Annual Report 1998

Dresdner Bank AG

Jürgen-Ponto-Platz 1
Frankfurt/Main
Postal address:
60301 Frankfurt/Main

Key Figures of the Dresdner Bank Group

	1998		1997	Change
	EUR mn	**DM mn**	DM mn	%
Net interest income	**3,834.0**	**7,498.6**	7,205.4	4.1
Net loan loss provisions	**1,117.3**	**2,185.2**	1,434.5	52.3
Net interest income after net loan loss provisions	**2,716.7**	**5,313.4**	5,770.9	– 7.9
Net commission income	**2,837.3**	**5,549.3**	4,895.8	13.3
Trading profits	**743.3**	**1,453.7**	1,770.5	– 17.9
Administrative expenses	**5,892.4**	**11,524.6**	9,894.5	16.5
Other income	**1,414.9**	**2,767.3**	1,125.8	145.8
Other expenses	**482.3**	**943.2**	861.4	9.5
Pre-tax profit	**1,337.5**	**2,615.9**	2,807.1	– 6.8
Net income for the year	**950.0**	**1,858.0**	1,195.4	55.4
Total assets	**365,475**	**714,808**	671,923	6.4
Lending volume	**198,493**	**388,218**	357,460	8.6
Deposits and certificated liabilities	**306,824**	**600,095**	567,663	5.7
Capital ratio according to BIS		**11.7 %**	11.0 %	

	1998		1997
	EUR	**DM**	DM
Earnings per share	**1.82**	**3.56**	2.41
Dividend per share			
before tax credit		**1.55**	1.55
including tax credit		**2.21**	2.21
High/low of the Dresdner Bank share price	**59.05/25.56**	**115.50/50.00**	89.20/44.85

Number of:	**1998**	1997
Employees	**48,948**	46,577*)
Branch offices	**1,506**	1,553

*) Adjusted figure for 1997.

Additional Information:

Dresdner Bank AG
Investor Relations
D-60301 Frankfurt/Main, Germany
Telephone +49-69-263-11111
Facsimile +49-69-263-10111

Contents

Boards

7 Supervisory Board
10 Advisory Management Council
13 Board of Managing Directors

15 **Update on the Dresdner Bank Share**

Dresdner Bank's Business Activities

21 Strategic Positioning
25 Corporate Customer Business
27 Institutional Asset Management
29 Investment Banking
31 Private Customer Business

34 **Management Report Dresdner Bank Group**

54 **Dresdner Bank Employees**

56 **Report of the Supervisory Board**

Financial Statements of Dresdner Bank Group

58 Income Statement
59 Balance Sheet
60 Statement of Changes in Equity
62 Cash Flow Statement
64 Notes to the Consolidated Financial Statements

Letter from the Board of Managing Directors to Shareholders and Customers

In our last Annual Report we described 1998 as a year that would mark a new beginning for Dresdner Bank. Looking back on the great challenges of 1998, we can confirm that the new spirit within our bank has stood the test of time. We are very pleased that we were successful in keeping Dresdner Bank on course during the turmoil in international financial markets. We were also able to better prepare the bank for a rapidly changing market by streamlining and focusing the structure of our Group and through a strategic realignment. Our sincere thanks go to all our members of staff, without whose personal commitment this would never have been achieved.

Still, we cannot be completely satisfied with the result of the past business year. 1998 was characterised by an unusual accumulation of negative factors. Firstly, the turmoil in international capital markets triggered by crises in some emerging markets had a negative impact on several business fields, also for Dresdner Bank. In addition, the situation in emerging markets led us to increase our net loan loss provisions. The situation with regard to risks in the new Federal States deteriorated as well. Despite the unforeseen extent of these negative factors, we continued undeterred our investment in infrastructure, in particular for the upgrading of our IT systems. This was the primary cause of the significant increase in administrative expenses. We, however, consciously decided not to delay these measures, which are important to the future of the bank. In today's rapidly changing market for financial services, any delay can result in the loss of major competitive advantages.

Despite these unusual factors we were able to attain a satisfactory pre-tax profit of DM 2.6 billion. Due to special tax effects, the net income for the year rose to approximately DM 1.9 billion. With an unchanged dividend of DM 1.55 per share – equivalent to a distribution of DM 2.21 for shareholders subject to German income or corporation tax, taking into account the tax credit – the total dividend payout will reach a record high of DM 802 million. We intend to transfer a total amount of DM 1,016 million to earnings reserves. With this significant strengthening of our capital base we will increase our flexibility to actively shape Dresdner Bank's positioning in the international banking market. The proposals for authorised capital which we will put forward to our shareholders have the same objective.

