Financial Report of Dresdner Bank Group as at 31 December 2003

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Group Management Report

Economic Challenges in 2003

Global economic development in 2003 was extremely turbulent, with no signs of a recovery appearing until the autumn. Despite this, global economic growth was around 2.5%, mainly driven by the Asian economies. Japan emerged from its long period of stagnation with growth of 2.7%, while the highly dynamic Chinese economy had a positive effect on the entire region. Russia was also one of the economic winners in 2003. The US economy picked up strongly in the course of 2003: the extremely expansionary monetary and financial policy started to kick in, gradually allaying fears of deflation. Compared with the rest of the world, the United States again recorded above-average economic growth (3.1%).

By comparison, growth in the European Union amounted to an extremely meagre 0.7%. The main reasons for the renewed economic setback in the first half of the year were the geopolitical uncertainties surrounding the Iraq conflict and the fear of further terrorist attacks, which prevented economic confidence from stabilising. Consumer and investment spending was put on hold, despite the fact that some companies had already made considerable progress with consolidation.

The economic slump was particularly pronounced in Germany. Private consumption fell for the second year in succession, and investments for the third consecutive year. Unemployment figures approached the record level set in 1997/1998. Despite the strong rise in the euro, German exports were surprisingly robust and even recorded a slight increase in volume. However, the recovery towards the end of the year was not sufficient to prevent a slight drop in total economic production for 2003 as a whole.

For the capital markets, 2003 was a rollercoaster ride. The war in Iraq saw share indices reaching multiyear lows. However, prices then picked up surprisingly sharply, with most stock markets ending the year with significant gains – unlike in previous years. Improved corporate earnings prospects made a significant contribution to this development.

Trends on the bond markets offered a mirror image of the stock markets. After reaching a peak during the first half of the year, bond markets subsequently gave up their gains. However, low base rates and a low risk of inflation dampened the incipient upturn in interest rates. At the end of 2003, the yields of long-term government bonds were at approximately the same level as at the beginning of the year.

In 2003, developments on the property markets were once again highly mixed. As in previous years, property markets in the UK and the US rose, while a large proportion of continental European property markets remained weak. Most European cities continued to have a supply overhang. In Germany, tight public-sector finances, the slashing of tax breaks on property purchases and uncertainty regarding the labour market had a particularly adverse effect.

Our Answers

In this difficult economic environment, we took decisive action over the past year so as to lead Dresdner Bank to a secure and successful future. Our absolute priority was to focus the Bank's activities on achieving efficiency and sustained profitability as quickly as possible.

To do this, we have developed a programme that we have consciously given an extremely ambitious name – "New Dresdner". Three sets of measures are at the heart of this Programme:

- optimising our business model;
- focusing our divisions entirely on our customers;
- bundling our support and service units.

The key decision in restructuring our business model was to draw a clear distinction between our strategic and non-strategic business. Our strategic business consists of Private and Business Clients, Corporate Banking and Dresdner Kleinwort Wasserstein. Our non-strategic business comprises the Institutional Restructuring Unit (IRU) and Corporate Investments. This has enabled us to assign clear responsibilities for risk reduction and the more efficient use of our capital.

This also includes systematically streamlining Dresdner Bank AG's investment portfolio, thus freeing up additional growth capital. Significant progress was made in this area in the past year, with a number of minority holdings successfully placed on the capital markets or with investors. This freed up backed risk capital of around €1 billion.

To increase our competitiveness and modernise Germany as a financial centre, we have transferred our transaction banking activities into units that are able to operate far more competitively on the market. For example, we are working together with dwpbank in the area of securities settlement, while payment transactions will be handled by Postbank in future, and we have sold our custody business to Deutsche Bank.

Our new business model also makes a clear distinction between sales on the one hand and production on the other. This allows our customer advisors to focus fully on customers and their needs. We are supporting this with a number of powerful growth initiatives.

In the Private and Business Clients division, we have started to refocus our business model on the broad mass of retail customers. At the same time, we are further expanding our business with private investors and business clients. Our aim is to provide customers with superior financial solutions in the areas of banking, investment and insurance for all stages of their lives. In so doing, we are improving our profitability - in particular by driving forward our consulting and sales excellence.

In the Corporate Banking division, we have established a new, customer-centric support model for large enterprises, groups and multinational clients. We are also developing structured finance into a core competency of the Corporate Banking division, systematically expanding lead bank relationships with our customers. The close integration of Corporate and Investment Banking has resulted in an innovative range of capital market-oriented financial solutions.

For Dresdner Kleinwort Wasserstein, we have established a clearly defined business model focusing on the markets of Germany and the UK, but with a selective presence in other key financial markets as well. DrKW, one of Europe's leading investment banks, offers capital market-oriented solutions to customers in Germany and abroad. DrKW has been operating profitably for five consecutive quarters now, and has also succeeded in significantly improving capital efficiency. This means the division is now successfully on the way to sustained profitability within our Group. It has also made strong progress towards its stated goal of raising growth capital from outside the Allianz Group as well in the medium term.

The third key aspect of the “New Dresdner” Programme is the bundling of our support and service units. The IT, Human Resources, Risk Management and Finance units provide uniform, cross-divisional processes for the entire Bank, resulting in fewer redundant functions and streamlined, efficient structures and processes. This allows our customer-oriented divisions to devote their full effort and attention to advising our customers and to sales. In addition, we can strengthen our earnings base long-term and reduce costs. These measures are designed to ensure that Dresdner Bank is always on a sound footing regardless of the economic environment. This increases confidence in our Bank and safeguards our employees’ jobs. We are striving to make up ground quickly, because our aim is to make Dresdner Bank, in conjunction with Allianz, into one of the best providers of integrated financial solutions for private and business customers, large enterprises, groups and multinational clients – locally, nationally, and around the world.

Result of Operations

The following table provides an overview of the consolidated income statement of the Dresdner Bank Group for 2003 and 2002 (2002 is also given after adjustments for deconsolidations):

Table 1	2003	2002 adjusted*)	2002	Change in relation to 2002 (unadjusted)	
	€ mn	€ mn	€ mn	€ mn	%
Net interest and current income	2,525	2,939	3,276	–751	–22.9
Net fee and commission income	2,590	2,848	3,090	–500	–16.2
Net trading income	1,526	1,309	1,044	482	46.2
Operating income	**6,641**	**7,096**	**7,410**	**–769**	**–10.4**
Loan loss provisions	1,016	2,154	2,218	–1,202	–54.2
Operating income after loan loss provisions	**5,625**	**4,942**	**5,192**	**433**	**8.3**
Administrative expenses	5,929	7,139	7,500	–1,571	–20.9
Operating result	**–304**	**–2,197**	**–2,308**	**2,004**	**86.8**
Other operating income/expenses, net	–474	–216	–179	–295	–164.8
Results from investment securities	–1,061	2,757	2,761	–3,822	
Amortisation of and impairment losses on goodwill	194	1,176	1,176	–982	–83.5
Restructuring charges	840	231	244	596	244.3
Income/loss before taxes	**–2,873**	**–1,063**	**–1,146**	**–1,727**	**–150.7**
Income tax expense	–895	–364	–211	–684	–324.2
Income/loss after taxes	**–1,978**	**–699**	**–935**	**–1,043**	**–111.6**
Income attributable to minority interests	11	5	7	4	57.1
Net income/net loss for the year	**–1,989**	**–704**	**–942**	**–1,047**	**–111.1**

*) After deconsolidations

We succeeded in stabilising the Dresdner Bank Group’s operating income during fiscal year 2003; this declined by 6% after adjustment for deconsolidations. While both net interest income and net fee and commission income fell, net trading income improved. The trend in loan loss provisions was encouraging, with the adjusted figure down approximately 53% on 2002. At the same time, the adjusted ratio of specific loan loss provisions to the average lending volume improved from 1.56% to 1.10%. Operating income after loan loss provisions improved by 8.3% year-on-year to €5,625 million as a result.

On an adjusted basis, administrative expenses fell 17% year-on-year to under €6 billion. This means that we exceeded our cost-cutting targets for fiscal year 2003. The Dresdner Bank Group generated an operating result of €–304 million for fiscal year 2003 – an improvement of about €2 billion year-on-year. After factoring in the non-operating result, the loss before taxes amounted to €2,873 million (previous year: loss of €1,146 million). The loss after taxes totalled €1,978 million (previous year: loss of €935 million).

Breaking down the operating result into strategic and non-strategic business reveals the following conclusions: in the case of our strategic business, the operating result for our three divisions – Private and Business Clients, Corporate Banking and Dresdner Kleinwort Wasserstein – developed positively: we succeeded in improving the previous year's loss of €1,063 million by about €1.5 billion, to a positive €473 million.

Table 2	2003 € mn	2002 € mn	Change € mn	 %
Operating result	**–304**	**–2,308**	**2,004**	**86.8**
Strategic business	473	–1,063	1,536	
Non-strategic business	–777	–1,245	468	37.6

We took this opportunity to continue our withdrawal from our non-strategic business, which consists in particular of our Institutional Restructuring Unit and Corporate Investments. The operating result for our non-strategic business amounted to €–777 million, up from €–1,245 million in the previous year.

In the non-operating area, we spent a total of €2.6 billion to eliminate hidden liabilities and future risks. The net other operating income/expenses of €–474 million includes impairment losses in the IT area and portfolio streamlining measures. Our equity interests were written down to fair value, producing a negative result from investment securities of €1,061 million (2002: income of €2,761 million). In addition, we recognised restructuring charges totalling €840 million in 2003 in connection with the systematic implementation of our "New Dresdner" Programme and other programmes.

After adjustment for these measures, the loss before taxes amounted to €2,873 million. The recognition of a tax benefit of €895 million resulted in a loss after taxes of €1,978 million. After the deduction of income attributable to minority interests, the net loss for the year amounted to €1,989 million.

We offset the net loss for 2003 by withdrawing the corresponding amount from retained earnings recognised in previous years. No dividend will be distributed for fiscal year 2003.

Net interest and current income

At €2,525 million, net interest and current income was down 22.9% on the figure for the previous year (or 14% after adjustment for deconsolidations). This decrease was partially attributable to the planned reduction of risk-weighted assets. These declined in the banking book alone by 24.6% over the year to an average of €122.0 billion.

Table 3	2003 € mn	2002 € mn	Change € mn	 %
Net interest and current income	**2,525**	**3,276**	**–751**	**–22.9**
Of which: remeasurement gains/losses from the application of IAS 39	**–365**	–119	–246	–206.7
Risk-weighted assets (average) *)	**122,049**	161,891	–39,842	–24.6
Interest margin, %	**2.07**	2.02		

*) BIS banking book

At €334 million, current income from equities and investments in affiliated and non-affiliated enterprises as well as from investments in companies accounted for using the equity method was almost unchanged year-on-year. The effect of the application of IAS 39 had a negative impact of €365 million on net interest and current income for the year as a whole. The deconsolidation of Deutsche Hyp in the second half of 2002 also contributed to the decline. The interest margin, calculated on the basis of the average risk-weighted assets held in the banking book in accordance with BIS, amounted to 2.07% for 2003 – an improvement on 2002.

Net fee and commission income

Net fee and commission income declined as against the previous year by 16.2% to €2,590 million (or 9% after adjustment for deconsolidations). This decrease was attributable in particular to a drop in income from asset management as a result of the transfer of our domestic asset management companies to Allianz in fiscal year 2002.

Table 4	2003 € mn	2002 € mn	Change € mn	Change %
Securities business	1,112	979	133	13.6
Asset management	463	799	–336	–42.1
Payment transactions	284	287	–3	–1.0
Mergers & acquisitions and underwriting business	232	369	–137	–37.1
Foreign commercial business	154	160	–6	–3.8
Other	345	496	–151	–30.4
Net fee and commission income	**2,590**	**3,090**	**–500**	**–16.2**

Net fee and commission income from our securities business increased by slightly less than 14% year-on-year to €1,112 million. The share of total net fee and commission income accounted for by the securities business thus increased to 43%. Income from payment transactions and foreign commercial business remained stable. Income generated by mergers and acquisitions and the underwriting business fell by around 37% to €232 million. Income from our leasing and guarantee businesses included under other fee and commission income fell significantly as a result of our reduced lending activity.

Net trading income

Net trading income amounted to €1,526 million, up approximately 46% on the previous year.

Table 5	2003 € mn	2002 € mn	Change € mn	Change %
Trading in interest rate products	832	650	182	27.9
Equities trading	176	–34	210	
Foreign exchange and precious metals trading	357	301	56	18.6
Measurement gains from the application of IAS 39	161	127	34	26.8
Net trading income	**1,526**	**1,044**	**482**	**46.2**

All areas contributed to the increase of €482 million. The negative contribution to income made by the equities business in 2002 improved by €210 million to €176 million in the year under review. This was primarily due to equity derivatives as well as to a better market environment overall. Income from trading in interest rate products amounted to €832 million, up just under 28% on the previous year.
Foreign exchange and precious metals trading contributed €357 million to net trading income – another significant increase on the prior-year level.

IAS 39

The aggregate effect of the application of IAS 39 reported in both net interest and current income and net trading income reduced the operating result by €204 million in 2003; in contrast, the net effect in the previous year was only slight.

Table 6	2003 € mn	2002 € mn	Change € mn	 %
Net loss reported in net interest and current income	–365	–119	–246	–206.7
Net gain reported in net trading income	161	127	34	26.8
Overall effect of IAS 39	**–204**	**8**	**–212**	

The strict criteria applicable to the allocation of hedging instruments to hedged items meant that not all hedging instruments qualified for hedge accounting in accordance with IAS 39. Only the measurement gains and losses for those hedging instruments that could not be allocated exactly to underlyings are reported in net trading income.

Loan loss provisions

Loan loss provisions for the year amounted to €1,016 million; as a result, we were able to scale back loan loss provisions on credit risks by about 54% as against the high level for the previous year. Around four-fifths of total loan loss provisions for the year under review were attributable to the IRU.

Table 7	2003 € mn	2002 € mn	Change € mn	 %
Specific loan loss provisions (net)	1,288	2,282	–994	–43.6
Country loan loss provisions (net)	–54	–92	38	41.3
General loan loss provisions (net)	–150	78	–228	
Recoveries on loans previously written off	68	50	18	36.0
Loan loss provisions	**1,016**	**2,218**	**–1,202**	**–54.2**

Specific loan loss provisions were reduced by 43.6% year-on-year to €1,288 million. The focus during 2003 was on domestic private and business clients. In addition, we had to charge impairment losses on our foreign loan portfolio in North America. The adjusted ratio of specific loan loss provisions to the average lending volume fell by 0.46 percentage points year-on-year to 1.10%. Certain country risk provisions were released as a result of a reduction in volumes as well as an improvement in the rating situation of individual countries.

After additions and releases, loan loss allowances totalled €5,952 million as at the balance sheet date. This corresponds to 5.7% of the total lending volume. Total coverage of non-accrual and potential problem loans amounted to 56% (previous year: 54%).

Administrative expenses

We succeeded in reducing administrative expenses for the year under review by 20.9% to €5,929 million (or 17% after adjustment for deconsolidations). The consistent decline in costs over the past two years shows that our cost-cutting measures are taking effect.

Table 8	2003 € mn	2002 € mn	Change € mn	 %
Total staff costs	3,561	4,435	–874	–19.7
Non-staff operating costs	2,368	3,065	–697	–22.7
Administrative expenses	**5,929**	**7,500**	**–1,571**	**–20.9**
Cost-income ratio (operating), %	89.3	101.2		
Number of employees at 31 Dec.	42,060	47,016	–4,956	–10.5
Employees (FTEs) at 31 Dec.	34,998	39,754	–4,756	–12.0

The decrease in total staff costs of 19.7% to €3,561 million was attributable both to the planned reduction in the number of staff and to an above-average decline in guaranteed bonus payments.

Non-staff operating costs for 2003 as a whole fell even more sharply than staff costs (down by 22.7% to €2,368 million). This shows that our cost control activities are not confined to headcount reductions but rather relate to all types of costs. Despite the decline in income, our operating cost-income ratio improved to 89.3% (previous year: 101.2%).

Other operating income/expenses, net

Net other operating income/expenses decreased by €295 million year-on-year to €–474 million.

Table 9	2003 € mn	2002 € mn	Change € mn	 %
Other operating income	445	428	17	4.0
Other operating expenses	919	607	312	51.4
Other operating income/ expenses, net	**–474**	**–179**	**–295**	**–164.8**

Other operating income increased as against the previous year's figure to €445 million. This item primarily covers cost refunds and gains realised on the disposal of property and equipment as well as business units. Other operating expenses rose by €312 million to €919 million. In addition to general expenses such as other taxes and indemnity payments, the increase also related to the implementation of restructuring concepts for real estate projects, write-downs in the area of IT, and expenses in connection with business discontinuations.

Results from investment securities

The results from investment securities decreased from €2,761 million in 2002 to €–1,061 million.

Table 10	2003	2002	Change	
	€ mn	€ mn	€ mn	%
Net realised gains and losses	349	3,935	–3,586	–91.1
Remeasurement result	–1,410	–1,174	–236	–20.1
Results from investment securities	**–1,061**	**2,761**	**–3,822**	

At the end of 2003, we wrote down our investments to their current fair values. The resulting remeasurement losses amounted to approximately €1.2 billion. In addition, impairment losses were charged in Private Equity. By contrast, gains were realised in connection with the systematic reduction of our investment portfolio.

The strong result for the previous year of €2,761 million included income from the sale of our domestic asset management companies to Allianz AG and gains realised on the disposal of investments.

Amortisation of and impairment losses on goodwill

Amortisation of and impairment losses on goodwill totalled €194 million. The sharp decline as against the previous year is due to an impairment loss on the goodwill of Wasserstein Perella in fiscal year 2002.

Restructuring charges

The restructuring charges of €840 million primarily related to measures connected with our "New Dresdner" Programme as well as to programmes already launched in preceding years.

Table 11	2003	2002	Change	
	€ mn	€ mn	€ mn	%
"New Dresdner" Programme	380		380	
Other programmes	460	244	216	88.5
Restructuring charges	**840**	**244**	**596**	**244.3**

Income tax expense

We reported an income tax expense of €–895 million (i.e. an income tax benefit of €895 million) for the year under review.

Table 12	2003	2002	Change	
	€ mn	€ mn	€ mn	%
Current taxes	47	245	–198	–80.8
Deferred taxes	–942	–456	–486	–106.6
Income tax expense	**–895**	**–211**	**–684**	**–324.2**

Segment Reporting

The following table contains information on our divisions for fiscal years 2003 and 2002. Segmentation is based on the structure of the Group as it was on 31 December 2003. The figures for the previous year have been adjusted in line with the new reporting structure.

Table 13	Private and Business Clients		Corporate Banking		DrKW		IRU		Corporate Investments		Corporate Items		Dresdner Bank Group (total)	
€ mn	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Net interest and current income	1,528	1,649	694	717	355	553	488	681	–91	–78	–449	–246	2,525	3,276
Net fee and commission income	1,453	1,379	316	317	560	757	76	129	–	–	185	508	2,590	3,090
Net trading income	38	44	54	55	1,270	983	13	21	–	–	151	–59	1,526	1,044
Operating income	**3,019**	**3,072**	**1,064**	**1,089**	**2,185**	**2,293**	**577**	**831**	**–91**	**–78**	**–113**	**203**	**6,641**	**7,410**
Loan loss provisions	247	470	118	98	–45	32	884	1,588	–	–	–188	30	1,016	2,218
Operating income after loan loss provisions	**2,772**	**2,602**	**946**	**991**	**2,230**	**2,261**	**–307**	**–757**	**–91**	**–78**	**75**	**173**	**5,625**	**5,192**
Administrative expenses	2,524	2,742	499	578	1,876	2,633	421	491	16	–	593	1,056	5,929	7,500
Operating result	**248**	**–140**	**447**	**413**	**354**	**–372**	**–728**	**–1,248**	**–107**	**–78**	**–518**	**–883**	**–304**	**–2,308**
Other operating income/expenses, net	–9	1	–9	–	15	–	–277	–32	39	–	–233	–148	–474	–179
Results from investment securities	8	–5	–3	–66	22	13	–105	–473	–1,013	914	30	2,378	–1,061	2,761
Amortisation of and impairment losses on goodwill	31	31	–	–	55	129	17	14	–	–	91	1,002	194	1,176
Restructuring charges	174	26	90	11	30	120	145	57	–	–	401	30	840	244
Income/loss before taxes	**42**	**–201**	**345**	**336**	**306**	**–608**	**–1,272**	**–1,824**	**–1,081**	**836**	**–1,213**	**315**	**–2,873**	**–1,146**
Cost–income ratio (operating), %	83.6	89.3	46.9	53.1	85.9	114.8	73.0	59.1					89.3	101.2
Return on risk capital (operating), %	16.5	–7.8	29.8	19.7	16.1	–10.6	–31.7	–37.8					–3.2	–16.0
Return on risk capital before taxes, %	2.8	–11.2	23.0	16.0	13.9	–17.4	–55.3	–55.3					–30.2	–8.0
Risk capital (average)	1,500	1,800	1,500	2,100	2,200	3,500	2,300	3,300	2,700	3,000	–700	700	9,500	14,400
Risk-weighted assets (average)	37,300	40,900	25,800	30,600	33,800	40,300	15,500	22,900	7,200	6,600	7,900	28,100	127,500	169,400

We have made our segment reporting for fiscal year 2003 more transparent by presenting the Institutional Restructuring Unit and Corporate Investments separately for the first time. In its management activities, the Bank distinguishes between its strategic and non-strategic business. Our strategic business consists of the Private and Business Clients, Corporate Banking, Dresdner Kleinwort Wasserstein divisions, as well as parts of Corporate Items. Corporate Banking and Dresdner Kleinwort Wasserstein, previously presented under Corporate & Markets, are now disclosed separately. Our non-strategic business comprises the Institutional Restructuring Unit, Corporate Investments as well as other activities included in Corporate Items that no longer represent the Bank´s core business, such as real estate and asset management.

Table 14	Strategic business		Non-strategic business		Dresdner Bank Group (total)	
(€ mn)	2003	2002	2003	2002	2003	2002
Net interest and current income	2,217	2,497	308	779	2,525	3,276
Net fee and commission income	2,280	2,453	310	637	2,590	3,090
Net trading income	1,511	1,025	15	19	1,526	1,044
Operating income	**6,008**	**5,975**	**633**	**1,435**	**6,641**	**7,410**
Loan loss provisions	132	571	884	1,647	1,016	2,218
Operating income after loan loss provisions	**5,876**	**5,404**	**–251**	**–212**	**5,625**	**5,192**
Administrative expenses	5,403	6,467	526	1,033	5,929	7,500
Operating result	**473**	**–1,063**	**–777**	**–1,245**	**–304**	**–2,308**
Other operating income/expenses, net	–190	–4	–284	–175	–474	–179
Results from investment securities	–30	170	–1,031	2,591	–1,061	2,761
Amortisation of and impairment losses on goodwill	133	1,119	61	57	194	1,176
Restructuring charges	695	187	145	57	840	244
Income/loss before taxes	**–575**	**–2,203**	**–2,298**	**1,057**	**–2,873**	**–1,146**
Cost–income ratio (operating), %	89.9	108.2	83.1	72.0	89.3	101.2
Return on risk capital (operating), %	11.0	–16.4	–14.9	–15.8	–3.2	–16.0
Return on risk capital before taxes, %	–13.4	–33.9	–44.2	13.4	–30.2	–8.0
Risk capital (average)	4,300	6,500	5,200	7,900	9,500	14,400
Risk-weighted assets (average)	104,100	123,200	23,400	46,200	127,500	169,400

Private and Business Clients

In an extremely competitive market environment, the Private and Business Clients division generated an operating result of €248 million, up €388 million year-on-year.

Table 15	2003 € mn	2002 € mn	Change € mn	%
Net interest and current income	1,528	1,649	–121	–7.3
Net fee and commission income	1,453	1,379	74	5.4
Net trading income	38	44	–6	–13.6
Operating income	**3,019**	**3,072**	**–53**	**–1.7**
Loan loss provisions	247	470	–223	–47.4
Operating income after loan loss provisions	**2,772**	**2,602**	**170**	**6.5**
Administrative expenses	2,524	2,742	–218	–8.0
Operating result	**248**	**–140**	**388**	
Other operating income/expenses, net	–9	1	–10	
Results from investment securities	8	–5	13	
Amortisation of and impairment losses on goodwill	31	31		
Restructuring charges	174	26	148	569.2
Income/loss before taxes	**42**	**–201**	**243**	
Cost–income ratio (operating), %	83.6	89.3		
Return on risk capital (operating), %	16.5	–7.8		
Return on risk capital before taxes, %	2.8	–11.2		
Risk capital (average)	1,500	1,800	–300	–16.7
Risk–weighted assets (average)	37,300	40,900	–3,600	–8.8

The decline of 7.3% in net interest and current income related primarily to our deposits business and was due to the drop in margins caused by market conditions. Successful sales activities in our domestic and foreign securities business enabled us to increase net fee and commission income by 5.4% to €1,453 million. The cooperation with Allianz had a positive effect: close cooperation between Allianz financial planning and insurance representatives and Dresdner Bank branch employees meant that both contributions and income increased as against 2002. Administrative expenses fell significantly by 8% due to systematic cost management as well as a further reduction in headcount, especially in back office units. Loan loss provisions were reduced by 47.4% to €247 million. After restructuring costs of €174 million, income before taxes amounted to €42 million. The return on risk capital before taxes amounted to 2.8%, up from –11.2% in the previous year.

Corporate Banking

Corporate Banking improved its operating result from €413 million to €447 million in 2003, despite the difficult economic environment.

Table 16	2003 € mn	2002 € mn	Change € mn	 %
Net interest and current income	694	717	–23	–3.2
Net fee and commission income	316	317	–1	–0.3
Net trading income	54	55	–1	–1.8
Operating income	**1,064**	**1,089**	**–25**	**–2.3**
Loan loss provisions	118	98	20	20.4
Operating income after loan loss provisions	**946**	**991**	**–45**	**–4.5**
Administrative expenses	499	578	–79	–13.7
Operating result	**447**	**413**	**34**	**8.2**
Other operating income/expenses, net	–9	0	–9	
Results from investment securities	–3	–66	63	95.5
Amortisation of and impairment losses on goodwill	–	–		
Restructuring charges	90	11	79	718.2
Income/loss before taxes	**345**	**336**	**9**	**2.7**
Cost–income ratio (operating), %	46.9	53.1		
Return on risk capital (operating), %	29.8	19.7		
Return on risk capital before taxes, %	23.0	16.0		
Risk capital (average)	1,500	2,100	–600	–28.6
Risk–weighted assets (average)	25,800	30,600	–4,800	–15.7

Operating income remained essentially unchanged year-on-year. Margins were improved in the lending business, while risk-weighted assets declined by 15.7%.

Encouragingly, loan loss provisions remained relatively stable despite the sluggish domestic economy and a new record number of insolvencies in Germany. Administrative expenses fell by almost 14% year-on-year as a result of the efficiency improvement projects in our support and service infrastructure, which were more or less completed in 2003. The cost-income ratio improved to 46.9% as a result. The efficiency improvement projects resulted in restructuring charges of €90 million. Income before taxes generated by the Corporate Banking division amounted to €345 million. The return on risk capital before taxes improved by 7 percentage points year-on-year to 23.0%.

