# Dresdner Bank Group
# Financial Report 2007

Dresdner Bank
Advice you can bank on

A company of Allianz

# Key Figures

| Income Statement | 2007 €m | 2006 €m | Change % |
|---|---|---|---|
| Total operating income | 5,446 | 6,813 | -20.1 |
| Total operating expenses | 4,868 | 5,436 | -10.4 |
| Loan impairment losses | -132 | 27 | –[1] |
| **Operating profit** | **710** | **1,350** | **-47.4** |
| Net income from financial investments | 183 | 276 | -33.7 |
| Restructuring charges | 50 | 422 | -88.2 |
| **Profit before tax** | **843** | **1,204** | **-30.0** |
| Tax expense | 373 | 258 | 44.6 |
| **Profit after tax** | **470** | **946** | **-50.3** |
| Profit attributable to minority interests | 60 | 76 | -21.1 |
| **Profit for the period** | **410** | **870** | **-52.9** |

| Balance sheet | 31/12/2007 €m | 31/12/2006 €m | Change % |
|---|---|---|---|
| Total assets | 500,209 | 554,897 | -9.9 |
| Lending volume | 113,026 | 112,375 | 0.6 |
| Equity | 12,406 | 14,198 | -12.6 |

| Ratios | 31/12/2007 €m | 31/12/2006 €m | Change %/% points |
|---|---|---|---|
| Cost-income ratio | 89.4 | 79.8 | 9.6 |
| Loan loss ratio[2] | -0.11 | 0.02 | –[1] |
| Return on risk-adjusted capital[3] | 2.5 | 9.2 | -6.7 |
| Return on equity before tax[4] | 8.5 | 15.6 | -7.1 |
| Return on equity after tax | 4.0 | 8.5 | -4.5 |
| Earnings per share | 0.73 | 1.51 | -51.7 |

| | | | |
|---|---|---|---|
| Employees[5] | 26,309 | 27,625 | -4.8 |
| Branch offices | 1,074 | 952 | 12.8 |

| | | | |
|---|---|---|---|
| Risk-weighted assets (€m) | 123,115 | 119,980 | 2.6 |
| Core capital ratio (%) | 9.1 | 10.4 | -1.3 |
| Total capital ratio (%) | 13.8 | 15.6 | -1.8 |

| **Short-/Long-term rating** | **31/12/2007** | **31/12/2006** |
|---|---|---|
| Moody's Investors Service, New York | P-1/Aa2 | P-1/A1 |
| Standard & Poor's, New York | A-1/A+ | A-1/A+ |
| Fitch Ratings, London | F1+/A+ | F1/A |

1) Change from positive to negative figure.
2) Loan impairment losses as a percentage of the average risk-weighted assets in the banking book.
3) As defined by the Allianz Group: the ratio of normalised profit after tax to the adjusted risk capital.
4) Profit before tax and restructuring charges as a percentage of the average capital resources according to IFRSs.
5) Full-time equivalents (excluding vocational trainees).

# Financial Report 2007

Ladies and Gentlemen,

Dr. Herbert Walter,
Chairman of the Board of
Managing Directors

The past year was an extremely challenging one for banks and financial markets all over the globe. Two contrary developments were seen: following a very good first half of the year, the second half was dominated by the financial market crisis. These developments were also reflected in Dresdner Bank's results. Overall we can say that, although we suffered setbacks in some business areas in 2007 in a difficult environment, we also saw extremely encouraging progress in many areas.

We generated an operating profit of €710 million for full-year 2007 – our second-best operating profit since 2000. In our Private & Corporate Clients business, we recorded the best year in the Bank's history by far. We also made good progress in Investment Banking in those areas not affected by the financial crisis, although we reported an operating loss overall. Our capital base remains comfortable despite a return of capital to Allianz, while our strong liquidity situation helped cushion us against the financial market crisis.

Our efforts and strict cost discipline in past years have paid off. We achieved significant successes and recorded solid growth rates, especially in our customer-facing business areas. This is reflected in the clear increase in net interest and current income and net fee and commission income. In our German home market, we are fully leveraging our strength as the provider of "advice you can bank on" in our business with private clients, the middle market and large companies. We have successfully attracted customers and increased our business volume in all segments of our Private & Corporate Clients division. We gained a net figure of almost 100,000 new customers via our branches. Together with the 300,000 new customers acquired via Allianz agencies, this allowed us to increase our customer base by 400,000 to 6.5 million customers. This shows how attractive we are to our customers.

In Investment Banking, we will focus on our core competencies and systematically implement our measures to increase efficiency. We have already adapted our capacities for trading in structured credit products to market developments and are focussed on promising business areas such as cash management and infrastructure financing.

We will have to live with ongoing difficult market conditions in the coming months. No change in market trends can be expected as long as the uncertainty regarding the US economy and the impact of the financial market crisis persist. We predict that the situation on the financial markets will calm and that the real economy will pick up towards the end of the second half of 2008.

Dresdner Bank has shown that it is able to systematically leverage the opportunities it is offered, even in a difficult environment. We are on track with our customer-driven orientation and are reiterating our return targets in the medium term.

Sincerely,

Herbert Walter

Michael Diekmann,
Chairman of the Supervisory Board

Ladies and Gentlemen,

In fiscal year 2007, 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 effects of the real estate crisis in the USA on the international financial markets. The Supervisory Board also discussed in detail the impact of the financial market crisis on the Bank’s business development. 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 within 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 2007 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. In particular, the Credit and Risk Committee discussed the effects of the real estate crisis in the USA and the financial market crisis on the Bank. The Audit Committee held five meetings in fiscal year 2007, discussing the single-entity and consolidated financial statements as at 31 December 2006 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 2007. 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 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 2007 financial statements and management report of Dresdner Bank AG, prepared in accordance with the HGB (German Commercial Code), and the 2007 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 2007, 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 14 March 2008. The single-entity financial statements are thereby adopted.

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 was one change in the Supervisory Board in fiscal year 2007. Stefan Quandt resigned his position as a shareholder representative on the Supervisory Board effective 31 December 2007. The Extraordinary General Meeting on 29 November 2007 elected Prof. Hans Georg Näder as his successor, effective 1 January 2008. The Supervisory Board would like to thank Mr. Quandt for his valuable work on the Board.

The following change to the Board of Managing Directors took place in fiscal year 2007: Franz Herrlein was appointed as a member of the Board of Managing Directors effective 1 May 2007.

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

Frankfurt/Main, 14 March 2008

The Supervisory Board

Michael Diekmann
Chairman

# Group Management Report

# Overview

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. Dresdner Bank AG's shares are held indirectly by Allianz SE.

Dresdner Bank is a superordinated company as defined by section 10a (1) of the Kreditwesengesetz (KWG – German Banking Act). The Bank prepares consolidated financial statements on the basis of the International Financial Reporting Standards (IFRSs). These statements include 145 companies along with Dresdner Bank AG as the operating holding company. Details of changes to the companies included in the consolidated financial statements are presented in Note 52 "Significant changes in the companies included in consolidation". The Bank's fiscal year is the calendar year.

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 and the trading and capital market business. As part of the Allianz Group, Dresdner Bank also distributes life, health and non-life insurance products.

Dresdner 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 and solutions requiring in-depth consulting. In addition, Dresdner Bank sets itself apart with its innovative strength and the efficiency and quality of its offerings. On the German banking market, our integrated financial services provider model combines the experience of a leading commercial bank and the expertise of a global leading insurer. Together with Allianz, we have direct access to approximately 24 million potential customers in Germany. Cooperation with Allianz agencies has continued to develop extremely well: the Bank gained its millionth new customer in December last year. Overall, we had approximately 6.5 million customers as at the end of fiscal year 2007.

Dresdner Bank has a network of 1,074 branch offices – 1,019 in Germany and 55 abroad. This is an overall increase of 122 branch offices as against the previous year (952 branch offices), with the bulk of growth attributable to the expansion of our network of bank agencies. The Bank is represented in all key financial centres around the globe – such as London, New York, Tokyo and Singapore – in addition to Frankfurt.

Dresdner Bank's rating is an important factor for its successful positioning on the market. The successful implementation of our restructuring measures as well as our planned strategic development were the basis for our ratings upgrades in the first half of 2007: Moody's lifted our long-term rating to Aa2 with a stable outlook, while the FitchRatings agency increased our long-term rating to A+ with a stable outlook, our short-term rating to F1+ and our financial strength rating by one rating category to B/C. Standard & Poor's took into account the Bank's generally positive development by lifting its outlook in the first half of the year. However, this change was reversed again at the end of the year under review due to the current crisis on the financial markets. The outlook was revised to "negative" at the end of January of the current year.

Dresdner Bank's Board of Managing Directors currently has nine members. Without prejudice to its joint management responsibility, the Board resolves on the allocation of individual areas of responsibility to its members. The Board of Managing Directors reports to the Supervisory Board in a regular, timely and comprehensive manner regarding the intended business strategy and other fundamental issues concerning corporate planning, the position and development of the Bank and the Group and key transactions, including the risk situation.

Dresdner Bank AG's Supervisory Board consists of 20 members with an equal number of shareholder representatives and employee representatives. The role of the Supervisory Board is to monitor and advise the Board of Managing Directors in conducting business. 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). A list of all the members of Dresdner Bank AG's Supervisory Board and Board of Managing Directors is provided in the Notes to the Consolidated Financial Statements in Note 54 "List of Supervisory Board members" and in Note 55 "List of members of the Board of Managing Directors and offices held".

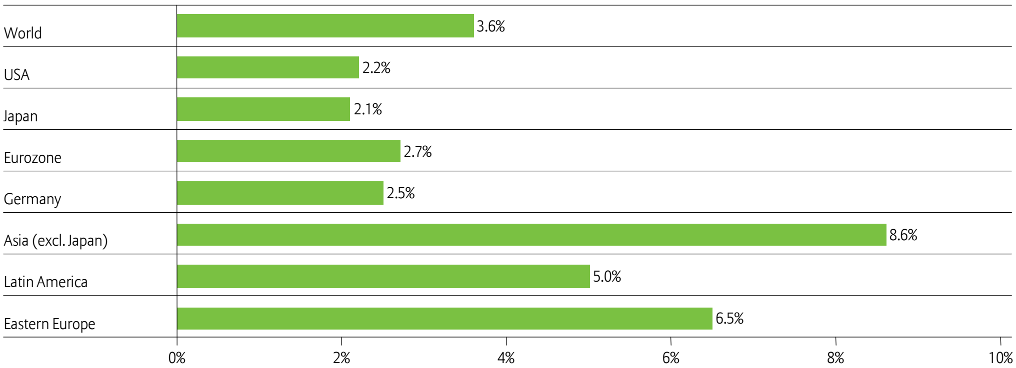
# Macroeconomic Conditions

## Economic developments in 2007

After recording strong growth at the beginning of the year, the global economy was dominated by the real estate crisis in the USA and its negative effects on the financial markets in the second half of 2007. The financial markets were hit by a crisis of liquidity and confidence, the consequences of which are being felt directly or indirectly in all major economies. However, the extent of the impact varies significantly.

The US economy slowed increasingly in the course of the year under review due to the slump in the real estate market, but still recorded a good average 2% growth for 2007. At almost 7%, full-year growth in the emerging markets remained strong, providing significant support for the global economy. These countries' improved fundamentals – lower budget deficits, reduced foreign debt, lower inflation and high currency reserves – have made them much less crisis-prone.

Global economic growth in 2007




The European economy proved robust despite the difficult environment, recording over 2.5% growth in 2007. The upturn in Germany also continued in the past year, with real gross domestic product up by 2.5% after 2.9% in 2006. Substantial momentum was provided by investment and exports in particular. The investment boom continued virtually unabated, with companies again sharply increasing their expenditure on machinery and equipment. However, consumer spending was disappointing. The VAT increase at the beginning of 2007 led to a slump in spending in the first quarter from which there had been no recovery by the end of the year. Nevertheless, the German labour market performed extremely well: the number of unemployed people fell by an annual average of over 700,000 to approximately 3.8 million. At the same time, job creation continued to grow extremely dynamically in 2007, climbing 1.7% as against 0.6% in 2006.

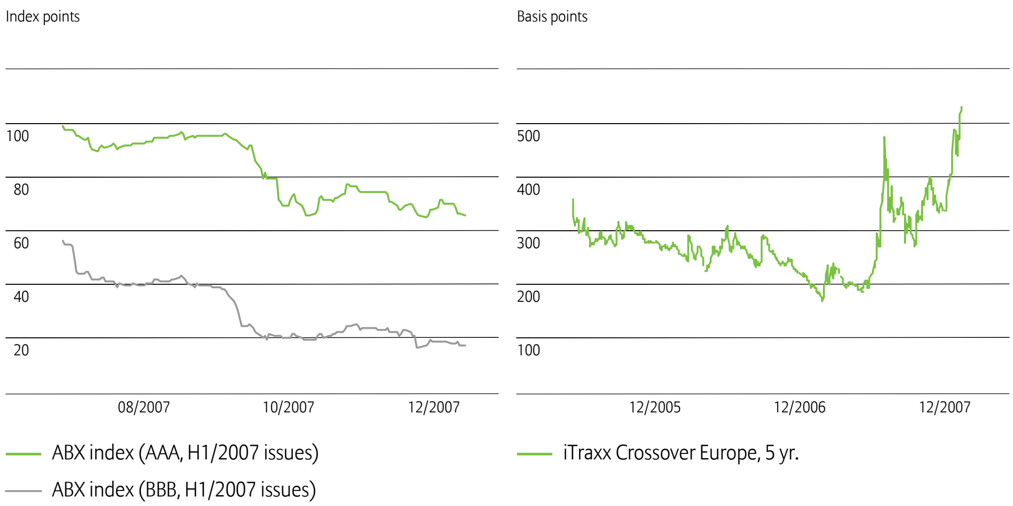
The negative factors affecting the German economy also increased noticeably in the second half of 2007. In addition to the turbulence on the international financial markets that was triggered by the US real estate crisis, Germany's economic prospects were impacted in particular by the sharp rise in oil prices and the strong euro. The fourth quarter of 2007 saw a marked slowdown in economic growth.

### Financial market developments in 2007

The financial markets experienced two totally different half-years in 2007. In the first six months they continued their positive performance of previous years seemingly undeterred. M&A transactions reached record levels and leveraged buy-out (LBO) volumes hit new highs. Turnover on the stock and credit markets was correspondingly high. As a result, the German share index DAX also recorded a new all-time high in June.

In the summer, this trend reversed on the credit markets. The second half of the year was dominated by the subprime crisis. The problems on the US mortgage market triggered a global repricing of credit risk, ending the era of extremely low risk premiums. The pendulum swung from excessive risk appetite to increased risk aversion.

ABX indices for AAA/BBB tranches and iTraxx Crossover[1] credit risk index




1) Index of 50 sub-investment grade credit default swaps.

One reason for the severity of the risk revaluation was that, although a large majority of international investors had no direct exposure to the US mortgage market, they had bought securitised products (asset-backed securities – ABSs) in this market, which up to then had been regarded as attractive. Rating agencies had clearly underestimated the potential effects that a real estate crisis with a sharp increase in default rates would have on these structured credit products. The wave of value adjustments on these securities that started after a delay in the summer led to considerable uncertainty among investors with regard to suitable price levels.

The result was a dramatic slump in prices – even for securities with good ratings. This is clearly illustrated by the performance of the relevant ABX indices, which track credit insurance prices for securitised mortgages.

The turbulence on the credit markets rapidly spilled over to the primary markets. In particular, issues of more complex credit products such as collateralised debt obligations (CDOs) dried up almost completely. Related markets, such as those for asset-backed commercial paper (ABCP), also saw full-blown buyers' strikes. LBO finance – which is heavily dependent on the placement of corresponding ABSs – also stalled.

The increased risk aversion was reflected in greater demand for risk-free and low-risk investment forms, such as time deposits and government bonds. As a result, yields on long-term German government bonds fell from their 12-month high of 4.7% in July to 4.3% by the end of the year. This was all the more remarkable since the German inflation rate reached its highest level for many years – 3.1% in November 2007, meaning that real interest rates declined to only a good 1%.

The increased inflation rates were due among other things to the renewed oil price hike, which led to prices approaching USD 100 a barrel. Investments in energy commodities therefore again proved attractive, as did gold, which increased significantly in value. Investors clearly preferred this precious metal due to growing concerns about inflation and the general uncertainty on the financial markets.

The stock markets remained astonishingly robust up to the end of the year despite the turbulence on the money and credit markets. The DAX closed the year only slightly off its 12-month high – driven primarily by continued strong corporate results. However, the increased volatility on the stock market pointed to existing risks for future performance, as did exchange rate trends: the dollar fell sharply against both the euro and the yen. This latter development can be interpreted as a visible sign of the unwinding of the previously popular carry trades.

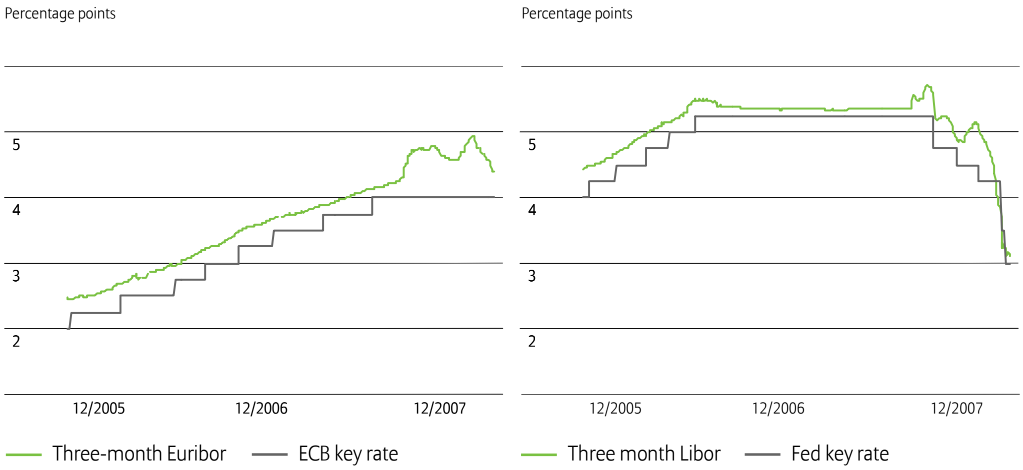
The picture on the real estate markets was extremely mixed in 2007. While the residential property market was hit by a major crisis in the USA and also slowed in other countries, it remained robust in countries that had not previously experienced excessive price increases, such as Germany. Commercial real estate even recorded a positive performance overall.

### Sector developments in 2007

Both the drying up of the asset-backed commercial paper market – which is used by banks' conduits and structured investment vehicles (SIVs) to finance themselves – and the seizure in leveraged buy out activity led to increased liquidity requirements by banks, which had to take over financing in some cases. A large number of banks therefore began to hoard liquidity instead of injecting surplus funds into the money markets as they would normally do.

This resulted in extremely tight money markets, forcing central banks to make concerted interventions on several occasions. Despite the resolute liquidity measures taken by the central banks, the tensions continued to increase at the end of the year. Only at the beginning of the new year did these measures have the desired effect of easing the liquidity situation.

ECB key rate/3-month Euribor and Fed key rate/3-month Libor



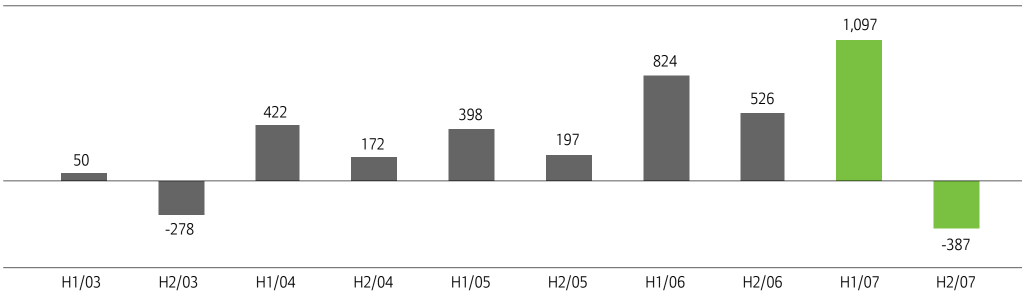

In addition to the liquidity crisis, the key question dominating the banking sector in 2007 was the volume of value adjustments that would be required as a result of the credit market crisis. The complexity of many of the credit products involved and the use of off-balance sheet investment vehicles led to considerable uncertainty about the impact of the credit crisis on individual bank balance sheets. The true extent of the impairment losses in 2007 is only likely to become apparent when the banks present their audited annual financial statements. However, it is certain that the effects will be enormous – with total value adjustments already in the three-figure billion range. A number of banks have already been forced to raise fresh capital.

# Business Development

Dresdner Bank's business development in 2007 was dominated to a large extent by the turbulence on the financial markets. While the year began promisingly, with record results in the first half of 2007, the Bank was hit by a substantial decline in earnings in the second six months of the year due to the financial market crisis – and in particular to value adjustments on certain trading portfolios. This led to a sharp fall in operating profit in the third quarter, and to an operating loss of €448 million at Group level in Q4 2007.

**Operating profit/loss**

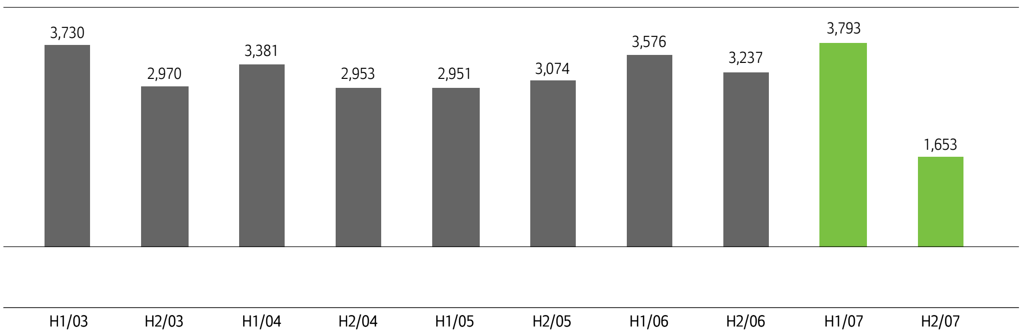
€m




As a result of this development, the Dresdner Bank Group's total operating income in the past fiscal year amounted to €5,446 million, significantly below the figure for the prior-year period (€6,813 million). Growth was recorded in our customer business; net interest and current income and net fee and commission income together rose by around 8% to €5.9 billion. By contrast, net trading income fell sharply. At €-481 million, this item recorded a negative swing of around €1.8 billion compared with the previous year (€1,278 million).

**Total operating income**

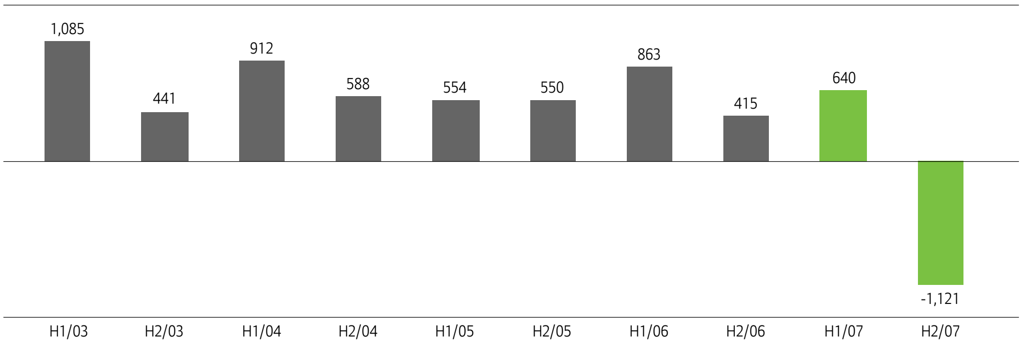
€m



The decline in net trading income was predominantly due to value adjustments of approx. €1.3 billion on certain trading portfolio securities – in particular on structured credit products such as collateralised debt obligations (CDOs) and US residential mortgage-backed securities (US RMBSs).

Net trading income

€m

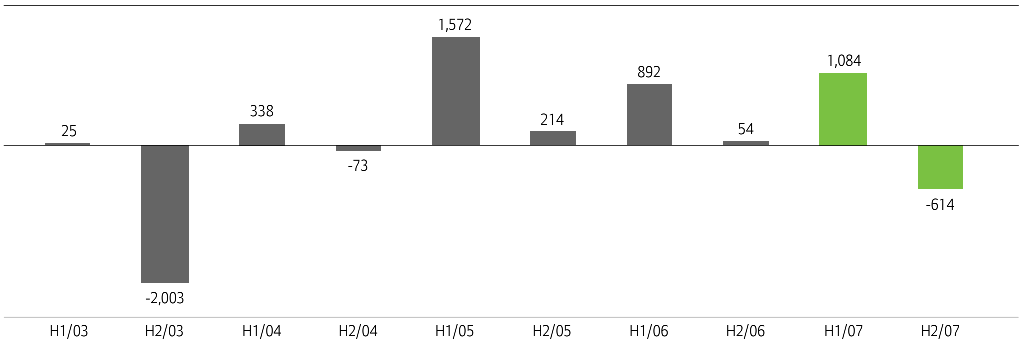



Despite additional expenses for certain growth activities, we substantially reduced total operating expenses (administrative expenses and other operating expenses) by 10.4% to €4,868 million (previous year: €5,436 million). In addition to further efficiency gains and continued strict cost discipline in all business units, this development was driven by the planned workforce reduction under the "Neue Dresdner Plus" programme and lower performance-related remuneration. Loan impairment losses recorded a net release of €132 million. All in all, the Dresdner Bank Group generated an operating profit of €710 million in 2007, down 47.4% on the prior-year figure of €1,350 million.

The non-operating profit for the period under review amounted to €133 million. Proceeds from the sale of shareholdings were partially offset by restructuring charges. Profit before tax amounted to €843 million – a decrease of €361 million or 30.0% on the figure for the prior-year period (€1,204 million). Following a tax expense of €373 million (previous year: €258 million), which includes an additional expense in the third quarter due to the business tax reform, the Bank's profit after tax amounted to €470 million (previous year: €946 million).

Profit/loss after tax

€m




The profit for the period of €410 million was added to retained earnings. No dividend will be distributed for fiscal year 2007.

The Dresdner Bank Group's cost-income ratio was 89.4% as at 31 December 2007 (previous year: 79.8%). The return on equity before tax (measured in terms of average equity under IFRSs) was 8.5% (previous year: 15.6%), while the return on risk-adjusted capital (RoRAC) decreased to 2.5% (previous year: 9.2%).

Dresdner Bank has an adequate capital base despite its return of capital to Allianz in July 2007 and despite the impact on earnings in the second half of the year. At the end of 2007, the core capital ratio amounted to 9.1% and the total capital ratio to 13.8%. We are expecting a slight improvement in our core capital ratio and total capital ratio following the introduction of the Basel II framework for calculating capital adequacy.

In the past fiscal year we were unable to achieve the targets for 2007 that we set out in our 2006 Group management report – a substantial increase in operating profit and a competitive cost-income ratio – owing to the effects of the financial crisis. Although we implemented the organisational measures under our "Neue Dresdner Plus" programme for the future according to plan and achieved long-term improvements in our customer business, the negative factors caused by the financial crisis were so significant that we cannot be satisfied with our results for 2007.

## Development of the divisions

In the past fiscal year, we also continued sharpening the profile of our product and service offering by implementing our "Neue Dresdner Plus" growth and excellence programme. The successes of our new positioning in our customer business are already apparent. However, the difficult market environment in the second half of the year eclipsed these successes – in particular in Investment Banking.

Our **Private & Corporate Clients** division recorded a total of 6.5 million customers at the end of the year under review. We therefore successfully expanded our position in private customer banking. In 2007, we systematically implemented the content of our "Neue Dresdner Plus" programme, presented in 2006, as well as our new business model.

We positioned ourselves around the Personal Banking, Private & Business Banking, Corporate Banking and Private Wealth Management customer offerings and created even more clearly defined customer responsibilities in the sales organisation by further adapting our customer segmentation. We significantly increased our nationwide presence in those areas of customer business requiring in-depth advice. In Personal Banking and Private & Business Banking, our advisors increased our customer base by around 100,000 new customers in the course of the year; the average volume of assets under management grew by 6%.

Our cooperation with Allianz's agencies in the private clients business is progressing extremely well, with the Bank gaining its millionth new customer in December last year. In addition, we opened approximately 120 bank agencies together with Allianz as part of our new sales format.

Since 2007, we have been offering high net worth clients looked after by Private Wealth Management tailored advice at 22 locations in Germany. After opening a subsidiary in Monaco and new locations in the United Kingdom in the previous year, we further strengthened our presence in Private Wealth Management in other European countries by acquiring two Belgian asset managers, among other things. Our customer numbers show that these investments are paying off, with high net worth clients up by around 4%.

In the middle-market segment, we bundled our entire offering in a single division. Our specialist teams of advisors in the Corporate Banking unit, who are based at just under 60 locations, provide support for our middle-market corporate clients. Here, too, we increased the number of new customers by approximately 3% and our business volume under management by 7% year-on-year. As the number two on the German market for SMEs, we expanded our product range for this segment – the "Dresdner MittelstandsDarlehen" (middle market loan) is a particularly positive example. In addition, we increased our number of locations for middle-market corporate clients to 360 in 2007.

As part of Allianz SE's international banking strategy, the Allianz Banking Operating Committee, which is chaired by Dresdner Bank, was established in 2007. The Committee's goal is to support Allianz's expansion in assurbanking by facilitating knowledge transfer in the areas of market management, product development, IT, business operations and risk management.

In the **Investment Banking** division, the difficult market environment in the second half of 2007 in particular eclipsed the progress made in our advisory and capital markets business. We generated year-on-year increases in income in many business units as a result of the systematic implementation of our business model. As a European bank with a global reach, we were able to offer our clients substantial value added with innovative, tailor-made products.

We increased our customer business by focusing more strongly on our domestic customers and on other key customers. This applies in particular to the “Global Loans & Transaction Services”, “Structured Finance” and “M&A Advisory” product areas within the Global Banking unit, which recorded year-on-year income growth. Within our trading activities (Capital Markets), “Fixed Income, Currency & Commodities” improved its performance – due to successes in the derivatives business, among other things. These developments confirm that our fundamental Investment Banking strategy is correct and that the unit will continue to be one of the Bank’s core business areas going forward.

## Significant events in the past fiscal year

**Kommanditgesellschaft Allgemeine Leasing GmbH & Co. (KGAL)**, in which Dresdner Bank holds an interest, sold its interests in ASL Auto Service-Leasing GmbH and Disko-Gruppe effective as from mid-January 2007. The effect of the sale on income at KGAL was reflected in the Dresdner Bank Group’s results for the first quarter of the year under review.

In the course of 2007 we placed **non-strategic shareholdings** in Arcandor AG and sold our interest in the Korean Hana Financial Group in two stages; the first tranche was executed in Q2 and the second tranche in Q3. The resulting disposal gains are included in the non-operating profit.

As part of the **restructuring** of the Allianz Group’s **real estate portfolio**, we transferred a portfolio of 54 investment properties to Allianz SE in the first half of fiscal year 2007. The properties were bundled in a real estate fund for which Dresdner Bank AG held all the unit certificates. The fund units were sold for approximately €1 billion to Allianz.

In connection with a return of capital to Allianz in the middle of the year under review, we acquired **own shares** in the amount of €1.15 billion from Allianz Finanzbeteiligungs-GmbH in accordance with a resolution by the Annual General Meeting. Dresdner Bank issued a **subordinated registered bond** in the amount of €1 billion with a maturity of ten years in September 2007.

Dresdner Bank continued its Private Wealth Management growth strategy with the acquisition of the two **Belgian asset managers** Van Moer Santerre & Cie and Damien Courtens & Cie in the first half of 2007. These two companies, with five locations in total, specialise in private wealth management and stock exchange trading.

The implementation of the workforce reduction measures under the **"Neue Dresdner Plus" programme** continued according to plan in 2007, with 1,290 full-time positions being cut by the end of the year. The workforce reduction measures in the Investment Banking division are almost complete, while those in Private & Corporate Clients, Business Services and Corporate Functions are scheduled for implementation by the end of 2008. The reduction target for Private & Corporate Clients is partially subject to the achievement of certain sales targets.

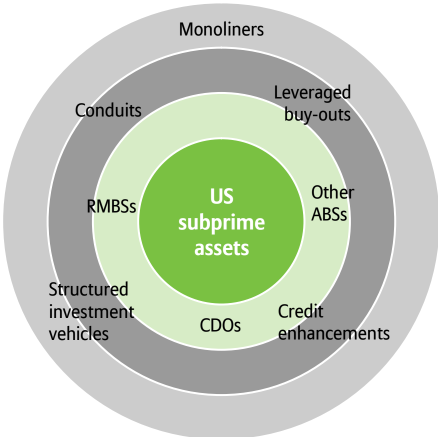
In August 2007, Dresdner Kleinwort, Dresdner Bank's investment banking unit, was the first European bank to successfully complete the **certification process for SEPA (Single Euro Payment Area) transfers** with the Euro Banking Association (EBA). The SEPA requirements became binding for the eurozone on 28 January 2008. Among other things, they will reduce transfer times within the SEPA from three days to one day as from 2012. However, the SEPA Direct Debit is not expected to be introduced before the end of 2009, following the implementation of the EU Payment Services Directive in all European countries.

In mid-December 2007, we sold our **real estate fund management company DEGI Deutsche Gesellschaft für Immobilienfonds mbH** to the British company Aberdeen Asset Management with effect from 1 January 2008. We have entered into a sales agreement with the new owner for the next three years. The transaction is scheduled to be completed in the first quarter of 2008. The disposal gain from the sale will therefore be reflected in the Dresdner Bank Group's results for the first quarter of the current fiscal year.

# Effects of the Financial Crisis

## Overview

The effects of the financial market crisis described in the chapter entitled "Macroeconomic Conditions" significantly impacted Dresdner Bank's business development in 2007. In particular the crisis affected selected business activities in our Investment Banking division:




Details of the activities are as follows:

## Asset-backed securities trading book

Dresdner Bank structures and trades asset-backed securities (ABSs) as part of its capital markets business. ABSs are defined as structured securities secured by rights to receivables. Direct exposure to such securities as part of the trading assets of Dresdner Bank's trading portfolio amounted to €10.5 billion as at the end of 2007. This amounts to the net exposure after adjustment for hedging and netting transactions.

The direct ABS trading portfolio can be broken down by rating category and product type as follows:

| 31/12/2007 €bn | Total volume | Volume by rating category AAA | AA | A | BBB | BB and below |
|---|---|---|---|---|---|---|
| CDOs | 2.3 | 66% | 19% | 4% | 3% | 8% |
| US RMBSs | 1.7 | 28% | 51% | 13% | 4% | 4% |
| Other ABSs | 6.5 | 90% | 0% | 2% | 4% | 4% |
| **ABS trading book** | **10.5** | **74%** | **11%** | **4%** | **4%** | **7%** |

Roughly 74% of the instruments have been rated as AAA, a further 19% are classed as investment grade and only 7% are non-investment grade. Broken down by product category, approximately 90% of the other ABSs, around 66% of collateralised debt obligations (CDOs) and about 28% of US residential mortgage-backed securities (US RMBSs) are AAA rated.

Value adjustments of €1.3 billion were charged on the ABS trading book's volume of €10.5 billion, resulting in a total of €9.2 billion at the end of 2007. Approximately €2.9 billion of the total figure relates to CDOs and US RMBSs, which accounted for the majority of the value adjustments.

| 2007<br>€bn | Volume before value adjustments | Value adjustments | Volume after value adjustments |
|---|---|---|---|
| CDOs | 2.3 | 0.8 | 1.5 |
| US RMBSs | 1.7 | 0.3 | 1.4 |
| Other ABSs | 6.5 | 0.2 | 6.3 |
| **ABS trading book** | **10.5** | **1.3** | **9.2** |

In the CDO and US RMBS portfolios, value adjustments were recognised on mezzanine CDOs and subprime US RMBSs in particular.

| 2007<br>€m | Volume before value adjustments | Value adjustments | Volume after value adjustments |
|---|---|---|---|
| **CDOs** | **2,282** | **759** | **1,523** |
| – High-grade | 1,615 | 225 | 1,390 |
| – Mezzanine | 667 | 534 | 133 |
| **US RMBSs** | **1,666** | **327** | **1,339** |
| – Prime | 713 | 71 | 642 |
| – Midprime | 336 | 50 | 286 |
| – Subprime | 617 | 206 | 411 |

The carrying amount of these securities amounted to €544 million after value adjustments.

### Monoliners

Hedging transactions with monoliners also attracted increasing attention over the course of 2007 in connection with the financial crisis. Monoliners are special insurers who insure bonds and credit risks and issue financial guarantees on them. Dresdner Bank had insured approximately €15.9 billion of its gross exposure in ABSs with monoliners as at the end of the year. Marking to market of these hedges resulted in a counterparty risk (replacement cost) of approximately €1.2 billion; this includes an add-on for potential future market volatility that is calculated on the basis of statistical data and simulations. This counterparty risk from monoliners was rehedged by additional hedges with third parties in the amount of €0.4 billion.

### Credit enhancements

Dresdner Bank provides credit enhancements as part of its structured credit business. A distinction can be made between two different structures here. In the case of conduit asset financing entities (CAFEs), Dresdner Bank assumes a gap risk – i.e. the risk that a securitised instrument is downgraded significantly in a single step (to CCC). Dresdner Bank has almost completely eliminated its exposure from such CAFE structures, from €9.7 billion as at 30 September 2007 to €0.1 billion as at the end of the year. In the case of CIRC (credit investment-related conduits) structures, Dresdner Bank assumes a second-loss position for a securities portfolio. If the portfolio value drops below a set percentage within the first loss position, the Bank has the right to sell the portfolio on the market. The Bank has also significantly reduced the volume of these products, which amounted to €2.8 billion as at the end of 2007.

### Conduits

Conduits are defined as special purpose vehicles that refinance receivables by issuing money market securities. Dresdner Bank has arranged the securitisation of loan portfolios of and for clients since the end of the 1990s through non-recourse sales using asset-backed commercial paper (ABCP) programmes. These securitisation transactions are primarily based on client receivables generated from the clients' business. In certain cases the Bank's own loan receivables are also securitised. No arbitrage transactions are performed. Dresdner Bank's liabilities in the banking book from client-related conduit transactions amounted to €14.5 billion as at the end of 2007. 78% of these resulted from liquidity facilities/back-up lines in favour of the "Silver Tower" and "Beethoven" conduits administered by Dresdner Bank. €8.7 billion in receivables had been acquired via these programmes as at the end of the year under review. €1.2 billion of the liquidity lines had been drawn down as at the end of 2007. In addition, we provided both conduits with €2.7 billion in liquidity as at the end of the year by subscribing for short-term paper. Dresdner Bank is only invested in, or provides liquidity to, ABCP programmes arranged by other banks to a limited extent.

### Leveraged buy-outs (LBOs)

The syndicated loan business for financing leveraged acquisitions (LBO finance) experienced an increasingly difficult environment in the second half of 2007. At the end of 2007, the volume of these activities at Dresdner Bank amounted to approximately €4.6 billion. This includes our final hold as well as volumes in the syndication phase and tranches that have not yet been drawn. Dresdner Bank limits its activities in this business primarily to the European market and it follows a risk-conscious strategy. A charge of €30 million was recognised in the third quarter.

### Structured investment vehicles (SIVs)

Structured investment vehicles (SIVs) are companies that primarily invest in structured debt and refinance themselves by issuing medium term notes and commercial paper.

Dresdner Bank acts as the asset manager for the “K2” SIV. The Bank also holds an interest of around 3.5% in K2 and provides K2 with a liquidity line and repo transactions. K2 invests in high-quality securities and credit derivatives. More than 90% of the portfolio is AAA/AA rated. It has neither direct subprime/midprime exposure nor CDOs backed by ABSs/MBSs. K2’s volume was significantly reduced in the fourth quarter and amounted to €16.4 billion as at the end of the year. Dresdner Bank proposed a restructuring plan at the beginning of 2008 to ensure repayment. Please refer to chapter entitled “Events After the Balance Sheet Date” for details of the Bank’s planned support in the current fiscal year. We recognised a write-down of €12 million on our equity interest against the background of the difficult conditions for SIVs on the ABCP market.

Dresdner Bank has assumed medium-term notes and commercial paper of other American SIVs with a nominal amount of €255 million in connection with agency lending.

### Measurements

As a rule, Dresdner Bank measures its trading assets and liabilities at fair value. Market prices are used to determine fair value whenever possible. This assumes the existence of an active market. In cases where no reliable market prices are available, valuations are derived from the prices of comparable assets. In addition, models are used as the basis for measurement.

Reliable market prices for the Bank's portfolio of RMBSs and CDOs that were particularly affected by the financial market crisis were only available to a limited extent in the second half and at the end of the year. We therefore based our valuations of these securities largely on the market values of similarly structured securities. These quotations were taken from the standard quoted market prices available from other market participants and competitors. If this was not possible for CDOs due to the absence of quotations, vintage- and rating-specific valuations were estimated on the basis of the ABX Home Equity Index. As there are no generally valid market standards, limits apply to the valuation models, and alternative assumptions and inputs would produce different results.

In addition to the value adjustments previously mentioned, the financial crisis had other various indirect effects that impacted the full-year result by approximately €350 million; this includes value adjustments of €33 million on financial investments due to permanent impairments.

# Consolidated Profit

In fiscal year 2007, the Dresdner Bank Group generated profit for the period of €410 million. This represents a decrease of €460 million or 52.9% as against the previous year.

| | 2007<br>€m | 2006<br>€m | Change<br>€m | <br>% |
|---|---|---|---|---|
| Net interest and current income | 3,061 | 2,664 | 397 | 14.9 |
| Net fee and commission income | 2,866 | 2,841 | 25 | 0.9 |
| Net trading income | -481 | 1,278 | -1,759 | |
| Other operating income | 0 | 30 | -30 | -100.0 |
| **Total operating income** | **5,446** | **6,813** | **-1,367** | **-20.1** |
| Administrative expenses | 4,849 | 5,397 | -548 | -10.2 |
| Other operating expenses | 19 | 39 | -20 | -51.3 |
| **Total operating expenses** | **4,868** | **5,436** | **-568** | **-10.4** |
| Loan impairment losses | -132 | 27 | -159 | |
| **Operating profit** | **710** | **1,350** | **-640** | **-47.4** |
| Net income from financial investments | 183 | 276 | -93 | -33.7 |
| Restructuring charges | 50 | 422 | -372 | -88.2 |
| **Profit before tax** | **843** | **1,204** | **-361** | **-30.0** |
| Tax expense | 373 | 258 | 115 | 44.6 |
| **Profit after tax** | **470** | **946** | **-476** | **-50.3** |
| Profit attributable to minority interests | 60 | 76 | -16 | -21.1 |
| **Profit for the period** | **410** | **870** | **-460** | **-52.9** |

Total operating income at the Dresdner Bank Group fell by 20.1% as against 2006 (€6,813 million) to €5,446 million. At €4,868 million, total operating expenses (administrative expenses and other operating expenses) decreased by 10.4% compared with the prior-year period (€5,436 million). Loan impairment losses recorded a net release of €132 million. All in all, the Bank generated an operating profit of €710 million. This represents a decline of €640 million as against the prior-year figure of €1,350 million.

The non-operating profit for the period under review amounted to €133 million (previous year: non-operating loss of €146 million). This item primarily comprises proceeds from the sale of non-strategic equity investments.

Profit before tax amounted to €843 million (previous year: €1,204 million). After adjustment for taxes and profit attributable to minority interests, profit for the period amounted to €410 million (previous year: €870 million). The profit for the period was added to retained earnings. No dividend will be distributed for fiscal year 2007.

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

## Net interest and current income

Net interest and current income amounted to €3,061 million, 14.9% up on the figure for the previous year (€2,664 million). The increase of €397 million is due to an increased share of income from equity-accounted investments and a positive IAS 39 effect as against the prior-year period of approximately €100 million, plus the rise in income from our customer business.

