GIC investments with the aid of a regression of historical data, instead of using expert estimates. Due to uncertainties in the modeling of GIC investments, the EAA has continued to waive the integration of an agency spread in the measurement of these investments, and instead determines the assessment reserve on the basis of a stress regression.

When the EAA uses financial instruments to hedge specific risks arising from assets, liabilities, pending transactions or highly probable expected transactions, and recognizes a valuation unit for this purpose, generally accepted accounting principles (particularly, the principle of itemized measurement, the historical cost convention, the realization principle and the impairment principle) do not apply to such hedging relationships if the hedges are effective. General accepted accounting and measurement principles still apply to the ineffective portion of the hedges and to other, non-hedged risks. In order to hedge interest rate risk, the EAA established a hedge for repurchased own bonds with a notional value of EUR 5.0 million (previous year: EUR 11.1 million) and a corresponding interest rate swap in the same amount. This hedging relationship was included in one valuation unit in accordance with section 254 HGB, and the EAA applied the net hedge presentation method to it. The hedging relationship ends when the underlying transaction or the hedge matures, is sold or is exercised, or the requirements for the formation of valuation units are no longer fulfilled. Regular monitoring of the offsetting effects of the underlying transactions and the hedges ensures the effectiveness of the hedging relationship. In principle, hedging relationships are established over the remaining term of the underlying transactions.

The EAA manages the general interest rate risk in the banking book centrally as part of its asset/liability management activities. This is not a valuation unit as defined under section 254 HGB, but rather a refinancing aggregation in which the interest components of active transactions, i.e., financial assets, of the banking book are measured in aggregate.

The currency translation for assets and liabilities follows the provisions of section 256a HGB and 340h HGB. Assets and liabilities denominated in foreign currencies, open foreign currency spot transactions and pending transactions are treated as specially covered in each currency in accordance with section 340h HGB. They have been translated at the ECB reference rates as at December 31, 2014. Accordingly, all expenses and income from currency translation are recognized in the net trading result in accordance with section 340h HGB. The forward rate of pending currency forwards that serve to hedge interest-bearing balance sheet items are split into the spot rate and the swap rate. The stipulated swap amounts are recognized on a pro rata basis. The total net income from individually measuring pending foreign exchange transactions is reported under other liabilities.

NOTES

Deferred taxes are calculated using the temporary differences concept. As in the past, the EAA has opted not to exercise its right to recognize deferred tax assets in the annual financial statements as at December 31, 2014.

Notes to the balance sheet and the income statement

4. Loans and advances to banks

	12/31/2014 EUR million	12/31/2013 EUR million
Carrying amount	14,591.4	14,885.1
of which:		
– to affiliates	6,431.5	4,388.1
payable on demand	6,715.7	6,671.7
due		
– within 3 months	6,756.0	6,736.8
– 3 months to 1 year	440.4	377.1
– 1 to 5 years	642.6	820.9
– after 5 years	36.7	278.6

Receivables also include registered and other non-marketable bonds. The hidden liabilities totaled EUR 0.0 million (previous year: EUR 0.0 million).

5. Loans and advances to customers

	12/31/2014 EUR million	12/31/2013 EUR million
Carrying amount	12,961.4	15,711.9
of which:		
– to affiliates	1,390.8	734.6
– to long-term equity investments	71.8	308.5
due		
– within 3 months	2,162.9	2,494.6
– 3 months to 1 year	2,299.7	2,187.2
– 1 to 5 years	4,385.4	6,263.2
– after 5 years	4,113.4	4,766.9

Receivables also include registered and other non-marketable bonds. The hidden liabilities totaled EUR 82.9 million (previous year: EUR 166.1 million).

NOTES

6. Loans and advances secured by mortgages

	12/31/2014 EUR million	12/31/2013 EUR million
Carrying amount	301.1	324.1
Loans and advances to customers due		
– within 3 months	10.8	5.3
– 3 months to 1 year	8.3	36.7
– 1 to 5 years	75.5	57.4
– after 5 years	206.5	224.7

7. Bonds and other fixed-income securities

	12/31/2014 EUR million	12/31/2013 EUR million
Carrying amount	16,141.2	18,856.8
of which:		
Amounts due in the following year	341.6	1,404.6
Breakdown		
– Bonds issued by public issuers	2,018.6	1,919.9
– Bonds issued by other issuers	14,030.9	16,493.1
– Own bonds	91.7	443.8
Breakdown by marketability		
– Marketable securities	16,141.2	18,856.8
of which		
– listed	3,654.4	4,836.5
– unlisted	12,486.8	14,020.3
Breakdown by type		
– Liquidity reserve	91.7	443.8
– Investment securities	16,049.5	18,413.0
Breakdown by affiliation		
– Securities of affiliates	324.9	477.1
– Securities of long-term equity investments	-	-

Bonds and other fixed-income securities amounting to EUR 16.0 billion (previous year: EUR 18.4 billion) were classified under investment securities and are part of the fixed assets. As at

NOTES

the reporting date, financial assets were recognized at a carrying amount of EUR 13.1 billion (previous year: EUR 15.2 billion) and thus higher than their fair value of EUR 12.4 billion (previous year: EUR 13.9 billion). The EAA took this recognition approach because due to its long-term wind-up strategy and expected performance of the financial assets, the EAA expects to receive redemption payments amounting to at least the carrying amount.

This difference is primarily attributable to structured loan products. Of this amount, EUR 0.1 billion (previous year: EUR 0.4 billion) relates to bonds acquired as part of asset swaps. The EAA refinances that portion of the aforementioned investment portfolio that is not hedged using asset swaps (EUR 13.0 billion) at either matching maturities and in matching currencies, or it hedges the amount on a portfolio basis against changes in value caused by currencies and interest rates.

8. Equities and other non-fixed income securities

	12/31/2014 EUR million	12/31/2013 EUR million
Carrying amount	25.3	35.7
Breakdown by marketability		
– Marketable securities	25.3	25.7
of which:		
– listed	5.8	6.1
– unlisted	19.5	19.6
Breakdown by type		
– Liquidity reserve	5.4	5.4
– Investment securities	19.9	30.3

9. Trading portfolio

	12/31/2014 EUR million	12/31/2013 EUR million
Carrying amount	33,768.3	26,897.8
of which:		
– Derivative financial instruments	33,734.6	26,844.0
– Equities and other non-fixed-income securities	35.8	52.9
– Loans and advances	2.4	2.2
– Bonds and other fixed-income securities	0.2	4.6
– Risk allowance pursuant to § 340e (3) sentence 1 HGB	-4.7	-5.9

NOTES

10. Long-term equity investments

	12/31/2014 EUR million	12/31/2013 EUR million
Carrying amount	109.4	105.1
of which:		
– in banks	12.4	12.4
Breakdown by marketability		
– Marketable securities	52.1	51.6
of which:		
– listed	29.7	29.2
– unlisted	22.4	22.4

The change in listed and unlisted marketable securities compared with the ending balance on December 31, 2013 is attributable to a company that has been listed on the stock exchange since December 6, 2013.

The increase in long-term equity investments compared with the ending balance on December 31, 2013 is primarily due to the restructuring of loans.

11. Shares in affiliates

	12/31/2014 EUR million	12/31/2013 EUR million
Carrying amount	1,692.5	1,790.9
of which:		
– in banks	1,611.8	1,722.9
– in financial service providers	10.8	10.7
Breakdown by marketability		
– Marketable securities	1,184.3	1,184.6
of which:		
– unlisted	1,184.3	1,184.6

The fair value of long-term equity investments and shares in affiliates with a carrying amount of EUR 44.4 million (previous year: EUR 44.2 million) is EUR 5.0 million (previous year: EUR 0.5 million) below the carrying amount. The EAA anticipates that this difference is not a permanent impairment.