Dresdner Kleinwort Wasserstein

Dresdner Kleinwort Wasserstein (DrKW) generated an operating result of €354 million for 2003.

Table 17	2003	2002	Change	
	€ mn	€ mn	€ mn	%
Net interest and current income	355	553	–198	–35.8
Net fee and commission income	560	757	–197	–26.0
Net trading income	1,270	983	287	29.2
Operating income	**2,185**	**2,293**	**–108**	**–4.7**
Loan loss provisions	–45	32	–77	
Operating income after loan loss provisions	**2,230**	**2,261**	**–31**	**–1.4**
Administrative expenses	1,876	2,633	–757	–28.8
Operating result	**354**	**–372**	**726**	
Other operating income/expenses, net	15	0	15	
Results from investment securities	22	13	9	69.2
Amortisation of and impairment losses on goodwill	55	129	–74	–57.4
Restructuring charges	30	120	–90	–75.0
Income/loss before taxes	**306**	**–608**	**914**	
Cost–income ratio (operating), %	85.9	114.8		
Return on risk capital (operating), %	16.1	–10.6		
Return on risk capital before taxes, %	13.9	–17.4		
Risk capital (average)	2,200	3,500	–1,300	–37.1
Risk–weighted assets (average)	33,800	40,300	–6,500	–16.1

At €2,185 million, operating income was slightly down on the prior-period level. The increase in net trading income is primarily attributable to the turnaround in the equities area and client business in the field of capital market finance/bonds and credit derivatives. The positive amounts reported under Loan loss provisions are due to releases on loans for which provisions were charged in the previous year. The sharp drop in administrative expenses is attributable to the timely and systematic implementation of restructuring measures. The operating result amounted to €354 million, a year-on-year improvement of €726 million. With respect to the non-operating items, amortisation of and impairment losses on goodwill and restructuring charges both decreased. Overall, the division recorded income before taxes of €306 million. Due among other things to the significant decline in risk capital, the return on risk capital before taxes amounted to 13.9%, as against –17.4% in the previous year.

Institutional Restructuring Unit

Formed at the beginning of 2003, Dresdner Bank's Institutional Restructuring Unit (IRU) bundles the non-strategic business from the Private and Business Clients, Corporate Banking and Dresdner Kleinwort Wasserstein divisions. The IRU generated an operating result of €–728 million for fiscal year 2003, as against €–1,248 million in the previous year.

Table 18	2003 € mn	2002 € mn	Change € mn	 %
Net interest and current income	488	681	–193	–28.3
Net fee and commission income	76	129	–53	–41.1
Net trading income	13	21	–8	–38.1
Operating income	**577**	**831**	**–254**	**–30.6**
Loan loss provisions	884	1,588	–704	–44.3
Operating income after loan loss provisions	**–307**	**–757**	**450**	**59.4**
Administrative expenses	421	491	–70	–14.3
Operating result	**–728**	**–1,248**	**520**	**41.7**
Other operating income/expenses, net	–277	–32	–245	–765.6
Results from investment securities	–105	–473	368	77.8
Amortisation of and impairment losses on goodwill	17	14	3	21.4
Restructuring charges	145	57	88	154.4
Income/loss before taxes	**–1,272**	**–1,824**	**552**	**30.3**
Cost-income ratio (operating), %	73.0	59.1		
Return on risk capital (operating), %	–31.7	–37.8		
Return on risk capital before taxes, %	–55.3	–55.3		
Risk capital (average)	2,300	3,300	–1,000	–30.3
Risk–weighted assets (average)	15,500	22,900	–7,400	–32.3

Operating income fell by 30.6% to €577 million, largely due to planned reductions in credit facilities and the sale of loan portfolios. As a result, risk-weighted assets decreased to an average of €15.5 billion in fiscal year 2003. Loan loss provisions for credit risks totalling €884 million were primarily attributable to further increases in loan loss provisions for problem loans within the IRU's overall portfolio. In all, loan loss provisions for credit risks accounted for more than four-fifths of the Group's total loan loss provisions. The reductions in headcount and non-staff operating costs implemented as part of the streamlining of the IRU's portfolio were reflected in administrative expenses, which fell by 14.3% year-on-year. Net other operating income/expenses relate in particular to expenses incurred in the implementation of restructuring projects and the elimination of balance sheet risks. After restructuring charges, the loss before taxes amounted to €1,272 million. The return on risk capital before taxes amounted to –55.3%, due among other things to a decrease in risk capital.

Corporate Investments

Corporate Investments, which are presented separately in segment reporting for the first time, comprise investment securities that we no longer consider part of our core business following our strategic reorientation. This includes investments in non-affiliated enterprises and associates. Our aim is to further reduce these holdings so as to free up risk capital.

Table 19	2003 € mn	2002 € mn	Change € mn	 %
Net interest and current income	–91	–78	–13	–16.7
Net fee and commission income	–	–		
Net trading income	–	–		
Operating income	**–91**	**–78**	**–13**	**–16.7**
Loan loss provisions	–	–		
Operating income after loan loss provisions	**–91**	**–78**	**–13**	**–16.7**
Administrative expenses	16	–		
Operating result	**–107**	**–78**	**–29**	**–37.2**
Other operating income/expenses, net	39	–		
Results from investment securities	–1,013	914	–1,927	
Amortisation of and impairment losses on goodwill	–	–		
Restructuring charges	–	–		
Income/loss before taxes	**–1,081**	**836**	**–1,917**	
Risk capital (average)	2,700	3,000	–300	–10.0
Risk-weighted assets (average)	7,200	6,600	600	9.1

The negative operating result recorded by Corporate Investments in both 2003 and 2002 was due to net interest and current income. The main reason for this was the fact that financing costs determined using the market rate method were in each case higher than the current portfolio income from dividends, equity consolidation and interest. The negative result from investment securities, which totaled around €1 billion, was largely due to impairment losses on shareholdings, although these were offset to a certain extent by realised gains. As part of the reduction in our shareholdings, risk capital requirements fell by €300 million to €2,700 million. The strong result recorded in the previous year was primarily due to gains realised at the start of 2002, which were recognised in the result from investment securities. The income generated from these transactions exceeded the necessary impairment losses charged. The loss before taxes for the year under review amounted to €1,081 million (previous year: income of €836 million).

Corporate Items

Corporate Items comprise income and expense items that are not directly attributable to the operating divisions, or that are the result of decisions that affect the Group as a whole. In addition, the Bank's remaining asset management and real estate activities are disclosed under Corporate Items.

Table 20	2003 € mn	2002 € mn	Change € mn	%
Net interest and current income	–449	–246	–203	–82.5
Net fee and commission income	185	508	–323	–63.6
Net trading income	151	–59	210	
Operating income	**–113**	**203**	**–316**	
Loan loss provisions	–188	30	–218	
Operating income after loan loss provisions	**75**	**173**	**–98**	**–56.6**
Administrative expenses	593	1,056	–463	–43.8
Operating result	**–518**	**–883**	**365**	**41.3**
Other operating income/expenses, net	–233	–148	–85	–57.4
Results from investment securities	30	2,378	–2,348	–98.7
Amortisation of and impairment losses on goodwill	91	1,002	–911	–90.9
Restructuring charges	401	30	371	
Income/loss before taxes	**–1,213**	**315**	**–1,528**	
Risk capital (average)	–700	700	–1,400	
Risk–weighted assets (average)	7,900	28,100	–20,200	–71.9

Operating income fell by €316 million, largely as a result of deconsolidations in the previous year. In addition, net interest and current income was impacted by the lower year-on-year effect from the application of IAS 39, which were only offset by positive effects on net trading income by just under one half. Loan loss provisions were impacted by the release of general loan loss provisions due to the reduction in the loan portfolio and improved ratings. This also explains the comparatively low level of loan loss provisions in our strategic business. Systematic cost management, together with effects from the deconsolidations mentioned above, were the key factors in the decline in administrative expenses. Net other operating income/expenses for fiscal year 2003 largely related to impairment losses on IT and real estate. The strong result from investment securities in the previous year was due to the sale of our German-based asset management companies to Allianz. The decline in amortisation of and impairment losses on goodwill is due to an impairment loss on the goodwill of Wasserstein Perella in the previous year. Income was also impacted by restructuring charges relating to the optimisation of back office functions and central service areas implemented under the "New Dresdner" Programme. In all, the loss before taxes amounted to €1,213 million. The negative risk capital figure of €–700 million reported in the year under review is due to the fact that the risk capital allocated to the different divisions produced a diversification effect across these divisions that was not allocated to them. The positive risk capital in the previous year was attributable to the capital tied up in Deutsche Hyp's business activities.

Balance Sheet Developments

As at the reporting date, the Dresdner Bank Group's total assets amounted to €477.0 billion, up 15.4% on the end of 2002. This increase of €63.6 billion was mainly due to the rise in repurchase agreements in the Loans and advances to customers and banks items, as well as to the higher volume of trading assets. By contrast, the Group lending volume decreased.

Table 21	31 Dec. 2003	31 Dec. 2002	Change	
	€ mn	€ mn	€ mn	%
Trading assets	143,035	121,535	21,500	17.7
Loans and advances to banks	122,620	88,366	34,254	38.8
Loans and advances to customers	169,818	157,023	12,795	8.1
Investment securities	18,922	23,160	–4,238	–18.3
Other assets	22,634	23,361	–727	–3.1
Total assets	**477,029**	**413,445**	**63,584**	**15.4**
Trading liabilities	83,222	52,562	30,660	58.3
Liabilities to banks	165,512	127,542	37,970	29.8
Liabilities to customers	152,627	143,836	8,791	6.1
Certificated liabilities	39,809	54,594	–14,785	–27.1
Subordinated liabilities	6,424	7,924	–1,500	–18.9
Profit participation certificates	1,511	1,506	5	0.3
Other liabilities	16,408	13,505	2,903	21.5
Shareholders' equity	11,516	11,976	–460	–3.8
Total liabilities	**477,029**	**413,445**	**63,584**	**15.4**

Trading assets and liabilities

The trading assets and liabilities items contain all trading activities performed by the Dresdner Bank Group. These include securities trading and trading in derivatives and other instruments. Trading assets increased by 17.7% to €143.0 billion, primarily as a result of the increase in debt and other fixed-income securities, which grew by 20.9% to €109.2 billion. While bonds and notes from both public sector and other issuers rose by a total of €27.1 billion, money market securities fell by €8.3 billion.

Our trading portfolio of equities and other non-fixed-income securities grew €5.8 billion to €14.9 billion, an increase of 63.6% on the end of the previous year. The positive and negative fair values of derivative financial instruments included in trading assets and liabilities both decreased. The €30.7 billion increase in trading liabilities is attributable to a rise in delivery obligations for securities.

Lending volume

We reduced our lending volume by 15.6% to €103.9 billion as part of the process of focussing on our strategic business.

Table 22	31 Dec. 2003 € mn	31 Dec. 2002 € mn	Change € mn	 %
Loans to customers *)	**99,099**	**118,442**	**–19,343**	**–16.3**
Loans with a residual term of less than 5 years	60,765	79,271	–18,506	–23.3
Loans with a residual term of more than 5 years	38,334	39,171	–837	–2.1
Loans to banks	**4,770**	**4,647**	**123**	**2.6**
Total lending volume *)	**103,869**	**123,089**	**–19,220**	**–15.6**

*) Excluding reverse repurchase agreements

The decrease in the lending volume is attributable to the drop in loans to customers, which fell significantly by a total of €19.3 billion to €99.1 billion. Domestic loans to private customers dropped by 5.1% to €40.8 billion, while loans to corporate clients fell by 13.5% to €31.6 billion. The €11.6 billion reduction in our foreign lending volume related primarily to loans to corporate clients, which decreased by €11.0 billion. In line with this, the share of the total lending volume attributable to our foreign lending business fell by 5 percentage points to 29%.

By contrast, loans to banks grew slightly by €0.1 billion to €4.8 billion.

Investment securities

Investment securities decreased by €4.2 billion year-on-year to €18.9 billion. This was mainly due to a reduction in debt securities; we also systematically scaled back our investment portfolio.

At the end of 2003, the fair value of the Dresdner Bank Group's direct and indirect non-bank shareholdings totalled €4.6 billion.

The major shareholdings are given in the table below:

Table 23 Company	Percentage of capital %	Fair value € mn
Bilfinger Berger Aktiengesellschaft, Mannheim *)	25.0	252
Karstadt Quelle AG, Essen	10.4	242
mg technologies ag, Frankfurt am Main	10.1	218
Münchener Rückversicherungs-Gesellschaft AG, Munich	7.3	1,627
Norddeutsche Affinerie AG, Hamburg	6.1	19
AMB Generali Holding AG, Aachen	4.7	147
Allianz Aktiengesellschaft, Munich	4.5	1,717

*) Accounted for in the consolidated financial statements using the equity method

Deposits and certificated liabilities

Overall, deposits and certificated liabilities increased by €32.0 billion year-on-year to €357.9 billion as a result of an increase in liabilities to banks and to customers. However, certificated liabilities decreased.

Table 24	31 Dec. 2003 € mn	31 Dec. 2002 € mn	Change € mn	 %
Liabilities to banks	165,512	127,542	37,970	29.8
Liabilities to customers	152,627	143,836	8,791	6.1
Certificated liabilities	39,809	54,594	–14,785	–27.1
Deposits and certificated liabilities	**357,948**	**325,972**	**31,976**	**9.8**
Including: repurchase agreements	92,372	63,124	29,248	46.3

Repurchase agreements included under customer and bank deposits increased by €29.2 billion to €92.4 billion in connection with our active use of attractive refinancing options.

By far the greatest part of the increase in deposits and certificated liabilities was attributable to liabilities to banks, which rose by around 30% to €165.5 billion. This was almost exclusively due to time deposits, which rose by €35.0 billion to €150.1 billion.

The increase of €8.8 billion in liabilities to customers was mainly due to demand deposits; by contrast, longer-term time deposits only rose by €3.4 billion. The share of total client funds attributable to foreign corporate clients rose by 7 percentage points year-on-year to around 46%, while private client deposits – both in Germany and abroad – fell slightly.

Certificated liabilities were down by €14.8 billion or 27.1% as at the reporting date. While bonds issued fell by only €2.1 billion, the volume of money market securities decreased by a far more substantial €12.7 billion. The decline in money market securities is directly linked to the expansion of our repurchase activities.

Shareholders' equity

As at 31 December 2003, the capital and reserves disclosed in the Dresdner Bank Group's balance sheet totalled €11.5 billion, down €0.5 billion against year-end 2002. This includes remeasurement gains on available-for-sale financial instruments in the amount of €0.4 billion, which mainly comprise unrealised gains on listed securities held by the Group.

Regulatory capital (BIS)

Liable capital for regulatory purposes consists of core capital and supplementary capital. The core capital primarily consists of subscribed capital, reserves and silent partnership certificates (hybrid components).

Table 25	31 Dec. 2003 € mn	31 Dec. 2002 € mn
Core capital	**7,339**	**8,572**
Including: hybrid components	1,561	1,732
Supplementary capital	**7,339**	**6,469**
Tier III capital	305	64
Total capital	**14,983**	**15,105**
Risk-weighted assets	**111,879**	**142,801**
Capital ratios		
Core capital ratio	6.6	6.0
Total capital ratio	13.4	10.6

After the approval of the financial statements as at 31 December 2003, the core capital amounted to €7.3 billion. The supplementary capital of €7.3 billion comprises profit participation rights, subordinated liabilities and revaluation reserves on securities. Total capital for regulatory purposes including Tier III capital thus amounted to €15.0 billion at the end of the year. The 21.7% decline in risk-weighted assets is due to the systematic reduction of our non-strategic business.

The core capital ratio after the approval of the financial statements calculated in accordance with the rules of the Bank for International Settlements (BIS) amounted to 6.6% (31 December 2002: 6.0%), while the total capital ratio was 13.4% (31 December 2002: 10.6%).

Outlook 2004

The global economic outlook for 2004 is more favourable than that for previous years. Sentiment has improved, both at companies and on the capital markets, and the USA and Asia are expected to record substantial economic growth.

In Europe, “hard” indicators such as production and incoming orders are now also clearly pointing towards a moderate recovery. Confidence that the German economy will more or less match euro-zone growth this year is growing; this is likely to result in the first increase in employment in Germany since 2001.

However, the economy also requires support in the form of moderate wage agreements and relative calm on the currency markets. Although Germany is able to a certain extent to counter the effects of the slump in the US dollar thanks to its improved competitiveness in comparison with its EU partners, the strength of the euro is already having a tangible impact on the German economy.

Financial institutions will benefit from improvements on the capital markets and a more positive overall environment. Demand for loans is likely to remain subdued, as the economic situation is forcing companies to focus more on self-financing and capital expenditure rates remain relatively low. Companies are showing renewed interest in capital increases and IPOs, and private customers will increasingly turn to more attractive investment opportunities.

For 2004, we have set ourselves the goal of a further significant improvement in our operating business. We aim to increase income while carefully managing costs, risks and capital, with the aim of substantially increasing both our operating result and pre-tax earnings.

Risk Report

Risk Policy – Goals and Objectives

Judicious, controlled risk-taking with a return-oriented focus is a cornerstone of Dresdner Bank's overall risk management policy. Risk management and qualified, timely risk monitoring is implemented as a joint effort between the divisions and the independent risk function on the basis of the risk policy guidelines set out by the Board of Managing Directors.

The roles and responsibilities are clearly defined in the Group Risk Guideline. This Guideline lays down the fundamental principles for the risk management system applied by the Dresdner Bank Group and systematically implements the relevant statutory and internal requirements. In so doing, it defines the framework for uniform methodologies and processes to be used in assessing and managing risks.

Tasks of the Chief Risk Officer

The Chief Risk Officer, who is a member of the Board of Managing Directors, is responsible for the independent Risk Control function. The core tasks of Risk Control are to record credit and counterparty risks (including country risks), and market, liquidity, operational and business risks, and to analyse these in a timely fashion. Risk Control ensures that all risks comply with the limits and risk standards approved by the Board of Managing Directors. This includes regular internal and external risk reporting at portfolio level.

In addition, the Chief Risk Officer is responsible for risk management for the Private and Business Clients, Corporate Banking and Dresdner Kleinwort Wasserstein divisions. The key tasks of the risk management units include loan decisions, as well as ongoing risk monitoring at client group level. Risk is managed proactively using early warning systems and portfolio instruments. Risk management also includes the intensive management of problem loans in the strategic Private and Business Clients, Corporate Banking and Dresdner Kleinwort Wasserstein divisions, as well as receivables management for Private and Business Clients.

IRU

The Institutional Restructuring Unit is responsible for risk management relating to our non-strategic business. It complies with the rules and guidelines that apply to the Bank as a whole.

Minimum Requirements for Banking Activities

At the end of 2002, the German Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) published its Minimum Requirements for Banking Activities (Mindestanforderungen für das Kreditgeschäft – MaK). The MaK are qualitative supervisory standards that set out conditions for the organisation and performance of banking activities.

Dresdner Bank has already satisfied key requirements in respect of internal bank processes and procedures, such as the organisational separation of sales and credit risk management (lending function), as well as requirements relating to the identification, management and monitoring of risks in the lending business.

Group-wide committees

To ensure a comprehensive risk management process at Group level, the Board of Managing Directors of Dresdner Bank established the following committees: The Capital Committee (CapCo) is chaired jointly by the Chief Risk Officer and the Chief Financial Officer and plays a central role in the value-driven management of the Dresdner Bank Group. It serves as a discussion and decision-making forum for all key methodological, strategic and operational questions concerning the funding, investment and allocation of capital.

The task of the Risk Executive Committee (RExCo) is to formulate and implement Group-wide guidelines and standards with regard to risk policy and the management of counterparty, market and operational risks.

The Group Credit Committee (GCC) was established as a decision-making body with responsibility for loans that exceed the scope of authority of the divisional risk management units. On the basis of the powers granted to it, the body decides on exposures that do not require a decision by the Board of Managing Directors and issues recommendations on loan commitments to be decided by the Board of Managing Directors.

The Commitment Committee (COMCO) acts as the decision-making body for major capital market transactions at Dresdner Kleinwort Wasserstein that could result in reputation risks and other risks that are primarily not counterparty risks. It decides whether existing or planned transactions and business initiatives should be continued at the terms proposed by Sales or adjusted to reflect current market conditions.

Internal audit

The Internal Audit function is an independent internal unit that monitors operating procedures and workflows, Risk Management and Risk Control as well as the internal control system. It acts independently of instructions when reporting and when evaluating the results of audits. The Internal Audit function ensures comprehensive monitoring on an enterprise-wide basis by integrating the subsidiaries' internal audit units and maintaining close cooperation with them.

Cooperation with Allianz

Following the takeover by Allianz, Dresdner Bank's Corporate Centre Risk Control started working closely with the Group Risk Control department at the Allianz Group Centre. Dresdner Bank's Risk Control acts as the centre of competence for risk standards and the measurement of banking risks within the Allianz Group and supports the Allianz Group Centre in this area. This includes measuring individual risks, as well as risk capital allocation as part of value-driven management based on the Economic Value Added (EVA) process for the Allianz Group's Banking segment.

Basel II

Dresdner Bank plans to apply the IRB advanced approach in implementing Basel II in relation to credit risks. The regulatory capital for operational risks, which must be recorded separately for regulatory purposes for the first time under Basel II, will be calculated using the advanced measurement approach.

Risk Types

Credit and counterparty risk

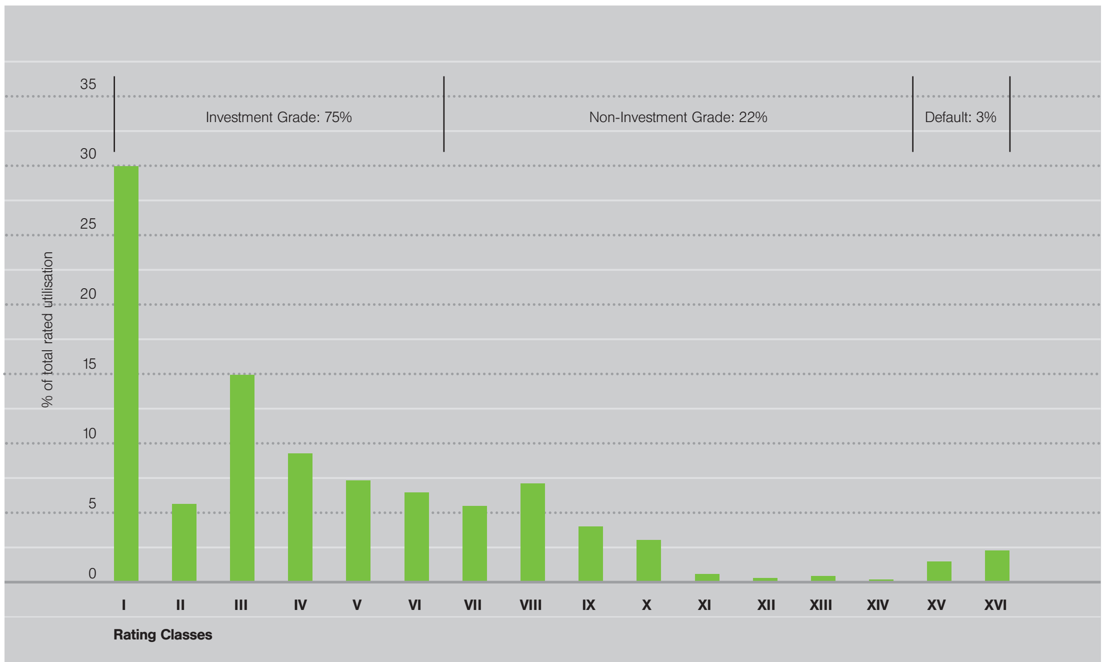
Dresdner Bank defines credit and counterparty risk as the potential loss resulting from the default of a business partner, or write-downs resulting from an unforeseen deterioration in his or her creditworthiness. In more detail, this definition comprises credit risks in the lending area, issuer risks in the case of securities offerings and counterparty risks from trading activities, as well as country risks.

In 2003, priority was given to the further development of credit processes and credit risk control instruments. For example, the use of risk capital and expected loss as central elements of credit risk management and risk-oriented performance measurement was further refined with a view to the requirements set out by Basel II.

Credit quality assessment methodology. The existing credit risk assessment methodology was developed further in 2003. Existing rating procedures were optimised and new procedures introduced to achieve a more detailed segmentation of the portfolio. These measures were performed in accordance with the requirements of Basel II (IRB advanced approach).

We ensure the quality of our rating procedures via regular validation and continuous development. The extent to which forecasts are consistent with observations was reviewed with the aid of the latest statistical methods and on the basis of many years of rating experience. The quality of the rating forecasts and the rating process itself (consistent use of procedures applied, up-to-date ratings and full portfolio coverage) are monitored on a regular basis. The rating procedures are an integral part of credit risk management. The rating results are employed in the risk-optimised pricing of new business, taking into account expected losses and capital costs.

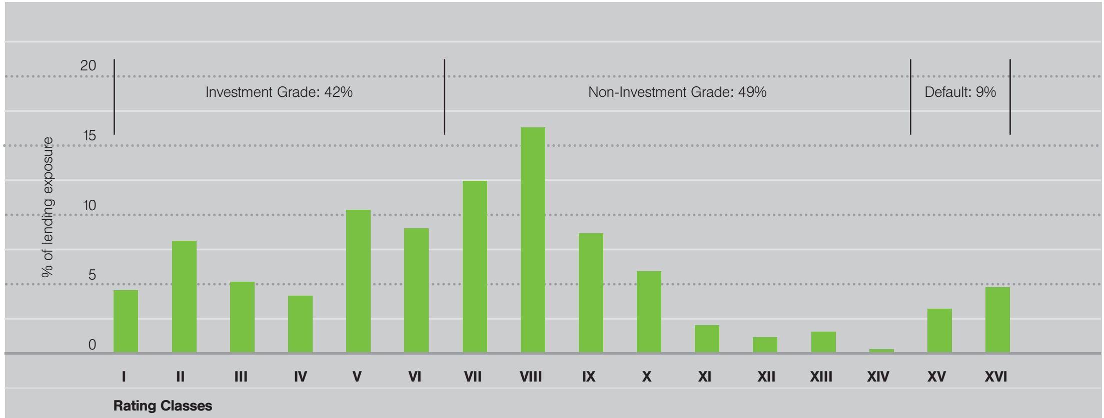
Portfolio overview. In January 2003, loans that were not consistent with the strategic direction of the Bank, including problem loans, were removed from the respective divisions. These transactions were transferred to the Institutional Restructuring Unit in the first half of 2003, enabling our strategic divisions to focus more intensively on business with their target clients. Around 75% of the total portfolio of Dresdner Bank and its subsidiaries have been assigned internal rating classes I to VI (investment grade).



The volume of the total portfolio is largely determined by the Bank's trading activities, which account for 58% of total utilisation. Transactions with the public sector/public institutions and banks/financial service providers, which make up 93% of trading activities and 63% of the total portfolio, have substantially lower default probabilities.