This was primarily attributable to increased income from the Investment Banking division's financing business and higher income from the deposits business with private and corporate clients.

| | 2007<br>€m | 2006<br>€m | Change<br>€m | %<br> |
|---|---|---|---|---|
| Total interest and current income | 7,767 | 6,922 | 845 | 12.2 |
| Total interest expense | 4,875 | 4,324 | 551 | 12.7 |
| Net effect of remeasurement under IAS 39 | 169 | 66 | 103 | >+100.0 |
| **Net interest and current income** | **3,061** | **2,664** | **397** | **14.9** |
| Risk-weighted assets in the banking book (average)[1] | 116,136 | 113,310 | 2,826 | 2.5 |
| Interest margin, % | 2.33 | 2.29 | | |

1) In accordance with the Kreditwesengesetz/Solvabilitätsverordnung (German Banking Act/Solvency Regulation).

The growth in current income from equity-accounted investments was due to one-time income at our equity investment KGAL (Kommanditgesellschaft Allgemeine Leasing GmbH & Co.) following the sale of its equity investments in ASL Auto Service Leasing GmbH and Disko-Gruppe. This transaction resulted in tax-free income of €186 million in the first quarter.

The overall interest margin for 2007, based on the average risk-weighted assets in the banking book, was 2.33% excluding the disposal gain recorded by KGAL (previous year: 2.29%).

## Net fee and commission income

At €2,886 million, net fee and commission income again matched the extremely strong prior-year figure (€2,841 million).

| | 2007<br>€m | 2006<br>€m | Change<br>€m | %<br> |
|---|---|---|---|---|
| Securities business | 1,321 | 1,304 | 17 | 1.3 |
| Asset management | 323 | 325 | -2 | -0.6 |
| Mergers & acquisitions and underwriting business | 288 | 361 | -73 | -20.2 |
| Payment transactions | 254 | 262 | -8 | -3.1 |
| Foreign commercial business | 139 | 137 | 2 | 1.5 |
| Other | 541 | 452 | 89 | 19.7 |
| **Net fee and commission income** | **2,866** | **2,841** | **25** | **0.9** |

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 1.3% for a total of €1,321 million (previous year: €1,304 million). We recorded growth in our certificates and fixed-income securities business in particular. By contrast, our equities business was down year-on-year. Income from foreign commercial business increased slightly as against 2006. Fees and commissions from the mergers & acquisitions and underwriting business declined by €73 million year-on-year to €288 million.

While income from our underwriting business was €51 million lower than the previous year due to the substantial drop in underwriting activity on the capital markets, income from our M&A business in the year under review (€214 million) was down 9% on the previous year (€236 million). At €323 million, net fee and commission income from asset management again matched the strong 2006 figure (€325 million). Income from the Bank's agency business for Allianz and income from our loan advisory business, which are reported in the other item, also rose.

### Net trading income

At €-481 million, net trading income fell by €1,759 million compared with the previous year (€1,278 million).

| | 2007 | 2006 | Change | |
|---|---|---|---|---|
| | €m | €m | €m | % |
| Trading in interest rate products | 431 | 657 | -226 | -34.4 |
| Trading in equities products | 260 | 311 | -51 | -16.4 |
| Foreign exchange and precious metals trading | 256 | 210 | 46 | 21.9 |
| Trading in credit products | -1,231 | 241 | -1,472 | |
| Other trading activities | 26 | -28 | 54 | |
| Net effect of remeasurement under IAS 39 | -223 | -113 | -110 | -97.3 |
| **Net trading income** | **-481** | **1,278** | **-1,759** | |

The decline of approximately €1.6 billion in income from trading (excluding net effects of re-measurement under IAS 39) was largely due to value adjustments on structured credit products performed in connection with the financial market crisis. As a result, trading in credit products generated a loss; the item contained €1.3 billion relating to value adjustments, primarily on CDOs and US RMBSs, that were directly attributable to the credit market crisis. Income from trading in interest rate and equities products did not match the high prior-year figure. However, foreign exchange and precious metals trading recorded encouraging year-on-year growth, which was attributable to increased volatility and higher trading volumes in these segments, among other things. In addition, net trading income includes negative effects of €223 million from the application of IAS 39 (previous year: €-113 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 economically effective 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. Consequently, realisations and deferrals of hedging derivatives included in net interest and current income are allocated to net trading income. Remeasurement gains/losses from hedging relationships discontinued prior to maturity are amortised over the remaining term of the underlying using the straight-line method. This is offset by the remeasurement gains/losses of the respective derivatives. In addition to hedge accounting, the fair value option is used to reduce the effects of IAS 39. In this case, the marking to market of the relevant positions in the banking book offsets the corresponding changes in fair value of the hedging derivatives.

The aggregate effect on operating profit of the application of IAS 39 – comprising the offsetting effects on net interest and current income and net trading income – amounted to €-54 million in the year under review (previous year €-47 million). The increased impact on income is primarily caused by the flattening of the yield curve on the interest rate derivatives markets in the third and fourth quarters of 2007.

| | 2007 | 2006 | Change | |
|---|---|---|---|---|
| | €m | €m | €m | % |
| Net gain/loss reported in net interest and current income | 169 | 66 | 103 | >+100.0 |
| Net gain/loss reported in net trading income | -223 | -113 | -110 | -97.3 |
| **Overall effect of IAS 39** | **-54** | **-47** | **-7** | **-14.9** |

## Administrative expenses

Administrative expenses were reduced by €548 million to €4,849 million in 2007. Both total staff costs and non-staff operating costs contributed to this positive development.

| | 2007 | 2006 | Change | |
|---|---|---|---|---|
| | €m | €m | €m | % |
| Total staff costs | 2,935 | 3,415 | -480 | -14.1 |
| Non-staff operating costs | 1,914 | 1,982 | -68 | -3.4 |
| **Administrative expenses** | **4,849** | **5,397** | **-548** | **-10.2** |
| | | | | |
| Number of employees as at 31 December | 31,198 | 32,752 | -1,554 | -4.7 |
| Employees (FTEs) as at 31 December | 26,309 | 27,625 | -1,316 | -4.8 |
| **Cost-income ratio, %** | **89.4** | **79.8** | | |

At €2,935 million, total staff costs were down 14.1% on the prior-year figure (€3,415 million). In addition to further efficiency gains in the business units, this trend was due to the planned workforce reduction under the "Neue Dresdner Plus" programme. There was also a decline in performance-related remuneration, in line with earnings developments in Investment Banking in particular.

Despite additional expenses for certain growth activities, we also recorded a year-on-year decline of €68 million in non-staff operating costs to €1,914 million. In addition to the continued strict cost discipline in all business units, this was due in particular to the drop in IT and occupancy expenses. The decrease in occupancy expenses resulted among other things from our space optimisation activities in Germany, which have been ongoing for a number of years.

Overall, however, the decline in administrative expenses was not reflected in the Bank's efficiency indicator due to the developments on the income side: the cost-income ratio increased by 9.6 percentage points to 89.4% (previous year: 79.8%).

### Loan impairment losses

A net release of €132 million was reported for loan impairment losses in fiscal year 2007 (previous year: net addition of €27 million).

Although loan impairment losses for specific risks fell by 12.6% year-on-year, there was a slight increase in gross additions that also related to current developments on the capital markets. A substantial increase in net releases was reported for loan impairment losses for general risks. Allowances and provisions for country risks, which were recognised separately in the past, were included in allowances and provisions for general risks in the year under review. Refinements to our existing calculation model led to the allowances and provisions for country risks largely being released. Collective allowances, which are also reported in allowances and provisions for general risks, also fell sharply as against the previous year. We were able to reduce allowances and provisions due to improved assessments relating to the recognition of our internal models in accordance with Basel II.

| | 2007 | 2006 | Change | |
|---|---|---|---|---|
| | €m | €m | €m | % |
| Loan impairment losses for specific risks[1)] | 118 | 135 | -17 | -12.6 |
| Loan impairment losses for general risks[2)] | -250 | -108 | -142 | <-100.0 |
| **Loan impairment losses** | **-132** | **27** | **-159** | |

1) Including recoveries on loans previously written off.
2) Including loan impairment losses for country risks and collective loan impairment losses.

Net additions to loan impairment losses for specific risks amounted to €118 million; excluding recoveries on loans previously written off of €198 million (previous year: €176 million), the ratio of loan impairment losses for specific risks, based on the average lending volume, amounted to

0.28% (previous year: 0.30%). Overall, additions to impairment losses in the year under review (€512 million) remained on a par with the previous year (€508 million). At €446 million, amounts released were up by around 46% on the prior-year figure (€305 million).

| | 2007 | 2006 | Change | |
|---|---|---|---|---|
| | €m | €m | €m | % |
| Additions to loan impairment losses | 512 | 508 | 4 | 0.8 |
| Amounts released | 446 | 305 | 141 | 46.2 |
| Recoveries on loans previously written off | 198 | 176 | 22 | 12.5 |
| **Loan impairment losses** | **-132** | **27** | **-159** | |

After additions, releases and charge-offs, total loan impairment allowances at year-end 2007 had declined to €961 million (previous year: €1,237 million). The impairment allowance ratio, i.e. the ratio of loan impairment allowances to the lending volume, amounted to 0.9% (previous year: 1.1%). The loan loss ratio, based on average risk-weighted assets, was -0.11% (previous year: 0.02%). The non-performing loan portfolio was reduced by a further €247 million as against year-end 2006 to €1.8 billion, due in particular to charge-offs and the repayment of a number of major individual commitments. The coverage ratio, which represents the ratio of total loan impairment allowances and loan loss provisions to risk elements, stood at 54.4% (previous year: 61.5%).

| | 2007 | 2006 | Change | |
|---|---|---|---|---|
| | €m | €m | €m | % |
| Lending volume | 113,026 | 112,375 | 651 | 0.6 |
| Total amount of loan impairment allowances and loan loss provisions | 961 | 1,237 | -276 | -22.3 |
| Risk elements[1)] | 1,766 | 2,013 | -247 | -12.3 |
| Loan loss ratio, % | -0.11 | 0.02 | | |
| Impairment allowance ratio, % | 0.9 | 1.1 | | |
| Coverage ratio, % | 54.4 | 61.5 | | |

1) Non-performing loans and potential problem loans.

## Net income from financial investments

Net income from financial investments amounted to €183 million in the period under review, after €276 million in the previous year. We further reduced our holdings in Arcandor AG in the course of fiscal year 2007 as part of the deliberate reduction of our investment portfolio. In addition, we sold shares in the Korean Hana Financial Group. The figure for the previous year primarily comprised gains on the disposal of Munich Re shares as well as on the disposal of our investment in Eurohypo AG.

| | 2007 | 2006 | Change | |
|---|---|---|---|---|
| | €m | €m | €m | % |
| Net realised gains and losses | 272 | 500 | -228 | -45.6 |
| Remeasurement result | -89 | -224 | 135 | 60.3 |
| **Net income from financial investments** | **183** | **276** | **-93** | **-33.7** |

The value adjustments required to be recognised in the year under review of €89 million (previous year: €224 million) also related to the financial crisis. All in all, net income from financial investments was down approximately one third on the prior-year level.

## Restructuring charges

We reported restructuring charges of €50 million for the year under review. €48 million of this was accounted for by new measures, around half of which related to adjustments in the Investment Banking division due to the financial crisis. Additional restructuring charges were incurred for outsourcing measures in the IT area; this should lead to further efficiency improvements. The high prior-year figure related mainly to the "Neue Dresdner Plus" programme.

| | 2007 €m | 2006 €m | Change €m | % |
|---|---|---|---|---|
| 2007 programmes | 48 | – | 48 | |
| "Neue Dresdner Plus" programme | 4 | 408 | -404 | -99.0 |
| Other programmes | -2 | 14 | -16 | |
| **Restructuring charges** | **50** | **422** | **-372** | **-88.2** |

## Tax expense

We reported a tax expense of €373 million for the year under review (previous year: €258 million). The higher current tax expense as against the previous year was mainly due to the increase in taxable income in Germany. Offsetting effects compensated for the remeasurement of our deferred tax assets and liabilities triggered by the enactment of the business tax reform.

| | 2007 €m | 2006 €m | Change €m | % |
|---|---|---|---|---|
| Current taxes | 335 | 209 | 126 | 60.3 |
| Deferred taxes | 38 | 49 | -11 | -22.4 |
| **Tax expense** | **373** | **258** | **115** | **44.6** |

# Segment Reporting

The following segment reporting presents developments in the results for the divisions and functions in line with the organisational structure valid in 2007. Methodological changes were made to the segmentation used in the course of fiscal year 2007. The prior-year figures 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 2007

| | Private & Corporate Clients | | Investment Banking | | Business Services | | Corporate Functions | | Group (total) | |
|---|---|---|---|---|---|---|---|---|---|---|
| €m | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Net interest and current income | 1,669 | 1,608 | 1,103 | 961 | -10 | -9 | 299 | 104 | 3,061 | 2,664 |
| Net fee and commission income | 1,887 | 1,944 | 867 | 860 | 6 | 25 | 106 | 12 | 2,866 | 2,841 |
| Net trading income | 69 | 72 | -342 | 1,290 | – | – | -208 | -84 | -481 | 1,278 |
| Other operating income | – | – | – | – | – | – | 0 | 30 | 0 | 30 |
| **Total operating income** | **3,625** | **3,624** | **1,628** | **3,111** | **-4** | **16** | **197** | **62** | **5,446** | **6,813** |
| Direct administrative expenses | 1,768 | 1,794 | 1,266 | 1,600 | 1,182 | 1,296 | 633 | 707 | | |
| Inter-segment cost allocation | 903 | 928 | 956 | 977 | -1,173 | -1,216 | -686 | -689 | | |
| Administrative expenses | 2,671 | 2,722 | 2,222 | 2,577 | 9 | 80 | -53 | 18 | 4,849 | 5,397 |
| Other operating expenses | 12 | -5 | 8 | – | 7 | – | -8 | 44 | 19 | 39 |
| **Total operating expenses** | **2,683** | **2,717** | **2,230** | **2,577** | **16** | **80** | **-61** | **62** | **4,868** | **5,436** |
| Loan impairment losses | 58 | 124 | 57 | -15 | – | – | -247 | -82 | -132 | 27 |
| **Operating profit/loss** | **884** | **783** | **-659** | **549** | **-20** | **-64** | **505** | **82** | **710** | **1,350** |
| Net income from financial investments | -2 | 16 | -67 | 4 | -1 | – | 253 | 256 | 183 | 276 |
| Restructuring charges | 4 | 101 | 33 | 131 | 14 | 2 | -1 | 188 | 50 | 422 |
| **Profit/loss before tax** | **878** | **698** | **-759** | **422** | **-35** | **-66** | **759** | **150** | **843** | **1,204** |
| Change year on year | 180 | | -1,181 | | 31 | | 609 | | -361 | |
| | | | | | | | | | | |
| Cost-income ratio, % | 74.0 | 75.0 | 137.0 | 82.8 | | | | | 89.4 | 79.8 |
| Loan loss ratio[1], % | 0.14 | 0.29 | 0.08 | -0.02 | | | | | -0.11 | 0.02 |
| Return on equity before tax[2], % | 44.1 | 42.1 | -25.9 | 16.8 | | | | | 8.5 | 15.6 |
| Risk capital (average)[3] | 2,000 | 1,900 | 2,800 | 3,300 | 100 | 100 | 1,600 | 1,800 | 6,500 | 7,100 |
| Risk-weighted assets (average) | 42,900 | 43,200 | 70,600 | 66,300 | 200 | 200 | 5,900 | 5,100 | 119,600 | 114,800 |

1) Loan impairment losses as a percentage of the average risk-weighted assets in the banking book.

2) Profit/loss before tax and restructuring charges as a percentage of the average capital resources according to IFRSs; 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.

## Private & Corporate Clients

The Private & Corporate Clients division generated an operating profit of €884 million in fiscal year 2007. All in all, this represents an improvement of 12.9% year-on-year. Profit before tax amounted to €878 million (previous year: €698 million).

| | 2007 | 2006 | Change | |
|---|---|---|---|---|
| | €m | €m | €m | % |
| Net interest and current income | 1,669 | 1,608 | 61 | 3.8 |
| Net fee and commission income | 1,887 | 1,944 | -57 | -2.9 |
| Net trading income | 69 | 72 | -3 | -4.2 |
| Other operating income | – | – | | |
| **Total operating income** | **3,625** | **3,624** | **1** | **0.0** |
| Direct administrative expenses | 1,768 | 1,794 | -26 | -1.4 |
| Inter-segment cost allocation | 903 | 928 | -25 | -2.7 |
| Administrative expenses | 2,671 | 2,722 | -51 | -1.9 |
| Other operating expenses | 12 | -5 | 17 | |
| **Total operating expenses** | **2,683** | **2,717** | **-34** | **-1.3** |
| Loan impairment losses | 58 | 124 | -66 | -53.2 |
| **Operating profit** | **884** | **783** | **101** | **12.9** |
| Net income from financial investments | -2 | 16 | -18 | |
| Restructuring charges | 4 | 101 | -97 | -96.0 |
| **Profit before tax** | **878** | **698** | **180** | **25.8** |
| | | | | |
| Cost-income ratio, % | 74.0 | 75.0 | | |
| Loan loss ratio, % | 0.14 | 0.29 | | |
| Return on equity before tax, % | 44.1 | 42.1 | | |
| Risk capital (average) | 2,000 | 1,900 | 100 | 5.3 |
| Risk-weighted assets (average) | 42,900 | 43,200 | -300 | -0.7 |

At €3,625 million, total operating income was on a par with the corresponding prior-year period (€3,624 million).

Net interest and current income rose by 3.8% year-on-year to €1,669 million (2006: €1,608 million). Our product offering in the deposits business for private and corporate clients generated inflows of funds during the course of the year, which led to a substantial increase in income from the deposits business. The “Laufzeitkonto mit Superzins” high-interest time deposit account alone attracted inflows of approximately €3.7 billion. This success is also reflected in the further strengthening of our client base – with strong demand for our “Zero-Euro Account” contributing to our growing number of new customers. Income from the lending business again fell slightly as expected, due mainly to our focus on lending at acceptable levels of risk and to ongoing fierce competition. We are responding to this situation with new products.

We continued to record strong growth in net fee and commission income from business generated with innovative certificates and investments in bonds. Income from our cooperation with Dresdner-Cetelem Kreditbank GmbH again increased year-on-year. The insurance business also performed well; while non-life insurance business matched the high prior-year level, sales of Riester pension insurance products were up by at least a quarter. Overall, this largely offset the negative effects in the securities area resulting from changes in product demand and in our customers' investment behaviour. At €1,887 million, net fee and commission income was down slightly on the prior-year level.

The systematic implementation of the efficiency measures under our "Neue Dresdner Plus" programme enabled us to offset the additional investment in growth initiatives as well as the salary/collective wage increases and the implementation of a new target group strategy. The investments related in particular to our alignment on providing integrated financial services and to new growth regions in Private Wealth Management. Overall, we reduced administrative expenses to €2,671 million (previous year: €2,722 million). The cost-income ratio was 74.0% (previous year: 75.0%).

Net additions to loan impairment losses were more than halved to €58 million (previous year: €124 million). This encouraging improvement was due to successful risk management in recent periods. In line with this, the loan loss ratio was 0.14% compared with 0.29% in the previous year.

Overall, the Private & Corporate Clients division generated an operating profit of €884 million in 2007, while profit before tax amounted to €878 million. The return on equity before tax improved to 44.1% and remained at a high level (previous year: 42.1%).

## Investment Banking

The Investment Banking division reported an operating loss of €659 million in fiscal year 2007 (previous year: operating profit of €549 million) due to market weakness and the need to write down selected trading portfolio items. The loss before tax amounted to €759 million, following a profit before tax of €422 million in the previous year.

| | 2007<br>€m | 2006<br>€m | Change<br>€m | %<br> |
|---|---|---|---|---|
| Net interest and current income | 1,103 | 961 | 142 | 14.8 |
| Net fee and commission income | 867 | 860 | 7 | 0.8 |
| Net trading income | -342 | 1,290 | -1,632 | |
| Other operating income | – | – | | |
| **Total operating income** | **1,628** | **3,111** | **-1,483** | **-47.7** |
| Direct administrative expenses | 1,266 | 1,600 | -334 | -20.9 |
| Inter-segment cost allocation | 956 | 977 | -21 | -2.1 |
| Administrative expenses | 2,222 | 2,577 | -355 | -13.8 |
| Other operating expenses | 8 | – | 8 | |
| **Total operating expenses** | **2,230** | **2,577** | **-347** | **-13.5** |
| Loan impairment losses | 57 | -15 | 72 | |
| **Operating profit/loss** | **-659** | **549** | **-1,208** | |
| Net income from financial investments | -67 | 4 | -71 | |
| Restructuring charges | 33 | 131 | -98 | -74.8 |
| **Profit/loss before tax** | **-759** | **422** | **-1,181** | |
| | | | | |
| Cost-income ratio, % | 137.0 | 82.8 | | |
| Loan loss ratio, % | 0.08 | -0.02 | | |
| Return on equity before tax, % | -25.9 | 16.8 | | |
| Risk capital (average) | 2,800 | 3,300 | -500 | -15.2 |
| Risk-weighted assets (average) | 70,600 | 66,300 | 4,300 | 6.5 |

In contrast to the business units particularly affected by the financial crisis and whose result had a highly negative impact on net trading income, our strategic customer business performed well. Total operating income amounted to €1,628 million, down roughly 48% on the previous year (€3,111 million) due to the remeasurement losses in the trading portfolio.

Net interest and current income increased by 14.8% year-on-year to €1,103 million. This was mainly due to growth in the finance business and leveraged finance activities. We increased the requirements for financing and adopted a more restrictive approach in this business area some time ago.

At €867 million, commission-earning business matched the strong prior-year level (€860 million). The main driver of this development was a rise in commission income from the division's finance business and equity derivatives business, among other things. Income from the M&A business was again virtually on a par with the prior-year figure.

The sharp drop in net trading income of €1.6 billion to €-342 million clearly reflects the effects of the current financial crisis. The decline in earnings was due almost entirely to credit product trading.

We recognised value adjustments of €1,275 million on investments directly impacted by the subprime crisis. These related primarily to collateralised debt obligations and US residential mortgage-backed securities. In addition, disruptions on the other credit markets led to a further impact on earnings. Many trading areas experienced a rise in volatility as a result of the subprime crisis.

At €2,230 million, total operating expenses were significantly below the prior-year period (13.5%). In addition to effects resulting from the implementation of the "Neue Dresdner Plus" programme, this was driven in particular by lower performance-related remuneration. The cost-income ratio increased to over 100% (previous year: 82.8%), reflecting the unfavourable earnings development.

Loan impairment losses recorded a net addition of €57 million in the period under review (previous year: net releases of €15 million). Impairments thus remained at a very low level; the net addition reported related to current developments on the capital markets.

Net income from financial investments in the period under review amounted to €-67 million and contained value adjustments in connection with leveraged finance transactions. All in all, the Investment Banking division posted a loss before tax of €759 million (previous year: profit before tax of €422 million). The return on equity before tax was negative due to the reported loss (previous year 16.8%).

## Business Services

The Business Services segment consists of our business support services units (Information Technology, Operations, Administration, Human Resources and Legal). The costs incurred by Business Services – with the exception of restructuring charges – are allocated to the divisions using product- and volume-related allocation algorithms.

| | 2007 €m | 2006 €m | Change €m | % |
|---|---|---|---|---|
| Net interest and current income | -10 | -9 | -1 | -11.1 |
| Net fee and commission income | 6 | 25 | -19 | -76.0 |
| Net trading income | – | – | | |
| Other operating income | – | – | | |
| **Total operating income** | **-4** | **16** | **-20** | |
| Direct administrative expenses | 1,182 | 1,296 | -114 | -8.8 |
| Inter-segment cost allocation | -1,173 | -1,216 | 43 | 3.5 |
| Administrative expenses | 9 | 80 | -71 | -88.8 |
| Other operating expenses | 7 | – | 7 | |
| **Total operating expenses** | **16** | **80** | **-64** | **-80.0** |
| Loan impairment losses | – | – | | |
| **Operating loss** | **-20** | **-64** | **44** | **68.8** |
| Net income from financial investments | -1 | – | -1 | |
| Restructuring charges | 14 | 2 | 12 | >+100.0 |
| **Loss before tax** | **-35** | **-66** | **31** | **47.0** |
| | | | | |
| Risk capital (average) | 100 | 100 | 0 | 0.0 |
| Risk-weighted assets (average) | 200 | 200 | 0 | 0.0 |

Direct administrative expenses were reduced by €114 million year-on-year to €1,182 million. This relates both to total staff costs and non-staff operating costs for the service units assigned to Business Services and reflects the additional efficiency gains and strict cost discipline in these functions. The decline of 8.8% was reflected in lower cost allocations to the other segments and in an improvement of €44 million in the operating loss. The restructuring charges of €14 million related primarily to efficiency measures in the area of information technology. The loss before tax amounted to €35 million (previous year: loss of €66 million).

## Corporate Functions

The Corporate Functions segment consists of the costs of those functional areas that have a Group management role (Finance/Compliance, Risk Management/Risk Control and the units reporting directly to the CEO, such as Group Coordination, Treasury, Internal Audit and Corporate Communication). With the exception of the restructuring charges, these costs are allocated in their entirety to the divisions during internal cost allocation. In addition, the segment comprises the profit from capital management and Treasury operations as well as the Bank's financial investment portfolio. It also includes specific reconciliation items (e.g. the net effect of remeasurement under IAS 39), as well as consolidation adjustments from the reconciliation of the Bank's external reporting with its management reporting.

| | 2007 | 2006 | Change | |
|---|---|---|---|---|
| | €m | €m | €m | % |
| Net interest and current income | 299 | 104 | 195 | >+100.0 |
| Net fee and commission income | 106 | 12 | 94 | >+100.0 |
| Net trading income | -208 | -84 | -124 | <-100.0 |
| Other operating income | – | 30 | -30 | |
| **Total operating income** | **197** | **62** | **135** | **>+100.0** |
| Direct administrative expenses | 633 | 707 | -74 | -10.5 |
| Inter-segment cost allocation | -686 | -689 | 3 | 0.4 |
| Administrative expenses | -53 | 18 | -71 | |
| Other operating expenses | -8 | 44 | -52 | |
| **Total operating expenses** | **-61** | **62** | **-123** | |
| Loan impairment losses | -247 | -82 | -165 | <-100.0 |
| **Operating profit** | **505** | **82** | **423** | **>+100.0** |
| Net income from financial investments | 253 | 256 | -3 | -1.2 |
| Restructuring charges | -1 | 188 | -189 | |
| **Profit before tax** | **759** | **150** | **609** | **>+100.0** |
| | | | | |
| Risk capital (average) | 1,600 | 1,800 | -200 | -11.1 |
| Risk-weighted assets (average) | 5,900 | 5,100 | 800 | 15.7 |

Operating profit amounted to €505 million, following €82 million in the previous year. Total operating income was €197 million, clearly in excess of the figure for the previous year (€62 million). This is due in particular to a single large item within the net income from associates item resulting from the sale of two subsidiaries of our equity-accounted investment, Kommanditgesellschaft Allgemeine Leasing GmbH & Co ("KGAL"). This was partially offset by the decline in the reconciliation items from management reporting to external earnings figures and by reduced rental income following the sale of the investment property portfolio to Allianz. In addition to further efficiency gains and strict cost discipline by our functions, the partial elimination of the costs of the real estate portfolio sold in the middle of 2007 was responsible for the drop in administrative expenses. Within the loan impairment losses item, releases were recorded in particular for allowances and provisions for country risks and for general risks in the current year and previous year. In the period under review, this was attributable among other things to methodological adjustments in the calculation of allowances and provisions for transfer risk, as well as to the improved assessment of the effects of the recalibration of our risk models in accordance with Basel II. Net income from financial investments of €253 million primarily contains gains from the disposal of our equity investments in Arcandor AG and the Korean Hana Financial Group.

# Net Assets and Financial Position

The Dresdner Bank Group's total assets fell by 9.9% as against the prior-year closing date to total €500.2 billion as at the reporting date of 31 December 2007.

In addition to a reduction in the volume of trading assets, this decline of €54.7 billion was mainly due to a significant drop in collateralised money market transactions compared with the end of 2006, affecting both loans and advances and liabilities. The reasons for this were customer restraint on the one hand and high volatility in the area of short-term interest rates on the other.

| | 31/12/2007 | 31/12/2006 | Change | |
|---|---|---|---|---|
| | €m | €m | €m | % |
| Trading assets | 159,700 | 176,854 | -17,154 | -9.7 |
| Loans and advances to banks | 113,200 | 145,339 | -32,139 | -22.1 |
| Loans and advances to customers | 188,211 | 196,775 | -8,564 | -4.4 |
| Financial investments | 13,718 | 15,948 | -2,230 | -14.0 |
| Other assets | 25,380 | 19,981 | 5,399 | 27.0 |
| **Total assets** | **500,209** | **554,897** | **-54,688** | **-9.9** |
| Trading liabilities | 119,026 | 115,044 | 3,982 | 3.5 |
| Liabilities to banks | 128,149 | 168,847 | -40,698 | -24.1 |
| Liabilities to customers | 185,372 | 191,322 | -5,950 | -3.1 |
| Securitised liabilities | 34,633 | 45,970 | -11,337 | -24.7 |
| Subordinated liabilities | 6,267 | 6,192 | 75 | 1.2 |
| Profit-participation certificates | 1,686 | 2,262 | -576 | -25.5 |
| Other liabilities | 12,670 | 11,062 | 1,608 | 14.5 |
| Equity | 12,406 | 14,198 | -1,792 | -12.6 |
| **Total liabilities** | **500,209** | **554,897** | **-54,688** | **-9.9** |

### Trading assets/liabilities

The trading assets/liabilities items comprise the Dresdner Bank Group's trading activities in relation to securities, derivatives and other trading assets and liabilities.

At the end of 2007, the volume of trading assets amounted to €159.7 billion. This represents a year-on-year decline of 9.7%. While debt instruments from both public-sector and other issuers fell by €24.6 billion to €52.3 billion, equities and other variable-rate securities rose slightly by €0.8 billion to €35.3 billion. The positive fair values of derivative financial instruments increased by approximately 10% to €72.0 billion.

Trading liabilities rose by a total of €4.0 billion to €119.0 billion. This was primarily due to negative fair values of derivative financial instruments, which increased by €7.6 billion. By contrast, delivery obligations for securities fell by €5.4 billion to €35.1 billion.

### Loans and advances to banks and loans and advances to customers

Loans and advances to banks declined by a total of €32.1 billion year-on-year to €113.2 billion due to the reduction in the Bank's portfolio of collateralised money market transactions, while loans and advances to customers at the end of 2007 were down by slightly less than €9 billion as against the corresponding prior-year figure.

We increased our lending volume slightly by 0.6% to €113.0 billion in fiscal year 2007.

| | 31/12/2007 | 31/12/2006 | Change | |
|---|---|---|---|---|
| | €m | €m | €m | % |
| Loans to customers | 102,109 | 105,221 | -3,112 | -3.0 |
| – Germany | 67,684 | 66,389 | 1,295 | 2.0 |
| – Other countries | 34,425 | 38,832 | -4,407 | -11.3 |
| Loans to banks | 10,917 | 7,154 | 3,763 | 52.6 |
| **Lending volume[1)]** | **113,026** | **112,375** | **651** | **0.6** |

1) Excluding collateralised money market transactions.

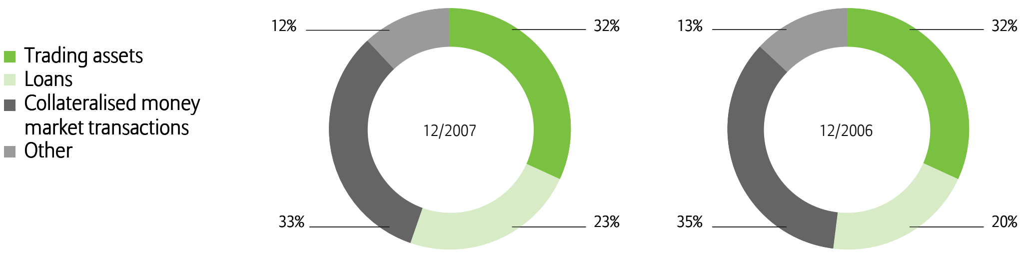
While loans to banks rose by €3.8 billion year-on-year to €10.9 billion, the customer loan business declined overall. The increase in loans in Germany – especially to corporate clients – of 2.0% to €67.7 billion was offset by a drop in the foreign loan business of 11.3% to €34.4 billion.

The share of the total lending volume attributable to our foreign lending to both customers and banks fell slightly year-on-year, to 38%.

### Financial investments

Financial investments declined as against the previous year-end by a total of €2.2 billion to €13.7 billion. While the figure for debt instruments fell by €0.8 billion to €10.4 billion due to the lower volume of instruments issued by public-sector issuers, equities and other variable-rate securities remained virtually unchanged year-on-year at €3.3 billion. Investment property decreased by €1.0 billion to €62 million due to the transfer of a portfolio of investment property to Allianz SE. Shares in unconsolidated affiliated companies amounted to €20 million at the year-end.

Assets




## Other assets

The increase of €5.4 billion in other assets to €25.4 billion in comparison to the previous year-end was mainly dominated by two contrary developments. Financial assets designated at fair value rose by a total of €2.7 billion year-on-year; increases were recorded in relation to loans and advances to banks and to customers (€+1.1 billion), debt instruments (€+0.7 billion) and equities and other variable rate securities (€+0.9 billion). In addition, miscellaneous other assets were up by €0.5 billion to €2.4 billion.

## Deposits and securitised liabilities

Deposits and securitised liabilities decreased by €58.0 billion year-on-year to €348.2 billion, mainly due to significantly lower volumes of collateralised money market transactions.

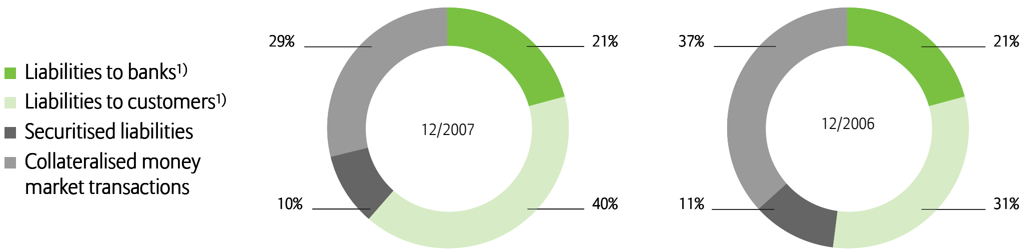
| | 31/12/2007 | 31/12/2006 | Change | |
|---|---|---|---|---|
| | €m | €m | €m | % |
| Liabilities to banks | 128,149 | 168,847 | -40,698 | -24.1 |
| Liabilities to customers | 185,372 | 191,322 | -5,950 | -3.1 |
| Securitised liabilities | 34,633 | 45,970 | -11,337 | -24.7 |
| **Deposits and securitised liabilities** | **348,154** | **406,139** | **-57,985** | **-14.3** |
| Of which: collateralised money market transactions | 100,494 | 149,869 | -49,375 | -32.9 |

Liabilities to banks fell by €40.7 billion to €128.1 billion. This was primarily due to the reduction in term liabilities to banks, which declined sharply by €38.4 billion to €109.2 billion. Sums payable on demand were down by €2.3 billion to €19.0 billion.

Liabilities to customers decreased by €6.0 billion to €185.4 billion. Savings deposits remained almost unchanged year-on-year at €4.5 billion, while demand deposits fell by €8.4 billion to €76.9 billion. By contrast, the substantial growth in time deposits of €2.6 billion to €103.9 billion was also attributable to increased deposits by private and corporate clients in Germany. Overall, the proportion of deposits and securitised liabilities accounted for by customer deposits increased to approximately 53% (previous year: 47%).

Securitised liabilities also declined by just under a quarter as against the previous year's figure, for a total of €34.6 billion. Debt instruments issued fell by €4.9 billion and the volume of other securitised liabilities by €6.4 billion; the latter related almost exclusively to money market securities.

Deposits and securitised liabilities




1) Excluding collateralised money market transactions.

A detailed breakdown of the maturity structure of the deposits and securitised liabilities is given in Note 39. The Notes also contain information on off-balance sheet financial instruments.

## Other liabilities

Other liabilities increased by €1.6 billion year-on-year to €12.7 billion. This was mainly due to the rise in financial liabilities designated at fair value – especially securitised liabilities – of €1.4 billion year-on-year.

## Equity

The equity reported in the consolidated balance sheet as at 31 December 2007 including minority interests totalled €12.4 billion. Excluding minority interests, equity fell by €1.6 billion as against the previous year to €10.6 billion. This was attributable to the acquisition of own shares in the middle of 2007, which were deducted as treasury shares. Cumulative remeasurement gains from financial instruments amounted to €1.3 billion (previous year: €1.8 billion).

## Regulatory capital

Dresdner Bank AG acquired own shares in the amount of €1.15 billion from Allianz Finanzbeteiligungs-GmbH at the beginning of the third quarter of 2007. These directly reduce regulatory core capital. In addition, Dresdner Bank AG issued a subordinated registered bond in the amount of €1 billion in September 2007. This issue of subordinated capital primarily replaced expiring supplementary capital.

The Dresdner Bank Group's regulatory capital in accordance with the Kreditwesengesetz (KWG – German Banking Act) consists of core capital and supplementary capital.

| | 31/12/2007[1)] €m | 31/12/2006 €m |
|---|---|---|
| **Core capital** | **11,234** | **12,469** |
| Of which: hybrid components | 2,429 | 2,513 |
| **Supplementary capital** | **5,730** | **6,199** |
| **Total capital** | **16,964** | **18,668** |
| | | |
| **Total risk-weighted assets** | **123,115** | **119,980** |
| – Banking book[2)] | 119,477 | 117,355 |
| – Trading book | 3,638 | 2,625 |
| | | |
| **Capital ratios** | | |
| Core capital ratio[3)], % | 9.1 | 10.4 |
| Total capital ratio, % | 13.8 | 15.6 |

1) Calculation on the basis of the Kreditwesengesetz/Solvabilitätsverordnung (German Banking Act/Solvency Regulation); the risk-weighted assets are calculated in accordance with the transitional provisions of section 339(9) of the SolvV (corresponds to Principle I).

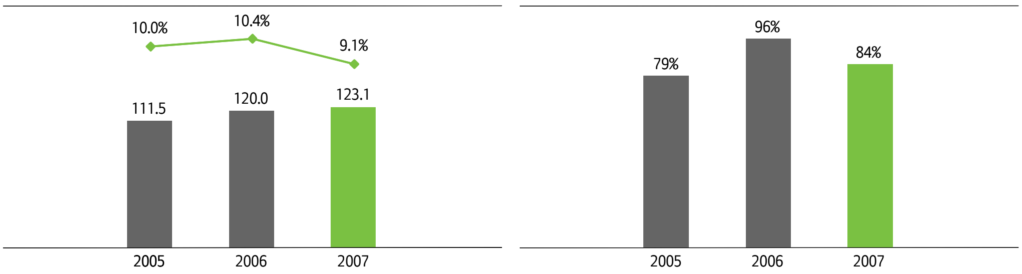
2) Including credit and counterparty risk from the trading book.

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

After the adoption of the financial statements, the core capital as at 31 December 2007 amounted to €11.2 billion and primarily consists of subscribed capital, reserves and hybrid components that were recognised as silent participation certificates. The supplementary capital of €5.7 billion primarily comprises profit-participation certificates and subordinated liabilities. Total regulatory capital amounted to €17.0 billion. The 2.6% increase in risk-weighted assets to €123.1 billion is primarily the result of the continued deliberate expansion of our finance and syndicated loan business. The core capital ratio amounted to 9.1% at the year-end (2006: 10.4%), while the total capital ratio was 13.8% (2006: 15.6%).

Key capital ratios

€bn




Core capital ratio and risk-weighted assets

Capital efficiency

We continued to reduce our risk capital requirements by further optimising our business activities. However, our capital efficiency – the ratio of total operating income to risk capital requirements – fell due to weak earnings in the year under review caused by the credit market crisis.

# Employees

In 2007, the number of Dresdner Bank employees was further reduced as planned, primarily in connection with the implementation of our "Neue Dresdner Plus" programme. As at 31 December 2007, the Bank employed 31,198 people. This represents a decline of 1,554 employees as against year-end 2006. At around 94%, the majority of the workforce reduction measures affected Germany, and in particular Dresdner Bank AG.

| | 31/12/2007 | 31/12/2006 | Change absolute | % |
|---|---|---|---|---|
| Dresdner Bank Group | 31,198 | 32,752 | -1,554 | -4.7 |
| – Germany | 25,466 | 26,928 | -1,462 | -5.4 |
| – Other countries | 5,732 | 5,824 | -92 | -1.6 |
| Dresdner Bank AG | 21,999 | 23,127 | -1,128 | -4.9 |
| – Germany | 21,376 | 22,552 | -1,176 | -5.2 |
| – Other countries | 623 | 575 | 48 | 8.3 |

Calculated as full-time equivalents, the number of employees (excluding vocational trainees) amounted to 26,309, after 27,625 in the previous year. The following table shows the number of employees per division as at the year-end:

| | 31/12/2007 | 31/12/2006 | Change absolute | % |
|---|---|---|---|---|
| Private & Corporate Clients | 14,561 | 15,144 | -583 | -3.8 |
| Investment Banking | 3,468 | 3,647 | -179 | -4.9 |
| Business Services | 4,597 | 5,040 | -443 | -8.8 |
| Corporate Functions | 3,683 | 3,794 | -111 | -2.9 |
| **Total** | **26,309** | **27,625** | **-1,316** | **-4.8** |

Approximately 58% of the 1,316 job cuts were attributable to the operating divisions Private & Corporate Clients (PCC) and Investment Banking (IB), and approximately 42% to the back office functions.

### Vocational training and continuous professional development

Dresdner Bank remains a popular employer among young people. In view of demographic trends, securing our future workforce is a high priority for us; this led in 2007 to an increase both in the number of vocational trainees taken on and in the ratio of trainees being offered permanent employment. The number of vocational trainees hired rose by 35 to 433 in total, while the ratio of trainees being offered permanent positions rose from 43% (2006) to 63% (2007).

At the start of the 2006 training year, the previous "Versicherungskaufmann/-frau" (Insurance Specialist) traineeship was replaced by the modified vocational training programme "Kaufmann/-frau für Versicherungen und Finanzen" (Specialist for Insurance and Finance). Since then, Dresdner Bank has been passing on its knowledge of banking directly to the vocational trainees at Allianz. In addition to various workshops, practical training periods at bank branches are offered.

### Management development

The implementation of the START-UP Potential Assessment Centre was completed in 2007 and the first groups of participants began attending the START-UP Leadership Programme's seminar modules. More than 170 candidates with potential have attended a Validation Assessment Centre. The first year group to attend and complete the seminar modules for the newly designed SENIOR Leadership Programme also got underway at the start of 2007.

### Selected remuneration models

Employees covered by collective wage agreements received a bonus payment for the second time in 2007, with the average bonus increasing in size. Since the beginning of 2008, employees at Dresdner Kleinwort covered by collective wage agreements have also been eligible to participate in this model.

In 2007, employees in Germany again had the opportunity to participate in Allianz SE's global share plan and to subscribe for employee shares at preferential conditions. For the first time, the variable remuneration was also included in the calculation of the proportion of eligible annual income. Another new feature was the ability to hedge investments in employee shares against price declines for the one-year lock-up period using a tailored warrant issued by Dresdner Kleinwort.

### Work and family

Flexible part-time jobs, childcare services and long-term care for employees' relatives have contributed to a noticeable improvement in family-friendly working at Dresdner Bank. Emergency childcare services were used twice as often in 2007 as in the previous year. After providing its own crèche places for the first time last year, Dresdner Bank has extended the rights to places in 2008 to satisfy the increase in demand.

