Dresdner Bank Group Financial Report 2006

Dresdner Bank
Advice you can bank on

A company of **Allianz**

Key Figures 2006

Income statement	2006 €m	2005 €m	Change %	2005 adjusted[1)] €m	Change adjusted %
Operating income	6,813	6,025	13.1		
Operating expenses	5,436	5,543	-1.9		
Loan loss provisions	27	-113	–[2)]		
Operating result	**1,350**	595	126.9	**595**	126.9
Result from investment securities	276	1,573	-82.5	320	-13.8
Result from intangible assets	–	-2	–[2)]	-2	–[2)]
Restructuring charges	422	12	>+200.0	12	>+200.0
Income before taxes	**1,204**	2,154	-44.1	**901**	33.6
Tax expense	258	368	-29.9	368	-29.9
Income after taxes	**946**	1,786	-47.0	**533**	77.5
Income attributable to minority interests	76	76	0.0	76	0.0
Net income for the year	**870**	1,710	-49.1	**457**	90.4

Balance sheet	31.12.2006 €m	31.12.2005 €m	Change %
Total assets	497,287	460,548	8.0
Lending volume	111,734	98,532	13.4
Equity	14,198	13,976	1.6

Ratios	31.12.2006 %	31.12.2005 %	Change %/% points	31.12.2005 adjusted[1)] %	Change adjusted %/% points
Cost-income ratio	79.8	92.0	-12.2		
Loan loss ratio[3)]	0.02	-0.11	–[2)]		
Return on equity after taxes (Allianz)[4)]	10.9	9.0	1.9		
Return on equity before taxes[5)]	15.6	21.4	-5.8	8.7	6.9
Return on equity after taxes	8.5	17.1	-8.6	4.4	4.1
Earnings per share (€)	1.51	2.96	-1.45	0.79	0.72
Employees[6)]	27,625	28,774	-4.0		
Branch offices	952	959	-0.7		
Risk-weighted assets (€m)	119,980	111,534	7.6		
Core capital ratio (%)	10.4	10.0	0.4		
Total capital ratio (%)	15.6	16.3	-0.7		

Short-/Long-term rating	31.12.2006	31.12.2005
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 in 2005 of the revised IAS 39 in relation to the sale of Allianz and Munich Re shares.
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 (2006 adjusted for restructuring charges) to the capital allocated to Dresdner Bank in the Banking Segment.
5) Income before taxes, restructuring charges and the result from intangible assets as a percentage of the average capital resources according to IFRS.
6) Full-time equivalents (excluding vocational trainees).

Financial Report 2006

Michael Diekmann
Chairman of the Supervisory Board

In fiscal year 2006, 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 particular, the Supervisory Board discussed further developments to the Bank's business model and the new strategic organisation of the newly formed Private & Corporate Clients and Investment Banking divisions. The Supervisory Board was also informed in all meetings of the status of the "Neue Dresdner Plus" programme. In addition, it discussed issues relating to the Bank's investment portfolio. 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 the end of 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 Audit Committee, the Operations Committee (Betriebsausschuss), and the Mediation Committee set up in accordance with the Mitbestimmungsgesetz (German Co-determination Act).

The Executive Committee met on three occasions in fiscal year 2006 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 analysis of the Bank's portfolio structure, its credit risk strategy, risk management and exposures subject to particular risks. The Audit Committee held four meetings in fiscal year 2006, discussing the single-entity and consolidated financial statements as at 31 December 2005 in the presence of the auditors. It also reviewed the quarterly financial statements and addressed the tasks entrusted to it by the Supervisory Board. The Operations Committee of the Supervisory Board met three times in fiscal year 2006. It considered structural, organisational, social and other internal issues. 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 2006 financial statements and management report of Dresdner Bank AG, prepared in accordance with the HGB (German Commercial Code), and the 2006 consolidated financial statements and group management report of the Dresdner Bank Group, prepared in accordance with 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 meetings of the Audit Committee. The auditors who signed the single-entity and consolidated financial statements were present at the 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 2006, as presented by the Board of Managing Directors. The final results of this examination did not result in any objections. The Supervisory Board therefore approved the single-entity financial statements and the consolidated financial statements at its meeting on 12 March 2007. The single-entity financial statements are thereby adopted. The Supervisory Board concurred 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 Aktiengesetz (German Stock Corporation Act) 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

1. the factual statements in the report are correct,

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

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

The Supervisory Board examined the dependent 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.

There were several changes in the composition of the Supervisory Board in fiscal year 2006. Dr. Heinz Kriwet and Igor Landau resigned their positions as shareholder representatives on the Supervisory Board effective 31 December 2006. The Extraordinary General Meeting on 20 December 2006 elected Dr. Olaf Berlien and Prof. Dr. Dennis J. Snower as their successors effective 1 January 2007. Sultan Salam resigned from the Supervisory Board as an employee representative effective 30 November 2006. He was succeeded by Wolfgang Spauszus, an elected substitute member. The Supervisory Board would like to thank the outgoing members for their valuable work on the Board.

The following changes to the Board of Managing Directors took place in fiscal year 2006: The Supervisory Board accepted the resignation of Jan E. Kvarnström and Dr. Stephan-Andreas Kaulvers as members of the Board of Managing Directors, Mr. Kvarnström effective 28 February 2006 and Dr. Kaulvers effective 8 March 2006. The Supervisory Board would like to thank these gentlemen for their achievements for the Bank. Andree Moschner was appointed as a member of the Board of Managing Directors effective 1 August 2006.

The Supervisory Board would like to thank all Bank employees for their great personal effort.

Frankfurt/Main, 12 March 2007

The Supervisory Board

Michael Diekmann
Chairman

Group Management Report

Overview

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

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

Dresdner Bank has a network of 902 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 HRB 14000. Its legal framework is laid down in its Articles of Association, in the version dated 8 April 2003.

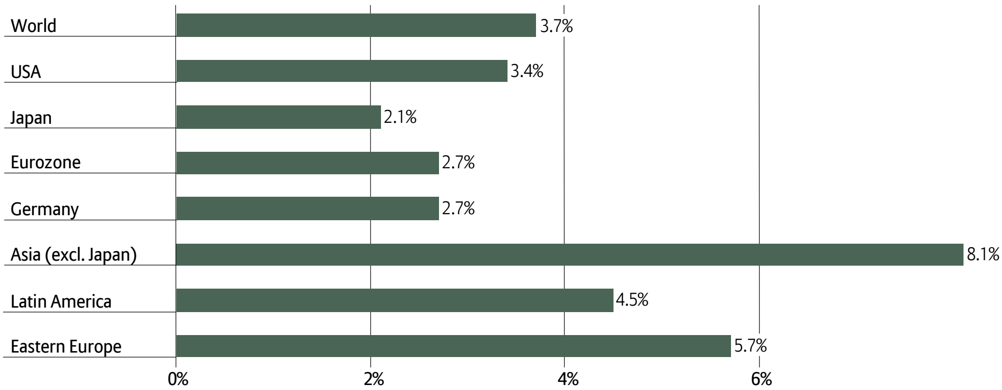
Since its combination with Allianz in 2001, Dresdner Bank AG has been a wholly-owned subsidiary of Allianz SE, Munich. The Bank's share capital amounts to €1,503 million, and is composed of 578.1 million no-par value shares. Dresdner Bank AG's shares are held indirectly by Allianz SE.

Dresdner Bank is a superordinated credit institution as defined by section 10a (2) of the Kreditwesengesetz (KWG – German Banking Act). The Bank prepares consolidated financial statements on the basis of International Financial Reporting Standards (IFRSs). These statements include 136 companies along with Dresdner Bank AG as the operating holding company. The Bank's fiscal year is the calendar year.

Macroeconomic Conditions

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

Global economic growth in 2006



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

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

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

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

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

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

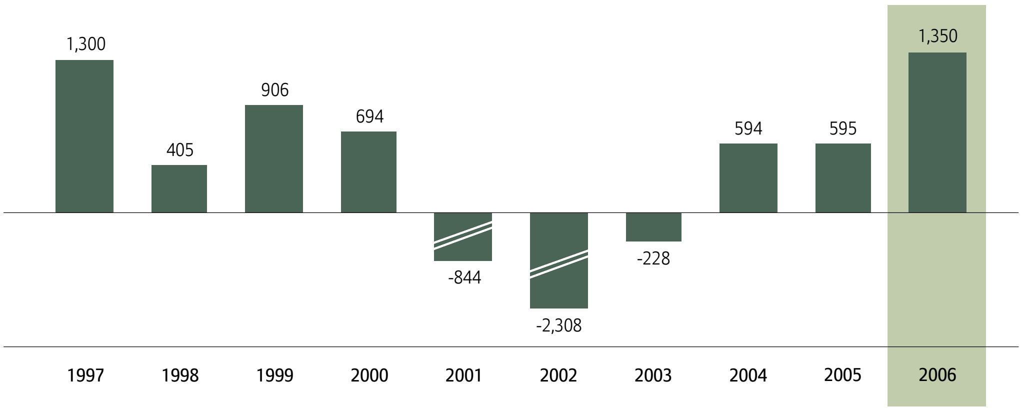
In this situation, the **banking sector in Germany** again significantly improved its earnings position. This applies in particular to the major banks with capital markets activities. Overall, this led to increased earnings opportunities in the trading and fee and commission business. The sustained high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

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

Business Development

Fiscal 2006 was a good year for Dresdner Bank. Once again, the Bank was able to sustainably increase its earnings capacity. At just under €1.4 billion, the operating result we generated was the best in the Bank's history. We were helped in this by the positive sentiment on the financial markets. The following key factors influenced our business development: We recorded substantial income growth in our operating business, administrative expenses were down year on year as a result of our strict cost management and the quality of our loan portfolio improved further. These trends combined to produce a 2006 **operating result** of €1,350 million, more than double the figure for the previous year (€595 million). As a result, we more than met our primary goal for full-year 2006 – to generate an operating result of at least €1.2 billion. In addition, we were able to improve our cost-income ratio from 92.0% to 79.8%.

Operating result[1)]
€m



1) 2006 and 2005 adjusted in accordance with new definition (see Note 01 "Basis of Accounting"); 1997 to 2004 as published.

Restructuring charges of €422 million for the measures planned in the "Neue Dresdner Plus" performance programme recognised in our non-operating result were largely offset by disposal gains from the investment portfolio. The Bank generated **income after taxes** of €946 million; this represents a rise of 77.5% on the comparable figure for the previous year of €533 million (adjusted for the positive effect of the retrospective application of IAS 39). This represents a contribution towards consolidated net income at Allianz's Banking segment of €976 million. Earnings per share improved as against the adjusted prior-year figure to €1.51. We are proposing payment of a dividend of €0.52 per share to the Annual General Meeting.

Significant events

At the beginning of 2006, we placed the **non-strategic shares** that we still held in Munich Re and sold the second tranche of Eurohypo AG to Commerzbank AG. The resulting disposal gains are included in the non-operating result.

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

On 2 January 2006, Dresdner Bank established a contractual trust arrangement (CTA) under the umbrella of **Pension-Trust der Dresdner Bank e. V.**, a legally and economically independent entity that acts as the trustee, and transferred assets amounting to €1.9 billion to this CTA to secure employer-funded direct benefit commitments. The CTA holds and manages the assets transferred to it, which are kept separate from Dresdner Bank's business assets and which may be used solely to finance the pension obligations.

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

Events after the balance sheet date

Kommanditgesellschaft Allgemeine Leasing GmbH & Co. (KGAL), in which Dresdner Bank owns a total interest of 45%, sold its interests in ASL Auto Service Leasing GmbH and the Disko Group effective as from mid-January 2007. The effect of the sale on income at KGAL will be reflected in the Dresdner Bank Group's results for the first quarter of the current fiscal year.

Development of the divisions

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

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

"Neue Dresdner Plus" programme

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

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

The goal of this integrated business model is to generate a sustained contribution to earnings as the basis for meeting our target of a 12% return after taxes in 2008. We intend to achieve this by streamlining our hierarchies, structures and processes as well as by introducing a comprehensive package of measures designed to improve our quality for customers and to cut costs. As part of this restructuring, 2,480 full-time positions are to be cut at the Dresdner Bank Group in the period up to 2008. The Board of Managing Directors and the employee representatives have agreed on a social plan for implementing the job cuts associated with the programme as part of a reconcilement of interests.

Employees

As at 31 December 2006, Dresdner Bank employed 32,752 people. This represents a decline of 1,456 employees as against year-end 2005.

	31/12/2006	31/12/2005	Change absolute	%
Dresdner Bank Group	32,752	34,208	-1,456	-4.3
– Germany	26,928	28,132	-1,204	-4.3
– Other countries	5,824	6,076	-252	-4.1
Dresdner Bank AG	23,127	24,000	-873	-3.6
– Germany	22,552	23,473	-921	-3.9
– Other countries	575	527	48	9.1

Calculated as full-time equivalents, the number of employees (excluding vocational trainees) amounted to 27,625, after 28,774 in the previous year. The following table shows the number of employees per division as at 31 December:

	31/12/2006	31/12/2005	Change absolute	%
Private & Business Clients	11,586	11,871	-285	-2.4
Corporate & Investment Banking	4,306	4,557	-251	-5.5
Business Services	7,672	8,124	-452	-5.6
Corporate Functions	4,061	4,222	-161	-3.8
Total	**27,625**	**28,774**	**-1,149**	**-4.0**

Vocational training and continuous professional development

Vocational training remains a high priority at Dresdner Bank. Providing vocational traineeships and offering trainees permanent employment when they have finished are an important component of this. This can be seen from the fact that a total of 491 vocational trainees were taken on within the Dresdner Bank Group in Germany in 2006. In 2006, the Dresdner Bank Group in Germany also signed 131 permanent employment contracts with vocational trainees who had finished their training, and limited-term contracts with another 196. In addition, the Allianz Group in Germany offered permanent positions to another 21 vocational trainees who had finished their training. Basic training in the investment and securities business continues to take the form of the trainee programme for securities advisors. Around 1,330 certified advisors have successfully completed the programme since February 2000.

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

Management development

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

Cooperation with Allianz

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

Selected remuneration models

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

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

Work and family

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

Allgemeines Gleichbehandlungsgesetz (AGG)

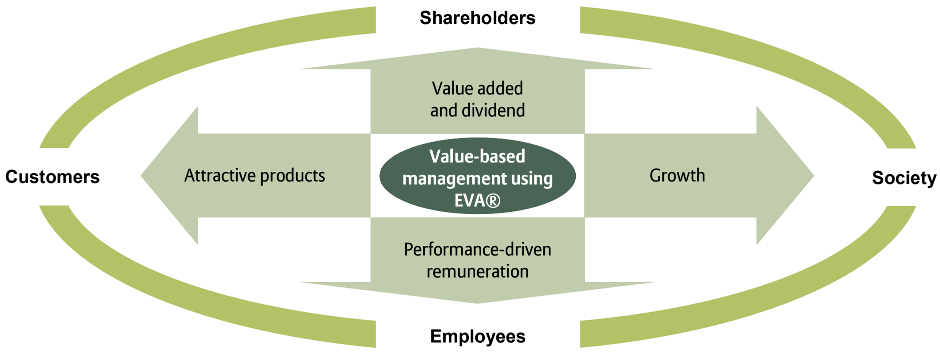
On 18 August 2006, the Allgemeines Gleichbehandlungsgesetz (AGG – General Anti-Discrimination Act) came into force. This represents the implementation in national law by the federal government of the European anti-discrimination directives. Since Dresdner Bank has been committed to ensuring a non-discriminatory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

Value-based Management

Value-based management within the Dresdner Bank Group is based on a uniform, value-oriented management concept that unites goal setting, planning, operational management, performance measurement and remuneration. Applying this management philosophy to the widest possible range of decisions in day-to-day business operations ensures that potential decision alternatives are measured according to the value that they add in each case. This comprehensive value added concept is not focused unilaterally on the Bank's organisational structure and the various areas of responsibility, but is also used for everything down to calculation of the value added of individual products or customer groups.

The key performance measure is known as Economic Value Added (EVA®). This measures the value added generated in a fiscal year. Aligning decision making with value creation ensures that adding value remains the central focus in all business activities and for all concerned – customers, shareholders, employees and the society of which we form a part.

Value-based management – a holistic concept that benefits everyone



EVA® is a registered trade mark of Stern Stewart & Co.

As part of the EVA® concept, the strategic goals are broken down into concrete targets for use in operational management at Dresdner Bank using value drivers and key performance indicators (KPIs). In addition to classic earnings components such as net interest income, total staff costs, or the operating result, KPIs that have a cause-and-effect relationship with earnings ratios – such as the cost-income ratio, the loan loss ratio, the interest margin, or assets under management – are used.

At Dresdner Bank, EVA® is calculated as the difference between normalised income after taxes and the cost of capital. Normalised income after taxes is derived from profit after taxes. Our goal is to generate earnings that have been adjusted as far as possible for one-time factors and non-operating elements; e.g. the effects of IAS 39 are eliminated and the result from investment securities is normalised on the basis of the long-term average return. We derive the Dresdner Bank Group's cost of capital from the net asset value (adjusted IFRS book equity) in conjunction with the cost of capital rate. For the divisions, the risk capital requirement is used as the capital indicator.

In order to support sustained value creation, we include the contribution made to EVA® as a key target parameter when measuring variable remuneration. This means that EVA® is a central component of the management and remuneration process designed to anchor the ongoing growth in enterprise value throughout the entire organisation.

Consolidated Net Income

In fiscal year 2006, the Dresdner Bank Group generated net income of €870 million. This represents an increase of €413 million or 90.4% as against the adjusted prior-year period.

	2006	2005	Change	
	€m	€m	€m	%
Net interest and current income	2,664	2,213	451	20.4
Net fee and commission income	2,841	2,696	145	5.4
Net trading income	1,278	1,104	174	15.8
Other operating income	30	12	18	>+100.0
Operating income	**6,813**	**6,025**	**788**	**13.1**
Administrative expenses	5,397	5,463	-66	-1.2
Other operating expenses	39	80	-41	-51.3
Operating expenses	**5,436**	**5,543**	**-107**	**-1.9**
Loan loss provisions	27	-113	140	
Operating result	**1,350**	**595**	**755**	**>+100.0**
Result from investment securities	276	1,573	-1,297	-82.5
Result from intangible assets	–	-2	2	
Restructuring charges	422	12	410	>+100.0
Income before taxes	**1,204**	**2,154**	**-950**	**-44.1**
Tax expense	258	368	-110	-29.9
Income after taxes	**946**	**1,786**	**-840**	**-47.0**
Income attributable to minority interests	76	76	0	0.0
Net income for the year	**870**	**1,710**	**-840**	**-49.1**

After adjustment for the retrospective application of the revised IAS 39 in 2005, the result from investment securities declined by €1,253 million to €320 million. The corresponding adjusted income items are given in the table below:

	2006	2005 adjusted	Change	
	€m	€m	€m	%
Operating result	**1,350**	**595**	**755**	**>+100.0**
Result from investment securities	276	320	-44	-13.8
Result from intangible assets	–	-2	2	
Restructuring charges	422	12	410	>+100.0
Income before taxes	**1,204**	**901**	**303**	**33.6**
Tax expense	258	368	-110	-29.9
Income after taxes	**946**	**533**	**413**	**77.5**
Income attributable to minority interests	76	76	0	0.0
Net income for the year	**870**	**457**	**413**	**90.4**

Operating income at the Dresdner Bank Group rose by 13.1% as against 2005 (€6,025 million) to a total of €6,813 million. Operating expenses (administrative expenses and other operating expenses) amounted to €5,436 million. This means that we succeeded in reducing last year's figure (€5,543 million) by a further 1.9%. The cost-income ratio improved in line with this by 12.2 percentage points to 79.8% (previous year: 92.0%). Loan loss provisions recorded net additions of €27 million. All in all, the Bank generated an operating result of €1,350 million. This represents an increase of €755 million as against the prior-year figure of €595 million.

The non-operating result for the period under review amounted to €-146 million (previous year: €1,559 million). This item primarily comprises gains from the disposal of Munich Re shares as well as gains from the disposal of the investment in Eurohypo AG in the first quarter of the reporting period. On the expenses side, restructuring charges of €422 million were incurred in connection with our growth and cost-cutting measures. The high prior-year figure for the non-operating result was due to a one-time gain of €1,253 million (sale of shares in Munich Re and Allianz) resulting from the retrospective application in 2005 of the revised IAS 39; after adjustment for this disposal gain, the non-operating result amounted to €306 million.

Income before taxes amounted to €1,204 million (previous year: €2,154 million; adjusted: €901 million). After adjustment for taxes and income attributable to minority interests, the net income for the year amounted to €870 million (previous year: €1,710 million; adjusted: €457 million). €569 million of the net income for the year was added to retained earnings. We are proposing to the Annual General Meeting on 12 March 2007 that a dividend of €301 million be distributed.

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

Net interest and current income

Net interest and current income amounted to €2,664 million, €451 million or 20.4% up on the figure for the previous year (€2,213 million). Whereas the figure for the previous year contained a negative effect from the application of IAS 39 of €346 million, the corresponding figure for the period under review recorded a moderate positive effect of €66 million.

	2006	2005	Change	
	€m	€m	€m	%
Total interest and current income	6,922	7,223	-301	-4.2
Total interest expense	4,324	4,664	-340	-7.3
Net effect of remeasurement under IAS 39	66	-346	412	
Net interest and current income	**2,664**	**2,213**	**451**	**20.4**
Risk-weighted assets in the banking book (average)[1]	113,310	104,950	8,360	8.0
Interest margin, %	2.29	2.44		

1) In accordance with BIS.

We were able to increase our income from customer business overall. Whereas growth was recorded in the areas of deposits, syndicated loans and structured finance, income from the domestic lending business declined slightly. In addition, income from equities, from land and buildings used by third parties and from investments in enterprises accounted for using the equity method declined; the latter was due in particular to the sales of shares in Eurohypo AG and Bilfinger Berger AG. The discontinuation of the prior-year income from the Institutional Restructuring Unit (IRU) also had a negative effect.

After adjustment for the net effect of remeasurement under IAS 39, the overall interest margin for 2006, calculated on the basis of the average risk-weighted assets in the banking book, declined to 2.29% (previous year: 2.48%).

Net fee and commission income

Flanked by a clear upturn in the capital markets, we were able to increase net fee and commission income to €2,841 million due to our attractive customer offerings. This represents an increase of €145 million or 5.4% as against the prior-year figure of €2,696 million.

	2006 €m	2005 €m	Change €m	%
Securities business	1,304	1,191	113	9.5
Asset management	325	288	37	12.8
Mergers & acquisitions and underwriting business	361	315	46	14.6
Payment transactions	262	269	-7	-2.6
Foreign commercial business	137	143	-6	-4.2
Other	452	490	-38	-7.8
Net fee and commission income	**2,841**	**2,696**	**145**	**5.4**

Once again, the securities business contributed almost half of net fee and commission income, the largest portion of this item. Income from this product area rose by around 10% for a total of €1,304 million (previous year: €1,191 million). We recorded growth in particular in our equities, investment funds and certificates business.

Fees and commissions from the mergers & acquisitions and underwriting business also increased tangibly, rising by 14.6% year on year to €361 million. Our mergers and acquisitions operations were particularly successful. Net fee and commission income from asset management amounted to €325 million, a year-on-year increase of around 12.8% or €37 million. Income from the Bank's agency business for Allianz, which is reported in the Other item, also rose. In addition, income from the sale of closed-end funds rose by around 20% year on year. Income from payment transactions and foreign commercial business was slightly down year on year.

Net trading income

Net trading income increased by 15.8% year on year to €1,278 million (previous year: €1,104 million). All three product areas contributed to this good result. The net effect of remeasurement under IAS 39 during the period under review impacted net trading income, in contrast to the remeasurement gain reported in the previous year.

	2006 €m	2005 €m	Change €m	%
Trading in interest rate products	813	532	281	52.8
Trading in equities products	223	217	6	2.8
Foreign exchange and precious metals trading	355	222	133	59.9
Net effect of remeasurement under IAS 39	-113	133	-246	
Net trading income	**1,278**	**1,104**	**174**	**15.8**

At €813 million, income from trading in interest rate products was substantially higher than the figure for the previous year (€532 million), with income from the derivatives business recording a particularly sharp rise. Income from foreign exchange and precious metals trading was also encouraging, increasing by 59.9% to €355 million. The increase in this product area was primarily due to options transactions, which benefited from an increase in the volatility of certain currencies. Income from trading in equities products rose to €223 million (previous year: €217 million).

IAS 39

Hedge accounting under 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. In addition, the application of the fair value option results in changes in the fair value of trading derivatives being offset by marking to market of suitable contra items in the banking book.

The aggregate effect on the operating result of the application of IAS 39 – comprising the offsetting effects on net interest and current income and net trading income – amounted to €-47 million in the year under review (previous year: €-213 million). The smaller negative effect on net income was due among other things to the fact that the Bank has adopted stricter criteria for recognising hedges.

	2006 €m	2005 €m	Change €m	%
Net gain/loss reported in net interest and current income	66	-346	412	
Net gain/loss reported in net trading income	-113	133	-246	
Overall effect of IAS 39	**-47**	**-213**	**166**	**77.9**

Administrative expenses

We were able to reduce our administrative expenses for the fifth year in succession due to our sustained cost management activities. These were down 1.2% year on year in the year under review, at €5,397 million (previous year: €5,463 million), despite the fact that the release of provisions in connection with the new rules governing jubilee payments in 2005 led to an increase in expenses from a comparative perspective.

	2006 €m	2005 €m	Change €m	%
Total staff costs	3,415	3,290	125	3.8
Non-staff operating costs	1,982	2,173	-191	-8.8
Administrative expenses	**5,397**	**5,463**	**-66**	**-1.2**
Number of employees as at 31 December	32,752	34,208	-1,456	-4.3
Employees (FTEs) as at 31 December	27,625	28,774	-1,149	-4.0
Cost-income ratio, %	**79.8**	**92.0**		

Total staff costs were impacted by a number of different, offsetting effects: on the one hand, wages and salaries declined by approximately 2% due to the decrease in the annual average number of employees and a lower pension benefit expense, while on the other hand performance-related remuneration increased in all areas year on year due to strong income development. All in all, total staff costs rose by 3.8% to €3,415 million.

Non-staff operating costs declined further by approximately 8.8% or €191 million year on year to €1,982 million (previous year: €2,173 million). This was largely due to lower IT costs and occupancy expenses as well as to lower expenses for office furniture and equipment. Impairment losses on real estate charged in the previous year had a positive effect. As a result of the trend in income and expenses, the cost-income ratio improved by 12.7 percentage points to 79.8% (previous year: 92.0%).