Concentration. As part of overall risk reduction, systematic efforts were made in fiscal year 2003 to limit concentration at individual client level. Risk and portfolio management were combined in an integrated approach to develop focussed strategies for scaling back the risk associated with selected commitments.

Credit risk from lending activities. The Private and Business Clients division accounts for 45% of the Bank's lending business, Corporate Banking for 33%, Dresdner Kleinwort Wasserstein for 10%, and the Institutional Restructuring Unit for 12%. The rating distribution in the lending business is presented in the following overview.



Loan loss allowances and provisions for credit risks. Specific loan loss allowances are set up for risks arising from loans identified and quantified during the fiscal year; they are established either as asset-side provisions or provisions for contingent liabilities (such as guarantees), taking into account existing collateral.

General loan loss allowances are set up for loan-related risks which may already have arisen but which had not yet been identified by the balance sheet date. The amount of these loan loss allowances is determined by empirical calculation of historical default probabilities and loss ratios for the lending portfolio (provided that other risk provisions have not already been set up). This calculation is based on statistical methods of credit risk measurement and takes into account current cyclical developments as well as overall economic conditions.

Country risk allowances cover the risk to the Bank that a country will be unable or unwilling to provide sufficient funds in the underlying currency to service its cross-border debt as agreed.
The following overview presents the amounts of the respective loan loss allowances as at the balance sheet date:

	Specific loan loss allowances		Country risk allowances		General loan loss allowances		Total	
€ mn	2003	2002	2003	2002	2003	2002	2003	2002
31 December	5,019	6,069	269	367	664	813	5,952	7,249

Of the total amount of specific loan loss allowances, domestic business accounts for €3,941 million and international business for €1,078 million; €4,862 million is attributable to loans and advances to customers and €157 million to loans and advances to banks.

Counterparty risk from trading activities. Client demand for our global trading activities in financial derivatives is primarily focused on tailor-made instruments for the individual management of market, credit and counterparty risk, as well as on the utilisation of derivative components as part of structured financial transactions. We also use derivatives internally to manage the risk of our proprietary trading positions and for asset/liability management.

Counterparty risks associated with derivative trading activities mainly arise in relation to over-the-counter (OTC) transactions. However, the resulting potential risk cannot be inferred directly from the notional volumes for the latter. From the Bank's point of view, the decisive criterion when calculating counterparty risk at any given time is the positive replacement cost. This corresponds to the additional expense or reduced income that would result from the replacement of the transaction by an equivalent item if the counterparty were to default. At the end of the year, aggregate positive replacement costs for all OTC-traded derivatives amounted to €58,920 million (gross, before netting).

The table below provides a breakdown of the notional amounts and positive replacement costs of our derivatives business by market segment.

Market segments	**Notional amounts by time to maturity**				**Positive replacement costs*)**
€ mn	<= 1 year	1-5 years	> 5 years	Total	
Interest rate derivatives	1,504,577	860,397	550,761	2,915,735	38,050
Currency derivatives	339,596	258,328	50,691	648,615	13,122
Equity/index derivatives	89,072	101,305	10,039	200,416	5,879
Credit derivatives	11,735	65,550	7,211	84,496	1,321
Other transactions	2,161	3,403	1,992	7,556	548
Total	**1,947,141**	**1,288,983**	**620,694**	**3,856,818**	**58,920**

*) Not including netting effects.

The total notional volume of derivative contracts rose by 21.1% to €3,857 billion in the year under review. This was primarily due to interest rate derivatives, which increased by €449 billion (18.2%). Trading volumes in other areas (with the exception of other transactions) also rose by between 25.7% and 55.7%.

An analysis of the maturity structure of the derivatives portfolio reveals that 51% of derivative transactions have a term of less than one year, 33% a term of between one and five years, and 16% a term of more than five years.

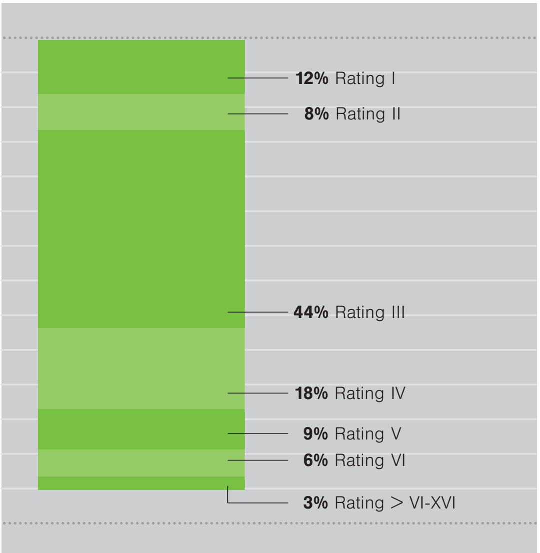
Given the importance of counterparty quality in the trading of OTC derivatives, counterparty selection is vital and remains focused on prime-rated partners. This is reflected as in past years in the high proportion (95%) of positive replacement costs attributable to banks, other financial service providers, insurance companies and state budgets.

Counterparties by industry sector € mn	Positive replacement costs 31 Dec. 2003	 31 Dec. 2002
Banks	38,611	47,738
Other financial service providers	16,063	11,673
Insurance companies	411	484
Industrial companies	741	327
Telecommunication, media, technology	489	745
Transport	457	276
Extractive industries	148	667
Real estate	108	112
State budgets	1,119	676
Other	773	1,714
Total – before netting	**58,920**	**64,412**
Total – after netting and collateral	**14,251**	**17,212**

Further evidence of our conservative selection of trading counterparties in this area is provided by the classification of the positive replacement costs of our derivative transactions using internal credit ratings.

Counterparties ranked in the internal rating categories I to VI (investment grade) account for 97% of the positive replacement costs in our rated derivatives portfolio. The following chart outlines the breakdown of positive replacement costs by internal rating class.

Classification of counterparties by internal ratings



We enter into cross-product master netting agreements with our business partners in order to reduce the counterparty risk in trading activities. Netting allows all claims and liabilities not yet due to be offset against each other in the case of counterparty default. Dresdner Bank uses such master agreements not only to reduce risks and the utilisation of internal counterparty limits, but also to reduce regulatory capital requirements. After taking netting effects into account, positive replacement costs declined by €40.7 billion.

Collateral management. In addition to the master agreement (collateral management), the collateralisation of potential risks (positive replacement costs after netting) is agreed as part of the conclusion of collateralisation agreements. At year-end, the value of the collateral received in relation to these derivatives transactions amounted to roughly €3.9 billion. Including collateral furnished, the potential risks for the Dresdner Bank Group thus amounted to around €14.2 billion (previous year: €17.2 billion).

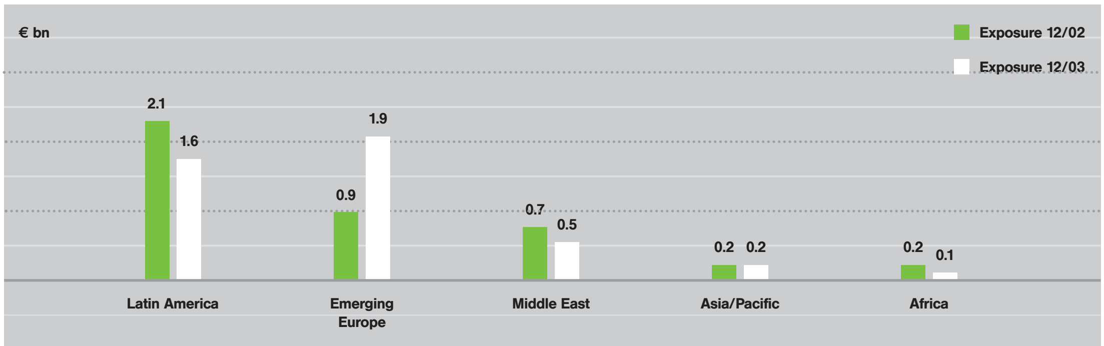
Credit risk exposures that are required to be included in credit and counterparty risk management are managed within the Bank using a global, multi-stage limit system, and are monitored in a timely manner. Both the replacement costs and any potential future price fluctuations are taken into account in counterparty risk limits. As part of this calculation, a value-at-risk procedure is used to quantify collateralised transactions. When quantifying counterparty risks from derivatives for regulatory purposes, both replacement costs and a global estimate of future market fluctuations (potential exposure) are taken into account. The assessment of this potential risk depends on the underlying product involved and the individual time to maturity (add-on). This is combined with the relevant replacement cost to yield the credit equivalent value of a derivative transaction. The aggregate credit equivalent values were quantified in line with Principle I of the German Banking Act (i.e. before credit-based weighting and after regulatory netting) at €36.2 billion (previous year: €34.6 billion). The risk-weighted assets from derivatives relevant for regulatory capital remained unchanged as against the previous year at €8.1 billion.

Country risk. Dresdner Bank defines country risk as convertibility and transfer risks relating to cross-border transactions, plus the risk arising from local operations by the Bank's foreign branches.
Our assessment of country risk is based on an internal country rating system. The assessment of individual countries is based on quantitative, mainly macro-economic key indicators as well as qualitative factors (the economic, social and political situation of the country). The system focuses in particular on solvency in the foreign currency. The country rating system currently comprises eight risk groups. These provide for classification into countries without identifiable country risks and countries with an increased or high risk potential. The country rating system will be extended to 16 rating classes in spring 2004 to bring it into line with the individual credit quality assessment of our clients.

Country risk management aims to limit transfer risks and local risks from lending and trading activities, based on a limit system at the level of regional and country rating classes as well as for every country individually.

The Dresdner Bank Group's overall country risk exposure can be broken down into countries without an identifiable country risk (unchanged at 97.0%) and countries with an increased or high risk potential (3.0%), around 45% of which were identified as belonging to our non-strategic business.

The following chart provides a breakdown of exposure subject to increased or high risk potential by region and in a year-on-year comparison.



Around 84% of our exposure in Latin America is accounted for by our non-strategic business, 15% in Emerging Europe, 49% in the Middle East, 23% in Asia and 12% in Africa. As in 2002, the reduction in exposure in the period under review was primarily concentrated on the Latin America region.

Market risk

Market risk relates to changes in market prices and rates (such as interest rates, exchange rates and share prices) as well as the correlations between them and their volatility level.

The value-at-risk method is used to measure the market risk in the Group's global trading business. Dresdner Bank's internally developed value-at-risk model takes both general and specific risks into account. The BaFin first approved the Bank's model for the purposes of regulatory reporting in accordance with Principle I of the German Banking Act in 1998 and later approved the improvements to the model that were made in 2001 and 2002. The value-at-risk model is supplemented by stress tests.

Internal market risk management. In addition to regulatory reporting requirements, value-at-risk is calculated for the purposes of internal limit setting and risk determination using a confidence level of 95% and a one-day holding period. In contrast to recent calculations for regulatory purposes, greater weight is assigned to more recent market fluctuations than to older market parameters. This ensures that the value-at-risk data reflects current market developments in a timely manner.

Value-at-risk is just one of the ways in which Dresdner Bank depicts its risk profile. The Bank also controls risk using operational risk indicators and limits, which are tailored to the needs and specific risk situations of the individual trading units. Trading activities are managed using the value-at-risk and operational market risk limits, and monitored on a daily basis by Risk Control. Where limits are breached, the responsible management is notified and takes action to remedy the situation.

In accordance with the principle of dual risk management, Risk Management is responsible for deciding the limits for the different risk activities in the respective divisions within the overall framework approved by the Board of Managing Directors. Risk Control ensures the consistency and completeness of all approved limits.

As a rule, a distinction is made between activities in the trading book and activities undertaken in order to manage market risk in the banking book. The latter also includes securities held for investment purposes.

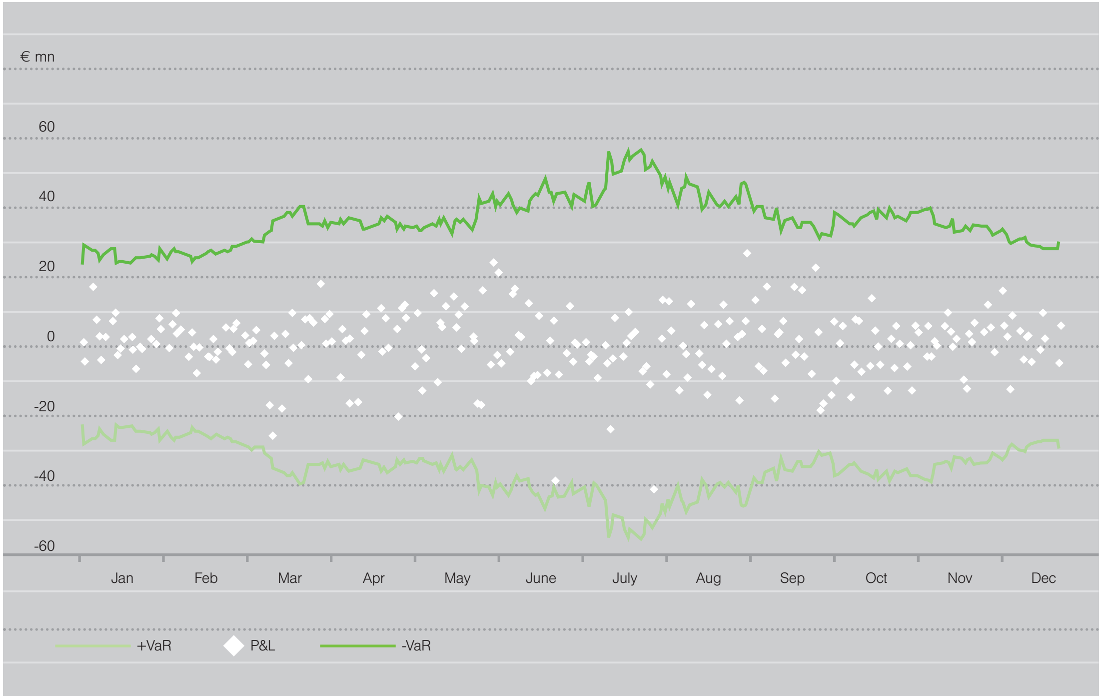
Development of market risk in the trading book. The risks from Dresdner Bank's trading activities increased slightly in comparison with the previous year, mainly as a result of a moderate rise in interest rate instrument positions.
Due to the diversification at portfolio level, which is accounted for in value-at-risk using correlations between the individual risk categories, the aggregate risk differs from the total risks by risk type.
Value-at-risk statistics (99% confidence level, 10-day holding period)

	Year-end	2003 annual statistics			Year-end
€ mn	2003	Mean value	Maximum	Minimum	2002
Aggregate risk	96	120	185	79	81
Interest rate risk	88	117	188	66	65
Equity risk	29	26	58	11	45
Currency/commodity risk	19	11	28	1	13
Diversification effect [1]	–40	–54	–	–	–42

1) No diversification effect can be taken into account for the maximum and minimum values, as these were measured at different dates.

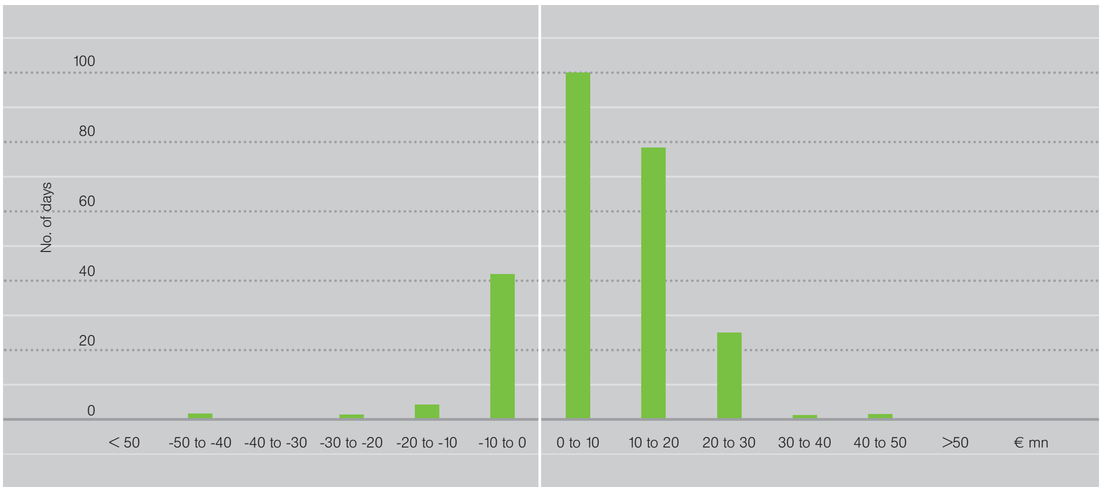
To validate the quality of our value-at-risk model, the results obtained are regularly checked against the so-called "hypothetical performance" using a method known as backtesting. This means that the value-at-risk calculated on the basis of current positions is compared to the actual change in value on the following day. The hypothetical performance reference value required for this purpose must be calculated under the assumption that the portfolio remained unchanged. For backtesting, risks are determined using a confidence level of 99% in line with the regulatory requirements. However, the holding period is only one day. No such outlier was observed in the Dresdner Bank Group in 2003.

Backtesting (99% confidence level, 1 day holding period) v. hypothetical performance



The greatest hypothetical losses were on 1 August (€40.8 million) and 26 June (€38.8 million), with an underlying value-at-risk of €52.5 million and €41.0 million respectively. The actual loss – i.e. the change in value that actually occurred – was €47.4 million on 1 August and €19.5 million on 26 June.

The distribution of daily changes in portfolio values was as follows:



Market risk in the banking book. The market risk in the banking book mainly comprises the risk of interest rate changes. Dresdner Bank's Treasurer is responsible for performance and risk in relation to the management of interest rate risks in the banking book. The risks resulting from the range of positions in Dresdner Bank's banking book are limited using operational value-at-risk limits in the same way as for the day-to-day monitoring of trading activities. Risk Control determines, monitors and reports the risk limit utilisation on a daily basis; value-at-risk is calculated on the basis of a confidence level of 99% and a ten-day holding period. Taking into account portfolio effects, the interest rate value-at-risk from the Group's banking book amounted to €31.2 million at the end of 2003 (previous year: €31.9 million).

In addition to the interest rate risk, the Bank is subject to currency risks on loans and deposits denominated in foreign currencies. As a rule, all loans and deposits in foreign currency are refinanced or reinvested in the same currency with matching maturities. The residual risk of exchange rate changes in commercial business primarily results from the intra-year development of results at foreign affiliated enterprises.

Liquidity risk

Liquidity risk is defined as the risk that a bank may not be able to meet its current and future payment obligations in full or on time, that in the case of a liquidity crisis refinancing may only be raised at higher market rates (funding risk), or that assets may only be liquidated at a discount to the market rates (market liquidity risk).

The daily preparation of a scenario-based run-off profile and an associated limit system provides the Bank with an integrated instrument for the management of liquidity risk. Following its prior implementation at Dresdner Bank AG, the liquidity management system was extended to key subsidiaries in 2003.

Liquidity risk measurement is based on a liquidity management system that models the maturities of cash flows and draws up a run-off profile, taking available prime-rated securities into account. Corporate Treasury uses this as the basis for daily analyses as part of its liquidity management process. In addition, volumes of liquid assets, securities deposited as collateral with central banks and unsecured funding through banks and the market for certificates of deposit are monitored daily.

Corporate Treasury is responsible for liquidity and liquidity risk management within the Dresdner Bank Group. Regional Treasury units monitor local markets and report regularly to Corporate Treasury. Risk Control, which is functionally and organisationally independent, is responsible for monitoring risk limits, validating the methodology used and reporting.

Corporate Treasury and Risk Control have laid down principles for liquidity management as part of a Group Liquidity Policy. This policy meets both regulatory requirements and internal standards. It includes the setting of liquidity risk limits as well as the establishment of an escalation process when limits are breached and emergency planning.

The regulatory requirements form the external framework for liquidity management. As at 31 December 2003, Dresdner Bank's ratio of highly liquid assets to short-term liabilities as defined in the BaFin's Principle II was 1.13. The liquidity excess of the one-month maturity band in accordance with Principle II totalled €42.6 billion.

Operational risk

In accordance with the Basel Consultation Paper, Dresdner Bank defines operational risk as risks resulting from the course of business of an organisation. Such risks can arise from inadequacies or failures in business processes, projects or controls, and may be due to technology, staff, organisational structures or external factors.

Risk Control defines consistent minimum standards for operational risk for the entire Group, and also ensures that preparatory measures for the determination of operational risk are coordinated across all divisions.

All divisions and subsidiaries are included in the process of managing operational risk. Guidelines and policies have been established in order to ensure a systematic and consistent process consisting of identification, quantification and reporting of operational risks, as well as their management and monitoring. A loss database is used to record and analyse actual losses incurred as a result of operational risks. It creates a basis for the systematic, detailed analysis and elimination of the causes of such losses.

The individual Group units use a structured self-assessment process to assess operational risk and the quality of their workflows. All significant risk factors are assessed with respect to the potential frequency and amount of damage.

We have developed a risk model for calculating economic (internal) risk capital requirements. Risk capital requirements for organisational units, locations, products or risk factors are computed using the results obtained from the structured self-assessment process. Loss data and statistical and non-statistical methods are employed to validate the amounts thus computed. The Bank's regular reporting procedures, which are based on an integrated approach comprising loss analysis, self-assessment and risk indicators, were revised. Reports are sent to the Board of Managing Directors, the divisional heads and the relevant process owners.

Business risk

Business risk is defined as unexpected fluctuations in results that can arise when expenses cannot be reduced in line with a decline in earnings. Reasons for fluctuations in results may include changes in the competitive situation or customer behaviour, or the consequences of technological advances. Dresdner Bank's business strategy is constantly reviewed in order to avoid business risk and, if necessary, adapted to reflect changing general conditions. In particular, the cost-cutting measures already implemented have reduced the fixed cost risk.

Risks from shareholdings

Risks from shareholdings are potential losses that could arise from the provision of equity to third parties. These risks result from general market fluctuations and issuer-specific factors.

Dresdner Bank distinguishes between risks from listed investments and risks from private equity investments. The key investments held by Dresdner Bank – mainly in non-banks – and their corresponding fair values are listed under "Investment securities" on page 20.

Other risks

In addition to the types of risk outlined above, which are monitored and reported by Group Risk Control, other risks may be encountered. These take the form of legal risk, strategic risk and reputation risk.

Legal risk. Legal risk comprises the risk of losses due to new statutory regulations, disadvantageous amendments to existing regulations and their interpretation, and the risk that contractually agreed provisions may not be legally enforceable or that a court may replace an agreed contractual provision by another provision detrimental to the Bank.

Limiting legal risk is one of the key tasks of the Legal unit. This is achieved, for example, by using internationally recognised standard documentation and, if necessary, by obtaining legal opinions. The contractual conditions for established products are continuously reviewed to include any amendments required by changes in legislation or case law.

Strategic risk. Dresdner Bank accounts for strategic risk – the risk of not achieving long-term corporate goals based on underlying business assumptions and projections – by continuously monitoring its market position and competitive environment. As part of a systematic strategic planning process, the Board of Managing Directors regularly reviews the validity of the strategies employed in the individual divisions and business units, the resulting strategic initiatives and investments, and the portfolio structure of the Bank as a whole.

Reputation risk. Reputation risk relates to direct or indirect losses that could arise due to the deterioration of the Dresdner Bank Group's reputation, either in its own right or as part of the Allianz Group, among its shareholders, clients, staff, business partners, or the general public.
Risks affecting the Bank's reputation are analysed and quantified. These include pure communication problems (primary reputation risks) as well as any problems caused by the communication of other risks (secondary reputation risks).

Summary of the Bank's Risk Position

Risk capital allocation and annual income and risk budgets play a major role in Dresdner Bank's overall risk management policy. The central control parameter is Economic Value Added (EVA). In addition to the usual income components in the financial statements, EVA takes risk capital requirements into account. These are determined exclusively on the basis of the Bank's internal risk measurement models.

At the same time, compliance with the minimum capital requirements based on regulatory measurement procedures is assured at all times. These two risk measurement approaches still differ considerably from one another at present. They will converge to some extent with the implementation of the Basel II requirements, particularly with regard to the measurement of credit risk.

The risk capital requirement currently includes credit and counterparty risk (including transfer risk), market risk, operational risk, business risk and risks from shareholdings. These individual risks are aggregated to produce the overall risk for the Bank, taking into account the diversification effects between different risk types which reduce the overall risk level. The same approach also applies within the divisions.

The following chart provides a breakdown of risk capital requirements by risk type:

€ bn	31 Dec. 2003	31 Dec. 2002
Market risk	0.7	1.0
Counterparty and transfer risk	4.8	7.5
Private equity/investments	3.0	3.0
Operational risk	1.4	1.4
Business risk	0.7	0.7
Total (excl. diversification effect)	10.7	13.6
Diversification effect	–2.4	–2.6
Total	**8.3**	**11.0**

The decrease in 2003 is primarily due to the reduction in our non-strategic business by the Institutional Restructuring Unit.

Simplifying assumptions are sometimes still used when recording individual risk types and when aggregating risks. This applies in particular to the determination of operational risks and business risks.

The Bank continuously refines its internal risk measurement procedures as well as the necessary underlying data so as to ensure and maintain best-practice risk management. This also provides the basis for meeting the Basel Committee's future regulatory capital requirements.

Report of the Supervisory Board

The Supervisory Board performed its duties in accordance with the law and the Articles of Association and continuously supervised the activities of the Bank's management. It was informed in writing and verbally by the Board of Managing Directors in a regular, comprehensive and timely manner on the intended business strategies, fundamental issues concerning the future management of the Bank and corporate planning, the position and development of the Bank and the Group, and key transactions. The Supervisory Board also regularly discussed these matters with the Board of Managing Directors.

The Supervisory Board met on 12 March, 8 April (constituent meeting), 17 September and 25 November of fiscal year 2003. In addition, extraordinary Supervisory Board meetings were held on 25 March, 28 May and 13 August.

In its three regular meetings, the Supervisory Board was informed by the Board of Managing Directors with regard to the course of business, significant lending commitments and investments, and other matters of material importance to the Group. In these meetings, the Supervisory Board also discussed the planned change of auditors from PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, to KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, and the changes to the Articles of Association proposed to the Annual General Meeting on 8 April 2003. The Board of Managing Directors presented the "New Dresdner" Programme to the Supervisory Board in the extraordinary meeting on 13 August 2003. The Supervisory Board examined the Programme in detail, focusing in particular on the added value for its shareholder and customer-focused product design. The Board of Managing Directors provided updates on the Programme's progress in subsequent meetings.

In addition, the Supervisory Board reviewed the activities of the Bank's Institutional Restructuring Unit and the reduction of the Bank's non-strategic portfolio, as well as with the planned transfer of electronic payments to Deutsche Postbank AG and the sale of the Bank's custody business to Deutsche Bank AG. The Supervisory Board was informed of the proposed cooperation with Deutsche Wertpapierservice Bank AG in the area of securities settlement. The Supervisory Board adopted its revised by-laws in the meeting on 25 November and approved the changes to the by-laws for the Board of Managing Directors resolved by the latter.

