Dresdner Bank AG
Financial Report 2006

Dresdner Bank
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# Management Report Dresdner Bank AG

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# Overview

Dresdner Bank AG is one of the leading commercial banks in Germany. Dresdner Bank provides private, corporate and institutional clients within Germany and abroad with a broad range of banking products and financial services. These include loans and deposits, securities and custody services, payment transactions, capital market products and services, and corporate advisory and corporate finance. As part of the Allianz Group, Dresdner Bank also distributes life, health and non-life insurance products.

In the process, the Bank competes with other financial service providers in the areas of customers, products and markets. One of the critical success factors is the ability to meet individual customers' wishes by providing both attractively priced standard products and complex banking products requiring in-depth consulting.

Dresdner Bank AG has a network of 718 domestic branch offices and is represented in all key financial centres outside Germany. The Bank's fiscal year is the calendar year.

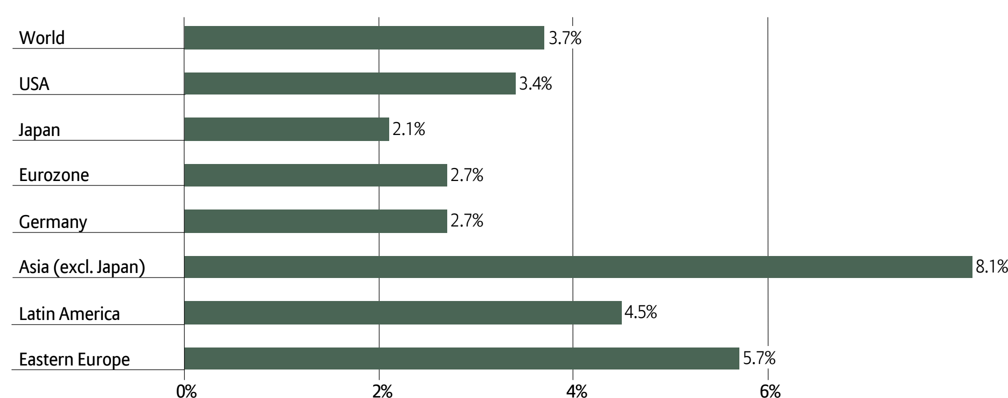
Dresdner Bank is an Aktiengesellschaft (German public limited company) domiciled in Frankfurt/Main, Germany. It is registered in the Commercial Register of the Frankfurt/Main Local Court under number HRB 14000. Its legal framework is laid down in its Articles of Association, in the version dated 8 April 2003.

Since its combination with Allianz in 2001, Dresdner Bank AG has been a wholly-owned subsidiary of Allianz SE, Munich. The Bank's share capital amounts to €1,503 million, and is composed of 578.1 million no-par value shares. Dresdner Bank AG's shares are held indirectly by Allianz SE.

# Macroeconomic Conditions

The **global economy** performed extremely well in 2006. Most countries clearly exceeded the relatively modest growth forecasts issued at the beginning of the year. With growth in global value added of 3.7%, 2006 was one of the fastest-growing years in recent decades. The global economy thus proved robust in the face of the historical highs on the oil market. The emerging markets contributed substantially to stable global economic development, with China's extraordinarily fast pace of growth increasingly influencing global economic events. However, the most important global economic growth driver, due to its substantial economic weight, was once again the US economy with 3.4% growth.

Global economic growth 2006




The global imbalances in national budgets and foreign trade continued to be a cause for concern, rising further in 2006. However, they are still – surprisingly – being financed at present without impacting the global financial system. The US economy's massive borrowing requirements have not yet triggered off any sustained rise in bond yields, although the euro appreciated significantly against the US dollar in the course of the year.

Economic growth in the **eurozone** accelerated to 2.7%, narrowing the gap to the growth rates recorded by other regions. The economic upturn was thus remarkably stable in Europe, too, in the face of record-breaking oil prices. In addition, higher capital expenditure strengthened the foundations for European economic growth. The acceleration in growth led to a faster decline in unemployment than originally expected.

With growth of 2.7%, the **German economy** also gathered steam in the course of the past year. In addition to dynamic exports, the broad-based recovery was driven in particular by strong capital expenditure. After years of contraction, investments in the construction sector also turned the corner in the past year. Strong economic growth triggered a tangible decrease in unemployment. The related increase in the number of new jobs was a major factor in ending the four-year slump in consumer spending. For the first time, consumer spending recorded slight positive growth again. At the end of the year, the economy was also stimulated by pull-forward effects due to the increase in value added tax.

The economic upturn also had an effect on the German **real estate market** in the past year. In particular, the ongoing investor-friendly interest rates hovering near their historic lows and the pending abolition of state subsidies in the private residential construction sector led to an upturn in real estate sales.

The **capital markets** had an upbeat year overall in 2006. Yields on long government bonds in the eurozone remained at a comparatively low long-term level. Strong liquidity due to the long period of expansionary monetary policy was a major factor here. The spread between short-term and long-term yields closed almost completely in the course of the year. In this environment and given the sustained strong increase in corporate earnings, the performance of the European stock markets in particular improved significantly, reaching a long-term high in the fourth quarter. The Euro Stoxx 50 rose by around 15% in full-year 2006. Following a period of successful corporate balance sheet consolidation, the German equity market in particular saw a disproportionately strong rise in comparison to the European average, at almost 22%.

This positive development led to a significant revival of capital market activity. The number of initial public offerings in 2006 rose substantially in both Europe and Germany. Takeover activity reached record highs. Four factors boosted the soaring M&A market: low interest rates reduced financing costs, while strong corporate earnings facilitated aggressive growth strategies; in addition, the emergence of pan-European markets accelerated consolidation processes in many industries, while private equity investors were flush with money to invest.

In this situation, the **banking sector in Germany** again significantly improved its earnings position. This applies in particular to the major banks with capital markets activities. Overall, this led to increased earnings opportunities in the trading and fee and commission business. The sustained high asset quality was another increasingly important pillar for the financial sector. Non-performing loans declined to their levels at the end of the 1990s due to the decrease in the number of corporate bankruptcies. As a result, levels of loan loss provisions were low. Finally, the major banks in particular achieved additional efficiency and productivity gains in the past twelve months thanks to further restructuring measures. Despite the upturn in demand for loans, net interest and current income, which is still the most important source of income for many banks, remained under pressure due to the flattening of the yield curve as well as ongoing fierce competition.

There was no let-up in the wave of mergers and acquisitions in the European financial services sector in the past year. We expect that this trend will continue going forward. The competitors emerging as a result of this process are using their economies of scale and cost advantages to improve their market position. At the same time, demand is becoming more differentiated: on the one hand, there is a rising demand for straightforward, attractively priced products. On the other, customers are asking for tailor-made, high-quality solutions, and are willing to pay higher prices for this. By contrast, the broad middle market is dwindling. Suppliers are increasingly adapting to this trend and tailoring their offerings to these two customer segments.

# Business Development

Dresdner Bank AG recorded net income of €307 million in fiscal year 2006. Once again, one-time and non-recurring factors had a substantial impact on earnings in the year under review. Overall, we were able to achieve further increases in our primary customer business year on year, whereas administrative expenses were down on the figure for the previous year as a result of our strict cost management. We are proposing payment of a dividend of €0.52 per share to the Annual General Meeting.

## Significant events

After a gap of several years, Dresdner Bank successfully placed a hybrid bond and subordinated capital with institutional investors in July 2006 in the course of a public **capital issue**. Due to the strong demand, the volume was increased to a total of €1.75 billion. The issue served to increase the flexibility of our capital management within the Allianz Group.

On 2 January 2006, Dresdner Bank transferred assets amounting to €1.9 billion to **Pension-Trust der Dresdner Bank e. V.** to secure employer-funded direct benefit commitments. The Trust holds and manages the assets transferred to it, which may be used solely to finance the pension obligations.

Dresdner Bank's **rating** is an important factor in our range of financing products. Our ratings improved in fiscal 2006 as a result of the successful implementation of our restructuring measures and strategic advances: Standard & Poor's lifted our long-term rating to A+ with a stable outlook, while Moody's raised our financial strength rating by a class to C.

## Events after the balance sheet date

Kommanditgesellschaft Allgemeine Leasing GmbH & Co. (KGAL), in which Dresdner Bank owns a total interest of 45%, sold its interests in ASL Auto Service Leasing GmbH and the Disko Group effective as from mid-January 2007. The effect of the sale on income at KGAL will be reflected in Dresdner Bank AG's results in the form of distributions by KGAL, the amount and timing of which are still uncertain.

## Development of the divisions

The divisions performed well in 2006. The **Private & Business Clients** division had 6.1 million customers at the end of the year under review. This ranks us third among Germany's private customer banks. 334,000 new customers were acquired last year by the Allianz agencies alone. Mortgage lending, consumer loans and certificates were particularly successful. We remain in a strong position when it comes to over-the-counter sales of insurance products by banks in Germany. With approximately 250,000 customers, Dresdner Bank is also excellently positioned in the middle-market business, and is the number two in Germany in this area. Our Business Banking advisory segment succeeded in many cases in persuading company owners to open private accounts with our Bank. In the field of private wealth management, we are the number two in our home market of Germany and one of the top ten in Europe. Measures taken to expand this advisory segment last year included the opening of our subsidiary Dresdner Bank Monaco S.A.M. and of Kleinwort Benson's locations in Newbury, Manchester and Birmingham (UK). Furthermore, our newly defined family office offering recorded initial successes in acquiring

additional fortunes on the German market starting in the second half of the year. As the largest administrator of charitable foundations in Germany with many years of experience, Dresdner Bank is continuing to expand its business in this area with the foundation of a subsidiary, in line with growing demand in this area. Our private and business clients business will continue to be a growth area in future.

We also made further progress in the **Corporate & Investment Banking** division: As a European bank with a global reach, we succeeded in offering our clients substantial value added with innovative, tailor-made products – the result of our systematic focus on customer needs. In this area we offer integrated advisory services plus sector-specific expertise.

### "Neue Dresdner Plus" programme

As part of our **"Neue Dresdner Plus"** programme, we decided in the course of 2006 to further sharpen the profile of our product and service offerings. To achieve this goal, we pooled the middle-market customers previously looked after by Corporate Banking with our middle-market business clients from the Private & Business Clients division and renamed the latter Private & Corporate Clients. The Corporate & Investment Banking division was renamed Investment Banking; at the same time, we integrated the Bank's clients with capital market potential more tightly with effect from the start of fiscal year 2007.

In our **Private & Corporate Clients** division, we are focusing on the customer offerings of Personal Banking, Private & Business Banking, Corporate Banking and Private Wealth Management, and are reorganising our structures in line with this. This is allowing us to bundle our entire middle-market offering in a single division. In addition, our new organisational structure makes a distinction between sales and production, ensuring we can respond even better to our customers' requirements. In **Investment Banking**, we are focusing going forward on large caps with capital market potential, financial investors and institutions. Within the division, we are re-organising our activities around two integrated units, Global Banking and Capital Markets. We are bundling our internal back-office services in the **Business Services** division. These platforms support our two customer-facing divisions and relieve them of all processing activities. This goes hand in hand with an increase in standardisation and automation, which allows us to make our processes simpler and more efficient. As in the past, **Corporate Functions** comprises the units responsible for Group management and monitoring.

The goal of this integrated business model is to generate a sustained contribution to earnings as the basis for meeting our target of a 12% return after taxes for the Dresdner Bank Group in 2008. We intend to achieve this by streamlining our hierarchies, structures and processes as well as by introducing a comprehensive package of measures designed to improve our quality for customers and to cut costs. As part of this restructuring, 1,980 full-time positions are to be cut at Dresdner Bank AG in the period up to 2008. The Board of Managing Directors and the employee representatives have agreed on a social plan for implementing the job cuts associated with the programme as part of a reconcilement of interests.

# Employees

As at 31 December 2006, Dresdner Bank AG employed 23,127 people. This represents a decline of 873 employees as against year-end 2005.

| | 31/12/2006 | 31/12/2005 | Change | |
|---|---|---|---|---|
| | | | absolute | % |
| Dresdner Bank AG | 23,127 | 24,000 | -873 | -3.6 |
| – Germany | 22,552 | 23,473 | -921 | -3.9 |
| – Other countries | 575 | 527 | 48 | 9.1 |

Calculated as full-time equivalents, the number of employees (excluding vocational trainees) amounted to 19,255, after 19,856 in the previous year.

### Vocational training and continuous professional development

Vocational training remains a high priority at Dresdner Bank. Providing vocational traineeships and offering trainees permanent employment when they have finished are an important component of this. Basic training in the investment and securities business continues to take the form of the trainee programme for securities advisors. Around 1,330 certified advisors have successfully completed the programme since February 2000.

In view of the constant increase in requirements, our employees' qualifications are crucially important to the Bank's success. Dresdner Bank's training activities make use of state-of-the-art, end-to-end teaching and learning methods.

### Management development

One of the key tasks of the Management Development Services department is to provide support for the Leadership Excellence Programme. All leadership programmes are based on the same process: high-potential candidates are identified at the various management levels and assigned to high-potential pools for each level. After this, development programmes are used to prepare the candidates for their future management tasks.

### Cooperation with Allianz

As part of Dresdner Bank's joint sales activities with Allianz, 370 Bank employees are currently working in sales positions at Allianz, while 876 Allianz staff are deployed as retirement provision and insurance specialists at Dresdner Bank. We are continuing to leverage the enormous potential represented by our cooperation: at present, 100 Allianz agencies are being fitted out as bank agencies.

### Selected remuneration models

In spring 2006, "Bonus im Tarif" payments were made for the first time to all staff, with the exception of Dresdner Kleinwort employees. The incentive offered by the programme, under which staff can earn up to two monthly salaries in addition to their collectively agreed salary, is now even greater. Breaking down employee bonuses into a team component and an individual portion has also proven its worth.

The employee share purchase plan again allowed staff to invest in the future performance of Allianz shares this year. Due to the continuing attractiveness of the terms and conditions, a large number of employees were recruited as shareholders.

### Work and familiy

Experience shows that the most important action items for improving family-friendly working are support in the areas of childcare and long-term care and the further flexibilisation of working hours. Since flexible working hours are such a major factor in balancing work and family life, Dresdner Bank has offered a wide range of partial employment models for years. For example, concepts for providing emergency care and organising child minders are being implemented. Since the beginning of 2006, the Bank has also supported advisory and agency services providing long-term care for family members requiring long-term care. Starting January 2007, the Bank will also make full-day nursery spaces available for the first time. In addition, support will be provided for parents next summer in the form of a holiday care programme.

### Allgemeines Gleichbehandlungsgesetz (AGG)

On 18 August 2006, the Allgemeines Gleichbehandlungsgesetz (AGG – General Anti-Discrimination Act) came into force. This represents the implementation in national law by the federal government of the European anti-discrimination directives. Since Dresdner Bank has been committed to ensuring a non-discriminatory environment for many years, the issues covered by the AGG are by no means new to our Company. In a global enterprise such as Dresdner Bank, diversity has been an essential element of corporate culture for many years. Preventing discrimination is already anchored in our Code of Conduct. The strengths, commitment and experience that our employees contribute to the Bank are a particular guarantee of living diversity within our corporate culture.

# Result of Operations

Dresdner Bank AG reported income before taxes of €422 million for fiscal year 2006, a decline as against the previous year of €1,551 million. Whereas one-time factors led to a significant increase in income in the previous year, non-recurring charges depressed income in fiscal year 2006. This related in particular to the restructuring charges for the "Neue Dresdner Plus" programme and remeasurement losses.

The following table provides an overview of Dresdner Bank AG's income statement for 2006 and 2005:

| | 2006 | 2005 | Change | |
|---|---|---|---|---|
| | €m | €m | €m | % |
| Net interest and current income | 2,712 | 3,882 | -1,170 | -30.1 |
| Net fee and commission income | 1,847 | 1,715 | 132 | 7.7 |
| Net income from financial operations | 670 | 271 | 399 | >+100.0 |
| Administrative expenses | 4,274 | 4,460 | -186 | -4.2 |
| – Staff expenses | 2,055 | 2,050 | 5 | 0.2 |
| – Other administrative expenses | 2,124 | 2,149 | -25 | -1.2 |
| – Depreciation of tangible fixed assets | 95 | 261 | -166 | -63.6 |
| Other operating income/expenses | 17 | 126 | -109 | -86.5 |
| Risk provisioning | 139 | -657 | 796 | |
| Result from investment securities | 106 | 195 | -89 | -45.6 |
| Expenses from assumption of loss | 153 | 388 | -235 | -60.6 |
| Extraordinary income/expenses | -364 | -25 | -339 | <-100.0 |
| **Income before taxes** | **422** | **1,973** | **-1,551** | **-78.6** |
| Tax expense | 115 | 386 | -271 | -70.2 |
| **Net income for the year** | **307** | **1,587** | **-1,280** | **-80.7** |

Net income for the year amounted to €307 million, as against €1,587 million in the previous year. We are proposing to the Annual General Meeting on 12 March 2007 that the distributable profit in the amount of €301 million be used to pay a dividend.

### Net interest and current income

Net interest and current income in the year under review amounted to €2,712 million, a year-on-year decline of 30.1% or €1,170 million. This was mainly due to substantially lower current income from both affiliated enterprises and equities. In the previous year, this item included income from a special dividend by Dresdner Bank Luxembourg and income from the sale of shares in Eurohypo AG. In addition, the interest components from trading activities contained in net interest and current income also declined significantly as a result of the sharp reduction in bond holdings in 2006. This was partly offset by the effects of derivatives contained in net trading income.

### Net fee and commission income

At €1,847 million, net fee and commission income rose by 7.7% as against the comparative period of the previous year (€1,715 million). A good 40% of this increase was due to the securities business, which contributed €1,046 million, or approximately 57%, to net fee and commission income. Particular growth was recorded in the commission business for equities and fund units. All in all, the commission business rose by 12.3% to €858 million. Other encouraging performers were fees and commissions from the issuing business, which rose by around one third year on year, and income from the sale of closed-end funds.

### Net income from financial operations

Net income from financial operations in the past fiscal year amounted to €670 million. The prior-year figure of €271 million contained a high one-time factor relating to the switch to a market-oriented method of measuring income from trading activities. The figure for the current year also contains the results of the expanded derivatives business. The year-on-year rise in income is due to clear growth in income from equities trading as well as from currency and precious metals trading.

### Administrative expenses

Administrative expenses were again reduced as against the previous year, falling 4.2% to €4,274 million. Total staff expenses were stable year-on-year at €2,055 million (previous year: €2,050 million). While fixed wages and salaries fell – primarily due to the 3.8% drop in the average headcount year on year – performance-related remuneration components increased. At €2,124 million, other administrative expenses were down 1.2% year on year. Increased expenses for services provided by Group companies were more than offset by savings, primarily in occupancy expenses and expenses for third-party services. Amortisation of intangible fixed assets and depreciation of tangible fixed assets amounted to €95 million in the year under review. The figure for the previous year (€261 million) included impairment losses on real estate.

### Other operating income/expenses

Net other operating income and expenses amounted to €17 million in the year under review, as against €126 million in the previous year. The decline in other operating income (-34.1% to €463 million) exceeded that in other operating expenses (-22.6% auf €446 million). The main reasons behind the lower figure for other operating income were a decline in rental income relating to the reorganisation of our real estate holdings and lower income from the release of provisions, which in the previous year included income from the new rules governing jubilee payments. Other operating expenses primarily included additions to provisions, disposal losses, expenses in connection with real estate and compensation payments.