The fact that 1998 was a difficult year for banks in general has also been reflected in the development of the Dresdner Bank share price. Although our share outperformed other major banks, with a loss of just under 14 % on a year-end comparison basis, it did not perform as favourably as the overall market. It is particularly in years like this that we would like to express our thanks to our shareholders for the trust they have placed in us. The measures taken in 1998 have prepared the ground for an increase in the value of our company. This is our declared explicit objective. At the same time, we are convinced that the creation of shareholder value is only achievable by continuously improving customer satisfaction. This in turn requires top-quality services provided by highly motivated staff.

A strong emphasis on customer orientation and hence high level of advisory and other services, combined with innovative products and application of state-of-the-art technology are the core principles in our business across all four divisions: Corporate Customer Business, Institutional Asset Management, Investment Banking and Private Customer Business. These principles also serve as a guideline for the streamlining, focusing and strategic realignment of the Dresdner Bank Group, which we initiated in 1998:

- The merger of our three mortgage bank subsidiaries to form Deutsche Hyp Deutsche Hypothekenbank Frankfurt-Hamburg, which was completed in mid-1998, has already yielded initial synergy effects.
- Our real estate expertise has been concentrated by the integration of our activities under the brand name "Dresdner Bank Immobiliengruppe", preparing the ground for the dynamic expansion of our market position in this field.
- We have completed the integration of our investment banking arm with the diversified customer franchise of our commercial banking business. The provision of comprehensive, cross-divisional advice to our top multinational customers has materialised in the creation of our new Global Corporates unit.
- Our new Group Risk Control raises the management of market and counterparty risk to an even higher level of efficiency.
- We have extended our room for manoeuvre with the tax neutral spin-off of major shareholdings – also with a view to potential acquisitions.

With these measures, we have created a solid basis for success in the highly competitive environment in which we operate. Further steps will follow.
We regard our Group as a portfolio of numerous different units, with each unit committed to achieving its individual objectives. We track this performance on a continuous basis. This permanent review of our activities is not restricted to individual subsidiaries, but applies to all of our Group's business lines.

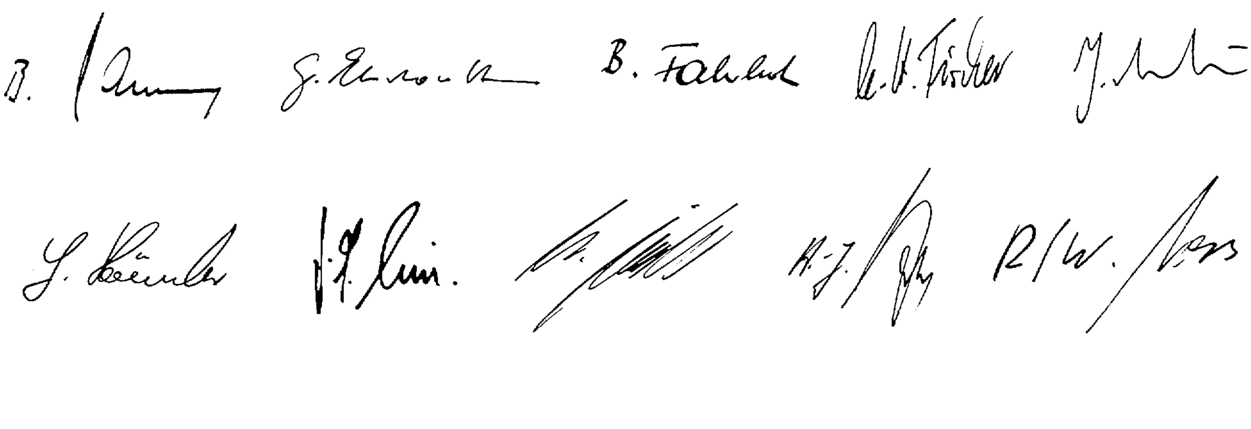
We have defined our objectives clearly and precisely:

We will increase our market share in Germany. Since we regard Euroland as our domestic market, we wish, in the long term, to expand our presence both by way of acquisitions and organic growth, to cover the core European countries. We will use acquisitions to expand our investment banking activities in North America. We have already carefully identified and determined the ways and means to achieve these goals.

