Dresdner Bank 2005

Annual Report

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Income statement	2005 €m	2004 €m	Change %	2005 adjusted[1] €m	2004 adjusted[1] €m	Change adjusted %
Net interest and current income	2,221	2,271	-2.2			
Net fee and commission income	2,610	2,563	1.8			
Net trading income	1,104	1,500	-26.4			
Operating income	**5,935**	**6,334**	**-6.3**			
Administrative expenses	5,303	5,403	-1.9			
Loan loss provisions	-113	337	–[2]			
Operating result	**745**	**594**	**25.4**	**745**	**594**	**25.4**
Other income/expenses, net	1,418	-471	–[2]	165	-680	–[2]
Income before taxes	**2,163**	**123**	**>+100.0**	**910**	**-86**	**–[2]**
Tax expense	377	-142	–[2]	377	-160	–[2]
Income after taxes	**1,786**	**265**	**>+100.0**	**533**	**74**	**>+100.0**
Income attributable to minority interests	76	59	28.8	76	59	28.8
Net income for the year	**1,710**	**206**	**>+100.0**	**457**	**15**	**>+100.0**

Balance sheet	31.12.2005 €m	31.12.2004 €m	Change %
Total assets	461,372	523,870	-11.9
Lending volume	98,532	97,074	1.5
Equity	13,976	12,797	9.2

Ratios	31.12.2005 %	31.12.2004 %	Change %/% points	31.12.2005 adjusted[1] %	31.12.2004 adjusted[1] %	Change adjusted % points
Cost-income ratio	89.4	85.3	4.1			
Loan loss ratio[3]	-0.11	0.33	–[2]			
Return on equity (RoE) after taxes[4]	9.0	4.3	4.7			
Return on equity before taxes[5]	21.1	5.8	15.3	8.6	2.9	5.7
Return on equity after taxes	17.5	2.9	14.6	5.0	0.7	4.3
Earnings per share (€)	2.96	0.36	2.60	0.79	0.04	0.75

Employees[6]	28,774	30,154	-4.6
Branch offices	959	969	-1.0

Risk-weighted assets (€m)[7]	111,534	104,777
Core capital ratio (%)[7]	10.0	6.6
Total capital ratio (%)[7]	16.3	13.3

Short-/Long-term rating	31.12.2005	31.12.2004
Moody's Investors Service, New York	P-1/A1	P-1/A1
Standard & Poor's, New York	A-1/A	A-1/A
Fitch Ratings, London	F1/A	F1/A-

[1] After adjustment for the effects of the retrospective application of the revised IAS 39 (see also "Basis of Accounting" in the Notes)
[2] Change from negative to positive figure.
[3] Net loan loss provisions as a percentage of the average risk-weighted assets in the banking book.
[4] As defined by the Allianz Group: the ratio of normalised income after taxes to the capital allocated to Dresdner Bank in the Banking Segment.
[5] Income before taxes, amortisation of and impairment losses on goodwill and restructuring charges as a percentage of the average capital resources according to IFRSs.
[6] Full-time equivalents (excluding vocational trainees).
[7] Information as at 31 December 2005 according to BIS/IFRSs; figures for previous year according to BIS/HGB.

CONTENTS

Dresdner Bank –
Advice you can bank on

We aim to ensure our customers' financial success by giving them the best possible advice.

Our advisors address our customers' individual situations and develop integrated financial solutions.

In this, we are more than a bank: we combine the best of banking, asset management and insurance.

In this way, we create sustainable value for customers, employees, our shareholder and society.

"We have generated the best result in the past six years. Our investments in more efficient structures and processes are increasingly paying off."

Herbert Walter, Chairman of the Board of Managing Directors

Ladies and Gentlemen,

2005 was a good year for Dresdner Bank, as the details provided in this Annual Report show. For the first time since our combination with Allianz in July 2001, we earned our cost of capital and are able to offer our shareholder a solid return. We made progress towards our goal of ensuring sustained competitiveness and enterprise value.

For my colleagues on the Board of Managing Directors and myself, the fact that our successes were on behalf of our customers – and hence for your benefit as well – is particularly important. This can be seen by the increase in income from our strategic customer business. Overall, we have generated the best result in the past six years.

Our investments in more efficient structures and processes are increasingly paying off, and we were able to cut costs further.

All strategic business units increased their top-line income and income before taxes. Personal Banking recorded the largest rise in results, while Private & Business Banking generated the best return on equity by some margin. Corporate Banking has the lowest cost-income ratio in the Group, while investment bank Dresdner Kleinwort Wasserstein extended its lead on the German market for structured finance.

Nevertheless, I do not want to gloss over the fact that we still have a lot to do. Not every business unit earned its cost of capital. And our overall costs are still definitely too high in comparison with our income. We will change this.

Dresdner Bank's Board of Managing Directors is convinced that increasing key ratios in the short term is not enough. We need to do much more. We shall only achieve long-term success if we proactively address the developments that are fundamentally changing the world our customers live in.

This is why we are positioning ourselves to deal with three global developments – ahead of some of our competitors. Take changing customer behaviour, for example. A growing group of clients today is looking to combine both standard and premium offerings. These customers are price-driven when it comes to everyday items but are prepared to spend substantially more money for individuality. In other words, customers want added value, not run-of the-mill offerings.

Demographic change is a second trend: we are living longer and remaining healthy and active in the process. At the same time, governments are cutting back on social services and appealing to their citizens' sense of personal responsibility. This means that we will need more money in our old age if we are to maintain our standard of living.

Finally, globalisation is bringing the world closer and closer together. Competition between enterprises and economies is getting fiercer. The opening up of the markets in Eastern Europe and Asia has basically doubled the global pool of labour for enterprises. Capital has become comparatively more scarce. This means that enterprises need innovative financial solutions if they are to remain competitive internationally.

For us as a financial services provider, each of these trends offers enormous opportunities to open up new markets. We intend to exploit them to the full. Together with Allianz, we are in an excellent starting position to achieve this. As a supplier of "advice you can bank on", we are optimally positioned for modern banking and asset management, while Allianz contributes its financial strength and extensive expertise in financial provision. This allows us, as an integrated financial services provider, to offer end-to-end support and solutions for both private individuals and enterprises. But we won't win any medals just for having a good starting position. To ensure we remain up front during the race itself, we are making targeted investments in our future. Our programme for this is called Neue Dresdner Plus. We have launched three strategic initiatives:

Performance & Positioning concentrates on increasing our profitability and driving growth. By doing so, we shall achieve a long-term improvement in our competitiveness and enterprise value. Our goal is to generate a return on equity of twelve per cent after taxes in the medium term. We will succeed in doing this if we can position ourselves in good time on the growth markets of future.

Our **Customer Focus & Sustainability** initiative aims to ensure we are always acting in our customers' best interests. We enable them to fully leverage their potential and to achieve financial success. In the process, we shall make efficient use of our resources and so secure the Bank's long-term success.

Last but not least, our **Leadership & Team Excellence** initiative ensures that our managers find the right balance between challenging and encouraging our employees. Together with their teams, they are responsible for ensuring the proper team spirit and the unconditional will to achieve maximum performance together.

My colleagues on the Board of Managing Directors and I are convinced that our Neue Dresdner Plus programme will make the Bank fit for the future. Our confidence is based on Dresdner Bank's successes over the past year. We are on the right track. I would like to warmly thank all teams at Dresdner Bank for their dedication and hard work towards this. In future, we want their work to pay off even more – in the form of performance-related bonuses. This year, staff covered by collective wage agreements will also qualify for the first time, and we shall be distributing an impressive amount running into the double-digit millions to them in March.

We are demanding a lot in our drive to meet the challenges that the future will bring. However, the results will be worth it – for our customers, our employees and our shareholder. I promise that you can continue to have high expectations of Dresdner Bank in the future, too. We shall deliver.

Sincerely,

The Board of Managing

Otto Steinmetz
Risk Management

Herbert Walter
Chairman of the Board of Managing Directors

Klaus Rosenfeld
Finance/Controlling & Compliance

Directors of Dresdner Bank

Stefan Jentzsch
Corporate & Investment Banking

Andreas Georgi
Private & Business Banking

Stephan-Andreas Kaulvers
Personal Banking





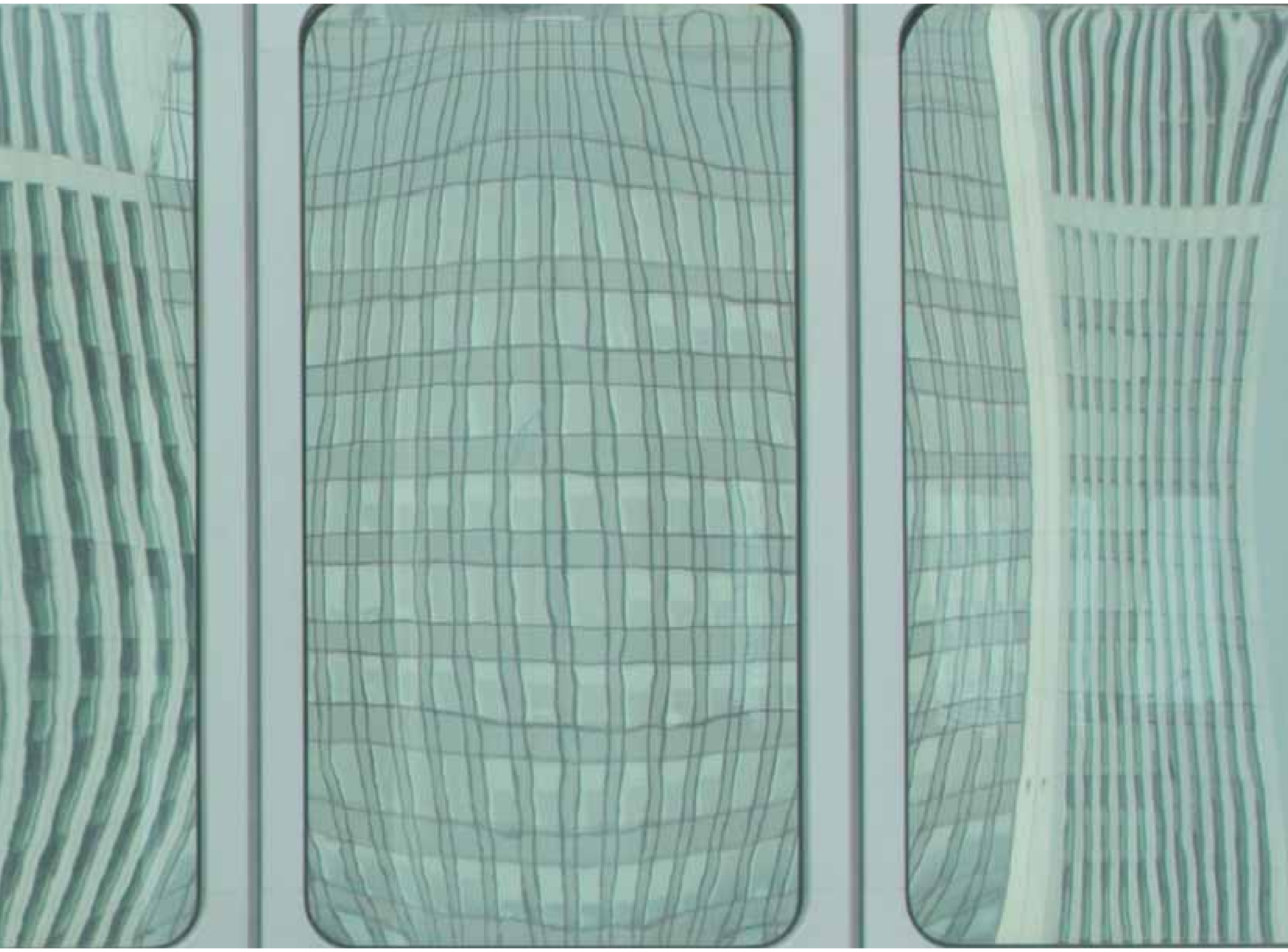

Wulf Meier
Human Resources

Friedrich Wöbking
Information Technology

Jan E. Kvarnström
Institutional Restructuring Unit

Transparent: View into Dresdner Bank's high-rise in Frankfurt

Strategy and programme



Together with Allianz, we are developing into a leading integrated financial services provider. With our Neue Dresdner Plus programme we are investing in our strengths and defining new directions.

Neue Dresdner Plus

Dresdner Bank is a leading German banking group. Our strategic objective together with Allianz is to play a dominant role in the growing European market for financial services. To achieve this, we are continuing to develop our customer-oriented business model at Dresdner Bank. The name of the programme: Neue Dresdner Plus.

Our strategy

The financial services market is governed by a multitude of factors that impact both the lives of people and the actions of companies. We have identified three key trends for which we are preparing: first, the needs of our customers are changing. With increasing frequency, they are demanding both low-cost basic products (e.g. for payment transactions) and high-quality, customised solutions (for example for M&A transactions). Banks must react to this phenomenon with a differentiated offering. Second, people are living longer and frequently remain healthy and active even at an advanced age. To continue enjoying life during their retirement, they must make financial provision in good time. Third, globalisation is opening up new markets for businesses and investors. They need innovative investment and financing models to take advantage of the opportunities which these markets afford. And international capital market financing and investment options are gaining in importance.

Financial services providers are reacting to these trends with a variety of strategic orientations. For example, direct banks are positioning themselves as the cost leaders for modern private customers. At the same time, private banks are establishing themselves with premium products and services. SME banks are targeting small, medium-sized and larger enterprises. Investment banks are focussing on their expertise in the capital markets and on their business with large

Allianz and Dresdner Bank: Strong Partners, Strong Brands

corporations and institutions. Dresdner Bank will take another route. Together with Allianz, we are creating a strong integrated financial services provider that offers customers specific expert knowledge in the fields of banking, asset management and insurance. In doing so, we are oriented on three strategic goals:

- We intend to occupy a leading position together with Allianz in the growing European market for financial services.
- We intend to achieve strong performance as Dresdner Bank with our superior customer-centred business model. To this end, we are aiming for a return on equity after taxes of at least 12 per cent.
- We intend to establish ourselves as a centre of excellence in the Allianz Group and will be the preferred banking partner for all international units.

In order to implement this strategy in a timely and targeted manner while drawing on our organisation's full capacity, we are focussing on the following:

Performance – We increase profitability
All Bank units are committed to this overarching goal. Our end-to-end orientation on performance and achievement ensures financial success throughout Dresdner Bank's business portfolio.

Positioning – We drive growth
We are positioning ourselves to meet long-term developments in good time and ahead of many of our competitors. By continuing to develop our business model and raising our brand profile, we shall become even more effective.

Customer focus – We leverage customer potential
We ensure our customers' financial success and benefit from above-average income growth. Because of this, our advisory services will focus even more on our target customers and expand our presence. At the same time, we shall hone our offering and supplement it with the best products from the entire Allianz Group and from third parties.

Sustainability – We manage our business efficiently
We can only be successful with our customers if we are one of the best in class in terms of the quality of our service, cost-efficiency and risk management. For this reason we shall improve our productivity, and hence our competitive standing, for the long term, and shall draw on the Allianz Group's expertise to do so. We are working towards best practice in as many areas as possible.

Leadership Excellence – We lead responsibly
Our managers guarantee our success and focus the Bank even more systematically on our customers and staff. That is their responsibility as managers. To provide optimum support, we are making our management structures more efficient, motivating staff by measuring performance objectively, and expanding our leadership programmes.

Team Excellence – We deliver maximum performance
We encourage and develop our staff. We set them reasonable challenges. We are reinforcing team spirit and reward top team performance even more than previously. This is also reflected in performance-based compensation structures. At the same time, we develop our employees' skills and abilities. We view the coming changes first and foremost as opportunities. We aim to ensure that the process is fair.

Our programme

We have bundled these focuses together under three initiatives within our Neue Dresdner Plus programme. Short-term performance cannot be achieved at the cost of long-term positioning. Hence: Performance & Positioning. Focussing on the customer includes sustainability and efficiency. Hence: Customer Focus & Sustainability.

Our programme: Neue Dresdner Plus

Performance	We increase profitability
&	
Positioning	We drive growth
Customer Focus	We leverage customer potential
&	
Sustainability	We manage our business efficiently
Leadership	We lead responsibly
&	
Team Excellence	We deliver maximum performance

The Neue Dresdner Plus programme contributes to the Allianz 3+1 programme

The implementation of these three initiatives is our most important task for 2006. The Neue Dresdner Plus programme feeds into the 3+1 programme of Allianz. This is our contribution towards meeting Allianz's goals: strengthening its capital base, achieving profitable growth, reducing complexity, and increasing competitiveness and value for the long term.

Performance & Positioning

For us, performance means: We increase our profitability. We are systematically focussing Dresdner Bank on returns and optimising our business portfolio, thus increasing our enterprise value for the long term. At the same time, we are positioning ourselves in relation to long-term developments in order to drive growth and improve our competitiveness. As an integrated financial services provider, we are in an excellent starting position for this together with Allianz.

Performance: We increase profitability

Over the past few years we mounted a huge effort to give Dresdner Bank a new direction. Achieving a turnaround in 2004 was the first leg of this journey. During the 2005 fiscal year we continued consistently on our path: we increased our operating result by more than 25 per cent and generated an after-tax return of 9 per cent on the capital allocated to us in the Allianz Banking segment (see the overview on page 15). Thus we covered our cost of capital in 2005, achieving another important interim target for Dresdner Bank in the Allianz Group. We are targeting a return on equity after taxes of at least 12 per cent for the medium term.

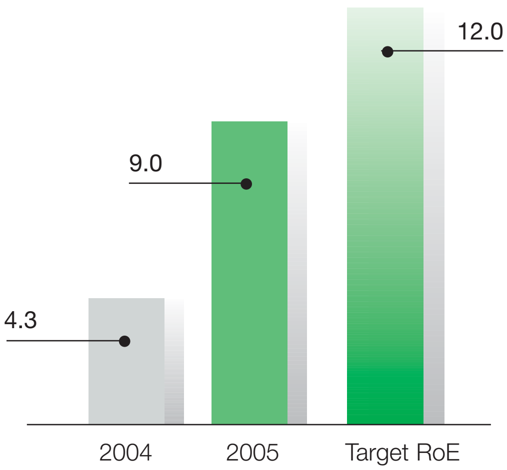
Consistent orientation on returns. We aim to create value and will therefore sharpen Dresdner Bank's focus on profitability. Income, efficiency and earnings targets will become concrete, measurable goals for our management and our teams. We aim to free up capital by optimising capital and risk management throughout the Bank – particularly in relation to credit risks. This will further boost our profitability and facilitate growth. At the same time, we shall integrate additional value-oriented ratios in our internal reporting.

Portfolio for strong performance. During the past few years we have systematically streamlined our business portfolio with an eye to profitability and growth potential. We bundled non-strategic loans, investments and subsidiaries in the "Institutional Restructuring Unit" (IRU). After this portfolio was fully wound up, we were able to dissolve the IRU in September 2005 much sooner and with a better result than had been planned. This frees us up once again to concentrate entirely on our strategic business. The balanced result recorded by our business units in 2005 is proof of this: our private and business clients business contributed just as much to our result as did corporates and institutions.

All divisions increased their operating income and contributed positive returns to Dresdner Bank's strong result in 2005. We earn roughly one third of our income abroad. To further enhance our performance we shall continue to examine strategic options, both national and international.

Clear performance targets

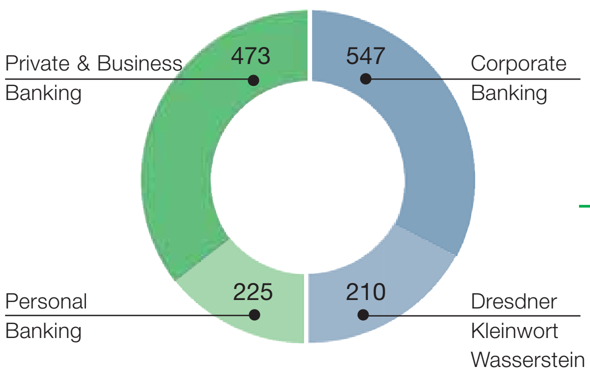
RoE after taxes in per cent*



* Based on Allianz Group definition

Balanced business portfolio

2005 income before taxes in €m



Performance: Projects for 2006

- Optimise capital and risk management
- Adapt reporting to new business model
- Evaluate national and international strategy options

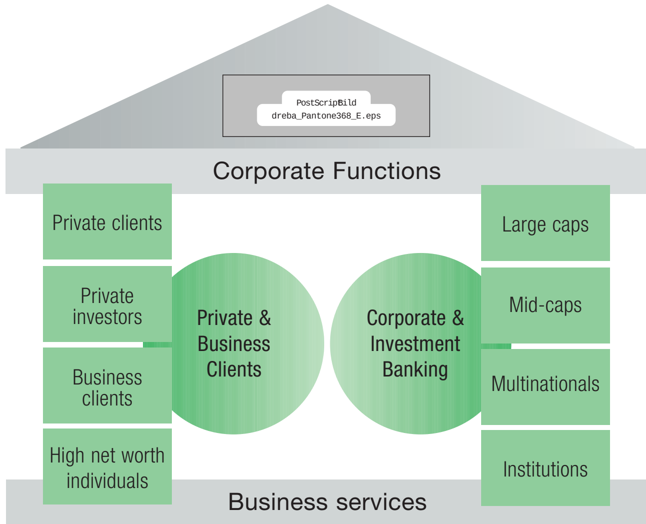
Positioning: We drive growth

We are positioning the Bank for long-term developments in good time in order to systematically take advantage of growth opportunities. We expect to see considerable growth in the German private and corporate client market over the next five years. Due to demographic change and rising life expectancies, the areas of financial provision, wealth and real estate will see disproportionately strong growth. In addition, assets worth up to €1 trillion are expected to be passed down by inheritance over the next four years. This creates attractive opportunities for growth in asset management.

We also see growth opportunities in our corporate clients and investment banking business. The opening up of new sales markets, the integration of the international capital markets and fierce competition in the lending business will ensure particularly strong growth in capital market solutions and structured corporate financing.

Even areas with lower growth rates – such as payment transactions or conventional business loans – offer potential for increasing our market share. Customers are paying increased attention to the efficiency, speed and reliability of their financial services and are prepared to switch providers to get them.

Our new business model



Good starting position. Dresdner Bank and Allianz together occupy an ideal position for leveraging growth opportunities. Our combined banking, asset management and insurance expertise allows us to offer all customer groups integrated services. For example, our private client business includes such products as construction financing plus related credit insurance or insurance policies designed for financial provision and based on equities funds. In Corporate & Investment Banking, we combine our advisory expertise for corporate customers with the knowledge of the capital markets offered by our investment bank, Dresdner Kleinwort Wasserstein, to provide standardised capital market finance for middle-market companies, for example. We are also among the best in class when it comes to efficiency, speed and reliability. This applies to our practice of outsourcing payment transactions and securities settlement, among other things, as well as to our use of the securitisation platforms provided by Kreditanstalt für Wiederaufbau (the German Reconstruction Loan Corporation).

Growth thanks to a superior business model. We are focussing our business model even more systematically on growth. In specific terms this means bundling responsibility for the customer in a single source: for private and business customers this is the new Private & Business Clients division, and for corporates and institutions it is the new Corporate & Investment Banking division. We have defined a systematic division of responsibilities between advisory services and sales on the one hand and target groups and products on the other. This will equip us to respond even more specifically to our customers' needs. Both divisions are supported by the Business Services unit, which comprises HR, technology and processing services. Key management functions for the Bank as a whole are performed by the Corporate Functions: finance/controlling, risk management and other crucial Board functions.

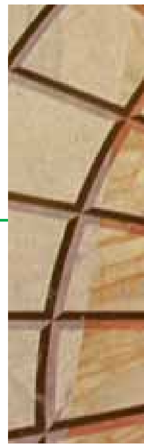
Higher profile thanks to a strong brand. Our brand instils confidence. It stands for professionalism, accessibility and progressiveness. We intend to be the ideal partner for our customers in all financial matters. Our close ties with our investment bank and with our partners in the Allianz Group mean that we must adapt our brand strategy accordingly. We intend to project a clearly defined profile to our clients, so as to enhance our competitiveness and enterprise value for the long term. If we are successful, everyone will benefit – customers, staff, our shareholder and society. As good corporate citizens we thus accept our social responsibility.

Positioning: Projects for 2006

- Launch new growth initiatives with Allianz
- Implement our new business model
- Adapt our brand strategy to the business model

Customer Focus & Sustainability

We intend to ensure our customers' financial success and thus to leverage customer potential. This consistent focus on the customer secures our competitive standing, as does the sustainable and efficient management of our core resources. We shall continue to exercise discipline in managing our costs, risk and capital.



Customer focus: We leverage customer potential

For us, customer focus means always acting in the best interests of our customers. We enable them to fully exploit their financial potential. In this way we gain their trust and long-term loyalty. Their word-of-mouth recommendations also bring us new customers.

This lays the groundwork for leveraging customer potential and achieving above-average increases in income. Initial successes in the past fiscal year are proof that we are on the right track. Our customer focus initiative is designed to consistently centre Dresdner Bank on its customers.

Private & Business Clients. In this division, we shall focus in future on four clearly defined and distinct customer groups: private clients, private investors, business clients and high net worth individuals. We intend to enable our advisors to personally guide customers – from young professionals to retirees, and from self-employed individuals to the internationally active owners of middle-market enterprises – with tailored advice over the long term throughout every stage of their personal and business lives.

To do this, we are creating clear responsibilities within the division and seperating the responsibility for advisory services and sales, and for target groups and products.

Private & Business Client offerings. We intend to further refine our offerings for individual target groups. Personal Banking offers all customers solutions for everyday banking transactions.
Private Banking develops personalised client and investment solutions for private investors. In Business Banking, we optimise private and business assets and

Focus on the customer.
Mosaic floor in Frankfurt's Fürstenhof

One important tool for ensuring customer focus is customer relationship management for all customer groups. Our sophisticated Private Banking offering, for example, gives customers the individuality of an exclusive private bank combined with the international expertise of the entire Group. Centralised campaign management is responsible for sales promotions – for example, in connection with the World Cup – that are precisely customised to the event and the target group. Workflows at the branches will be organised in such a way in future that advisors have even more time for their clients – administrative tasks and sales support will be systematically centralised.

financing for middle-market business customers. As a result of Basel II, among other things, we are increasingly focussing on capital-market oriented alternatives to conventional bank loans. Private Wealth Management supplies tailor-made offerings in the areas of family assets, foundations, tax-optimised investments, real estate and inheritances.

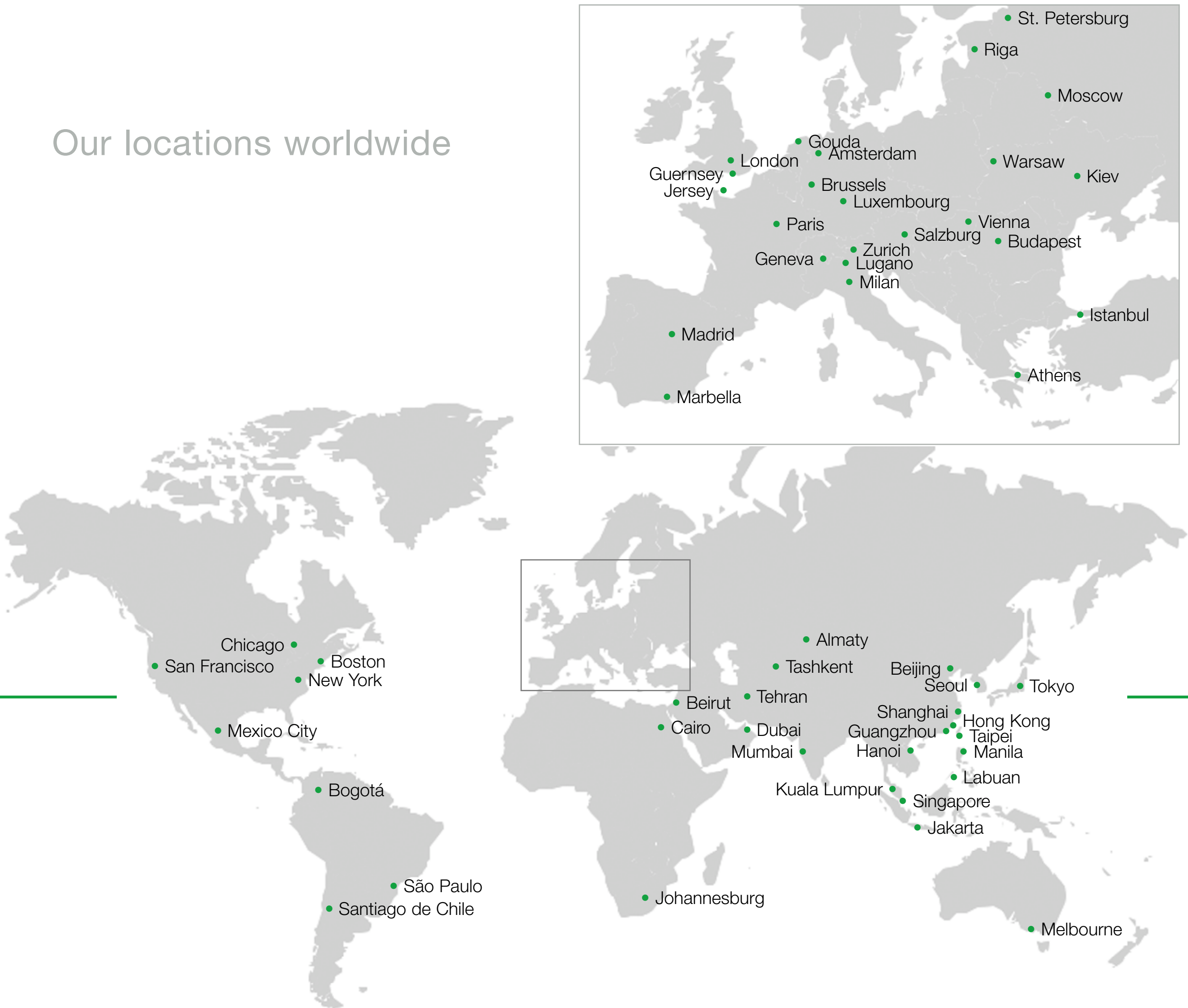
Corporate & Investment Banking. International capital markets expertise is becoming increasingly important to our clients – for reinforcing their capital base with investment capital, managing risk with derivatives or diversifying the investment portfolio. The new Corporate & Investment Banking division combines the advisory expertise of Corporate Banking with Dresdner Kleinwort Wasserstein's capital markets expertise and in future will advise four target groups: large caps and mid-caps, multinationals and institutions. In doing so, we unite a broad regional presence in Germany with international locations and capital markets-based risk management and finance solutions with Allianz's insurance expertise.

Offerings for corporate customers. Our service portfolio ranges from transaction banking and international business through conventional loans to treasury and securities, corporate finance and insurance. Every customer relationship manager has access to the Allianz Group's entire body of expertise. For example, we offer leading solutions in the fast-growing segment of occupational pension schemes. In addition, our clients have direct access to all of the conventional non-life and life insurance services offered by Allianz as well as to credit insurance products from Euler Hermes AG.

Customer Focus: Projects for 2006

- Develop sales strategies for specific target groups
- Expand offerings with the Allianz Group
- Fully exploit capital markets expertise

Our locations worldwide



End-to-end presence for all customer groups – regional and international locations

With roughly 960 branches, Dresdner Bank's network of branches is the largest of any major German bank. In addition, we offer our bank products through the Allianz agencies, giving us 10,000 additional locations in Germany. Globally, we are active in more than 50 countries, including key international capital markets such as Frankfurt, London, New York, Tokyo, and Singapore. In short, we are firmly rooted in our home market of Germany, focussed on our core market of Europe and represented worldwide wherever our customers need us.

Sustainability: We manage our business efficiently

We shall only ensure our customers' lasting satisfaction if – in addition to personalised advice, the best possible offering and a comprehensive presence – we also align all our core processes with their needs. Dresdner Bank as a whole has the additional duty of continuously improving the quality of our service and sustainably. Business Services see themselves as a service provider to the divisions; while the management duties for the Bank as a whole are bundled in Corporate Functions.

Business Services: We bundle all internal services in Business Services.

Futuristic:
Vault in Dusseldorf Customer Centre

our efficiency – for everything from advisory services through products and their provision all the way to management functions.

Careful use of resources. We have substantially improved our profitability in recent years, and shall continue to do so in future. The Neue Dresdner Plus programme ensures that we further improve our structures and processes and manage our core resources – staff, technology, capital and risk – responsibly and

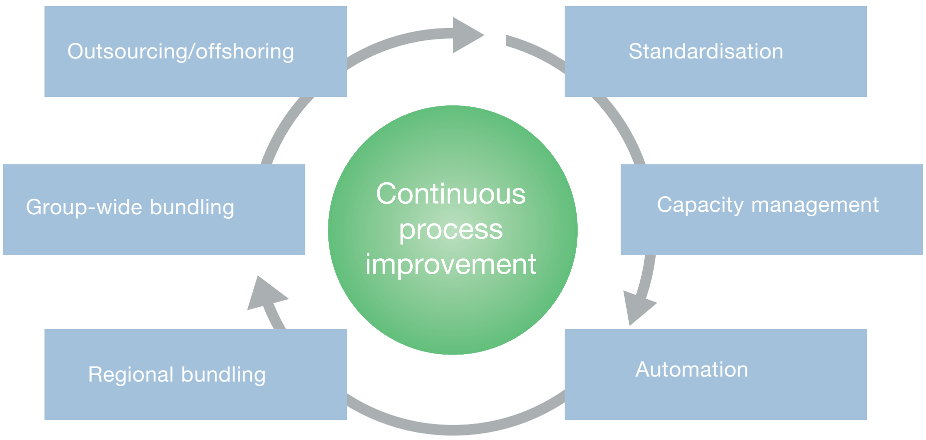
Human Resources Service: We make targeted investments in the ongoing development of our staff. This area has developed innovative services such as the “HR Direktberatung” (HR direct advice) call centre. By setting up this service, the Human Resources Service is acting as a model, and now also makes its services available within the Allianz Group.

Technology Services: In the information technology area, our aim is to provide optimum support for our business model. We are continuing to optimise IT processes, ensuring cost efficiency and reducing the complexity of our information technology. We shall further integrate the IT systems at Dresdner Bank and Allianz, which are already closely linked, thereby offering our customers even faster and more efficient banking and insurance services from a single source.

Processing Services: To improve our processes, we shall draw increasingly on experience from other industries. We shall further standardise our core processes across different customer groups and products. This will lay the groundwork for further automation and efficient management of resources. By cooperating with external partners, we shall continue to reduce our vertical integration, to the extent that this offers economic benefits.

Corporate Functions: The Corporate Functions bundle the central management functions for the Bank as a whole. They manage the overall performance of the entire Bank and ensure that the strategic goals of the individual divisions can be combined into an overarching strategy. A crucial element of this is transparency across all business units and core Bank resources – i.e. costs, risk and capital deployed. In the process, we actively monitor risks at the level of individual exposures and portfolios and draw a strict distinction between market, lending and operational risk.

Becoming better and faster



Sustainability: Projects for 2006

- Systematically standardise and automate tasks
- Make core processes leaner and more optimised
- Update platforms

Leadership & Team Excellence

We want our staff to deliver what we promise our clients. Managers are responsible for setting an example for their teams, motivating them and spurring them on to the highest levels of achievement. Our leadership values provide the framework for striking the right balance between setting them challenges and encouraging them.

Our leadership values

- Communicate strategy consistently
- Reinforce a culture of excellence
- Focus on the customer
- Encourage and develop employees
- Build on trust and feedback

Leadership Excellence: We lead responsibly

We have defined what we mean by leadership in our five leadership values: to communicate strategy consistently, reinforce a culture of excellence, focus on customers, encourage and develop employees, and build on trust and feedback. These values give managers an authoritative guideline for their activities and provide the framework for how we achieve our financial goals, put customer focus and sustainability into action, conduct ourselves as managers and set challenges for and encourage our staff.

Clear management structures. Efficient structures are a prerequisite for motivational management and outstanding teamwork. It is our goal to continue improving the internal links with our partners inside Allianz and to intensify cooperation between the Bank's business units and teams. Only an integrated approach and integrated action will enable us to fulfil our pledge of creating added value for customers as an integrated financial services provider. We must move on from the "silo mentality", from discussions on interfaces and from laborious coordination processes. Management responsibilities throughout the Bank are being defined even more clearly and given a leaner structure. The goal: significantly shorter decision-making processes and clearly defined management responsibilities.

Systematic performance measurement. Performance is now being measured regularly at Dresdner Bank. A systematic process was introduced for top management and senior executives in spring 2005. Agreed objectives and the Dresdner Bank Group's management system have been aligned with each other. Key performance indicators are established annually that show all managers the extent to which their achievements are contributing to added value. In other words, we measure the contribution made by each and every manager to our success – from the Board of Managing Directors through all senior management levels. The annual survey of our top management recently revealed that two thirds of the managers support the idea of strengthening our culture of excellence for the long term.

Management skills through leadership programmes. We define leadership as an obligation and a service, not as a particular status or an entitlement to power. This means that our managers accept responsibility and take an entrepreneurial approach to management. They act as models, convincing others with their professional and interpersonal skills and by specifically encouraging and developing their staff. To make this claim a reality, we invest in the systematic development of our managers. Four leadership programmes have been developed that cover all of the Bank's dedicated top managers, from the branch and department heads through the regional and divisional heads all the way to the Group Management Board and the Board of Managing Directors. The tools and methods with which potential is identified and cultivated within the Bank are based on our Leadership Competency Model. Our aim is to strengthen the leadership role significantly with this process and to boost quality substantially on all management levels. By developing managers, we promote a culture in which performance and concern strike a healthy balance.

Responsible Leadership:
Managers promote a culture of excellence

Leadership Excellence: Projects for 2006

- Establish new management structures and processes
- Systematically develop management skills
- Recruit, develop and retain young talent

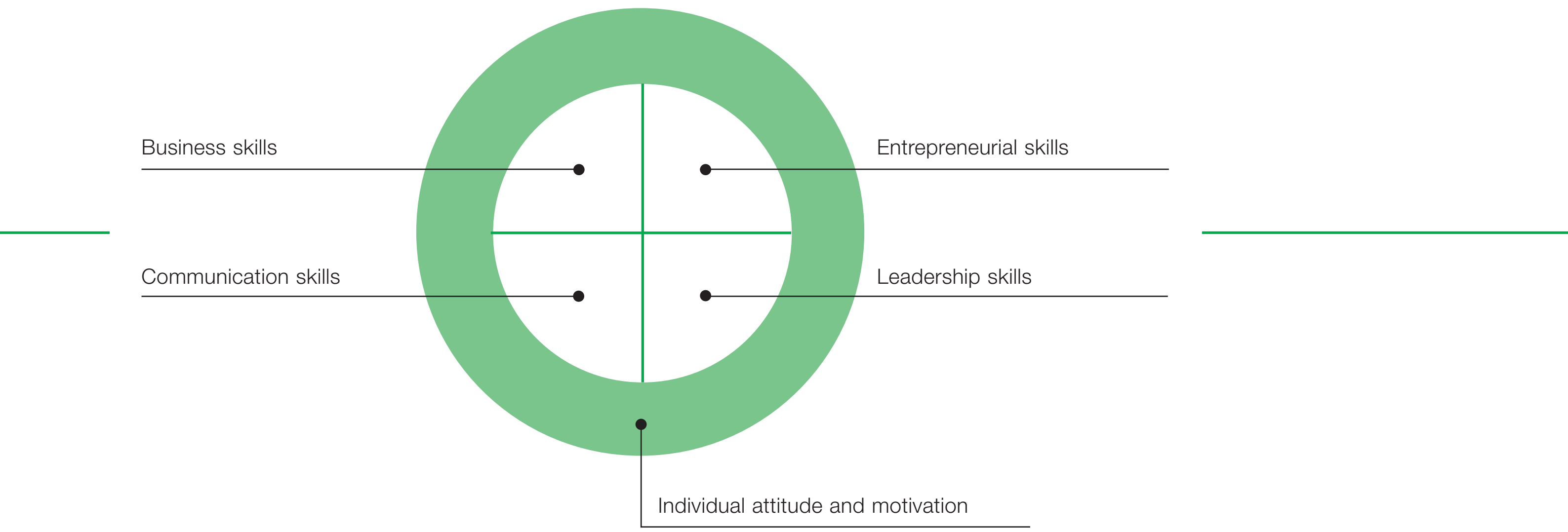
Team excellence: We deliver maximum performance

We believe that we accomplish more as a team. At the same time, we encourage every individual employee to put in their best performance. Our managers are responsible for ensuring a balance between team and individual performance. Our aim is to continually enhance the culture of excellence. We want our staff to communicate and cooperate across divisions and across hierarchies. At our Bank ideas are in demand, criticism is welcomed and mistakes are discussed openly. In addition, we offer jobs that allow our employees to unfold their full potential – because they can help shape the business, because performance is rewarded and because work is fun.