### Risk provisioning

Risk provisioning in 2006 amounted to €139 million (previous year: income of €657 million). This swing related both to loan loss provisions as well as to the results of the liquidity portfolio.

In the previous year, a change in the methodology used to determine general loan loss provisions led to extensive releases of loan loss allowances. Additions to specific loan loss provisions – made in the context of our risk-oriented business – were down slightly year-on-year. The decline in releases was more pronounced, due to the fact that the effects of reductions in connection with the Institutional Restructuring Unit were still contained in the figures for the previous year. As a result, we recorded a net addition to specific risks, while recoveries on loans previously written off rose at the same time. These were largely offset by releases to country risk provisions.

While the result from our securities-based liquidity portfolio in the previous year primarily contained income from the disposal of a real estate fund mainly consisting of properties used by us, write-downs had to be charged during 2006 on a real estate fund consisting of properties used by third parties.

### Result from investment securities

The result from investment securities amounted to €106 million (previous year: €195 million). The disposal gains on the sale of investments contained in this figure were around one third lower than in the previous year. At the same time, impairment losses on shareholdings declined in the year under review.

### Expenses from assumption of loss

Expenses from assumption of loss amounted to €153 million in the year under review, roughly 60% down on the figure for the previous year.

### Extraordinary income/expenses

Net extraordinary expenses amounted to €364 million, compared with €25 million in the previous year. The high figure for fiscal year 2006 resulted from restructuring charges, primarily for the measures planned as part of our "Neue Dresdner Plus" programme.

### Tax expense

The tax expense item of €115 million includes both income taxes (€113 million) and other taxes (€2 million). The decline in the tax expense compared with the previous year (€386 million) is due primarily to lower taxable domestic income.

# Net Worth and Financial Position

Dresdner Bank AG's total assets rose by €31.6 billion to €486.6 billion in fiscal year 2006. This 6.9% rise is primarily due to an increase in the volume of securities-backed money market transactions, as well as to an increase in the lending volume. This development is attributable, among other things, to the general trend towards securitised money market transactions as an attractive form of funding and/or financing. This was reflected in particular in the balance sheet items for loans and advances to customers and banks and liabilities to customers and banks.

## Assets

Primarily as a result of the extension of these business activities loans and advances to banks rose by €36.1 billion to €131.7 billion and loans and advances to customers by €19.1 billion to €194.6 billion.

In addition, we expanded the lending volume – with a focus on our strategic core business – in fiscal year 2006 by 3.8% to €95.4 billion following the successful reduction in the non-strategic loan portfolio over the past years.

| Lending volume | 31/12/2006 | 31/12/2005 | Change | |
|---|---|---|---|---|
| | €m | €m | €m | % |
| Customer lending | 89,144 | 86,641 | 2,503 | 2.9 |
| – Residual term of less than 5 years | 57,479 | 57,712 | -233 | -0.4 |
| – Residual term of more than 5 years | 31,665 | 28,929 | 2,736 | 9.5 |
| Loans to banks | 6,284 | 5,252 | 1,032 | 19.6 |
| – Residual term of less than 5 years | 5,934 | 4,351 | 1,583 | 36.4 |
| – Residual term of more than 5 years | 350 | 901 | -551 | -61.2 |
| **Lending volume[1)]** | **95,428** | **91,893** | **3,535** | **3.8** |

1) Excluding reverse repurchase agreements.

Around three-quarters of this increase in the lending volume is a result of the 2.9% expansion in customer lending to €89.1 billion. Loans to banks amounted to €6.3 billion; this represents a rise of €1.0 billion compared with year-end 2005.

We significantly reduced holdings of debt and other fixed-income securities by €24.9 billion, or 23.3%, to €82.3 billion. This primarily related to the trading portfolio. Whilst bonds and notes (other issuers) declined by €11.1 billion and public-sector bonds and notes by €17.2 billion, holdings of money market instruments increased by €3.5 billion to €5.9 billion.

The equities and other non-fixed income securities item amounted to €25.9 billion at year-end 2006, an increase of €3.3 billion year on year. This was the result of higher liquidity portfolio holdings and holdings of long-term securities. The vast majority of these relate to the assets allocated to Pension-Trust der Dresdner Bank e. V., which primarily consists of units in pension funds.

Investments in affiliated enterprises declined by €2.3 billion to €4.5 billion. The drop is largely due to capital repayments at subsidiaries that had held the shares in Eurohypo AG and Munich Re AG that were sold in 2006.

In connection with the sale last year of the properties belonging to the Bank, we refer to the information on leased assets contained in the Note entitled "Other financial commitments".

## Liabilities

Compared with the previous year, the volume of deposits and certificated liabilities rose by 7.0% to €427.1 billion. The repurchase agreements included under liabilities to banks and customers were expanded significantly in fiscal year 2006 by €22.0 billion.

| Deposits and certificated liabilities | 31/12/2006 | 31/12/2005 | Change | |
|---|---|---|---|---|
| | €m | €m | €m | % |
| Liabilities to banks | 187,733 | 177,755 | 9,978 | 5.6 |
| – Payable on demand | 39,083 | 48,473 | -9,390 | -19.4 |
| – Time deposits | 148,650 | 129,282 | 19,368 | 15.0 |
| Liabilities to customers | 205,343 | 185,815 | 19,528 | 10.5 |
| – Savings deposits | 104 | 126 | -22 | -17.5 |
| – Payable on demand | 85,471 | 78,927 | 6,544 | 8.3 |
| – Time deposits | 119,768 | 106,762 | 13,006 | 12.2 |
| Certificated liabilities | 34,000 | 35,724 | -1,724 | -4.8 |
| – Bonds issued | 15,466 | 16,632 | -1,166 | -7.0 |
| – Other certificated liabilities | 18,534 | 19,092 | -558 | -2.9 |
| **Deposits and certificated liabilities** | **427,076** | **399,294** | **27,782** | **7.0** |
| Of which: repurchase agreements | 159,118 | 137,102 | 22,016 | 16.1 |

Liabilities to banks increased year on year by 5.6% to €187.7 billion. This was primarily the result of securitised money market transactions, with time deposits – largely deposits with short maturities – rising by 15.0% to €148.7 billion. By contrast, call money declined by 19.4% to €39.1 billion. Liabilities to customers amounted to €205.3 billion. While call deposits rose by €6.5 billion to €85.5 billion, time deposits from customers – particularly for terms of up to three months – rose by €12.2 billion to €119.8 billion. Our attractive product offerings also played a major role here. Certificated liabilities declined by 4.8% to €34.0 billion. The decrease related both to bonds issued (€-1.2 billion) and to other certificated liabilities (€-0.6 billion).

A detailed breakdown of the maturity structure is given in the Note entitled "Analysis of loans/advances and liabilities by residual term".

Provisions amounted to €3.9 billion at year-end 2006. Provisions for taxes declined by €0.2 billion, while other provisions rose; this applied in particular to restructuring provisions in connection with measures forming part of the "Neue Dresdner Plus" programme.

## Shareholders' equity

Dresdner Bank AG's shareholders' equity – including distributable profit – amounted to €8.0 billion as at the reporting date. This includes contributions by silent partners in the amount of €1.0 billion that Dresdner Bank raised in mid-2006.

For regulatory purposes, these silent participations are counted towards core capital, thus allowing us to increase the flexibility of our capital management within the Allianz Group. In addition, we successfully placed subordinated capital of €750 million at the same time – once again with institutional investors. The subordinated capital, which takes the form of profit-participation certificates, was intended to replace profit-participation certificates issued in 1997 that are no longer eligible as supplementary capital.

Liable capital for regulatory purposes amounted to €12.1 billion after the adoption of the annual financial statements. Regulatory risk-weighted assets rose by 4.0 % to €113.5 billion.

# Risk Report

### Risks facing Dresdner Bank as part of the Dresdner Bank Group

Dresdner Bank AG's risk control and risk management are integrated with the Group-wide system in a manner that complies with legal and supervisory requirements. An isolated analysis of the effect of the risk types on Dresdner Bank AG that does not take into account the effects on the other legally independent units within the Dresdner Bank Group would be neither comprehensive nor conclusive. Our holistic view of Group-wide risk management is primarily guided by the following facts and circumstances:

- The segments within the Dresdner Bank Group are aligned with customer requirements, in line with general market conditions. By contrast, a breakdown by legal entities is based on external, local legal requirements and thus does not necessarily reflect the internal structure. For example, local legislation determines whether Dresdner Bank's banking business in the country concerned is conducted by a branch office or an independent subsidiary. However, the obligation on the part of the management to consider the risks associated with the business is independent of this question.

- Business development within the Group depends among other things on individual risk types and factors (e.g. customer creditworthiness, changes in market prices). The risk factors are adequately monitored and subject to corresponding risk management. Group-wide analysis is vital for this. For example, it is irrelevant from a credit risk perspective whether loan commitments are distributed across multiple Group companies: in the case of insolvency, it is the overall effect on the Group that is important.

- In some cases, there is a correlation between individual risk factors. The Group can only ensure a reduction in the overall risk – for example by diversifying across customer groups, issuers and countries – if management has at its disposal information about the scope and type of the risk factors. These interrelationships are independent of legal and divisional Group structures. The Bank can only make optimum use of diversification effects to reduce risk if it manages them at a Group-wide level and across individual legal units.

- In accordance with section 2a of the Kreditwesengesetz (KWG – German Banking Act), individual institutions can be exempted from the application of the minimum capital requirements and the provisions of section 25a (1) sentence 3 no. 1 KWG regarding the internal control system. More specifically, this dispenses with supervision of the solvency and capital resources at the level of individual Group subsidiaries and instead performs such supervision solely at the level of the parent company of the consolidated Group. As far as possible, Dresdner Bank will opt for consolidated supervision.

# Risk Management and Risk Monitoring

## Banks and risks

Financial services providers have a leading role to play with regard to risk. It is our core business as a bank to take on risk in a controlled manner in line with our return targets. As a business venture, our role is to provide appropriate advice and support for our clients with respect to all risk-related issues.

## Dresdner Bank's risk approach

Risk management and risk monitoring are of crucial importance to Dresdner Bank's business and are an established part of all organisational processes. The aim is to ensure that all risks assumed in the context of the Bank's business are recognised at an early stage, and that they are specifically managed in line with the Bank's risk appetite using effective risk instruments. Successful risk management and risk monitoring are therefore the precondition for the Bank achieving highly profitable growth and sustained success.

The Chief Risk Officer (CRO) Function is responsible for ensuring this. In order to ensure the optimum quality of risk management at all times, the procedures used to measure, manage and aggregate all risk types are continuously enhanced using best-practice approaches and adapted to changing market conditions. The tight integration of Dresdner Bank's divisions and functions and coordination of activities with those of Allianz's Group Center units are crucial to successful risk management.

### Risk principles

Risk management and control worldwide are based on the following key risk principles:

- The Board of Managing Directors establishes the risk strategy for Dresdner Bank and has organisational responsibility for its implementation.

- The Chief Risk Officer (CRO), who is a member of the Board of Managing Directors of Dresdner Bank, is responsible for the management of credit, counterparty and market risk in particular, and for risk control of all risk types. In addition, the CRO is responsible for the implementation of suitable risk management processes in relation to operational risk and reputational risk.

- To ensure maximum objectivity and prevent conflicts of interest, market and trading units are functionally and organisationally separated from Risk Management and Risk Control up to and including at the level of the Board of Managing Directors. This organisational structure corresponds to the "Mindestanforderungen an das Risikomanagement" (MaRisk – Minimum Requirements for Risk Management) issued by the Bundesanstalt für Finanzdienstleistungesaufsicht (BaFin – Federal Financial Supervisory Authority).

- Risk issues are taken into consideration in all business decisions. Risk-based performance measurement is supplemented by setting risk limits at the overall Bank and divisional levels, as well as by consistent operating limits for individual business activities. During the process, we avoid risk concentrations and limit potential losses in crisis scenarios.

- Risk management and in particular the risk limitation process are closely linked to Bank-wide management processes such as strategic planning, annual earnings, cost and risk budgeting, and performance measurement.

- Risks are reported without restriction and in a comprehensive, transparent and timely manner to the responsible senior management levels.

- Appropriate, effective controls exist for all processes entailing risks. The organisational risk structure and the functions, tasks and powers of the employees, committees and departments involved in the risk processes are clearly and unambiguously defined.

The key risk principles are laid down in Dresdner Bank's overall risk management framework, the "Group Risk Guideline". This implements all legal and internal requirements and lays down the risk management and monitoring processes within Dresdner Bank. The Group Risk Guideline is supplemented by specific guidelines for measuring and monitoring individual risk types. These guidelines have been published on Dresdner Bank's intranet and are available to all employees. All principles and guidelines are reviewed regularly and adapted and enhanced in line with internal and external developments.

### The CRO Function – organisation and tasks

The Chief Risk Officer (CRO), as a member of Dresdner Bank's Board of Managing Directors, is responsible for Risk Management and Risk Control and hence has operational responsibility for risk management and monitoring at Dresdner Bank.

At the end of 2005 we restructured our Risk Management and Risk Control operations, creating clear contact persons for our two newly established divisions, Private & Business Clients (PBC) and Corporate & Investment Banking (CIB), as well as streamlining the Corporate Centre.

The CRO Function comprises (a) Risk Management and (b) Risk Control and consists of five units: Credit Risk PBC, Credit Risk CIB, Market Risk & Financial Institutions CIB, Group Risk Architecture, as well as Risk Governance & Controlling.

The CRO Function – organisation and tasks

| | CRO Function | | | | |
|---|---|---|---|---|---|
| | Credit Risk PBC | Credit Risk CIB | Market Risk & FIN CIB | Group Risk Architecture | Risk Governance & Controlling |
| Key tasks | Loan approvals PBC<br>Intensive care, workouts PBC<br>Credit process management<br>Credit risk policies PBC<br>Portfolio monitoring | Loan approvals Corporates CIB<br>Intensive care, workouts CIB<br>Sector expertise<br>Credit risk policies CIB<br>Portfolio monitoring | Market risk management<br>Market risk control (trading book)<br>Credit risk management Financial Institutions<br>Centre of Competence for Dresdner Kleinwort risk tools<br>Portfolio monitoring | Risk methodologies<br>Risk data management<br>Risk systems/ IT coordination<br>Operational risk management | Bank-wide risk management<br>Liquidity/interest rate risk control (banking book)<br>Risk reporting (especially credit risk)<br>Chief Operating Officer for CRO Function<br>Reputational risk management |

### (a) Risk management

The core task of the Credit Risk PBC, Credit Risk CIB and Market Risk & Financial Institutions CIB units is the management of credit, counterparty and market risk in the relevant divisions. The three units perform the back office function as defined by the MaRisk.

Risk Management focuses on risk analysis, limitation and monitoring at transaction, borrower and portfolio level as well as on quality assurance within loan administration. Proactive management of the corresponding subportfolios is another key task. In addition, the units perform control functions for the corresponding subportfolios. This applies in particular to the Market Risk & Financial Institutions CIB unit, which is responsible for controlling market risk in the trading book, counterparty risk and issuer risk. The Intensive Care unit, which is responsible for workouts of high-risk loans, is an integral part of Dresdner Bank's Risk Management activities.

In addition, Risk Management defines and implements the necessary guidelines and processes and provides support for the implementation of the methods within the divisions.

### (b) Risk Control

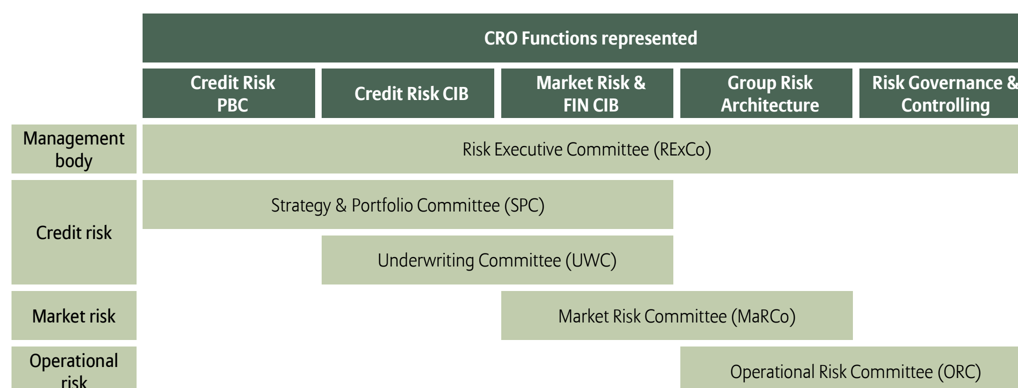
The Risk Governance & Controlling and Group Risk Architecture units perform Bank-wide risk control tasks that are independent of individual divisions and risk types. In addition, these units are responsible for the methods and processes used to manage operational and reputational risk. Risk Governance & Controlling is primarily responsible for Bank-wide management issues and risk reporting, while Group Risk Architecture is responsible for the risk methods and risk infrastructure. The two units work together closely, with their different perspectives guaranteeing optimal ongoing development of our risk management and monitoring activities.

Risk Control focuses on determining the Bank's overall risk framework as well as on the development and implementation of risk methods, risk standards and associated processes for managing credit and counterparty, market, liquidity, business and operational risk. This includes monitoring and regular internal and external risk reporting at portfolio level as well as the specific control of liquidity risk, operational risk, market risk in the banking book and reputational risk. Other key tasks are guaranteeing quality-assured pools of data for Risk Management and Risk Control, as well as overall management of the Basel II project.

## Risk-related committees

The Board of Managing Directors of Dresdner Bank has established a number of risk-related committees to ensure end-to-end risk management at Group level; these serve as decision-making bodies for major issues and risks on the one hand, while promoting risk awareness and ensuring compliance with the established risk standards on the other.

Risk management and monitoring committees set up by the Board of Managing Directors




### (a) Risk Executive Committee

The Risk Executive Committee (RExCo) is the central management committee for all risk management and risk control questions within Dresdner Bank. In particular, it is responsible for adopting and ensuring the implementation of consistent Group-wide risk methods and guidelines for risk policy and the management of credit and counterparty risk, market risk, operational risk, liquidity risk and reputational risk. In addition, RExCo contributes to the development of Dresdner Bank's risk framework and risk strategy.

### (b) Strategy & Portfolio Committee and Underwriting Committee

The Group Credit Committee was dissolved at the beginning of the year under review as part of the streamlining of the loan approval process. As part of this reorganisation, the delegation of loan approval powers was reorganised; these are now held by Senior Credit Executives (SCEs), the Underwriting Committee (UWC), the Strategy & Portfolio Committee (SPC) and individual members of the Board of Managing Directors. The decision-making powers of the Board of Managing Directors in the case of large exposures and loans to managers and other related parties (Organkredite) are not affected by the reorganisation.

The SCEs are authorised persons appointed by the Chief Risk Officer who approve loans within the limits of the individual powers of approval delegated to them, which are differentiated by rating classes. The various SCEs have been delegated the same powers of approval and deputise for each other across the individual divisions.

The UWC is the approval body for leveraged and structured loan transactions within Dresdner Bank. The Committee decides on overall limits for individual commitments on the basis of the powers delegated to it by the Board of Managing Directors.

The SCEs and the UWC vote on commitments relating to the Board of Managing Directors (large exposures and loans to managers and other related parties (Organkredite)).

The SPC is responsible for defining the details and implementing the Group credit risk strategy resolved by the Board of Managing Directors. The SPC's main duties are to approve sector-specific strategies within the framework resolved by the Board of Managing Directors and to define strategies for individual borrowers. The SPC also resolves on country limits within the framework of the powers delegated to it by the Board of Managing Directors.