### Allgemeines Gleichbehandlungsgesetz and diversity

Following the introduction of the Allgemeines Gleichbehandlungsgesetz (AGG – General Anti-Discrimination Act) on 18 August 2006, Dresdner Bank implemented obligatory training programmes for all employees and executives. The Human Resources department monitors compliance with these training requirements. In addition to our Code of Conduct, a works agreement entitled "Partnership-based Conduct in the Workplace – for Respect and Tolerance" was signed. The agreement clearly demonstrates the Bank's support of a working environment free of discrimination and describes the complaints procedure for employees should an infringement occur.

Under the motto "Diversity Management", joint project activities with the Allianz Group examined how employee diversity with respect to age, gender and background, for example, can benefit internal cooperation and business success.

# Sustainability

The environmental policy pursued by Dresdner Bank is laid down in the Bank's environmental guidelines and environmental programme. To achieve its goals, the Bank has set up its own environmental management system that is certified according to DIN EN ISO 14001. The aim is to assess negative environmental effects in terms of their ecological, economic and social aspects and to avoid or at least mitigate them as early as possible.

The environmental management system takes into account the ecological aspects of both operations and products.

The ecological aspects of the Bank's operations include calculating operating consumption data and implementing projects to cut resource usage and costs. 13% of our annual electricity consumption was generated from renewable sources, while 49% came from CHP plants. This reduced $CO_2$ emissions from electricity usage by 31% compared with the use of normal electricity throughout.

The ecological aspects of the Bank's products include systematically monitoring environmental risks in the lending business as well as applying internationally recognised standards (Equator Principles, Hermes guidelines, etc.). Risk limitation is performed in the divisions and business areas. This also applies to climate-related risks associated with financing renewable energies and to risks involved in $CO_2$ emissions trading, both of which are analysed and mitigated.

Dresdner Bank is currently participating in the European Energy Trophy Competition for the second time. The second round began in 2007 with more than 150 companies from 17 countries. Dresdner Bank came third in the competition for the first European Energy Trophy in 2005, which was devoted to saving energy at companies, and first in Germany.

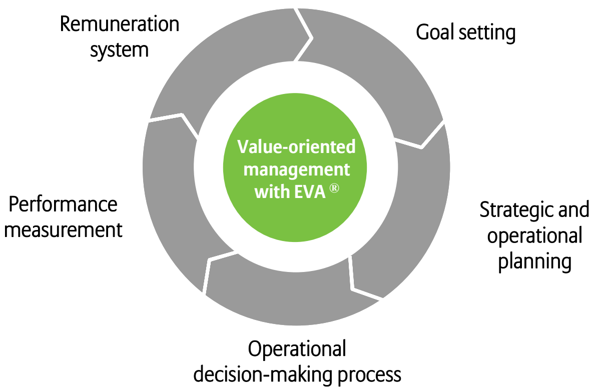
# Value-based Management

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 corporate decision making with value creation ensures that adding value for customers, shareholders and employees remains the continuous focus in all business activities.

In order to transform strategic goals into operational management, they are broken down into concrete targets using value drivers and key performance indicators (KPIs) – such as the cost-income ratio, business volumes and interest margins, or assets under management – as part of strategic and operational planning. The uniform EVA® measure assists management both in evaluating courses of action in the operational decision-making process and in performance measurement. In order to support sustained value creation, we include the contribution made to EVA® as a key target parameter when determining variable remuneration. This means that EVA® is a central component of the management and remuneration system of the Dresdner Bank Group, and is designed to anchor the ongoing growth in enterprise value throughout the entire organisation.

Value-based management




EVA® is a registered trademark of Stern Stewart & Co.

At Dresdner Bank, EVA® is calculated as the differences between normalised profit after tax and the cost of capital. Normalised profit after tax is derived from profit after tax. 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 net income from financial investments is normalised on the basis of a long-term average return. We calculate the Dresdner Bank Group's cost of capital as the product of the net asset value (derived from IFRS book equity) and the cost of capital rate that corresponds to our risk profile. The risk capital requirement is used as the capital indicator for the divisions.

# Events after the Balance Sheet Date

In February of the current fiscal year, Dresdner Bank resolved to offer support to its "K2" structured investment vehicle. Under the measures resolved, the senior debt assumed by "K2" will be fully repaid. The restructuring process provides for the investment company to be split up among the shareholders and for an auction; the remaining assets will be assumed by Dresdner Bank. The exact form that the restructuring will take is currently being negotiated. For more information on the "K2" structured investment vehicle, please refer to the chapter entitled "Effects of the Financial Crisis."

In connection with the ongoing crisis on the financial markets, additional value adjustments had to be recognised in the first weeks of the current year due to a further decline in indices that are relevant to valuation.

Events on the credit markets have led to selected business activities in the Investment Banking division being scaled back in response to the current market situation; this entails the shedding of around 450 jobs. Nonetheless, we shall continue to provide customers with our integrated business model and the corresponding product offerings.

# Outlook

## Macroeconomic development

2008 is dominated by contrasting expansive and recessive economic forces – the global economy is performing a balancing act. While significant positive momentum continues to emanate from the emerging markets in 2008, the pronounced weakness of the US economy and the ongoing turbulence on the financial markets constitute a significant drag on the world economy. In the first half of 2008, growth in the US is likely to come to almost a complete halt, and in fact a slight contraction cannot be ruled out. However, we expect the American economy to gradually stabilise again in the second half of 2008.

Economic expansion in Europe and Germany is expected to continue at a reduced pace in 2008, with growth rates of 1.5 to 2%. This is an encouraging development given the negative factors such as the liquidity crisis and loss of confidence on the financial markets, the high oil price and the expensive euro. Momentum from exports will continue to lessen. By contrast, prospects for a pick-up in domestic demand are good, especially in Germany. Private consumption should become the economic driver for the German economy in 2008, despite the impact of increased energy costs. This hope is based on the labour market: we expect that unemployment will fall to 3.3 million this year. This would be approximately 500,000 fewer than in 2007 and a good 1.2 million fewer than in 2006 – a definite success in what is likely to be a difficult global economic environment.

Uncertainties, especially regarding economic development in the USA, mean that high volatility is likely to continue on the financial markets. A lasting recovery on the stock markets can only be expected once market worries of a recession subside. More upbeat economic forecasts could lead to a slight narrowing of the spreads for corporate bonds, which have widened substantially. However, the low spreads seen before the beginning of the financial market crisis are unattainable in the foreseeable future.

Risk avoidance measures have increased the demand for government bonds and driven up their prices. The associated low yields are expected to continue as long as the economic outlook is subdued. However, we are expecting an upturn in yields later in the year – especially as the risks to price stability will not lessen. Although last year's strong price surge will subside in 2008, the more expansive monetary policy and increasing price rises in the emerging markets could lead to a global upturn in inflation rates in the longer term.

## Sector developments

Banks will continue to feel the impact of the crisis on the financial markets in 2008. Systematic resolution of the crisis is vital for restoring confidence and thus for a return to normality to the markets. However, banks are no longer simply faced with the task of remeasuring their portfolios of US mortgage loans. The repricing of risk now affects a large number of assets due to the deterioration in the economic outlook, the crisis at the monoline insurance companies, as well as the slump on the stock markets in January. However, we expect that the markets will recognise the efforts made by banks as well as the supporting measures implemented by central banks and governments, and that the considerable uncertainty that still dominated at the beginning of 2008 will subside as the year progresses.

Nevertheless, we shall not see a return to the way things were before. The correction to risk premiums – in itself a welcome development – will continue. The securitisation markets will also take some time to win back investors' lost trust. Overall, capital market activities in 2008 will be significantly below previous years' levels – from securitisations through the M&A advisory business down to LBO finance. This is likely to affect business in Investment Banking in particular.

By contrast, the rest of the lending and deposits business is expected to again be relatively robust in 2008. This should apply to Germany in particular, which remained unaffected by the exuberance on the real estate and credit markets. Accordingly, borrowers' balance sheets are in good shape.

### Business developments at Dresdner Bank

The macroeconomic environment expected for 2008 offers opportunities that we intend to systematically exploit with our **Integrated Financial Services Provider** business model, which is unique on the German market. We are focusing on ensuring that the Private & Corporate Clients and Investment Banking divisions concentrate on their customers, as well as on systematic specialisation in the areas of sales and production and the further development of our state-of-the-art settlement platforms. The measures implemented as part of our "Neue Dresdner Plus" programme are closely focused on profitable growth. Our key strategic goals are to expand our position among Germany's leading banks catering to private and corporate customers and to further strengthen our role as the Allianz bank.

We have a good starting position from which to leverage future growth opportunities and to expand our market share in our **Private & Corporate Clients** division. We intend to leverage these opportunities for the long term with an innovative product offering, new business areas and sales channels, as well as by expanding our position as the financing partner for German middle-market companies. Our middle-market campaign, launched in 2007, will be intensified with new, specially developed financing instruments for small and medium-sized companies. In our Private Clients business, we will strengthen our offering in direct banking as well as our individual advice for customers. We will further expand our network of bank agencies to acquire even more customers via the Allianz sales channel. We also intend to strengthen our position in Private Wealth Management by expanding our international presence. In 2008, we plan to focus on acquiring Corporate Banking customers for Private Wealth Management. Against the background of the financial crisis, banks will increase their efforts in the German retail banking business, leading to even fiercer competition. Our positioning gives us confidence that we will achieve our goals even under these more difficult market conditions.

In the **Investment Banking** division, we expect that the performance of our advisory and capital markets business will be dominated to a large extent by market conditions and activities by market players. We want to further expand our business with institutional customers in particular by systematically focusing on our customers' needs and by concentrating our core competencies. In the process, we shall benefit from the increasing need for individually structured finance products and innovative capital market solutions. In its trading activities, the Bank will continue its focus on profitable business with complex products, targeting the areas of equity and interest rate derivatives. We intend to leverage this earnings potential to a greater extent thanks to the ongoing enhancement of our products and expertise. We are also focusing on strengthening our position in our two home markets of Germany and the UK and on selectively targeting other core countries in Europe. Events on the credit markets have led to selected business activities in the lending business being scaled back in response to the current market situation; this entails the shedding of around 450 jobs. Nonetheless, we shall continue to provide customers with our integrated business model and the corresponding product offerings.

Cost efficiency plays a key role for both divisions of Dresdner Bank. Activities planned for 2008 will focus on the further development of structures and processes. This includes the systematic Group-wide implementation of the Bank's operating business model as well as the ongoing optimisation of internal workflows.

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.

As an international financial services company, our business activities are highly dependent on capital and credit market conditions. This is clearly reflected in the significant value adjustments due to the financial market crisis. We expect the effects of this crisis to carry over into the current year. This will entail risks for business and earnings development in 2008. Nonetheless, we believe the situation on the credit markets will ease again towards the end of the year.

Our assessments of our future business development are based on projections and forecasts. These incorporate comprehensive and current information, such as publicly available market data, macroeconomic parameters, as well as economic forecasts by respected economic institutes and associations. As a matter of principle, it cannot be ruled out that ongoing uncertainties and or unforeseeable volatility on the financial markets will have a corresponding effect on our income. This includes, among other things, a deterioration in certain indices (ABX Index, credit risk index, etc.), the ongoing illiquidity of certain product groups, as well as possible difficulties regarding credit and bond insurance companies (monoliners). An unexpected worsening of the macroeconomic environment could also lead to less positive business and earnings development. It is not yet possible to fully assess the repercussions of the crisis on the credit markets. Furthermore, it must also be noted that national and international changes in legislation, particularly in relation to tax regulations, may also lead to deviations from our forecasts.

Against the background of the uncertainties and risks we have described, we expect fiscal year 2008 to be difficult to predict. Nevertheless, we are reiterating our medium-term target of >15% on average for our return on risk-adjusted capital (RoRAC).

# Group Risk Report

# Group-wide Risk Management and Risk Monitoring

For financial services providers, taking on risk entails assuming a particular responsibility, since a bank's core business consists of consciously taking on risk in the context of return-driven targets. Dresdner Bank provides efficient, customised support for its customers by leveraging its expertise in the area of professional risk-return management, both when it comes to advising them on all risk-related issues, and with its versatile range of state-of-the-art credit and capital market products.

## Dresdner Bank's risk management principles

Risk management is a fixed component of all business processes at Dresdner Bank. Risks must be identified early, measured in line with best practice, and managed and monitored in line with our risk appetite using effective tools. This creates the preconditions under which the Bank can achieve highly profitable growth and sustained success.

### The risk management cycle

Dresdner Bank's risk management cycle comprises the following procedures: risk identification, risk analysis and assessment, executive decision-making and risk management, as well as risk monitoring and communication.

**Risk identification.** Risk identification aims to recognise newly emerging risks, or changes in existing risks, at an early stage. For example, Dresdner Bank appropriately identifies risks associated with the penetration of new markets and new product launches and integrates them into existing limit and monitoring processes.

**Risk analysis and assessment.** All risks identified are continuously quantified, analysed and assessed using suitable methods and on the basis of systematic data collection and successive updates. The risk capital requirements, which are established for all quantifiable loss exposures and are used to cover unexpected losses, are the core element here. Both the methodology used and the risk positions taken are regularly verified and tested for plausibility using sensitivity analyses, stress tests, backtesting and validation tests. Group-wide risk standards ensure a consistent, appropriate approach to risk modelling, performance measurement and the use of relevant risk parameters in the calculations.

**Executive decision-making and risk management.** The Group and divisional risk management functions lay down suitable strategies and concepts for Dresdner Bank that track both the conscious assumption of risk and the implementation of management measures designed to ensure the minimisation, hedging, transfer and diversification of all risks that have been identified and analysed. Risk limitation ensures that the risk actually taken on is compatible at all times with the Bank's risk strategy and risk-bearing capacity.

**Risk monitoring and communication.** The actual limit utilisation is established by comparing the risks taken on with the specified limits, and is continuously monitored. Regular portfolio analysis is performed to ensure early identification of overarching risk trends. The outcome of the risk monitoring process and the actions recommended as a result are reported to senior management continuously, in full and in a timely manner. This enables decision-makers to manage risk proactively. External risk communication takes into account the interests of the Bank's shareholder, its stakeholders (e.g. the capital markets and the general public) and the regulatory authorities.

## Risk principles

Dresdner Bank's global risk management and control has been based for years on the following key risk principles:

- The Board of Managing Directors lays down the global risk strategy for Dresdner Bank and is responsible for its implementation. Consistency between the risk guidelines and the risk methodology is ensured among other things by setting minimum standards at Group level.

- The established functional and organisational separation of market and trading units on the one hand and risk management and control on the other, which extends up to and including Board level, ensures maximum objectivity. In addition, it helps to avoid conflicts of interests.

- Risk limitation processes based on comprehensive, appropriate risk capture and evaluation cover quantifiable risks across all business units and ensure that they are monitored continuously. In the process, we avoid risk concentrations and limit potential losses. Escalation processes have been designed and implemented in case limits are exceeded. Unquantifiable risks are managed using qualitative specifications. Risks associated with new business units and new products are examined using specific risk processes.

- The risk limitation process is closely linked to Bank-wide management processes such as strategic planning and performance measurement. It is the starting point for the limitation and allocation of risk capital to the divisions and the business units within them (Group risk framework). Risks are reported to the responsible senior management levels in a comprehensive, unrestricted and timely manner.

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

- Risk management and monitoring is supported by information systems that supply comprehensive, timely and consistent risk information.

- All Group units ensure timely business continuity even in emergencies using tested, documented plans.

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

## The Risk function – tasks and organisation

The independent function reporting to the Chief Risk Officer (CRO) is responsible for Bank-wide risk management and control. As part of this, the Risk function also performs the back office function for Dresdner Bank's entire credit and trading activities, ultimate responsibility for which lies with the CRO. The CRO is a member of Dresdner Bank's Board of Managing Directors.

### The Risk function – tasks

Risk Management focuses on risk analysis, limitation and monitoring at transaction, borrower and portfolio level as well as on quality assurance for loan administration. In addition, Risk Management defines and implements the necessary guidelines and processes and provides support for the implementation of the methods within the divisions. Besides credit and market risk management, the Risk function is also responsible for operational and reputational risk management.

Risk Control focuses on defining risk methods and standards, on the associated processes for measuring and monitoring risk, and on the planning and control of these risks at portfolio level. In addition, Risk Control also provides transparency with respect to the individual risk types and provides marketing and sales and senior management with the necessary management information. It identifies management triggers and recommends necessary measures.

The procedures used at Dresdner Bank to measure, manage and aggregate all risk types are continuously enhanced in line with best-practice approaches and adapted to changing market conditions.

### The Risk function – organisation

The tight integration of Dresdner Bank's divisions and functions and the coordination of activities with the Allianz Group's Group Center units are critical factors in successful risk management. The organisational structure of the Risk function was modified in the year under review in line with Dresdner Bank's new business model and provides for a clear delimitation of tasks and flat hierarchies. Responsibilities at senior management level have been assigned to all key risk types.

Organisational structure of the Risk function

| Divisional Partners | | Corporate Centres | |
|---|---|---|---|
| Risk function | | | |
| Credit Risk PCC | Risk Management IB | Group Risk Architecture | Risk Governance & Controlling |
| Loan approvals PCC and mid-caps<br>Intensive care<br>Credit process management<br>PCC credit risk policies<br>Portfolio monitoring | Loan approvals large caps and financial institutions<br>Structured finance<br>Intensive care<br>Market risk management<br>Market risk control<br>Portfolio monitoring | Risk methodologies/ratings<br>Risk data management<br>Risk systems/IT coordination<br>Operational risk management<br>Basel II implementation | Bank-wide risk management<br>Liquidity/interest rate risk control<br>Internal/external risk reporting<br>Reputational risk management<br>Group risk policies |
| Credit risk | Credit risk and market risk | Operational risk | Liquidity, interest rate and reputational risk |

The Credit Risk PCC and Risk Management IB units act as “Divisional Partners”, focusing on risk management for Dresdner Bank’s two divisions. The Credit Risk PCC unit focuses on the more standardised products and processes within the PCC Division and makes use of sophisticated IT support in the form of credit processing and rating systems. The Risk Management IB unit reflects the demanding requirements of the IB Division, which result from the fact that the latter’s products and processes are focused on complex individual transactions. Intensive care, which is responsible for workouts of high-risk loans, is an integral part of both CRO units.

The Group Risk Architecture and Risk Governance & Controlling “Corporate Centre” units with their specialist expertise act as internal service providers for the Divisional Partners, the Board of Managing Directors and other functions. Group Risk Architecture manages overarching IT requirements within the Risk function and the (further) development and validation of all Dresdner Bank’s risk methods, including its Basel II project activities and operational risk management. By contrast, Risk Governance & Controlling is responsible for internal and external risk reporting, risk control for specific risk types and Bank-wide risk management, Bank-wide risk guidelines, as well as reputational risk management.

## Risk-related committees

A number of risk-related committees have been established as decision-making bodies for cross-divisional risk management at Dresdner Bank.

**Risk-related committees**

<table>
<tr><th></th><th>Credit Risk PCC</th><th>Risk Management IB</th><th>Group Risk Architecture</th><th>Risk Governance & Controlling</th></tr>
<tr><td>Management body</td><td colspan="4">Risk Executive Committee</td></tr>
<tr><td rowspan="3">Credit risk</td><td colspan="2">Strategy & Portfolio Committee</td><td></td><td></td></tr>
<tr><td>Credit Committee</td><td>Underwriting Committee</td><td></td><td></td></tr>
<tr><td></td><td>Stale Exposure Committee</td><td></td><td></td></tr>
<tr><td rowspan="2">Market risk</td><td></td><td>Traded Risk Committee</td><td></td><td></td></tr>
<tr><td></td><td colspan="2">Market Risk Committee</td><td></td></tr>
<tr><td>Operational risk</td><td></td><td></td><td colspan="2">Operational Risk Committee</td></tr>
<tr><td>Cross-risk type</td><td></td><td></td><td colspan="2">Capital & Treasury Committee</td></tr>
</table>

**Risk Executive Committee (RExCo).** The RExCo resolves the uniform Group-wide risk measurement methodology and ensures its implementation. As the higher-level decision-making body, it plays a key role in developing Dresdner Bank's risk framework and risk strategy, as well as the Group Risk Guideline. The RExCo also monitors the key risks and risk management processes.

The **Strategy & Portfolio Committee** is responsible for implementing the credit risk strategy. The focus here is on sector allocation strategies within the overall portfolio and decisions on country ratings and country risk limits.

At Dresdner Bank, credit authorisation authority above and beyond individual powers is divided between the Board of Managing Directors, the Credit Committee PCC and the Underwriting Committee. The responsibility of the Board of Managing Directors for taking decisions in the case of large exposures and loans to managers and other related parties (Organkredite) is not affected by this.

The **Credit Committee** acts as the credit authorisation committee for the portfolio monitored by Credit Risk PCC. In addition, it votes on exposures requiring the approval of the Board of Managing Directors.

The **Underwriting Committee** is the decision-making body for leveraged acquisitions and structured credit transactions. It resolves overall limits for individual exposures within the limits of the powers of approval delegated to it. It also votes on exposures requiring the approval of the Board of Managing Directors.

The **Stale Exposure Committee** decides, on the basis of external and strict internal rules, how issuer risk from securities in the trading book that are held for more than 90 days is to be dealt with.

**Traded Risk Committee.** This committee reviews all transaction-related risks that, due to their structure, do not use credit lines. The committee approves transactions that have passed through the Structured Products Operating Committee (SPOC) process. A precondition for approval is that all risk issues can be adequately monitored, managed and addressed using the resources available to Risk Management throughout the entire term of the transaction. All such transactions are reviewed critically as needed, but at least once a year.

**Market Risk Committee.** This committee is responsible for reviewing the market risk strategy and for monitoring all of Dresdner Bank's market risk positions. It votes on methods and business initiatives that are relevant to market risk and updates the corresponding stress tests. The focus is on IB's trading positions.

**Operational Risk Committee.** This committee, which has Bank-wide responsibility, identifies, monitors and manages Dresdner Bank's operational risk. However, responsibility for day-to-day management of operational risk remains with the individual divisions, functions and Business Services units.

**Capital & Treasury Committee.** This cross-functional committee is headed by Dresdner Bank's Chief Executive Officer (CEO). It is responsible for the integrated management of Dresdner Bank's capital and liquidity resources within the framework of the strategies and guidelines resolved by the Board of Managing Directors. Activities include the allocation of regulatory and economic capital and of liquidity in line with profitability and solvency considerations.

In addition, the Risk function is represented on a large number of other committees. One example is the Commitment Committee, which reviews transactions from the perspective of reputational risk.

### 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. The Mindestanforderungen an das Risikomanagement (MaRisk – Minimum Requirements for Risk Management) are used as the basis for this assessment. Group Audit ensures comprehensive enterprise-wide monitoring by integrating the subsidiaries' internal audit units 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 all the Bank's operating and business processes. In the case of banking activities or processes that are outsourced to other enterprises, the terms of the relevant agreements ensure that Group Audit can continue to fulfil its statutory and regulatory audit duties.

Group Audit submits written reports on all audits. These 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 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 the Board of Managing Directors. In addition, material defects ascertained during the year under review, the measures recommended or needed to remedy them and the implementation status of the action items 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 capital-based risk management

Risk capital is at the heart of Dresdner Bank's overall risk management activities. It is calculated using proprietary methods and serves to cover and limit unexpected losses. In addition, it is the core management parameter in the allocation of capital for which a notional return is to be generated. The following risk types are included when calculating the risk capital: 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. When calculating risk capital requirements, a risk horizon of one year is adopted for all risk types and a confidence level of 99.93% applied. This corresponds 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: (1) Bank-wide risk-bearing capacity analysis, (2) risk-bearing capacity in hypothetical crisis scenarios, (3) risk limitation at Group and divisional levels, (4) risk-based performance measurement and (5) risk-based margin calculation in the lending business.

### Bank-wide risk-bearing capacity analysis

Dresdner Bank's risk capital requirements are reconciled with the available risk capital on a monthly basis. To partially harmonise it with the concept of regulatory capital, the definition of available risk capital was modified in the year under review; the main change is that the planned profit for the next twelve months in each case is not included in the available risk capital. The available risk capital therefore now consists of the equity as reported in the balance sheet less goodwill and less the net present value of capitalised tax loss carryforwards. The results of this risk-bearing capacity analysis are presented to the Board of Managing Directors each month as part of internal risk reporting. In the year under review, the monthly risk capital requirements were lower in all cases than the available risk capital, meaning that the Bank's risk-bearing capacity was complied with in all months. The table below shows the available risk capital in relation to risk capital requirements.

| Risk-bearing capacity | 31/12/2007<br>€bn | 31/12/2006[1)]<br>€bn |
|---|---|---|
| Available risk capital | 10.0 | 12.0 |
| Risk capital requirements (after diversification) | 6.6 | 6.8 |
| **Excess capital** | **3.4** | **5.2** |

1) The available risk capital and the risk capital requirements as at 31 December 2006 were adjusted retroactively as methodological changes were made in 2007.

The decline in the available risk capital is primarily due to a return of capital to Allianz in the year under review.

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

| Risk capital requirements | 31/12/2007 €bn | 31/12/2006[1)] €bn |
|---|---|---|
| Credit and counterparty risk | 4.1 | 4.3 |
| Market risk | 0.7 | 0.4 |
| Risk from shareholdings and real estate risk | 2.0 | 2.4 |
| Operational risk | 1.0 | 0.9 |
| Business risk | 0.6 | 0.5 |
| **Risk capital requirements before diversification** | **8.4** | **8.5** |
| Diversification | -1.8 | -1.7 |
| **Risk capital requirements after diversification** | **6.6** | **6.8** |

1) The risk capital requirements as at 31 December 2006 were adjusted retroactively as methodological changes were made in 2007.

We improved the method of calculating risk capital in the year under review. In the area of market risk, value at risk calculations were fully integrated across the banking book and the trading book, while in the area of issuer risk the new credit event VaR model was introduced. However, due to the offsetting effect of these two measures there was no significant change in overall risk capital requirements. The decline in risk capital requirements observed was largely due to the decline in the area of risk from shareholdings and real estate risk due to the reduction of our non-strategic shareholdings and of the properties bundled in a special fund managed by Group subsidiary DEGI – Deutsche Gesellschaft für Immobilienfonds mbH, as well as to the improvement in portfolio quality in the area of credit and counterparty risk. These two factors more than compensated for the increase in risk capital for market risk and the slight increase in risk capital requirements for operational risk and business risk.

In addition to monitoring the Bank's risk-bearing capacity in line with the internal risk capital model, it is vital to ensure adequate regulatory capital, as measured by the core and total capital ratios, at all times. As a result, internal minimum ratios for capital management are set to well above the thresholds specified by the regulators. Compliance with these ratios is monitored on a monthly basis. For example, while the Group's minimum core capital ratio for regulatory purposes is 4.4%, the minimum internal ratio is 8.5%. This was complied with at all times during the year under review. At the end of the year the core capital ratio was 9.1% (previous year: 10.4%). The year-on-year decline is due primarily to the return of capital to Allianz.

### Risk-bearing capacity in hypothetical crisis scenarios

The Bank's risk-bearing capacity discussed in the previous section needs to be ensured not only in the regular course of business but also during hypothetical crises. For this reason, Dresdner Bank simulates stress and crisis scenarios and examines their effects on internal and regulatory capital on a quarterly basis. The capital adequacy ratio (CAR) is used to measure capital resources. For the purposes of internal risk capital management this is defined as the ratio between the available risk capital and the risk capital requirements resulting from business activities; for regulatory capital management purposes it is the ratio between the actual capital ratio and the external minimum capital ratio. A CAR of more than 100% means that the available capital exceeds capital requirements.

The Board of Managing Directors is informed of the results of the stress scenarios on a regular basis. In addition, internal trigger points are incorporated above the 100% mark in order to facilitate the assessment of the hypothetical crisis scenarios. If the CAR for a scenario falls below an internal trigger point, contingency plans must be drawn up and documented in writing. These plans specify in detail the measures to be taken to avoid or remedy undercapitalisation if the scenario in question were potentially to materialise.

In the year under review the results of all stress scenarios for both internal risk capital and regulatory capital were in excess of the prescribed internal trigger points at the relevant reporting dates in all cases.

### Risk limitation at Group and divisional level

Group and divisional risk limits are resolved by the Board of Managing Directors and require the explicit approval of the Supervisory Board's Credit and Risk Committee. These risk limits are based on the risk capital requirements. The limits are calculated annually as part 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. Limit utilisation reports are submitted to the Board of Managing Directors on a monthly basis and to the Supervisory Board at regular intervals. For the year under review, the overall limit remained unchanged year-on-year at €10.5 billion. Utilisation of the limit at the end of 2007 was 62.5% (previous year: 64.8%). This corresponds to a risk capital requirement of €6.6 billion (previous year: €6.8 billion).

### Risk-based performance measurement

Risk capital requirements play a key role in 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 conventional cost and income components, EVA® includes the cost of capital associated with the economic risk capital requirements needed for the divisions to assume risk.

### Risk-based margin calculation

The concept of risk-based performance measurement using EVA® is also implemented in margin calculations for new credit business. 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 capital of the risk capital tied up in the loan as well as 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.

Special topic: stress tests

In addition to employing standard statistical methods for measuring risk (such as value at risk), Dresdner Bank uses stress tests to assess and manage portfolio and individual risks. Stress tests analyse the effect of defined crisis scenarios 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. However, statistical analyses (such as analyses based on extreme value theory), ad hoc queries, or standardised sensitivity analyses (e.g. twists in the yield curve) can be used as the basis for constructing scenarios.

Crisis scenarios consist of a hypothetical change in the relevant risk drivers in extreme, but not implausible, value ranges. In contrast to e.g. the value at risk parameters, these changes can also be formulated without the use of statistical probability modelling, e.g. where historical data is missing. This means that it is possible to incorporate subjective expert opinions in the Bank's risk assessments. Another way in which stress tests are used at Dresdner Bank is to test risk and valuation models, for example by modifying empirically calibrated model parameters (e.g. correlations) to extreme value ranges or by setting aside core model assumptions (e.g. normal statistical distribution or market liquidity).

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 the Bank or a portfolio is exposed to in extreme market conditions, but they cannot provide a systematic, all-inclusive assessment of the risk situation. This means that stress tests cannot replace the statistical methods that are otherwise used, but rather supplement them.

Stress tests are extremely versatile, which is why they are increasingly being required 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. Dresdner Bank complies with these requirements by performing stress tests both on specific risk types and at an overarching level. In the year under review, we focused in particular on supplementing our existing standard scenarios to include macroeconomic scenarios in line with Basel II, which are enhanced and specified in detail in close cooperation with our economic research department and which will be performed on a regular basis as of the first quarter of 2008. The results of these tests help us to ensure the Bank's stability not only during “normal” business but also in crisis scenarios.

# Risk Types

In its risk management activities, Dresdner Bank distinguishes between 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

Credit and counterparty risk represents the potential losses from credit downgrades and defaults of business partners (counterparties). In more detail, they can be broken down into credit risk in the lending business, counterparty risk from trading activities, issuer risk from securities transactions and country risk from cross-border transactions. Assessing and quantifying credit and counterparty risk is one of Dresdner Bank's core competencies.

### General discussion of credit and counterparty risk

Dresdner Bank's credit and counterparty risk is measured and managed both at the level of individual clients and transactions and at portfolio level.

The following risk parameters are core elements in the measurement of credit and counterparty risk: (a) the probability of default, (b) the exposure at default and (c) the loss given default (LGD). These parameters are used to calculate two additional risk parameters – the expected loss and the unexpected loss – for all credit and counterparty risks. The expected loss denotes the notional standard default costs. The unexpected loss reflects the actual risk involved and is backed by regulatory and economic capital. Dresdner Bank uses a (d) proprietary credit risk model to calculate the unexpected loss. With the implementation of the Basel II requirements, regulatory credit risk assessment is becoming more similar to the Bank's internal modelling.

Key elements of overarching credit and counterparty risk management are (e) the analysis of the overall exposure using the above-mentioned risk parameters, (f) sector-driven portfolio management, (g) the determination of portfolio concentrations and (h) credit and counterparty risk stress tests.

### (a) Determination of the probability of default (PD)

Dresdner Bank uses internally generated rating methods to determine the probability of default for clients and non-trading transactions. To ensure that risk is modelled precisely, a total of 18 client and business segments have been developed, each with their own specific rating procedures. The probability of default in all business segments is modelled at the level of the client, which is a natural or legal person.

All Dresdner Bank rating methods result in classification in an internal rating category. Each of the 16 internal rating categories is assigned a probability of default over one year in the internal master scale. Category I represents the lowest probability of default, and hence an extremely good credit rating. Categories XV and XVI are for clients who have defaulted, in line with the regulatory definition of default in 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.

**Dresdner Bank master scale**

| | Rating category | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | I | II | III | IV | V | VI | VII | VIII | IX | X | XI | XII | XIII | XIV | XV | XVI |
| | Default probability (%) | | | | | | | | | | | | | | | |
| | 0.015 | 0.03 | 0.06 | 0.11 | 0.20 | 0.35 | 0.60 | 1.05 | 1.85 | 3.25 | 5.70 | 10.00 | 17.50 | 30.00 | 100.00 | 100.00 |
| | External rating categories[1] | | | | | | | | | | | | | | | |
| Fitch<br>S&P's | AAA | AA+<br>AA<br>AA– | A+<br>A<br>A– | BBB+ | BBB | BBB– | BB+ | BB | BB– | B+ | B | B– | CCC | CC<br>C | D<br>SD | D<br>SD |
| Moody's | Aaa | Aa1<br>Aa2<br>Aa3 | A1<br>A2<br>A3 | Baa1 | Baa2 | Baa3 | Ba1 | Ba2 | Ba3 | B1 | B2 | B3 | Caa | Ca<br>C | D<br>SD | D<br>SD |

1) Comparability with the Dresdner Bank master scale is limited due to conceptual differences.

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. Dresdner Bank hopes that this active communication of the rating applied will lead to increased transparency and a more intense dialogue with its clients. It provides corporate clients with an opportunity to prevent potential credit downgrades and to cut risk-based financing costs by specifically improving their credit quality.

Ratings are updated at least once a year. Intrayear reviews are performed where required by the client's economic situation. In the case of a large portion of the PCC portfolio, ratings are updated on a monthly basis using behavioural assessment. Dresdner Bank uses early warning systems to identify rating changes at portfolio level. Countermeasures are initiated when predefined thresholds are exceeded.

Dresdner Bank's internal rating approach differs conceptually from the external rating procedures performed by well-known rating agencies. External ratings provide investors with long-term guidance as to how companies will perform based solely on permanent factors and without taking temporary economic effects into account ("through-the-cycle rating"). By contrast, internal ratings assess enterprises at the time of the rating and incorporate all factors effective at this time ("point-in-time rating"). This means that internal ratings identify changes in creditworthiness in a timely manner, allowing the Bank to take action without delay. The table above reconciles internal to external rating categories, based on a ten-year average view of the respective default probabilities involved.

Dresdner Bank attaches substantial importance to the regular validation of its rating procedures, using empirical default data among other things. The sustained, consistent deployment of validated rating systems is one of the foundations of our successful credit and counterparty risk management activities.

### (b) Determination of the exposure at default (EAD)

Exposure at default (EAD) is the amount expected to be owed to the Bank in the case of an assumed default by the client. The current amount of the receivable, potential drawdowns on confirmed credit lines and outstanding interest are all taken into account when determining this risk parameter. Thanks to its large pool of historical data, Dresdner Bank is able to use statistical methods to calculate the amount of the receivable in the case of client and transaction defaults.

### (c) Determination of the loss given default (LGD)

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 receivable at risk after adjustment for proceeds from the realisation of collateral and loan workouts is known as the loss given default (LGD). Dresdner Bank bases its calculations of this figure on the actual amounts recovered from workouts and the realisation of collateral, which it collates in a detailed repository of historical data.

### Special topic: implementation status of Basel II

Implementation of the regulatory requirements resulting from Pillar I of the Capital Accord of the Basel Committee on Banking Supervision (known as Basel II) and its implementation in Germany via the Solvabilitätsverordnung (SolvV – Solvency Regulation) was successfully completed on schedule in 2007. In December 2007, Dresdner Bank was granted approval by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – Federal Financial Supervisory Authority) to use advanced internal risk measurement methods to calculate regulatory capital requirements for credit and counterparty risk.

Dresdner Bank demonstrated a high degree of process and structural efficiency in its Basel II project. The implementation work of the last years was characterised by a marked performance culture as well as by close cooperation between the areas involved. The result is a state-of-the-art process and system infrastructure for the Risk function that offers the flexibility and adaptability needed to accommodate constantly changing conditions. This gives us a sound basis for continuous improvements and quality increases.

Calculation of credit risk for regulatory purposes is based in each case on the most advanced approach provided for by the regulations. For credit risk, the approval granted relates to the Advanced Internal Ratings-Based Approach (AIRBA). A number of highly sophisticated internal rating systems (Internal Assessment Approach, IAA) were also approved for regulatory purposes in the securitisations product segment. In addition, Dresdner Bank became one of the first banks in Germany to receive approval for the use of the Internal Model Method (IMM) to calculate exposure from counterparty risk. The approval of the IRBA, IAA and IMM applies to the regulatory reports on capital requirements by the Dresdner Bank Group. In addition, Dresdner Bank applied for approval of the Advanced Measurement Approach (AMA) for operational risk. The relevant audit procedures by the BaFin and the Bundesbank for operational risk were completed in the last quarter of 2007. Written approval is expected at the beginning of March 2008.

The risk parameters for the advanced approaches are based on internal Bank estimates and have also been used for internal risk management by the Bank since January 2008. Despite the new capital requirements for operational risk, the use of internal credit risk management methods is expected to lead overall to a clear reduction in regulatory risk capital requirements. Capital requirements in the classic lending business and in relation to counterparty risk for derivatives and securities repurchase/lending transactions have declined substantially. This means that use of the new rules by the IB and PCC divisions with effect from 1 January 2008 will result in lower regulatory capital requirements. The first reports on the regulatory capital ratio using the new methods will be submitted as at 31 March 2008. In addition, Dresdner Bank is planning to submit additional rating procedures for approval in order to further increase its AIRBA coverage.

## (d) The internal credit risk model

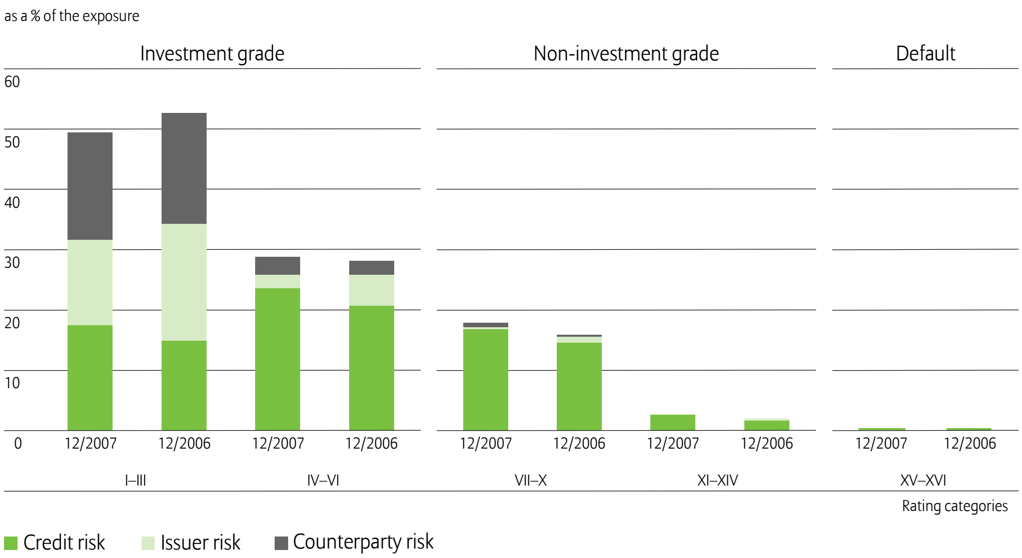
For the purposes of determining risk capital requirements for credit and counterparty risk, Dresdner Bank's credit and counterparty risk is aggregated in an internal credit risk model, which also takes correlations between individual risks within the portfolio into account.

The input parameters for the internal credit risk model are the risk parameters described above: the probability of default, the exposure at default and the loss given default. The model uses these input parameters and the default correlations in the portfolio to calculate the statistical loss distribution at portfolio level. This distribution produces the unexpected loss, or risk capital requirement, which represents the maximum portfolio loss that will not be exceeded at the end of a specified risk horizon of one year for a predetermined probability of 99.93% (confidence level). Subsequently, the model redistributes the risk capital requirement determined in this way across the individual transactions in the portfolio in line with their respective risk contributions.

## (e) Composition of the overall exposure from credit and counterparty risk

The overall exposure from credit and counterparty risk, i.e. the maximum credit and counterparty risk position, consists of the approved limits for the credit business (loan volume) plus the current positive fair values of trading and securities transactions plus, where appropriate, any risk premia designed to reflect future market volatility. Dresdner Bank's overall exposure at year-end amounted to €299 billion (previous year: €341 billion). The decline in the overall exposure is attributable exclusively to the trading business (especially securities and money market trading), whereas the loan volume remained stable. In relative terms, the proportion of the overall exposure accounted for by credit transactions increased to slightly less than two-thirds.

Breakdown of the credit and trading portfolio by ratings (obligor rating)




Portfolio quality for the overall exposure – measured in terms of the ratings distribution – declined slightly as a result of the reduction in the proportion of trading transactions with particularly high ratings. Thus 74.6% (previous year: 77.1%) of the overall exposure was assigned to rating categories I to VI (investment grade). The decline in the proportion of trading transactions is reflected in the ratings breakdown by a consistent increase in the proportion accounted for by credit risk in all rating categories. In contrast, the individual portfolio quality of both the credit portfolio and the trading portfolio remained largely unchanged (see sections below).

### (f) Sector-oriented portfolio management

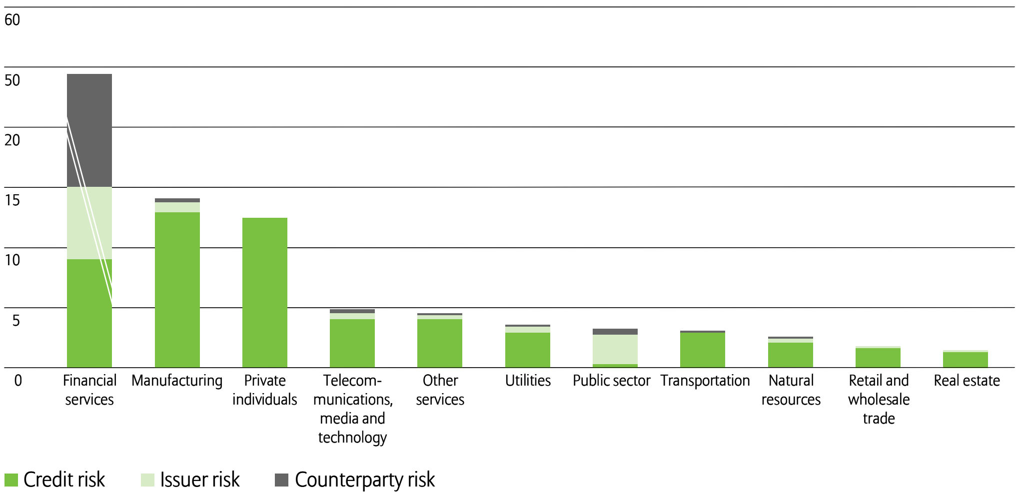
Dresdner Bank uses a sector-oriented approach to credit and counterparty risk management. Clients are assigned to one of 23 sectors, which in turn are bundled together in sector groups. Regular sector analyses serve as a basis for concrete recommendations on ongoing portfolio management activities, thus forming a key element of the latter.