The Board of Managing Directors submitted regular reports on the extent to which Group risk exposure limits had been utilised. The Supervisory Board also examined aspects of risk control within the Group, as in the past, and addressed fundamental corporate planning issues, and in particular the key figures used for long-term planning.

As the German Corporate Governance Code primarily addresses listed companies, and Dresdner Bank AG was delisted with effect from 11 July 2002, the Supervisory Board and the Board of Managing Directors have not issued a declaration of compliance with the Code due to the Bank's integration with the Allianz Group; however, Dresdner Bank AG's corporate governance concept includes the key principles of the Code.

The Supervisory Board has formed the following committees: the Executive Committee, the Credit and Risk Committee, the Operations Committee, the Accounts Committee and the Mediation Committee in accordance with section 27 (3) of the Mitbestimmungsgesetz (German Co-determination Act).

The Executive Committee met on seven occasions in fiscal year 2003 to discuss human resources issues concerning the Board of Managing Directors and to prepare individual agenda items for forthcoming Supervisory Board meetings. The Credit and Risk Committee met four times to address lending issues and business transactions falling within its area of responsibility as defined by the law and the Articles of Association; decisions on such issues were also taken by circulating documents and by passing resolutions outside meetings. Additional discussions were held with the Board of Managing Directors on the Bank's loan portfolio structure, risk management and exposures subject to particular risks. The Operations Committee of the Supervisory Board met twice in fiscal year 2003. It considered structural, organisational, social and other internal issues. At the 2003 meeting of the Accounts Committee, the Dresdner Bank single-entity and consolidated financial statements as at 31 December 2002 were discussed. A meeting of the Mediation Committee was not required.

The Chairman of the Supervisory Board reported regularly to the plenary meeting on the work of the Supervisory Board Committees. In addition to the meetings of the Supervisory Board and its Committees, the Chairman of the Supervisory Board also met frequently with the Board of Managing Directors as a whole, as well as with individual members of the Board of Managing Directors, and in particular with the Chairman of the Board of Managing Directors. These meetings served to discuss business policy issues as well as the position and development of the Bank.

The 2003 financial statements and management report of Dresdner Bank AG, prepared in accordance with the HGB (German Commercial Code), and the 2003 consolidated financial statements and group management report of the Dresdner Bank Group, prepared in accordance with the IASs, were audited by KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, the auditors elected by the Annual General Meeting. They granted an unqualified audit opinion.

The auditors' reports were distributed to all members of the Supervisory Board before the meeting of the Supervisory Board convened to adopt the accounts. The reports were discussed during this plenary meeting as well as during the preparatory meeting of the Accounts Committee. The auditors who signed the single-entity and consolidated financial statements were present at both meetings. They gave an account of both their audit as a whole and of the major individual items which were specified at the time of their engagement, and also provided detailed answers to questions from the members of the Supervisory Board. The Supervisory Board duly noted and approved the results of the audit. The Supervisory Board examined the single-entity and consolidated financial statements, the management report and the group management report as at 31 December 2003, as presented by the Board of Managing Directors. The final results of this examination did not result in any objections. At its meeting on 8 March 2004, the Supervisory Board therefore approved the single-entity financial statements and the consolidated financial statements. The single-entity financial statements are thereby adopted.

In addition, the Board of Managing Directors presented the Supervisory Board with the dependent companies report in accordance with section 312 of the Aktiengesetz (German Public Companies Act) and with the auditors' report on the latter. The auditors issued the following opinion on the basis of the audit, which did not result in any objections:

“On the basis of our audit performed in accordance with professional standards, we confirm that

1. the factual statements in the report are correct,

2. the consideration given by the company in relation to the transactions specified in the report was not unreasonably high,

3. there are no circumstances which would justify, in relation to the acts specified in the report, a materially different opinion than that of the Board of Managing Directors.”

The Supervisory Board examined the dependent companies report and approved both the report and the audit report on it. The final results of the Supervisory Board’s examination did not give rise to any objections to the declaration made by the Board of Managing Directors at the end of the dependent companies report.

The term of office of all members of the Supervisory Board ended at the end of the Annual General Meeting on 8 April 2003. The ten shareholder representatives were elected to the Supervisory Board in the course of this Annual General Meeting. Michael Diekmann, Igor Landau and Dr. Hartmut Mehdorn were elected to the Supervisory Board for the first time. Newcomers to the Supervisory Board among the employee representatives were Oda-Renate Krauß, Brunhilde Nast, Margit Schoffer, Christian Höhn and Jürgen Rose. Michael Diekmann was elected as the Chairman of the Supervisory Board in the latter's constituent meeting on

8 April 2003, and Peter Haimerl was elected as the Deputy Chairman. The new Supervisory Board no longer includes Dr. Henning Schulte-Noelle, Dr. Martin Frühauf and Michel Pébereau (shareholder representatives) and Reinhard Drönner, Manfred Karsten, Ainis Kibermanis, Bernd Kriegeskorte and Uwe Plucinski (employee representatives). We would like to thank all former members for their many years of constructive cooperation.

The following changes to the Board of Managing Directors took place in fiscal year 2003: the Supervisory Board accepted the resignations of Dr. Bernd Fahrholz and Heinrich Linz as members of the Board of Managing Directors and, in the case of Dr. Fahrholz, as Chairman of the Board of Managing Directors. Dr. Fahrholz resigned with effect from 25 March 2003 and Mr. Linz with effect from 31 May 2003. Dr. Horst Müller retired from the Board of Managing Directors of Dresdner Bank AG with effect from 31 December 2003. The Supervisory Board thanks all gentlemen leaving the Board of Managing Directors in fiscal year 2003 for their successful work in a difficult economic period for the Bank.

Dr. Herbert Walter was appointed as a member and Chairman of the Board of Managing Directors with effect from 25 March 2003. In addition, Karl Ralf Jung and Andrew Pisker were appointed as member of the Board of Managing Directors with effect from 25 March 2003, Otto Steinmetz was appointed with effect from 1 June 2003 and Wulf Meier with effect from 1 March 2004.

The Supervisory Board would like to thank all employees for their work.

Frankfurt/Main, 8 March 2004

THE SUPERVISORY BOARD

Michael Diekmann
Chairman

Income Statement

Income Statement	Note	2003	2002	Change	
		€ mn	€ mn	€ mn	%
Interest and current income	(3)	7,002	11,202	–4,200	–37.5
Interest expense	(3)	4,477	7,926	–3,449	–43.5
Net interest and current income	(3)	2,525	3,276	–751	–22.9
Loan loss provisions	(4)	1,016	2,218	–1,202	–54.2
Net interest and current income after loan loss provisions		1,509	1,058	451	42.6
Fee and commission income		2,883	3,391	–508	–15.0
Fee and commission expense		293	301	–8	–2.7
Net fee and commission income	(5)	2,590	3,090	–500	–16.2
Net trading income	(6)	1,526	1,044	482	46.2
Other income	(7)	–616	3,189	–3,805	–119.3
Administrative expenses	(8)	5,929	7,500	–1,571	–20.9
Other expenses	(9)	1,113	1,783	–670	–37.6
Income/loss before restructuring charges and taxes		**–2,033**	**–902**	**–1,131**	**125.4**
Restructuring charges	(10)	840	244	596	244.3
Income/loss from ordinary activities/ Income/loss before taxes		**–2,873**	**–1,146**	**–1,727**	**–150.7**
Income tax expense	(32)	–895	–211	–684	–324.2
Income/loss after taxes		**–1,978**	**–935**	**–1,043**	**–111.6**
Income attributable to minority interests		11	7	4	57.1
Net income/net loss for the year		**–1,989**	**–942**	**–1,047**	**–111.1**

Appropriation of distributable profit	31 Dec. 2003	31 Dec. 2002	Change	
	€ mn	€ mn	€ mn	%
Net loss for the year	–1,989	–942	–1,047	–111.1
Withdrawal from retained earnings	1,989	942	1,047	111.1
Distributable profit of Dresdner Bank AG	**0**	**0**	**0**	

		2003	2002
		€	€
Earnings per share	(11)	–3.44	–1.63
Diluted earnings per share	(11)	–3.44	–1.63

Balance Sheet

Assets	Note	31 Dec. 2003 € mn	31 Dec. 2002 € mn	Change € mn	 %
Cash funds	(14)	5,491	4,877	614	12.6
Trading assets	(15)	143,035	121,535	21,500	17.7
Loans and advances to banks (net of loan loss allowance of €231 mn)	(16)	122,620	88,366	34,254	38.8
Loans and advances to customers (net of loan loss allowance of €5,236 mn)	(17)	169,818	157,023	12,795	8.1
Investment securities	(19)	18,922	23,160	–4,238	–18.3
Investments in enterprises accounted for using the equity method	(19)	2,928	2,805	123	4.4
Property and equipment	(20)	3,808	4,402	–594	–13.5
Goodwill	(21)	452	667	–215	–32.2
Other assets	(22)	6,519	7,706	–1,187	–15.4
Deferred tax assets	(32)	3,436	2,904	532	18.3
Total assets		**477,029**	**413,445**	**63,584**	**15.4**

Liabilities, Minority Interests and Shareholders' Equity	Note	31 Dec. 2003 € mn	31 Dec. 2002 € mn	Change € mn	 %
Liabilities					
Trading liabilities	(25)	83,222	52,562	30,660	58.3
Liabilities to banks	(26)	165,512	127,542	37,970	29.8
Liabilities to customers	(27)	152,627	143,836	8,791	6.1
Certificated liabilities	(28)	39,809	54,594	–14,785	–27.1
Provisions and other liabilities	(29)	12,891	11,531	1,360	11.8
Deferred tax liabilities	(32)	1,483	1,856	–373	–20.1
Subordinated liabilities	(33)	6,424	7,924	–1,500	–18.9
Profit-participation certificates	(34)	1,511	1,506	5	0.3
Total liabilities		**463,479**	**401,351**	**62,128**	**15.5**
Minority interests	(35)	2,034	118	1,916	
Shareholders' equity	(36)				
Subscribed capital		1,503	1,503	0	0,0
Additional paid-in capital		7,382	7,382	0	0,0
Retained earnings		2,810	4,872	–2,062	–42.3
Less: treasury shares		–	–		
Translation reserve		–542	–548	6	–1.1
Cumulative remeasurement gains/losses on available-for-sale financial instruments		363	–1,233	1,596	–129.4
Distributable profit of Dresdner Bank AG		0	0		
Total shareholders' equity		**11,516**	**11,976**	**–460**	**–3.8**
Total liabilities, minority interests and shareholders' equity		**477,029**	**413,445**	**63,584**	**15.4**

Statement of Changes in Shareholders' Equity

€ mn	Subscribed capital	Additional paid-in capital	Retained earnings	Treasury shares	Translation reserve	Cumulative remeasure-ment gains/losses	Distributable profit of Dresdner Bank AG	Total shareholders' equity of Dresdner Bank Group
1 January 2002	**1,496**	**7,318**	**5,152**	**–18**	**–294**	**7,226**	**753**	**21,633**
Changes due to currency translation					–254			–254
Dividends paid							–403	–403
Amount transferred to retained earnings from the distributable profit as at 31 December 2001			350				–350	
Exercise of option rights attached to the bonds with warrants issued by Dresdner Finance B.V. in 1997	7	64						71
Changes in treasury shares				18				18
Cumulative remeasurement gains/losses on available-for-sale financial instruments						–8,459		–8,459
Other capital changes			312					312
Net income/net loss for the year				–			–942	–942
Withdrawal from retained earnings			–942				942	
31 December 2002/ 1 January 2003	**1,503**	**7,382**	**4,872**	**–**	**–548**	**–1,233**	**0**	**11,976**
Changes due to currency translation					6			6
Cumulative remeasurement gains/losses on available-for-sale financial instruments						1,644		1,644
Remeasurement losses from cash flow hedges						–48		–48
Other capital changes			–73					–73
Net income/net loss for the year							–1,989	–1,989
Withdrawal from retained earnings			–1,989				1,989	
31 December 2003	**1,503**	**7,382**	**2,810**	**–**	**–542**	**363**	**0**	**11,516**

Statement of Cash Flows

€ mn	2003	2002
Operating activities		
Net loss for the year	–1,989	–942
Adjustments to reconcile net loss to net cash used in operating activities		
Impairment losses on investments	1,558	2,454
Reversals of impairment losses on investments	–1,069	–412
Depreciation, amortisation and impairment losses, and reversals of impairment losses, on items of property and equipment and intangible assets	638	1,767
Minority interests in net income	11	7
Changes in provisions	1,504	–2
Changes in other non-cash items	–5,364	623
Gains/losses on the disposal of investment securities, property and equipment	–384	–3,951
Net decrease/increase in loans and advances to banks and customers	–43,886	–2,720
Net decrease/increase in trading portfolio	10,025	10,352
Net decrease/increase in other assets	1,190	–7,608
Net decrease/increase in liabilities to banks and customers	46,761	–8,529
Net issuance of certificated liabilities	–14,785	–4,006
Net decrease/increase in other liabilities	1,042	11,264
Net cash used in operating activities	**–4,748**	**–1,703**
Investing activities		
Proceeds from the disposal of		
Investment securities	10,681	4,359
Property and equipment	616	355
Payments for the acquisition of		
Investment securities	–3,652	–2,976
Property and equipment	–611	–707
Effects of changes in consolidated group structure	–100	153
Net cash provided by investing activities	**6,934**	**1,184**
Financing activities		
Proceeds from the issuance of shares and exercise of warrants	0	72
Dividends paid	–60	–403
Net issuance of subordinated liabilities	–1,500	–1,026
Net issuance of profit-participation certificates	116	–102
Payments on profit-participation certificates	–111	–133
Other	–9	51
Net cash used in financing activities	**–1,564**	**–1,541**
Net decrease/increase in cash and cash equivalents	**614**	**–2,068**
Cash and cash equivalents at the beginning of the year	4,877	6,945
Cash and cash equivalents at the end of the year	5,491	4,877
Effects of exchange rate changes	–8	–8
Supplementary disclosure of cash flow information		
Cash interest received	6,637	12,950
Dividends received	217	227
Cash interest paid	5,253	10,167
Cash income taxes paid	–45	393

Notes

I. Accounting Policies

(1) Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC). No newly issued standards or IFRIC interpretations were adopted before their effective date. The accounting policies applied uniformly across the Dresdner Bank Group are in accordance with the European Accounting Directives and are therefore comparable to statements prepared in accordance with the Handelsgesetzbuch (HGB – German Commercial Code) in conjunction with the Verordnung über die Rechnungslegung der Kreditinstitute (RechKredV – German Accounting Directive for Banks). The supplementary information required by the European Directives has been incorporated into these Notes to the Consolidated Financial Statements. The provisions of the Aktiengesetz (AktG – German Public Companies Act) have been complied with. The reporting currency is the euro (€).

Classification of financial instruments. According to IAS 39, all financial assets and liabilities, including all derivative financial instruments, must be recognised on the balance sheet. All financial instruments are recognised at the trade date. Financial assets are measured on the basis of the categories described below:

1. Financial assets or liabilities held for trading are mainly utilised to generate a profit from short-term fluctuations in the price or from the dealer's margin. This category includes assets and liabilities held for trading.

2. Held-to-maturity investment securities are assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity. This positive intent and ability must be documented on acquisition and at each balance sheet date. At the reporting date, the Bank did not disclose any assets classed as held-to maturity investments.

3. Loans and receivables originated by the enterprise are financial assets that are created by the enterprise by providing money, goods, or services directly to a debtor, and that are not held for trading purposes. This classification of financial instruments category mainly comprises loans to banks and to customers. Receivables acquired by the enterprise are not included in this category, but are rather classified as held for trading or available for sale.

4. Available-for-sale financial assets are all other financial assets that cannot be assigned to one of the other categories above. The Bank records these assets as investment securities.

Financial liabilities not held for trading purposes comprise in particular liabilities to banks, liabilities to customers and certificated liabilities.

For initial recognition all financial assets are measured at cost, which corresponds to the fair value of the consideration given (in the case of the acquisition of financial assets) or received (in the case of the acquisition of financial liabilities). Subsequently, financial instruments are remeasured to fair value, except for loans and receivables originated by the enterprise that are not held for trading purposes, and certain financial assets for which the fair value cannot be reliably measured. These are measured at their amortised cost using the effective interest method. Financial liabilities – with the exception of trading liabilities – are also reported at their amortised cost.

Consolidated Group companies. Subsidiaries in which the Group, directly or indirectly, either holds more than 50% of the voting rights or otherwise has power to exercise a controlling influence are consolidated using the purchase method. Such subsidiaries are consolidated from the date on which constructive control is transferred to the Group and are no longer consolidated from the date of sale or the date that control ceases. In addition, the principle of materiality is used to decide on consolidation. Special funds and special purpose entities over which the Bank has control are accounted for in accordance with SIC 12. All receivables, liabilities, income, expenses and intragroup profits resulting from transactions between Group companies have been eliminated on consolidation, unless immaterial. Minority shareholders' proportionate interests in the equity or income of the Bank's subsidiaries are reported separately from shareholders' equity under the item "Minority interests".

Associates and joint ventures. Investments in associates and joint ventures are accounted for using the equity method. Under this method, the Group's share of the post-acquisition profits or losses of associates is recognised in the income statement. The cumulative post-acquisition measurement gains/losses are adjusted against the cost of the investment. Associated enterprises are those entities over which the Group exerts a significant influence but not control.

Joint ventures are based on contractual arrangements where two or more enterprises undertake an economic activity that is subject to joint control. The Bank's share in the net income for the year of joint ventures is reported as net interest and current income under the item "Current income from investments in enterprises accounted for using the equity method".

Investments in associates and joint ventures are reported under the item "Investments in enterprises accounted for using the equity method", stating the Bank's share in the net assets of the respective entity. The carrying amounts are reviewed for impairment at least once a year, and write-downs charged where necessary. Any goodwill arising from takeovers is recorded as a separate asset and amortised on a straight-line basis over the asset's estimated useful life.

Foreign currency translation. The Group companies included in the consolidated financial statements are deemed to be foreign entities in accordance with IAS 21. Accordingly, and in line with the functional currency method, the income statements and cash flow statements of subsidiaries reporting in foreign currencies are translated at the average rates over the entire year. Balance sheets are translated at the prevailing exchange rates as at 31 December of each year. Differences in shareholders' equity are recognised in the Translation reserve that forms a separate item under Shareholders' equity.

Goodwill arising from the acquisition of Group companies not reporting in euros is translated into euros at the exchange rate prevailing at the date of acquisition, and amortised. Foreign currency transactions are translated into euros at the exchange rates prevailing on the transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Assets and liabilities denominated in foreign currencies and open spot transactions are translated into euros at the spot rate on the balance sheet date. Forward currency transactions are measured using the prevailing forward rates for their respective maturities.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Net interest and current income. Interest income and interest expenses are recognised in the income statement on an accrual basis. Interest income includes interest on loans and advances and securities, along with accrued discounts and premiums on treasury bills and other discounted instruments. Current income includes dividends from equities, the Group's share of results from investments in enterprises accounted for using the equity method, dividends from affiliated and non-affiliated enterprises, and interest income on finance leases. The Bank recognises current income from associates and joint ventures on an accrual basis, while dividends are recognised in income when received. Interest income on finance leases is recognised in income over the term of the respective lease. Income from qualifying hedge relationships used to hedge interest rate risks is also reported in Net interest and other income. Costs of capital are recognised in the period in which they are incurred, regardless of when the capital is actually utilised.

Net fee and commission income. Net fee and commission from the securities business includes private placements, loan syndications and financial advisory services in addition to the Bank's classic securities brokerage business. "Other fees" include commissions and fees from trustee and custodial services and from the brokerage of insurance policies, credit cards, home loan contracts and real estate. Fee and commission income is recognised when the corresponding service is provided.

Net trading income. Net trading income comprises all realised and unrealised gains and losses from trading assets and trading liabilities. In addition, commissions, interest and dividend income and expense attributable to trading activities and refinancing costs are included in Net trading income. Gains and losses on derivatives for hedging available-for-sale securities that do not meet the requirements for hedge accounting specified in IAS 39 are recognised in Results from investment activities; this is in contrast to 2002, when they were recognised in Net trading income.

Restructuring charges. Restructuring charges are reported in the period in which the Bank has a detailed, formally approved restructuring plan in place for specific programmes, and implementation of this plan has begun. The expenses reported are measured on the basis of qualified estimates of the expected cost of the individual measures. Future obligations extending for more than twelve months are discounted to their present value. The estimates made are reviewed regularly for adequacy and adjusted where appropriate. Restructuring costs for which provisions cannot be set up are expensed in the period in which they are incurred.

Cash funds. Cash funds include cash on hand, balances with central banks, treasury bills (to the extent that these are not included in trading assets) and bills that are eligible for refinancing at central banks and that have a maximum term of six months from the date of acquisition. Cash funds are reported at their nominal value.

Trading assets and liabilities. Trading assets comprise debt securities, equities and derivatives with positive fair values, as well as other financial instruments and promissory notes. Trading liabilities primarily consist of derivatives with negative fair values and delivery obligations for short sales of securities. Hedging derivatives such as those used for internal risk control but not qualifying for hedge accounting under IAS 39 are also disclosed under this item.

Trading assets and liabilities are initially reported at cost (including transaction costs) on the trading date, and are subsequently remeasured at fair value. In those cases for which no quoted prices are available, comparable instruments or accepted valuation models (in particular the net present value or option pricing models) are used to determine the fair value. In this process, appropriate adjustments are made for measurement risks. Measurement gains and losses are taken directly to income in Net trading income.

Investment securities. The Group's investment securities include debt securities and other fixed-income securities, equities and other non-fixed-income securities, and investments in affiliated and non-affiliated companies.

Affiliated companies are those in which the Group holds a majority interest but which are not consolidated due to their minor importance for the Group. In addition, affiliated companies include those companies included in the consolidated financial statements of the Allianz Group.

Non-affiliated companies are companies in which the Group holds an interest of up to 50%, which serves to create a continuing relationship with the respective companies. The Bank does not account for investments in non-affiliated companies using the equity method because it cannot exercise a significant influence over these companies.

Investment securities are classified as available-for-sale financial assets and hence reported at their fair value. If, in the case of unlisted shares and investments in affiliated and non-affiliated companies, it is impossible to reliably determine either a price quotation in an active market or the relevant factors for the valuation models, they are recognised at cost.

In the case of available-for-sale financial assets, Dresdner Bank has made use of its option not to recognise gains and losses in income, but rather to initially take them directly to a separate equity account. Cumulative remeasurement gains/losses taken to equity for an available-for-sale financial instrument are subsequently recognised in income when the instrument is derecognised.

Income from debt securities, including discounts and premiums amortised over the term of the securities, are recognised in Net interest and current income. Dividend income from equities and income from shares in affiliated and non-affiliated companies are also recognised in this item. Gains and losses realised on the sale of these securities are reported under the "Income from investment securities" sub-item of the "Other income" item. Gains and losses on derivatives classified as available-for-sale securities that do not qualify for hedge accounting are recognised in Results from investment securities.

Impairment of available-for-sale securities. Securities classified as available-for-sale are tested for lasting impairment if the fair value of the securities is substantially lower than their amortised cost for a certain period. If the impairment is regarded as lasting, the securities are written down to the lower fair value. The amount of this impairment loss is recognised in the income statement. Impairment losses are subsequently reversed if the reasons for the impairment loss charged no longer apply.

Repurchase and reverse repurchase agreements and lending and borrowing of securities. A repurchase agreement involves the sale of securities subject to the simultaneous agreement to repurchase the same securities at a certain later date and at an agreed price. The control of the securities remains with the Group throughout the entire term of the transaction and the securities continue to be reported in the Group's balance sheet as trading assets or investment securities, as appropriate. The proceeds from the legal sale of these securities are reported as "Liabilities to banks" or "Liabilities to customers", as appropriate.

A reverse repurchase agreement involves the purchase of securities with the simultaneous agreement to resell the same securities at a certain later date and at an agreed price. If control over the securities remains with the seller, the securities are reported in the balance sheet items "Loans and advances to banks" or "Loans and advances to customers", as appropriate. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised in Net trading income.

Securities lending and borrowing transactions are performed both for the account of customers and to meet the Bank's own delivery obligations. In securities lending and borrowing transactions, securities are borrowed from a market participant (the lender) by a counterparty (the borrower) for a certain period. These transactions are accounted for in the same way as repurchase and reverse repurchase agreements. If control remains with the lender, they are reported on the latter's balance sheet; borrowed securities are not reported. If the securities are subsequently sold on, the amounts for both purchases and sales are reported on the balance sheet and the gain or loss is recognised in Net trading income. The obligation to return the borrowed securities is reported at fair value under Trading liabilities. Securities loaned to third parties are reported under Trading assets or Investment securities, as appropriate.

Income and expenses from securities lending and borrowing transactions are accrued and recognised in Net interest and current income or Net trading income.

Loans and advances to banks and loans and advances to customers. Held-to-maturity loans and advances to banks and to customers, including finance leases, are measured at amortised cost, less any write-downs; promissory notes acquired are reported at fair value. Interest income and loan origination fees are recognised using the effective interest method. Any differences between the amount paid out and the nominal amount that are equivalent to interest are amortised to income using the effective interest method.

Loans are placed on non-accrual status when, based on the available information or events, the orderly payment of interest or principal by the client is doubtful, taking the collateral furnished into account. Irrespective of any legal claim to interest payment, interest income is no longer recognised where the collectability of such claim is highly unlikely. Where there is doubt regarding the ultimate collectability of the principal, all cash receipts are reported as reductions of the principal.

Loan impairments and loan loss allowances. The total amount of loan loss allowances includes allowances for loan losses deducted from assets and allowances for risks associated with contingent liabilities such as guarantees, loan commitments, or other obligations, which are recognised as liabilities. When setting up loan loss allowances, we distinguish between specific loss allowances, general loss allowances and country risk allowances.

Specific loss allowances are established to provide for specifically identified counterparty risks. The amount of the allowance represents the difference between the outstanding receivable, including accrued interest and the present value of the relevant future cash flows, after allowing for the fair value of recoverable collateral.

General loss allowances are established to provide for incurred but unidentified losses that are inherent in the loan portfolio as at the balance sheet date. The amount of the general loss allowance is based on historical loss experience for the average identification period, and appropriate evaluation of current events and economic conditions.

Country risk allowances are established for transfer risks. Transfer risk is a reflection of the likely ability of borrower in a certain country to repay its debt denominated in foreign currency in light of the economic or political situation prevailing in that country. Country risk allowances are based on an internal rating system that incorporates current and historical economic, political and other data to categorise countries by risk profile.

As soon as a loan becomes uncollectable, it is written off against any existing specific loan loss allowance or directly recognised as an expense in the income statement. Subsequent recoveries are recognised by crediting the “Loan loss provisions” item in the income statement.

Property and equipment. Items of property and equipment are reported at amortised cost less accumulated depreciation and impairment losses, if any. Subsequent costs or additions are capitalised to the extent that they increase the future economic benefit of the related assets. Borrowing costs incurred in the financing of property and equipment are not capitalised. Costs for repairs, maintenance, or other measures to maintain the property or equipment are charged to the income statement when the expenditure is incurred. Straight-line depreciation is based on the useful life terms set out below in accordance with the expected benefit periods:

Buildings	25 - 50 years
Office furniture and equipment	4 - 10 years
Internally developed software	3 or 7 years

Property and equipment is periodically reviewed for impairment. When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount.