NOTES

12. Trust assets

	12/31/2014 EUR million	12/31/2013 EUR million
Carrying amount	0.3	0.9
of which:		
– Loans and advances to customers	0.3	0.9

13. Other assets

	12/31/2014 EUR million	12/31/2013 EUR million
Carrying amount	123.0	559.9
of which:		
– Receivables from profit and loss pooling agreements	80.1	61.6
– Guarantee fees and commissions	24.9	21.8
– Tax refund claims	15.5	11.3
– Premiums for options	2.1	2.1
– Currency translation adjustments	-	432.5

The guarantee fees and commissions included in other assets consist of receivables from Portigon totaling EUR 13.3 million.

NOTES

14. Fixed assets

	1/1/2014					12/31/2014		12/31/2014	12/31/2013
EUR million	Cost	Additions	Usage	Reclassifi- cations	Reversals of write-offs	Accumulated depreciation, write-offs	Depreciation, write-offs in the financial year	Carrying amount	Carrying amount
Bonds and other long- term fixed income securities	18,413.0						-	16,049.5	18,413.0
Equities and other long- term non- fixed-income securities	30.3						-	19.9	30.3
Long-term equity investments	125.2						0.7	109.4	105.1
Shares in affiliates	2,127.0						10.8	1,692.5	1,790.9
Intangible assets	0.1	5.3	-	-	-	0.2	0.1	5.2	-
Office and operating equipment	0.2	0.1	-	-	-	0.1	-	0.2	0.2

Besides additions and disposals, the net change in securities in the fiscal year 2014 also includes changes in the balance associated with the pro rata reversal of premiums and discounts.

15. Prepaid expenses/accrued income

	12/31/2014 EUR million	12/31/2013 EUR million
Carrying amount	56.5	66.9
of which:		
– Non-recurring payments on swaps	35.6	42.5
– Discount on issuing business	14.0	19.6
– Discount on liabilities	5.8	3.8
– Other	1.1	1.0

NOTES

16. Subordinated assets

Subordinated assets are included in:

	12/31/2014 EUR million	12/31/2013 EUR million
Loans and advances to customers	647.9	392.1
of which:		
– to affiliates	254.4	-
– to long-term equity investments	1.9	1.9
Equities and other non-fixed-income securities	19.6	29.6
Total	667.5	421.7

The increase in subordinated assets is attributable to a restructuring in the US business.

17. Assets sold under repurchase agreements

The carrying amount of the assets sold under repurchase agreements is EUR 0.0 million (previous year: EUR 0.2 million).

18. Deposits from banks

	12/31/2014 EUR million	12/31/2013 EUR million
Carrying amount	5,013.1	5,984.3
of which:		
– Deposits from affiliates	32.4	185.5
Payable on demand	2,544.9	2,144.6
due		
– within 3 months	340.1	641.1
– 3 months to 1 year	1,602.4	965.6
– 1 to 5 years	287.4	1,987.4
– after 5 years	238.3	245.6

NOTES

19. Deposits from customers

	12/31/2014 EUR million	12/31/2013 EUR million
Carrying amount	5,545.1	6,732.0
Other deposits	5,545.1	6,732.0
of which:		
– payable on demand	144.8	122.2
due		
– within 3 months	1,144.1	1,340.6
– 3 months to 1 year	945.7	675.7
– 1 to 5 years	946.0	1,911.0
– after 5 years	2,364.5	2,682.5

20. Debt securities in issue

	12/31/2014 EUR million	12/31/2013 EUR million
Carrying amount	34,747.9	38,123.5
Bonds	26,334.6	31,388.8
of which:		
Amounts due in the following year	12,803.1	21,160.7
Other debt securities in issue	8,413.3	6,734.6
of which due:		
– within 3 months	6,889.7	6,190.0
– 3 months to 1 year	1,523.6	543.5
– 1 to 5 years	-	1.1
– after 5 years	-	-

As of December 31, 2014, medium term notes issued under a debt issuance program are reported under bonds. The previous year's figures have been restated accordingly.

NOTES

21. Trading portfolio

	12/31/2014 EUR million	12/31/2013 EUR million
Carrying amount	32,874.1	27,119.6
of which:		
– Derivative financial instruments	32,874.1	27,119.4
– Liabilities	-	0.2

22. Trust liabilities

	12/31/2014 EUR million	12/31/2013 EUR million
Carrying amount	0.3	0.9
of which:		
– Deposits from banks	0.3	0.2
– Deposits from customers	-	0.7

23. Other liabilities

	12/31/2014 EUR million	12/31/2013 EUR million
Carrying amount	242.8	9.7
of which:		
– Currency translation adjustments	171.1	-
– Deposits from the assumption of losses	12.6	4.3
– Premiums from options	2.1	2.1
– Obligations from swap transactions	0.1	0.1
– Payable syndication fees	-	2.3
– Other	56.9	0.9

The item "Other" contains mostly invoices that have not yet been paid.

NOTES

24. Accruals/deferred income

	12/31/2014 EUR million	12/31/2013 EUR million
Carrying amount	22.7	34.6
of which:		
– Non-recurring payments on swaps	16.4	23.5
– Premium on issuing business	5.0	8.9
– Premiums for sold interest rate caps and floors	1.3	1.3
– Other	-	0.9

25. Provisions

	Balance as of 12/31/2013 EUR million	Additions EUR million	Unwinding of discount EUR million	Charge-offs EUR million	Reversals EUR million	Other changes EUR million	Final balance 12/31/2014 EUR million
Taxes	2.4	-	-	1.4	0.1	-0.1	0.8
Other provisions	339.0	328.5	1.2	232.0	36.0	8.8	409.5
– Loans	198.5	159.5	-	50.0	27.0	-6.9	274.1
– Long-term equity investments	19.9	7.8	0.6	1.1	4.1	1.4	24.5
– Legal actions	16.0	5.7	0.2	0.1	0.8	0.5	21.5
– Personnel	0.3	0.4	-	0.3	-	-	0.4
– Other	104.3	155.1	0.4	180.5	4.1	13.8	89.0
Total	341.4	328.5	1.2	233.4	36.1	8.7	410.3

Other provisions mostly include risk provisions that cannot be assigned to another provision classification.

26. Equity

The EAA's subscribed capital amounts to EUR 500,000 as at December 31, 2014.

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

The other reserves in the amount of EUR 2.4 million result from the reversal of provisions whose values decreased due to revisions in the method to measure liabilities under the German Accounting Law Modernization Act (Bilanzrechtsmodernisierungsgesetz – BilMoG).

NOTES

The EAA's net profit for the fiscal year 2014 amounts to EUR 62.5 million and decreases net retained losses carried forward to EUR 2,397.7 million as at December 31, 2014.

27. Legacy liabilities – grandfathering

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

The following grandfathering rules apply to the guarantor liability for the liabilities that were established prior to July 19, 2005.

- △ All liabilities and obligations of Westdeutsche Landesbank Girozentrale that had been already agreed as of July 18, 2001 are backed by the guarantor liability without restriction until the end of their maturity.
- △ The liabilities and obligations established by Westdeutsche Landesbank Girozentrale or WestLB in the period from July 19, 2001 until July 18, 2005 remain backed by the guarantor liability in its original form if the maturity of these liabilities and obligations does not extend beyond December 31, 2015; if the maturity extends beyond that date, they are not backed by the guarantor liability.

The shareholders of the former Westdeutsche Landesbank Girozentrale will immediately meet their obligations under the guarantor liability to the EAA as soon as it has been established in writing at the time of maturity of the respective liability that the creditors' claims cannot be settled from the assets of the EAA. This explicitly includes the possibility that liabilities may have to be settled at the same time that they mature. Notification of state aid is not required in such cases.