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

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

Breakdown of the credit and trading portfolio by sectors

as a % of the exposure




Financial services and the public sector accounted for more than half of the overall exposure, despite a slight reduction in the year under review to 52% (previous year: 54%).

### (g) Determination of portfolio concentrations

Concentrating large proportions of a portfolio on single counterparties involves the risk of major defaults (concentration risk). Therefore portfolio concentrations are monitored closely and reflected appropriately in the risk capital.

Concentration risk is monitored at portfolio level using nominal and risk-weighted concentration measures. Monitoring of the risk-weighted concentration supplements the nominal perspective since it also takes the probability of default and collateralisation into account. The nominal concentration was reduced further in a difficult market environment and is declining over the long term. At the individual client (single name) level, concentration risk is managed using a multi-level system of concentration thresholds. Where a threshold is exceeded, specific risk management and, if appropriate, risk mitigation measures are initiated. These can comprise, for example, the syndication of loans on the capital market or single name hedging using credit derivatives. At the year-end, 14 loan commitments involving risk capital of more than €20 million existed; the total exposure amounted to €8.8 billion (previous year: 11 loan commitments with a total exposure of €11.2 billion). The commitments concerned normally only exist for short periods. In the year under review, no defaults were recorded for this subportfolio.

Overall, we feel that the effectiveness of our risk management processes for concentration risk have been confirmed, including in the light of the crisis on the financial markets. In view of the rigorous monitoring, the short duration of major counterparty positions and the above-average ratings of the exposures entailing substantial nominal concentrations, Dresdner Bank considers its current portfolio concentration to be acceptable.

### (h) Credit and counterparty risk stress tests

We perform periodic stress tests at counterparty and portfolio level to assess the potential effects of macroeconomic developments and crisis scenarios on credit and counterparty risk. This enables us to identify segments and counterparties at risk in a timely manner, and hence helps to ensure a sustained improvement in risk management. In particular, the stress tests take critical subportfolios and examine the potential risk that they represent using portfolio-specific scenarios. In the past year the focus was on leveraged finance and the subprime segment.

### Credit risk from lending activities

We define credit risk from lending activities as the potential losses arising from defaults on loans or drawdowns of contingent liabilities (e.g. loan guarantees, documentary credits). This type of risk accounts for the largest part of credit and counterparty risk. The exposure, i.e. the maximum credit risk position from lending activities, corresponds to the aggregate amount of all limits assigned to such transactions.

### (a) Portfolio structure

At the end of the year, following the reorganisation of Dresdner Bank's middle-market business, 37% of the Bank's loan portfolio, measured in terms of the limits, was attributable to the Private & Corporate Clients Division (previous year: 36%) and 63% to the Investment Banking Division (previous year: 64%).

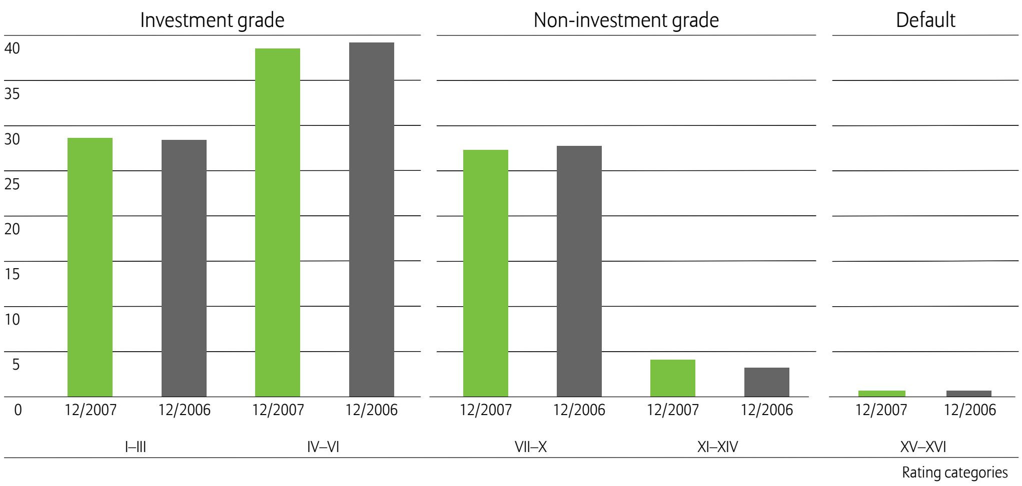
As at the reporting date approximately 81% of Dresdner Bank's loan portfolio, expressed in terms of the limit, was accounted for by borrowers domiciled in Germany and the rest of Western Europe, as in the previous year. This figure can be broken down in more detail into Germany, which accounted for 58.3% (previous year: 59.9%) and the rest of Western Europe, which accounted for 22.7% (previous year: 20.8%). The shift was due to the Bank's increased participation in M&A financing in Western Europe outside Germany.

### (b) Credit quality

Despite the difficult market conditions in a number of business areas in the second half of the year in particular, lending volumes and credit quality remained virtually unchanged. This was helped by a further improvement in credit processes and the implementation of a value-based growth strategy. At an unchanged figure of approximately 68% (previous year: 68%), more than two-thirds of Dresdner Bank's loan portfolio, measured in terms of the limits, was attributable to rating categories I to VI (investment grade) at year-end, with a slight shift within the investment grade towards rating categories I to III. The non-investment grade area saw a slight shift towards rating categories XI to XIV. This is due to the leveraged finance transactions entered into in the fourth quarter, which are due for syndication in the course of 2008. Structural components substantially reduce the loss ratios for these transactions. These are not reflected in the obligor rating examined here.

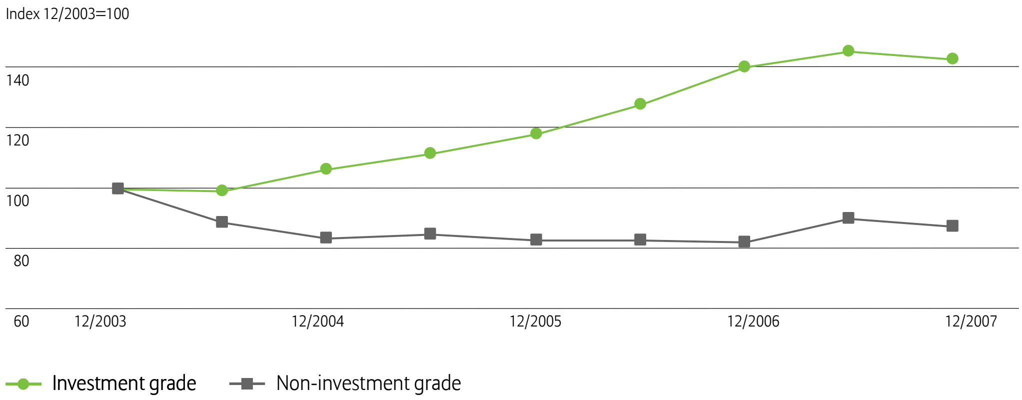
**Breakdown of the loan portfolio (obligor rating)**

as a % of the exposure




The following graphic shows the long-term trend towards an improvement in the quality of the loan portfolio. In the year under review, the ratio between the investment grade and the non-investment grade portfolio remained more or less stable.

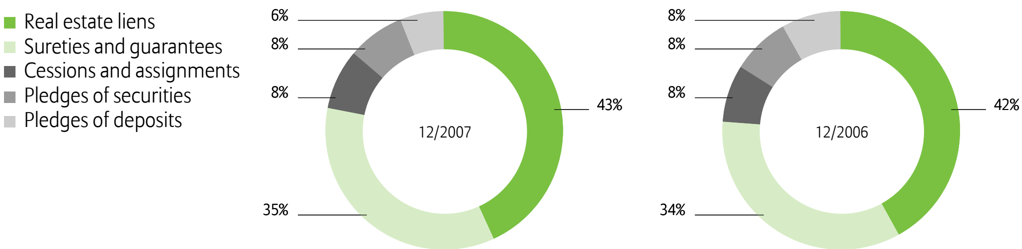
Quality trend in the loan portfolio (limit basis)




## (c) Loan collateral

Loan collateral can be broken down into personal collateral (e.g. sureties) and asset-based collateral. Real estate liens (primarily on residential properties) are the predominate type of collateral used for calculating risk parameters and accounted for approximately 43% of the realisable values at year-end. In addition, personal securities such as sureties and guarantees, including credit default swaps, played a major 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 average loss ratio on default for our loan portfolio, which declined slightly as at the year-end to 34.3% (previous year: 34.7%).

Breakdown of loan collateral for the loan portfolio




## (d) Loans past due

Credit limits that are past due occur regularly and must be taken into account in risk management. They may be due to the late receipt of contractually agreed interest and redemption payments, known as delinquencies. Additionally, limit overruns that are tolerated in view of the client's creditworthiness may also be responsible for loans past due. The following table gives a breakdown by duration of loans past due that have not been classified as non-performing.

| 31/12/2007 | Days past due<br>29 or less | 30 to 59 | 60 to 89 | 90 and more |
|---|---|---|---|---|
| Total volume of loans past due (€m) | 569 | 79 | 91 | 65 |
| Proportion of total loan volume (%) | 0.3 | <0.1 | <0.1 | <0.1 |
| 31/12/2006 | | | | |
| Proportion of total loan volume (%) | 0.2 | <0.1 | <0.1 | <0.1 |

The total volume of loans past due at year-end was €804 million. This corresponds to 0.4% of the total loan volume (approved limits in the lending business). Due to the capitalisation of interest at the end of the year, the level of loans past due is substantially higher as at the reporting date than during the rest of the year. A significant reduction was already recorded in January 2008. Loans past due are monitored daily and closely managed, with monitoring increasing in line with the size of the loans and the period for which they are past due.

### (e) Risk elements

Non-performing loans and potential problem loans together form the risk elements. In line with the disclosure requirements laid down by the U.S. Securities and Exchange Commission (SEC) Industry Guide 3, Dresdner Bank classifies non-performing loans into the following categories:

- Non-accrual loans: Loans are assigned to this category as soon as an impairment loss is charged for a loan. This category also includes all exposures that have been terminated and loans to debtors in insolvency.

- Loans 90 days past due and still accruing: Loans in default that have been past due for 90 days or more, but for which the receipt of all payments is still expected due to full, liquid collateral.

- 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).

According to the SEC disclosure requirements, potential problem loans are loans for which the Bank, based on the information currently at its disposal, has serious doubts as to the ability of the borrower to comply with its contractual obligations. However, these loans have not yet been classed as problem loans since they are not yet 90 days past due. In line with European conventions, Dresdner Bank assigns such loans as far as possible to the problem loans category, irrespective of the period involved; to the extent that doubts as to their recoverability exist, they are reported as non-accrual loans. As a result, the proportion of potential problem loans is only marginal.

The following table provides an overview of Dresdner Bank's risk elements:

| Risk elements | 31/12/2007 €m | 31/12/2006 €m | Change €m | % |
|---|---|---|---|---|
| Non-accrual loans | 1,529 | 1,765 | -236 | -13.4 |
| Loans 90 days past due and still accruing | 180 | 189 | -9 | -4.8 |
| Troubled debt restructurings | 24 | 27 | -3 | -11.1 |
| **Non-performing loans** | **1,733** | **1,981** | **-248** | **-12.5** |
| **Potential problem loans** | **33** | **32** | **1** | **3.1** |
| **Risk elements** | **1,766** | **2,013** | **-247** | **-12.3** |

In the year under review, we reduced the risk elements by a further €0.2 billion or 12.3% to approximately €1.8 billion. The decline mainly occurred in the non-accrual loans category. The reductions are due to the successful repayment of a number of major individual exposures and to loans written off.

The 20 largest single non-performing loans (measured in terms of the amounts drawn down) accounted for approximately 22% of the total portfolio of non-performing loans (previous year: 12%), with the largest single non-performing loan making up just under 6% (previous year: 3%) of the total portfolio of non-performing loans.

Dresdner Bank's coverage ratio, i.e. the ratio of total amount of loan impairment allowances and loan loss provisions to risk elements, amounted to approximately 54% at the year-end. The remaining non-performing loans are more than covered by valued collateral and current cash flows.

## Loan impairment allowances and loan loss provisions

Dresdner Bank recognises loan impairment allowances and loan loss provisions for credit and counterparty risk as well as for country risk on loan transactions. Loan impairment allowances and loan loss provisions are recognised for loans where borrowers are unable to continue making the agreed interest and redemption payments in full or in part, or where this is highly likely to occur.

The loan portfolio for which loan impairment allowances and loan loss provisions are to be recognised is split into a homogeneous and a non-homogeneous portfolio. The homogeneous portfolio comprises loans from the PCC 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 collective allowances. All other loans are allocated to the non-homogeneous portfolio, with a distinction being made between the measurement approach adopted for individual commitments in default (allowances and provisions for specific risks) and for defaults that have occurred but are as yet unidentified (allowances and provisions for general risks).

The total amount of loan impairment allowances and loan loss provisions thus comprise the following elements: (a) allowances and provisions for specific risks for the non-homogeneous portfolio and (b) allowances and provisions for general risks for the non-homogeneous portfolio, including collective allowances for the homogeneous portfolio.

The more detailed method of calculating allowances and provisions for country risk in accordance with international accounting standards is based on internal loss ratios and default probabilities. The switch in the year under review led to the allowances and provisions for country risk being released to a large extent. The allowances and provisions for country risk are now reported under the allowances and provisions for general risk for reasons of materiality.

| Loan impairment allowances and loan loss provisions | Allowances and provisions for specific risks | | Allowances and provisions for general risks and collective allowances | | Total | |
|---|---|---|---|---|---|---|
| €m | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| **31 December** | **537** | **558** | **424** | **679** | **961** | **1,237** |

### (a) Allowances and provisions for specific risks

Allowances and provisions for specific risks and provisions for off-balance sheet items (such as loan guarantees or potential drawdowns on credit lines that have been confirmed but not yet drawn) are established on the basis of an individual analysis of the loan exposure. Country risk is also taken into account in this context for those countries for which a default event (e.g. a payment moratorium) has occurred. At present, there are no significant loans to customers in countries for which default events have occurred.

A professional assessment of the risk associated with the exposures entails permanent impairment reviews, among other things. The responsible analysts use established IT systems in their monitoring duties that aggregate risk characteristics and flag the need for action when predefined trigger values are reached. Particular attention is paid to account management behaviour, overdrafts and credit events.

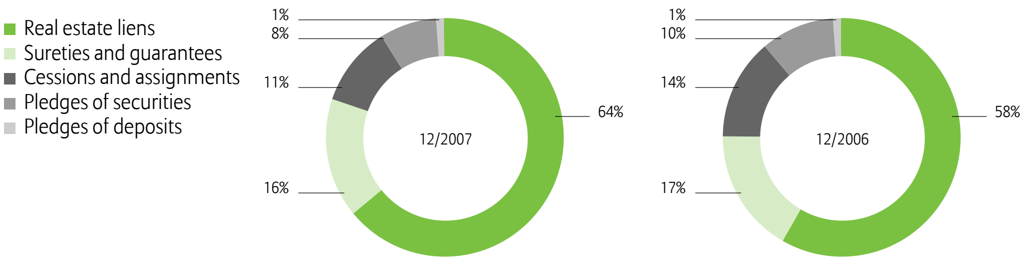
In line with predefined delegated authorities, the responsible Risk Management unit assesses the default and determines the allowance or provision required. The amount of the allowance or provision is determined using a discounted cash flow model that focuses on the present value of future cash flows including proceeds from the realisation of available collateral. If allowances or provisions for specific risks have to be recognised in relation to a country risk, the amount is based on the Bank's experience of past losses incurred.

In comparison to the previous practice of time-independent collateral measurement, reporting the net present value of the expected proceeds of the collateral, in line with the customary practice under international accounting standards, leads to higher initial write-downs, which are subsequently reduced as a result of the increase in value of the collateral over time. The annual amount of the reduction is debited against the reversals of write-downs and credited to interest income (unwinding effect).

In the year under review additions of €508 million were made (previous year: €493 million), while releases amounted to €192 million (previous year: €182 million), plus an unwinding effect of €8 million (previous year: €6 million). Allowances and provisions for specific risks therefore remained in line with our expectations overall. Overall, we feel that the quality of our risk management processes and our effective debt recovery activities have been confirmed by the moderate increase in loan impairment losses for specific risks that occurred during the difficult economic environment in the second half of the year. We expect that releases will decline in the years to come, due among other things to the reduction in the total amount of allowances and provisions.

Allowances and provisions for specific risks totalled €537 million at year-end (previous year: €558 million) and relate to a loan volume of €1,286 million (previous year: €1,433 million), corresponding to the non-homogeneous portion of the portfolio of non-performing loans. The receivables remaining after expected payments and the planned realisation of collateral have been written down in full. Real estate liens account for the largest portion of the collateral for loans for which allowances and provisions for specific risks have been charged (64.1%; previous year: 57.5%). The following figure provides a detailed breakdown:

Breakdown of loan collateral for loan commitments for which allowances and provisions for specific risks have been charged




In individual cases, the Bank also conducts repayment negotiations with other financers to optimise the proceeds of the collateral. As far as possible and economically sensible, collateral is sold privately at an early stage; where this cannot be done a forced sale is initiated. In the case of non-standard or illiquid collateral external specialists are also involved in individual cases. As a matter of principle, the Bank does not realise the collateral by making use of it itself. In all cases efficient realisation of the collateral is based on the ongoing monitoring and review of the carrying amounts involved using corresponding IT systems.

### (b) Allowances and provisions for general risks and collective allowances

Allowances and provisions for general risks are established for latent risks, i.e. for losses resulting from credit and country risk that have been incurred but that have not yet been identified at the balance sheet date in the non-homogeneous portfolios. Their amount is based on the empirically determined historical default probability and the loss ratio, which is determined with the assistance of expert opinions, for that portion of the loan portfolio for which no other allowances have already been established. In addition, current cyclical developments and macroeconomic conditions are included when determining allowances and provisions for general risks; in other words, factors that are not yet adequately covered by models due to a lack of historical experience are taken into account. Examples are extreme price changes on the commodities and currency markets.

Collective allowances have been recognised since 2005 within the homogeneous portfolio. Their amount is determined using a portfolio-based approach specifically developed for the purpose. This is based on historical default ratios for the individual client/product segments and is oriented on the individual status of arrears in each case. The continuous incorporation of effective losses ensures a permanent recalibration of the underlying model. The resulting allowances and provisions comprise both losses that have been incurred but not yet identified and losses from impaired loans in the homogeneous portfolio.

Allowances and provisions for general risks and collective allowances declined by 38% in the year under review to €424 million (previous year: €679 million). Besides the large-scale release of the allowances and provisions for country risks, the reduction is mainly due to a significant improvement in the assessment of the losses incurred based on new risk parameters introduced in the course of our Basel II project. This assessment has been confirmed in full by the results of the regulatory audits performed as part of the implementation of Basel II as well as by current test calculations.

### Counterparty risk from trading activities

Counterparty risk arises from the potential default of counterparties in transactions. In contrast to the lending business, in trading transactions the amount of the claim subject to counterparty risk is generally determined not by the contractually agreed nominal volume of the transaction, but by the latter's current fair value. This can increase or decrease over time as against 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 transaction in default. Thus, the term "replacement cost" is also used in addition to the term "fair value".

The internally calculated exposure also takes into account future potential fluctuations in fair value during the remaining time to maturity of the transaction in addition to the current fair value. State-of-the-art simulation methods that also take into account customary provisions such as break clauses are used to calculate the potential future fluctuations in fair value for securitised and unsecuritised transactions. The exposure profile for a transaction or portfolio is derived from those fair values that are not exceeded at defined future points in time in 95% of all simulated scenarios. Generally, the exposure is calculated in the aggregate for all individual transactions covered by a master agreement with a counterparty. This process, which is known as netting, allows all claims and liabilities not yet due to be offset against each other for a counterparty if the latter defaults, irrespective of the accounting treatment. Where no master agreement exists, the individual transactions are simulated and added together. In the case of complex structures the individual components are examined; this ensures that the approaches used correctly present the risk involved.

The year under review saw the completion of the switch in the method used to calculate exposures to simulations, which began in 2006. In addition, the Bank's internal counterparty risk models were expanded to include a liquidity factor. This provides information on the liquidity of the underlyings for transactions on the basis of market trading volumes.

Moreover, the presentation of fair values and the related notional volumes was changed in the year under review to a more risk-oriented approach. In contrast to the approach adopted for financial reporting, this also takes into account certain off-balance-sheet transactions that are nevertheless relevant from a risk perspective. Conversely, exchange-traded transactions are not recognised at their fair value but only in the amount of the margin, due to the settlement guarantee provided by the clearing houses. The prior-year figures were also restated to comply with this approach.

By contrast, counterparty ratings and any potential future deteriorations in these are not included in the calculation of the exposure; rather, they are taken into account when setting the size and structure of the limit. For the purposes of credit and counterparty risk management, counterparty risk exposures are restricted within the Bank using a global, multi-level limit system, and are monitored continuously.

Within trading transactions, the (a) derivatives business accounts for by far the largest portion of counterparty risk, both in terms of the notional volumes and in terms of exposure. Other trading transactions contributing to counterparty risk are (b) repo transactions and (c) money market transactions; together, these are known as financing transactions.

### (a) Derivatives business

The derivatives business comprises exchange-traded and OTC derivatives in the trading book and the banking book.

**Notional volumes.** In the year under review, the notional volumes of our derivatives business rose by 12.8% to a total of €5,362 billion (previous year: €4,754 billion). The largest rise was recorded by credit derivatives, with €313.9 billion (+34.9%), and currency derivatives, with €160.4 billion (+26.5%).

**Fair values.** The total positive replacement cost for the derivatives business (before netting and collateral agreements) rose by approximately 18% in the year under review to €70.5 billion (previous year: €59.9 billion). The amount effectively at risk was reduced to approximately €7.0 billion (previous year: €7.6 billion) through risk reduction measures, i.e. through netting and collateral agreements.

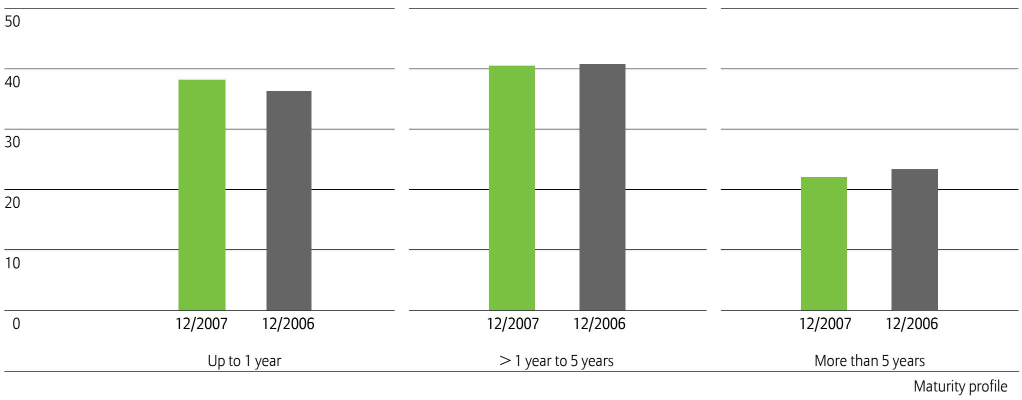
| Trading and banking book contracts | Fair values | | Notional volumes | |
|---|---|---|---|---|
| €m | 31/12/2007 | 31/12/2006 | 31/12/2007 | 31/12/2006 |
| Interest rate derivatives | 36,620 | 34,240 | 2,936,494 | 2,784,650 |
| Currency derivatives | 9,742 | 6,646 | 766,017 | 605,616 |
| Equity/index derivatives | 11,625 | 12,256 | 441,917 | 461,231 |
| Credit derivatives | 11,984 | 6,698 | 1,214,832 | 900,907 |
| Other derivatives | 567 | 102 | 2,756 | 1,287 |
| **Total** | **70,538** | **59,942** | **5,362,016** | **4,753,691** |

Interest rate derivatives remain the dominant product group, accounting for 54.8% of the total notional volume and 51.9% of the positive replacement cost. However, credit and currency 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.

**Maturity structure.** At the year-end, 38.0% (previous year: 36.2%) of all derivatives transactions – measured in terms of their notional amounts – had a maturity of up to one year, 40.2% (previous year: 40.7%) had a maturity of between one and five years and 21.8% (previous year: 23.1%) had a maturity of more than five years. In addition, break clauses allow the termination of long-term transactions at fixed points in time during the term of the transaction should the assessment of the trading partner's creditworthiness decline.

Maturity profile in the derivatives business

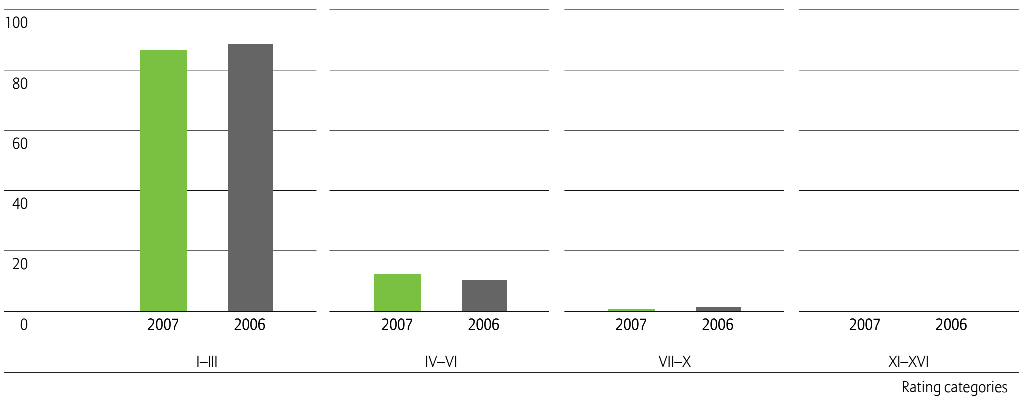
as a % of the notional volume




**Conservative selection of our trading partners.** Classifying the positive replacement cost in line with the Bank's internal rating categories clearly demonstrates the conservative selection of our trading partners: 98.0% (previous year: 98.3%) of the aggregate positive replacement cost (before netting and before collateral agreements) in the year under review is accounted for by counterparties with investment grade ratings (categories I to VI).

Breakdown of ratings in the derivatives business

as a % of the positive replacement cost




The conservative selection of our trading partners can also be seen from the sectors concerned: 96.1% (previous year: 97.0%) of the positive replacement cost is attributable to financial services providers and the public sector.

Dresdner Bank also maintains business relationships to riskier clients such as hedge funds as long as the risk is appropriate. Internal systems that track hedge fund performance and compare it with that of other funds have been developed to combat the risks associated with a lack of liquidity and sudden price slumps during periods of market turbulence. A number of indicators are used during credit assessment and limit management to identify problems at an early stage.

**Master netting agreements.** We enter into cross-product master netting agreements with our business partners in order to reduce counterparty risk from derivatives transactions. 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 €57.4 billion (previous year: €46.2 billion) to €13.1 billion (previous year: €13.7 billion).

**Collateral agreements.** Collateral agreements allow the Bank to require collateral in the form of cash (G7 currencies) or government securities to hedge derivatives transactions. The amount of collateral furnished can vary over time; margin calls are used to make continuous adjustments in line with market price-driven developments in the exposures to be collateralised. As at the year-end, the lending value of the collateral received amounted to roughly €6.1 billion (previous year: €6.1 billion). After adjustment for collateral effects, the positive replacement cost after netting therefore declined to €7.0 billion (previous year: €7.6 billion), as already mentioned.

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

| Collateral agreements for derivatives transactions | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Rating categories I–III | 252 | 235 |
| Rating categories IV–VI | 250 | 190 |
| Rating categories VII–X | 124 | 72 |
| Rating categories XI–XIV | – | 2 |
| Rating categories XV–XVI | 2 | – |
| **Total** | **628** | **499** |

**Regulatory treatment.** Regulatory requirements also specify that the exposure from derivatives transactions must be quantified and backed by regulatory capital. In this process, the current fair value is taken into account and a global estimate of future market price fluctuations is performed, depending 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 the year-end, total 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 €69.1 billion (previous year: €62.8 billion). The risk-weighted assets from derivatives transactions relevant for regulatory capital requirements amounted to €13.1 billion on the reporting date, as against €12.5 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.

**Settlement risk.** Settlement risk is a special form of counterparty risk in derivatives transactions. 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 in the case of currency transactions in different time zones). The size of the settlement risk corresponds to the amount of the consideration owed per value date and is counted towards the settlement limit. To avoid or minimise this risk, these transactions are increasingly being settled via clearing houses. In addition, as already described, bilateral netting agreements with individual counterparties are entered into in this area in order to reduce settlement risk.

### (b) Repo transactions

In repo transactions, the seller (repo position) sells certain collateral, normally securities, to a buyer (reverse repo position). At the same time, an agreement is entered into whereby the buyer undertakes to sell this collateral back to the seller at an agreed price at a later date. In economic terms, repo transactions are therefore the equivalent of secured loans extended by the buyer to the seller. The interest paid on the loan is the difference between the purchase price and the higher repurchase price, i.e. the repo rate.

The fair value of repo transactions is the difference between the agreed repurchase price and the current fair value of the collateral. If the fair value of the collateral increases, the seller's claim against the buyer for the subsequent return of the collateral at the agreed repurchase price increases in value (positive fair value of the repo position); this would be lost if the buyer were to default as a counterparty. Conversely, if the fair value of the collateral decreases, the buyer's right to subsequently tender the collateral at the agreed repurchase price to the seller increases (positive fair value of the reverse repo position); this would be lost if the seller were to default as a counterparty.

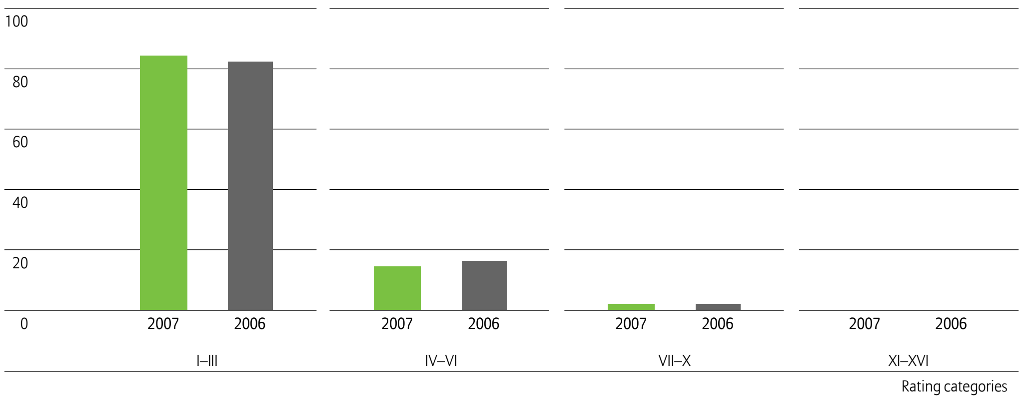
At the year-end 2007, the notional volume of Dresdner Bank's repo transactions amounted to €452.7 billion (previous year: €512.0 billion). €239.3 billion (previous year: €265.7 billion) of this figure is attributable to repos and €213.4 billion (previous year: €246.3 billion) to reverse repos.

The fair value of repos at the year-end amounted to €40.6 billion (previous year: €37.3 billion); the corresponding figure for reverse repos was €12.2 billion (previous year: €8.0 billion).

The conservative selection of our trading partners applies not only to the derivatives business but also to repo transactions. 96.5% of the total replacement cost (before netting and collateral agreements) in the year under review was attributable to counterparties with an investment grade rating (previous year: 96.7%).

Breakdown of repo transaction ratings

as a % of the replacement cost




**Netting.** As a matter of principle, repo transactions entered into under a master agreement are eligible for netting. They are not analysed on a gross basis. If a master agreement specifically rules out netting, this is taken into account via a no-netting charge, which is added to the fair value of the portfolio and hence increases the risk.

**Collateral agreements** also exist for repo transactions. Such collateral agreements allow additional collateral to be furnished or released during the term of the transaction, depending on market developments. The growing number of collateral agreements for repo transactions is due to our quality-driven risk policy.

| Collateral agreements for repo transactions | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Rating categories I–III | 696 | 172 |
| Rating categories IV–VI | 303 | 143 |
| Rating categories VII–X | 74 | 45 |
| Rating categories XI–XIV | 2 | 2 |
| Rating categories XV–XVI | 2 | – |
| **Total** | **1,077** | **362** |

### (c) Money market transactions

The money market is the global financial market for the short-term borrowing and investment of cash deposits. It serves to provide the entire financial system with liquidity. It is where short-term money and precious metal loans as well as liabilities such as commercial paper, Federal savings bonds and bank bills are traded. The majority of money market players are credit institutions and finance companies. Due to the short-term nature of the business and the credit quality of the counterparties, these transactions are not collateralised. The fair value of a money market transaction is therefore its nominal volume. As a result, the counterparty risk from the investment of cash deposits is counted towards the counterparty exposures and limits in the nominal amount.

Dresdner Bank's deposits with other market players amounted to €8.6 billion at the year-end (previous year: €20.4 billion). €0.3 billion of this amount is attributable to precious metal loans (previous year: €0.3 billion). This clear decrease is primarily due to the restricted trading on the interbank money market resulting from the global subprime crisis.

## 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 or equities, and in synthetic securities positions such as those entered into when concluding credit derivatives. This 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.

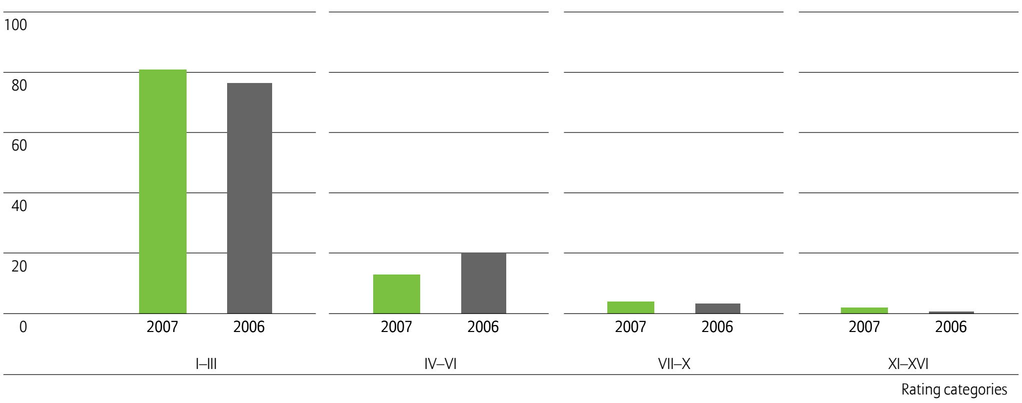
The exposure, i.e. the maximum credit and counterparty risk position from issuer risk, is the amount that would be lost, given current market prices, if the issuer or reference debtor were to immediately default. A loss ratio of 100% is assumed for the instruments concerned.

In the year under review, Dresdner Bank introduced a credit event value at risk ("CE VaR") model to improve the measurement and management of issuer risk. The goal of the CE VaR model is to adequately quantify the risk from changes in the creditworthiness of and defaults by issuers and reference debtors in the trading book. As a matter of principle, the financial instruments included in the CE VaR model are the same as those used in the credit spread model for measuring the specific interest rate risk in the trading book. At present, they include bonds, money market transactions, credit derivatives and tradable loans, among other things. Equity positions are not included in the CE VaR model.

At year-end the total issuer risk exposure amounted to €40.3 billion (previous year: €75.5 billion). This decline is primarily due to the targeted reduction in positions relating to the cutback of structured trading products on the one hand, and to improved risk measurement and management as a result of the introduction of the CE VaR model on the other. The portfolio quality can be seen from the breakdown by rating categories of the issuer risk exposure:

**Breakdown of issuer risk ratings from securities transactions**

as a % of the exposure




Issuer risk is highly concentrated among investment grade counterparties. This reflects our systematic selection of counterparties with strong credit ratings in the area of counterparty risk as well.

In the case of trading book positions, issuer risk is approved from a credit risk perspective using a simplified procedure, by specifying a comprehensive "Issuer Risk Frame" limit. Moreover, within this overall limit, there are single-issuer caps that specify the Bank's risk appetite with respect to a specific issuer or reference debtor depending on their rating, as well as rating concentration caps that manage the Bank's issuer risk by rating category at portfolio level.

Positions exposed to issuer risk that remain on the trading book for more than 90 days ("stale exposures") are monitored using dedicated reporting procedures and reviewed by the Stale Exposure Committee, which meets every month. This procedure is designed either to sell such positions or to hedge the risks involved and hence to ensure the adequate turnover of trading book positions.

### Country risk

Country risk is defined as the risk deriving from country-specific risk factors. It primarily comprises transfer and conversion risk, i.e. the risk that cross-border flows of money and capital may be curbed. In such cases, payments from a particular country may not be made any more, or may not be made in full.

Country risk comprises the following components:

- Transfer and conversion risk represents 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 impeding capital movements or currency exchange.

- The credit and counterparty risk arising from local foreign transactions is the potential loss from defaults by counterparties attributable to the same country as the Dresdner Bank unit extending the loan. This risk is included in the definition of country risk to cover systematic country-specific counterparty risks resulting from the deterioration of the economic conditions in the country in question.

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

In addition, we monitor secondary country risk from the default of collateral received in our credit and trading business as a result of sovereign acts.

An internal country rating process comprising 16 rating categories is used to assess country risk. Individual countries are rated on the basis of quantitative macroeconomic indicators and qualitative factors (the financial system and economic, social, legal and political conditions). The country rating system measures the probability that a transfer event will occur and focuses in particular on solvency in the foreign currency.

Country risk is mitigated using a comprehensive country limit system. The system limits the exposure and risk capital for geographical regions and individual countries. The main instrument used to manage country risk in all emerging markets is the country risk framework. This framework, which is approved by the Board of Managing Directors, defines the Bank's risk appetite in terms of transfer risk capital, credit risk capital and nominal volumes.

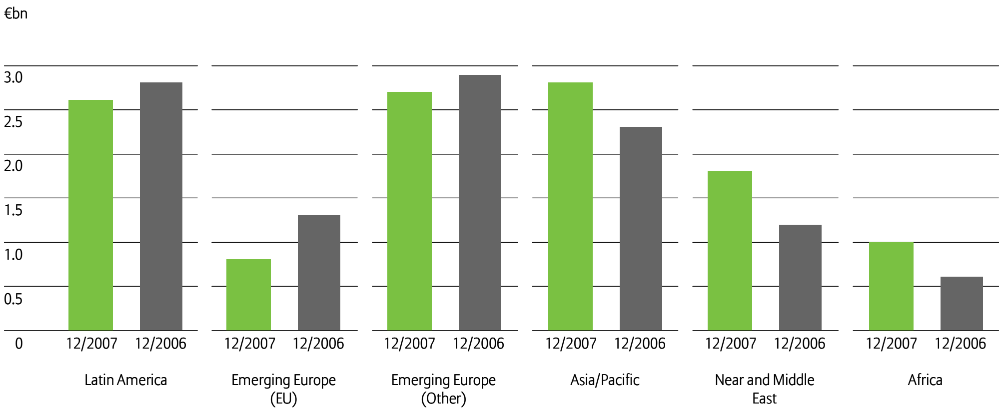
Target parameters related to the exposures in defined geographical regions and individual countries are specified in order to diversify the Bank's exposure in emerging markets and to manage risk. Additionally, detailed management is performed at product level, taking durations into account. As a supplementary measure, regular portfolio analyses are performed as part of the management of the country risk portfolio.

Management of country risk in the trading business is based on an early warning system for emerging markets. This proprietary procedure flags critical trends in the capital markets at an early stage – over a forecast period of three to six months. It enables risks from trading transactions in particular to be reduced before crises emerge, thus mitigating losses.

In the year under review, countries without identifiable country risk (including industrialised nations) accounted for 99.1% of Dresdner Bank's portfolio (previous year: 99.3%). This means that countries with an increased or high risk potential – which we define as countries with a "non-investment grade" rating – accounted for only 0.9% of the overall portfolio.

The proportion of the total portfolio accounted for by exposures in rating categories II to XVI increased slightly in the year under review from 6% to 7.6%. This rise was primarily due to a decline in exposures to countries in the industrialised nations (rating category I) and an increase in countries in the superior rating categories II to III. Within rating categories II to XVI, the proportion of countries with an increased or high risk potential (country rating categories VII to XVI/non-investment grade plus default) rose slightly (from 11.4% to 11.6%).

Breakdown of the exposure for country rating categories II to XVI by region




In the year under review, diversification of the country risk portfolio increased further as a result of the rise in exposures in the previously comparatively underrepresented Asia/Pacific, Africa and Near and Middle East regions.

## Market risk

Market risk is caused by changes in market prices (e.g. stock prices, interest rates, exchange rates, commodities) and market parameters (e.g. correlations and volatility levels).

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

### General discussion of market risk

We measure market risk in the trading book and the banking book using the analytical delta-gamma value at risk method. Value at risk measures the maximum potential loss that is not exceeded under normal market conditions by an unchanged position at the end of a given period (holding period) for a given high level of probability (confidence level).

Our proprietary value at risk model takes both general and specific risks into account. The general market risk is the systematic risk from market movements that is not attributable to individual securities or debtors. By contrast, specific market risks cover risks from positions relating to individual securities or debtors. For the purposes of the internal management of trading risk, the specific risk incurred in relation to individual debtors is reported separately, in addition to the overall value at risk. To enable full modelling of option instruments, the value at risk model also takes into account the risk associated with sensitivity to the volatility of the underlying (vega risk) and the risk from non-linear relationships with the market price of the underlying (gamma risk).

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

In addition to the calculations performed in connection with 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. To ensure that the value at risk reflects recent market developments in a timely manner, greater weight is assigned to the recent past when estimating the underlying market parameters (correlations and volatilities) than to older market data, in contrast to the calculations performed to comply with regulatory requirements.

For internal management purposes, the risk exposure is restricted by assigning value at risk limits. The Board of Managing Directors specifies the overall risk framework in the form of value at risk limits. The MaRCo discusses and reviews risk positioning on a regular basis.

The limits for various risk activities within the divisions are set by the Risk function units responsible for market risk management together with divisional management. The overall risk framework approved by the Board of Managing Directors is complied with. The Risk function also ensures the consistency and completeness of the limits resolved. Compliance with the limits in the trading book and in key areas of the banking book is monitored on a daily basis. Where limits are found to have been exceeded, the responsible management unit is notified and takes action to remedy the situation.

**Limits of risk modelling.** Our value at risk model is continuously enhanced and is consistent with the latest risk management standards in the banking industry. However, value at risk models are subject to inherent limitations with regard to their ability to model market risk. No model is able to fully capture all factors having an effect in reality and their complex behaviour, including their interrelationships. Rather, all models require simplifying assumptions to be made as to which risk factors are relevant to portfolio performance and how these behave. On the basis of historical observations, Dresdner Bank's value at risk model assumes stochastic behaviour in line with normal Gaussian distribution. The underlying assumption that past behaviour offers a reliable basis for forecasting future developments represents a further limit to all risk modelling.

Apart from the risk model itself, the measure of risk generated using it – the value at risk – is also subject to certain limitations. For example, when interpreting this measure of risk it is assumed that the underlying positions are revalued on a daily basis and that they can be closed out at the end of the prescribed holding period. Although this assumption is realistic in almost all circumstances, it has its limitations in periods of severe market illiquidity. In the year under review, this applied in particular to the securitisation-related positions in the trading book. In this case, value at risk calculations for the positions concerned are performed by modelling related liquid instruments, which are known as proxies. Another limitation results from the fact that the amount of the loss represented by the value at risk is not exceeded merely for a given (high) level of probability. Naturally, there is a (low) residual probability that future losses may exceed the value at risk (so-called "outliers"). Value at risk does not provide any information about the size of such losses.