### (c) Market Risk Committee

The Board of Managing Directors has delegated the ongoing review of market risk strategy and positioning, as well as market risk management and the coordination and review of the methods used for this, to the Market Risk Committee (MaRCo). The MaRCo addresses Dresdner Bank's current market risk, prepares decisions on value at risk (VaR) limits at portfolio level to be taken by the Board of Managing Directors and approves the methods and processes used for limit monitoring. Other tasks include the analysis and further development of stress tests for market risk.

### (d) Operational Risk Committee

The Operational Risk Committee (ORC) is a Bank-wide committee entrusted with identifying and monitoring operational risk. In addition, the ORC supports the development of Bank-wide standards for ensuring compliance with internal and external requirements relating to operational risk. The primary responsibility for managing operational risk remains within the various divisions/functions and is not curtailed in any way by the duties performed by the ORC.

### Group Audit

Group Audit audits and assesses the efficacy and appropriateness of Risk Management and Risk Control in general and of the Internal Control System (IKS - Internes Kontrollsystem) in particular on behalf of the Board of Managing Directors, adopting a risk-oriented and process-independent approach to do so. Group Audit ensures comprehensive enterprise-wide monitoring by integrating the subsidiaries' internal audit units in its Group audit tasks and working closely together with them.

Group Audit reports directly to the CEO and performs its tasks autonomously and independently of the activities, workflows and functions to be audited. In particular, Group Audit is not bound by any instructions with regard to its reporting and its assessment of the audit results.

To enable it to perform its duties, Group Audit has a full and unlimited right of information covering the right to inspect all necessary data and documents and to examine all the Bank's operating and business processes. In the case of banking activities or processes that are outsourced to other enterprises the Board of Managing Directors ensures that Group Audit can continue to fulfil its statutory and regulatory audit duties by concluding appropriate contractual agreements.

Group Audit prepares a written report on all audits. These audit reports are addressed to the members of the Board of Managing Directors responsible for the areas concerned, the management of the units audited and the auditors of the financial statements. Group Audit uses the audit reports as the basis for monitoring and documenting the timely implementation of the action items identified. Regular progress reports on the measures to be taken are submitted to the management of the audited units and the Board of Managing Directors.

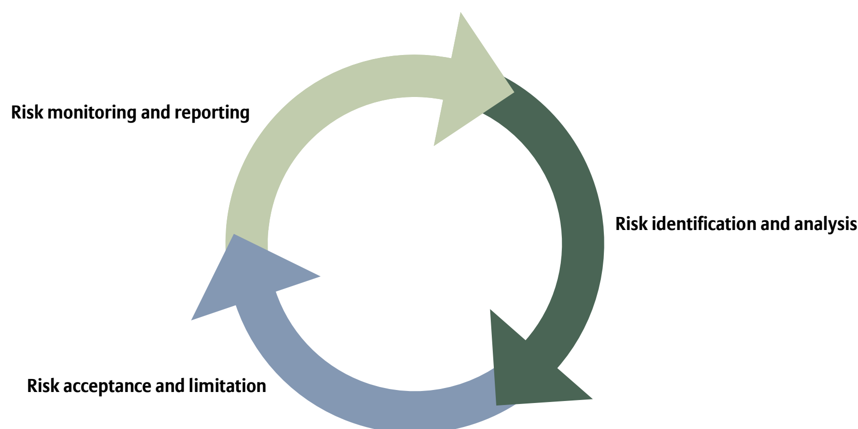
Group Audit prepares an annual report on all audits conducted during the past fiscal year and submits this to all members of the Board of Managing Directors. In addition, material defects revealed during the year under review, the measures recommended or needed to remedy them and the implementation status of the action items identified are reported. The Board of Managing Directors uses this report as the basis for preparation of its annual review report for the Supervisory Board, in accordance with the provisions of the MaRisk.

## Risk management

### The risk management cycle

Risk management comprises the processes of (a) identifying and analysing, (b) accepting and limiting and (c) monitoring and reporting the material risks faced by Dresdner Bank. These processes ensure that material risks are identified at an early stage, captured in their entirety, and modelled, limited and monitored appropriately. They apply both to individual risk types and across risk types.

The risk management cycle at Dresdner Bank




The following sections provide a brief overview of the risk management cycle; the way in which this is applied to the individual risk types is documented in the sections on the individual risk types.

### (a) Risk identification and analysis

Risk identification aims to recognise newly emerging risks, or changes in existing risks, at an early stage and to analyse their effects. Risks that are identified as being material must be continuously quantified using suitable methods on the basis of systematically collected and constantly updated data. Quantification provides an objective basis for risk management decisions, and in particular for risk limitation. Where possible, risk quantification is based on advanced statistical methods, which are validated and tested for plausibility on a regular basis.

### (b) Risk acceptance and limitation

Risk acceptance and limitation (in the latter case particularly of quantifiable risks), is the key element of risk management. Risk limitation ensures that the risks actually entered into are compatible at all times with the Bank's risk strategy and risk-bearing capacity. Risks can be limited both at the borrower level and at the level of individual transactions or portfolios. Risk limitation is based on a Bank-wide risk framework, from which consistent sublimits are derived.

### (c) Risk monitoring and reporting

Risk monitoring continuously monitors the risks taken on by comparing the specified limits with actual limit utilisation. Regular portfolio analysis is performed to ensure early identification of overarching risk trends. The results of the monitoring process and the actions recommended as a result are reported continuously and in full to senior management in a timely manner as part of the internal reporting process. External risk disclosure activities take into account the interests of the Bank's shareholder, stakeholders (e.g. the capital markets, employees and the general public) and the regulatory authorities.

Special topic: stress tests

In addition to employing standard statistical methods for measuring risk, Dresdner Bank uses stress tests to assess and manage portfolio and individual risks. Stress tests analyse the effect of defined crisis scenarios ("stresses") on key parameters at the Bank, such as its result of operations, capital requirements and liquidity. Both extreme historical situations (e.g. 9/11 2001) and potential future macroeconomic scenarios (e.g. a recession in the USA) are used to formulate the crisis scenarios. Ad hoc events (e.g. interest rate increases by the ECB) and sensitivity considerations (e.g. twists in the yield curve) are also included when constructing scenarios.

In contrast to statistical methods such as value at risk, crisis scenarios are formulated without the use of statistical probability modelling. This means that stress tests can be used to incorporate subjective expert opinions in the Bank's risk assessment, and to compare the results with those produced by statistical risk modelling. In addition, stress tests allow risk assessments to be performed even in those cases in which statistical risk modelling is impossible, e.g. because of a lack of historical data. Last but not least, stress tests can also be used to test risk and valuation models by modifying empirically calibrated model parameters to extreme value ranges.

Even where implementation is largely automated, only a limited number of crisis scenarios can be formulated or their results analysed in practice. Stress tests therefore primarily offer examples of what risks a portfolio is exposed to in extreme market conditions, but they cannot provide a systematic, all-inclusive assessment of the risk situation. For this reason as well, stress tests cannot replace the statistical methods used elsewhere, but rather supplement them.

Due to their many different uses, stress tests are also increasingly being provided for in regulatory risk assessment specifications: both Pillar I and Pillar II of the Basel II Framework require certain stress tests to be performed to validate internal risk models and assess risk-bearing capacity. We comply with these requirements by performing stress tests on specific risk types and on risk capital. The results of these tests help us to guarantee the Bank's stability not only during "normal" business but also in crisis scenarios.

Risk capital management

The risk capital requirements calculated using the Bank's internal measurement methods, which must be held as a buffer for unexpected losses, are a key element of the Bank-wide risk management activities. They cover credit and counterparty risk including transfer risk, market risk in the Bank's trading and banking books, operational risk, business risk, risk from shareholdings and real estate risk. A risk horizon of one year is adopted for all risk types and a confidence level of 99.93% applied, corresponding to a single A rating. Diversification effects between different risk types that reduce the overall risk level are taken into account when aggregating individual risks to produce the overall risk. The resulting risk capital requirements form the basis for the following management instruments (a) Bank-wide risk-bearing capacity analysis, (b) risk limitation at Group and divisional levels, (c) risk-based performance measurement and (d) risk-bearing capacity even in hypothetical crisis scenarios.

### (a) Bank-wide risk-bearing capacity analysis

Risk capital requirements are reconciled every month with the available risk capital to provide an overall assessment of Dresdner Bank's economic risk-bearing capacity, and the results presented to the Board of Managing Directors as part of internal risk reporting. The available risk capital consists of the equity as reported in the balance sheet after certain adjustments for the specific purpose of loss coverage (e.g. deduction of goodwill).

### (b) Risk limitation at Group and divisional level

Risk capital requirements are used as the basis for risk limitation at Group as well as at divisional level. The limits are calculated annually in the course of the planning process on the basis of the risk and business strategy and take the available risk capital into account; where necessary, they are adjusted in the course of the year. The limits are approved by the Board of Managing Directors and require the explicit consent of the Supervisory Board's Credit and Risk Committee. Limit utilisation reports are submitted to the Board of Managing Directors on a monthly basis and to the Supervisory Board at regular intervals.

### (c) Risk-based performance measurement

Risk capital requirements are also taken into account during the annual earnings, cost and risk budgeting process. The key performance measure for risk-based performance measurement is Economic Value Added (EVA®). In addition to the usual income components, EVA® recognises the costs of the risks taken as reflected by the economic risk capital requirement. While EVA® takes the cost of capital into account on the basis of its annual average values, the assessment of risk-bearing capacity and risk limitation are based on the values at the closing date.

Credit pricing is also oriented on risk-based performance measurement. When calculating margins, both the cost of credit processing and the risk costs for the loan in question are taken into account. The latter include the cost of the risk capital tied up in the loan in addition to the statistically expected standard default costs ("expected loss"). These two parameters incorporate both individual customer credit assessments based on internal bank ratings and transaction-specific features such as maturity and securitisation structures.

### (d) Risk-bearing capacity even in hypothetical crisis scenarios

The Bank's risk-bearing capacity needs to be ensured not only in the regular course of business (see section (a)) but also during crises. For this reason, the effects of hypothetical crisis or stress scenarios on the available risk capital and risk capital requirements are examined each quarter. The capital adequacy ratio (CAR) is used to measure capital resources. This is defined as the ratio of the available risk capital to the risk capital requirements resulting from business operations. A CAR of more than 100% means that the available risk capital exceeds the risk capital requirements.

The results of the stress scenarios testing hypothetical crisis situations are reported regularly to the Board of Managing Directors. An internal trigger point is provided to assist in evaluation of the results: if the CAR for a scenario falls below such a trigger point, contingency plans must be drawn up specifying in writing the measures to be taken to avoid undercapitalisation if the scenario in question were potentially to materialise.

In fiscal year 2006, all stress scenarios had a CAR in excess of the specified internal warning threshold on all reporting dates.

### Implementation status of Basel II

Implementation of the regulatory requirements resulting from the Capital Accord of the Basel Committee on Banking Supervision (Basel II) and its implementation in German law via the Verordnung über die Solvabilität der Institute (Solvabilitätsverordnung or SolvV – Solvency Ordinance) issued in line with this is progressing according to plan.

Dresdner Bank has applied to the BaFin to use the advanced approaches, i.e. the Advanced Internal Ratings-Based Approach (Advanced IRB Approach) for credit risk and the Advanced Measurement Approach (AMA) for operational risk. These approaches are scheduled for utilisation with effect from 2008. Dresdner Bank is already using comparable approaches for internal risk management.

Central project management ensures focused planning and management of the Bank's Basel II implementation activities. Regular reports on project progress are submitted to the cross-functional steering committee and to the Board of Managing Directors, based on the Group-wide Basel II Master Plan.

Project activities in the period under review focussed on the continued harmonisation of data storage in a central data repository, which will be used throughout the Group in future for both internal and external reporting of credit and counterparty risk.

The Bank was closely involved from the start in the consultations on the regulatory documents held by the Basel Committee on Banking Supervision, and actively promoted the work in the expert committees. In addition, Dresdner Bank regularly participated in the Quantitative Impact Studies (QISs) performed by the Basel Committee on Banking Supervision to estimate future regulatory capital requirements.

## Risk Types

Dresdner Bank distinguishes between the following types of risk: credit and counterparty risk, market risk, risk from shareholdings and real estate risk, operational risk, business risk and strategic risk, liquidity risk and reputational and environmental risk. These risk types are presented in detail below.

### Credit and counterparty risk

Lending and hence assessing and assuming credit and counterparty risk are a key element of our business. Dresdner Bank defines credit and counterparty risk as the potential loss resulting from the default or deterioration in the creditworthiness of a business partner (borrower, counterparty, issuer). In more detail, this definition comprises credit risk from lending activities, counterparty risk from trading activities, and issuer risk from securities transactions. Country risk and loan loss provisions and allowances are each explained in a separate section.

#### General presentation of credit and counterparty risk

Dresdner Bank uses highly sophisticated systems for quantifying and managing credit and counterparty risk. At the heart of these systems are the procedures used (a) to determine the rating category and the probability of default, (b) to determine the exposure at default, (c) to determine the loss given default, (d) to determine the portfolio risk, (e) for sector-oriented portfolio management and (f) to determine portfolio concentrations. In particular, the rating procedures are applied consistently in the areas of lending, counterparty and issuer risk.

#### (a) Determination of the rating category and the probability of default

Internal rating procedures are developed centrally for Dresdner Bank as a whole using statistical methods and are continuously enhanced. The procedures used are in-house developments and cover all customer and business segments. The results are incorporated in a uniform scale comprising 16 rating categories, known as the Ratings Master Scale, which is used to rate all borrowers in a standardised manner (debtor rating). In addition to the debtor rating, a transaction rating is produced, which takes transaction-specific features such as collateral or maturities into account. This procedure ensures consistent management of all credit and counterparty risk within Dresdner Bank. Each debtor rating category is assigned a specific degree of creditworthiness, which is expressed in terms of the average probability of default (PD). The probability of default is the probability that a client will fail to honour its payment obligations to the Bank within the next twelve months. Rating Category I represents the lowest probability of default (i.e. the best possible degree of creditworthiness), while Rating Categories XV and XVI cover those cases that are considered to be in default. The criteria used correspond to the regulatory default criteria under Basel II. The rating category assigned has a material impact on the approval of the loan and on the terms and conditions required, as well as on portfolio management.

The banks that are members of the Bundesverband deutscher Banken (BdB – Association of German Banks), including Dresdner Bank, have voluntarily undertaken to communicate rating results to clients; in line with this, all corporate clients with loans in excess of a certain minimum amount can obtain written information on their ratings. We hope that this active communication of the ratings applied will increase transparency and intensify dialogue with our clients. It will provide our corporate clients with an opportunity to prevent potential credit downgrades and to cut risk-based financing costs by specifically improving their credit quality.

All ratings are reviewed at least once a year and, where necessary, adjusted to reflect the borrower's changed economic situation. Positive or negative developments in relation to loan commitments may also result in ratings being modified during the year. Dresdner Bank has set up corresponding early warning systems to identify such changes.

When comparing the internal ratings used at Dresdner Bank and external ratings awarded by rating agencies, it should be borne in mind that the ratings focus on different things: in the case of external ratings, the classification awarded is intended be valid in the medium term and to offer investors a long-term idea of how the rated enterprise will probably perform ("through-the-cycle rating"). This means that ratings only change in response to significant events. By contrast, internal ratings assess the economic situation of the rated enterprise at the time of the rating ("point-in-time rating"). As a result, the Bank is able to take measures immediately in response to changes.

As is the case with all risk measurement procedures, Dresdner Bank places substantial importance on the regular validation of the rating procedures. The sustained, consistent deployment of validated rating systems thus forms the basis for a successful credit and counterparty risk management system for Dresdner Bank.

### (b) Determination of exposure default

Exposure at default (EAD) is the amount expected to be owed to the Bank in the case of an assumed default by the client within twelve months. In addition to the actual exposure, the EAD also takes items such as potential interest arrears and potential drawdowns of confirmed credit lines into account. Thanks to its large pool of historical data, Dresdner Bank is able to calculate statistical values for the EAD for clients and transactions.

### (c) Determination of loss given default

The effective amount at risk may be smaller than the exposure at default calculated once proceeds from the realisation of collateral or other income from loan workouts are taken into account. The effective portion of the EAD at risk after adjustment for proceeds from the realisation of collateral and loan workouts is known as the loss given default (LGD). The Bank bases its calculations of this figure on data on the actual amounts recovered from workouts, which it collates in a repository of historical data.

### (d) Determination of portfolio risk

Dresdner Bank's credit and counterparty risk is aggregated in a central internal credit risk model, which consolidates interactions between individual risks in the aggregate portfolio. This model is used as the basis for qualifying and managing credit and counterparty risk at portfolio level.

The input parameters for the internal credit risk model are the probability of default (PD), exposure at default (EAD) and loss given default (LGD), which are described above. The model uses these input parameters and default correlations to calculate the statistical loss distribution at portfolio level. This distribution yields the central parameters for the credit and counterparty risk assessment: the expected loss and the unexpected loss.

The expected loss at portfolio and commitment level is the direct product of the PD, EAD and LGD. The expected loss is displayed in the reporting systems and is used by Risk Management to manage the credit and counterparty risk. In addition, it is taken into account when calculating general loan loss provisions in the non-homogeneous portfolio (see the section on loan loss allowances and provisions).

The unexpected loss represents the maximum portfolio loss that will not be exceeded at the end of the specified risk horizon (holding period) of one year for a predetermined probability of 99.93% (confidence level). The unexpected loss determines the risk capital requirements for credit and counterparty risk and is used among other things for monitoring portfolio concentrations.

### (e) Sector-oriented portfolio management

Dresdner Bank uses a sector-oriented approach to credit and counterparty risk management. Companies and business clients are assigned to one of 23 sectors, which are bundled together in sector groups.

In-house specialists assess the sectors they support and suggest activities to be taken, as well as developing sector-specific strategies together with the sales force. Regular sector analyses serve as a basis for concrete recommendations on ongoing portfolio management activities, thus forming a key element of the latter.

These sector analyses are flanked by sector-specific stress test scenarios. In addition, we have developed a ranking system to supplement the quantitative analysis of the sector portfolios that reflects sector quality, measured in terms of internal and external parameters such as the average probability of default for the sector and insolvency trends.

The use of modern credit risk early warning systems allows impending default risks to be identified in a timely manner, thus enabling specific countermeasures to be taken. The experiences gained with respect to sector-based management are used to ensure timely optimisation of the portfolio sector structure. In addition, we provide our clients with information on the opportunity/risk profile for their respective sectors to support their corporate management activities.

### (f) Determination of portfolio concentrations

Concentrating large proportions of a portfolio on a single borrower or group of borrowers involves the risk of major defaults that could endanger the Bank's continued existence as a going concern (concentration risk). Portfolio concentrations are monitored closely and taken into account as appropriate in the risk capital. As soon as the risk capital required for individual borrowers exceeds a predefined threshold, measures are taken to consciously reduce the concentration, e.g. by placing tranches of the loan on the capital market (syndication) or via single name hedging.

Both nominal and risk-weighted parameters are used as concentration measures. Risk-weighted concentration supplements the nominal perspective by taking the probability of default and the collateralisation into account. Whereas the nominal concentration increased slightly in the course of the year, the risk-weighted concentration declined due to the above-average quality of our large exposures. Concentration risk is minimised through syndication and close monitoring.