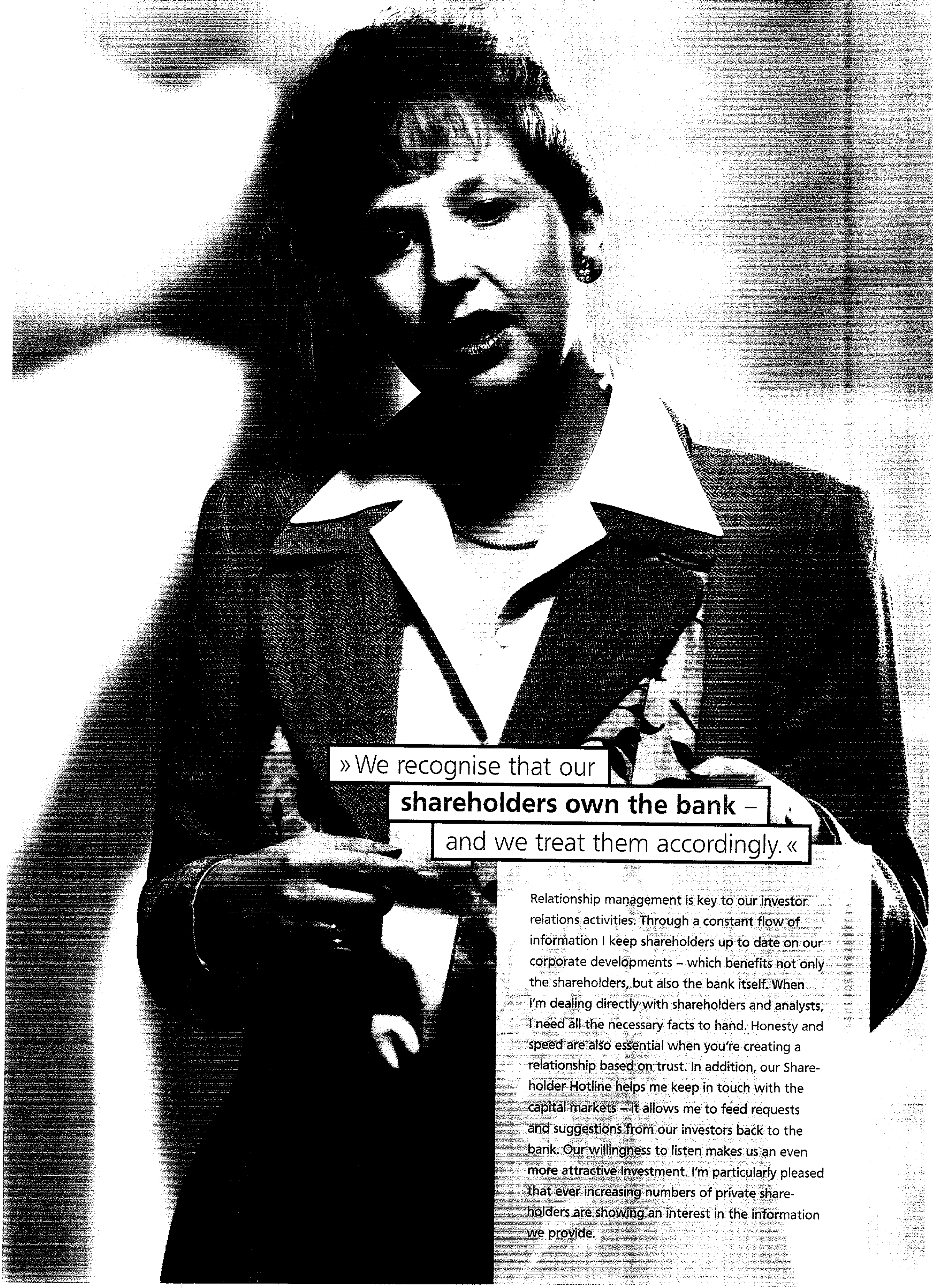
Together with all members of staff, we are shaping the future of Dresdner Bank. This is why we have chosen "Shaping the Future" as our motto in preparing this Annual Report.

Yours faithfully

Dresdner Bank AG
The Board of Managing Directors



Patricia Arnold | Investor Relations, Frankfurt



» We recognise that our **shareholders own the bank** – and we treat them accordingly. «

Relationship management is key to our investor relations activities. Through a constant flow of information I keep shareholders up to date on our corporate developments – which benefits not only the shareholders, but also the bank itself. When I'm dealing directly with shareholders and analysts, I need all the necessary facts to hand. Honesty and speed are also essential when you're creating a relationship based on trust. In addition, our Shareholder Hotline helps me keep in touch with the capital markets – it allows me to feed requests and suggestions from our investors back to the bank. Our willingness to listen makes us an even more attractive investment. I'm particularly pleased that ever increasing numbers of private shareholders are showing an interest in the information we provide.