The limits to risk modelling explained above apply in particular to stress events. For this reason, we supplement modelling by performing a large number of different stress tests. Nevertheless, here, too, it is impossible to investigate all conceivable scenarios. Rather, stress tests and scenario analyses can only give examples of the risks a portfolio may be exposed to under extreme market situations. They cannot give any conclusive assessment of the maximum loss in the case of a stress event.

## Market risk from the trading book

The only change made to our value at risk model in comparison to the previous year was the addition of specific new risk factors in the course of ongoing trading activities.

In addition to value at risk limits, position- and strategy-specific risk indicators are specified as operational limits. These allow the particular requirements and risk situations in the trading units to be taken into account. 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 sensitivity of equity and equity derivative positions to their underlyings (known as the "delta equivalent"). Income trends 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 further losses are avoided.

In comparison to the previous year, the market risk resulting from trading activities was reduced overall. This trend was due in particular to a reduction in interest rate risk. This was mainly the result of changes in positions within the trading book, which led to a significant reduction in interest rate positions. In the case of value at risk the aggregate risk is lower than the sum of the risks reported per individual risk type. This is due to the diversification at portfolio level, which is taken into account in the value at risk in the form of correlations between the individual risk types, and which serves to reduce the risk involved.

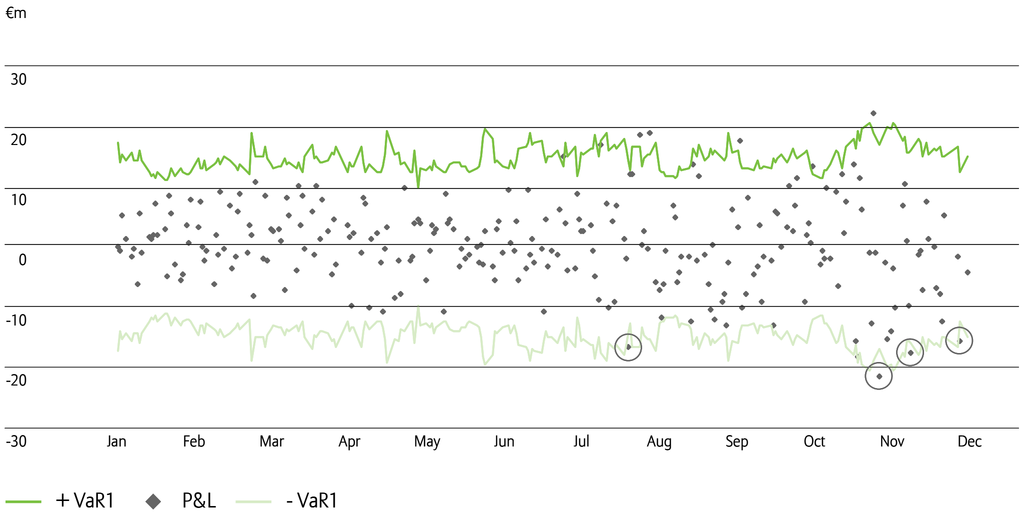
| Value at risk[1] – trading book | 31/12/ | 31/12/ | Average value | | Maximum | | Minimum | |
|---|---|---|---|---|---|---|---|---|
| €m | **2007** | **2006** | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Interest rate risk | 30 | 43 | 35 | 51 | 55 | 77 | 22 | 32 |
| Equity risk | 41 | 44 | 32 | 23 | 63 | 85 | 15 | 8 |
| Currency risk | 9 | 9 | 11 | 10 | 22 | 25 | 3 | 1 |
| Commodity risk | 5 | 4 | 5 | 3 | 34 | 17 | 3 | 1 |
| Diversification[2] | -41 | -43 | -41 | -41 | – | – | – | – |
| **Aggregate risk** | **44** | **57** | **42** | **46** | **67** | **89** | **26** | **26** |

1) 99% confidence level, ten-day holding period.
2) No diversification effect can be calculated for the maximum and minimum values, as these are from different dates.

The trading book is well diversified with regard to the individual types of market risk. In order to avoid concentration risk within particular asset classes, corresponding limits (e.g. for value at risk) are set both at divisional level and at the level of the asset class concerned.

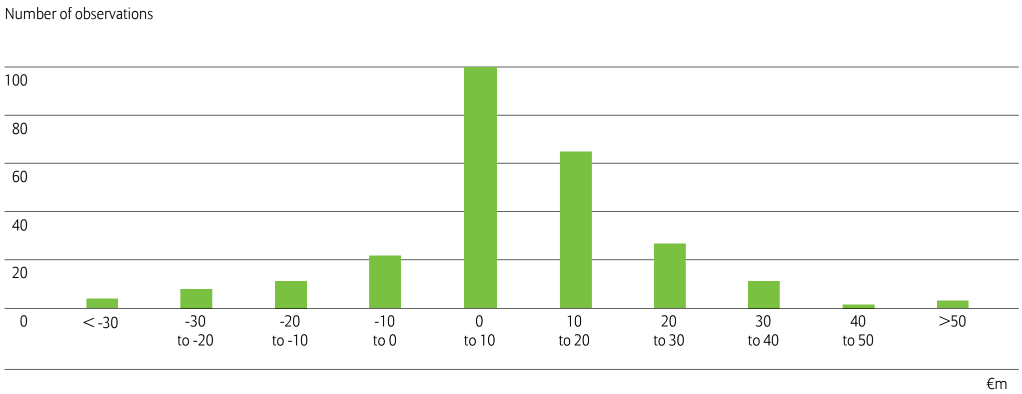
Backtesting is performed daily to check the quality of our value at risk model. This compares the value at risk ex post with actual performance. Only the performance resulting from changes in market parameters is examined (this is known as the "clean P&L"). By contrast, performance components resulting from changes in positions are not included in backtesting as they do not form part of the value at risk in this regard. Backtesting is performed using a value at risk with a 99% confidence level and a one-day holding period, to ensure that it is comparable with daily performance. Losses in excess of the value at risk are known as negative outliers. Four negative outliers were observed for the Dresdner Bank Group in the year under review. This is slightly above the statistical expectations for the defined model calibration.

Backtesting: VaR (99% confidence level, one-day holding period) versus clean P&L




In contrast to backtesting, the daily changes in portfolio values actually recorded (known as the "dirty P&L") take earnings components from changes in positions into account. The chart below shows these portfolio changes for the year under review. The length of the bars corresponds to the number of trading days on which a change in portfolio value in the amount given on the horizontal axis occurred.

Distribution of changes in portfolio values for IB trading activities




Stress tests calculated on a weekly basis provide examples of the risks that a portfolio may be exposed to under extreme market conditions. 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 2001, 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. When so-called trigger points are reached, necessary countermeasures are discussed and implemented as necessary.

## Market risk from the banking book

Market risk from the banking book consists to a large extent of interest rate risk, which is measured using value at risk. 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 unit or, more specifically, 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.

Client option rights, e.g. special rights of redemption or the statutory termination right in accordance with section 489 BGB, are evaluated and hedged by modelling them as corresponding derivatives.

Interest rate risk from loans and deposits is managed by refinancing or through investments with matching maturities. In addition, currency risk is avoided as a matter of principle in the case of transactions denominated in foreign currency through refinancing or investments in the same currency as the underlying transaction. The residual exchange rate risk in the Bank's commercial business results primarily from intra-year changes in income at foreign affiliated enterprises.

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 with the market risk in the trading book. In addition to the NPV-based interest rate risk analysis, regular interest rate sensitivity analyses of the 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 of market risk positions in the banking book is performed locally by the subsidiaries on their own responsibility using centrally prescribed value at risk limits and operating limits (e.g. sensitivity limits). The Risk function monitors and reports daily on the utilisation of, and compliance with, the limits by the key units. In addition to monthly market interest rate risk analyses for Dresdner Bank's entire banking book, an annual review of the limits is also performed.

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 diversification, total value at risk in the Group's banking book amounted to €15.8 million at the year-end (previous year: €15.5 million). It therefore hardly changed year on year despite the substantial increase in market volatility.

| Value at risk[1] – banking book €m | 31/12/ 2007 | 31/12/ 2006 | Average value 2007 | Average value 2006 | Maximum 2007 | Maximum 2006 | Minimum 2007 | Minimum 2006 |
|---|---|---|---|---|---|---|---|---|
| Interest rate risk | 11 | 8 | 9 | 13 | 13 | 16 | 6 | 8 |
| Equity risk | 15 | 13 | 12 | 12 | 15 | 14 | 11 | 10 |
| Credit spread risk | 13 | 10 | 10 | 7 | 13 | 10 | 2 | 5 |
| Diversification[2] | -23 | -16 | -17 | -16 | – | – | – | – |
| **Aggregate risk** | **16** | **15** | **14** | **16** | **17** | **17** | **13** | **15** |

1) 99% confidence level, ten-day holding period.
2) No diversification effect can be calculated for the maximum and minimum values, as these are from different dates.

The table above shows the overall value at risk for the banking book as the aggregate risk for individual risk positions. Despite a slight increase at the level of the individual risk categories, the aggregate risk only rose slightly year-on-year as a result of diversification effects, both between the Group units and between the individual risk categories. The undiversified value at risk for the banking book for the individual Group units included in the aggregation ranged from €0.2 million to €11.7 million (previous year: €0.4 million to €15.4 million). There is no material concentration of risks across the risk categories.

The interest rate sensitivity (the change in value resulting from a decline in the interest rate level of one basis point) for the market risk in the Group's banking book totalled €0.271 million at the end of the year (previous year: €0.118 million). Here, too, the effect of diversification can be seen, as the overall value at risk for the banking book only increased slightly despite the increase in interest rate sensitivity.

| Interest rate sensitivity €m | Up to 1 year | > 1 year – 5 years | More than 5 years | Total 31/12/2007 | Total 31/12/2006[1] |
|---|---|---|---|---|---|
| Banking book | -0.217 | 0.453 | 0.035 | 0.271 | 0.118 |

1) For reasons of comparability, the prior-year figure was adapted to include the companies integrated for the first time in internal Group management in 2007.

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.

### Special topic: securitisation

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 priority of cash flow allocation and seniority. Securitisation generally also involves the issue of securities or promissory notes (asset-backed securities (ABSs) and mortgage-backed securities (MBSs)) whose claims to payment are backed by the underlying loan portfolio.

Dresdner Bank's securitisation of its own loan portfolios, and especially the securitisation of middle-market corporate loans, is a key tool in active credit risk management. 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 year-end Dresdner Bank had used the True Sale Initiative (TSI) platform to place loans totalling approx. €3 billion via true sales. In addition, Dresdner Bank had synthetically securitised other loan portfolios with a transaction volume of €2.6 billion (Promise-K 2006-1, Sigma-1 CLO-2007) at the year-end. In general, the securitised loans are administered by Dresdner Bank, so that client relationships remain unaffected by the transaction.

Additionally, the securitisation of loan portfolios of and for clients is a key component of our range of structured finance products. Dresdner Bank has arranged the securitisation of loans through non-recourse sales using asset-backed commercial paper (ABCP) programmes (conduits) since 1998. Dresdner Bank is only invested in, or provides liquidity to, ABCP programmes arranged by other banks to a limited extent. In addition, Dresdner Bank acts as the asset manager for the "K2" structured investment vehicle – a company that invests primarily in structured bonds and that refinances itself by issuing medium term notes and commercial paper.

In summer 2007, turbulence erupted on the entire securitisation market as a result of the US subprime mortgage crisis. In the United States, the real estate market boom of recent years led to large numbers of mortgages being extended to debtors with low credit ratings, with the associated risks being passed on to the global capital markets via ABSs. Rising default rates and delinquencies on the US real estate market, coupled with the partial lack of transparency of ABSs with regard to the receivables actually securitised in them, massively impacted demand for ABCP and ABSs, which in some cases came to a standstill. As a result, the capital markets have been hit since then by a crisis of liquidity and confidence extending well beyond the original segment.

The receivables underlying Dresdner Bank's ABCP programmes are highly diversified and reflect the different business strategies of the sellers of the loans and clients respectively. At the end of 2007, Dresdner Bank's obligations in the banking book under client-related conduit transactions amounted to €14.5 billion. 78% of this amount consisted of liquidity facilities/back-up lines in favour of the conduits administered by Dresdner Bank, which basically hedge any risk of commercial paper not being placed. The lending volume to be refinanced under the ABCP programmes amounted to €8.9 billion at year-end. Potential drawdowns of these commitments have been factored into the Bank's internal liquidity management model and its liquidity stress tests. Dresdner Bank's liquidity and solvency were ensured at all times even under the extreme assumptions applicable to a stress scenario. These back-up lines are not available for covering losses incurred by the securitised portfolios, since as a rule adequate structural collateral such as first loss pieces, subordinated loans, or loan insurance exists. Dresdner Bank only provided such structural collateral to a limited extent. Our conduits are able to continue refinancing themselves to a material extent via the asset backed commercial paper markets during the capital market turbulence thanks to their primary focus on arranging securitisations for clients (in contrast to arbitrage vehicles) and the extremely small proportion of subprime credits.

In addition to securitising loan portfolios under its conduit programmes, Dresdner Bank also structured ABSs and invested directly in securitised products as part of its proprietary trading activities. The net volume attributable to the trading book was €10.5 billion at year-end; 84.8% of the positions held are rated AAA or AA by external rating agencies. The net volume does not include positions secured via third-party counterparties. For example, Dresdner Bank uses hedges provided by other banks and monoline insurers (specialised bond insurers) to mitigate the default risk from securitised instruments. Dresdner Bank has therefore reinsured some of the cover taken out with monoliners with banks with strong credit ratings.

As part of its proprietary structuring activities, the Bank holds ABSs resulting from warehousing structures. This includes the creation of specific credit or securities portfolios that are securitised via structured bonds and placed on the capital markets. Structuring of the portfolios was completed in 2007. However, it was not possible to place the instruments on the market. Dresdner Bank has critically reviewed these positions and adjusted the carrying amounts recognised in the financial statements to reflect the changed market position.

In addition to its direct investments in ABSs, the Bank is also exposed to secondary risk from securitised loans in its trading book. This risk arises as a result of second loss obligations assumed by the Bank as against institutional clients. The risk from these positions has been hedged using a large number of structural elements such as reserve accounts designed to meet the first loss risk in conjunction with liquidation rights. Dresdner Bank's second loss obligations were reduced substantially in the second half of 2007. Additional obligations arising out of loan insurance for ABS portfolios for institutional clients taking the form of credit enhancements were almost completely eliminated in 2007. Furthermore, the Bank is prepared to accept asset backed securities as collateral for securities lending transactions. Such positions are the subject of short-term transactions with counterparties with excellent credit ratings, and are discounted in line with risk-adjusted general market rates.

As the subprime crisis progressed, the difficult market environment also impacted the syndication market for structured credits. As a result, previously active investors were only in the market as buyers to a limited extent, due to the deterioration in refinancing opportunities. Consequently, Dresdner Bank's syndication activities slowed down and the lending volume set aside for syndication increased temporarily to €3.2 billion. New underwriting commitments adequately reflect the changed market conditions, so that Dresdner Bank expects to be able to place these loans in full even in difficult conditions.

Dresdner Bank has adjusted and, where possible, reduced its portfolio in light of the difficulties on the credit markets, especially with respect to complex structures and positions involving untransparent underlyings and comparatively poor ratings. However, this process was delayed by the fact that the liquidity situation on the capital markets continued to deteriorate in the course of the crisis. Although some of these positions were hedged, the effectiveness of the instruments available to perform such hedges was also negatively impacted by the crisis.

The dependencies and interrelationships between liquidity, market and credit risk that emerged led to increased cooperation between the risk units and management processes involved. Additional processes for monitoring specific client and risk groups were implemented and are being enhanced on an ongoing basis.

## 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

The risk from shareholdings is monitored centrally in the course of the ongoing support for Dresdner Bank's own investments provided by the Finance function's Corporate Investments unit. In addition, in the case of strategic equity investments assigned to the Bank's core business, it is monitored locally by the segment responsible in each case. At the central level, 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 equity investments and risks from unlisted equity investments.

The market prices of listed equity investments are tracked continuously. External analysts' opinions and share price forecasts (consensus estimates) are included in the risk assessment. 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 those equity investments that have been classified as "critical". Different measurement approaches – the Ertragswert (German income capitalisation method), net asset value, fair value and liquidation value – serve to quantify potential risks; 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 the year under review, Dresdner Bank continued its program to cut back on its non-strategic investments, thus further reducing its risk from shareholdings. In particular, this related to its listed investments in industrial companies and led to a corresponding reduction in risk-weighted assets and in economic risk capital. The hidden reserves in its listed shareholdings declined in line with the drop in share prices in January 2008.

### Real estate risk

The real estate risk relates to changes in the value and price of land and buildings owned by the Bank and used by it or by third parties; the relevant real estate positions are reported in the relevant financial investments and property and equipment items on the balance sheet.

Dresdner Bank sold almost all its real estate used by third parties in the year under review as part of its divestment strategy. This has substantially reduced the potential real estate risk. The reduction related to properties bundled in a special fund managed by the Group subsidiary DEGI Deutsche Gesellschaft für Immobilienfonds mbH.

The remaining real estate, which is largely used by the Bank itself, is tested regularly for impairment. In addition, impairment tests are performed where trigger events occur. There are no plans at present to market these properties.

### 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 the end of 2007, the risk capital requirements resulting from the risk from shareholdings and real estate risk amounted to €2.0 billion (previous year: €2.4 billion). €1.8 billion (previous year: €2.1 billion) of this figure is attributable to risk from shareholdings and €0.2 billion (previous year: €0.3 billion) to real estate risk.

## 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.

Dresdner Bank has developed an overarching framework for managing operational risk. The framework focuses on the organisation of the structures and the OR processes and instruments. This permits active management of operational risk and meets the regulatory requirements specified in the "Advanced Measurement Approach" (AMA). Special rules exist for legal risk.

The risk capital calculated as at the end of the year amounted to €1.0 billion (previous year: €0.9 billion); the change is due among other things to adjustments to the methods used – the switch from a purely scenario-based approach to a loss distribution approach plus top-down scenario analysis. Actual OR losses in the year under review were lower than the calculated expected loss at all times.

Risk capital is allocated to the PCC and IB divisions on the basis of the specific risk profile identified, thus making risk-oriented management possible.

### Roles and responsibilities

Central OR Management is responsible for setting minimum OR standards, monitoring material risks, calculating risk capital and reporting. The unit uses its overarching analysis of the OR risk profile to derive recommendations for risk management activities.

In addition, local OR management units exist in the divisions, functions and subsidiaries and support senior management in implementing the processes relevant for operational risk. The units' main tasks are to manage the capture of loss data and related quality assurance activities. In addition, they monitor measures designed to reduce risk.

The Group-wide Operational Risk Committee identifies cross-divisional risks and initiates risk reduction and avoidance measures. In addition, it raises awareness of operational risk.

### Processes and instruments

In addition to collecting loss data from operational risks that is used to analyse weaknesses and process errors, Dresdner Bank assesses rare OR events potentially entailing large losses using a top-down scenario analysis. This process is performed annually in close cooperation with senior management and serves as the basis for identifying the main internal risk drivers, for which corresponding risk reduction measures are then designed.

Key risk indicators are another instrument for identifying operational risk. In order to drive forward developments at an international level, Dresdner Bank is a member of a working committee led by the Risk Management Association (RMA). The results produced in the committee are used to successively define risk indicators in the business units, and hence to support these units in the daily monitoring of their business processes and in managing the resulting risk.

In order to ensure risk-appropriate management of the business and create incentives to minimise risk, Dresdner Bank has developed an internal risk capital calculation model for operational risk. This is based on both internal and external loss data, the results of the scenario analysis and statistical modelling of extreme events.

Centralised and decentralised reporting structures ensure that senior management, the RExCo, the members of the OR Committee and the supervisory bodies are kept informed of operational risk in a regular, timely and comprehensive manner. These monthly and quarterly OR reports 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), in which Dresdner Bank is represented, we define 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).

Group Legal has the primary responsibility 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 is due to unexpected fluctuations in results that arise when earnings decline but expenses cannot be reduced in line with them (fixed cost risk).

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

Above and beyond current 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.

At the end of 2007, risk capital requirements for business risk amounted to €0.6 billion, up slightly on the previous year (€0.5 billion).

### Strategic risk

The Group Strategy & Business Development 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 either regulatory or internal 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, as a result of an imparity or mismatch in its incoming and outgoing cash flows. 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 modelled quantitatively but is not backed by either regulatory or internal capital.

The goal of liquidity risk management is to ensure solvency at all times. Within Dresdner Bank, Group Capital Management & Treasury is responsible for liquidity risk management, with the IB trading units performing short-term liquidity risk management in line with the limits set for them. The Risk Governance & Controlling unit within the Risk function, which is functionally and organisationally independent of Group Capital Management & Treasury, is responsible for monitoring risk limits, for validating the methodology used and for reporting. The Capital & Treasury Committee takes strategic decisions relating to liquidity risk. These include, for example, the annual review of the Group liquidity policy, which lays down the principles to be used in liquidity management and the liquidity risk limits (including an escalation process where limits are exceeded) and emergency planning. In addition, a Treasury Liquidity Management Committee has been established that regularly monitors the Bank's liquidity position and the market situation.

Liquidity management and reporting to the Board of Managing Directors is based on Dresdner Bank's internal liquidity risk model. This builds on an integrated liquidity management system, which is used to run a daily scenario-based run-off profile to show the 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 appropriately conservative modelling. 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 volume model. The parameters of the models and the processes are reviewed regularly; this process did not lead to any fundamental changes in the internal liquidity risk model in the year under review.

Short-term liquidity risk is managed by setting limits for cumulative liquidity gaps per maturity band (for maturities of up to one year). These limits are broken down to the individual Bank units for operational management purposes. Liquidity maturity transformation is managed by limiting the funding ratio – the ratio of assets to funds with maturities of more than one year.

Stress testing, which models the effects of unexpected developments on the liquidity situation, is an important component of the internal liquidity risk model. In addition, it provides information about potential countermeasures for emergency planning. These stress scenarios relate to both Bank-specific and market-specific crises and take into account 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. For example, liquidity lines to conduits are simulated in stress tests using a significantly higher drawdown probability than other credit lines. The Bank maintains a liquidity reserve consisting of unencumbered, liquid securities to accommodate unexpected payment obligations arising, for example, from draw-downs on liquidity lines. The volume of unencumbered securities eligible for refinancing with the ECB amounted to €34.1 billion at the year-end (previous year: €28.9 billion).

Furthermore, the liquidity management system is used to analyse key empirical parameters such as the volumes and composition of the unencumbered securities, securities deposited as collateral with central banks, unsecured funding through banks and own issues of money-market securities.

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 and to avoid concentration risk, Dresdner Bank places particular emphasis on highly diversified refinancing in terms of customer groups, currencies, instruments and markets. The Bank's planning of its medium- and long-term refinancing activities is based on the funding ratio and takes into consideration planned new lending business and liabilities falling due and requiring replacement.

Despite the tight market situation in the second half of 2007 as a consequence of the US subprime mortgage crisis, the trend at the Bank was towards an increase in liquidity flexibility and reserves in the maturity segment up to one year. Refinancing of long-term assets with corresponding liabilities was maintained at a high level. The internal liquidity risk model proved its worth during the crisis as a risk-sensitive and reliable instrument for managing the liquidity situation even in non-standard market situations. The liquidity surplus in the one-month band according to the internal liquidity risk model amounted to €28 billion at year-end (previous year: €27 billion).

At no point during the year under review were Group-wide liquidity limits or the regulatory liquidity requirements exceeded.

### Reputational and environmental risk

In addition to the types of risk outlined above, reputational risk and environmental risk may exist. These risks cannot be quantified unambiguously and are not backed by either regulatory or internal capital.

#### Reputational risk

Reputational risk is the risk that Dresdner Bank will lose its good reputation in the eyes of its stakeholders, i.e. its customers, Allianz Group shareholders, employees, or the wider public. Reputational risk may arise from all activities by the Bank and may lead to a decline in the enterprise value or an increase in our opportunity costs. Conversely, losses from other types of risk, regardless of their size, may lead to long-term reputational damage if they become publicly known. For this reason, Dresdner Bank’s risk management activities aim to identify and assess as early as possible reputational risk at all levels of Dresdner Bank. To this end, areas in which conflicts with stakeholders or public controversy may arise are classified as sensitive or even as areas in which no business may be done. To facilitate proactive risk management, Dresdner Bank has instituted a binding Group-wide policy to be applied during business decisions that lays down the process for managing reputational risk. The use of uniform principles, methods and evaluation criteria ensures that our good name is protected.

### Environmental risk

Environmental risk comprises the potential 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 materialises at the Bank's customers and this has a negative impact on Dresdner Bank (for example through a deterioration in the value of collateral resulting from contaminated sites). For this reason, environmental risk is treated as a trigger for credit and reputational risk and is systematically analysed, assessed and managed in Dresdner Bank’s divisions and units, using an environmental management system that is certified in accordance with ISO 14001:2006. Internationally accepted standards (World Bank Standards, Hermes Guidelines, OECD Common Approaches, etc.) are applied; for example, environmental and climate risk is also taken into account when making credit decisions. In its project finance business, Dresdner Bank applies the Equator Principles, which it has undertaken to comply with in the revised 2006 version, too. In addition, the management of environmental risk as part of reputational risk aims to manage the social consequences of Dresdner Bank’s business activities to the benefit of all stakeholders, as part of the Bank’s sustainability strategy. This also takes into account respect for human rights, anti-corruption measures, compliance with minimum labour standards and animal protection measures.

## Summary and Outlook

At Dresdner Bank, we have laid a solid foundation for global risk management and control with our key risk principles. In order to ensure high-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.

The potential spill-over of the financial market crisis to other segments (e.g. monoline insurers), the trend reversal in the credit cycle, expectations of recession, fears of inflation and potential geopolitical events (e.g. 11 September 2001) will place new demands on the vigilance of risk management. Timely awareness of risk positions and the readiness to implement the appropriate risk management measures will play an even greater role in future.

With the introduction of Basel II as from the beginning of 2008, the estimated probabilities of debtor default calculated using internal ratings represent a major driver for regulatory capital requirements. Since the probability of default tends to be highly dependent on the economic cycle, increased volatility of risk-weighted assets and hence of banks' capital ratios is to be expected in the future (procyclicity). Moreover, under Basel II margin calls to clients to cover risk costs will tend to depend to an even greater extent on individual client creditworthiness and macroeconomic factors.

The Risk function accommodates the need for flexible adaptation to a constantly changing environment by continuously improving its processes and systems infrastructure from an efficiency and quality perspective.

# Consolidated Financial Statements

# Income Statement

| | Note | 2007<br>€m | 2006<br>€m | Change<br>€m | <br>% |
|---|---|---|---|---|---|
| Net interest and current income | 02 | 3,061 | 2,664 | 397 | 14.9 |
| – Interest and current income | | 7,691 | 6,925 | 766 | 11.1 |
| – Current income from equity-accounted investments | | 245 | 63 | 182 | >+100.0 |
| – Interest expense | | 4,875 | 4,324 | 551 | 12.7 |
| Net fee and commission income | 03 | 2,866 | 2,841 | 25 | 0.9 |
| – Fee and commission income | | 3,246 | 3,205 | 41 | 1.3 |
| – Fee and commission expense | | 380 | 364 | 16 | 4.4 |
| Net trading income | 04 | -481 | 1,278 | -1,759 | |
| Other operating income | 07 | 0 | 30 | -30 | -100.0 |
| **Total operating income** | | **5,446** | **6,813** | **-1,367** | **-20.1** |
| Administrative expenses | 05 | 4,849 | 5,397 | -548 | -10.2 |
| Other operating expenses | 07 | 19 | 39 | -20 | -51.3 |
| **Total operating expenses** | | **4,868** | **5,436** | **-568** | **-10.4** |
| Loan impairment losses | 06 | -132 | 27 | -159 | |
| **Operating profit** | | **710** | **1,350** | **-640** | **-47.4** |
| Net income from financial investments | 08 | 183 | 276 | -93 | -33.7 |
| Restructuring charges | 09 | 50 | 422 | -372 | -88.2 |
| **Profit before tax** | | **843** | **1,204** | **-361** | **-30.0** |
| Tax expense | 31 | 373 | 258 | 115 | 44.6 |
| **Profit after tax** | | **470** | **946** | **-476** | **-50.3** |
| Profit attributable to minority interests | | 60 | 76 | -16 | -21.1 |
| **Profit for the period** | | **410** | **870** | **-460** | **-52.9** |
| | | | | | |
| **Appropriation of distributable profit** | | | | | |
| Profit for the period | | 410 | 870 | -460 | -52.9 |
| Addition to retained earnings | | 410 | 569 | -159 | -27.9 |
| Distributable profit | | 0 | 301 | -301 | -100.0 |
| | | | | | |
| Earnings per share (€) | 10 | 0.73 | 1.51 | | |

# Balance Sheet

| Assets | Note | 31/12/2007 €m | 31/12/2006 €m | Change €m | % |
|---|---|---|---|---|---|
| Cash funds | 12 | 6,643 | 5,191 | 1,452 | 28.0 |
| Trading assets | 13 | 159,700 | 176,854 | -17,154 | -9.7 |
| Financial assets designated at fair value | 14 | 8,648 | 5,954 | 2,694 | 45.2 |
| Loans and advances to banks | 15 | 113,200 | 145,339 | -32,139 | -22.1 |
| Loans and advances to customers | 16 | 188,211 | 196,775 | -8,564 | -4.4 |
| Loan impairment allowances | 18 | -762 | -980 | 218 | -22.2 |
| Financial investments | 19 | 13,718 | 15,948 | -2,230 | -14.0 |
| Equity-accounted investments | 19 | 565 | 468 | 97 | 20.7 |
| Property and equipment | 20 | 1,265 | 1,359 | -94 | -6.9 |
| Intangible assets | 21 | 445 | 432 | 13 | 3.0 |
| Deferred tax assets | 31 | 1,912 | 1,978 | -66 | -3.3 |
| Other assets | 22 | 6,664 | 5,579 | 1,085 | 19.4 |
| **Total assets** | | **500,209** | **554,897** | **-54,688** | **-9.9** |

| Liabilities and Equity | Note | 31/12/2007 €m | 31/12/2006 €m | Change €m | % |
|---|---|---|---|---|---|
| Trading liabilities | 24 | 119,026 | 115,044 | 3,982 | 3.5 |
| Financial liabilities designated at fair value | 25 | 2,309 | 937 | 1,372 | >+100.0 |
| Liabilities to banks | 26 | 128,149 | 168,847 | -40,698 | -24.1 |
| Liabilities to customers | 27 | 185,372 | 191,322 | -5,950 | -3.1 |
| Securitised liabilities | 28 | 34,633 | 45,970 | -11,337 | -24.7 |
| Provisions | 29 | 3,109 | 3,456 | -347 | -10.0 |
| Deferred tax liabilities | 31 | 107 | 86 | 21 | 24.4 |
| Other liabilities | 32 | 7,145 | 6,583 | 562 | 8.5 |
| Subordinated liabilities | 33 | 6,267 | 6,192 | 75 | 1.2 |
| Profit-participation certificates | 34 | 1,686 | 2,262 | -576 | -25.5 |
| Equity | 35 | 12,406 | 14,198 | -1,792 | -12.6 |
| – Equity attributable to shareholder of parent | | 10,587 | 12,219 | -1,632 | -13.4 |
| – Subscribed capital | | 1,503 | 1,503 | – | – |
| – Capital reserves | | 6,383 | 6,383 | – | – |
| – Retained earnings | | 3,138 | 2,759 | 379 | 13.7 |
| – Treasury shares | | -1,150 | – | -1,150 | |
| – Translation reserve | | -622 | -478 | -144 | 30.1 |
| – Cumulative remeasurement gains/losses on financial instruments | | 1,335 | 1,751 | -416 | -23.8 |
| – Distributable profit | | 0 | 301 | -301 | -100.0 |
| – Minority interests | | 1,819 | 1,979 | -160 | -8.1 |
| **Total liabilities and equity** | | **500,209** | **554,897** | **-54,688** | **-9.9** |

# Statement of Changes in Equity

| €m | Subscribed capital | Capital reserves | Retained earnings | Treasury shares | Translation reserve | Cumulative remeasurement gains/losses | Distributable profit | Equity attributable to shareholder of parent |
|---|---|---|---|---|---|---|---|---|
| **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 | | | | | | 503 | | 503 |
| Remeasurement gains/losses on cash flow hedges | | | | | | -1 | | -1 |
| Share of changes recognised directly in equity of associates | | | -13 | | | 14 | | 1 |
| Other capital changes | | | -10 | | | | | -10 |
| Profit for the period | | | | | | | 870 | 870 |
| Addition to retained earnings | | | 569 | | | | -569 | – |
| Distribution of the distributable profit | | | | | | | -809 | -809 |
| **31 December 2006/1 January 2007** | **1,503** | **6,383** | **2,759** | **–** | **-478** | **1,751** | **301** | **12,219** |
| Changes due to currency translation | | | | | -144 | | | -144 |
| Remeasurement gains/losses on available-for-sale financial instruments | | | | | | -471 | | -471 |
| Remeasurement gains/losses on cash flow hedges | | | | | | 40 | | 40 |
| Share of changes recognised directly in equity of associates | | | -8 | | | 15 | | 7 |
| Other capital changes | | | -23 | -1,150 | | | | -1,173 |
| Profit for the period | | | | | | | 410 | 410 |
| Addition to retained earnings | | | 410 | | | | -410 | – |
| Distribution of the distributable profit | | | | | | | -301 | -301 |
| **31 December 2007** | **1,503** | **6,383** | **3,138** | **-1,150** | **-622** | **1,335** | **–** | **10,587** |

| €m | Subscribed capital and minority interests in reserves | Translation reserve | Cumulative remeasurement gains/losses | Distributable profit | Total minority interests |
|---|---|---|---|---|---|
| **1 January 2006** | **2,277** | **-87** | **23** | **–** | **2,213** |
| Changes in minority interests | -118 | -213 | 21 | | -310 |
| Profit for the period | | | | 76 | 76 |
| Addition to retained earnings | 76 | | | -76 | – |
| **31 December 2006/1 January 2007** | **2,235** | **-300** | **44** | **–** | **1,979** |
| Changes in minority interests | 431 | -684 | 33 | | -220 |
| Profit for the period | | | | 60 | 60 |
| Addition to retained earnings | 60 | | | -60 | – |
| **31 December 2007** | **2,726** | **-984** | **77** | **–** | **1,819** |

# Statement of Cash Flows

| €m | 2007 | 2006 |
|---|---|---|
| **Operating activities** | | |
| Profit for the period | 410 | 870 |
| Adjustments to reconcile profit to net cash used in operating activities | | |
| Impairment losses on investments | 663 | 62 |
| Reversals of impairment losses on investments | 1 | -120 |
| Depreciation, amortisation and impairment losses, and reversals of impairment losses, on items of property and equipment and intangible assets | 248 | 437 |
| Profit attributable to minority interests | 59 | 76 |
| Changes in provisions | -217 | -1,601 |
| Changes in other non-cash items | 1,411 | -201 |
| Gains/losses on the disposal of financial investments, property and equipment | -306 | -438 |
| Net decrease/increase in loans and advances to banks | 31,947 | -41,786 |
| Net decrease/increase in loans and advances to customers | 8,564 | -16,889 |
| Net decrease/increase in trading portfolio | 19,212 | 17,779 |
| Net decrease/increase in other assets | -465 | 4,103 |
| Net decrease/increase in liabilities to banks | -40,699 | 25,154 |
| Net decrease/increase in liabilities to customers | -5,949 | 18,964 |
| Net issuance of securitised liabilities | -11,337 | -4,109 |
| Net decrease/increase in other liabilities | -220 | -793 |
| **Net cash provided by/used in operating activities** | **3,322** | **1,508** |
| **Investing activities** | | |
| Proceeds from the disposal of financial investments | 7,048 | 5,147 |
| Proceeds from the disposal of property and equipment | 264 | 361 |
| Payments for the acquisition of financial investments | -6,869 | -5,533 |
| Payments for the acquisition of property and equipment | -168 | -649 |
| Effects of changes in consolidated group structure | 50 | 5 |
| **Net cash provided by/used in investing activities** | **325** | **-669** |
| **Financing activities** | | |
| Purchase of treasury shares | -1,150 | – |
| Dividends paid | -301 | -809 |
| Net issuance of subordinated liabilities | 75 | 381 |
| Net issuance of profit-participation certificates | -467 | 832 |
| Payments on profit-participation certificates | -109 | -87 |
| Other | -201 | -216 |
| **Net cash provided by/used in financing activities** | **-2,153** | **101** |
| Effects of exchange rate changes | -42 | -44 |
| **Net decrease/increase in cash and cash equivalents** | **1,452** | **896** |
| Cash and cash equivalents at the beginning of the year | 5,191 | 4,295 |
| Cash and cash equivalents at the end of the year | 6,643 | 5,191 |
| **Supplementary disclosure of cash flow information** | | |
| Cash interest received | 7,338 | 6,997 |
| Dividends received | 116 | 74 |
| Cash interest paid | 4,209 | 4,034 |
| Cash income taxes paid | -327 | -628 |
| Proceeds from the disposal of investments in Group companies | – | 97 |
| Of which: cash proceeds | – | 97 |

# Notes

**Accounting Policies**



**Notes to the Consolidated Income Statement and Segment Reporting**



**Notes to the Consolidated Balance Sheet – Assets**



**Notes to the Consolidated Balance Sheet – Liabilities and Equity**



**Other Balance Sheet Information**



**Off-Balance Sheet Business**



**Supplementary Information**

# 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 additional provisions of the HGB (e.g. those regarding the notes to the consolidated financial statements and the group management report) that are required to be applied to the IFRS consolidated financial statements, and in particular other explicitly defined additional disclosures. The provisions of the Aktiengesetz (AktG – German Stock Corporation Act) have been complied with.

All of the Standards and Interpretations that were required to be applied in the respective fiscal years have been applied in preparing the accompanying consolidated financial statements. New Standards and Interpretations required to be applied since 2007, such as IFRS 7 (Financial Instruments: Disclosures), IFRIC 7 (Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies), IFRIC 8 (Scope of IFRS 2), IFRIC 9 (Reassessment of Embedded Derivatives) and IFRIC 10 (Interim Financial Reporting and Impairment) had no effect on the Bank's accounting policies; however, IFRS 7 has a significant effect on the Bank's disclosures on financial instruments. We have not adopted Standards and Interpretations relevant to the Bank that have been issued but are not yet required to be applied before their respective effective dates, such as the revised IAS 1 (Presentation of Financial Statements; effective from 1 January 2009) and IAS 23 (Borrowing Costs; effective from 1 January 2009) as well as IFRS 8 (Operating Segments; effective from 1 January 2009), IFRIC 12 (Service Concession Arrangements; effective from 1 January 2008), IFRIC 13 (Customer Loyalty Programmes; effective from 1 July 2008) and IFRIC 14 (IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction; effective from 1 July 2008). The first time application of the above-mentioned Standards and Interpretations will have no material effect on Dresdner Bank AG's consolidated financial statements.

The reporting currency is the euro (€); the fiscal year is the calendar year. Amounts are generally given in millions of euros, percentages are rounded to one decimal place in accordance with the principles of commercial rounding. The consolidated financial statements contain figures that may be calculated using estimates and assumptions. These mainly include loan impairment losses, the fair value and impairment of financial instruments, deferred taxes, and provisions for pensions and other post-employment benefits. The estimates and assumptions used are based on historical experience and other factors, such as projections and expectations or forecasts with regard to future events, which appear appropriate under the given conditions. Actual figures could differ from the estimated figures.

**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 that the Bank controls from an economic perspective (as defined by a series of criteria, and in particular risks and rewards) 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 profit or loss of the Bank's majority-held subsidiaries are reported under equity in the items minority interests or profit 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 entities 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 equity-accounted investments. The Group's share of unrealised gains or losses from equity-accounted investments is reported under cumulative remeasurement gains/losses on financial instruments.

Investments in associates and joint ventures are reported under the item equity-accounted investments, 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 equity-accounted investments are included in net income from financial investments.

**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. The prior-year amounts of trading assets and liabilities from the derivatives business and of loans and advances to banks and customers as well as liabilities to banks and customers from transactions involving repurchase or reverse repurchase agreements have been restated in the accompanying financial statements. Further details are given in the relevant notes.

**Categories of financial instruments according to IAS 39.** 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 fair value can be reliably determined (fair value option).

- 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 receivables 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 does not use this category for designation purposes. The Bank reports these assets as financial investments.

- Other financial liabilities that are not held for trading purposes or for which the fair value option is not exercised comprise in particular liabilities to banks, liabilities to customers and securitised liabilities.

The fair value of a financial instrument is the amount for which it could be 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. 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 and the counterparties' credit ratings (including the Bank's own credit risk). In accordance with accounting requirements, differences between transaction prices and amounts calculated using valuation models that are not exclusively based on observable market data (“day one P&L”) are not recognised immediately in profit or loss, but instead are only recognised during the term of the transaction or if relevant market data is available.

**Classes of financial instrument according to IFRS 7.** In addition to financial instruments grouped in categories in accordance with IAS 39, the scope of IFRS 7 covers financial instruments that are recognised in accordance with certain other standards, as well as unrecognised financial instruments. All these financial instruments must be classified in accordance with IFRS 7 in classes that are determined using appropriate criteria. The characteristics of the financial instruments must be taken into account in this classification. As the nature of the financial instruments is already suitably reflected by the classification of the balance sheet items, the definition of classes focuses on the balance sheet items that contain financial instruments.

Classes of financial instrument on the assets side mainly comprise cash funds, trading assets, financial assets designated at fair value, loans and advances to banks, loans and advances to customers (including from finance leases as a separate item) and financial investments (including financial assets measured at cost that are not traded on an active market as a separate item). Classes of financial instrument on the liabilities side primarily comprise trading liabilities, financial liabilities designated at fair value, liabilities to banks, liabilities to customers, securitised liabilities, subordinated liabilities and profit-participation certificates.

If other non-financial assets and liabilities are also included exceptionally in individual balance sheet items in addition to financial instruments, the relevant financial instruments are classified in separate classes. In particular, these include the accrued interest recognised in other assets and other liabilities as well as the positive and negative fair values of hedging derivatives. Finally, financial guarantee contracts and irrevocable loan commitments each represent a separate class of financial instruments in accordance with IFRS 7.

The following overview illustrates the relationships between balance sheet items, IFRS 7 classes and IAS 39 categories.

| Class definition | Key measurement criterion | | | IAS 39 category |
|---|---|---|---|---|
| | **Fair value** | **Amortised cost** | **Other** | |
| **Asset classes** | | | | |
| Cash funds | | | Nominal value | n/a |
| Trading assets | X | | | Held for trading |
| Financial assets designated at fair value | X | | | Designated at fair value through profit or loss |
| Loans and advances to banks | | X | | Loans and receivables |
| Loans and advances to customers | | X | | Loans and receivables |
| Of which: receivables under finance leases | | X | | n/a |
| Financial investments[1] | X | | | Available for sale |
| Of which: financial assets not traded in an active market | | | Measured at cost | Available for sale |
| Other assets – accrued interest | | X | | Loans and receivables |
| Other assets – positive fair values of hedging derivatives in accordance with IAS 39 | X | | | n/a |
| **Liability classes** | | | | |
| Trading liabilities | X | | | Held for trading |
| Financial liabilities designated at fair value | X | | | Designated at fair value through profit or loss |
| Liabilities to banks | | X | | Other liabilities |
| Liabilities to customers | | X | | Other liabilities |
| Securitised liabilities | | X | | Other liabilities |
| Subordinated liabilities and profit-participation certificates | | X | | Other liabilities |
| Other liabilities – accrued interest | | X | | Other liabilities |
| Other liabilities – negative fair values of hedging derivatives in accordance with IAS 39 | X | | | n/a |
| **Off-balance sheet classes** | | | | |
| Financial guarantee contracts | X | | | n/a |
| Irrevocable loan commitments | X | | | n/a |

1) Excluding investment property.