Given our close monitoring and the above-average quality of those of our exposures with high concentration risk, we consider our current portfolio concentration to be acceptable.

### Credit risk from lending activities

We define credit risk from lending activities as the potential loss arising from defaults on loans or contingent liabilities (e.g. loan guarantees, documentary credits).

#### (a) Breakdown of credit risk from lending activities

The changes in portfolio composition are dominated by the growth in the overall loan portfolio, which is primarily due to the Dresdner Kleinwort segment and, to a lesser extent, to the Corporate Banking segment. The other divisions recorded stable development in absolute amounts.

#### (b) Risk development

The trend towards a continuous improvement in credit quality, which was already visible in 2005, continued in the year under review. This was supported by our systematic improvements to credit processes and the implementation of a value-based growth strategy, as well as the more upbeat economic environment. Encouragingly, this trend is visible on a broad front covering both the private and corporate clients segment and multinationals.

#### (c) Loan collateral

Loan collateral taken to hedge credit risk can be broken down into personal securities (e.g. sureties) and asset securities. As at the reporting date of 31 December 2006, the net realisable values of real estate liens (primarily on residential properties) were the dominating factor in Dresdner Bank's collateral portfolio. In addition, personal securities such as sureties and guarantees (including credit default swaps) played an important role in hedging credit risk. By contrast, pledges, other forms of assignment and cessions were less strongly represented. The ratio of collateral provided increased slightly year on year.

### (d) Credit risk stress tests

We perform periodic stress tests at borrower and portfolio level to assess the potential effects of macroeconomic developments and crises scenarios. These tests serve the timely identification of segments and counterparties at risk and hence help to ensure a sustained improvement in risk management. We use statistical scenarios and market scenarios in the stress tests. In the first case, relevant parameters are changed globally (e.g. rating migration of all clients by one rating category), whereas in the case of market scenarios the effects of a concrete scenario on the Dresdner Bank portfolio are analysed. All scenarios are evaluated using deteriorations in key risk indicators such as the expected loss and risk capital requirements.

Market scenarios include downturn scenarios (e.g. a recession in Germany) and stress scenarios (e.g. the effects of an avian flu pandemic). The various effects are determined either for the portfolio as a whole or at the individual subportfolio level, depending on the type of scenario concerned. The results to date for credit risk stress tests show that adequate risk buffers are available to cope with even extreme situations.

### (e) Non-performing loans

Non-performing loans and potential problem loans together form the risk elements.

In accordance with the disclosure requirements laid down by the U.S. Securities and Exchange Commission (SEC) Industry Guide 3, non-performing loans are classified into the following categories:

- Non-accrual loans: loans where it is doubtful whether the full amount of interest and/or redemption payments will be received, and for which interest is no longer accrued. Events triggering assignment to this segment are, for example, the creation of a loan loss allowance, the termination of an exposure, or the insolvency of the debtor.

- Loans 90 days past due and still accruing: Loans with interest and/or redemption payments that have been past due for 90 days or more, or credit facilities overdrawn for 90 days or more, but for which interest is still accruing and is still reported as income in the income statement.

- Troubled debt restructurings: Loans which are restructured due to a deterioration in the borrower's economic situation, i.e. loans in relation to which the Bank has made concessions (deferral, partial waiver, or similar).

**Potential problem loans**, by contrast, are loans for which the Bank, based on the information currently at its disposal, has serious doubts as to the ability of the borrower to comply with its contractual obligations, and for which an assignment to a non-performing loan category in future cannot be ruled out.

Special topic: securitisations

Dresdner Bank has been highly active in the field of asset securitisation for some time. On the one hand, the Bank uses securitisations for internal credit risk management. On the other, the securitisation of asset portfolios of and for clients is a key component of our range of structured finance products.

Securitisation serves to transfer the credit risk associated with specific assets or loan portfolios to third parties. The credit risk is separated from the originator and passed on to the investor in a number of different tranches. Generally, tranches differ in terms of seniority of cash flow allocation. Securitisation generally also involves the issue of securities or promissory notes (asset-backed securities (ABSs) and mortgage-backed securities) with claims backed by the underlying loan portfolio.

Dresdner Bank uses securitisation for actively managing its equity capital and credit risk; this applies in particular in the case of the securitisation of loans to mid-cap corporate clients. Both "true sales" (the non-recourse sale of loans) and synthetic securitisation methods (the use of credit derivatives or guarantees) are used. For example, at the beginning of 2006 Dresdner Bank used the True Sale Initiative (TSI) platform to place loans. In addition, Dresdner Bank synthetically securitised another loan portfolio in the Promise-K transaction in February 2006. In general, the securitised loans continue to be administered by Dresdner Bank, so that client relationships remain unaffected by the transaction.

Arranging securitisations for Dresdner Bank clients is a fast-growing business segment. Dresdner Bank has arranged the securitisation of loans via non-recourse sales since 1998.

Dresdner Bank uses complex, product-specific rating procedures in the field of ABCPs. In contrast to conventional rating procedures, use of these methods results in an assessment of default risk at tranche level. This enables Dresdner Bank to precisely quantify the risk positions adopted by the Bank during securitisations. These "ABS rating procedures" are an integral part of Dresdner Bank's internal risk management process and of business management in its loan structuring units.

As a result of Basel II, the risks entailed in securitisations are being subjected to a risk-sensitive assessment from a regulatory perspective as well. The relevant provisions of the Solvabilitätsverordnung (SolvV – Solvency Ordinance) will cover all risk positions from securitisation transactions that institutions have built up primarily in their banking books. Since, going forward, internal risk measurement procedures can also be used in principle for regulatory purposes for ABCP securitisation positions, the differences between their regulatory treatment and Dresdner Bank's internal risk measurement and management practices will decline.

## Counterparty risk from trading activities

Counterparty risk arises from the potential default of counterparties, especially in derivatives transactions. In contrast to the lending business, the amount of the claim subject to counterparty risk is determined not by the contractually agreed notional volume of the transaction, but by the latter's current fair value. This can increase or decrease over time as against the fair value at the start of the transaction due to fluctuations in market prices. In economic terms, a positive fair value from the Bank's perspective represents a receivable from the counterparty that would be wholly or partially lost if the counterparty were to default (counterparty risk). The fair value also represents the additional expense that would be incurred by the Bank in recreating a position equivalent to the defaulted transaction. Thus, the term "positive replacement cost" is used in addition to the term "positive fair value". This risk of future fluctuations in the market value is accounted for by a risk premium (add-on).

### (a) Derivatives business

**Regulatory treatment.** Regulatory requirements specify that counterparty risk from the derivatives business must be quantified. In this process, the current fair value is taken into account and a global estimate of future market price fluctuations (potential exposure) is performed. The assessment of the potential exposure depends on the underlying product involved and the individual time to maturity (regulatory add-on). The current fair value and add-on are then used to calculate the regulatory credit equivalent value for a derivatives transaction.

**Internal limits.** Potential counterparty risks that are required to be included in credit and counterparty risk management are managed within the Bank using a global, multi-level limit system, and are monitored continuously. Both the current fair values and potential future fluctuations in the fair value of the commitments concerned are taken into account. When calculating internal add-ons, Monte Carlo simulations are mainly used for unsecured transactions, while value at risk methods are mainly used for secured transactions. In the case of certain products the potential future fluctuations in the fair value are calculated on the basis of the current volatilities in each case. In the case of complex structures the individual components are examined; this ensures that the approaches used correctly present the risk involved.

**Conservative selection of our trading partners.** Further evidence of our conservative selection of trading counterparties is provided by the classification of the positive replacement cost in accordance with internal rating categories.

**Master netting agreements.** We enter into cross-product master netting agreements with our business partners in order to reduce counterparty risk from derivatives transactions. Netting allows all claims and liabilities not yet due to be offset against each other in the case of counterparty default. Dresdner Bank also uses the master agreements to reduce the amount of regulatory capital required.

**Collateral agreements.** We also enter into collateral agreements with our business partners in order to further reduce the counterparty risk from derivatives transactions. The amount of collateral furnished can vary over time; margin calls are used to make continuous adjustments in line with developments in the replacement cost to be collateralised, which are driven by market prices.

Our strictly quality-oriented risk policy is also demonstrated by the increasing number of collateral agreements, which we conclude not only with lower-rated counterparties but also with counterparties from the entire rating spectrum.

### (b) Settlement risk

Settlement risk is defined as a further component of counterparty risk. This short-term risk arises during the settlement of transactions whenever instructions for payment are issued before the consideration is received (e.g. where amounts in foreign currency are received during currency transactions). The settlement risk is counted towards the corresponding counterparty limit per value date in the amount of the consideration owed. To avoid or minimise this risk, we are increasingly going over to settling this type of transaction via clearing houses. In addition, as already described, bilateral netting agreements with individual counterparties are also entered into in this area in order to reduce settlement risk.

### Issuer risk from securities transactions

Issuer risk is incurred as a result of the Bank's own positions in securities, e.g. fixed-income bonds and equities, and of synthetic positions such as those entered into when concluding credit derivatives. Issuer risk reflects the potential loss to the Bank resulting from a change in the creditworthiness (typically a default) of the issuer or reference debtor concerned.

When counting amounts towards issuer risk limits, the decisive amount in question is the amount corresponding to the Bank's gain or loss in the case of an assumed immediate default by the issuer or reference debtor, with a loss rate of 100% on default being assumed. Long and short positions in the same security can be fully offset against each other.

When approving issuer risk from a credit risk perspective, the simplification provisions for trading activities stipulated by the MaRisk are employed by the "Issuer Risk Frame". In addition to single-concentration caps, which define the Bank's risk propensity with respect to a specific issuer or reference debtor depending on their rating, rating concentration caps are used to manage the bank's overall issuer risk portfolio. MaRisk requires explicit credit decisions for positions that remain in existence for a period of more than 90 days (so-called "stale exposures"). At Dresdner Bank, these statutory tasks are performed by the Stale Exposure Committee.

In the year under review, Dresdner Bank began introducing a Credit Event Value at Risk ("CE VaR") model for managing issuer risk. The goal of the CE VaR is to quantify the risk from changes in the creditworthiness of and defaults by issuers and reference debtors in the trading book. The instruments currently included match those incorporated in the credit spread model. Among other things, they include bonds, money market transactions, credit derivatives and tradable loans ("particular interest rate risk"). Equity positions are not integrated in the CE VaR model.

### Country risk

Country risk is defined as all risks deriving from country-specific risk factors. It includes transfer and conversion risk, i.e. the risk that payments may not be made as a result of moratoriums,

the freezing of converted/unconverted sums of money, restrictions on payment flows and the repatriation of capital:

- We define transfer and conversion risk as the potential loss that may arise if a business partner cannot meet its cross-border payment obligations due to sovereign acts by the partner's country preventing or restricting capital movements or currency exchange.

- The credit and counterparty risk arising from local transactions is the credit risk from commitments made by Dresdner Bank's foreign units to contracting parties attributable to the same country. The currency of the underlying transaction is immaterial in this respect.

- The country event risk is the potential risk arising from a sudden, substantial deterioration in market prices due to a significant change in the expectations of market participants in view of the occurrence of a country-specific crisis (chiefly a stoppage of transfers, currency crisis, sovereign default, or crisis in the financial system).

Our assessment of country risk is based on an internal country rating system. This offers 16 rating groups, which provide for a classification ranging from countries without identifiable country risks up to countries with an increased or high risk potential. The assessment of individual countries is based on quantitative, mainly macroeconomic key indicators as well as qualitative factors (the economic, social and political situation of the country). The system focuses in particular on solvency in foreign currencies.

In addition, an early warning tool has been developed for emerging markets which predicts developing crises in a timely manner over a forecast period of three to six months and hence helps avoid deteriorations in the quality of the Bank's portfolio.

Country risk is managed by restricting transfer risk from cross-border transactions and credit and counterparty risk from local lending and trading activities using a comprehensive country limit system. The system limits the exposure and risk capital for geographical regions and individual countries.

### Loan loss allowances and provisions

Dresdner Bank establishes loan loss allowances and provisions for credit risk incurred from lending activities as well as country risk allowances. In the case of credit risk from lending activities, provisions are established for loans where borrowers are highly unlikely to be able to continue making the agreed interest and redemption payments in full or in part.

The loan portfolio for which loan loss provisions are to be established is split into a homogeneous and a non-homogeneous portfolio. The homogeneous portfolio comprises loans from the PBC division with a limit of less than €1 million which are assigned to product-related segments (e.g. mortgage lending) on the basis of comparable risk parameters, and for which the degree of risk has been calculated at portfolio level by establishing portfolio loan loss provisions. All other loans are allocated to the non-homogeneous portfolio, with a distinction being made between the measurement of individual commitments in default (specific loan loss provisions) and defaults that have occurred but are as yet unidentified (general loan loss provisions).

Total loan loss provisions thus comprise the following elements: (a) specific loan loss provisions for the non-homogeneous portfolio, (b) general loan loss provisions for the overall portfolio including a portfolio loan loss provision for specific risks in the homogeneous portfolio (portfolio loan loss provision) and (c) country risk provisions. Within the general loan loss provisions, portfolio concentration effects are taken into account by setting up specific provisions. In addition, risks to our lending business arising from current macroeconomic developments are taken into account. Furthermore, the lack of major defaults over the past few years has prompted us to establish adequate general loan loss provisions.

### (a) Specific loan loss provisions

Specific loan loss provisions are established on the basis of an individual assessment of the exposure concerned. The responsible Risk Management unit or the corresponding Bank committees assess the default and determine the loan loss provision required in line with predefined delegated authorities. The amount of the loan loss provision is determined using a discounted cash flow model that focuses on the present value of future cash flows including proceeds from the realisation of available collateral. In addition, Dresdner Bank establishes provisions for off-balance-sheet items (e.g. loan guarantees or potential drawdowns on credit lines that have been confirmed but not yet drawn).

### (b) General loan loss provisions and portfolio loan loss provisions for specific risks

General loan loss provisions are established for latent risk in the non-homogeneous portfolio, i.e. for losses that have been incurred but that have not yet been identified at the balance sheet date. Since 2005, their amount is based on the empirically determined historical default probability and loss ratio for that portion of the loan portfolio for which no other provisions have already been established. Calculation takes into account current cyclical developments as well as macroeconomic conditions, i.e. risks that are not covered by the model are accounted for by making appropriate adjustments.

Portfolio loan loss provisions for the risk within the homogeneous portfolio have been created as part of the general loan loss provisions since 2005. These are quantified using a specially developed portfolio approach, which is based on historically derived default rates for the individual product segments and is oriented on the status of arrears in each case. The continuous incorporation of effective losses ensures a permanent recalibration of the underlying model. The resulting loan loss provisions comprise both losses that have not yet been identified and losses from impaired loans in the homogeneous portfolio.

### (c) Country risk provisions

Country risk provisions cover the risk to the Bank that a country will be either unable or unwilling to provide sufficient funds to service cross-border loans. The size of the provisions created is based on the country rating and the empirically determined loss rates incurred in previous years.

## Market risk

Market risk results from changes in market prices (e.g. exchange rates, share prices and interest rates) as well as from the correlations between these and from market volatility levels.

Market risk occurs both in the trading book and in the banking book. The trading book comprises Dresdner Bank's proprietary trading activities. The banking book contains fixed-income and floating rate loans, deposits and certificated liabilities, market risk management positions and securities held for investment purposes.

### General discussion of market risk

We use the statistical value at risk method to measure market risk in both the trading book and the banking book. Value at risk is defined as the maximum loss that is not exceeded for a given level of probability (confidence level) within a given period (holding period) under normal market conditions.

Our proprietary value at risk model takes both general and specific risks into account. Specific market risks cover risks from positions relating to individual securities or debtors. The general market risk is the systematic risk from general market movements that is not accounted for by individual securities or debtors. For the purposes of the internal management of trading risk, risk incurred in relation to individual debtors is reported separately in addition to the overall value at risk.

For regulatory reporting requirements, we calculate value at risk using a confidence level of 99% and a ten-day holding period. The BaFin approved the Bank's use of its internal value at risk model for the purposes of external reporting in accordance with Principle I of section 10 of the KWG for the first time in 1998 and later approved the enhancements to the model that were made in 2001, 2002 and 2004.

In addition to the regulatory reporting requirements, the Bank calculates value at risk using a confidence level of 95% and a one-day holding period for its internal risk determination and limitation. In contrast to the calculations performed to comply with regulatory requirements, greater weight is assigned to the recent past when estimating the underlying market volatility than to older market data. This allows us to ensure that the value at risk data reflects current market developments in a timely manner.

For internal management purposes, position risk is restricted by assigning value at risk limits. Our overall risk framework is laid down by the Board of Managing Directors in the form of a Bank-wide value at risk limit. The MaRCo discusses and reviews the risk position on a regular basis.

The units within the CRO function responsible for managing market risk and business unit management are jointly responsible for setting the limits for the different risk activities in the business units within the overall framework approved by the Board of Managing Directors. The CRO Function also ensures the consistency and completeness of the approved limits. The limits are monitored on a daily basis. Where they are exceeded, the responsible management unit is notified and takes action to remedy the situation.

**Limits of risk modelling.** Our value at risk model is consistent with the latest risk management standards used within the banking industry and is regularly enhanced. However, value at risk models are subject to inherent limitations with regard to their ability to model market risk. In particular, these include the fact that assumptions have to be made in each risk model as to how markets will behave. For example, fundamental assumptions in the value at risk model are that risk factors are normally distributed and that the past behaviour of risk factors is a good basis for assessing their future development. However, it is impossible to capture and model all possible parameters and their complex interactions with regard to the performance of the portfolio.

This limitation may become relevant in the case of stress events in particular. This is why a large number of different stress tests are also performed as a supplementary measure. Nevertheless, it is impossible to investigate all conceivable scenarios. Stress tests therefore primarily offer examples of what risks the portfolio is exposed to in extreme market conditions, but they cannot provide a definitive estimate of the maximum loss in the case of a stress event.

### Market risk from the trading book

We use position- and strategy-specific risk indicators as operating limits in addition to value at risk limits to accommodate the specific needs and risk situation of our trading units. Examples of such risk indicators are net sensitivity to yield curves, the maximum sensitivity to a specific interest rate (e.g. the ten-year interest rate) or the delta equivalent of equity and equity derivative positions. In addition, income developments are monitored using stop-loss triggers. If a trading unit suffers a loss in excess of its trigger it has to develop a plan to ensure that these losses do not increase further.

Market risk from trading activities declined overall in comparison to last year, mainly due to lower interest rate risk. This was mainly the result of changes in positions within the trading book and the associated increase in diversification effects between the general and the specific (credit spread exposure) interest rate risk. Due to the diversification at portfolio level, which is accounted for in value at risk using correlations between the individual risk categories, the aggregate risk is lower than the total figure for individual risk types.

In addition to this presentation of value at risk for regulatory purposes, the calculated value at risk and the hypothetical performance computed for the particular trading day are backtested on a daily basis to validate the quality of our value at risk model. For the hypothetical case only the performance resulting from the changes in market data is taken into account; performance resulting from changes in positions is not taken into account during backtesting, as it is not part of the value at risk model in this respect. To ensure comparability of the daily hypothetical performance with the value at risk, a value at risk with a confidence level of 99% and a one-day holding period is used for backtesting.

Stress tests provide examples of the risks that a portfolio is exposed to under extreme market conditions; we perform them on a weekly and monthly basis. A broad range of stress tests is applied – from standard stress tests (e.g. parallel shifts and twists in yield curves, the appreciation and depreciation of the euro, etc.) through historical crisis scenarios (e.g. "9/11", the Russian crisis, the Asian crisis, etc.) down to current macroeconomic stress tests and methods based on extreme value theory.