Supervisory Board

Honorary Chairman of the Supervisory Board

Dr. Wolfgang Röller
Frankfurt/Main

Supervisory Board

Dr. Alfons Titzrath
Frankfurt/Main
Chairman

Dipl.-Kfm. Uwe Plucinski
Dresdner Bank AG, Hamburg
Deputy Chairman

Karl Beusch
Legal counsellor,
Grünwald (from 16. 9. 1997 to 15. 5. 1998)

Harald C. Bieler
Dresdner Bank AG,
Frankfurt/Main (until 15. 5. 1998)

Klaus Carlin
Member of the Executive Board
of the HBV trade union, Dusseldorf

Meinhard Carstensen
Hamburg (from 15. 5. 1998)

Marina Dauernheim
Dresdner Bank AG,
Frankfurt/Main (until 15. 5. 1998)

Reinhard Drönner
Head of the Section Banks and Savings Banks,
Federal Executive Board of the DAG trade union,
Hamburg

Claudia Eggert-Lehmann
Dresdner Bank AG,
Hagen (from 15. 5. 1998)

Bernhard Enseling
Dresdner Bank AG,
Frankfurt/Main (from 15. 5. 1998)

Dr. Martin Frühauf
Chairman of the Supervisory Board
of Hoechst AG,
Frankfurt/Main (from 15. 5. 1998)

Dr. jur. Friedhelm Gieske
Essen (until 15. 5. 1998)

Hans Graf von der Goltz
Bad Homburg v. d. H. (until 15. 5. 1998)

Peter Haimerl
Dresdner Bank AG, Munich

Prof. Dr. rer. nat. Dr.-Ing. E. h.
Wolfgang Hilger
Frankfurt/Main (until 15. 5. 1998)

Manfred Karsten
Oldenburgische Landesbank AG,
Oldenburg (from 15. 5. 1998)

Ainis Kibermanis
Dresdner Bank AG, Frankfurt/Main

Bernd Kriegeskorte
Dresdner Bank AG, Munich (from 15. 5. 1998)

Dr. Heinz Kriwet
Chairman of the Supervisory Board
of Thyssen Krupp AG, Dusseldorf

Dr. Edward G. Krubasik
Member of the Board
of Managing Directors of Siemens AG, Munich
(from 15. 5. 1998)

Dr. jur. Dietmar Kuhnt
Chairman of the Board
of Managing Directors of RWE AG, Essen
(from 15. 5. 1998)

Manfred Leonhard
Dresdner Bank AG,
Frankfurt/Main (until 15. 5. 1998)

Michel Pébereau
Président-Directeur Général,
Banque Nationale de Paris S.A., Paris

Bernd Pischetsrieder
Munich (from 15. 5. 1998)

Gunter Rose
Legal counsellor, Berlin (until 15. 5. 1998)

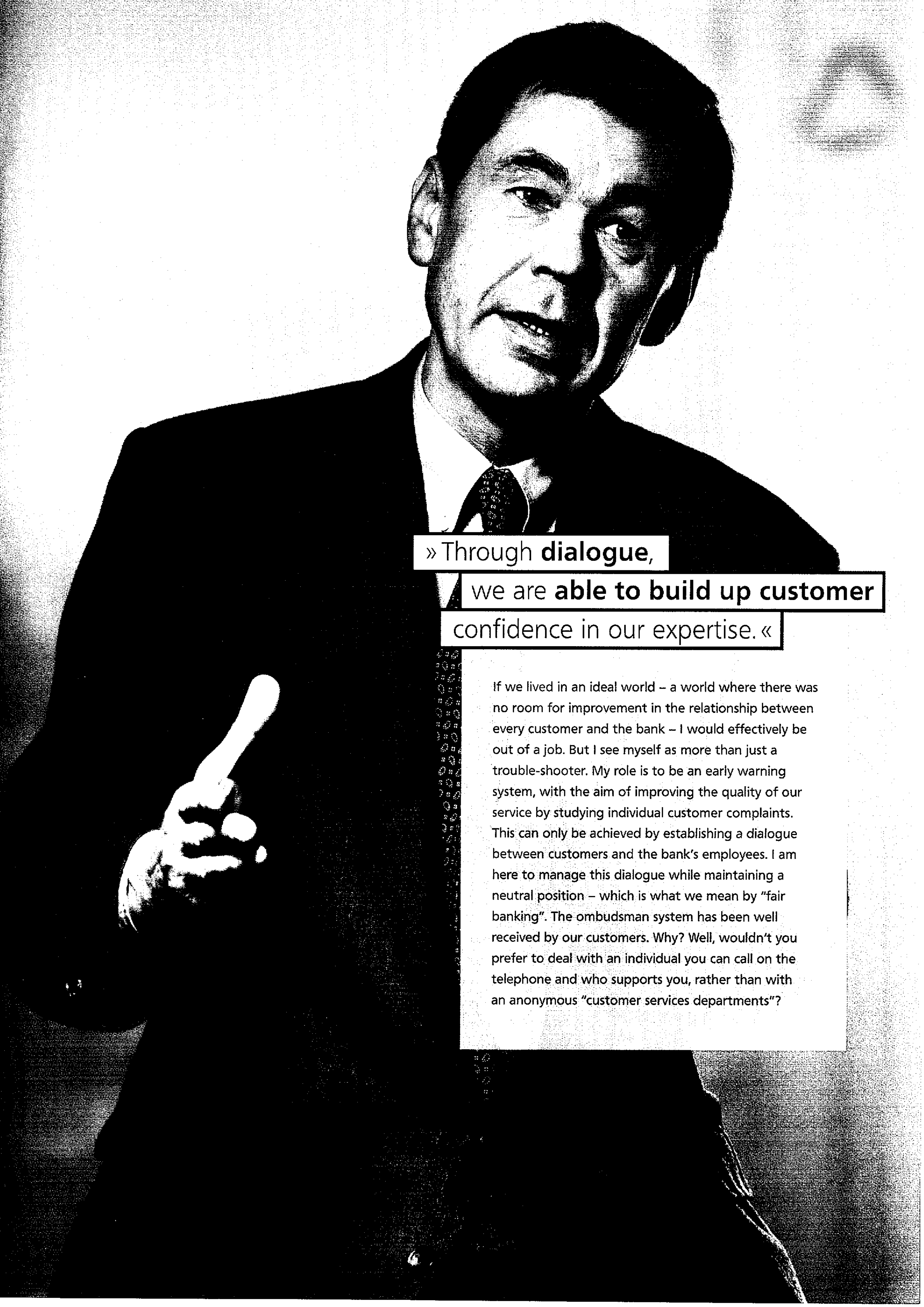
Sultan Salam
Dresdner Bank AG, Frankfurt/Main