**Initial/subsequent measurement.** Financial instruments are measured on initial recognition at the fair value of the consideration given (when financial assets are acquired) or received (when financial liabilities are assumed). 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 fair value cannot be reliably measured because they do not have a quoted price in an active market and suitable market parameters are not available. These financial instruments are measured at amortised cost using the effective interest method or at cost. Financial liabilities – with the exception of trading liabilities or liabilities that have been designated at fair value (fair value option) – are also carried at amortised cost using the effective interest method. Financial assets classified as available for sale are measured at fair value both initially and subsequently, and the gain or loss on fair value measurement is recognised in a separate item in equity.

Financial assets and liabilities are classified into the above-mentioned categories on initial recognition and their classification is not subsequently changed.

**Derecognition.** Financial assets are derecognised when all the significant risks and rewards of ownership of the asset are transferred, i.e. when the contractual rights to receive the cash flows from these assets are lost. If not all the risks and rewards have been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained risks and rewards does not prevent derecognition. Financial liabilities are derecognised when they have been redeemed, i.e. if the obligation associated with them is settled or cancelled, or at maturity.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Bank retains a small proportion of the risks. While the Bank is primarily exposed to credit risk in the case of securitisation transactions, it is mainly subject to market risk in the case of repurchase agreements and securities lending and borrowing transactions.

**Net interest and current income.** As a matter of principle, 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 companies and other equity investments, interest income on finance leases and rental income from investment property. Current income from equity-accounted investments 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 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 the brokerage of insurance policies, credit cards, home loan contracts and the distribution of closed-end funds. 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.

**Restructurings.** Provisions for restructurings are recognised if the Dresdner Bank Group has a detailed formal plan for the restructuring measures and has already begun implementing them, or has announced the key details of the restructuring. The detailed plan covers the business areas affected, the approximate number of staff whose positions will be discontinued under the restructuring, the related costs and the period in which the restructuring is expected to be implemented. The detailed plan must be communicated in such a manner that the parties affected can expect it to be implemented. The restructuring charges item in the income statement contains other expenses relating to restructurings that are not included in the provision for restructurings.

**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 with central banks. Cash funds are reported at their nominal amount.

**Trading assets and liabilities.** Trading assets comprise debt instruments, 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 form part of the positive fair values.

Trading assets and liabilities are measured at the trade date and subsequently remeasured at fair value. Measurement gains and losses are recognised in net trading income.

The global financial market crisis led to a significant liquidity squeeze in certain markets. While the market for some products proved completely illiquid, thus limiting the availability of market prices, other products experienced a sharp fall in their market prices.

Reliable market prices for the Bank's portfolio of RMBSs and CDOs that were particularly affected by the financial market crisis were only available to a limited extent in the second half of the year and at the end of the year. We therefore based our valuations of these securities largely on the market values of similarly structured securities. These quotations were taken from the standard quoted market prices available from other market participants and competitors. If this was not possible for CDOs due to the absence of quotations, vintage- and rating-specific valuations were estimated on the basis of the ABX Home Equity Index. As there are no generally valid market standards, limits apply to the valuation models, and alternative assumptions and inputs would produce different results.

**Financial assets and liabilities designated at fair value.** All financial instruments that meet certain criteria on initial recognition may be irrevocably designated as at fair value. The designation of financial instruments as at fair value is subject to a review that is based on strict criteria.

The Bank uses the fair value option to eliminate or significantly reduce accounting mismatches in the recognition or measurement of financial instruments. For example, accounting mismatches occur in structured transactions in which economic hedging instruments on the one hand and the other financial instruments on the other are accounted for using different methods. In the case of structured products that contain an embedded derivative, the fair value option also serves to avoid splitting the product into a separate derivative and a host contract (reduction of complexity).

Quoted prices and valuation models are used to determine fair value. Any changes to fair value in subsequent periods are recognised in net trading income. Current interest income and expense is reported in net trading income in the case of trading-related instruments, and in net interest and current income in the case of non-trading-related instruments.

**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 financial investments, 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 value of the legal purchase is 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 financial investments, 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 impairment allowances and loan loss provisions.** The Bank uses the following criteria to determine objective evidence of impairment: significant financial difficulty of the issuer or debtor, a breach of contract, a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty, probability that the borrower will enter bankruptcy or other financial reorganisation, the disappearance of an active market for the financial asset in question because of financial difficulties, and observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

The total amount of loan impairment allowances and loan loss provisions comprise loan impairment allowances against assets and loan loss provisions associated with contingent liabilities such as guarantees, irrevocable loan commitments, or other obligations, which are recognised as liabilities. Loan impairment allowances and loan loss provisions are broken down for reporting purposes into allowances and provisions for specific risks and allowances and provisions for general risks. Allowances and provisions for country risks, which were reported previously as a separate category, are allocated to the allowances and provisions for specific risks and allowances and provisions for general risks according to objective criteria, in order to improve the methodology used.

Allowances and provisions for specific risks are established to provide for individually identified credit and counterparty and country risk-related counterparty risks. The amount of the allowances and provisions 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. Additionally, the amount of the country risk-related allowance and provision for specific risks is based on the internal country rating and on the Bank's historical loss experience. The amount of interest added back to the present value of impaired and called-in loans (unwinding) is determined using the individual interest rate before the loan was called in and reported as interest income.

Smaller standardised loans are grouped together to form homogeneous portfolios. In this case a collective allowance 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 & Corporate Clients division. The collective allowance is reported as a component of the allowances and provisions for general risks. Interest income from unwinding is also calculated in the case of the collective allowance, as with allowances and provisions for specific risks.

Allowances and provisions for general risks are established to provide for incurred but unidentified losses resulting from credit and country risks that are inherent in the loan portfolio as at the reporting date. They are calculated using a model-based approach that is primarily based on historical loss probabilities and loss ratios for that portion of the loan portfolio for which no other loan impairment allowances have been recognised to date, plus the average identification period to be applied. Significant changes in the economic environment and current events are taken into account when determining the allowances and provisions for general risks. Examples are extreme price changes on the commodities and currency markets. The amount of allowances and provisions for general risks is determined by the independent Risk function.

As soon as a loan becomes uncollectable, it is written off against any existing allowances and provisions for specific risks or directly recognised as an expense in the income statement. Subsequent recoveries are recognised by crediting the loan impairment losses item in the income statement.

The Bank renegotiates the contractual conditions for certain loans that would otherwise be past due or impaired due to a deterioration in the borrower's economic situation. This means that the Bank makes concessions to the borrower such as deferral, partial waiver, an extension of the term, or similar as part of troubled debt restructuring; as a result, it does not have to recognise allowances and provisions for specific risks. Further information is contained in the Risk Report.

**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.

The Bank primarily accounts for finance leases as the lessor. 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.

**Financial investments.** The Group's financial investments include debt instruments, equities and other variable-rate securities, shares in affiliated companies as well as investment property.

Reported shares in affiliated companies 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 the Group in companies included in the consolidated financial statements of the Allianz Group.

Debt instruments, equities and shares in affiliated companies reported under financial investments are classified as available-for-sale financial assets and hence reported at their fair value. If, in the case of unlisted equities and shares in affiliated companies, it is impossible to reliably determine either a price quotation in an active market or the relevant factors for the valuation models, they are recognised at cost. Investment property is measured 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. Depreciation of investment property – to which the depreciation periods described under property and equipment also apply – is reported under other operating expenses. Write-downs and disposal gains or losses are included in net income from financial investments.

Securities classified as available for sale are regularly tested for impairment. The amount of the impairment is the difference between (amortised) cost and the current fair value less any impairment losses already recognised in profit or loss. A distinction is made in the impairment test between equity and debt instruments with regard to the indications used.

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. Significant is defined as when fair value has fallen below cost by at least 20%. Prolonged is defined as when fair value has been permanently below cost for at least nine months. The amount of this impairment loss is recognised in the income statement under net income from financial investments. 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 reversed to income in the net income from financial investments item when the asset is disposed of.

Debt instruments classified as available for sale are classified as impaired if there is objective evidence of a loss event that has a negative effect on the expected cash flows from the instrument. This is the case in particular if the issuer's credit rating has deteriorated. However, changes in the risk-free rate generally have no effect on the expected cash flows from the instrument. Reductions in fair value due to changes in credit ratings are therefore recognised in profit or loss, and reductions in fair value due to changes in interest rates are generally taken directly to equity. The amount of impairment losses caused by changes in credit ratings is recognised in the income statement under net income from financial investments. Impairment losses are subsequently reversed to income under the net income from financial investments item up to a maximum of the original amortised cost if the reasons for the impairment of available-for-sale debt instruments no longer exist.

Income from debt instruments, including premiums and discounts amortised over the term of the instruments, is recognised in net interest and current income. Dividend income from equities and income from shares in affiliated companies and other equity investments are also recognised in this item. Gains and losses realised on the sale of these securities are reported under net income from financial investments.

**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 to 50 years; office furniture and equipment: 4 to 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 investment property 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.

**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 entity 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 of three or five years using the straight-line method in miscellaneous other 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.

**Tax expense.** 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. Income tax payable on profit for the period under the applicable tax law in each jurisdiction is recognised as an expense in the period in which the profit of the period is recognised.

**Structured financial instruments.** Structured products on the asset side (combined instruments) are generally recognised as financial assets classified as financial instruments at fair value through profit or loss. Insofar as these recognised product structures are not trading assets, they are generally classified as financial assets designated at fair value.

On the liabilities side, structured products resulting from Group financing are only recognised as single financial liabilities if the economic characteristics and risks of the primary and derivative components are closely related. In other cases where the primary and derivative components are not closely related, they are generally separated into the primary underlying instrument and the embedded derivatives. The primary underlying instrument is generally measured at amortised cost using the effective interest method and the embedded derivative is measured at fair value through profit or loss.

**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.

**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) 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 profit for the fiscal year. 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 guarantee contracts received. They are generally recognised as derivatives at fair value in profit or loss. CDSs that demonstrably serve to hedge against interest and principal repayment defaults are not recognised in the balance sheet because they are contingent liabilities. The premiums are recognised on an accrual basis and the hedging effect is included in the recognition of loan impairment losses.

**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 at least 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.

**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 and pension trends are also taken into account. Actuarial gains and losses – resulting from changes in actuarial assumptions or the return on plan assets – 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.

The expected return on plan assets is determined on the basis of a minimum allocation to the respective asset classes, taking into account a weighted average return on future investments.

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 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.

**Treasury shares.** The Dresdner Bank shares purchased from Allianz are reported as treasury shares and deducted from equity on the face of the balance sheet at cost. 100% of Dresdner Bank's outstanding shares are held indirectly by Allianz SE.

**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.

**Contingent liabilities and other commitments.** We generally report financial guarantee contracts as contingent liabilities and irrevocable loan commitments as other commitments. Financial guarantee contracts are contracts that require the Bank as the issuer to make specified payments to reimburse the holder for losses it incurs because a specified debtor fails to make payment when due in accordance with the original or modified contractual terms of a debt instrument. Where contracts provide for the payment of premiums in arrears, financial guarantee contracts are recognised at the date on which the contract was entered into at a value of zero using the net method, i.e. the present value of the premium is eliminated against the present value of the guarantee contract. These financial guarantee contracts are subsequently recognised in the amount at which a claim will probably be made against the issuer. Where contracts provide for the payment of a one-time premium in advance, liabilities are initially recognised in the corresponding amount and subsequently amortised.

Irrevocable loan commitments comprise firm commitments to provide loans at predetermined conditions. Provisions are recognised for loan commitments if the Bank has a present legal obligation, an outflow of resources embodying economic benefits is probable and the amount of the obligation can be reliably estimated.

**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 provided by/used in 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 financial investments and property and equipment. Financing activities include all cash flows provided by/used in 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.

**Type and extent of risks.** In addition to the information on the risks associated with financial instruments in the individual notes, the Risk Report in particular includes detailed disclosures in the sections entitled "Credit and counterparty risk", "Market risk" and "Liquidity risk". In Note 39, the disclosures on liquidity risk are supplemented by a presentation of the carrying amounts of receivables and liabilities by remaining maturity.

**Capital management.** Information on capital management can be found in the section of the Management Report entitled "Value-based Management" and in the Risk Report in the section entitled "Risk capital-based risk management". In addition, regulatory capital and risk-weighted assets are presented in Note 36.

# Notes to the Consolidated Income Statement and Segment Reporting

## 02 Net interest and current income

| €m | 2007 | 2006 |
|---|---|---|
| Interest income from | | |
| – Lending and money market transactions[1)] | 6,773 | 6,117 |
| – Fixed-income securities and registered government debt | 569 | 442 |
| Current income from | | |
| – Equities and other variable-rate securities[2)] | 118 | 73 |
| – Finance leases | 174 | 154 |
| – Investment property | 57 | 139 |
| **Total interest and current income** | **7,691** | **6,925** |
| **Current income from equity-accounted investments** | **245** | **63** |
| Interest expense for | | |
| – Deposits | 2,830 | 2,584 |
| – Securitised liabilities | 1,495 | 1,162 |
| – Subordinated liabilities | 195 | 218 |
| – Other | 355 | 360 |
| **Total interest expense** | **4,875** | **4,324** |
| **Net interest and current income** | **3,061** | **2,664** |

1) Effect of the application of IAS 39: €169 million (previous year: €66 million).
2) Including income from unconsolidated affiliated companies.

Interest income contains €113 million from financial instruments at fair value through profit or loss (previous year: €87 million); the corresponding figure for interest expense is €23 million (previous year: €22 million). Interest income from lending and money market transactions includes interest income from unwinding of €8 million (previous year: €6 million). Net interest income from trading activities of €142 million (previous year: €312 million) is reported in net trading income (see Note 4).

## 03 Net fee and commission income

| €m | 2007 | 2006 |
|---|---|---|
| **Fee and commission income** | **3,246** | **3,205** |
| – Securities business | 1,484 | 1,416 |
| – Asset management | 331 | 337 |
| – Mergers & acquisitions and underwriting business | 309 | 414 |
| – Payment transactions | 272 | 279 |
| – Foreign commercial business | 139 | 137 |
| – Fiduciary business | 10 | 10 |
| – Other | 701 | 612 |
| **Fee and commission expenses** | **380** | **364** |
| – Securities business | 163 | 113 |
| – Asset management | 8 | 12 |
| – Mergers & acquisitions and underwriting business | 21 | 53 |
| – Payment transactions | 18 | 17 |
| – Foreign commercial business | 0 | 0 |
| – Fiduciary business | 0 | 0 |
| – Other | 170 | 169 |
| **Net fee and commission income** | **2,866** | **2,841** |

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 | 2007 | 2006 |
|---|---|---|
| Net realised gains/losses | 444 | 912 |
| Net remeasurement gains/losses[1)] | -1,016 | 80 |
| Brokerage fees and commissions | -51 | -26 |
| Net interest income | 142 | 312 |
| – Interest and dividend income | 13,560 | 11,195 |
| – Interest expense | 13,418 | 10,883 |
| **Net trading income** | **-481** | **1,278** |

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 breakdown of net trading income by transaction type has been based since fiscal year 2007 on the management classification, which means that the published presentation corresponds to the internal management information. The figures for the previous year were restated accordingly.

| €m | 2007 | 2006 |
|---|---|---|
| Trading in interest rate products | 431 | 657 |
| Trading in equities products | 260 | 311 |
| Foreign exchange and precious metals trading | 256 | 210 |
| Trading in credit products | -1,231 | 241 |
| Other trading activities | 26 | -28 |
| Net effect of remeasurement under IAS 39 | -223 | -113 |
| – Remeasurement gains/losses from the application of IAS 39 | -279 | -140 |
| – Remeasurement gains/losses from the application of the fair value option | 56 | 27 |
| **Net trading income** | **-481** | **1,278** |

The gains and losses from ineffective hedges contained in net trading income are explained in the note on our derivatives business (Note 42).

## 05 Administrative expenses

| €m | 2007 | 2006 |
|---|---|---|
| Total staff costs | 2,935 | 3,415 |
| – Wages and salaries | 2,457 | 2,849 |
| – Social security | 302 | 344 |
| – Post-employment and other employee benefit costs | 176 | 222 |
| Other administrative expenses | 1,715 | 1,779 |
| – Occupancy expenses | 331 | 405 |
| – IT costs | 466 | 472 |
| – Expenses for office furniture and equipment | 84 | 88 |
| – Miscellaneous other administrative expenses | 834 | 814 |
| Depreciation of property and equipment | 199 | 203 |
| **Administrative expenses** | **4,849** | **5,397** |

The average number of vocational trainees during the year was 1,056 (previous year: 1,121); the average number of trainees was 118 (previous year: 131). Excluding vocational and other trainees, the average number of staff employed during the year was 30,556 (previous year: 31,903). This number can be broken down as follows:

| Employees | 2007 | 2006 |
|---|---|---|
| Germany | 24,900 | 26,043 |
| Other countries | 5,656 | 5,860 |
| **Total** | **30,556** | **31,903** |

## 06 Loan impairment losses

| €m | 2007 | 2006 |
|---|---|---|
| Additions to loan impairment losses[1)] | 512 | 508 |
| Amounts released | 446 | 305 |
| Recoveries on loans previously written off | 198 | 176 |
| **Loan impairment losses** | **-132** | **27** |

1) Contains direct write-downs in the amount of €8 million (previous year: €15 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. The decline in other operating expenses to €20 million (previous year: €39 million) is due in particular to the decrease in ongoing depreciation and maintenance expenses for investment property. This is partially offset by losses realised on the sale of property and equipment and lower compensation payments.

## 08 Net income from financial investments

| €m | 2007 | 2006 |
|---|---|---|
| Net realised gains/losses | 272 | 500 |
| Reversals of impairment losses | – | 77 |
| Impairment losses | 89 | 301 |
| **Net income from financial investments** | **183** | **276** |

€52 million (previous year: €31 million) of the impairment losses are attributable to available-for sale financial assets.

| €m | 2007 | 2006 |
|---|---|---|
| Net income from the disposal of available-for-sale financial assets | 231 | 252 |
| Net income from non-current assets held for sale | – | 122 |
| Net loss from the sale of receivables and repayment of liabilities | -33 | -11 |
| Net income from the disposal/remeasurement of affiliated companies/associates | 13 | 25 |
| Net loss on investment property | -28 | -112 |
| **Net income from financial investments** | **183** | **276** |

## 09 Restructuring charges

| €m | 2007 | 2006 |
|---|---|---|
| 2007 programmes | 48 | – |
| "Neue Dresdner Plus" programme | 4 | 408 |
| Programmes before 2006 | -2 | 14 |
| **Restructuring charges** | **50** | **422** |

Total restructuring charges in the year under review amounted to €50 million. €48 million of this amount is attributable to new programmes in the Investment Banking division and in the Business Services segment.

The Investment Banking division launched a new “Credit Initiative” programme in response to the current financial crisis, under which it is withdrawing from certain business segments and adjusting its product portfolio to the market situation. This affected in particular the Credit Flow Trading, Exotic Credit Derivatives and Debt Capital Markets areas, including their front office support units. The “Credit Initiative” and supplementary measures will be accompanied by a workforce reduction. The associated restructuring charges amount to approximately €26 million.

In the Business Services segment, outsourcing measures in the IT area resulted in additional restructuring charges of €22 million; these are designed to generate additional efficiency improvements.

Together with restructuring charges for which no provisions may be recognised, the regular review of existing provisions for the “Neue Dresdner Plus” programme led to a net expense of €4 million, and net income of €2 million for previous programmes. Information on changes in the provisions is provided in Note 29.

## 10 Earnings per share

We acquired 40.8 million own shares in July 2007, thereby reducing the average number of shares outstanding for the year under review to 560.2 million. Earnings per share are calculated by dividing profit for the period by the weighted average number of shares outstanding during the fiscal year.

| | 2007 | 2006 |
|---|---|---|
| Profit for the period (€m) | 410 | 870 |
| Average number of shares outstanding (millions of shares) | 560.2 | 578.1 |
| **Earnings per share (€)** | **0.73** | **1.51** |

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 2007 and 2006. The diluted earnings per share therefore correspond to the earnings per share. The dividend per share paid in the year under review was €0.52 (previous year: €1.40).

## 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.

**Segment reporting restructured.** The segment reporting reflects the decision taken at the end of June 2006 to combine the Bank's middle-market business with the activities of its former Private & Business Clients division and to manage this in the renamed Private & Corporate Clients division. The Bank's business with large caps and groups with capital market potential, which was previously assigned to the former Corporate Banking segment, was bundled with the activities of the Bank's former Dresdner Kleinwort segment in the new Investment Banking division. The new organisational structure was implemented with effect from the beginning of fiscal year 2007. The reporting structure has been adjusted accordingly.

The business activities of the **Private & Corporate Clients** division comprise the customer offerings of Personal, Private & Business Banking (PPB), Private Wealth Management (PWM) and Corporate Banking (CB). Personal Banking offers private clients personalised financial solutions comprising products for asset accumulation, financing, retirement provision and insurance. Private Banking's 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. For clients with substantial, complex assets, Private Wealth Management offers professional support and end-to-end advisory services by highly qualified, experienced research teams and a global network of experts, combined with the individual approach, flexibility and closeness of an exclusive private bank. Corporate Banking operates in the area of traditional commercial business with corporate clients. Its range of services includes lending and deposits, foreign commercial business, securities and payments, including related e-business activities. Private & Corporate Clients is present both in Germany and in all major European financial centres.

The **Investment Banking** division combines the capital markets business activities of the former Dresdner Kleinwort segment and the business with large caps and groups with capital market potential previously handled by the former Corporate Banking division. Under its Dresdner Kleinwort brand name, Investment Banking offers a wide range of investment banking services in its two areas of Global Banking and Capital Markets. Global Banking deploys its advisory, financing and structuring expertise in a comprehensive product portfolio for corporate clients, financial investors and public-sector clients. Its services offering includes strategic consulting, mergers & acquisitions, equity finance, credit finance, structured and securitised finance, trade finance and cash management. Capital Markets offers its expertise in placements, trading and research primarily to our institutional clients, including pension funds, asset managers and alternative asset managers.

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

The **Corporate Functions** segment consists of the costs of those functional areas that have a Group management role (Finance/Compliance, Risk Management/Risk Control and the units reporting directly to the CEO, such as Group Coordination, Internal Audit and Corporate Communication). The administrative expenses incurred by these units are allocated in full to the operating divisions during internal cost allocation. In addition, the segment comprises the profit from capital management and Treasury operations as well as the Bank's financial investment portfolio. The segment also comprises consolidation adjustments and specific reconciliation items to the overall Group earnings measures. Among other things, these include gains and losses from the application of IAS 39 to the banking book and expenses for certain projects affecting the Bank as a whole.

**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.

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 profit or loss from specific large transactions in the reported profit before tax, net interest and current income for the Investment Banking division contains a pre-tax equivalent of the profit or loss after tax 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.

In the course of the further refinement of our segment reporting, all balance sheet items are now included in segment reporting for the allocation of segment assets and liabilities to the divisions, in contrast to previous years. The allocation of equity continues to reflect the risk capital tied up in the segments. The reconciling item to the equity of the Bank as a whole is contained in the Corporate Functions segment. The prior-year figures shown have also been computed using the new procedures to enhance comparability.

| | Private & Corporate Clients | | Investment Banking | | Business Services | | Corporate Functions | | Group (total) | |
|---|---|---|---|---|---|---|---|---|---|---|
| €m | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Net interest and current income | 1,669 | 1,608 | 1,103 | 961 | -10 | -9 | 299 | 104 | 3,061 | 2,664 |
| Net fee and commission income | 1,887 | 1,944 | 867 | 860 | 6 | 25 | 106 | 12 | 2,866 | 2,841 |
| Net trading income | 69 | 72 | -342 | 1,290 | – | – | -208 | -84 | -481 | 1,278 |
| Other operating income | – | – | – | – | – | – | 0 | 30 | 0 | 30 |
| **Total operating income** | **3,625** | **3,624** | **1,628** | **3,111** | **-4** | **16** | **197** | **62** | **5,446** | **6,813** |
| Direct administrative expenses | 1,768 | 1,794 | 1,266 | 1,600 | 1,182 | 1,296 | 633 | 707 | | |
| Inter-segment cost allocation | 903 | 928 | 956 | 977 | -1,173 | -1,216 | -686 | -689 | | |
| Administrative expenses | 2,671 | 2,722 | 2,222 | 2,577 | 9 | 80 | -53 | 18 | 4,849 | 5,397 |
| Other operating expenses | 12 | -5 | 8 | – | 7 | – | -8 | 44 | 19 | 39 |
| **Total operating expenses** | **2,683** | **2,717** | **2,230** | **2,577** | **16** | **80** | **-61** | **62** | **4,868** | **5,436** |
| Loan impairment losses | 58 | 124 | 57 | -15 | – | – | -247 | -82 | -132 | 27 |
| **Operating profit/loss** | **884** | **783** | **-659** | **549** | **-20** | **-64** | **505** | **82** | **710** | **1,350** |
| Net income from financial investments | -2 | 16 | -67 | 4 | -1 | – | 253 | 256 | 183 | 276 |
| Restructuring charges | 4 | 101 | 33 | 131 | 14 | 2 | -1 | 188 | 50 | 422 |
| **Profit/loss before tax** | **878** | **698** | **-759** | **422** | **-35** | **-66** | **759** | **150** | **843** | **1,204** |
| Change year on year | 180 | | -1,181 | | 31 | | 609 | | -361 | |
| Segment assets (€bn) | 61.9 | 62.7 | 422.3 | 475.8 | 0.7 | 0.7 | 15.3 | 15.7 | 500.2 | 554.9 |
| Segment liabilities (€bn) | 84.5 | 74.4 | 377.6 | 437.1 | 0.1 | 0.1 | 38.0 | 43.3 | 500.2 | 554.9 |
| Cost-income ratio, % | 74.0 | 75.0 | 137.0 | 82.8 | | | | | 89.4 | 79.8 |
| Loan loss ratio[1], % | 0.14 | 0.29 | 0.08 | -0.02 | | | | | -0.11 | 0.02 |
| Return on equity before tax[2], % | 44.1 | 42.1 | -25.9 | 16.8 | | | | | 8.5 | 15.6 |
| Risk capital average[3] | 2,000 | 1,900 | 2,800 | 3,300 | 100 | 100 | 1,600 | 1,800 | 6,500 | 7,100 |
| Risk-weighted assets (average) | 42,900 | 43,200 | 70,600 | 66,300 | 200 | 200 | 5,900 | 5,100 | 119,600 | 114,800 |

1) Loan impairment losses as a percentage of the average risk-weighted assets in the banking book.
2) Profit/loss before tax and restructuring charges as a percentage of the average equity under IFRSs; 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, intangible assets and investment property in fiscal year 2007 amounted to €205 million (previous year: €210 million) and related to the following segments: Private & Corporate Clients €26 million (previous year: €26 million), Investment Banking €12 million (previous year: €14 million), Business Services €135 million (previous year: €150 million) and Corporate Functions €32 million (previous year: €20 million). In addition, impairment losses – including write-downs included in restructuring charges – were recognised in the amount of €45 million (previous year: €214 million); these mainly relate to the Corporate Functions segment, at €31 million (previous year: €195 million) and Business Services, at €9 million (previous year: €11 million). Impairment losses on available-for-sale financial instruments in the amount of €52 million (previous year €31 million) are attributable to Investment Banking (€49 million) and Corporate Functions (€3 million); in the previous year, these were all attributable to the Corporate Functions segment).

Current income generated in 2007 from equity-accounted investments totalled €245 million (previous year: €63 million); this related to the Private & Corporate Clients (€33 million, previous year: €22 million), Investment Banking (€7 million, previous year: €25 million) and Corporate Functions (€205 million, previous year: €17 million) segments. The carrying amounts of associates can be broken down as follows: Private & Corporate Clients €339 million (previous year: €305 million), Investment Banking €59 million (previous year: €52 million) and Corporate Functions €167 million (previous year: €111 million).

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

| | Income | | Profit/loss before tax | | Total assets | |
|---|---|---|---|---|---|---|
| €m | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Germany | 9,422 | 8,396 | 1,815 | 585 | 347,524 | 462,371 |
| Europe (excluding Germany) | 2,746 | 4,016 | -1,112 | 313 | 242,983 | 234,369 |
| North America | 1,901 | 1,593 | 31 | 225 | 60,016 | 71,812 |
| Latin America | 48 | 55 | 0 | 0 | 893 | 1,198 |
| Asia/Pacific | 501 | 372 | 109 | 81 | 14,305 | 15,428 |
| Consolidation | -3,791 | -2,875 | – | – | -165,512 | -230,281 |
| **Total** | **10,827** | **11,557** | **843** | **1,204** | **500,209** | **554,897** |

The Bank’s operating units in North America, Latin America and Asia/Pacific only conduct Investment Banking busines

Total income includes interest and current income, current income from equities and other variable rate securities and from shares in affiliated companies, current leasing income, rental income from investment property, current income from equity-accounted investments, commission income, net trading income and other operating income.

# Notes to the Consolidated Balance Sheet – Assets

## 12 Cash funds

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Cash on hand | 460 | 428 |
| Balances with central banks | 6,182 | 4,762 |
| Of which: Deutsche Bundesbank | 5,129 | 3,993 |
| Treasury bills and Treasury discount paper | 1 | 1 |
| Of which: eligible for refinancing with Deutsche Bundesbank | – | – |
| **Cash funds** | **6,643** | **5,191** |

Due among other things to Deutsche Bundesbank's minimum reserve requirements, €5,409 million (previous year: €4,051 million) of the balances with central banks are subject to restrictions on availability.

## 13 Trading assets

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Debt instruments | 52,341 | 76,916 |
| Equities and other variable-rate securities | 35,296 | 34,532 |
| Positive fair values of derivative financial instruments | 72,043 | 65,358 |
| Other trading assets | 20 | 48 |
| **Trading assets** | **159,700** | **176,854** |

Breakdown of debt instruments

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Bonds and notes | 51,009 | 68,507 |
| – Public-sector issuers | 15,505 | 19,840 |
| – Other issuers | 35,504 | 48,667 |
| Money market securities | 1,332 | 8,409 |
| – Public-sector issuers | 1,004 | 1,253 |
| – Other issuers | 328 | 7,156 |
| **Debt instruments** | **52,341** | **76,916** |
| Of which: marketable securities | 51,352 | 74,746 |
| – listed securities | 37,896 | 46,689 |
| – unlisted securities | 13,456 | 28,057 |

Breakdown of equities and other variable-rate securities

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Equities | 27,897 | 30,382 |
| Other | 7,399 | 4,150 |
| **Equities and other variable-rate securities** | **35,296** | **34,532** |
| Of which: marketable securities | 29,817 | 31,169 |
| – listed securities | 27,898 | 30,580 |
| – unlisted securities | 1,919 | 589 |

Positive and negative fair values of derivative financial instruments relating to the same counterparty are generally disclosed gross. Based on existing netting agreements, positive and negative fair values relating to the same counterparties amounting to €19.5 billion (previous year: €15.7 billion) were netted because both the legal right and actual intention to offset can be demonstrated. The netting effect for the previous year (€57.8 billion) disclosed in the 2006 financial statements has been restated in the 2007 financial statements in accordance with IAS 8. This restatement increases the trading assets and liabilities reported in the 2006 balance sheet by €42.1 billion each, and thus total assets by the same amount; however, it does not affect either equity or profit for the period, and thus earnings per share, for 2006.

## 14 Financial assets designated at fair value

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Debt instruments | 5,253 | 4,593 |
| Equities and other variable-rate securities | 1,629 | 721 |
| Loans and advances to banks and customers | 1,766 | 640 |
| **Financial assets designated at fair value** | **8,648** | **5,954** |

The Bank's maximum credit risk exposure – excluding collateral or other credit enhancements – from designated loans was €1,779 million (previous year: €630 million). This amount was reduced by €1,468 million (previous year: €379 million) by credit derivatives used for hedging purposes. The change in the value of these loans due to changes in credit ratings amounted to €-23 million (previous year: €10 million), and their cumulative change was €-13 million (previous year: €10 million). The change in the fair value of the hedging derivatives amounted to €8 million in the year under review (previous year: nil), and the cumulative change was €8 million (previous year: nil). The change in the fair value due to changes in credit ratings was calculated by using the credit spread as a function of a series of parameters, primarily including the probability of default and the expected recovery rate in the event of default. In the majority of cases, the fair value of the assets is determined on the basis of trading prices, and in a few cases on the basis of specific models using the above-mentioned parameters.

## 15 Loans and advances to banks

| €m | 31/12/2007 Germany | 31/12/2007 Other countries | 31/12/2007 Total | 31/12/2006 Germany | 31/12/2006 Other countries | 31/12/2006 Total |
|---|---|---|---|---|---|---|
| Payable on demand | 2,962 | 20,909 | 23,871 | 5,144 | 27,388 | 32,532 |
| Other advances | 26,812 | 51,955 | 78,767 | 35,241 | 70,777 | 106,018 |
| Loans | 2,102 | 8,460 | 10,562 | 1,706 | 5,083 | 6,789 |
| **Loans and advances to banks** | **31,876** | **81,324** | **113,200** | **42,091** | **103,248** | **145,339** |
| Of which: collateralised money market transactions | 25,727 | 57,426 | 83,153 | 35,238 | 74,311 | 109,549 |

Financial assets from reverse repurchase agreements and financial liabilities from repurchase agreements with the same banks are generally reported gross and are not offset unless the legal right and actual intention to offset can be demonstrated. In the previous year's financial statements, an excess amount of €8.8 billion was offset in the case of reverse repurchase agreements and repurchase agreements with the same banks. In contrast, the amount offset in the case of cash collateral for securities lending and borrowing transactions was too low by €2.4 billion. The loans and advances to banks and liabilities to banks reported in the balance sheet for the previous year and, consequently, total assets were adjusted for these amounts in each case in accordance with IAS 8.

## 16 Loans and advances to customers

| €m | 31/12/2007 Germany | 31/12/2007 Other countries | 31/12/2007 Total | 31/12/2006 Germany | 31/12/2006 Other countries | 31/12/2006 Total |
|---|---|---|---|---|---|---|
| Loans and advances to customers | 67,684 | 33,013 | 100,697 | 66,389 | 38,557 | 104,946 |
| Of which: mortgage loans | 8,863 | 799 | 9,662 | 8,965 | 767 | 9,732 |
| municipal loans | 818 | 74 | 892 | 949 | 63 | 1,012 |
| home loans | 1,548 | 4 | 1,552 | 1,627 | 4 | 1,631 |
| other loans secured by mortgages | 14,353 | 127 | 14,480 | 15,310 | 136 | 15,446 |
| Collateralised money market transactions | 4,668 | 76,029 | 80,697 | 3,732 | 81,226 | 84,958 |
| Other advances | 807 | 6,010 | 6,817 | 888 | 5,983 | 6,871 |
| **Loans and advances to customers** | **73,159** | **115,052** | **188,211** | **71,009** | **125,766** | **196,775** |

Financial assets from reverse repurchase agreements and financial liabilities from repurchase agreements with the same customers are generally reported gross and are not offset unless the legal right and actual intention to offset can be demonstrated. In the previous year's financial statements, an excess amount of €13.4 billion was offset in the case of reverse repurchase agreements and repurchase agreements with the same customers. In contrast, the amount offset in the case of cash collateral for securities lending and borrowing transactions was too low by €4.3 billion. The loans and advances to customers and liabilities to customers reported in the balance sheet for the previous year and, consequently, total assets were adjusted for these amounts in each case in accordance with IAS 8.

Loans and advances to customers include receivables under finance leases amounting to €1,218 million (previous year: €2,081 million); these are described in more detail in Note 40.

| Breakdown by sector<br>€m | 31/12/2007 Germany | 31/12/2007 Other countries | 31/12/2007 Total | 31/12/2006 Germany | 31/12/2006 Other countries | 31/12/2006 Total |
|---|---|---|---|---|---|---|
| Manufacturing industry | 6,890 | 3,635 | 10,525 | 6,134 | 4,135 | 10,269 |
| Construction | 1,110 | 553 | 1,663 | 746 | 409 | 1,155 |
| Wholesale and retail trade | 4,975 | 3,409 | 8,384 | 4,287 | 1,710 | 5,997 |
| Financial institutions and insurance companies | 9,534 | 87,209 | 96,743 | 8,706 | 102,236 | 110,942 |
| Transport | 1,762 | 2,941 | 4,703 | 1,339 | 2,192 | 3,531 |
| Telecommunications | 89 | 741 | 830 | 470 | 277 | 747 |
| Service providers | 7,611 | 4,705 | 12,316 | 8,065 | 4,609 | 12,674 |
| Other | 4,393 | 5,831 | 10,224 | 2,974 | 5,509 | 8,483 |
| **Corporate customers** | **36,364** | **109,024** | **145,388** | **32,721** | **121,077** | **153,798** |
| **Public authorities** | **187** | **4,698** | **4,885** | **303** | **3,483** | **3,786** |
| **Private individuals** | **36,608** | **1,330** | **37,938** | **37,985** | **1,206** | **39,191** |
| **Loans and advances to customers** | **73,159** | **115,052** | **188,211** | **71,009** | **125,766** | **196,775** |

## 17 Lending volume

In contrast to the reporting of loans and advances, the lending volume includes the portfolios disclosed in the sub-items in Notes 15 and 16; it does not contain any collateralised money market transactions. The lending volume also includes loans and advances to banks and customers designated at fair value. The prior-year figure therefore increased by €641 million.

| €m | 31/12/2007 Germany | 31/12/2007 Other countries | 31/12/2007 Total | 31/12/2006 Germany | 31/12/2006 Other countries | 31/12/2006 Total |
|---|---|---|---|---|---|---|
| Corporate customers | 31,018 | 32,512 | 63,530 | 28,309 | 35,858 | 64,167 |
| Public authorities | 181 | 335 | 516 | 292 | 1,520 | 1,812 |
| Private customers | 36,485 | 1,578 | 38,063 | 37,788 | 1,454 | 39,242 |
| Customer loans | 67,684 | 34,425 | 102,109 | 66,389 | 38,832 | 105,221 |
| Loans to banks | 2,102 | 8,815 | 10,917 | 1,706 | 5,448 | 7,154 |
| **Lending volume** | **69,786** | **43,240** | **113,026** | **68,095** | **44,280** | **112,375** |
| Less: loan impairment allowances | 457 | 305 | 762 | 727 | 253 | 980 |
| – banks | 0 | 3 | 3 | 2 | 92 | 94 |
| – customers | 457 | 302 | 759 | 725 | 161 | 886 |
| Lending volume net of loan impairment allowances | 69,329 | 42,935 | 112,264 | 67,368 | 44,027 | 111,395 |

## 18 Changes in loan impairment allowances and loan loss provisions

Loan impairment allowances and loan loss provisions comprise charges against assets as well as loan loss provisions recognised for risks arising from contingent liabilities and other obligations, which are recognised as liabilities.

| €m | Loan impairment allowances against assets 2007 | Loan impairment allowances against assets 2006 | Loan loss provisions 2007 | Loan loss provisions 2006 | Total 2007 | Total 2006 |
|---|---|---|---|---|---|---|
| 1 January | 980 | 1,562 | 257 | 114 | 1,237 | 1,676 |
| Additions to loan impairment losses | 478 | 431 | 34 | 77 | 512 | 508 |
| Charge-offs | 341 | 605 | – | 10 | 341 | 615 |
| Amounts released | 360 | 260 | 86 | 45 | 446 | 305 |
| Interest income from unwinding[1)] | 8 | 6 | – | – | 8 | 6 |
| Other additions/reductions | 27 | -127 | -6 | 123 | 21 | -4 |
| Currency translation differences | -14 | -15 | 0 | -2 | -14 | -17 |
| **31 December** | **762** | **980** | **199** | **257** | **961** | **1,237** |

1) Interest income from unwinding for 2006 relates to loans in Dresdner Bank AG's non-homogeneous domestic portfolio that have been called in and for which the process of realising the collateral has started. Interest income from unwinding for 2007 also includes the homogeneous domestic portfolio.

Loan impairment allowances against assets amounting to €762 million (previous year: €980 million) are attributable on the one hand to loans and advances to banks (€3 million; previous year: €94 million) and on the other to loans and advances to customers (€759 million; previous year: €886 million). The allowances and provisions for general risks on receivables under finance leases amounted to less than €1 million (previous year: €4 million); this is therefore not disclosed separately. Loan loss provisions totalling €199 million (previous year: €257 million) relate in the amount of €66 million (previous year: €123 million) to irrevocable loan commitments, in the amount of €73 million (previous year: €64 million) to financial guarantee contracts and contingent liabilities and in the amount of €60 million (previous year: €70 million) to other loan loss provisions.

Allowances and provisions for country risks, which were reported previously as a separate category, are allocated to the allowances and provisions for specific risks and allowances and provisions for general risks according to objective criteria, in order to improve the methodology used. The prior-year figure of €94 million was allocated in full to allowances and provisions for general risks. Further information on the changes in allowances and provisions is contained in the section of the Risk Report entitled "Loan impairment allowances and loan loss provisions". The total amount of loan impairment allowances and loan loss provisions is structured as follows:

| €m | Allowances and provisions for specific risks 2007 | Allowances and provisions for specific risks 2006 | Allowances and provisions for general risks 2007 | Allowances and provisions for general risks 2006 | Total 2007 | Total 2006 |
|---|---|---|---|---|---|---|
| 1 January | 558 | 832 | 679 | 844 | 1,237 | 1,676 |
| Additions to loan impairment losses | 508 | 493 | 4 | 15 | 512 | 508 |
| Charge-offs | 341 | 615 | – | – | 341 | 615 |
| Amounts released | 192 | 182 | 254 | 123 | 446 | 305 |
| Interest income from unwinding[1)] | 8 | 6 | – | – | 8 | 6 |
| Other additions/reductions | 21 | 40 | 0 | -44 | 21 | -4 |
| Currency translation differences | -9 | -4 | -5 | -13 | -14 | -17 |
| **31 December** | **537** | **558** | **424** | **679** | **961** | **1,237** |

1) Interest income from unwinding for 2006 relates to loans in Dresdner Bank AG's non-homogeneous domestic portfolio that have been called in and for which the process of realising the collateral has started. Interest income from unwinding for 2007 also includes the homogeneous domestic portfolio.

The loan portfolio included non-accrual loans amounting to €1,529 million (previous year: €1,765 million). €420 million (previous year: €532 million) of this figure is attributable to the homogeneous portfolio and €1,109 million (previous year: €1,233 million) to the non-homogeneous portfolio.

## 19 Financial investments and equity-accounted investments

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Debt instruments | 10,359 | 11,208 |
| Equities and other variable-rate securities | 3,277 | 3,192 |
| Shares in unconsolidated affiliated companies | 20 | 503 |
| Investment property | 62 | 1,045 |
| **Financial investments** | **13,718** | **15,948** |
| | | |
| **Equity-accounted investments** | **565** | **468** |

The carrying amount of equities and other variable-rate securities and shares in unconsolidated affiliated companies that do not have a quoted price in an active market and that are therefore measured at cost was €141 million (previous year: €242 million). Of this amount, financial investments with a carrying amount of €2 million (previous year: €3 million) were sold for a total gain of €40 million in fiscal year 2007 (previous year: €29 million).

The Group held investment property with a carrying amount of €62 million (previous year: €1,045 million). The fair value of the key properties was calculated at €63 million (previous year: €1,061 million) by expert appraisers on the basis of the 1988 Wertermittlungsverordnung (Valuation Regulation). The properties concerned are leased properties that have been measured at cost less accumulated depreciation and impairment losses. The decline of €983 million in this item was primarily due to the transfer of a real estate portfolio to Allianz. Operating expenses of €20 million and impairment losses of €28 million were recorded for investment property in the year under review.