Overall, a volume of EUR 10.8 billion (previous year: EUR 14.4 billion) is backed by the guarantor liability.

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

As at the reporting date, assets denominated in foreign currencies amounted to EUR 28.0 billion (previous year: EUR 20.3 billion), and liabilities denominated in foreign currencies amounted to EUR 22.3 billion (previous year: EUR 8.6 billion). The foreign exchange result in the amount of EUR -49.8 million (previous year: EUR -31.7 million) is included in the net trad-

NOTES

ing result. As a result of a product-related breakdown of complex derivatives, most of this negative result is offset by income in the other net trading result.

29. Geographical breakdown of income components

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

	Interest income	Current income	Fees and commission income	Other operating income
	1/1 - 12/31/2014 EUR million	1/1 - 12/31/2014 EUR million	1/1 - 12/31/2014 EUR million	1/1 - 12/31/2014 EUR million
Germany	557.3	81.5	75.3	3.4
Great Britain	117.3	0.7	4.2	-
Rest of Europe	4.9	-	1.4	-
Far East and Australia	17.1	-	0.4	-
North America	65.0	1.3	1.2	-
Income statement amount	761.6	83.5	82.5	3.4

The geographic attribution of the income is applied based on the operating branch office structure of Portigon applicable when the transactions were concluded prior to the transfer to the EAA.

Current income also includes income from profit-pooling as well as from full or partial profit-transfer agreements.

30. Other operating and prior-period expenses and income

Net other operating expenses and income in fiscal year 2014 amount to EUR -4.0 million (previous year: EUR 0.5 million) and consist of EUR 7.4 million (previous year: EUR 3.8 million) in expenses and EUR 3.4 million (previous year: EUR 4.3 million) in income.

There were no material prior-period expenses and income in either fiscal year 2014 or in the previous year.

NOTES

31. Risk provision

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

	1/1 - 12/31/2014 EUR million	1/1 - 12/31/2013 EUR million
Risk provision and financial investment result including loss assumption (regarding RechKredV)	176.9	-123.2
Loans and securities income/expense	2.6	-275.5
of which: - Lending operations	2.5	-288.7
- Securities	0.1	13.2
Equity investments and securities income/expenses	189.5	159.6
of which: - Long-term equity investments	178.6	-13.2
- Securities	10.9	172.8
Expenses from loss assumption	-15.2	-7.3
Risk provision and financial investment result including loss assumption (regarding risk report)	176.9	-123.2
Result of risk provisions - loans and advances/securities due to credit risk	4.3	-110.3
of which: - Lending operations	-13.1	-162.4
- Structured securities	17.4	52.1
Net income from investment securities, long-term equity investments and loss assumption	172.6	-12.9

The EAA always makes use of the options available under section 340f (3) HGB 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 income amounts to EUR 2.6 million (previous year: net expense 275.5). This amount includes a risk provision totaling EUR 20.0 million for customer derivatives allocated to the trading portfolio. The need for this risk provision arose because of the restructuring of a loan exposure. According to section 340c (2) HGB, the expenses for long-term equity investments, shares in affiliates as well as for securities of the fixed assets may be offset against the corresponding income. Overall, EAA shows a net income of EUR 189.5 million (previous year: income EUR 159.6 million) as the risk result for long-term equity investments and securities.

Furthermore, expenses were recognized for loss assumption in subsidiaries in the amount of EUR 15.2 million (previous year: 7.3).

NOTES

32. Taxes

Taxes on income and earnings amounting to EUR 1.1 million (previous year: EUR 3.1 million) relate primarily to foreign taxes.

Other taxes in the amount of EUR 0.3 million were accrued in the current fiscal year. These are mainly insurance tax.

33. Fees paid to the auditors

The total fee paid to the annual auditor in accordance with section 285 no. 17 HGB amounted to EUR 1.8 million (previous year: EUR 2.5 million).

The auditor received EUR 1.7 million (previous year: EUR 2.2 million) for auditing services, EUR 0.1 million (previous year: EUR 0.2 million) for other confirmation services as well as TEUR 5.5 (previous year: EUR 0.1 million) for other services.

Other disclosures**34. Contingencies****Contingent liabilities**

Contingent liabilities amounting to EUR 8.4 billion (previous year: EUR 11.6 billion) primarily resulted from guarantees for Portigon's risk exposures. They include obligations from credit default swaps amounting to EUR 767.3 million (previous year: EUR 739.7 million). Regarding these contingent liabilities, the EAA has no detailed knowledge whether, when, or the extent to which these specific contingent liabilities will be realized. A provision will be made as soon there are sufficient concrete indications of probable losses being realized on the contingent liabilities.

Other liabilities

The reported volume of EUR 4.0 billion (previous year: EUR 4.6 billion) is due to the lending business. The EAA constantly reviews whether losses from other liabilities are impending and if a provision needs to be made for impending losses from pending transactions.

35. Global guarantee and letter of comfort

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

The EAA has issued a letter of comfort for WestImmo. With the exception of political risks, EAA ensures that WestImmo, in which the EAA currently holds a 100% stake, is in a position to fulfil its obligations, up to the level of its participation quota. The EAA's commitment arising from the above letter of comfort declines by the extent to which the EAA's shareholding

NOTES

decreases in the future with regard to such commitments of the relevant company that did not arise until after the EAA's shareholding decreased. If the EAA's commitment drops below a majority stake, the letter of comfort will lapse with regard to such commitments of the relevant company that did not arise until after the EAA's shareholding decreased.

Furthermore EAA has introduced a separate Letter of Comfort for WestImmo to the Guarantee Fund of the Central Savings Banks and Central Giro Institutions.

When WestImmo is sold, the EAA will withdraw these letters of comfort.

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

36. Provision of collateral for own liabilities

Collateral type	Balance sheet position of the collateralized liabilities	12/31/2014	12/31/2013
		EUR	EUR
Cash collateral provided for securities lending	Trading portfolio *)	7,141.4	5,554.4
Claims assigned	Deposits from banks	66.5	70.5
Securities pledged	Trading portfolio	35.2	5.5

*) The EAA has provided cash collateral for transactions concluded within the context of a master agreement pursuant to the provisions of the International Swaps and Derivatives Association (ISDA) or a comparable master agreement with a corresponding collateral agreement. When measuring the cash collateral, all transactions with a particular counterparty as set out in the master agreement are taken into account. In these cases, cash collateral is provided for transactions that are reported in the balance sheet at market value and depending on their allocation to either the banking book or the trading portfolio. The allocation of cash collateral provided under master agreements to liabilities is not meaningful. The same also applies to cash collateral as set out in the OTC derivative risk transfer agreement.

37. Other financial commitments

Guarantor liability

Portigon's previous legal guarantor liability for liabilities of Rheinland-Pfalz Bank, Mainz, HSH Nordbank AG, Hamburg/Kiel, DekaBank Deutsche Girozentrale, Frankfurt/Main and WestImmo was transferred to the EAA in 2012 through the spin-off. As these institutions' new liabilities since July 19, 2005 are no longer backed by the guarantor liability, the volume of the covered liabilities has been steadily declining as amounts are repaid in the meantime.

Other contingencies

The EAA had assumed various letters of undertaking issued by Portigon for residual value guarantees issued by third parties. These letters of undertaking included provisions which,

NOTES

once they come into force, entitled the EAA to receive counter-guarantees from the beneficiaries of the residual value guarantees for the obligations of third parties resulting from the residual value guarantees. Corresponding counter-guarantees were issued in two cases in 2006 and in another two cases in 2013. All counter-guarantees have lapsed in the meantime.