Dr. Hans-Jürgen Schinzler
Chairman of the Board
of Managing Directors of Münchener
Rückversicherungs-Gesellschaft, Munich

Dr. jur. Henning Schulte-Noelle
Chairman of the Board
of Managing Directors of Allianz Aktiengesellschaft,
Munich

Dr. Dr.-Ing. E. h. Dr. phil. h. c.
Kurt Werner
Chairman of the Supervisory Board
of Maschinenfabrik Goebel GmbH, Darmstadt
(until 15. 5. 1998)

Michael Zahnert | Ombudsman Dresdner Bank, Frankfurt



» Through **dialogue**,
we are **able to build up customer**
confidence in our expertise. «

If we lived in an ideal world – a world where there was no room for improvement in the relationship between every customer and the bank – I would effectively be out of a job. But I see myself as more than just a trouble-shooter. My role is to be an early warning system, with the aim of improving the quality of our service by studying individual customer complaints. This can only be achieved by establishing a dialogue between customers and the bank's employees. I am here to manage this dialogue while maintaining a neutral position – which is what we mean by "fair banking". The ombudsman system has been well received by our customers. Why? Well, wouldn't you prefer to deal with an individual you can call on the telephone and who supports you, rather than with an anonymous "customer services departments"?

Advisory Management Council

Dr. Alfons Titzrath
Frankfurt/Main
Chairman

Dr. Peter Adolff
Member of the Supervisory Board
of Robert Bosch GmbH, Stuttgart

Dr. Wolfgang Bühler
Legal counsellor, Zirndorf

Dr. Uwe-Ernst Bufe
Chairman of the Board of Managing Directors
of Degussa-Hüls AG, Frankfurt/Main

Dr. Gerhard Cromme
Chairman of the Board of Managing Directors
of Thyssen Krupp AG, Essen

Jürgen Dormann
Chairman of the Board of Managing Directors
of Hoechst AG, Frankfurt/Main

Dr.-Ing. E. h. Heinz Dürr
Berlin

Dr. Michael Frenzel
Chairman of the Board of Managing Directors
of Preussag AG, Hanover

Dr. Hans Michael Gaul
Member of the Board of Managing Directors
of VEBA Aktiengesellschaft, Dusseldorf

Dr.-Ing. Reiner Maria Gohlke
Chairman of the Executive Board
of Süddeutscher Verlag GmbH, Munich

Dr. Hubertus von Grünberg
Chairman of the Board of Managing Directors
of Continental Aktiengesellschaft, Hanover

Dr. Karl Gutbrod
Chairman of the Board of Trustees
of Robert Bosch Stiftung GmbH
and Member of the Supervisory Board
of Robert Bosch GmbH, Stuttgart

Dr. Claus Dieter Hoffmann
Member of the Management
of Robert Bosch GmbH, Stuttgart

Rolf Hülstrunk
Chairman of the Board of Managing Directors
of Heidelberger Zement AG,
Heidelberg (from 1. 7. 1998)

Dr. Hans Jäger
Chairman of the Board of Managing Directors
of Aachener Münchener Beteiligungs-AG (AMB),
Aachen (from 15. 5. 1998)

Dr. Friedrich Janssen
Member of the Board of Managing Directors
of Ruhrgas AG, Essen

Dr. iur. Heribert Johann
Chairman of the Management
of Boehringer Ingelheim GmbH, Ingelheim

Dr. iur. Wolfgang Kaske
Chairman of the Supervisory Board
of Aachener Münchener Beteiligungs-AG (AMB),
Aachen (until 15. 5. 1998)

