Dresdner Bank AG
Financial Report 2007

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Management Report Dresdner Bank AG

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 AG is one of the leading commercial banks in Germany. It 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 AG has a network of 856 branch offices – 838 in Germany and 18 abroad. This is an overall increase of 120 branch offices as against the previous year (736 branch offices), with the growth attributable to the expansion of our network of bank agencies. The Bank is represented in all key financial centres around the globe.

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 Fitch Ratings 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 Financial Statements in the sections entitled "List of Supervisory Board members" and "List of members of the Board of Managing Directors and offices held".

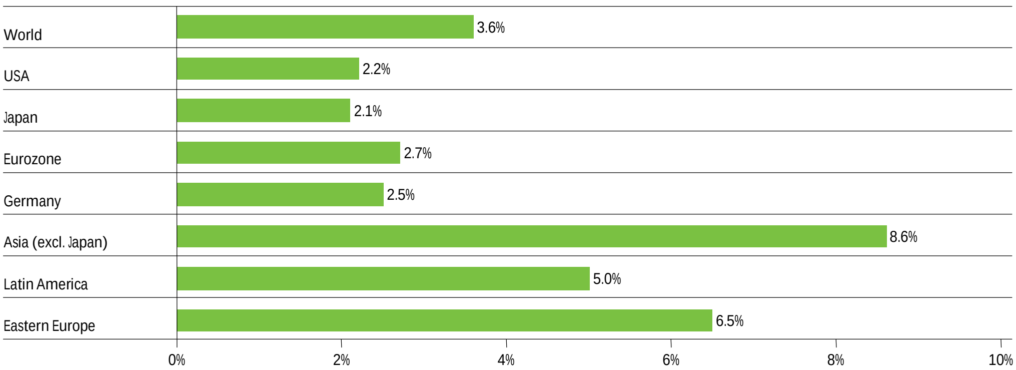
Macroeconomic Conditions

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.

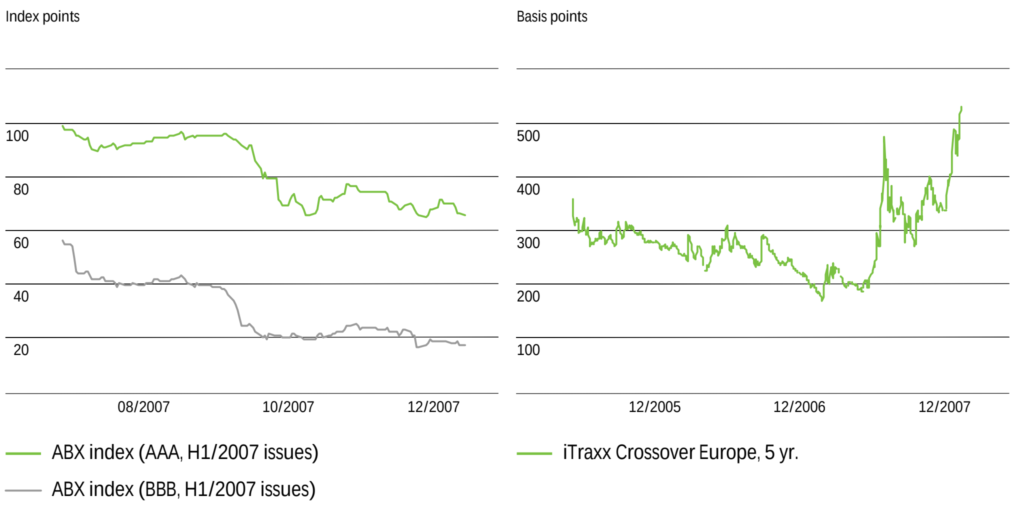
The negative factors affecting the German economy also increased noticeably in the second half of 2007. In addition to the turbulence on the international financial markets that was triggered by the US real estate crisis, Germany's economic prospects were impacted in particular by the sharp rise in oil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

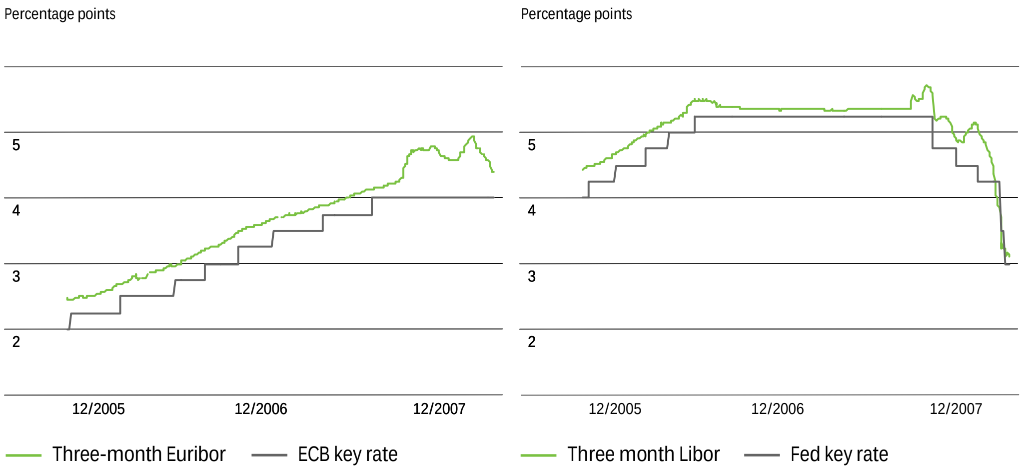
The picture on the real estate markets was extremely mixed in 2007. While the residential property market was hit by a major crisis in the USA and also slowed in other countries, it remained robust in countries that had not previously experienced excessive price increases, such as Germany. Commercial 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 AG's business development in 2007 was dominated to a large extent by the turbulence on the financial markets. While the year began promisingly, the Bank was hit by a substantial decline in earnings in the second six months of the year due to the financial market crisis that was mainly reflected in the result from financial transactions. Falling administrative expenses and positive contributions to earnings by other operating income/expenses and loan impairment losses led to profit for the period of €944 million. Together with a withdrawal from other retained earnings of €206 million, a total of €1,150 million was transferred to the reserve for treasury shares. The balance of the distributable profit account was €0 at the close of the year. No dividend will be distributed.

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 Dresdner Bank AG's net interest and current income. In the course of 2007, we also placed non-strategic shareholdings in Arcandor AG and sold our interest in the Korean Hana Financial Group in two stages. The resulting disposal gains are included in the result from the securities-based liquidity portfolio.