Innovative training scheme. A suitable training scheme is another method to bring us closer to this goal. We have developed a concept for passing on insurance and banking knowledge to Allianz and Dresdner Bank vocationals trainees. Besides theoretical aspects, on-the-job training takes place at the branches or agencies. Moreover, in the summer of this year, we shall launch the new “Kauffrau/mann für Versicherungen und Finanzen” (insurance and finance clerk) vocational training programme. The focus of this new occupation will be to foster a high degree of proficiency in customer advice, service and sales, in addition to banking and insurance knowledge. Customer orientation will be the focus from the very start.

Incentives for better performance. We intend to reward performance and dedication even more in the future, which is why we have introduced the “Bonus im Tarif” programme. For 2005, for the first time in the history of the Bank, employees covered by collective wage agreements will also receive performance-based compensation. The amount of the bonus payment will depend on both the company's profits for the last fiscal year and individual performance. This will allow employees covered by collective wage agreements to boost their annual salaries to up to 15 monthly pay checks.

We require and encourage these skills



Mastering change as part of a team. Change is a necessary part of the Bank's ongoing development. However, change can also breed insecurity, and carries with it the risk that individual interests will not be fully aligned with those of the team and the Bank. Our policy here is one of early, open and comprehensive information, and we aim to provide certainty for our employees when change is imminent. We intend to shape change as a team and consider it our duty to find a fair solution when interests are in conflict. To do this, we develop our managers' ability to identify entrepreneurial potential early on and to exploit it with courage and commitment. We shall assist them – where necessary – by adapting our structures and services.

Team Excellence: Projects for 2006

- Develop guidelines for new staff profiles
- Kick off change management process
- Design new courses and trainee programmes

Modern: View from the Gallileo building over the Frankfurt City district

Business Unit Achievements

During the past fiscal year our business units have provided impressive proof of their innovative strength and capabilities. We offer modern financial solutions – from retirement provision to certificates, and from foreign commercial business to payment transactions.

Private & Business Clients

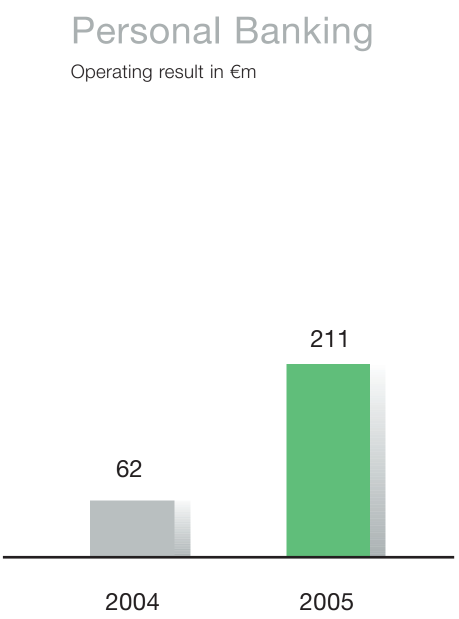
We provide private and business customers with compelling integrated solutions, offerings tailored to specific target groups, and a national and international presence. During the year under review our Personal Banking and Private & Business Banking divisions delivered strong results. The focus was on solutions for financing provision for the future and assets, as well as integrated offerings for private and business needs.

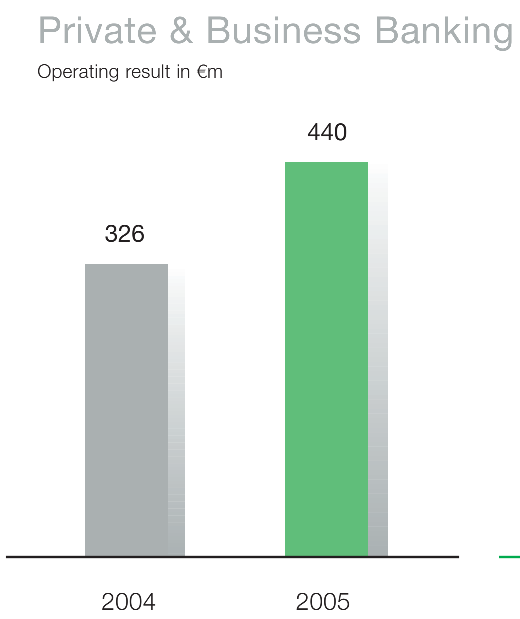
Business units

During the second quarter of 2006 we shall consolidate all of our offerings from the Personal Banking and Private & Business Banking business units in our Private & Business Clients division.

Personal Banking. Our strength among private customers is reflected in our operating result of €211 million – a substantial increase year on year. The €252 million improvement in our income before taxes represents the most striking growth of all divisions. The return on equity before taxes reached an impressive 22 per cent.

The broad-based launch of assurbanking brought us and Allianz roughly 360,000 new clients last year. Sales of banking products by the Allianz agencies also rose significantly. Factors contributing to the success of Personal Banking were the introduction of new account models, a product campaign for overdraft and consumer credits and increasing demand for retirement planning solutions. We further improved our cost situation. The cost-income ratio dropped by over 5 percentage points year on year to 84.1 per cent.





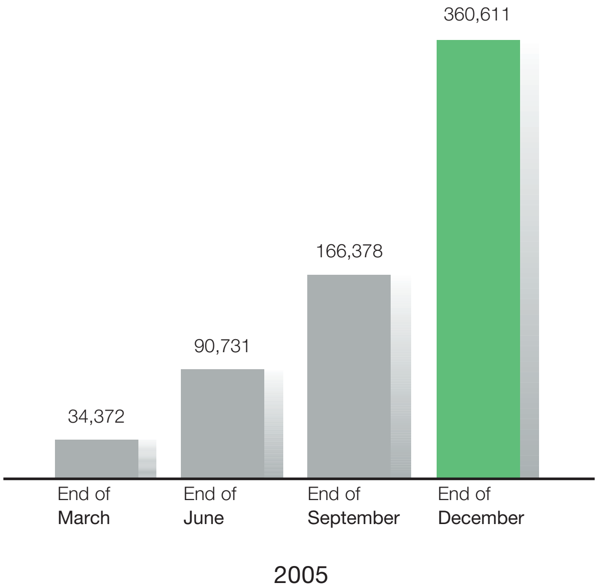
Private & Business Banking. At €440 million, the operating result improved significantly, rising 35 per cent year on year. Operating income rose by 3 per cent over the previous year. The return on equity before taxes of 82 per cent by far outstrips that of any other division. We achieved especially strong growth in investment products and are increasingly becoming the first choice for wealth management among high net worth clients in Germany and also abroad. A crucial factor for our success was the strategic reorientation of our Wealth Management activities. Due to our combination of private and business aspects, we are an important partner for small and medium-sized businesses when it comes to optimising assets and financing. Our cost management has produced results. The cost-income ratio saw a significant drop from the previous year (down 6.4 percentage points) to 58.5 per cent.

Areas of expertise

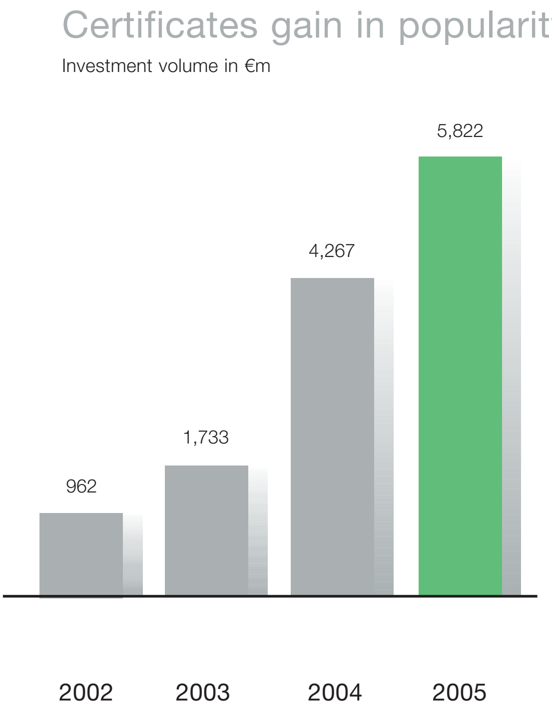
Introduction of new account models. We launched three attractive new private account models: the Basis account, the Kompakt account and the free Jugendkonto young person's account. These allow clients to decide for themselves the level of convenience they need and how much they are willing to pay. The fair price-performance ratio has been popular with clients. We also gained many new clients during 2005 in the case of money market accounts. Particularly popular was our high-interest money market account campaign, in which clients received an above-average 3 per cent interest on their investment. Overall, the volume of new investments last year reached €1.1 billion.

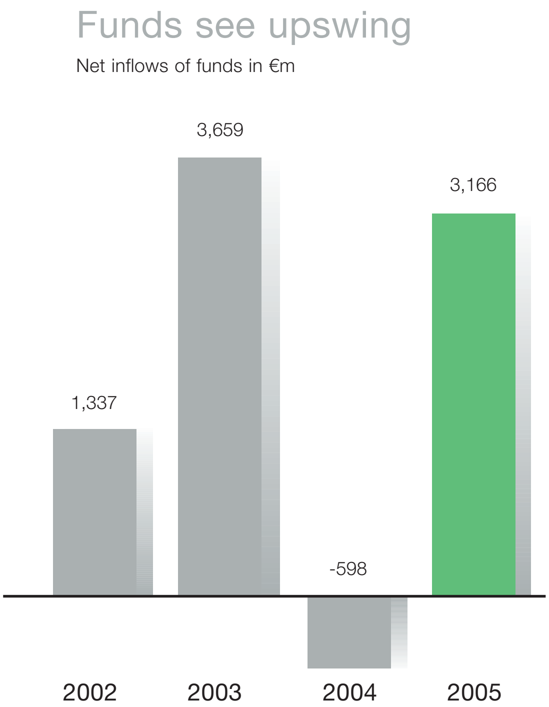
360,611 new customers

through Allianz agencies
(end of quarter, cumulative figures)



Consumer loan offensive. We offer flexibility with the Dresdner FlexiDispocard. It gives our clients a drawing limit of between €500 and €5,000, depending on their financial situation. Other product features are a fixed monthly rate of repayment, optionally 5 per cent or 10 per cent of the drawing limit, and the option of reducing interest expenses through partial or full repayment at any time. During 2005 we were able to increase the lending volume drawn down in connection with the FlexiDispocard by three quarters. Also popular was our Dresdner credit card with a filling station bonus, which gave Allianz banking customers a 1 per cent rebate on purchases at filling stations. In 2005 it was the fastest-growing VISA credit card programme in Germany. Record-breaking: Dresdner FlexiGeld. With our joint venture partner Cetelem, we offer decisions on consumer loans within minutes. It takes only 10 minutes on average from the time that the customer or customer advisor fills out the online form until a loan decision is taken. Our Dresdner FlexiStudienkredit student loan, which gives students the option of adjusting the amount of the loan every semester, is proof of our speed and innovative ability. With tuition fees being introduced or planned in more and more of Germany's federal sta-





tes, we have become one of the first major banks in Germany to offer students this type of financing option in twelve university towns.

New financial provision offerings. Private pensions are a crucial issue for private clients in Germany. However, only 15 per cent of the eligible population have purchased a state-subsidised Riester pension product to date. Dresdner Bank used the "VolksRente" (people's pension) campaign launched by Allianz in cooperation with the Bild-Zeitung newspaper and Bild.T-online.de website to provide clients with extensive information on the advantages of a Riester pension as an additional component of private retirement provision. Nevertheless, the number one form of retirement provision is still property ownership. In cooperation with Allianz, Dresdner Bank offers the widest selection of any service provider in this area – from home loans savings products through real estate financing all the way to the Finanzierungsschutzbrief (home loan protection). Our home loans savings products with 1.95 per cent loan interest attracted considerable attention in 2005.

Strong growth in investment solutions. Certificates are becoming more and more popular in Germany. In 2005, our certificates business grew to a volume of almost €6 billion – representing more than 500 per cent growth since 2002. Dresdner Bank remains pacesetter in this sector. In June 2005 our investment bank was the first bank in Europe to issue certificates on CO_2 emission rights. These offer private investors an innovative way of diversifying their portfolios. Their distinguishing characteristic: they allow clients to speculate on both rising and falling prices. We have every reason to be satisfied with the growth in open-ended investment funds during fiscal 2005. Following net outflows in 2004, we generated inflows of €1.1 billion last year for dit | Allianz Dresdner Global Investors. Our “Open Architecture Concept” was a complete success. This cooperation with renowned third-party providers such as Goldman Sachs, Lehman, UBS, or Société Générale enjoyed excellent acceptance among our customers. Net inflows of funds increased by well over 100 per cent in 2005. Business in closed-end funds also grew substantially last year, with net inflows of funds rising by 62 per cent.

First choice for wealth management. The reorientation of our Wealth Management activities set a milestone for the future in 2005. Our aim is to share in the anticipated substantial growth of private financial assets, and particularly those belonging to high net worth individuals. To achieve this goal, we have extensively trained our customer advisors, systematically established sales channels, and enhanced and rolled out our portfolio management across the board. Specialist portfolio managers are now available for to provide high-calibre asset management services. Our

International:
Dresdner Bank
in Luxembourg,
on Guernsey,
and in Geneva
(from left to right)

relationship managers now have even more time to serve existing clients and acquire new ones. Our success to date: we achieved our 2005 goal of increasing our assets under management by more than 10 per cent over the previous year. Recognition for our portfolio management also came from a test by the firstfive AG ranking institute and by the Institut für Qualitätssicherung und Prüfung von Finanzdienstleistungen (Institute for Quality Assurance and Testing of

Financial Services). An analysis of 95 asset managers in German-speaking Europe ranked Dresdner Bank's portfolio management service in first place. The custody accounts administered by our asset managers did excellently in every risk category. We built on our market leadership in foundation management. Our foundation assets under management today total €4.1 billion and we offer the most attractive terms by comparison with competitors, along with maximum quality and top performance.

Important partner for middle-market businesses. When advising entrepreneurs and enterprises, we keep sight of both business and private aspects. Our offer of information about the effects on enterprises of the banks' new capital adequacy rules met with an enthusiastic response. As part of a Basel II road show at seven locations in Germany, our experts from Private & Business Banking held discussions with more than 2,000 entrepreneurs. Our message to participants: we will supply intelligent risk-hedging products and capital market financing particularly for middle-market businesses to provide company owners with the best possible balance sheet and financing structures.

Corporate & Investment Banking

Despite challenging market conditions, Corporate & Investment Banking successfully developed its business. We bundle our financing and capital market expertise for large caps, mid-caps, multinationals and institutions. We offer the entire range of integrated financial solutions – from structured corporate financing, occupational pension schemes, innovative cash management down to securitisation and comprehensive risk management using derivatives.

Business units

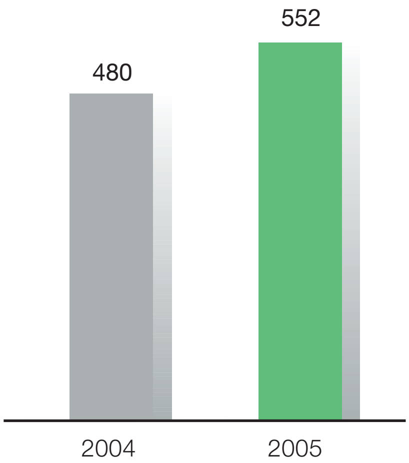
Our entire financing and capital market expertise will be concentrated in future in the Corporate & Investment Banking division. Large caps, mid-caps, multinationals and institutions will be offered the entire array of structured corporate financing and international capital market solutions.

Corporate Banking. The Corporate Banking business unit held its own despite a difficult market climate. Corporate Banking achieved an operating result of €552 million last year. This represents a 15 per cent increase over the previous year, as well as the highest contribution by a core business unit to the Bank's overall result. The return on equity before taxes rose to almost 37 per cent. This puts us up among the international leaders in this area.

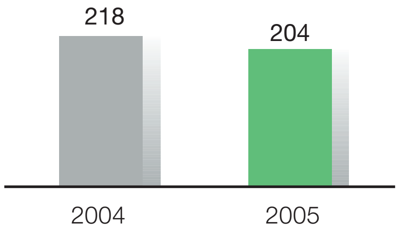
Operating income was once again in excess of the €1 billion mark. Our success is due to our strong position with corporates and institutions. They value our innovation ability in payment transactions and cash management. As an integrated financial services provider we are a strong partner for occupational pension schemes. Moreover, we specialise in complex financing solutions – as the financing of the Allianz Arena stadium demonstrates.

We are particularly gratified by our 44.9 per cent cost-income ratio. This is the lowest figure of any division. Consistently strict cost management was one

Corporate Banking
Operating result in €m



Dresdner Kleinwort Wasserstein
Operating result in €m



factor contributing to this figure, which is also outstanding by comparison with competitors.

Dresdner Kleinwort Wasserstein. Dresdner Kleinwort Wasserstein achieved an operating result of €204 million, corresponding to a return on equity before taxes of over 10 per cent.

Operating income rose to a good €2.1 billion. This positive growth can be attributed in particular to the increased volumes in structured financing. We are a market leader in this sector in Germany and are on our way to the top internationally.

The international orientation of our investment bank is an important success factor, both for our German customers with international business and with respect to our own activities abroad. Our long-term involvement in global growth markets is paying off. In Russia, for example, we advised on several major M&A deals.

The rise in the cost-income ratio to 91.7 per cent during fiscal 2005 was primarily the result of higher performance-based compensation and one-off expenses.

Areas of expertise

Innovative cash management. Our cash management experts have developed an innovative solution for simple, automated handling of tax refunds from US investment funds for German investors. German investors must prepay estimated tax on investments in US real estate funds, which is then refunded by the US tax authorities under the rules of the double taxation agreement. Until now these refunds were sent in the form of cheques to the fund issuer, which had to credit and deliver them to the individual investors at great expense and effort. The US tax authorities now use our innovative product to transfer the tax credits to temporary accounts at Dresdner Bank in New York. The account numbers correspond to the tax identification numbers of investors. The amounts are then forwarded via a trust account in Germany to the investors as cost-effective domestic transfers. This procedure is considerably more cost-efficient and less prone to errors for fund issuers and faster and cheaper for the investors, because they save on high cheque processing fees. This innovation won the Challenge Award at the 2005 Euro Finance Conference.

A strong partner for occupational pension schemes. We benefit from the combined strength of the entire Group when it comes to occupational pension schemes. One example of this is Nordzucker AG: during the last fiscal year we were able to assist Europe's second-largest sugar producer in planning its occupational pension scheme. With a single payment of €50 million, Nordzucker transferred a portion of its occupational pension risk to Allianz Leben at the start of 2005. Dresdner Bank was the lead arranger for the

financing of this one-off payment, which took the form of a syndicated credit. With this combination of reinsurance and loans, Nordzucker has replaced uncertain pension payments with fixed instalments covering the loan redemption and interest. This allows the company to plan with greater certainty and concentrate again on its core competencies. This specially tailored solution could only be developed and implemented by bringing expert teams from various areas of Corporate Banking, Dresdner Kleinwort Wasserstein and Allianz Dresdner Pension Consult GmbH to the table with the client.

Specialists in complex financing solutions. In the Allianz Arena stadium in Munich we were able to give our strengths in our corporate and private client business full play. The overall financing, with a volume of €340 million, is structured as a multi-product solution: on the initiative of our investee KG Allgemeine Leasing, a financing package was developed that includes €150 million each from Dresdner Bank and Eurohypo and €40 million as a shareholder loan from FC Bayern Munich. However, the portion financed by Dresdner Bank is not a conventional loan. €80 million is being realised through the purchase of receivables from Allianz Arena München Stadion GmbH and €70 million in the form of a closed-end fund for private investors. The fund company was prefinanced by the Corporate Banking division, while the Private & Business Banking division was solely responsible for selling the fund units. Our Corporate Banking division was in a position to offer Allianz Arena München Stadion GmbH attractive conditions, on the one hand because the loan was collateralised both by receivables from Allianz and FC Bayern Munich (non-recourse financing) and on the other because external investment capital was raised through the fund structure. Investors in the fund receive an adequate base rate of return and an additional amount determined by the success of the clubs playing in the stadium. The Allianz Arena – an all-round success: for the stadium company and the football clubs, the private investors, Dresdner Bank and Allianz.

Professional:
Integrated financial solution for the Allianz Arena stadium in Munich; trading room in Frankfurt (left)

Pioneer in securitisation. In the securitisation business we have demonstrated our capacity for innovation in the area of financing: Dresdner Bank is one of the founding members of the "True Sale Initiative", which together with the Kreditanstalt für Wiederaufbau is setting up a securitisation platform in Germany. Companies and banks can use this platform to convert receivables and loans into securities and thus obtain financing on the capital market. The certification and standardisation of securities issued via this platform make securitisations more attractive to investors and considerably more economical for corporate customers. In January 2006, Dresdner Bank became the first of the founding members to securitise a portfolio of roughly €3 billion in loans to middle-market businesses via the new platform, thereby clearing the way for further loans to this group of customers. Dresdner Bank also uses standardised asset-backed securities (ABS) programmes on other platforms for the direct securitisation of corporate receivables.

Market leader in structured financing. In Germany, Dresdner Kleinwort Wasserstein consolidated its leading position during fiscal 2005: it received the "Euroweek Loan Markets Award" as the best arranger of syndicated loans. In LBOs (leveraged buy-outs) we are market leaders as well: we are number one in Germany in the bank rankings produced by capital market platform Dealogic. We successfully defended our second place in the German bond market in 2005. One reason for our success was the close collaboration with Corporate Banking.

Dresdner Kleinwort Wasserstein is also well positioned internationally, recording the largest gain in market share for syndicated loans of the ten most important lead managers in the Europe Middle East Africa (EMEA) region. We almost doubled the number of LBOs in the EMEA region. We jumped eight places to tenth place in the Dealogic ranking of the best banks. Our investment bank further expanded its position on the international capital markets, improving its position within the top ten in the Eurobond segment. In the equity issuance business, we are among the top five banks in both Germany and the UK.

Integrated risk management solutions. Our investment bank's expertise in derivative risk management solutions was once again recognised: it was chosen as one of the three best banks in the world in the "2005 Euroweek Awards". A particular strong point is the use of derivative hedging products in complex financing solutions in response to customer-specific needs. A prominent example of this is its support for Sun Capital Partners and TDR Capital in establishing one of the leading life insurance fund companies in the UK.

In China we have traditionally had a strong position. We opened the first German credit institution in China in Shanghai in 1993. In 2004, our Shanghai branch was one of the first foreign banks to receive licences for securities and derivatives trading in national currency on the local exchanges. This extended our existing product range, consisting of loans, bonds, foreign exchange and securities in international currencies, allowing us to win further clients in China in

Accessible:
Lighting art in Frankfurt, a Paladino sculpture in Berlin and art by Kuchta in Geneva (from left to right)

Long-term involvement in growth markets. Our Russian business already boasts a long tradition. In 1973 we were the first German credit institution to open a representative office in Moscow. Last year, Dresdner Kleinwort Wasserstein was able to exploit its good relations and arranged the largest corporate acquisition ever made in Russia – the purchase of Sibneft by Gazprom, with a total volume of US$13.1 billion. Another success during fiscal 2005 was the structured financing of the investment by Rosneftgaz in Gazprom totalling US$7.5 billion.

2005. Allianz's increasing involvement in China – for example, through our acquisition of a stake in the Industrial and Commercial Bank of China (ICBC) – further consolidates our position.

Standing out from the crowd: Dresdner Bank's "Silver Tower" building in Frankfurt

Expert Advice You Can Bank On

Focus on the customer: Our offerings are the result of intensive discussions with our clients. We provide compelling tailored solutions that can only be offered by a leading integrated financial services provider.

Comprehensive Advice, Compelling Solutions

The Dresdner Bank brand communicates who we are and what we stand for. It conveys confidence to our private and corporate clients and promises professionalism, accessibility and innovative strength. As a provider of advice you can bank on, we are there for our clients whenever they need us. We are their strategic financial partner and offer compelling structured advisory processes.

Striking: The Dresdner Bank logo on the Gallileo building in Frankfurt

Advice you can bank on

Dresdner Bank possesses one of the strongest brands among Germany's major banks. As a provider of advice you can bank on, we are uniquely positioned in the marketplace and can offer our clients decisive advantages. At its core, our brand stands for trust and for three brand values: professional, accessible and progressive.

We are professional. For us, professionalism means that advice is our forte. Our comprehensive advice gives clients precisely the solution that fits their requirements, objectives and financial situation. We look beyond the present and take both the specific circumstances of our clients' lives and their future plans into account. For us, our clients' financial success is the highest dictum of professionalism.

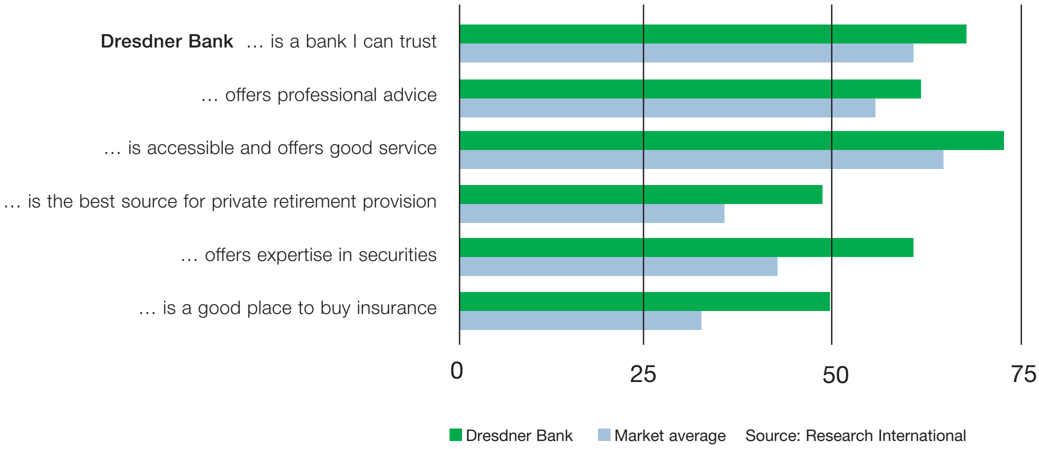
We are accessible. For us, accessibility means being customer-oriented. Dresdner Bank's advisors are always there when customers need them. They put a face on the brand and act as our clients' personal contacts on the ground. Our advisors listen and speak to be understood. Accessibility also means availability. We have the largest branch network of any major German bank.

We are progressive. For us, progressiveness means innovative strength. Existing solutions and achievements merely spur us on to find even better results. Today clients demand a financial partner who opens up opportunities for them while hedging their risks. Banking plus insurance from a single source is our answer: for example, when it comes to occupational pension schemes. We combine our superior advisory services with banking, asset management and insurance expertise to create a comprehensive solution.

Understanding. Our advisors listen in order to grasp the client's family or business situation in full. We ask our private clients about their plans for the future: marriage, children, property purchase, and asset management. In the case of corporate customers we are interested in their strategic positioning and the need for risk management, occupational pension schemes or capital markets-based financing models.

Our brand values compared

Information in per cent



Our advisory approach

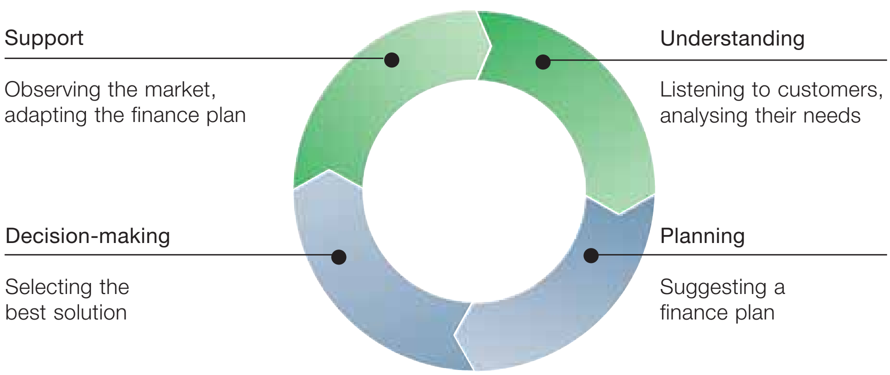
Our brand makes a promise to our clients - and Dresdner Bank's advisors deliver on it. We are a strategic finance partner and offer our clients – from young professionals to managing directors, from company founders to corporate heads – comprehensive advisory services for every stage of their personal and business lives. Our advisors break down their work for the client into the following four steps: understanding, planning, decision-making and support.

Planning. On the basis of this needs analysis, our advisors then prepare a finance plan. Our aim is to propose specific and individualised solutions to our customers. We compare our customers' wishes with their financial means, and structure their assets and liabilities. Our comprehensive advice may also go beyond this and integrate aspects such as: balancing private liquidity and business risk, making use of state subsidies, tax breaks, or business funding opportunities, or achieving the right balance between private and business finances.

To integrate all relevant aspects in the advisory process, our advisors for private customers, customer relationship managers for corporate customers as well as Allianz insurance experts collaborate closely. Other specialists in asset management, financing and transaction banking, as well as international business and corporate financing, supplement the advisory team as needed.

Support. As a financial partner with a long-term outlook, we are in continuous dialogue with our customers. We regularly review what models are needed for protecting or enhancing liquidity, assets, or the company's business. In the case of private customers we suggest reviewing the asset structure with us at least twice annually and, if necessary, adjusting the finance plan. In the case of our corporate customers we maintain a regular dialogue on market and industry trends.

Our advisory process



Decision-making. On the basis of the needs analysis and financing plan, our advisors implement all the steps needed to meet their customers' objectives. In order to make the best possible decisions, they have access to professional information sources. In selecting suitable solutions, they can draw on the support of Group experts who engage in ongoing analysis of markets and opinions, track trends, and draw conclusions from new laws and regulations.

Advice in practice

Lending advice. A young, unmarried couple, both just entering their professions, plan to move into a rented apartment together. To furnish it, they need a loan of €15,000. They can set aside €500 a month for interest and repayment of the principal. During their advisory session, their advisor at Dresdner Bank is interested first and foremost in their life plans and their savings habits to date. He finds that the couple also need a financial provision scheme and retirement planning. Ten minutes later, the loan is granted. But the advisor is thinking ahead. He suggests extending the repayment period to a good six years. This cuts the rate approximately in half, and the customers can put the financial resources now freed up towards occupational disability insurance, insurance cover for household and personal effects, and a Riester pension product.

Wealth management. A middle-aged married couple has inherited €50,000. One portion of the money is to be invested securely but with good returns for the education of their three children. They agree an appointment for an advisory session with their Allianz representative. Also on hand: a securities specialist from Dresdner Bank. He starts up the Dresdner-

Vermögens-Planung (asset planning) programme. All assets and liabilities are entered, and the couple's investment horizon and risk tolerance are established. The result of the advisory session is a recommendation to invest the entire inheritance in securities and to restructure the portfolio.

Advice for middle-market businesses. Studies show that only one-fifth of Germany's medium-sized enterprises have solid financing. Often there is a gap between the risk capital available and what is needed. In addition, Basel II is forcing banks to orient future credit terms even more consistently on the borrower risk when companies request loans. In other words, in future, entrepreneurs can actively influence their financing costs – through intelligent risk and liquidity management, optimum equity planning, hedging against interest and currency risks and bad depts, or advance lending on goods. Dresdner Bank's advisors see their clients' business and private finances from an integrated perspective.

International business advice. Market integration poses a variety of challenges for German companies: How can a deal with a partner in Argentina be securly financed? How do I protect my company from currency fluctuations? Who will insure a shipment from China? Experts estimate that every third German company engaged in foreign commercial business encounters serious difficulties with financing, insurance and quality control. Three issues, one contact. This is Dresdner Bank's end-to-end offering in association with Allianz and its partner, Société Générale de Surveillance (SGS). The specialists at Dresdner Bank are in charge of financing, documents and currency management. Allianz ensures that the goods have the most extensive insurance cover possible during shipping. SGS inspects and certifies the quality of the goods on the ground and ensures smooth delivery processes.

Festive: The consecration of Dresden's Frauenkirche

Social Responsibility

Dresdner Bank supports achievements that benefit our society for the long term. 2005 highlight: the consecration of Dresden's Frauenkirche. Dresdner Bank has been a major supporter since the reconstruction of the church began.

The Miracle of Dresden

The reconstruction of the Frauenkirche at the beginning of the 21st century is an unparalleled achievement in both material and spiritual terms, and one that is due to the dedication of the public. In the future as well, Dresdner Bank will do its part to ensure that this impressive accomplishment in the city of its birth remains a particular symbol of peace and encourages cultural exchange between generations to come.

Symbol of reconciliation and tolerance. For 15 years, hundreds of contractors and countless volunteers worked on it. About 600,000 private individuals, companies, initiatives and government organisations the world over made donations. What they all had in common was the unwavering determination to resurrect Dresden's baroque Frauenkirche as a symbol of reconciliation and tolerance in a manner faithful to the 1743 original.

Sixty years after its destruction during World War II, it was ready: on 30 October 2005, the Frauenkirche was ceremonially consecrated. 1,800 guests of honour and millions of people followed the event on the spot and on their radios and television sets as new life was breathed into the "Soul of Dresden". Private donors contributed more than €100 million, which represented over two thirds of the necessary construction costs of €131 million. This enormous willingness to donate infact made it possible for the Frauenkirche to dominate the skyline of Saxony's capital city again one year ahead of schedule. The global response elicited by Dresden's call for reconstruction on 13 February 1990 has no equal.

Dresdner Bank played a major role in the ambitious project. Bernhard Walter, the former spokesman of the Board of Managing Directors of Dresdner Bank, became the Chairman of the Advisory Board of the Frauenkirche Dresden Foundation in 1994. Its "donor certificates campaign" gathered almost

€70 million. The largest single private donation – amounting to €7 million – was made jointly by Dresdner Bank and its employees.

Foundation and Dresdner Bank to continue their work. The Frauenkirche Dresden Foundation will continue its work; and Dresdner Bank will continue to support it to the best of its ability. Its aim is to facilitate the activities of the Centre for Peace and Reconciliation in the Frauenkirche an – undertaking that is intended to channel the momentum achieved

Moving:
The consecration service for Dresden's Frauenkirche on 30 October 2005.

with the reconstruction towards international cooperation between nations, religions and cultures. The intention is to promote a rich cultural programme – featuring liturgical and secular musical programmes, tours and events, youth exchange programmes, lecture series and roundtables – as well as to maintain this miraculous structure.

New "donor certificates". The Foundation still relies on the generosity of citizens. In a major new "donor certificate campaign", Dresdner Bank, as one of the Foundation's partners, is calling on the public, companies and institutions to renew and continue their exemplary commitment. All donations are welcome. And all are an important contribution towards greater peace, reconciliation and tolerance. Dresdner Bank is contributing its expertise and making staff available. For donations of €300 and above, there is a new form of donor certificate in connection with paintings and photographic art. It is still possible to adopt stones used in the reconstruction or pews. This is supplemented by a personal entry in the recently created "directory of donors".

The reconstruction in figures

1945: The Frauenkirche collapses on 15 February in the wake of the bombing of Dresden

1990: "Call from Dresden" – Citizens call for reconstruction

1994: "Advisory Board of the Frauenkirche Dresden Foundation" formed. Chairman: Bernhard Walter

1995 to 2005: Dresdner Bank collects roughly €70 million of the total of €131 million needed.

2005: Ceremonial consecration on 30 October.

2006: Dresdner Bank collects additional donations for the Frauenkirche

Focussed: Dresdner Bank’s headquarters in Frankfurt

Financial Report 2005

Michael Diekmann,
Chairman of the Supervisory Board

Ladies and Gentlemen,

In fiscal year 2005, 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 Board of Managing Directors. It was informed in writing and verbally by the Board of Managing Directors in a regular, comprehensive and timely manner of the intended business strategies and other fundamental issues concerning 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.

In its three regular meetings, the Supervisory Board was informed by the Board of Managing Directors of 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 further developments to the Bank's business model, especially the new strategic organisation of the future Private & Business Clients and Corporate & Investment Banking divisions. The Supervisory Board was also informed in all meetings of the status of the Neue Dresdner Plus programme. In connection with the expansion of the consumer lending business, the Supervisory Board discussed the extension of the cooperation with Dresdner Cetelem Kreditbank GmbH proposed by the Board of Managing Directors. In addition, the Supervisory Board discussed the disposal of non-strategic investments and the disposal of a real estate portfolio belonging to the Bank. Where necessary, the Supervisory Board approved the measures concerned.

The Board of Managing Directors submitted regular reports on the extent to which Group risk frame limits had been utilised. The Supervisory Board also examined aspects of risk control within the Group, as in the past, and addressed in particular the key figures used for long-term planning. The report on the main findings of the internal audit required for regulatory purposes was submitted to the Supervisory Board by the Board of Managing Directors.

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 separate declaration of compliance with the Code due to the Bank's integration into 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 (Präsidium), the Credit and Risk Committee, the Operations Committee (Betriebsausschuss), and the Mediation Committee in accordance with section 27 (3) of the German Co-determination Act (Mitbestimmungsgesetz). The former Accounts Committee (Bilanzausschuss) was replaced by an Audit Committee after its meeting in fiscal year 2005.

The Executive Committee met on three occasions in fiscal year 2005 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 three 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 credit risk strategy, loan portfolio structure, risk management and exposures subject to particular risks. The Operations Committee of the Supervisory Board also met three times in fiscal year 2005. It considered structural, organisational, social and other internal issues. At the 2005 meeting of the Accounts Committee, Dresdner Bank's single-entity and consolidated financial statements as at 31 December 2004 were discussed. The newly established Audit Committee addressed the tasks entrusted to it by the Supervisory Board, in particular the review of the quarterly statements. A meeting of the Mediation Committee was not required. The full Board was informed regularly of 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 2005 financial statements and management report of Dresdner Bank AG, prepared in accordance with the HGB (German Commercial Code), and the 2005 consolidated financial statements and group management report of the Dresdner Bank Group, prepared in accordance with the IFRSs, were audited by KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, the auditors elected by the Annual General Meeting. They were 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 Audit 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 2005, 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 2006, the Supervisory Board therefore approved the single-entity financial statements and the consolidated financial statements. The single-entity financial statements are thereby adopted. We concur with the proposal for the appropriation of distributable profit made by the Board of Managing Directors.

In addition, the Board of Managing Directors presented to the Supervisory Board the dependent company report in accordance with section 312 of the German Stock Corporation Act (Aktiengesetz) and 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 the factual statements in the report are correct, the consideration given by the company in relation to the transactions specified in the report was not unreasonably high, 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 company 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 company report.

The composition of the Supervisory Board changed in fiscal year 2005 as follows: Bernhard Enseling resigned his position as an employee representative on the Supervisory Board with effect from 31 October 2005. Thomas Fröhlich, an elected substitute member, was installed as his successor on 1 November 2005.