The results of the stress tests are discussed periodically by the MaRCo. Where trigger points are reached, the need for countermeasures is discussed and the relevant measures are resolved if necessary.

### Market risk from the banking book

Market risk from the banking book consists primarily of interest rate risk, which is measured using the value at risk approach. The main role of market risk management in the banking book is to generate a positive margin from interest income and refinancing costs. Interest rate risk arises if the margin is reduced as a result of increased refinancing costs (e.g. due to unfavourable developments in the yield curve).

Dresdner Bank AG's Group Treasury is responsible for performance and risk in relation to the management of interest rate risk in the banking book. Interest rate risk is transferred from the customer-facing business units to the central Treasury or to Asset-Liability Management and managed there at an aggregated level using transfer pricing based on market rates. For products whose actual time in the Bank exceeds their contractual maturity (as, for example, in the case of customer sight and savings deposits which can be withdrawn in principle at any time, but which in the aggregate actually remain available to the Bank for a long period), the assumptions behind the interest rate risk management models used are based on empirical customer withdrawal behaviour. The models and the parameters in place are reviewed at regular intervals.

We have opted to perform NPV-based measurement of the interest rate risk in the banking book (economic perspective) so as to ensure enhanced measurability and comparability of the market risk from the banking book as against the market risk from the trading book. In addition to the NPV-based interest rate risk analysis, regular interest rate sensitivity analyses of net interest income for the period are performed (earnings perspective).

The management of market risk from the banking book includes all relevant items in the Bank's balance sheet, including equity and investments, as well as relevant off-balance sheet transactions (loan commitments with fixed interest terms, forward transactions). Management is decentralised and uses value at risk limits and operating limits (e.g. sensitivity limits). The CRO Function monitors and reports on the utilisation of and compliance with the limits on a daily basis. In addition to monthly market interest rate risk analyses, an annual review of the limits is also performed on Dresdner Bank's entire banking book.

For regulatory reporting, the Bank calculates value at risk for market risk in the banking book using a confidence level of 99% and a ten-day holding period, in the same way as for the trading book.

Periodic stress tests quantify the potential loss from rare events potentially implying large losses. Standard stress tests (parallel shifts and twists in yield curves, changes in volatility) and portfolio-specific scenario analyses are performed for the positions in the banking book. The latter analyses consist of the actual changes in market parameters in historical crisis situations.

Interest rate risk from transactions denominated in foreign currency is managed by refinancing with matching maturities. In addition to interest rate risk, the Bank is subject to currency risk on loans and deposits denominated in foreign currencies. These are refinanced or reinvested in the same currency with matching maturities. The residual exchange rate risk in the Bank's commercial business results primarily from intra-year changes in income at foreign affiliated enterprises.

## Risk from shareholdings and real estate risk

Risks from shareholdings are potential losses that could arise from the provision of equity for third parties. These risks result from general market fluctuations or issuer-specific factors. Real estate risk consists of unexpected volatility in the value of owner-occupied properties and land and buildings used by third parties due to negative price trends on the real estate market.

### Risk from shareholdings

Risk from shareholdings is monitored primarily as part of Dresdner Bank's ongoing management of its shareholdings. This also includes the regular classification of investments as critical or non-critical using predefined criteria. A distinction is made in this context between risks from listed investments and risks from unlisted investments.

The market prices of listed investments are tracked continuously. The future risk potential is assessed on the basis of regular analyses, taking external analyst opinions into account (consensus estimates), and is included in the regular management reporting. In addition, listed shareholdings are also monitored via regular impairment tests in line with the Allianz Group's Impairment Policy.

Risks from unlisted shareholdings are monitored regularly using database-driven year-end measurement, quarterly impairment tests and special monitoring of investments classified as "critical". Different measurement approaches are used to quantify potential risks (Ertragswert (German income capitalisation method), net asset value, fair value, liquidation value); these depend on the status (e.g. active, inactive, in liquidation) and on the type of business (e.g. operating activities, property company, holding) of the investments concerned.

### Real estate risk

The real estate risk relates to owner-occupied land and buildings and land and buildings used by third parties; these are reported in the relevant items of property and equipment on the balance sheet.

Land and buildings used by third parties are bundled in a special real estate fund managed by the investment company and Group subsidiary DEGI Deutsche Gesellschaft für Immobilienfonds mbH. The market value of the land and buildings is reviewed on an annual basis by DEGI's independent Valuation Committee ("Sachverständigenausschuss"). The portfolio is actively managed, with disposal strategies being developed and implemented to steer the income and risk associated with the properties.

The owner-occupied properties comprise Dresdner Bank's strategic properties, which are not intended for disposal. The valuations of this real estate are tested for impairment if certain trigger events occur.

## Operational risk

Operational risk (OR) is the risk of loss from failed or inadequate processes, from human error or technical failures, or from external events. This definition includes legal risk, but excludes strategic risk and reputational risk.

Operational risk affects all areas of the organisation, which is why we have developed an overall framework for managing operational risk. The implementation of this framework ensures active management of operational risk, while at the same time meeting the regulatory requirements specified in the "Advanced Measurement Approach" (AMA). The framework focuses on the organisation of the structures and the OR processes and instruments. Special rules apply to legal risk.

Risk capital is allocated to the business units on the basis of the specific risk profile identified, thus making risk-oriented management possible.

### Roles and responsibilities

The central Group OR Management unit is primarily responsible for setting minimum OR standards, monitoring material risks, calculating risk capital and reporting. As a centre of competence, it also derives recommendations for risk management actions from its overarching analysis of the OR risk profile.

Decentralised OR management units support the senior management in the divisions, functions and subsidiaries who are responsible for implementing the framework.

Additionally, the Group-wide Operational Risk Committee was established to ensure awareness of operational risk throughout the Group, to identify cross-divisional risks and to initiate loss avoidance measures going forward.

### Processes and instruments

We analyse weaknesses and the causes of defective processes using the data collated on operational risk. These analyses are used as the basis for formulating measures with which these problems can be avoided in the future.

In order to capture rare OR events potentially implying large losses, we introduced a top-down scenario analysis in 2006. External loss data, among other things, was used in the development and selection of the scenarios. Senior management is tracking this process closely.

In order to actively support developments in the area of key risk indicators, Dresdner Bank is a member of an international working committee led by the Risk Management Association (RMA). The results gained, which are also intended to facilitate cross-institutional benchmarking, will be used to successively define risk indicators in the business units, and hence to support the latter in the daily monitoring of their business processes and the risk resulting from them.

As part of the scenario-based loss data approach, Dresdner Bank has developed an internal model for calculating the risk capital for operational risk; this is based on both internal and external loss data, as well as scenario analysis results along with statistical modelling of extreme events.

Centralised and decentralised reporting structures ensure that senior management, the Executive Committee of the CRO Function, the members of the OR Committee and the supervisory bodies are kept informed of operational risk in a regular, timely and comprehensive manner. In addition to a brief overview in the monthly risk report for the entire Bank, OR reports are prepared on a quarterly basis. These contain a report on current risk assessments for the units, significant losses incurred and measures taken, as well as current risk analyses.

### Specific framework for legal risk

In line with the recommendation by the BaFin's Fachgremium OpRisk (OpRisk Technical Forum), Dresdner Bank defines legal risk as the risk of loss from the breach of valid legal regulations. This comprises the risk of infringements of the law due to ignorance, careless interpretation, negligent acts, or late implementation on the one hand and, on the other hand, the risk of loss due to new statutory regulations – for example if contractually agreed provisions are no longer legally enforceable (risk of legal change).

The Group Legal unit is primarily responsible for managing and limiting these risks, for example by using internationally accepted standard contracts, obtaining legal opinions, formulating General Terms and Conditions of Business, and performing legal reviews of banking forms. In order to counteract the risk of legal change, contractual terms for established products are continuously reviewed, and amended if necessary, in light of changes in legislation or case law. Furthermore, as a member of the Group-wide OR Committee, Group Legal is involved in dealing with cross-divisional and cross-functional OR issues and is involved in the assessment of operational risk using scenario analyses.

## Business and strategic risk

### Business risk

Business risk results from unexpected fluctuations in results that arise when expenses cannot be reduced in line with a decline in earnings (fixed cost risk). Business risk is minimised by continuously adapting our business strategy.

The Group's business strategy is set by the Board of Managing Directors of Dresdner Bank in agreement with Allianz. It is based on an analysis of the starting situation for the Group's business policy and takes into account the Bank's risk-bearing capacity, human resources capacity and technical/organisational infrastructure. Dresdner Bank's business strategy is regularly reviewed and, if necessary, adapted to reflect changing general conditions.

Above and beyond current and future regulatory capital requirements, business risks are backed by economic risk capital as part of internal risk management procedures. Risk capital requirements are determined on the basis of the divisional business plans using a stress scenario approach that assumes specific stress scenarios for the individual earnings and cost components. The risk capital for each division is derived from the simulated decline in earnings resulting from this.

### Strategic risk

The Group Development & Investments unit monitors Dresdner Bank's strategic positioning and strategic business portfolio on an ongoing basis. Nevertheless, like any other financial services provider, Dresdner Bank is exposed to the strategic risk of not achieving its long-term business goals. The Bank counters this risk by constantly monitoring market and competitive developments and drawing up systematic long-term planning. Dresdner Bank's Board of Managing Directors regularly reviews the validity of the strategy of the Bank as a whole and the individual business units. Necessary strategic initiatives and portfolio optimisation measures are taken as required based on this review.

Strategic risk cannot be unambiguously quantified and is therefore not backed by risk capital.

## Liquidity risk

Liquidity risk is defined as the risk that the Bank will not be able to meet its current and future payment obligations in full, or on time. It also includes the risk that, in the case of a liquidity crisis, refinancing may only be obtained at higher market rates (funding risk) and/or that assets may only be liquidated at a discount to market rates (market liquidity risk). Liquidity risk is not backed by risk capital, since it is a payment risk that must be covered by assets and not a risk of loss to be covered by capital and reserves.

Group Treasury is responsible for liquidity risk management within Dresdner Bank, with short-term liquidity risk management being performed via the trading units in line with the limits set for them. Regional Treasury units report regularly on their local markets to Group Treasury. The Risk Governance & Controlling unit within the CRO Function, which is functionally and organisationally independent of Group Treasury, is responsible for monitoring risk limits, for validating the methodology used and for reporting. The units represented on the Treasury Liquidity

Management Committee regularly discuss the Bank's liquidity situation and the situation on the markets in meetings of this body.

The principles governing liquidity management are laid down in the Group Liquidity Policy, which is approved by the members of the Board of Managing Directors responsible, and which implements both internal standards and regulatory requirements. These include the setting of liquidity risk limits (including an escalation process when limits are exceeded) and emergency planning.

Dresdner Bank uses an integrated liquidity management system to manage liquidity risk. This is used to run a daily scenario-based run-off profile to show the maturity profile for cash flows from operating activities. This matches aggregated assets and liabilities in different maturity bands on the basis of their contractual or expected residual maturities. Securities positions and positions which do not have a fixed residual maturity are simulated using model assumptions. Illiquid positions, such as those in emerging markets, are accounted for using an appropriately conservative distribution. Customer deposits, which experience shows are available to the Bank for longer than their contractual term, as well as customer sight assets, are modelled using a statistical core deposit model. Short-term liquidity risk is managed by setting limits for cumulative liquidity gaps per maturity band (for maturities of up to two years). These limits are broken down onto the individual Bank units for operational management purposes. Liquidity maturity transformation is managed by limiting the funding ratio – the ratio of long-term assets to long-term funds – per maturity band (for maturities of more than two years).

The regular reports submitted to the Board of Managing Directors also contain stress scenarios that provide information on the effects of unexpected developments on the liquidity situation. These stress scenarios relate to both bank-specific and market-specific crises and take into account developments such as the effects of rating downgrades, the withdrawal of customer deposits, or a deterioration in asset liquidity. Liquidity outflows from contingent liabilities and increased drawdowns on committed credit lines, as well as claims on guarantees, are also taken into consideration. Rating trigger clauses, which lead to immediate liquidity outflows, are used in particular to analyse the effects of a rating downgrade.

In addition, the liquidity management system is used to analyse individual empirical parameters such as the volumes and composition of unencumbered securities, securities deposited as collateral with central banks, unsecured funding through banks and own issues of money-market securities. Monitoring the liquidity of unencumbered securities is particularly important so as to be able to meet unexpected short-term payment obligations at any time.

The Bank's refinancing strategy aims among other things to achieve a balance between stable sources of refinancing and loans on the one hand, and rating-sensitive funding and unencumbered securities positions on the other. To ensure a stable refinancing basis, particular attention is paid to a high degree of diversification with regard to customer groups, currencies, instruments and markets. The bank's planning of its medium- and long-term refinancing activities is based on the funding ratios and takes into consideration planned new lending business and liabilities falling due and requiring replacement.

## Reputational and environmental risk

In addition to the types of risk outlined above, reputational risk and environmental risk may exist. As with liquidity and strategic risk, these risks are not backed by capital, either for regulatory purposes or internally.

### Reputational risk

Reputational risk is the risk that Dresdner Bank will lose its good reputation in the eyes of its stakeholders, e.g. customers, Allianz Group shareholders, employees, or the wider public. Reputational risk may arise from all public activities by the Bank and may lead to a direct or indirect decline in the enterprise value. Conversely, losses from other types of risk, regardless of their size, may lead to long-term reputational damage if they become publicly known. This is why the goal of Dresdner Bank's risk management is to identify and assess reputational risk at all levels, to report on it at as early a stage as possible and, where appropriate, to escalate so as to enable proactive risk management. To achieve this, Dresdner Bank has introduced a consistent, Group-wide reputational risk management process to ensure the protection of our good reputation according to standardised principles and evaluation criteria.

### Environmental risk

Environmental risk comprises the potential economic, financial, administrative, or reputational consequences of gradual or sudden environmental pollution. Dresdner Bank may be directly affected by such risk, but it may also be exposed to indirect risk if environmental risk affects the Bank's customers and this has a negative impact on Dresdner Bank (for example, deterioration in the value of collateral resulting from contaminated sites). Internally, the Bank distinguishes between credit risk, collateral risk, liability risk and reputational risk. An environmental management system certified in accordance with ISO 14001:2005 is used at Dresdner Bank to systematically analyse, assess and manage these risks in the divisions and business units. Internationally accepted standards (World Bank Standards, Hermes Guidelines, OECD Common Approaches, etc.) are also applied. In addition, environmental and climate-related risk must be accounted for in loan decisions at Dresdner Bank. In its project finance business, Dresdner Bank applies the Equator Principles, and has again committed itself to complying with the revised 2006 version. Climate-related risks, risks associated with financing renewable energies and risks involved in $CO_2$ emissions trading are identified, analysed and mitigated in a centre of competence.

Special topic: sustainability

For Dresdner Bank, sustainability means that economic growth and social prosperity must go hand in hand with the protection of natural resources. We regard sustainability as a key component of business activity and hence as long-term, rigorous value creation. The introduction of sustainability management supplements our pro-active risk management through the systematic inclusion of ecological, political, ethical and social factors with a bearing on credit and investment decisions.

Our sustainability activities are tightly integrated with the Allianz Group's sustainability strategy. For example, Allianz is listed in the *Dow Jones Sustainability Index* and was classed as a *sector leader* for the first time in 2006. The *Allianz Climate Core Group*, which addresses the management of climate change risk and the consequences of climatically induced natural disasters, played a major role here. In 2006, its initiative led to the implementation of a climate strategy and an action program based on it. The Core Group is chaired by the member of Dresdner Bank's Board of Managing Directors responsible for Risk Management.

The alignment of our corporate strategy with sustainability issues has led to Dresdner Bank positioning itself in innovative business areas such as renewable energy project finance or emission rights trading, which was introduced in the European Union in January 2005. We deliberately expanded our offering in this area to include products and services that optimise the effects of emissions trading for our clients and ensure that the annual reduction targets are met cost-effectively. As a market leader in this area, Dresdner Bank was named *"Emissions Trading House of the Year 2006"* by the *Financial Times* and *The Banker* magazine.

## Summary and Outlook

The Minimum Requirements for Risk Management are the key component of the new qualitative supervisory regime in Germany. Opening clauses offer institutions a variety of opinions for strengthening their individual responsibility, depending on their size and the complexity of their business.

At Dresdner Bank, we have laid a solid foundation for global risk management and control with our key risk principles. In order to ensure maximum-quality risk management at all times, the procedures used to measure, manage and aggregate all risk types today are continuously enhanced using best-practice approaches and adapted to changing market conditions. For 2007, we are planning in particular to finalise the use of Credit Event VaR models to better model issuer risk from trading activities. Additionally, we are enhancing our simulation procedures for modelling counterparty risk and expanding them to cover our entire portfolio. In both instances, we are planning/have applied for BaFin approval of the corresponding models.

The organisational structure of the CRO Function was modified at the end of 2005 and offers clear contact persons for the divisions on the one hand plus a strict separation by risk type on the other. It will enable us to meet the requirements arising from the reorganisation of the Bank and to continue to act efficiently and flexibly.

# Relations with Affiliated Enterprises

Following the acquisition of Dresdner Bank AG, Frankfurt/Main, by Allianz SE, Munich, a related party relationship as defined by the Aktiengesetz (AktG – German Stock Corporation Act) has existed between the two companies since 23 July 2001. As a dependent company within the meaning of section 17 (1) AktG, we report on our relationship with Allianz SE and with enterprises affiliated with Allianz SE for the period 1 January 2006 to 31 December 2006 in accordance with section 312 AktG.

In the report on the relationship with Allianz SE and with enterprises affiliated with Allianz SE, the Board of Managing Directors declared in accordance with section 312 AktG:

"We hereby declare that Dresdner Bank AG has received adequate consideration for all legal transactions and measures listed in this report on the basis of circumstances known to us at the time that the transactions or measures were or were not performed, and has not been placed at a disadvantage by measures being taken or not taken."

# Outlook

Although the pace of growth of the global economy is likely to slow in 2007, global economic growth is expected to remain sound at approximately 3% for the year overall. This trend is due to the slowdown in the previously dynamic US economy. Past interest rate hikes and the correction on the housing market are likely to impact economic development in 2007 and depress growth to 2.3%. However, the emerging markets, and particularly Asia, will continue to be robust global growth engines. Potential risks to the rate of growth of the global economy are to be found in raw materials price trends, imbalances in foreign trade and potential geopolitical tensions.

2007 will probably get off to a somewhat more subdued start in Europe – largely as a result of the increase in value added tax in Germany. However, growth should normalise again in the second half of the year at the latest following this economic blip. This is because the continuing increase in employment and lower energy costs are partially absorbing the impact on consumer demand in Germany. As a result, consumer spending will stabilise again in the course of the year. In addition, the upturn in the German economy will continue to be buoyed by strong export growth and in particular by ongoing strong investment, which is being fuelled by successful enterprise consolidation and the strong corporate earnings situation. Nevertheless, overall economic growth in Germany in 2007 will lag the prior-year figure, at 1.4%.

Against this backdrop, expectations regarding the capital markets are marked by cautious optimism, with positive effects on the capital markets business and on interest by private and institutional investors being forecast. Demand for loans will benefit from the continuing increase in capital expenditure, even if a substantial proportion of this will be funded internally by companies.

