

Our banking business again experienced a difficult fiscal year 2003: while managing to significantly improve the operating result, the non-operating result was lower because of adjustment measures. In the banking business, that is essentially driven by the business performance of Dresdner Bank Group, we managed to significantly improve the operating result by 1.6 billion euros compared to the previous year. This turnaround came about in a business environment characterized by a recovery in share prices and a gradual improvement in economic development in the second half of 2003. At the same time we streamlined the business portfolio of Dresdner Bank and eliminated risks from the balance sheet.

In fiscal year 2003, the banking business recorded an **operating result** of – 357 million euros. An operating loss from the Institutional Restructuring Unit of Dresdner Bank of 728 million euros was partly compensated by a positive operating result of 371 million euros in the other banking business. Overall, operating income declined in fiscal year 2003 by 10.9 percent to 6.7 billion euros. This is essentially due to consolidation and exchange rate effects. Adjusted for these effects, the decline is only 3.1 percent. At the same time, we managed to reduce administrative expenses by altogether 16.8 percent to 6.1 billion euros. Adjusted for consolidation and exchange rate effects, the cost reduction was 12.7 percent. We were thus able to surpass our cost cutting goals. In addition, we made significant progress in reducing loan loss provisions. The **non-operating business** was charged by 1.6 billion euros especially due to write-downs and restructuring expenses. Overall, our banking business reported a **net loss for the year** of 1,279 million euros.

Banking Business

		2003	2002
Net interest income	€ mn	2,805	3,827
Net fee and commission income	€ mn	2,452	2,658
Trading income	€ mn	1,486	1,081
Operating income	€ mn	6,743	7,566
Administrative expenses	€ mn	– 6,086	– 7,314
Loan loss provisions	€ mn	– 1,014	– 2,222
Operating result	€ mn	– 357	– 1,970
Other income/expenses	€ mn	– 1,580	675
Net income for the year	€ mn	– 1,279	– 1,358
Operating cost/income ratio	%	90.3	96.7
Loans and advances to customers and banks	€ bn	289	246
Liabilities to customers and banks	€ bn	325	278

The decline in the **operating income** resulted primarily from a lower **net interest income** which dropped 26.7 percent to 2.8 billion euros. This is mostly attributable to the de-consolidation of Deutsche Hyp in the third quarter 2002. Adjusted for consolidation and exchange rate effects, net interest income fell by 10.4 percent. This reduction is to be looked at with the following background: between year-end 2002 and year-end 2003, the risk weighted assets at Dresdner Bank were reduced by 30.8 billion euros – a cut of some 20 percent – to 111.7 billion euros. Given that the adjusted net interest income declined less sharply, our measures to improve portfolio quality are yielding

results. In addition, net interest income in 2003 was charged by –365 (–119) million euros as a result of valuation effects from applying IAS 39.

At the same time, **loan loss provisions** went down very noticeably: at 1.0 billion euros, they were 54.4 percent lower than for the previous year. In spite of the persistently high number of insolvencies in the corporate customer business, we still managed to significantly cut back net additions to loan loss provisions which for the most part relate to Germany. As a result, the ratio of loan loss provisions to net interest income improved significantly, from 58 to 36 percent.

Net fee and commission income decreased by 7.8 percent to 2.5 billion euros as some of our customers were responding to the market development in a reserved manner. At the same time, the **trading income** showed an exceptionally encouraging development, improving by 37.4 percent to 1.5 billion euros. The main boost came from stock trading as well as currencies and interest products.

We reduced **administrative expenses** noticeably to 6.1 (7.3) billion euros thus succeeding in surpassing our cost reduction goals. The savings divide up almost equally between personnel and operating costs. The strong decline in **personnel costs** can be attributed on the one hand to the cutback in employees and on the other hand to the reduction in guaranteed boni. The reduction in **operating costs** is the result of tighter cost controls in all areas. The operating cost-income ratio, which shows the relation of administrative expenses to operating income, indicates the success of these measures: compared to 2002, the ratio improved by 6.4 percentage points to 90.3 percent.