Loan loss provisions

Net additions of €27 million were reported for loan loss provisions in fiscal year 2006 (previous year: net release of €113 million).

While country risk provisions and general loan loss provisions recorded releases, there was a significant rise in specific loan loss provisions. The drivers for this development in specific loan loss provisions were a significant reduction in releases, despite lower additions. The lower releases were primarily due to the successful completion of the activities of our Institutional Restructuring Unit and the reduction in loan loss allowances due to systematic write-offs.

The continued decline in additions to specific loan loss provisions by comparison with the previous year reflects both the improvement in risk management processes and the absence of major loan defaults.

	2006	2005	Change	
	€m	€m	€m	%
Specific loan loss provisions (net)[1]	135	-144	279	
Country loan loss provisions (net)	-75	-7	-68	<-100.0
General risk provisions (net)	-33	38	-71	
Loan loss provisions	**27**	**-113**	**140**	

1) Including recoveries on loans previously written off.

As a result, net additions to specific loan loss provisions amounted to €135 million; excluding recoveries on loans previously written off of €176 million (previous year: €99 million), the specific loan loss ratio, based on the average lending volume, amounted to 0.30% (previous year: -0.05%).

Overall, additions to loan loss provisions declined by €229 million or 31.1% to €508 million by comparison with the previous year. At €305 million, releases were down around 59% on the high figure for the previous year (€751 million).

	2006	2005	Change	
	€m	€m	€m	%
Additions to loan loss provisions	508	737	-229	-31.1
Amounts released	305	751	-446	-59.4
Recoveries on loans previously written off	176	99	77	77.8
Loan loss provisions	**27**	**-113**	**140**	

After additions, releases and charge-offs, loan loss allowances at year-end 2006 had declined to €1,237 million. The loan loss allowances ratio, measured in terms of the lending volume, amounted to 1.1% (previous year: 1.7 %). The loan loss ratio, based on average risk-weighted assets, was 0.02% (previous year: -0.11%).

The non-performing loan portfolio was reduced further as against year-end 2005 by €0.9 billion to €2,013 million, due in particular to charge-offs and the repayment of a number of major individual commitments. The coverage ratio, which represents the ratio of loan loss allowances to risk elements, increased to 61.5% (previous year: 56.8%).

	2006 €m	2005 €m	Change €m	%
Lending volume	111,734	98,532	13,202	13.4
Loan loss allowances	1,237	1,676	-439	-26.2
Risk elements[1]	2,013	2,951	-938	-31.8
Loan loss ratio, %	0.02	-0.11		
Loan loss allowances ratio, %	1.1	1.7		
Coverage ratio, %	61.5	56.8		

1) Non-performing loans and potential problem loans.

Result from investment securities

The result from investment securities amounted to €276 million, after €1,573 million in the previous reporting period. The high figure recorded for the previous year included items of €1,253 million recognised in income resulting from the application of the revised IAS 39 in 2005 in relation to the sale of our Munich Re and Allianz shares.

	2006 €m	2005 €m	Change €m	%
Net realised gains and losses	500	1,736	-1,236	-71.2
Remeasurement result	-224	-163	-61	-37.4
Result from investment securities	**276**	**1,573**	**-1,297**	**-82.5**

In the period under review, the result from investment securities comprised a disposal gain from the sale of our Munich Re shares in the amount of €281 million, as well as income in connection with the sale of the second tranche of our shares in Eurohypo AG.

The write-downs required to be recognised in the year under review of €224 million (previous year: €163 million) mainly related to land and buildings used by third parties. All in all, the result from investment securities was down approximately 14% on the adjusted figure for the previous year (€320 million).

Result from intangible assets

No result from intangible assets was required to be reported in 2006. The figure of €2 million recorded in the previous year relates to an impairment loss.

Restructuring charges

We reported restructuring charges of €422 million for the year under review. €408 million of this figure related to the newly launched “Neue Dresdner Plus” programme, which comprises fundamental organisational changes in both the German and foreign regions and headquarters, as well as process optimisation activities and a number of other measures. This programme entails cutting a total of 2,480 jobs in the period up to 2008 (see Note 9).

	2006 €m	2005 €m	Change €m	%
"Neue Dresdner Plus" programme	408	–	408	
Other programmes	14	12	2	16.7
Restructuring charges	**422**	**12**	**410**	**>+100.0**

Tax expense

We reported a tax expense of €258 million for the year under review (previous year: €368 million). The main reason for the lower tax expense by comparison with the previous year was the decline in domestic taxable income, which not only led to a lower current tax expense but also to a drop in deferred taxes.

	2006 €m	2005 €m	Change €m	%
Current taxes	209	291	-82	-28.2
Deferred taxes	49	77	-28	-36.4
Tax expense	**258**	**368**	**-110**	**-29.9**

Segment Reporting

The following segment reporting presents developments in the results for the divisions and functions in line with the organisational structure valid in 2006. Methodological changes were made to segment reporting in the course of the fiscal year under review. These relate in particular to the allocation in full to the other divisions of the administrative expenses for central functions assigned to Corporate Functions and the adaptation of the internal rate of return on the capital allocated to the divisions to the current situation on the capital markets. The prior-year results were adjusted to reflect the organisational and methodological changes. Additional information is provided in Note 11.

The table below shows the results for our divisions for fiscal year 2006.

	Private & Business Clients		Corporate & Investment Banking		Business Services		Corporate Functions		Group (total)	
€m	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Net interest and current income	1,352	1,359	1,220	1,102	-9	-7	101	-241	2,664	2,213
Net fee and commission income	1,805	1,630	991	955	33	38	12	73	2,841	2,696
Net trading income	47	39	1,315	981	–	–	-84	84	1,278	1,104
Other operating income	–	4	–	–	–	–	30	8	30	12
Operating income	**3,204**	**3,032**	**3,526**	**3,038**	**24**	**31**	**59**	**-76**	**6,813**	**6,025**
Direct administrative expenses	1,352	1,320	1,677	1,482	1,582	1,669	786	992		
Inter-segment cost allocation	1,109	1,078	1,142	1,056	-1,488	-1,529	-763	-605		
Administrative expenses	2,461	2,398	2,819	2,538	94	140	23	387	5,397	5,463
Other operating expenses	-7	27	1	2	1	–	44	51	39	80
Operating expenses	**2,454**	**2,425**	**2,820**	**2,540**	**95**	**140**	**67**	**438**	**5,436**	**5,543**
Loan loss provisions	96	137	13	-14	–	–	-82	-236	27	-113
Operating result	**654**	**470**	**693**	**512**	**-71**	**-109**	**74**	**-278**	**1,350**	**595**
Result from investment securities	14	58	5	23	–	10	257	1,482	276	1,573
Result from intangible assets	–	-2	–	–	–	–	–	–	–	-2
Restructuring charges	95	9	135	9	146	-6	46	–	422	12
Income before taxes	**573**	**517**	**563**	**526**	**-217**	**-93**	**285**	**1,204**	**1,204**	**2,154**
Change year on year	56		37		-124		-919		-950	
Cost-income ratio, %	76.6	80.0	80.0	83.6					79.8	92.0
Loan loss ratio[1], %	0.26	0.38	0.02	-0.02					0.02	-0.11
Return on equity before taxes[2], %	44.5	33.0	19.4	15.3					15.6	21.4
Risk capital (average)[3]	1,500	1,600	3,600	3,500	100	100	1,900	2,400	7,100	7,600
Risk-weighted assets (average)	36,900	35,600	72,500	60,900	200	200	5,200	11,400	114,800	108,100

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

2) Income before taxes, restructuring charges and the result from intangible assets as a percentage of the average IFRS capital; calculated for the divisions on the basis of the allocated average risk capital.

3) The amounts represent the divisions' risk capital requirements based on their positions in the various items, taking diversification effects into account.

The decision taken at the end of June 2006 to combine the Bank's middle-market customers with its private and business clients, and to report them in future in the newly defined Private & Corporate Clients division rather than in the Investment Banking division, is not yet reflected in the present segment reporting. We shall implement the change in our organisational structure with effect from the beginning of fiscal year 2007, and shall adjust our reporting in line with this. The following pro forma overview provides an estimate of the effects on income for the year 2006:

	Private & Corporate Clients		Investment Banking		Business Services		Corporate Functions		Group (total)	
€m	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Net interest and current income	1,589	1,596	983	865	-9	-7	101	-241	2,664	2,213
Net fee and commission income	1,944	1,776	852	809	33	38	12	73	2,841	2,696
Net trading income	73	61	1,289	959	–	–	-84	84	1,278	1,104
Other operating income	–	4	–	–	–	–	30	8	30	12
Operating income	**3,606**	**3,437**	**3,124**	**2,633**	**24**	**31**	**59**	**-76**	**6,813**	**6,025**
Administrative expenses	2,687	2,624	2,593	2,312	94	140	23	387	5,397	5,463
Other operating expenses	-6	29	–	–	1	–	44	51	39	80
Operating expenses	**2,681**	**2,653**	**2,593**	**2,312**	**95**	**140**	**67**	**438**	**5,436**	**5,543**
Loan loss provisions	123	161	-14	-38	–	–	-82	-236	27	-113
Operating result	**802**	**623**	**545**	**359**	**-71**	**-109**	**74**	**-278**	**1,350**	**595**
Result from investment securities	14	58	5	23	–	10	257	1,482	276	1,573
Result from intangible assets	–	-2	–	–	–	–	–	–	–	-2
Restructuring charges	105	9	125	9	146	-6	46	–	422	12
Income before taxes	**711**	**670**	**425**	**373**	**-217**	**-93**	**285**	**1,204**	**1,204**	**2,154**
Change year on year	41		52		-124		-919		-950	

Private & Business Clients

The Private & Business Clients division generated an operating result of €654 million in fiscal year 2006; of this amount, 67% was attributable to the Private & Business Banking segment and 33% to the Personal Banking segment. All in all, this represents a substantial improvement of approximately 39.1% year on year. Income before taxes, which was impacted by restructuring charges in the year under review, rose by around 11% to €573 million (previous year: €517 million).

	Personal Banking		Private & Business Banking		Private & Business Clients		Change	
€m	2006	2005	2006	2005	2006	2005	€m	%
Net interest and current income	929	946	423	413	1,352	1,359	-7	-0.5
Net fee and commission income	1,013	902	792	728	1,805	1,630	175	10.7
Net trading income	13	14	34	25	47	39	8	20.5
Other operating income	–	1	–	3	–	4	-4	
Operating income	**1,955**	**1,863**	**1,249**	**1,169**	**3,204**	**3,032**	**172**	**5.7**
Direct administrative expenses	934	935	418	385	1,352	1,320	32	2.4
Inter-segment cost allocation	741	714	368	364	1,109	1,078	31	2.9
Administrative expenses	1,675	1,649	786	749	2,461	2,398	63	2.6
Other operating expenses	–	14	-7	13	-7	27	-34	
Operating expenses	**1,675**	**1,663**	**779**	**762**	**2,454**	**2,425**	**29**	**1.2**
Loan loss provisions	66	88	30	49	96	137	-41	-29.9
Operating result	**214**	**112**	**440**	**358**	**654**	**470**	**184**	**39.1**
Result from investment securities	3	9	11	49	14	58	-44	-75.9
Result from intangible assets	–	–	–	-2	–	-2	2	
Restructuring charges	65	-5	30	14	95	9	86	>+100.0
Income before taxes	**152**	**126**	**421**	**391**	**573**	**517**	**56**	**10.8**
Cost-income ratio, %	85.7	89.3	62.4	65.2	76.6	80.0		
Loan loss ratio, %	0.26	0.35	0.27	0.45	0.26	0.38		
Return on equity before taxes, %	21.7	12.1	90.2	67.8	44.5	33.0		
Risk capital (average)	1,000	1,000	500	600	1,500	1,600	-100	-6.3
Risk-weighted assets (average)	25,600	24,800	11,300	10,800	36,900	35,600	1,300	3.7

Operating income improved by €172 million or 5.7% to €3,204 million in the period under review. The main driver of this encouraging development was our commission-earning business.

Net interest and current income remained stable year on year at €1,352 million (previous year: €1,359 million). We generated a substantial rise in our deposits business – due among other things to our attractive product offerings. We substantially increased our volume of new business in the areas of mortgage and other lending. The focus here, given recent interest rate developments, was on innovative finance products and on locking in current attractive market conditions. This allowed us to compensate for declines due to our unchanged focus on profitable lending at acceptable levels of risk, and to ongoing fierce competitive pressure. Our cooperation with Dresdner-Cetelem Kreditbank GmbH produced positive effects: we were able to further increase income from our consumer loans business year on year thanks to attractive, low-cost product offerings. The income from the consumer loans business, which was previously recognised in net interest and current income, is now reflected in net fee and commission income.

Net fee and commission income recorded another substantial rise, closing up 10.7% at €1,805 million. This increase in income was mainly due to the positive performance of our securities business – with income from trading volumes and portfolio-related income both up. In particular, our business in the areas of open-ended and closed-end funds and certificates, as well as the growth in asset management products, led to this rise. Our cooperation with Dresdner-Cetelem Kreditbank GmbH produced additional positive effects: the consumer loans business, which we operate together with our French partner, recorded a further rise year on year. Our "Integrated Financial Services Provider" sales campaign led to an increase in income in our life and pension insurance business in particular – and especially Riester pension products – as well as to increased sales of banking products via the Allianz agencies.

Operating expenses rose due to a one-time factor in the previous year – the release of provisions for jubilee payments – by a slight 1.2% year on year to €2,454 million. Despite an increase in the total staff costs caused by performance-related remuneration components and initial growth initiatives in Private Wealth Management, administrative expenses rose by only 2.6%, to €2,461 million. The cost-income ratio improved by 3.4 percentage points year on year to 76.6% as a result of the growth in income. Net loan loss provisions amounted to €96 million in the period under review, after €137 million in the previous year. As a result, the loan loss ratio declined to 0.26% (previous year: 0.38%).

The operating result in Private & Business Banking improved by around 23% from its already high level for a total of €440 million, and almost doubled in Personal Banking to €214 million. All in all, this led to a rise in income before taxes of €56 million, for a total of €573 million, despite restructuring charges of €95 million incurred during the year under review and a one-time disposal gain reported in the previous year. The return on equity before taxes amounted to 44.5% (previous year: 33.0%).

Corporate & Investment Banking

The Corporate & Investment Banking division generated an operating result of €693 million in fiscal year 2006. 71% of this figure was attributable to the Corporate Banking segment and 29% to the Dresdner Kleinwort segment. This represents a substantial year-on-year increase of approximately 35%, with the Dresdner Kleinwort segment being the main driver. Income before taxes, which was impacted by restructuring charges in the year under review, amounted to €563 million, after €526 million in the previous year.

€m	Corporate Banking		Dresdner Kleinwort		Corporate & Investment Banking		Change	
	2006	2005	2006	2005	2006	2005	€m	%
Net interest and current income	628	610	592	492	1,220	1,102	118	10.7
Net fee and commission income	325	334	666	621	991	955	36	3.8
Net trading income	67	57	1,248	924	1,315	981	334	34.0
Other operating income	–	–	–	–	–	–		
Operating income	**1,020**	**1,001**	**2,506**	**2,037**	**3,526**	**3,038**	**488**	**16.1**
Direct administrative expenses	237	232	1,440	1,250	1,677	1,482	195	13.2
Inter-segment cost allocation	298	288	844	768	1,142	1,056	86	8.1
Administrative expenses	535	520	2,284	2,018	2,819	2,538	281	11.1
Other operating expenses	3	2	-2	–	1	2	-1	-50.0
Operating expenses	**538**	**522**	**2,282**	**2,018**	**2,820**	**2,540**	**280**	**11.0**
Loan loss provisions	-12	15	25	-29	13	-14	27	
Operating result	**494**	**464**	**199**	**48**	**693**	**512**	**181**	**35.4**
Result from investment securities	–	-5	5	28	5	23	-18	-78.3
Result from intangible assets	–	–	–	–	–	–		
Restructuring charges	15	1	120	8	135	9	126	>+100.0
Income before taxes	**479**	**458**	**84**	**68**	**563**	**526**	**37**	**7.0**
Cost-income ratio, %	52.7	52.1	91.1	99.1	80.0	83.6		
Loan loss ratio[1], %	-0.05	0.07	0.05	-0.08	0.02	-0.02		
Return on equity before taxes[1], %	38.0	30.6	8.9	3.8	19.4	15.3		
Risk capital (average)	1,300	1,500	2,300	2,000	3,600	3,500	100	2.9
Risk-weighted assets (average)	24,000	21,300	48,500	39,600	72,500	60,900	11,600	19.0

As a result of the positive development at Dresdner Kleinwort, operating income rose by 16.1% year on year, to €3,526 million.

Net interest and current income increased by a substantial 10.7% year on year, for a total of €1,220 million. The rise in net income was due primarily to increases in our structured finance business and syndicated loans, especially in Europe and the United States. This increase in business activity led to a rise in the average risk-weighted assets for the year of 19.0% as against the previous year.

Commission-earning business increased by 3.8% to €991 million. The main driver of this development was a rise in income from M&A activities.

At €1,315 million, net trading income rose by a substantial €334 million as against the previous year. Higher income was generated in the derivatives business – and particularly in the Credit Derivatives unit – during the year under review. The increase in our foreign exchange business was primarily due to options transactions, which benefited from an increase in the volatility of certain currencies.

The rise in administrative expenses to €2,819 million (previous year: €2,538 million) was primarily due to higher performance-related compensation at Dresdner Kleinwort connected with the strong income growth in fiscal year 2006. The cost-income ratio improved in line with this by 3.6 percentage points to 80.0% (previous year: 83.6%).

Loan loss provisions recorded net additions of €13 million (previous year: net release of €14 million). €12 million was released in the Corporate Banking segment, while at Dresdner Kleinwort additions were required in the amount of €25 million.

Encouraging growth in the operating result was recorded both at Corporate Banking and, in particular, at Dresdner Kleinwort. Restructuring charges of €135 million were incurred in connection with the "Neue Dresdner Plus" programme; these are reported in the non-operating result. All in all, the Corporate & Investment Banking division posted income before taxes of €563 million (previous year: €526 million). The return on equity before taxes rose to 19.4% (previous year: 15.3%).

Business Services

The Business Services division comprises our business support services units (Business Processing, Information Technology and Human Resources) in which we are aiming to achieve additional efficiency gains through further standardisation and automation and by bundling processing at regional and Group level. The costs incurred by Business Services – with the exception of restructuring charges – are allocated to the divisions using product- and volume-related allocation algorithms.

	2006	2005	Change	
	€m	€m	€m	%
Net interest and current income	-9	-7	-2	-28.6
Net fee and commission income	33	38	-5	-13.2
Net trading income	–	–		
Other operating income	–	–		
Operating income	**24**	**31**	**-7**	**-22.6**
Direct administrative expenses	1,582	1,669	-87	-5.2
Inter-segment cost allocation	-1,488	-1,529	41	2.7
Administrative expenses	94	140	-46	-32.9
Other operating expenses	1	–	1	
Operating expenses	**95**	**140**	**-45**	**-32.1**
Loan loss provisions	–	–		
Operating result	**-71**	**-109**	**38**	**34.9**
Result from investment securities	–	10	-10	
Result from intangible assets	–	–		
Restructuring charges	146	-6	152	
Income before taxes	**-217**	**-93**	**-124**	**<-100.0**
Risk capital (average)	100	100	0	0.0
Risk-weighted assets (average)	200	200	0	0.0

Direct administrative expenses were cut by a substantial €87 million year on year to €1,582 million. All service units contributed to this result, with material cost savings being made as a result of the reorganisation of office space utilisation in Germany and in the area of IT costs. The decline of around 5.2% was reflected both in lower cost allocations to the other segments and in an improvement in the operating result of €38 million. The restructuring charges in the amount of €146 million are related to our "Neue Dresdner Plus" programme and to efficiency improvement projects in the area of Business Processing that are already underway. In line with this, the loss before taxes widened to €217 million (previous year: €93 million).

Corporate Functions

The Corporate Functions segment consists of the costs of those functional areas that have a Group management role. These costs are allocated almost in their entirety to the divisions during internal cost allocation. In addition, the segment comprises the Bank's investment securities portfolio and specific reconciliation items (e.g. gains and losses from the application of hedge accounting rules to the banking book), as well as consolidation adjustments from the reconciliation of the Bank's external reporting with its management reporting. The previous year still contained the activities of the IRU, which closed down effective as at the end of September 2005.

	2006 €m	2005 €m	Change €m	%
Net interest and current income	101	-241	342	
Net fee and commission income	12	73	-61	-83.6
Net trading income	-84	84	-168	
Other operating income	30	8	22	>+100.0
Operating income	**59**	**-76**	**135**	
Direct administrative expenses	786	992	-206	-20.8
Inter-segment cost allocation	-763	-605	-158	-26.1
Administrative expenses	23	387	-364	-94.1
Other operating expenses	44	51	-7	-13.7
Operating expenses	**67**	**438**	**-371**	**-84.7**
Loan loss provisions	-82	-236	154	65.3
Operating result	**74**	**-278**	**352**	
Result from investment securities	257	1,482	-1,225	-82.7
Result from intangible assets	–	–		
Restructuring charges	46	–	46	
Income before taxes	**285**	**1,204**	**-919**	**-76.3**
Risk capital (average)	1,900	2,400	-500	-20.8
Risk-weighted assets (average)	5,200	11,400	-6,200	-54.4

The operating result totalled €74 million (previous year: €-278 million). Operating income amounted to €59 million, clearly in excess of the figure for the previous year (€-76 million). This is due in particular to the positive effect of the application of IAS 39 as well as to additional reconciliation items to the external earnings figures for the Group as a whole. By contrast, the discontinuation of the business activities of the IRU, which still existed in 2005, and lower net income from associates in particular due to the sale of our shares in Eurohypo AG, had a negative impact. The sharp decline in administrative expenses was due primarily to the dissolution of the IRU and the absence of the non-recurring charges incurred in the previous year, as well as to cost benefits resulting from efficiency gains. Whereas in the previous year loan loss provisions contained substantial releases of specific loan loss provisions relating to the IRU, the releases made in the current year were lower and primarily related to country risk provisions. The result from investment securities of €257 million primarily contains gains from the disposal of shares in Munich Re and Eurohypo. A total of slightly less than €1.3 billion of the high figure recorded for the previous year was based on the retrospective application of the revised IAS 39 in 2005. The restructuring charges of €46 million incurred in connection with our "Neue Dresdner Plus" programme mainly relate to the planned workforce reduction in the functional areas that have a Group management role.

Net Worth and Financial Position

The Dresdner Bank Group's total assets rose by 8.0% as against the prior-year closing date to total €497.3 billion as at the reporting date of 31 December 2006.

This increase of €36.7 billion was primarily due to an increase in the volume of securities-backed money market transactions, as well as to an increase in the lending volume. This development is attributable, among other things, to the general trend towards securitised money market transactions as an attractive form of funding and/or financing. This was reflected in particular in the balance sheet items for loans and advances to customers and banks and liabilities to customers and banks.

	31/12/2006 €m	31/12/2005 €m	Change €m	%
Trading assets	134,731	163,688	-28,957	-17.7
Loans and advances to banks	138,947	99,981	38,966	39.0
Loans and advances to customers	187,680	163,313	24,367	14.9
Investment securities	15,948	14,983	965	6.4
Other assets	19,981	18,583	1,398	7.5
Total assets	**497,287**	**460,548**	**36,739**	**8.0**
Trading liabilities	72,921	80,873	-7,952	-9.8
Liabilities to banks	162,455	139,910	22,545	16.1
Liabilities to customers	182,227	155,785	26,442	17.0
Certificated liabilities	45,970	50,079	-4,109	-8.2
Subordinated liabilities	6,192	5,811	381	6.6
Profit-participation certificates	2,262	1,517	745	49.1
Other liabilities	11,062	12,597	-1,535	-12.2
Equity	14,198	13,976	222	1.6
Total liabilities	**497,287**	**460,548**	**36,739**	**8.0**

Trading assets/liabilities

The trading assets/liabilities item comprises the Dresdner Bank Group's trading activities for securities, derivatives and other instruments.

At the end of 2006, the volume of trading assets amounted to €134.7 billion. This represents a year-on-year decline of 17.7%. While debt and other fixed-income securities – from both public sector and other issuers – fell by €31.5 billion to €76.9 billion as a result of fewer income-generating opportunities, equities and other non-fixed-income securities rose by €3.8 billion to €34.5 billion. The positive fair values of derivative financial instruments included in the trading assets were €23.2 billion, around 5.2% down on the previous year.

The decline in trading liabilities of €8.0 billion primarily related to delivery obligations for securities (€-7.8 billion to €40.5 billion) and negative fair values of derivative financial instruments. By contrast, other trading liabilities rose by €2.4 billion to €10.9 billion.

Loans and advances to banks and loans and advances to customers

The volume of loans and advances to banks and loans and advances to customers rose in comparison to the prior year by a total of €63.3 billion to €326.6 billion as a result of the increase in securities-backed money market transactions. All in all, the volume of these assets rose as at 31 December 2006 to €183.9 billion.

In addition, we expanded the lending volume in 2006 by 13.4% to €111.7 billion following the successful reduction in the non-strategic loan portfolio over the past years. This rise occurred within the confines of our risk-oriented focus on our strategic core business.

	31/12/2006	31/12/2005	Change	
	€m	€m	€m	%
Loans to customers	**104,946**	**92,838**	**12,108**	**13.0**
– Germany	66,389	65,175	1,214	1.9
– Other countries	38,557	27,663	10,894	39.4
Loans to banks	**6,788**	**5,694**	**1,094**	**19.2**
Lending volume[1)]	**111,734**	**98,532**	**13,202**	**13.4**

1) Excluding reverse repurchase agreements..

The €13.2 billion increase in the lending volume is approximately 90% due to a rise in customer loans, which went up by €12.1 billion to €104.9 billion. Whilst domestic loans to customers fell slightly by 1.9% to €66.4 billion, foreign loans rose by 39.4% to €38.6 billion; this relates in particular to loans to corporate clients. Loans to banks rose by 19.2% year on year to €6.8 billion.

The share of the total lending volume attributable to our foreign lending to both customers and banks grew by approximately 7 percentage points year on year to 39%.

Investment securities

Investment securities increased as against the previous year-end by a total of €1.0 billion to €15.9 billion. The rise mainly related to debt and other fixed-income securities, which rose by €0.8 billion to €11.2 billion due to higher bonds and notes from other issuers. Investments in unconsolidated associated enterprises rose slightly to close the year with a volume of €0.5 billion. Equities and other non-fixed-income securities remained almost unchanged year on year at €3.2 billion. Land and buildings used by third parties declined by €0.2 billion to €1.0 billion.