There are other financial commitments from service agreements and from uncalled outstanding capital contribution commitments and as yet undrawn lines from private equity investments totaling EUR 351.0 million (previous year: EUR 645.7 million) (of which with affiliates EUR 0 [previous year: EUR 0]).

38. Forward contracts/derivative financial instruments

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

△ Interest rate-related products

Interest rate swaps, interest rate futures, forward rate agreements, interest rate caps, interest rate floors, interest rate collars, swaptions and interest rate options

△ Currency-related products

Cross-currency interest rate swaps, forward cross-currency interest rate swaps, forward exchange contracts and currency option contracts

△ Equity and other price-related products

Share options, index options, share and index options in issue

△ Credit derivatives

Credit default swaps, total return swaps and credit linked notes

The total volume of forward transactions and derivatives transactions on the reporting date amounts to a notional value of EUR 526.2 billion (previous year: EUR 684.7 billion). The focus is unchanged on interest rate-related products, whose share increased to 83.5% (previous year: 82.6%) of the total volume.

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

The prior-year values of the notional volume and market values of exchange-traded interest and equity-related products as well as the notional volume of OTC credit derivatives were restated because more transactions had to be assigned to these categories than were initially allocated. These adjustments had no impact on the balance sheet or the income statement.

NOTES

Derivative financial instruments – volume as of the balance sheet date

	Notional amount		Positive market values		Negative market values	
	12/31/2014 EUR million	12/31/2013 EUR million	12/31/2014 EUR million	12/31/2013 EUR million	12/31/2014 EUR million	12/31/2013 EUR million
Interest rate-related products	439,535.8	565,233.7	32,689.5	25,097.6	32,418.7	24,503.4
OTC products	436,659.9	560,050.5	32,689.5	25,097.5	32,418.7	24,503.3
Exchange-traded products	2,875.9	5,183.2	-	0.1	-	0.1
Currency-related products	78,688.9	105,662.5	2,199.9	2,290.4	1,725.4	1,780.4
OTC products	78,688.9	105,662.5	2,199.9	2,290.4	1,725.4	1,780.4
Equity- and other price-related products	5,673.5	10,578.3	258.6	504.6	308.5	913.4
OTC products	2,764.0	3,960.2	153.7	201.2	190.2	300.8
Exchange-traded products	2,909.5	6,618.1	104.9	303.4	118.3	612.6
Credit derivatives	2,342.6	3,242.9	13.0	41.4	15.5	48.0
OTC products	2,342.6	3,242.9	13.0	41.4	15.5	48.0
Total derivative financial instruments	526,240.8	684,717.4	35,161.0	27,934.0	34,468.1	27,245.2
OTC products	520,455.4	672,916.1	35,056.1	27,630.5	34,349.8	26,632.5
Exchange-traded products	5,785.4	11,801.3	104.9	303.5	118.3	612.7

The average annual notional volume of forward contracts and derivatives transactions amounted to EUR 578.4 billion during the current fiscal year 2014 (previous year: EUR 779.8 billion).

NOTES

Derivative financial instruments – average volumes

	Notional amount		Positive market values		Negative market values	
	12/31/2014 EUR million	12/31/2013 EUR million	12/31/2014 EUR million	12/31/2013 EUR million	12/31/2014 EUR million	12/31/2013 EUR million
Interest rate-related products	475,949.7	640,639.6	29,157.0	29,897.8	28,735.2	29,240.2
OTC products	472,110.4	630,039.4	29,157.0	29,897.6	28,735.2	29,240.1
Exchange-traded products	3,839.3	10,600.2	-	0.2	-	0.1
Currency-related products	91,336.8	117,413.8	2,208.1	3,960.9	1,905.0	3,604.7
OTC products	91,336.8	117,413.8	2,208.1	3,960.9	1,905.0	3,604.7
Equity- and other price-related products	8,925.9	15,535.1	414.9	992.7	632.8	1,332.9
OTC products	3,364.5	6,305.4	189.6	373.7	237.2	459.5
Exchange-traded products	5,561.4	9,229.7	225.3	619.0	395.6	873.4
Credit derivatives	2,176.6	6,252.5	16.8	157.2	19.4	164.6
OTC products	2,176.6	6,252.5	16.8	157.2	19.4	164.6
Total derivative financial instruments	578,389.0	779,841.0	31,796.8	35,008.6	31,292.4	34,342.4
OTC products	568,988.3	760,011.1	31,571.5	34,389.4	30,896.8	33,468.9
Exchange-traded products	9,400.7	19,829.9	225.3	619.2	395.6	873.5

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

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

Derivative financial instruments – maturities

	Interest rate-related products		Currency-related products		Equity- and other price-related products		Credit derivatives	
	12/31/2014 EUR million	12/31/2013 EUR million	12/31/2014 EUR million	12/31/2013 EUR million	12/31/2014 EUR million	12/31/2013 EUR million	12/31/2014 EUR million	12/31/2013 EUR million
Due								
– within 3 months	41,490.5	65,442.3	12,707.5	10,981.2	34.6	1,104.4	295.4	523.0
– 3 months to 1 year	61,213.5	72,423.6	17,424.8	24,056.2	2,953.3	4,053.0	1,235.2	413.3
– 1 to 5 years	174,202.2	233,019.5	33,737.1	53,145.1	813.6	3,544.2	705.9	2,127.3
– after 5 years	162,629.6	194,348.3	14,819.5	17,480.0	1,872.0	1,876.7	106.1	179.3
Total	439,535.8	565,233.7	78,688.9	105,662.5	5,673.5	10,578.3	2,342.6	3,242.9

NOTES

39. Remuneration paid to executive bodies

The remuneration paid to members of the Managing Board in fiscal year 2014 totaled TEUR 1,485 (previous year: TEUR 1,315).

Remuneration paid to managing Board members

	12/31/2014 EUR
Matthias Wargers	500,000
Markus Bolder	500,000
Horst K�pker	450,000
	1,450,000
remuneration in kind	35,077
Total	1,485,077

The remuneration for all members of the Supervisory Board and its committees totaling net TEUR 155 (previous year: TEUR 156) or gross EUR 177 (previous year: TEUR 178) is an expense allowance, divided into base remuneration and attendance fees for each meeting of the Supervisory Board and, if applicable, for each committee meeting.

Remuneration to supervisory board members

	12/31/2014 EUR
Member appointed by the Stakeholders' Meeting	
Dr. R�diger Messal	22,100
Joachim Stapf	11,100
Dr. Karlheinz Bentele	6,800
Michael Breuer	13,300
Henning Giesecke	23,000
Wilfried Groos	16,100
Dr. Wolfgang Kirsch (until June 30, 2014)	2,779
Matthias L�b (since July 1, 2014)	3,121
Hans Martz	14,300
Michael St�lting	13,300
J�rgen Wannhoff	12,100
Dr. Uwe Zimpelmann	17,100
Member delegated by the FMSA	
G�nter Borgel	-
Total (net)	155,100

For the Supervisory Board and its committees, the amount of the base remuneration for an ordinary member of the Supervisory Board or committee and the attendance fees per com-

NOTES

mittee meeting are identical for members of the Supervisory Board or the committees. The base remuneration for the respective Chairman and Vice Chairman of the Supervisory Board and the committee is higher. When setting the amount of the expense allowance, the Stakeholders' Meeting resolved that when requested, the travel costs of the members of the Supervisory Board and its committees are to be reimbursed separately by the EAA in the customary amount.

In accordance with a resolution of the Stakeholders' Meeting, the base remuneration is to be paid on a pro rata basis for each commenced calendar month if during the year a member begins or resigns their membership in the Supervisory Board or, if appropriate, one of its committees.