The expected macroeconomic environment offers opportunities that we intend to systematically leverage. We have already laid the foundations internally for further developments to our **integrated business model**. We are focusing on ensuring that Private & Corporate Clients and Investment Banking can concentrate fully on their customers, as well as on systematic specialisation in the areas of sales and production and the establishment of state-of-the-art settlement platforms and effective governance structures. The measures forming part of our "Neue Dresdner Plus" programme that we have resolved and already started implementing are closely focused on profitable growth. The key strategic goal is to expand our position among Germany's leading banks catering to private and corporate customers. Dresdner Bank's advisory and sales offensive aims to increase its customer market share to 10% by 2008 – this corresponds to approximately 6.5 million customers. In addition we want, as part of the Allianz Group, to become the leading financial services provider on the European market.

The divisions have already begun implementing specific measures designed to leverage earnings potential that is currently not being adequately exploited.

In the **Private & Corporate Clients** division we want to acquire new customers and reinforce our ties with existing clients by providing innovative products and solutions and by optimising the quality of our advisory services. In particular, we want to systematically exploit the opportunities open to us in the growth areas of financial provision and asset management. We shall increase the number of Private & Business Banking locations from the current figure of 120 to approximately 350, and the middle market segment from 50 to around 60 locations. In Private Wealth Management, too, our high net worth clients will soon be offered support at a choice of 22 locations, instead of the previous 15. Other launches are being planned as part of our focused international expansion. In addition, we shall introduce an even more efficient and

high-profile offering together with Allianz by strengthening our multi-channel sales and increasing our broad-based presence. The beginning of 2007 saw the launch of our project to set up bank branches within Allianz agencies. The first of the 100 bank branches located in Allianz pilot agencies were opened at the beginning of February. In these agencies, a Dresdner Bank advisor will offer a broad range of banking services, while customers will be able to access a service terminal and, at selected locations, a cash dispenser as well.

In the **Investment Banking** division – which is organised into the Global Banking and Capital Markets units – we expect the advisory and capital markets business to pick up. We want to further optimise our business with corporate and institutional customers by harmonising customer advisory services and focusing on our core competencies. In the process, we shall profit from the increasing need for structured finance products and capital market solutions. All in all, we expect these two areas of business to generate annual growth rates significantly above those for traditional banking business. In its trading activities, the Bank will continue to focus on the high-margin areas of complex derivatives and structured transactions. We intend to capture a significant share of this potential income with improved products and with our expertise. With respect to the German market, we aim to further strengthen our position – flanked by investments in growth fields and targeted expansion in the core countries of Europe. By bundling our Corporate and Investment Banking, we can bring our comprehensive capital markets expertise even closer to our customers, based on a joint strategy and platform.

The **Business Services** division bundles Banking Services, IT Services, Human Resources and Group COO/Legal/Marketing. Going forward, these units will be responsible for all business processing tasks, thus helping free up the sales units. Another key component of this is the consolidation of so-called shared services and industrialisable tasks in the Banking Services area. Bundling and industrialising these processes, which are aligned consistently with our business model, will significantly increase our efficiency. In addition, we are focusing on reducing the costs of complexity, cutting back office costs by grouping regional units together and, in an associated move, bundling specialist knowledge in national competence centres, as well as on establishing state-of-the-art platforms.

All in all, these new organisational structures have enabled us to create the preconditions for strengthening our performance by generating growth and returns. We aim to leverage the above-mentioned growth potential while at the same time maintaining our strict cost discipline. In concrete terms, we aim to keep administrative costs largely stable throughout the Bank thanks to the strict implementation of rationalisation and efficiency improvement measures. With regard to loan loss provisions, we expect – starting from today's historically low levels – to see a return to a level that reflects the risk inherent in our business over the coming years. The volume of loan loss provisions will depend to a not inconsiderable extent on macroeconomic developments and on the underlying credit cycle.

Our assessments of our future business development are based on projects and forecasts that use the information available to us at this time. This includes publicly available market data and macroeconomic parameters, as well as economic forecasts by respected economic institutes and associations.

As an international financial services company our business activities are highly dependent on market events – and in particular on developments on the capital markets and on macroeconomic trends, which have corresponding knock-on effects on our entire client business. This means that extreme or unexpected volatility on the financial markets could have negative consequences for the income we generate from the capital markets. Moreover, lending is a substantial component of our core business. If macroeconomic conditions should worsen again, a corresponding impact on the development of our business and income cannot be ruled out. However, we do not see any signs of such negative developments at present. National and international changes in legislation, particularly in relation to tax regulations, may also lead to deviations from our forecasts.

To the best of our knowledge at present, and against the backdrop of the measures resolved to increase profitability and focus on growth, we are confident that our business development in 2007 will generate a contribution to earnings that will lay the foundations to reach the target return of 12% after taxes in 2008 for the Dresdner Bank Group.

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# Balance Sheet as at 31/12/2006
# Dresdner Bank AG

| Assets (€m) | | | | 31/12/2006 | 31/12/2005 |
|---|---|---|---|---|---|
| **Cash funds** | | | | | |
| a) Cash on hand | | | 358 | | 336 |
| b) Balances with central banks | | | 4,546 | | 3,446 |
| of which: with Deutsche Bundesbank | 3,924 | | | | (2,933) |
| | | | | **4,904** | **3,782** |
| **Public sector securities and bills eligible for refinancing with central banks** | | | | | |
| a) Treasury bills, discounted treasury notes and similar treasury securities | | | 1,838 | | 983 |
| of which: eligible for refinancing with Deutsche Bundesbank | 1,176 | | | | (554) |
| b) Bills | | | – | | 126 |
| of which: eligible for refinancing with Deutsche Bundesbank | – | | | | (126) |
| | | | | **1,838** | **1,109** |
| **Loans and advances to banks** | | | | | |
| a) Payable on demand | | | 27,849 | | 16,044 |
| b) Other | | | 103,801 | | 79,486 |
| | | | | **131,650** | **95,530** |
| **Loans and advances to customers** | | | | **194,614** | **175,466** |
| of which: secured by mortgages | 20,588 | | | | (21,290) |
| communal loans | 925 | | | | (970) |
| **Debt and other fixed-income securities** | | | | | |
| a) Money market securities | | | | | |
| aa) public sector issuers | | 17 | | | 38 |
| of which: eligible as collateral for Deutsche Bundesbank advances | 17 | | | | ( – ) |
| ab) other issuers | | 5,863 | | | 2,333 |
| of which: eligible as collateral for Deutsche Bundesbank advances | 64 | | | | (180) |
| | | | 5,880 | | 2,371 |
| b) Bonds and notes | | | | | |
| ba) public sector issuers | | 17,934 | | | 35,137 |
| of which: eligible as collateral for Deutsche Bundesbank advances | 11,755 | | | | (26,931) |
| bb) other issuers | | 57,649 | | | 68,797 |
| of which: eligible as collateral for Deutsche Bundesbank advances | 15,476 | | | | (23,531) |
| | | | 75,583 | | 103,934 |
| c) Own bonds and notes | | | 853 | | 955 |
| at par | 1,019 | | | | (947) |
| | | | | **82,316** | **107,260** |
| **Equities and other non-fixed-income securities** | | | | **25,941** | **22,653** |
| **Investments in non-affiliated enterprises** | | | | **531** | **544** |
| of which: in banks | 107 | | | | (82) |
| in financial services institutions | 2 | | | | (3) |
| **Investments in affiliated enterprises** | | | | **4,535** | **6,839** |
| of which: in banks | 1,227 | | | | (1,495) |
| in financial services institutions | 187 | | | | (187) |
| **Assets held in trust** | | | | **1,589** | **1,885** |
| of which: fiduciary loans | 872 | | | | (1,037) |
| **Intangible fixed assets** | | | | **53** | **67** |
| **Tangible fixed assets** | | | | **767** | **2,148** |
| **Other assets** | | | | **34,860** | **33,960** |
| **Deferred items** | | | | **2,885** | **3,635** |
| **Deferred tax assets** | | | | **122** | **156** |
| **Total assets** | | | | **486,605** | **455,034** |

| Liabilities and shareholders' equity (€m) | | | | 31/12/2006 | 31/12/2005 |
|---|---|---|---|---|---|
| **Liabilities to banks** | | | | | |
| a) payable on demand | | | 39,083 | | 48,473 |
| b) with agreed maturities or periods of notice | | | 148,650 | | 129,282 |
| | | | | **187,733** | **177,755** |
| **Liabilities to customers** | | | | | |
| a) Savings deposits | | | | | |
| aa) with agreed periods of notice of three months | | – | | | – |
| ab) with agreed periods of notice of more than three months | | 104 | | | 126 |
| | | | 104 | | 126 |
| b) Other liabilities | | | | | |
| ba) payable on demand | | 85,471 | | | 78,927 |
| bb) with agreed maturities or periods of notice | | 119,768 | | | 106,762 |
| | | | 205,239 | | 185,689 |
| | | | | **205,343** | **185,815** |
| **Certificated liabilities** | | | | | |
| a) Bonds issued | | | 15,466 | | 16,632 |
| b) Other certificated liabilities | | | 18,534 | | 19,092 |
| of which: money market securities | 10,210 | | | | (11,586) |
| own acceptances and promissory notes outstanding | – | | | | (362) |
| | | | | **34,000** | **35,724** |
| **Liabilities incurred as a trustee** | | | | **1,589** | **1,885** |
| of which: fiduciary loans | 872 | | | | (1,037) |
| **Other liabilities** | | | | **37,017** | **33,176** |
| **Deferred items** | | | | **2,393** | **2,917** |
| **Provisions** | | | | | |
| a) Provisions for pensions and similar obligations | | | 1,807 | | 1,726 |
| b) Provisions for taxes | | | 257 | | 441 |
| c) Other provisions | | | 1,788 | | 1,705 |
| | | | | **3,852** | **3,872** |
| **Subordinated liabilities** | | | | **4,445** | **4,905** |
| **Profit-participation certificates** | | | | **2,028** | **1,278** |
| of which: maturing in less than two years | 1,278 | | | | (511) |
| **Fund for general banking risks** | | | | **174** | **174** |
| **Shareholders' equity** | | | | | |
| a) Subscribed capital | | | 1,503 | | 1,503 |
| b) Contributions by silent partners | | | 1,000 | | – |
| c) Additional paid-in capital | | | 4,436 | | 4,436 |
| d) Retained earnings | | | | | |
| da) legal reserve | | 3 | | | 3 |
| db) reserve for treasury shares | | – | | | – |
| dc) other retained earnings | | 788 | | | 782 |
| | | | 791 | | 785 |
| e) Distributable profit | | | 301 | | 809 |
| | | | | **8,031** | **7,533** |
| **Total liabilities and shareholders' equity** | | | | **486,605** | **455,034** |
| Contingent liabilities | | | | | |
| a) Liabilities on endorsed bills settled with customers | | | – | | – |
| b) Liabilities on guarantees and warranties | | | 17,837 | | 16,926 |
| c) Liabilities arising from securities for third parties | | | – | | – |
| | | | | 17,837 | 16,926 |
| Other commitments | | | | | |
| a) Repurchase commitments under non-genuine securities sale and repurchase agreements | | | 3 | | 5 |
| b) Irrevocable loan commitments | | | 54,038 | | 47,977 |
| | | | | 54,041 | 47,982 |

# Income Statement for 2006
# Dresdner Bank AG

| Expenses (€m) | | | | 2006 | 2005 |
|---|---|---|---|---|---|
| **Interest expenses** | | | | **13,341** | **10,730** |
| **Commissions paid** | | | | **451** | **313** |
| **General administrative expenses** | | | | | |
| a) Staff expenses | | | | | |
| aa) wages and salaries | | 1,593 | | | 1,558 |
| ab) social security contributions and expenses | | | | | |
| for pensions and other employee benefits | | 462 | | | 492 |
| of which: pension expenses | 253 | | | | (269) |
| | | | 2,055 | | 2,050 |
| b) Other administrative expenses | | | 2,124 | | 2,149 |
| | | | | **4,179** | **4,199** |
| **Amortisation and depreciation of intangible and tangible fixed assets** | | | | **95** | **261** |
| **Other operating expenses** | | | | **446** | **576** |
| **Impairment losses on loans/advances and certain securities, and additions to provisions for possible loan losses** | | | | **139** | **–** |
| **Expenses from assumption of loss** | | | | **153** | **388** |
| **Extraordinary expenses** | | | | **364** | **25** |
| **Income tax expense** | | | | **113** | **384** |
| **Other taxes not included under Other operating expenses** | | | | **2** | **2** |
| **Net income for the year** | | | | **307** | **1,587** |
| **Total expenses** | | | | **19,590** | **18,465** |
| | | | | | |
| **Net income for the year** | | | | **307** | **1,587** |
| **Loss carryforward** | | | | **–** | **-42** |
| **Decrease in assets from spin-offs** | | | | **–** | **-293** |
| **Withdrawal from additional paid-in capital** | | | | **–** | **293** |
| **Withdrawals from retained earnings** | | | | | |
| a) from reserve for treasury shares | | | | **–** | **46** |
| **Transfers to retained earnings** | | | | | |
| a) to other retained earnings | | | | | |
| aa) from reserve for treasury shares | | – | | | -46 |
| ab) from net income for the year | | -6 | | | -736 |
| | | | -6 | | -782 |
| | | | | **-6** | **-782** |
| **Distributable profit** | | | | **301** | **809** |

| Income (€m) | | 2006 | 2005 |
|---|---|---|---|
| **Interest income from** | | | |
| a) lending and money market operations | 12,102 | | 9,735 |
| b) fixed-income securities and government debt | 3,114 | | 3,287 |
| | | **15,216** | **13,022** |
| **Current income from** | | | |
| a) equities and other non-fixed-income securities | 398 | | 524 |
| b) investments in non-affiliated enterprises | 131 | | 112 |
| c) investments in affiliated enterprises | 236 | | 627 |
| | | **765** | **1,263** |
| **Income from profit pooling, profit transfer, or partial profit transfer agreements** | | **72** | **327** |
| **Commissions received** | | **2,298** | **2,028** |
| **Net income from financial operations** | | **670** | **271** |
| **Income from reversals of impairment losses on loans and advances and certain securities and from reversals of loan loss provisions** | | **–** | **657** |
| **Income from reversals of impairment losses on investments in non-affiliated and affiliated enterprises and securities treated as fixed assets** | | **106** | **195** |
| **Other operating income** | | **463** | **702** |
| **Total income** | | **19,590** | **18,465** |

# Notes to the Financial Statements

## General

### Basis of accounting

The annual financial statements of Dresdner Bank AG have been prepared in accordance with the provisions of the Handelsgesetzbuch (HGB – German Commercial Code) in conjunction with the Verordnung über die Rechnungslegung der Kreditinstitute (RechKredV – German Accounting Directive for Banks) and the applicable provisions of the Aktiengesetz (AktG – German Stock Corporation Act).

### Accounting policies

Cash funds are stated at their nominal value; foreign notes and coins are measured on the basis of the year-end market rates (closing rates).

Public-sector debt securities and bills are stated net of unearned discounts.

Loans and advances are stated at their nominal or face value, less any related loan loss allowances. Any differences between the nominal amount and the amount paid out which are equivalent to interest are deferred and amortised using the effective interest method.

Specific loan loss allowances are established to provide for individually identified credit and counterparty risks. The amount of the allowance represents the difference between the carrying amount of the receivable and the present value of the relevant expected cash flows calculated using the discounted cash flow method, after allowing for recoverable collateral. In the case of smaller standardised loans, we comply with the principle of itemised measurement to the extent that we group them together to form homogeneous portfolios. In this case a particular loan loss allowance for risks is applied; the methodology for this is explained in the Risk Report. The creation of homogeneous portfolios is restricted to certain loans in the Private & Business Clients Division. General loan loss allowances are established to provide for incurred but unidentified losses that are inherent in the loan portfolio as at the reporting date. The amount of the general loan loss allowances is based on historical loss probabilities and loss ratios for that portion of the loan portfolio for which no other loan loss allowances have been charged to date, plus the average identification period to be applied. The economic environment and current events are taken into account when determining the general loan loss allowances. The particular loan loss allowance for risks is reported as a component of the general loan loss allowances. Thus general loan loss allowances are calculated overall in accordance with the method stipulated by the International Financial Reporting Standards (IFRSs). Adequate allowances are established for country risk (in the form of transfer or conversion risk); this is performed in particular using an internal rating system, which categorises countries in accordance with their risk profile. General banking risk reserves have also been set up in accordance with sections 340f and 340g of the HGB.

In the income statement, the income and expense items relating to risk provisioning have been netted under risk provisioning, as permitted by section 340f (3) of the HGB.

Securities are reported in the balance sheet under debt and other fixed-income securities and equities and other non-fixed-income securities. A distinction is made between long-term securities and securities held as current assets. Long-term securities are measured in accordance with the rules for fixed assets at the lower of cost or market at the reporting date. Write-downs

are reversed where the reasons for them no longer exist. Securities held as current assets comprise either securities held in the trading portfolio or securities belonging to the liquidity portfolio. Securities in the trading portfolio are carried at amortised cost. Together with other trading transactions, such as derivatives, they are marked to market, with the risk of short-term changes in market price reflected by an appropriate value at risk discount. The difference between the market price of the securities, net of risk mark-downs, and amortised cost is reported net in other assets or other liabilities, as appropriate, after offsetting against gains or losses from the remeasurement of derivatives. Securities belonging to the liquidity portfolio (securities which are neither treated as long-term securities nor held for trading purposes) are measured, by type of security, at the lower of the moving average cost or market value at the reporting date. In the case of securities belonging to the liquidity portfolio that were bought above or below their par value, the respective discounts or premiums are amortised on a pro rata basis across the securities' remaining life. Zero bonds are accounted for using the effective interest method. Repurchased warrants issued by the Bank are offset against the warrants issued by us, which are recognised under certificated liabilities.

We report securities lending and borrowing transactions in the same way as collateralised monetary transactions. Securities that have been lent continue to be recognised in the balance sheet. In contrast, borrowed securities are not recognised in the balance sheet.

Investments in non-affiliated and affiliated enterprises are measured in accordance with the rules for fixed assets at the lower of cost or market at the reporting date. Write-downs are reversed where the reasons for them no longer exist.

The income and expense items referred to in section 340c (2) of the HGB have been netted and included under result from investment securities, as permitted by that statute.

Tangible fixed assets are stated at acquisition or production cost less depreciation and write-downs, where applicable. Depreciation and write-downs are calculated on the basis of the rates permitted by tax rules. Low-value fixed assets are written off in full in the year of acquisition.

Deferred tax assets were recognised in accordance with the provisions of section 274 (2) of the HGB.

Interest-bearing liabilities are accounted for at the amount to be repaid. Where liabilities are entered into subject to discounts, the discounts are reported as deferred assets and amortised over the life of the respective liabilities. Correspondingly, in the case of interest-bearing liabilities subject to premiums, the premiums are reported as deferred liabilities and amortised over the life of the respective liabilities. Non-interest bearing liabilities such as zero bonds are measured at their present value.

Pension provisions are measured using actuarial principles on the basis of the "2005 G" mortality tables. Existing pension entitlements ("Bestandsrenten") are measured using a discount rate of 6%, while new pension entitlements ("Zuwachsrenten") are measured using a discount rate of 3.9%. The German entry age normal method ("Teilwertverfahren") or the projected unit credit method is applied, depending on the applicable pension benefit rules. New members are measured using the projected unit credit method and a discount rate of 2.75%.

Provisions for taxes, uncertain liabilities and expected losses from uncompleted transactions are stated at the amounts expected to become payable, applying prudent business judgement.