The following changes to the Board of Managing Directors took place in fiscal year 2005: The Supervisory Board accepted the resignation of Andrew Pisker as a member of the Board of Managing Directors with effect from 24 November 2005 and of Dr. Andreas Leimbach, who had been appointed as a member of the Board of Managing Directors with effect from 15 November 2005. Karl Ralf Jung retired at the end of his term of office with effect from 31 December 2005. The Supervisory Board would like to thank all these gentlemen for their work for the Bank. Dr. Stefan Jentzsch was appointed as a member of the Board of Managing Directors with effect from 24 November 2005.

The Supervisory Board would like to thank all Bank employees for their work.
Frankfurt am Main, 8 March 2006

THE SUPERVISORY BOARD

Michael Diekmann
Chairman of the Supervisory Board

Group Management Report

Dresdner Bank is one of the leading commercial banks in Germany. Together with its subsidiaries, Dresdner Bank provides private and corporate clients within Germany and abroad with a broad range of banking products and financial services. In doing so, the Bank competes with other financial service providers. Dresdner Bank has a network of 906 domestic branch offices and is represented in all key financial centres outside Germany.

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

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

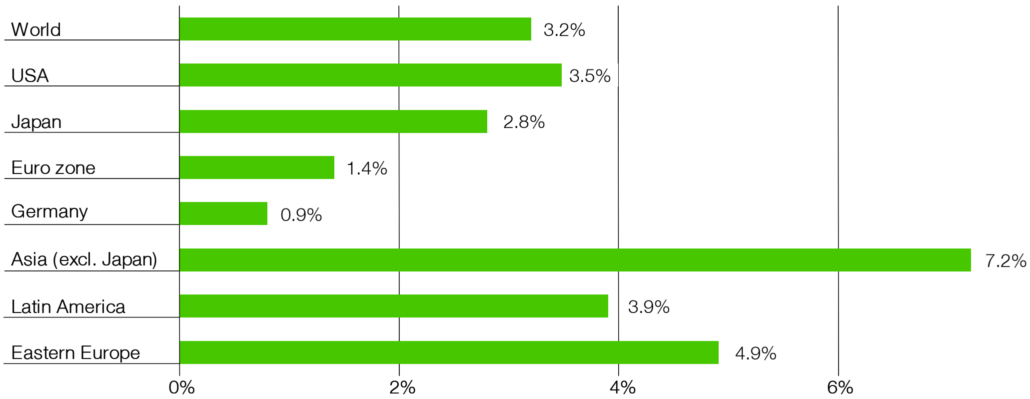
Dresdner Bank conducts banking business as defined by section 1 of the Kreditwesengesetz (KWG – German Banking Act). This consists of lending and deposits, payment transactions, as well as securities and custody business. As part of the Allianz Group, Dresdner Bank also distributes life, health and non-life insurance products from the Allianz Group. In addition, the Bank is active in the investment business.

Dresdner Bank is a superordinated credit institution as defined by section 10a (2) KWG. The Bank prepares consolidated financial statements on the basis of International Financial Reporting Standards (IFRSs). These statements include 112 companies along with Dresdner Bank AG as the operating holding company. The Bank's fiscal year is the calendar year.

Macroeconomic Conditions

2005 was another good year for the global economy. Although the rise in global economic output of around 3% was not quite as strong as in 2004, it was nevertheless above the long-term average. Thus the stable upward trend is continuing. The global economy proved robust in the face of the boom in oil prices. The emerging economies in Asia as well as in Central and Eastern Europe also made more and more of a contribution to global economic growth. Above all, China is increasingly turning into an economy that shapes global economic events. However, the most important global economic growth driver, due to its substantial economic weight, was once again the US economy with 3.5% growth.

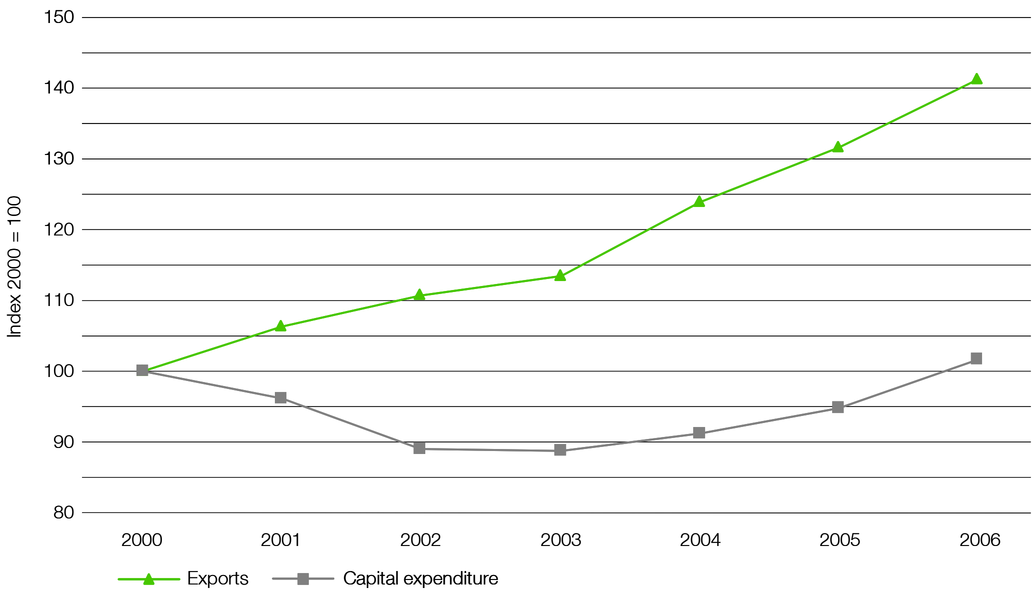
Global economic growth in 2005



The pronounced imbalances in national budgets and foreign trade continued to be a cause for concern. All the major economies recorded high public sector deficits. The USA's current account deficit increased, whereas Japan, China and Germany recorded substantial foreign trade surpluses. In this environment the robust performance of the US economy dominated exchange rate movements. Over the course of the year, the US dollar climbed back significantly from its low against the euro at the beginning of the year.

With growth of 1.4%, Europe was again unable to keep up with the dynamic pace set by other regions in 2005. Nevertheless, here too the upward economic trend remained relatively stable despite the high oil prices. Pressures on the economy from exchange rates eased as the euro weakened. However, the moderate economic growth was not sufficient to bring about a sustained revival of the labour market. The German economy was no exception; however, the difference between its dynamic exports and sluggish domestic demand was more pronounced than the European average. In particular, private consumption again failed to gain momentum in 2005. As a result, Germany's growth of 0.9% still lagged the rest of the euro zone. However, the picture brightened up in the second half of 2005. Corporate earnings recovered and there were signs that capital expenditure is picking up in the face of strong exports.

Germany: Exports jump-start capital expenditure



On the capital markets, investors' reservations eased gradually in 2005. On the whole, bond markets were upbeat. Yields on long-term government bonds in the euro zone dropped to significantly below those in the USA and reached temporary record lows. Strong liquidity due to the long period of expansionary monetary policies was a major factor here. The spread between the short and long ends of the market narrowed over the course of the year in both the USA and Europe.

This favourable interest rate environment on the one hand and strong growth in corporate earnings on the other gave the European equity markets a positive boost. Following a now largely completed period of corporate balance sheet consolidation, the German equity market saw a disproportionately strong rise in comparison to the European average. This positive development also led to a significant revival of capital market activity. With the number of IPOs doubling compared to the previous year, the German equity market re-emerged in 2005 as an attractive source of funding after years of abstinence. Takeover activity also picked up substantially again. Good profits, converging markets and rising valuations are a reason for many companies to give more emphasis to growth strategies.

After a generally weak phase in recent years, a sizeable number of commercial real estate locations in Europe are showing signs of a moderate recovery. Trends on the European residential real estate markets, however, continue to be much more differentiated on average. For example, the residential housing market remained extremely weak in Germany in 2005, while once again exhibiting growth in France, Spain and the UK, among other countries. Prices in these recent boom markets appear to be settling down now. Because of the low level of rents in Germany compared with other countries and generally attractive prices for real estate, global financial investors are becoming increasingly interested in the real estate market here.

Against this overall economic background, banks in Germany continued their upward trend in 2005, thus finally closing the most difficult chapter in the history of German banking since the end of the Second World War. The level of loan loss provisions and impairment losses largely returned to normal in 2005, after substantial non-operating expenses in the preceding years had led to losses.

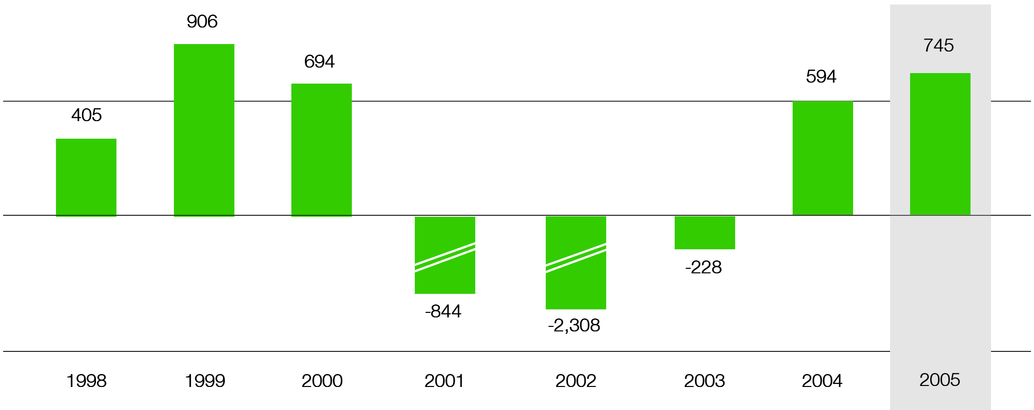
Moreover, thanks to intensive cost-cutting, improved risk management and the strategic realignment of many of their areas of business, the major banks in particular made good progress: their efficiency and productivity have improved over the last twelve months. With the gradual rise in demand for loans in the second half of the year, they were in a position for the first time in three years to expand their volume of business.

Despite these signs of a gradual recovery in demand, net interest and current income in both the lending and deposit-taking business suffered under the severe ongoing pressure on prices. This reflected the substantial increase in competition in a European market characterised by financial market integration and the trend towards consolidation. In contrast to the interest rate business, the fee and commission business benefited from the rise in trading activities and new issues sparked off by the price rises over the year on both the equity and bond markets, as well as from inflows of funds into the asset management business.

Business Development

Dresdner Bank further improved its earnings capacity in fiscal year 2005 and generated an operating result of €745 million – the best in the past six years. We can thus be satisfied with our business development given the situation in the economy as a whole and the banking sector in particular.

Operating result
€m



The Bank improved its net income after taxes – adjusted for the positive effect of the retrospective application of IAS 39 – from €74 million in 2004 to €533 million in 2005. This represents a contribution towards the consolidated net income of Allianz's Banking segment of €996 million (previous year: €164 million). With this, Dresdner Bank covered its cost of capital and hence achieved its primary goal for 2005. This generally encouraging improvement puts us in a position to propose to the Annual General Meeting the payment of a dividend of €809 million.

We significantly improved income before taxes in each of our **strategic divisions** – Personal Banking, Private & Business Banking, Corporate Banking and Dresdner Kleinwort Wasserstein (DrKW). Particularly encouraging for the Private & Business Banking and Corporate Banking divisions was that they were able to lift last year's already strong figures by 67% to €473 million (previous year: €283 million) and by 17% to €547 million (previous year: €468 million) respectively. Personal Banking was also able to substantially improve on its slight loss before taxes last year of €27 million with income before taxes of €225 million, a rise of €252 million. Despite the difficult environment on the capital markets in the second quarter of 2005, DrKW succeeded in increasing income before taxes to €210 million (previous year: €131 million).

We also made satisfactory progress in our **non-strategic business areas** – the Institutional Restructuring Unit (IRU) and Corporate Investments. We had bundled non-strategic and non-performing loans, as well as selected restructuring activities, in the IRU at the beginning of 2003. This unit succeeded in completing its work earlier and at a lower cost than had been planned. The IRU accordingly ceased operations on 30 September and transferred the remaining tasks back to the strategic divisions. The most important transactions carried out by the IRU in fiscal 2005 included the disposal of non-performing loan portfolios in Germany to external investors, the disposal of our private equity business and the restructuring of our Latin American business including our subsidiary Dresdner Bank Lateinamerika AG.

We also succeeded in further significantly reducing our non-strategic investment portfolio in our Corporate Investments division. The most important transactions included the disposal of Allianz and Munich Re shares held by us, which we completed at the beginning of the year. This formed part of a capital market transaction with Allianz. Under the retrospective application of the revised IAS 39 (see also “Basis of Accounting” in the Notes), these transactions resulted in a one-time factor in the result from investment securities; we have adjusted the comparative figures for the previous year and the key figures to make this transparent. We placed our 25% investment in the Bilfinger Berger AG construction group in the second quarter. In the fourth quarter of 2005, we sold our investment in Eurohypo AG to Commerzbank. 7.35% was transferred in December, with the rest to follow in spring 2006. As part of the optimisation of our real estate portfolio, we sold our units in Dresdner Grund Fonds, and with them around 300 properties mainly used by the Bank itself, to an external investor. We have signed long-term leases with the buyer.

Streamlining our non-strategic portfolio freed up capital, placing it at the Bank's disposal for growth initiatives and the expansion of its core business. To optimise our capital management, we changed the basis for calculating regulatory capital from local accounting to IFRSs. This led to a substantial improvement in capital ratios compared with previous disclosures.

The Board of Managing Directors resolved in November 2005 to refocus our business model and organisational structures to ensure that Dresdner Bank remains on course for profitability and growth against a background of increasing levels of competition, rising client expectations and the organisational changes within the Allianz Group. This strategic realignment was presented to the Supervisory Board in November 2005. The “Neue Dresdner Plus” programme is aimed at bringing our business activities together in two divisions and bundling selected internal services into a new “Banking Services” unit. The intention is furthermore to align management and control functions more efficiently with overall bank management tasks.

We shall further differentiate our offerings and expand our geographical presence in the new **“Private & Business Clients”** division. That is why we are clearly separating the responsibility for sales on the one hand, and products and target group management on the other. Our products are broken down into Daily Banking, Investments, Loans and Insurance. In our target group units, these products are bundled to produce four specific offerings: Personal Banking, Private Banking, Business Banking and Wealth Management. In this way, we are aiming for an increasing share of potential earnings from the growth areas of financial provision, wealth and real estate in particular. With respect to our sales operations, we continue to rely on our branch network and the Allianz agencies.

The new **"Corporate & Investment Banking"** division is designed to integrate our corporate client franchise even more closely with our capital markets know-how. In this way, we aim to exploit the market potential in this business even more efficiently – especially in the areas of capital markets solutions and corporate finance products. Our target customers here include large caps and mid-caps, multinationals and institutional clients.

The consistent modernisation of our platforms and backoffice functions will provide support for these measures. Bringing together selected internal services into the new **"Banking Services"** unit is aimed in particular at making those processes that can be industrialised faster and more efficient and thus at achieving cost savings. We also expect to see a further improvement in the efficiency of the Bank's overall management as a result of bundling the management and control functions together. We aim to implement the measures under the "Neue Dresdner Plus" profitability and growth programme by the end of 2008.

Employees

As at 31 December 2005, Dresdner Bank employed 34,208 people including 1,369 vocational trainees. This represents a decline of 1,738 employees as against year-end 2004.

	31/12/2005	**31/12/2004**	**Change**	
			absolute	%
Dresdner Bank Group	34,208	35,946	-1,738	-4.8
– Germany	28,132	29,718	-1,586	-5.3
– Other countries	6,076	6,228	-152	-2.4
Dresdner Bank AG	24,000	25,258	-1,258	-5.0
– Germany	23,473	24,820	-1,347	-5.4
– Other countries	527	438	89	20.3

Calculated as full-time equivalents, the number of employees (excluding vocational trainees) amounted to 28,774, after 30,154 in the previous year. The following table shows the number of employees per division as at 31 December 2005:

	31/12/2005	**31/12/2004**	**Change**	
			absolute	%
Personal Banking	9,694	10,153	-459	-4.5
Private & Business Banking	3,553	3,592	-39	-1.1
Corporate Banking	1,879	1,926	-47	-2.4
Dresdner Kleinwort Wasserstein	5,227	5,190	37	0.7
Institutional Restructuring Unit	–	1,027	-1,027	
Functions[1)]	8,421	8,266	155	1.9
Total	**28,774**	**30,154**	**-1,380**	**-4.6**

[1)] Not including staff from back office functions who are directly allocated to the divisions.

In view of the constantly increasing requirements, our employees' qualifications are critically important to the Bank's success. Employee development and training is thus a key component of the Bank's human resources policy. Our training offering covers the provision of specialist, communication and sales skills on the one hand as well as leadership and management skills on the other.

Value-based Management

The Dresdner Bank Group is managed using a value-driven approach. The key measure applied in this approach is Economic Value Added (EVA) – the difference between the normalised net income after taxes and the cost of capital of the average net asset value, or the average risk capital for the organisational units. Value is added if the normalised net income after taxes exceeds the cost of capital.

In addition to the prescribed cost of capital rate, value-based management is based on the risk capital allocated to the individual divisions. The risk capital requirements of the respective divisions are calculated on the basis of internal models, using methods that have been agreed with Allianz. A distinction is made between credit and counterparty risk, market risk (including investment risk) and business and operational risk.

The preparatory work on the allocation of risk capital to the divisions is performed by the Capital & Treasury Committee; the allocation is resolved by the Bank's Board of Managing Directors. The Capital & Treasury Committee includes the Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and the Chief Risk Officer (CRO).

Consolidated Net Income

The Dresdner Bank Group generated net income of €1,710 million in fiscal year 2005 (previous year: €206 million). After adjustment for the one-time factors resulting from the retroactive application of the new rules under the revised IAS 39 in the amount of €1,253 million, net income after taxes amounted to €533 million (previous year: €74 million).

Table 1	**2005**	**2004**	**Change**	
	€m	€m	€m	%
Net interest and current income	2,221	2,271	-50	-2.2
Net fee and commission income	2,610	2,563	47	1.8
Net trading income	1,104	1,500	-396	-26.4
Operating income	**5,935**	**6,334**	**-399**	**-6.3**
Administrative expenses	5,303	5,403	-100	-1.9
Loan loss provisions	-113	337	-450	
Operating result	**745**	**594**	**151**	**25.4**
Other operating income/expenses	-20	-199	179	89.9
Result from investment securities	1,452	142	1,310	>+100.0
Amortisation of and impairment losses on goodwill	2	124	-122	-98.4
Restructuring charges	12	290	-278	-95.9
Income before taxes	**2,163**	**123**	**2,040**	**>+100.0**
Tax expense	377	-142	519	
Income after taxes	**1,786**	**265**	**1,521**	**>+100.0**
Income attributable to minority interests	76	59	17	28.8
Net income for the year	**1,710**	**206**	**1,504**	**>+100.0**

Operating income at the Dresdner Bank Group amounted to €5,935 million (previous year: €6,334 million). This equates to a decline of around 6%. After adjustment for the decline in income from the Institutional Restructuring Unit in 2005, the transfer last year of Asset Management to Allianz and remeasurement gains and losses under IAS 39 (hedge accounting), operating income was up just under 4% on the previous year. After the deduction of administrative expenses and loan loss provisions, the Bank generated an operating result of €745 million. This represents a year-on-year increase of 25.4%. Adjusted for the IRU, the transfer last year of the asset management companies to Allianz and remeasurement gains and losses under IAS 39, the operating result amounted to €907 million. This represents a year-on-year increase of approximately 38%. Adjusted for the one-time factor of €1,253 million resulting from the retroactive application of the revised IAS 39, the non-operating result amounted to €165 million (previous year: €-680 million). After adjustment for taxes and income attributable to minority interests, the net income for the year amounted to €1,710 million (previous year: €206 million). €901 million of the net income for the year was added to retained earnings. We are proposing to the Annual General Meeting on 8 March 2006 that a dividend of €809 million be distributed.

The following table shows the effects on operating income arising from the Institutional Restructuring Unit, the transfer of the asset management companies to Allianz in the previous year and the remeasurement gains and losses under IAS 39.

Table 2	2005 €m	2004 €m	Change €m	%
Operating income	**5,935**	**6,334**	**-399**	**-6.3**
Effects of the transfer of Asset Management	–	-103		
Effects of the IRU	-70	-361		
Remeasurement gains/losses from the application of IAS 39 (hedge accounting)	207	-16		
Operating income (adjusted)	**6,072**	**5,854**	**218**	**3.7**

The following table shows the effects of the adjustment items on the operating result:

Table 3	2005 €m	2004 €m	Change €m	%
Operating result	**745**	**594**	**151**	**25.4**
Effects of the transfer of Asset Management	–	-20		
Effects of the IRU	-45	99		
Remeasurement gains/losses from the application of IAS 39 (hedge accounting)	207	-16		
Operating result (adjusted)	**907**	**657**	**250**	**38.1**

Overall, adjusting for these effects led to a year-on-year improvement in operating income of around 4% and in the operating result of around 38%.

Details of the individual income and expense items are as follows:

Net interest and current income

Net interest and current income amounted to €2,221 million, down slightly by around €50 million or 2.2% on the figure for the previous year. After adjustment for the decline in income from the IRU's non-strategic business, net interest and current income was up around 11% over the previous year.

Table 4	2005 €m	2004 €m	Change €m	%
Total interest and current income	7,222	6,481	741	11.4
Total interest expense	4,655	3,886	769	19.8
Remeasurement losses from the application of IAS 39 (hedge accounting)	-346	-324	-22	-6.8
Net interest and current income	**2,221**	**2,271**	**-50**	**-2.2**
Risk-weighted assets in the banking book (average)[1)]	104,950	102,432	2,518	2.5
Interest margin, %	**2.45**	**2.53**		

[1)] In accordance with BIS.

While current income from equities and gains/losses from the application of IAS 39 negatively impacted the result, there was an increase in income from land and buildings used by third parties, from finance leases and from associates. The overall interest margin for 2005 – calculated on the basis of the average risk-weighted assets held in the banking book in accordance with the Bank for International Settlements (BIS) and adjusted for the effect of remeasurement gains and losses from the application of IAS 39 – was 2.45% in 2005 (previous year: 2.53%).

Net fee and commission income

Net fee and commission income was 1.8% above the previous year at €2,610 million. Adjusted for reductions in income arising from the transfer of our foreign asset management companies to Allianz in the second half of 2004 and the IRU's non-strategic income, net fee and commission income was up around 8% over the comparable figure for the previous year.

Table 5	2005 €m	2004 €m	Change €m	 %
Securities business	1,191	1,102	89	8.1
Asset management	288	370	-82	-22.2
Mergers & acquisitions and underwriting business	315	250	65	26.0
Payment transactions	269	284	-15	-5.3
Foreign commercial business	143	151	-8	-5.3
Other	404	406	-2	-0.5
Net fee and commission income	**2,610**	**2,563**	**47**	**1.8**

The most important component of net fee and commission income was the income from the securities business. This amounted to €1,191 million (previous year: €1,102 million). We recorded growth in particular from our equities, investment funds and certificates business. Overall, the securities business contributed 46% of net fee and commission income.

Fees and commissions from our mergers & acquisitions and underwriting business – and especially from the former – rose 26.0% year on year to €315 million. Income from payment transactions as well as from foreign commercial business declined slightly year on year. Net fee and commission income from asset management amounted to €288 million, a year-on-year decline of around 22.2% or €82 million. This is primarily the result of the sale of our foreign asset management companies. As expected, income from the insurance business reported under the other item was unable to match the strong prior-year level, due to the expiring tax exemption on life insurance products. By contrast, income from the sale of closed-end funds rose by more than 50% year on year.

Net trading income

Net trading income was down year on year by 26.4%, at €1,104 million. There were two main reasons for this: firstly, we were faced with the negative impact on income of the difficult capital market environment in April and May already reported in our Interim Report as at 30 June 2005. Secondly, remeasurement gains from the application of IAS 39 declined by €201 million year on year, accounting for roughly half the drop in income.

Table 6	2005 €m	2004 €m	Change €m	 %
Trading in interest rate products	532	800	-268	-33.5
Trading in equities products	217	219	-2	-0.9
Foreign exchange and precious metals trading	222	150	72	48.0
Remeasurement gains from the application of IAS 39 (hedge accounting)	139	340	-201	-59.1
Remeasurement losses from application of the fair value option	-6	-9	3	33.3
Net trading income	**1,104**	**1,500**	**-396**	**-26.4**

As a result of the difficult market conditions in the second quarter, which saw several asset classes running counter to their previous trend and unexpected volatility in connection with turbulence on the market for corporate bonds, income from trading in interest rate products dropped to €532 million (previous year: €800 million). Trading in equities products (€217 million) was stable at the level of the previous year (€219 million). Income from foreign exchange and precious metals trading was encouraging, increasing by 48.0% and contributing €222 million to the total net trading income.

IAS 39

IAS 39 lays down strict criteria for the allocation of hedging derivatives to their respective underlyings. Accordingly, not all hedging derivatives qualify for hedge accounting under IAS 39. The remeasurement gains and losses for those hedging derivatives that do not qualify as hedges under IAS 39 are reported under net trading income.

The aggregate effect on the operating result of the application of IAS 39 – which produced contrary effects on net interest and current income and net trading income – amounted to €-207 million (previous year: €16 million). This led to a decline in the result year on year of €223 million.

Table 7	2005 €m	2004 €m	Change €m	 %
Net loss reported in net interest and current income	-346	-324	-22	-6.8
Net gain reported in net trading income	139	340	-201	-59.1
Overall effect of IAS 39	**-207**	**16**	**-223**	

Administrative expenses

Administrative expenses in the year under review fell by 1.9% to €5,303 million (previous year: €5,403 million). Total staff costs and non-staff operating costs were responsible for this decline in roughly equal parts.

Table 8	2005 €m	2004 €m	Change €m	 %
Total staff costs	3,261	3,314	-53	-1.6
Non-staff operating costs	2,042	2,089	-47	-2.2
Administrative expenses	**5,303**	**5,403**	**-100**	**-1.9**
Number of employees as at 31 December	34,208	35,946	-1,738	-4.8
Employees (FTEs) as at 31 December	28,774	30,154	-1,380	-4.6
Cost-income ratio, %	**89.4**	**85.3**		

A major factor in the lower total staff costs was the 2.7% drop in wages and salaries resulting from the lower annual average number of full-time equivalents as against the comparable period. In addition, restructuring of jubilee payments led to a one-time reduction in expenses as a result of the release of provisions in the second quarter. All in all, total staff costs fell by 1.6% or €53 million to €3,261 million. Non-staff operating costs also fell by a good 2% or €47 million year on year, to €2,042 million. This was largely due to lower IT costs and occupancy expenses as well as lower expenses for office furniture and equipment. The cost-income ratio was 89.4% (previous year: 85.3%).

Loan loss provisions

Loan loss provisions recorded a net release of €113 million in 2005, compared with a net addition of €337 million in the previous year.

Table 9	2005 €m	2004 €m	Change €m	 %
Specific loan loss provisions (net)	-45	548	-593	
Country risk provisions (net)	-7	-2	-5	250.0
General loan loss provisions (net)	38	-97	135	
Recoveries on loans previously written off	99	112	-13	-11.6
Loan loss provisions	**-113**	**337**	**-450**	

Measures to improve the quality of our loan portfolio succeeded in reducing the additions to specific loan loss provisions in 2005 by more than half. Along with the reduction in the non-strategic portfolio, a structural clean-up of the strategic loan portfolio also had a positive effect. With releases around 16% lower than the previous year, this led to a net release of specific loan loss provisions of €45 million. The specific loan loss ratio, based on the average lending volume, amounted to -0.05% (previous year: 0.56%). Owing to the steep drop in loans involving country risk in recent years, we were able to release a net amount of €7 million from country risk provisions. Additions to general loan loss provisions totalling €38 million were required in the year under review. Releases due to the ongoing improvement in the risk situation were more than offset by the allocation of the particular loan loss provisions for risks that were calculated for the first time. Recoveries on loans previously written off amounted to €99 million (previous year: €112 million).

Table 10	**2005** €m	**2004** €m	**Change** €m	 %
Additions to loan loss provisions	737	1,398	-661	-47.3
Amounts released	751	949	-198	-20.9
Recoveries on loans previously written off	99	112	-13	-11.6
Loan loss provisions	**-113**	**337**	**-450**	

Overall, additions to loan loss provisions declined by almost half year on year, falling €661 million or 47.3% to €737 million. By contrast, at €751 million, releases fell by only 20.9% year on year.

Table 11	**2005** €m	**2004** €m	**Change** €m	 %
Lending volume	98,532	97,074	1,458	1.5
Loan loss allowances	1,676	4,432	-2,756	-62.2
Risk elements[1)]	2,951	7,337	-4,386	-59.8
Loan loss ratio, %	-0.11	0.33		
Loan loss allowances ratio, %	1.7	4.6		
Coverage ratio, %	56.8	60.4		

[1)] Non-performing loans and potential problem loans.

After additions, releases and charge-offs, loan loss provisions totalled €1,676 million as at the reporting date. This corresponds to 1.7% of the lending volume. Overall, the successful €4.4 billion reduction in the global and highly diversified portfolio of non-performing loans to €3.0 billion led to a significant improvement in the quality of our entire loan portfolio. The coverage ratio, which represents the ratio of loan loss provisions to non-performing loans, stood at 56.8% (previous year: 60.4%).

Other operating income/expenses

Net other operating income/expenses improved year on year by €179 million to €-20 million.

Table 12	2005 €m	2004 €m	Change €m	%
Other operating income	284	268	16	6.0
Other operating expenses	304	467	-163	-34.9
Other operating income/expenses	**-20**	**-199**	**179**	**89.9**

Other operating income rose slightly by €16 million to €284 million. This includes reimbursement for the costs of services provided within the Group, income from the sale of a regional business unit, and income from the disposal of loans and advances. Other operating expenses fell by around 35% to €304 million and mainly encompass provisions relating to the reorganisation of our use of office space. This item also includes expenses for pension plans, expenses arising from the disposal of properties and buildings, and expenses relating to own instruments issued.

Result from investment securities

The result from investment securities amounted to €1,452 million in 2005, after €142 million in 2004.

Table 13	2005 €m	2004 €m	Change €m	%
Net realised gains and losses	1,652	609	1,043	>+100.0
Remeasurement result	-200	-467	267	57.2
Result from investment securities	**1,452**	**142**	**1,310**	**>+100.0**

This includes the items reported in income resulting from the revised IAS 39 (see also "Basis of Accounting" in the Notes) in connection with the sale of our Allianz and Munich Re shares; these totalled €1,253 million for 2005 and €209 million for the previous year. After adjustment, the result from investment securities amounted to just under €200 million, following €-67 million in the previous year. The result from investment securities included gains on the disposal of non-strategic investments. These comprised in particular the sale of our investment in the Bilfinger Berger AG construction group in the second quarter of 2005, private equity activities, and the first tranche of our shares in Eurohypo AG. The gain on the disposal of units in a real estate fund whose portfolio primarily comprised properties used by the Bank was also included in this item. In addition to these disposal gains realised in the year under review, significantly lower write-downs on land and buildings used by third parties were required than in the previous year.

Amortisation of and impairment losses on goodwill

Amortisation of and impairment losses on goodwill stood at €2 million (previous year: €124 million). In accordance with IFRS 3, goodwill is no longer amortised, in contrast to the previous year. Consequently, the amount reported in the year under review represents an impairment loss.

Restructuring charges

We reported restructuring charges of €12 million for the year under review. The expenses for “2005 programmes” amounting to €23 million, which mainly affected the Bank's functions, were partially offset by releases of existing provisions under the “Neue Dresdner” programme and other programmes. These measures should be largely completed by the end of 2006.

Table 14	2005 €m	2004 €m	Change €m	 %
2005 programmes	23	–	23	
“Neue Dresdner” programme	-4	96	-100	
Other programmes	-7	194	-201	
Restructuring charges	**12**	**290**	**-278**	**-95.9**

Tax expense

We reported a tax expense of €377 million for the year under review (previous year: tax benefit of €142 million). The main reason for this change was the rise in domestic taxable income, which not only led to a higher current tax expense but also to a rise in deferred taxes.

Table 15	2005 €m	2004 €m	Change €m	 %
Current taxes	300	24	276	>+100.0
Deferred taxes	77	-166	243	
Tax expense	**377**	**-142**	**519**	

Segment Reporting

The table below shows the results for our divisions for fiscal year 2005. The segment reporting was based on the structure of the Group as it was in 2005.

Table 16 €m	Personal Banking	Private & Business Banking	Corporate Banking	Dresdner Kleinwort Wasserstein	Institutional Restructuring Unit	Corporate Investments	Consolidation & Adjustments	Group (total)
2005								
Net interest and current income	968	425	635	553	45	138	-543	2,221
Net fee and commission income	901	729	335	622	21	-7	9	2,610
Net trading income	14	25	57	927	4	–	77	1,104
Operating income	**1,883**	**1,179**	**1,027**	**2,102**	**70**	**131**	**-457**	**5,935**
Administrative expenses	1,584	690	461	1,927	162	19	460	5,303
Loan loss provisions	88	49	14	-29	-137	–	-98	-113
Operating result	**211**	**440**	**552**	**204**	**45**	**112**	**-819**	**745**
Other operating income/expenses	3	49	-3	-9	79	-9	-130	-20
Result from investment securities	6	–	-1	23	14	1,065	345	1,452
Amortisation of and impairment losses on goodwill	–	2	–	–	–	–	–	2
Restructuring charges	-5	14	1	8	-6	–	–	12
Income/loss before taxes	**225**	**473**	**547**	**210**	**144**	**1,168**	**-604**	**2,163**
Change year on year	252	190	79	79	341	1,301	-202	2,040
Risk capital (average)	1,000	600	1,500	2,100	500	2,100	-200	7,600
Risk-weighted assets (average)	24,800	10,800	21,300	40,500	2,100	5,700	2,900	108,100
2004								
Net interest and current income	999	431	626	360	311	-92	-364	2,271
Net fee and commission income	836	692	331	549	53	-3	105	2,563
Net trading income	11	23	56	1,136	-3	2	275	1,500
Operating income	**1,846**	**1,146**	**1,013**	**2,045**	**361**	**-93**	**16**	**6,334**
Administrative expenses	1,646	744	479	1,828	286	17	403	5,403
Loan loss provisions	138	76	54	-1	174	–	-104	337
Operating result	**62**	**326**	**480**	**218**	**-99**	**-110**	**-283**	**594**
Other operating income/expenses	1	-8	4	-8	-143	2	-47	-199
Result from investment securities	7	2	2	21	128	-25	7	142
Amortisation of and impairment losses on goodwill	14	16	1	56	10	–	27	124
Restructuring charges	83	21	17	44	73	–	52	290
Income/loss before taxes	**-27**	**283**	**468**	**131**	**-197**	**-133**	**-402**	**123**
Risk capital (average)	1,000	600	1,700	1,900	1,400	2,100	-100	8,600
Risk-weighted assets (average)	24,800	10,700	22,400	30,700	6,700	7,900	3,500	106,700

Personal Banking

The Personal Banking division generated an operating result of €211 million. This represents a significant year-on-year improvement of €149 million. Income before taxes amounted to €225 million (previous year: loss of €27 million).

Table 17	2005	2004	Change	
	€m	€m	€m	%
Net interest and current income	968	999	-31	-3.1
Net fee and commission income	901	836	65	7.8
Net trading income	14	11	3	27.3
Operating income	**1,883**	**1,846**	**37**	**2.0**
Administrative expenses	1,584	1,646	-62	-3.8
Loan loss provisions	88	138	-50	-36.2
Operating result	**211**	**62**	**149**	**>+100.0**
Other operating income/expenses	3	1	2	>+100.0
Result from investment securities	6	7	-1	-14.3
Amortisation of and impairment losses on goodwill	–	14	-14	
Restructuring charges	-5	83	-88	
Income/loss before taxes	**225**	**-27**	**252**	
Cost-income ratio, %	84.1	89.2		
Loan loss ratio, %	0.36	0.56		
Return on equity before taxes[1], %	22.0	7.0		
Risk capital (average)	1,000	1,000	0	0.0
Risk-weighted assets (average)	24,800	24,800	0	0.0

[1] Income/loss before taxes, amortisation of and impairment losses on goodwill and restructuring charges as a percentage of the average risk capital.

Net interest and current income amounted to €968 million (previous year: €999 million). The drop is mainly due to lower income from the lending business generated against the backdrop of the ongoing intensely competitive market environment. Net fee and commission income rose year on year by a clear 7.8% to €901 million. As expected, the life insurance business reported a drop in income in the year under review as a result of strong pull-forward effects in 2004. Nevertheless, developments in this product segment were encouraging, with the sale of so-called Riester pension products [named after the former Labour Minister] playing a major role. However, growth in the securities business and in closed-end funds more than made up for the trend in the life insurance business. The cooperation with Allianz also had a positive effect: sales of Bank products by Allianz agencies rose year on year in terms of both volume and income. At €1,883 million, total operating income exceeded the previous year's level by 2.0%.

Administrative expenses were cut by a further 3.8% as a result of cost management measures, and in particular a further reduction in headcount. As a result, the cost-income ratio improved by 5.1 percentage points to 84.1%. Loan loss provisions were significantly reduced to €88 million thanks to ongoing strict credit risk management. The non-operating result also developed positively, due largely to the discontinuation of goodwill amortisation and the absence of the substantial restructuring charges incurred in the previous year. All in all, total income before taxes rose by €252 million to €225 million (previous year: loss of €27 million). The return on equity before taxes amounted to 22.0% (previous year: 7.0%).

Private & Business Banking

The Private & Business Banking division improved its operating result year on year by 35.0% to €440 million. Income before taxes amounted to €473 million. This represents an increase of 67.1%.

Table 18	2005 €m	2004 €m	Change €m	 %
Net interest and current income	425	431	-6	-1.4
Net fee and commission income	729	692	37	5.3
Net trading income	25	23	2	8.7
Operating income	**1,179**	**1,146**	**33**	**2.9**
Administrative expenses	690	744	-54	-7.3
Loan loss provisions	49	76	-27	-35.5
Operating result	**440**	**326**	**114**	**35.0**
Other operating income/expenses	49	-8	57	
Result from investment securities	–	2	-2	
Amortisation of and impairment losses on goodwill	2	16	-14	-87.5
Restructuring charges	14	21	-7	-33.3
Income/loss before taxes	**473**	**283**	**190**	**67.1**
Cost-income ratio, %	58.5	64.9		
Loan loss ratio, %	0.45	0.72		
Return on equity before taxes[1], %	81.5	53.3		
Risk capital (average)	600	600	0	0.0
Risk-weighted assets (average)	10,800	10,700	100	0.9

[1] Income/loss before taxes, amortisation of and impairment losses on goodwill and restructuring charges as a percentage of the average risk capital.

Net interest and current income of €425 million was stable year on year. The effect on income of the scheduled reduction in risks in the lending business partly offset growth in the deposit business. Net fee and commission income increased further to €729 million, exceeding the figure for the previous year by 5.3%. The positive development in the investment business and in the sale of special investment products and closed-end funds was further reinforced in the fourth quarter. As expected, however, our life and pension insurance business, which had been boosted in the previous year by changes in the general tax regime, fell year on year. By contrast, there was a significant increase in the business transacted in Riester pension products. Premium volumes rose here by 6% year on year. Operating income rose by 2.9% overall to €1,179 million.

Administrative expenses clearly declined year on year, to €690 million; major contributory factors here included the optimisation of the division's sales-support units as well as the effects of the implementation of the "Neue Dresdner" programme. The cost-income ratio improved year on year by 6.4 percentage points to 58.5%. Loan loss provisions, helped by strict streamlining of the loan portfolio and the use of state-of-the-art risk analysis tools, were 35.5% below those for the previous year. The increase in the operating result – along with positive effects from the disposal of non-European business activities in the second quarter – resulted in an improvement in income before taxes of 67.1% to €473 million. The return on equity before taxes amounted to 81.5% (previous year: 53.3%).