The member appointed by the FMSA does not receive an expense allowance.

If there are any obligations for elected officials to forward on payments made or to be made, these are not taken into account. The payment of value-added tax by the EAA depends on each respective individual tax situation.

The representatives of the liable stakeholders in the Stakeholders' Meeting do not receive remuneration.

40. Loans to executive bodies

No advances or loans were granted to members of the Managing Board or the Supervisory Board of the EAA in either fiscal year 2014 or in the previous year.

41. Number of employees

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

	Female	Male	Total 1/1 - 12/31/2014	Total 1/1 - 12/31/2013
Number of employees	49	83	132	119

NOTES

42. Shareholders of the EAA

	12/31/2014 in %	12/31/2013 in %
NRW	48.202	48.202
Rheinischer Sparkassen- und Giroverband	25.032	25.032
Sparkassenverband Westfalen-Lippe	25.032	25.032
Landschaftsverband Rheinland	0.867	0.867
Landschaftsverband Westfalen-Lippe	0.867	0.867
Total	100.000	100.000

43. Memberships of other bodies held by Managing Board members

In fiscal year 2014 the following members of the Managing Board of the EAA were members of a supervisory board or other supervisory bodies of large public companies pursuant to section 340a (4) no. 1 HGB 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 HGB in conjunction with section 267 (3) HGB.

Matthias Wargers

Börse Düsseldorf AG (until June 4, 2014)*
EAA Portfolio Advisers GmbH (since June 2014)*
Westdeutsche ImmobilienBank AG

Markus Bolder

EAA Portfolio Advisers GmbH (since June 17, 2014)*
Westdeutsche ImmobilienBank AG

Horst Küpker

Börse Düsseldorf AG*

NOTES

44. Memberships of other bodies held by employees

In fiscal year 2014 the following employees of the EAA were members of a supervisory board or other supervisory bodies of large public companies pursuant to section 340a (4) no. 1 HGB 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 HGB in conjunction with section 267 (3) HGB.

Dr. Ulf Bachmann

Basinghall Finance Limited (from February 13, 2014 until December 11, 2014)
Westdeutsche ImmobilienBank AG

Gabriele Müller

Basinghall Finance Limited (until December 11, 2014)
EAA Corporate Services Public Limited Company (until March 27, 2014)*
EAA Covered Bond Bank Plc
EAA Portfolio Advisers GmbH (since June 17, 2014)*

Hartmut Rahner

EAA Corporate Services Public Limited Company (until March 27, 2014)*
EAA Covered Bond Bank Plc

Alexander Tcherepnine

Banco Finantia S.A.

45. Executive bodies of the EAA

Members of the Managing Board of the EAA

Matthias Wargers (Spokesman)

Markus Bolder

Horst Küpker

Members of the Supervisory Board of the EAA

Dr. Rüdiger Messal

Chairman | State Secretary in the Finance Ministry of North Rhine-Westphalia

Joachim Stapf

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

Dr. Karlheinz Bentele

Former President of the Rheinischer Sparkassen-und Giroverband, Former Member of the Executive Committee (Leitungsausschuss) of the FMSA

Günter Borgel

Member of the Executive Committee (Leitungsausschuss) of the FSMA

NOTES

Michael Breuer

President of the Rheinischer Sparkassen- und Giroverband

Henning Giesecke

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

Wilfried Groos

Chairman of the Managing Board of Sparkasse Siegen

Dr. Wolfgang Kirsch (until June 30, 2014)

Director of the Landschaftsverband Westfalen-Lippe

Matthias Löb (since July 1, 2014)

Director of the Landschaftsverband Westfalen-Lippe

Hans Martz

Chairman of the Managing Board of Sparkasse Essen

Michael Stölting

Member of the Managing Board of NRW.BANK

Jürgen Wannhoff

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

Dr. Uwe Zimpelmann

Former Chairman of the Landwirtschaftliche Rentenbank

Stakeholders' Meeting of the EAA

The Stakeholders' Meeting is made up of representatives of the shareholders (for further information, refer to note number 42).

NOTES

46. Information on shareholdings

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

Shares in foreign currency are converted into EUR as of the reporting date; interest and voting rights in %

Other shareholdings

No.	Name	Location	Capital share	Voting rights	Currency	Equity	Profit/Loss
1	BfP Beteiligungsgesellschaft für Projekte mbH ^{1) 10)}	Düsseldorf	80.00		EUR	25	0
2	Börse Düsseldorf AG ¹⁰⁾	Düsseldorf	21.95		EUR	34,391	1,540
3	Castello di Casole Agricoltura S.r.l. società agricola ^{1) 10)}	Casole d'Elsa, Italy	100.00		EUR	86	-8
4	Castello di Casole S.r.l. ¹⁰⁾	Casole d'Elsa, Italy	100.00		EUR	4,881	-1,183
5	Castello Resort Villas S.r.l. ¹⁰⁾	Casole d'Elsa, Italy	100.00		EUR	643	-335
6	CBAL S.A. ^{2) 12)}	Braine l'Alleud, Belgium	100.00		EUR	975	6,086
7	COREplus Private Equity Partners GmbH & Co. KG ^{1) 10)}	Düsseldorf	36.52	0.00	EUR	25,114	-366
8	COREplus Private Equity Partners II - Diversified Fund, L. P. ¹⁰⁾	Wilmington, USA	24.75	0.00	USD	40,267	3,422
9	Dussinvest2 Beteiligungsgesellschaft mbH ^{4) 10)}	Düsseldorf	100.00		EUR	232	0
10	Dusskapital Zwanzig Beteiligungsgesellschaft mbH ¹⁰⁾	Düsseldorf	100.00		EUR	28	5
11	EAA Corporate Services Public Limited Company ¹⁰⁾	Dublin 1, Ireland	100.00		EUR	785	745
12	EAA Covered Bond Bank Plc ^{10) 13)}	Dublin 1, Ireland	100.00		EUR	837,785	-3,026
13	EAA DLP I LLP ¹⁾	Wilmington, USA	100.00		USD	125,236	3,836
14	EAA DLP II LLP ¹⁾	Wilmington, USA	100.00		USD	133,361	7,923
15	EAA DLP III LLP ¹⁾	Wilmington, USA	100.00		USD	167,461	14,106
16	EAA do Brasil Participacoes, Representacoes e Negocios Ltda. ¹⁰⁾	Sao Paulo, Brasilia	100.00		BRL	3,086	863
17	EAA Europa Holding GmbH ^{4) 10)}	Düsseldorf	100.00		EUR	12,570	0
18	EAA Japan K.K. ^{3) 11)}	Minato-ku, Japan	100.00		JPY	69,300	2,373
19	EAA LAT ABC LLP ¹⁾	Wilmington, USA	100.00		USD	162,506	-5,984
20	EAA LAT II LLP ¹⁾	Wilmington, USA	100.00		USD	200,459	-10,983
21	EAA LS Holdings LLC ¹⁾	Wilmington, USA	100.00		USD	96	k. A.
22	EAA Portfolio Advisers GmbH ¹⁰⁾	Düsseldorf	100.00		EUR	24	-1
23	EAA Portfolio Advisers LLC ¹⁾	New York, USA	100.00			n. s.	n. s.
24	EAA Spyglass Holdings LLC ¹⁾	Wilmington, USA	100.00		USD	20,899	0
25	EAA Triskele LLP ¹⁾	Wilmington, USA	100.00		USD	187,331	-6,854
26	EAA US Holdings Corporation	Wilmington, USA	100.00			n. s.	n. s.
27	EMG Projekt Gewerbepark Ludwigsfelde/Löwenbruch GmbH ^{1) 10)}	Berlin	47.50		EUR	515	-119
28	Erste EAA-Beteiligungs GmbH ⁴⁾	Düsseldorf	100.00		EUR	16	0
29	Fischerinsel Beteiligungs-GmbH i.L. ^{1) 10)}	Mainz	100.00		EUR	13	-3
30	Fischerinsel Vermietungs GmbH & Co.KG i.L. ^{1) 10)}	Mainz	100.00		EUR	5	-2,305
31	Frankonia Eurobau Max-Viertel GmbH ^{1) 8)}	Nettetal	25.00		EUR	81,052	-693
32	GID Gesellschaft für Innenstadtentwicklung in Duisburg mbH ^{1) 10)}	Hamburg	45.00		EUR	-3	-1