Contingent liabilities are stated at nominal value, less any related provisions.

Derivatives in both the banking book and the trading book are off-balance sheet, i.e. they do not in their own right represent assets or liabilities eligible for recognition. In contrast, deferred interest, option premiums paid or received and derivative margin accounts are recognised under other assets or other liabilities, as appropriate.

Where derivatives in the banking book are used to hedge balance sheet items, these are measured in accordance with the rules applicable to the hedged item. Unrealised measurement gains are not taken into account, whereas unrealised losses are accounted for by setting up a provision for expected losses from uncompleted transactions. Currency instruments are measured at the closing rate. Purchased credit default swaps have the same economic function as financial guarantees received if they demonstrably serve to hedge against interest and principal repayment defaults on loans, and are treated accordingly. Income and expense from interest rate instruments associated with assets or liabilities which are carried at nominal or face value are deferred on a straight-line basis.

Together with securities held in the trading portfolio (see also the explanations on securities held in the trading portfolio), derivatives in the trading book are marked to market. Such financial instruments are measured at fair value. Where no listed market prices are available, the fair value is estimated using accepted valuation models (especially net present value methods and option pricing models); the parameters used in such models include yield and volatility curves, exchange rates, or implied correlations appropriate to the model used. In this process, appropriate adjustments to measurements are made, e.g. for model risks. The principle of prudence is observed by means of an appropriate value at risk discount.

### Foreign currency translation

Assets denominated in a foreign currency that are accounted for as fixed assets and are not specifically hedged in the same currency are translated at historical rates.

All other assets and liabilities denominated in a foreign currency and outstanding unsettled spot transactions are translated at the spot middle rate as at the reporting date.

The translation of forward currency transactions is discussed in the Notes relating to our off-balance sheet business. Currency translation gains and losses were recognised in accordance with section 340h (2) of the HGB.

## Notes to the Balance Sheet

### Analysis of loans/advances and liabilities by residual term

#### 31 December 2006

| Loans and advances<br>€m | Up to<br>3 months | > 3 months<br>to 1 year | > 1 year<br>to 5 years | More than<br>5 years | Total |
|---|---|---|---|---|---|
| Term loans and advances to banks | 88,506 | 11,028 | 3,527 | 740 | 103,801 |
| Loans and advances to customers[1)] | 120,757 | 18,671 | 23,422 | 31,764 | 194,614 |
| **Total** | **209,263** | **29,699** | **26,949** | **32,504** | **298,415** |

1) Loans and advances to customers with residual terms of up to three months include €4,937 million of undated claims.

Holdings of debt and other fixed-income securities in the amount of €82,316 million include €12,691 million maturing in 2007.

| Liabilities<br>€m | Up to<br>3 months | > 3 months<br>to 1 year | > 1 year<br>to 5 years | More than<br>5 years | Total |
|---|---|---|---|---|---|
| Term liabilities to banks | 121,718 | 13,282 | 7,221 | 6,429 | 148,650 |
| Savings deposits | 13 | 12 | 61 | 18 | 104 |
| Other term liabilities to customers | 98,529 | 12,964 | 4,102 | 4,173 | 119,768 |
| Certificated liabilities | 8,429 | 7,116 | 13,007 | 5,448 | 34,000 |
| of which: other certificated liabilities | 7,573 | 4,384 | 4,414 | 2,163 | 18,534 |
| Subordinated liabilities | 453 | 307 | 1,455 | 2,230 | 4,445 |
| Profit-participation certificates | – | 511 | 767 | 750 | 2,028 |
| **Total** | **229,142** | **34,192** | **26,613** | **19,048** | **308,995** |

Certificated liabilities include €15,466 million of issued notes, of which €3,588 million mature in 2007.

#### 31 December 2005

| Loans and advances<br>€m | Up to<br>3 months | > 3 months<br>to 1 year | > 1 year<br>to 5 years | More than<br>5 years | Total |
|---|---|---|---|---|---|
| Term loans and advances to banks | 67,269 | 8,345 | 2,737 | 1,135 | 79,486 |
| Loans and advances to customers[1)] | 111,140 | 12,528 | 22,869 | 28,929 | 175,466 |
| **Total** | **178,409** | **20,873** | **25,606** | **30,064** | **254,952** |

1) Loans and advances to customers with residual terms of up to three months include €5,295 million of undated claims.

| Liabilities<br>€m | Up to<br>3 months | > 3 months<br>to 1 year | > 1 year<br>to 5 years | More than<br>5 years | Total |
|---|---|---|---|---|---|
| Term liabilities to banks | 99,859 | 15,752 | 5,671 | 8,000 | 129,282 |
| Savings deposits | 17 | 14 | 72 | 23 | 126 |
| Other term liabilities to customers | 85,186 | 9,506 | 7,052 | 5,018 | 106,762 |
| Certificated liabilities | 11,288 | 6,256 | 12,722 | 5,458 | 35,724 |
| of which: other certificated liabilities | 9,697 | 3,717 | 4,008 | 1,670 | 19,092 |
| Subordinated liabilities | 62 | 222 | 1,639 | 2,982 | 4,905 |
| Profit-participation certificates | – | – | 1,278 | – | 1,278 |
| **Total** | **196,412** | **31,750** | **28,434** | **21,481** | **278,077** |

### Loans and advances and liabilities to affiliated enterprises

| €m | 31/12/2006 | 31/12/2005 |
|---|---:|---:|
| Loans and advances to banks | 1,776 | 1,740 |
| Loans and advances to customers | 25,095 | 25,598 |
| Debt and other fixed-income securities | 3,425 | 2,262 |
| **Loans and advances to affiliated enterprises** | **30,296** | **29,600** |
| Liabilities to banks | 12,130 | 10,511 |
| Liabilities to customers | 28,746 | 32,213 |
| Certificated liabilities | 1,911 | – |
| Subordinated liabilities | 1,519 | 1,620 |
| **Liabilities to affiliated enterprises** | **44,306** | **44,344** |

### Loans and advances and liabilities to non-affiliated enterprises

| €m | 31/12/2006 | 31/12/2005 |
|---|---:|---:|
| Loans and advances to banks | 520 | 1,554 |
| Loans and advances to customers | 267 | 378 |
| Debt and other fixed-income securities | 389 | 2,055 |
| **Loans and advances to non-affiliated enterprises** | **1,176** | **3,987** |
| Liabilities to banks | 290 | 333 |
| Liabilities to customers | 184 | 67 |
| Certificated liabilities | – | 96 |
| **Liabilities to non-affiliated enterprises** | **474** | **496** |

Loans and advances and liabilities to non-affiliated enterprises also contain loans and advances and liabilities to associates.

In accordance with section 287 sentence 1 of the HGB, the list of our shareholdings in accordance with section 285 no. 11 of the HGB is prepared separately and published in the electronic Bundesanzeiger (Federal Gazette) together with the annual financial statements. The list of shareholdings also contains disclosures on the existence of profit and loss transfer agreements.

### Trustee business

| €m | 31/12/2006 | 31/12/2005 |
|---|---:|---:|
| Loans and advances to customers | 872 | 1,037 |
| Debt and other fixed-income securities | 717 | 848 |
| **Assets held in trust** | **1,589** | **1,885** |
| Liabilities to banks | 725 | 857 |
| Liabilities to customers | 864 | 1,028 |
| **Liabilities incurred as a trustee** | **1,589** | **1,885** |

By definition, the trustee business classified here relates solely to assets that are held by the Bank in its own name but for the account of third parties.

## Foreign currency holdings

| €m | 31/12/2006 | 31/12/2005 |
|---|---|---|
| Assets | 166,798 | 137,543 |
| Liabilities | 155,662 | 128,148 |

The amounts reported constitute aggregate euro equivalents in a wide variety of currencies outside the euro zone. Any differences between the amounts of assets and liabilities are due to the fact that the information given only relates to items relevant to the balance sheet and thus excludes the nominal value of forward currency transactions, including those concluded for hedging purposes.

## Subordinated assets

| €m | 31/12/2006 | 31/12/2005 |
|---|---|---|
| Loans and advances to banks | 147 | 150 |
| Loans and advances to customers | 1,179 | 1,249 |
| Debt and other fixed-income securities | 192 | 258 |
| – Bonds and notes (other issuers) | 187 | 247 |
| – Own bonds and notes | 5 | 11 |
| Equities and other non-fixed-income securities | 11 | 16 |
| **Subordinated assets** | **1,529** | **1,673** |

## Marketable securities

| €m | Listed securities | | Unlisted securities | | Total | |
|---|---|---|---|---|---|---|
| 31/12/ | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Debt and other fixed-income securities | 50,167 | 75,738 | 32,149 | 31,522 | 82,316 | 107,260 |
| Equities and other non-fixed-income securities | 19,560 | 19,291 | 1,377 | 39 | 20,937 | 19,330 |
| Investments in non-affiliated enterprises | 196 | 224 | 4 | 5 | 200 | 229 |
| Investments in affiliated enterprises | 238 | 238 | – | – | 238 | 238 |

Movements in fixed assets

| €m | Historical cost | Additions in fiscal year | Disposals in fiscal year | Write-downs (total) | Write-downs during fiscal year | Residual book value at 31/12/2006 | Residual book value at 31/12/2005 |
|---|---|---|---|---|---|---|---|
| Investments in non-affiliated enterprises[1] | 669 | 1,276 | 1,414 | | | 531 | 544 |
| Investments in affiliated enterprises[1] | 8,522 | 1,340 | 5,327 | | | 4,535 | 6,839 |
| Long-term securities[1] | 4,057 | 4,054 | 321 | | | 7,790 | 4,057 |
| Intangible fixed assets | 269 | 11 | 12 | 215 | 25 | 53 | 67 |
| Tangible fixed assets | 3,597 | 35 | 1,833 | 1,032 | 72 | 767 | 2,148 |
| – Land and buildings | 2,396 | 1 | 1,744 | 175 | 12 | 478 | 1,832 |
| – Office furniture and equipment | 1,201 | 34 | 89 | 857 | 60 | 289 | 316 |

1) Certain amounts have been aggregated as permitted by section 34 (3) of the RechKredV.

Write-downs of debt securities to the lower fair value in the amount of €47 million (previous year: €12 million) were not charged as no permanent impairment is to be expected. The Group used land and buildings with a carrying amount of €473 million (previous year: €535 million) in connection with its activities.

## Other assets

Other assets consist of items which cannot be attributed to other specific asset items. These include, inter alia, option premiums paid and deferred assets. 90% of the €34,860 million of other assets recognised consisted of accrued interest on derivatives and premiums paid for unexpired options on securities, foreign currencies, precious metals, interest rate and foreign currency swaps, and for interest rate caps and floors.

## Deferred taxes

At 31 December 2006, deferred tax assets in the amount of €122 million (previous year: €156 million) were recognised in accordance with section 274 of the HGB. Deferred tax assets and liabilities were netted to determine the required deferral amount. €82 million of the total amount relates to domestic operations and €40 million to branches outside Germany. Within Germany, deferred tax assets were recognised primarily for non-tax-deductible provisions for expected losses from uncompleted transactions. With regard to foreign branches, the deferred taxes result from a variety of differences between the carrying amounts in the financial statements and the tax accounts.

### Assets sold under repurchase agreements

The net carrying amount of assets sold under repurchase agreements amounted to €78,894 million at the reporting date (previous year: €65,672 million). These assets continue to be recognised in our balance sheet, and the consideration received for them is included under liabilities. Besides open market transactions with Deutsche Bundesbank, these operations consist of repurchase transactions (monetary transactions collateralised by securities) entered into with customers and banks.

### Deferred items

Deferred assets include discounts on liabilities in accordance with section 250 (3) of the HGB in the amount of €294 million (previous year: €275 million), while deferred liabilities include discounts on loans and advances in accordance with section 340e (2) sentence 2 of the HGB in the amount of €45 million (previous year: €64 million).

### Other liabilities

Other liabilities consist of liabilities which cannot be included in any other specific liability items, such as premiums received in respect of options and deferred liabilities. At the end of 2006, accrued interest on derivatives as well as premiums received by the Bank in respect of unexpired options on securities, foreign currencies, precious metals, interest rate and foreign currency swaps, and of interest rate caps and floors, accounted for 90% of the reported €37,017 million of other liabilities.

### Provisions

Pension provisions rose by €81 million to €1,807 million (previous year: €1,726 million). Due to changes in the discount rates, measurement of the provisions resulted in a €23 million increase in additions to pension provisions in the fiscal year. Provisions for taxes decreased by €184 million to €257 million (previous year: €441 million). The other provisions increased by a total of €83 million and amounted to €1,788 million at year-end 2006 (previous year: €1,705 million); they primarily include provisions relating to human resources and loan loss provisions, as well as provisions for restructurings as part of the “Neue Dresdner Plus” programme, which is described in detail in the Management Report. The restructuring provisions amounted to €329 million and were recognised primarily for expected staff and occupancy expenses. The recognised expenses were measured on the basis of the best estimate of the expected costs of the individual measures.

## Subordinated liabilities

Subordinated liabilities are disclosed in the table below at nominal amounts:

| Currency | Equivalent €m | Maturity |
|---|---|---|
| EUR | 2,233 | 2007–2039 |
| USD | 1,515 | 2008–2031 |
| CHF | 187 | 2007–2009 |
| GBP | 223 | 2007 |
| JPY | 267 | 2027–2033 |
| Other currencies | 87 | 2010–2011 |

The aggregate reported volume of subordinated liabilities is €4,445 million (previous year: €4,905 million). Borrowings in excess of 10% of the aggregate volume relate to an issue in the amount of USD 1 billion, which has an interest rate of 8.151% and which will mature in 2031, and an issue in the amount of €0.5 billion, which has an interest rate of 5.790% and which will mature in 2011. Total interest paid on subordinated liabilities in the year under review amounted to €224 million (previous year: €262 million).

In the event of insolvency or liquidation, subordinated liabilities may not be redeemed until all non-subordinated creditors have been satisfied. There is no obligation to redeem them prior to maturity.

## Profit-participation certificates

At 31 December 2006, the aggregate amount of profit-participation certificates outstanding was €2,028 million (previous year: €1,278 million). Profit-participation certificates entitle holders to annual interest payments, which take priority over shareholders' dividend entitlements; they are subordinated to liabilities from other creditors, except those similarly subordinated. They share in losses in accordance with the conditions attached to the certificates. The profit-participation certificates will be redeemed in line with the provisions regarding loss sharing.

The profit-participation certificate issues are presented in detail in the table below:

| Year of issue | Nominal amount | Interest rate | Maturity |
|---|---|---|---|
| 1996 | €511m | 8.0% | 2007 |
| 1997 | €767m | 7.0% | 2008 |
| 2006 | €750m | 5.386% | 2016 |

After the 1996 issue had become ineligible as liable capital in 2005 and the 1997 issue in 2006 in accordance with section 10 (5) sentence 1 no. 4 KWG, we issued new profit participation certificates with a total nominal amount of €750 million in July 2006; these are eligible as liable capital under the provisions of the KWG.

## Revaluation reserves attributed to liable capital

Unrealised reserves (securities and investments in non-affiliated enterprises) amounting to €206 million were included in liable capital in 2006 in accordance with section 10 (2b) sentence 1 no. 7 of the KWG.

Statement of changes in shareholders' equity

| | | | €m |
|---|---|---|---|
| **Subscribed capital (share capital)** | | | |
| – 1 January 2006 | | 1,503 | |
| – 31 December 2006 | | | **1,503** |
| **Contributions by silent partners** | | | |
| – 1 January 2006 | | – | |
| – Capital contribution made with respect to silent participation | | 1,000 | |
| – 31 December 2006 | | | **1,000** |
| **Additional paid-in capital** | | | |
| – 1 January 2006 | | 4,436 | |
| – 31 December 2006 | | | **4,436** |
| **Retained earnings** | | | **791** |
| – Legal reserve | | | |
| – 1 January 2006 | 3 | | |
| – 31 December 2006 | | 3 | |
| – Reserve for treasury shares | | | |
| – 1 January 2006 | – | | |
| – 31 December 2006 | | – | |
| – Other retained earnings | | | |
| – 1 January 2006 | 782 | | |
| – Addition from net income for the year | 6 | | |
| – 31 December 2006 | | 788 | |
| **Distributable profit** | | | **301** |
| **Shareholders' equity** | | | **8,031** |

The subscribed capital of €1,502,972,205.80 as at 31 December 2006 was composed of 578,066,233 registered no-par value shares. Each share represents a notional share in the share capital and entitles the holder to one vote in the Annual General Meeting. Allianz SE holds a 100% indirect interest in the share capital of Dresdner Bank AG.

Dresdner Bank is an affiliated enterprise of Allianz SE as defined by section 271 (2) of the HGB and is included in the consolidated financial statements of Allianz SE, Munich. These can be obtained from Allianz SE, Königinstrasse 28, 80802 Munich. The consolidated financial statements are published in the electronic Bundesanzeiger (Federal Gazette).

The following arrangements for the payment obligations of the Bank in the event of liquidation or insolvency apply to the ranking of the silent participation: they rank behind the claims of all existing and future creditors of the Bank. They rank at least pari passu with all claims for the repayment of capital contributions made with respect to existing and future silent participations in the Bank, as well as with all claims against the Bank that rank or are expressed to rank pari passu with the aforementioned claims. In addition, they rank senior to all claims of shareholders of the Bank in connection with their shares in the statutory capital of the Bank, in each case as already arisen or arising in the future.

## Collateral pledged for own liabilities

Assets in the amounts given below were pledged as collateral for the following liabilities:

| €m | 31/12/2006 | 31/12/2005 |
|---|---|---|
| Liabilities to banks | 63,312 | 59,706 |
| Liabilities to customers | 35,649 | 34,425 |
| Other commitments | 1,442 | 1,108 |

The collateral pledged for own liabilities to banks primarily relates to monetary transactions with Deutsche Bundesbank and special-purpose funds transmitted on behalf of Kreditanstalt für Wiederaufbau and certain other financial institutions.

## Contingent liabilities

| €m | 31/12/2006 | 31/12/2005 |
|---|---|---|
| Liabilities on guarantees and warranties | 17,837 | 16,926 |
| – Credit guarantees | 1,152 | 1,106 |
| – Other guarantees and warranties | 14,573 | 14,067 |
| – Letters of credit | 2,112 | 1,753 |
| – Letters of credit opened | 794 | 843 |
| – Letters of credit confirmed | 1,318 | 910 |

## Other commitments

| €m | 31/12/2006 | 31/12/2005 |
|---|---|---|
| Repurchase commitments under non-genuine securities sale and repurchase agreements | 3 | 5 |
| of which: loans and advances | 3 | 5 |
| Irrevocable loan commitments | 54,038 | 47,977 |
| – Advances | 43,106 | 36,535 |
| – Standby facilities | 8,888 | 9,431 |
| – Guarantee credits | 1,722 | 1,730 |
| – Discount credits | 64 | 46 |
| – Mortgage loans | 258 | 235 |

The volumes of commitments reported under irrevocable loan commitments represent amounts not drawn upon. There were no placements or underwriting commitments as at 31 December 2006.

## Notes to the Income Statement

### Geographical breakdown of gross income

| €m | 2006 | 2005 |
|---|---|---|
| Germany | 12,316 | 12,231 |
| Rest of Europe | 6,066 | 4,422 |
| North America | 886 | 466 |
| Asia | 143 | 167 |
| **Total** | **19,411** | **17,286** |

The total amount contains the following income statement items: interest income, current income from equities and other non-fixed-income securities, investments in non-affiliated and affiliated enterprises, fee and commission income, net income from financial operations, and other operating income.