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.

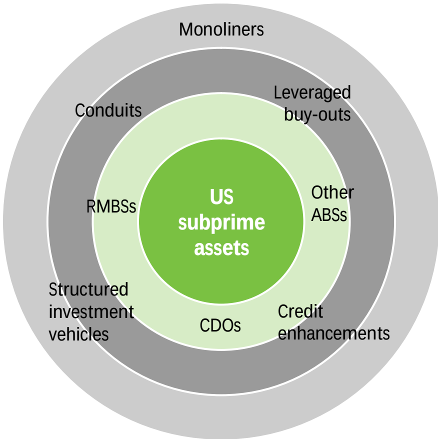
The implementation of the workforce reduction measures under the "Neue Dresdner Plus" programme continued according to plan in 2007, with 890 full-time positions being cut by the end of the year. The workforce reduction measures in the Investment Banking division are almost complete, while those in Private & 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 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 Bank'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 €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 €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.

Result of Operations

In fiscal year 2007, Dresdner Bank AG reported profit before tax of €1,133 million. This represents an increase of €711 million as against the previous year. Although, taken together, net interest and current income and net fee and commission income almost matched the prior-year results, our ABS trading portfolio was impacted by value adjustments amounting to approximately €1.3 billion as a result of the financial market crisis. We were able to further reduce administrative expenses. Risk provisioning recorded a net release of €1.4 billion.

The following table provides an overview of Dresdner Bank AG's income statement for 2007 and 2006:

	2007	2006	Change	
	€m	€m	€m	%
Net interest and current income	2,793	2,712	81	3.0
Net fee and commission income	1,739	1,847	-108	-5.8
Result from financial transactions	-863	670	-1,533	
Administrative expenses	4,036	4,274	-238	-5.6
– Personnel expenses	1,881	2,055	-174	-8.5
– Other administrative expenses	2,056	2,124	-68	-3.2
– Depreciation of tangible fixed assets	99	95	4	4.2
Other operating income/expenses	406	17	389	>+100.0
Risk provisioning (net)	-1,356	139	-1,495	
Result from investment securities	-193	106	-299	
Cost of loss absorption	17	153	-136	-88.9
Extraordinary income/expenses	-52	-364	312	85.7
Profit before tax	**1,133**	**422**	**711**	**>+100.0**
Tax expense	189	115	74	64.3
Profit for the period	**944**	**307**	**637**	**>+100.0**

Profit for the period in fiscal year 2007 amounted to €944 million, as against €307 million in the previous year. Together with a withdrawal from other retained earnings of €206 million, a total of €1,150 million was transferred to the reserve for treasury shares. 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 in the year under review rose to €2,793 million, a year-on-year increase of 3.0% or €81 million. Significantly higher current income from both other equity investments and equities was offset by lower income from fixed-income securities. While the increase in current income from equities and the decline in income from fixed-income securities were mainly the result of trading, the increase in income from other equity investments was due to one-time income at our equity investment KGAL (Kommanditgesellschaft Allgemeine Leasing GmbH & Co.), which sold its equity investments in ASL Auto Service Leasing GmbH and Disko-Gruppe in the first quarter of the year under review. This transaction resulted in tax-free income of approximately €180 million.

Net fee and commission income

At €1,739 million, net fee and commission income was 5.8% below the prior-year period (€1,847 million). Just under two-thirds of the €108 million decline resulted from our underwriting business; due to the substantial drop in underwriting activity on the capital markets, fees and commissions in this area fell by around one half year on year to €70 million. Our securities business, which makes the largest contribution to net fee and commission income, almost matched the prior-year figure. At €1,009 million, this item was down approximately 4% year on year. While commission income from certificates and bonds rose encouragingly, income from equities and fund units was significantly lower compared with the previous year. Overall, commission business was down slightly year-on-year. By contrast, income from the Bank's agency business for Allianz again rose.

Result from financial transactions

With regard to the result from financial transactions, we reported a loss of €863 million in the past fiscal year (previous year: income of €670 million). The significant decline was predominantly due to value adjustments 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). However, value adjustments were also made on other credit products impacted by the turbulence on the financial markets. By contrast, foreign exchange and precious metals trading recorded encouraging year-on-year growth, which was among other things attributable to increased volatility and higher trading volumes in these segments.

Administrative expenses

Despite additional expenses for certain growth activities, administrative expenses were again reduced as against the previous year, falling 5.6% to €4,036 million. At €1,881 million, total personnel expenses were down 8.5% year-on-year (previous year: €2,055 million). This was attributable both to the 3.8% drop in the average headcount year on year as part of the "Neue Dresdner Plus" programme and, in particular, to lower performance-related remuneration components linked to earnings developments. Efficiency gains and continued strict cost discipline in all business units also contributed to the decline in administrative expenses. At €2,056 million, other administrative expenses were down 3.2% year on year as a result of lower occupancy expenses and falling costs for services sourced from Group companies. Amortisation of intangible fixed assets and depreciation of tangible fixed assets remained almost unchanged at €99 million (previous year: €95 million).

Other operating income/expenses

Net other operating income and expenses amounted to €406 million in the year under review, as against €17 million in the previous year. While other operating income increased by 33.0% to €614 million, other operating expenses declined sharply by 53.3% to €208 million.

The increase in other operating income was due in particular to higher income from fiscal entity tax allocations as well as to the release of provisions, largely since risks associated with leases no longer applied and restructuring charges were lower. Other operating expenses primarily included losses from the sale of receivables, compensation payments and the cost of own issues.

Risk provisioning (net)

Risk provisioning in 2007 amounted to a positive net figure of €1,356 million (previous year: expenses of €139 million). This swing related both to loan impairment losses as well as to net income from the liquidity portfolio.

With regard to loan impairment losses, we recorded an increase in net additions for specific risks, which was due among other things to the need for value adjustments in connection with the current financial crisis. These were offset by releases of allowances and provisions for general risks and country risks. 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. We also released general banking risk reserves.

Whereas the result from our securities-based liquidity portfolio in the previous year primarily contained write-downs on a real estate fund consisting of investment property, the figure in the year under review contained gains from the disposal of non-strategic shareholdings.

Result from investment securities

The result from investment securities amounted to €-193 million (previous year: €106 million). The negative amount was due among other things to losses realised on the disposal of fixed-income securities in treasury management.