NOTES

Other shareholdings

No.	Name	Location	Capital share	Voting rights	Currency	Equity	Profit/Loss
33	GKA Gesellschaft für kommunale Anlagen mbH ^{1) 10)}	Düsseldorf	100.00		EUR	154	-37
34	GML Gewerbepark Münster-Loddenheide GmbH ^{1) 10)}	Münster	33.33		EUR	11,549	1,698
35	Heber Avenue Partners LLC ¹⁰⁾	Dover, USA	100.00		USD	0	n. s.
36	Home Partners Holdco LLC ¹⁰⁾	Dover, USA	100.00		USD	90	-6
37	KA Deutschland Beteiligungs GmbH & Co KG ^{1) 10)}	Düsseldorf	100.00		EUR	2,965	-17
38	Kassiterit Beteiligungs GmbH ^{1) 10)}	Düsseldorf	100.00		EUR	11	-8
39	KB Zwei Länder Beteiligungs- und Verwaltungs GmbH & Co. KG ^{1) 8)}	Düsseldorf	100.00		EUR	711	-10
40	KB Zwei Länder Beteiligungsgesellschaft mbH ^{1) 8)}	Düsseldorf	100.00		EUR	467	-54
41	Leasing Belgium N.V. ^{1) 10)}	Antwerp, Belgium	100.00		EUR	581	-101
42	LIFE.VALUE Construction GmbH ^{1) 10)}	Düsseldorf	100.00		EUR	-2,658	2
43	Life.Value Properties GmbH ^{1) 10)}	Düsseldorf	100.00		EUR	-362	37
44	MCC Bradley LLC ¹⁾	East Hartford, USA	100.00			n. s.	n. s.
45	MCC Diamond Point LLC ¹⁾	Wilmington, USA	100.00			n. s.	n. s.
46	MCC Divot Place LLC ¹⁾	Wilmington, USA	100.00			n. s.	n. s.
47	MCC Lake Unity LLC ¹⁾	Wilmington, USA	100.00			n. s.	n. s.
48	MCC Paris LLC ¹⁾	Wilmington, USA	100.00			n. s.	n. s.
49	MCC SB Condo LLC ¹⁾	Wilmington, USA	100.00			n. s.	n. s.
50	MCC Tern Landing LLC ¹⁾	Wilmington, USA	100.00			n. s.	n. s.
51	MCC WK Commercial LLC ¹⁾	Wilmington, USA	100.00			n. s.	n. s.
52	MCC WK Residential LLC ¹⁾	Wilmington, USA	100.00			n. s.	n. s.
53	Methuselah Life Markets Limited ¹⁰⁾	London, Great Britain	100.00		GBP	1,196	-16
54	MFC Black Horse LLC ¹⁾	New York, USA	100.00			n. s.	n. s.
55	MFC CMark LLC ^{1) 10)}	New York, USA	100.00		USD	159	-61
56	MFC Eagle Realty LLC ¹⁾	New York, USA	100.00			n. s.	n. s.
57	MFC Holdco LLC ¹⁾	New York, USA	100.00		USD	8,549	-1,104
58	MFC Jennings Gateway LLC ¹⁾	New York, USA	100.00			n. s.	n. s.
59	MFC Leominster LLC ¹⁾	New York, USA	100.00			n. s.	n. s.
60	MFC MAR-COMM LLC ¹⁾	New York, USA	100.00			n. s.	n. s.
61	MFC New Paradigm LLC ¹⁾	New York, USA	100.00			n. s.	n. s.
62	MFC ParcOne LLC ¹⁾	New York, USA	100.00			n. s.	n. s.
63	MFC Pinecrest LLC ¹⁾	New York, USA	100.00			n. s.	n. s.
64	MFC Real Estate LLC ^{1) 10)}	New York, USA	100.00		USD	8,303	-1,033
65	MFC Spanish Trails LLC ¹⁾	New York, USA	100.00			n. s.	n. s.
66	MFC Twin Builders LLC ^{1) 10)}	New York, USA	100.00		USD	86	-9
67	Mod CapTrust Holding LLC ¹⁾	Dover, USA	100.00		USD	0	995
68	Monolith Grundstücksverwaltungsgesellschaft mbH ^{1) 10)}	Mainz	100.00		EUR	92	6
69	Nephelin Grundstücksverwaltungsgesellschaft mbH ^{1) 10)}	Mainz	100.00		EUR	-48	-3
70	ParaFin LLC ¹⁾	New York, USA	100.00		USD	0	0
71	Pathos Bay LLC ¹⁰⁾	Dover, USA	100.00		USD	4,707	-1,573