Other assets

The increase of €1.4 billion in other assets to €20.0 billion in comparison to the previous year-end was mainly dominated by two contrary developments. Firstly, the volume of assets accounted for under the fair value option rose by €3.8 billion as against the previous year; this mainly relates to fixed-income securities. By contrast, the assets held for sale item in the amount of €1.4 billion was no longer required; this was used in the previous year to report the second tranche of Eurohypo AG held for sale.

Deposits and certificated liabilities

Deposits and certificated liabilities increased by €44.9 billion year on year to €390.7 billion. The volume of repurchase agreements was deliberately increased by €28.0 billion to €117.1 billion in connection with the overall sharp rise in funding requirements.

	31/12/2006	31/12/2005	Change	
	€m	€m	€m	%
Liabilities to banks	162,455	139,910	22,545	16.1
Liabilities to customers	182,227	155,785	26,442	17.0
Certificated liabilities	45,970	50,079	-4,109	-8.2
Deposits and certificated liabilities	**390,652**	**345,774**	**44,878**	**13.0**
Of which: repurchase agreements	117,132	89,145	27,987	31.4

Liabilities to banks rose by approximately €23 billion to €162.5 billion. Whereas sums payable on demand declined by €3.1 billion to €21.3 billion, term liabilities to banks rose sharply by €25.6 billion to €141.3 billion.

Liabilities to customers rose sharply by €26.4 billion to €182.2 billion. Savings deposits remained almost unchanged year on year at €4.7 billion, while time deposits and demand deposits rose by €8.1 billion and €18.5 billion respectively. This increase was due in particular to increased deposits by corporate customers abroad. Overall, the proportion of total customer deposits accounted for by corporate customers increased to approximately 78% or €141.4 billion.

Certificated liabilities declined slightly, decreasing 8.2% on the previous year's figure for a total of €46.0 billion. Bonds issued declined by €1.8 billion and the volume of other certificated liabilities by €2.3 billion.

A detailed breakdown of the maturity structure of the deposits and certificated liabilities is given in Note 40. The Notes also contain information on off-balance sheet financial instruments.

Other liabilities

Other liabilities decreased by €1.5 billion year on year to €11.1 billion. The main reason for this was a decline in pension provisions of €1.8 billion representing the net total of the defined pension obligations less the assets which were transferred to Pension-Trust der Dresdner Bank e. V., to cover the obligations.

Equity

The equity reported in the consolidated balance sheet as at 31 December 2006 including minority interests totalled €14.2 billion. Excluding minority interests, equity rose by €0.5 billion to €12.2 billion. This includes both the addition to retained earnings amounting to €569 million as well as the dividend paid to Allianz amounting to €301 million that were taken from net income for the year. Remeasurement gains from available-for-sale financial instruments increased to €1.8 billion due to market developments.

Regulatory capital (BIS)

At the beginning of Q3 2006, Dresdner Bank successfully placed a hybrid bond and subordinated capital, together totalling €1.75 billion, with institutional investors. The subordinated capital of €750 million, which took the form of profit-participation certificates, was designed to replace the issue of such certificates made in 1997, as these would no longer count towards supplementary capital in future. The hybrid bond, which is structured as a silent participation in the amount of €1 billion that counts towards our core capital, is designed to increase the flexibility with which we can manage our capital within the Allianz Group.

Regulatory capital (BIS) consists of core capital and supplementary capital.

	31/12/2006 €m	31/12/2005 €m
Core capital	**12,469**	**11,126**
Of which: hybrid components	2,513	1,614
Supplementary capital	**6,199**	**7,085**
Total capital	**18,668**	**18,211**
Risk-weighted assets	**119,980**	**111,534**
– Banking book	117,355	108,659
– Trading book	2,625	2,875
Capital ratios		
Core capital ratio[1], %	10.4	10.0
Total capital ratio, %	15.6	16.3

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

After the adoption of the financial statements, the core capital as at 31 December 2006 amounted to €12.5 billion and primarily consists of subscribed capital, reserves and hybrid components taking the form among other things of silent participation certificates. The supplementary capital of €6.2 billion primarily comprises profit-participation certificates and subordinated liabilities. Total regulatory capital amounted to €18.7 billion.

The 7.6% increase in risk-weighted assets in accordance with IFRSs to €120.0 billion is primarily the result of the deliberate expansion of our structured finance and syndicated loan business.

The core capital ratio (BIS) amounted to 10.4% (year-end 2005: 10.0%); the total capital ratio amounted to 15.6% (year-end 2005: 16.3%).

Outlook

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

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

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

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

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

In the **Private & Corporate Clients** division we want to acquire new customers and reinforce our ties with existing clients by providing innovative products and solutions and by optimising the quality of our advisory services. In particular, we want to systematically exploit the opportunities open to us in the growth areas of financial provision and asset management. We shall increase the number of Private & Business Banking locations from the current figure of 120 to approximately 350, and the middle market segment from 50 to around 60 locations. In Private Wealth Management, too, our high net worth clients will soon be offered support at a choice of 22 locations, instead of the previous 15. Other launches are being planned as part of our focused international expansion. In addition, we shall introduce an even more efficient and high-profile offering together with Allianz by strengthening our multi-channel sales and increasing our broad-based presence. The beginning of 2007 saw the launch of our project to set up bank branches within Allianz agencies. The first of the 100 bank branches located in Allianz pilot agencies were opened at the beginning of February. In these agencies, a Dresdner Bank advisor will offer a broad range of banking services, while customers will be able to access a service terminal and, at selected locations, a cash dispenser as well. A further focus is on the systematic expansion of our international activities in the core countries of Europe and in selected growth markets.

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

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

All in all, these new organisational structures have enabled us to create the preconditions for strengthening our performance by generating growth and returns. Strict programme monitoring will ensure that the various implementation risks are tracked in order to achieve the planned goals.

Based on our internal planning, we expect a further increase in the operating result. Specifically, we expect our operating income to continue rising consistently. We aim to leverage the above-mentioned growth potential while at the same time maintaining our strict cost discipline. In concrete terms, we aim to keep administrative costs largely stable throughout the Bank thanks to the strict implementation of rationalisation and efficiency improvement measures. In this way, we intend to bring our cost-income ratio down to a competitive level – including in comparison to our direct competitors. With regard to loan loss provisions, we expect – starting from today's historically low levels – to see a return to a level that reflects the risk inherent in our business over the coming years. The volume of loan loss provisions will depend to a not inconsiderable extent on macroeconomic developments and on the underlying credit cycle. We expect positive effects to come from further developments to our internal rating methods and lending processes.

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

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

Together with our sustained extension of our position in Germany and our focused expansion in the core countries of Europe and in selected growth markets, we are therefore confident that we shall be able to generate additional improvements in earnings in the medium term. Our goal remains 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.

To get there, we are planning additional income growth, stable administrative expenses and an increase in loan loss provisions for 2007. We expect the combination of these factors to lead to an overall increase in our operating result. This trend will be driven by the operating divisions.

Group Risk Report

Group-wide Risk Management and Risk Monitoring

Banks and risks

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

Dresdner Bank's risk approach

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

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

Risk principles

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

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

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

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

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

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

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

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

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

The CRO Function – organisation and tasks

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

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

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

The CRO Function – organisation and tasks

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

(a) Risk Management

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

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

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

(b) Risk Control

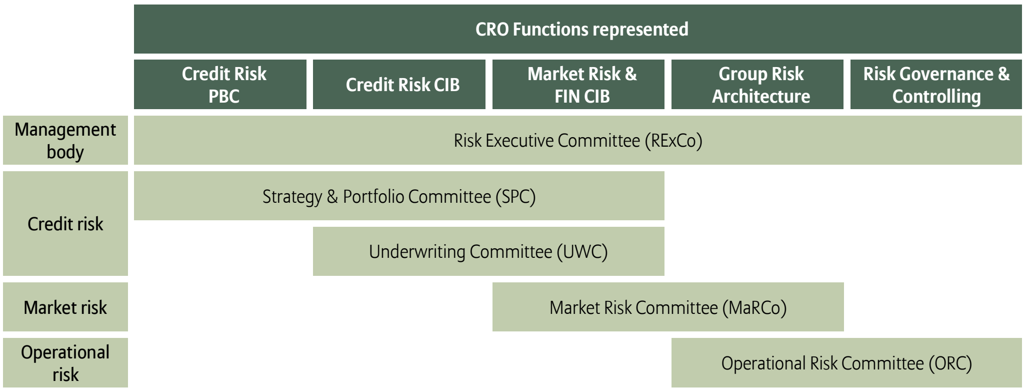
The Risk Governance & Controlling and Group Risk Architecture units perform Bank-wide risk control tasks that are independent of individual divisions and risk types. In addition, these units are responsible for the methods and processes used to manage operational and reputational risk. Risk Governance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

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

Risk-related committees

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

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



(a) Risk Executive Committee

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

(b) Strategy & Portfolio Committee and Underwriting Committee

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

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

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

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

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

(c) Market Risk Committee

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

(d) Operational Risk Committee

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

Group Audit

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

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

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

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

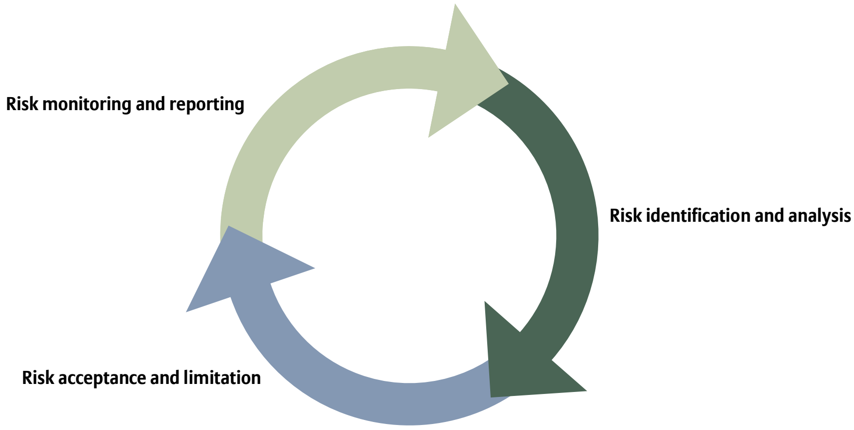
Group Audit prepares an annual report on all audits conducted during the past fiscal year and submits this to all members of the Board of Managing Directors. In addition, material defects revealed during the year under review, the measures recommended or needed to remedy them and the implementation status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

Risk management

The risk management cycle

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

The risk management cycle at Dresdner Bank



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

(a) Risk identification and analysis

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

(b) Risk acceptance and limitation

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

(c) Risk monitoring and reporting

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

Special topic: stress tests

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

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

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

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

Risk capital management

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

(a) Bank-wide risk-bearing capacity analysis

Risk capital requirements are reconciled every month with the available risk capital to provide an overall assessment of Dresdner Bank's economic risk-bearing capacity, and the results presented to the Board of Managing Directors as part of internal risk reporting. The available risk capital consists of the equity as reported in the balance sheet after certain adjustments for the specific purpose of loss coverage (e.g. deduction of goodwill). The available risk capital exceeded the risk capital requirements in every month of fiscal year 2006; the Bank's risk-bearing capacity is thus ensured. The table below shows the available risk capital in relation to risk capital requirements.

	31/12/2006 €bn	31/12/2005 €bn
Available risk capital	13.6	12.8
Risk capital requirements	6.8	7.6
Excess capital	**6.8**	**5.2**

The following table shows the breakdown of risk capital requirements by individual risk types:

	31/12/2006 €bn	31/12/2005 €bn
Credit and counterparty risk[1)]	4.3	5.0
Market risk	0.4	0.3
Risk from shareholdings and real estate risk[1)]	2.4	2.6
Operational risk	0.9	1.1
Business risk	0.5	0.5
Risk capital requirements before diversification	**8.5**	**9.5**
Diversification	-1.7	-1.9
Risk capital requirements after diversification	**6.8**	**7.6**

1) The risk capital requirements as at 31 December 2005 for credit and counterparty risk and risk from shareholdings and real estate risk were adjusted retroactively for reasons of comparability, as methodological changes were made with effect from the beginning of 2006.

The decline in risk capital requirements was largely due to the improvement in portfolio quality in the area of credit and counterparty risk, the disposal of our interest in Eurohypo and specific process improvements. These effects were only partly offset by the first-time inclusion of real estate risks in the risk capital calculations and the acquisition of an interest in Industrial and Commercial Bank of China.

(b) Risk limitation at Group and divisional level

Risk capital requirements are used as the basis for risk limitation at Group as well as at divisional level. The limits are calculated annually in the course of the planning process on the basis of the risk and business strategy and take the available risk capital into account; where necessary, they are adjusted in the course of the year. The limits are approved by the Board of Managing Directors and require the explicit consent of the Supervisory Board's Credit and Risk Committee. Limit utilisation reports are submitted to the Board of Managing Directors on a monthly basis and to the Supervisory Board at regular intervals. For 2006, the overall limit remained unchanged year-on-year at €10.5 billion.

(c) Risk-based performance measurement

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

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

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

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

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

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

Implementation status of Basel II

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

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

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

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

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

Risk Types

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

Credit and counterparty risk

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

General presentation of credit and counterparty risk

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

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

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

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

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

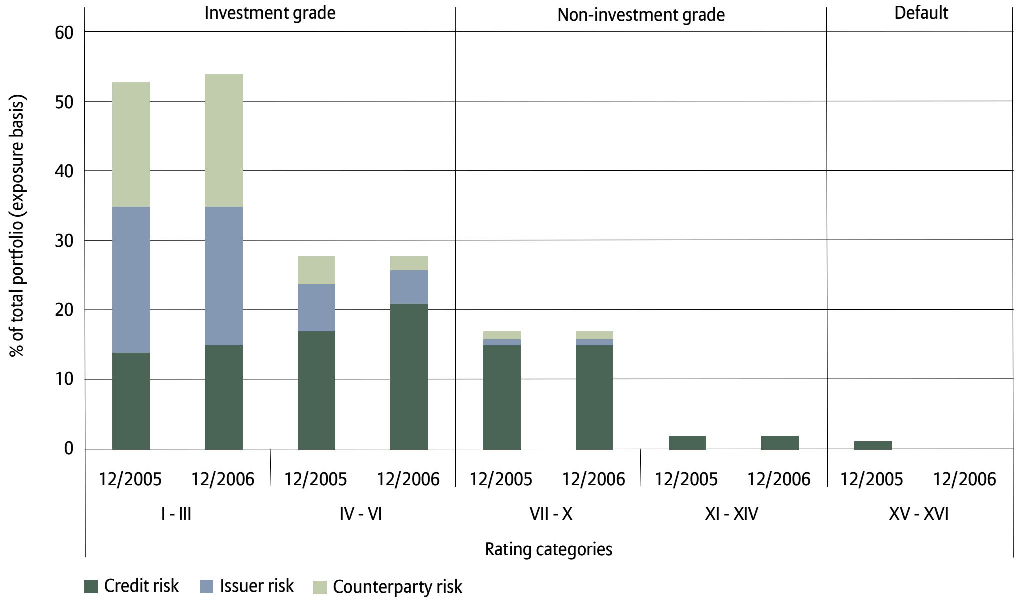
When comparing the internal ratings used at Dresdner Bank and external ratings awarded by rating agencies, it should be borne in mind that the ratings focus on different things: in the case of external ratings, the classification awarded is intended be valid in the medium term and to offer investors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

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

Dresdner Bank's total exposure of €341 billion comprises the credit lines (limits) in the lending business and the fair values of the trading positions, and in the case of derivatives the positive replacement cost plus internal risk premiums ("add-ons"). 77% (previous year: 76%) of the overall exposure is assigned to rating categories I to VI (investment grade).

This good rating distribution can be seen in particular in our trading portfolio, 97% of which is assigned to rating categories I to VI (previous year: 96%).

Breakdown of the Bank's total portfolio (exposure basis) by rating categories (debtor rating) showing credit, counterparty and issuer risk



(b) Determination of exposure at default

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

(c) Determination of loss given default

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

(d) Determination of portfolio risk

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

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

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

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

(e) Sector-oriented portfolio management

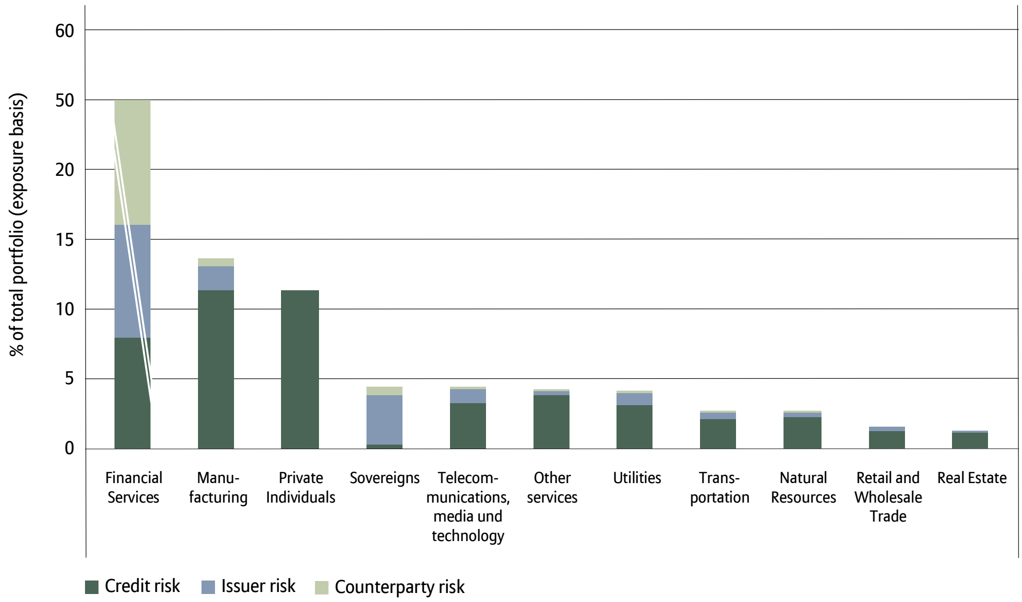
Dresdner Bank uses a sector-oriented approach to credit and counterparty risk management. Companies and business clients are assigned to one of 23 sectors, which are bundled together in sector groups.

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

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

Overall, we have succeeded in lifting volumes in higher-rated sectors and de-emphasising weaker sectors. Financial services and sovereigns accounted for 54% (previous year: 56%) of the total exposure.

Breakdown of the Bank's total portfolio (exposure basis) by sector showing credit, counterparty and issuer risk



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

(f) Determination of portfolio concentrations

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

Both nominal and risk-weighted parameters are used as concentration measures. Risk-weighted concentration supplements the nominal perspective by taking the probability of default and the collateralisation into account. Whereas the nominal concentration increased slightly in the course of the year, the risk-weighted concentration declined due to the above-average quality of our large exposures. Concentration risk is minimised through syndication and close monitoring. We consider the decline in the risk-weighted concentration as confirmation of the long-term trend towards increasing portfolio quality observable since 2003.

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

Credit risk from lending activities

We define credit risk from lending activities as the potential loss arising from defaults on loans or contingent liabilities (e.g. loan guarantees, documentary credits). This lending-induced risk type accounts for the largest part of credit and counterparty risk.

(a) Breakdown of credit risk from lending activities

29% (previous year: 32%) of Dresdner Bank's loan portfolio, measured in terms of the limits as at 31 December 2006, was attributable to the Private & Business Clients division and 71% (previous year: 68%) to Corporate & Investment Banking.

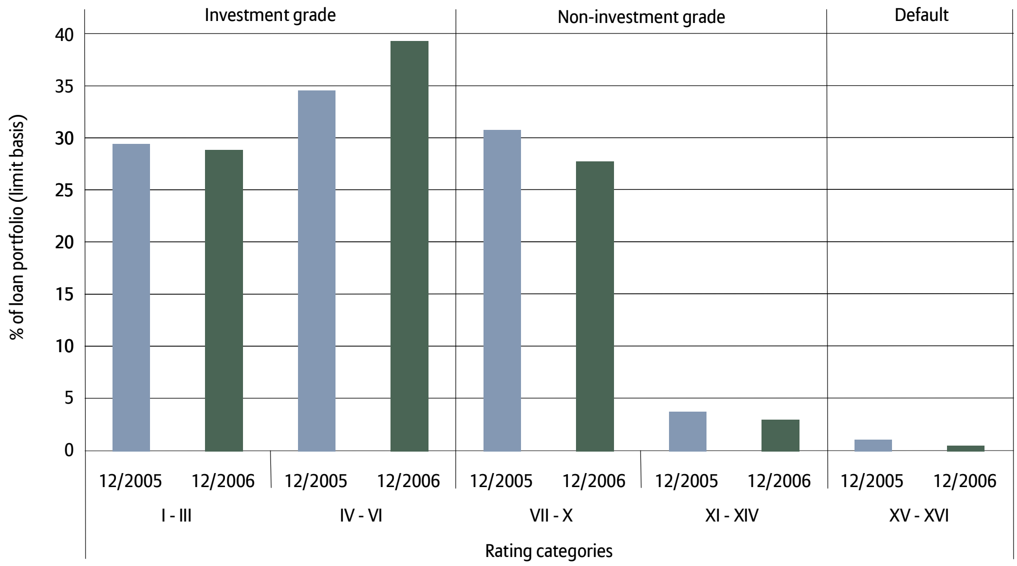
The changes in portfolio composition are dominated by the growth in the overall loan portfolio, which is primarily due to the Dresdner Kleinwort segment and, to a lesser extent, to the Corporate Banking segment. The other divisions recorded stable development in absolute amounts.

As at the reporting date 81% of Dresdner Bank's loan portfolio, expressed in terms of the limit, was accounted for by borrowers domiciled in Germany and the rest of Western Europe, with 60% coming from the former and 21% from the latter (proportions unchanged as against the previous year).

(b) Risk development

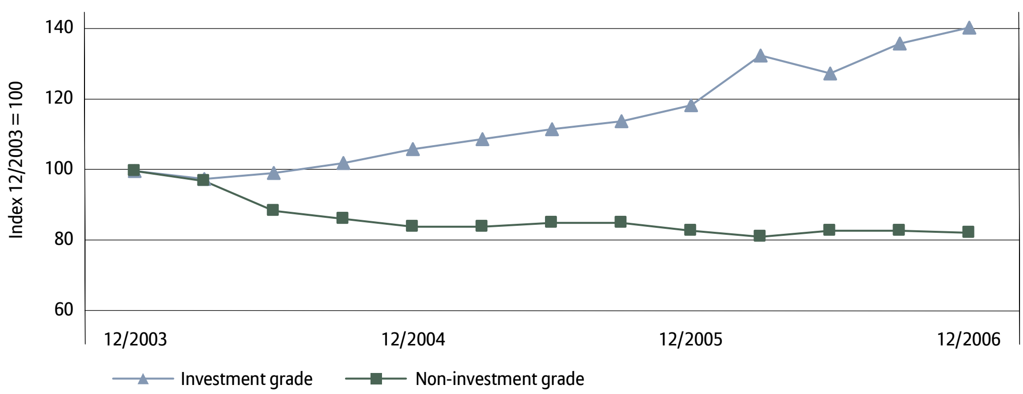
The increasing credit volumes were matched by a clear reduction in central risk parameters such as average default probabilities (-0.18 percentage points), expected loss (-18%) and risk capital (-12%). As a result, the trend towards a continuous improvement in credit quality, which was already visible in 2005, continued in the year under review. This was supported by our systematic improvements to credit processes and the implementation of a value-based growth strategy, as well as the more upbeat economic environment. Encouragingly, this trend is visible on a broad front covering both the private and corporate clients segment and multinationals.

Breakdown of the loan portfolio (limit basis) by rating categories



68% (previous year: 64%) of Dresdner Bank's total loan portfolio, measured in terms of the limit, fell within internal rating categories I to VI (investment grade) at year-end 2006. The proportion of investment grade customers has increased continuously in recent years. The main driver behind this quality increase is our new business with large caps and multinationals.

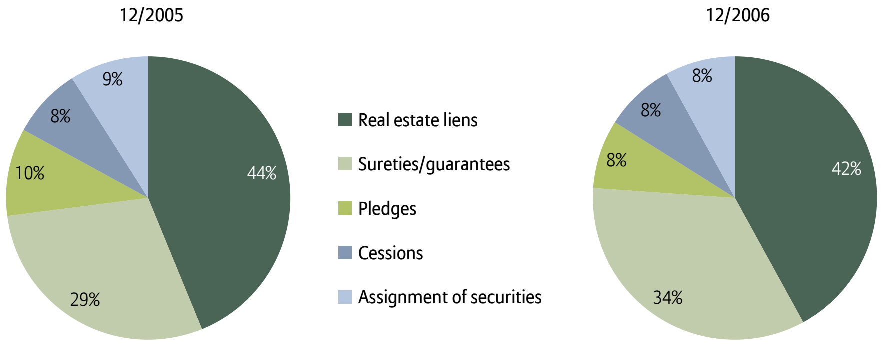
Quality development of the loan portfolio (limit basis)



(c) Loan collateral

Loan collateral taken to hedge credit risk can be broken down into personal securities (e.g. sureties) and asset securities. As at the reporting date of 31 December 2006, the net realisable values of real estate liens (primarily on residential properties) were the dominating factor in Dresdner Bank's collateral portfolio. In addition, personal securities such as sureties and guarantees (including credit default swaps) played an important role in hedging credit risk. By contrast, pledges, other forms of assignment and cessions were less strongly represented. The ratio of collateral provided increased slightly year on year. This is also reflected in the decline in the loss ratio on default at the reporting date of 31 December 2006 to 34.7% (previous year: 37.4%).

Breakdown of loan collateral



(d) Credit risk stress tests

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

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

(e) Non-performing loans

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

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

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

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

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

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

The following table provides an overview of Dresdner Bank's risk elements using the format required for SEC Industry Guide 3 reporting.

	31/12/2006	31/12/2005	Change	
	€m	€m	€m	%
Non-accrual loans	1,765	2,071	-306	-14.8
Loans 90 days past due and still accruing	189	535	-346	-64.7
Troubled debt restructurings	27	31	-4	-12.9
Non-performing loans	**1,981**	**2,637**	**-656**	**-24.9**
Potential problem loans	**32**	**314**	**-282**	**-89.8**
Risk elements	**2,013**	**2,951**	**-938**	**-31.8**

In 2006, we successfully reduced non-performing loans and potential problem loans by a further €0.9 billion or 31.8% to approximately €2.0 billion. Approximately €0.7 billion of this decline is attributable to non-performing loans, with the focus of reductions being on the category of loans 90 days past due and still accruing. The reductions are due on the one hand to write-offs of commitments and on the other to the successful repayment of a number of major individual commitments. The decline in potential problem loans to almost nothing is due to the fact that commitments previously classified as potential problem loans are now reported as non-accrual loans. This has enabled a risk-adequate presentation of non-performing loans in line with the presentation used by major peer group banks.