Cost of loss absorption

The cost of loss absorption amounted to €17 million in the year under review, roughly 90% down on the figure for the previous year.

Extraordinary income/expenses

Net extraordinary expenses amounted to €52 million, compared with €364 million in the previous year. Around half of this figure 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 figure for 2006 resulted from restructuring charges, primarily for the measures planned as part of our "Neue Dresdner Plus" programme.

Tax expense

The tax expense item of €189 million includes both income taxes (€181 million) and other taxes (€8 million). The increase in the tax expense compared with the previous year (€115 million) is due primarily to higher taxable domestic income.

Net Assets and Financial Position

Dresdner Bank AG's total assets fell by €52.1 billion to €434.5 billion in fiscal year 2007. The decline of 10.7% was primarily due to a reduction in the volume of collateralised money market transactions. 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.

Assets

Primarily as a result of the decrease in these business activities, loans and advances to banks declined by €31.1 billion to €100.5 billion and loans and advances to customers by €14.1 billion to €180.5 billion.

By contrast, we expanded our lending volume by 14.7% to €109.4 billion in fiscal year 2007.

Lending volume	31/12/2007 €m	31/12/2006 €m	Change €m	 %
Customer lending	98,289	89,144	9,145	10.3
– Residual term of less than 5 years	66,991	57,479	9,512	16.5
– Residual term of more than 5 years	31,298	31,665	-367	-1.2
Loans to banks	11,156	6,284	4,872	77.5
– Residual term of less than 5 years	10,529	5,934	4,595	77.4
– Residual term of more than 5 years	627	350	277	79.1
Lending volume[1)]	**109,445**	**95,428**	**14,017**	**14.7**

1) Excluding collateralised money market transactions.

Around two-thirds of the increase in the lending volume was due to the expansion in customer lending, which rose 10.3% to €98.3 billion. This was due primarily to loans to corporate customers, while loans to private customers remained more or less stable. Loans to banks amounted to €11.2 billion; this represents a rise of a good three-quarters compared with year-end 2006.

We reduced our holdings of debt instruments by €17.7 billion, or 21.5%, to €64.6 billion, primarily in the trading portfolio. Whilst bonds and notes from other issuers declined significantly by €13.2 billion, public-sector bonds and notes decreased by €3.0 billion and holdings of money market instruments dropped by €1.4 billion to €4.5 billion.

The equities and other variable-rate securities item amounted to €30.1 billion at year-end 2007, an increase of €4.1 billion year on year. This was the result of higher trading portfolio holdings, while the liquidity portfolio and holdings of long-term securities fell slightly.

Shares in affiliated companies rose by €0.5 billion to €5.0 billion, primarily due to capital contributions to subsidiaries and to acquisitions as part of an intragroup reorganisation of our subsidiary in London.

Treasury shares, which is a new line item compared with 2006, contains treasury shares of €1.15 billion, which were acquired from Allianz over the course of fiscal year 2007.

Liabilities

Compared with the previous year, the volume of deposits and securitised liabilities decreased by 13.2% to €370.8 billion. The collateralised money market transactions included under liabilities to banks and customers were significantly reduced in fiscal year 2007 by €61.0 billion.

Deposits and securitised liabilities	31/12/2007 €m	31/12/2006 €m	Change €m	 %
Liabilities to banks	155,516	187,733	-32,217	-17.2
– Payable on demand	35,239	39,083	-3,844	-9.8
– Time deposits	120,277	148,650	-28,373	-19.1
Liabilities to customers	178,843	205,343	-26,500	-12.9
– Savings deposits	86	104	-18	-17.3
– Payable on demand	80,211	85,471	-5,260	-6.2
– Time deposits	98,546	119,768	-21,222	-17.7
Securitised liabilities	36,405	34,000	2,405	7.1
– Debt instruments issued	16,191	15,466	725	4.7
– Other securitised liabilities	20,214	18,534	1,680	9.1
Deposits and securitised liabilities	**370,764**	**427,076**	**-56,312**	**-13.2**
Of which: collateralised money market transactions	106,425	167,426	-61,001	-36.4

Liabilities to banks decreased year on year by 17.2% to €155.5 billion. This was primarily the result of collateralised money market transactions, with time deposits – largely deposits with short maturities – falling by 19.1% to €120.3 billion. At €35.2 billion, call money was down 9.8% year on year.

Liabilities to customers amounted to €178.8 billion. While call deposits decreased by €5.3 billion to €80.2 billion, time deposits from customers – particularly for terms of up to three months – dropped by €21.2 billion to €98.5 billion. Adjusted for collateralised money market transactions, customer deposits increased by €12.5 billion to €125.0 billion. Our attractive product offerings also played a major role here.

Securitised liabilities increased by 7.1% to €36.4 billion. Growth related both to debt instruments issued (€+0.7 billion) and to other securitised liabilities (€+1.7 billion).

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

Provisions amounted to €3.7 billion at year-end 2007. Provisions for taxes increased by €0.3 billion, while restructuring provisions declined due to the planned implementation of our "Neue Dresdner Plus" programme and loan loss provisions also decreased.

Subordinated liabilities increased by €0.1 billion as against year-end 2006 to €4.6 billion. This includes a subordinated registered bond in the amount of €1 billion issued in September 2007, which was almost fully offset by issues that fell due in the year under review.

Equity

Dresdner Bank AG's equity amounted to €8.7 billion as at the reporting date. This includes a reserve for treasury shares in the amount of €1.2 billion resulting from the acquisition of treasury shares in the middle of 2007.

Liable capital for regulatory purposes amounted to €11.1 billion after the adoption of the annual financial statements. Regulatory risk-weighted assets rose by approximately 4% to €117.8 billion.

Risk Report

Risks facing Dresdner Bank as part of the Dresdner Bank Group

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

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

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

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

- In accordance with section 2a(6) of the Kreditwesengesetz (KWG – German Banking Act), superordinated companies need not apply the provisions contained in section 10, sections 13 and 13a and section 25a(1) sentence 3 no. 1 of the KWG. Dresdner Bank AG has notified the banking supervisory authority that it has exercised these options. More specifically, these options relate to the supervision of solvency, the regulations governing large exposures and certain internal control mechanisms at the level of Dresdner Bank AG for which supervision is performed in an integrated manner at the level of the Dresdner Bank Group.