Breakdown of debt instruments

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Bonds and notes from public-sector issuers | 1,777 | 2,923 |
| Bonds and notes from other issuers | 8,582 | 8,285 |
| **Debt instruments** | **10,359** | **11,208** |
| Of which: listed securities | 10,359 | 11,208 |

Debt instruments with a nominal value of €1,193 million will mature in 2008 (2007: €1,436 million).

Breakdown of equities and other variable-rate securities

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Equities | 2,533 | 2,399 |
| Other | 744 | 793 |
| **Equities and other variable-rate securities** | **3,277** | **3,192** |
| Of which: listed securities | 2,560 | 2,426 |

| Portfolio development<br><br>€m | Investment property | Shares in unconsolidated affiliated companies | Equity-accounted investments |
|---|---|---|---|
| **Historical cost** | | | |
| 1 January 2007 | 1,550 | 321 | 493 |
| Foreign currency translation | – | 0 | -2 |
| Additions | 0 | 1 | 49 |
| Disposals | – | 29 | 31 |
| Changes in consolidated companies | -1,443 | – | – |
| Transfers | 0 | -195 | 90 |
| **31 December 2007** | **107** | **98** | **599** |
| **Reversals of impairment losses during the fiscal year** | **–** | **0** | **0** |
| **Depreciation and impairment losses** | | | |
| 1 January 2007 | 505 | 83 | 25 |
| Foreign currency translation | – | 0 | -2 |
| Depreciation and impairment losses during the fiscal year | 37 | 6 | 2 |
| Disposals | – | 3 | 0 |
| Changes in consolidated companies | -497 | – | – |
| Transfers | – | -8 | 9 |
| **31 December 2007** | **45** | **78** | **34** |
| **Cumulative remeasurement gains/losses on available-for-sale financial instruments** | | | |
| 1 January 2007 | | 265 | – |
| Additions | | – | – |
| Disposals | | 265 | – |
| **31 December 2007** | | **–** | **–** |
| **Carrying amounts 31 December 2007** | **62** | **20[1)]** | **565** |
| Carrying amounts 31 December 2006 | 1,045 | 503[1)] | 468 |

1) Does not include shares in financial services providers.

The list of shareholdings published in the electronic Bundesanzeiger (Federal Gazette) provides a complete breakdown of unconsolidated affiliated companies, equity-accounted investments and other shareholdings.

## 20 Property and equipment

| €m | Owner-occupied land and buildings | Office furniture and equipment | Total |
|---|---|---|---|
| **Historical cost** | | | |
| 1 January 2007 | 1,150 | 1,629 | 2,779 |
| Foreign currency translation | -10 | -38 | -48 |
| Additions | 1 | 57 | 58 |
| Disposals | 1 | 56 | 57 |
| Changes in consolidated companies | 2 | -2 | – |
| Transfers | -1 | 2 | 1 |
| **31 December 2007** | 1,141 | 1,592 | 2,733 |
| **Reversals of impairment losses during the fiscal year** | – | – | – |
| **Depreciation and impairment losses** | | | |
| 1 January 2007 | 329 | 1,091 | 1,420 |
| Foreign currency translation | -9 | -23 | -32 |
| Depreciation and impairment losses during the fiscal year | 34 | 100 | 134 |
| Disposals | 0 | 54 | 54 |
| Changes in consolidated companies | – | -2 | -2 |
| Transfers | 1 | 1 | 2 |
| **31 December 2007** | 355 | 1,113 | 1,468 |
| **Carrying amounts 31 December 2007** | **786** | **479** | **1,265** |
| Carrying amounts 31 December 2006 | 821 | 538 | 1,359 |

No write-downs for impairment of IT equipment were recognised (previous year: €2 million); write-downs of other office furniture and equipment amounted to €10 million (previous year: €4 million). €9 million (previous year: €2 million) of this amount was incurred in the context of restructuring measures.

Obligations amounting to €174 million (previous year: €112 million) were entered into in relation to the purchase of property and equipment; of this figure, €18 million related to IT equipment (previous year: €18 million).

## 21 Intangible assets

| €m | Goodwill | Internally developed software | Purchased software | Other acquired rights | Total |
|---|---|---|---|---|---|
| **Historical cost** | | | | | |
| 1 January 2007 | 2,687 | 552 | 407 | – | 3,646 |
| Foreign currency translation | -4 | -34 | -1 | – | -39 |
| Additions | 0 | 72 | 33 | 6 | 111 |
| Disposals | – | 1 | 42 | 0 | 43 |
| Changes in consolidated companies | -2 | – | -1 | 0 | -3 |
| Transfers | – | -21 | 21 | – | – |
| **31 December 2007** | **2,681** | **568** | **417** | **6** | **3,672** |
| **Reversals of impairment losses during the fiscal year** | **–** | **–** | **–** | **–** | **–** |
| **Amortisation and impairment losses** | | | | | |
| 1 January 2007 | 2,479 | 393 | 342 | – | 3,214 |
| Foreign currency translation | 0 | -31 | -1 | – | -32 |
| Amortisation and impairment losses during the fiscal year | – | 52 | 28 | – | 80 |
| Disposals | – | 0 | 30 | – | 30 |
| Changes in consolidated companies | -1 | – | -3 | – | -4 |
| Transfers | – | -16 | 15 | – | -1 |
| **31 December 2007** | **2,478** | **398** | **351** | **–** | **3,227** |
| **Carrying amounts 31 December 2007** | **203** | **170** | **66** | **6** | **445** |
| Carrying amounts 31 December 2006 | 208 | 159 | 65 | – | 432 |

Total goodwill as at 31 December 2007 in the amount of €203 million was allocated to a number of companies as cash-generating units. €191 million of this figure is attributable to fully consolidated companies and €12 million to equity-accounted investments. In total, the three highest individual carrying amounts of goodwill account for around 64% of the total carrying amount of goodwill; the individual carrying amounts are allocated roughly equally. The remaining 36% was spread over six other goodwill items.

The goodwill resulting from the acquisition of the two Belgian asset managers Van Moer Santerre & Cie and Damien Courtens & Cie (see Note 52) was not material and was therefore eliminated directly against retained earnings.

Goodwill is tested for impairment annually, as well as during the year if there is any indication of impairment, by comparing the carrying amount of the cash-generating unit – including goodwill – with the recoverable amount of the unit. The recoverable amount is defined as the higher of fair value less costs to sell and value in use.

With one exception, the cash-generating units are unlisted companies. We tested these units for impairment on the basis of their value in use. Value in use is calculated in accordance with generally accepted measurement principles using the income approach, which is consistent with the Group-wide parameters laid down by Allianz with regard to risk-free rates, market risk premiums and beta factors. The starting point for calculating capitalised income values is the multi-year projections of the cash-generating units as a basis for the detailed budgeting phase (usually three years) and the earnings achievable in the long term as a basis for the perpetual annuity. Appropriate profit retention is reflected in the calculation of the perpetual annuity in order to finance the assumed growth in the perpetual annuity.

One of the cash-generating units is a listed company with only a small free float. As the quoted market price therefore cannot be used as the sole value indicator, we also tested this unit for impairment on the basis of its value in use. The impairment test did not result in any impairment losses in fiscal year 2007 (previous year: none).

The write-downs for impairment of software in the amount of €1 million (previous year: €6 million) recognised under current depreciation of property and equipment were attributable to purchased software (previous year: €2 million). In addition, write-downs for impairment of €9 million were charged on 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 €121 million (previous year: €132 million) are contained in administrative expenses. Software purchase commitments of €29 million (previous year: €21 million) were entered into.

## 22 Other assets

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Accrued interest | 3,282 | 2,663 |
| Positive fair values of hedging derivatives in accordance with IAS 39 | 291 | 441 |
| Recoverable taxes | 681 | 546 |
| Miscellaneous other assets | 2,410 | 1,929 |
| **Other assets** | **6,664** | **5,579** |

In addition to a large number of miscellaneous individual items, miscellaneous other assets include overfunded pension plans and assets relating to the capital reduction at a subsidiary.

## 23 Subordinated assets

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Trading assets | 107 | 70 |
| – Debt instruments | 107 | 59 |
| – Equities and other variable-rate securities | 0 | 11 |
| Loans and advances to banks | 1 | 60 |
| Loans and advances to customers | 11 | 37 |
| Financial investments | 68 | 77 |
| – Debt instruments | 40 | 50 |
| – Equities and other variable-rate securities | 28 | 27 |
| **Subordinated assets** | **187** | **244** |

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.

# Notes to the Consolidated Balance Sheet –- Liabilities and Equity

## 24 Trading liabilities

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Negative fair values of derivative financial instruments | 71,182 | 63,598 |
| Obligations to deliver securities | 35,074 | 40,506 |
| Other trading liabilities | 12,770 | 10,940 |
| **Trading liabilities** | **119,026** | **115,044** |

See Note 13 for information on the adjustment of the trading liabilities reported for the previous year.

## 25 Financial liabilities designated at fair value

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Liabilities to banks | 345 | 6 |
| Liabilities to customers | 168 | 180 |
| Securitised liabilities | 1,787 | 742 |
| Subordinated liabilities | 9 | 9 |
| **Financial liabilities designated at fair value** | **2,309** | **937** |

The designation of financial liabilities at fair value resulted in a carrying amount that is €63 million (previous year: €14 million) lower than the future repayment amount of these liabilities. The fair value changes not due to changes in market risk amounted to €10 million in the year under review (previous year: €-4 million), and the cumulative change was €6 million (previous year: €-4 million). The amounts were calculated by measuring the liabilities concerned, taking into account the Bank's own credit spread, as at December 2007 and December 2006. The resulting measurement difference is the effect accounted for by the change in the Bank's own credit risk.

## 26 Liabilities to banks

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Payable on demand | 18,982 | 21,321 |
| Other term liabilities | 109,167 | 147,526 |
| Of which: registered bonds issued | 2,816 | 3,178 |
| **Liabilities to banks** | **128,149** | **168,847** |
| Of which: collateralised money market transactions | 54,141 | 83,116 |
| – Domestic banks | 36,977 | 48,133 |
| – Foreign banks | 91,172 | 120,714 |

See Note 15 for information on the adjustment of the liabilities to banks reported for the previous year.

## 27 Liabilities to customers

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Savings deposits | | |
| – With agreed period of notice of three months | 865 | 950 |
| – With agreed period of notice of more than three months | 346 | 418 |
| Home loan savings deposits | 3,313 | 3,313 |
| Savings deposits and home loan savings deposits | 4,524 | 4,681 |
| Payable on demand | 76,931 | 85,284 |
| Term liabilities | 103,917 | 101,357 |
| Of which: registered bonds issued | 7,171 | 5,355 |
| Other liabilities | 180,848 | 186,641 |
| **Liabilities to customers** | **185,372** | **191,322** |
| Of which: collateralised money market transactions | 46,353 | 66,753 |

See Note 16 for information on the adjustment of the liabilities to customers reported for the previous year.

Breakdown by customer group

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Corporate customers | 132,643 | 150,524 |
| – Germany | 57,174 | 49,370 |
| – Other countries | 75,469 | 101,154 |
| Public authorities | 12,458 | 7,870 |
| – Germany | 5,593 | 1,886 |
| – Other countries | 6,865 | 5,984 |
| Private customers | 40,271 | 32,928 |
| – Germany | 34,078 | 28,134 |
| – Other countries | 6,193 | 4,794 |
| **Liabilities to customers** | **185,372** | **191,322** |
| – Germany (total) | 96,845 | 79,390 |
| – Other countries (total) | 88,527 | 111,932 |

## 28 Securitised liabilities

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Debt instruments issued[1)] | 18,336 | 23,279 |
| Other securitised liabilities | 16,297 | 22,691 |
| – Money market securities | 16,297 | 22,655 |
| – Own acceptances and promissory notes outstanding | – | – |
| – Other | – | 36 |
| **Securitised liabilities** | **34,633** | **45,970** |

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

Securitised liabilities include debt instruments and other liabilities for which transferable certificates have been issued. €7,150 million of debt instruments issued will mature in 2008 (2007: €7,151 million).

## 29 Provisions

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Provisions for pensions and other post-employment benefits[1)] | 301 | 258 |
| Provisions for current taxes | 642 | 388 |
| Other provisions | 2,166 | 2,810 |
| **Provisions** | **3,109** | **3,456** |

1) See Note 30.

| €m | Restructuring provisions | Loan loss provisions | Other provisions for staff costs | Other | Total |
|---|---|---|---|---|---|
| 1 January 2007 | 379 | 257 | 1,295 | 879 | 2,810 |
| Foreign currency translation | -6 | 0 | -90 | -1 | -97 |
| Additions | 27 | 34 | 859 | 269 | 1,189 |
| Charge-offs | 65 | 0 | 1,023 | 228 | 1,316 |
| Amounts released | 29 | 86 | 93 | 207 | 415 |
| Transfers | -140 | -6 | 110 | 44 | 8 |
| Changes in consolidated companies | – | – | – | -13 | -13 |
| **31 December 2007** | **166** | **199** | **1,058** | **743** | **2,166** |

Loan loss provisions mainly 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 2008. The other item primarily relates to medium- to long-term provisions in the areas of leases, litigation risk, compensation payments and expected losses.

| Restructuring provision<br>€m | 2007 programmes | "New Dresdner Plus" programme | Programmes before 2006 | Total |
|---|---|---|---|---|
| 1 January 2007 | – | 328 | 51 | 379 |
| Foreign currency translation | – | -6 | – | -6 |
| Additions[1)] | 8 | 19 | – | 27 |
| Charge-offs | – | 48 | 17 | 65 |
| Amounts released | – | 24 | 5 | 29 |
| Transfers | – | -119 | -21 | -140 |
| **31 December 2007** | **8** | **150** | **8** | **166** |

1) Including €11 million change in the present value.

Provisions of €8 million related to the "Credit Initiative" restructuring measure initiated in 2007. In addition to this initiative, the provisions remaining at the end of the year relate to residual activities under the "Neue Dresdner Plus" programme and earlier programmes. While the implemention of the "Neue Dresdner Plus" programme is progressing as planned, the previous programmes have been implemented almost in full, measured in terms of the provisions originally recognised for them. The additions and releases made during the regular review of existing provisions for the "Neue Dresdner Plus" programme and for previous programmes led to net releases of €5 million in each case.

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 entered into 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. The total amount transferred in the year under review amounted to €140 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 full 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 releases. The need for adjustments results on the one hand from the detailed implementation of the human resources instruments, and on the other from the change in conditions relating to the use of vacancies in rented properties.

## 30 Provisions for pensions and other post-employment benefits

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

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Present value of wholly unfunded obligations | 265 | 250 |
| Present value of funded obligations | 3,332 | 3,565 |
| Total present value of obligations | 3,597 | 3,815 |
| Past service cost | 0 | – |
| Fair value of plan assets | -2,736 | -2,731 |
| Total pension liabilities | 861 | 1,084 |
| Unrecognised actuarial losses | -782 | -952 |
| **Net pension liabilities** | 79 | **132** |
| Overfunded pension plans | 222 | 126 |
| **Recognised pension provisions** | **301** | **258** |

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

| €m | 2007 | 2006 |
|---|---|---|
| Total pension liabilities as at 1 January | 1,084 | 3,069 |
| Less actuarial gains/losses as at 1 January | -952 | -1,015 |
| Recognised pension provisions as at 1 January | 132 | 2,054 |
| Current service cost | 57 | 66 |
| Imputed interest cost | 172 | 155 |
| Expected return on plan assets | -145 | -153 |
| Contributions by plan participants | -25 | -1,906 |
| Actuarial gains/losses | 43 | 50 |
| Exchange rate adjustments | 2 | -1 |
| Benefits paid during the year | -130 | -128 |
| Curtailments | – | -11 |
| Other changes | -27 | 6 |
| **Net pension liabilities as at 31 December** | **79** | **132** |
| Overfunded pension plans | 222 | 126 |
| **Recognised pension provisions as at 31 December** | **301** | **258** |
| Actuarial gains (–)/losses (+) as at 31 December | 782 | 952 |
| **Total pension liabilities as at 31 December** | **861** | **1,084** |

54% of the total present value of the pension obligations is attributable to Dresdner Bank AG, 14% each to the Oldenburgische Landesbank AG subgroup (OLB) and to subsidiaries in London, while the remaining 18% 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 majority of OLB's employees participate in sponsored benefit plans, whereby benefits are payable in the form of retirement, disability and surviving dependant pensions. A small number of the 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 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 | 2007 | 2006 |
|---|---|---|
| Fair value of plan assets as at 1 January | 2,731 | 794 |
| Expected return on plan assets | 145 | 153 |
| Actuarial gains/losses | -59 | -85 |
| Exchange rate adjustments | -69 | 10 |
| Employer contributions | 25 | 1,906 |
| Benefits paid | -38 | -42 |
| Other | 1 | -5 |
| **Fair value of plan assets as at 31 December** | **2,736** | **2,731** |

The expected return on plan assets is determined on the basis of a minimum allocation to the respective asset classes, taking into account a weighted average return on future investments. The actual return on plan assets amounted to €86 million (previous year: €68 million). Additions to plan assets of approximately €30 million are planned for 2008.

The structure of the plan assets, which does not contain any own financial instruments or other assets used by the Bank, is as follows.

| % | 2007 | 2006 |
|---|---|---|
| Debt instruments | 67.1 | 67.8 |
| Equities and other variable-rate securities | 25.4 | 27.8 |
| Other | 7.5 | 4.4 |
| **Total** | **100.0** | **100.0** |

The calculations are based on the following actuarial assumptions:

| % | 2007 | 2006 |
|---|---|---|
| Discount rate1) | 5.5 | 4.6 |
| Expected return on plan assets2) | 5.6 | 5.6 |
| Expected rate of salary increase | 3.0 | 2.4 |
| Expected future pension increases | 2.0 | 1.5 |

1) A discount rate of 6.25% (previous year: 5.75%) is used in the United States and a discount rate of 5.8% (previous year: 5.1%) in the United Kingdom.
2) The expected return on plan assets in the United Kingdom is based on a discount rate of 6.0% (previous year: 6.0%).

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 following items were recognised in the pension benefit expense:

| €m | 2007 | 2006 |
|---|---|---|
| Current service cost | 58 | 66 |
| Imputed interest cost | 172 | 155 |
| Other changes | -21 | 5 |
| Expected return on assets | -145 | -153 |
| Actuarial gains/losses | 43 | 50 |
| Past service cost | -25 | – |
| Effects of curtailments or settlements | 0 | -11 |
| Expenses for defined benefit plans | 82 | 112 |
| Of which: pension payments in the year under review | 45 | 43 |
| Expenses for defined-contribution plans | 55 | 67 |
| Other pensions | 37 | 42 |
| Exchange rate adjustments | 2 | 1 |
| **Pension benefit expense** | **176** | **222** |

Summary of key components:

| €m | 31/12/2007 | 31/12/2006 | 31/12/2005 |
|---|---|---|---|
| Total present value of obligations | 3,597 | 3,815 | 3,863 |
| | | | |
| Present value of funded obligations | 3,332 | 3,565 | 957 |
| Fair value of plan assets | 2,736 | 2,731 | 794 |
| Overfunding/underfunding | 596 | 834 | 163 |
| | | | |
| Experience adjustments to obligations | -33 | -18 | -32 |
| Experience adjustments to plan assets | -59 | -85 | 72 |

## 31 Deferred taxes and tax expense

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

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Deferred tax assets | | |
| Financial investments | 76 | 111 |
| Of which: cumulative remeasurement gains/losses on available-for-sale financial instruments | 33 | 31 |
| Trading assets and liabilities | 0 | 22 |
| Pension provisions | 87 | 132 |
| Other provisions | 115 | 163 |
| Loan impairment allowances | 0 | 15 |
| Capitalised loss carryforwards | 1,710 | 2,082 |
| Other | 331 | 219 |
| **Total deferred tax assets (before netting)** | **2,319** | **2,744** |
| Netting effects | 407 | 766 |
| **Total deferred tax assets** | **1,912** | **1,978** |
| Deferred tax liabilities | | |
| Financial investments | 51 | 75 |
| Of which: cumulative remeasurement gains/losses on available-for-sale financial instruments | 26 | 34 |
| Trading assets and liabilities | 25 | 40 |
| Property and equipment | 109 | 236 |
| Other provisions | 34 | 47 |
| Loan loss provisions | 15 | 27 |
| Loan impairment allowances | 22 | 31 |
| Other | 258 | 396 |
| **Total deferred tax liabilities (before netting)** | **514** | **852** |
| Netting effects | 407 | 766 |
| **Total deferred tax liabilities** | **107** | **86** |
| Net deferred tax assets | 1,805 | 1,892 |

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 €1,912 million (previous year: €1,978 million) and deferred tax liabilities in the amount of €107 million (previous year: €86 million) resulted in net deferred tax assets of €1,805 million (previous year: €1,892 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 €693 million (previous year: €589 million), which were predominantly attributable to unused tax loss carry-forwards, were not recognised because they cannot be realised on the basis of the information available at the reporting date. €649 million of these unrecognised deferred tax assets relates to foreign loss carryforwards, with €620 million of this figure relating to foreign corporation tax.

The deferred tax assets for capitalised tax loss carryforwards include €311 million attributable to our consolidated tax groups in the USA. Based on our earnings projections, we are assuming positive taxable income in the future. The Group aims to ensure this on a sustainable basis.

The current income tax expense declined by €9 million (previous year: €18 million) due to the utilisation of loss carryforwards for which no deferred tax assets were recognised to date. The recognition of deferred tax assets for loss carryforwards that will be utilised in future and for temporary differences relating to prior periods that were not previously included in deferred tax assets resulted in deferred tax income of €203 million (previous year: €7 million).

At the reporting date, unused corporation tax loss carryforwards amounted to €6,906 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 €5,665 million of the loss carryforwards. The loss carryforwards subject to time limits expire in the coming years as follows: €6 million in 2008, €5 million in 2009, €17 million in 2010, €12 million in 2011, €26 million in 2012, €4 million in 2013, €6 million in 2014 and €44 million in 2015. The total volume of loss carryforwards with a residual term of more than ten years amounts to €1,122 million. No loss carryforwards subject to time limits expire in the years 2016 to 2018. In addition, the Bank has accumulated trade tax loss carryforwards of €4,773 million that are not subject to any time limit, and trade tax loss carryforwards of €1,180 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 | 2007 | 2006 |
|---|---|---|
| Current taxes | 335 | 209 |
| – Germany | 211 | 104 |
| – Other countries | 124 | 105 |
| Deferred taxes | 38 | 49 |
| – Germany | 287 | -44 |
| – Other countries | -249 | 93 |
| **Income tax expense** | **373** | **258** |

Deferred tax assets and liabilities were recognised for domestic companies as at 31 December 2007 using a corporation tax rate, including the solidarity surcharge, of 15.8% (previous year: 26.38%) plus an effective trade tax rate of 15.2% (previous year: 13.3%). The remeasurement of deferred taxes due to the change in the tax rate in Germany as a consequence of the 2008 business taxation reform resulted in the recognition of a deferred tax liability totalling €201 million. In all other cases, the country-specific tax rates were applied. The current tax expense includes an amount of €2 million (previous year: €31 million) relating to previous fiscal years.

The effective tax expense recognised in 2007 is €176 million higher than the expected tax expense. The actual expected tax rate was 23.6%, including 26.375% for Germany. 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 | 2007 | 2006 |
|---|---:|---:|
| Expected income tax expense | 197 | 347 |
| + Trade tax and similar taxes | 157 | 54 |
| – Tax-free income | -332 | -191 |
| – Capitalisation of corporation tax credit | -2 | -60 |
| + Tax expense from change in tax rates | 216 | 12 |
| + Non-deductible expenses | 30 | 19 |
| – Valuation allowance on deferred tax assets | 252 | -4 |
| + Other tax adjustments | -145 | 81 |
| **= Effective income tax expense** | **373** | **258** |

The other tax adjustments in the year related almost entirely to the effects of taxes for previous years.

## 32 Other liabilities

| €m | 31/12/2007 | 31/12/2006 |
|---|---:|---:|
| Accrued interest | 3,447 | 2,644 |
| Negative fair values of hedging derivatives in accordance with IAS 39 | 120 | 146 |
| Miscellaneous other liabilities | 3,578 | 3,793 |
| **Other liabilities** | **7,145** | **6,583** |

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

## 33 Subordinated liabilities

The subordinated liabilities in the amount of €6,267 million (previous year: €6,192 million) consist of hybrid capital in the amount of €2,429 million (previous year: €2,513 million) and other subordinated liabilities in the amount of €3,838 million (previous year: €3,679 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 aggregate subordinated liabilities.
3) The interest rate as from 1 July 2017 is 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 2007 amounted to €2,429 million (previous year: €2,513 million). In accordance with section 10a (6) sentence 1 in conjunction with section 10 (4) of the KWG, the silent participations qualify as core capital. Interest paid on the silent participations in the fiscal year amounted to €172 million (previous year: €140 million).

The securitised silent participation certificates amounting to €1,000 million issued in July 2006 do not have any contractually stipulated 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.** The other subordinated liabilities are presented by maturity in the following table, classified into fixed and floating rate liabilities. The interest expense on these subordinated liabilities in the fiscal year amounted to €173 million (previous year: €210 million).

| | Maturity | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| €m | 2008 | 2009 | 2010 | 2011 | 2012 | After 2012 | 31/12/2007 | 31/12/2006 |
| Fixed rate | 342 | 297 | 116 | 20 | 36 | 1,021 | 1,832 | 2,630 |
| Average interest rate | 5.9% | 5.3% | 6.3% | 6.8% | 5.8% | 6.3% | | |
| Floating rate | 171 | 281 | 32 | 59 | 21 | 1,442 | 2,006 | 1,049 |
| Average interest rate | 5.6% | 4.7% | 4.9% | 5.2% | 6.2% | 5.4% | | |
| **Total** | **513** | **578** | **148** | **79** | **57** | **2,463** | **3,838** | **3,679** |

Dresdner Bank AG issued a subordinated registered bond in the amount of €1 billion in September 2007. This registered bond exceeds 10% of the aggregate amount of subordinated liabilities; it has a ten-year term and bears a market rate of interest of 1-month Euribor plus 1.01%.

## 34 Profit-participation certificates

Profit-participation certificates in the amount of €1,686 million (previous year: €2,262 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 largest issues of profit-participation certificates:

| Year of issue | Nominal amount | Issuer | Interest rate | Maturity |
|---|---|---|---|---|
| 1997 | €767m | Dresdner Bank AG | 7.0% | 2008 |
| 2006 | €750m | Dresdner Bank AG | 5.386% | 2016 |

## 35 Equity

**Subscribed capital.** The subscribed capital of €1,502,972,205.80 at 31 December 2007 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. The 40,809,084 own shares acquired in July 2007 do not carry voting rights.

Allianz SE holds a 100% indirect interest in Dresdner Bank AG's share capital. Dresdner Bank is an affiliated company 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.

**Capital reserves.** Capital reserves include 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..

**Treasury shares.** The own shares acquired in July 2007 reduced the number of outstanding shares at the beginning of the year by 40,809,084 from 578,066,233 to 537,257,149. As in the previous year, no Dresdner Bank shares had been pledged to the Bank or affiliated companies as collateral at the end of 2007.

**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 presents the net remeasurement gains/losses on equity-accounted investments, the net remeasurement gains/losses reported under minority interests and the effective portion of the remeasurement gains/losses from cash flow hedge accounting. The latter also includes the effective portion of hedges of net investment in a foreign entity. The following table provides an overview of the components of cumulative remeasurement gains/losses.

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Debt instruments | -96 | -68 |
| Equities and other variable-rate securities | 1,475 | 1,629 |
| Shares in unconsolidated affiliated companies | – | 265 |
| Equity-accounted investments | 29 | 14 |
| Deferred taxes | 7 | -3 |
| Minority interests | -77 | -44 |
| Cash flow hedge accounting | -3 | -42 |
| **Cumulative remeasurement gains/losses on financial instruments** | **1,335** | **1,751** |

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

| €m | 2007 | 2006 |
|---|---|---|
| 1 January | 1,751 | 1,235 |
| Fair value gains recognised in income statement | 36 | 22 |
| Gains and losses from the disposal of assets | -315 | -295 |
| Fair value changes recognised directly in equity | -191 | 832 |
| Remeasurement gains from equity-accounted investments | 15 | -42 |
| Remeasurement gains from cash flow hedge accounting | 39 | -1 |
| **31 December** | **1,335** | **1,751** |

Remeasurement gains from cash flow hedge accounting relate to fair value changes recognised directly in equity amounting to €40 million and to €1 million removed from equity. 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).

**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.

## 36 Own funds and risk-weighted assets

Regulatory capital generally consists of three categories: core capital and supplementary capital, which together make up a bank's liable capital, and Tier III capital. Core capital consists of subscribed capital and the Group's reserves, hybrid capital and other components. Supplementary capital chiefly consists of profit-participation certificates, long-term subordinated liabilities and measurement gains/losses on available-for-sale equity instruments. Total regulatory capital is calculated on the basis of the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRSs).

The entry into force of the Solvabilitätsverordnung (SolvV – Solvency Regulation) and the changes to the Kreditwesengesetz (KWG – Banking Act) at the beginning of 2007 provide for the implementation of the Basel II regulations. The information given as at 31 December 2007 corresponds to the new legal position, with the transitional provisions laid down in section 339(9) SolvV being used by the Bank to determine the risk-weighted assets. The figures as at 31 December 2006 correspond to the provisions of the framework laid down by the Basel Committee on Banking Supervision at the Bank for International Settlements (BIS).

| €m | 31/12/2007 | 31/12/2006[1] |
|---|---|---|
| Core capital | 11,234 | 12,469 |
| Of which: hybrid components | 2,429 | 2,513 |
| Deductions | 311 | |
| Supplementary capital | 5,730 | 6,199 |
| Of which: profit-participation certificates | 2,501 | 2,755 |
| Subordinated liabilities | 2,944 | 2,251 |
| Remeasurement gains/losses on available-for-sale equity instruments (of which 45%) | 596 | 685 |
| Other components | – | 508 |
| Deductions | 311 | – |
| **Total capital** | **16,964** | **18,668** |
| | | |
| Risk-weighted assets in the banking book[2] | 119,477 | 117,355 |
| Risk-weighted assets in the trading book | 3,638 | 2,625 |
| **Total risk-weighted assets** | **123,115** | **119,980** |
| | | |
| **Capital ratios (%)** | | |
| Core capital ratio[3] | 9.1 | 10.4 |
| Total capital ratio | 13.8 | 15.6 |

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

Unrealised remeasurement gains on available-for-sale equity instruments in the amount of €596 million (previous year: €685 million) have been included under liable capital pursuant to section 2(1) of the Konzernabschlußüberleitungsverordnung (KonÜV – Consolidated Financial Statements Reconciliation Regulation). The minimum capital requirements were complied with throughout the year under review.

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

| | | | | | | | | 31/12/2007 |
|---|---|---|---|---|---|---|---|---|
| €m | 100% | 70% | 50% | 25% | 20% | 10% | 4% | Total |
| Risk-weighted assets in the banking book | 72,821 | 829 | 30,600 | 41 | 13,750 | 1,436 | – | 119,477 |
| Of which: balance sheet assets | 68,252 | 829 | 9,977 | | 4,551 | 531 | – | 84,140 |
| traditional off-balance sheet business | 2,006 | | 14,904 | 41 | 190 | 905 | | 18,046 |
| derivatives | | | 481 | | 72 | | | 553 |

| | | | | | | | | 31/12/2006 |
|---|---|---|---|---|---|---|---|---|
| €m | 100% | 70 | 50% | 25% | 20% | 10% | 4% | 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 |

# Other Balance Sheet Information

## 37 Collateral pledged

The carrying amount of all assets pledged or loaned, including those over and above the assets used to collateralise liabilities, of €36,085 million is presented in the following table. A distinction is made between collateral furnished that can be pledged or loaned by the collateral taker without restrictions (unrestricted collateral) and restricted collateral.

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| **Unrestricted collateral** | **29,532** | **90,211** |
| – Trading assets | 29,532 | 90,211 |
| **Restricted collateral** | **6,553** | **12,891** |
| – Trading assets | 4,302 | 10,637 |
| – Loans and advances to customers | 1,663 | 1,432 |
| – Financial investments | 588 | 822 |
| **Total assets pledged as collateral** | **36,085** | **103,102** |

Collateral furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions was not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

In addition, the Bank furnished €40,378 million (previous year: €34,311 million) in the form of cash collateral for collateralised money market transactions.

The fair value of unrestricted collateral received was €212,100 million (previous year: €253,913 million). Of this figure, €155,252 million (previous year: €154,244 million) was sold on or pledged again. The Bank has an obligation to return this collateral. Additionally, we held cash collateral amounting to €20,419 million (previous year: €17,250 million) under collateralised money market transactions.

Securities with a total carrying amount of €174 million furnished as collateral were utilised and recognised as at 31 December 2007. These securities will be placed systematically on the market.

Collateral is furnished and accepted in accordance with the standard conditions governing securities repurchase and securities lending and borrowing transactions or, in the case of derivatives, in accordance with the standard conditions contained in master agreements and appended collateral annexes.

## 38 Foreign currency holdings

| €m | USD | GBP | Other | 31/12/2007 | 31/12/2006 |
|---|---|---|---|---|---|
| Assets | 136,700 | 45,065 | 30,449 | 212,214 | 222,035 |
| Liabilities | 108,114 | 39,422 | 32,689 | 180,225 | 207,178 |

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 42.

**Impact of exchange rate fluctuations.** Excluding exchange rate fluctuations, consolidated total assets for the year would have been €21 billion higher (previous year: €15.7 billion higher). Profit after tax would have been €29 million higher (previous year: €3 million higher).

## 39 Structure of residual terms

The matrix of residual terms provides a breakdown of debt instruments, loans and advances as well as liabilities by their final maturity or call date. The management and monitoring of liquidity risk is based on an internal model that reflects both legal maturities and assumptions deviating from these on the basis of statistical models and expert estimates. Further information on liquidity risk and its management and monitoring can be found in the Risk Report.

### 31 December 2007

| Loans and advances<br>€m | Up to<br>3 months | > 3 months<br>-1 year | > 1 year<br>-2 years | > 2 years<br>-3 years | > 3 years<br>-4 years | > 4 years<br>-5 years | More than<br>5 years | Total |
|---|---|---|---|---|---|---|---|---|
| Term loans and advances to banks | 69,341 | 15,347 | 1,508 | 963 | 621 | 569 | 980 | 89,329 |
| Loans and advances to customers[1] | 108,907 | 11,242 | 7,776 | 9,014 | 6,481 | 8,581 | 36,210 | 188,211 |
| Debt instruments | | 1,193[2] | 1,056 | 1,749 | 1,898 | 1,272 | 3,191 | 10,359 |
| **Total** | **178,248** | **27,782** | **10,340** | **11,726** | **9,000** | **10,422** | **40,381** | **287,899** |

1) Loans and advances to customers with residual terms of up to three months include €4,219 million of undated claims.
2) Including debt instruments of up to three months.

| Liabilities<br>€m | Up to<br>3 months | > 3 months<br>-1 year | > 1 year<br>-2 years | > 2 years<br>-3 years | > 3 years<br>-4 years | > 4 years<br>-5 years | More than<br>5 years | Total |
|---|---|---|---|---|---|---|---|---|
| Term liabilities to banks | 86,871 | 12,798 | 1,958 | 1,140 | 1,245 | 1,138 | 4,017 | 109,167 |
| Savings deposits and home loan savings deposits | 865 | 3,558 | 50 | 16 | 15 | 7 | 13 | 4,524 |
| Other term liabilities to customers | 87,338 | 7,572 | 1,657 | 731 | 607 | 884 | 5,128 | 103,917 |
| Securitised liabilities | 13,141 | 10,307 | 3,872 | 2,805 | 1,183 | 1,687 | 1,638 | 34,633 |
| Subordinated liabilities | 82 | 431 | 579 | 148 | 579 | 57 | 4,391 | 6,267 |
| Profit-participation certificates | 3 | 900 | 51 | – | – | – | 732 | 1,686 |
| **Total** | **188,300** | **35,566** | **8,167** | **4,840** | **3,629** | **3,773** | **15,919** | **260,194** |
| Irrevocable loan commitments | 2,611 | 9,124 | 917 | 4,339 | 3,215 | 5,159 | 12,270 | 37,635 |

Amounts from banks payable on demand totalling €18,982 million and from customers totalling €76,931 million are not included in the structure of residual terms for liabilities as at 31 December 2007.

## 31 December 2006

| Loans and advances<br>€m | Up to<br>3 months | > 3 months<br>-1 year | > 1 year<br>-2 years | > 2 years<br>-3 years | > 3 years<br>-4 years | > 4 years<br>-5 years | More than<br>5 years | Total |
|---|---|---|---|---|---|---|---|---|
| Term loans and advances to banks | 97,289 | 10,852 | 1,542 | 913 | 613 | 585 | 1,013 | 112,807 |
| Loans and advances to customers[1)] | 111,678 | 16,819 | 7,359 | 6,567 | 7,963 | 10,022 | 36,367 | 196,775 |
| Debt instruments | | 1,436[2)] | 909 | 1,211 | 2,061 | 1,747 | 3,844 | 11,208 |
| **Total** | **208,967** | **29,107** | **9,810** | **8,691** | **10,637** | **12,354** | **41,224** | **320,790** |

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

| Liabilities<br>€m | Up to<br>3 months | > 3 months<br>-1 year | > 1 year<br>-2 years | > 2 years<br>-3 years | > 3 years<br>-4 years | > 4 years<br>-5 years | More than<br>5 years | Total |
|---|---|---|---|---|---|---|---|---|
| Term liabilities to banks | 124,742 | 12,751 | 1,062 | 2,115 | 1,059 | 1,580 | 4,217 | 147,526 |
| Savings deposits and home loan savings deposits | 988 | 3,567 | 58 | 22 | 20 | 9 | 17 | 4,681 |
| Other term liabilities to customers | 86,175 | 6,670 | 217 | 1,272 | 2,526 | 453 | 4,044 | 101,357 |
| Securitised 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** | **233,329** | **32,888** | **7,531** | **7,730** | **5,084** | **5,376** | **16,050** | **307,988** |
| Irrevocable loan commitments | 3,404 | 11,144 | 2,069 | 7,165 | 3,540 | 6,787 | 12,235 | 46,344 |

Amounts from banks payable on demand totalling €21,321 million and from customers totalling €85,284 million are not included in the structure of residual terms for liabilities as at 31 December 2006.

## 40 Leases

The receivables under finance leases reported by the Group relate primarily to the acquisition of finance lease receivables for restructuring and subsequent sale to third parties. The net investments in loans and advances to customers are included as receivables under finance leases. The remaining maturities of originated lease receivables are as follows:

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Gross investments | | |
| – up to three months | 43 | 52 |
| – three months to one year | 111 | 320 |
| – one to five years | 876 | 1,336 |
| – more than five years | 947 | 1,036 |
| **Total gross investments** | **1,977** | **2,744** |
| Unearned finance income | | |
| – up to three months | 16 | 24 |
| – three months to one year | 79 | 74 |
| – one to five years | 367 | 314 |
| – more than five years | 297 | 251 |
| **Total unearned finance income** | **759** | **663** |
| Net investments | | |
| – up to three months | 27 | 28 |
| – three months to one year | 32 | 246 |
| – one to five years | 509 | 1,022 |
| – more than five years | 650 | 785 |
| **Total net investments** | **1,218** | **2,081** |

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 business is based in London and New York. The items financed include aircraft, ships, communications equipment, industrial plant and railway equipment, commercial real estate and other infrastructure investments. The Bank does not have any obligations under finance leases as a lessee, nor does it conduct any operating leasing business as a lessor.

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 | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Up to one year | 267 | 293 |
| One to five years | 820 | 909 |
| More than five years | 1,025 | 1,042 |
| **Minimum lease payments under operating leases** | **2,112** | **2,244** |
| Of which: minimum lease payments under non-cancellable subleases | 71 | 33 |

€2,041 million (previous year: €2,175 million) of the lease payments relates to land and buildings; of this figure, €250 million (previous year: €276 million) is due within one year, €778 million (previous year: €868 million) is due between one and five years, and €1,014 million (previous year: €1,031 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, €201 million (previous year: €272 million) in minimum lease payments and €13 million (previous year: €28 million) in payments under subleases were recognised in administrative expenses; there were no items relating to conditional rental payments.

## 41 Securitisation business

When securitising financial assets, we transfer revolving loans – as part of precisely defined loan portfolios – to the capital markets using 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 its fully consolidated special purpose entity RCL Securitisation GmbH as part of the True Sale Initiative. €3,000 million of this programme had been utilised as at 31 December 2007 (previous year: €3,000 million). We also used synthetic securitisations to place credit risks on the market. As at 31 December 2007, these related to the Promise-K-2006-1 structure under the KfW/Promise programmes (€411 million; previous year: Promise-K-2006-1 in the amount of €1,011 million) and the Sigma-1-CLO-2007 structure totalling €2,181 million (previous year: nil).

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 as well as Sigma-1 CLO-2007 ltd. must be included in consolidation. The securitised receivables have therefore not been derecognised by the Dresdner Bank Group. They are classified as loans and advances to customers and are reported at a total carrying amount of €5,592 million.

## 42 Derivatives business and hedge accounting

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, and are also increasingly being used in large structured finance transactions.

The following tables (for the trading and banking books respectively) show the notional volumes by residual term and the positive and negative fair values of the derivative transactions concluded. The notional 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.

The fair values in the following tables are disclosed gross, i.e. before netting. The netting effect on the carrying amount reflects the reduction in loss exposures due to global netting agreements; this amounted to €19.5 billion (previous year: €15.7 billion).

As part of hedge accounting, the Bank uses fair value hedges primarily to hedge loans, deposits, securities classified as loans and receivables and available-for-sale securities, as well as 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.

The following table shows the net gains and losses from hedging derivatives and hedged items in the case of fair value hedges.

| Fair value hedges | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| €m | Hedging derivatives | Hedged items | Total | Hedging derivatives | Hedged items | Total |
| **Gains/losses** | **-137** | **138** | **1** | **-90** | **99** | **9** |

In selected cases the Bank uses cash flow hedges to hedge cash flows from variable-rate assets (underlyings) using interest rate swaps. The underlyings are loans with a nominal value of €2.4 billion, monthly Libor-based interest income and a term until June/July 2010. The Bank also documents hedging relationships relating to investments in selected subsidiaries as "hedges of net investment in a foreign entity" using forward currency transactions. As in the previous year, the ineffective hedges recognised in net trading income amounted to €1 million in the case of cash flow hedges and less than €1 million in the case of exchange rate hedges of net investments.