A breakdown of the non-performing loans by client groups reveals an overall reduction in volumes (here: amounts drawn down) and a disproportionately large decline in foreign borrowers, especially in the corporate clients segment:

	31/12/2006 €m	31/12/2005 €m	Change €m	 %
Non-homogeneous portfolio	**1,433**	**2,075**	**-642**	**-30.9**
– Domestic clients	1,224	1,567	-343	-21.9
– Private customers	460	525	-65	-12.4
– Corporate clients	764	1,042	-278	-26.7
– Foreign clients	209	508	-299	-58.9
– Private customers	11	13	-2	-15.4
– Corporate clients	198	495	-297	-60.0
Homogeneous portfolio	**548**	**562**	**-14**	**-2.5**
Non-performing loans	**1,981**	**2,637**	**-656**	**-24.9**

The 20 largest single non-performing loans (measured in terms of the amounts drawn down) accounted for 12% of the total portfolio of non-performing loans, with the largest making up just under 3% of the total portfolio of non-performing loans.

Dresdner Bank's coverage ratio, i.e. the ratio of total loan loss provisions to risk elements, amounted to 61% in 2006 (previous year: 57%). This was within the bandwidth for competitors. The remaining non-performing loans are covered by valued collateral and current cash flows.

Special topic: securitisations

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

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

Dresdner Bank uses securitisation for actively managing its equity capital and credit risk; this applies in particular in the case of the securitisation of loans to mid-cap corporate clients. Both "true sales" (the non-recourse sale of loans) and synthetic securitisation methods (the use of credit derivatives or guarantees) are used. For example, at the beginning of 2006 Dresdner Bank used the True Sale Initiative (TSI) platform to place loans totalling approx. €3 billion via true sales. In addition, Dresdner Bank synthetically securitised another loan portfolio with a transaction volume of €2.1 billion in the Promise-K transaction in February 2006. In general, the securitised loans continue to be administered by Dresdner Bank, so that client relationships remain unaffected by the transaction.

Arranging securitisations for Dresdner Bank clients is a fast-growing business segment. Dresdner Bank has arranged the securitisation of loans via non-recourse sales since 1998, and is the sponsor of one of the largest programmes of this type in Europe, the "Silver Tower" asset-backed commercial paper (ABCP) programme. Dresdner Bank acts as a sponsor primarily for three ABCP multiseller conduits: "Silver Tower" (since May

1998), and "Beethoven" and "Brahms" (since April 2000). In addition, Dresdner Bank participates in ABCP transactions arranged by third-party institutions.

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

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

Counterparty risk from trading activities

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

Exchange-traded and OTC derivatives (together known as the "derivatives business") account for by far the largest proportion of counterparty risk in terms of volume and risk. As a result, the following explanation concentrates initially on (a) the derivatives business. After this, a separate explanation of (b) settlement risk is provided.

(a) Derivatives business

In 2006, the notional volume of our derivatives business (trading book and banking book) rose by 10.1% to a total of €5,806 billion (previous year: €5,274 billion). The largest rise in notional volumes was recorded by credit derivatives, which increased to €410 billion (+82.5%), and interest rate derivatives, which amounted to €66.3 billion (+1.8%).

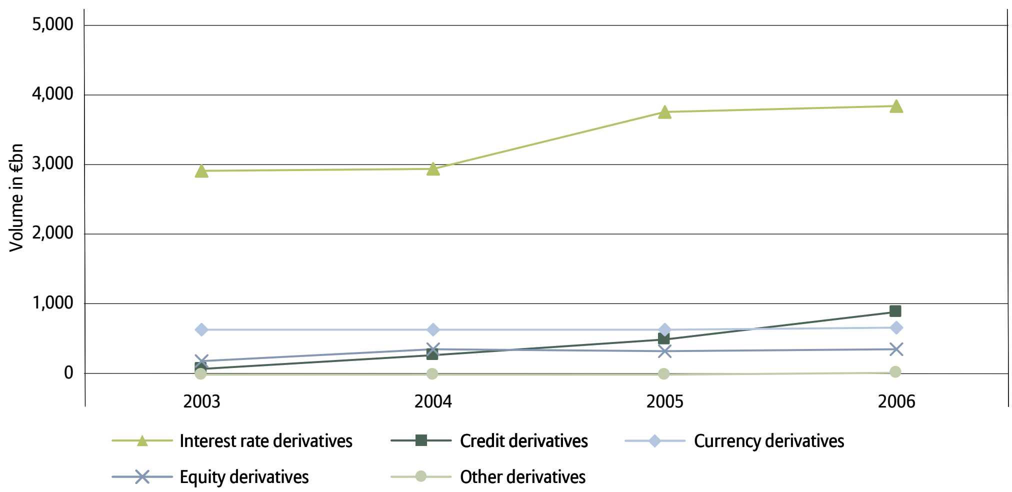
Trading and banking book contracts	Notional amounts by time to maturity 31/12/2006				Positive replacement cost[1)]	
€m	Up to 1 year	> 1 year -5 years	More than 5 years	Total	31/12/2006	31/12/2005
Interest rate derivatives	1,285,521	1,279,904	1,275,812	3,841,237	46,878	45,624
Currency derivatives	561,510	97,268	25,234	684,012	10,010	9,871
Equity/index derivatives	168,019	161,081	22,789	351,889	17,776	16,944
Credit derivatives	61,958	606,737	238,336	907,031	6,252	6,465
Other derivatives	14,540	6,877	53	21,470	566	526
Total	**2,091,548**	**2,151,867**	**1,562,224**	**5,805,639**	**81,482**	**79,430**
Proportion	36.0%	37.1%	26.9%	100.0%		

1) Not including netting.

The total positive replacement cost for the derivatives business (before netting, not including add-on) declined by 8.1% in 2006 to €81.5 billion (previous year: €88.6 billion). This positive replacement cost was reduced to approximately €15.9 billion (previous year: €17.1 billion) through risk reduction measures, i.e. through netting (see the section on master netting agreements) and collateral management (see the section on collateral agreements).

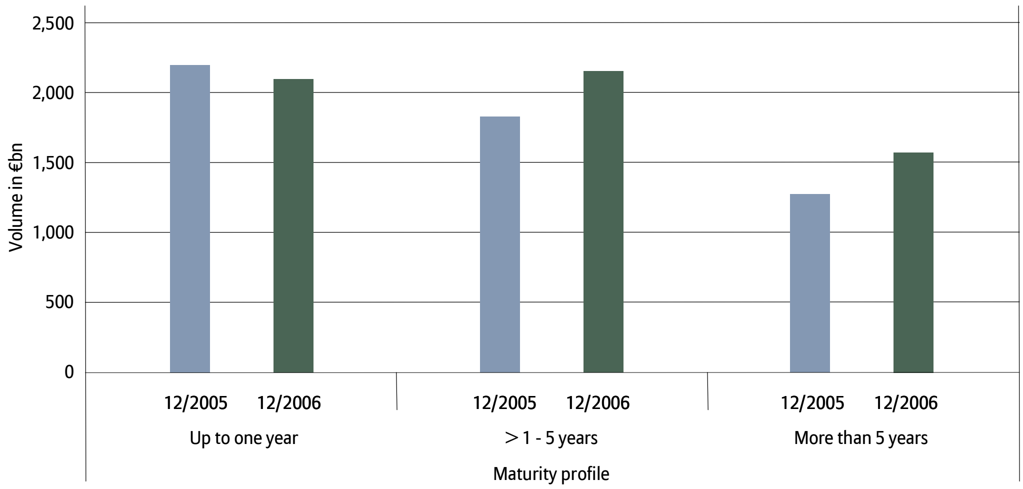
With a share of 66.2% of the total notional volume and 57.5% of the positive replacement cost, interest rate derivatives remain the dominant product group. However, credit derivatives are playing an increasingly important role, as can be seen not only from the volume trends but also from the rapid increase in the variety of products and product combinations that we use to meet our clients' growing requirements.

Notional volume trends in the derivatives business



Maturity structure. The shift in the maturity structure of the derivatives portfolio from long-term to short-term maturities observed in 2005 ceased in 2006. At the year-end, 36.0% (previous year: 41%) of all derivatives transactions measured in terms of the notional volume had a maturity of up to one year, 37.1% (previous year: 35%) had a maturity of between one and five years, and 26.9% (previous year: 24%) had a maturity of more than five years. In addition, by concluding break clauses it is possible to terminate long-term transactions from a risk perspective even after shorter maturity bands should the assessment of the trading partner's creditworthiness decline over the term of the transaction.

Maturity profile (notional amounts) in the derivatives business



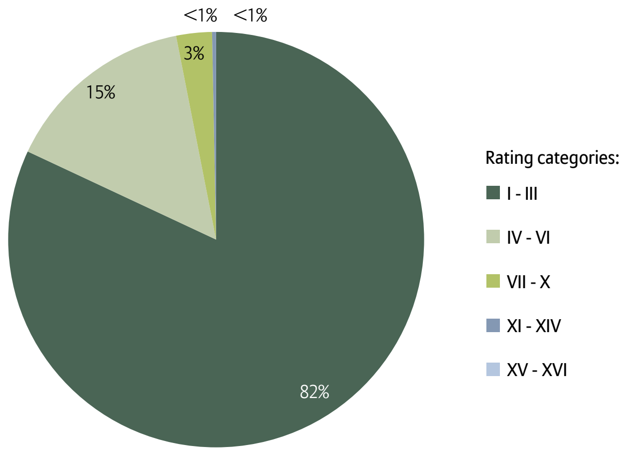
Regulatory treatment. Regulatory requirements specify that counterparty risk from the derivatives business must be quantified. In this process, the current fair value is taken into account and a global estimate of future market price fluctuations (potential exposure) is performed. The assessment of the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

As at 31 December 2006, the credit equivalent values in line with Principle I of section 10 of the Kreditwesengesetz (KWG – German Banking Act), i.e. before credit weighting and after regulatory netting, amounted to €62.8 billion (previous year: €45.3 billion). The risk-weighted assets from the derivatives business relevant for regulatory capital requirements amounted to €12.5 billion on the reporting date, as against €9.3 billion the previous year. The increase in these two figures is primarily due to the increase in the trading volumes of interest rate and credit derivatives.

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

Conservative selection of our trading partners. Further evidence of our conservative selection of trading counterparties is provided by the classification of the positive replacement cost in accordance with internal rating categories. Counterparties with investment grade ratings (categories I to VI) accounted for 97% (previous year: 97%) of positive replacement cost in the year under review.

Overview of ratings in the derivatives business as at 31 December 2006



The conservative selection of our trading partners can also be seen from a sector-specific perspective, with 96.2% (previous year: 96.7%) of the positive replacement cost attributable to credit institutions, other financial services, insurance companies and sovereign borrowers.

Master netting agreements. We enter into cross-product master netting agreements with our business partners in order to reduce counterparty risk from derivatives transactions. Netting allows all claims and liabilities not yet due to be offset against each other in the case of counterparty default. Dresdner Bank also uses the master agreements to reduce the amount of regulatory capital required. After adjustment for netting effects, the positive replacement cost declined by €57.8 billion (previous year: €63.4 billion) to €23.7 billion (previous year: €25.2 billion).

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

As at 31 December 2006, the lending value of the collateral amounted to roughly €7.8 billion (previous year: €8.2 billion).

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

	31/12/2006	31/12/2005
Rating categories I-III	642	541
Rating categories IV-VI	652	403
Rating categories VII-IX	188	88
Rating categories X-XVI	6	5
Currently unrated	69	85
Total	**1,557**	**1,122**

(b) Settlement risk

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

Issuer risk from securities transactions

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

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

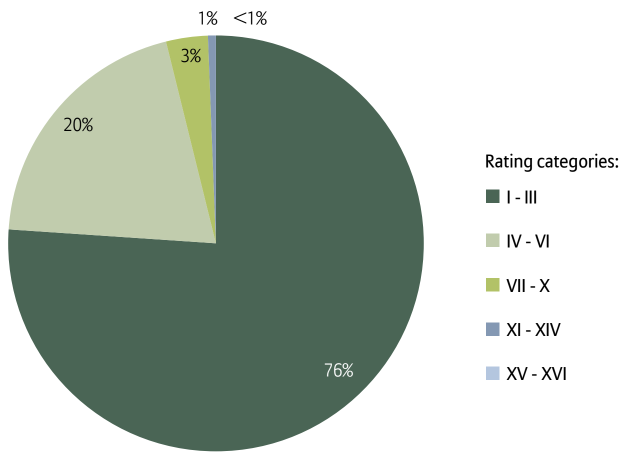
When approving issuer risk from a credit risk perspective, the simplification provisions for trading activities stipulated by the MaRisk are employed by the "Issuer Risk Frame". In addition to single-concentration caps, which define the Bank's risk propensity with respect to a specific issuer or reference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

Measured in terms of the nominal amounts counted towards the limits, the proportion of the total default risk from trading activities accounted for by issuer risk fell by three percentage points to approximately 54% as at 31 December 2006.

Issuer risk also demonstrates a pronounced concentration on investment grade counterparties, reflecting the Bank's strategy of systematically selecting counterparties with strong credit ratings in this area as well, in the same way as for counterparty risk.

The following overview gives a breakdown by rating categories of the amounts counting towards the issuer risk:

Overview of issuer risk as at 31 December 2006 by rating categories (amounts counting towards issuer risk, in %)



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

Country risk

Country risk is defined as all risks deriving from country-specific risk factors. It includes transfer and conversion risk, i.e. the risk that payments may not be made as a result of moratoriums, the freezing of converted/unconverted sums of money, restrictions on payment flows and the repatriation of capital:

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

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

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

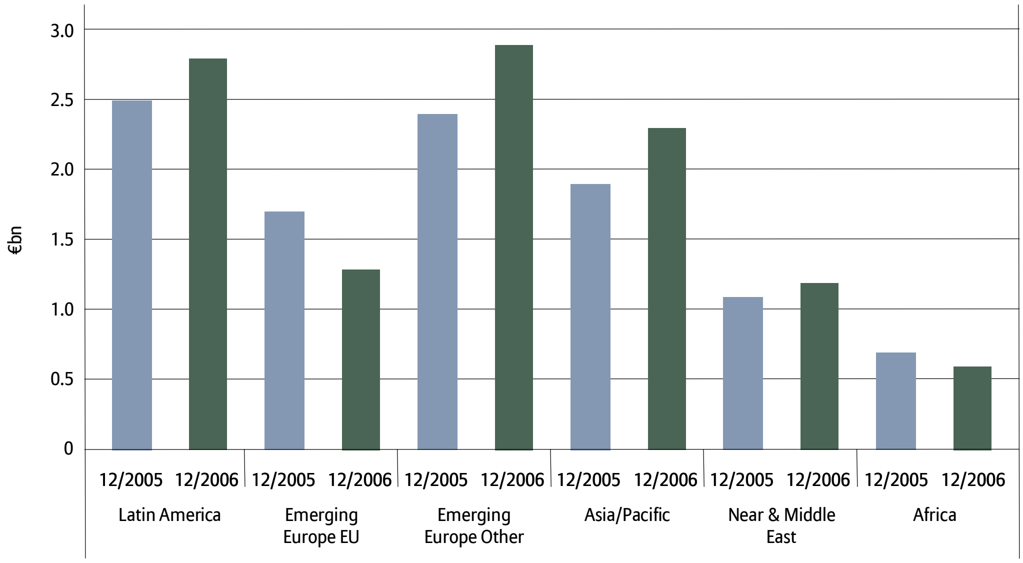
Our assessment of country risk is based on an internal country rating system. This offers 16 rating groups, which provide for a classification ranging from countries without identifiable country risks up to countries with an increased or high risk potential. The assessment of individual countries is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

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

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

Dresdner Bank's overall country risk exposure in 2006 was broken down into countries without identifiable country risk (99.3%; previous year 98.1%) and countries with an increased or high risk potential (0.7%; previous year 1.9%). In addition, country exposure was broken down into industrialised countries (Country Rating Group I, accounting for 94% of total exposure, previous year: 93.1%) and all other countries (6.0%; previous year: 6.9%). Of the latter figure, approximately 11.4% (previous year: 27.0%) was attributable to countries with an increased or high risk potential (Country Rating Groups VII to XVI).

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



In line with our strategy, our business in 2006 was expanded in particular in Asian countries with low risk potential and in Eastern Europe, resulting in greater diversification and more even regional distribution of our country exposure. Looming market turbulence was recognised in a timely manner by the country early warning tool and positions at risk were reduced in time.

Loan loss allowances and provisions

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

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

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

	Specific loan loss allowances		General loan loss allowances[1]		Country risk allowances		Total	
€m	2006	2005	2006	2005	2006	2005	2006	2005
As at 31/12	558	832	585	619	94	225	1,237	1,676

1) Including portfolio loan loss allowances for specific risks.

(a) Specific loan loss provisions

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

Releases (€182 million, including unwinding effects of €6 million) were more than offset by additions (€493 million) in 2006. The continued decline in additions year on year (previous year: €570 million) reflects the improvement in risk management processes and the absence of major loan defaults. Releases declined, but were still at a high level in comparison to the previous year. The decline in releases was due primarily to the adjustments to the loan portfolio made in previous years. We expect that releases will continue to decline, due among other things to the reduction in the level of loan loss allowances.

The significant decrease in specific loan loss allowances of approximately one third compared to 2005 is due in particular to our improved loan processes and the stricter US GAAP requirements.

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

General loan loss provisions are established for latent risk in the non-homogeneous portfolio, i.e. for losses that have been incurred but that have not yet been identified at the balance sheet date. Since 2005, their amount is based on the empirically determined historical default probability and loss ratio for that portion of the loan portfolio for which no other provisions have already been established. Calculation takes into account current cyclical developments as well as macroeconomic conditions, i.e. risks that are not covered by the model are accounted for by making appropriate adjustments. The decline in general loan loss allowances of 5% to €585 million is due to an improvement in the portfolio quality.

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

(c) Country risk provisions

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

Country risk allowances declined by comparison with 2005 from €225 million to €94 million. This drop is primarily due to the satisfactory resolution in Q3 2006 of the problem of a syndicated loan that had not been serviced for some time previously.

Market risk

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

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

General discussion of market risk

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

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

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

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

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

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

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

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

Market risk from the trading book

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

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

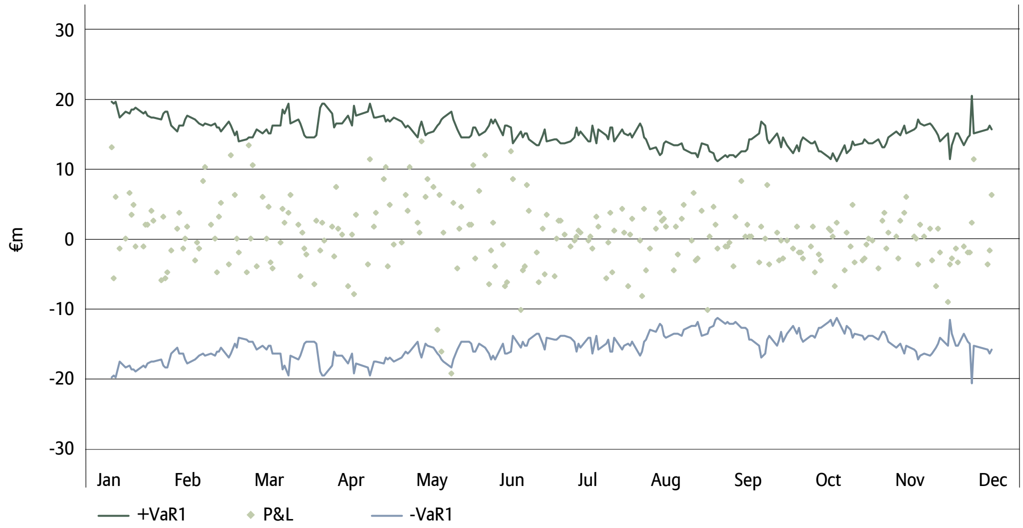
Value at risk[1]	31/12/	31/12/	Average Value		Maximum		Minimum	
€m	2006	2005	2006	2005	2006	2005	2006	2005
Interest rate risk	43	71	51	52	77	121	32	25
Equity risk	44	12	23	19	85	36	8	10
Currency risk	9	9	10	7	25	21	1	1
Commodity risk	4	1	3	3	17	10	1	0
Diversification[2]	-43	-27	-41	-32	–	–	–	–
Aggregate risk	**57**	**66**	**46**	**49**	**89**	**105**	**26**	**26**

1) 99% confidence level, ten-day holding period.

2) No diversification effect can be taken into account for the maximum and minimum values, as these were measured on different dates in each case.

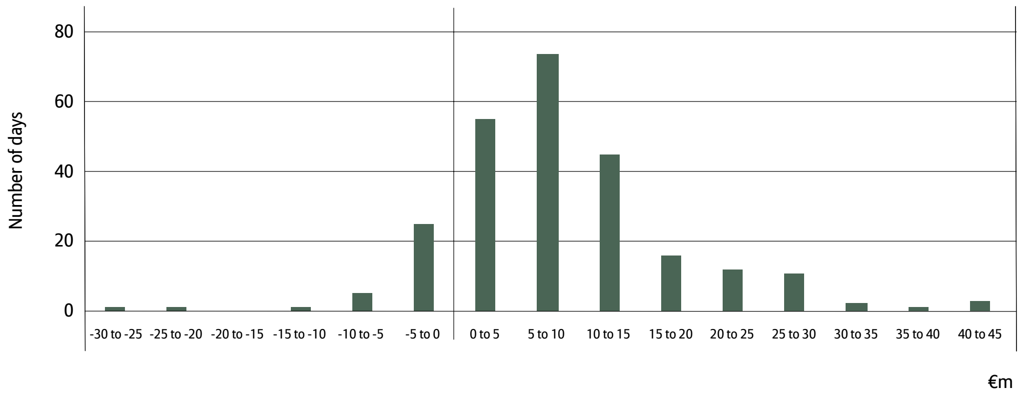
In addition to this presentation of value at risk for regulatory purposes, the calculated value at risk and the hypothetical performance computed for the particular trading day are backtested on a daily basis to validate the quality of our value at risk model. For the hypothetical case only the performance 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 outlier was observed for the Dresdner Bank Group in 2006. This is exactly within statistical expectations for the defined model calibration, a fact that demonstrates the quality of our value at risk model.

Backtesting (99% confidence level, one-day holding period) v. hypothetical performance in 2006



The actual daily changes in portfolio values over the course of 2006 are 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 Dresdner Kleinwort trading activities



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

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

Market risk from the banking book

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

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

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

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

For regulatory reporting, the Bank calculates value at risk for market risk in the banking book using a confidence level of 99% and a ten-day holding period, in the same way as for the trading book. After adjustment for portfolio effects, value at risk for the market risk in the Group's banking book amounted to €15.5 million at the year-end (previous year: €14.0 million). This figure was calculated using a new methodology that for the first time includes equity positions not intended to be held as long-term investments. The overall VaR in the banking book increased year on year due to greater market volatility and lower diversification effects between the individual asset classes.

The interest rate sensitivity (a decline in the interest rate level of one basis point) for the market risk in the Group's banking book amounted to a total of €0.031 million at the end of the year (previous year: €0.342 million).

€m	Decline in interest rates of 1 basis point Up to 1 year	> 1 year -5 years	More than 5 years	Total 31/12/2006	Total 31/12/2005
Banking book	-0.180	0.298	-0.087	0.031	0.342

The subsidiaries are responsible for managing their own market risk positions in the banking book on the basis of centrally defined value at risk and sensitivity limits.

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

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

Risk from shareholdings and real estate risk

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

Risk from shareholdings

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

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

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

In 2006, Dresdner Bank continued the reduction of these investments as planned in line with its disinvestment concepts for non-strategic shareholdings, thus further reducing its risk from shareholdings. The chief factor behind the decrease was the sale of our remaining interest in Eurohypo AG in early 2006. This decline is accompanied by a corresponding reduction in risk-weighted assets and in economic risk capital, which was partially offset by increased market prices for the remaining investments.

Real estate risk

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

Land and buildings used by third parties are bundled in a special real estate fund managed by the investment company and Group subsidiary DEGI Deutsche Gesellschaft für Immobilienfonds mbH. The market value of the land and buildings is reviewed on an annual basis by DEGI's independent Valuation Committee ("Sachverständigenausschuss"). The portfolio is actively managed, with disposal strategies being developed and implemented to steer the income and risk associated with the properties. In 2006, Dresdner Bank sold additional properties used by third parties, thus reducing its potential real estate risk.

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

Capital backing

Risk from shareholdings and real estate risk are backed by capital in line with both regulatory and internal requirements. The economic risk capital backing provided in this context substantially exceeds current regulatory weighting factors. As at 31 December 2006, the risk capital requirements resulting from the risk from shareholdings and real estate risk amounted to €2.4 billion (previous year: €2.6 billion). €2.1 billion (previous year: €2.2 billion) of this figure is attributable to risk from shareholdings and €0.3 billion (previous year: €0.4 billion) to real estate risk. Real estate risk was recorded separately under risk capital for the first time at the beginning of 2006.

Operational risk

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

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

The risk capital calculated for 2006 amounted to €0.9 billion (2005: €1.1 billion); the change can be attributed primarily to the winding up of the IRU and to individual procedural improvements.

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

Roles and responsibilities

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

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

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

Processes and instruments

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

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

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

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

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

Specific framework for legal risk

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

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

Business and strategic risk

Business risk

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

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

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

As at 31 December 2006, risk capital requirements for business risk amounted to €0.5 billion and were thus unchanged year on year.

Strategic risk

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

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

Liquidity risk

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

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

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

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

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

In addition, the liquidity management system is used to analyse individual empirical parameters such as the volumes and composition of unencumbered securities, securities deposited as collateral with central banks, unsecured funding through banks and own issues of money-market securities. Monitoring the liquidity of unencumbered securities is particularly important so as to be able to meet unexpected short-term payment obligations at any time. The proportion of unencumbered securities eligible for refinancing with the ECB amounted to €28.9 billion at year-end 2006 (previous year: €27.8 billion).

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

Taking into account all internal and external limits as well as actual figures, Dresdner Bank's liquidity situation was consistently comfortable in 2006.