### Other operating income

Other operating income amounted to €463 million (previous year: €702 million). Approximately 70% of this amount related to income from the reversal of provisions, reimbursements from services rendered to Group companies, disposal gains and rental income.

### Other operating expenses

Other operating expenses amounted to €446 million (previous year: €576 million). They include additions to provisions, losses realised on sales, compensation payments and the cost of own issues.

### Extraordinary expenses

The extraordinary expenses of €364 million (previous year: €25 million) relate to restructuring expenses, mainly for measures planned under the "Neue Dresdner Plus" programme.

### Income tax expense

Income taxes of €113 million (previous year: €384 million) were reported for the year under review. The decline in the tax expense compared with the previous year is due primarily to the lower domestic taxable income.

## Other Information

### Other financial commitments

| €m | 31/12/2006 | 31/12/2005 |
|---|---|---|
| Obligations arising from hire, rental and leasing contracts | 2,001 | 2,320 |
| Commitments under capital projects in progress | 122 | 63 |
| Commitments to pay up shares, bonds and other capital interests; secondary liability | 209 | 265 |
| **Total** | **2,332** | **2,648** |
| of which: commitments to affiliated enterprises | 413 | 9 |

As in the previous year, approximately 90% of obligations arising from hire, rental and leasing contracts related to land and buildings.

Commitments to pay up shares, bonds and other capital interests totalled €22 million (previous year: €62 million). Secondary liability in accordance with section 24 of the Gesetz betreffend die Gesellschaften mit beschränkter Haftung (GmbHG – German Limited Liability Companies Act) declined to €12 thousand (previous year: €16 million); the run-off liability following a hive-off in accordance with section 133 Umwandlungsgesetz (UmwG – Reorganisation Act) amounted to an unchanged €129 million.

Commitments to pay further contributions existed in respect of our interest in Liquiditäts-Konsortialbank GmbH, Frankfurt/Main, in accordance with section 26 of the GmbHG in the amount of €58 million (unchanged); in addition, we have a proportionate contingent liability to provide additional contributions owed by other shareholders belonging to Bundesverband deutscher Banken e. V. (the Federal Association of German Banks), Berlin.

In all cases of run-off or secondary liability, the financial status of the other joint and several debtors or shareholders involved is sound.

Because of the legal form of the companies concerned, the liability relating to the interests in AZ-Aiolos Vermögensverwaltungsgesellschaft OHG, Munich, LOFRA GmbH & Co. KG, Frankfurt/Main, and Reuschel & Co. Kommanditgesellschaft, Munich, is unlimited. In these cases, too, the financial status of the other partners involved is sound.

In the case of the two closed-end real estate funds MERKUR Grundstücks-Gesellschaft Objekt Berlin Lange Straße KG, Grünwald, and KALMUS Grundstücks-Gesellschaft Objekt Erfurt KG, Grünwald, Dresdner Bank AG has issued an irrevocable declaration of indemnity to Kommanditgesellschaft Allgemeine Leasing GmbH & Co., Grünwald, (KGAL), which covers certain rights of tender in respect of KGAL.

Dresdner Bank AG has made an undertaking to the closed-end real estate fund LAMINA Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Leipzig KG, Grünwald, to guarantee that this company can meet its obligations.

In accordance with section 5 (10) of the Statutes of the Einlagensicherungsfonds (Deposit Protection Fund), we have undertaken to indemnify Bundesverband deutscher Banken e. V. for any losses it may incur by reason of measures taken on behalf of any banks in which we own a majority interest.

In the case of subsidiaries as defined in section 290 (1) and (2) of the HGB which are engaged in banking business or complementary operations, Dresdner Bank AG takes care in relation to the proportion of its shareholding, except with regard to political risk, that these companies are able to meet their obligations.

## Derivatives business

| €m<br>31/12/ | Nominal amount 2006 | 2005 | Positive fair values 2006 | 2005 | Negative fair values 2006 | 2005 |
|---|---|---|---|---|---|---|
| **Interest rate derivatives** | **4,118,748** | **3,766,506** | **47,777** | **59,075** | **47,066** | **58,564** |
| OTC products | | | | | | |
| – FRAs | 117,177 | 110,166 | 25 | 36 | 29 | 29 |
| – Interest rate swaps | 3,648,352 | 3,232,465 | 42,723 | 56,465 | 42,144 | 54,383 |
| – Fixed-rate swaps | 1,084 | 816 | 60 | 53 | 11 | 12 |
| – Basis swaps | 34,703 | 29,630 | 833 | 440 | 384 | 442 |
| – Interest rate swaps (IRS) | 3,612,565 | 3,202,019 | 41,830 | 55,972 | 41,749 | 53,929 |
| – Interest rate options: calls | 85,083 | 88,365 | 1,274 | 1,696 | – | – |
| – Interest rate options: puts | 113,299 | 97,862 | – | – | 2,620 | 3,206 |
| – Other interest rate contracts | 12,948 | 10,733 | 2,351 | 63 | 1,387 | 88 |
| Exchange-traded products | | | | | | |
| – Interest rate futures | 111,485 | 183,443 | 6 | 105 | 4 | 125 |
| – Interest rate options: calls | 14,944 | 24,732 | 1,398 | 710 | – | – |
| – Interest rate options: puts | 15,460 | 18,740 | – | – | 882 | 733 |
| **Currency derivatives** | **680,312** | **635,190** | **9,913** | **8,944** | **10,032** | **9,216** |
| OTC products | | | | | | |
| – Forward currency transactions | 368,646 | 404,867 | 4,839 | 4,774 | 5,041 | 4,940 |
| – Cross-currency swaps | 96,001 | 82,687 | 3,537 | 2,837 | 3,238 | 2,645 |
| – Currency options: calls | 115,657 | 75,570 | 1,537 | 1,333 | – | – |
| – Currency options: puts | 100,008 | 71,778 | – | – | 1,753 | 1,631 |
| Exchange-traded products | | | | | | |
| – Currency futures | – | 288 | – | – | – | – |
| **Equity/index derivatives** | **414,336** | **362,949** | **18,873** | **14,142** | **18,722** | **14,511** |
| OTC products | | | | | | |
| – Equity/index swaps | 55,121 | 28,692 | 1,139 | 760 | 1,439 | 885 |
| – Equity/index options: calls | 110,807 | 95,916 | 12,818 | 10,197 | – | – |
| – Equity/index options: puts | 144,888 | 147,408 | – | – | 13,262 | 10,557 |
| – Other equity/index contracts | 3 | 28 | – | 0 | 3 | 5 |
| Exchange-traded products | | | | | | |
| – Equity/index futures | 8,724 | 9,887 | – | 0 | – | 1 |
| – Equity/index options: calls | 44,634 | 39,860 | 4,916 | 3,185 | – | – |
| – Equity/index options: puts | 50,159 | 41,158 | – | – | 4,018 | 3,063 |
| **Credit derivatives** | **918,249** | **501,036** | **6,825** | **4,521** | **6,705** | **4,686** |
| – Credit default swaps | 904,184 | 486,484 | 5,333 | 3,692 | 5,043 | 3,291 |
| – Protection buyer | 440,871 | 222,166 | 1,742 | 1,903 | 3,461 | 1,515 |
| – Protection seller | 463,313 | 264,318 | 3,591 | 1,789 | 1,582 | 1,776 |
| – Total return swaps | 14,065 | 14,552 | 1,492 | 829 | 1,662 | 1,395 |
| – Protection buyer | 9,512 | 9,591 | 1,410 | 557 | 1,374 | 1,395 |
| – Protection seller | 4,553 | 4,961 | 82 | 272 | 288 | 0 |
| **Other derivatives** | **21,451** | **12,380** | **566** | **560** | **526** | **372** |
| OTC products | | | | | | |
| – Precious metal derivatives | 11,896 | 8,843 | 439 | 503 | 418 | 338 |
| – Other contracts | 7,618 | 2,206 | 126 | 48 | 108 | 34 |
| Exchange-traded products | | | | | | |
| – Futures | 1,937 | 1,315 | 1 | 8 | 0 | 0 |
| – Options: calls | – | 7 | – | 1 | – | – |
| – Options: puts | – | 9 | – | – | – | 0 |
| **Total** | **6,153,096** | **5,278,061** | **83,954** | **87,242** | **83,051** | **87,349** |

The preceding table shows the notional volumes and fair values for the Bank's entire derivatives business; the table below shows the banking book derivatives business, which forms part of this.

| Banking book<br>€m<br>31/12/ | Nominal amount<br>2006 | <br>2005 | Positive fair values<br>2006 | <br>2005 | Negative fair values<br>2006 | <br>2005 |
|---|---|---|---|---|---|---|
| Interest rate derivatives | 12,841 | 9,292 | 236 | 89 | 61 | 100 |
| Currency derivatives | 945 | 497 | 16 | 0 | 9 | 4 |
| Equity/index derivatives | 1,777 | 31,755 | 19 | 28 | 361 | 276 |
| Credit derivatives | 2,282 | 1,967 | 134 | 22 | 60 | 157 |
| Other derivatives | – | 11 | – | – | – | – |
| **Total** | **17,845** | **43,522** | **405** | **139** | **491** | **537** |

Information on the accounting treatment is provided in the Notes to the Balance Sheet under the other assets, other liabilities and provisions items.

## Auditors' fees

| €m | 2006 | 2005 |
|---|---|---|
| Auditing of the financial statements | 12 | 14 |
| Other assurance or valuation services | 3 | 2 |
| Tax advisory services | 1 | 1 |
| Other services | 3 | 2 |
| **Total** | **19** | **19** |

## Branch offices

| | 2006 | 2005 |
|---|---|---|
| Germany | 718 | 719 |
| Other countries[1)] | 18 | 21 |
| **Total** | **736** | **740** |

1) After deduction of one (previous year: three) branch office(s) in the process of being closed.

## Employees

Excluding vocational trainees and trainees, the average number of staff employed during the year was 22,426 (previous year: 23,136); the breakdown is shown in the following table.

| | 2006 | 2005 |
|---|---|---|
| Germany | 21,847 | 22,666 |
| Other countries | 579 | 470 |
| **Total** | **22,426** | **23,136** |

The average number of vocational trainees and trainees on training programmes during the year was 876 (previous year: 1,132) and 104 (previous year: 97) respectively.

### Management and brokerage services

Besides its securities commission business, the following management and brokerage services represent a substantial part of Dresdner Bank AG's activities: custody administration, administration of fiduciary loans, asset management as well as the brokerage of mortgages, insurance policies, home loans contracts and real estate.

### Loans to members of the Board of Managing Directors and the Supervisory Board

Loans to members of the Board of Managing Directors and liabilities assumed on their behalf totalled €718,002.08 (previous year: €395,844.91). The total volume of loans granted to members of the Supervisory Board of Dresdner Bank AG was €499,410.00 (previous year: €429,040.00).

### Remuneration of executive body members

The remuneration paid to the Board of Managing Directors in accordance with section 285 (9a) of the HGB amounted to €18,746,789.95. This includes share-based payments comprising 44,241 stock appreciation rights (SARs) with a fair value of €37.50 at the grant date and 50,456 restricted stock units (RSUs) with a fair value of €100.00 at the grant date. The remuneration paid to former members of the Board of Managing Directors and their surviving dependants amounted to €23,767,065.73. Pension provisions for former members of the Board of Managing Directors and their surviving dependants amounted to €122 million as at 31 December 2006.

Compensation paid to members of Dresdner Bank AG's Supervisory Board for fiscal year 2006 totalled €981,412.50 (previous year: €958,500.00), including value added tax. Payments to the members of the regional advisory boards amounted to €1,204,138.00 (previous year: €1,212,344.00), including value added tax.

### Events occurring after the balance sheet date

Kommanditgesellschaft Allgemeine Leasing GmbH & Co. (KGAL), in which Dresdner Bank owns a total interest of 45%, sold its interests in ASL Auto Service-Leasing GmbH and the Disko Group effective as from mid-January 2007. The effect of the sale on the income of KGAL will be reflected in Dresdner Bank AG's income statement via the distributions by KGAL, whose amount and timing are still uncertain.

## List of Supervisory Board Members

| | |
|---|---|
| **Michael Diekmann**<br>Chairman | Chairman of the Board of Management of Allianz SE, Munich |
| **Peter Haimerl**<br>Deputy Chairman | Dresdner Bank AG, Munich |
| **Claudia Eggert-Lehmann** | Dresdner Bank AG, Dortmund |
| **Thomas Fröhlich** | Dresdner Bank AG, Frankfurt/Main |
| **Christian Höhn** | Dresdner Bank AG, Munich |
| **Oda-Renate Krauß** | ver.di Vereinte Dienstleistungsgewerkschaft, Berlin/Brandenburg district, Financial Services, Berlin |
| **Dr. Heinz Kriwet**<br>(until 31 December 2006) | Member of the Supervisory Board of ThyssenKrupp AG, Dusseldorf |
| **Prof. Dr. Edward G. Krubasik** | Munich |
| **Dr. Dietmar Kuhnt** | Member of the Supervisory Board of RWE AG, Essen |
| **Igor Landau**<br>(until 31 December 2006) | Member of the Board of Directors of Sanofi-Aventis S. A., Paris |
| **Dr. Hartmut Mehdorn** | Chairman of the Management Board of Deutsche Bahn AG, Berlin |
| **Brunhilde Nast** | Dresdner Bank AG, Dresden |
| **Dr. Helmut Perlet** | Member of the Board of Management of Allianz SE, Munich |
| **Dr. Bernd Pischetsrieder** | Chairman of the Board of Management of Volkswagen AG, Wolfsburg (until 31 December 2006) |
| **Stefan Quandt** | Chairman of the Supervisory Board of DELTON AG, Bad Homburg v. d. H. |
| **Jürgen Rose** | Dresdner Bank AG, Nuremberg |
| **Sultan Salam**<br>(until 30 November 2006) | Dresdner Bank AG, Frankfurt/Main |
| **Margit Schoffer** | Dresdner Bank AG, Aalen |
| **Wolfgang Spauszus**<br>(since 1 December 2006) | Dresdner Bank AG, Göttingen |
| **Uwe Spitzbarth** | Head of the National Working Party on Banks, ver.di Vereinte Dienstleistungsgewerkschaft, Berlin |
| **Dr. Bernd W. Voss** | Frankfurt/Main |

Honorary Chairman of the Supervisory Board

| | |
|---|---|
| **Dr. Wolfgang Röller** | Frankfurt/Main |

## List of Members of the Board of Managing Directors and Offices Held

| Name | Offices held in other statutory supervisory boards of large corporations (as at 31 December 2006) |
|---|---|
| **Dr. Herbert Walter**<br>Chairman | Allianz Beratungs- und Vertriebs-AG, Munich |
| | Deutsche Börse AG, Frankfurt/Main |
| | E.ON Ruhrgas AG, Essen |
| **Dr. Andreas Georgi** | ABB AG, Mannheim |
| | Deutsche Schiffsbank AG, Hamburg/Bremen (Deputy Chairman) |
| | Oldenburgische Landesbank AG, Oldenburg[1)] (Chairman) |
| | Rheinmetall AG, Dusseldorf |
| | RWE Dea AG, Hamburg |
| **Dr. Stefan Jentzsch** | Infineon Technologies AG, Munich |
| | Premiere AG, Munich |
| **Dr. Stephan-Andreas Kaulvers**<br>(until 8 March 2006) | – |
| **Jan E. Kvarnström**<br>(until 28 February 2006) | – |
| **Wulf Meier** | AGIS Allianz Dresdner Informationssysteme GmbH, Munich (Second Deputy Chairman) |
| **Andree Moschner**<br>(since 1 August 2006) | Allianz Dresdner Bauspar AG, Bad Vilbel[1)] (Chairman) |
| | Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen GmbH, Frankfurt/Main |
| **Klaus Rosenfeld** | Dresdner Lateinamerika Aktiengesellschaft, Hamburg[1)] (Chairman) |
| **Otto Steinmetz** | Oldenburgische Landesbank AG, Oldenburg[1)] |
| **Dr. Friedrich Wöbking** | AGIS Allianz Dresdner Informationssysteme GmbH, Munich (Chairman) |

1) Group office.

## Offices Held by Members of Staff

| Name | Offices held in other statutory supervisory boards of large corporations (as at 31 December 2006) |
|---|---|
| Michaela Eder von Grafenstein | Allianz Dresdner Bauspar AG, Bad Vilbel[1)] |
| Claudia Eggert-Lehmann | Allianz SE, Munich |
| Detlef Hermann | Kaiser's Tengelmann AG, Viersen |
| | RC Ritzenhoff Christal Aktiengesellschaft, Marsberg |
| Christian Höhn | Betriebs-Center für Banken Zahlungsverkehrsservice GmbH, Frankfurt/Main |
| Ruediger Maroldt | Allianz Dresdner Bauspar AG, Bad Vilbel[1)] |
| Margit Schoffer | Allianz SE, Munich |
| Eckhard Schunck | Westag & Getalit Aktiengesellschaft, Rheda-Wiedenbrück |
| Reiner Zorbach | Betriebs-Center für Banken Zahlungsverkehrsservice GmbH, Frankfurt/Main (Deputy Chairman) |
| | Dresdner Lateinamerika Aktiengesellschaft, Hamburg[1)] (Deputy Chairman) |

1) Group office.

Proposal on the appropriation of distributable profit

Net income for the year of €307 million is reported in the income statement. We transferred €6 million of this amount to other retained earnings. This results in distributable profit of €301 million.

We are proposing to the Annual General Meeting that the distributable profit in the amount of €300,594,441.16 be used to pay a dividend of €0.52 per share.

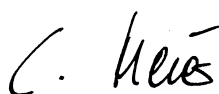
Frankfurt/Main, 14 February 2007

Dresdner Bank
Aktiengesellschaft

Dr. Walter

Dr. Georgi

Dr. Jentzsch


Meier

Moschner

Rosenfeld

Steinmetz

Dr. Wöbking

# Auditors' Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Dresdner Bank Aktiengesellschaft, Frankfurt/Main, for the business year from 1 January to 31 December 2006. 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 in the articles of incorporation are the responsibility of the Company's management. 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 § 317 HGB (Handelsgesetzbuch, German Commercial Code) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW, Institute of Independent Auditors). 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 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 Company 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 management, 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 in the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Frankfurt/Main, 21 February 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

| Pastor | Andriowsky |
|---|---|
| Wirtschaftsprüfer | Wirtschaftsprüfer |

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12 March 2007

## Cautionary Note Regarding Forward-Looking Statements

Certain of the statements contained herein may be statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words "may", "will", "should", "expects", "plans", "intends", "anticipates", "believes", "estimates", "predicts", "potential", or "continue" and similar expressions identify forward-looking statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in core businesses and core markets, (ii) performance of financial markets, including emerging markets, (iii) the extent of credit defaults, (iv) interest rate levels, (v) currency exchange rates including the Euro-U.S. dollar exchange rate, (vi) changing levels of competition, (vii) changes in laws and regulations, including monetary convergence and the European Monetary Union, (viii) changes in the policies of central banks and/or foreign governments, (ix) reorganisation measures and (x) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences. The matters discussed herein may also involve risks and uncertainties described from time to time in Allianz AG's filings with the U.S. Securities and Exchange Commission. The company assumes no obligation to update any forward-looking information contained herein.

This edition of our financial report is prepared for the convenience of our English-speaking readers. It is based on the German original, which takes precedence in all legal aspects.

Dresdner Bank AG – Financial Report 2006