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 Intensive care Credit process management PCC credit risk policies Portfolio monitoring	Loan approvals large caps and financial institutions Structured finance Intensive care Market risk management Market risk control Portfolio monitoring	Risk methodologies/ratings Risk data management Risk systems/IT coordination Operational risk management Basel II implementation	Bank-wide risk management Liquidity/interest rate risk control Internal/external risk reporting Reputational risk management 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 carry forwards. 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 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.

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.

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 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 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.

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 S&P's	AAA	AA+ AA AA–	A+ A A–	BBB+	BBB	BBB–	BB+	BB	BB–	B+	B	B–	CCC	CC C	D SD	D SD
Moody's	Aaa	Aa1 Aa2 Aa3	A1 A2 A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	B2	B3	Caa	Ca C	D SD	D 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 for the Dresdner Bank Group including Dresdner Bank AG 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 and also extends to Dresdner Bank AG. 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.

(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.

(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.

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) 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.

(b) 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. 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.

(c) 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.

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.

(d) 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

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 comprises 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 risks.

(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 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.

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.

(a) Derivatives business

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

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.

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.

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.

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.

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.

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.

The conservative selection of our trading partners applies not only to the derivatives business but also to repo transactions.

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.

(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.

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.

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.

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.

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.

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.

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.

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. 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. A large proportion of Dresdner Bank's obligations in the banking book under client-related conduit transactions 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. 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. 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. 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. 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.

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.

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.

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.

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.

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.

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.

Employees

In 2007, the number of Dresdner Bank AG 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 21,999 people. This represents a decline of 1,128 employees as against year-end 2006.

	31/12/2007	31/12/2006	Change absolute	%
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 18,263, after 19,255 in the previous year.

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.

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.

Relations with Affiliated Enterprises

Following the acquisition of Dresdner Bank AG, Frankfurt/Main, by Allianz SE, Munich, a related party relationship as defined by the Aktiengesetz (AktG – German Public Companies Act) has existed between the two companies since 23 July 2001. As a dependent company within the meaning of section 17 (1) AktG, we report on our relationship with Allianz SE and with enterprises affiliated with Allianz SE for the period 1 January 2007 to 31 December 2007 in accordance with section 312 AktG.

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

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

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 a reduction in the workforce. 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 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 adjustment 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) at the level of the Dresdner Bank Group.

Annual Financial Statements Dresdner Bank AG

Balance Sheet as at 31/12/2007
Dresdner Bank AG

Assets (€m)				31/12/2007	31/12/2006
Cash funds					
a) Cash on hand			366		358
b) Balances with central banks			5,928		4,546
of which: with Deutsche Bundesbank	5,072				(3,924)
				6,294	**4,904**
Public-sector debt instruments and bills eligible for refinancing with central banks					
a) Treasury bills, Treasury discount paper and similar public-sector debt instruments			880		1,838
of which: eligible for refinancing with Deutsche Bundesbank	423				(1,176)
b) Bills			–		–
of which: eligible for refinancing with Deutsche Bundesbank	–				(–)
				880	**1,838**
Loans and advances to banks					
a) Payable on demand			16,357		27,849
b) Other			84,152		103,801
				100,509	**131,650**
Loans and advances to customers				**180,473**	**194,614**
of which: secured by mortgages	19,644				(20,588)
municipal loans	799				(925)
Debt instruments					
a) Money market securities					
aa) public-sector issuers		36			17
of which: eligible as collateral for Deutsche Bundesbank advances	–				(17)
ab) other issuers		4,482			5,863
of which: eligible as collateral for Deutsche Bundesbank advances	–				(64)
			4,518		5,880
b) Bonds and notes					
ba) public-sector issuers		14,984			17,934
of which: eligible as collateral for Deutsche Bundesbank advances	11,535				(11,755)
bb) other issuers		44,470			57,649
of which: eligible as collateral for Deutsche Bundesbank advances	11,321				(15,476)
			59,454		75,583
c) Own debt instruments			632		853
principal amount	746				(1,019)
				64,604	**82,316**
Equities and other variable-rate securities				**30,058**	**25,941**
Other equity investments				**414**	**531**
of which: in banks	122				(107)
in financial services institutions	3				(2)
Shares in affiliated companies				**5,033**	**4,535**
of which: in banks	1,585				(1,227)
in financial services institutions	608				(187)
Fiduciary assets				**1,276**	**1,589**
of which: fiduciary loans	718				(872)
Intangible fixed assets				**50**	**53**
Tangible fixed assets				**722**	**767**
Treasury shares				**1,150**	**–**
notional value	106				(–)
Other assets				**40,240**	**34,860**
Prepaid expenses				**2,679**	**2,885**
Deferred tax assets				**85**	**122**
Total assets				**434,467**	**486,605**

Liabilities and equity (€m)				31/12/2007	31/12/2006
Liabilities to banks					
a) payable on demand			35,239		39,083
b) with agreed maturities or notice periods			120,277		148,650
				155,516	**187,733**
Liabilities to customers					
a) Savings deposits					
aa) with agreed notice period of three months		–			–
ab) with agreed notice period of more than three months		86			104
			86		104
b) Other liabilities					
ba) payable on demand		80,211			85,471
bb) with agreed maturities or notice period		98,546			119,768
			178,757		205,239
				178,843	**205,343**
Securitised liabilities					
a) Debt instruments issued			16,191		15,466
b) Other securitised liabilities			20,214		18,534
of which: money market securities	10,416				(10,210)
own acceptances and promissory notes outstanding	–				(–)
				36,405	**34,000**
Fiduciary liabilities				**1,276**	**1,589**
of which: fiduciary loans	718				(872)
Other liabilities				**41,434**	**37,017**
Deferred income				**2,385**	**2,393**
Provisions					
a) Provisions for pensions and similar obligations			1,858		1,807
b) Provisions for taxes			521		257
c) Other provisions			1,314		1,788
				3,693	**3,852**
Subordinated liabilities				**4,550**	**4,445**
Profit-participation certificates				**1,517**	**2,028**
of which: maturing in less than two years	767				(1,278)
Fund for general banking risks				**174**	**174**
Equity					
a) Subscribed capital			1,503		1,503
b) Contributions by silent partners			1,000		1,000
c) Capital reserves			4,436		4,436
d) Retained earnings					
da) legal reserve		3			3
db) reserve for treasury shares		1,150			–
dc) other retained earnings		582			788
			1,735		791
e) Distributable profit			0		301
				8,674	**8,031**
Total liabilities and equity				**434,467**	**486,605**
Contingent liabilities					
a) Contingent liabilities from endorsement of discounted bills			–		–
b) Contingent liabilities from guarantees and indemnity agreements			17,566		17,837
c) Contingent liabilities from the granting of security for third-party liabilities			–		–
				17,566	17,837
Other commitments					
a) Repurchase commitments under reverse repo transactions			2		3
b) Irrevocable loan commitments			46,806		54,038
				46,808	54,041