Corporate Banking

The Corporate Banking division increased its operating result by 15.0% to €552 million in 2005. Income before taxes improved by €79 million or 16.9% to €547 million.

Table 19	2005 €m	2004 €m	Change €m	 %
Net interest and current income	635	626	9	1.4
Net fee and commission income	335	331	4	1.2
Net trading income	57	56	1	1.8
Operating income	**1,027**	**1,013**	**14**	**1.4**
Administrative expenses	461	479	-18	-3.8
Loan loss provisions	14	54	-40	-74.1
Operating result	**552**	**480**	**72**	**15.0**
Other operating income/expenses	-3	4	-7	
Result from investment securities	-1	2	-3	
Amortisation of and impairment losses on goodwill	–	1	-1	
Restructuring charges	1	17	-16	-94.1
Income/loss before taxes	**547**	**468**	**79**	**16.9**
Cost-income ratio, %	44.9	47.3		
Loan loss ratio, %	0.07	0.24		
Return on equity before taxes[1], %	36.5	28.6		
Risk capital (average)	1,500	1,700	-200	-11.8
Risk-weighted assets (average)	21,300	22,400	-1,100	-4.9

[1] Income/loss before taxes, amortisation of and impairment losses on goodwill and restructuring charges as a percentage of the average risk capital.

Despite the continuing weak economic environment, operating income once again exceeded the €1 billion mark. Net interest and current income of €635 million reached the level of the previous year. Higher levels of deposits and business successes at our foreign subsidiaries more than made up for the loss of income from the decline in risk-weighted assets. Net fee and commission income and net trading income also remained stable at the previous year's level, despite increasing competition. This was primarily due to successful sales of structured interest rate and currency products.

The 3.8% decline in administrative expenses demonstrates the success of the measures taken to improve efficiency and manage operating costs. The cost-income ratio improved by 2.4 percentage points to 44.9%. Loan loss provisions fell as a result of targeted credit risk management and the risk-oriented management of the business to €14 million. Income before taxes rose by 16.9% to €547 million. The return on equity before taxes reached 36.5%, following 28.6% in the previous year.

Dresdner Kleinwort Wasserstein

The Dresdner Kleinwort Wasserstein (DrKW) division generated an operating result in 2005 of €204 million, after €218 million in the previous year. Income before taxes amounted to €210 million (previous year: €131 million).

Table 20	2005 €m	2004 €m	Change €m	 %
Net interest and current income	553	360	193	53.6
Net fee and commission income	622	549	73	13.3
Net trading income	927	1,136	-209	-18.4
Operating income	**2,102**	**2,045**	**57**	**2.8**
Administrative expenses	1,927	1,828	99	5.4
Loan loss provisions	-29	-1	-28	<-100.0
Operating result	**204**	**218**	**-14**	**-6.4**
Other operating income/expenses	-9	-8	-1	-12.5
Result from investment securities	23	21	2	9.5
Amortisation of and impairment losses on goodwill	–	56	-56	
Restructuring charges	8	44	-36	-81.8
Income/loss before taxes	**210**	**131**	**79**	**60.3**
Cost-income ratio, %	91.7	89.4		
Loan loss ratio, %	-0.08	-0.00		
Return on equity before taxes[1], %	10.4	12.2		
Risk capital (average)	2,100	1,900	200	10.5
Risk-weighted assets (average)	40,500	30,700	9,800	31.9

[1] Income/loss before taxes, amortisation of and impairment losses on goodwill and restructuring charges as a percentage of the average risk capital.

A major contributor to the growth in operating income of around 3% to €2,102 million was the increase in net interest and current income to €553 million. This was due in particular to a rise in risk-weighted assets in connection with structured finance transactions. Commission-earning business increased by 13.3% to €622 million. This was due to a clear upturn in the capital markets and mergers & acquisitions business as well as increased income from sales activities. A decline in net trading income – both from trading in equities as well as in interest rate products – had a negative effect on income. This was due to the difficult market environment in the first two months of the second quarter. By contrast, net trading income picked up substantially again in the second half of the year. Overall, there was an encouraging increase in client business in the year under review.

The rise in administrative expenses to €1,927 million (previous year: €1,828 million) was mainly a result of higher performance-related pay and one-time expenses relating to decisions on the realignment of the business model at the end of 2005. The cost-income ratio rose to 91.7% (previous year: 89.4%). Net loan loss provisions of €29 million were released, after €1 million in the previous year. The non-operating result improved by €93 million, which was primarily due to the discontinuation of goodwill amortisation and significantly lower restructuring charges. The division posted income before taxes amounting to €210 million (previous year: €131 million). The return on equity before taxes amounted to 10.4% (previous year: 12.2%).

Institutional Restructuring Unit

The activities of the Institutional Restructuring Unit (IRU) were discontinued at the end of September 2005 and the outstanding residual portfolios were transferred to the strategic divisions. The IRU generated an operating result of €45 million for fiscal year 2005, as against €-99 million in the previous year. Income before taxes improved by €341 million to €144 million.

Table 21	2005 €m	2004 €m	Change €m	%
Net interest and current income	45	311	-266	-85.5
Net fee and commission income	21	53	-32	-60.4
Net trading income	4	-3	7	
Operating income	**70**	**361**	**-291**	**-80.6**
Administrative expenses	162	286	-124	-43.4
Loan loss provisions	-137	174	-311	
Operating result	**45**	**-99**	**144**	
Other operating income/expenses	79	-143	222	
Result from investment securities	14	128	-114	-89.1
Amortisation of and impairment losses on goodwill	–	10	-10	
Restructuring charges	-6	73	-79	
Income/loss before taxes	**144**	**-197**	**341**	
Cost-income ratio, %	231.4	79.2		
Loan loss ratio, %	-6.85	2.64		
Return on equity before taxes[1], %	27.6	-8.1		
Risk capital (average)	500	1,400	-900	-64.3
Risk-weighted assets (average)	2,100	6,700	-4,600	-68.7

[1] Income/loss before taxes, amortisation of and impairment losses on goodwill and restructuring charges as a percentage of the average risk capital.

Operating income – in particular net interest and current income – decreased by 80.6% to €70 million as a result of the reduction of the loan portfolio, which has now been completed. This can also be seen from the decline in average risk-weighted assets to €2.1 billion. The portfolio transferred to the strategic divisions at the time of the closure of the IRU mainly consisted of sales for which contracts had already been signed; it was reduced further as these were settled in the period up to the end of the year.

Administrative expenses amounted to €162 million (previous year: €286 million). Adjustments to headcount and non-staff operating costs were made over the year in the course of the reduction of the IRU portfolio. The proceeds from loan portfolio auctions were well in excess of the relevant carrying amounts and resulted in net releases of loan loss provisions of €137 million (previous year: net additions of €174 million). The non-operating result contains income from the sale of a regional business portfolio as well as a positive result from investment securities. In the previous year, this item contained the proceeds of the sale of the Spanish private TV company Telecinco. Total income before taxes improved significantly year on year to €144 million.

Corporate Investments

The Corporate Investments segment comprises investment securities and real estate used by third parties that do not belong to the Bank's core business. We continued systematically pursuing our goal of reducing these holdings by making specific disinvestments in fiscal 2005. In addition to the placement of our shares in Allianz and the reduction of our interest in Munich Re as part of the “all-in-one” transaction, we also successfully placed our 25% investment in Bilfinger Berger on the market. We sold the first tranche of our investment in Eurohypo at the year-end. The transaction covering the remaining shareholding is scheduled for spring 2006.

Table 22	2005 €m	2004 €m	Change €m	%
Net interest and current income	138	-92	230	
Net fee and commission income	-7	-3	-4	<-100.0
Net trading income	–	2	-2	
Operating income	**131**	**-93**	**224**	
Administrative expenses	19	17	2	11.8
Loan loss provisions	–	–		
Operating result	**112**	**-110**	**222**	
Other operating income/expenses	-9	2	-11	
Result from investment securities	1,065	-25	1,090	
Amortisation of and impairment losses on goodwill	–	–		
Restructuring charges	–	–		
Income/loss before taxes	**1,168**	**-133**	**1,301**	
Risk capital (average)	2,100	2,100	0	0.0
Risk-weighted assets (average)	5,700	7,900	-2,200	-27.8

The Corporate Investments segment generated a clearly positive operating result of €112 million (previous year: €-110 million), which was due in particular to a sharp increase in net interest and current income. This positive development was primarily the result of the disposal of investment items for which the financing costs exceeded the low level of current income. By contrast, in the case of those investment securities remaining in the portfolio the current income from dividends, equity consolidation, rental payments and interest generated by these investments, and the income from the investment of own funds allocated to these items, exceeded the financing costs. The result from investment securities included a remeasurement gain in the amount of €1.2 billion resulting from the retrospective application of the revised IAS 39. This was the main reason for income before taxes of €1,168 million (previous year: loss of €133 million).

Consolidation & Adjustments

The Consolidation & Adjustments segment is used to report 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. In addition, in 2005 the Bank's real estate business and, in the previous year, the asset management business that remained with the Bank until August 2004, were reported under Consolidation & Adjustments.

Table 23	2005 €m	2004 €m	Change €m	%
Net interest and current income	-543	-364	-179	-49.2
Net fee and commission income	9	105	-96	-91.4
Net trading income	77	275	-198	-72.0
Operating income	**-457**	**16**	**-473**	
Administrative expenses	460	403	57	14.1
Loan loss provisions	-98	-104	6	5.8
Operating result	**-819**	**-283**	**-536**	**<-100.0**
Other operating income/expenses	-130	-47	-83	<-100.0
Result from investment securities	345	7	338	>+100.0
Amortisation of and impairment losses on goodwill	–	27	-27	
Restructuring charges	–	52	-52	
Income/loss before taxes	**-604**	**-402**	**-202**	**-50.2**
Risk capital (average)	-200	-100	-100	100.0
Risk-weighted assets (average)	2,900	3,500	-600	-17.1

The operating result totalled €-819 million (previous year: €-283 million). Operating income amounted to €-457 million (€473 million below the comparable figure for the previous year). More than two thirds of the significant drop in income is due to the effects of applying IAS 39, as well as the absence of the fee and commission income from the asset management business that had been reported under Consolidation & Adjustments until August 2004.

Major reasons for the rise in administrative expenses were additional expenses incurred in connection with compliance with the Sarbanes Oxley Act, and the allocation of the residual activities from the Institutional Restructuring Unit with effect from September 2005. The absence of the positive one-time factors recorded in the previous year and an increase in the costs incurred by the functions that were not allocated to the divisions also had a negative influence. The release of country risk provisions and general loan loss provisions was the main factor influencing overall loan loss provisions which, at €-98 million, were at the level of the previous year. The €334 million improvement in the non-operating result to €215 million is mainly due to gains in connection with the sale of our portfolio of properties used by the Bank. The discontinuation of restructuring charges and of goodwill amortisation also had a positive effect. The loss before taxes amounted to €604 million (previous year: €402 million). The risk capital recognised under Consolidation & Adjustments largely comprises the positive effect on capital requirements of the diversification of risks across individual divisions.

Net Worth and Financial Position

Following sharp increases in recent years, the Dresdner Bank Group's total assets dropped in the course of 2005 to €461.4 billion by year-end. This represents a year-on-year decline of 11.9% or €62.5 billion.

This decline was largely a result of the reduction in securities-backed money market transactions and was a consequence of the flat yield curve in the euro zone, which led to fewer opportunities for arbitrage, especially in the money market area. This affected the balance sheet items financial assets and liabilities at fair value, loans and advances as well as liabilities to banks.

The disposal of non-strategic investments and properties belonging to the Bank also led to a drop in the volume of investment securities and property and equipment.

Table 24	31/12/2005 €m	31/12/2004 €m	Change €m	%
Financial assets at fair value	165,806	192,570	-26,764	-13.9
Loans and advances to banks	99,791	125,634	-25,843	-20.6
Loans and advances to customers	161,941	166,625	-4,684	-2.8
Investment securities	13,739	17,102	-3,363	-19.7
Other assets	20,095	21,939	-1,844	-8.4
Total assets	**461,372**	**523,870**	**-62,498**	**-11.9**
Financial liabilities at fair value	81,322	99,799	-18,477	-18.5
Liabilities to banks	139,910	187,462	-47,552	-25.4
Liabilities to customers	155,785	154,513	1,272	0.8
Certificated liabilities	50,079	46,494	3,585	7.7
Subordinated liabilities	5,811	6,189	-378	-6.1
Profit-participation certificates	1,517	1,526	-9	-0.6
Other liabilities	12,972	15,090	-2,118	-14.0
Equity	13,976	12,797	1,179	9.2
Total liabilities	**461,372**	**523,870**	**-62,498**	**-11.9**

Financial assets and liabilities at fair value

The financial assets and liabilities at fair value items, which are reported for the first time (see also "Basis of Accounting" in the Notes), are largely made up of items that were previously reported as trading assets and liabilities. These items comprise almost exclusively the Dresdner Bank Group's trading activities for securities, derivatives and other instruments.

The volume of fair value financial assets amounted at year-end to €165.8 billion. This represents a year-on-year fall of 13.9%. While the figure for debt and other fixed-income securities (especially from public sector issuers) fell by €44.1 billion to €108.4 billion, equities and other non-fixed-income securities rose by €11.6 billion to €30.8 billion. The positive fair values of derivative financial instruments included in trading assets increased by around €5 billion.

The €18.5 billion fall in fair value financial liabilities is largely attributable to a drop in delivery obligations for securities of €24.5 billion to €48.4 billion. In contrast, the negative fair values of derivative financial instruments rose by €3.4 billion to €24.0 billion.

Loans and advances to banks and customers

The volume of loans and advances to banks and customers fell year on year by a total of €30.5 billion to €261.7 billion. Reverse repurchase agreements included in this amount fell by €50.2 billion to €103.6 billion.

Following the successful reduction in the non-strategic loan portfolio by the IRU, the lending volume increased slightly for the first time in years by 1.5% to €98.5 billion. This rise occurred within the confines of our risk-oriented focus on our strategic core business.

Table 25	31/12/2005	31/12/2004	Change	
	€m	€m	€m	%
Loans to customers	**92,838**	**92,192**	**646**	**0.7**
– Germany	65,175	67,253	-2,078	-3.1
– Other countries	27,663	24,939	2,724	10.9
Loans to banks	**5,694**	**4,882**	**812**	**16.6**
Lending volume[1]	**98,532**	**97,074**	**1,458**	**1.5**

[1] Excluding reverse repurchase agreements.

The €1.5 billion increase in the lending volume is due in roughly equal parts to rises in loans to customers and to banks, which went up by €0.6 billion and €0.8 billion respectively. Whilst domestic loans to customers fell by 3.1% to €65.2 billion, foreign loans rose by 10.9% to €27.7 billion; this relates in particular to loans to corporate clients. The share of the total lending volume attributable to our foreign lending to both customers and banks grew by approximately 2 percentage points year on year to 32%.

Investment securities

Investment securities decreased as against the end of the previous year by a total of €3.4 billion to €13.7 billion, mainly as a result of the reduction in non-strategic investments. This affected equities and other non-fixed-income securities; these fell by €0.7 billion to €3.2 billion, especially as a result of the transfer of Munich Re shares to Allianz. Shares in unconsolidated affiliated enterprises fell, especially as a result of the sale of our Allianz shares, by a total of €1.5 billion to €0.1 billion. Moreover, debt and other fixed-income securities dropped by €1.1 billion.

The carrying amount of investments in enterprises accounted for using the equity method fell by €2.4 billion year on year to €0.4 billion. In addition to the sale of our investment in the Bilfinger Berger AG construction group, this significant fall (around 86%) was related to our investment in Eurohypo AG: we sold the first tranche of our investment in this company to Commerzbank at the end of 2005. The shares still held by us were reclassified as non-current assets held for sale, which were reported for the first time.

At the end of 2005, the fair value of the Dresdner Bank Group's direct and indirect non-bank investments totalled €1.3 billion.

Other assets

The carrying amounts of items of property and equipment declined largely as a result of the sale of owner-occupied properties by €2.0 billion to €2.4 billion. Long-term leases for the properties used by the Bank were concluded with the buyer.

Deposits and certificated liabilities

Deposits and certificated liabilities fell by €42.7 billion year on year to €345.8 billion. The volume of repurchase agreements was deliberately reduced by €32.2 billion to €89.1 billion in connection with the general decline in funding requirements.

Table 26	31/12/2005 €m	31/12/2004 €m	Change €m	 %
Liabilities to banks	139,910	187,462	-47,552	-25.4
Liabilities to customers	155,785	154,513	1,272	0.8
Certificated liabilities	50,079	46,494	3,585	7.7
Deposits and certificated liabilities	**345,774**	**388,469**	**-42,695**	**-11.0**
Of which: repurchase agreements	89,145	121,331	-32,186	-26.5

Liabilities to banks fell by around a quarter to €139.9 billion. This related almost entirely to time deposits, which declined by €46.3 billion to €115.5 billion.

Liabilities to customers rose by €1.3 billion to €155.8 billion. Savings deposits remained unchanged year on year at €4.8 billion and time deposits fell by €10.8 billion to €73.8 billion, while demand deposits rose by €12.0 billion to €77.2 billion. Deposits by corporate customers continued to account for the bulk of total customer deposits. As in the previous year, they made up around three-quarters of this item.

Certificated liabilities rose year on year by €3.6 billion to €50.1 billion. Bonds issued increased by €1.0 billion and we expanded the volume of other certificated liabilities by €2.6 billion.

A detailed breakdown of the maturity structure of the deposits and certificated liabilities is given in Note 39.

Equity

The equity of €14.0 billion reported in the consolidated balance sheet as at 31 December 2005 now also includes minority interests (see also "Basis of Accounting" in the Notes). Excluding minority interests, equity rose by €0.8 billion to €11.8 billion. This includes both the addition to retained earnings amounting to €901 million as well as the dividend paid to Allianz amounting to €809 million that were taken from net income for the year. Remeasurement gains from available-for-sale financial instruments fell to €1.2 billion in connection with the disposal of investments.

Regulatory capital (BIS)

With effect from 30 June 2005 we adapted the method used to determine regulatory capital to comply with international standards in this area; we now report regulatory capital on the basis of the capital components in accordance with IFRSs. The change in the method of calculating capital requirements in accordance with the BIS from local (HGB) accounting standards to IFRSs led to an increase in core capital. This was primarily due to different carrying amounts, in particular for tax loss carryforwards, as well as to the measurement of trading activities and to shareholdings.

Regulatory capital consists of core capital, supplementary capital and Tier III capital. The core capital primarily consists of subscribed capital, reserves and silent partnership certificates counting as hybrid components.

Table 27	31/12/2005[1) €m]	31/12/2004 €m
Core capital	**11,126**	**6,867**
Of which: hybrid components	1,614	1,500
Supplementary capital	**7,085**	**6,867**
Tier III capital	–	226
Total capital	**18,211**	**13,960**
Risk-weighted assets	**111,534**	**104,777**
– Banking book	108,659	100,814
– Trading book	2,875	3,963
Capital ratios		
Core capital ratio, %	10.0	6.6
Total capital ratio, %	16.3	13.3

[1)] Amount disclosed according to BIS/IFRSs; figures for previous year according to BIS/HGB.

After the adoption of the financial statements, core capital amounted to €11.1 billion as at 31 December 2005. The supplementary capital of €7.1 billion primarily comprises profit-participation rights and subordinated liabilities. Total regulatory capital amounted to €18.2 billion.

The 6.4% increase in risk-weighted assets in accordance with IFRSs to €111.5 billion (year-end 2004 according to the previous method of calculation: €104.8 billion) was mainly the result of the targeted risk-oriented expansion of our capital markets business, in addition to the effects of the conversion from HGB to IFRSs.

The BIS core capital ratio was 10.0% after conversion of the basis of calculation (year-end 2004 according to the previous method of calculation: 6.6%); the total capital ratio was 16.3% (end-of-year 2004 according to previous method of calculation: 13.3%).

Outlook 2006

Business opportunities outweigh risks in 2006. The global economy is likely to expand at a similar pace to the previous year and maintain its slightly above-trend growth rate. There will be a slight slowdown in the dynamic economic development to date in the USA and Asia. Overall, however, the two drivers of global growth will remain robust. Potential risks to the dynamism of the global economy are to be found in raw materials price trends, imbalances in foreign trade and potential geopolitical tensions.

Europe will therefore continue to benefit in 2006 from an ongoing strong expansion in world trade, and will achieve a moderate acceleration in growth. In Germany, this year domestic activity will be stronger and, along with exports, will provide additional support for economic development. Capital expenditure will increasingly join exports in driving German growth, and the Grand Coalition's financial policies will promote investment. Meanwhile, in view of the increase in VAT planned for 2007, the second half of the year is likely to see pull-forward effects on domestic demand. With growth of 2.0%, Germany will finally again make a significant contribution towards growth in the euro zone.

Against this background, expectations for the capital markets exhibit cautious optimism. This will have a positive effect on the capital markets business and on investment interest among private and institutional clients. Demand for loans will benefit from the continued increase in capital expenditure, even if a substantial proportion of this will be funded internally by companies.

We intend to exploit the opportunities this situation offers. We have laid the foundations for further developments to our business model. In our opinion, the Private & Business Clients business offers substantial potential over the next few years, particularly in the growth areas of financial provision, wealth and real estate. The growth areas of capital market solutions and corporate finance products will be the focus of our corporate and institutional clients business. All in all, we expect these two areas of business to generate annual growth rates significantly above those for traditional banking business. We intend with our products and know-how to capture a significant share of this earnings potential. In parallel with our ongoing focus on clients, we shall implement additional measures that will noticeably improve efficiency in our functions.

We are expecting a significant improvement in our operating result for 2006. Specifically we expect our operating income to rise. We see opportunities to grow our net interest and current income, especially by expanding our business in structured finance and corporate lending. We anticipate a rise in net fee and commission income in the securities business with private clients and an upturn in the mergers & acquisitions and capital markets business in Corporate & Investment Banking. In its trading activities, the Bank will continue to focus on the high-margin areas of complex derivatives and structured transactions, thus generating additional income. We aim to keep administrative costs at a stable level through strict control of costs and the systematic implementation of rationalisation and efficiency improvement measures. We expect loan loss provisions to increase.

This assessment of our business development is based on planning and forecasts that use the information available to us at this time. This includes publicly available market data, macroeconomic parameters, as well as economic forecasts by reputable economic institutes and associations.

As an international financial services provider, our business is determined to a large degree by the situation on the markets. This includes in particular developments on the capital markets as well as the overall development of the economy, with corresponding consequences for our entire customer business. Accordingly, extreme or unexpected volatility on the financial markets could have negative consequences for our income from the capital markets. Moreover, lending is a substantial component of our core business. If macroeconomic conditions should worsen again, a corresponding influence on the development of our business and income cannot be ruled out. However, we do not see any signs of such negative developments at present.

To this extent we are confident – on the basis of what we know today and the steps we have taken and resolved as part of our profitability and growth initiative – that we shall achieve a significant improvement in our results over the medium term. Our goal is to provide a contribution to Allianz's consolidated net income in 2008 equivalent to a return on equity after taxes of 12% in the Banking segment.

Group Risk Report

Group-Wide Risk Management and Risk Monitoring

Principles

Financial services providers have a leading role to play with regard to risk. On the one hand, it is their core business as banks to take on risk in a controlled manner in line with their return targets. On the other hand, as enterprises they bring their entire expertise to bear in assuming responsibility for specific risk issues affecting their clients.

As a result, risk management and risk monitoring are of crucial importance to Dresdner Bank's business and, as an overarching function, are established parts of all organisational levels and processes. The aim is to ensure that, in line with the Bank's risk approach, all risks assumed in the course of the Bank's business are recognised early on and mitigated by effective risk management. Successful risk management and risk monitoring are therefore the precondition for the Bank's highly profitable growth and sustained success. Risk management and monitoring are implemented via the Bank's risk management and risk control processes. This organisational structure corresponds to the German regulations "Mindestanforderungen an das Risikomanagement" (MaRisk – Minimum Requirements for Risk Management).

In order to ensure maximum-quality risk management at all times, the procedures used to measure, manage and aggregate all risk types are continuously enhanced using best practice approaches and adapted to changing market conditions. The tight integration of the Dresdner Bank Group's divisions and functions and the coordination of activities with those of the Allianz Group's Group Center units are crucial to successful risk management.

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

- The Board of Managing Directors establishes the risk strategy for the Dresdner Bank Group and has organisational responsibility for its implementation.
- The organisational risk structure and the functions, tasks and powers of the employees, committees and departments involved in the risk processes are clearly and unambiguously defined. The tasks assigned to the CRO (Chief Risk Officer) function comprise in particular the management and/or control of the following risk types: credit and counterparty risk, market risk, liquidity risk and operational risk.
- To ensure maximum objectivity and prevent conflicts of interest, the Front Office and CRO functions have been separated at a functional and organisational level up to and including the Board of Managing Directors.

- Risk issues are taken into consideration in all business decisions. Risk-based performance measurement is supplemented by setting risk limits at the overall Bank and divisional levels, as well as by consistent operating limits for individual business activities. In this context, we avoid risk concentrations and limit potential losses from "stress situations".

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

- Identified risks are reported in a transparent and timely manner and in full to the responsible senior management.

- Appropriate, effective controls exist for all processes entailing risks.

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

Tasks

Risk Management analyses, decides on, monitors and actively processes risks at the level of both individual transactions and portfolios. In addition to loan decisions, the key tasks of the Risk Management units include ongoing risk monitoring at client group level. Risk Management is also responsible for breaking down the market risk limit adopted by the Board of Managing Directors across the various risk activities. It provides active risk management support for the operating trading and portfolio management units. Risk is actively managed using early warning systems and portfolio instruments.

Risk Management also includes the intensive management of potential problem and non-performing loans (Intensive Care – IC) in the Corporate Banking and Dresdner Kleinwort Wasserstein (DrKW) divisions, as well as the management of bad loans for the Personal Banking and Private & Business Banking divisions. Until 30 September 2005, risk management for our non-strategic business, e.g. the restructuring and sale of non-strategic loans or business units, was the responsibility of the Institutional Restructuring Unit (IRU) division. The IRU was able to complete its task substantially faster than originally planned. The remaining loans were transferred back to the Bank's strategic business on 1 October 2005 and the tasks performed by the IRU (primarily those relating to IC), have been performed by the CRO function since 1 October 2005.

The core task of Risk Control is the timely assessment of credit and counterparty risk (including country risk), as well as market, liquidity, operational and business risk and risks from shareholdings. Risk Control monitors compliance with the limits and risk standards approved by the Board of Managing Directors. This also includes regular, independent internal and external risk reporting at portfolio level. The external risk disclosure activities focus on the interests of the Allianz Group, stakeholders (e.g. the capital markets, employees and the general public) and the regulatory authorities. In addition, Risk Control ensures the availability of a data repository of the appropriate quality and performs administrative and operational support functions.

Organisation

The Chief Risk Officer (CRO), who is a member of Dresdner Bank's Board of Managing Directors, is responsible both for independent risk management for the Bank's strategic divisions (Personal Banking, Private & Business Banking, Corporate Banking and Dresdner Kleinwort Wasserstein) in line with the MaRisk and for independent risk control for the entire Bank.

The CRO function was reorganised at the end of 2005 in order to be able to react even more effectively and flexibly in future. The new structure creates clear contact persons for the divisions on the one hand while providing for a strict separation by risk type on the other. This creates an even stricter division of responsibilities.

Since December 2005, the CRO function has comprised the following Risk Management units: Credit Risk Management for the Personal Banking, Private & Business Banking, Corporate Banking and DrKW divisions, and Market Risk Management & Risk Management Financial Institutions.

The independent Risk Control function is primarily divided into the Risk Governance and Controlling (including reputational risk management) and Group Risk Architecture (including operational risk management) units. The former is responsible in particular for risk analysis, risk reporting and risk monitoring, as well as for the risk guidelines and processes applicable throughout the Group, while the latter is responsible for the development and ongoing revision of the risk methodologies used for all risk types, for the risk infrastructure and for maintaining all data repositories relating to risk management and risk control. At the same time, Group Risk Architecture is also responsible for managing implementation of the Basel II requirements.

Risk-related committees

The Board of Managing Directors of Dresdner Bank has established the following committees to ensure an end-to-end risk management process at Group level:

The Group Credit Committee (GCC) is the decision-making body with responsibility for loans that exceed the scope of authority of the divisional risk management units. Acting on the basis of the powers granted to it by the Board of Managing Directors, the body decides on overall limits for individual loans that do not require a decision by the Board as well as issuing recommendations on loans to be decided by it. In addition, the GCC is responsible for operational decisions relating to country risk, e.g. for country limit allocations within the regional limits laid down by the Board of Managing Directors.

The Risk Executive Committee (RExCo) formulates Group-wide guidelines for risk policy and risk management in relation to credit and counterparty, market and operational risk, as well as for reputational risk, and puts these standards into effect. In addition to portfolio monitoring, the tasks performed by the RExCo include developing the Bank's risk framework and credit strategy.

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

Group Audit

The Group Audit function is an independent internal unit that monitors operating and business procedures, Risk Management and Risk Control as well as the internal control system. In this capacity it reports directly to the CEO and is not bound by any instructions during reporting and when evaluating the results of audits. The Group Audit function ensures comprehensive enterprise-wide monitoring by integrating the subsidiaries' internal audit units in its Group audit tasks and working closely together with them.

Capital & Treasury Committee

The Capital & Treasury Committee (CTC) headed by the Chief Executive Officer (CEO) serves as a discussion and decision-making forum for all key strategic, methodological and operational questions concerning capital and treasury management. One key goal of the Committee is to optimise the internal allocation of capital in line with regulatory requirements. This also includes implementation of the MaRisk in conjunction with the International Convergence of Capital Measurement and Capital Standards (Basel II), and especially the "Pillar 2" specified in the latter (internal capital adequacy).

Basel II project

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

Dresdner Bank intends to apply the advanced approaches, i.e. the Advanced Internal Ratings-Based Approach (Advanced IRB Approach) for credit risk and the Advanced Measurement Approach (AMA) for operational risk. Dresdner Bank is already using comparable approaches for internal risk management.

A central project management team is responsible for targeted planning and management of the Basel II implementation activities. Regular reports on project progress are submitted to the cross-functional steering committee and to the Board of Managing Directors, based on the Group-wide Basel II master plan.

Project activities in the period under review focussed on the harmonisation of data storage in a central data repository, which will be used throughout the Group in future for both internal and external reporting. A unit specially set up for the purpose ensures that the quality of the data is regularly improved on the basis of extensive analyses.

Debtor rating systems that use default probabilities to assess credit and counterparty risks are a key component of Basel II and have already been used by the Dresdner Bank Group for some time. The current focus is on the validation and further optimisation of the rating systems that have already been implemented.

The Bank was closely involved from the start in consultations on the regulatory documents held by the Basel Committee on Banking Supervision, and played a significant role in certain expert committees (e.g. Derivatives, Operational Risk). In addition, Dresdner Bank regularly participates in the Quantitative Impact Studies (QISs) performed by the Basel Committee on Banking Supervision to estimate future capital requirements.

Risk Types

Dresdner Bank differentiates between the following types of risk: (1) credit and counterparty risk, (2) market risk (including market risk from investments), (3) operational risk, (4) business risk, (5) liquidity risk and (6) other risks.

Details of the individual types of risk are as follows:

(1) Credit and counterparty risk

Lending and hence assessing and assuming risk are the core of any banking transaction. Dresdner Bank defines credit and counterparty risk as the potential loss resulting from the default of business partners, or from write-downs resulting from an unforeseen deterioration in their creditworthiness. In more detail, this definition comprises (a) credit and counterparty risk in the lending business, (b) country risk, (c) counterparty risk from trading activities and (d) issuer risk from securities transactions. Loan loss provisions (e) are explained in a separate section.

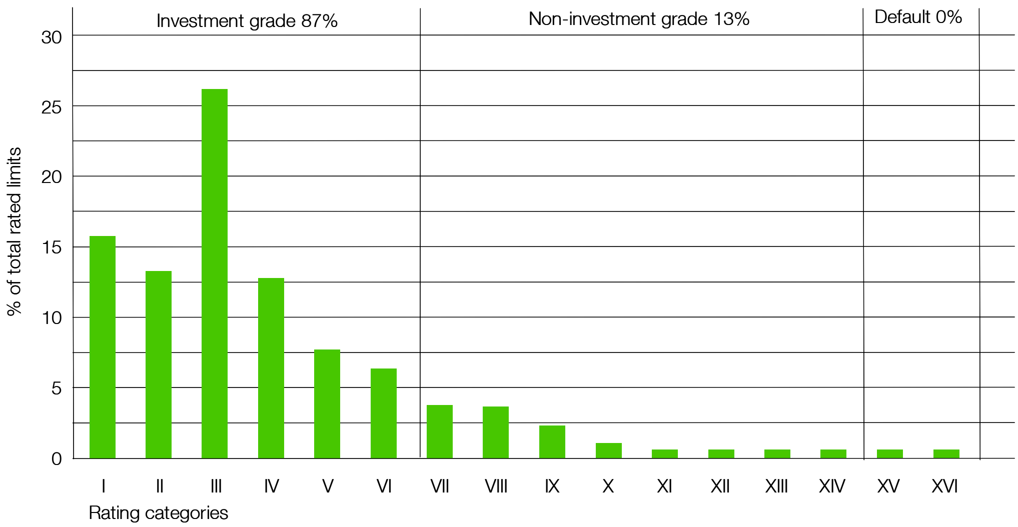
Only proprietary rating methods used. Dresdner Bank uses statistically founded rating systems for credit quality assessment. These form a central component of credit risk management and are based on both static and dynamic parameters. All rating methods can be compared using a uniform scale and take the macroeconomic environment into account. Rating procedures serve to enable business decisions to be made rapidly and efficiently. The results of the rating are used as the basis for calculating the risk and capital costs and for determining risk-optimised pricing. As part of costing and the overall management of the Bank, the rating procedures have a significant influence on the Bank's cost and earnings structure and hence on competition for customers.

An efficient, effective rating procedure is a critical success factor in a highly competitive environment. For Dresdner Bank, it is a core competency. Dresdner Bank places considerable emphasis on its use of proprietary procedures only. These are used for all customers and business segments – such as private customers, corporates, banks, sovereigns, financial institutions, special finance and market transactions – alike.

All rating processes are validated and continuously improved. In addition to their quality and selectivity, the focus is on their usability in practice. In 2005, Dresdner Bank further optimised its procedures with regard to the Basel II requirements for an Advanced IRB Approach based on internal ratings. In the coming fiscal year, the Bank will establish a new validation process that reflects the increasing internal and external requirements.

Dresdner Bank's total portfolio comprises credit and counterparty risk from both its credit and its trading activities. Around 87% of the total portfolio has been assigned to internal rating categories I to VI (investment grade) (previous year: 86%). The Bank's trading activities form the largest part of the total portfolio, accounting for 70% of the total limit. At 86% (previous year: 91%), the trading portfolio is dominated by transactions with public sector authorities/institutions and banks/financial services.

Breakdown of the Dresdner Bank Group's total portfolio by rating categories



(a) Credit and counterparty risk from lending activities

Credit processes and loan portfolio quality improved. In 2005, the portfolio quality, as measured by the central risk indicators, improved. This development reflects the improvement in loan processes, as well as in the instruments and procedures used for credit risk measurement and management, in the years 2004/2005. Regular sector analyses help improve portfolio management in terms of ensuring a risk-oriented sales focus and identifying default risks early on. The improvements also accommodated the requirements of Basel II with regard to the use of risk capital and expected loss as central elements of credit risk management.

Expected loss represents the credit and counterparty and transfer risk from the current loan portfolio. It is measured using the current portfolio data for the credit risk of loans and its primary risk parameters. The latter are determined using historical loss data and expert estimates. The expected loss is displayed in reporting systems and is used in risk management. In addition, it is taken into account when calculating general loan loss provisions in the non-homogeneous portfolio (see page 105).

The main topics addressed by credit risk management in 2005 were as follows:

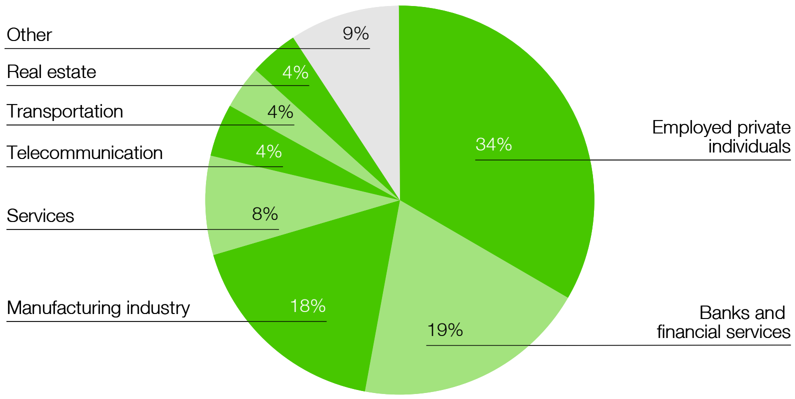
- Reduction of the non-strategic loan portfolio,
- Reduction of concentration risk,
- Focussing of the portfolio in accordance with regional and sector-specific aspects.

The Bank's loan business, measured in terms of the amount utilised as at 31 December 2005, can be broken down as follows:

- Personal Banking 33% (previous year: 34%),
- Private & Business Banking 13% (previous year: 14%),
- Corporate Banking 35% (previous year: 34%),
- DrKW 19% (previous year: 11%),
- in 2004, the IRU accounted for a further 7%.

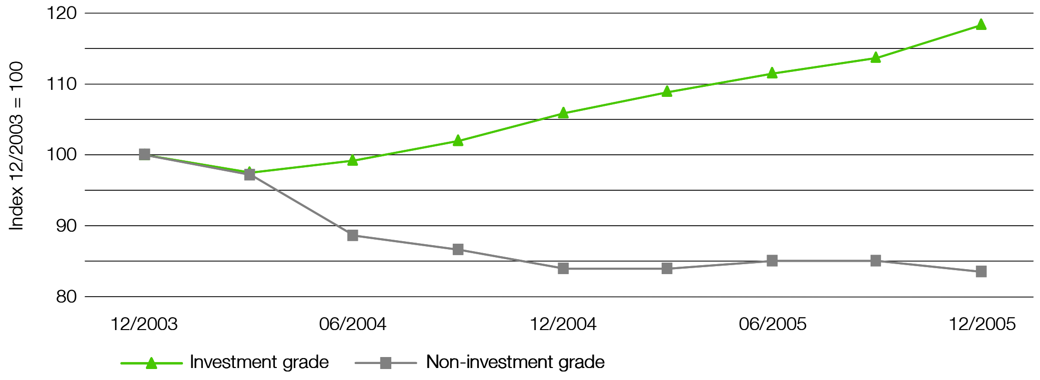
At 34% (previous year: 35%), employed private individuals comprise the largest customer group within the loan portfolio. This reflects the focus of the Personal Banking and Private & Business Banking divisions on private individuals within Germany. Manufacturing industry and the service sector are the strongest customer segments in our corporate customer activities.

Breakdown of the loan volume by sector in % (utilisation)



Around 64% of Dresdner Bank's total loan portfolio is in internal rating categories I to VI (investment grade). The proportion of investment grade customers has increased continuously in recent years. The average default probability for the new loans business was less than that for the existing loan portfolio. The quality of the loan portfolio has therefore improved substantially.

Breakdown of the Dresdner Bank Group's loan portfolio by rating categories (limit)



The strategic focus of our business activities is on borrowers domiciled in Germany or the rest of Western Europe. These regions account for 81% of Dresdner Bank's loan portfolio, measured in terms of the limit (Germany: 60%, rest of Western Europe: 21%).

