

## *The Group's banking business experienced an extremely difficult year.*

The downturn in the capital markets and a weak, in some countries crisis-prone economy, put a severe strain on our operating business. Loan loss allowances had to be substantially increased, which tangibly depressed earnings. These influences were so acute that the progress achieved in cost management did not yet produce the expected results.

The banking business reported a loss of 1.4 billion euros.

The operating income from this segment, which is essentially determined by the business performance of Dresdner Bank, amounted to 7.6 billion euros and thus failed to meet our expectations. However, our efforts to reduce the administrative expenses of Dresdner Bank produced first results. At 7.1 billion euros, they were 12.3 percent or 985 million euros lower than in the previous year. We are well aware of the fact that this is insufficient to rid our banking business of its persistent ills.

### Banking overview

		2002	2001 <sup>*)</sup>
Net interest and current income	€ mn	3,827	2,363
Net fee and commission income	€ mn	2,658	1,290
Trading income	€ mn	1,081	244
Other income/expenses	€ mn	675	248
Administrative expenses	€ mn	- 7,314	- 3,261
Loan loss provisions	€ mn	- 2,222	- 588
Earnings before taxes	€ mn	- 1,358	- 220
Operating cost income ratio	%	97	84
Loans and advances to customers and banks	€ bn	246	277
Liabilities to customers and banks	€ bn	278	307

<sup>\*)</sup> When comparing the figures for fiscal 2002 with those for 2001, it should be noted that Dresdner Bank was initially consolidated as of July 23, 2001.

Our banking business posted the following results.

The interest-earning business was determined by intensive competition over conditions, persistently low interest levels and the de-consolidation of Deutsche Hyp. Total **net interest income** amounted to 3.8 (2.4) billion euros. In August 2002, Deutsche Hyp was merged with Euro Hyp AG, a company in which Commerzbank, Deutsche Bank and Dresdner Bank have merged their mortgage lending subsidiaries.

**Loan loss provisions** were increased to 2.2 billion euros. This step was necessitated by the growing number of insolvencies among business customers and the fact that we expect substantial loan losses in Latin America. Additional write-downs were required in the private customer lending business.

Commission income suffered from the reluctant attitude of customers in the securities and issuing areas. **Net commission income** amounted to 2.7 (1.3) billion euros.

Earnings in the **trading business** were determined by two opposing trends: in the bond, currency and precious metal business, we generated positive results. Stock trading, however, produced a loss. Total trading income amounted to 1.1 (0.2) billion euros.

**Administrative expenses** came to 7.3 billion euros.

The balance of **other income and expenses** increased to 675 (248) million euros. This amount includes a profit of 1.9 billion euros that was generated by the transfer of the activities of Dresdner Bank Asset Management to Allianz AG. This profit is consolidated at Group level. Other expenses essentially included write-downs on stock portfolios (986 million euros) and restructuring expenses (245 million euros).

As a result, the banking business reported a **loss** of 1.4 billion euros.

To restore the profitability of Dresdner Bank as quickly as possible and on a sustainable basis, the Turnaround 2003 program was launched in the fall of 2002. This program has three components:

1. The newly created Institutional Restructuring Unit (IRU) is intended to unwind Dresdner Bank's lending commitments that are of no strategic importance or involve impaired loans. Primarily, this concerns borrowers in North and South America as well as in Germany. Over the medium term, this will release risk capital in the order of up to 3 billion euros over the coming years.
2. The ongoing cost-cutting efforts are being stepped up once again. The objective is to reduce operating and personnel costs to 6.5 billion euros by the end of 2003.
3. In the process of divisionalization, previously centralized services were transferred to the divisions and made even leaner.

To ensure that the Turnaround 2003 program is successfully realized within the set timeframe, we established a steering committee made up of members of the Board of Management of Allianz AG and Dresdner Bank. The execution of this program is our foremost priority.

### Private customers and business customers

In 2002, our business with private and business customers was once again overshadowed by the downward trend of the stock markets. Securities trading stagnated and the lending business suffered from low interest rates and a high default rate. We set aside 561 (233) million euros for the corresponding loan loss provision. This provision primarily concerns our loans to business customers. Our restructuring measures produced first results and limited administrative expenses to 3.0 billion euros. Our loss increased to 304 (160) million euros. However, it should be borne in mind that our earnings were impacted by restructuring expenses.

### Corporates & Markets

The results of the Corporates & Markets division continued to deteriorate. The weakness of the capital markets and the stagnating world economy caused income to dwindle to 3.8 billion euros. While we were able to reduce administrative expenses more than originally planned, cost management alone was unable to stem the tide, particularly since earnings were hit by loan loss provisions that climbed to 1.6 billion euros. The write-downs essentially affect the portfolios which we are transferring to IRU. The after-tax loss doubled to 1.6 (0.8) billion euros.

In the **current fiscal year**, the banking business will continue on its precarious path. As long as the economy shows no clear signs of recovery and the decline of the capital markets cannot be reversed, we do not expect any fundamental improvements. Beyond the timely implementation of the Turnaround 2003 program, our performance will essentially depend on our ability to boost operating income in a difficult economic context.

### Private customers and business customers

		2002	2001 <sup>1)</sup>
Total income	€ mn	3,350	1,678
Total expenses	€ mn	- 3,093	- 1,605
Loan loss allowance	€ mn	- 561	- 233
Earnings after taxes	€ mn	- 304	- 160
Cost income ratio	%	92	96

<sup>1)</sup> When comparing the figures for fiscal 2002 with those for 2001, it should be noted that Dresdner Bank was consolidated as of July 23, 2001. Changes in the divisional structure and improvements in income classification have been taken into account in the prior-year figures stated.

### Corporates & Markets

		2002	2001 <sup>1)</sup>
Total income	€ mn	3,758	1,725
Total expenses	€ mn	- 3,808	- 2,161
Loan loss provisions	€ mn	- 1,592	- 361
Earnings after taxes	€ mn	- 1,642	- 797
Cost income ratio	%	101	125

<sup>1)</sup> When comparing the figures for fiscal 2002 with those for 2001, it should be noted that Dresdner Bank was consolidated as of July 23, 2001. Changes in the divisional structure and improvements in income classification have been taken into account in the prior-year figures stated.