Income Statement for 2007 Dresdner Bank AG

Expenses (€m)				2007	2006
Interest expenses				**16,847**	**13,341**
Commissions paid				**508**	**451**
Net expense from financial transactions				**863**	**–**
General and administrative expenses					
a) Personnel expenses					
aa) wages and salaries		1,488			1,593
ab) social security, post-employment and					
other employee benefit costs		393			462
of which: in respect of old age pensions	200				(253)
			1,881		2,055
b) Other administrative expenses			2,056		2,124
				3,937	**4,179**
Depreciation, amortisation and write-downs of intangible and tangible fixed assets				**99**	**95**
Other operating expenses				**208**	**446**
Write-downs of loans and advances and certain securities, and additions to loan loss provisions				**–**	**139**
Write-downs of other equity investments, shares in affiliated companies and securities classified as fixed assets				**193**	**–**
Cost of loss absorption				**17**	**153**
Extraordinary expenses				**53**	**364**
Income tax expense				**181**	**113**
Other taxes not included under other operating expenses				**8**	**2**
Profit for the period				**944**	**307**
Total expenses				**23,858**	**19,590**

Profit for the period			**944**	**307**
Withdrawals from retained earnings				
a) from other retained earnings			**206**	**–**
Appropriations to retained earnings				
a) to reserve for treasury shares		1,150		–
b) to other retained earnings		–		6
			1,150	**6**
Distributable profit			**0**	**301**

Income (€m)		2007	2006
Interest income from			
a) lending and money market transactions	15,630		12,102
b) fixed-income securities and registered government debt	2,661		3,114
		18,291	**15,216**
Current income from			
a) equities and other variable-rate securities	843		398
b) other equity investments	274		131
c) shares in affiliated companies	192		236
		1,309	**765**
Income from profit pooling, profit transfer, or partial profit transfer agreements		**40**	**72**
Commissions received		**2,247**	**2,298**
Net income from financial transactions		**–**	**670**
Income from reversals of write-downs of loans and advances and certain securities, and from reversals of loan loss provisions		**1,356**	**–**
Income from reversals of write-downs of other equity investments, shares in affiliated companies and securities classified as fixed assets		**–**	**106**
Other operating income		**614**	**463**
Extraordinary income		**1**	**–**
Total income		**23,858**	**19,590**

Notes to the Financial Statements

General

Basis of accounting

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

Accounting policies

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

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

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

The methods used in accordance with International Financial Reporting Standards (IFRSs) to calculate loan impairment allowances and provisions and loan impairment losses and to report the effect of accrued interest are also used in the HGB annual financial statements. 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. 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. The collective allowance is a component of the 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 and to ensure alignment with IFRSs. General banking risk reserves have also been set up in accordance with section 340g of the HGB.

In the income statement, the line item risk provisioning constitutes a net of income and expense items, as permitted by section 340f (3) of the HGB.

Securities are reported in the balance sheet under debt instruments and equities and other variable-rate securities. A distinction is made between long-term securities and securities held as current assets.

Long-term securities are measured in accordance with the rules for fixed assets at the lower of cost or market at the reporting date. Write-downs are reversed where the reasons for them no longer exist.

Securities held as current assets comprise either securities held in the trading portfolio or securities belonging to the liquidity portfolio. Securities held in the trading portfolio are carried at amortised cost. Together with other trading transactions, such as derivatives, they are marked to market, with the risk of short-term changes in market price reflected by an appropriate value at risk discount. The difference between the market price of the securities, net of risk markdowns, and amortised cost is reported net in other assets or other liabilities, as appropriate, after offsetting against gains or losses from the remeasurement of derivatives. Securities belonging to the liquidity portfolio (securities which are neither treated as long-term securities nor held for trading purposes) are measured, by type of security, at the lower of the moving average cost or market value at the reporting date. In the case of securities belonging to the liquidity portfolio that were bought above or below their par value, the respective discounts or premiums are amortised on a pro rata basis across the securities' remaining life.

Zero bonds are accounted for using the effective interest method. Repurchased warrants issued by the Bank are offset against the warrants issued by us, which are recognised under securitised liabilities.

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

Other equity investments and shares in affiliated companies are measured in accordance with the rules for fixed assets at the lower of cost or market at the reporting date. Write-downs are reversed where the reasons for them no longer exist. The income and expense items referred to in section 340c (2) of the HGB have been netted and included under net income from financial investments, as permitted by that statute.

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

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

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

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

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

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

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

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

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

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 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.

Foreign currency translation

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

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

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

Notes to the Balance Sheet

Analysis of loans/advances and liabilities by residual term

31 December 2007

Loans and advances €m	Up to 3 months	> 3 months to 1 year	> 1 year to 5 years	More than 5 years	Total
Term loans and advances to banks	64,027	15,912	3,582	631	84,152
Loans and advances to customers[1)]	112,944	9,844	26,386	31,299	180,473
Total	**176,971**	**25,756**	**29,968**	**31,930**	**264,625**

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

Holdings of debt instruments in the amount of €64,604 million include €8,951 million maturing in 2008.

Liabilities €m	Up to 3 months	> 3 months to 1 year	> 1 year to 5 years	More than 5 years	Total
Term liabilities to banks	94,397	14,143	6,825	4,912	120,277
Savings deposits	12	11	50	13	86
Other term liabilities to customers	79,468	7,502	6,536	5,040	98,546
Securitised liabilities	9,837	7,324	13,686	5,558	36,405
of which: other securitised liabilities	8,800	3,760	5,729	1,925	20,214
Subordinated liabilities	32	320	1,152	3,046	4,550
Profit-participation certificates	–	767	–	750	1,517
Total	**183,746**	**30,067**	**28,249**	**19,319**	**261,381**

Securitised liabilities include €16,191 million of debt instruments issued, of which €4,601 million mature in 2008.