Depreciation expense is reported under Administrative expenses. Gains and losses realised on the disposal of property and equipment are reported in “Other operating income” or “Other operating expense”, respectively.

Computer software development costs are capitalised and amortised using the straight-line method over the estimated useful lives of the assets. The capitalised costs include direct costs, such as staff costs of the software development team, and an appropriate portion of relevant overhead costs. Expenditures that enhance or extend the benefits of computer software programs beyond their original specifications and lives are recognised as capital improvements and added to the original cost of the software. Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Accounting for leases. Leases are divided into finance leases and operating leases. Under a finance lease, substantially all the risks and rewards incident to legal ownership are transferred to the lessee, who reports the assets in its balance sheet. In contrast, an operating lease exists where the leased assets are allocated to the lessor.

In its capacity as a lessor, the Bank primarily offers finance leases. The Group recognises the assets to be capitalised by the lessee as receivables at an amount equal to the net investment. Income from these transactions is allocated to Net interest and current income on an accrual basis.

In its capacity as a lessee, the Group mainly uses property and equipment under operating leases, although finance leases are also employed in isolated cases. Payments due to the lessor under operating leases are charged to administrative expenses on a straight-line basis over the term of the lease. If a lease is terminated before the end of the lease term, any penalty payments to be made to the lessor are recognised in income in full in the period in which such termination takes place.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the net assets (shareholders’ equity) of the acquired subsidiary, associate, or joint venture, measured at the date of acquisition. Negative goodwill may arise if future expected losses are priced into the acquisition.

Goodwill arising on acquisitions is carried at cost and reduced by straight-line amortisation over a maximum of ten years, or written off if required. The estimated useful life is determined on the basis of the expected useful life, which in turn is based on an evaluation of factors such as the nature of the business and existing customer relationships. Amortisation is reported in “Other expenses”.

The Group assesses whether there is any indication of impairment of goodwill on an annual basis, with expert analyses being commissioned if necessary. Goodwill is written down for impairments expected to be permanent. Gains or losses realised on the disposal of subsidiaries include any unamortised balance of goodwill relating to the subsidiary disposed of.

Hedge accounting. Hedges as defined by IAS 39 (Financial Instruments: Recognition and Measurement) with a positive fair value are carried in the balance sheet under "Other assets"; those with a negative fair value are carried under "Other liabilities".

If certain criteria are met, IAS 39 allows hedge accounting to be applied to non-trading derivatives. IAS allows for three forms of hedging relationship. Fair value hedges are designed to hedge the exposure to changes in the fair value of financial assets or liabilities. Cash flow hedges are designed to hedge the exposure to variability in cash flows of financial assets, liabilities and firm commitments or forecast transactions. Hedges of net investment in a foreign entity are a special form of cash flow hedge.

In the case of fair value hedges, gains and losses on the hedged risk from the underlying transaction and the hedged item are offset in the net income for the period. For qualifying cash flow hedges, gains or losses on the derivatives (in relation to the hedged risk) are recognised directly in equity and are not taken to income until the gains and losses relating to the underlying hedged items are recognised in income or the hedging transaction expires. The ineffective portion of all hedges is reported immediately in income for the period, regardless of the type of hedging relationship involved.

Hedges must satisfy objective criteria that they eliminate a significant portion of the risk inherent in the hedged item, and must be documented in the required manner. Evidence of effectiveness requires on the one hand that a high degree of effectiveness regarding a hedging relationship can be regularly expected (prospective effectiveness), whereas on the other hand evidence must be provided that the hedge was highly effective during the existence of the hedging relationship (retrospective effectiveness).

Hedging may be applied to individual transactions ("micro hedge") or to a portfolio of similar assets or liabilities ("portfolio hedge"). The Bank uses both fair value and cash flow hedges. Fair value hedges relate to interest rate swaps used to hedge loans, deposits, available-for-sale securities and own shares issued against interest rate risks. Cash flow hedges relate to interest rate swaps used to hedge selected interest-related variable cash flows.

Due to the highly restrictive provisions of IAS 39, certain hedge relationships do not qualify for hedge accounting. This leads in some cases to asymmetrical recognition in income of the hedged item and the hedging instrument; as a result, the Group expects that earnings may continue to be volatile.

In addition to hedge accounting, natural hedges also exist. 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. As a result, they are not recognised in the balance sheet.

Interest-bearing and non-interest-bearing liabilities. Interest-bearing and non-interest-bearing liabilities are recognised at amortised cost. Where such transactions involve a discount, such discounts are recorded as deferred assets and amortised to income over the life of the respective liabilities using the effective interest method.

Cost of raising long-term debt. Costs relating to the issuance of long-term debt, such as fees relating to placement, underwriting commitments, subscription, management, or syndication, are expensed as incurred and recognised under Other expenses.

Provisions. In accordance with IAS 37, provisions are recognised when the Group has a present legal or constructive obligation resulting from past transactions or events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the liability can be made. Provisions are subject to review and are remeasured on an annual basis. The vast majority of additions to provisions are recognised in Administrative expenses, while releases of provisions are reported in "Other operating income". Provisions and releases of provisions recognised for counterparty risks relating to off-balance sheet loan commitments are charged or credited, as appropriate, to the Loan loss provisions.

Income tax expense. Income tax payable on net income based on the applicable tax law in each jurisdiction is recognised as an expense in the period in which the net income is recognised. Deferred tax assets and liabilities are recognised in full, using the balance sheet liability approach, for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, regardless of the expected timing of the reversal of such differences. When determining deferred income tax, the tax rates used are those that have been enacted, or substantively enacted, and that are likely to apply during the tax period during which the reversal is expected to take place. Tax refund claims and tax liabilities are recognised for additional tax payments or refunds due in the year under review. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Tax effects from loss carryforwards are capitalised where it is probable that they can be offset against future income.

Post-retirement obligations. The majority of the Group's employees participate in sponsored benefit plans, whereby benefits are payable in the form of retirement, disability and surviving dependant pensions. The benefits offered vary according to the legal, fiscal and economic conditions of each country in which the Group operates and include both defined-contribution and defined-benefit plans. The benefits under both types of plan primarily depend on employees' years of service and salary earned.
Pension plans are generally financed via payments by the corresponding Group companies; in addition, some arrangements provide for contributions by the employees themselves. Pension provisions are created in accordance with IAS 19 for the majority of our employees.

A defined-benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service, or compensation. For defined-benefit plans, the pension accounting costs are assessed annually by independent qualified actuaries using the projected unit credit method. The liability associated with defined-benefit plans is the present value of the defined-benefit obligation at the balance sheet date. The discount rate used reflects prevailing market conditions; future salary and assumed pension increases, pension trends and the expected return on plan assets are also taken into account. Actuarial gains and losses – resulting from experience adjustments, changes in actuarial assumptions and changes in the plan – are recognised in the income statements if they exceed the greater of 10% of the present value of defined-benefit obligations or 10% of the fair value of the plan assets. The present value of the change in pension obligations is recognised under Administrative expenses.

A defined-contribution plan is a pension plan under which the Group pays a fixed contribution to an external pension provider and has no legal or constructive obligation to pay further contributions if the fund does not have sufficient assets to pay all employees benefits relating to employee service in the current or prior periods. For defined-contribution plans, the Group pays contributions to administered plans on a mandatory, contractual, or voluntary basis. Payments under defined-contribution plans for the current accounting period are reported in Administrative expenses under Expenses for pension obligations.

Treasury shares. Due to the squeeze-out in 2002 of minority shareholders in return for a cash payment, the Bank's entire share capital is now owned by the Allianz Group.

Trustee business. Assets and liabilities held by the Group in its own name, but for the account of third parties, are not reported in the balance sheet. Commissions received from such business are shown as Net fee and commission income in the income statement.

Consolidated statement of cash flows. The consolidated statement of cash flow shows changes in the Dresdner Bank Group's cash and cash equivalents resulting from cash flows used in/provided by operating activities, investing activities and financing activities. Cash flows provided by in investing activities primarily comprise proceeds from the disposal of and payments for the acquisition of investment securities and property and equipment. Financing activities include all cash flows used in/provided by transactions involving equity capital, subordinated equity and profit-participation certificates. In line with international banking practice, all other cash flows are attributed to operating activities.

(2) Significant differences between IFRSs and German commercial law

The Bank's consolidated financial statements were prepared in accordance with the IFRSs. Since the IFRS rules differ from the provisions of German commercial law in certain respects, we have provided a summary of the most significant differences applicable to the Group, pursuant to section 292(a) of the HGB.

Securities and derivatives. Under the IFRSs, securities and derivatives are measured at their fair values, which generally correspond to their market price. Unrealised measurement gains and losses are recognised in the income statement, to the extent that the securities involved are trading assets. Gains and losses on the remeasurement of investment securities are initially taken directly to equity under a special item. They are subsequently recognised in income when realised. Special rules apply to hedge accounting.

Under German commercial law, securities classified as current assets would be measured at the strict lower of cost or market. In contrast, investment securities are carried at amortised cost under the less strict principle of the lower of cost or market.

Under German commercial law, derivatives are treated as incompleted transactions and are not recognised in the balance sheet. In the case of unrealised gains and losses, the HGB only requires provisions to be set up in the case of losses; unrealised gains are not recognised.

Where derivatives and other financial instruments are treated as forming a separate portfolio, remeasurement losses are deducted from remeasurement gains within each portfolio. Net unrealised gains are not recognised, whereas net unrealised losses are recognised by setting up provisions for expected losses from incompleted transactions.

Goodwill. Goodwill arising on the acquisition of subsidiaries must be recognised as an asset in accordance with the IFRSs. Goodwill is amortised and recognised in the income statement over a maximum period of ten years. According to the provisions of the HGB, goodwill arising on the acquisition of subsidiaries may also be immediately netted against reserves.

Deferred taxes. Tax deferral according to the IFRSs is based on a balance sheet approach, and disclosure of deferred tax assets is mandatory. Deferred tax assets are required to be recognised. Under the provisions of the HGB, deferred taxes would be accounted for using the income statement liability method. The recognition of deferred tax assets in the single-entity financial statements would be optional.

Pension provisions. The discount rate to be used when measuring pension provisions in accordance with the IFRSs is the current capital market rate. In addition, future salary and pension increases must be anticipated. Under the HGB, the 6% discount rate laid down in the Einkommensteuergesetz (EStG – German Income Tax Act) would generally be used.

Other provisions. Apart from restructuring provisions, provisions for future internal expenses are not permitted under IFRS rules; under the HGB, these would be permissible.

Fund for general banking risks. According to German commercial law, provisions may be made for general banking risks pursuant to section 340(f) HGB, and a special item set aside for this purpose pursuant to section 340(g) HGB. However, this is not permitted for consolidated financial statements prepared in accordance with IFRS rules.

Minority interests. Under the IFRSs, the minority shareholders' proportionate interest in the Bank's equity is shown under a special item separate from Shareholders' equity and from Liabilities. Under the HGB, minority interests are included in shareholders' equity.

Trustee business. In the IFRS financial statements, any trust operations carried out by the Group in its own name, but for the account of third parties, are not reported on the balance sheet. These operations would, however, be included on the balance sheet of financial statements prepared in accordance with the HGB.

Premiums and discounts. Under the HGB, premiums and discounts must be deferred. These are not required under IAS 39, as receivables and liabilities are measured at amortised cost and premiums and discounts are therefore reflected in the carrying amount.

II. Notes to the Consolidated Income Statement and Segment Reporting

(3) Net interest and current income

€ mn	2003	2002
Interest income from		
Lending and money market operations *)	6,155	10,061
Fixed-income securities and government debt	462	699
Current income from		
Equities and other non-fixed-income securities	127	144
Investments in non-affiliated enterprises	75	72
Investments in affiliated enterprises	15	10
Investments in enterprises accounted for using the equity method	116	102
Current income from finance leases	51	111
Income from profit transfer agreements	1	3
Total interest and current income	7,002	11,202
Interest expense for		
Deposits	2,496	3,002
Certificated liabilities	1,377	4,087
Subordinated liabilities	344	542
Other	260	295
Total interest expense	4,477	7,926
Net interest and current income	**2,525**	**3,276**

*) Includes losses from the application of IAS 39 totalling €365 million (2002: losses of €119 million)

Net interest income from trading activities of €867 million (2002: €561 million) is reported in Net trading income (see Note 6).

(4) Loan loss provisions

€ mn	2003	2002
Additions to loan loss provisions	2,048	3,043
Amounts released	964	775
Recoveries on loans previously written off	68	50
Loan loss provisions	**1,016**	**2,218**

(5) Net fee and commission income

€ mn	2003	2002
Securities business	1,112	979
Asset management	463	799
Payment transactions	284	287
Consulting and underwriting business	232	369
Foreign commercial business	154	160
Other	345	496
Net fee and commission income	**2,590**	**3,090**

Besides securities commission business, the following management and brokerage services represent a substantial part of the Dresdner Bank Group's activities: custody administration, management of assets held in trust, asset management, management of investment funds and brokerage of insurance policies, home loan contracts and real estate.

(6) Net trading income

€ mn	2003	2002
Trading in interest rate products	832	650
Equities trading	176	–34
Foreign exchange and precious metals trading	357	301
Remeasurement gains/losses from the application of IAS 39	161	127
Net trading income	**1,526**	**1,044**

€ mn	2003	2002
Net realised gains/ losses	–43	1,383
Remeasurement result *)	754	–900
Brokerage fees and commissions	–52	0
Interest and dividend income	6,160	5,740
Interest expense	5,293	5,179
Net interest income	867	561
Net trading income	**1,526**	**1,044**

*) Including gains/losses from the application of IAS 39

(7) Other income

€ mn	2003	2002
Other operating income	445	428
Results from investment securities	–1,061	2,761
Net realised gains/losses	349	3,935
Impairment losses	1.618*)	1,221
Reversals of impairment losses	208	47
Other income	**–616**	**3,189**

*) Including €59 million losses from derivatives not qualifying for hedge accounting under IAS 39.

Other operating income includes amounts that cannot be attributed to other items of the income statement, and in particular cost refunds from unconsolidated affiliated companies, gains on the disposal of items of property and equipment, the reversal of provisions and rental income.

(8) Administrative expenses

€ mn	2003	2002
Wages and salaries	2,873	3,665
Social security costs	396	445
Pension benefits expense (see Note 30)	292	325
Total staff costs	3,561	4,435
Professional services	251	566
Occupancy expenses	388	500
Office furniture and equipment	648	585
Other administrative expenses	590	804
Total other administrative expenses	1,877	2,455
Depreciation of property and equipment	491	610
Administrative expenses	**5,929**	**7,500**

Excluding apprentices and trainees, the average number of staff employed during the year was 41,823 (2002: 47,413). The breakdown of these employees by location was as follows:

Employees	2003	2002
Germany	33,641	38,055
Other countries	8,182	9,358
Total	**41,823**	**47,413**

The average numbers of trainees and apprentices during the year was 180 (2002: 257) and 2,009 (2002: 2,430), respectively.

(9) Other expenses

€ mn	2003	2002
Other operating expenses	908	592
Other taxes	11	15
Amortisation of and impairment losses on goodwill	194	1,176
Other expenses	**1,113**	**1,783**

Other operating expenses include amounts that cannot be attributed to other items of the income statement, including the costs of raising long-term debt and of capital increases, indemnity payments and losses on the disposal of items of property and equipment. Other taxes include property taxes, vehicle taxes and other taxes that are not based on the Group's taxable net income.

(10) Restructuring charges

€ mn	2003	2002
"New Dresdner" Programme	380	–
Other programmes	460	244
Restructuring charges	**840**	**244**

€380 million of the restructuring charges in the year under review relate to the "New Dresdner" Programme announced in August 2003. The goal of the "New Dresdner" Programme is the further optimisation of the Bank's business model. This entails the loss of a further 4,700 jobs in addition to the previous cuts. It is planned to implement the initiatives within a two-year period.

The Other programmes item comprises measures taken in 2003 amounting to €91 million; these primarily consist of restructuring costs for outsourcing activities in the Transaction Banking unit and of IT impairment losses necessitated by our revised business model.

€343 million is attributable to legacy measures initiated in 2002. The expenses are the result of the detailed definition of key subinitiatives in the year under review.

Aggregate expenses of €26 million relate to restructuring projects initiated in 2000 and 2001.

Information on the development of provisions is provided in Note 31.

(11) Earnings per share

Earnings per share are calculated by dividing the net income/net loss by the weighted average number of shares outstanding during the year, excluding the average number of shares held by the Group as treasury shares.

	2003	2002
Net loss (€ mn)	–1,989	–942
Weighted average number of shares outstanding (millions of shares)	578.1	577.4
Earnings per share (€)	**–3.44**	**–1.63**

Diluted earnings per share are calculated using the same method, but the weighted average number of shares outstanding is adjusted for the dilutive effect of outstanding rights to subscribe for Dresdner Bank shares. No such rights were still in existence at the end of 2003. The diluted earnings per share therefore correspond to the earnings per share.

(12) Quarterly results

	2003				2002			
€ mn	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest and current income	775	486	642	622	821	634	918	903
Net fee and commission income	612	630	624	724	660	671	802	957
Net trading income	112	329	478	607	220	489	100	235
Operating income	**1,499**	**1,445**	**1,744**	**1,953**	**1,701**	**1,794**	**1,820**	**2,095**
Loan loss provisions	294	23	348	351	411	757	729	321
Total staff costs	842	906	879	934	1,044	1,090	1,114	1,187
Non-staff operating costs	597	593	582	596	788	766	771	740
Administrative expenses	1,439	1,499	1,461	1,530	1,832	1,856	1,885	1,927
Operating result	**–234**	**–77**	**–65**	**72**	**–542**	**–819**	**–794**	**-153**
Other income/ expenses (net)	–1,648	154	–176	–59	–615	845	–400	1,576
Restructuring charges	558	60	203	19	13	173	58	–
Income/loss before taxes	**–2,440**	**17**	**–444**	**–6**	**–1,170**	**–147**	**–1,252**	**1,423**
Income tax expense	–398	–22	–655	180	103	27	–237	–104
Income/loss after taxes	**–2,042**	**39**	**211**	**–186**	**–1,273**	**–174**	**–1,015**	**1,527**

(13) Segment reporting

Segment reporting is structured primarily according to business segments, with a geographical breakdown used as a secondary reporting format. The business segments shown are in line with the organisational structure of the Dresdner Bank Group at the end of the year, taking into account the nature of the products and services provided and the respective target customer groups.

Two material changes were made in the segment structure in fiscal 2003 as against the previous year. Firstly, the Dresdner Bank Group focused its business activities on the three divisions Private and Business Clients, Corporate Banking and Dresdner Kleinwort Wasserstein as part of its strategic reorientation. Secondly, following the establishment of the Institutional Restructuring Unit (IRU) as part of the Turnaround Programme 2003, these three operating divisions transferred specific loan commitments to the IRU. These assets were transferred in the first half of 2003. The comparative figures for the previous year have been adjusted to reflect these two structural changes.

The **Private and Business Clients** division provides sophisticated advisory services to private customers and markets a range of financial products focusing on asset accumulation and investment. In addition to classic and innovative banking products in the fields of payments, asset management and finance, the division offers mid-market companies advice on topics such as occupational retirement provision, Basel II and e-business.

The **Corporate Banking** division provides commercial banking services to corporates and institutions. Its range of services includes lending and deposits, foreign commercial business, securities and payments, including related e-business activities.

The **Dresdner Kleinwort Wasserstein** division bundles the Bank's activities in the Corporate Finance & Advisory and Capital Markets units, and is responsible for income from the Bank's underwriting business, mergers & acquisitions, project and structured finance and equities, bond and derivatives trading.

The **Institutional Restructuring Unit (IRU)** bundles those loan commitments that no longer fit the Bank's strategic orientation. This also includes its private equity business. The job of the IRU is to find individual or portfolio solutions for each of these loan commitments, which are completely different in terms of quality and structure. The IRU uses a range of instruments to implement this strategy. They include loan securitisation and placement, participation in corporate restructuring, the conversion of loans into private equity stakes, the restructuring of syndicated loans, margin increases, credit limit adjustments or the waiver of loan extensions, as well as state-of-the-art instruments such as credit default swaps. The IRU plays a key role in the Bank's strategy, since it enables the operating units to concentrate on strategic, profitable high-quality business.

Corporate Investments, which we are disclosing independently of Corporate Items for the first time, comprises holdings of investment securities that we no longer regard as part of our core business following our strategic reorientation. Our goal is to reduce these holdings as part of a targeted divestment process.

Corporate Items include income and expense items that cannot be directly attributed to any of the operating divisions, or that are the result of decisions that affect the Group as a whole. We are aiming to reduce our Corporate Items as far as possible. These items mainly include cross-divisional expenses for Group functions and projects, impairment losses on goodwill, remeasurement gains and losses from trasnser and global risks and remeasurement gains and losses from the application of IAS 39. In addition, Corporate Items is used to reconcile the financial reporting used in the Group’s operating divisions, which focuses on management criteria, with the Group’s consolidated financial statements. Costs incurred by the Corporate Service units and Transaction Banking are oncharged to the divisions as part of internal cost allocation. Income from the former Real Estate division is now also subsumed under Corporate Items. This is because no major business activities are still being performed and the business is no longer managed at divisional level since the deconsolidation of Deutsche Hypothekenbank AG as at 31 July 2002 (merger with Eurohypo AG) and the transfer of Allianz Dresdner Bauspar AG to the Private and Business Clients division. In addition, it should be borne in mind that our domestic asset management companies were contributed to Allianz Dresdner Asset Management in the second half of the previous year. This means that the results of this division were reduced substantially in the year under review. Consequently, the results of the remaining foreign asset management companies are now no longer presented as a separate division, but have also been subsumed under Corporate Items.

Basis and methodology of segment reporting. Segment reporting is based on the monthly Group Management Accounts, a decision-support tool used for divisional Group planning and control. Any changes to the divisional structure as well as modifications to income and cost allocation have been applied retrospectively for the years ended 31 December 2003 and 31 December 2002.

The divisional reporting structure is designed to present the business divisions as if they were stand-alone businesses having their own capital resources. Capital is allocated on the basis of the risk capital assigned to the divisions. Reconciliation to the Group's average capital resources according to the IASs is performed under Corporate Items.

The net interest and current income of the divisions is calculated by measuring the segment assets and liabilities on the basis of a transfer pricing concept in line with prevailing market rates. Income from the investment of allocated equity capital is allocated to the divisions on the basis of imputed interest. Administrative expenses include both direct costs and indirect costs that have been allocated to divisions and service support units in connection with the intragroup exchange of services.

The "return on risk capital", an indicator of profitability, expresses the ratio between the result from operations or income/loss before taxes and the average risk capital allocated to the individual divisions. The cost-income ratio is an indicator of how efficient individual divisions are in employing resources.

The segment assets allocated to the divisions include trading assets, loans and advances to banks and loans and advances to customers, net of loan loss provisions. The segment liabilities and equity allocated to the divisions include trading liabilities, liabilities to banks, liabilities to customers and allocated equity. All other assets and liabilities, plus certain amounts required to reconcile balances to the amounts reported in the Group's consolidated financial statements, are recognised under Corporate Items.

€ mn	Private and Business Clients		Corporate Banking		Dresdner Kleinwort Wasserstein		Institutional Restructuring Unit		Corporate Investments		Corporate Items		Total Dresdner Bank Group	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Net interest and current income	1,528	1,649	694	717	355	553	488	681	–91	–78	–449	–246	2,525	3,276
Net fee and commission income	1,453	1,379	316	317	560	757	76	129	0	0	185	508	2,590	3,090
Net trading income	38	44	54	55	1,270	983	13	21	0	0	151	–59	1,526	1,044
Operating income	**3,019**	**3,072**	**1,064**	**1,089**	**2,185**	**2,293**	**577**	**831**	**–91**	**–78**	**–113**	**203**	**6,641**	**7,410**
Loan loss provisions	247	470	118	98	–45	32	884	1,588	0	0	–188	30	1,016	2,218
Administrative expenses	2,524	2,742	499	578	1,876	2,633	421	491	16	0	593	1,056	5,929	7,500
Operating result	**248**	**–140**	**447**	**413**	**354**	**–372**	**–728**	**–1,248**	**–107**	**–78**	**–518**	**–883**	**–304**	**–2,308**
Other income/expenses (net)	–9	1	–9	0	15	0	–277	–32	39	0	–233	–148	–474	–179
Results from investment securities	8	–5	–3	–66	22	13	–105	–473	–1,013	914	30	2,378	–1,061	2,761
Amortisation of and impairment losses on goodwill	31	31	0	0	55	129	17	14	0	0	91	1,002	194	1,176
Restructuring charges	174	26	90	11	30	120	145	57	0	0	401	30	840	244
Income/loss before taxes	**42**	**–201**	**345**	**336**	**306**	**–608**	**–1,272**	**–1,824**	**–1,081**	**836**	**–1,213**	**315**	**–2,873**	**–1,146**
Change (€ mn)	243		9		914		552		–1,917		–1,528		–1,727	
Segment assets (€ bn)	42.0	43.5	40.9	41.1	317.1	227.8	18.3	35.6	8.7	9.2	50.0	56.2	477.0	413.4
Segment liabilities (€ bn)	51.8	52.5	41.7	41.9	255.0	197.6	6.1	10.5	2.4	2.7	120.0	108.2	477.0	413.4
Cost-income ratio (operating), %	83.6	89.3	46.9	53.1	85.9	114.8	73.0	59.1					89.3	101.2
Return on risk capital (operating), %	16.5	–7.8	29.8	19.7	16.1	–10.6	–31.7	–37.8					–3.2	–16.0
Return on risk capital before taxes, %	2.8	–11.2	23	16	13.9	–17.4	–55.3	–55.3					–30.2	–8.0
Risk capital (average)	1,500	1,800	1,500	2,100	2,200	3,500	2,300	3,300	2,700	3,000	–700	700	9,500	14,400
Risk-weighted assets (average)	37,300	40,900	25,800	30,600	33,800	40,300	15,500	22,900	7,200	6,600	7,900	28,100	127,500	169,400

The following table presents the Group's business activities according to geographical regions, based on the domicile of each operating unit:

€ mn	Income		Income/loss before taxes		Total assets	
	2003	2002	2003	2002	2003	2002
Germany	8,724	12,062	–2,573	1,864	400,617	321,716
Europe (excluding Germany)	5,480	5,049	–154	–1,002	148,847	128,014
North America	1,518	1,874	–344	–1,532	46,067	59,398
Latin America	167	535	118	–513	4,833	8,006
Asia/Pacific	418	344	81	37	18,060	19,325
Consolidation	–4,453	–3,802		–	–141,395	–123,014
Total	**11,854**	**16,063**	**–2,873**	**–1,146**	**477,029**	**413,445**

Revenue includes interest and current income, current income from equities and other non-fixed-income securities and from investments in non-affiliated and affiliated enterprises, current leasing income, commission income, net trading income and other operating income.