After deducting administrative expenses and loan loss provisions from the operating income, the banking business posted an **operating loss** of 357 (operating loss 1,970) million euros. The positive operating result of 371 million euros in the strategic business was offset by an operating loss from the Institutional Restructuring Unit of 728 million euros. Overall, we managed to significantly improve the operating result even though we failed to meet our original goal of a balanced operating result.

The balance of **other income and expenses** amounted to –1,580 (675) million euros. On the one hand, this item includes write-offs, with 714 million euros relating to write-downs on financial assets. On the other hand, it encompasses restructuring expenses of 892 million euros, with the “Neue Dresdner” program accounting for 380 million euros of this amount.

Taxes generated income of more than 1 billion euros, which was predominantly due to deferred tax assets. In part, these were generated in the reporting year, in part they were due to the capitalization of tax losses carried forward from previous years already written off. As a result of a structured transaction, these are now considered to carry value.

Overall, the banking business reported a **net loss for the year** of 1,279 (net loss 1,358) million euros. This result reveals that – regardless of the progress achieved to date – we must continue to work hard in order to break even. With this goal in mind, the turnaround program “Neue Dresdner” was presented in August 2003. Its aim is to secure the bank’s economic basis, ensure a more efficient use of the employed capital and thus grow profitably. A further unavoidable step towards improving earnings are additional cost reductions amounting to 1 billion euros (gross) until 2005; this includes reducing the number of employees by 4,700.

Segment reporting according to the 2003 reporting structure

Below we report the two operating divisions of Allianz Group’s banking business for the last time in the old structure. The remaining activities not assigned to either one of these divisions essentially include Corporate Items (including Corporate Investments) of Dresdner Bank, as well as Entenial, which was sold at the beginning of 2004. Together, the remaining activities contributed an **after-tax result** of –466 (803) million euros. One of the most important positions therein were restructuring expenses of 402 million euros.

We provide an explanation of the new reporting structure further on in this section.

Private & Business Clients

In persistently difficult market conditions, our Private & Business Clients generated **operating income** of 3.2 (3.2) billion euros. **Administrative expenses** were once again significantly reduced by 0.2 to 2.8 billion euros. As at the same time **loan loss provisions** were lowered to 429 (561) million euros, we recorded a slightly positive **operating result**. The balance of other income and expenses amounted to –262 million euros and contained restructuring expenses of 270 million euros. Overall, the segment Private & Business Clients posted a **loss after taxes** of 173 (loss after taxes 304) million euros.

Private & Business Clients

		2003	2002
Operating income	€ mn	3,229	3,198
Administrative expenses	€ mn	-2,791	-3,010
Loan loss provisions	€ mn	-429	-561
Operating result	€ mn	9	-373
Other income/expenses	€ mn	-262	-52
Earnings after taxes	€ mn	-173	-304
Operating cost/income ratio	%	86.4	94.1

Corporates & Markets

The Corporates & Markets (C&M) segment being commented here encompasses Corporate Banking, the division Dresdner Kleinwort Wasserstein and the business shares from C&M that were transferred to the Institutional Restructuring Unit (IRU). In the year under review, these three segments were separated. Here, we are reporting for the last time according to the old structure.

The **operating income** in Corporates & Markets stabilized at 3.7 billion euros. **Administrative expenses** were pared by 25.8 percent to 2.6 billion euros. As a result, the cost-income ratio improved from 91.6 to 70.7 percent. **Loan loss provisions** were significantly reduced to 874 million euros compared to 1,592 million euros in 2002. Therefore, a positive **operating result** of 219 million euros was recorded. If other income and expenses – the balance amounted to –418 million euros – are taken into account, a **loss after taxes** was recorded of 273 (loss after taxes 1,642) million euros.

Corporates & Markets

		2003	2002
Operating income	€ mn	3,727	3,877
Administrative expenses	€ mn	-2,634	-3,551
Loan loss provisions	€ mn	-874	-1,592
Operating result	€ mn	219	-1,266
Other income/expenses	€ mn	-418	-534
Earnings after taxes	€ mn	-273	-1,642
Operating cost-income ratio	%	70.7	91.6

Segment reporting after the transfer of business activities of Dresdner Bank to the IRU (reporting structure 2004)

At the beginning of 2003, the Institutional Restructuring Unit (IRU) commenced its activities. To this segment were transferred the non-strategic domestic and foreign loan portfolios, the private equity business as well as selected restructuring activities of Dresdner Bank. This way, we eased the pressure on the company's operating segments Private & Business Clients (PBC), Corporate Banking and Dresdner Kleinwort Wasserstein (DrKW). Looking ahead to the 2004 reporting, we provide a commentary here according to the new structure.