31 December 2006

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

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

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

Loans and advances and liabilities to affiliated companies

€m	31/12/2007	31/12/2006
Loans and advances to banks	2,640	1,776
Loans and advances to customers	26,159	25,095
Debt instruments	6,154	3,425
Loans and advances to affiliated companies	**34,953**	**30,296**
Liabilities to banks	15,752	12,130
Liabilities to customers	25,159	28,746
Securitised liabilities	1,046	1,911
Subordinated liabilities	2,456	1,519
Liabilities to affiliated companies	**44,413**	**44,306**

Loans and advances and liabilities to other equity investments

€m	31/12/2007	31/12/2006
Loans and advances to banks	916	520
Loans and advances to customers	538	267
Debt instruments	210	389
Loans and advances to other equity investments	**1,664**	**1,176**
Liabilities to banks	187	290
Liabilities to customers	33	184
Liabilities to other equity investments	**220**	**474**

Loans and advances and liabilities to other equity investments also contain loans and advances and liabilities to associates.

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

Trustee business

€m	31/12/2007	31/12/2006
Loans and advances to customers	718	872
Debt instruments	558	717
Fiduciary assets	**1,276**	**1,589**
Liabilities to banks	565	725
Liabilities to customers	711	864
Fiduciary liabilities	**1,276**	**1,589**

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

Foreign currency holdings

€m	31/12/2007	31/12/2006
Assets	147,732	166,798
Liabilities	128,241	155,662

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

Subordinated assets

€m	31/12/2007	31/12/2006
Loans and advances to banks	98	147
Loans and advances to customers	889	1,179
Debt instruments	165	192
– Bonds and notes (other issuers)	147	187
– Own debt instruments	18	5
Equities and other variable-rate securities	16	11
Subordinated assets	**1,168**	**1,529**

Marketable securities

€m	Listed securities		Unlisted securities		Total	
31/12/	2007	2006	2007	2006	2007	2006
Debt instruments	44,327	50,167	20,277	32,149	64,604	82,316
Equities and other variable-rate securities	23,689	19,560	2,256	1,377	25,945	20,937
Other equity investments	5	196	5	4	10	200
Shares in affiliated companies	239	238	2	–	241	238

Movements in fixed assets

€m	Historical cost	Additions in fiscal year	Disposals in fiscal year	Write-downs (total)	Write-downs during fiscal year	Residual book value at 31/12/2007	Residual book value at 31/12/2006
Other equity investments[1]	615	661	862			414	531
Shares in affiliated companies[1]	6,215	2,727	3,909			5,033	4,535
Long-term securities[1]	5,981	5,032	4,093			6,920	7,790
Intangible fixed assets	268	27	33	212	18	50	53
Tangible fixed assets	1,798	38	45	1,069	80	722	767
– Land and buildings	652	0	–	203	28	449	478
– Office furniture and equipment	1,146	38	45	866	52	273	289

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

Write-downs of long-term securities to the lower fair value in the amount of €58 million (previous year: €47 million) were not charged as no permanent impairment is to be expected in view of the maturity. The Group used land and buildings with a carrying amount of €445 million (previous year: €473 million) in connection with its activities; write-downs of €20 million were incurred in the fiscal year.

Other assets

Other assets consist of items which cannot be attributed to other specific asset items. 88% of the €40,240 million of other assets recognised consisted of accrued interest on derivatives and premiums paid for unexpired options on securities, foreign currencies, precious metals, interest rate and foreign currency swaps, and for interest rate caps and floors.

Deferred taxes

At 31 December 2007, deferred tax assets in the amount of €85 million (previous year: €122 million) were recognised in accordance with section 274 of the HGB. Deferred tax assets and liabilities were netted to determine the required deferral amount. €61 million of the total amount relates to domestic operations and €24 million to branches outside Germany. Within Germany, deferred tax assets were recognised primarily for non-tax-deductible provisions for expected losses from uncompleted transactions. With regard to foreign branches, the deferred taxes result from a variety of differences between the carrying amounts in the financial statements and the tax accounts.

Assets sold under repurchase agreements

The net carrying amount of assets sold under repurchase agreements amounted to €54,576 million at the reporting date (previous year: €78,894 million). These assets continue to be recognised in our balance sheet, and the consideration received for them is included under liabilities. Besides open market transactions with Deutsche Bundesbank, these operations consist of repurchase transactions (monetary transactions collateralised by securities) entered into with customers and banks.

Prepaid expenses/deferred income

Prepaid expenses include discounts on liabilities in accordance with section 250(3) of the HGB in the amount of €224 million (previous year: €294 million), while deferred income includes discounts on loans and advances in accordance with section 340e (2) sentence 2 of the HGB in the amount of €32 million (previous year: €45 million).

Other liabilities

Other liabilities consist of liabilities which cannot be included in any other specific liability items. At the end of 2007, accrued interest on derivatives as well as premiums received by the Bank in respect of unexpired options on securities, foreign currencies, precious metals, interest rate and foreign currency swaps, and of interest rate caps and floors, accounted for 91% of the reported €41,434 million of other liabilities.

Provisions

Pension provisions rose by €51 million to €1,858 million (previous year: €1,807 million). Provisions for taxes increased by €264 million to €521 million (previous year: €257 million). The other provisions decreased by a total of €474 million and amounted to €1,314 million at year-end 2007 (previous year: €1,788 million); they primarily include provisions relating to human resources and loan loss provisions, as well as provisions for restructurings.

Subordinated liabilities

Subordinated liabilities were reported in the aggregate amount of €4,550 million (previous year: €4,445 million); in the event of insolvency or liquidation, these may not be redeemed until all non-subordinated creditors have been satisfied. There is no obligation to redeem subordinated liabilities prior to maturity.

The following table shows the subordinated liabilities by maturity. A distinction is made between fixed-rate and floating-rate liabilities:

	Maturity							
€m	2008	2009	2010	2011	2012	After 2012	31/12/2007	31/12/2006
Fixed rate	288	111	91	536	21	1,717	2,764	3,553
Average interest rate	5.7%	4.2%	6.9%	6.9%	5.7%	7.2%		
Floating rate	64	282	32	59	21	1,328	1,786	892
Average interest rate	5.0%	4.7%	4.9%	5.2%	6.2%	5.4%		
Subordinated liabilities	**352**	**393**	**123**	**595**	**42**	**3,045**	**4,550**	**4,445**

The total interest expense on subordinated liabilities in the year under review amounted to €211 million (previous year: €224 million).