Non-performing loans and potential problem loans reduced. Non-performing loans (NPLs) and potential problem loans (PPLs) together form the risk elements. In accordance with the disclosure requirements laid down by the U.S. Securities and Exchange Commission (SEC; Guide 3), non-performing loans are classified into the following categories:

- Non-accrual loans: Loans for which interest is no longer accrued or on which a specific loan loss provision has been charged on the accrued interest. Any cash payments received are initially used to reduce the principal, and are only reported as interest income when this has been fully redeemed.

- Loans past due 90 days or more: Loans with interest and/or redemption payments that have been past due for 90 days or more, or credit facilities that have been overdrawn for 90 days or more. Interest continues to accrue and is recognised in the income statement.

- Restructured loans: Loans which are restructured due to a deterioration in the borrower's economic situation and in relation to which the Bank has made concessions (deferral, partial waiver, or similar) that it would not have made under "regular" conditions, and which were not assigned to either of the two categories above.

Potential problem loans are loans for which the Bank, based on the information currently at its disposal, has serious doubts as to the ability of the borrower to comply with its contractual obligations. This inability to pay on the part of the borrower may lead in future to the loan being assigned to one of the above-mentioned risk categories. In general, such loans are sufficiently collateralised or covered by cash flows considered to be certain, and therefore do not require loan loss provisions to be established.

The following table provides an overview of the Dresdner Bank Group's risk elements using the format required for SEC reporting.

Non-performing loans and potential problem loans in accordance with SEC; Guide 3

	2005 €m	2004 €m	Change €m	%
Non-accrual loans	2,071	5,545	-3,474	-62.7
Loans past due 90 days or more	535	711	-176	-24.8
Restructured loans	31	69	-38	-55.1
Non-performing loans	**2,637**	**6,325**	**-3,688**	**-58.3**
Potential problem loans	314	1,012	-698	-69.0
Risk elements	**2,951**	**7,337**	**-4,386**	**-59.8**

The €4.4 billion decrease in risk elements is primarily due to the reduction of non-strategic assets, which was completed ahead of schedule, and to related write-offs. In particular, this applies to the "non-accrual loans" segment (€3.5 billion). At the same time, the strategic portfolio was cleaned up. The decline in potential problem loans was mainly due to this portfolio cleanup, the transfer of loans to other risk categories and to the improved creditworthiness of individual large loans in the period under review.

Asset backed securitisation used efficiently. "Asset backed securitisation" is a structured capital market instrument used to manage credit risk. It is applied to transfer credit risk of specific assets or loan portfolios to third parties. The originating entity of the respective loans either sells the assets to a special purpose vehicle or transfers the implied credit risk of the assets to a protection seller (e.g. guarantee, credit default swap). The credit risk is passed on to investors – partly in tranches – using capital market instruments. Generally, tranches differ in terms of seniority of cash flow allocation. Securitisation especially covers the issue of securities or debt instruments (asset backed securities and mortgage backed securities) where claims are backed by the underlying loan portfolio or linked to its performance.

Due to their comparatively complex risk profile, securitisation transactions are analysed comprehensively within risk management. In addition, Basel II provides a specific set of regulatory requirements regarding the treatment of credit risk associated with securitisation activities. Dresdner Bank's CRO function has largely centralised securitisation-specific risk issues.

Dresdner Bank acts as an originator, investor and arranger on the securitisation markets. Securitisation is used as an internal credit risk management instrument and as a structured finance product for customers. Securitisation also broadens the product range of alternative structured finance products for Dresdner Bank's customers.

Dresdner Bank's primary motivation for originating its own securitisation transactions is economic and/or regulatory risk transfer. Dresdner Bank's own securitisation activities in 2005 covered both true sale securitisations and synthetic transactions using credit derivatives (e.g. credit default swaps or credit linked notes). For example, at the end of 2005, Dresdner Bank became the first founder member using the True Sale International (TSI) platform to securitise corporate loans. The TSI platform was initiated by the banking industry (including Dresdner Bank) to promote the German securitisation market. As at 31 December 2005, Dresdner Bank had securitised or collateralised a total of €4.5 billion of loans from its own asset portfolio – primarily originated by Corporate Banking.

(b) Country risk

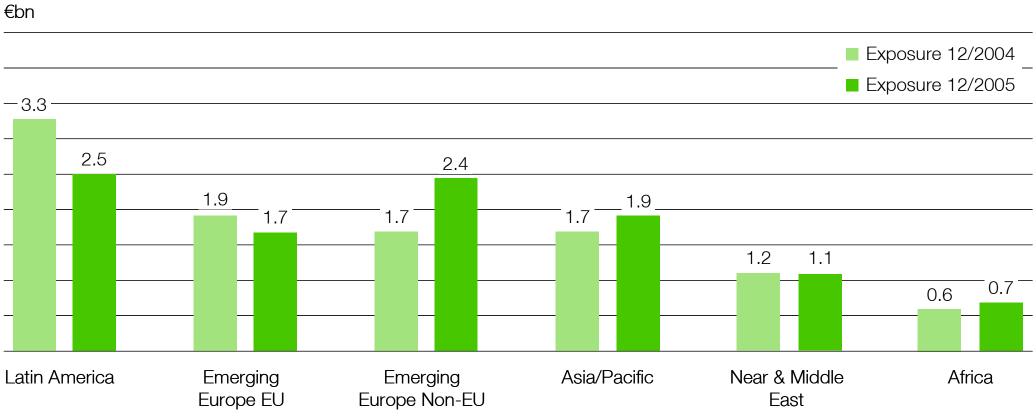
Dresdner Bank defines country risk as the convertibility and transfer risk relating to cross-border transactions, plus the credit and counterparty risk arising from local transactions by the Bank's foreign branches and subsidiaries.

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

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

The Dresdner Bank Group's overall country risk exposure can be broken down into countries without identifiable country risk (98.1%; previous year 96.4%) and countries with an increased or high risk potential (1.9%; previous year 3.6%). In addition, country exposure is broken down into the industrialised countries (Country Rating Group I, accounting for 93.1% of total exposure) and all other countries (6.9%); of the latter figure, approximately 27.0% is attributable to emerging markets (Country Rating Groups VII to XVI).

Breakdown of the exposure for Country Rating Groups II to XVI by region



The Emerging Europe region was split into two separate regions in 2005: Emerging Europe EU and Emerging Europe Non-EU. Exposure in the latter increased substantially in line with the strategy in our lending business. By contrast, our Latin American business was reduced in line with our strategy.

(c) Counterparty risk from trading activities

Counterparty risk associated with derivatives trading activities mainly arises in relation to over-the-counter (OTC) transactions. However, the resulting exposure cannot be inferred directly from the notional transaction volumes. 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, the aggregate positive replacement cost for all OTC-traded derivatives amounted to €88,643 million (gross, before netting) (previous year: €73,330 million).

The total notional volume of derivatives rose by 24.5% to €5,274.3 billion in the year under review. This was primarily due to interest rate derivatives, which amounted to €814.8 billion (+27.5%) and credit derivatives, which increased by 85.6% to €229.3 billion. Interest rate derivatives continue to be the dominant product group, accounting for 71.6% of the total volume.

Notional amounts and positive replacement cost of derivatives transactions (not including add-on)

Market segments	**Notional amounts by time to maturity**				**Positive replacement cost[1)]**
€m	Up to 1 year	> 1 year – 5 years	More than 5 years	Total	
Interest rate derivatives	1,426,281	1,199,433	1,149,194	3,774,908	61,503
Currency derivatives	535,956	80,020	23,825	639,801	9,012
Equity/index derivatives	173,252	159,392	17,588	350,232	13,691
Credit derivatives	41,384	377,516	78,101	497,001	3,877
Other derivatives	8,410	3,955	22	12,387	560
Total	**2,185,283**	**1,820,316**	**1,268,730**	**5,274,329**	**88,643**

1) Not including netting.

The maturity structure of the derivatives portfolio as a whole shifted slightly year on year from short- to long-term maturities. 41% (previous year: 48%) of all derivative transactions have a maturity of less than one year, 35% (previous year: 32%) have a maturity of between one and five years, and 24% (previous year: 20%) have a maturity of more than five years; of this latter figure, 40% (previous year: 35%) are securitised by collateral and are subject to regular margin calls, according to internal risk assessments.

Classification of counterparties – conservative selection of our trading partners. Further evidence of our conservative selection of trading counterparties in this area is provided by the classification of the positive replacement cost of our derivatives transactions according to internal credit ratings. Counterparties with investment grade ratings (categories I to VI) account for 97% (previous year: 96%) of positive replacement cost.

In the credit-sensitive field of OTC derivatives trading, counterparty selection is vital and remains focussed on prime-rated partners. This is confirmed by the high proportion (96.7%; previous year: 90.0%) of the positive replacement cost attributable to credit institutions, other financial service providers, insurance companies and sovereign borrowers.

Counterparty positive replacement cost by industry sector

Counterparty by industry sector	**Positive replacement cost**	
€m	**31/12/2005**	**31/12/2004**
Banks	50,201	46,014
Other financial service providers	34,303	19,752
Insurance companies	275	115
Industrial companies	717	669
Telecommunication, media, technology	236	3,159
Transport	294	492
Extractive industries	30	19
Real estate	60	126
Sovereign borrowers	926	59
Other	1,601	2,925
Total – before netting	**88,643**	**73,330**
Total – after netting	**25,248**	**20,492**
Total – after netting and collateral	**17,096**	**13,926**

The positive replacement cost for the entire derivatives business before netting rose by 21% to €88.6 billion (previous year: €73.3 billion). This was reduced by 81% using netting and collateral management, as described below, to roughly €17.1 billion (previous year: €13.9 billion).

Master netting agreements reduce risk. We enter into cross-product master netting agreements with our business partners in order to reduce the counterparty risk in our 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 also uses the master agreements to reduce the amount of regulatory capital required. After adjustment for netting effects, the positive replacement cost declined by €63.4 billion (previous year: by €52.8 billion) to €25.2 billion (previous year: €20.5 billion).

Collateral management provides additional security. In addition to the master agreements, the collateralisation of exposures from counterparty risks (positive replacement cost after netting) is agreed (collateral management). At year-end, the lending value of the collateral received in relation to these derivatives transactions amounted to roughly €8.2 billion (previous year: €6.6 billion). After netting and deduction of the collateral furnished, the Dresdner Bank Group's exposure from counterparty risks thus amounted to approximately €17.1 billion (previous year: €13.9 billion).

Risk management using internal Bank limits. Potential credit risks 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 continuously. Both the current replacement cost and any potential future fluctuations in the value of the loans concerned are taken into account. Monte Carlo simulations are used to calculate unsecured currency derivatives, while value at risk methods are used to calculate secured transactions (including base metal derivatives). The potential fluctuations in value of the remaining products are calculated on the basis of the current volatilities in each case. In the case of complex structures the individual components are examined; this ensures that the risk approaches used correctly capture the risk involved.

Regulatory requirements specify that counterparty risk from derivatives must be quantified. In this process, the replacement cost is taken into account and a global estimate of future market price fluctuations (potential exposure) is performed. The assessment of the potential exposure depends on the underlying product involved and the individual time to maturity (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 the regulatory requirements laid down in Principle I of the Kreditwesengesetz (KWG – German Banking Act), i.e. before credit weighting and after regulatory netting, at €45.3 billion (previous year: €43.4 billion). The risk-weighted assets from derivatives relevant for regulatory capital requirements amounted to €9.3 billion, as against €9.2 billion the previous year. The increase in these two figures is largely due to the increase in the trading volume of interest rate and credit derivatives.

Clearing partners reduce settlement risk. Settlement risk is defined as a further component of counterparty risk. This short-term risk arises during the settlement of transactions whenever instructions for payment are issued before the consideration is received (e.g. where currencies are exchanged in forex transactions). The settlement risk is counted towards the corresponding counterparty limit per value date in the amount of the consideration owed. In order to avoid or minimise these risks, we are increasingly settling such transactions via clearing houses (e.g. via CLS – Continuous Linked Settlement – in the case of forex transactions). In addition, individual netting agreements with individual counterparties as already described above are in place in this area to minimise risks.

(d) Issuer risk from securities transactions

Issuer risk is incurred as a result of the Bank's own positions in securities, e.g. fixed-income bonds and equities, and of synthetic positions entered into when concluding credit derivatives. Issuer risk reflects the maximum potential loss in the case of the immediate default of the issuer; it is added to the internal credit limits for the individual issuers in the amount of the current market value after netting (netting of short and long positions in the same security). In addition, issuer risk is managed by specifying an overall limit for particularly credit-sensitive counterparties. The proportion of the total default risk from trading activities accounted for by issuer risk fell by 7 percentage points in the course of 2005 to approximately 57% as at 31 December 2005.

(e) Loan loss allowances and provisions

Dresdner Bank establishes loan loss allowances and provisions both for credit and counterparty risk incurred during lending activities as well as for country risk. In the case of credit and counterparty risk, provisions are established for loans where the borrowers are highly unlikely to be able to make the agreed redemption and interest payments, either in whole or in part. The responsible Risk Management unit or the corresponding Bank committees assess the default and determine the loan loss provision required in line with pre-defined delegated authorities.

The loan portfolio for which loan loss provisions are to be established is split into a homogeneous and a non-homogeneous portfolio. The homogeneous portfolio comprises exclusively loans from the Personal Banking and Private & Business Banking divisions with a gross risk of up to €1 million which have been assigned to product-related segments (including construction finance and instalment loans) on the basis of similar risk parameters, and for which the degree of risk has been calculated at portfolio level by establishing particular loan loss provisions. All other loans are allocated to the non-homogeneous portfolio, with a distinction being made with regard to loan loss provisions between the measurement of individual loans in default (specific loan loss provisions) and allowances for latent credit risk (general loan loss provisions).

Total loan loss provisions comprise the following elements: specific loan loss provisions, country risk provisions and general loan loss provisions.

Specific loan loss provisions are created in accordance with the principles of individual measurement, taking collateral into account. In addition, other mitigation techniques (e.g. hedging, credit derivatives) are applied to risks from loans and advances that are identified and quantified in the course of the fiscal year. The amount of the loan loss provision is determined using a discounted cash flow model on the basis of, among other things, the present value of future cash flows including proceeds from the realisation of available collateral. In addition, Dresdner Bank creates provisions for off-balance-sheet items (e.g. guarantee loans or potential drawdowns on credit lines that have been fully committed but not yet drawn).

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

General loan loss provisions comprise loan loss provisions for latent risks in the non-homogeneous portfolio and particular loan loss provisions for the risk within the homogeneous portfolio.

Provisions for latent risk in the non-homogeneous portfolio are established for credit and counterparty risks that have potentially been incurred at the balance sheet date but have not yet been individually identified. Since fiscal year 2005, their amount is based on empirically determined historical default probabilities and loss ratios for that portion of the loan portfolio for which no other provisions have already been established. The calculation uses statistical methods of credit risk measurement and takes into account current cyclical developments as well as macroeconomic conditions.

Particular loan loss provisions for the risk within the homogeneous portfolio were established in the course of 2005. These are quantified using a separately developed portfolio approach that is based on historical default rates for the individual product segments and focusses on the individual overdraft status. The continuous incorporation of effective losses ensures a permanent recalibration of the underlying model. The resulting loan loss provisions comprise both inherent losses on properly serviced loans and losses from impaired loans in the homogeneous portfolio.

Development of loan loss allowances

	Specific loan loss allowances		Country risk allowances		General loan loss allowances		Total	
€m	2005	2004	2005	2004	2005	2004	2005	2004
As at 31/12	832	3,607	225	260	619	565	1,676	4,432

The significant decrease in specific loan loss allowances compared to 2004 (77%) is due among other things to the ongoing reduction of our non-strategic business and to improved credit processes. As part of a review of our write-off policy on impaired loans, the loan loss provisions in the strategic business units were verified and adjusted, leading to a reduction.

Country risk allowances declined in comparison to 2004: increases due to a more cautious assessment of countries in the Near and Middle East were offset by releases due to the improved risk situation in Latin America.

The increase in general loan loss allowances is due to the first-time calculation of particular loan loss provisions for risks within the homogeneous portfolio. The overall improvement in the quality of the non-homogeneous portfolio led to a reduction in the other loan loss provisions for latent risk in the non-homogeneous portfolio.

(2) Market risk

Market risk is broken down into a) market risk from the trading book, b) market risk from the banking book and c) market risk from investments (risks from shareholdings).

(a) Market risk from the trading book

Market risk is determined by changes in market prices and rates (such as interest rates, exchange rates and share prices) as well as correlations and volatilities.

Statistical risk measurement methods used. The value at risk method is used to measure market risk in the Group's global trading business. Value at risk is defined as the maximum loss that is not exceeded for a given level of probability (confidence level) within a given period (holding period) under normal market conditions. Dresdner Bank's internal value at risk model takes both general and specific risks into account. Specific market risks cover risks from positions relating to single stocks, as well as to those relating to individual obligors. For the purposes of internal trading risk management, risk incurred in relation to individual obligors is reported in addition to the overall value at risk.

The Federal German supervisory authority, the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), approved the Bank's use of its value at risk model for the purposes of external reporting in accordance with Principle I of section 10 of the KWG for the first time in 1998 and later approved the enhancements to the model that were made in 2001, 2002 and 2004. For regulatory reporting requirements, the Bank calculates value at risk – as prescribed by the regulatory authorities – using a confidence level of 99% and a ten-day holding period.

Stress tests used to supplement the value at risk model. Weekly stress tests are used to estimate the potential losses that could occur under extreme market conditions, although they cannot provide any definitive estimate of the maximum loss in the case of a stress event. The entire range of stress tests is applied – from standard stress tests (e.g. parallel shifts and twists in yield curves, the appreciation and depreciation of the euro, etc.) through historical stress tests (e.g. "September 11", "Russian Crisis", "Asian Crisis", etc.) to current macroeconomic stress tests.

Limits of risk modelling. Dresdner Bank's value at risk model is consistent with the latest standards used within the banking industry and is regularly enhanced. However, value at risk models are subject to inherent limitations with regard to their ability to model market risk. In particular, these include the fact that assumptions have to be made in each risk model as to how markets will behave. For example, one fundamental assumption of the value at risk model is that the risk factors conform to a normal distribution and that the past behaviour of risk factors is an appropriate indication of their future behaviour. It is impossible to capture and model all possible parameters and their complex interactions with regard to the performance of the portfolio. However, this limitation may be relevant in particular when stress events occur, which explains why a large number of stress tests are also performed. Nevertheless, it is impossible to investigate all conceivable scenarios. Stress tests therefore primarily offer examples of what risks the portfolio is exposed to in extreme market conditions, but they cannot provide a definitive estimate of the maximum loss in the case of a stress event.

Internal market risk management by Risk Management. The Risk Management units are responsible for setting the limits for the different risk activities in their division within the overall framework approved by the Board of Managing Directors. The CRO function ensures the consistency and completeness of the approved limits.

In addition to regulatory reporting requirements (99% confidence level, ten-day holding period), value at risk is calculated for the purposes of internal risk limitation and determination using a confidence level of 95% and a one-day holding period. In contrast to calculations for regulatory purposes, higher 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.

In addition to the value at risk approach, the Bank's position- and strategy-specific risk indicators and risk limits are tailored to the specific needs and risk situations of its trading units. Trading activities are managed using the value at risk limits and operational market risk limits, and are monitored on a daily basis by the CRO function. If limits are exceeded, the responsible management unit is notified and takes action to remedy the situation.

A general distinction is made between activities in the trading book and positions taken in order to manage market risk in the banking book. The latter also includes securities held for investment purposes.

Market risk in the trading book. Risk from trading activities increased in comparison to last year. Interest rate risk in particular rose as a result of changes in the correlation and diversification effects between specific and general interest rate risks.

Due to the diversification at portfolio level, which is accounted for in value at risk using correlations between the individual risk categories, the aggregate risk is lower than the total figure for individual risk types.

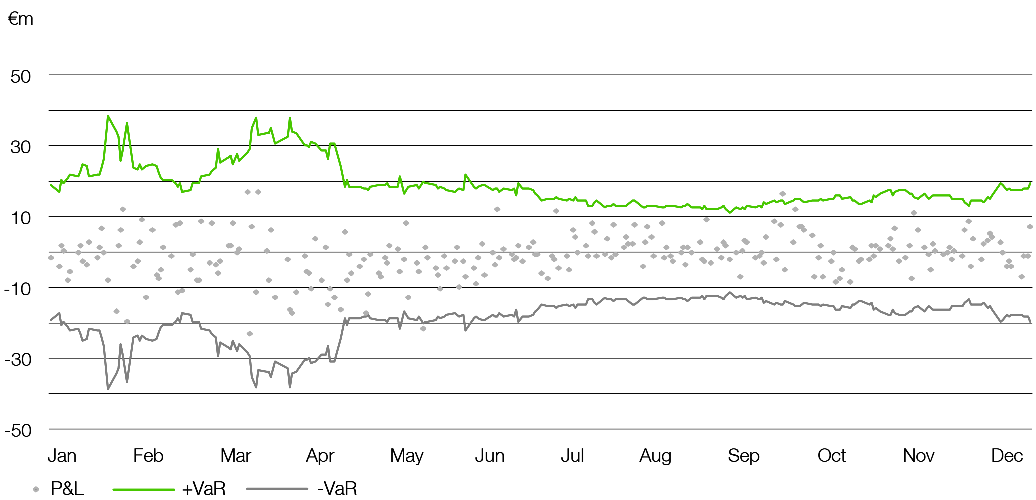
Value at risk statistics (99% confidence level, ten-day holding period)

Value at risk €m	31/12/ 2005	31/12/ 2004	Mean value 2005	Mean value 2004	Maximum 2005	Maximum 2004	Minimum 2005	Minimum 2004
Aggregate risk	66	50	49	95	105	155	26	46
Interest rate risk	71	57	52	99	121	159	25	49
Equity risk	12	15	19	20	36	36	10	12
Currency risk	9	9	7	11	21	37	1	2
Commodity risk	1	–	3	–	10	–	0	–
Diversification effect[1]	-27	-31	-32	-35	–	–	–	–

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

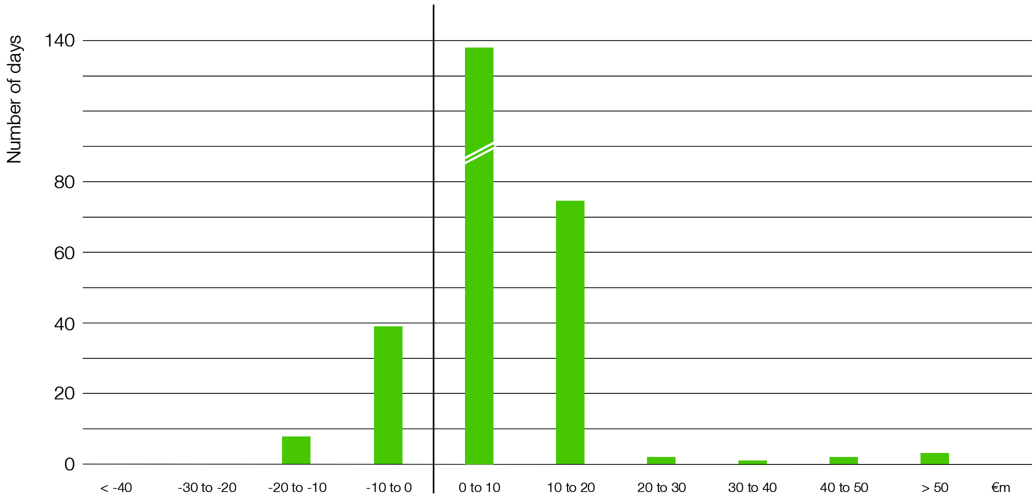
In addition to this presentation of value at risk for regulatory purposes, the calculated value at risk and the hypothetical performance computed for the particular trading day are backtested on a daily basis to validate the quality of our value at risk model. For the hypothetical case only the performance resulting from the changes in market data is taken into account; performance resulting from changes in positions is not taken into account during backtesting, as it is not part of the value at risk model in this respect. To ensure comparability of the daily hypothetical performance with the value at risk, a value at risk with a confidence level of 99% and a one-day holding period is used for backtesting. One negative and one positive outlier were observed for the Dresdner Bank Group in 2005.

Backtesting (99% confidence level, one-day holding period) v. hypothetical performance in 2005



The actual daily change in portfolio values over the course of 2005 is shown in the chart below. The size of the bars indicates the number of trading days on which the changes in portfolio value given on the horizontal axis occurred.

Distribution of changes in portfolio values for DrKW trading activities



(b) Market risk from the banking book

Market risk in the banking book mainly comprises the risk of interest rate changes. Dresdner Bank's Group Treasury is responsible for performance and risk in relation to the management of interest rate risks in the banking book. Position risk is limited using operational value at risk limits, in the same way as for monitoring trading activities. The CRO function checks value at risk limits on a daily basis; the value at risk calculations are based on a confidence level of 99% and a ten-day holding period. The CRO function also determines, monitors and reports on the utilisation of the other operational limits on a daily basis. After adjustment for portfolio effects, the interest rate value at risk for the Group's banking book at year-end amounted to €10.0 million (previous year: €8.6 million).

In addition, risk-bearing capacity as defined by the Basel II criteria is analysed. The CRO function determines the change in the present value in the case of a 2% change in the interest rate and expresses this as a percentage of the liable capital. If the change in the present value exceeds 20% of the liable capital, the Board of Managing Directors of the company concerned is informed without delay.

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

(c) Market risk from investments (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. This risk potential declined substantially year on year following the large-scale reduction of our private equity investments by the IRU and the sale of key shareholdings from our non-strategic Corporate Investments portfolio. With respect to the remaining risks from shareholdings, Dresdner Bank distinguishes between risks from listed investments and risks from other, unlisted shareholdings.

Group Development & Investments manages risks from shareholdings by ensuring the ongoing management and review of shareholdings for strategic and non-strategic investments directly held by Dresdner Bank, by developing and implementing divestment plans, and by submitting disclosures required by domestic and foreign regulatory authorities in relation to offices held and investments in accordance with all applicable laws and regulations. Assessments by Group Development & Investments and impairment testing of unlisted shareholdings round off the risk aspects connected with investments.

In addition to being included in the regulatory capital calculation, risks from shareholdings are backed by economic risk capital in line with historical fluctuations in value, and are disclosed as a separate risk category as part of internal risk management. The economic risk capital backing provided in this context substantially exceeds current regulatory weighting factors. The risk capital resulting from risks from shareholdings in 2005 amounted to €2.1 billion, as against €2.8 billion the previous year. This decline reflects the reduction in non-strategic investments in particular.

(3) Operational risk

Risk taking is an integral part of the banking business. Operational risk is an inevitable consequence. Dresdner Bank's goal is to reduce this risk to a reasonable level. In line with the regulatory requirements, Dresdner Bank defines operational risk (OR) as the risk of loss from failed or inadequate processes, from human error or technical failures, or from external events. This definition includes legal risk, but excludes strategic risk and reputational risk.

The central OR Management function assigned to the CRO function defines the minimum requirements for the entire Dresdner Bank Group. It thus creates the framework within which operational risk is determined and managed in all divisions, functions (e.g. Group Legal, Human Resources, IT) and subsidiaries. As a centre of competence, the central OR Management function provides support for the divisions, functions and subsidiaries responsible for the processes.

A loss database is used to capture and analyse actual losses from operational risks. It serves as a basis for the systematic, detailed elimination of their causes. Dresdner Bank uses external loss data to supplement this internal risk data, and is a member of the Operational Risk Data eXchange Association (ORX).

In addition, Dresdner Bank is participating in an international initiative led by the Risk Management Association (RMA). The key goals of this initiative are the mapping and benchmarking of key risk indicators, i.e. indicators that can provide early warning signals for changes in the operational risk profile.

The organisational units use a structured risk assessment (scenario analysis) to assess both the operational risk and the quality of the workflows in their respective divisions, functions, and subsidiaries. All significant risk factors are assessed with respect to their potential loss frequency and severity. The analysis also includes rare events potentially implying large losses (such as terrorist attacks or natural disasters). The Bank's respective experts are involved in assessing these scenarios.

An internal risk model has been developed for calculating economic risk capital requirements in line with AMA criteria; this model will also be used in future to calculate regulatory capital requirements in accordance with Basel II and is being further enhanced. Risk capital requirements for the divisions, functions, subsidiaries, products, or risk factors can be computed using this model and the results obtained from the structured risk assessment process. Loss data and statistical and non-statistical methods are employed to validate the amounts thus computed.

At €1.1 billion, the resulting risk capital figure in 2005 was at the same level as in the previous year.

The Board of Managing Directors, the RExCo and the heads of the divisions, functions and subsidiaries are regularly informed of developments in the OR profile and OR management.

Legal risk. Legal risk comprises the risk of losses due to new statutory regulations as well as disadvantageous amendments to or interpretation of existing regulations. It also includes the risk that contractual agreements may not be legally enforceable or that a court may replace agreed components of the contract by other provisions detrimental to the Bank. In addition, legal risk comprises infringements of the law due to ignorance, careless interpretation, negligent acts, or the late implementation of laws and regulations.

Limiting legal risk is one of the key tasks of Group Legal. This unit fulfils its duties in a large number of ways, e.g. by applying internationally accepted standard contracts, obtaining legal opinions, formulating General Terms and Conditions of Business and performing legal reviews of banking forms. The contractual terms for established products are continuously reviewed to establish whether any amendments are required as a result of changes in legislation or case law.

Group Legal provides legal advice to the Board of Managing Directors, the Supervisory Board, the divisions and functions, and all companies belonging to Dresdner Bank. Topics covered include banking supervision law, compliance, money laundering, bank secrecy, data protection and e-commerce. Group Legal provides information on provisions to be created at Dresdner Bank for legal actions and participates in the qualitative analysis of operational risk. Legal risks that may arise in consequence of the business activities of the individual divisions were assessed in the year under review by the divisions themselves and/or by the divisional Risk Management units responsible. To the extent that material risks could arise from legal actions or issues affecting the Bank as a whole emerge, Group Legal involves the Board of Managing Directors in its reporting.

(4) Business risk

Business risk results from unexpected fluctuations in results that arise when expenses cannot be reduced in line with a decline in earnings (fixed cost risk).

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

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

(5) Liquidity risk

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

Group Treasury is responsible for liquidity risk management within Dresdner Bank. Regional Treasury units report regularly on their local markets to Group Treasury. The Risk Control unit within the CRO function, which is functionally and organisationally independent of Group Treasury, is responsible for monitoring risk limits, for validating the methodology used and for reporting.

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

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

In addition, individual empirical parameters are analysed, e.g. the volumes and composition of unencumbered securities, securities deposited as collateral with central banks, unsecured funding through banks and own issues of money-market securities. In addition to such empirical parameters, the regular reports to the Board of Managing Directors contain stress scenarios that, for example, take into account the effects of rating downgrades, the withdrawal of customer deposits, or a deterioration in asset liquidity.

The Bank's refinancing strategy aims among other things to achieve a balance between stable sources of refinancing and loans on the one hand, and between rating-sensitive funding and unencumbered securities positions on the other. Particular attention is paid during this process to ensuring a high degree of diversification with regard to customer groups, currencies, instruments and markets.

Monitoring of the liquidity of unencumbered securities is particularly important so as to be able to meet unexpected short-term payment obligations at any time. The proportion of unencumbered securities eligible for refinancing with the ECB amounted to €27.8 billion at year-end (previous year: €31.0 billion).

As at 31 December 2005, the ratio of highly liquid assets to short-term liabilities at Dresdner Bank as defined in the BaFin's Principle II produced excess liquidity (maturity: one month) of €20.2 billion (previous year: €24.2 billion).

(6) Other risks

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

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

Reputational risk. Reputational risk is the risk that Dresdner Bank will lose its good reputation in the eyes of its stakeholders, e.g. customers, Allianz Group shareholders, employees, or the public. Reputational risk may arise from all public activities by the Bank and may lead to a direct or indirect decline in the enterprise value. Conversely, losses from other risks, regardless of their size, may lead to long-term reputational damage if they become known. This is why Dresdner Bank's risk management concept includes the identification, assessment and reporting at as early a stage as possible of reputational risk at all levels (transaction, product and service levels), so as to enable proactive risk management.

Environmental risk. Environmental risks may have severe economic effects on the Bank's lending business, or lead to business interruptions. The Environmental Risk Management Manual distinguishes between credit risk, collateral risk, liability risk and reputational risk. An environmental management system certified in accordance with ISO 14001:2005 is used to analyse, assess and manage potential risks on an end-to-end basis. These risks are limited in the divisions and business units by systematically monitoring environmental risk in the lending business and applying international standards (Equator Principles, Hermes Guidelines, etc.). Climate related risks, risks associated with financing renewable energies and risks involved in CO_2 emission trading are identified, analysed and mitigated in a centre of competence.

Summary: Risk Capital Requirements Reduced

The key figure used in Dresdner Bank's overall risk management is its risk capital requirements – the amount of capital needed to protect the Bank against unexpected losses. Risk capital requirements are determined monthly using internal risk measurement methods and cover 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 individual divisions and the Bank as a whole, with diversification effects between different risk types that reduce the overall risk level being taken into account. In 2005, Dresdner Bank's risk capital requirements fell to a total of €7.0 billion (previous year: €7.9 billion). As in the past two fiscal years, this is primarily due to the reduction of our non-strategic business by the Institutional Restructuring Unit. As at year-end, risk capital requirements could be broken down as follows:

Risk capital requirements by risk type	**31/12/2005** €bn	**31/12/2004** €bn
Credit and counterparty risk, including transfer risk	4.8	5.1
Market risk from the trading and banking book	0.3	0.4
Market risk from investments	2.1	2.8
Operational risk	1.1	1.1
Business risk	0.5	0.5
Total (excl. diversification effect)	**8.8**	**9.9**
Diversification	-1.8	-2.0
Total	**7.0**	**7.9**

Risk capital requirements are used as the basis for risk limitation at the level of the Bank as a whole and of the individual divisions. The size of the limits is derived annually from the risk cover amount and adjusted, if necessary, in line with risk-bearing capacity considerations. The limits are approved by the Board of Managing Directors and require the explicit consent of the Supervisory Board's Credit and Risk Committee. Limit utilisation reports are submitted to the Board of Managing Directors on a monthly basis and to the Supervisory Board at regular intervals.

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

Risk capital requirements are reconciled on a monthly basis with the capital available in the form of the risk cover amount to provide an overall assessment of economic risk-bearing capacity. The capital available in the form of the risk cover amount primarily comprises balance sheet equity less goodwill. In fiscal year 2005, the capital available (risk cover amount) exceeded risk capital requirements in every month. At year-end 2005, the excess cover amounted to €5.8 billion (previous year: €4.1 billion).

Consolidated Financial Statements

Income Statement

	Note	2005 €m	2004 €m	Change €m	Change %
Net interest and current income	(2)	2,221	2,271	-50	-2.2
– Interest and current income	(2)	6,876	6,157	719	11.7
– Interest expense	(2)	4,655	3,886	769	19.8
Loan loss provisions	(3)	-113	337	-450	
Net interest and current income after loan loss provisions		2,334	1,934	400	20.7
Net fee and commission income	(4)	2,610	2,563	47	1.8
– Fee and commission income		2,907	2,880	27	0.9
– Fee and commission expense		297	317	-20	-6.3
Net trading income	(5)	1,104	1,500	-396	-26.4
Administrative expenses	(6)	5,303	5,403	-100	-1.9
Operating result		**745**	**594**	**151**	**25.4**
Other operating income/expenses	(7)	-20	-199	179	89.9
Result from investment securities	(8)	1,452	142	1,310	>+100.0
Amortisation of and impairment losses on goodwill		2	124	-122	-98.4
Restructuring charges	(9)	12	290	-278	-95.9
Income before taxes		**2,163**	**123**	**2,040**	**>+100.0**
Tax expense	(10)	377	-142	519	
Income after taxes		**1,786**	**265**	**1,521**	**>+100.0**
Income attributable to minority interests		76	59	17	28.8
Net income for the year		**1,710**	**206**	**1,504**	**>+100.0**
Appropriation of distributable profit					
Net income for the year		1,710	206	1,504	>+100.0
Addition to retained earnings		901	206	695	>+100.0
Distributable profit		809	0	809	
Earnings per share (€)	(11)	2.96	0.36		

Balance Sheet

Assets	Note	31/12/2005 €m	31/12/2004 €m	Change €m	Change %
Cash funds	(13)	4,295	2,266	2,029	89.5
Financial assets at fair value	(14)	165,806	192,570	-26,764	-13.9
Loans and advances to banks (net of loan loss allowance of €190m)	(15)	99,791	125,634	-25,843	-20.6
Loans and advances to customers (net of loan loss allowance of €1,372m)	(16)	161,941	166,625	-4,684	-2.8
Investment securities	(19)	13,739	17,102	-3,363	-19.7
Investments in enterprises accounted for using the equity method	(19)	392	2,785	-2,393	-85.9
Property and equipment	(20)	2,432	4,451	-2,019	-45.4
Intangible assets	(21)	467	451	16	3.5
Assets held for sale	(22)	1,410	–	1,410	
Other assets	(23)	8,195	8,420	-225	-2.7
Deferred tax assets	(33)	2,904	3,566	-662	-18.6
Total assets		**461,372**	**523,870**	**-62,498**	**-11.9**

Liabilities and Equity	Note	31/12/2005 €m	31/12/2004 €m	Change €m	Change %
Financial liabilities at fair value	(26)	81,322	99,799	-18,477	-18.5
Liabilities to banks	(27)	139,910	187,462	-47,552	-25.4
Liabilities to customers	(28)	155,785	154,513	1,272	0.8
Certificated liabilities	(29)	50,079	46,494	3,585	7.7
Provisions and other liabilities	(30)	11,976	13,462	-1,486	-11.0
Deferred tax liabilities	(33)	996	1,628	-632	-38.8
Subordinated liabilities	(34)	5,811	6,189	-378	-6.1
Profit-participation certificates	(35)	1,517	1,526	-9	-0.6
Equity	(36)	13,976	12,797	1,179	9.2
– Parent shareholders' equity		11,763	10,929	834	7.6
– Subscribed capital		1,503	1,503	0	0.0
– Additional paid-in capital		6,383	6,676	-293	-4.4
– Retained earnings		2,213	1,366	847	62.0
– Translation reserve		-380	-497	117	-23.5
– Cumulative remeasurement gains/losses on financial instruments		1,235	1,881	-646	-34.3
– Distributable profit		809	0	809	
– Minority interests		2,213	1,868	345	18.5
Total liabilities and equity		**461,372**	**523,870**	**-62,498**	**-11.9**

Statement of Changes in Equity

€m	Subscribed capital	Additional paid-in capital	Retained earnings	Translation reserve	Cumulative remeasure-ment gains/ losses	Distributable profit	Parent shareholders' equity
1 January 2004	**1,503**	**7,382**	**665**	**-542**	**2,302**	**–**	**11,310**
Withdrawal from additional paid-in capital due to hive-off of Asset Management		-706					-706
Changes due to currency translation				45			45
Remeasurement gains/losses on available-for-sale financial instruments					-421		-421
Remeasurement gains/losses on cash flow hedges					–		–
Other capital changes			494				494
Net income for the year						207	207
Addition to retained earnings			207			-207	–
31 December 2004/1 January 2005	**1,503**	**6,676**	**1,366**	**-497**	**1,881**	**–**	**10,929**
Withdrawal from additional paid-in capital due to hive-off of assets		-293					-293
Changes due to currency translation				117			117
Remeasurement gains/losses on available-for-sale financial instruments					-649		-649
Remeasurement gains/losses on cash flow hedges					3		3
Other capital changes			-54				-54
Net income for the year						1,710	1,710
Addition to retained earnings			901			-901	–
31 December 2005	**1,503**	**6,383**	**2,213**	**-380**	**1,235**	**809**	**11,763**

€m	Subscribed capital and minority interests in reserves	Translation reserve	Cumulative remeasure-ment gains/ losses	Distributable profit	Total minority interests
1 January 2004	**2,217**	**-221**	**38**	**–**	**2,034**
Changes in minority interests	-64	-139	-22		-225
Net income/net loss for the year				59	59
Addition to retained earnings	59			-59	–
31 December 2004/1 January 2005	**2,212**	**-360**	**16**	**–**	**1,868**
Changes in minority interests	-11	273	7		269
Net income for the year				76	76
Addition to retained earnings	76			-76	–
31 December 2005	**2,277**	**-87**	**23**	**–**	**2,213**

Statement of Cash Flows

€m	2005	2004
Operating activities		
Net income for the year	1,710	206
Adjustments to reconcile net income/net loss to net cash used in operating activities		
Impairment losses on investments	129	212
Reversals of impairment losses on investments	4	-75
Depreciation, amortisation and impairment losses, and reversals of impairment losses, on items of property and equipment and intangible assets	414	677
Minority interests in net income	76	59
Changes in provisions	-163	-302
Changes in other non-cash items	693	-211
Gains/losses on the disposal of investment securities, property and equipment	-1,638	-625
Net decrease/increase in loans and advances to banks and customers	33,300	512
Net decrease/increase in trading portfolio	8,163	-31,958
Net decrease/increase in other assets	-3,025	-618
Net decrease/increase in liabilities to banks and customers	-46,280	23,973
Net issuance of certificated liabilities	3,585	6,702
Net decrease/increase in other liabilities	-2,188	1,410
Net cash provided/used in operating activities	**-5,220**	**-38**
Investment activities		
Proceeds from the disposal of		
– Investment securities	11,960	14,732
– Property and equipment	2,009	861
Payments for the acquisition of		
– Investment securities	-8,067	-15,919
– Property and equipment	-447	-2,236
Effects of changes in consolidated group structure	2,408	-415
Net cash used in investing activities	**7,863**	**-2,977**
Financing activities		
Proceeds from capital increases	-293	–
Net issuance of subordinated liabilities	-378	-235
Net issuance of profit-participation certificates	77	127
Payments on profit-participation certificates	-87	-111
Other	59	35
Net cash used in financing activities	**-622**	**-184**
Effects of exchange rate changes	8	-26
Net decrease/increase in cash and cash equivalents	**2,029**	**-3,225**
Cash and cash equivalents at the beginning of the year	2,266	5,491
Cash and cash equivalents at the end of the year	4,295	2,266
Supplementary disclosure of cash flow information		
Cash interest received	8,942	4,928
Dividends received	102	289
Cash interest paid	4,398	4,069
Cash income taxes paid	443	179

Notes

Accounting Policies

(1) Basis of accounting

The consolidated financial statements of Dresdner Bank AG have been prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the EU, and the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as consolidated financial statements required to be prepared in accordance with Article 4 of the IAS Verordnung (IAS-VO – IAS Ordinance). In addition, section 315a (1) of the Handelsgesetzbuch (HGB – German Commercial Code) regulates the application of the specified provisions of the HGB (e.g. those regarding the group management report) that are required to be applied to the IFRS consolidated financial statements, as well as other explicitly defined additional disclosures. All of the standards that were required to be applied in the respective fiscal years have been applied in preparing the current consolidated financial statements. We have adopted the provisions of IAS 39 regarding the fair value option before the effective date. We have not adopted other standards and interpretations relevant to the Bank that have been issued but are not yet required to be applied, such as IFRS 7 and IFRIC 4, before their respective effective dates. The provisions of the Aktiengesetz (AktG – German Public Companies Act) have been complied with. The reporting currency is the euro (€); the fiscal year is the calendar year. Amounts are generally given in millions of euros, percentages are rounded to one decimal place in accordance with the principles of commercial rounding.