III. Notes to the Consolidated Balance Sheet – Assets

(14) Cash funds

€ mn	31 Dec. 2003	31 Dec. 2002
Cash on hand	542	719
Balances with central banks	4,017	3,031
Of which: Deutsche Bundesbank	3,321	1,205
Treasury bills, discounted treasury notes and similar treasury securities	798	850
Of which: eligible for refinancing with Deutsche Bundesbank	0	10
Bills	134	277
Of which: eligible for refinancing with Deutsche Bundesbank	134	277
Cash funds	**5,491**	**4,877**

Balances held with Deutsche Bundesbank also serve to meet minimum reserve requirements.

(15) Trading assets

€ mn	31 Dec. 2003	31 Dec. 2002
Debt and other fixed-income securities	109,237	90,378
Equities and other non-fixed-income securities	14,852	9,080
Positive fair value of derivative financial instruments	17,553	20,543
Other trading assets	1,393	1,534
Trading assets	**143,035**	**121,535**

Debt and other fixed-income securities can be broken down as follows:

€ mn	31 Dec. 2003	31 Dec. 2002
Bonds and notes		
Public sector issuers	54,568	36,221
Other issuers	50,271	41,480
Money market securities		
Public sector issuers	3,109	10,023
Other issuers	1,289	2,654
Own bonds and notes	–	–
Debt and other fixed-income securities	**109,237**	**90,378**
Of which: marketable securities	109,237	90,378
thereof: listed securities	96,189	78,986
unlisted securities	13,048	11,392

Equities and other non-fixed-income securities can be broken down as follows:

€ mn	31 Dec. 2003	31 Dec. 2002
Equities	13,684	7,924
Other	1,168	1,156
Equities and other non-fixed-income securities	**14,852**	**9,080**
Of which: marketable securities	14,521	8,830
thereof: listed securities	14,460	8,813
unlisted securities	61	17

Positive fair values of derivative financial instruments are disclosed net. Positive and negative fair values in the amount of €40,685 million (2002: €45,357 million) were offset on the basis of existing netting agreements. Negative fair values of derivative financial instruments and obligations to deliver securities are reported under Trading liabilities. Trading assets in the amount of €104,123 million (2002: €65,417 million) were pledged as collateral for the Group's liabilities. Other trading assets include promissory notes and registered securities, among other things.

(16) Loans and advances to banks

	31 Dec. 2003			31 Dec. 2002		
€ mn	Germany	Other countries	Total	Germany	Other countries	Total
Payable on demand	5,590	15,733	21,323	5,933	7,804	13,737
Other advances	17,056	79,702	96,758	17,253	53,059	70,312
Loans	1,094	3,676	4,770	1,525	3,122	4,647
Of which: mortgage loans	–	–	–	–	–	–
communal loans	818	618	1,436	914	76	990
Loans and advances to banks	**23,740**	**99,111**	**122,851**	**24,711**	**63,985**	**88,696**
Less: loan loss allowances	1	230	231	7	323	330
Loans and advances to banks, net of loan loss allowances	**23,739**	**98,881**	**122,620**	**24,704**	**63,662**	**88,366**
Of which: promissory notes at fair value	818	618	1,436	914	76	990
Of which: reverse repurchase agreements	16,508	74,346	90,854	14,737	44,435	59,172

Loans and advances to banks in the amount of €37,943 million (2002: €24,648 million) were pledged as collateral for the Group's liabilities at the reporting date.

(17) Loans and advances to customers

€ mn	31 Dec. 2003 Germany	31 Dec. 2003 Other countries	31 Dec. 2003 Total	31 Dec. 2002 Germany	31 Dec. 2002 Other countries	31 Dec. 2002 Total
Corporate customers	38,153	91,223	129,376	38,173	77,917	116,090
Public authorities	564	2,520	3,084	619	2,076	2,695
Private customers	41,038	1,556	42,594	43,216	1,312	44,528
Loans and advances to customers	**79,755**	**95,299**	**175,054**	**82,008**	**81,305**	**163,313**
Less: loan loss allowances	4,115	1,121	5,236	5,134	1,156	6,290
Loans and advances to customers, net of loan loss allowances	**75,640**	**94,178**	**169,818**	**76,874**	**80,149**	**157,023**
Of which: promissory notes at fair value	386	37	423	394	15	409
Of which: reverse repurchase agreements	5,574	57,666	63,240	905	37,911	38,816

Loans and advances to customers can be broken down as follows:

€ mn	31 Dec. 2003	31 Dec. 2002
Loans	98,965	118,164
Of which: mortgage loans	11,559	12,001
communal loans	1,720	2,070
home loans	906	1,009
other loans secured by mortgages	17,982	19,233
Reverse repurchase agreements	63,240	38,816
Other advances	12,849	6,333
Loans and advances to customers	**175,054**	**163,313**

Loans and advances to customers include advances under finance leases in the amount of the net investment of €705 million (2002: €844 million). The corresponding gross investment value of these leases amounts to €782 million (2002: €914 million), of which €77 million (2002: €95 million) relates to unearned income. The residual values of all leased assets were guaranteed both in the year under review and in the previous year. Allowances for unrecoverable lease receivables amounted to €42 million at the balance sheet date (2002: €4 million). Of the aggregate lease receivables, €78 million is due within one year and €308 million is due within five years. €319 million has a residual maturity of more than five years.

The Group's finance leasing operations are based in New York, London and Tokyo. The items financed include aircraft, railway equipment, real estate and other infrastructure investments.

Loans and advances to customers in the amount of €22,681 million (2002: €23,842 million) were pledged as collateral for the Group’s liabilities.

The table below provides a breakdown of loans and advances, before adjustment for loan loss allowances, to German and foreign corporate customers, private customers and public authorities, broken down by sector:

€ mn	31 Dec. 2003	31 Dec. 2002
Germany		
Manufacturing industry	7,991	9,626
Construction	1,062	1,345
Wholesale and retail trade	4,194	5,900
Financial institutions (excluding banks) and insurance companies	9,675	4,448
Service providers	12,951	13,777
Other	2,280	3,077
Corporate customers	**38,153**	**38,173**
Public authorities	**564**	**619**
Private individuals (including self-employed professionals)	**41,038**	**43,216**
Total	**79,755**	**82,008**
Other countries		
Manufacturing industry	4,844	9,229
Construction	574	557
Wholesale and retail trade	1,066	1,501
Financial institutions (excluding banks) and insurance companies	71,687	49,208
Finance leasing	798	879
Transport	2,022	1,456
Telecommunications	1,694	1,972
Service providers	3,339	5,442
Other	5,199	7,673
Corporate customers	**91,223**	**77,917**
Public authorities	**2,520**	**2,076**
Private individuals	**1,556**	**1,312**
Total	**95,299**	**81,305**
Grand total	**175,054**	**163,313**

Lending volume

In contrast to the reporting of loans and advances, the lending volume does not include reverse repurchase agreements or other advances. However, this item does comprise loans extended on bills that are not reported under Loans and advances to banks or customers, as appropriate.

€ mn	31 Dec. 2003			31 Dec. 2002		
	Germany	Other countries	Total	Germany	Other countries	Total
Loans extended on bills	134	0	134	277	1	278
Corporate customers	31,434	23,987	55,421	36,236	34,996	71,232
Public authorities	559	616	1,175	606	2,068	2,674
Private customers	40,835	1,534	42,369	43,041	1,217	44,258
Customer loans	**72,962**	**26,137**	**99,099**	**80,160**	**38,282**	**118,442**
Loans to banks	**1,094**	**3,676**	**4,770**	**1,525**	**3,122**	**4,647**
Lending volume	**74,056**	**29,813**	**103,869**	**81,685**	**41,404**	**123,089**
Less: loan loss allowances	4,116	1,351	5,467	5,141	1,479	6,620
Lending volume net of loan loss allowances	**69,940**	**28,462**	**98,402**	**76,544**	**39,925**	**116,469**
Of which: promissory notes at fair value	1,204	655	1,859	1,308	91	1,399

(18) Development of loan loss allowances

The total Loan loss allowances item includes the loan loss allowances deducted from the asset side of the balance sheet in the amount of €5,466 million (2002: €6,620 million) and the allowance for contingent liabilities in the amount of €486 million (2002: €629 million) included in Provisions and other liabilities.

	Counterparty risks		Country risks		Potential risks (general loan loss allowance)		Total	
€ mn	2003	2002	2003	2002	2003	2002	2003	2002
1 January	6,069	6,760	367	488	813	804	7,249	8,052
Additions								
Additions to loan loss provisions recognised in the income statement	2,007	2,826	41	111	0	106	2,048	3,043
Reductions								
Charge-offs	2,034	1,883	7	0	0	0	2,041	1,883
Amounts released (recognised in the income statement)	719	544	95	203	150	28	964	775
Changes in consolidated companies *)	–	–928	–	–	–	–63	–	–991
Other additions/reductions	–60	56	4	-12	4	0	–52	44
Currency translation differences	–244	–218	–41	–17	–3	–6	–288	–241
31 December	**5,019**	**6,069**	**269**	**367**	**664**	**813**	**5,952**	**7,249**

*) Deconsolidation of Deutsche Hyp Deutsche Hypothekenbank Frankfurt-Hamburg AG

The loan portfolio includes non-accrual loans amounting to €8,239 million (2002: €10,005 million). This amount includes €5,172 million (2002: €7,695 million) representing loans that were placed on non-accrual status and €3,067 million (2002: €2,310 million) of loans which have a specific allowance against the interest accrued. As a result, interest amounting to €361 million (2002: €447 million), which would have been recognised had these loans been accruing interest, was not included in Net interest income.

(19) Investment securities and investments in enterprises accounted for using the equity method

€ mn	31 Dec. 2003	31 Dec. 2002
Debt and other fixed-income securities	10,802	14,357
Equities and other non-fixed-income securities	3,475	3,197
Investments in non-affiliated enterprises	2,753	3,712
Investments in unconsolidated affiliated enterprises	1,892	1,894
Investment securities	**18,922**	**23,160**
Investments in enterprises accounted for using the equity method	**2,928**	**2,805**

Whereas investments in enterprises accounted for using the equity method are recognised at amortised cost, investment securities are measured at fair value (for exceptions, see the section of Note 1 dealing with investment securities). The total carrying amounts of investment securities measured at amortised cost are €175 million (2002: €340 million). The unrealised gains and losses contained in the item “Cumulative remeasurement gains/losses on available-for-sale financial instruments” can basically be broken down as follows: debt and other fixed-income securities: €78 million (2002: €242 million), equities and other non-fixed-income securities: €267 million (2002: €–543 million), investments in non-affiliated companies: €64 million (2002: €–51 million), investments in unconsolidated affiliated companies: €0 million (2002: €–873 million) and hedge accounting €–46 million (2002: none).

Investment securities in the amount of €138 million (2002: €19,483 million) were pledged as collateral for own liabilities.

Debt and other fixed-income securities can be broken down as follows:

€ mn	31 Dec. 2003	31 Dec. 2002
Bonds and notes		
Public sector issuers	3,537	3,271
Other issuers	5,976	10,178
Money market securities		
Public sector issuers	195	402
Other issuers	1,094	506
Debt and other fixed-income securities	**10,802**	**14,357**
Of which: marketable securities	10,802	14,357
thereof: listed securities	9,630	11,677
unlisted securities	1,172	2,680

Debt and other fixed-income securities with a nominal value of €3,476 million (2003: €4,012 million) will mature in 2004.

Equities and other non-fixed-income securities can be broken down as follows:

€ mn	31 Dec. 2003	31 Dec. 2002
Equities	2,063	1,679
Other	1,412	1,518
Equities and other non-fixed-income securities	**3,475**	**3,197**
Of which: marketable securities	2,733	2,418
thereof: listed securities	1,699	1,614
unlisted securities	1,034	804

Investments in non-affiliated enterprises can be broken down as follows:

€ mn	31 Dec. 2003	31 Dec. 2002
Equities	2,525	3,406
Other	228	306
Investments in non-affiliated enterprises	**2,753**	**3,712**
Of which: marketable securities	2,525	3,406
thereof: listed securities	2,469	3,390
unlisted securities	56	16

Portfolio development:

€ mn	Investments in enterprises accounted for using the equity method	Investments in non-affiliated enterprises	Investments in unconsolidated affiliated enterprises
Historical cost	2,884	4,342	2,852
Foreign currency translation	0	–9	1
Additions during fiscal year	210	458	21
Disposals during fiscal year	101	2,037	15
Transfers	0	112	–82
Accumulated amortisation and impairment losses	65	1,066	886
Prior-period amortisation and impairment losses	79	580	232
Amortisation and impairment losses during the fiscal year	0	572	719
Transfers	0	3	0
Disposals	14	89	65
Reversals of impairment losses	0	127	1
Cumulative remeasurement gains/losses		858	–873
- Foreign currency translation		0	0
- Additions during fiscal year		0	873
- Disposals during fiscal year		32	–
Carrying amounts			
31 December 2003	**2,928**	**2,753**	**1,892*)**
31 December 2002	**2,805**	**3,712**	**1,894*)**

*) Does not include investments in financial services providers.

Investments in non-affiliated enterprises according to the IFRSs are equivalent to equity investments as defined by section 271 (1) HGB. €448 million of this figure (2002: €161 million) is attributable to investments in credit institutions and €206 million (2002: €124 million) to investments in financial services providers.

The list of shareholdings lodged with the commercial register provides a complete breakdown of unconsolidated affiliated enterprises, enterprises accounted for using the equity method and other shareholdings.

(20) Property and equipment

€ mn	Land and buildings	Of which: used by third	Office furniture and equipment	Of which: internally developed software	Of which: other software	Total
Historical cost						
1 January 2003	3,483	436	3,472	377	780	6,955
Foreign currency translation	–18	–	–82	–18	–10	–100
Additions	363	102	292	63	68	655
Transfers	–152	565	92	0	69	–60
Disposals	321	184	866	46	235	1,187
31 December 2003	3,355	919	2,908	376	672	6,263
Reversals of impairment losses during the year	**–**	**–**	**–**	**–**	**–**	**–**
Depreciation and impairment losses						
1 January 2003	389	55	2,164	202	396	2,553
Foreign currency translation	–9	–	–54	–14	–7	–63
Impairment losses during the year	77	17	414	58	155	491
Transfers	17	16	81	-6	71	98
Disposals	42	13	582	0	121	624
31 December 2003	432	75	2,023	240	494	2,455
Carrying amounts						
31 December 2003	**2,923**	**844**	**885**	**136**	**178**	**3,808**
31 December 2002	**3,094**	**381**	**1,308**	**175**	**384**	**4,402**

During the fiscal year, write-downs for impairment of real estate were charged in the amount of €2 million (2002: €12 million). Write-downs for impairments of IT equipment and software and other office furniture and equipment amounted to €74 million (2002: €35 million) and €10 million (2002: €5 million) respectively. No expenses were recognised for capital expenditure projects in progress in the fiscal year (2002: €140 million). During 2003 and 2002, no reversals of previous impairment losses were recognised. The Group used land and buildings with a carrying amount of €2,079 million (2002: €2,713 million) in connection with Group activities. The Group has land and buildings used by third parties with a carrying amount of €844 million; the fair value of these properties is €891 million. These are leased properties that have been measured at cost less accumulated depreciation and impairment losses because of their relative unimportance to the Group. At the balance sheet date, items of property and equipment in the amount of €7 million (2002: €21 million) were pledged as collateral for the Group's liabilities.

(21) Goodwill

€ mn	Goodwill
Cost	
1 January 2003	3,143
Additions	–
Transfers	–20
Disposals	19
31 December 2003	3,104
Reversals of impairment losses during the year	**–**
Amortisation and impairment losses	
1 January 2003	2,484
Amortisation and impairment losses during the fiscal year	175
Disposals	7
31 December 2003	2,652
Carrying amounts	
31 December 2003	**452**
31 December 2002	**667**

(22) Other assets

€ mn	31 Dec. 2003	31 Dec. 2002
Accrued interest	3,192	3,045
Positive fair value from hedging derivatives in accordance with IAS 39	658	608
Other assets	1,740	3,364
Recoverable taxes	929	689
Other assets	**6,519**	**7,706**

Other assets include cheques and other items presented for collection, prepayments, and credit balances on clearing and settlement accounts.

(23) Subordinated assets

€ mn	31 Dec. 2003	31 Dec. 2002
Loans and advances to banks		
Loans	10	79
Loans and advances to customers	77	65
Trading assets		
Of which: bonds and notes	92	39
other issuers	92	39
equities and other non-fixed-income securities	6	–
Investment securities		
Of which: bonds and notes	75	290
other issuers	75	290
equities and other non-fixed-income securities	22	–
Subordinated assets	**282**	**473**

Assets are classified as subordinated assets if, in the case of liquidation or insolvency, the related claim can only be realised after the claims of all other creditors have been met.

(24) Assets sold under repurchase agreements

At the balance sheet date, the Group was committed to repurchasing assets with a net carrying amount of €103,860 million (2002: €61,068 million). These assets continue to be reported in the consolidated balance sheet.

Liabilities, Minority Interests and Shareholders' Equity

(25) Trading liabilities

€ mn	31 Dec. 2003	31 Dec. 2002
Negative fair value of derivative financial instruments	18,778	19,991
Obligations to deliver securities	61,476	30,194
Other trading liabilities	2,968	2,377
Trading liabilities	**83,222**	**52,562**

(26) Liabilities to banks

€ mn	31 Dec. 2003	31 Dec. 2002
Payable on demand	15,381	12,402
Other term liabilities	150,131	115,140
Of which: registered mortgage bonds issued	3,045	2,498
Liabilities to banks	**165,512**	**127,542**
Of which: repurchase agreements	52,194	38,046
Domestic banks	76,388	49,319
Foreign banks	89,124	78,223

(27) Liabilities to customers

€ mn	31 Dec. 2003	31 Dec. 2002
Savings deposits		
With agreed period of notice of three months	1,202	1,166
With agreed period of notice of more than three months	421	547
Home loan savings deposits	3,116	3,035
Savings deposits and home loan savings deposits	**4,739**	**4,748**
Payable on demand	64,040	58,617
Term liabilities	83,848	80,471
Of which: registered mortgage bonds issued	6,747	5,639
Other liabilities	**147,888**	**139,088**
Liabilities to customers	**152,627**	**143,836**
Of which: repurchase agreements	40,178	25,078

Liabilities to customers can be broken down into the following customer groups:

€ mn	31 Dec. 2003 Germany	31 Dec. 2003 Other countries	31 Dec. 2003 Total	31 Dec. 2002 Germany	31 Dec. 2002 Other countries	31 Dec. 2002 Total
Corporate customers	41,020	70,333	111,353	37,649	56,228	93,877
Public authorities	1,136	3,364	4,500	1,475	6,730	8,205
Private customers	29,103	7,671	36,774	32,926	8,828	41,754
Liabilities to customers	**71,259**	**81,368**	**152,627**	**72,050**	**71,786**	**143,836**

(28) Certificated liabilities

€ mn	31 Dec. 2003	31 Dec. 2002
Bonds issued *)	24,628	26,698
Money market securities	15,016	27,677
Own acceptances and promissory notes outstanding	0	70
Other	165	149
Other certificated liabilities	15,181	27,896
Certificated liabilities	**39,809**	**54,594**

*) In accordance with IAS 39, own debt securities held within the Group are offset against bonds issued.

Certificated liabilities include bonds and other liabilities for which transferable certificates have been issued. €6,621 million of bonds issued will mature in 2004 (2003: €5,713 million).

(29) Provisions and other liabilities

€ mn	31 Dec. 2003	31 Dec. 2002
Provisions for pensions and similar liabilities (see Note 30)	1,992	1,964
Provisions for current taxes	886	644
Other provisions	3,411	3,064
Accrued interest	1,646	2,422
Negative fair value of hedging derivatives in accordance with IAS 39	946	826
Other liabilities	4,010	2,611
Provisions and other liabilities	**12,891**	**11,531**

Other liabilities include trade payables not yet invoiced and payroll deductions payable to tax or social insurance authorities.

(30) Provisions for pensions and similar liabilities

The amounts reported in the balance sheet can be broken down as follows:

€ mn	2003	2002
Present value of wholly unfunded obligations	2,123	2,080
Present value of funded obligations	687	629
Fair value of plan assets	–600	–592
Total pension liabilities as at 31 December	**2,210**	**2,117**
Unrecognised actuarial gains/losses	–218	–153
Liability in balance sheet as at 31 December	**1,992**	**1,964**

The development of pension liabilities under defined-benefit plans is shown below:

€ mn	2003	2002
Total pension liabilities as at 1 January	2,117	2,339
Less actuarial gains/losses as at 1 January	–154	–209
Liability in balance sheet as at 1 January	1,963	2,130
Service cost	75	68
Interest cost	147	140
Other additions and transfers	–72	–142
Benefits paid during the year	–121	–232
Liability in balance sheet as at 31 December	**1,992**	**1,964**
Actuarial gains (–) or losses (+) as at 31 December	+218	+153
Total pension liability as at 31 December	**2,210**	**2,117**

Since pension provisions are determined on the basis of information prevailing at the beginning of the year under review, actuarial gains or losses are produced when pension provisions and liabilities are compared at the end of the year. This has no impact on pension payments.

Development of plan assets in the year under review:

€ mn	2003	2002
Fair value of plan assets as at 1 January	592	551
Transfer	–30	–36
Actual return on plan assets	36	–30
Foreign currency translation	–	–
Employee contributions	29	134
Benefits paid	–26	–27
Fair value of plan assets as at 31 December	**600**	**592**

The calculations were based on the actuarial assumptions set out below:

%	2003	2002
Discount rate	5.5*)	5.75*)
Expected return on plan assets	6.0	6.25
Expected rate of salary increases	1.9	2.0
Expected future pension increases	1.4	1.5

*) An interest rate of 7.8% (2002: 6.75%) is used in the United States and an interest rate of 5.5% (2002: 5.50%) in the United Kingdom.

The following items were recognised in the pension benefit expense:

€ mn	2003	2002
Service cost	75	68
Interest cost	147	140
Other additions	–33	–25
Actuarial gains/losses	–	–
Expenses for defined-benefit plans	189	184
Of which: pension payments in the year under review	121	232
Expenses for defined-contribution plans	68	88
Other pensions	34	50
Exchange rate adjustments	1	3
Pension benefit expense	**292**	**325**

(31) Other provisions

€ mn	Restructuring provision	Loan loss allowance	Other provisions for staff costs	Provisions for expected losses from incompleted transactions	Other	Total
1 January 2003	365	629	952	40	1,078	3,064
Foreign currency translation	–13	–17	–86	–	–29	–145
Additions	713	121	900	–	958	2,692
Charge-offs	196	132	838	–	291	1,457
Amounts released	47	87	78	26	330	568
Transfers	–4	–16	21	–	–106	–105
Changes in consolidated companies	–3	–12	–8	–	–47	–70
31 December 2003	**815**	**486**	**863**	**14**	**1,233**	**3,411**

Restructuring provision € mn	New Dresdner	Other programmes	Of which: additional measures in 2003	Total
1 January 2003		365		365
Foreign currency translation		–13		–13
Additions	345	368*)	44	713
Charge-offs		196		196
Amounts released		47		47
Transfers		–4		–4
Changes in consolidated companies		–3		–3
31 December 2003	**345**	**470**	**44**	**815**

*) including a €5 million change in the present value.

The provisions as at 31 December 2003 include the "New Dresdner" Programme announced in August 2003, for which additions have been made in the amount of €345 million.

A further €44 million was added to the Other programmes provisions for "Additional Measures in 2003".

Alongside this, the Other programmes relate to legacy measures. All measures for the programme initiated in 2002 have now been defined in detail, with the result that it is now reflected in full in the provisions in the amount of €299 million. Implementation of the key initiatives will be completed in 2005.

The remaining provisions relate to programmes that were initiated in 2000 and 2001 and that have now been largely concluded. The remaining provisions relate to obligations under early retirement and partial early retirement programmes agreed in the course of implementing the restructuring measures. In addition, existing obligations under rental agreements are included in this provision. The remaining provision of €127 million can be broken down as follows across the individual initiatives in the 2000 and 2001 programmes: "Measures to enhance the efficiency of the domestic sales network" €49 million, "Other restructuring measures on the domestic market" €41 million, "Establishment of the Corporates & Markets division" €37 million.

Current restructuring provisions primarily cover future obligations for staff costs and rental agreements that will be associated with the individual initiatives. The adequacy of the provisions is tested at regular intervals as part of project management for the restructuring programmes, and corresponding additions or reversals made. The resulting effects on income are recognised in the additions and amounts released. Adjustments are required on the one hand as a result of the detailed definition of the human resources instruments employed, and on the other as a result of adjustments to expected income from subletting due to market developments in the real estate sector.

(32) Deferred taxes and income tax expense

Deferred tax assets and tax liabilities. Due to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, deferred tax assets or tax liabilities, as appropriate, have been recognised for the following assets and liabilities:

€ mn	2003	2002
Deferred tax assets		
Investment securities	158	124
Of which: cumulative remeasurement gains/losses on available-for-sale financial instruments	17	16
Trading assets and liabilities	20	113
Pension provisions	186	142
Other provisions	342	418
Loan loss allowances	210	155
Losses carried forward	2,187	1,747
Other	333	205
Total (gross)	**3,436**	**2,904**
Deferred tax liabilities		
Investment securities	123	287
Of which: cumulative remeasurement gains/losses on available-for-sale financial instruments	77	107
Trading assets and liabilities	364	1,048
Property and equipment	111	51
Other provisions	43	78
Provisions for loan losses	234	95
Loan loss allowances	34	40
Other	537	257
Total (gross)	**1,483**	**1,856**
Net deferred tax assets	**1,953**	**1,048**

In the consolidated balance sheet, deferred tax assets and liabilities are only offset to the extent that the amounts are due to the same tax authority, and are related to the same entity. The offsetting of deferred tax assets in the amount of €3,436 million and provisions for deferred tax liabilities in the amount of €1,483 million results in a net deferred tax asset of €1,953 million.

Deferred tax assets are recognised with respect to temporary differences to the extent that realisation of the related tax benefit is probable. As a result, deferred tax assets of €897 million (2002: €1,388 million) – predominantly due to unused tax losses carried forward – were not recognised since, on the basis of the information available at the balance sheet date, it is not probable that they will be realised. €851 million of these unrecognised deferred tax assets relate to loss carryforwards, thereof €38 million to foreign trade tax.

At the balance sheet date, unused corporation tax loss carryforwards amounted to €7,076 million; deferred tax assets were recognised for these to the extent that their recognition is sufficiently certain. There is no time limit on the utilisation of €5,023 million of the loss carryforwards.

The loss carryforwards subject to time limits expire in the coming years as follows:

Year	€ mn
2004	1
2005	2
2006	132
2007	57
2008	3
2009	59
2010	37
2011	0
2012	0
2013	0
> 10 years	1,580
Unlimited	5,205
Total	**7,076**

In addition, the Bank has accumulated trade tax loss carryforwards of €5,864 million; these are not subject to any time limit.