Reputational and environmental risk

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

Reputational risk

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

Environmental risk

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

Special topic: sustainability

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

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

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

Summary and Outlook

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

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

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

Consolidated Financial Statements

Income Statement

	Note	2006 €m	2005 €m	Change €m	%
Net interest and current income	02	2,664	2,213	451	20.4
– Interest and current income		6,925	6,707	218	3.3
– Current income from investments in enterprises accounted for using the equity method		63	171	-108	-63.2
– Interest expense		4,324	4,665	-341	-7.3
Net fee and commission income	03	2,841	2,696	145	5.4
– Fee and commission income		3,205	3,028	177	5.8
– Fee and commission expense		364	332	32	9.6
Net trading income	04	1,278	1,104	174	15.8
Other operating income	07	30	12	18	>+100.0
Operating income		**6,813**	**6,025**	**788**	**13.1**
Administrative expenses	05	5,397	5,463	-66	-1.2
Other operating expenses	07	39	80	-41	-51.3
Operating expenses		**5,436**	**5,543**	**-107**	**-1.9**
Loan loss provisions	06	27	-113	140	
Operating result		**1,350**	**595**	**755**	**>+100.0**
Result from investment securities	08	276	1,573	-1,297	-82.5
Result from intangible assets		–	-2	2	-100.0
Restructuring charges	09	422	12	410	>+100.0
Income before taxes		**1,204**	**2,154**	**-950**	**-44.1**
Tax expense	32	258	368	-110	-29.9
Income after taxes		**946**	**1,786**	**-840**	**-47.0**
Income attributable to minority interests		76	76	0	0.0
Net income for the year		**870**	**1,710**	**-840**	**-49.1**
Appropriation of distributable profit					
Net income for the year		870	1,710	-840	-49.1
Addition to retained earnings		569	901	-332	-36.8
Distributable profit		301	809	-508	-62.8
Earnings per share (€)	10	1.51	2.96		

Balance Sheet

Assets	Note	31/12/2006 €m	31/12/2005 €m	Change €m	%
Cash funds	12	5,191	4,295	896	20.9
Trading assets	13	134,731	163,688	-28,957	-17.7
Assets accounted for under the fair value option	14	5,954	2,118	3,836	>+100.0
Loans and advances to banks	15	138,947	99,981	38,966	39.0
Loans and advances to customers	16	187,680	163,313	24,367	14.9
Loan loss allowance	18	-980	-1,562	582	-37.3
Investment securities	19	15,948	14,983	965	6.4
Investments in enterprises accounted for using the equity method	19	468	392	76	19.4
Property and equipment	20	1,359	1,188	171	14.4
Intangible assets	21	432	467	-35	-7.5
Assets held for sale		–	1,410	-1,410	-100.0
Deferred tax assets	32	1,978	2,080	-102	-4.9
Other assets	22	5,579	8,195	-2,616	-31.9
Total assets		**497,287**	**460,548**	**36,739**	**8.0**

Liabilities and Equity	Note	31/12/2006 €m	31/12/2005 €m	Change €m	%
Trading liabilities	25	72,921	80,873	-7,952	-9.8
Liabilities accounted for under the fair value option	26	937	449	488	>+100.0
Liabilities to banks	27	162,455	139,910	22,545	16.1
Liabilities to customers	28	182,227	155,785	26,442	17.0
Certificated liabilities	29	45,970	50,079	-4,109	-8.2
Provisions and other liabilities	30	3,456	5,090	-1,634	-32.1
Deferred tax liabilities	32	86	172	-86	-50.0
Other liabilities	33	6,583	6,886	-303	-4.4
Subordinated liabilities	34	6,192	5,811	381	6.6
Profit-participation certificates	35	2,262	1,517	745	49.1
Equity	36	14,198	13,976	222	1.6
– Parent shareholders' equity		12,219	11,763	456	3.9
– Subscribed capital		1,503	1,503	–	–
– Additional paid-in capital		6,383	6,383	–	–
– Retained earnings		2,759	2,213	546	24.7
– Translation reserve		-478	-380	-98	25.8
– Cumulative remeasurement gains/losses on financial instruments		1,751	1,235	516	41.8
– Distributable profit		301	809	-508	-62.8
– Minority interests		1,979	2,213	-234	-10.6
Total liabilities and equity		**497,287**	**460,548**	**36,739**	**8.0**

Statement of Changes in Equity

€m	Subscribed capital	Additional paid-in capital	Retained earnings	Translation reserve	Cumulative remeasurement gains/losses	Distributable profit	Parent shareholders' equity
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 Asset Management		-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 January 2006	**1,503**	**6,383**	**2,213**	**-380**	**1,235**	**809**	**11,763**
Changes due to currency translation				-98			-98
Remeasurement gains/losses on available-for-sale financial instruments					517		517
Remeasurement gains/losses on cash flow hedges					-1		-1
Other capital changes			-23				-23
Net income for the year						870	870
Addition to retained earnings			569			-569	–
Distribution of the distributable profit						-809	-809
31 December 2006	**1,503**	**6,383**	**2,759**	**-478**	**1,751**	**301**	**12,219**

€m	Subscribed capital and minority interests in reserves	Translation reserve	Cumulative remeasurement gains/losses	Distributable profit	Total minority interests
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 2005/1 January 2006	**2,277**	**-87**	**23**	**–**	**2,213**
Changes in minority interests	-118	-213	21		-310
Net income for the year				76	76
Addition to retained earnings	76			-76	–
31 December 2006	**2,235**	**-300**	**44**	**–**	**1,979**

Statement of Cash Flows

€m	2006	2005
Operating activities		
Net income for the year	870	1,710
Adjustments to reconcile net income to net cash used in operating activities		
Impairment losses on investments	62	129
Reversals of impairment losses on investments	-120	4
Depreciation, amortisation and impairment losses, and reversals of impairment losses, on items of property and equipment and intangible assets	437	414
Minority interests in net income	76	76
Changes in provisions	-1,601	-163
Changes in other non-cash items	-201	693
Gains/losses on the disposal of investment securities, property and equipment	-438	-1,638
Net decrease/increase in loans and advances to banks	-39,178	26,147
Net decrease/increase in loans and advances to customers	-24,367	7,153
Net decrease/increase in trading portfolio	17,779	8,163
Net decrease/increase in other assets	4,103	-3,025
Net decrease/increase in liabilities to banks	22,546	-47,552
Net decrease/increase in liabilities to customers	26,442	1,272
Net issuance of certificated liabilities	-4,109	3,585
Net decrease/increase in other liabilities	-793	-2,188
Net cash provided by/used in operating activities	**1,508**	**-5,220**
Investment activities		
Proceeds from the disposal of investment securities	5,147	11,960
Proceeds from the disposal of property and equipment	361	2,009
Payments for the acquisition of investment securities	-5,533	-8,067
Payments for the acquisition of property and equipment	-649	-447
Effects of changes in consolidated group structure	5	2,408
Net cash provided by/used in investing activities	**-669**	**7,863**
Financing activities		
Proceeds from capital increases	–	-293
Dividends paid	-809	–
Net issuance of subordinated liabilities	381	-378
Net issuance of profit-participation certificates	832	77
Payments on profit-participation certificates	-87	-87
Other	-216	59
Net cash provided by/used in financing activities	**101**	**-622**
Effects of exchange rate changes	-44	8
Net decrease/increase in cash and cash equivalents	**896**	**2,029**
Cash and cash equivalents at the beginning of the year	4,295	2,266
Cash and cash equivalents at the end of the year	5,191	4,295
Supplementary disclosure of cash flow information		
Cash interest received	6,997	8,942
Dividends received	74	102
Cash interest paid	4,034	4,398
Cash income taxes paid	-628	443
Proceeds from the disposal of investments in Group companies	97	2,555
Of which: cash proceeds	97	2,555

Notes

Accounting Policies

01 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 Regulation. 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. New Standards and Interpretations required to be applied since 2006, such as the amendments to IAS 19, IAS 21 and IAS 39 in conjunction with IFRS 4 and IFRIC 4, had no effect on the Bank's accounting policies. We have not adopted Standards and Interpretations relevant to the Bank that have been issued but are not yet required to be applied, such as IFRIC 7, IFRIC 8, IFRIC 9, IFRIC 10, IFRIC 11 and IFRIC 12, before their respective effective dates. The initial application of the amendments to IAS 1 as well as the disclosure requirements under IFRS 7 and the provisions of IFRS 8, plus the IFRIC 9, IFRIC 10 and IFRIC 11 Interpretations, will have no material effect on Dresdner Bank AG's consolidated financial statements. Due to their insignificance, the new IFRIC 7, IFRIC 8 and IFRIC 12 Interpretations will not have any effect on Dresdner Bank AG's consolidated financial statements. The provisions of the Aktiengesetz (AktG – German Stock Corporation 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.

Changes in presentation. We have changed the presentation of the operating result for 2006 in order to increase transparency. As a result of this change, some of the items that were previously included in other operating income and other operating expenses and that did not form part of the operating result are now allocated to items in the income statement that are included in the operating result. In addition, some items have been reclassified to the result from investment securities.

As a result, the operating result now corresponds to the IFRS income before taxes and minority interests, adjusted for the result from investment securities, the result from intangible assets and restructuring charges. The reclassifications resulted in a net reduction of €150 million in the prior-year operating result; this related to the following key items:

- €116 million of the other operating income in the amount of €284 million was allocated to the result from investment securities and €109 million to net fee and commission income, while €48 million reduced administrative expenses.

- €201 million of the other operating expenses in the amount of €304 million was reclassified to administrative expenses, €29 million to the result from investment securities, €23 million to net fee and commission income and €9 million to interest cost.

- Other taxes amounting to €9 million were allocated to administrative expenses, and €2 million was transferred from administrative expenses to other operating expenses.

- In addition, €37 million was transferred from the result from investment securities to other operating expenses and €2 million to net interest and current income.

Amortisation under hedge accounting was recognised for the first time in net trading income rather than in net interest income.

We have reported loan loss provisions as a separate asset-side deduction in the balance sheet. This resulted in an increase in the reported amounts of loans and advances to banks and loans and advances to customers to the gross amounts.

In the same way as trading assets and liabilities, we have reported financial assets and liabilities that are accounted for using the fair value option as separate balance sheet items, and not jointly under financial assets or liabilities at fair value as in the previous year.

Deferred tax assets and liabilities are reported net in the balance sheet if they meet the offsetting criteria under IAS 12; this led to a reduction of €824 million in the prior-year amounts.

Land and buildings used by third parties, which were presented as a separate item under property and equipment in the previous year, are now reported under financial assets in accordance with their nature. Buildings used by third parties are depreciated over 50 years using the straight-line method.

The prior-year amounts were restated to reflect all the above-mentioned changes in presentation.

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 which the Bank controls from an economic perspective (as defined by a series of criteria, and in particular opportunity and risk) are consolidated 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 of these companies is recognised on an accrual basis 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 equity 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. Impairment losses and the gain or loss on the disposal of investments in enterprises accounted for using the equity method are included in the result from investment securities.

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, 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 a 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 designated 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.

Financial instruments are measured on initial recognition 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.

Following a risk and reward or a control test according to the relevant criteria, financial assets are derecognised at the latest 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 using the effective interest method. 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, dividends from unconsolidated affiliated and non-affiliated enterprises, interest income on finance leases and rental income from land and buildings used by third parties. Current income from investments in enterprises accounted for using the equity method is reported as a separate item under net interest and current income. 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 also 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 current 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.

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.

Assets and liabilities accounted for using the fair value option. Due to the fair value option, all financial instruments that meet certain criteria may be irrevocably designated as belonging to the fair value category. The Bank uses the fair value option in those situations in which the designation eliminates or significantly reduces accounting mismatches or avoids the separation of embedded derivatives. Any changes to fair value in subsequent periods are recognised in net trading income; current interest income and expense is reported in net interest and current income.

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 incidental 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 incidental 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 incidental 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, irrevocable 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. The amount of interest added back to the present value of impaired loans is determined using the original effective interest rate (unwinding) and reported as interest income.

In the case of smaller standardised loans, we comply with the principle of itemised measurement to the extent that we group them together to form homogeneous portfolios. In this case a particular loan loss allowance for risks is applied; the methodology for this is explained in the Risk Report. The creation of homogeneous portfolios is restricted to certain loans in the Private & Business Clients division. The particular loan loss allowance for risks is reported as a component of the general loan loss allowances.

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.

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 incidental 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. 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, investments in affiliated enterprises as well as land and buildings used by third parties.

Reported 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. Land and buildings used by third parties are reported at cost less accumulated depreciation and impairment losses.

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 result from investment securities. Impairment losses on available-for-sale equity instruments that have been recognised in profit or loss cannot 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.

Debt instruments classified as available for sale are written down to their lower fair value if their fair value is substantially lower than their amortised cost. 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.

Property and equipment. This item includes owner-occupied land and buildings as well as office furniture and equipment; both of these 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 is reported in other operating expenses; 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. 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.

Software consists of purchased and internally developed software and is amortised over the expected useful life using the straight-line method in other miscellaneous administrative expenses. 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), 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.

Embedded derivatives are separated from the host contract if the risks associated with the two components are different.

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 net trading 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 trading income.

For hedges of net investment in a foreign entity, the effective portion of the change in the fair value of the hedging derivative is recognised in equity in the same way as the remeasurement gains/losses on hedged investments. However, the ineffective portion of the change in the fair value of the hedging derivative is recognised in net trading income.

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).

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.

Purchased credit default swaps (CDSs) have the same economic function as financial guarantees received. If a CDS demonstrably serves to hedge against interest and principal repayment defaults on loans, it is not recognised in the balance sheet since, like a financial guarantee, it is a contingent liability. Premiums are recognised on an accrual basis. CDSs are included in the recognition of loan loss provisions.

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. Fiscal entity tax allocations are recognised under income 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 depend primarily on employees' years of service and mainly on their 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 under which the beneficiary is granted a particular benefit. The amount of the pension benefit to be provided is usually determined 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.

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.

On 2 January 2006, Dresdner Bank AG established another contractual trust arrangement (CTA) under the umbrella of Pension-Trust der Dresdner Bank e. V., a legally and economically independent entity that acts as the trustee, and transferred cash funds to this CTA to secure employer-funded direct benefit commitments. The CTA holds and manages the assets transferred to it, which are kept separate from Dresdner Bank's business assets and which may be used solely to finance the pension obligations.

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. The cash and cash equivalents reported comprise the narrow definition of cash funds.

Risks. In addition to the disclosures on risks contained in the individual notes, the Risk Report includes further information on credit and counterparty, market and liquidity risk in particular.

Notes to the Consolidated Income Statement and Segment Reporting

02 Net interest and current income

€m	2006	2005
Interest income from		
– Lending and money market operations[1)]	6,114	5,840
– Fixed-income securities and government debt	445	484
Current income from		
– Equities and other non-fixed-income securities[2)]	73	97
– Finance leases	154	122
– Land and buildings used by third parties	139	164
Total interest and current income	**6,925**	**6,707**
Current income from investments in enterprises accounted for using the equity method	**63**	**171**
Interest expense for		
– Deposits	2,584	2,986
– Certificated liabilities	1,162	1,154
– Subordinated liabilities	218	242
– Other	360	283
Total interest expense	**4,324**	**4,665**
Net interest and current income	**2,664**	**2,213**

1) Effect of the application of IAS 39: €66 million (previous year: €-346 million).
2) Including income from unconsolidated affiliated enterprises

Interest income contains €87 million from financial instruments at fair value through profit or loss (previous year: €76 million); the corresponding figure for interest expense is €22 million (previous year: €17 million). Net interest income from trading activities of €312 million (previous year: €506 million) is reported in net trading income (see Note 4).

03 Net fee and commission income

€m	2006	2005
Securities business	1,304	1,191
Asset management	325	288
Mergers & acquisitions and underwriting business	361	315
Payment transactions	262	269
Foreign commercial business	137	143
Other	452	490
Net fee and commission income	**2,841**	**2,696**

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

04 Net trading income

€m	2006	2005
Trading in interest rate products	813	532
Trading in equities products	223	217
Foreign exchange and precious metals trading	355	222
Net effect of remeasurement under IAS 39	-113	133
– Remeasurement gains/losses from the application of IAS 39	-140	139
– Remeasurement gains/losses from the application of the fair value option	27	-6
Net trading income	**1,278**	**1,104**

€m	2006	2005
Net realised gains/losses	754	860
Net remeasurement gains/losses[1)]	238	-222
Brokerage fees and commissions	-26	-40
Net interest income	312	506
– Interest and dividend income	11,195	9,056
– Interest expense	10,883	8,550
Net trading income	**1,278**	**1,104**

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.

The following table provides an overview of the gains and losses from ineffective hedges resulting from hedge accounting in accordance with IAS 39:

€m	2006	2005
Fair value hedges	10	-3
Cash flow hedges	-1	-5
Net gain/loss on derivative hedging instruments	**9**	**-8**

05 Administrative expenses

€m	2006	2005
Total staff costs	3,415	3,290
– Wages and salaries	2,849	2,633
– Social security contributions	344	350
– Pension benefit expense	222	307
Other administrative expenses	1,779	1,925
– Occupancy expenses	405	505
– IT costs	472	494
– Expenses for office furniture and equipment	88	81
– Miscellaneous other administrative expenses	814	845
Depreciation of property and equipment	203	248
Administrative expenses	**5,397**	**5,463**

Excluding vocational and other trainees, the average number of staff employed during the year was 31,903 (previous year: 33,249). The breakdown of these employees by location was as follows:

Employees	2006	2005
Germany	26,043	27,183
Other countries	5,860	6,066
Total	**31,903**	**33,249**

The average number of trainees during the year was 131 (previous year: 119); the average number of vocational trainees was 1,121 (previous year: 1,368).

06 Loan loss provisions

€m	2006	2005
Additions to loan loss provisions[1)]	508	737
Amounts released	305	751
Recoveries on loans previously written off	176	99
Loan loss provisions	**27**	**-113**

1) Contains direct write-downs in the amount of €15 million (previous year: €36 million).

07 Other operating income/expenses

Other operating income and expenses comprise items that cannot be allocated to other line items in the income statement. Other operating income in the amount of €30 million (previous year: €12 million) relates to disposal gains on the sale of real estate. The decline in other operating expenses to €39 million (previous year: €80 million) is due in particular to the positive trend in compensation payments. This was partially offset by ongoing depreciation on and maintenance expenses for land and buildings used by third parties.

08 Result from investment securities

€m	2006	2005
Net realised gains/losses	500	1,736
Net remeasurement gains/losses	-224	-163
Result from investment securities	**276**	**1,573**

The management report provides further details.

€m	2006	2005
Net income from the disposal of available-for-sale financial assets	252	645
Net income from assets held for sale	122	31
Net loss from the sale of receivables and repayment of labiliites	-11	-31
Net income from the disposal/remeasurement of affiliated enterprises/associates	25	1,054
Net loss on land and buildings used by third parties	-112	-126
Result from investment securities	**276**	**1,573**

09 Restructuring charges

€m	2006	2005
"Neue Dresdner Plus" programme	408	–
Other programmes	14	12
Restructuring charges	**422**	**12**

Total restructuring charges in the year under review amounted to €422 million. €408 million of this figure is attributable to the newly launched "Neue Dresdner Plus" programme, which provides for fundamental organisational changes in the domestic and foreign regions and at headquarters, along with process optimisation measures and various other measures. This programme entails the shedding of a total of 2,480 jobs in the period up to 2008.

The new Private & Corporate Clients (PCC) division is being structured into two areas: Advisory & Sales (A&S) and Clients & Products (C&P). The PeB, PBB and CB sales units are being consolidated into a single sales organisation (A&S), while the product platforms and customer segment management in the C&P area are being bundled. At the same time, we are driving forward the automation of branch processes and further optimising our lending processes by adapting our workflows through standardisation. As part of the new specialist credit advisor concept, the existing advisor profiles are being transferred to the new customer groups. The restructuring charges for these initiatives amount to €97 million.

Support for large caps and mid-caps requiring capital market products is being integrated together with Dresdner Kleinwort in the new Investment Banking division. In addition, customer support will primarily be structured along sector lines. Administrative tasks are being reduced and overlapping functions eliminated. Trading of flow products is also being integrated and the equities business optimised in line with the new business model. This strategic realignment is associated with restructuring charges in the amount of €135 million.

The structure and workflows of the back office services bundled in the Business Services segment – Banking Services, IT and Human Resources – are aligned with the revised business models. Business processes are being systemically industrialised in the area of Banking Services in particular. The measures taken in the Business Services as part of the "Neue Dresdner Plus" programme led to restructuring charges in the amount of €130 million.

Adapting the Bank's Corporate Functions units to the new business model led to restructuring charges in the amount of €47 million.

The "other programmes" item combines the "Neue Dresdner", "2004 programmes", "2005 programmes" and "other programmes" items previously reported separately. All in all, these measures resulted in a net expense in the amount of €14 million, due among other things to the regular verification of existing provisions and to restructuring charges for which no provisions could be set up. €11 million of this figure is attributable to the "Neue Dresdner" programme. Information on changes in the provisions is provided in Note 30.

10 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.

	2006	2005
Net income/net loss for the year (€m)	870	1,710
Average number of shares in issue (millions of shares)	578.1	578.1
Earnings per share (€)	**1.51**	**2.96**

After adjustment for the retrospective application of the revised IAS 39 in the previous year, earnings per share for fiscal year 2005 would have amounted to €0.79.

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 2006 and 2005. The diluted earnings per share therefore correspond to the earnings per share.

11 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 in place during the year under review, taking into account the nature of the products and services provided and the respective target customer groups. The information provided reflects the organisational changes at the Bank since the end of 2005, which relate both to the organisation into two operating divisions going forward and to the structure of the service units and Group management functions.

Segment reporting combines the Personal Banking and Private & Business Banking divisions to form the Private & Business Clients division, while the former Corporate Banking and Dresdner Kleinwort divisions have been integrated into the Corporate & Investment Banking division. The decision taken at the end of June 2006 to combine the Bank's middle-market customers business with its private and business clients activities, and to manage them in the future Private & Corporate Clients division, is not yet reflected in the present segment reporting. Consequently, the future Investment Banking business segment has also not been reported. The management report provides supplementary pro forma segment information in line with the future divisional structure.

The new Business Services segment bundles the Bank's direct business support service units transferred from the former Consolidation & Adjustments segment. The Corporate Functions segment contains the Group units responsible for overarching Bank management. In addition, it contains the result of the Bank's remaining corporate investments, the prior-year result for the Institutional Restructuring Unit (IRU) segment, which was discontinued at the end of September 2005, and specific reconciliation and consolidation items that are not allocated to the operating divisions.

In the course of the realignment, the business activities in the former Personal Banking and Private & Business Banking divisions were integrated and combined in the **Private & Business Clients** division. Personal Banking offers private clients personalised financial solutions comprising products for asset accumulation, financing, retirement provision and insurance. Private & Business Banking's Private Banking offering comprises individual asset management for high net worth 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 & Investment Banking** division consolidates the activities in the previously separate divisions of Corporate Banking and Dresdner Kleinwort. Corporate Banking 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 Dresdner Kleinwort to offer its clients our professional expertise in the area of capital market and investment banking products, in addition to its traditional commercial banking offering. Dresdner Kleinwort covers the Bank’s capital markets business activities, and is therefore responsible for the income from the Bank's underwriting business, mergers & acquisitions, structured finance, and equities, bond and derivatives trading.

The **Business Services** segment comprises our Business Processing, Information Technology and Human Resources business support service units. The costs incurred by these service units are allocated to the operating divisions using product- and volume-related algorithms.

The **Corporate Functions** segment primarily consists of central management functions such as the Board Secretariat, Finance/Compliance, Risk Management/Controlling, Treasury, Corporate Communications and Internal Audit. The administrative expenses incurred by these units are allocated in full to the operating divisions during internal cost allocation. In addition to these units, the segment comprises consolidation adjustments and specific reconciliation items to the overall Group result. Among other things, these include gains and losses from the application of hedge accounting rules to the banking book and expenses for certain projects affecting the Bank as a whole. Now that we have disposed of key non-strategic investments in our investment securities portfolio, the former Corporate Investments segment is no longer presented separately. Income from the management of the remaining investments now also forms part of the Corporate Functions segment. This item also contains the prior-year figures for the Institutional Restructuring Unit (IRU), whose goal was to systematically reduce its portfolio of qualitatively and structurally heterogeneous non-strategic loan commitments and which was wound up at the end of September 2005 after successfully completing its task.

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. Methodological changes were made to segment reporting in the course of fiscal year 2006. These relate in particular to the allocation in full to the other divisions of the administrative expenses for central functions assigned to Corporate Functions and the adaptation of the internal rate of return on the capital allocated to the divisions to the current situation on the capital markets. The prior-year results were adjusted to reflect the organisational and methodological changes.

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 that reflects prevailing market rates. To do this, Treasury – which is assigned to the Corporate Functions segment – debits to the divisions funding costs for asset items that reflect capital market rates for equivalent maturities, or credits them with the corresponding investment income in the case of equity and liabilities side items (with the exception of the capital allocated). The capital allocated reflects the risk capital tied up in the divisions. Returns on the investment of the allocated capital are allocated to the divisions on the basis of imputed interest. The interest rate used is based on capital market conditions.

In order to improve the transparency of the economic effect on internally reported income of specific large transactions in the reported income before taxes, net interest and current income for the Corporate & Investment Banking division contains a pre-tax equivalent of the after-tax result of these transactions; this is eliminated in the Corporate Functions segment during reconciliation of segment reporting to the figures recognised in external reporting.

Administrative expenses include both direct costs and costs allocated to the segments as part of the cost allocation procedures 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. In order to make the effect of internal cost allocations between the operating divisions and the service units in the Business Services and Corporate Functions segments transparent, we make a distinction when reporting administrative expenses between direct administrative expenses and inter-segment cost allocations.

The segment assets allocated to the divisions include trading assets, investment securities and loans and advances to banks and 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 the Corporate Functions segment.