The following are the material amendments to the Standards affecting the Bank that have been mandatory since 1 January 2005:

- According to IFRS 3, goodwill may no longer be amortised. Instead, with effect from the beginning of the fiscal year, an impairment test must be performed at least once a year.

- IFRS 5 specifies the accounting treatment for non-current assets held for sale, among other things. Assets held for sale must be presented separately on the face of the balance sheet and carried at the lower of the carrying amount and fair value less costs to sell.

- In accordance with IAS 1, minority interests are now no longer reported as a separate line item in the balance sheet, but are presented within equity.

- Purchased receivables (in particular promissory notes) that are not held for trading were previously classified as available for sale and not recognised in income, but rather measured at their fair value and carried under investment securities. In accordance with IAS 39 (amended 2004), these receivables are now reported under loans and advances to banks or loans and advances to customers to the extent that they are not listed on an active market and, since they are classified as belonging to the extended category of loans and receivables, are measured at amortised cost.

- From now on, available-for-sale equity instruments are regarded as impaired if there has been a significant or prolonged decline in the fair value of the instruments below their cost; each criterion is on its own evidence of impairment.

- Impairment losses on available-for-sale equity instruments that have been recognised in profit or loss can no longer be reversed up to the cost of the instruments when the reason for the impairment no longer exists. Instead, reversals are taken directly to equity and the reserve is only released when the asset is disposed of.

- Starting in Q3 2005, the Dresdner Bank Group has adopted the fair value option in the amended form based on the provisions of IAS 39 (revised 2003) before the effective date. According to this, all financial instruments may be designated as belonging to the fair value category and recognised in income under certain conditions. They are reported separately from the trading assets and liabilities items as financial assets and liabilities at fair value through profit and loss.

The rules contained in IFRS 3 and IFRS 5 must be applied prospectively, while the other rules apply retrospectively, i.e. the prior-year figures must be restated as if the new rule had always applied. No reclassifications other than those resulting from changes to the standards were performed.

The effects of the retrospective application of the revised IAS 39 (including the fair value option) on the items in the 2004 income statement can be seen from the following reconciliation:

	2004	**Revised IAS 39**			**2004**
€m	(as published in 2004)	Impairment losses	Reversals of impairment losses	Fair value option	(as published in 2005)
Net interest and current income	2,279			-8	2,271
Loan loss provisions	337				337
Net interest and current income after loan loss provisions	1,942			-8	1,934
Net fee and commission income	2,563				2,563
Net trading income	1,509			-9	1,500
Administrative expenses	5,403				5,403
Operating result	**611**			**-17**	**594**
Other operating income/expenses	-199				-199
Result from investment securities	-67	239	-30		142
Amortisation of and impairment losses on goodwill	124				124
Restructuring charges	290				290
Income before taxes	**-69**	**239**	**-30**	**-17**	**123**
Tax expense	-154	9	9	-6	-142
Income after taxes	**85**	**230**	**-39**	**-11**	**265**
Income attributable to minority interests	59				59
Net income for the year	**26**	**230**	**-39**	**-11**	**206**

The effects of the retrospective application of the revised IAS 39 (including the fair value option) and the balance sheet reclassifications on the items in the balance sheet as at 31 December 2004 can be seen from the following reconciliation:

Assets	**31/12/2004**	**Reclassifi-**	**Revised IAS 39**			**31/12/2004**
€m	(as published in 2004)	**cations**[1]	Impairment losses	Reversals of impairment losses	Fair value option	(as published in 2005)
Cash funds	2,266					2,266
Financial assets at fair value	191,288				1,282	192,570
Loans and advances to banks (net of loan loss allowances of €221 million)	124,377	2,009			-752	125,634
Loans and advances to customers (net of loan loss allowances of €3,841 million)	165,230	1,925			-530	166,625
Investment securities	21,094	-3,992				17,102
Investments in enterprises accounted for using the equity method	2,860	-75				2,785
Property and equipment	4,451					4,451
Intangible assets	451					451
Other assets	8,420					8,420
Deferred tax assets	3,553	-3			15	3,566
Total assets	**523,990**	**-135**	**–**	**–**	**15**	**523,870**

Liabilities and Equity	**31/12/2004**	**Reclassifi-**	**Revised IAS 39**			**31/12/2004**
€m	(as published in 2004)	**cations**[1]	Impairment losses	Reversals of impairment losses	Fair value option	(as published in 2005)
Financial liabilities at fair value	99,599				200	99,799
Liabilities to banks	187,469				-7	187,462
Liabilities to customers	154,650				-137	154,513
Certificated liabilities	46,512				-18	46,494
Provisions and other liabilities	13,462					13,462
Deferred tax liabilities	1,651	-23				1,628
Subordinated liabilities	6,189					6,189
Profit-participation certificates	1,526					1,526
Equity	12,932					12,797
– Parent shareholders' equity	11,063	-112			-23	10,929
– Subscribed capital	1,503					1,503
– Additional paid-in capital	6,676					6,676
– Retained earnings	3,155		-1,626	-141	-23	1,366
– Translation reserve	-497					-497
– Cumulative remeasurement gains/losses on financial instruments	226	-112	1,626	141		1,881
– Distributable profit	0					0
– Minority interests	1,869		-1			1,868
Total liabilities and equity	**523,990**	**-135**	**-1**	**0**	**15**	**523,870**

[1] Registered mortgage bonds and promissory note loans.

Consolidated Group companies. Subsidiaries in which the Bank, 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 on which control by the Bank ceases.

Special funds and special purpose entities over which the Bank has control (as defined by a series of criteria, and in particular opportunity and risk) 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 net income of the Bank's majority-held subsidiaries are reported under equity in the items minority interests or income attributable to minority interests.

Associates and joint ventures. Associates 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. 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 is reported as net interest and current income under the item current income from investments in enterprises accounted for using the equity method. The Group's share of unrealised gains or losses from enterprises accounted for using the equity method is reported under cumulative remeasurement gains/losses on financial instruments.

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 accounting policies applicable to the respective single-entity financial statements are the same as those applied throughout the Group.

Goodwill is reported separately. It is tested for impairment by comparing the total carrying amount of the investment with its estimated recoverable amount. Where the carrying amount exceeds the estimated recoverable amount, an impairment loss must be recognised.

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 for the year. Balance sheet items are translated at the prevailing exchange rates as at 31 December of each year. Currency-related differences in equity are recognised in the translation reserve that forms a separate item under 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 written down for impairment where necessary. Foreign currency transactions are translated into euros at the exchange rates prevailing on the transaction dates. 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. Non-monetary assets that are measured at cost are translated at the euro exchange rate at the time of their acquisition; non-monetary assets that are measured at fair value are translated at the current euro exchange rate. 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.

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 held for trading and securities not held for trading are recognised at the trade date; all other financial instruments are recognised at the settlement date. Financial instruments are measured on the basis of classification into the categories described below:

- Financial assets or liabilities at fair value through profit or loss. These include on the one hand financial assets or liabilities held for trading purposes, which are primarily utilised to generate a profit from short-term fluctuations in price or dealer's margin. On the other hand, provided that certain criteria are satisfied, any financial instrument can be designated as at fair value through profit or loss as long as the fair value can be reliably determined.

- Held-to-maturity financial assets are assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. This positive intention 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.

- Loans and advances that are not held for trading purposes and that are not traded on an active market.

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

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

At initial recognition financial assets are measured at 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 assets are also remeasured to fair value, except for loans and receivables that are not held for trading purposes, and certain financial assets for which the fair value cannot be reliably measured. These are carried at amortised cost. Financial liabilities – with the exception of trading liabilities or liabilities that have been designated as at fair value (fair value option) – are also carried at amortised cost.

Financial assets are derecognised when control of the contractual rights arising from these assets is lost. Financial liabilities are derecognised when they have been redeemed.

Net interest and current income. Interest income and interest expenses are recognised in the income statement on an accrual basis. Interest income includes interest income on loans and advances and securities, along with accrued premiums and discounts on treasury bills and other discounted instruments. Current income includes dividends from equities, the share of profit or loss from investments in enterprises accounted for using the equity method, dividends from affiliated and non-affiliated enterprises, interest income on finance leases and rental income from land and buildings used by third parties. The Bank recognises current income from associates and joint ventures on an accrual basis, while dividends are recognised in income when the legal right to receive payment is established. Interest income on finance leases is recognised in income over the term of the respective lease using the effective interest method. Rental income is recognised on an accrual basis. Income from qualifying hedging relationships used to hedge interest rate risks is also reported in net interest and other income. Borrowing costs are recognised in the period in which they are incurred, regardless of when the debt is actually utilised.

Net fee and commission income. Fees and commissions from the securities business include fees and commissions from private placements, loan syndications and financial advisory services in addition to fees and commissions from the Bank's traditional securities brokerage business. The other item includes fees and commissions 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 financial assets and liabilities at fair value. In addition, it includes commissions, all interest and dividend income attributable to trading activities and refinancing costs as well as the remeasurement gains/losses resulting from application of the fair value option.

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 from 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 measured at the trade date, as well as 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 measurement adjustments are made, e.g. for model risks. Measurement gains and losses are recognised in net trading income.

Financial assets and liabilities at fair value through profit or loss. Due to the fair value option, all financial instruments may be irrevocably designated as belonging to the fair value category. Any changes to fair value in subsequent periods must be recognised directly in income.

The Bank uses the revised version of the fair value option, i.e. in those situations in which the designation eliminates or significantly reduces accounting mismatches or avoids the separation of embedded derivatives.

In fiscal year 2005, the Bank designated fixed-income securities as financial assets at fair value and own instruments issued as financial liabilities at fair value.

Repurchase and reverse repurchase agreements and lending and borrowing of securities. A repurchase agreement involves the sale by the Group of securities subject to the simultaneous agreement to repurchase the same securities at a certain later date and at an agreed price. The risks and rewards incident to ownership of the securities remain 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 the risks and rewards incident to ownership of the securities remain 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 accrued and recognised in net interest and current income or net trading income, depending on their respective purpose.

In securities lending and borrowing transactions, securities are borrowed from a market participant (the lender) by a counterparty (the borrower) for a certain period. If the risks and rewards incident to ownership remain with the lender, the securities are reported on the latter's balance sheet in accordance with the original classification; borrowed securities are not reported. If the securities are subsequently sold on, the underlying amounts are reported on the balance sheet; 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, depending on their respective purpose. Income and expenses from securities lending and borrowing transactions are accrued and recognised in net interest and current income or net trading income, depending on their respective purpose.

Loans and advances to banks and loans and advances to customers. Loans and advances to banks and to customers originated by the Bank (including finance leases), as well as acquired loans and advances that are not held for trading purposes and not listed on an active market are measured at amortised cost less any write-downs. 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 on existing loans 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 initially 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. Loan loss allowances are broken down for reporting purposes into specific loan loss allowances, general loan loss allowances and country risk allowances.

Specific loan loss allowances are established to provide for individually identified credit and counterparty risks. The amount of the allowance represents the difference between the carrying amount of the receivable and the present value of the relevant expected cash flows calculated using the discounted cash flow method, after allowing for recoverable collateral. In the case of smaller standardised loans, we comply with the principle of itemised measurement to the extent that we group them together to form homogeneous portfolios. In this case a particular loan loss allowance for risks is applied; the methodology for this is explained in the Risk Report. The creation of homogeneous portfolios is restricted to certain loans in the Personal Banking and Private & Business Banking divisions.

General loan loss allowances are established to provide for incurred but unidentified losses that are inherent in the loan portfolio as at the reporting date. The amount of the general loan loss allowances is based on historical loss probabilities and loss ratios for that portion of the loan portfolio for which no other loan loss allowances have been charged to date, plus the average identification period to be applied. The economic environment and current events are taken into account when determining the general loan loss allowances. The particular loan loss allowance for risks is reported as a component of the general loan loss allowances.

Adequate protection against country risk in the form of transfer or conversion risk is provided in particular by an internal rating system that groups countries according to a 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.

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.

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

Investments in affiliated enterprises relate to those companies in which the Group holds a majority interest but which are not consolidated due to their minor importance for the Group, as well as shares held by us in companies included in the consolidated financial statements of the Allianz Group.

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 enterprises, 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.

Measurement gains or losses on available-for-sale financial assets at fair value are initially taken to a separate item in equity. The cumulative remeasurement gains/losses taken to equity for an available-for-sale financial instrument are subsequently recognised in income when the instrument is disposed of.

Securities classified as available for sale are regularly tested for impairment. A distinction is made in this context between equities and debt instruments. Available-for-sale equity instruments are regarded as impaired if there has been a significant or prolonged decline in their fair value below their cost; each criterion is on its own evidence of impairment. The amount of this impairment loss is recognised in the income statement under the result from investment securities item. Impairment losses on available-for-sale equity instruments that have been recognised in profit or loss can no longer be reversed up to the cost of the instruments if the reason for the impairment no longer exists. Instead, reversals are taken directly to equity, and the reserve is only released to income in the result from investment securities item when the asset is disposed of.

If the fair value of debt instruments classified as available for sale is substantially lower than their amortised cost, the instrument is written down to its lower fair value. The amount of this impairment loss is recognised in the income statement under result from investment securities. Impairment losses are subsequently reversed to income under the result from investment securities item up to a maximum of the amortised original cost if the reasons for the impairment no longer exist.

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

Property and equipment. Owner-occupied properties and land and buildings used by third parties, as well as office furniture and equipment are reported at 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 applied 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

Property and equipment is periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, the asset is written down to its recoverable amount. The fair value of land and buildings used by third parties is calculated on the basis of the discounted cash flow method to determine impairment losses.

Depreciation expense on the Bank's owner-occupied real estate 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 expenses, respectively. Depreciation on land and buildings used by third parties and gains realised on their sale are recognised in the result from investment securities item.

Intangible assets. This item is used to report goodwill and software. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets (equity) of the acquired subsidiary, associate, or joint venture, measured at the date of acquisition.

The resulting goodwill is measured at cost as an intangible asset with an indefinite useful life. It must be reviewed annually for impairment. For this purpose, the goodwill is allocated at the time of acquisition to those cash-generating units that should profit from the synergies produced by the merger. A cash-generating unit is defined as the smallest possible group of assets within the enterprise that generates cash flows largely independently of other assets. Impairment losses must be charged on goodwill if the carrying amount of a cash-generating unit including goodwill exceeds the recoverable amount of the cash-generating unit. Any impairment losses are reported under other operating expenses. Reversals of impairment losses on goodwill are not permitted. Gains or losses realised on the disposal of subsidiaries include any unamortised balance of goodwill relating to the subsidiary disposed of.

The software item consists of purchased and internally developed software and is amortised over the expected useful life (which we currently take to be three or seven years) using the straight-line method. Software development costs are capitalised; they include the costs directly attributable to the software, such as staff costs of the software development team or licence costs. Expenditures that enhance or extend the benefits of computer software programs beyond their original specifications and lives are capitalised as capital improvements and added to the original cost of the software. Costs associated with software system maintenance are recognised as an expense as incurred.

Derivatives. Derivatives are measured at fair value. In the case of products that are not exchange-traded (OTC derivatives), the fair value is determined on the basis of the established measurement methods used by the financial markets (e.g. the net present value method or option pricing models). In the case of the net present value method, the fair value corresponds to the sum of all future cash flows discounted to the measurement date.

Exchange-traded derivatives are only reported at the positive or negative fair values determined on the basis of their market prices if the daily settlement of the variation margin has not occurred on the reporting date (e.g. due to exchanges operating in different time zones), or if special terms of the contract provide for full settlement at the date of maturity only.

Hedge accounting. Derivatives that are used to hedge risks arising from financial assets and liabilities and that qualify for hedge accounting treatment under IAS 39 are reported under the other assets (positive fair values) and other liabilities (negative fair values) items.

IAS 39 provides for three types of hedging relationship that can be used for hedge accounting: (1) fair value hedges, which are designed to hedge the exposure to changes in the fair value of financial assets or liabilities, or to hedge fixed liabilities; (2) cash flow hedges, which are designed to hedge exposure to variable cash flows from recognised assets and liabilities, and to hedge forecast transactions, and (3) as a special form, hedges of net investment in a foreign entity.

In the case of fair value hedges, measurement gains and losses on both the hedging derivative and the underlying with regard to the hedged risk are recognised in net income for the period. Offsetting measurement gains and losses cancel each other out, while any ineffectiveness in the hedging relationship is reported in income.

In the case of cash flow hedges, the underlying is not measured in relation to the hedged risk. The effective portion of the measurement gain or loss of the hedging derivative (in relation to the hedged risk) is recognised in equity after adjustment for deferred taxes and is not taken to income until the offsetting gains and losses relating to the underlying are recognised in income or the transactions expire. The ineffective portion of the hedging relationship is reported in net income for the period.

Hedge accounting under IAS 39 is subject to strict criteria. It is necessary to document each hedging relationship individually and to prove that it is objectively suited to eliminating a major portion of the risk associated with the underlying. The corresponding evidence of effectiveness must demonstrate both that the hedge was highly effective during the term to date of the hedging relationship (retrospective effectiveness) and that a high degree of effectiveness can be expected for the future (prospective effectiveness).

The Bank uses fair value hedges primarily to hedge loans, deposits, available-for-sale securities and own instruments issued against interest rate risks. Hedging may be applied either to individual transactions ("micro hedge") or to a portfolio of similar assets or liabilities ("portfolio hedge").

In selected cases the Bank uses cash flow hedges to hedge variable payment flows from existing financial assets via interest rate swaps.

Due to the highly restrictive provisions of IAS 39, certain economic hedging relationships do not qualify for hedge accounting. As a result, the different accounting treatment applied to the underlying and the derivative leads to volatile earnings due to market changes.

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.

Interest-bearing and non-interest-bearing liabilities. Interest-bearing and non-interest-bearing liabilities are recognised at amortised cost, including directly attributable transaction costs. Discounts are amortised to income over the life of the respective liabilities using the effective interest method.

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 reviewed and remeasured on an annual basis.

Provisions recognised for credit risks relating to off-balance sheet loan commitments, guarantees and warranties are charged to loan loss provisions; restructuring provisions are charged to restructuring charges. Other additions to provisions are generally charged to administrative expenses. Releases of provisions are reported in the items to which the provisions were charged.

As soon as restructuring provisions were concretised in the form of individual contracts, they were reclassified to those categories of provisions to which such agreements would have been allocated on the basis of their original nature.

Tax expense. Income tax payable on net income under the applicable tax law in each jurisdiction is recognised as an expense in the period in which the net income is recognised. Deferred income tax assets and liabilities are recognised in full using the balance sheet liability method 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. Deferred income tax is calculated using the tax rates 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 assets and liabilities are recognised for additional tax payments or refunds due. 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 taxable income.

Other taxes and fiscal entity tax allocations are recognised in tax expense.

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 rest of the Group's employees receive a capital commitment that is paid out when the respective employee reaches the age limit, in the case of occupational disability, or when the employee dies. 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 set up in accordance with IAS 19 for the majority of our employees.

A defined-benefit plan is a pension plan that defines the 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 liabilities 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 reporting date. The discount rate used reflects prevailing market conditions; assumed wage and salary 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 over the average remaining service period if they exceed the greater of 10% of the present value of the defined-benefit obligations or 10% of the fair value of the plan assets. The pension cost is recognised in administrative expenses under pension benefit expense.

As a result of the "Konzernbetriebsvereinbarung zum beitragsorientierten Pensionsvertrag" (KBV BPV I – Group Works Agreement on the Defined Contribution Pension Agreement) starting in 2005 and the "Konzernbetriebsvereinbarung zur Harmonisierung der bestehenden Versorgungsordnung in einen beitragsorientierten Pensionsvertrag" (KBV BPV II – Group Works Agreement on the Harmonisation of the Existing Pension Rules under a Defined Contribution Agreement) starting in 2006, the defined-benefit plans have been discontinued and replaced by the new KBV BPV II. The resulting remeasurement effects were recognised in income in fiscal year 2005.

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 pension benefit expense.

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 fee and commission income in the income statement.

Consolidated statement of cash flows. The consolidated statement of cash flows 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/used 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.

Notes to the Consolidated Income Statement and Segment Reporting

(2) Net interest and current income

€m	2005	2004
Interest income from		
– Lending and money market operations[1)]	5,839	5,226
– Fixed-income securities and government debt	484	449
Current income from		
– Equities and other non-fixed-income securities	96	243
– Investments in enterprises accounted for using the equity method	171	52
– Finance leases	122	42
– Land and buildings used by third parties	164	145
Total interest and current income	**6,876**	**6,157**
Interest expense for		
– Deposits	2,984	1,965
– Certificated liabilities	1,157	1,345
– Subordinated liabilities	242	363
– Other	272	213
Total interest expense	**4,655**	**3,886**
Net interest and current income	**2,221**	**2,271**

1) Losses from the application of IAS 39: €-346 million (previous year: €-324 million).

Interest income contains €76 million from financial instruments at fair value through profit or loss (previous year: €51 million); the corresponding figure for interest expense is €17 million (previous year: €15 million). Net interest income from trading activities of €506 million (previous year: €439 million) is reported in net trading income (see Note 5).

(3) Loan loss provisions

€m	2005	2004
Additions to loan loss provisions[1)]	737	1,398
Amounts released	751	949
Recoveries on loans previously written off	99	112
Loan loss provisions	**-113**	**337**

1) Contains direct write-downs in the amount of €36 million (previous year: €14 million).

(4) Net fee and commission income

€m	2005	2004
Securities business	1,191	1,102
Asset management	288	370
Mergers & acquisitions and underwriting business	315	250
Payment transactions	269	284
Foreign commercial business	143	151
Other	404	406
Net fee and commission income	**2,610**	**2,563**

The other item primarily contains income from the brokerage of insurance policies, the distribution of closed-end funds and the guarantee loan business.

(5) Net trading income

€m	2005	2004
Trading in interest rate products	532	800
Trading in equities products	217	219
Foreign exchange and precious metals trading	222	150
Remeasurement gains/losses from the application of IAS 39	139	340
Remeasurement gains/losses from the application of the fair value option	-6	-9
Net trading income	**1,104**	**1,500**

€m	2005	2004
Net realised gains/losses	860	1,046
Net remeasurement gains/losses[1)]	-222	39
Brokerage fees and commissions	-40	-24
Net interest income	506	439
– Interest and dividend income	9,056	6,735
– Interest expense	8,550	6,296
Net trading income	**1,104**	**1,500**

1) Including gains/losses from the application of IAS 39.

Interest and dividend income on the one hand and interest expense on the other hand are the gross amounts from the volume of business generated by the Bank's trading activities.

Ineffective hedge relationships resulting from the application of hedge accounting under IAS 39 amounted to €-3 million (previous year: €17 million) in the case of fair value hedges and €-5 million (previous year: €-1 million) in the case of cash flow hedges.

(6) Administrative expenses

€m	2005	2004
Total staff costs	3,261	3,314
– Wages and salaries	2,630	2,705
– Social security contributions	350	358
– Pension benefit expense	281	251
Other administrative expenses	1,796	1,767
– Professional services	264	241
– Occupancy expenses	347	382
– Office furniture and equipment	559	581
– Other miscellaneous administrative expenses	626	563
Depreciation of property and equipment	246	322
Administrative expenses	**5,303**	**5,403**

Excluding vocational and other trainees, the average number of staff employed during the year was 33,249 (previous year: 36,636). The breakdown of these employees by location was as follows:

Employees	2005	2004
Germany	27,183	29,754
Other countries	6,066	6,882
Total	**33,249**	**36,636**

The average number of trainees during the year was 119 (previous year: 132); the average number of vocational trainees was 1,368 (previous year: 1,696).

(7) Other operating income/expenses

€m	2005	2004
Other operating income	284	268
Other operating expenses	304	467
Other operating income/expenses	**-20**	**-199**

Other operating income includes amounts that cannot be attributed to other items of the income statement, and in particular disposal gains from the sale of a regional business unit, cost refunds from unconsolidated affiliated enterprises, realisation gains on the disposal of internally used items of property and equipment, and releases of provisions.

Other operating expenses include amounts that cannot be attributed to other items of the income statement, including expenses for provisions in connection with the reorganisation of our use of office space, pension plans, damages, losses realised on the disposal of internally used items of property and equipment and the costs of raising long-term debt.

(8) Result from investment securities

€m	2005	2004
Net realised gains/losses	1,652	609
Net remeasurement gains/losses	-200	-467
Result from investment securities	**1,452**	**142**

The net remeasurement losses include a net loss of €22 million (previous year: net income of €90 million) relating to derivatives not qualifying for hedge accounting under IAS 39.

€m	2005	2004
Net income from the disposal of available-for-sale financial assets	546	370
Net income on the disposal/remeasurement of affiliated enterprises/associates	1,069	1
Net loss on land and buildings used by third parties[1]	-163	-229
Result from investment securities	**1,452**	**142**

[1] See also Note 20.

The net result from investment securities for the previous year increased by €209 million due to the retrospective application of the revised IAS 39. Application of the extended indicators of impairment of our shareholdings led particularly in the context of the stock market slump in 2002/2003 to additional impairment losses of €1,866 million, which were recognised retrospectively in income. As a result, impairment losses of €240 million charged in 2004 had to be reversed.

Due to the prohibition on the reversal of impairment losses, reversals of impairment losses amounting to €124 million and €31 million respectively for the years 2003 and 2004 that had been recognised in income had to be reversed.

(9) Restructuring charges

€m	2005	2004
2005 programmes	23	–
2004 programmes	-9	139
“Neue Dresdner” programme	-4	96
Other programmes	2	55
Restructuring charges	**12**	**290**

In 2005, individual measures were initiated that resulted in restructuring charges of €23 million. These initiatives affect around 250 staff positions, mainly in the Bank’s functional areas. These measures and the ones from previous years are scheduled to be largely completed by the end of 2006.

The regular review of existing provisions resulted in net releases for the “Neue Dresdner” and 2004 programmes of €9 million and €4 million respectively. Other restructuring measures in previous years resulted in minor costs of €2 million in the year under review. Information on the development of provisions is provided in Note 30.

(10) Tax expense

€m	2005	2004
Income tax expense	368	-150
– Current taxes	291	16
– Deferred taxes	77	-166
Other taxes	9	8
Tax expense	**377**	**-142**

Further information on income taxes is provided in Note 33. Other taxes include property taxes, vehicle taxes and other taxes that are not based on the Group’s taxable net income.

(11) Earnings per share

Earnings per share are calculated by dividing the net income/net loss for the year by the weighted average number of shares outstanding during the fiscal year.

	2005	2004
Net income/net loss for the year (€m)	1,710	206
Average number of shares in issue (millions of shares)	578.1	578.1
Earnings per share (€)	**2.96**	**0.36**

After adjustment for the retrospective application of the revised IAS 39, earnings per share for fiscal years 2005 and 2004 would have amounted to €0.79 and €0.04 respectively.

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's shares. No such rights existed at the end of 2005 and 2004. The diluted earnings per share therefore correspond to the earnings per share.

(12) 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.

The **Personal Banking** division offers private clients personalised financial solutions comprising products for asset accumulation, financing, retirement provision and insurance.

The **Private & Business Banking** division's Private Banking offering comprises individual asset management for wealthy private clients, including retirement provision and financing concepts as well as tailor-made financial and asset planning. Business Banking offers our business clients integrated advice on their personal and business finances. Private & Business Banking is present both in Germany and in all major European currency and financial centres.

The **Corporate Banking** division provides commercial banking services to corporate clients. Its range of services includes lending and deposits, foreign commercial business, securities, and payments, including related e-business activities. Corporate Banking works closely with the DrKW division to offer its clients an expanded range of capital market and investment banking products in addition to its traditional commercial banking offering.

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

The Bank had bundled loan commitments that no longer fitted its strategic orientation in its **Institutional Restructuring Unit** (IRU) division. The role of the IRU was to systematically reduce its portfolio, which was heterogeneous in terms of both quality and structure; some of the ways in which it achieved this were by placing loans on the capital markets, participating in corporate workouts, refusing loan renewals, or selling the loans. On 30 September 2005, the IRU was able to finish its work substantially earlier than had originally been planned after successfully completing its task. As a result, the Bank can concentrate on the strategic business in its operating divisions.

The **Corporate Investments** segment comprises investment securities and land and buildings used by third parties that we no longer consider to be part of our core business following our strategic reorientation. Our goal is to reduce these holdings as part of a targeted divestment process.

The **Consolidation & Adjustments** segment includes 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 the items recognised under Consolidation & Adjustments as far as possible. These income and expense components include in particular the reconciliation of the financial reporting used in the Group's operating divisions, which focusses on management criteria, with the reporting measures used in the Group's external reporting, as well as expenses for Group-wide functions and projects. In contrast, the cost of services provided by the corporate functions are charged to the divisions as part of internal cost allocation. Consolidation & Adjustments also contains measurement gains/losses on global risks and specific transfer risks, impairment losses on goodwill, the effect on profit or loss of the application of the hedge accounting provisions under IAS 39, and the net income generated by the Dresdner Bank Group's remaining real estate activities. The net income from the Bank's foreign asset management companies generated in the period up to 1 September 2004, the date of their transfer in full to Allianz Global Investors, is also reported in the figures recognised under Consolidation & Adjustments.

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 in the reporting for the current and previous years.

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. Capital is allocated on the basis of the risk capital assigned to the divisions. The benefit from the investment of the allocated capital is allocated to the divisions on the basis of imputed interest. In order to improve the transparency of the economic effect on net income of specific large transactions in the reported income before taxes, net interest and current income for the DrKW division contains a pre-tax equivalent of the after-tax result of these transactions; this is eliminated in Consolidation & Adjustments during reconciliation of segment reporting to the figures recognised in external reporting. Administrative expenses include both direct costs and costs allocated to the segments in connection with the intra-group provision of services.

Services are exchanged between the individual segments on the basis of contractual or mutual agreements between the service providers and the service recipients, or on the basis of corresponding guidelines governing service relationships. The services exchanged between the business segments or functions are measured at market prices or at fully absorbed cost.

The segment assets allocated to the divisions include trading assets, investment securities, 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 externally reported consolidated financial statements, are recognised under Consolidation & Adjustments.

€m	Personal Banking	Private & Business Banking	Corporate Banking	Dresdner Kleinwort Wasserstein	Institutional Restructuring Unit	Corporate Investments	Consolidation & Adjustments	Total Dresdner Bank Group
2005								
Net interest and current income	968	425	635	553	45	138	-543	2,221
Net fee and commission income	901	729	335	622	21	-7	9	2,610
Net trading income	14	25	57	927	4	–	77	1,104
Operating income	**1,883**	**1,179**	**1,027**	**2,102**	**70**	**131**	**-457**	**5,935**
Administrative expenses	1,584	690	461	1,927	162	19	460	5,303
Loan loss provisions	88	49	14	-29	-137	–	-98	-113
Operating result	**211**	**440**	**552**	**204**	**45**	**112**	**-819**	**745**
Other operating income/expenses	3	49	-3	-9	79	-9	-130	-20
Result from investment securities	6	0	-1	23	14	1,065	345	1,452
Amortisation of and impairment losses on goodwill	–	2	–	–	–	–	–	2
Restructuring charges	-5	14	1	8	-6	–	–	12
Income/loss before taxes	**225**	**473**	**547**	**210**	**144**	**1,168**	**-604**	**2,163**
Change y-o-y	252	190	79	79	341	1,301	-202	2,040
Segment assets (€bn)	34.8	16.0	26.3	350.7	–	5.4	28.2	461.4
Segment liabilities (€bn)	27.1	20.8	31.6	295.2	–	2.1	84.6	461.4
Cost-income ratio, %	84.1	58.5	44.9	91.7	231.4			89.4
Loan loss ratio[1], %	0.36	0.45	0.07	-0.08	-6.85			-0.11
Return on equity before taxes[2], %	22.0	81.5	36.5	10.4	27.6			21.1
Risk capital (average)	1,000	600	1,500	2,100	500	2,100	-200	7,600
Risk-weighted assets (average)	24,800	10,800	21,300	40,500	2,100	5,700	2,900	108,100
2004								
Net interest and current income	999	431	626	360	311	-92	-364	2,271
Net fee and commission income	836	692	331	549	53	-3	105	2,563
Net trading income	11	23	56	1,136	-3	2	275	1,500
Operating income	**1,846**	**1,146**	**1,013**	**2,045**	**361**	**-93**	**16**	**6,334**
Administrative expenses	1,646	744	479	1,828	286	17	403	5,403
Loan loss provisions	138	76	54	-1	174	–	-104	337
Operating result	**62**	**326**	**480**	**218**	**-99**	**-110**	**-283**	**594**
Other operating income/expenses	1	-8	4	-8	-143	2	-47	-199
Result from investment securities	7	2	2	21	128	-25	7	142
Amortisation of and impairment losses on goodwill	14	16	1	56	10	–	27	124
Restructuring charges	83	21	17	44	73	–	52	290
Income/loss before taxes	**-27**	**283**	**468**	**131**	**-197**	**-133**	**-402**	**123**
Segment assets (€bn)	32.5	14.4	24.2	408.1	5.7	9.0	30.0	523.9
Segment liabilities (€bn)	27.9	19.9	29.4	359.1	4.1	2.2	81.3	523.9
Cost-income ratio, %	89.2	64.9	47.3	89.4	79.2			85
Loan loss ratio[1], %	0.56	0.72	0.24	0.00	2.64			0.33
Return on equity before taxes[2], %	7.0	53.3	28.6	12.2	-8.1			5.8
Risk capital (average)	1,000	600	1,700	1,900	1,400	2,100	-100	8,600
Risk-weighted assets (average)	24,800	10,700	22,400	30,700	6,700	7,900	3,500	106,700

1) Net loan loss provisions as a percentage of the average risk-weighted assets in the banking book.

2) Income/loss before taxes, amortisation of and impairment losses on goodwill and restructuring charges as a percentage of the average capital resources according to IASs; calculated for the divisions on the basis of the allocated average risk capital.

Depreciation of property and equipment and amortisation of intangible assets amounted to €269 million in fiscal year 2005 and primarily affect the following segments: Personal Banking (€42 million), Dresdner Kleinwort Wasserstein (€71 million), Corporate Investments (€33 million) and Consolidation & Adjustments (€93 million). In addition, impairment losses were charged on land and buildings used by third parties in the Corporate Investments segment in the amount of €129 million. Current income from investments in enterprises accounted for using the equity method of €171 million in 2005 primarily related to the Corporate Investments segment (€119 million) and Dresdner Kleinwort Wasserstein (€26 million).

The picture broken down by geographical region is as follows, based on the domicile of the relevant operating units:

	Income		Income/loss before taxes		Total assets	
€m	2005	2004	2005	2004	2005	2004
Germany	9,532	9,209	2,187	214	399,814	470,142
Europe (excluding Germany)	4,508	3,777	-139	-162	197,827	166,765
North America	1,401	1,439	12	-51	74,317	72,001
Latin America	74	82	28	64	2,281	4,506
Asia/Pacific	365	289	75	58	15,538	20,235
Consolidation	-4,856	-3,761	–	–	-228,405	-209,779
Total	**11,024**	**11,035**	**2,163**	**123**	**461,372**	**523,870**

Income includes interest and current income, current income from equities and other non-fixed-income securities and from investments in affiliated enterprises, current leasing income, rental income from land and buildings used by third parties, commission income, net trading income and other operating income.

Notes to the Consolidated Balance Sheet – Assets

(13) Cash funds

€m	31/12/2005	31/12/2004
Cash on hand	405	446
Balances with central banks	3,735	1,159
Of which: Deutsche Bundesbank	3,050	221
Treasury bills and discounted treasury notes	23	465
Of which: eligible for refinancing with Deutsche Bundesbank	–	–
Bills	132	196
Of which: eligible for refinancing with Deutsche Bundesbank	132	196
Cash funds	**4,295**	**2,266**

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

(14) Financial assets at fair value

The item is composed of trading assets and financial assets at fair value through profit or loss.