Income tax expense. The income tax expense item includes current tax expense on income as well as deferred tax expense:

€ mn	2003	2002
Current taxes		
Germany	–16	235
Other countries	63	10
Total current taxes	**47**	**245**
Deferred taxes		
Germany	–908	–547
Other countries	–34	91
Total deferred taxes	**–942**	**–456**
Income tax expense	**–895**	**–211**

Deferred tax assets and liabilities were calculated for domestic companies in 2003 using an effective corporate tax rate, including the solidarity surcharge, of 26.38% (2002: 26.38%), plus an effective trade tax rate of 13.52% (2002: 13.52%). The increased corporation tax rate of 26.5% resulting from the Flutopfersolidaritätsgesetz (German Flood Victim Solidarity Act), which is only valid in 2003, was not applied for reasons of materiality and the current tax loss situation. In all other cases, the country-specific tax rates were applied. The effective tax benefit recognised in 2003 is €75 million higher than the expected income tax benefit. The table below provides a reconciliation of the expected income tax expense to the effective tax expense recognised. It represents a summary of the individual reconciliations based on individual corporate and country-specific tax rates:

€ mn	2003	2002
Expected income tax expense	**–819**	**–400**
– Trade tax and similar taxes	–194	–237
– Tax-free income	224	–1,056
+ Amortisation of and impairment losses on goodwill	41	311
+ Non-deductible expenses	–6	330
+ Adjustment for deferred tax assets	–68	823
+ Other tax adjustments	–78	18
= Effective tax expense	**–895**	**–211**

(33) Subordinated liabilities

The subordinated liabilities in the amount of €6,424 million consist of hybrid capital in the amount of €1,561 million and Other subordinated liabilities in the amount of €4,863 million; they may not be redeemed in the event of insolvency or liquidation until all non-subordinated creditors have been satisfied. There is no obligation to redeem such liabilities prior to maturity.

Hybrid capital. In 1999 and 2001 we issued silent partnership certificates, which are composed of the following tranches:

Year of issue	Nominal amount	Issuer 1)	Interest rate	Maturity
1999	€500 mn	Dresdner Bank AG	5.790%	2011
1999	US$1.000 mn 2)	Dresdner Bank AG	8.151%	2031
2001	€159 mn	Dresdner Bank AG	7.000%	2013
2001	JPY15,000 mn	Dresdner Bank AG	3.500%	2033

1) Issued via Dresdner Capital LLC I to IV, Wilmington/Delaware, USA
2) This issue is in excess of 10% of total subordinated liabilities.

The carrying amount of the silent partnership certificates as at 31 December 2003 amounted to €1,561 million (31 December 2002: €1,732 million). These silent partnerships qualify as core capital under the provisions of the Basel Committee for Banking Supervision. Interest paid on the silent partnerships in the year under review amounted to €122 million (2002: €118 million).

Other subordinated liabilities. Other subordinated liabilities were recognised in the amount of €4,863 million (2002: €6,192 million).
Interest paid on these subordinated liabilities in the year under review amounted to €222 million (2002: €463 million). Fixed-rate subordinated liabilities have coupons between 4.0% and 8.4%.
In addition, floating rate issues linked to a reference interest rate and zero coupon bonds exist. The average interest rate is 4.1%.

Subordinated liabilities are shown below (at nominal amounts):

Currency	Equivalent € mn	Maturity
EUR	2,584	2004 – 2039
USD	1,452	2004 – 2025
CHF	353	2005 – 2009
GBP	213	2007
JPY	185	2027 – 2029
Other currencies	82	2010 – 2011

(34) Profit-participation certificates

Profit-participation certificates in the amount of €1,511 million (2002: €1,506 million) were recognised. Profit-participation certificates entitle holders to annual interest payments, which take priority over shareholders' dividend entitlements. They are subordinated to all other creditors, except those similarly subordinated, and share in losses in accordance with the conditions attached to the certificates. Profit-participation certificates are redeemed in line with the provisions regarding loss sharing.

The following table provides details of the two largest issues of profit-participation certificates:

Year of issue	Nominal amount	Issuer	Interest rate	Maturity
1996	€511 mn	Dresdner Bank AG	8.0%	2007
1997	€767 mn	Dresdner Bank AG	7.0%	2008

(35) Minority interests

The increase of €1,916 million to €2,034 million is due to the issuance of preference shares by a subsidiary.

(36) Shareholders' equity

Subscribed capital. The subscribed capital of €1,502,972,205.80 at 1 January 2003 was composed of 578,066,233 no-par value shares. Each share represents a notional interest in the share capital and entitles the holder to one vote in the Annual General Meeting. Dresdner Bank is an affiliated enterprise of Allianz AG as defined by section 271 (2) of the HGB and is included in the consolidated financial statements of Allianz AG, Munich. These can be obtained from Allianz AG, Königinstrasse 28, 80802 Munich.

Contingent capital of Dresdner Bank AG. The Bank's aggregate contingent capital at 1 January 2003 amounted to €156,000,000.00. No use was made of the authorisation to implement a contingent capital increase, which was granted by the Annual General Meeting on 15 May 1998 and was valid until 15 May 2003. No contingent capital existed at the reporting date.

Authorised capital of Dresdner Bank AG. €76 million of the authorised capital of €250 million resolved in 1999 was utilised in 2001; as a result, €174 million of authorised capital remained on the balance sheet date. The authorised capital is limited until 2004; shareholders' pre-emptive rights have been excluded.

Additional paid-in capital. The additional paid-in capital includes premiums received on the issue of own shares, convertible bonds and bonds with warrants, or on the exercise of conversion or option rights.

Retained earnings. Retained earnings include the Group's retained earnings as well as the impact of any consolidation adjustments on the income statement. Retained earnings include €1,071 million (2002: €865 million) resulting from the application of the equity method of accounting.

Cumulative remeasurement gains/losses on available-for-sale financial instruments. This item is used to record the measurement gains/losses on available-for-sale financial instruments; these gains/losses are transferred to the income statement at the time of their actual realisation.

€ mn	Cumulative remeasurement gains/losses
1 January 2003	–1,233
Fair value gains recognised as income	1,558
Fair value losses recognised as income	–208
Gains and losses from the disposal of assets	–349
Fair value changes recognised directly in equity	643
Remeasurement losses from cash flow hedges	–48
31 December 2003	**363**

Treasury shares. No trading in Dresdner Bank's own shares took place in 2003. As at the end of 2003, no Dresdner Bank shares had been pledged to the Bank or affiliated enterprises as collateral (2002: no shares).

Distributable profit of Dresdner Bank AG. The distributable profit for Dresdner Bank AG in the year under review amounted to €0 million (2002: €0 million).

Regulatory capital and risk-weighted assets (BIS). Regulatory capital consists of three categories: core capital (Tier I capital) and supplementary capital (Tier II capital), which together make up a bank's liable capital, and Tier III capital. Core capital consists of the Group shareholders' equity and minority interests, hybrid capital and other adjustments. Supplementary capital chiefly consists of profit-participation certificates, long-term subordinated liabilities and revaluation reserves on investment securities. Tier III capital comprises subordinated liabilities that do not qualify as supplementary capital.

€ mn	2003	2002
Core capital	**7,339**	**8,572**
Of which: hybrid components	1,561	1,732
Profit-participation certificates	3,529	1,620
Subordinated liabilities	3,695	4,350
Revaluation reserves for securities (of which 45%)	477	223
Other components	418	276
Supplementary capital	**7,339*)**	**6,469**
Tier III capital	305	64
Total capital (BIS)	**14,983**	**15,105**
Risk-weighted assets in the banking book	106,541	135,351
Risk-weighted assets in the trading book	5,338	7,450
Total risk-weighted assets	**111,879**	**142,801**

*) After cap

Assets in the banking book broken down by their risk-weighted amounts:

	Total	100%	70%	50%	25%	20%	10%	4%
Risk-weighted assets in the banking book	106,541	70,710	1,037	24,800	35	8,990	966	3
Of which: balance sheet assets	82,459	66,758	1,037	9,877	–	4,307	480	–
traditional off-balance sheet business	14,004	2,189	–	10,927	35	364	486	3
derivatives	190	–	–	146	–	44	–	–

Capital ratios:

BIS capital ratios *)	2003	2002
Core capital ratio **)	**6.6**	**6.0**
Minimum core capital ratio	4.3	4.3
Excess cover over minimum ratio	152.6	139.9
Total capital ratio	**13.4**	**10.6**

*) In accordance with the capital adequacy framework laid down by the Basel Committee for Banking Supervision of the Bank for International Settlements (BIS).

**) Calculation includes risk-weighted assets from the trading book

Unrealised reserves (securities and investments in non-affiliated enterprises) in the amount of €241 million (2002: €77 million) have been included under liable capital pursuant to section 10 (2b) sentence 1 no. 7 of the Kreditwesengesetz.

Other Balance Sheet Information

(37) Collateral pledged for own liabilities

The Group has pledged assets in the amount indicated below for the following liabilities and contingent liabilities:

€ mn	31 Dec. 2003	31 Dec. 2002
Liabilities to banks	108,925	84,067
Liabilities to customers	55,529	40,411
Contingent liabilities	7	70
Other commitments	431	8,863
Total collateralised liabilities and contingent liabilities	**164,892**	**133,411**

The total amount of assets pledged as collateral can be broken down as follows:

€ mn	31 Dec. 2003	31 Dec. 2002
Loans and advances to banks	37,943	24,648
Loans and advances to customers	22,681	23,842
Trading assets	104,123	65,417
Investment securities	138	19,483
Property and equipment	7	21
Total assets pledged as collateral *)	**164,892**	**133,411**

*) Includes asset sold under repurchase agreements (see Note 24)

(38) Foreign currency holdings

The amounts reported represent the aggregate euro equivalents of a wide variety of currencies outside the euro zone. The differences in the amounts result from the fact that receivables and liabilities are reported in the balance sheet at cost less any write-downs, while all derivatives are reported at fair value. A separate overview of the size of our derivatives business is given in Note 40.

€ mn	USD	GBP	Other	31 Dec. 2003	31 Dec. 2002
Balance sheet items:					
Assets	78,557	54,122	25,587	158,266	159,148
Liabilities	88,563	56,257	23,325	168,145	177,791

Impact of exchange rate fluctuations. Excluding exchange rate fluctuations, consolidated total assets for the year would have been €21.8 billion lower (2002: €20.5 billion higher). The loss after tax would have been €130 million lower (2002: €52 million higher loss after tax).

(39) Structure of residual terms

The matrix of residual terms provides a breakdown of loans and advances as well as liabilities by their final maturity or call date.

31 December 2003

Assets € mn	Total	Up to 3 months	> 3 months – 1 year	> 1 year – 5 year	More than 5 years
Term loans and advances to banks	101,528	65,341	34,016	1,684	487
Loans and advances to customers *)	175,054	93,109	17,896	25,715	38,334
Term loans and advances	**276,582**	**158,450**	**51,912**	**27,399**	**38,821**

*) Loans and advances to customers with residual terms of up to 3 months include €7,706 million of undated claims. These claims include credit lines available until further notice, overdraft facilities, loans called or overdue, unauthorised overdrafts, call money and internal account balances.

31 December 2003

Liabilities € mn	Total	Up to 3 months	> 3 months – 1 year	> 1 year – 5 year	More than 5 years
Term liabilities to banks	150,131	121,436	16,745	6,492	5,458
Liabilities to customers:					
Savings deposits and home loan savings deposits	4,739	1,230	159	2,223	1,127
Other term liabilities to customers	83,848	67,422	6,225	3,444	6,757
Certificated liabilities	39,809	11,530	7,779	15,071	5,429
Subordinated liabilities	6,424	95	136	2,421	3,772
Profit-participation certificates	1,511	–	–	1,447	64
Term liabilities	**286,462**	**201,713**	**31,044**	**31,098**	**22,607**

31 December 2002

Assets € mn	Total	Up to 3 months	> 3 months – 1 year	> 1 year – 5 year	More than 5 years
Term loans and advances to banks	74,959	54,686	16,854	2,533	886
Loans and advances to customers *)	163,313	70,917	18,941	34,284	39,171
Term loans and advances	**238,272**	**125,603**	**35,795**	**36,817**	**40,057**

*) Loans and advances to customers with residual terms of up to 3 months include €8,510 million of undated claims. These claims include credit lines available until further notice, overdraft facilities, loans called or overdue, unauthorised overdrafts, call money and internal account balances.

31 December 2002

Liabilities € mn	Total	Up to 3 months	> 3 months – 1 year	> 1 year – 5 year	More than 5 years
Term liabilities to banks	115,140	89,638	15,530	3,876	6,096
Liabilities to customers:					
Savings deposits and home loan savings deposits	4,748	1,459	766	1,412	1,111
Other term liabilities to customers	80,471	64,553	5,909	4,362	5,647
Certificated liabilities	54,594	21,220	12,318	17,275	3,781
Subordinated liabilities	7,924	5	1,063	2,451	4,405
Profit-participation certificates	1,506	0	0	559	947
Term liabilities	**264,383**	**176,875**	**35,586**	**29,935**	**21,987**

(40) Securitisation business

When securitising financial assets, we sell revolving loans to the capital market as part of precisely defined loan portfolios. The assets transferred are securitised as debt instruments by the buying special purpose entities and sold to third parties. The Dresdner Bank Group conducts these transactions via the fully consolidated special purpose entities Silver Lux Inc., Grand Cayman, and Silver Tower 125 Inc., Grand Cayman. The maximum transaction volume in each case is €5 billion. As at 31 December 2003, the two programmes together were utilised in the amount of €5.2 billion.

In addition, we have used synthetic securitisation under the KfW / PROMISE programmes to place credit risks on the market. As at 31 December 2003, credit risks in the amount of €1 billion had been transferred to third parties using the PROMISE-K-2001-1 structure.

The securitisation programmes generally provide for the retention of a small part of the risk in the form of discounts on the purchase price of the receivables sold, or interest subparticipation by the guarantor.

(41) Derivatives business

Derivative financial instruments, which enable the transfer of market and credit risks between different parties, derive their value among other things from underlying instruments such as interest rates, indices, share prices, or exchange rates. The most important derivatives products are swaps, forward rate agreements, foreign exchange forwards, equity options and credit derivatives. Derivatives transactions may be entered into in the form of standard, exchange-traded contracts or bilateral transactions that are negotiated over the counter (OTC).

With regard to the Group's worldwide trade in derivative financial instruments, demand from customers primarily focuses on instruments for the individual management of market and credit risks, as well as on the utilisation of derivative products for structured financial operations. The Group also uses derivatives to manage the risks of proprietary trading positions and for the purposes of asset/liability management.

When measuring derivatives, a distinction is made between standard exchange-traded products and OTC products. In the case of exchange-traded contracts, a daily cash settlement is generally made. Positive and negative fair values are only disclosed if the contract provides for full settlement at the date of maturity only, or if the variation margin was not fixed on the balance sheet date (e.g. due to exchanges operating in different time zones).

If the market price does not reliably reflect the fair value, or if there is no market price at all (OTC derivatives), the established methods used by the financial markets for estimating value (e.g. the net present value method or option pricing models) are used. The fair value of a derivative corresponds to the sum of all future cash flows discounted to the measurement date (present value or dirty close-out value). The following tables (for the trading and banking books respectively) show the nominal volumes by residual term and the positive and negative fair values of the derivative transactions we have concluded. The nominal amounts serve merely as reference values for determining mutually agreed settlement payments (e.g. interest claims and/or liabilities arising from interest rate swaps) and thus do not represent assets and/or liabilities reported on the balance sheet.

Fair values are disclosed gross, i.e. before netting. The netting effect indicates the reduction in loss exposures due to global netting agreements; this amounts to €40.7 billion. Non-nettable fair values amount to €8.2 billion. The positive fair values for exchange-traded derivatives are not included in the Risk Report (p. 23), as by definition these are not subject to counterparty risk. The positive and negative fair values of hedging derivatives amounted to €658 million and €–946 million respectively.

Trading book contracts € mn	Nominal amount/residual term <= 1 year	1 - 5 years	>= 5 years	Total 2003	Total 2002	Positive fair values	Negative fair values
Interest rate derivatives							
OTC products							
- FRAs	82,224	8,828	0	91,052	101,865	33	26
- Interest rate swaps							
- Fixed-rate swaps	0	605	45	650	791	12	8
- Basis swaps	16,937	15,302	9,632	41,871	79,715	331	287
- Interest rate swaps (IRS)	1,249,767	743,327	483,446	2,476,540	1,985,812	36,281	34,665
- Interest rate options: calls	13,500	28,629	19,087	61,216	54,914	1,244	–
- Interest rate options: puts	9,357	34,899	36,192	80,448	89,226	–	1,955
- Other interest rate contracts	20	–	–	20	–	–	–
Exchange-traded products							
- Interest rate futures	85,653	21,099	–	106,752	132,600	8	5
- Interest rate options: calls	16,067	985	–	17,052	3,158	12	–
- Interest rate options: puts	19,310	3,362	–	22,672	4,866	–	9
Total	**1,492,835**	**857,036**	**548,402**	**2,898,273**	**2,452,947**	**37,921**	**36,955**
Currency derivatives							
OTC products							
- Forward currency transactions	228,094	57,456	1,144	286,694	349,381	6,140	8,280
- Cross-currency swaps	46,943	166,573	43,392	256,908	77,478	5,571	3,879
- Currency options: calls	30,760	15,634	2,949	49,343	41,948	1,351	–
- Currency options: puts	29,939	17,163	2,944	50,046	42,154	–	2,029
Exchange-traded products							
- Currency futures	950	47	–	997	1,195	11	8
Total	**336,686**	**256,873**	**50,429**	**643,988**	**512,156**	**13,073**	**14,196**
Equity/index derivatives							
OTC products							
- Equity/index swaps	3,341	6,114	562	10,017	3,999	620	540
- Equity/index options: calls	13,620	28,761	2,138	44,519	33,641	3,696	–
- Equity/index options: puts	24,421	51,577	5,767	81,765	39,014	–	4,077
- Other equity/index contracts	9	4	0	13	21	1	
Exchange-traded products							
- Equity/index futures	9,504	2	20	9,526	7,363	1	38
- Equity/index options: calls	18,908	6,077	410	25,395	21,663	1,517	–
- Equity/index options: puts	18,904	6,103	468	25,475	21,391	–	1,677
Total	**88,707**	**98,638**	**9,365**	**196,710**	**127,092**	**5,835**	**6,332**

Trading book contracts	Nominal amount/residual term					Positive	Negative
€ mn	<= 1 year	1 - 5 years	>= 5 years	Total 2003	Total 2002	fair values	fair values
Credit derivatives							
Credit default swaps							
- Protection buyer	4,129	30,665	2,944	37,738	28,224	392	498
- Protection seller	4,864	33,138	3,215	41,217	25,977	567	299
Total return swaps							
- Protection buyer	1,457	611	570	2,638	4,378	51	676
- Protection seller	1,074	354	–	1,428	4,785	292	136
Total	**11,524**	**64,768**	**6,729**	**83,021**	**63,364**	**1,302**	**1,609**
Other derivatives							
OTC products							
- Precious metal contracts	1,921	2,651	1,747	6,319	7,841	417	342
- Other contracts	169	718	245	1,132	241	131	122
Exchange-traded products							
- Futures	6	–	–	6	–	–	–
- Options: calls	–	–	–	0	8	–	–
- Options: puts	65	–	–	65	36		4
Total	**2,161**	**3,369**	**1,992**	**7,522**	**8,126**	**548**	**468**
Grand total	**1,931,913**	**1,280,684**	**616,917**	**3,829,514**	**3,163,685**	**58,679**	**59,560**
Of which: products denominated in EUR						36,925	29,000
Of which: products denominated in USD						8,865	19,171
Of which: products denominated in GBP						5,421	4,841
Of which: products denominated in JPY						2,452	2,475

Banking book contracts € mn	Nominal amount/residual term <= 1 year	1 - 5 years	>= 5 years	Total 2003	Total 2002	Positive fair values	Negative fair values
Interest rate derivatives							
OTC products							
- FRAs	4,847	–	–	4,847	498	2	–
- Interest rate swaps							
- Fixed-rate swaps	–	9	1	10	5	–	–
- Basis swaps	–	0	0	0	95	–	–
- Interest rate swaps (IRS)	5,342	3,268	779	9,389	11,706	115	75
- Interest rate options: calls	157	0	6	163	542	6	0
- Interest rate options: puts	91	15	1,196	1,302	318	–	3
- Other interest rate contracts	0	69	377	446		6	28
Exchange-traded products							
- Interest rate futures	1,305	–	–	1,305	909	–	1
Total	**11,742**	**3,361**	**2,359**	**17,462**	**14,073**	**129**	**107**
Currency derivatives							
OTC products							
- Forward currency transactions	2,569	17	–	2,586	2,080	40	73
- Cross-currency swaps	140	668	262	1,070	1,253	7	145
- Currency options: calls	14	–	–	14	14	–	–
- Currency options: puts	3	736	–	739	14	–	–
- Other currency contracts	–	–	–	–	–	–	3
Exchange-traded products							
- Currency futures	184	34	0	218	428	2	1
- Currency options: calls	–	–	–	–	–	–	–
- Currency options: puts	–	–	–	–	–	–	–
Total	**2,910**	**1,455**	**262**	**4,627**	**3,789**	**49**	**222**
Equity/index derivatives							
OTC products							
- Equity/index swaps	–	–	200	200	–	–	25
- Equity/index options: calls	48	783	5	836	286	39	–
- Equity/index options: puts	238	1,869	469	2,576	1,369	–	358
- Other equity/index contracts	79	15	–	94	11	5	11
Total	**365**	**2,667**	**674**	**3,706**	**1,666**	**44**	**394**
Credit derivatives							
Credit default swaps							
- Protection buyer	211	757	482	1,450	1,564	19	184
- Protection seller	–	–	–	–	995	–	–
Total return swaps							
- Protection buyer	–	25	–	25	–	–	1
- Protection seller	–	–	–	–	–	–	–
Total	**211**	**782**	**482**	**1,475**	**2,559**	**19**	**185**
Other derivatives							
OTC products							
- Other contracts	–	34	–	34	–	–	2
Total	**–**	**34**	**–**	**34**	**–**	**–**	**2**
Grand total	**15,228**	**8,299**	**3,777**	**27,304**	**22,087**	**241**	**910**
Of which: products denominated in EUR						123	461
Of which: products denominated in USD						61	164
Of which: products denominated in GBP						7	9
Of which: products denominated in JPY						18	8

IV. Off-Balance Sheet Business

(42) Contingent liabilities and other commitments

Contingent liabilities and other commitments include the Group's potential future liabilities under fixed-term loan commitments to customers that have not yet been drawn upon. The Group provides open credit facilities to provide clients with rapid access to funds that may be required to meet their short-term obligations as well as their long-term financing needs. Such credit facilities can take different forms: guarantees, where the Group guarantees repayment of a loan taken out by a client with a third party; standby letters of credit, which are credit enhancement facilities enabling customers to engage in trade finance at lower cost; documentary letters of credit, which are trade finance-related payments made on behalf of a customer and reimbursed to the Group later; standby note issuance facilities and revolving underwriting facilities, which allow customers to issue money market paper or medium-term notes when required without engaging in the normal underwriting process on each occasion. Revenue from guarantees is recognised in Net fee and commission income and is determined by applying agreed rates to the nominal amount of the guarantee.

The following tables present the amounts at risk should customers draw fully on all facilities and then default without any collateral being available. A large majority of these commitments may expire without being drawn upon, and the figures are therefore not representative of actual future credit exposure or the liquidity required to fund such commitments.

€ mn	2003	2002
Contingent liabilities on endorsed bills settled with customers	–	1
Of which: rediscounted at central banks	–	–
Contingent liabilities on guarantees and warranties		
Credit guarantees	1,466	1,857
Other guarantees and warranties	14,902	14,438
Letters of credit	1,583	2,093
Of which: letters of credit opened	919	1,107
Of which: letters of credit confirmed	664	986
	17,951	18,388
Liability on collateral pledged for third-party liabilities	8	–
Contingent liabilities	**17,959**	**18,389**
Placement and underwriting commitments	0	7
Irrevocable loan commitments		
Advances	25,595	31,320
Standby facilities	7,909	11,182
Guarantee credits	2,817	2,942
Discount credits	40	75
Mortgage loans/communal loans	229	293
Other commitments	**36,590**	**45,819**

There were no placements or underwriting commitments as at 31 December 2003 (2002: no commitments).

(43) Other financial commitments

€ mn	2003	2002
Obligations arising from hire and rental contracts and leases	2,845	2,920
Obligations arising from capital expenditure projects in progress	111	265
Commitments to pay up shares, bonds and other capital interests; secondary liability	92	101
Other	61	399
Other financial commitments	**3,109**	**3,685**

Commitments to pay up shares, bonds and other capital interests totalled €76 million (2002: €85 million); secondary liability in accordance with section 24 of the Gesetz betreffend die Gesellschaften mit beschränkter Haftung (GmbHG - German Limited Liability Companies Act) amounted to €16 million (2002: €16 million).

Liquiditäts-Konsortialbank GmbH ("LIKO") is a bank that was founded in 1974 in order to provide funding for German banks experiencing liquidity problems. Deutsche Bundesbank owns 30% of the shares in LIKO, with the rest of the shares being held by other German banks and banking associations. The shareholders have provided €200 million in capital to fund LIKO; Dresdner Bank Group's participation is €12.1 million, or 6.05% of the total capital. The Dresdner Bank Group is contingently liable to pay in further contributions to LIKO up to a total of €60.5 million (6.05%). In addition, under section 5 (4) of the Articles of Association of LIKO, Dresdner Bank is jointly and severally liable in the event that other shareholders do not fulfil their commitments to pay their further contributions, if any.

To the extent that any such secondary liability exists, the financial status of the other shareholders involved is sound.

The liability arising from the Group's ownership interest in Bankhaus Reuschel & Co. is unlimited due to the legal form of this enterprise. In this case, too, the financial status of the other partners involved is sound.

Furthermore, Dresdner Bank is a member of the Deposit Protection Fund of the Federal Association of German Banks ("Einlagensicherungsfonds"), which covers liabilities to individual creditors up to specified amounts. As a member of the Fund, which is itself a shareholder in LIKO, Dresdner Bank is jointly and severally liable with other Fund members for additional capital contributions up to a maximum of its annual contribution. During 2003 and 2002, the Fund did not levy a contribution on Dresdner Bank.

Under section 5 (10) of the Statutes of the Deposit Protection Fund, the Bank has undertaken to indemnify the Bundesverband deutscher Banken e.V. (Federal Association of German Banks) for any losses it may incur by reason of measures taken on behalf of any banks in which the Bank owns 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 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.

(44) Trustee business

The table shown below gives a breakdown of trustee business not reported in the balance sheet.

€ mn	2003	2002
Loans and advances to banks	3,426	5,217
Loans and advances to customers	2,319	4,247
Investment securities	828	7
Assets held in trust *)	**6,573**	**9,471**
Liabilities to banks	997	955
Liabilities to customers	5,576	8,516
Liabilities incurred as a trustee	**6,573**	**9,471**

*) Including fiduciary loans of €5,101 million (2002: €8,847 million).

V. Supplementary Information

(45) Fair value of financial instruments

The "fair value" of a financial instrument is the amount for which it could be voluntarily exchanged between knowledgeable, willing, independent parties in an arm's length transaction. Where available, the most suitable measure for fair value is the market value. Financial instruments primarily include securities, loans, liabilities and derivatives.