	Private & Business Clients		Corporate & Investment Banking		Business Services		Corporate Functions		Group (total)	
€m	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Net interest and current income	1,352	1,359	1,220	1,102	-9	-7	101	-241	2,664	2,213
Net fee and commission income	1,805	1,630	991	955	33	38	12	73	2,841	2,696
Net trading income	47	39	1,315	981	–	–	-84	84	1,278	1,104
Other operating income	–	4	–	–	–	–	30	8	30	12
Operating income	**3,204**	**3,032**	**3,526**	**3,038**	**24**	**31**	**59**	**-76**	**6,813**	**6,025**
Direct administrative expenses	1,352	1,320	1,677	1,482	1,582	1,669	786	992	5,397	5,463
Inter-segment cost allocation	1,109	1,078	1,142	1,056	-1,488	-1,529	-763	-605	–	–
Administrative expenses	2,461	2,398	2,819	2,538	94	140	23	387	5,397	5,463
Other operating expenses	-7	27	1	2	1	–	44	51	39	80
Operating expenses	**2,454**	**2,425**	**2,820**	**2,540**	**95**	**140**	**67**	**438**	**5,436**	**5,543**
Loan loss provisions	96	137	13	-14	–	–	-82	-236	27	-113
Operating result	**654**	**470**	**693**	**512**	**-71**	**-109**	**74**	**-278**	**1,350**	**595**
Result from investment securities	14	58	5	23	–	10	257	1,482	276	1,573
Result from intangible assets	–	-2	–	–	–	–	–	–	–	-2
Restructuring charges	95	9	135	9	146	-6	46	–	422	12
Income before taxes	**573**	**517**	**563**	**526**	**-217**	**-93**	**285**	**1,204**	**1,204**	**2,154**
Change year on year	56		37		-124		-919		-950	
Segment assets (€ bn)	52.0	51.1	415.3	377.4	0.7	0.8	29.3	31.2	497.3	460.5
Segment liabilities (€ bn)	49.7	47.9	366.2	326.8	–	–	81.4	85.8	497.3	460.5
Cost-income ratio, %	76.6	80.0	80.0	83.6					79.8	92.0
Loan loss ratio[1], %	0.26	0.38	0.02	-0.02					0.02	-0.11
Return on equity before taxes[2], %	44.5	33.0	19.4	15.3					15.6	21.4
Risk capital (average)[3]	1,500	1,600	3,600	3,500	100	100	1,900	2,400	7,100	7,600
Risk-weighted assets (average)	36,900	35,600	72,500	60,900	200	200	5,200	11,400	114,800	108,100

1) Net loan loss provisions as a percentage of the average risk-weighted assets in the banking book.
2) Income before taxes, restructuring charges and the result from intangible assets as a percentage of the average IFRS capital; calculated for the divisions on the basis of the allocated average risk capital.
3) The amounts represent the divisions' risk capital requirements based on their positions in the various risk types, taking diversification effects into account.

Depreciation and amortisation of property and equipment and intangible assets in fiscal year 2006 amounted to €210 million (previous year: €269 million) and relates to the following segments: Private & Business Clients €28 million (previous year: €34 million), Corporate & Investment Banking €15 million (previous year: €9 million), Business Services €124 million (previous year: €144 million) and Corporate Functions €42 million (previous year: €84 million). In addition, impairment losses were charged in the amount of €185 million (previous year: €146 million); these mainly relate to the Corporate Functions segment, at €173 million (previous year: €131 million) and Business Services, at €10 million (previous year: €13 million). Impairment losses on available-for-sale financial assets in the amount of €31 million are attributable in full to the Corporate Functions segment.

Current income generated in 2006 from investments in enterprises accounted for using the equity method totalled €63 million (previous year: €171 million); this related to the Corporate & Investment Banking segment (€39 million, previous year: €43 million) and Corporate Functions (€26 million, previous year: €130 million), as well as Private & Business Clients (€-2 million). The carrying amounts of associates can be broken down as follows: Private & Business Clients €81 million (previous year: €58 million), Corporate & Investment Banking €124 million (previous year: €89 million) and Corporate Functions €263 million (previous year: €245 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	2006	2005	2006	2005	2006	2005
Germany	8,396	8,986	585	2,184	398,042	398,990
Europe (excluding Germany)	4,016	3,589	313	-138	241,088	197,827
North America	1,593	1,213	225	12	71,812	74,317
Latin America	55	69	0	23	1,198	2,281
Asia/Pacific	372	327	81	73	15,428	15,538
Consolidation	-2,875	-3,433	–	–	-230,281	-228,405
Total	**11,557**	**10,751**	**1,204**	**2,154**	**497,287**	**460,548**

Total 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

12 Cash funds

€m	31/12/2006	31/12/2005
Cash on hand	428	405
Balances with central banks	4,762	3,735
Of which: Deutsche Bundesbank	3,993	3,050
Treasury bills and discounted treasury notes	1	23
Of which: eligible for refinancing with Deutsche Bundesbank	–	–
Bills	–	132
Of which: eligible for refinancing with Deutsche Bundesbank	–	132
Cash funds	**5,191**	**4,295**

Due among other things to Deutsche Bundesbank's minimum reserve requirements, €4,051 million (previous year: €3,189 million) of the balances with central banks are subject to restrictions on availability.

13 Trading assets

€m	31/12/2006	31/12/2005
Debt and other fixed-income securities	76,916	108,399
Equities and other non-fixed-income securities	34,532	30,761
Positive fair values of derivative financial instruments	23,235	24,520
Other trading assets	48	8
Trading assets	**134,731**	**163,688**

Breakdown of debt and other fixed-income securities

€m	31/12/2006	31/12/2005
Bonds and notes	68,507	105,273
– Public sector issuers	19,840	37,106
– Other issuers	48,667	68,167
Money market securities	8,409	3,126
– Public sector issuers	1,253	1,046
– Other issuers	7,156	2,080
Debt and other fixed-income securities	**76,916**	**108,399**
Of which: marketable securities	74,746	101,531
– listed securities	46,689	70,953
– unlisted securities	28,057	30,578

Breakdown of equities and other non-fixed-income securities

€m	31/12/2006	31/12/2005
Equities	30,382	27,085
Other	4,150	3,676
Equities and other non-fixed-income securities	**34,532**	**30,761**
Of which: marketable securities	31,169	28,267
– listed securities	30,580	27,993
– unlisted securities	589	274

Positive fair values of derivative financial instruments are disclosed net. Positive and negative fair values in the amount of €57,808 million (previous year: €63,405 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.

14 Assets accounted for under the fair value option

€m	31/12/2006	31/12/2005
Debt and other fixed-income securities	4,593	2,118
Equities and other non-fixed-income securities	721	–
Loans and advances to banks and customers	640	–
Assets accounted for under the fair value option	**5,954**	**2,118**

15 Loans and advances to banks

€m	31/12/2006 Germany	31/12/2006 Other countries	31/12/2006 Total	31/12/2005 Germany	31/12/2005 Other countries	31/12/2005 Total
Payable on demand	5,144	27,388	32,532	3,121	21,939	25,060
Other advances	35,241	64,385	99,626	25,604	43,623	69,227
Loans	1,706	5,083	6,789	1,767	3,927	5,694
Loans and advances to banks	**42,091**	**96,856**	**138,947**	**30,492**	**69,489**	**99,981**
Of which: reverse repurchase agreements	35,017	50,528	85,545	24,044	37,251	61,295

16 Loans and advances to customers

Breakdown by transaction type €m	31/12/2006 Germany	31/12/2006 Other countries	31/12/2006 Total	31/12/2005 Germany	31/12/2005 Other countries	31/12/2005 Total
Loans	66,389	38,557	104,946	65,044	27,663	92,707
Of which: mortgage loans	8,965	767	9,732	10,109	708	10,817
communal loans	949	63	1,012	1,683	182	1,865
home loans	1,627	4	1,631	1,776	4	1,780
other loans secured by mortgages	15,310	136	15,446	14,919	129	15,048
Reverse repurchase agreements	1,735	50,710	52,445	434	41,884	42,318
Other advances	2,885	27,404	30,289	2,451	25,837	28,288
Loans and advances to customers	**71,009**	**116,671**	**187,680**	**67,929**	**95,384**	**163,313**

Loans and advances to customers include receivables under finance leases; these are described in more detail in Note 41.

Breakdown by sector €m	31/12/2006 Germany	Other countries	Total	31/12/2005 Germany	Other countries	Total
Manufacturing industry	6,134	4,135	10,269	4,917	3,114	8,031
Construction	746	409	1,155	653	230	883
Wholesale and retail trade	4,287	1,710	5,997	4,553	1,409	5,962
Financial institutions and insurance companies	8,706	93,141	101,847	5,938	76,931	82,869
Transport	1,339	2,192	3,531	1,242	1,737	2,979
Telecommunications	470	277	747	599	1,162	1,761
Service providers	8,065	4,609	12,674	8,536	2,906	11,442
Other	2,974	5,509	8,483	2,141	4,994	7,135
Corporate customers	**32,721**	**111,982**	**144,703**	**28,579**	**92,483**	**121,062**
Public authorities	**303**	**3,483**	**3,786**	**288**	**1,790**	**2,078**
Private individuals	**37,985**	**1,206**	**39,191**	**39,062**	**1,111**	**40,173**
Loans and advances to customers	**71,009**	**116,671**	**187,680**	**67,929**	**95,384**	**163,313**

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 include loans extended on bills that are not reported under loans and advances to banks or loans and advances to customers, as appropriate.

€m	31/12/2006 Germany	Other countries	Total	31/12/2005 Germany	Other countries	Total
Loans extended on bills	–	–	–	132	–	132
Corporate customers	28,309	35,844	64,153	25,783	25,751	51,534
Public authorities	292	1,520	1,812	286	803	1,089
Private customers	37,788	1,193	38,981	38,974	1,109	40,083
Customer loans	66,389	38,557	104,946	65,175	27,663	92,838
Loans to banks	1,706	5,082	6,788	1,767	3,927	5,694
Lending volume	**68,095**	**43,639**	**111,734**	**66,942**	**31,590**	**98,532**
Less: loan loss allowances	727	253	980	1,137	425	1,562
– banks	2	92	94	1	189	190
– customers	725	161	886	1,136	236	1,372
Lending volume net of loan loss allowances	67,368	43,386	110,754	65,805	31,165	96,970

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 €980 million (previous year: €1,562 million) and the allowance for contingent liabilities in the amount of €257 million (previous year: €114 million) included in provisions and other liabilities.

€m	Specific loan loss allowances 2006	2005	Country loan loss allowances 2006	2005	General loan loss allowances 2006	2005	Total 2006	2005
1 January	832	3,607	225	260	619	565	1,676	4,432
Additions to loan loss provisions	493	570	12	83	3	84	508	737
Charge-offs	615	2,778	–	–	–	–	615	2,778
Amounts released	182	615	87	90	36	46	305	751
Unwinding interest income[1)]	6	–	–	–	–	–	6	–
Changes in consolidated companies	–	-2	–	–	–	–	–	-2
Other additions/reductions	40	27	-44	-47	–	16	-4	-4
Currency translation differences	-4	23	-12	19	-1	0	-17	42
31 December	**558**	**832**	**94**	**225**	**585**	**619**	**1,237**	**1,676**

1) The interest income reported under the "unwinding" item relates to loans in the portfolio belonging to Dresdner Bank AG in Germany that have been called in and for which the process of realising the collateral has started.

The loan portfolio includes non-accrual loans amounting to €1,765 million (previous year: €2,071 million). €532 million (previous year: €550 million) of this figure is attributable to the homogeneous portfolio and €1,233 million (previous year: €1,521 million) to the non-homogeneous portfolio. The latter relates specifically to loans and advances that are no longer accruing interest.

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

€m	31/12/2006	31/12/2005
Debt and other fixed-income securities	11,208	10,429
Equities and other non-fixed-income securities	3,192	3,172
Investments in unconsolidated affiliated enterprises	503	138
Land and buildings used by third parties	1,045	1,244
Investment securities	**15,948**	**14,983**
Investments in enterprises accounted for using the equity method	**468**	**392**

Investment securities are generally recognised at their fair values. Investment securities measured at amortised cost comprise equities and other non-fixed-income securities with a carrying amount of €242 million (previous year: €269 million). Of this amount, investment securities with a carrying amount of €3 million (previous year: €8 million) were sold for a total gain of €29 million in fiscal year 2006 (previous year: €26 million).

The Group has land and buildings used by third parties with a carrying amount of €1,045 million (previous year: €1,244 million); the fair value of these properties, which was determined by expert appraisers on the basis of the 1988 Wertvermittlungsverordnung (Valuation Ordinance), was €1,061 million (previous year: €1,260 million). The properties concerned are leased properties that have been measured at cost less accumulated depreciation and impairment losses. Impairment losses on land and buildings used by third parties of €251 million (previous year: €129 million) and reversals of impairment losses in the amount of €75 million were reported in the result from investment securities; these resulted from appraisals performed among other things in the context of the contribution of the real estate to a fund. The appraisals performed in the year under review took into account special sales indicators. In addition, gains of €63 million on the disposal of land and buildings used by third parties were recognised in the result from investment securities item (previous year: €3 million).

Breakdown of debt and other fixed-income securities

€m	31/12/2006	31/12/2005
Bonds and notes from public sector issuers	2,923	3,102
Bonds and notes from other issuers	8,285	7,327
Debt and other fixed-income securities	**11,208**	**10,429**
Of which: listed securities	11,208	10,429

Debt and other fixed-income securities with a nominal value of €1,436 million will mature in 2007 (2006: €881 million).

Breakdown of equities and other non-fixed-income securities

€m	31/12/2006	31/12/2005
Equities	2,399	2,262
Other	793	910
Equities and other non-fixed-income securities	**3,192**	**3,172**
Of which: listed securities	2,426	2,289

Portfolio development €m	Land and buildings used by third parties	Investments in unconsolidated affiliated enterprises	Investments in enterprises accounted for using the equity method
Historical cost			
1 January 2006	1,688	190	436
Foreign currency translation	–	0	-10
Additions	0	134	91
Disposals	193	22	37
Changes in consolidated companies	55		
Transfers	–	19	13
31 December 2006	**1,550**	**321**	**493**
Reversals of impairment losses during the fiscal year	**77**	**–**	**–**
Depreciation, amortisation and impairment losses			
1 January 2006	444	52	56
Foreign currency translation	–	–	1
Depreciation, amortisation and impairment losses during the fiscal year	271	13	–
Disposals	112	1	34
Changes in consolidated companies	-21		
Transfers	–	19	2
31 December 2006	**582**	**83**	**25**
Cumulative remeasurement gains/losses on available-for-sale financial instruments			
1 January 2006		–	12
Additions		265	–
Disposals		–	12
31 December 2006		**265**	**–**
Carrying amounts 31 December 2006	**1,045**	**503**[1]	**468**
Carrying amounts 31 December 2005	1,244	138[1]	392

1) Does not include investments in financial services providers.

The list of shareholdings published in the electronic Bundesanzieger (Federal Gazette) 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	Office furniture and equipment	Total
Historical cost			
1 January 2006	1,074	1,561	2,635
Foreign currency translation	–	-13	-13
Additions	2	211	213
Disposals	169	131	300
Changes in consolidated companies	262	-7	255
Transfers	-19	8	-11
31 December 2006	**1,150**	**1,629**	**2,779**
Reversals of impairment losses during the fiscal year	**–**	**–**	**–**
Depreciation and impairment losses			
1 January 2006	341	1,106	1,447
Foreign currency translation	–	-8	–
Depreciation and impairment losses during the fiscal year	19	109	128
Disposals	13	119	132
Changes in consolidated companies	-1	-6	-7
Transfers	-17	9	-8
31 December 2006	**329**	**1,091**	**1,420**
Carrying amounts 31 December 2006	**821**	**538**	**1,359**
Carrying amounts 31 December 2005	733	455	1,188

Write-downs for impairment of IT equipment and other office furniture and equipment amounted to €2 million (previous year: €2 million) and €4 million (previous year: €3 million) respectively. €2 million of this amount was incurred in the context of restructuring measures.

Obligations amounting to €133 million (previous year: €61 million) were entered into in relation to the purchase of property and equipment; of this figure, €18 million related to IT equipment and €21 million to software (previous year: €27 million including software).

21 Intangible assets

€m	Goodwill	Internally developed software	Purchased software	Total
Historical cost				
1 January 2006	2,686	506	424	3,616
Foreign currency translation	1	7	-1	7
Additions	–	64	20	84
Disposals	–	26	35	61
Transfers	–	1	-1	0
31 December 2006	**2,687**	**552**	**407**	**3,646**
Reversals of impairment losses during the fiscal year	**–**	**–**	**–**	**–**
Amortisation and impairment losses				
1 January 2006	2,479	326	345	3,150
Foreign currency translation	0	6	-1	5
Amortisation and impairment losses during the fiscal year	–	69	32	101
Disposals	–	8	34	42
Transfers	–	–	0	–
31 December 2006	**2,479**	**393**	**342**	**3,214**
Carrying amounts 31 December 2006	**208**	**159**	**65**	**432**
Carrying amounts 31 December 2005	207	180	80	467

Total goodwill as at 31 December 2006 million in the amount of €208 million is allocated to a number of companies as cash-generating units. €150 million of this figure is attributable to fully consolidated enterprises, €45 million to subgroups and €14 million to enterprises accounted for using the equity method. 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 did not result in any impairment losses in fiscal year 2006 (previous year: marginal impairment losses).

Of the write-downs for impairment of software in the amount of €6 million (previous year: €7 million) recognised under current depreciation of property and equipment, €4 million (previous year: €2 million) was attributable to internally developed software. In addition, write-downs for impairment of €27 million were charged on internally developed software in the course of restructuring measures. In addition to the capitalised software development costs (recorded as an addition under internally developed software), other development costs totalling €132 million (previous year: €120 million) are contained in administrative expenses.

22 Other assets

€m	31/12/2006	31/12/2005
Accrued interest	2,663	2,502
Positive fair values of hedging derivatives in accordance with IAS 39	441	718
Recoverable taxes	546	260
Miscellaneous other assets	1,929	4,715
Other assets	**5,579**	**8,195**

Miscellaneous other assets primarily comprise prepaid income plus a large number of miscellaneous individual items.

23 Subordinated assets

€m	31/12/2006	31/12/2005
Trading assets	70	97
– Debt and other fixed-income securities	59	94
– Equities and other non-fixed-income securities	11	3
Loans and advances to banks	60	64
Loans and advances to customers	37	10
Investment securities	77	53
– Debt and other fixed-income securities	50	26
– Equities and other non-fixed-income securities	27	27
Subordinated assets	**244**	**224**

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

24 Assets sold under repurchase agreements

At the reporting date, the Group was committed to repurchasing assets sold under repurchase agreements with a net carrying amount of €164,041 million (previous year: €143,505 million).

Notes to the Consolidated Balance Sheet – Liabilities and Equity

25 Trading liabilities

€m	31/12/2006	31/12/2005
Negative fair values of derivative financial instruments	21,475	23,977
Obligations to deliver securities	40,506	48,351
Other trading liabilities	10,940	8,545
Trading liabilities	**72,921**	**80,873**

26 Liabilities accounted for under the fair value option

€m	31/12/2006	31/12/2005
Liabilities to banks	6	10
Liabilities to customers	180	188
Certificated liabilities	742	251
Subordinated liabilities	9	–
Liabilities accounted for under the fair value option	**937**	**449**

The application of the fair value option to financial liabilities resulted in a carrying amount that is €90 million (previous year: €70 million) lower than the future repayment amount of these liabilities. €3 million (previous year: €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 2006 and year-end 2005.

27 Liabilities to banks

€m	31/12/2006	31/12/2005
Payable on demand	21,321	24,410
Other term liabilities	141,134	115,500
Of which: registered bonds issued	3,178	2,677
Liabilities to banks	**162,455**	**139,910**
Of which: repurchase agreements	68,177	50,226
Domestic banks	48,133	55,852
Foreign banks	114,322	84,058

28 Liabilities to customers

€m	31/12/2006	31/12/2005
Savings deposits		
– With agreed period of notice of three months	950	1,104
– With agreed period of notice of more than three months	418	393
Home loan savings deposits	3,313	3,306
Savings deposits and home loan savings deposits	4,681	4,803
Payable on demand	85,284	77,188
Term liabilities	92,262	73,794
Of which: registered bonds issued	5,355	6,776
Other liabilities	177,546	150,982
Liabilities to customers	**182,227**	**155,785**
Of which: repurchase agreements	48,955	38,919

Breakdown by customer group

€m	31/12/2006	31/12/2005
Corporate customers	141,429	116,773
– Germany	49,370	45,141
– Other countries	92,059	71,632
Public authorities	7,870	7,114
– Germany	1,886	1,025
– Other countries	5,984	6,089
Private customers	32,928	31,898
– Germany	28,134	27,761
– Other countries	4,794	4,137
Liabilities to customers	**182,227**	**155,785**
– Germany (total)	79,390	73,927
– Other countries (total)	102,837	81,858

29 Certificated liabilities

€m	31/12/2006	31/12/2005
Bonds issued[1)]	23,279	25,066
Other certificated liabilities	22,691	25,013
– Money market securities	22,655	24,281
– Own acceptances and promissory notes outstanding	0	362
– Other	36	370
Certificated liabilities	**45,970**	**50,079**

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. €7,151 million of bonds issued will mature in 2007 (2006: €5,210 million).

30 Provisions

€m	31/12/2006	31/12/2005
Provisions for pensions and similar liabilities[1)]	258	2,054
Provisions for current taxes	388	600
Other provisions	2,810	2,436
Provisions	**3,456**	**5,090**

1) See Note 31.

€m	Restructuring provision	Loan loss allowance	Other provisions for staff costs	Other	Total
1 January 2006	90	114	1,074	1,158	2,436
Foreign currency translation	0	-2	1	-7	-8
Additions	337	77	1,056	417	1,887
Charge-offs	13	10	818	540	1,381
Amounts released	15	45	33	166	259
Transfers	-20	123	21	26	150
Changes in consolidated companies	–	–	-6	-9	-15
31 December 2006	**379**	**257**	**1,295**	**879**	**2,810**

Loan loss allowances primarily comprise provisions for guarantee loans and letters of credit. Provisions for staff costs primarily contain provisions for bonus payments that will be made to Group staff in the first quarter of 2007. The “other” item primarily relates to non-current provisions in the areas of leases, litigation risk, compensation payments and expected losses.

Restructuring provision €m	"New Dresdner Plus" programme	Other programmes	Total
1 January 2006	–	90	90
Foreign currency translation	–	0	0
Additions[1)]	328	9	337
Charge-offs	–	13	13
Amounts released	–	15	15
Transfers	–	-20	-20
31 December 2006	**328**	**51**	**379**

1) Including a €3 million change in the present value.

Provisions of €328 million related to the “Neue Dresdner Plus” restructuring programme initiated in 2006. In addition to this initiative, the provisions remaining at the end of the year relate to residual activities under the “Neue Dresdner” programme, the “2004 programme” and the “2005 programme”. Measured in terms of the original provisions, these initiatives have now been almost fully implemented. As a result, they have been consolidated under the “Other programmes” items. The regular review of existing provisions resulted in net releases for the “Neue Dresdner” programme and the “2004 programme” of €6 million and €4 million respectively, while additional provisions of €4 million were required to be established for the “2005 programme”.

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. 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, €20 million was transferred to other categories of provisions on this basis. In addition, restructuring provisions were affected by charge-offs in the amount of €13 million.

The remaining provisions for the various restructuring programmes cover the outstanding obligations in the areas of human resources and leases that will be associated with the final implementation of the different initiatives. The adequacy of the provisions is tested at quarterly intervals as part of project management for the restructuring programmes, and corresponding adjustments made where necessary. The resulting effects on income are recognised in the additions and amounts released. The need for adjustments results on the one hand from the detailed implementation of the human resources instruments, and on the other from adjustments to expected income from subleases due to market developments in the real estate sector.

31 Provisions for pensions and similar liablities

The amounts reported in the balance sheet for defined-benefit obligations can be broken down as follows:

€m	2006	2005
Present value of wholly unfunded obligations	250	2,906
Present value of funded obligations	3,565	957
Total present value of obligations	3,815	3,863
Fair value of plan assets	-2,731	-794
Total pension liabilities	1,084	3,069
Unrecognised actuarial losses	-952	-1,015
Net pension liabilities	**132**	**2,054**
Overfunded pension plans	126	–
Recognised pension provisions	**258**	**2,054**

The decline in the recognised pension provisions is due primarily to the offsetting of pension provisions against the assets transferred on 2 January 2006 to Pension-Trust der Dresdner Bank e. V., which acts as the trustee, to cover the pension obligations.

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

€m	2006	2005
Total pension liabilities as at 1 January	3,069	2,426
Less actuarial gains/losses as at 1 January	-1,015	-405
Recognised pension provisions as at 1 January	2,054	2,021
Current service cost	66	96
Imputed interest cost	155	157
Expected return on plan assets	-153	-36
Contributions by plan participants	-1,906	-27
Actuarial gains/losses	50	12
Exchange rate adjustments	-1	-3
Benefits paid during the year	-128	-142
Curtailments	-11	–
Other changes	6	-24
Net pension liabilities as at 31 December	**132**	**2,054**
Overfunded pension plans	126	–
Recognised pension provisions as at 31 December	**258**	**2,054**
Actuarial gains (–)/losses (+) as at 31 December	952	1,015
Total pension liabilities as at 31 December	**1,084**	**3,069**

66% of the present value of the pension obligations is attributable to Dresdner Bank AG and 26% to the Dresdner Kleinwort subgroup; the remaining 8% is spread across the other Group companies. The large majority of the pension obligations to active members of staff at Dresdner Bank AG results from the "Konzernbetriebsvereinbarung zur Harmonisierung der bestehenden Versorgungsordnung in einen beitragsorientierten Pensionsvertrag" (KBV BPV-Harmonisierung – Group Works Agreement on the Harmonisation of the Existing Pension Rules under a Defined Contribution Agreement), an employer-funded defined benefit plan valid as from 2006. In addition, a small number of final salary pension commitments still exist, along with individual pension commitments for members of the Board of Managing Directors.

The Dresdner Kleinwort subgroup pays contributions into a defined benefit pension plan that guarantees the majority of the plan beneficiaries benefits in the amount of 1/60 of their final pensionable salary for each eligible year of service. A small number of beneficiaries receive slightly different commitments.

In addition, the Dresdner Kleinwort subgroup pays contributions for selected retired employees to a private health care plan, which reimburses certain medical costs. The full annual medical contributions are assumed for employees who retired before 1 April 1995. For those employees who were employed as at 31 December 1993 and who retired directly, the Dresdner Kleinwort subgroup pays the costs for the year 1993 plus a premium of 5% per year. The pensioners concerned pay the remaining amount.

Since pension provisions are determined on the basis of information prevailing at the beginning of the fiscal year, actuarial gains or losses result 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	2006	2005
Fair value of plan assets as at 1 January	794	656
Expected return on plan assets	153	36
Actuarial gains/losses	-85	72
Exchange rate adjustments	10	24
Employer contributions	1,906	27
Benefits paid	-42	-30
Other	-5	9
Fair value of plan assets as at 31 December	**2,731**	**794**

The actual return on plan assets amounted to €68 million (previous year: €115 million). No additions to plan assets are planned in the coming year.

The structure of the plan assets is as follows:

%	2006	2005
Debt and other fixed-income securities	67.8	53.5
Equities and other non-fixed-income securities	27.8	44.1
Real estate	0.1	0.0
Other	4.3	2.4
Total	**100.0**	**100.0**

The plan assets do not contain any own financial instruments or other assets used by the Bank.