€m	31/12/2005	31/12/2004
Debt and other fixed-income securities	108,399	152,486
Equities and other non-fixed-income securities	30,761	19,154
Positive fair values of derivative financial instruments	24,520	19,531
Other trading assets	8	117
Trading assets	**163,688**	**191,288**
Financial assets at fair value through profit and loss	**2,118**	**1,282**
Of which: debt and other fixed-income securities	2,118	1,282
Financial assets at fair value	**165,806**	**192,570**

Breakdown of debt and other fixed-income securities

€m	31/12/2005	31/12/2004
Bonds and notes	105,273	149,126
– Public sector issuers	37,106	88,454
– Other issuers	68,167	60,672
Money market securities	3,126	3,360
– Public sector issuers	1,046	1,211
– Other issuers	2,080	2,149
Debt and other fixed-income securities	**108,399**	**152,486**
Of which: marketable securities	101,531	149,792
– listed securities	70,953	128,406
– unlisted securities	30,578	21,386

Breakdown of equities and other non-fixed-income securities

€m	31/12/2005	31/12/2004
Equities	27,085	17,242
Other	3,676	1,912
Equities and other non-fixed-income securities	**30,761**	**19,154**
Of which: marketable securities	28,267	16,796
– listed securities	27,993	16,713
– unlisted securities	274	83

Positive fair values of derivative financial instruments are disclosed net. Positive and negative fair values in the amount of €63,405 million (previous year: €52,836 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.

(15) Loans and advances to banks

€m	31/12/2005 Germany	31/12/2005 Other countries	31/12/2005 Total	31/12/2004 Germany	31/12/2004 Other countries	31/12/2004 Total
Payable on demand	3,121	21,939	25,060	4,757	19,073	23,830
Other advances	25,604	43,623	69,227	18,625	78,518	97,143
Loans	1,767	3,927	5,694	1,052	3,830	4,882
Loans and advances to banks[1]	**30,492**	**69,489**	**99,981**	**24,434**	**101,421**	**125,855**
Less: loan loss allowances	1	189	190	2	219	221
Loans and advances to banks	**30,491**	**69,300**	**99,791**	**24,432**	**101,202**	**125,634**
Of which: reverse repurchase agreements	24,044	37,251	61,295	16,984	76,869	93,853

[1] Before loan loss allowances.

The purchased loans and advances to banks not held for trading that were reported in the previous year as investment securities are now contained in loans and advances to banks as a result of the application of the revised IAS 39. The amount for the comparable prior-year period has increased by €1,257 million in line with this.

(16) Loans and advances to customers

€m	31/12/2005 Germany	31/12/2005 Other countries	31/12/2005 Total	31/12/2004 Germany	31/12/2004 Other countries	31/12/2004 Total
Corporate customers	28,579	92,483	121,062	31,052	95,640	126,692
Public authorities	288	1,790	2,078	557	2,365	2,922
Private customers	39,062	1,111	40,173	39,637	1,215	40,852
Loans and advances to customers[1]	**67,929**	**95,384**	**163,313**	**71,246**	**99,220**	**170,466**
Less: loan loss allowances	1,136	236	1,372	3,308	533	3,841
Loans and advances to customers	**66,793**	**95,148**	**161,941**	**67,938**	**98,687**	**166,625**
Of which: reverse repurchase agreements	434	41,884	42,318	2,327	57,676	60,003

[1] Before loan loss allowances.

The purchased loans and advances to customers not held for trading that were reported last year as investment securities are now contained in loans and advances to customers as a result of the application of the revised IAS 39. The amount for the comparable prior-year period has increased by €1,395 million in line with this.

Breakdown by sector €m	31/12/2005 Germany	 Other countries	 Total	31/12/2004 Germany	 Other countries	 Total
Manufacturing industry	4,917	3,114	8,031	6,454	3,941	10,395
Construction	653	230	883	811	408	1,219
Wholesale and retail trade	4,553	1,409	5,962	3,976	1,305	5,281
Financial institutions and insurance companies	5,938	76,931	82,869	5,652	79,096	84,748
Transport	1,242	1,737	2,979	1,068	976	2,044
Telecommunications	599	1,162	1,761	361	2,958	3,319
Service providers	8,536	2,906	11,442	10,622	1,823	12,445
Other	2,141	4,994	7,135	2,108	5,133	7,241
Corporate customers	**28,579**	**92,483**	**121,062**	**31,052**	**95,640**	**126,692**
Public authorities	**288**	**1,790**	**2,078**	**557**	**2,365**	**2,922**
Private individuals	**39,062**	**1,111**	**40,173**	**39,637**	**1,215**	**40,852**
Loans and advances to customers[1)]	**67,929**	**95,384**	**163,313**	**71,246**	**99,220**	**170,466**

[1)] Before loan loss allowances.

Breakdown by transaction type €m	31/12/2005 Germany	 Other countries	 Total	31/12/2004 Germany	 Other countries	 Total
Loans	65,044	27,663	92,707	67,058	24,939	91,997
Of which: mortgage loans	10,109	708	10,817	10,718	633	11,351
communal loans	1,683	182	1,865	1,088	252	1,340
home loans	1,776	4	1,780	1,928	43	1,971
other loans secured by mortgages	14,919	129	15,048	16,612	135	16,747
Reverse repurchase agreements	434	41,884	42,318	2,327	57,676	60,003
Other advances	2,451	25,837	28,288	1,861	16,605	18,466
Loans and advances to customers[1)]	**67,929**	**95,384**	**163,313**	**71,246**	**99,220**	**170,466**

[1)] Before loan loss allowances.

Loans and advances to customers include receivables under finance leases in the amount of the net investment of €1,500 million (previous year: €1,248 million). The corresponding gross investment value of these leases amounts to €2,177 million (previous year: €1,533 million), of which €677 million (previous year: €285 million) relates to unearned finance income. The residual values of all leased assets were guaranteed both in the fiscal year under review and in the previous year. As in the previous year, no allowances for unrecoverable lease receivables had been charged at the reporting date. Of the aggregate lease receivables, €155 million is due within one year (previous year: €319 million) and €593 million is due within five years (previous year: €158 million). €751 million (previous year: €771 million) has a residual maturity of more than five years.

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

(17) 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 loans and advances to customers, as appropriate.

€m	31/12/2005 Germany	31/12/2005 Other countries	31/12/2005 Total	31/12/2004 Germany	31/12/2004 Other countries	31/12/2004 Total
Loans extended on bills	132	–	132	196	–	196
Corporate customers	25,783	25,751	51,534	27,051	21,913	48,964
Public authorities	286	803	1,089	531	1,820	2,351
Private customers	38,974	1,109	40,083	39,475	1,206	40,681
Customer loans	**65,175**	**27,663**	**92,838**	**67,253**	**24,939**	**92,192**
Loans to banks	**1,767**	**3,927**	**5,694**	**1,052**	**3,830**	**4,882**
Lending volume	**66,942**	**31,590**	**98,532**	**68,305**	**28,769**	**97,074**
Less: loan loss allowances	1,137	425	1,562	3,310	752	4,062
Lending volume net of loan loss allowances	**65,805**	**31,165**	**96,970**	**64,995**	**28,017**	**93,012**

The purchased loans and advances to banks and to customers not held for trading that were previously reported as investment securities are now contained in loans and advances as a result of the application of the revised IAS 39 (see also Notes 15 and 16).

(18) Changes in 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 €1,562 million (previous year: €4,062 million) and the allowance for contingent liabilities in the amount of €114 million (previous year: €370 million) included in provisions and other liabilities.

€m	Specific loan loss allowances 2005	Specific loan loss allowances 2004	Country risk allowances 2005	Country risk allowances 2004	General loan loss allowances 2005	General loan loss allowances 2004	Total 2005	Total 2004
1 January	3,607	5,019	260	269	565	664	4,432	5,952
Additions to loan loss provisions	570	1,281	83	117	84	–	737	1,398
Charge-offs	2,778	1,861	–	–	–	–	2,778	1,861
Amounts released	615	733	90	119	46	97	751	949
Changes in consolidated companies	-2	-56	–	–	–	–	-2	-56
Other additions/reductions	27	-9	-47	1	16	–	-4	-8
Currency translation differences	23	-34	19	-8	–	-2	42	-44
31 December	**832**	**3,607**	**225**	**260**	**619**	**565**	**1,676**	**4,432**

The loan portfolio includes non-accrual loans amounting to €2,071 million (previous year: €5,545 million). €550 million of this figure relates to the homogeneous portfolio and €1,521 million to the non-homogeneous portfolio. In more detail, the latter amount includes €946 million (previous year: €3,460 million) of loans that were placed on non-accrual status and €575 million (previous year: €2,085 million) of loans which have a specific allowance against the interest accrued. As a result, interest amounting to €100 million (previous year: €238 million), which would have been recognised had these loans been accruing interest, was not included in net interest and commission income.

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

€m	31/12/2005	31/12/2004
Debt and other fixed-income securities	10,429	11,534
Equities and other non-fixed-income securities	3,172	3,906
Investments in unconsolidated affiliated enterprises	138	1,662
Investment securities	**13,739**	**17,102**
Investments in enterprises accounted for using the equity method	**392**	**2,785**

The purchased loans and advances to banks and to customers not held for trading that were previously reported as investment securities are now contained in loans and advances to banks and customers respectively as a result of the application of the revised IAS 39 (see also Notes 15 and 16). Carrying amounts of €1,282 million were reclassified as at 31 December 2004 under the fair value option.

Investment securities are generally recognised at their fair values. The total carrying amounts of investment securities measured at amortised cost amounted to €269 million (previous year: €281 million). Of this amount, investment securities with a carrying amount of €8 million were sold for a total gain of €26 million in fiscal year 2005.

Breakdown of debt and other fixed-income securities

€m	31/12/2005	31/12/2004
Bonds and notes from public sector issuers	3,102	3,393
Bonds and notes from other issuers	7,327	8,141
Debt and other fixed-income securities	**10,429**	**11,534**
Of which: listed securities	10,429	11,534

Debt and other fixed-income securities with a nominal value of €881 million (2005: €1,437 million) will mature in 2006.

Breakdown of equities and other non-fixed-income securities

€m	31/12/2005	31/12/2004
Equities	2,262	2,587
Other	910	1,319
Equities and other non-fixed-income securities	**3,172**	**3,906**
Of which: listed securities	2,289	2,617

Portfolio development €m	Investments in unconsolidated affiliated enterprises	Investments in enterprises accounted for using the equity method
Historical cost		
1 January 2005	2,754	2,805
Foreign currency translation	1	3
Additions	19	95
Disposals	2,584	2,493
Transfers	–	26
31 December 2005	**190**	**436**
Reversals of impairment losses during the year	**–**	**–**
Amortisation and impairment losses		
1 January 2005	1,824	101
Additions	15	7
Disposals	1,787	52
31 December 2005	**52**	**56**
Cumulative remeasurement gains/losses on available-for-sale financial instruments		
1 January 2005	732	80
Additions	–	–
Disposals	732	68
31 December 2005	**–**	**12**
Carrying amounts 31 December 2005	**138[1)]**	**392**
Carrying amounts 31 December 2004	1,662[1)]	2,785

[1)] Does not include 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

€m	Owner-occupied land and buildings	Land and buildings used by third parties	Office furniture and equipment	Total
Historical cost				
1 January 2005	2,601	2,084	1,725	6,410
Foreign currency translation	5	–	26	31
Additions	256	3	70	329
Disposals	1,815	347	229	2,391
Transfers	27	-52	-31	-56
31 December 2005	**1,074**	**1,688**	**1,561**	**4,323**
Reversals of impairment losses during the fiscal year	**–**	**–**	**0**	**0**
Depreciation and impairment losses				
1 January 2005	442	313	1,203	1,958
Foreign currency translation	3	–	17	20
Depreciation and impairment losses during the fiscal year	46	166	107	319
Disposals	147	39	213	399
Transfers	-3	4	-8	-7
31 December 2005	**341**	**444**	**1,106**	**1,891**
Carrying amounts 31 December 2005	**733**	**1,244**	**455**	**2,432**
Carrying amounts 31 December 2004	2,160	1,770	521	4,451

Due to the sale of real estate owned by the Bank and used in the course of its activities, the carrying amount of owner-occupied land and buildings declined to €733 million (previous year: €2,160 million). During the fiscal year, impairment losses were recognised on owner-occupied real estate in the amount of €2 million (previous year: €3 million).

The Group owned land and buildings used by third parties with a carrying amount of €1,244 million (previous year: €1,770 million); the market value of these properties is €1,260 million (previous year: €1,783 million). This figure was determined by expert appraisers on the basis of the 1988 Wertvermittlungsverordnung (Valuation Ordinance). The properties concerned are leased properties that have been measured at cost less accumulated depreciation and impairment losses. During the fiscal year, impairment losses on land and buildings used by third parties totalling €129 million (previous year: €229 million) were recognised in the result from investment securities item.

Write-downs for impairments of IT equipment and other office furniture and equipment amounted to €2 million (previous year: €1 million) and €3 million (previous year: €3 million) respectively.

Obligations amounting to €61 million were entered into in relation to the purchase of property and equipment; of this figure, €27 million related to IT equipment including software.

(21) Intangible assets

€m	Goodwill	Internally developed software	Purchased software	Total
Historical cost				
1 January 2005	2,696	434	508	3,638
Foreign currency translation	1	8	6	15
Additions	–	94	24	118
Disposals	11	30	113	154
31 December 2005	**2,686**	**506**	**425**	**3,617**
Reversals of impairment losses during the fiscal year	**–**	**–**	**–**	**–**
Depreciation and impairment losses				
1 January 2005	2,478	304	405	3,187
Foreign currency translation	–	7	4	11
Amortisation and impairment losses during the fiscal year	2	45	49	96
Disposals	1	30	112	143
Transfers	–	–	-1	-1
31 December 2005	**2,479**	**326**	**345**	**3,150**
Carrying amounts 31 December 2005	**207**	**180**	**80**	**467**
Carrying amounts 31 December 2004	218	130	103	451

Total goodwill as at 31 December 2005 in the amount of €208 million can be broken down across a number of companies as cash-generating units, with the four largest accounting for €182 million. Goodwill is tested annually for impairment by calculating the capitalised earnings value in accordance with the principles for performing enterprise valuations laid down in IDW Standard IDW S1. This resulted in only marginal impairment losses in fiscal year 2005 (previous year: none); small residual amounts of goodwill were written off.

Of the write-downs for impairments of software in the amount of €7 million (previous year: €18 million) recognised under depreciation of property and equipment, €2 million (previous year: €4 million) was attributable to internally developed software. In addition to the capitalised software development costs (recorded as an addition under internally generated software), other development costs totalling €120 million (previous year: €116 million) are contained in administrative expenses.

(22) Assets held for sale

The assets held-for-sale item contains the remaining interest at the reporting date in Eurohypo AG in the amount of the net selling price of €1,410 million. We held a 28.5% investment in Eurohypo AG until the beginning of November 2005. The first tranche of the investment sold was transferred to Commerzbank in fiscal year 2005; the second tranche is scheduled to follow in spring 2006. The reclassification of the shares relating to the second tranche from the balance sheet item investments in enterprises accounted for using the equity method to this category did not result in any change in value.

(23) Other assets

€m	31/12/2005	31/12/2004
Accrued interest	2,502	4,413
Positive fair values of hedging derivatives in accordance with IAS 39	718	961
Other assets	4,715	2,144
Recoverable taxes	260	902
Other assets	**8,195**	**8,420**

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

(24) Subordinated assets

€m	31/12/2005	31/12/2004
Trading assets	97	25
– Debt and other fixed-income securities	94	21
– Equities and other non-fixed-income securities	3	4
Loans and advances to banks	64	2
Loans and advances to customers	10	142
Investment securities	53	47
– Debt and other fixed-income securities	26	17
– Equities and other non-fixed-income securities	27	30
Subordinated assets	**224**	**216**

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.

(25) Assets sold under repurchase agreements

At the reporting date, the Group was committed to repurchasing assets sold under repurchase agreements with a net carrying amount of €143,505 million (previous year: €159,300 million). These assets continue to be reported in the consolidated balance sheet.

Notes to the Consolidated Balance Sheet – Liabilities and Equity

(26) Financial liabilities at fair value

€m	31/12/2005	31/12/2004
Negative fair values of derivative financial instruments	23,977	20,595
Obligations to deliver securities	48,351	72,804
Other trading liabilities	8,545	6,200
Trading liabilities	**80,873**	**99,599**
Liabilities to banks	10	8
Liabilities to customers	188	172
Certificated liabilities	251	20
Financial liabilities at fair value through profit or loss	**449**	**200**
Financial liabilities at fair value	**81,322**	**99,799**

The application of the fair value option to financial liabilities resulted in a carrying amount €70 million lower than the future repayment amount of these liabilities. €1 million of this difference is due to the change in the Bank's risk. This amount derives from the difference between the fair value of these liabilities when the Bank's risk was measured at the conditions pertaining at year-end 2005 and year-end 2004.

(27) Liabilities to banks

€m	31/12/2005	31/12/2004
Payable on demand	24,410	25,619
Other term liabilities	115,500	161,843
Of which: registered bonds issued	2,677	2,724
Liabilities to banks	**139,910**	**187,462**
Of which: repurchase agreements	50,226	75,124
Domestic banks	55,852	79,613
Foreign banks	84,058	107,849

Carrying amounts of €7 million were reclassified as at 31 December 2004 to the financial liabilities at fair value through profit or loss item.

(28) Liabilities to customers

€m	31/12/2005	31/12/2004
Savings deposits		
– With agreed period of notice of three months	1,104	1,199
– With agreed period of notice of more than three months	393	381
Home loan savings deposits	3,306	3,214
Savings deposits and home loan savings deposits	**4,803**	**4,794**
Payable on demand	77,188	65,166
Term liabilities	73,794	84,553
Of which: registered bonds issued	6,776	6,887
Other liabilities	**150,982**	**149,719**
Liabilities to customers	**155,785**	**154,513**
Of which: repurchase agreements	38,919	46,207

Carrying amounts of €137 million were reclassified as at 31 December 2004 to the financial liabilities at fair value through profit or loss item.

Breakdown by customer group

€m	31/12/2005	31/12/2004
Corporate customers	116,773	114,296
– Germany	45,141	40,003
– Other countries	71,632	74,293
Public authorities	7,114	7,830
– Germany	1,025	1,496
– Other countries	6,089	6,334
Private customers	31,898	32,387
– Germany	27,761	27,222
– Other countries	4,137	5,165
Liabilities to customers	**155,785**	**154,513**
– Germany (total)	73,927	68,721
– Other countries (total)	81,858	85,792

(29) Certificated liabilities

€m	31/12/2005	31/12/2004
Bonds issued[1]	25,066	24,053
Other certificated liabilities	25,013	22,441
– Money market securities	24,281	21,693
– Own acceptances and promissory notes outstanding	362	344
– Other	370	404
Certificated liabilities	**50,079**	**46,494**

[1] 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. Carrying amounts of €18 million were reclassified as at 31 December 2004 to the financial liabilities at fair value through profit or loss item. €5,210 million of bonds issued will mature in 2006 (2005: €4,438 million).

(30) Provisions and other liabilities

€m	31/12/2005	31/12/2004
Provisions for pensions and similar liabilities	2,054	2,021
Provisions for current taxes	600	630
Other provisions	2,436	2,880
Accrued interest	2,242	1,730
Negative fair values of hedging derivatives in accordance with IAS 39	538	1,226
Other liabilities	4,106	4,975
Provisions and other liabilities	**11,976**	**13,462**

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

(31) Provisions for pensions and similar liabilities

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

€m	31.12.2005	31.12.2004
Present value of wholly unfunded obligations	2,906	2,374
Present value of funded obligations	957	708
Fair value of plan assets	-794	-656
Total pension liabilities as at 31 December	**3,069**	**2,426**
Unrecognised actuarial losses	-1,015	-405
Liability in balance sheet as at 31 December	**2,054**	**2,021**

Changes in pension liabilities under defined-benefit plans are shown below:

€m	2005	2004
Total pension liabilities as at 1 January	2,426	2,210
Less actuarial gains/losses as at 1 January	-405	-218
Liabilities in balance sheet as at 1 January	2,021	1,992
Service cost	96	77
Interest cost	157	150
Other additions and transfers	-78	-82
Benefits paid during the year	-142	-116
Liability in balance sheet as at 31 December	**2,054**	**2,021**
Actuarial gains (–) or losses (+) as at 31 December	1,015	405
Total pension liabilities as at 31 December	**3,069**	**2,426**

Since pension provisions are determined on the basis of information prevailing at the beginning of the fiscal year, 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.

Changes in plan assets in the fiscal year:

€m	2005	2004
Fair value of plan assets as at 1 January	656	600
Transfer	105	30
Actual return on plan assets	36	34
Employee contributions	27	18
Benefits paid	-30	-26
Fair value of plan assets as at 31 December	**794**	**656**

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

€m	2005	2004
Discount rate[1)]	4.1	4.9
Expected return on plan assets	5.0	5.4
Expected rate of salary increase	1.9	1.9
Expected future pension increases	1.25	1.25

1) An interest rate of 5.4% (previous year: 6.0%) is used in the United States and an interest rate of 4.8% (previous year: 5.4%) in the United Kingdom.

The following items were recognised in the pension benefit expense:

€m	2005	2004
Service cost	96	77
Interest cost	157	150
Other additions	-66	-46
Expenses for defined-benefit plans	187	181
Of which: pension payments in the year under review	108	114
Expenses for defined-contribution plans	59	42
Other pensions	34	28
Exchange rate adjustments	1	0
Pension benefit expense	**281**	**251**

The change in the pension plans (see Note 1) resulted in remeasurement gains of €9 million, which are included in other additions.

(32) Other provisions

€m	Restructuring provision	Loan loss allowance	Other provisions for staff costs	Other	Total
1 January 2005	657	370	806	1,047	2,880
Foreign currency translation	12	4	25	6	47
Additions	51	49	869	478	1,447
Charge-offs	275	62	744	265	1,346
Amounts released	48	118	28	247	441
Transfers	-294	-129	146	135	-142
Changes in consolidated companies	–	–	0	-9	-9
Compensation payments for plan assets	-13	–	–	13	–
31 December 2005	**90**	**114**	**1,074**	**1,158**	**2,436**

Other provisions mainly relate to long-term provisions; these refer in particular to tax obligations and leases; the utilisation of these provisions in particular is to be expected.

Restructuring provision €m	2005 programmes	2004 programmes	"Neue Dresdner" programme	Other programmes	Total
1 January 2005	–	132	308	217	657
Foreign currency translation	–	1	1	10	12
Additions[1)]	22	6	18	5	51
Charge-offs	–	44	122	109	275
Amounts released	–	16	26	6	48
Transfers	-3	-60	-118	-113	-294
Compensation payments for plan assets	–	–	-9	-4	-13
31 December 2005	**19**	**19**	**52**	**–**	**90**

1) Including a €14 million change in the present value.

Provisions of €22 million were set up in relation to the restructuring measures initiated in 2005. In addition to these initiatives, the provisions remaining at the end of the year relate to residual activities under the 2004 programmes and the “Neue Dresdner” programme. Measured in terms of the original provisions, these initiatives have now been almost fully implemented.

The amount of the restructuring provisions is designed to accurately reflect the implementation status of the individual initiatives in each case. To meet this requirement, restructuring provisions that have been concretised in the form of individual contracts are reclassified to those categories of provisions to which such agreements would be allocated on the basis of their original nature, i.e. irrespective of the restructuring programme. In more detail, these provisions relate to termination agreements and early retirement and partial early retirement contracts concluded in the context of restructuring initiatives. In addition, provisions for vacancies in rented properties resulting from a restructuring initiative were also transferred to the other provisions item as soon as the premises concerned were vacated in full. In the year under review, €294 million was transferred to other categories of provisions on this basis.

The remaining provisions cover the outstanding obligations for staff costs and rental agreements. The adequacy of the provisions is tested at regular intervals as part of project management for the restructuring programmes, and corresponding adjustments made. The resulting effects on income are recognised in the additions and amounts released. The need for adjustments results on the one hand from the more detailed definition of the human resources instruments employed, and on the other from adjustments to expected income from subletting due to market developments in the real estate sector.

As a result of changes to the legal situation, working time credits under partial early retirement contracts must be protected against insolvency. This also includes all partial early retirement contracts concluded in the course of our ongoing restructuring programmes. As a result, working time credits worth €13 million (previous year: €23 million) requiring protection against insolvency were transferred to a pension fund, where they are secured by plan assets.

(33) Deferred taxes and 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:

€m	31/12/2005	31/12/2004
Deferred tax assets		
Investment securities	85	83
Of which: cumulative remeasurement gains/losses on available-for-sale financial instruments	6	10
Trading assets and liabilities	37	85
Pension provisions	113	133
Other provisions	201	358
Loan loss allowances	29	215
Losses carried forward	2,165	2,442
Other	274	250
Total deferred tax assets	**2,904**	**3,566**
Deferred tax liabilities		
Investment securities	78	92
Of which: cumulative remeasurement gains/losses on available-for-sale financial instruments	31	47
Trading assets and liabilities	98	424
Property and equipment	197	206
Other provisions	3	7
Loan loss provisions	122	376
Loan loss allowances	45	35
Other	453	488
Total deferred tax liabilities	**996**	**1,628**
Net deferred tax assets	**1,908**	**1,938**

In the consolidated balance sheet, deferred tax assets and liabilities were 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 €2,904 million and provisions for deferred tax liabilities in the amount of €996 million resulted in net deferred tax assets of €1,908 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 €671 million (previous year: €583 million), which were predominantly due to unused tax loss carryforwards, were not recognised since, on the basis of the information available at the reporting date, it is not probable that they will be realised. €603 million of these unrecognised deferred tax assets relates to foreign loss carryforwards, with €93 million of this figure relating to foreign trade tax.

At the reporting date, unused corporation tax loss carryforwards amounted to €6,800 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 €4,892 million of the loss carryforwards. The loss carryforwards subject to time limits expire in the coming years as follows: €99 million in 2006, €8 million in 2007, €6 million in 2008, €66 million in 2009, €24 million in 2010, €51 million in 2011 and €28 million in 2012. The total volume of loss carryforwards with a residual term of more than ten years amounts to €1,626 million. No loss carryforwards subject to time limits expire in the years 2013 to 2015. In addition, the Bank has accumulated trade tax loss carryforwards of €5,204 million that are not subject to any time limit, and trade tax loss carryforwards of €1,983 million subject to a time limit.

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

€m	2005	2004
Current taxes	291	16
– Germany	325	-37
– Other countries	-34	53
Deferred taxes	77	-166
– Germany	66	-80
– Other countries	11	-86
Income tax expense	**368**	**-150**

Deferred tax assets and liabilities were calculated for domestic companies in 2005 using an effective corporate tax rate, including the solidarity surcharge, of 26.38% (previous year: 26.38%) plus an effective trade tax rate of 13.52% (previous year: 13.52%). In all other cases, the country-specific tax rates were applied.

The current tax expense includes an amount of €65 million relating to previous fiscal years. The total amount of the temporary differences relating to investments in subsidiaries for which no deferred tax liabilities were recognised is €-1 million.

The effective tax expense recognised in 2005 is €185 million lower than the expected tax expense. 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:

€m	2005	2004
Expected income tax expense	**553**	**36**
– Trade tax and similar taxes	138	-14
– Tax-free income	-389	-168
+ Amortisation of and impairment losses on goodwill	0	7
+ Non-deductible expenses	14	1
+ Adjustment for deferred tax assets	14	-48
+ Other tax adjustments	38	36
= Effective income tax expense	**368**	**-150**

(34) Subordinated liabilities

The subordinated liabilities in the amount of €5,811 million (previous year: €6,189 million) consist of hybrid capital in the amount of €1,614 million (previous year: €1,500 million) and other subordinated liabilities in the amount of €4,197 million (previous year: €4,689 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	€500m	Dresdner Bank AG	5.790%	2011
1999	USD1,000m[2)]	Dresdner Bank AG	8.151%	2031
2001	€159m	Dresdner Bank AG	7.000%	2013
2001	JPY15,000m	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 as at 31 December 2005 amounted to €1,614 million (previous year: €1,500 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 fiscal year amounted to €110 million (previous year: €110 million).

Other subordinated liabilities. Other subordinated liabilities were recognised in the amount of €4,197 million (previous year: €4,689 million). Interest paid on these subordinated liabilities in the fiscal year amounted to €231 million (previous year: €254 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 4.65%.

Subordinated liabilities are shown below (at nominal amounts):

Currency	Equivalent €m	Maturity
EUR	2,294	2006–2039
USD	669	2006–2025
CHF	289	2006–2009
GBP	219	2007
JPY	180	2027–2029
Other currencies	89	2010–2011

(35) Profit-participation certificates

Profit-participation certificates in the amount of €1,517 million (previous year: €1,526 million) were recognised. Profit-participation certificates entitle holders to annual interest payments, which take priority over shareholders' dividend entitlements. They are subordinated to liabilities from other creditors, except those similarly subordinated. They share in losses in accordance with the conditions attached to the certificates. 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	€511m	Dresdner Bank AG	8.0%	2007
1997	€767m	Dresdner Bank AG	7.0%	2008

(36) Equity

Subscribed capital. The subscribed capital of €1,502,972,205.80 at 31 December 2005 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.

Allianz AG holds a 100% indirect interest in Dresdner Bank AG's share capital. 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, Koeniginstrasse 28, 80802 Munich.

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

Cumulative remeasurement gains/losses on financial instruments. This item contains the remeasurement gains/losses on available-for-sale financial instruments taken directly to equity; deferred taxes on these are reported separately. In addition, this item reports the net remeasurement gains/losses on investments in enterprises accounted for using the equity method as well as the effective portion of the remeasurement gains/losses from cash flow hedge accounting.

€m	31/12/2005	31/12/2004
Debt and other fixed-income securities	49	108
Equities and other non-fixed-income securities	1,220	1,768
Investments in enterprises accounted for using the equity method	12	104
Assets held for sale	44	–
Deferred tax liability on unrealised remeasurement gains/losses	-25	-37
Net remeasurement gains/losses reported in minority interests	-23	-16
Cash flow hedge accounting	-42	-46
Cumulative remeasurement gains/losses on financial instruments	**1,235**	**1,881**

Due to the application of the extended indicators of impairment of our shareholdings and the prohibition on reversals, the amount reported for the previous year rose from €1,655 million to €1,881 million.

The following table provides an overview of changes in cumulative remeasurement gains and losses on financial instruments in the fiscal year.

€m	2005	2004
1 January	1,881	2,302
Fair value gains recognised in income statement	13	182
Fair value losses recognised in income statement	0	0
Gains and losses from the disposal of assets	-1,306	-568
Fair value changes recognised directly in equity	692	-39
Remeasurement gains from enterprises accounted for using the equity method	-48	4
Remeasurement gains from cash flow accounting	3	0
31 December	**1,235**	**1,881**

The gains and losses on impairment or reversals of impairment losses recognised in the income statement and the gains and losses on the disposal of assets are reproduced in the income statement as positive figures (if negative) or negative figures (if positive).

Treasury shares. No trading in Dresdner Bank's own shares took place in 2005. As in the previous year, no Dresdner Bank shares had been pledged to the Bank or affiliated enterprises as collateral at the end of 2005.

Minority interests. In accordance with IAS 1, minority interests are no longer reported as a separate balance sheet item, but as a sub-item within equity. This does not affect calculations of the return on equity ratios.

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 equity, hybrid capital and other components. 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. At the end of the first half of 2005, the Bank adapted its calculation of regulatory capital to comply with international standards by reporting the regulatory capital on the basis of the capital components in accordance with the IFRSs for the first time.

€m	31/12/2005	31/12/2004
Core capital	11,126	6,867
Of which: hybrid components	1,614	1,500
Supplementary capital[1)]	7,085	6,867
Of which: profit-participation certificates	3,130	3,380
subordinated liabilities	2,745	3,214
revaluation reserves for securities (of which 45%)	556	541
other components	654	646
Tier III capital	–	226
Total capital (BIS)	**18,211**	**13,960**
Risk-weighted assets in the banking book	108,659	100,814
Risk-weighted assets in the trading book	2,875	3,963
Total risk-weighted assets	**111,534**	**104,777**

1) Amount disclosed as at 31 December 2004: maximum of 100% of the core capital.

Breakdown of assets in the banking book by their risk-weighted amounts

€m	100%	70%	50%	25%	20%	10%	4%	Total
Risk-weighted assets in the banking book	68,697	981	27,264	35	10,731	950	1	108,659
Of which: balance sheet assets	61,962	981	9,154	–	4,071	243	–	76,411
traditional off-balance sheet business	4,122	–	13,771	35	331	707	1	18,967
derivatives	–	–	101	–	67	–	–	168

Capital ratios (BIS)[1)]

%	31/12/2005	31/12/2004
Core capital ratio[2)]	10.0	6.6
Total capital ratio	16.3	13.3

1) In accordance with the capital adequacy framework laid down by the Basel Committee for Banking Supervision of the Bank for International Settlements (BIS); amount disclosed as at 31 December 2005 following conversion from HGB to IFRSs.

2) Calculation includes risk-weighted assets from the trading book.

The following table shows the key reconciliation items for the calculation of the core capital as at 31 December 2005 in accordance with BIS for converting from local accounting standards (HGB) to the IFRSs:

€m	31/12/2005
Core capital (HGB basis)	**7,090**
Deferred taxes	1,909
Measurement of trading activities	660
Shareholdings	813
Other	654
Core capital (IFRS basis)	**11,126**

Unrealised reserves (securities and investments in non-affiliated enterprises) in the amount of €56 million (previous year: €119 million) have been included under liable capital pursuant to section 10 (2b) sentence 1 no. 7 of the Kreditwesengesetz (German Banking Act).

Other Balance Sheet Information

(37) Collateral pledged

The total amount of liabilities secured by collateral amounted to €70,962 million (previous year: €147,850 million).

The total amount of assets pledged or loaned, including those over and above the assets used to collateralise liabilities, amounted to €99,068 million (previous year: €154,561 million). The total amount of assets pledged or loaned without restrictions on the collateral taker can be broken down as follows:

€m	31/12/2005	31/12/2004
Trading assets	77,954	99,082
Loans and advances to banks	–	–
Loans and advances to customers	–	–
Investment securities	81	–
Assets pledged as collateral	**78,035**	**99,082**

The total amount of assets pledged or loaned that cannot be disposed of freely by the collateral taker can be broken down as follows:

€m	31/12/2005	31/12/2004
Trading assets	16,189	42,500
Loans and advances to banks	0	6,380
Loans and advances to customers	1,161	6,599
Investment securities	3,683	–
Assets pledged as collateral	**21,033**	**55,479**

As at 31 December 2005, we had received or borrowed assets with a fair value of €215,853 million (previous year: €221,429 million) from collateral providers as collateral. Of this figure, €137,559 million (previous year: €182,652 million) was sold on or pledged again.

(38) Foreign currency holdings

€m	USD	GBP	Other	31/12/2005	31/12/2004
Assets	143,075	44,581	34,549	222,205	181,684
Liabilities	126,969	45,721	32,352	205,042	186,308

The amounts reported represent the aggregate euro equivalents 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 41.

Impact of exchange rate fluctuations. Excluding exchange rate fluctuations, consolidated total assets for the year would have been €20.5 billion lower (previous year: €9.5 billion higher). Net income after taxes would have been €3 million lower (previous year: unchanged).

(39) Structure of residual terms of loans and advances and liabilities

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 2005

Loans and advances €m	**Up to 3 months**	**> 3 months – 1 year**	**> 1 year – 5 years**	**More than 5 years**	**Total**
Term loans and advances to banks	63,305	7,671	2,955	990	74,921
Loans and advances to customers[1]	85,299	14,183	30,286	33,545	163,313
Total	**148,604**	**21,854**	**33,241**	**34,535**	**238,234**

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

Liabilities €m	**Up to 3 months**	**> 3 months – 1 year**	**> 1 year – 5 years**	**More than 5 years**	**Total**
Term liabilities to banks	94,458	12,251	4,432	4,359	115,500
Savings deposits and home loan savings deposits	1,148	3,522	110	23	4,803
Other term liabilities to customers	63,663	2,642	2,557	4,932	73,794
Certificated liabilities	18,067	12,101	15,351	4,560	50,079
Subordinated liabilities	33	439	1,873	3,466	5,811
Profit-participation certificates	–	522	995	–	1,517
Total	**177,369**	**31,477**	**25,318**	**17,340**	**251,504**

31 December 2004

Loans and advances €m	**Up to 3 months**	**> 3 months – 1 year**	**> 1 year – 5 years**	**More than 5 years**	**Total**
Term loans and advances to banks	66,833	30,599	3,975	618	102,025
Loans and advances to customers[1]	74,035	19,620	38,208	38,603	170,466
Total	**140,868**	**50,219**	**42,183**	**39,221**	**272,491**

[1] Loans and advances to customers with residual terms of up to three months include €9,837 million of undated claims.

Liabilities €m	**Up to 3 months**	**> 3 months – 1 year**	**> 1 year – 5 years**	**More than 5 years**	**Total**
Term liabilities to banks	142,210	9,518	5,664	4,451	161,843
Savings deposits and home loan savings deposits	1,229	3,402	132	31	4,794
Other term liabilities to customers	71,421	5,668	1,745	5,719	84,553
Certificated liabilities	18,441	8,297	16,836	2,920	46,494
Subordinated liabilities	46	513	2,254	3,376	6,189
Profit-participation certificates	10	–	1,493	23	1,526
Total	**233,357**	**27,398**	**28,124**	**16,520**	**305,399**

(40) Securitisation business

When securitising financial assets, we sell revolving loans to the capital market as part of precisely defined loan portfolios (true sale). The assets transferred are securitised as debt instruments by the special purpose entities that purchase them and are sold to third parties. The Dresdner Bank Group conducts these transactions via the fully consolidated special purpose entities Silver Lux Inc., Grand Cayman, and RCL Securitisation GmbH, Dusseldorf. As at 31 December 2005, the two programmes together were utilised in the amount of €3.5 billion. Dresdner Bank is securitising loans for the first time under the True Sale Initiative via RCL Securitisation GmbH.

In addition, we have used synthetic securitisation under the KfW/PROMISE programmes to place credit risks on the market. As at 31 December 2005, credit risks in the amount of €1 billion had been transferred to third parties using the PROMISE–K–2001–1 structure.

Generally, the securitisation programmes provide for the retention by the seller of the loans of a small part of the risk in the form of discounts on the purchase price of the loans sold and/or other forms of risk assumption. According to IAS 39 / SIC 12, this retention means that the special purpose entities Silver Lux and RCL Securitisation GmbH must be included in consolidation.

(41) Derivatives business

Derivative financial instruments, which enable the transfer of market and credit risks between different parties, derive their value from interest rates, indices, share prices and exchange rates, among other things. The most important derivatives products are swaps, forward rate agreements, forward currency transactions, 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).

The Bank enters into derivatives transactions both at the request of customers and in the context of risk management of proprietary trading positions and asset/liability management. In the Bank's customer business, derivatives are used for individualised management of the customer's market and credit risk, but are also increasingly being used in large structured finance transactions.

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 amounted to €63.4 billion (previous year: €52.8 billion). Non-nettable fair values amounted to €7.3 billion (previous year: €2.3 billion). The positive fair values for exchange-traded derivatives are not included in the Risk Report, as by definition these are not exposed to any credit and counterparty risk. The positive fair values of hedging derivatives from hedge accounting under IAS 39 amounted to €718 million (previous year: €961 million); the negative fair values amounted to €538 million (previous year: €1,226 million).