NOTES

Other shareholdings

No.	Name	Location	Capital share	Voting rights	Currency	Equity	Profit/Loss
72	PE Projekt-Entwicklungsgesellschaft mbH ^{1) 10)}	Düsseldorf	100.00		EUR	26	-1
73	PE Projekt-Entwicklungsgesellschaft mbH & Co. Büro- und Businesscenter Leipzig Park KG ^{2) 10)}	Düsseldorf	94.90	83.33	EUR	6	-348
74	PM Portfolio Management GmbH ^{1) 10)}	Düsseldorf	100.00		EUR	63	1
75	Projekt Carrée am Bahnhof GmbH & Co. Bürozentrum KG in Insolvenz ^{1) 5)}	Bad Homburg	51.00		EUR	-3,572	-117
76	Projekt Carrée am Bahnhof Verwaltungs GmbH in Insolvenz ^{1) 5)}	Bad Homburg	51.00		EUR	-13	0
77	Projektentwicklungsgesellschaft Gartenstadt Wildau Röthegrund II mbH ^{1) 10)}	Wildau	94.00		EUR	6,301	-40
78	Projektgesellschaft Klosterberg mbH ^{1) 10)}	Münster	94.00		EUR	-567	-19
79	S-Chancen-Kapitalfonds NRW GmbH i.L. ⁸⁾	Haan	50.00		EUR	4,971	84
80	Sechste EAA-Beteiligungs GmbH	Düsseldorf	100.00			n. s.	n. s.
81	Special PEP II GP Investors L.L.C. ¹⁰⁾	Wilmington, USA	50.00	0.00	USD	316	-15
82	Standard Chartered (SFD No.2) Limited ⁶⁾	London, Great Britain	25.00		USD	0	0
83	Tanzbar CH Holdings LLC ¹⁰⁾	New York, USA	100.00		USD	0	n. s.
84	Tanzbar DB Holdings LLC ¹⁰⁾	New York, USA	100.00		USD	0	n. s.
85	Vierte EAA-Beteiligungs GmbH ¹⁰⁾	Düsseldorf	100.00		EUR	15	-8
86	Vivaldis Gesellschaft für strukturierte Lösungen S.A. ⁸⁾	Luxemburg, Luxemburg	100.00		EUR	34	48
87	West Equity Fonds GmbH ⁴⁾	Düsseldorf	100.00		EUR	25	0
88	West Life Markets GmbH & Co. KG ^{4) 10)}	Düsseldorf	100.00		EUR	1,312	0
89	West Merchant Limited ¹⁰⁾	London, Great Britain	100.00		GBP	21	-15
90	West Zwanzig GmbH ^{1) 4) 10)}	Mainz	100.00		EUR	25	0
91	Westdeutsche Immobilien Fonds Beteiligungsgesellschaft mbH ^{1) 10)}	Düsseldorf	100.00		EUR	42	0
92	Westdeutsche ImmobilienBank AG ^{3) 4) 10)}	Mainz	100.00		EUR	876,577	0
93	Westdeutsche ImmobilienHolding GmbH ^{4) 10)}	Mainz	94.60		EUR	5,539	0
94	Westfälische Textil-Gesellschaft Klingenthal & Co. mit beschränkter Haftung ⁹⁾	Salzkotten	25.26		EUR	10,165	-89
95	WestFonds 5 Büropark Aachen Laurensberg KG ^{1) 10)}	Düsseldorf	49.22	49.22	EUR	2,931	-817
96	WestFonds 5 Palazzo Fiorentino Frankfurt KG ^{1) 10)}	Düsseldorf	45.72	45.72	EUR	4,266	-495
97	WestFonds 5 Walle-Center Bremen KG i.L. ^{1) 10)}	Düsseldorf	46.13	46.13	EUR	12,707	-1,729
98	WestFonds BI-Management GmbH ^{1) 10)}	Düsseldorf	100.00		EUR	27	-5
99	WestFonds Dachfonds Schiffe GmbH ^{1) 8)}	Düsseldorf	100.00		EUR	26	-5
100	WestFonds Fondsvermögensverwaltungs GmbH ^{1) 10)}	Düsseldorf	100.00		EUR	26	-5
101	WestFonds Geschäftsführungsgesellschaft 1 mbH ^{1) 10)}	Düsseldorf	100.00		EUR	90	-14
102	WestFonds Geschäftsführungsgesellschaft 2 mbH ^{1) 8)}	Düsseldorf	100.00		EUR	17	-4
103	WestFonds Gesellschaft für geschlossene Immobilienfonds mbH ^{1) 10)}	Düsseldorf	100.00		EUR	61	-5
104	WestFonds Holland Grundstücksgesellschaft Voorburg und s'Hertogenbosch mbH ^{1) 8)}	Düsseldorf	100.00		EUR	13	-13

NOTES

Other shareholdings

No.	Name	Location	Capital share	Voting rights	Currency	Equity	Profit/Loss
105	WestFonds Immobilien Gesellschaft Objekt Halle/Saale Charlottenstraße mbH ^{1) 10)}	Düsseldorf	100.00		EUR	4,520	1,857
106	WestFonds Immobilien Gesellschaft Objekt Magdeburg An der Steinkuhle 2-2e mbH i.L. ^{1) 10)}	Düsseldorf	100.00		EUR	114	-19
107	WestFonds Immobilien Gesellschaft Objekt Wien Heiligenstädter Lände 29 mbH i.L. ^{1) 10)}	Düsseldorf	100.00		EUR	312	-11
108	WestFonds Immobilien-Anlagegesellschaft mbH ^{4) 10)}	Düsseldorf	94.90		EUR	4,302	0
109	WestFonds Immobiliengesellschaft Objekt Essen Schnieringshof 10-14 mbH ^{1) 10)}	Düsseldorf	100.00		EUR	2,192	540
110	WestFonds Management GmbH & Co KG i.L. ^{1) 10)}	Düsseldorf	94.90		EUR	78	59
111	WestFonds Premium Select Management GmbH ^{1) 10)}	Düsseldorf	100.00		EUR	29	-4
112	WestFonds Premium Select Verwaltung GmbH ^{1) 10)}	Düsseldorf	100.00		EUR	38	6
113	WestFonds Verwaltung GmbH ^{1) 8)}	Schönefeld	100.00		EUR	51	26
114	WestFonds-PHG Gesellschaft RWI-Fonds 125 mbH ^{1) 10)}	Düsseldorf	100.00		EUR	27	-5
115	WestFonds-PHG Gesellschaft RWI-Fonds 140 mbH ^{1) 10)}	Düsseldorf	100.00		EUR	29	-2
116	WestFonds-PHG Gesellschaft RWI-Fonds 43 mbH i.L. ^{1) 8)}	Düsseldorf	100.00		EUR	23	-4
117	WestFonds-PHG Gesellschaft RWI-Fonds 47 mbH i.L. ^{1) 10)}	Düsseldorf	100.00		EUR	27	-4
118	WestFonds-PHG Gesellschaft WestFonds 1 mbH i.L. ^{1) 10)}	Düsseldorf	100.00		EUR	27	-4
119	WestFonds-PHG Gesellschaft WestFonds 2 D mbH ^{1) 10)}	Düsseldorf	100.00		EUR	30	-2
120	WestFonds-PHG Gesellschaft WestFonds 2 H mbH ^{1) 10)}	Düsseldorf	100.00		EUR	30	-2
121	WestFonds-PHG Gesellschaft WestFonds 5 Aachen mbH ^{1) 8)}	Düsseldorf	100.00		EUR	20	-5
122	WestFonds-PHG Gesellschaft WestFonds 5 Frankfurt mbH i.L. ^{1) 10)}	Düsseldorf	100.00		EUR	29	-5
123	WestFonds-PHG Gesellschaft WestFonds 6 mbH ^{1) 8)}	Düsseldorf	100.00		EUR	26	-2
124	WestFonds-PHG Gesellschaft WestFonds 7 mbH i.L. ^{1) 10)}	Düsseldorf	100.00		EUR	37	0
125	WestFonds-PHG Gesellschaft WestFonds Wien 2 mbH i.L. ^{1) 10)}	Düsseldorf	100.00		EUR	27	-4
126	WestFonds-PHG-Gesellschaft BI-Fonds 12 mbH ^{1) 10)}	Düsseldorf	100.00		EUR	30	-2
127	WestFonds-PHG-Gesellschaft BI-Fonds 14 mbH ^{1) 10)}	Düsseldorf	100.00		EUR	31	-2
128	WestFonds-PHG-Gesellschaft BI-Fonds 18 S mbH i.L. ^{1) 10)}	Düsseldorf	100.00		EUR	31	-2
129	WestFonds-PHG-Gesellschaft BI-Fonds 19 S mbH i.L. ^{1) 8)}	Düsseldorf	100.00		EUR	20	-4
130	WestFonds-PHG-Gesellschaft BI-Fonds 23 mbH ^{1) 10)}	Düsseldorf	100.00		EUR	27	-5
131	WestFonds-PHG-Gesellschaft BI-Fonds 6 mbH i.L. ^{1) 8)}	Düsseldorf	100.00		EUR	21	-5
132	WestFonds-PHG-Gesellschaft KA Deutschland Beteiligungsgesellschaft mbH ^{1) 10)}	Düsseldorf	100.00		EUR	31	-3
133	WestFonds-PHG-Gesellschaft KB Zwei Länder Beteiligungsgesellschaft mbH ^{1) 10)}	Düsseldorf	100.00		EUR	32	-3
134	WestFonds-PHG-Gesellschaft RWI-Fonds 25 mbH ^{1) 10)}	Düsseldorf	100.00		EUR	78	-3
135	WestFonds-PHG-Gesellschaft RWI-Fonds 34 mbH ^{1) 10)}	Düsseldorf	100.00		EUR	58	-23
136	WestFonds-PHG-Gesellschaft RWI-Fonds 40 mbH i.L. ^{1) 10)}	Düsseldorf	100.00		EUR	27	-4
137	WestFonds-PHG-Gesellschaft WestFonds 3 Berlin mbH i.L. ^{1) 8)}	Düsseldorf	100.00		EUR	26	-3
138	WestFonds-PHG-Gesellschaft WestFonds 3 Düsseldorf mbH ^{1) 10)}	Düsseldorf	100.00		EUR	33	-3