In accordance with the strict interpretation of IAS 39, the banking book only contains recognised hedging relationships. The following tables present hedge accounting derivatives by derivative type and hedge category.

| Derivative types<br>€m | Notional amount/residual term<br>up to 1 year | > 1 year -5 years | more than 5 years | Total 2007 | Total 2006 | Positive fair values | Negative fair values |
|---|---|---|---|---|---|---|---|
| **Interest rate derivatives** | | | | | | | |
| Interest rate swaps (IRS) | 127 | 4,987 | 4,972 | 10,086 | 11,704 | 289 | 112 |
| **Currency derivatives** | | | | | | | |
| Forward currency transactions | 147 | – | – | 147 | – | 2 | 7 |
| **Grand total** | **274** | **4,987** | **4,972** | **10,233** | **11,704** | **291** | **119** |
| Of which: products denominated in EUR | | | | | | 97 | 95 |
| products denominated in USD | | | | | | 186 | 22 |
| products denominated in JPY | | | | | | 1 | 2 |

| Hedge categories<br>€m | Notional amount/residual term<br>up to 1 year | > 1 year -5 years | more than 5 years | Total fair values | Total fair values | Positive fair values | Negative fair values |
|---|---|---|---|---|---|---|---|
| Fair value hedges | 127 | 3,385 | 4,972 | 8,484 | 9,914 | 276 | 103 |
| Cash flow hedges | – | 1,602 | – | 1,602 | 1,790 | 13 | 9 |
| Net investment hedges | 147 | – | – | 147 | – | 2 | 7 |
| **Grand total** | **274** | **4,987** | **4,972** | **10,233** | **11,704** | **291** | **119** |

| Derivatives business – trading book<br>€m | Notional amount/residual term<br><= 1year | <br>1 -5 years | <br>>= 5 years | Total<br>2007 | Total<br>2006 | Positive<br>fair<br>values | Negative<br>fair<br>values |
|---|---|---|---|---|---|---|---|
| **Interest rate derivatives** | **1,688,626** | **1,274,626** | **1,322,437** | **4,285,689** | **3,829,533** | **46,224** | **45,621** |
| OTC products | | | | | | | |
| – FRAs | 53,445 | 4,706 | – | 58,151 | 122,708 | 43 | 33 |
| – Interest rate swaps | 1,049,290 | 1,165,926 | 1,248,471 | 3,463,687 | 3,350,248 | 42,797 | 41,387 |
| – Fixed-rate swaps | 339 | 7,581 | 2,049 | 9,969 | 1,597 | 162 | 95 |
| – Basis swaps | 4,055 | 12,488 | 15,919 | 32,462 | 34,255 | 1,048 | 397 |
| – Interest rate swaps (IRS) | 1,044,896 | 1,145,857 | 1,230,503 | 3,421,256 | 3,314,396 | 41,587 | 40,895 |
| – Interest rate options: buy | 10,845 | 33,461 | 27,697 | 72,003 | 85,082 | 1,131 | – |
| – Interest rate options: sell | 22,984 | 48,185 | 40,901 | 112,070 | 113,298 | – | 2,367 |
| – Other interest rate contracts | 3,724 | 1,107 | 5,339 | 10,170 | 12,199 | 820 | 579 |
| Exchange-traded products | | | | | | | |
| – Interest rate futures | 89,404 | 20,876 | 29 | 110,309 | 116,089 | 1 | 1 |
| – Interest rate options: buy | 200,879 | 334 | – | 201,213 | 14,415 | 1,432 | – |
| – Interest rate options: sell | 258,055 | 31 | – | 258,086 | 15,494 | – | 1,254 |
| **Currency derivatives** | **740,533** | **94,356** | **28,510** | **863,399** | **684,012** | **13,495** | **12,521** |
| OTC products | | | | | | | |
| – Forward currency transactions | 473,107 | 17,358 | 478 | 490,943 | 370,140 | 6,356 | 6,134 |
| – Cross-currency swaps | 24,579 | 44,794 | 24,042 | 93,415 | 95,563 | 4,128 | 3,203 |
| – Currency options: buy | 122,977 | 15,492 | 2,852 | 141,321 | 115,734 | 2,977 | – |
| – Currency options: sell | 115,854 | 15,184 | 1,138 | 132,176 | 100,080 | – | 3,165 |
| – Other currency contracts | 39 | – | – | 39 | – | – | 0 |
| Exchange-traded products | | | | | | | |
| – Currency futures | 2,895 | 1,410 | – | 873 | 1,773 | 21 | 15 |
| – Currency options: buy | 785 | 88 | – | 4,305 | 471 | 13 | – |
| – Currency options: sell | 297 | 30 | – | 327 | 251 | – | 4 |
| **Equity/index derivatives** | **205,125** | **155,311** | **18,026** | **378,462** | **351,889** | **18,548** | **19,412** |
| OTC products | | | | | | | |
| – Equity/index swaps | 15,584 | 8,119 | 4,531 | 28,234 | 42,029 | 1,046 | 1,246 |
| – Equity/index options: buy | 52,751 | 36,566 | 4,598 | 93,915 | 100,495 | 11,303 | – |
| – Equity/index options: sell | 51,233 | 47,472 | 4,715 | 103,420 | 104,307 | – | 12,101 |
| Other equity/index contracts | 6 | 4 | 15 | 25 | 951 | 2 | 117 |
| Exchange-traded products | | | | | | | |
| – Equity/index futures | 8,663 | 43 | – | 8,706 | 9,152 | – | – |
| – Equity/index options: buy | 36,173 | 31,653 | 2,160 | 69,986 | 44,656 | 6,197 | – |
| – Equity/index options: sell | 40,715 | 31,454 | 2,007 | 74,176 | 50,299 | – | 5,948 |
| **Credit derivatives** | **63,827** | **835,951** | **253,733** | **1,153,511** | **907,031** | **11,957** | **11,850** |
| Credit default swaps | | | | | | | |
| – Protection buyer | 25,022 | 420,158 | 126,894 | 572,074 | 432,199 | 10,493 | 929 |
| – Protection seller | 31,955 | 411,017 | 125,586 | 568,558 | 463,313 | 1,034 | 10,064 |
| Total return swaps | | | | | | | |
| – Protection buyer | 4,625 | 4,289 | 1,153 | 10,067 | 6,966 | 5 | 840 |
| – Protection seller | 2,225 | 487 | 100 | 2,812 | 4,553 | 425 | 17 |
| **Other derivatives** | **14,825** | **6,235** | **269** | **21,329** | **21,470** | **1,289** | **1,248** |
| OTC products | | | | | | | |
| – Precious metal derivatives | 11,899 | 3,214 | 87 | 15,200 | 11,890 | 735 | 665 |
| – Other contracts | 1,188 | 2,562 | 182 | 3,932 | 7,642 | 554 | 583 |
| Exchange-traded products | | | | | | | |
| – Futures | 1,738 | 459 | 0 | 2,197 | 1,938 | – | – |
| – Options: buy | – | – | – | – | – | – | – |
| – Options: sell | – | – | – | – | 0 | – | – |
| **Grand total** | **2,712,936** | **2,366,479** | **1,622,975** | **6,702,390** | **5,793,935** | **91,513** | **90,652** |
| Of which: products denominated in EUR | | | | | | 58,253 | 57,811 |
| products denominated in USD | | | | | | 17,734 | 18,186 |
| products denominated in GBP | | | | | | 6,587 | 6,549 |
| products denominated in JPY | | | | | | 4,409 | 4,156 |

# Off-Balance Sheet Business

## 43 Contingent liabilities and other commitments

Contingent liabilities and other commitments include financial guarantee contracts, irrevocable loan commitments and other liabilities.

Financial guarantee contracts are contracts that require the Bank as the issuer to make specified payments to reimburse the holder for losses it incurs because a specified debtor fails to make payment when due in accordance with the original or modified contractual terms of a debt instrument. Irrevocable loan commitments comprise firm commitments to provide loans at predetermined conditions. Other liabilities include repurchase commitments under reverse repo transactions and the liability arising from the furnishing of collateral for third-party liabilities.

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.

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.

The following tables present the amounts at risk should all customers draw fully on all facilities and then default without any collateral being available. However, a large majority of these commitments in fact expire without being drawn upon. These amounts are therefore not representative for risk assessment purposes of the actual future credit exposure, or of the liquidity required to fund such commitments. Rather, various assumptions as to the probability of these commitments being drawn upon are made for different scenarios in the Bank's internal liquidity risk model. The Risk Report contains further information on the credit risk arising from financial guarantee contracts and irrevocable loan commitments as well as on liquidity risk and the management and monitoring of this risk.

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Contingent liabilities from guarantees and indemnity agreements | 18,683 | 18,632 |
| – Credit guarantees | 634 | 1,186 |
| – Other guarantees and warranties | 15,656 | 15,275 |
| – Letters of credit | 2,393 | 2,171 |
| – Letters of credit opened | 838 | 852 |
| – Letters of credit confirmed | 1,555 | 1,319 |
| **Contingent liabilities** | **18,683** | **18,632** |
| Repurchase commitments under reverse repo transactions | 2 | 3 |
| Irrevocable loan commitments | 37,635 | 46,344 |
| – Advances | 33,929 | 35,121 |
| – Standby facilities | 1,635 | 8,930 |
| – Guarantee credits | 1,604 | 1,765 |
| – Discount credits | 64 | 64 |
| – Mortgage loans/municipal loans | 403 | 464 |
| **Other commitments** | **37,637** | **46,347** |

€1,707 million (previous year: €850 million) of the irrevocable loan commitments have binding fixed interest rates.

## 44 Other financial commitments

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Obligations arising from hire and rental contracts and leases[1)] | 2,377 | 2,327 |
| Commitments under capital projects in progress | 203 | 133 |
| Commitments to pay up shares, bonds and other capital interests; secondary liability | 155 | 151 |
| Other | 60 | 59 |
| **Other financial commitments** | **2,795** | **2,670** |

1) See Note 40.

Commitments to pay up shares, bonds and other capital interests totalled €26 million (previous year: €22 million). Secondary liability in accordance with section 24 of the Gesetz betreffend die Gesellschaften mit beschränkter Haftung (GmbHG – German Limited Liability Companies Act) was €130 million (previous year: marginal); the run-off liability following a hive-off in accordance with section 133 of the Umwandlungsgesetz (UmwG – German Reorganisation Act) amounted to €132 million (previous year: €129 million).

Liquiditäts-Konsortialbank GmbH ("LIKO") is a bank that was founded in 1974 in order to provide funding for German banks experiencing liquidity problems. Deutsche Bundesbank owns 30% of the shares in LIKO, with the rest of the shares being held by other German banks and banking associations. The shareholders have provided €200 million in capital to fund LIKO; the Dresdner Bank Group's interest amounts to €12.1 million (6.07%). The Dresdner Bank Group is contingently liable to pay in further contributions to LIKO up to a total of €60.7 million (6.07%). 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 Reuschel & Co. Kommanditgesellschaft, Munich, is unlimited due to the legal form of these companies 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. (KGAL), Grünwald, , which covers certain rights of tender in respect of KGAL.

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 2007, a contribution of €27 million (previous year: €24 million) was levied on Dresdner Bank including its subsidiaries.

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.

## 45 Trustee business

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

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Loans and advances to banks | 2,030 | 1,956 |
| Loans and advances to customers | 959 | 1,205 |
| Financial investments | 564 | 729 |
| **Fiduciary assets[1)]** | **3,553** | **3,890** |
| Liabilities to banks | 655 | 870 |
| Liabilities to customers | 2,898 | 3,020 |
| **Fiduciary liabilities** | **3,553** | **3,890** |

1) Including fiduciary loans of €1,554 million (previous year: €1,964 million).

# Supplementary Information

## 46 Fair values and carrying amounts of financial instruments according to IFRS 7 classes

The financial instruments in the following table include recognised and unrecognised assets and liabilities that fall within the scope of IFRS 7. The criteria used to define classes are presented in the section entitled "Basis of accounting".

| Financial assets<br>€bn | 31/12/2007<br>Carrying amount | 31/12/2007<br>Fair value | 31/12/2006<br>Carrying amount | 31/12/2006<br>Fair value |
|---|---|---|---|---|
| Cash funds | 6.6 | 6.6 | 5.2 | 5.2 |
| Trading assets | 159.7 | 159.7 | 176.9 | 176.9 |
| Financial assets designated at fair value | 8.6 | 8.6 | 6.0 | 6.0 |
| Loans and advances to banks | 113.2 | 112.8 | 145.3 | 145.3 |
| Loans and advances to customers[1] | 187.0 | 186.1 | 194.7 | 194.9 |
| Receivables under finance leases | 1.2 | 1.2 | 2.1 | 2.1 |
| Financial investments[2] | 13.5 | 13.5 | 14.7 | 14.7 |
| Financial assets not traded on an active market (measured at cost) | 0.1 | 0.1 | 0.2 | 0.2 |
| Accrued interest[3] | 3.3 | 3.3 | 2.7 | 2.7 |
| Positive fair values of hedging derivatives in accordance with IAS 39[3] | 0.3 | 0.3 | 0.4 | 0.4 |
| **Total** | **493.5** | **492.2** | **548.2** | **548.4** |

1) Excluding lease receivables.
2) Excluding investment property and financial instruments measured at cost.
3) Included in other assets (see Note 22).

| Financial liabilities<br>€bn | 31/12/2007<br>Carrying amount | 31/12/2007<br>Fair value | 31/12/2006<br>Carrying amount | 31/12/2006<br>Fair value |
|---|---|---|---|---|
| Trading liablities | 119.0 | 119.0 | 115.0 | 115.0 |
| Financial liabilities designated at fair value | 2.3 | 2.3 | 0.9 | 0.9 |
| Liabilities to banks | 128.1 | 128.0 | 168.8 | 168.6 |
| Liabilities to customers | 185.4 | 184.4 | 191.3 | 190.8 |
| Securitised liabilities | 34.6 | 34.6 | 46.0 | 45.9 |
| Subordinated liabilities | 6.3 | 6.3 | 6.2 | 6.5 |
| Profit-participation certificates | 1.7 | 1.6 | 2.3 | 2.4 |
| Accrued interest[1] | 3.4 | 3.4 | 2.6 | 2.6 |
| Negative fair values of hedging derivatives in accordance with IAS 39[1] | 0.1 | 0.1 | 0.1 | 0.1 |
| **Total** | **480.9** | **479.7** | **533.2** | **532.8** |
| Financial guarantee contracts[2] | 0.1 | 0.1 | 0.1 | 0.1 |
| Irrevocable loan commitments[2] | 0.1 | 0.1 | 0.1 | 0.1 |

1) Included in other liabilities (see note 32).
2) See Note 43.

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.

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.

**Financial instruments due on sight.** Financial instruments due on sight are measured at their principal amount. These instruments include cash funds, current account credit balances and demand deposits classified as loans and advances to banks and customers or liabilities to banks and customers.

**Financial assets and liabilities at fair value through profit or loss.** The Group carries trading assets/ liabilities, which include debt and equity securities, derivatives and currency transactions, at their fair value, as it does the financial assets/liabilities designated at fair value. The methods used to calculate the fair value of such financial instruments that are not traded on an active market are described in the accounting policies.

**Day one P&L.** The aggregate difference between the transaction price and the theoretical value that is not based exclusively on observable market data ("day one P&L") relates to trading assets at fair value through profit or loss; the amount developed as follows:

| €m | 2007 | 2006 |
|---|---|---|
| 1 January | 42 | 42 |
| Additions recognised directly in equity | 2 | 22 |
| Reversals through profit or loss | 16 | 22 |
| **31 December** | **28** | **42** |

**Loans and advances, liabilities.** Direct market prices are not available for loans and deposits due to the absence of organised secondary markets for such financial instruments. 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 was used. Fair value is a theoretical value applicable at a given reporting date, which can only be interpreted as a proxy for the value of an instrument. The fair value of receivables is determined by calculating the future contractually agreed cash flows, discounted using appropriate market interest rates. The differing credit quality of companies and institutions was taken into consideration by adjusting the discount rates to reflect the related risks. The rates used for discounting to reflect the risk were calculated using observed capital market rates; where possible, individual yield curves were used to determine borrower-specific interest rates. In the case of loans to private clients, the discount rate reflected all cost components, such as refinancing costs, loan default costs, the cost of capital and processing costs. In the case of loans with option components, these components were measured using option pricing models and were included in the fair value calculation.

In the case of deposits that are not due on sight, the fair value of the cash flows is calculated using valuation techniques. The interbank swap rate is used as the discount rate for these deposits.

A loss of €1 million (previous year: gain of €1 million) was realised on the sale of loans and advances to banks with a carrying amount of €103 million (previous year: €37 million); a loss of €6 million was realised on the sale of loans and advances to customers with a carrying amount of €154 million (previous year: nil). The reduction of securitised liabilities with a carrying amount of €1,450 million (previous year: €2,462 million) led to a gain of €17 million (previous year: loss of €22 million).

**Financial investments.** Financial investments are classified as available-for-sale financial instruments in accordance with IAS 39 and measured at their fair value. In addition, securities measured at cost are presented in Note 19.

**Long-term securitised liabilities and subordinated capital.** Securitised liabilities, subordinated liabilities and profit-participation certificates 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.

**Lease receivables and lease liabilities.** Financial assets and liabilities under finance leases are measured in accordance with IAS 17. The fair value of these assets is calculated on the basis of the net investment and the expected interim profits due to the relatively short-term nature of the assets from the Bank's perspective.

**Financial guarantee contracts and irrevocable loan commitments.** The carrying amount of provisions for issued financial guarantee contracts and irrevocable loan commitments is calculated on the basis of future expected cash drawdowns. Expected cash flows from the realisation of collateral are reflected here. When calculating the present value of financial guarantee contracts, expected future claims are discounted at the average rate for current account drawdowns; in the case of loan commitments, the contractual interest rate is used. The present values calculated in this way also represent the fair value.

## 47 Other disclosures on financial instruments in accordance with IFRS 7

**Net gains and losses on financial instruments classified using the measurement categories defined in IAS 39.** The amounts in the following tables have been disclosed to meet the requirements under IFRS 7. They do not represent a presentation of gains and losses that is used by management for management purposes. Rather, the income and expense structures used for management purposes are presented in the Notes to the Income Statement and in the Management Report (in the section entitled “Consolidated Profit”). The following table shows the net gains or losses for the measurement categories of financial assets and liabilities defined in IAS 39.

| €m | 2007 | 2006 |
|---|---|---|
| Net gains or losses on | | |
| – Trading assets and liabilities | -360 | 1,031 |
| – Financial assets and liabilities designated at fair value | -43 | 27 |
| – Available-for-sale financial assets | 505 | 340 |
| Of which: removed from equity and recognised in profit or loss | 505 | 340 |
| recognised directly in equity | – | – |
| – Loans and receivables | 91 | -9 |
| – Other financial liabilities | 16 | -22 |

The net gains and losses on trading assets and liabilities and on financial assets and liabilities designated at fair value comprise realised disposal gains and losses as well as measurement gains and losses from impairment losses and reversals of impairment losses; interest and dividends are not included. The respective net gains and losses on available-for-sale financial assets, loans and receivables as well as other financial liabilities are primarily composed of realisation and measurement gains or losses; interest and dividends are not included.

Total interest income and expense for financial assets and liabilities that are not designated as at fair value through profit or loss is as follows:

| €m | 2007 | 2006 |
|---|---|---|
| Interest income on loans and advances to banks and customers | 17,353 | 15,091 |
| Interest income on AfS financial instruments | 609 | 523 |
| **Aggregate interest income** | **17,962** | **15,614** |
| Interest expense on loans and advances to banks and customers | 15,174 | 13,123 |
| Interest expense on other financial instruments | 2,670 | 2,759 |
| **Aggregate interest expense** | **17,844** | **15,882** |

**Maximum credit risk.** The Bank's maximum credit risk exposure in accordance with IFRS 7 – excluding collateral or other credit enhancements – corresponds to the carrying amounts of the relevant recognised assets per category, or to the principal amounts in the case of irrevocable loan commitments and financial guarantee contracts. The following table summarises the carrying amounts and nominal values of the financial instruments that are exposed to a potential credit and counterparty risk:

| €m | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Debt instruments | | |
| – Trading assets | 52,341 | 76,916 |
| – Financial assets designated at fair value | 5,253 | 4,593 |
| – Available-for-sale financial assets | 10,359 | 11,208 |
| Loans and advances to banks[1)] | 113,555 | 145,704 |
| Loans and advances to customers | 189,622 | 197,050 |
| Positive fair values of derivative financial instruments | | |
| – Trading assets | 72,043 | 65,358 |
| – Hedging derivatives in accordance with IAS 39 | 291 | 441 |
| Irrevocable loan commitments | 37,635 | 46,344 |
| Financial guarantee contracts | 18,683 | 18,632 |

1) Including receivables designated at fair value.

The amounts relating to the maximum credit risk exposure listed in the above table are not part of the Bank's internal risk management system because the management of credit risk also reflects collateral, probabilities of default and other economic factors. These amounts are therefore not representative of actual risk assessments. The Risk Report contains further information on credit risk arising from credit and counterparty risk, in particular a description of collateral held as security and other credit enhancements, as well as information on the quality of standard credit risks and on renegotiated loans in accordance with IFRS 7.36. The Risk Report also provides information on the age structure and impairment of financial assets in accordance with IFRS 7.37.

In addition, Note 18 contains disclosures in accordance with IFRS 7.16 (allowance account), and Notes 8 and 19 include disclosures in accordance with IFRS 7.20 (e) (impairment losses). Disclosures in accordance with IFRS 7.13 (transfers that do not qualify for derecognition) are included in the section entitled "Basis of accounting" and in Notes 37 and 41.

## 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 companies 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 standard market rates and conditions.

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 July 2007, we acquired 40,809,084 own shares at a price of €1,150 million from Allianz. This reduced the number of outstanding shares to 537,257,149.

As part of the restructuring of the Allianz Group's real estate portfolio, we transferred a portfolio of 54 investment properties to Allianz SE in the first half of fiscal year 2007. The properties were bundled in a real estate fund for which Dresdner Bank AG held all the unit certificates. The fund units were sold for approximately €1 billion to Allianz. The purchase price was financed by Dresdner Bank in an arm's length transaction and is reported under loans and advances to customers.

In September 2007, Dresdner Bank AG issued a subordinated registered bond in the amount of €1 billion, which was subscribed for by Allianz SE. The registered bond has a term of ten years. It bears a standard market rate of interest amounting to one-month Euribor plus 1.01% and is reported under subordinated liabilities.

In May 2007, we acquired approximately 24 million shares of Banco Popular Español at their quoted market price from RAS International N. V. via our subsidiary Dresdner Holding B. V.

In the first quarter of the past fiscal year, our equity-accounted investment KGAL (Kommanditgesellschaft Allgemeine Leasing GmbH & Co.) sold its equity investments in ASL Auto Service Leasing GmbH and Disko-Gruppe. This transaction resulted in tax-free income of €186 million.

We operate Dresdner-Cetelem Kreditbank GmbH as a joint venture in the consumer loans business together with the French company Cetelem S. A. Dresdner Bank's interest amounts to 49.9%. We have contractually undertaken to support the business development of the joint venture by making contributions to its capital reserves up to 2010. A further €28 million may be drawn down under this undertaking in the period up to 2010.

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 dual trust structure also ensures that the assets managed by the CTA are protected against insolvency. Verein Pension-Trust der Dresdner Bank e. V., which is independent of Dresdner Bank AG, acts as the trustee and is responsible for investing the funds and managing them in trust in accordance with the Investment Guidelines agreed with Dresdner Bank AG. In turn, Verein Pension-Trust der Dresdner Bank e. V has appointed Allianz Global Investors Advisory GmbH (AGI) as its asset manager with responsibility for centrally managing investments and implementing the Verein's investment decisions. Dresdner Bank AG bears all the costs incurred by the Verein on the basis of the asset management agreement signed with AGI. As at 31 December 2007, the pension trust assets managed by the Verein were predominantly invested in special investment funds and mutual funds operated by Allianz Global Investors KAG and PIMCO, as well as in a capitalisation product issued by Allianz Lebensversicherung AG.

The scope of the related party transactions is shown below:

| | Parent company | | Other related parties | | Other equity investments and equity-accounted investments | |
|---|---|---|---|---|---|---|
| €m | 31/12/2007 | 31/12/2006 | 31/12/2007 | 31/12/2006 | 31/12/2007 | 31/12/2006 |
| Trading assets | 282 | – | 8 | 3 | – | – |
| Loans and advances to banks | – | – | 10 | – | 669 | 684 |
| Loans and advances to customers | 2,813 | – | 85 | 1,156 | 96 | 273 |
| Debt instruments | – | – | – | – | – | 380 |
| Other assets | 589 | 525 | 51 | 68 | 7 | – |
| **Total** | **3,684** | **525** | **154** | **1,227** | **772** | **1,337** |
| Trading liabilities | 2 | – | 84 | 49 | – | – |
| Liabilities to banks | – | – | 4 | 132 | 213 | 501 |
| Liabilities to customers | 521 | 829 | 1,680 | 504 | 18 | 90 |
| Securitised liabilities | – | – | 52 | 224 | – | – |
| Other liabilities | 16 | 8 | 43 | 46 | 18 | – |
| Subordinated liabilities | 1,000 | – | 17 | 10 | – | – |
| **Total** | **1,539** | **837** | **1,880** | **965** | **249** | **591** |
| Contingent liabilities | – | – | 43 | 20 | 29 | – |
| Transaction income | 91 | 383 | 255 | 377 | 87 | 29 |
| Transaction expenses | 78 | 43 | 66 | 385 | 309 | – |

**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 €435,046.79 (previous year: €718,967.46). This included loans extended to, or liabilities assumed on behalf of, managers of subsidiaries in the amount of €8,770.99 (previous year: €965.38). Loans to members of Dresdner Bank AG's Supervisory Board and liabilities assumed on their behalf totalled €447,719.26 (previous year: €499,410.00). 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 €21,301,281.36. This includes share-based payments comprising 62,461 stock appreciation rights (SARs) with a fair value of €39.05 at the grant date and 44,423 restricted stock units (RSUs) with a fair value of €134.48 at the grant date. The remuneration paid to former members of the Board of Managing Directors and their surviving dependants amounted to €11,891,333.57. Pension provisions for former members of the Board of Managing Directors and their surviving dependants amounted to €139 million as at 31 December 2007.

The compensation paid to the Board of Managing Directors as defined by IAS 24.16 amounted to €27,034,067.56 (previous year: €34,436,064.44). This figure can be broken down as follows: short-term employee benefits €12,916,221.75 (previous year: €11,564,867.57); post-employment benefits €1,391,241.00 (previous year: €1,180,276.00); no other long-term benefits (previous year: €500,000.00); no payments in relation to the termination of employment (previous year: €6,900,000.00); share-based payment €12,726,604.81 (previous year: €14,290,920.87).

Compensation granted to members of the Group's Supervisory Board for fiscal year 2007 amounted to €1,179,168.00 (previous year: €1,053,912.50), including value added tax. Payments to the members of the regional advisory boards amounted to €1,230,084.25 (previous year: €1,204,138.00), 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 2007 for Dresdner Bank AG within Germany and its domestic subsidiaries amounted to 370,852 (previous year: 390,031); the difference between the exercise price and the market price in the amount of approximately €11 million (previous year: €10 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. In addition, SARs may be exercised before the lock-up period expires if a Plan participant dies, if there is a change of control at the Allianz Group, or if the subsidiary that employs the Plan participant is sold.

The fair value of the options at the grant date is calculated using a Cox-Rubinstein binomial model. Option valuation models require the input of subjective assumptions, e.g. on expected share price volatility and the expected option term. Volatility is derived from observable historical market prices. If no historical information is available with regard to the exercise of the SARs (all plans issued from 1999 to 2002 are "out of the money"), it is assumed that the expected term corresponds to the period up to the expiry of the SAR.

The following table shows the assumptions used to calculate the fair value of the SARs at the grant date.

| | 2007 | 2006 |
|---|---|---|
| Expected volatility (%) | 27.9 | 28.0 |
| Risk-free rate (%) | 3.9 | 4.1 |
| Expected dividend yield (%) | 3.0 | 1.6 |
| Share price (€) | 158.01 | 123.67 |
| Expected term (years) | 7 | 7 |

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 €18 million (previous year: €29 million) was recognised as an expense as at 31 December 2007; the volume of provisions for unexercised SARs amounted to €28 million as at 31 December 2007 (previous year: €42 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 quoted market price of Allianz SE shares on the ten trading days preceding the expiry of the lock-up period, or to issue one Allianz SE share or equivalent equity instruments per RSU to the beneficiaries. In addition, RSUs may be exercised before the lock-up period expires if a Plan participant dies, if there is a change of control at the Allianz Group, or if the subsidiary that employs the Plan participant is sold.

RSUs are rights to no-par value shares excluding dividend payments; the fair value of these rights is determined by deducting the present value of future expected dividend payments from Allianz SE's share price at the measurement date.

The following table shows the assumptions used to calculate the fair value of the RSUs at the grant date.

| % | Interest rate | Dividend yield |
|---|---|---|
| RSUs 2005 | 2.84 | 1.88 |
| RSUs 2006 | 3.77 | 1.51 |
| RSUs 2007 | 3.87 | 3.23 |

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 €17 million (previous year: €22 million) was recognised as an expense as at 31 December 2007; the volume of provisions for unexercised RSUs amounted to €45 million as at 31 December 2007 (previous year: €34 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 IFRIC 11, 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. The expense for the plan reported in the fiscal year amounted to €103 million (previous year: €160 million); the provision recognised amounted to €194 million (previous year: €250 million).

## 50 Auditors' fees

| €m | 2007[1] | 2006 |
|---|---|---|
| Auditing of the financial statements | 15 | 15 |
| Other assurance or valuation services | 3 | 3 |
| Tax advisory services | 2 | 1 |
| Other services | 2 | 3 |
| **Total** | **22** | **22** |

1) KPMG Germany and United Kingdom have been affiliated companies since 1 October 2007. The auditors' fees for fiscal year 2007 include both companies.

## 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, 145 (previous year: 136) companies are fully consolidated and 17 (previous year: nine) are accounted for using the equity method in the consolidated financial statements, as described below.

**Significant subsidiaries.** Subsidiaries consolidated as at 31 December 2007 included 43 domestic (previous year: 44) and 102 foreign (previous year: 92) entities, including eleven (previous year: ten) funds and 50 (previous year: 43) special purpose entities, which were required to be included in consolidation due to the application of SIC 12. These figures include seven (previous year: ten) sub-groups, but not their 166 companies and the two companies within them accounted for using the equity method. The number of special purpose entities does not include any consolidation into special purpose entity groups.

50 domestic and 36 foreign Group companies (previous year: 53 domestic and 80 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 decreased by a total of €48 million or 0.01% (previous year: increase of €40 million or 0.01%); the effect on profit would have amounted to €-0.4 million or -0.1% (previous year: €3.8 million or 0.44%).

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. Changes in goodwill are discussed in Note 21, "Intangible assets".

The Bank has conditionally waived a claim of €94 million in respect of a subsidiary.

**Associates.** Investments in six (previous year: five) domestic and ten (previous year: three) foreign companies were reported as associates in the consolidated balance sheet and accounted for using the equity method. Current income from these investments is included in net interest and current income. One enterprise was included in the consolidated financial statements on the basis of accounts prepared as at 30 September 2007. 19 companies were not consolidated because they were not significant in the aggregate. The list of shareholdings comprises those associates that were not included in the consolidated financial statements using the equity method.

**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 equity-accounted investments.

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 | 2007 | 2006 |
|---|---|---|
| Assets | 6,752 | 7,636 |
| Liabilities | 6,334 | 7,262 |
| Income | 450 | 658 |
| Expenses | 389 | 660 |

**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 2007. 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

Two domestic and 12 foreign companies (previous year: seven domestic and 45 foreign companies) were deconsolidated. One domestic company and 22 foreign companies (previous year: eleven domestic and 30 foreign companies) were included in consolidation for the first time. The names of the key additions and disposals are listed below:

### Additions

| |
|---|
| Bosphorus Finance Limited, Gibraltar |
| Damien Courtens & Cie, Brussels |
| Dresdner Advisors LLC, Wilmington/Delaware |
| Dresdner Kleinwort Investment Holdings, Inc., New York |
| Illium Finance Limited, Gibraltar |
| Kookaburra Capital SARL, Luxembourg |
| Sigma-1 CLO 2007 Ltd., Dublin |
| Twins Financing LLC, Wilmington/Delaware |
| Van Moer Santerre & Cie, Brussels |
| Victoria Capital Holdings S. A., Luxembourg |
| Victoria Capital (Irland) Public Limited Company, Luxembourg |
| Victoria Capital S. A, Luxembourg |
| Wisley Inc., George Town |

On 31 July 2007, the Bank acquired a 100% interest in each of the two asset management companies Damien Courtens & Cie, Brussels, and Van Moer Santerre & Cie, Brussels, via its Luxembourg subsidiary; the two companies have been fully consolidated since 1 August 2007. The information required under IFRS 3 was not presented for reasons of materiality.

### Disposals

| Name | Reason for derecognition |
|---|---|
| German Real Estate Equity Fund I, Frankfurt/Main | Sale |
| GIM Grundwert Immobilien Management GmbH i.L., Frankfurt/Main | Merged with Dresdner Bank AG |
| Radian, Cayman Island | Liquidated |
| Bridge Finance Inc., Cayman Island | Liquidated |
| Rendite Partner Gesellschaft für Vermögensverwaltung mbH, Frankfurt/Main | In liquidation |
| Fonds & Co Fondsanteilsvermittlung AG, Vienna | Sale |
| Dresdner Anschutz Mezzinvest S.à.r.l., Luxembourg | Deconsolidated |

### Name changes

| New name | Previous name |
|---|---|
| LAMINA Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Leipzig KG, Grünwald | LAMINA Grundstücksverwaltungs-GmbH & Co. KG, Grünwald |
| Dresdner VPV N.V., Gouda | Veer Palthe Voûte NV, Gouda |

## 53 Events after the balance sheet date

In February of the current fiscal year, Dresdner Bank resolved to offer support to its “K2” structured investment vehicle. Under the measures resolved, the senior debt assumed by “K2” will be fully repaid. The restructuring process provides for the investment company to be split up among the shareholders and for an auction; the remaining assets will be assumed by Dresdner Bank. The exact form that the restructuring will take is currently being negotiated. For more information on the “K2” structured investment vehicle, please refer to the chapter entitled “Effects of the Financial Crisis.”

In connection with the ongoing crisis on the financial markets, additional value adjustments had to be recognised in the first weeks of the current year due to a further decline in indices that are relevant to valuation.

Events on the credit markets have led to selected business activities in the Investment Banking division being scaled back in response to the current market situation; this entails the shedding of around 450 jobs. Nonetheless, we shall continue to provide customers with our integrated business model and the corresponding product offerings.

No dividend will be distributed for fiscal year 2007.

Dresdner Bank AG's consolidated financial statements were resolved on 20 February 2008 at the meeting of the Board of Managing Directors, and submitted to the Supervisory Board for approval at its meeting on 14 March 2008.

## 54 List of Supervisory Board members

| | |
|---|---|
| **Michael Diekmann**<br>Chairman | Chairman of the Board of Management of Allianz SE, Munich |
| **Peter Haimerl**<br>Deputy Chairman | Dresdner Bank AG, Munich |
| **Dr. Olaf Berlien** | Member of the Executive Board of ThyssenKrupp AG, Düsseldorf |
| **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 |
| **Prof. Dr. Edward G. Krubasik** | Munich |
| **Dr. Dietmar Kuhnt** | RWE AG, Essen |
| **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** | Volkswagen AG, Wolfsburg |
| **Stefan Quandt**<br>(until 31 December 2007) | Chairman of the Supervisory Board of DELTON AG, Bad Homburg v. d. H. |
| **Jürgen Rose** | Dresdner Bank AG, Nuremberg |
| **Margit Schoffer** | Dresdner Bank AG, Aalen |
| **Prof. Dennis J. Snower, PhD** | President of the Kiel Institute for the World Economy, Kiel |
| **Wolfgang Spauszus** | 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 2007) |
|---|---|
| **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, Düsseldorf |
| | RWE Dea AG, Hamburg |
| **Franz Herrlein** (since 1 May 2007) | – |
| **Dr. Stefan Jentzsch** | adidas AG, Herzogenaurach |
| | Premiere AG, Munich |
| **Wulf Meier** | Allianz Shared Infrastructure Services GmbH, Munich (Second Deputy Chairman) |
| **Andree Moschner** | Allianz Dresdner Bauspar AG, Bad Vilbel[1)] (Chairman) |
| | Allianz Global Investors Kapitalanlage-gesellschaft mbH, Frankfurt/Main |
| **Klaus Rosenfeld** | – |
| **Otto Steinmetz** | Oldenburgische Landesbank AG, Oldenburg[1)] |
| **Dr. Friedrich Wöbking** | Allianz Shared Infrastructure Services 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 2007) |
|---|---|
| Michaela Eder von Grafenstein | Allianz Dresdner Bauspar AG, Bad Vilbel[1)] |
| Claudia Eggert-Lehmann | Allianz SE, Munich |
| Karl-Friedrich Fiedler | Dresdner Lateinamerika Aktiengesellschaft, Hamburg[1)] (Deputy Chairman) |
| Detlef Hermann | Kaiser's Tengelmann AG, Viersen |
| | RC Ritzenhoff Cristal Aktiengesellschaft, Marsberg |
| Rüdiger Maroldt | Allianz Dresdner Bauspar AG, Bad Vilbel[1)] |
| Jens-Peter Neumann | RHÖN-KLINIKUM Aktiengesellschaft, Bad Neustadt, Saale |
| Margit Schoffer | Allianz SE, Munich |
| Reiner Zorbach | Dresdner Lateinamerika Aktiengesellschaft, Hamburg[1)] (Chairman) |

1) Group office.

# Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Frankfurt/Main, 20 February 2008

Dresdner Bank
Aktiengesellschaft

| | | |
|---|---|---|
| Dr. Walter | Dr. Georgi | Herrlein |
| 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 2007. 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 2008

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

Claudia Eggert-Lehmann

Thomas Fröhlich

Christian Höhn

Oda-Renate Krauß

Prof. Dr. Edward G. Krubasik

Dr. Dietmar Kuhnt

Dr. Hartmut Mehdorn

Prof. Hans Georg Näder
(since 1 January 2008)

Brunhilde Nast

Dr. Helmut Perlet

Dr. Bernd Pischetsrieder

Stefan Quandt
(until 31 December 2007)

Jürgen Rose

Margit Schoffer

Prof. Dennis J. Snower, PhD

Wolfgang Spauszus

Uwe Spitzbarth

Dr. Bernd W. Voss

Dr. Wolfgang Röller
Honorary Chairman
of the Supervisory Board

# The Board of Managing Directors of Dresdner Bank

Dr. Herbert Walter
Chairman

Dr. Andreas Georgi

Franz Herrlein

Dr. Stefan Jentzsch

Wulf Meier

Andree Moschner

Klaus Rosenfeld

Otto Steinmetz

Dr. Friedrich Wöbking

# Quarterly Overview

The following table gives an overview of the results for the individual quarters since 2006:

| Quarterly results<br>€m | Q4<br>2007 | Q3<br>2007 | Q2<br>2007 | Q1<br>2007 | Q4<br>2006 | Q3<br>2006 | Q2<br>2006 | Q1<br>2006 |
|---|---|---|---|---|---|---|---|---|
| Net interest and current income | 675 | 740 | 717 | 929 | 756 | 699 | 632 | 577 |
| Net fee and commission income | 670 | 689 | 718 | 789 | 737 | 631 | 680 | 793 |
| Net trading income | -867 | -254 | 297 | 343 | 220 | 195 | 411 | 452 |
| Other operating income | 0 | 0 | 0 | 0 | -1 | 0 | 0 | 31 |
| **Total operating income** | **478** | **1,175** | **1,732** | **2,061** | **1,712** | **1,525** | **1,723** | **1,853** |
| Administrative expenses | 1,075 | 1,136 | 1,280 | 1,358 | 1,382 | 1,241 | 1,385 | 1,389 |
| Other operating expenses | 12 | 4 | 5 | -2 | 12 | 21 | 3 | 3 |
| **Total operating expenses** | **1,087** | **1,140** | **1,285** | **1,356** | **1,394** | **1,262** | **1,388** | **1,392** |
| Loan impairment losses | -208 | 21 | 62 | -7 | 104 | -49 | 5 | -33 |
| **Operating profit/loss** | **-401** | **14** | **385** | **712** | **214** | **312** | **330** | **494** |
| Net income from financial investments | -33 | 53 | 37 | 126 | -167 | 27 | 21 | 395 |
| Restructuring charges | 34 | 4 | 3 | 9 | 381 | 33 | 6 | 2 |
| **Profit/loss before tax** | **-468** | **63** | **419** | **829** | **-334** | **306** | **345** | **887** |
| Tax expense | -32 | 241 | -4 | 168 | -139 | 57 | 115 | 225 |
| **Profit/loss after tax** | **-436** | **-178** | **423** | **661** | **-195** | **249** | **230** | **662** |
| Profit attributable to minority interests | 12 | 14 | 17 | 17 | 19 | 15 | 21 | 21 |
| **Profit/loss for the period** | **-448** | **-192** | **406** | **644** | **-214** | **234** | **209** | **641** |

# Five-Year Overview

| Income statement | 2007<br>€m | 2006<br>€m | 2005<br>€m | 2004<br>€m | 2003<br>€m |
|---|---|---|---|---|---|
| Total operating income[1)] | 5,446 | 6,813 | 6,025 | 6,334 | 6,700 |
| Total operating expenses[1)] | 4,868 | 5,436 | 5,543 | 5,403 | 5,912 |
| Loan impairment losses | -132 | 27 | -113 | 337 | 1,016 |
| Operating profit | 710 | 1,350 | 595 | 594 | -228 |
| Other income/expenses, net[1)] | – | – | – | -199 | -544 |
| Net income from financial investments | 183 | 276 | 1,573 | 142 | -1,063 |
| Net income from intangible assets | – | – | -2 | -124 | -186 |
| Restructuring charges | 50 | 422 | 12 | 290 | 840 |
| Profit before tax | 843 | 1,204 | 2,154 | 123 | -2,861 |
| Tax expense | 373 | 258 | 368 | -142 | -883 |
| Profit after tax | 470 | 946 | 1,786 | 265 | -1,978 |
| Profit attributable to minority interests | 60 | 76 | 76 | 59 | 11 |
| Profit for the period | 410 | 870 | 1,710 | 206 | -1,989 |

| Balance sheet | 31/12/2007<br>€m | 31/12/2006<br>€m | 31/12/2005<br>€m | 31/12/2004<br>€m | 31/12/2003<br>€m |
|---|---|---|---|---|---|
| Total assets | 500,209 | 554,897 | 460,548 | 523,870 | 477,029 |
| Lending volume | 113,026 | 112,375 | 98,532 | 97,074 | 102,010 |
| Equity attributable to shareholder of parent | 10,587 | 12,219 | 11,763 | 10,929 | 11,516 |

| Ratios | 31/12/2007<br>% | 31/12/2006<br>% | 31/12/2005<br>% | 31/12/2004<br>% | 31/12/2003<br>% |
|---|---|---|---|---|---|
| Cost-income ratio | 89.4 | 79.8 | 92.0 | 85.3 | 88.2 |
| Loan loss ratio[2)] | -0.11 | 0.02 | -0.11 | 0.33 | 0.84 |
| Return on risk-adjusted capital[3)] | 2.5 | 9.2 | 9.1 | 3.3 | -1.8 |
| Return on equity before tax[4)] | 8.5 | 15.6 | 21.4 | 5.8 | -14.1 |
| Return on equity after tax | 4.0 | 8.5 | 17.1 | 2.9 | -15.4 |
| Earnings per share (€) | 0.73 | 1.51 | 2.96 | 0.36 | -3.44 |

| | | | | | |
|---|---|---|---|---|---|
| Employees[5)] | 26,309 | 27,625 | 28,774 | 30,154 | 34,998 |
| Branch offices | 1,074 | 952 | 959 | 969 | 1,035 |

| | | | | | |
|---|---|---|---|---|---|
| Risk-weighted assets (€m)[6)] | 123,115 | 119,980 | 111,534 | 104,777 | 111,879 |
| Core capital ratio (%)[6)] | 9.1 | 10.4 | 10.0 | 6.6 | 6.6 |
| Total capital ratio (%)[6)] | 13.8 | 15.6 | 16.3 | 13.3 | 13.4 |

| Short-/Long-term rating | 31/12/2007 | 31/12/2006 | 31/12/2005 | 31/12/2004 | 31/12/2003 |
|---|---|---|---|---|---|
| Moody's Investors Service, New York | P-1/Aa2 | P-1/A1 | P-1/A1 | P-1/A1 | P-1/A1 |
| 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) Figures for 2003 and 2004 are only comparable to a limited extent.
2) Loan impairment losses as a percentage of the average risk-weighted assets in the banking book.
3) As defined by the Allianz Group: the ratio of normalised profit after tax to the adjusted risk capital.
4) Profit before tax, restructuring charges and net income from intangible assets as a percentage of the average capital resources according to IFRSs.
5) Full-time equivalents (excluding vocational trainees).
6) Information for 2003–2004 according to BIS/HGB.

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**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 SE'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.