Borrowings in excess of 10% of the aggregate volume of subordinated liabilities relate to the subordinated registered bond in the amount of €1 billion issued in September 2007, which bears a standard market rate of interest (one-month Euribor plus 1.01%) and which will mature in 2017, as well as to an issue in the amount of USD 1 billion, which has an interest rate of 8.151% and which will mature in 2031, and an issue in the amount of €0.5 billion, which has an interest rate of 5.790% and which will mature in 2011. In all three cases, conversion into capital or into another form of debt is not contractually stipulated.

Profit-participation certificates

At 31 December 2007, the aggregate amount of profit-participation certificates outstanding was €1,517 million (previous year: €2,028 million). Profit-participation certificates entitle holders to annual interest payments, which take priority over shareholders' dividend entitlements; they are subordinated to liabilities from other creditors, except those similarly subordinated. They share in losses in accordance with the conditions attached to the certificates. The profit-participation certificates will be redeemed in line with the provisions regarding loss sharing.

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

Year of issue	Nominal amount	Interest rate	Maturity
1997	€767 million	7.0%	2008
2006	€750 million	5.386%	2016

The profit participation certificates with a total nominal amount of €750 million issued in July 2006 are eligible as liable capital under the provisions of the KWG.

Statement of changes in equity

			€m
Subscribed capital (share capital)			
– 1 January 2007		1,503	
– 31 December 2007			**1,503**
Contributions by silent partners			
– 1 January 2007		1,000	
– 31 December 2007			**1,000**
Capital reserves			
– 1 January 2007		4,436	
– 31 December 2007			**4,436**
Retained earnings			**1,735**
– Legal reserve			
– 1 January 2007	3		
– 31 December 2007		3	
– Reserve for treasury shares			
– 1 January 2007	–		
– Addition from other retained earnings	206		
– Addition from profit for the period	944		
– 31 December 2007		1,150	
– Other retained earnings			
– 1 January 2007	788		
– Transfer to reserve for treasury shares	206		
– 31 December 2007		582	
Distributable profit			**0**
Equity			**8,674**

The subscribed capital of €1,502,972,205.80 as at 31 December 2007 was composed of 578,066,233 registered no-par value shares. Each share represents a notional share in the share capital and entitles the holder to one vote in the Annual General Meeting; treasury shares do not carry voting rights.

Allianz SE holds a 100% indirect interest in the share capital of Dresdner Bank AG. 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, Koniginstrasse 28, 80802 Munich. The consolidated financial statements are published in the electronic Bundesanzeiger (Federal Gazette).

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

Treasury shares

On 27 July 2007, Dresdner Bank AG acquired 40,809,084 own shares from Allianz Finanzbeteiligungs GmbH. Treasury shares account for €106,103,618.40 or approximately 7% of the entire share capital.

The carrying amount of treasury shares at the balance sheet date was €1,150 million. A reserve for treasury shares was set up in the same amount because there was no intention to retire the shares at the date of acquisition.

Collateral pledged for own liabilities

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

€m	31/12/2007	31/12/2006
Liabilities to banks	47,860	63,312
Liabilities to customers	20,896	35,649
Other commitments	226	1,442
Collateral pledged for own liabilities	**68,982**	**100,403**

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

Contingent liabilities

€m	31/12/2007	31/12/2006
Contingent liabilities from guarantees and indemnity agreements	17,566	17,837
– Credit guarantees	566	1,152
– Other guarantees and warranties	14,671	14,573
– Letters of credit	2,329	2,112
– Letters of credit opened	779	794
– Letters of credit confirmed	1,550	1,318
Contingent liabilities	**17,566**	**17,837**

Other commitments

€m	31/12/2007	31/12/2006
Repurchase commitments under reverse repo transactions	2	3
of which: loans and advances	2	3
Irrevocable loan commitments	46,806	54,038
– Advances	38,446	43,106
– Standby facilities	6,483	8,888
– Guarantee credits	1,535	1,722
– Discount credits	64	64
– Mortgage loans	278	258
Other commitments	**46,808**	**54,041**

The volumes of commitments reported under irrevocable loan commitments represent amounts not drawn upon. There were no placement or underwriting commitments as at 31 December 2007.

Notes to the Income Statement

Geographical breakdown of gross income

€m	2007	2006
Germany	14,710	12,316
Rest of Europe	5,949	6,066
North America	845	886
Asia	94	143
Total	**21,598**	**19,411**

The total amount contains the following income statement items: interest income, current income from equities and other variable-rate securities, other equity investments and shares in affiliated companies, fee and commission income, net income from financial transactions, and other operating income.

Other operating income

Other operating income amounted to €614 million (previous year: €463 million). €242 million of this amount related to income from the release of provisions, €88 million to reimbursements from services rendered to Group companies, €39 million to income from fiscal entity tax allocations and €20 million to rental income.

Other operating expenses

Other operating expenses amounted to €208 million (previous year: €446 million). €59 million of this amount related to losses on the sale of receivables, €19 million to compensation payments and €12 million to the cost of own issues.

Extraordinary expenses

The extraordinary expenses of €53 million (previous year: €364 million) relate to restructuring expenses for outsourcing activities in the IT area, among other things.

Income tax expense

Income taxes of €181 million (previous year: €113 million) were reported for the year under review. The increase in the tax expense compared with the previous year is due to the higher domestic taxable income.

Appropriation of the profit for the period

Profit for the period of €944 million was recognised in the income statement. Together with a withdrawal from other retained earnings of €206 million, a total of €1,150 million was transferred to the reserve for treasury shares. The balance of the distributable profit account was €0 at the close of the year.

Other Information

Other financial commitments

€m	31/12/2007	31/12/2006
Obligations arising from hire, rental and leasing contracts	1,909	2,001
of which: relating to land and buildings	1,570	1,778
Commitments under capital projects in progress	199	122
Commitments to pay up shares, bonds and other capital interests; secondary liability	213	209
Total	**2,321**	**2,332**
of which: commitments to affiliated companies	381	413

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 beschrankter Haftung (GmbHG – German Limited Liability Companies Act) remained unchanged at €12 thousand ; as in the previous year, the run-off liability following a hive-off in accordance with section 133 of the Umwandlungsgesetz (UmwG – German Reorganisation Act) amounted to €129 million.