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

%	2006	2005
Discount rate[1)]	4.6	4.1
Expected return on plan assets	5.6	5.0
Expected rate of salary increase	2.4	1.9
Expected future pension increases	1.5	1.25

1) A discount rate of 5.75% (previous year: 5.4%) is used in the United States and a discount rate of 5.1% (previous year: 4.8%) in the United Kingdom.

The calculations are based on current biometric assumptions produced using actuarial principles. In addition, assumptions are made as to future fluctuation levels based on the age and number of years of service of the employees, as well as to career trends; intragroup pension assumptions are also taken into account. The expected return on assets for fiscal year 2006 is based on the target allocation and the long-term expected return on assets for the different asset classes.

The following items were recognised in the pension benefit expense:

€m	2006	2005
Current service cost	66	96
Imputed interest cost	155	157
Other additions	5	-27
Expected return on assets	-153	-36
Actuarial gains/losses	50	12
Effects of curtailments or settlements	-11	11
Expenses for defined benefit plans	112	213
Of which: pension payments in the year under review	43	108
Expenses for defined-contribution plans	67	59
Other pensions	42	34
Exchange rate adjustments	1	1
Pension benefit expense	**222**	**307**

Summary of key components:

€m	31/12/2006	31/12/2005
Total present value of obligations	3,815	3,863
Present value of funded obligations	3,565	957
Fair value of plan assets	2,731	794
Overfunding/underfunding	834	163
Experience adjustments to obligations	-18	-32
Experience adjustments to plan assets	-85	72

32 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	31/12/2006	31/12/2005
Deferred tax assets		
Investment securities	111	85
Of which: cumulative remeasurement gains/losses on available-for-sale financial instruments	31	6
Trading assets and liabilities	22	37
Pension provisions	132	113
Other provisions	163	201
Loan loss allowances	15	29
Losses carried forward	2,082	2,165
Other	219	274
Total deferred tax assets (before netting)	**2,744**	**2,904**
Netting effects	766	824
Total deferred tax assets	**1,978**	**2,080**
Deferred tax liabilities		
Investment securities	75	78
Of which: cumulative remeasurement gains/losses on available-for-sale financial instruments	34	31
Trading assets and liabilities	40	98
Property and equipment	236	197
Other provisions	47	3
Loan loss provisions	27	122
Loan loss allowances	31	45
Other	396	453
Total deferred tax liabilities (before netting)	**852**	**996**
Netting effects	766	824
Total deferred tax liabilities	**86**	**172**
Net deferred tax assets	1,892	1,908

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 €1,978 million (previous year: €2,080 million) and deferred tax liabilities in the amount of €86 million (previous year: €172 million) resulted in net deferred tax assets of €1,892 million (previous year: €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 €589 million (previous year: €671 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. €521 million of these unrecognised deferred tax assets relates to foreign loss carryforwards, with €48 million of this figure relating to foreign trade tax.

At the reporting date, unused corporation tax loss carryforwards amounted to €6,540 million; deferred tax assets were recognised for these to the extent that their recognition is sufficiently probable. There is no time limit on the utilisation of €5,063 million of the loss carryforwards. The loss carryforwards subject to time limits expire in the coming years as follows: €7 million in 2007, €5 million in 2008, €59 million in 2009, €15 million in 2010, €45 million in 2011, €10 million in 2012 and €7 million in 2013. The total volume of loss carryforwards with a residual term of more than ten years amounts to €1,318 million. No loss carryforwards subject to time limits expire in the years 2014 to 2016. In addition, the Bank has accumulated trade tax loss carryforwards of €5,135 million that are not subject to any time limit, and trade tax loss carryforwards of €1,490 million subject to time limits.

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

€m	2006	2005
Current taxes	209	291
– Germany	104	325
– Other countries	105	-34
Deferred taxes	49	77
– Germany	-44	66
– Other countries	93	11
Income tax expense	**258**	**368**

Deferred tax assets and liabilities were calculated for domestic companies in 2006 using an effective corporation tax rate, including the solidarity surcharge, of 26.38% (previous year: 26.38%) plus an effective trade tax rate of 13.3% (previous year: 13.52%). In all other cases, the country-specific tax rates were applied.

In accordance with the Gesetz über steuerliche Begleitmaßnahmen zur Einführung der Europäischen Gesellschaft und zur Änderung weiterer steuerrechtlicher Vorschriften (SESTEG – Act on Fiscal Measures Accompanying the Introduction of the Societas Europaea and on Amending Further Tax Provisions), which came into force in December 2006, the existing German corporation tax credits will be refunded without any distributions having to be made for this. The refunds will be made in equal amounts over a period from 2008 to 2017, starting on 30 September 2008. As a result of this change in the tax legislation, the present value of our companies' claims for refunds was capitalised as a current tax receivable as at the reporting date and the current tax expense was reduced by €60 million.

The current tax expense includes an amount of €31 million (previous year: tax income 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 €3 million.

The effective tax expense recognised in 2006 is €89 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	2006	2005
Expected income tax expense	347	553
+ Trade tax and similar taxes	54	138
– Tax-free income	-191	-389
– Capitalisation of corporation tax credit	-60	–
+ Tax expense from change in tax rates	12	–
+ Non-deductible expenses	19	14
– Adjustment for deferred tax assets	-4	14
+ Other tax adjustments	81	38
= Effective income tax expense	**258**	**368**

33 Other liabilities

€m	31/12/2006	31/12/2005
Accrued interest	2,644	2,242
Negative fair values of hedging derivatives in accordance with IAS 39	146	538
Miscellaneous other liabilities	3,793	4,106
Other liabilities	**6,583**	**6,886**

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

34 Subordinated liabilities

The subordinated liabilities in the amount of €6,192 million (previous year: €5,811 million) consist of hybrid capital in the amount of €2,513 million (previous year: €1,614 million) and other subordinated liabilities in the amount of €3,679 million (previous year: €4,197 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, 2001 and 2006 we issued silent participation certificates, which are composed of the following tranches:

Year of issue	Nominal amount	Issuer	Interest rate	Maturity
1999	€500m	Dresdner Bank AG[1)]	5.790%	2011
1999	US$1,000m[2)]	Dresdner Bank AG[1)]	8.151%	2031
2001	€159m	Dresdner Bank AG[1)]	7.000%	2013
2001	¥15,000m	Dresdner Bank AG[1)]	3.500%	2033
2006	€1,000m[2)]	Dresdner Bank AG	6.932%[3)]	Unlimited[4)]

1) Issued via Dresdner Capital LLC I to IV, Wilmington/Delaware, USA.
2) This issue is in excess of 10% of total subordinated liabilities.
3) The interest rate as at 1 July 2017 is the 12-month EURIBOR plus 2.58% p. a.
4) Redeemable for the first time by the issuer subject to certain conditions as at 31 December 2011.

The carrying amount as at 31 December 2006 amounted to €2,513 million (previous year: €1,614 million). The silent participations qualify as core capital under the provisions of the Basel Committee for Banking Supervision. Interest paid on the silent participations in the fiscal year amounted to €140 million (previous year: €110 million).

The certificated silent participation certificates issued in July 2006 in the nominal amount of €1,000 million are "non-innovative capital components"; in contrast to previous issues, these are not subject to any regulatory restrictions on eligibility as liable capital. There is no contractually agreed maturity. Subject to certain conditions, the issuer is entitled to redeem the certificates for the first time as at 31 December 2011; with effect from 31 December 2016, the issuer has a regular annual right of redemption.

Other subordinated liabilities. Other subordinated liabilities were recognised in the amount of €3,679 million (previous year: €4,197 million). Interest paid on these subordinated liabilities in the fiscal year amounted to €210 million (previous year: €231 million). Fixed-rate subordinated liabilities have coupons of between 4.0% and 12.25%. In addition, floating rate issues linked to a reference interest rate and zero coupon bonds exist. The average interest rate is 5.35%.

Subordinated liabilities are shown below (at nominal amounts):

Currency	Equivalent €m	Maturity
EUR	2,088	2007-2039
USD	670	2008-2025
CHF	187	2007-2009
GBP	223	2007
JPY	159	2027-2029
Other currencies	87	2010-2011

35 Profit-participation certificates

Profit-participation certificates in the amount of €2,262 million (previous year: €1,517 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 three 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
2006	€750m	Dresdner Bank AG	5.386%	2016

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

36 Equity

Subscribed capital. The subscribed capital of €1,502,972,205.80 at 31 December 2006 was composed of 578,066,233 registered 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 SE holds a 100% indirect interest in Dresdner Bank AG's share capital. Dresdner Bank is an affiliated enterprise of Allianz SE as defined by section 271 (2) of the HGB and is included in the consolidated financial statements of Allianz SE, Munich. These can be obtained from Allianz SE, 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	31/12/2006	31/12/2005
Debt and other fixed-income securities	-68	49
Equities and other non-fixed-income securities	1,629	1,220
Investments in affiliated enterprises	265	–
Investments in enterprises accounted for using the equity method	14	12
Assets held for sale	–	44
Deferred tax liability	-3	-25
Net remeasurement gains/losses reported in minority interests	-44	-23
Cash flow hedge accounting	-42	-42
Cumulative remeasurement gains/losses on financial instruments	**1,751**	**1,235**

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

€m	2006	2005
1 January	1,235	1,881
Fair value gains recognised in income statement	22	13
Fair value losses recognised in income statement	0	0
Gains and losses from the disposal of assets	-295	-1,306
Fair value changes recognised directly in equity	832	692
Remeasurement gains from enterprises accounted for using the equity method	-42	-48
Remeasurement gains from cash flow hedge accounting	-1	3
31 December	**1,751**	**1,235**

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 reflected 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 2006. As in the previous year, no Dresdner Bank shares had been pledged to the Bank or affiliated enterprises as collateral at the end of 2006.

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.

37 Own funds 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 for investment securities.

€m	31/12/2006	31/12/2005
Core capital	12,469	11,126
Of which: hybrid components	2,513	1,614
Supplementary capital	6,199	7,085
Of which: profit-participation certificates	2,755	3,130
subordinated liabilities	2,251	2,745
revaluation reserves for securities (of which 45%)	685	556
other components	508	654
Tier III capital	–	–
Total capital (BIS)[1]	**18,668**	**18,211**
Risk-weighted assets in the banking book	117,355	108,659
Risk-weighted assets in the trading book	2,625	2,875
Total risk-weighted assets	**119,980**	**111,534**
Capital ratios (%)		
Core capital ratio[2]	10.4	10.0
Total capital ratio	15.6	16.3

1) In accordance with the capital adequacy framework laid down by the Basel Committee for Banking Supervision of the Bank for International Settlements (BIS).
2) Calculation includes risk-weighted assets from the trading book.

Unrealised reserves (securities and investments in non-affiliated enterprises) in the amount of €145 million (previous year: €56 million) have been included under liable capital pursuant to section 10 (2b) sentence 1 no. 7 of the Kreditwesengesetz (KWG – German Banking Act).

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

€m	100%	70%	50%	25%	20%	10%	4%	31/12/2006 Total
Risk-weighted assets in the banking book	71,013	886	30,996	40	12,924	1,496	–	117,355
Of which: balance sheet assets	65,511	886	9,359	–	4,090	435	–	80,281
traditional off-balance sheet business	2,377	–	16,412	40	202	1,061	-	20,092
derivatives	–	–	112	–	45	–	-	157

€m	100%	70%	50%	25%	20%	10%	4%	31/12/2005 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

Other Balance Sheet Information

38 Collateral pledged

The total amount of liabilities secured by collateral amounted to €93,370 million (previous year: €70,962 million).

The total amount of assets pledged or loaned, including those over and above the assets used to collateralise liabilities, amounted to €103,102 million (previous year: €99,068 million). The total amount of assets pledged or loaned without restrictions on the collateral taker can be broken down as follows:

€m	31/12/2006	31/12/2005
Trading assets	90,211	77,954
Investment securities	–	81
Assets pledged as collateral	**90,211**	**78,035**

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	31/12/2006	31/12/2005
Trading assets	10,637	16,189
Loans and advances to customers	1,432	1,161
Investment securities	822	3,683
Assets pledged as collateral	**12,891**	**21,033**

As at 31 December 2006, we had received or borrowed assets with a fair value of €253,913 million (previous year: €215,853 million) from collateral providers as collateral, primarily under standardised contractual agreements for the repo and lending business. Of this figure, €154,244 million (previous year: €137,559 million) was sold on or pledged again.

39 Foreign currency holdings

€m	USD	GBP	Other	31/12/2006	31/12/2005
Assets	131,746	64,607	25,682	222,035	202,249
Liabilities	115,653	61,761	29,764	207,178	185,086

The amounts reported represent the aggregate euro equivalents of currencies outside the eurozone. 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 43.

Impact of exchange rate fluctuations. Excluding exchange rate fluctuations, consolidated total assets for the year would have been €15.7 billion higher (previous year: €18.3 billion lower). Income after taxes would have been €3 million higher (previous year: €3 million lower).

40 Structure of residual terms

The matrix of residual terms provides a breakdown of debt and other fixed-income securities, loans and advances as well as liabilities by their final maturity or call date. Further information, e.g. on interest rate risk, can be found in the Risk Report.

31 December 2006

Loans and advances €m	Up to 3 months	> 3 months -1 year	> 1 year -2 years	> 2 years -3 years	> 3 years -4 years	> 4 years -5 years	More than 5 years	Total
Term loans and advances to banks	90,897	10,852	1,542	913	613	585	1,013	106,415
Loans and advances to customers[1)]	102,583	16,819	7,359	6,567	7,963	10,022	36,367	187,680
Debt and other fixed-income securities		1,436[2)]	909	1,211	2,061	1,747	3,844	11,208
Total	**193,480**	**29,107**	**9,810**	**8,691**	**10,637**	**12,354**	**41,224**	**305,303**

1) Loans and advances to customers with residual terms of up to three months include €2,375 million of undated claims.
2) Including debt and other fixed-income securities of up to three months.

Liabilities €m	Up to 3 months	> 3 months -1 year	> 1 year -2 years	> 2 years -3 years	> 3 years -4 years	> 4 years -5 years	More than 5 years	Total
Term liabilities to banks	118,350	12,751	1,062	2,115	1,059	1,580	4,217	141,134
Savings deposits and home loan savings deposits	988	3,567	58	22	20	9	17	4,681
Other term liabilities to customers	77,080	6,670	217	1,272	2,526	453	4,044	92,262
Certificated liabilities	21,015	8,828	4,918	3,814	1,325	2,751	3,319	45,970
Subordinated liabilities	404	397	439	507	154	583	3,708	6,192
Profit-participation certificates	5	675	837	–	–	–	745	2,262
Total	**217,842**	**32,888**	**7,531**	**7,730**	**5,084**	**5,376**	**16,050**	**292,501**

31 December 2005

Loans and advances €m	Up to 3 months	> 3 months -1 year	> 1 year -2 years	> 2 years -3 years	> 3 years -4 years	> 4 years -5 years	More than 5 years	Total
Term loans and advances to banks	63,305	7,671	893	1,277	432	353	990	74,921
Loans and advances to customers[1)]	85,299	14,183	9,775	6,482	5,148	8,881	33,545	163,313
Debt and other fixed-income securities		881[2)]	1,932	1,945	1,694	1,598	2,379	10,429
Total	**148,604**	**22,735**	**12,600**	**9,704**	**7,274**	**10,832**	**36,914**	**248,663**

1) Loans and advances to customers with residual terms of up to three months include €5,295 million of undated claims.
2) Including debt and other fixed-income securities of up to three months.

Liabilities €m	Up to 3 months	> 3 months -1 year	> 1 year -2 years	> 2 years -3 years	> 3 years -4 years	> 4 years -5 years	More than 5 years	Total
Term liabilities to banks	94,458	12,251	1,057	951	1,572	852	4,359	115,500
Savings deposits and home loan savings deposits	1,148	3,522	47	23	27	13	23	4,803
Other term liabilities to customers	63,663	2,642	201	537	1,116	703	4,932	73,794
Certificated liabilities	18,067	12,101	5,794	4,670	3,626	1,261	4,560	50,079
Subordinated liabilities	33	439	812	458	410	193	3,466	5,811
Profit-participation certificates	–	522	940	51	–	4	–	1,517
Total	**177,369**	**31,477**	**8,851**	**6,690**	**6,751**	**3,026**	**17,340**	**251,504**

41 Leases

In its capacity as a lessor, the Group primarily offers finance leases. The net investment is contained in loans and advances to customers as receivables under finance leases; this changed as follows by residual term:

€m	31/12/2006	31/12/2005
Gross investment		
– up to three months	52	–
– three months to one year	320	158
– one to five years	1,336	878
– more than five years	1,036	1,141
Total gross investments	**2,744**	**2,177**
Of which: unguaranteed residual value[1)]	–	–
Unearned finance income		
– up to three months	24	–
– three months to one year	74	3
– one to five years	314	285
– more than five years	251	390
Total unearned finance income	**663**	**678**
Net investments		
– up to three months	28	–
– three months to one year	246	155
– one to five years	1,022	593
– more than five years	785	751
Total net investments	**2,081**	**1,499**

1) 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. The Group's finance leasing operations are based in Luxembourg, New York and London. The items financed include aircraft, industrial plant and railway equipment, real estate and other infrastructure investments. The Group does not conduct any operating lease business.

In its capacity as a lessee, the Group mainly uses operating leases to rent property and equipment, including land and buildings. The future minimum lease payments under non-cancellable operating leases reported under other financial commitments can be broken down as follows:

€m	31/12/2006	31/12/2005
Up to one year	293	334
One to five years	909	1,105
More than five years	1,042	1,451
Minimum lease payments under operating leases	**2,244**	**2,890**
Of which: minimum lease payments under non-cancellable subleases	33	–

€2,175 million (previous year: €2,877 million) of the lease payments relates to land and buildings; of this figure, €276 million (previous year: €325 million) is due within one year, €868 million (previous year: €1,101 million) is due between one and five years, and €1,031 million (previous year: €1,451 million) is due after more than five years. The rented properties mainly comprise branches and other facilities used for banking operations, as well as commercially used property. The leases usually have fixed terms of between three and ten years; each lease also has two extension options of five years. There are various forms of escalation clause, such as graduated rents or index clauses.

In the past fiscal year, €272 million in minimum lease payments and €28 million in payments under subleases were recognised in administrative expenses; there were no items relating to conditional rental payments. Finance leases do not play a significant role for the Bank in its capacity as a lessee.

42 Securitisation business

When securitising financial assets, we transfer revolving loans to the capital market as part of precisely defined loan portfolios by way of true sales. The loans 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 entity RCL Securitisation GmbH, Dusseldorf, as part of the True Sale Initiative. As at 31 December 2006, this programme was utilised in the amount of €3.0 billion (previous year: €3.5 billion, including via Silver Lux Inc., Grand Cayman). In addition, we have used synthetic securitisation under the KfW/PROMISE programmes to place credit risks on the market. As at 31 December 2006, credit risks in the amount of €1.0 billion had been transferred to third parties using the PROMISE-K-2006-1 structure (previous year: €1 billion using Promise-K-2001-1).

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 RCL Securitisation GmbH and Promise-K-2006-1 GmbH must be included in consolidation.

43 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 €57.8 billion (previous year: €63.4 billion). Non-nettable positive fair values amounted to €17.7 billion (previous year: €19.2 billion). The prior-year amount was restated because the figure relates exclusively to positive fair values.

As part of hedge accounting, 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"). Plain vanilla interest rate swaps are mainly used as hedging derivatives. In selected cases the Bank uses cash flow hedges to hedge variable cash flows from assets bearing interest at the one-month Libor rate using interest rate swaps. The Bank also documents hedging relationships relating to investments in selected subsidiaries as “hedges of net investment in a foreign entity”.

In accordance with the strict interpretation of the regulations, the banking book for the first time only contains recognised hedging relationships; the prior-year amount was restated accordingly. The positive fair value of hedging derivatives from hedge accounting under IAS 39 amounted to €439 million (previous year: €718 million); the negative fair value amounted to €146 million (previous year: €538 million).

Banking book contracts €m	Nominal amount/residual term up to 1 year	> 1 year -5 years	more than 5 years	Total 2006	Total 2005	Positive fair values	Negative fair values
Interest rate derivatives	**8**	**6,265**	**5,431**	**11,704**	**17,163**	**439**	**146**
OTC products							
– Interest rate swaps	8	6,265	5,431	11,704	17,163	439	146
– Interest rate swaps (IRS)	8	6,265	5,431	11,704	17,163	439	146
Grand total	**8**	**6,265**	**5,431**	**11,704**	**17,163**	**439**	**146**
Of which: products denominated in EUR						235	62
products denominated in USD						180	80
products denominated in JPY						1	3

Trading book contracts €m	Nominal amount/residual term up to 1 year	> 1 year -5 years	more than 5 years	Total 2006	Total 2005	Positive fair values	Negative fair values
Interest rate derivatives	**1,285,513**	**1,273,639**	**1,270,381**	**3,829,533**	**3,757,745**	**46,439**	**45,478**
OTC products							
– FRAs	121,294	1,414	–	122,708	117,765	37	30
– Interest rate swaps	996,144	1,150,531	1,203,573	3,350,248	3,215,567	41,416	40,520
– Fixed-rate swaps	867	205	525	1,597	904	60	13
– Basis swaps	5,350	14,386	14,519	34,255	29,630	833	384
– Interest rate swaps (IRS)	989,927	1,135,940	1,188,529	3,314,396	3,185,033	40,523	40,123
– Interest rate options: calls	17,889	44,142	23,051	85,082	88,364	1,273	–
– Interest rate options: puts	19,110	57,075	37,113	113,298	97,858	–	2,620
– Other interest rate contracts	3,923	1,632	6,644	12,199	10,018	2,316	1,388
Exchange-traded products							
– Interest rate futures	99,184	16,905	–	116,089	185,188	7	5
– Interest rate options: calls	13,003	1,412	–	14,415	24,716	1,390	–
– Interest rate options: puts	14,966	528	–	15,494	18,269	–	915
Currency derivatives	**561,510**	**97,268**	**25,234**	**684,012**	**639,801**	**10,010**	**9,871**
OTC products							
– Forward currency transactions	355,167	14,487	486	370,140	405,424	4,876	4,888
– Cross-currency swaps	22,602	49,585	23,376	95,563	82,988	3,588	3,222
– Currency options: calls	96,998	17,787	949	115,734	75,953	1,539	–
– Currency options: puts	85,135	14,522	423	100,080	72,162	–	1,755
– Other currency contracts	–	–	–	–	590	–	–
Exchange-traded products							
– Currency options: calls	471	–	–	471	284	4	–
– Currency options: puts	251	–	–	251	13	–	1
– Currency futures	886	887	–	1,773	2,387	3	5
Equity/index derivatives	**168,019**	**161,081**	**22,789**	**351,889**	**350,232**	**17,776**	**16,944**
OTC products							
– Equity/index swaps	22,897	6,052	13,080	42,029	20,505	1,059	977
– Equity/index options: calls	42,677	55,578	2,240	100,495	89,556	11,796	0
– Equity/index options: puts	46,807	53,357	4,143	104,307	148,319	–	11,889
Other equity/index contracts	33	915	3	951	77	5	50
Exchange-traded products							
– Equity/index futures	9,152	–	–	9,152	10,659	–	10
– Equity/index options: calls	20,733	22,294	1,629	44,656	39,878	4,916	–
– Equity/index options: puts	25,720	22,885	1,694	50,299	41,238	–	4,018
Credit derivatives	**61,958**	**606,737**	**238,336**	**907,031**	**497,001**	**6,252**	**6,465**
– Credit default swaps	56,997	602,864	235,651	895,512	483,348	5,315	5,025
– Protection buyer	26,546	287,271	118,382	432,199	221,020	1,724	3,443
– Protection seller	30,451	315,593	117,269	463,313	262,328	3,591	1,582
– Total return swaps	4,961	3,873	2,685	11,519	13,653	937	1,440
– Protection buyer	3,140	1,713	2,113	6,966	9,373	855	1,152
– Protection seller	1,821	2,160	572	4,553	4,280	82	288
Other derivatives	**14,540**	**6,877**	**53**	**21,470**	**12,387**	**566**	**526**
OTC products							
– Precious metal derivatives	9,081	2,809	–	11,890	8,802	439	417
– Other contracts	3,700	3,894	48	7,642	2,252	126	109
Exchange-traded products							
– Futures	1,759	174	5	1,938	1,317	1	0
– Options: calls	–	–	–	–	7	–	–
– Options: puts	–	–	–	–	9	–	–
Grand total	**2,091,540**	**2,145,602**	**1,556,793**	**5,793,935**	**5,257,166**	**81,043**	**79,284**
Of which: products denominated in EUR						52,649	48,584
products denominated in USD						10,514	14,151
products denominated in GBP						9,986	8,675
products denominated in JPY						3,843	5,330

Off-Balance Sheet Business

44 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. Where appropriate, collateral is used to cover the customer's total obligation comprising loans and loan guarantees. There are also sub-interests held by third parties in irrevocable loan commitments and loan guarantees.

€m	31/12/2006	31/12/2005
Liabilities on guarantees and warranties	18,632	17,484
– Credit guarantees	1,186	1,139
– Other guarantees and warranties	15,275	14,529
– Letters of credit	2,171	1,816
– Letters of credit opened	852	877
– Letters of credit confirmed	1,319	939
Liability on collateral pledged for third-party liabilities	0	4
Contingent liabilities	**18,632**	**17,488**
Repurchase obligations from sale agreements with repurchase options	3	5
Irrevocable loan commitments	46,344	38,643
– Advances	35,121	26,920
– Standby facilities	8,930	9,496
– Guarantee credits	1,765	1,733
– Discount credits	64	46
– Mortgage loans/communal loans	464	448
Other commitments	**46,347**	**38,648**

€850 million of the irrevocable loan commitments bear a binding fixed interest rate.

45 Other financial commitments

€m	31/12/2006	31/12/2005
Obligations arising from hire and rental contracts and leases[1)]	2,327	3,270
Commitments under capital projects in progress	133	63
Commitments to pay up shares, bonds and other capital interests; secondary liability	151	206
Other	59	59
Other financial commitments	**2,670**	**3,598**

1) See Note 41.

Commitments to pay up shares, bonds and other capital interests totalled €22 million (previous year: €61 million). Secondary liability in accordance with section 24 of the Gesetz betreffend die Gesellschaften mit beschrankter Haftung (GmbHG – German Limited Liability Companies Act) was marginal (previous year: €16 million); the run-off liability following a hive-off in accordance with section 133 of the Umwandlungsgesetz (UmwG – Reorganisation Act) amounted to €129 million as in the previous year.