NOTES

Other shareholdings

No.	Name	Location	Capital share	Voting rights	Currency	Equity	Profit/Loss
139	WestFonds-PHG-Gesellschaft WestFonds 4 mbH i.L. ^{1) 8)}	Düsseldorf	100.00		EUR	20	-5
140	WestGKA Management Gesellschaft für kommunale Anlagen mbH ^{2) 4) 10)}	Düsseldorf	100.00		EUR	1,128	0
141	WestLB Asset Management (US) LLC	Wilmington, USA	100.00		USD	23,688	-1,111
142	WestLB Servicios S.A. ^{1) 7)}	Buenos Aires, Argentina	94.86		ARS	0	-1
143	WestLB Venture Capital Management GmbH & Co. KG ¹⁰⁾	Köln	50.00		EUR	41	-5
144	WestLeasing International GmbH ^{1) 10)}	Düsseldorf	100.00		EUR	191	-11
145	WestLeasing Westdeutsche Leasing Holding GmbH ^{4) 10)}	Düsseldorf	94.90		EUR	11,625	0
146	WestProject & Consult Gesellschaft für Projektentwicklung und Consulting mbH i.L. ^{1) 4) 10)}	Düsseldorf	100.00		EUR	1,560	0
147	WestVerkehr Beteiligungsgesellschaft mbH ^{1) 10)}	Düsseldorf	100.00		EUR	109	-14
148	WIP Westdeutsche Immobilien Portfolio Managementgesellschaft mbH ^{1) 4) 10)}	Mainz	100.00		EUR	627	-5
149	WLB CB Holding LLC ¹⁾	New York, USA	100.00		USD	0	264
150	WMB Beteiligungs GmbH ^{1) 8)}	Düsseldorf	100.00		EUR	26	-3

Interest greater than 5% (large corporations)

No.	Name	Location	Capital share	Voting rights	Currency	Equity	Profit/Loss
151	AKA Ausfuhrkredit-Gesellschaft mbH ¹⁰⁾	Frankfurt am Main	5.02		EUR	187,007	11,235
152	Banco Finantia S.A. ¹⁰⁾	Lisbon, Portugal	8.57		EUR	362,458	6,266

Other companies for whom the EAA assumes unlimited liability

No.	Name	Location	Capital share	Voting rights	Currency	Equity	Profit/Loss
153	GBR Industrie- und Handelskammer Rheinisch-Westfälische-Börse	Düsseldorf	5.88	5,00		n. s.	n. s.
154	GLB GmbH & Co. OHG	Frankfurt am Main	15.47			n. s.	n. s.

¹ Indirect shareholdings² Including indirectly held shares³ A letter of comfort exists⁴ A profit and loss transfer agreement is in place with this company⁵ Only data as of December 31, 2009 is available⁶ Only data as of December 31, 2011 is available⁷ Only data as of October 31, 2012 is available⁸ Only data as of December 31, 2012 is available⁹ Only data as of June 30, 2013 is available¹⁰ Only data as of December 31, 2013 is available¹¹ Only data as of June 30, 2014 is available¹² Only data as of December 31, 2014 is available¹³ A global guarantee exists

RESPONSIBILITY STATEMENT

Responsibility statement

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

Düsseldorf, March 19, 2015

Erste Abwicklungsanstalt



Matthias Wargers
Spokesman
of the Managing Board



Markus Bolder
Member
of the Managing Board



Horst Küpker
Member
of the Managing Board

Auditors' report

We have audited the annual financial statements, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the financial statements, together with the bookkeeping system and the management report of the Erste Abwicklungsanstalt, Düsseldorf, for the business year from January 1 to December 31, 2014. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the charter are the responsibility of the institution's managing board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the institution and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the institution's managing board, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the charter and give a true and fair view of the net assets, financial position and results of operations of the institution in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the institution's position and suitably presents the opportunities and risks of future development.

Düsseldorf, March 20, 2015

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Michael Peters
Auditor
(German Public Auditor)

ppa. Susanne Beurschgens
Auditor
(German Public Auditor)

List of abbreviations

ABS Asset backed securities	EAA Erste Abwicklungsanstalt, Düsseldorf
ALM Asset liability management	EAA CBB EAA Covered Bond Bank Plc, Dublin/Ireland
APAC Asia, Pacific and Japan; Asia-pacific economic region	EAA GW EAA Global Watchlist
BaFin German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht)	EAA KK EAA Japan K.K., Minato-ku (formerly WIB Real Estate Finance K.K. [WIB KK])
BaSAG Austrian Federal Act on the Recovery and Resolution of Banks (Bundesgesetz über die Sanierung und Abwicklung von Banken (Sanierungs- und Abwicklungsgesetz))	EaD Exposure at default
Basinghall Basinghall Finance Limited, London/United Kingdom (until December 8, 2014 under the name Basinghall Finance Plc)	EC European Community
BGH German Supreme Court (Bundesgerichtshof)	ECB European Central Bank
BilMoG German Accounting Law Modernization Act (Bilanzrechtsmodernisierungsgesetz)	EEC European Economic Community
Bp Basis points	EFSF European Financial Stability Facility
CDS Credit default swaps	EMEA Europe, Middle East and Africa region; EMEA economic area
CVA Credit valuation adjustments	EPA EAA Portfolio Advisers GmbH, Düsseldorf
DRS German Accounting Standard (Deutscher Rechnungslegungsstandard)	EU European Union
	EUSS European Super Senior Notes
	FED US Federal Reserve
	Fitch Fitch Ratings
	FMS Financial Market Stabilization Fund

LIST OF ABBREVIATIONS

FMSA

German Financial Market Stabilization Authority
(Bundesanstalt für Finanzmarktstabilisierung)

FMStFG

German Financial Market Stabilization Fund Act
(Finanzmarktstabilisierungsfondsgesetz)

FX effect

Foreign exchange effect

GDP

Gross domestic product

HETA

HETA Asset Resolution AG, Klagenfurt/Austria

HGB

German Commercial Code (Handelsgesetzbuch)

ICS/RMS

Internal control and risk management system

IDW

Institute of Public Auditors in Germany
(Institut der Wirtschaftsprüfer)

ISDA

International Swaps and Derivatives Association

MaRisk

German Minimum Requirements of Risk Management

Moody's

Moody's Investors Service

MtM

Mark to market

NPL

Non-performing loans

N.R.

Not rated

NRW

North Rhine-Westphalia

OMT

Outright Monetary Transactions

OTC

Over the counter

P&L

Income statement

PFS

Portigon Financial Services GmbH, Düsseldorf

Portigon

Portigon AG, Düsseldorf
(until July 2, 2012 under the name WestLB AG)

RechKredV

German Ordinance on Accounting for Banks
(Verordnung über die Rechnungslegung der
Kreditinstitute und Finanzdienstleistungsinstitute)

S.R.

Special rating

S&P

Standard and Poor's Corporation

TLTRO

Targeted Longer-term Refinancing Operations of the ECB

VaR

Value at Risk

WestImmo

Westdeutsche ImmobilienBank AG, Mainz

WestLB

WestLB AG; Westdeutsche Landesbank AG, Düsseldorf
since July 2, 2012 under the name Portigon AG)

ZEW

Centre for European Economic Research
(Zentrum für Europäische Wirtschaftsforschung)

Imprint

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