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

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

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

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

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

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

Derivatives business

Trading and banking book €m 31/12/	Notional amount 2007	 2006	Positive fair values 2007	 2006	Negative fair values 2007	 2006
Interest rate derivatives	**4,343,912**	**4,118,748**	**46,551**	**47,777**	**46,029**	**47,066**
OTC products						
– FRAs	54,791	117,177	39	25	127	29
– Interest rate swaps	3,485,053	3,648,352	43,112	42,723	41,524	42,144
– Fixed-rate swaps	9,825	1,084	162	60	93	11
– Basis swaps	32,863	34,703	1,048	833	397	384
– Interest rate swaps (IRS)	3,442,365	3,612,565	41,902	41,830	41,034	41,749
– Interest rate options: buy	72,003	85,083	1,131	1,274	–	–
– Interest rate options: sell	112,071	113,299	–	–	2,367	2,620
– Other interest rate contracts	10,321	12,948	864	2,351	578	1,387
Exchange-traded products						
– Interest rate futures	107,170	111,485	0	6	0	4
– Interest rate options: buy	228,467	14,944	1,405	1,398	–	–
– Interest rate options: sell	274,036	15,460	–	–	1,433	882
Currency derivatives	**858,617**	**680,312**	**13,286**	**9,913**	**12,732**	**10,032**
OTC products						
– Forward currency transactions	491,410	368,646	6,360	4,839	6,152	5,041
– Cross-currency swaps	92,728	96,001	3,947	3,537	3,414	3,238
– Currency options: buy	141,713	115,657	2,979	1,537	–	–
– Currency options: sell	132,160	100,008	–	–	3,166	1,753
Exchange-traded products						
– Currency futures	606	–	–	–	0	–
Equity/index derivatives	**423,960**	**414,336**	**20,844**	**18,873**	**20,886**	**18,722**
OTC products						
– Equity/index swaps	43,167	55,121	1,544	1,139	1,352	1,439
– Equity/index options: buy	109,452	110,807	13,103	12,818	–	–
– Equity/index options: sell	118,625	144,888	–	–	13,582	13,262
– Other equity/index contracts	15	3	–	–	4	3
Exchange-traded products						
– Equity/index futures	8,705	8,724	–	–	–	–
– Equity/index options: buy	69,963	44,634	6,197	4,916	–	–
– Equity/index options: sell	74,033	50,159	–	–	5,948	4,018
Credit derivatives	**1,161,031**	**918,249**	**12,504**	**6,825**	**12,168**	**6,705**
Credit default swaps						
– Protection buyer	577,572	440,871	10,423	1,742	981	3,461
– Protection seller	568,558	463,313	1,034	3,591	10,064	1,582
Total return swaps						
– Protection buyer	12,089	9,512	622	1,410	1,106	1,374
– Protection seller	2,812	4,553	425	82	17	288
Other derivatives	**21,323**	**21,451**	**1,290**	**566**	**1,248**	**526**
OTC products						
– Precious metal derivatives	15,194	11,896	736	439	665	418
– Other contracts	3,932	7,618	554	126	583	108
Exchange-traded products						
– Futures	2,197	1,937	–	1	–	0
Total	**6,808,843**	**6,153,096**	**94,475**	**83,954**	**93,063**	**83,051**

The preceding table shows the notional amounts and fair values for the Bank's entire derivatives business, covering both trading and banking book derivatives. The latter are presented in the following table and serve to hedge interest rate, exchange rate, or market price fluctuations.

Banking book €m 31/12/	Notional amount 2007	2006	Positive fair values 2007	2006	Negative fair values 2007	2006
Interest rate derivatives	5,723	12,841	175	236	27	61
Currency derivatives	329	945	5	16	10	9
Equity/index derivatives	2,895	1,777	29	19	569	361
Credit derivatives	5,989	2,282	44	134	23	60
Other derivatives	16	–	0	–	0	–
Total	**14,952**	**17,845**	**253**	**405**	**629**	**491**

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

Auditors' fees

€m	2007[1]	2006
Auditing of the financial statements	11	12
Other assurance or valuation services	3	3
Tax advisory services	1	1
Other services	1	3
Total	**16**	**19**

1) KPMG Germany and United Kingdom have been affiliated companies since 1 October 2007. The auditors' fees for fiscal year 2007 include both companies.

Branch offices

	2007	2006
Germany	838	718
Other countries[1]	18	18
Total	**856**	**736**

1) 2006 figure after deduction of one branch office in the process of being closed.

Employees

The average number of vocational trainees and trainees on training programmes during the year was 819 (previous year: 876) and 93 (previous year: 104) respectively. Excluding vocational trainees and trainees, the average number of staff employed during the year was 21,610 (previous year: 22,426); the breakdown is shown in the following table:

	2007	2006
Germany	21,023	21,847
Other countries	587	579
Total	**21,610**	**22,426**

Management and brokerage services

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

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

Loans to members of the Board of Managing Directors and liabilities assumed on their behalf totalled €426,275.80 (previous year: €718,002.08). The total volume of loans granted to members of the Supervisory Board of Dresdner Bank AG was €447,719.26 (previous year: €499,410.00). These transactions have been entered into at normal terms.

Remuneration of executive body members

The remuneration paid to the Board of Managing Directors in accordance with section 285 no.9a of the HGB amounted to €21,301,281.36 (previous year: €18,746,789.95). This includes share-based payments comprising 62,461 (previous year: 44,241) stock appreciation rights (SARs) with a fair value of €39.05 at the grant date (previous year: €37.50) and 44,423 (previous year: 50,456) restricted stock units (RSUs) with a fair value of €134.48 at the grant date (previous year: €100.00). The remuneration paid to former members of the Board of Managing Directors and their surviving dependants amounted to €11,891,333.57 (previous year: €23,767,065.73). Pension provisions for former members of the Board of Managing Directors and their surviving dependants amounted to €123 million as at 31 December 2007 (previous year: €122 million).

Compensation paid to members of Dresdner Bank AG's Supervisory Board for fiscal year 2007 totalled €982,125.00 (previous year: €981,412.50), 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.

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 costs will be assumed by Dresdner Bank. The exact form that the restructuring will take is currently being negotiated.

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 staff. 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.

List of Supervisory Board Members

Michael Diekmann Chairman	Chairman of the Board of Management of Allianz SE, Munich
Peter Haimerl Deputy Chairman	Dresdner Bank AG, Munich
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 (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

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.

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.

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 annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Dresdner Bank Aktiengesellschaft, Frankfurt/Main, for the business year from 1 January to 31 December 2007. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions in the articles of incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB (Handelsgesetzbuch, German Commercial Code) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW, Institute of Independent Auditors). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions in the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Frankfurt/Main, 21 February 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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14 March 2008

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.