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 interests in AZ-Aiolos Vermögensverwaltungsgesellschaft OHG, Munich, Lofra GmbH Co. KG, Frankfurt/Main, and Bankhaus Reuschel & Co. Kommanditgesellschaft, Munich, is unlimited due to the legal form of these enterprises or to Dresdner Bank AG's position as a partner. In these cases, too, the financial status of the other partners involved is sound.

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

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

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 2006, a contribution of €22 million (previous year: €21 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.

46 Trustee business

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

€m	31/12/2006	31/12/2005
Loans and advances to banks	1,956	1,747
Loans and advances to customers	1,205	1,405
Investment securities	729	855
Assets held in trust[1)]	**3,890**	**4,007**
Liabilities to banks	870	1,035
Liabilities to customers	3,020	2,972
Liabilities incurred as a trustee	**3,890**	**4,007**

1) Including fiduciary loans of €1,964 million (previous year: €2,170 million).

Supplementary Information

47 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	31/12/2006		31/12/2005	
€bn	Fair value	Carrying amount	Fair value	Carrying amount
Cash funds	5.2	5.2	4.3	4.3
Trading assets	134.7	134.7	163.7	163.7
Assets accounted for under the fair value option	6.0	6.0	2.1	2.1
Loans and advances to banks and to customers	326.8	326.6	267.5	263.3
Investment securities	15.9	15.9	15.0	15.0

The prior-year amounts were restated due to changes in presentation and methodological adjustments.

Liabilities	31/12/2006		31/12/2005	
€bn	Fair value	Carrying amount	Fair value	Carrying amount
Trading liabilities	72.9	72.9	80.9	80.9
Liabilities accounted for under the fair value option	0.9	0.9	0.4	0.4
Liabilities to banks and to customers	343.9	344.7	295.9	295.7
Certificated liabilities and subordinated liabilities	52.5	52.2	56.8	55.9
Profit-participation certificates	2.4	2.3	1.7	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. In this process, appropriate measurement adjustments are made, e.g. for model risks. Further information on financial instruments can be found in the Risk Report.

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

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

Trading assets/liabilities. The Group carries trading assets and liabilities, which include debt and equity securities, derivatives and currency transactions, at their fair value, as it does the financial assets/liabilities at fair value through profit or loss that have been designated as at fair value (fair value option).

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.

48 Related party transactions

Allianz SE holds a 100% indirect interest in Dresdner Bank AG’s share capital; we classify both Allianz SE and those companies that directly hold Dresdner Bank AG’s share capital as parent companies. Other related parties within the meaning of IAS 24 are the other consolidated Allianz Group companies and other unconsolidated affiliated companies of Dresdner Bank. Related parties also include non-affiliated enterprises as well as associates and joint ventures. We regard the members of the Board of Managing Directors and the Supervisory Board as individual related parties and key management personnel.

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 Dresdner Bank Group exchanges services with Allianz Group companies through its partnership involving the reciprocal brokerage of insurance and banking services. The two companies also provide each other with services.

In 2006, Dresdner Bank AG established a contractual trust arrangement (CTA) and transferred assets amounting to €1.9 billion to it to secure employer-funded direct benefit commitments. The assets are kept separate from Dresdner Bank AG’s business assets and are used solely for post-employment benefits for employees.

The scope of these related party transactions is shown below:

€m	Parent company 31/12/2006	Parent company 31/12/2005	Other related parties 31/12/2006	Other related parties 31/12/2005	Non-affiliated enterprises and enterprises accounted for using the equity method 31/12/2006	Non-affiliated enterprises and enterprises accounted for using the equity method 31/12/2005
Trading assets	–	0	3	22	–	–
Loans and advances to banks	–	–	–	–	684	1,713
Loans and advances to customers	–	30	1,156	1,016	273	523
Debt and other fixed-income securities	–	–	–	–	380	2,034
Other assets	3	5	68	55	–	–
Total	**3**	**35**	**1,227**	**1,093**	**1,337**	**4,270**
Trading liabilities	–	0	49	30	–	–
Liabilities to banks	–	–	132	60	501	1,985
Liabilities to customers	829	289	504	725	90	168
Certificated liabilities	–	–	224	200	–	96
Provisions	–	1	–	2	–	–
Other liabilities	8	4	46	52	–	–
Subordinated liabilities	–	–	10	23	–	–
Total	**837**	**294**	**965**	**1,092**	**591**	**2,249**
Contingent liabilities	0	1	20	21	–	–
Transaction income	383	381	377	311	29	14
Transaction expenses	43	28	385	389	–	–

Loans to members of the Board of Managing Directors and the Supervisory Board. Loans to members of the Board of Managing Directors and liabilities assumed on their behalf totalled €718,967.46 (previous year: €405,255.59). This included loans extended to, or liabilities assumed on behalf of, managers of subsidiaries in the amount of €965.38 (previous year: €9,410.68). Loans to members of Dresdner Bank AG's Supervisory Board and liabilities assumed on their behalf totalled €499,410.00 (previous year: €429,040.00). 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 lists of members of the Supervisory Board and of the Board of Managing Directors (see Notes 54 and 55).

Remuneration of executive body members. The remuneration paid to the Board of Managing Directors in accordance with section 314 no. 6a of the HGB amounted to €18,746,789.95. This includes share-based payments comprising 44,241 stock appreciation rights (SARs) with a fair value of €37.50 at the grant date and 50,456 restricted stock units (RSUs) with a fair value of €100.00 at the grant date. The remuneration paid to former members of the Board of Managing Directors and their surviving dependants amounted to €23,767,065.73. Pension provisions for former members of the Board of Managing Directors and their surviving dependants amounted to €143 million as at 31 December 2006.

The compensation paid to the Board of Managing Directors as defined by IAS 24.16 amounted to €34,436,064.44 (previous year: €34,576,363.76). This figure can be broken down as follows: short-term employee benefits €11,564,867.57 (previous year: €19,593,654.51); post-employment benefits €1,180,276.00 (previous year: €2,786,473.00); other long-term benefits €500,000.00 (previous year: €1,600,000.00); payments made in relation to the termination of employment €6,900,000.00 (previous year: with regard to this disclosure, we made corresponding use of the protective clause in section 286 (4) of the HGB); share-based payment €14,290,920.87 (previous year: €10,596,236.25). Payments made in relation to the termination of employment in fiscal year 2006 include backpayments to members of the Board of Managing Directors who left the Company in previous years. The method used to calculate share-based payment was adjusted in fiscal year 2005; instead of the ratable value of the programmes in the fiscal year, the calculation is based on the actual expense incurred in accordance with IFRS 2.

Compensation granted to members of the Group's Supervisory Board for fiscal 2006 amounted to €1,053,912.50 (previous year: €958,500.00), including value added tax. Payments to the members of the regional advisory boards amounted to €1,204,138.00 (previous year: €1,212,344.00), including value added tax.

49 Share-based payment

Employee share purchase plans. Shares of Allianz SE 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 2006 for Dresdner Bank AG within Germany and its domestic subsidiaries amounted to 390,031 (previous year: 465,643); the difference between the exercise price and the market price in the amount of approximately €10.2 million (previous year: €9.6 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 SE'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 SE'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.

214,143 SARs were granted in the year under review (previous year: 423,421). 164,727 rights were exercised in the period up to 31 December 2006 (previous year: 58,276); 114,320 rights expired (previous year: 54,334). On 31 December 2006, the number of SARs granted under the SAR plans but not yet exercised amounted to 988,684 (previous year: 1,043,695); 232,884 of these rights (previous year: 161,569) with an intrinsic value of €19 million (previous year: €10 million) were exercisable. The average fair value of the SARs allotted in the fiscal year amounted to €12 million at the end of the year (previous year: €19 million). The fair value of the SARs outstanding as at 31 December 2006 amounted to €57 million (previous year: €46 million). The weighted average remaining contractual term of the outstanding rights was 3 ¼ years (previous year: 2 ¾ years).

The SARs are accounted for as cash-settled share-based payments. The total staff costs for the SARs are calculated as the amount by which the Allianz SE 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 SE share price and are accrued over the two-year lock-up period. A provision in the amount of €29 million (previous year: €20 million) was recognised as an expense as at 31 December 2006; the volume of provisions for unexercised SARs amounted to €42 million as at 31 December 2006 (previous year: €26 million).

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 SE'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 SE shares on the exercise date, or to issue one Allianz SE share or equivalent equity instruments per RSU to the beneficiaries.

143,090 RSUs (previous year: 263,599) were granted in the fiscal year. No rights were exercised in the period up to 31 December 2006 (previous year: 13,698); 77,614 rights expired (previous year: 26,873). As at 31 December 2006 the number of RSUs granted under the RSU plans but not yet exercisable amounted to 583,516 (previous year: 505,901). The average fair value of the rights allotted in the fiscal year amounted to €21 million at the end of the year (previous year: €30 million). The fair value of the rights outstanding as at 31 December 2006 amounted to €86 million (previous year: €61 million). The weighted average remaining contractual term of the outstanding rights was 3 ¼ years (previous year: 3 years and 10 months).

The RSUs are accounted for as cash-settled share-based payments because cash settlement is planned. The total staff costs for the RSU Plan are based on the Allianz SE 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 €22 million (previous year: €12 million) was recognised as an expense as at 31 December 2006; the volume of provisions for unexercised RSUs amounted to €34 million as at 31 December 2006 (previous year: €15 million).

Dresdner Kleinwort Stock Plan. This is a bonus plan based on Allianz shares that is granted to selected Dresdner Kleinwort division employees. The plan provides for part of employees' bonuses to be distributed in the form of Allianz SE shares. The employees initially receive the right to a certain number of Allianz SE 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 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 fiscal year under review, 1,225,900 rights were granted (previous year: 1,440,399). 803,809 rights were exercised in the period up to 31 December 2006 (previous year: 333,516); 283,429 rights expired (previous year: 177,588). On 31 December 2006 the number of rights granted but not yet exercised under the plan amounted to 2,147,310 (previous year: 2,008,648). The average fair value of the rights granted in the fiscal year was €150 million (previous year: €134 million); the fair value of the rights outstanding as at 31 December 2006 was €245 million (previous year: €194 million). The expense for the plan reported in the fiscal year amounted to €160 million (previous year: €102 million).

50 Auditors' fees

€m	2006	2005
Auditing of the financial statements	15	17
Other assurance or valuation services	3	2
Tax advisory services	1	1
Other services	3	2
Total	**22**	**22**

51 Significant subsidiaries, associates and joint ventures

In addition to Dresdner Bank Aktiengesellschaft, which is domiciled in Frankfurt/Main and registered in the Commercial Register of the Frankfurt/Main Local Court under the number HRB 14000, 136 (previous year: 147) companies are fully consolidated and nine (previous year: eight) are accounted for using the equity method in the consolidated financial statements, as described below.

Significant subsidiaries. Subsidiaries consolidated as at 31 December 2006 included 44 domestic (previous year: 41) and 92 foreign (previous year: 106) entities, including ten (previous year: eight) funds and 68 (previous year: 70) special purpose entities, of which 43 (previous year: 28) had to be included in consolidation due to the application of SIC 12. These figures include ten (previous year: ten) sub-groups, but not their 182 companies and the seven enterprises within them accounted for using the equity method. The number of special purpose entities does not include any consolidation into special purpose entity groups.

53 domestic and 80 foreign Group companies (previous year: 57 domestic and 69 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 €40 million or 0.01% (previous year: €96 million or 0.02%); the effect on the net income would have amounted to €3.9 million or 0.41% (previous year: €2.3 million or 0.14%).

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. As in the previous year, this did not result in any goodwill in the year under review. Changes in goodwill are discussed in Note 21, intangible assets.

Associates. Investments in five (previous year: five) domestic and three (previous year: two) 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. One enterprise was included in the consolidated financial statements on the basis of accounts prepared as at 30 September 2006.

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 €43 million (previous year: €68 million).

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

€m	2006	2005
Assets	7,636	8,743
Liabilities	7,262	8,405
Income	658	1,602
Expenses	660	1,483

List of shareholdings. The list of our shareholdings pursuant to section 313 (2) of the HGB is presented separately in accordance with section 313 (4) sentence 1 of the HGB and is published in the electronic Bundesanzeiger (Federal Gazette) together with the consolidated financial statements. This list contains significant subsidiaries, associates and joint ventures; it is part of the Notes.

Corporate governance. The Supervisory Board and Board of Management of Oldenburgische Landesbank Aktiengesellschaft, Oldenburg, issued the declaration of conformity required for that listed company in accordance with section 161 of the AktG in December 2006. The declaration has been published on Oldenburgische Landesbank Aktiengesellschaft's website and has thus been made permanently available to shareholders.

52 Significant changes in the companies included in consolidation

Seven domestic and 45 foreign companies (previous year: nine domestic and six foreign companies) were deconsolidated; 38 of these were special purpose entities. Eleven domestic and 30 foreign companies (previous year: two domestic and nine foreign companies) were included in consolidation for the first time; 34 of these were special purpose entities. The names of the key additions and disposals are listed below:

Additions

Germany
BERGA Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Grünwald
DIT-Garantie Plus 2012, Frankfurt/Main
DIT-Protect Global Winner 2014, Frankfurt/Main
German Real Estate Equity Fund I, Frankfurt/Main
Honeywell Grundbesitzverwaltungs-GmbH & Co Vermietungs-KG, Grünwald
Kalmus Grundstücks Gesellschaft Objekt KG, Berlin
LAMINA Grundstücksverwaltungs-GmbH & Co. KG, Grünwald
LOFRA GmbH & Co. KG, Frankfurt/Main
Merkur Grundstücks Gesellschaft Objekt Berlin Lange Strasse KG, Berlin
mertus Zweite GmbH, Frankfurt/Main
Promise -K 2006-1 GmbH, Frankfurt/Main
Other countries
Alternative Holding Partenaires Ltd, London
Chess Finance Llc, Wilmington/ Delaware
Dresdner Bank Monaco SAM, Monte Carlo
Dresdner Holding B. V., Amsterdam
Dresdner Kleinwort Capital Inc, Wilmington/Delaware
Dresdner Kleinwort Pfandbriefe Investments II, Inc, Wilmington/Delaware
Dresdner Leasing 1 S.àr.l, Luxembourg
Dresdner Leasing 2 S.àr.l, Luxembourg
Melrose Investors 2 Llc, Wilmington/Delaware
Orchestra No.1, Ltd, George Town/Grand Cayman
Priamos Ltd, London
ST Drive, George Town/Grand Cayman
Symphony No. 4 Llc, Dover
The Gresham Bond Fund, London

Disposals

Name	Reason for deconsolidation
CCB Zweite FraMü Beteiligungs GmbH, Frankfurt/Main	Merged with Dresdner Bank AG
dbi-Fonds MAXIMILIAN, Berlin	Liquidation
dbi-Fonds Ostfriesland, Frankfurt/Main	Merged with dbi Ammerland
Dresdner Bank (Hungaria) Rt., Budapest	Merged with Dresdner Bank AG
Dresdner Bank Berlin Immobilien-Service GmbH , Berlin	Merged with Dresdner Bank AG
Dresdner Kleinwort Holdings Inc., New York/New York	Reclassification to subgroup
Dresdner Kleinwort Wasserstein Beteiligungs-Gesellschaft mbH, Frankfurt/Main	Deconsolidation due to lack of materiality
Dresdner Kleinwort Wasserstein LLC, Moscow	Liquidation
DrKW Finance Inc., New York	Reclassification to subgroup
Europe Reinsurance S.A., Luxembourg	Sale
Kleinwort Benson Investment Management Americas Inc., New York	Liquidation
Orphans Aid Fund, Moscow	In liquidation
Participation Gentil S.A., Paris	Merged with DB Gestion
Receivable Partners Inc., Wilmington/Delaware	Deconsolidation due to lack of materiality
S.N.C. SNC Dresdner Services, Paris	Merged with DB Gestion
Silver Lux Inc., George Town, Cayman Islands, B.W.I.	Liquidation
Vierzehnte FraMü Beteiligungs GmbH, Frankfurt/Main	Merged with Dresdner Bank AG
visionapp GmbH, Frankfurt/Main	Sale

Name changes

In addition to the name changes listed below, we changed the name Dresdner Kleinwort Wasserstein to Dresdner Kleinwort.

New name	Previous name
AZ-Aiolos Vermögensverwaltungsgesellschaft OHG, Munich	Aiolos Vermögensverwaltungsgesellschaft mbH, Munich
Doradztwo Gospodarcze Spolka Akcyjna, Warsaw	Dresdner Bank Polska S. A., Warsaw
Dresdner Kleinwort Capital Inc., Wilmington	Carwood Holdings II, Inc., Wilmington
Dresdner Lateinamerika Aktiengesellschaft, Hamburg	Dresdner Bank Lateinamerika Aktiengesellschaft, Hamburg
Local Market Financial Investment Fund, São Paulo	Local Market Fundo de Invest., São Paulo

53 Events after the balance sheet date

A proposal will be made to the Annual General Meeting to distribute the distributable profit of €301 million as a dividend; this corresponds to a dividend of €0.52 per share.

Kommanditgesellschaft Allgemeine Leasing GmbH & Co. (KGAL), in which Dresdner Bank owns a total interest of 45%, sold its interests in ASL Auto Service-Leasing GmbH and the Disko Group effective as from mid-January 2007. The effect of the sale on income at KGAL will be reflected in the Dresdner Bank Group's results for the first quarter of the current fiscal year.

54 List of Supervisory Board members

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

Honorary Chairman of the Supervisory Board

Dr. Wolfgang Röller	Frankfurt/Main

55 List of members of the Board of Managing Directors and offices held

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

1) Group office.

56 List of offices held by members of staff

Name	Offices held in other statutory supervisory boards of large corporations (as at 31 December 2006)
Michaela Eder von Grafenstein	Allianz Dresdner Bauspar AG, Bad Vilbel[1)]
Claudia Eggert-Lehmann	Allianz SE, Munich
Detlef Hermann	Kaiser's Tengelmann AG, Viersen
	RC Ritzenhoff Christal Aktiengesellschaft, Marsberg
Christian Höhn	Betriebs-Center für Banken Zahlungsverkehrsservice GmbH, Frankfurt/Main
Ruediger Maroldt	Allianz Dresdner Bauspar AG, Bad Vilbel[1)]
Margit Schoffer	Allianz SE, Munich
Eckhard Schunck	Westag & Getalit Aktiengesellschaft, Rheda-Wiedenbrück
Reiner Zorbach	Betriebs-Center für Banken Zahlungsverkehrsservice GmbH, Frankfurt/Main (Deputy Chairman)
	Dresdner Lateinamerika Aktiengesellschaft, Hamburg (Deputy 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, 14 February 2007

Dresdner Bank
Aktiengesellschaft

Dr. Walter　　Dr. Georgi　　Dr. Jentzsch

Meier　　Moschner　　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 2006. 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 Abs. 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 Abs. 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 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Pastor	Andriowsky
Wirtschaftsprüfer	Wirtschaftsprüfer

The Supervisory Board of Dresdner Bank

Michael Diekmann
Chairman

Peter Haimerl
Deputy Chairman

Dr. Olaf Berlien
(since 1 January 2007)

Claudia Eggert-Lehmann

Thomas Fröhlich

Christian Höhn

Oda-Renate Krauß

Dr. Heinz Kriwet
(until 31 December 2006)

Prof. Dr. Edward G. Krubasik

Dr. Dietmar Kuhnt

Igor Landau
(until 31 December 2006)

Dr. Hartmut Mehdorn

Brunhilde Nast

Dr. Helmut Perlet

Dr. Bernd Pischetsrieder

Stefan Quandt

Jürgen Rose

Margit Schoffer

Prof. Dennis J. Snower, Ph.D.
(since 1 January 2007)

Wolfgang Spauszus

Uwe Spitzbarth

Dr. Bernd W. Voss

Dr. Wolfgang Röller
Honorary Chairman of the Supervisory Board

Quarterly Overview

The following overview shows Dresdner Bank's results including the retrospective application of the revised IAS 39 in 2005:

Quarterly results €m	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005
Net interest and current income	756	699	632	577	636	512	536	529
Net fee and commission income	737	631	680	793	732	637	661	666
Net trading income	220	195	411	452	190	360	132	422
Other operating income	-1	0	0	31	6	1	5	0
Operating income	**1,712**	**1,525**	**1,723**	**1,853**	**1,564**	**1,510**	**1,334**	**1,617**
Administrative expenses	1382	1,241	1,385	1,389	1,602	1,391	1,157	1,313
Other operating expenses	12	21	3	3	16	27	24	13
Operating expenses	**1,394**	**1,262**	**1,388**	**1,392**	**1,618**	**1,418**	**1,181**	**1,326**
Loan loss provisions	104	-49	5	-33	-29	-130	-54	100
Operating result[1]	**214**	**312**	**330**	**494**	**-25**	**222**	**207**	**191**
Result from investment securities	-167	27	21	395	192	-23	202	1,202
Result from intangible assets	–	–	–	–	-2	–	–	–
Restructuring charges	381	33	6	2	2	5	5	–
Income before taxes	**-334**	**306**	**345**	**887**	**163**	**194**	**404**	**1,393**
Tax expense	-139	57	115	225	81	62	155	70
Income after taxes	**-195**	**249**	**230**	**662**	**82**	**132**	**249**	**1,323**
Income attributable to minority interests	19	15	21	21	22	18	19	17
Net income for the period	**-214**	**234**	**209**	**641**	**60**	**114**	**230**	**1,306**

After adjustment for the effects of the retrospective application of the revised IAS 39 in 2005, the quarterly results were as follows:

Quarterly results €m	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005
Net interest and current income	756	699	632	577	636	512	536	529
Net fee and commission income	737	631	680	793	732	637	661	666
Net trading income	220	195	411	452	190	360	132	422
Other operating income	-1	0	0	31	6	1	5	0
Operating income	**1,712**	**1,525**	**1,723**	**1,853**	**1,564**	**1,510**	**1,334**	**1,617**
Administrative expenses	1382	1241	1385	1389	1602	1391	1157	1313
Other operating expenses	12	21	3	3	16	27	24	13
Operating expenses	**1,394**	**1,262**	**1,388**	**1,392**	**1,618**	**1,418**	**1,181**	**1,326**
Loan loss provisions	104	-49	5	-33	-29	-130	-54	100
Operating result[1]	**214**	**312**	**330**	**494**	**-25**	**222**	**207**	**191**
Result from investment securities	-167	27	21	395	192	-23	197	-46
Result from intangible assets	–	–	–	–	-2	–	–	–
Restructuring charges	381	33	6	2	2	5	5	–
Income before taxes	**-334**	**306**	**345**	**887**	**163**	**194**	**399**	**145**
Tax expense	-139	57	115	225	81	62	155	70
Income after taxes	**-195**	**249**	**230**	**662**	**82**	**132**	**244**	**75**
Income attributable to minority interests	19	15	21	21	22	18	19	17
Net income for the period	**-214**	**234**	**209**	**641**	**60**	**114**	**225**	**58**

1) For details of the reclassifications made in relation to this item, see Note 01 "Basis of Accounting".

Five-Year Overview

Income statement	2006 €m	2005 €m	2004 €m	2003 €m	2002 €m
Operating income[1)]	6,813	6,025	6,334	6,700	7,410
Operating expenses[1)]	5,436	5,543	5,403	5,912	7,500
Loan loss provisions	27	-113	337	1,016	2,218
Operating result	1,350	595	594	-228	-2,308
Other income/expenses, net[1)]	–	–	-199	-544	-179
Result from investment securities	276	1,573	142	-1,063	2,761
Result from intangible assets	–	-2	-124	-186	-1,176
Restructuring charges	422	12	290	840	244
Income before taxes	1,204	2,154	123	-2,861	-1,146
Tax expense	258	368	-142	-883	-211
Income after taxes	946	1,786	265	-1,978	-935
Income attributable to minority interests	76	76	59	11	7
Net income for the year	870	1,710	206	-1,989	-942

Balance sheet	31/12/2006 €m	31/12/2005 €m	31/12/2004 €m	31/12/2003 €m	31/12/2002 €m
Total assets	497,287	460,548	523,870	477,029	413,445
Lending volume	111,734	98,532	97,074	102,010	123,089
Parent shareholders' equity	12,219	11,763	10,929	11,516	11,976

Ratios	31/12/2006 %	31/12/2005 %	31/12/2004 %	31/12/2003 %	31/12/2002 %
Cost-income ratio	79.8	92.0	85.3	88.2	101.2
Loan loss ratio[2)]	0.02	-0.11	0.33	0.84	1.56
Return on equity after taxes (Allianz)[3)]	10.9	9.0	4.3	1.0	-16.6
Return on equity before taxes[4)]	15.6	21.4	5.8	-14.1	2.0
Return on equity after taxes[5)]	8.5	17.1	2.9	-15.4	-6.6
Earnings per share (€)	1.51	2.96	0.36	-3.44	-1.63
Employees[6)]	27,625	28,774	30,154	34,998	39,754
Branch offices	952	959	969	1,035	1,103
Risk-weighted assets (€m)[7)]	119,980	111,534	104,777	111,879	142,801
Core capital ratio (%)[7)]	10.4	10.0	6.6	6.6	6.0
Total capital ratio (%)[7)]	15.6	16.3	13.3	13.4	10.6

Short-/Long-term rating	31/12/2006	31/12/2005	31/12/2004	31/12/2003	31/12/2002
Moody's Investors Service, New York	P-1/A1	P-1/A1	P-1/A1	P-1/A1	P-1/Aa3
Standard & Poor's, New York	A-1/A+	A-1/A	A-1/A	A-1/A	A-1/A+
Fitch Ratings, London	F1/A	F1/A	F1/A-	F1/A-	F1/A+

1) Due to the change in presentation of the operating result (see Note 01 "Basis of Accounting") the figures for 2006 and 2005 are only comparable to a limited extent with previous years.
2) Net loan loss provisions as a percentage of the average risk-weighted assets in the banking book.
3) As defined by the Allianz Group: the ratio of normalised income after taxes (2006 adjusted for restructuring charges) to the capital allocated to Dresdner Bank in the Banking Segment.
4) Income before taxes, restructuring charges and the result from intangible assets as a percentage of the average capital resources according to IFRSs.
5) Income after taxes as a percentage of the average capital resources according to IFRSs.
6) Full-time equivalents (excluding vocational trainees).
7) Information according to BIS/IFRSs; information for 2002–2004 according to BIS/HGB.

Dresdner Bank AG
Jürgen-Ponto-Platz 1
60301 Frankfurt/Main
Germany
Tel. +49 69 263-0
www.dresdner-bank.com

12 March 2007

Cautionary Note Regarding Forward-Looking Statements

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

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


Dresdner Bank Group – Financial Report 2006