Dr. Eberhard von Koerber
Chairman of the Supervisory Board
of Asea Brown Boveri AG, Mannheim

Dr. jur. Dietmar Kuhnt
Chairman of the Board of Managing Directors
of RWE AG,
Essen (until 15. 5. 1998)

Dr. Horst Langer
Member of the Board of Managing Directors
of Siemens AG, Erlangen (until 31. 12. 1998)

**Prof. Dr. rer. nat.
Hans Joachim Langmann**
Chairman of the Management of Merck KGaA,
Darmstadt

Dr. Kurt J. Lauk
Member of the Board of Managing Directors
of DaimlerChrysler AG, Stuttgart

Hartmut Mehdorn
Chairman of the Board of Managing Directors
of Heidelberger Druckmaschinen AG, Heidelberg,
Chairman of the Board of Managing Directors
of Lahmeyer AG,
Frankfurt/Main (from 1. 1. 1999)

Prof. Dr.-Ing. E. h. Gerhard Neipp
Chairman of the Board of Managing Directors
of RAG Aktiengesellschaft, Essen

Dr. Karl Josef Neukirchen
Chairman of the Board of Managing Directors
of Metallgesellschaft AG, Frankfurt/Main

Dr. Jens Neumann
Member of the Board of Managing Directors
of Volkswagen AG, Wolfsburg

Dipl.-Kfm. Dieter Nonhoff
Chairman of the Board of Managing Directors
of Hamburg-Mannheimer Versicherungs-AG,
Hamburg

Dr. Jens Odewald
Refrath

Bernd Pischetsrieder
Munich (until 15. 5. 1998)

Stefan Quandt
Member of the Supervisory Board of DELTON AG,
Bad Homburg v.d.H. (from 1. 3. 1998)

Dipl.-Kfm. Robert Raeber
General Manager of Nestlé S. A., Vevey

Helmut Ricke
Bonn (until 30. 11. 1998)

Dr. Ingo Riedel
Member of the Board of Managing Directors
of Schickedanz Holding-Stiftung & Co. KG,
Fürth (from 1. 7. 1998)

Dr. Peter Rohde
Chairman of the Board of Managing Directors
of Dyckerhoff Aktiengesellschaft, Wiesbaden

Dipl.-Ing. Dr.-Ing. E. h. Christian Roth
Member of the Supervisory Board of BILFINGER +
BERGER Bauaktiengesellschaft, Mannheim

Dipl.-Geologe Dr.-Ing. E. h.
Günther Saßmannshausen
Member of the Supervisory Board of Preussag AG,
Hanover,
Honorary Chairman of the Supervisory Board
of Deutsche Bahn AG, Berlin

Dr. Dieter Schadt
Chairman of the Board of Managing Directors
of Franz Haniel & Cie. GmbH, Duisburg

Prof. Dr. Hans Eberhard Scheffler
Hamburg

Dr. Erhard Schipporeit
Member of the Board of Managing Directors
of VIAG AG, Munich

Dr. rer. pol. Eberhard Schleicher
General Partner
of E. Schwenk Kommanditgesellschaft, Ulm

Dr. Manfred Schneider
Chairman of the Board of Managing Directors
of Bayer AG, Leverkusen

Klaus Schweickart
Chairman of the Board of Managing Directors
of Altana AG, Bad Homburg v. d. H.

Jobst D. Siemer
Chairman of the Board of Managing Directors
of ESSO AG, Hamburg

Dr. Ron Sommer
Chairman of the Board of Managing Directors
of Deutsche Telekom AG, Bonn (from 1. 8. 1998)

Dr. Heinz-Gerd Stein
Member of the Board of Managing Directors
of Thyssen Krupp AG, Duisburg

Prof. Dr. h. c. Dieter Stolte
Director of Zweites Deutsches Fernsehen, Mainz

Dr. Rolf Stomberg
Chairman of the Supervisory Board
of Deutsche BP Holding AG, Hamburg

Wolfgang Urban
Member of the Board of Managing Directors
of Schickedanz Holding-Stiftung & Co. KG, Fürth

Dipl.-Ing. Dr.-Ing. E. h. Jürgen Weber
Chairman of the Board of Managing Directors
of Deutsche Lufthansa AG, Cologne

Dr. Hans-Dietrich Winkhaus
Chairman of the Executive Board of Henkel KGaA,
Dusseldorf

Bernd Wrede
Chairman of the Board of Managing Directors
of Hapag-Lloyd AG, Hamburg/Bremen

Board of Managing Directors

Bernhard Walter
Chairman of the Board of Managing Directors
Audit, Corporate Communications, General Secretariat, Group Strategy, Legal Services

Gerd Häusler
Chairman of the Management Board of the Investment Banking Division Dresdner Kleinwort Benson
Asia, Australia, North America, United Kingdom