Trading book contracts €m	Nominal amount/residual term up to 1 year	> 1 year – 5 years	more than 5 years	Total 2005	Total 2004	Positive fair values	Negative fair values
Interest rate derivatives	**1,410,825**	**1,196,655**	**1,147,852**	**3,755,332**	**2,943,902**	**61,326**	**60,449**
OTC products							
– FRAs	96,004	14,262	0	110,266	102,465	36	29
– Interest rate swaps	1,056,240	1,072,547	1,093,976	3,222,763	2,494,028	58,797	56,827
– Fixed-rate swaps	243	602	59	904	846	26	13
– Basis swaps	2,503	15,045	11,646	29,194	27,769	435	442
– Interest rate swaps (IRS)	1,053,494	1,056,900	1,082,271	3,192,665	2,465,413	58,336	56,372
– Interest rate options: calls	25,752	41,318	21,294	88,364	86,617	1,696	0
– Interest rate options: puts	16,183	49,093	32,572	97,848	100,982	0	3,205
– Other interest rate contracts	8,683	–	10	8,693	12,781	0	3
Exchange-traded products							
– Interest rate futures	164,978	19,435	0	184,413	118,623	105	124
– Interest rate options: calls	24,716	0	0	24,716	16,436	692	0
– Interest rate options: puts	18,269	0	0	18,269	11,970	0	261
Currency derivatives	**533,277**	**80,018**	**23,825**	**637,120**	**636,383**	**8,990**	**9,200**
OTC products							
– Forward currency transactions	390,859	11,964	185	403,008	398,113	4,748	4,924
– Cross-currency swaps	14,587	49,490	18,852	82,929	74,069	2,888	2,634
– Currency options: calls	64,797	8,961	2,183	75,941	81,027	1,339	–
– Currency options: puts	60,064	9,480	2,605	72,149	81,697	–	1,636
– Other currency contracts	590	–	–	590	–	1	–
Exchange-traded products							
– Currency options: calls	284	–	–	284	–	10	–
– Currency options: puts	13	–	–	13	–	–	2
– Currency futures	2,083	123	–	2,206	1,477	4	4
Equity/index derivatives	**173,171**	**128,361**	**17,018**	**318,550**	**327,986**	**13,686**	**13,536**
OTC products							
– Equity/index swaps	13,995	3,900	2,371	20,266	10,743	642	689
– Equity/index options: calls	44,018	42,071	3,254	89,343	58,486	9,858	0
– Equity/index options: puts	64,169	47,208	5,765	117,142	187,034	–	9,741
Other equity/index contracts	–	10	18	28	20	0	5
Exchange-traded products							
– Equity/index futures	10,655	0	0	10,655	8,970	1	38
– Equity/index options: calls	19,333	17,885	2,660	39,878	32,086	3,185	–
– Equity/index options: puts	21,001	17,287	2,950	41,238	30,647	–	3,063
Credit derivatives	**41,065**	**376,852**	**77,117**	**495,034**	**264,061**	**3,855**	**3,803**
– Credit default swaps	34,586	373,418	73,687	481,691	256,377	3,096	2,556
– Protection buyer	12,615	171,958	34,790	219,363	110,370	1,310	1,360
– Protection seller	21,971	201,460	38,897	262,328	146,007	1,786	1,196
– Total return swaps	6,479	3,434	3,430	13,343	7,684	759	1,247
– Protection buyer	5,207	1,170	2,686	9,063	6,196	547	1,247
– Protection seller	1,272	2,264	744	4,280	1,488	212	0
Other derivatives	**8,399**	**3,955**	**22**	**12,376**	**10,152**	**560**	**372**
OTC products							
– Precious metal derivatives	6,107	2,693	2	8,802	5,589	503	337
– Other contracts	959	1,262	20	2,241	3,849	48	35
Exchange-traded products							
– Futures	1,317	–	–	1,317	639	8	–
– Options: calls	7	–	–	7	68	1	–
– Options: puts	9	–	–	9	7	–	0
Grand total	**2,166,737**	**1,785,841**	**1,265,834**	**5,218,412**	**4,182,484**	**88,417**	**87,360**
Of which: products denominated in EUR						60,206	59,149
products denominated in USD						7,474	9,249
products denominated in GBP						8,463	8,909
products denominated in JPY						8,082	5,742

Banking book contracts €m	Nominal amount/residual term up to 1 year	> 1 year – 5 years	more than 5 years	Total 2005	Total 2004	Positive fair values	Negative fair values
Interest rate derivatives	**15,456**	**2,778**	**1,342**	**19,576**	**16,198**	**177**	**108**
OTC products							
– FRAs	7,499	0	0	7,499	3,324	4	4
– Interest rate swaps	7,038	2,573	356	9,967	10,148	109	25
– Fixed-rate swaps	–	–	–	–	9	–	–
– Basis swaps	–	339	97	436	216	5	–
– Interest rate swaps (IRS)	7,038	2,234	259	9,531	9,923	104	25
– Interest rate options: calls	–	–	–	–	–	–	–
– Interest rate options: puts	10	–	–	10	35	–	0
– Other interest rate contracts	134	205	986	1,325	945	64	79
Exchange-traded products							
– Interest rate futures	775	–	–	775	1,305	0	–
– Interest rate options: calls	–	–	–	–	147	–	–
– Interest rate options: puts	–	–	–	–	294	–	–
Currency derivatives	**2,679**	**2**	**0**	**2,681**	**5,620**	**22**	**19**
OTC products							
– Forward currency transactions	2,414	2	0	2,416	3,029	22	17
– Cross-currency swaps	59	–	–	59	89	0	0
– Currency options: calls	12	–	–	12	81	0	–
– Currency options: puts	13	–	–	13	2,274	–	1
– Other currency contracts	–	–	–	–	–	–	0
Exchange-traded products							
– Currency futures	181	0	0	181	147	0	1
– Currency options: calls	–	–	–	–	–	–	–
– Currency options: puts	–	–	–	–	–	–	–
Equity/index derivatives	**81**	**31,031**	**570**	**31,682**	**28,085**	**5**	**274**
OTC products							
– Equity/index swaps	–	239	–	239	239	–	34
– Equity/index options: calls	53	110	50	213	923	1	–
– Equity/index options: puts	6	30,651	520	31,177	26,877	–	234
Other equity/index contracts	18	31	0	49	46	4	6
Exchange-traded products							
– Equity/index futures	4	–	–	4	–	0	0
Credit derivatives	**319**	**664**	**984**	**1,967**	**3,689**	**22**	**157**
Credit default swaps	319	575	763	1,657	3,687	12	155
– Protection buyer	319	575	763	1,657	3,608	12	155
– Protection seller	–	–	–	0	79	–	–
Total return swaps	–	89	221	310	2	10	2
– Protection buyer	–	89	221	310	2	10	2
– Protection seller	–	–	–	0	0	–	–
Other derivatives	**11**	**–**	**–**	**11**	**40**	**–**	**–**
OTC products							
– Other contracts	11	0	0	11	40	0	0
Grand total	**18,546**	**34,475**	**2,896**	**55,917**	**53,632**	**226**	**558**
Of which: products denominated in EUR						116	444
products denominated in USD						60	29
products denominated in GBP						46	27
products denominated in JPY						0	11

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 supplies 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.

€m	31/12/2005	31/12/2004
Liabilities on guarantees and warranties	17,484	15,839
– Credit guarantees	1,139	876
– Other guarantees and warranties	14,529	13,206
– Letters of credit	1,816	1,757
– Letters of credit opened	877	893
– Letters of credit confirmed	939	864
Liability on collateral pledged for third-party liabilities	4	7
Contingent liabilities	**17,488**	**15,846**
Repurchase obligations from sale agreements with repurchase options	5	–
Irrevocable loan commitments	38,643	40,613
– Advances	26,920	30,800
– Standby facilities	9,496	8,238
– Guarantee credits	1,733	1,228
– Discount credits	46	65
– Mortgage loans/communal loans	448	282
Other commitments	**38,648**	**40,613**

(43) Other financial commitments

€m	31/12/2005	31/12/2004
Obligations arising from hire and rental contracts and leases	3,270	2,628
Commitments under capital projects in progress	63	57
Commitments to pay up shares, bonds and other capital interests; secondary liability	206	82
Other	59	58
Other financial commitments	**3,598**	**2,825**

Commitments to pay up shares, bonds and other capital interests totalled €61 million (previous year: €66 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; the run-off liability following a hive-off in accordance with section 133 Umwandlungsgesetz (UmwG – Reorganisation Act) amounted to €129 million (previous year: none).

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; the Dresdner Bank Group's interest amounts to €12.1 million (6.05%). 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. In 2005, a contribution of €21 million (previous year: €28 million) was levied 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 AG takes care in relation to the proportion of its shareholding, except with regard to political risk, that these companies are able to meet their obligations.

(44) Trustee business

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

€m	31/12/2005	31/12/2004
Loans and advances to banks	2,997	3,920
Loans and advances to customers	1,405	1,889
Investment securities	855	950
Assets held in trust[1]	**5,257**	**6,759**
Liabilities to banks	1,035	1,044
Liabilities to customers	4,222	5,715
Liabilities incurred as a trustee	**5,257**	**6,759**

[1] Including fiduciary loans of €3,420 million (previous year: €5,016 million).

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 price. Financial instruments primarily include securities, loans and advances, liabilities and derivatives.

Assets €bn	**31/12/2005** **Fair value**	 **Carrying amount**	**31/12/2004** **Fair value**	 **Carrying amount**
Cash funds	4.3	4.3	2.3	2.3
Financial assets at fair value	165.8	165.8	192.6	192.6
Loans and advances to banks and to customers	263.5	261.7	294.1	292.3
Investment securities	13.7	13.7	17.1	17.1

Liabilities €bn	**31/12/2005** **Fair value**	 **Carrying amount**	**31/12/2004** **Fair value**	 **Carrying amount**
Financial liabilities at fair value	81.3	81.3	99.8	99.8
Liabilities to banks and to customers	295.9	295.7	342.1	342.0
Certificated liabilities and subordinated liabilities	56.8	55.9	53.8	52.7
Profit-participation certificates	1.7	1.5	1.8	1.5

In the absence of organised secondary markets for most financial instruments, and in particular for loans, deposits and unlisted derivatives, direct market prices are not 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.

Financial assets/liabilities at fair value. The Group carries trading assets and liabilities, which include debt and equity securities, derivatives and currency transactions, at their fair value, as it does the financial assets/liabilities at fair value through profit or loss.

Securities. Investment securities are classified as available-for-sale financial instruments in accordance 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 valuation models.

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

(46) Related party transactions

The companies belonging to the Dresdner Bank Group maintain wide-ranging business relationships with related parties. These relationships primarily comprise typical banking products and financial services such as the deposit, loan and money market business, custody, trading, payment transactions, account maintenance and the brokerage of insurance and banking products. Dresdner Bank conducts banking transactions with related parties in the normal course of business activities at market rates and at conditions deemed appropriate in the opinion of the management. The scope of these transactions is shown below:

Loans and advances and liabilities to affiliated enterprises

€m	31/12/2005	31/12/2004
Trading assets	22	26
Loans and advances to banks	–	–
Loans and advances to customers	1,046	29
Other assets	60	73
Total	**1,128**	**128**
Trading liabilities	31	68
Liabilities to banks	60	80
Liabilities to customers	1,013	916
Certificated liabilities	200	235
Provisions	3	–
Other liabilities	56	38
Subordinated liabilities	23	10
Total	**1,386**	**1,347**

€692 million in income (previous year: €220 million), including the transfer of Munich Re shares, and €417 million in expenses (previous year: €406 million) in the income statement were attributable to transactions with the parent company and affiliated enterprises.

Loans and advances and liabilities to non-affiliated enterprises

€m	31/12/2005	31/12/2004
Loans and advances to banks	1,713	3,483
Loans and advances to customers	523	753
Debt and other fixed-income securities	2,034	4,713
Total	**4,270**	**8,949**
Liabilities to banks	1,985	2,441
Liabilities to customers	168	212
Certificated liabilities	96	45
Total	**2,249**	**2,698**

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

Loans to shareholders. In the normal course of business, the Group may grant loans to its shareholder. 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 €405,255.59 (previous year: €423,820.25). This included loans extended to, or liabilities assumed on behalf of, managers of subsidiaries in the amount of €9,410.68 (previous year: €27,383.04). Loans to members of Dresdner Bank AG's Supervisory Board and liabilities assumed on their behalf totalled €429,040.00 (previous year: €431,287.00). These transactions have been entered into at normal terms. A list of all members of the Board of Managing Directors and the Supervisory Board is provided in the List of members of the Supervisory Board and of the Board of Managing Directors (see Notes 53 and 54).

Remuneration of executive body members. Remuneration paid within the Group to members of the Board of Managing Directors amounted to €23,614,656.61 (previous year: €19,340,149.22); this figure includes compensation paid by subsidiaries. The compensation paid to the Board of Managing Directors as defined by IAS 24.16 amounted to €26,401,129.61 (previous year: €19,866,692.22). This figure can be broken down as follows: short-term employee benefits €19,593,654.51 (previous year: €17,422,721.11); post-employment benefits €2,786,473.00 (previous year: €495,823.00); other long-term benefits €1,600,000.00 (previous year: €1,483,334.00); share-based payment €2,421,002.10 (previous year: €464,814.11). With regard to payments made in relation to the termination of employment and remuneration paid to former members of the Board of Managing Directors, we have made corresponding use of the protective clause in section 286 (4) HGB. Pension payments to former members of the Board of Managing Directors and their surviving dependants amounted to €126 million as at 31 December 2005 (previous year: €111 million). Compensation granted to members of the Group's Supervisory Board for fiscal 2005 amounted to €958,500.00 (previous year: €1,015,340.00), including value added tax. Payments to the members of the regional advisory boards amounted to €1,212,344.00 (previous year: €1,278,281.00), including value added tax.

(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 a continuous 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 fiscal year 2005 amounted for Dresdner Bank AG within Germany and its domestic subsidiaries to 465,643 (previous year: 426,269); the difference between the exercise price and the market price in the amount of approximately €9.6 million (previous year: €7 million) was recognised in total staff costs.

Group Equity Incentive (GEI). The Allianz Group GEI was established for senior executives and is designed to recognise their contribution to the increase in enterprise value and to promote the Group's long-term success. The GEI consist of two components:

1. Stock Appreciation Rights (SARs). Beneficiaries under this plan are granted stock appreciation rights. These rights are subject to a two-year lock-up and expire after seven years.

The stock appreciation rights can be exercised at almost any time between the second and seventh anniversary of the grant date, provided that the price of Allianz AG's shares has outperformed the Dow Jones Europe STOXX Price Index (600) at least once during the term for a period of five consecutive exchange trading days, and that it exceeds the reference price by at least 20% at the time of exercise.

Under the terms of the SARs, the Bank is obliged to settle in cash the difference between the quoted market price of Allianz AG'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 Bank's employment, the rights will expire.

423,421 SARs were granted in the year under review (previous year: 300,224). 58,276 SARs (previous year: none) had been exercised as at 31 December 2005. On 31 December 2005, the number of SARs granted under the SAR plans but not yet exercised amounted to 1,043,695 (previous year: 641,041). The average fair value of the SARs allotted in the fiscal year amounted to €19 million (previous year: €11 million). The fair value of the SARs outstanding as at 31 December 2005 amounted to €46 million (previous year: €18 million).

The total staff costs for the SARs are calculated as the amount by which the Allianz AG share price exceeds the SAR 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 €20 million (previous year: €5 million) was recognised as an expense as at 31 December 2005.

2. Restricted Stock Units (RSUs). In 2003, the Group launched an incentive plan for the first time 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. The shares are subject to a five-year lock-up period. 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. The Company can choose one of the two following methods of redemption at the time of exercise: to make a cash payment to beneficiaries in the amount of the average closing price of Allianz AG shares on the exercise date, or to issue one Allianz AG share or equivalent equity instruments per RSU to the beneficiaries.

263,599 RSUs (previous year: 150,974) were granted in the fiscal year. 13,698 RSUs were exercised in the period up to 31 December 2005 (previous year: none). As at 31 December 2005 the number of RSUs granted under the RSU plans and not yet exercised amounted to 505,901 (previous year: 227,326). The average fair value of the rights allotted in the fiscal year amounted to €30 million (previous year: €13 million); the fair value of the rights outstanding as at 31 December 2005 totalled €61 million (previous year: €13 million).

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 €12 million (previous year: €4 million) was recognised as an expense as at 31 December 2005.

Dresdner Kleinwort Wasserstein Stock Plan. This is a share-based bonus plan that is granted to selected Dresdner Kleinwort Wasserstein division employees. The plan provides for part of employees’ bonuses to be distributed in the form of Allianz AG shares. The employees initially receive the right to a certain number of Allianz AG shares, with the transfer of the shares being distributed over the next three years. The number of shares to be disbursed depends on beneficiaries leaving the company and 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 to be disbursed will be reduced.

In countries in which share-based payment is not permitted, employees receive the right to cash payments corresponding to the value of the relevant number of Allianz shares. These payments are also disbursed over the next three years and are also subject to performance-related adjustments like the distribution of shares. These payments are accounted for in the same way as cash bonuses.

Rights to the transfer of Allianz shares are reported as share-based payments and expensed over three years. Under IFRS 2, the transfer/cash payment rights are equivalent to cash-settled share-based payments; the fair value is remeasured at the end of each reporting period based on the changes in the price of Allianz’s shares. In the previous year, the rights were classified as equity-settled share-based payments and measured at the fair value on the grant date. The changes in value resulting from the reclassification are marginal.

In the fiscal year under review, 1,440,399 rights were granted (previous year: 1,161,614). 333,516 rights were exercised in the period up to 31 December 2005 (previous year: none). On 31 December 2005 the number of rights granted but not yet exercised under the plan amounted to 2,008,648 (previous year: 1,079,353). The average fair value of the rights granted in the fiscal year was €134 million (previous year: €123 million); the fair value of the rights outstanding as at 31 December 2005 was €194 million (previous year: €134 million). The expense for the plan reported in the fiscal year amounted to €102 million (previous year: €64 million).

(48) Auditors' fees

€m	2005	2004
Auditing of the financial statements	17	12
Other assurance or valuation services	2	2
Tax advisory services	1	1
Other services	2	3
Total	**22**	**18**

(49) Significant subsidiaries, associated enterprises and joint ventures

In addition to Dresdner Bank Aktiengesellschaft, which is domiciled in Frankfurt am Main and registered in the Commercial Register of the Frankfurt am Main Local Court under the number HRB 14000, 112 companies are fully consolidated and eight accounted for using the equity method in the consolidated financial statements, as described below.

Significant subsidiaries. Subsidiaries consolidated as at 31 December 2005 included 41 domestic (previous year: 48) and 71 foreign (previous year: 68) entities, including eight (previous year: 14) funds and 35 (previous year: 24) special purpose entities, of which 23 (previous year: 18) had to be included in consolidation due to the application of SIC 12. These figures include twelve sub-groups, but not their 230 companies and the ten enterprises within them accounted for using the equity method.

Nine domestic and six foreign companies (previous year: 17 domestic and 35 foreign entities) were deconsolidated. Two domestic and nine foreign companies (previous year: four domestic and 19 foreign entities) were included in consolidation for the first time.

57 domestic and 69 foreign Group companies (previous year: 66 domestic and 78 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 €96 million or 0.02% (previous year: €91 million or 0.02%); the effect on the net income would have amounted to €2.3 million or 0.14% (previous year: €0.9 million or 1.02%).

One enterprise was included in the consolidated financial statements on the basis of accounts prepared as at 30 September 2005.

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 2005, this did not result in any goodwill (previous year: goodwill of €0.4 million). Changes in goodwill are discussed in Note 21, intangible assets.

Associates. Investments in five (previous year: eight) domestic and two (previous year: three) 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.

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

€m	**2005**	**2004**
Assets	8,424	74,594
Liabilities	8,143	72,239
Income	1,582	3,787
Expenses	1,460	3,738

Joint ventures. One joint venture (previous year: one) in which the Group holds 49.9% of the shares was also included in consolidation using the equity method.

The Group's pro rata share of earnings and losses is included in net interest and current income under the item current income from investments in enterprises accounted for using the equity method. Our investments in joint ventures give rise to potential capital commitments in the amount of €68 million.

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:

€m	**2005**	**2004**
Assets	319	261
Liabilities	262	–
Income	20	0
Expenses	23	0

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; it is not contained in the Notes.

Corporate governance. The Supervisory Board and Board of Management of Oldenburgische Landesbank Aktiengesellschaft, Oldenburg issued the declaration of conformity required for that company in accordance with section 161 AktG in December 2005. The declaration has been published on Oldenburgische Landesbank Aktiengesellschaft's web site and has thus been made permanently available to shareholders.

(50) Changes in the companies included in consolidation

Additions

Germany
RCL Securitisation GmbH, Dusseldorf
Vierzehnte FraMü Beteiligungs GmbH, Frankfurt

Other countries
Dresdner Kleinwort Wasserstein Securities (Asia) Limited, Hong Kong
Archenar Marketing Trading, Madeira
Dresdner Kleinwort Wasserstein Leasing December (15) Limited, London
Dresdner Kleinwort Wasserstein Trading Holdings LLC, Wilmington/Delaware
Idilias SPC Inc., George Town
Mole Finance Inc., George Town
Muni Tob Trust, Wilmington/Delaware
Orphans Aid Fund, Moscow
Symphony No. 3, Wilmington/Delaware

Disposals

Name	Reason for deconsolidation
dbi DGF BOND, Frankfurt	Sale
dbi-Fonds AKAR, Frankfurt	Liquidation
dbi-Fonds DBLA, Frankfurt	Liquidation
Dresdner Grund Money Market, Frankfurt	Sale
Dresdner Grund-Fonds, Frankfurt	Sale
First European DELTA Beteiligungs GmbH, Frankfurt	Merged with Dresdner Bank AG
First European OMEGA Beteiligungs GmbH, Frankfurt	Merged with Dresdner Bank AG
Herakles Beteiligungs-Gesellschaft mbH, Bad Vilbel	Merged with Dresdner Bank AG
Zweite FraMü Beteiligungs GmbH, Frankfurt	Merged with Dresdner Bank AG
Dresdner Bank (Croatia) d. d., Zagreb	Sale
Cathedral Limited, London	Liquidation
DreCan Holding Ltd., Toronto/Ontario	Merged with 4274563 Canada Inc.
Dresdner Lateinamerika Financial Advisors LLC, Miami	Sale
SCI des 108 et 110 Boulevard Haussmann, Paris	Liquidation
SCI Part-Dieu, Lyon	Liquidation

Lombardkasse, Frankfurt was renamed to GENUJO LOK Beteiligungs GmbH, Frankfurt.

(51) Events occurring after the balance sheet date

At the beginning of 2006 Dresdner Bank transferred assets totalling €1.9 billion to Pension-Trust der Dresdner Bank e. V., which acts as a trustee, to meet its pension obligations.

A proposal will be made to the Annual General Meeting to distribute the distributable profit of €809 million as a dividend.

(52) List of offices held by members of staff

Name	Offices held in other statutory supervisory boards of large corporations (as at 31 December 2005)
Claudia Eggert-Lehmann	Allianz Aktiengesellschaft, Munich
Peter Haimerl	Allianz Aktiengesellschaft, Munich
Joachim Heinsohn	Allianz Dresdner Bauspar AG, Bad Vilbel[1)]
Detlef Hermann	Kaiser's Tengelmann AG, Viersen
	RC Ritzenhoff Christal Aktiengesellschaft, Marsberg
Christian Höhn	Betriebs-Center für Banken Zahlungsverkehrsservice GmbH, Frankfurt/Main
Dr. Altfried M. Lütkenhaus (until 31 December 2005)	RWE Solutions Aktiengesellschaft, Frankfurt/Main
Gert Jürgen Müller	GZS Gesellschaft für Zahlungssysteme mbH, Bad Vilbel
Sultan Salam	Allianz Aktiengesellschaft, Munich
Margit Schoffer	Allianz Aktiengesellschaft, Munich
Reiner Zorbach	Betriebs-Center für Banken Zahlungsverkehrsservice GmbH, Frankfurt/Main

1) Group office.

(53) List of Supervisory Board members

Michael Diekmann Chairman	Chairman of the Board of Management of Allianz AG, Munich
Peter Haimerl Deputy Chairman	Dresdner Bank AG, Munich
Claudia Eggert-Lehmann	Dresdner Bank AG, Dortmund
Bernhard Enseling (until 31 October 2005)	Bad Griesbach
Thomas Fröhlich (since 1 November 2005)	Dresdner Bank AG, Frankfurt/Main
Christian Höhn	Dresdner Bank AG, Munich
Oda-Renate Krauß	ver.di Vereinte Dienstleistungsgewerkschaft, Berlin/Brandenburg district, Financial Services, Berlin
Dr. Heinz Kriwet	Member of the Supervisory Board of ThyssenKrupp AG, Dusseldorf
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	Member of the Board of Directors of Sanofi-Aventis S. A., Paris
Dr. Hartmut Mehdorn	Chairman of the Management Board of Deutsche Bahn AG, Berlin
Brunhilde Nast	Dresdner Bank AG, Dresden
Dr. Helmut Perlet	Member of the Board of Management of Allianz AG, Munich
Dr. Bernd Pischetsrieder	Chairman of the Management Board of Volkswagen AG, Wolfsburg
Stefan Quandt	Chairman of the Supervisory Board of DELTON AG, Bad Homburg v. d. H.
Jürgen Rose	Dresdner Bank AG, Nuremberg
Sultan Salam	Dresdner Bank AG, Frankfurt/Main
Margit Schoffer	Dresdner Bank AG, Aalen
Uwe Spitzbarth	Head of the National Working Party on Banks, ver.di Vereinte Dienstleistungsgewerkschaft, Berlin
Dr. Bernd W. Voss	Frankfurt/Main

Honorary Chairman of the Supervisory Board

Dr. Wolfgang Röller	Frankfurt/Main

(54) List of members of the Board of Managing Directors and of offices held by them

Name	Offices held in other statutory supervisory boards of large corporations (as at 31 December 2005)
Dr. Herbert Walter Chairman	Deutsche Börse AG, Frankfurt/Main
	TSV München von 1860 GmbH & Co. Kommanditgesellschaft auf Aktien, Munich
Dr. Andreas Georgi	ABB AG, Mannheim
	Deutsche Schiffsbank AG, Hamburg/Bremen (Deputy Chairman)
	Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH, Frankfurt/Main
	Eurohypo Aktiengesellschaft, Eschborn
	Rheinmetall AG, Dusseldorf
	RWE Dea AG, Hamburg
Dr. Stefan Jentzsch (since 24 November 2005)	Infineon Technologies AG, Munich
	Premiere AG, Munich
Karl Ralf Jung (until 31 December 2005)	dresdnerbank investment management Kapitalanlagegesellschaft mbH, Frankfurt/Main
Dr. Stephan-Andreas Kaulvers	AGIS Allianz Dresdner Informationssysteme GmbH, Munich
	Allianz Dresdner Bauspar AG, Bad Vilbel[1)] (Chairman)
	Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH, Frankfurt/Main
	EWE Aktiengesellschaft, Oldenburg
	Oldenburgische Landesbank AG, Oldenburg[1)] (Chairman)

Name	Offices held in other statutory supervisory boards of large corporations (as at 31 December 2005)
Jan E. Kvarnström	Dresdner Bank Lateinamerika Aktiengesellschaft, Hamburg[1)] (Chairman)
Dr. Andreas Leimbach (15 November to 24 November 2005)	–
Wulf Meier	AGIS Allianz Dresdner Informationssysteme GmbH, Munich
Andrew Pisker (until 24 November 2005)	–
Klaus Rosenfeld	Dresdner Bank Lateinamerika Aktiengesellschaft, Hamburg[1)] (Deputy Chairman)
Otto Steinmetz	Oldenburgische Landesbank AG, Oldenburg[1)]
Dr. Friedrich Wöbking	AGIS Allianz Dresdner Informationssysteme GmbH, Munich (Chairman)

[1)] Group office.

Declaration by the Board of Managing Directors

The consolidated financial statements of Dresdner Bank AG have been prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the EU, and the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as consolidated financial statements required to be prepared under Article 4 of the IAS Verordnung (IAS-VO – IAS Ordinance). In addition, the supplementary provisions of the Handelsgesetzbuch (HGB – German Commercial Code) required to be applied to the IFRS consolidated financial statements in accordance with section 315a (1) of the HGB, such as those regarding the group management report, have been observed; other mandatory additional disclosures have been made.

Frankfurt/Main, 21 February 2006

Dresdner Bank
Aktiengesellschaft

Dr. Walter	Dr. Georgi	Dr. Jentzsch
Dr. Kaulvers	Kvarnström	Meier
Rosenfeld	Steinmetz	Dr. Wöbking

Auditors' Report

We have audited the consolidated financial statements prepared by the Dresdner Bank Aktiengesellschaft, Frankfurt/Main – comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements – together with the group management report for the business year from 1 January to 31 December 2005. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a (1) HGB (Handelsgesetzbuch, German Commercial Code) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 HGB 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 Standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to section 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt/Main, 22 February 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wohlmannstetter	Andriowsky
Wirtschaftsprüfer	Wirtschaftsprüfer

The Supervisory Board of Dresdner Bank

Michael Diekmann
Chairman

Peter Haimerl
Deputy Chairman

Claudia Eggert-Lehmann

Thomas Fröhlich

Christian Höhn

Oda-Renate Krauß

Dr. Heinz Kriwet

Prof. Dr. Edward G. Krubasik

Dr. Dietmar Kuhnt

Igor Landau

Dr. Hartmut Mehdorn

Brunhilde Nast

Dr. Helmut Perlet

Dr. Bernd Pischetsrieder

Stefan Quandt

Jürgen Rose

Sultan Salam

Margit Schoffer

Uwe Spitzbarth

Dr. Bernd W. Voss

Dr. Wolfgang Röller
Honorary Chairman

Glossary

Asset-backed securities (ABSs): Tradable securities whose interest and principal repayments are secured by an underlying pool of receivables. Usually issued by a special purpose vehicle as part of a securitisation programme.

Associate: Enterprise over which the parent exerts a significant influence but not control. Such enterprises are accounted for in the consolidated financial statements using the equity method.

Backtesting: Procedure for monitoring the quality of value at risk (VaR) models. Backtesting is used retrospectively over a longer period of time to check whether the estimated potential losses based on the VaR approach were actually exceeded substantially more regularly than would be expected given the confidence level applied.

Banking book: Risk positions which are not allocated to the trading book.

Basel II: The Basel Committee for Banking Supervision's new regulatory standards.

BIS: Bank for International Settlements.

Capital ratio (BIS): A ratio calculated by banks conducting international business, in accordance with the Basel Capital Accord drawn up under the guidance of the Bank for International Settlements. It expresses the ratio of liable capital to certain risk-bearing assets.

Cash flow hedge: A derivative hedging transaction for non-trading positions designed to offset changes in volatility in the cash flows of financial assets, liabilities, off-balance sheet commitments and future transactions.

Confidence level: The probability that a potential loss will not exceed an upper limit defined by the value at risk.

Cost-income ratio: The ratio of administrative expenses to the sum of net interest income, net fee and commission income, and net trading income.

Credit default swap: 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.

Derivatives (derivatives business): Financial products which are derived from underlying instruments (such as equities, bonds, foreign exchange, or indices), the price of which can be calculated from the price of another security or financial product. The most frequently used forms of derivatives are swaps, options and futures.

Economic capital requirement: An indicator for quantifying all unexpected losses resulting from credit and counterparty, country, market, operational, and business risks. By contrast to the regulatory capital requirement determined in accordance with BIS capital adequacy rules or in accordance with the Kreditwesengesetz (German Banking Act), the economic capital requirement is determined using the Bank's own internal risk measurement procedures.

Equity method: Accounting method whereby investments in a company are initially recognised at cost and are adjusted thereafter for the post-acquisition change in the investor's share of the recognised net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Expected loss: A measure of the potential loss on a loan portfolio expected within a year, based on historical loss data.

Fair value: The amount for which a financial instrument could be exchanged between knowledgeable, willing parties on an arm's length basis.

IFRSs: Abbreviation for the International Financial Reporting Standards. As well as the IFRSs themselves, the Standards also encompass the existing International Accounting Standards (IASs) and the interpretations of the Standing Interpretations Committee, as well as future standards and interpretations to be released by the International Accounting Standards Board.

Impairment: An unscheduled write-down on assets such as goodwill, loan receivables, securities and property, plant and equipment due to an expected permanent impairment in the value of the corresponding asset.

Integrated financial services provider: A bancassurance company that aims to offer customers a single source for their banking and insurance requirements.

Market risk position: Market risk position as defined by Principle I of the Kreditwesengesetz (German Banking Act) comprises currency, commodity, and option risk, as well as trading book risk items such as interest rate and share price risks, and credit and counterparty risk.

Netting: The netting effect indicates the reduction in loss exposures due to global netting agreements.

Rating: Judgement of creditworthiness of a financial instrument (issue rating) or issuer (issuer rating) carried out by an independent rating agency.

Replacement costs, positive: Positive replacement costs for derivative positions correspond to the additional expenditure or reduced revenue that would result from the replacement of an equivalent position in the event of potential counterparty default.

Return on equity (RoE): An indicator that expresses the ratio of the income/loss after taxes to average shareholders' equity.

Risk control: Ongoing risk measurement and monitoring, including the development of the methods concerned, as well as corresponding risk analyses/reporting by a neutral, independent unit.

Risk management: Operational management of specific portfolios from the risk/return point of view.

Sarbanes-Oxley Act: Act passed by the US Congress in July 2002 with the aim of strengthening the trust of the capital markets and general public in financial reporting. The Act requires companies listed in the USA to implement a functional internal control systems, the effectiveness of which in relation to financial reporting must be assessed and certified by the auditors.

Scoring: A procedure whereby a risk profile is used to assess the risk factors of an investment or loan, applying qualitative and quantitative methods.

Securitisation: The bundling of receivables (e.g. loans, trade bills, or lease receivables) into a pool and their transfer to a special purpose vehicle (SPV). The SPV refinances itself by issuing securities that are placed with potential investors. The redemption of and interest payments on the securities are directly linked to the performance of the underlying receivables and not the performance of the issuer.

Standard default costs: The estimated expected loss on loans and advances based on historical credit risk parameters such as default and recovery rates, and which represent operational lending costs.

Stress testing: Procedure whereby an attempt is made to model the effects of extreme market fluctuations, a required complement to value at risk analyses.

Swaps: General term for the exchange of assets, rights, etc., particularly the exchange of cash flows in the same currency (interest rate swap) or different currencies (currency swap).

Trading book: A regulatory term for positions in financial instruments, shares and tradable claims held by a bank which are intended for resale in the short term in order to benefit from price and interest rate fluctuations.

Value at risk (VaR): Value at risk is defined as the potential loss which may occur during a pre-defined period of time, based on a given confidence level and certain assumptions regarding changes to market parameters. This statistical figure is used to compare market risks across the bank's various portfolios.

Volatility: The extent and intensity of fluctuations in market prices, interest rates, or entire markets.

Quarterly Overview

The following overview shows Dresdner Bank's results including the retrospective application of the revised IAS 39:

Quarterly results €m	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Net interest and current income	638	516	536	531	514	658	581	518
Net fee and commission income	701	599	663	647	603	590	623	747
Net trading income	190	359	133	422	335	253	472	440
Operating income	**1,529**	**1,474**	**1,332**	**1,600**	**1,452**	**1,501**	**1,676**	**1,705**
Administrative expenses	1,510	1,376	1,115	1,302	1,342	1,319	1,357	1,385
Loan loss provisions	-29	-130	-54	100	66	54	82	135
Operating result	**48**	**228**	**271**	**198**	**44**	**128**	**237**	**185**
Other operating income/expenses	-52	-25	17	40	-64	-91	-65	21
Result from investment securities	174	-2	124	1,156	-18	70	49	41
Amortisation of and impairment losses on goodwill	2	–	–	–	24	29	36	35
Restructuring charges	2	5	5	–	163	11	104	12
Income/loss before taxes	**166**	**196**	**407**	**1,394**	**-225**	**67**	**81**	**200**
Tax expense	84	63	158	72	-76	-10	-86	30
Income/loss after taxes	**82**	**133**	**249**	**1,322**	**-149**	**77**	**167**	**170**
Income attributable to minority interests	22	18	19	17	5	17	17	20
Net income/loss for the period	**60**	**115**	**230**	**1,305**	**-154**	**60**	**150**	**150**

Performance for the quarter after adjustments for the effect of the retrospective application of the revised IAS 39:

Quarterly results €m	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Net interest and current income	638	516	536	531	514	658	581	518
Net fee and commission income	701	599	663	647	603	590	623	747
Net trading income	190	359	133	422	335	253	472	440
Operating income	**1,529**	**1,474**	**1,332**	**1,600**	**1,452**	**1,501**	**1,676**	**1,705**
Administrative expenses	1,510	1,376	1,115	1,302	1,342	1,319	1,357	1,385
Loan loss provisions	-29	-130	-54	100	66	54	82	135
Operating result	**48**	**228**	**271**	**198**	**44**	**128**	**237**	**185**
Other operating income/expenses	-52	-25	17	40	-64	-91	-65	21
Result from investment securities	174	-2	119	-92	-232	84	55	26
Amortisation of and impairment losses on goodwill	2	–	–	–	24	29	36	35
Restructuring charges	2	5	5	–	163	11	104	12
Income/loss before taxes	**166**	**196**	**402**	**146**	**-439**	**81**	**87**	**185**
Tax expense	84	63	158	72	-85	-10	-95	30
Income/loss after taxes	**82**	**133**	**244**	**74**	**-354**	**91**	**182**	**155**
Income attributable to minority interests	22	18	19	17	5	17	17	20
Net income/loss for the period	**60**	**115**	**225**	**57**	**-359**	**74**	**165**	**135**

Five-Year Overview

Income statement	2005 €m	2004 €m	2003 €m	2002 €m	2001 €m
Net interest and current income	2,221	2,271	2,584	3,276	4,364
Net fee and commission income	2,610	2,563	2,590	3,090	3,841
Net trading income	1,104	1,500	1,526	1,044	1,526
Operating income	**5,935**	**6,334**	**6,700**	**7,410**	**9,731**
Administrative expenses	5,303	5,403	5,912	7,500	8,682
Loan loss provisions	-113	337	1,016	2,218	1,893
Operating result	**745**	**594**	**-228**	**-2,308**	**-844**
Other income/expenses, net	1,418	-471	-2,633	1,162	997
Income/loss before taxes	**2,163**	**123**	**-2,861**	**-1,146**	**153**
Tax expense	377	-142	-883	-211	-33
Income/loss after taxes	**1,786**	**265**	**-1,978**	**-935**	**186**
Income attributable to minority interests	76	59	11	7	6
Net income/net loss for the year	**1,710**	**206**	**-1,989**	**-942**	**180**

Balance sheet	31/12/2005 €m	31/12/2004 €m	31/12/2003 €m	31/12/2002 €m	31/12/2001 €m
Total assets	461,372	523,870	477,029	413,445	506,683
Lending volume	98,532	97,074	102,010	123,089	219,210
Parent shareholders' equity	11,763	10,929	11,516	11,976	21,633

Ratios	31/12/2005 %	31/12/2004 %	31/12/2003 %	31/12/2002 %	31/12/2001 %
Cost-income ratio	89.4	85.3	88.2	101.2	89.2
Loan loss ratio[1]	-0.11	0.33	0.84	1.56	1.12
Return on equity after taxes[2]	17.5	2.9	-15.4	-6.6	1.3
Return on equity before taxes[3]	21.1	5.8	-14.1	2.0	9.6
Earnings per share (€)	2.96	0.36	-3.44	-1.63	0.32
Risk-weighted assets (€m)[4]	111,534	104,777	111,879	142,801	189,814
Core capital ratio (%)[4]	10.0	6.6	6.6	6.0	5.5
Total capital ratio (%)[4]	16.3	13.3	13.4	10.6	11.4
Employees[5]	28,774	30,154	34,998	39,754	45,793
Branch offices	959	969	1,035	1,103	1,172

Short-/Long-term rating	31/12/2005	31/12/2004	31/12/2003	31/12/2002	31/12/2001
Moody's Investors Service, New York	P-1/A1	P-1/A1	P-1/A1	P-1/Aa3	P-1/Aa2
Standard & Poor's, New York	A-1/A	A-1/A	A-1/A	A-1/A+	A-1/AA-
Fitch Ratings, London	F1/A	F1/A-	F1/A-	F1/A+	F1/AA-

1) Net loan loss provisions as a percentage of the average risk-weighted assets in the banking book.

2) Income after taxes as a percentage of the average capital resources according to IFRSs.

3) Income before taxes, amortisation of and impairment losses on goodwill and restructuring charges as a percentage of the average capital resources according to IFRSs.

4) Information as at 31 December 2005 according to BIS/IFRSs; figures for previous years according to BIS/HGB.

5) Full-time equivalents (excluding vocational trainees).

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

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