Assets € bn	31 Dec. 2003 Fair value	 Carrying amount	31 Dec. 2002 Fair value	 Carrying amount
Cash funds	5.5	5.5	4.9	4.9
Trading assets	143.0	143.0	121.5	121.5
Loans and advances to banks and loans and advances to customers	291.2	290.8	244.9	243.7
Investment securities	18.9	18.9	23.2	23.2

Liabilities € bn	31 Dec. 2003 Fair value	 Carrying amount	31 Dec. 2002 Fair value	 Carrying amount
Trading liabilities	83.2	83.2	52.6	52.6
Liabilities to banks and liabilities to customers	318.5	318.6	272.9	272.9
Certificated liabilities and subordinated liabilities	47.1	46.2	64.0	63.0
Profit-participation certificates	1.7	1.5	1.5	1.5

In the absence of organised secondary markets for most financial instruments, and in particular loans, deposits and unlisted derivatives, direct market prices may not be available. The fair value of such instruments was therefore calculated on the basis of well-established valuation techniques using current market parameters. In particular, the net present value method and option pricing models were used.

As a result, the fair value is a theoretical value applicable at a given reporting date, and hence can only be used as an indicator of the value realisable in a future sale.

Financial instruments due on sight. Financial instruments due on sight are measured at their principal amount. These instruments include cash on hand, current account credit balances and demand deposits owed to banks and customers.

Loans and advances, liabilities. The fair values are determined by calculating the future contractually agreed cash flows, discounted using appropriate market interest rates. The differing credit quality of borrowers was taken into consideration by adjusting the discount rates appropriately.

Trading assets/liabilities. The Group carries trading assets and liabilities, which include debt and equity securities, derivatives and foreign exchange instruments, at their fair value.

Securities. Investment securities are classified as "available-for-sale financial instruments" in line with IAS 39 and measured at their fair value.

Long-term liabilities. Profit-participation certificates, certificated liabilities and subordinated liabilities are measured on the basis of quoted market prices, where available. The measurement takes into account such factors as current market interest rates and the Group's credit rating. If no quoted prices are available, the fair value is established using mathematical models.

The fair value of unrefinanced loan commitments, existing standby facilities and other letters of credit is not material.

(46) Related party transactions

Dresdner Bank conducts banking transactions with related parties in the normal course of business activities and at market rates and conditions. The scope of such transactions is shown below:

Loans and advances and liabilities to affiliated enterprises:

€ mn	2003	2002
Trading assets	29	119
Loans and advances:		
Loans and advances to banks	1	–
Loans and advances to customers	160	124
Debt and other fixed-income securities	0	5
Other assets	29	2,236
Total	**219**	**2,484**
Liabilities:		
Liabilities to banks	3,424	35
Liabilities to customers	2,099	1,023
Provisions	1	1
Other liabilities	468	36
Subordinated liabilities	8	14
Total	**6,000**	**1,109**

€427 million in income and €496 million in expenses in the income statement were attributable to transactions with the parent company and affiliated companies.

Loans and advances and liabilities to non-affiliated enterprises:

€ mn	2003	2002
Loans and advances:		
Loans and advances to banks	3,359	1,679
Loans and advances to customers	1,447	1,751
Debt and other fixed-income securities	7,913	5,216
Total	**12,719**	**8,646**
Liabilities:		
Liabilities to banks	1,813	936
Liabilities to customers	410	339
Total	**2,223**	**1,275**

Loans and advances and liabilities to non-affiliated enterprises also contain loans and advances and liabilities to associates; the prior-year figures were adjusted accordingly.

Loans to shareholders. In the normal course of business, the Group may grant loans to shareholders. These transactions are entered into on an arm's-length basis.

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 €505,150.94 (2002: €1,457,419.23). This included loans extended to, or liabilities assumed on behalf of, managers of subsidiaries in the amount of €2,699.50 (2002: none). Loans to members of Dresdner Bank AG's Supervisory Board and liabilities assumed on their behalf totalled €71,000.35 (2002:€ 47,335.97). These transactions have been entered into at the usual terms. A list of all members of the Board of Managing Directors and the Supervisory Board is provided in the list of executive body members and of offices held (see Note 51).

Remuneration of executive body members. Compensation paid within the Group to members of the Board of Managing Directors totalled € 10,989,017.45 (2002: €9,605,828.88); the amount for the year under review includes stock-based incentive plans. Compensation granted to members of the Group's Supervisory Board for fiscal 2003 amounted to €1,116,900.00, including value-added tax (2002: €1,418,809.94). Payments to former members of the Board of Managing Directors and their surviving dependants amounted to €13,915,742.28 (2002: €11,552,897.62); pension provisions for these persons as at 31 December 2003 amounted to €93.0 million (2002: €98.0 million). Total remuneration paid to members of the Advisory Management Council amounted to €214,600.00 (2002: €916,400.00), including value-added tax. Payments to members of the other advisory boards amounted to €1,431,638.00 (2002: €1,565,734.00).

(47) Share-based payment

Employee share purchase plans. Shares of Allianz AG are offered to qualifying employees in Germany and abroad at preferred terms within a defined period. To qualify, employees must have been in an employment or training relationship, with no notice of termination given, for at least six months before the share offer; in addition, the purchase is subject to restrictions on the amount that employees can invest. The number of shares issued under these offers in the year under review amounted to 432,430; the difference between the exercise price and the market price in the amount of €7 million in 2003 was recognised in Total staff costs.

Long-term Incentive Plan. The Allianz Long-term Incentive Plan (LIP) was established for top-level executives and is designed to recognise their contribution to the increase in enterprise value and to promote the Group's long-term success. Beneficiaries under these plans are granted "stock appreciation rights" (SARs). These rights are subject to a two-year lock-up and expire after seven years.

The stock appreciation rights can be exercised at any time between the second and seventh anniversary of the grant date of the plan concerned, provided that the price of Allianz AG's shares has outperformed the Dow Jones Europe STOXX Price Index (600) at least once for a period of five consecutive exchange trading days, and that it exceeds the reference price by at least 20.0% at the time of exercise.

Under the terms of the LIP, the Bank is obliged to settle in cash the difference between the quoted market price of Allianz's shares on the exercise date and the reference price specified in the relevant plan. The maximum difference is capped at 150% of the reference price. Once the SARs have been exercised, payment is made in the relevant local currency by the company granting the rights. Any rights that have not been exercised by the last day of the plan will be automatically exercised to the extent that the conditions for this have been met. Where the conditions have not been met or where a participant has left the company's employment, the rights will expire.

202,285 SARs were granted in the year under review (2002: 62,128). No rights had been exercised as at 31 December 2003. On 31 December 2003, the number of SARs granted under the LIPs but not yet exercised amounted to 353,479 (2002: 151,194).

The total staff costs for the LIP are calculated as the amount by which the Allianz AG share price exceeds the LIP reference price. The total staff costs are recalculated for each reporting period on the basis of the changes in the Allianz AG share price and are accrued over the two-year lock-up period. A provision in the amount of €3 million was recognised as an expense as at 31 December 2003.

Restricted Stock Units Plans. In 2003, the Group launched an incentive plan that grants performance-related compensation in the form of virtual shares, or “restricted stock units” (RSUs). The goal of the RSU Plan is to increase enterprise value and align the interests of the Group's shareholders and management by linking the compensation paid to key executives to Allianz AG's share price performance.

84,726 RSUs were issued to executives under this plan on 13 May 2003. These rights will be exercised at the same time for all Plan participants on the first exchange trading day following the expiration of the five-year lock-up period. Either of the following methods of redemption can be chosen at the time of exercise:

- a cash payment to the beneficiaries in the amount of the average closing price of Allianz AG's shares on the ten exchange trading days preceeding the end of the lock-up period, or
- the issue to the beneficiary of one Allianz AG share or capital instrument of equal value per RSU.

The total staff costs for the RSU Plan are based on the Allianz AG share price; they are recalculated for each reporting period on the basis of the changes in the share price and are accrued over the five-year lock-up period. A provision in the amount of €1 million was recognised as an expense as at 31 December 2003.

Dresdner Kleinwort Wasserstein Bonus Plan. In 2003, a Bonus Plan based on Allianz AG shares was launched for selected “Dresdner Kleinwort Wasserstein” division employees. This replaces the previous Cash Deferral Plan. The goal of this Plan is to improve the connection between the compensation paid to employees and Allianz AG's share price performance, and hence between compensation and shareholder value. The Plan provides for part of employees' bonuses to be distributed in the form of Allianz AG shares. For bonuses exceeding a certain overall amount per employee, a percentage of the compensation will be spread evenly over the following three years and distributed in the form of Allianz AG shares. The number of shares distributed depends on the operating results for the following years. If the results are positive, additional shares will be distributed, whereas if the results are negative, the number of shares distributed will be reduced.

(48) Significant subsidiaries, associated enterprises and joint ventures

Significant subsidiaries: Subsidiaries consolidated at 31 December 2003 included 61 domestic (2002: 70) and 84 foreign (2002: 78) entities, including 13 funds and 19 special purpose entities relating to the application of SIC 12. These figures include 8 sub-groups, but not their 199 companies and the 11 enterprises within them accounted for using the equity method.

13 domestic and 7 foreign entities (2002: 20 domestic and 7 foreign entities) were deconsolidated. 4 domestic and 13 foreign entities (2002: 15 domestic and 19 foreign entities) were included in consolidation for the first time.

72 domestic and 121 foreign Group companies (2002: 69 domestic and 45 foreign companies) were not included in the consolidated financial statements because their inclusion would not have been material. Had these companies been consolidated, consolidated total assets would have increased by a total of €302.2 million or 0.06% (2002: €306.2 million or 0.07%); the net loss would have been impacted by €2.3 million or 0.1% (2002: €–5.5 million or –0.6%).

One enterprise was included in the consolidated financial statements on the basis of accounts prepared as at 30 September 2003, and 13 enterprises were included on the basis of accounts prepared as at 30 November 2003.

Companies included in consolidation for the first time have been accounted for using the purchase method. The principles applied were the same as in the previous year. In 2003, this resulted in goodwill in the amount of €25 million (2002: €123 million).
Changes in goodwill are discussed in Note 21, Goodwill.

Associates: Investments in 8 (2002: 9) domestic and 2 (2002: 2) foreign companies were reported as associates in the consolidated balance sheet and accounted for using the equity method.
Current income from these investments is included in Net interest and current income.

Joint ventures: Two (2002: 2) joint ventures in which the Group holds between 30% and 50% of the shares were also accounted for using the equity method.

The Group's pro rata share of earnings and losses reported by these companies is included in Net interest and current income under the item Current income from investments in enterprises accounted for using the equity method.

The Group's share in the aggregate assets and liabilities, as well as in the income and expenses, of the joint ventures is set out below:

€ mn	2003	2002
Assets	365	365
Liabilities	72	79
Income	35	79
Expenses	16	6

List of shareholdings: The list of our shareholdings pursuant to section 313(2) of the HGB is filed with the Commercial Register at the Frankfurt/Main Local Court, under registration number HRB 14000. This list contains significant subsidiaries, associates and joint ventures.

(49) Changes in the companies included in consolidation

Additions:

Germany:
dbi-BSK Rentenfonds Plus, Frankfurt/Main
Dresdner Zahlungsverkehrsservice GmbH, Frankfurt/Main
Sechste FraMü Beteiligungs GmbH, Frankfurt/Main
Siebte FraMü Beteiligungs GmbH, Frankfurt/Main

Other countries:
Advisa Zürich Aktiengesellschaft, Zurich
Assurance Vie et Prévoyance-Indendie, Accident, Risques Divers AVIP IARD SA, Paris
Brazil Fund, Grand Cayman
DKNA Phoenix LLC , New York
Dresdner Kleinwort Wasserstein Derivative Investments Ltd., London
Lisa Synthetic CDO, London
LUFRA Beteiligungsholding AG, Zurich
New comp. USA 1, Grand Cayman
Radian Inc., George Town, Cayman Islands
SCI AVIP SCPI Selection, Paris
SCI Dicca, Paris
SCI Méditeranée Distribution, Paris
SCI stratus, Paris

Disposals:

Name	Reason for deconsolidation
Advance Bank AG, Munich	Merged with Dresdner Bank AG
AFORE Allianz Dresdner S.A. de C.V., Mexico City	Sale
Banque pour l' Europe S.A. Europa Bank AG Bank for Europe Ltd., Luxembourg	Liquidation
C. F. Beteiligungsgesellschaft mbH, Frankfurt/Main	Deconsolidation
Compagnie Financière Immobilière Lafayette COFIL, Lyon	Dissolution
dbi European Equity Portfolio, Frankfurt/Main	Dissolution
dbi-Fonds AKAS Europa, Frankfurt/Main	Dissolution
dbi-Fonds AKAS SC, Frankfurt/Main	Dissolution
dbi-Fonds Euroland, Frankfurt/Main	Dissolution
dbi-Fonds Global Equity Q, Frankfurt/Main	Dissolution
Dr. Lübke GmbH, Stuttgart	Sale
DREGIS Dresdner Global IT-Services Gesellschaft mbH, Frankfurt/Main	Merged with AGIS
Dresdner Bank (Ireland) plc, Dublin	Discontinuation
Dresdner Bank Mexico S.A., Mexico City	Sale
Dresdner Gestion Privée, Paris	Sale
Euro American Arbitrage Inc, Chicago	Liquidation
GENUJO Beteiligungs GmbH, Frankfurt/Main	Deconsolidation
SVV Beteiligungs GmbH, Fürth/Bavaria	Merged with First Europ Omega
Zweite Herakles Beteiligungs-Gesellschaft mbH & Co, Bad Vilbel	Merged with Dresdner Bank AG
Zweite Sonnenplatz Beteiligungs-Gesellschaft mbH, Bad Vilbel	Deconsolidation

Name changes:

New name	Previous name
Allianz Dresdner Funds Ltd., London	Dresdner RCM Funds (UK) Ltd., London
Dresdner Kleinwort Wasserstein Servicios y Asesorias Ltda, Santiago de Chile	Dresdner Kleinwort Wasserstein South Andes Servicios y Asesorias Ltda, Santiago de Chile
Allianz Dresdner Management Services (UK) Ltd., London	Dresdner RCM Global Investors Holdings (UK) Ltd., London
Allianz Dresdner Asset Management (UK) Ltd., London	Dresdner RCM Global Investors (UK) Ltd., London
Dresdner Kleinwort Benson General Life Sciences LP, New York	Dresdner Kleinwort Capital General Life Sciences Managers LP, New York
Dresdner Zahlungsverkehrsservice GmbH, Frankfurt	FGB Frankfurter Gesellschaft für Bauwerte, Frankfurt
Kleinwort Benson Private Bank Ltd., London	Kleinwort Benson Investment Management Ltd., London
dbi-BSK Rentenfonds, Frankfurt/Main	dbi-Fonds BAG, Frankfurt/Main
visionapp GmbH, Frankfurt/Main	Fünfte Sonnenplatz Beteiligungs-Gesellschaft mbH, Bad Vilbel

(50) Events occurring after the balance sheet date

No dividend will be distributed for fiscal year 2003.

The Bank is actively contributing to the restructuring of DEGI Grundwert-Fonds by transferring premium real estate, among other things.

(51) List of executive body members and of offices held by members of the Board of Managing Directors and members of staff

Supervisory Board members

Michael Diekmann Chairman (since 8 April 2003)	Chairman of the Board of Management of Allianz AG, Munich
Peter Haimerl Deputy Chairman (Deputy Chairman since 8 April 2003)	Dresdner Bank AG, Munich
Reinhard Drönner (until 8 April 2003)	Trade union secretary, Lower Saxony-Bremen district, ver.di Vereinte Dienstleistungsgewerkschaft, Hanover
Claudia Eggert-Lehmann	Dresdner Bank AG, Dortmund
Bernhard Enseling	Dresdner Bank AG, Frankfurt/Main
Dr. Martin Frühauf (until 8 April 2003)	Member of the Supervisory Board of Aventis SA, Frankfurt/Main
Christian Höhn (since 8 April 2003)	Dresdner Bank AG, Munich
Manfred Karsten (until 8 April 2003)	Oldenburgische Landesbank AG, Oldenburg
Ainis Kibermanis (until 8 April 2003)	Dresdner Bank AG, Frankfurt/Main
Oda-Renate Krauß (since 8 April 2003)	ver.di Vereinte Dienstleistungsgewerkschaft, Berlin/Brandenburg district, Financial Services, Berlin
Bernd Kriegeskorte (until 8 April 2003)	Dresdner Bank AG, Munich
Dr. Heinz Kriwet	Member of the Supervisory Board of ThyssenKrupp AG, Dusseldorf

Supervisory Board members

Prof. Dr. Edward G. Krubasik	Member of the Managing Board of Siemens AG, Munich
Dr. Dietmar Kuhnt	Member of the Supervisory Board of RWE AG, Essen
Igor Landau (since 8 April 2003)	Chairman of the Management Board of Aventis SA, Strasbourg
Dr. Hartmut Mehdorn (since 8 April 2003)	Chairman of the Management Board of Deutsche Bahn AG, Berlin
Brunhilde Nast (since 8 April 2003)	Dresdner Bank AG, Dresden
Michel Pébereau (until 8 April 2003)	Président, BNP Paribas SA, Paris
Dr. Helmut Perlet	Member of the Board of Management of Allianz AG, Munich
Dr. Bernd Pischetsrieder	Chairman of the Management Board of Volkswagen AG, Wolfsburg
Dipl.-Kfm. Uwe Plucinski Deputy Chairman (until 8 April 2003)	Dresdner Bank AG, Hamburg
Stefan Quandt	Chairman of the Supervisory Board of DELTON AG, Bad Homburg v. d. H.
Jürgen Rose (since 8 April 2003)	Dresdner Bank AG, Nuremberg
Sultan Salam	Dresdner Bank AG, Frankfurt/Main
Margit Schoffer (since 8 April 2003)	Dresdner Bank AG, Aalen
Dr. Henning Schulte-Noelle Chairman (until 8 April 2003)	Chairman of the Supervisory Board of Allianz AG, Munich
Uwe Spitzbarth	Head of the National Working Party on Banks, ver.di Vereinte Dienstleistungsgewerkschaft, Berlin
Dr. Bernd W. Voss	Frankfurt/Main
Dr. Wolfgang Röller Honorary Chairman	Frankfurt/Main

Board of Managing Directors

Name	Offices held in other statutory supervisory boards of large corporations (as at 31 December 2003)
Dr. Herbert Walter Chairman (since 25 March 2003)	Deutsche Börse AG, Frankfurt/Main TSV München von 1860 GmbH & Co. Kommanditgesellschaft auf Aktien, Munich
Dr. Andreas Georgi	ABB AG, Mannheim Allianz Dresdner Bauspar AG, Bad Vilbel *) (Chairman) Deutsche Schiffsbank AG, Hamburg/Bremen (Chairman) Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH, Frankfurt/Main *) Eurohypo Aktiengesellschaft, Frankfurt/Main Oldenburgische Landesbank AG, Oldenburg *) (Chairman) Rheinmetall AG, Dusseldorf RWE Dea Aktiengesellschaft, Hamburg
Karl Ralf Jung (since 25 March 2003)	dresdnerbank investment management Kapitalanlage-gesellschaft mbH, Frankfurt/Main *)
Jan E. Kvarnström	Dresdner Bank Lateinamerika Aktiengesellschaft, Hamburg *) (Chairman)
Dr. Horst Müller (until 31 December 2003)	Allianz Immobilien GmbH, Stuttgart
Andrew Pisker (since 25 March 2003)	–
Klaus Rosenfeld	AGIS Allianz Dresdner Informationssysteme GmbH, Munich Dresdner Bank Lateinamerika Aktiengesellschaft, Hamburg *)

Board of Managing Directors

Name	Offices held in other statutory supervisory boards of large corporations (as at 31 December 2003)
Otto Steinmetz (since 1 June 2003)	–
Dr. Friedrich Wöbking	AGIS Allianz Dresdner Informationssysteme GmbH, Munich (Chairman) Dresdner Zahlungsverkehrsservice GmbH, Frankfurt/Main *)

Members of the Board of Managing Directors who left the Board in the course of fiscal year 2003:

Prof. Dr. Bernd Fahrholz Chairman (until 25 March 2003)	Bayerische Motoren Werke AG, Munich Fresenius Medical Care AG, Hof/Saale HeidelbergCement AG, Heidelberg
Heinrich Linz (until 31 May 2003)	Oldenburgische Landesbank AG, Oldenburg *)

*) Group office

Offices held by members of staff

Name	Offices held in other statutory supervisory boards of large corporations (as at 31 December 2003)
Dr. A.-M. Graf von Ballestrem	MATERNUS-Kliniken AG, Bad Oeynhausen
Hans-Jürgen Bartsch	GSW Gemeinnützige Siedlungs- und Wohnungsbaugesellschaft Berlin mbH, Berlin
Claudia Eggert-Lehmann	Allianz Aktiengesellschaft, Munich
Volker von Franqué	Schwälbchen Molkerei Jakob Berz AG, Bad Schwalbach (Deputy Chairman)
Winfried Gardocki	NorCom Information Technology AG, Munich
Peter Haimerl	Allianz Aktiengesellschaft, Munich
Detlef Hermann	Kaiser's Tengelmann AG, Viersen
	RC Ritzenhoff Christal Aktiengesellschaft, Marsberg
Christian Höhn	Dresdner Zahlungsverkehrsservice GmbH, Frankfurt/Main *)
Bernd Kriegeskorte	Rathgeber AG, Munich (Deputy Chairman)
Hans Krogmann	Blohm + Voss GmbH, Hamburg
	Deutsche Schiffsbank AG, Hamburg/Bremen
Dr. Altfried M. Lütkenhaus	RWE Solutions Aktiengesellschaft, Frankfurt/Main
Gerhard Malle	Dresdner Zahlungsverkehrsservice GmbH, Frankfurt/Main *)
Wulf Meier	AGIS Allianz Dresdner Informationssysteme GmbH, Munich
Gert Jürgen Müller	SchmidtBank Kommanditgesellschaft auf Aktien, Hof/Saale
Dr. Jürgen Neuhaus	Eisen- und Hüttenwerke AG, Cologne
	INTERSEROH Aktiengesellschaft zur Verwertung von Sekundärrohstoffen, Cologne
Herbert Pfennig	Allianz Aktiengesellschaft, Munich

Offices held by members of staff

Name	Offices held in other statutory supervisory boards of large corporations (as at 31 December 2003)
Gerhard Richter	Allianz Dresdner Bauspar AG, Bad Vilbel *)
	Oldenburgische Landesbank AG, Oldenburg *)
Sultan Salam	Allianz Aktiengesellschaft, Munich
Margit Schoffer	Allianz Aktiengesellschaft, Munich
Anton Simonet	Dresdner Bank Lateinamerika Aktiengesellschaft, Hamburg *)
Dr. Jürgen Than	CSC Ploenzke AG, Wiesbaden

*) Group office

Frankfurt/Main, 25 February 2004

Dresdner Bank
Aktiengesellschaft

Dr. Walter **Dr. Georgi** **Jung** **Dr. Kaulvers**

Kvarnström **Pisker** **Rosenfeld** **Steinmetz** **Dr. Wöbking**

Independent Auditors' Report

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements prepared by Dresdner Bank Aktiengesellschaft, Frankfurt am Main, for the business year from 1 January to 31 December 2003. The preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW, Institute of Independent Auditors) and in supplementary compliance with auditing standards generally accepted in the United States of America (US-GAAS). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements is examined 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 consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with International Financial Reporting Standards (IFRS).

Our audit, which also extends to the group management report prepared by the Company's management for the business year from 1 January to 31 December 2003, has not led to any reservations. In our opinion on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from 1 January to 31 December 2003 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Frankfurt/Main, 27 February 2004
KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Wohlmannstetter)	(Andriowsky)
Wirtschaftsprüfer	Wirtschaftsprüfer

Five-Year Overview

	2003	2002	2001	2000	1999
Ratios (%)					
Cost-income ratio	119.9	86.8	77.7	64.8	66.2
Cost-income ratio (operating)	89.3	101.2	89.2	77.0	74.9
Return on equity (operating)	–2.3	–16.0	–6.5	6.0	8.2
Return on equity before taxes	–22.1	–7.9	1.1	13.9	19.3
Return on equity after taxes	–15.4	–6.6	1.3	15.1	9.8
Earnings per share (€)	–3.44	–1.63	0.32	3.32	2.04
Income statement (€ mn)					
Net interest and current income	2,525	3,276	4,364	4,312	4,007
Net fee and commission income	2,590	3,090	3,841	4,291	3,437
Net trading income	1,526	1,044	1,526	1,329	1,274
Operating income	6,641	7,410	9,731	9,932	8,718
Loan loss provisions	1,016	2,218	1,983	1,586	1,284
Operating income after loan loss provisions	5,625	5,192	7,748	8,346	7,434
Administrative expenses	5,929	7,500	8,682	7,652	6,528
Operating result	–304	–2,308	–934	694	906
Other income/expenses, net	–1,729	1,406	1,617	1,947	1,224
Special factors	840	244	620	1,028	
Income/loss before taxes	–2,873	–1,146	153	1,613	2,130
Income tax expense	–895	–211	–33	–129	1,051
Net income/net loss for the year	–1,978	–942	180	1,730	1,053
	31 Dec.	**31 Dec.**	**31 Dec.**	**31 Dec.**	**31 Dec.**
Balance sheet (€ mn)					
Total assets	477,029	413,445	506,683	483,498	396,846
Lending volume	103,869	123,089	219,210	225,343	223,336
Assets					
Cash funds	5,491	4,877	6,945	5,275	2,798
Trading assets	143,035	121,535	126,007	103,362	74,104
Loans and advances to banks	122,620	88,366	77,473	89,650	56,672
Loans and advances to customers	169,818	157,023	239,743	234,584	218,047
Investment securities	18,922	23,160	39,303	36,873	32,975
Liabilities, Minority Interests and Shareholders' Equity					
Trading liabilities	83,222	52,562	45,815	49,447	32,327
Liabilities to banks	165,512	127,542	127,455	116,164	71,876
Liabilities to customers	152,627	143,836	171,478	158,466	142,160
Certificated liabilities	39,809	54,594	114,312	120,540	115,348
Provisions and other liabilities	14,374	13,387	14,338	15,055	12,643
Subordinated liabilities and profit-participation certificates	7,935	9,430	11,278	10,361	10,030
Shareholders' equity	11,516	11,976	21,633	13,020	11,567
Regulatory capital (BIS)					
Core capital (€ bn)	7.3	8.6	10.5	13.2	12.9
Total capital (€ bn)	15.0	15.1	21.6	26.1	25.0
Risk-weighted assets (€ bn)	111.9	142.8	189.8	209.3	202.8
Core capital ratio (%)	6.6	6.0	5.5	6.3	6.4
Total capital ratio (%)	13.4	10.6	11.4	12.5	12.4
Additional information (number)					
Employees as at year-end	42,060	47,016	52,322 [1]	51,456	50,659
Branch offices	1,035	1,103	1,172	1,360	1,459

1) Basis of calculation changed as from 31 December 2001