Segment reporting after the transfer of business activities of Dresdner Bank to the IRU as of December 31, 2003

		PBC	Corporate Banking	DrKW	IRU	Other ¹⁾	Total ²⁾
Operating income	€ mn	3,019	1,065	2,185	578	-553	6,293
Administrative expenses	€ mn	-2,524	-499	-1,875	-422	-418	-5,738
Loan loss provisions	€ mn	-247	-118	45	-884	188	-1,015
Operating result	€ mn	248	447	354	-728	-782	-460
Other income/expenses	€ mn	-175	-102	7	-527	-848	-1,645
Earnings after taxes	€ mn	53	208	238	-933	-597	-1,030
Operating cost-income ratio	%	83.6	46.9	85.8	73.1	n.m.	91.2

¹⁾ Other = Corporate items and corporate investments of Dresdner Bank as well as consolidations

²⁾ Total = Dresdner Bank contribution to banking business of Allianz Group

Private & Business Clients (reporting structure 2004)

In a fiercely contested market, the Private & Business Clients division of Dresdner Bank recorded **operating income** of some 3 billion euros. This amount divides up almost equally between net interest income and net fee and commission income. However, developments differed: **net fee and commission income** improved due to a successful brokerage business and the successful cooperation between Allianz and Dresdner Bank. Both revenues and profit improved. In contrast, **net interest income** contracted because the market allowed only lower margins in the deposit business. **Administrative expenses** were significantly reduced thanks to rigorous cost management and further staff reductions, especially in the back office area. By continuously cleaning-up the loan portfolio, we lowered the **loan loss provisions** strongly to 247 million euros. Overall, the Private & Business Clients segment recorded an **operating result** of 248 million euros. After taking other income and expenses into account (essentially restructuring expenses of 174 million euros), **earnings after taxes** were 53 million euros.

Corporate Banking (reporting structure 2004)

In persistently difficult economic conditions, the Corporate Banking division of Dresdner Bank recorded **operating income** of 1.1 billion euros, with all earnings components – in spite of declining risk weighted assets – showing a stable trend. The projects to streamline the support and service functions that were almost entirely implemented in the year under review, led to a significant decline in **administrative expenses** to 0.5 billion euros. In response to a new record in company insolvencies, **loan loss provisions** were raised to 118 million euros. Overall, the **operating result** climbed to 447 million euros. After other income/expenses, especially restructuring expenses of 90 million euros, **earnings after taxes** were 208 million euros.

Dresdner Kleinwort Wasserstein (reporting structure 2004)

The division Dresdner Kleinwort Wasserstein (DrKW) encompasses the Capital Markets and Corporate Finance & Advisory businesses of Dresdner Bank. At DrKW, **operating income** of 2.2 billion euros was almost at last year's level. The earnings development in Capital Markets was especially encouraging. We cut **administrative expenses** to 1.9 billion euros largely because of early and consistent restructuring measures, and the reduction of staff, primarily in the Corporate Finance & Advisory business. As a result, DrKW achieved the turnaround with an **operating result** of 354 million euros and **earnings after taxes** of 238 million euros.

Institutional Restructuring Unit (reporting structure 2004)

In the Institutional Restructuring Unit (IRU), the **operating loss** amounted to 728 million euros. This loss was mainly attributable to loan loss provisions of 884 million euros, more than four fifths of the **loan loss provisions** for the entire group. There were two main drivers behind net additions to loan loss provisions. First, we had to record discounts on book value from the sale of loans which were carried out more quickly than planned; second, we made additions to the loan loss provisions for loans at risk. The share of these loans is far higher in the IRU than in the strategic business. The IRU recorded a loss after taxes of 933 million euros. This contains a balance of other income/expenses of –527 million euros.