Gerhard Eberstadt
Institutional Asset Management
Global Equities

Prof. Dr. Ernst-Moritz Lipp
Corporates and Institutions
Global Corporate Finance
Western Europe

Dr. Bernd Fahrholz (from 1.3.1998)
Corporates and Institutions
Global Finance
North Germany
Central and Eastern Europe

Dr. Horst Müller
Credit, Finance, Human Resources, Organisation and Information Technology, Risk Control
North-East, South-East Germany

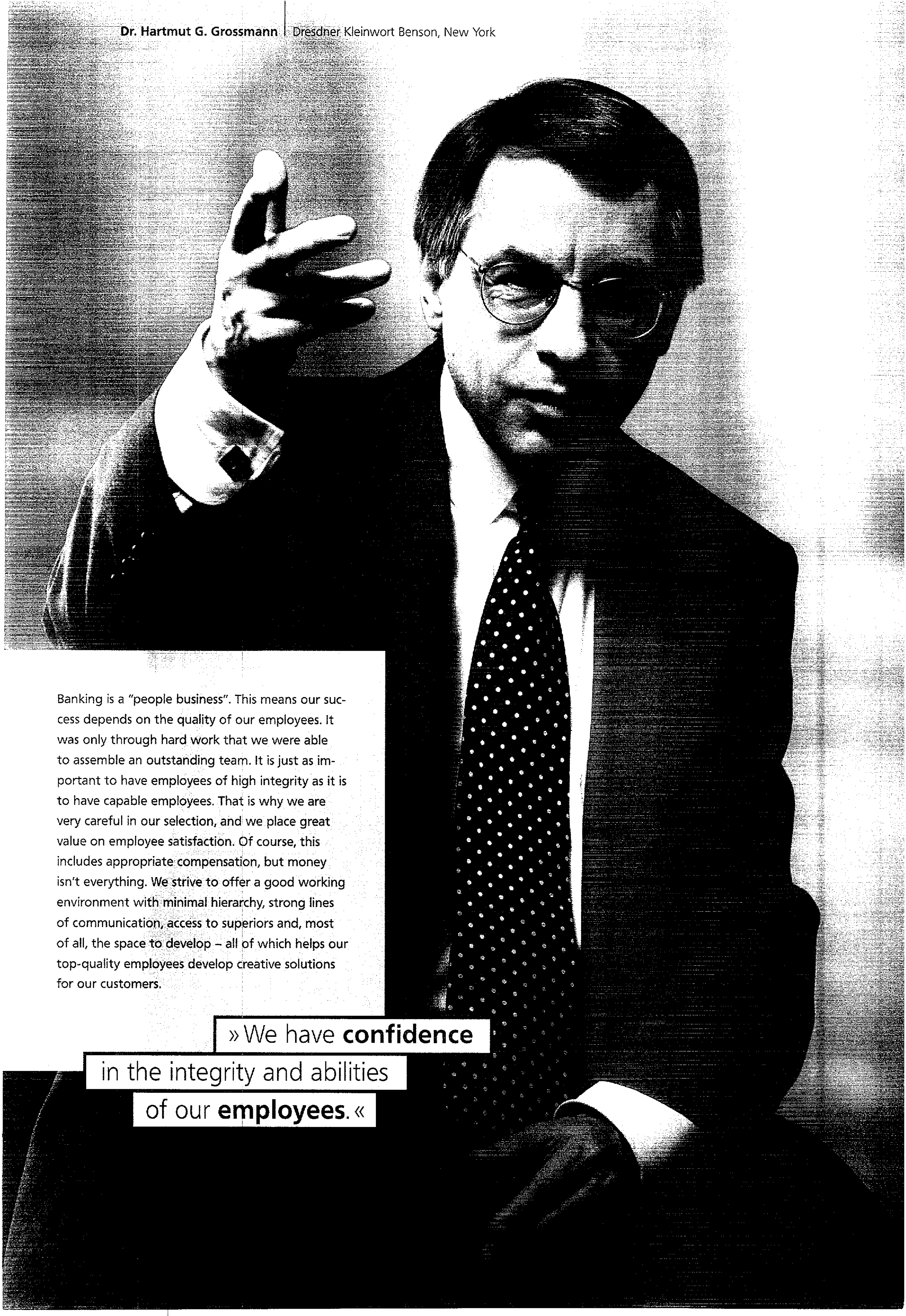
Leonhard H. Fischer (from 1.3.1998)
Institutional Asset Management
Global Equities
Global Markets

Heinz-Jörg Platzek
Compliance/Corporate Security, Payments and Settlements, Procurement/Premises Management
South-West Germany
Latin America, Middle East, Africa

Dr. Joachim v. Harbou
Individual Banking
Rhineland, Rhine-Main, Ruhr and Westphalia

Dr. Bernd W. Voss
Credit, Finance, Risk Control
Bavaria

Dr. Hartmut G. Grossmann | Dresdner Kleinwort Benson, New York



Banking is a "people business". This means our success depends on the quality of our employees. It was only through hard work that we were able to assemble an outstanding team. It is just as important to have employees of high integrity as it is to have capable employees. That is why we are very careful in our selection, and we place great value on employee satisfaction. Of course, this includes appropriate compensation, but money isn't everything. We strive to offer a good working environment with minimal hierarchy, strong lines of communication, access to superiors and, most of all, the space to develop – all of which helps our top-quality employees develop creative solutions for our customers.

» We have **confidence** in the integrity and abilities of our **employees.** «

Update on the Dresdner Bank Share

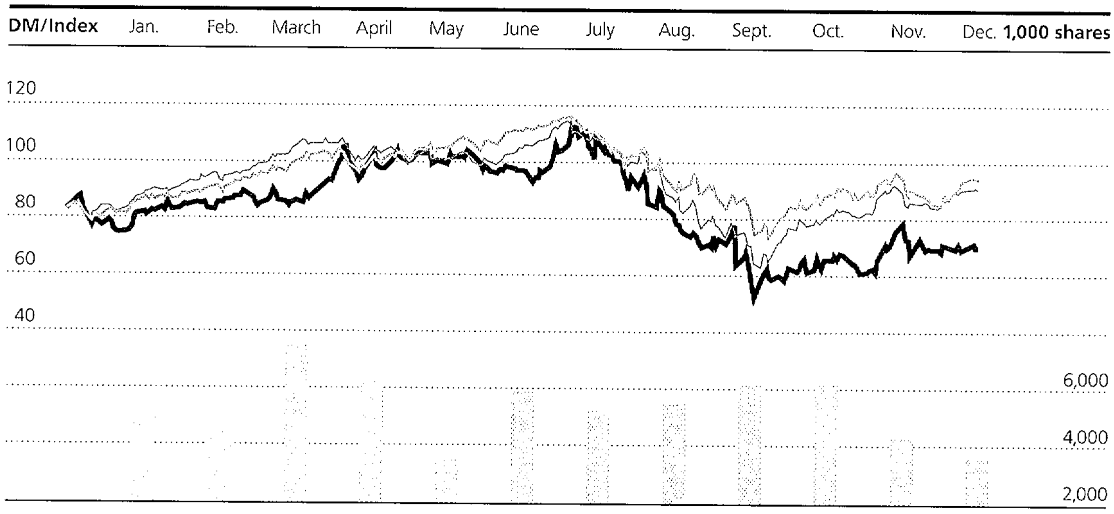
High volatility of the share price

The very positive development of the Dresdner Bank share price in 1997 continued through the first months of 1998. However, beginning in August the price weakened significantly. Throughout 1998, and in line with the market as a whole, the development of our share price was characterised by unusually **high volatility**. Prices for the Dresdner Bank share ranged from DM 50 to DM 115.50.

During the first seven months of 1998, the Dresdner Bank share profited from satisfactory results and persistent speculation on structural changes within the banking industry, both in Germany and internationally. The share price subsequently suffered, however, from a number of **negative factors**. In rapid succession, the markets were hit by news of **crises in Russia, Asia and South America**, as well as the collapse of the US hedge fund LTCM. Inevitably, Dresdner Bank shares were also affected by the resulting market uncertainty. From August to October – in line with the overall market development – our share price fell substantially.

The Dresdner Bank share price recovered during the remainder of the year, ending the year at a price of DM 70. Against the 1997 year-end price, the share lost 13.8 % (adjusted for dividends). The CDAX Banks sub-index also fell, by 10 %, although the DAX saw an increase of 17.7 % for 1998. Despite the factors referred to above, which were a burden on the market as a whole, we were successful in keeping Dresdner Bank on course. This can also be seen by comparing the performance of our shares with the shares of other financial institutions that have a strong international orientation and a focus on investment banking. When calculated for the entire year, the Dresdner Bank share showed the best performance among the large Frankfurt-based banks.

Share price performance and turnover of the Dresdner Bank share in 1998



Dresdner Bank
Dow Jones STOXX Bank Index*)
DAX*)
Average daily turnover

*) Standardised and adjusted for the Dresdner Bank dividend, including tax credit.

The **Dow Jones STOXX Bank Index** is gaining increasingly in importance for comparisons across the industry. This index comprises more than 50 bank shares across 16 European countries and gained 13.3 % in 1998. By using this index as a reference, we are able to take into account the further integration of European countries through the introduction of the Euro. Additionally, the STOXX Bank Index serves as a benchmark for our Long Term Incentive Plan, which was introduced in 1998 for approximately 300 key executives throughout the Dresdner Bank Group (see p. 54).

Share price performance in 1999

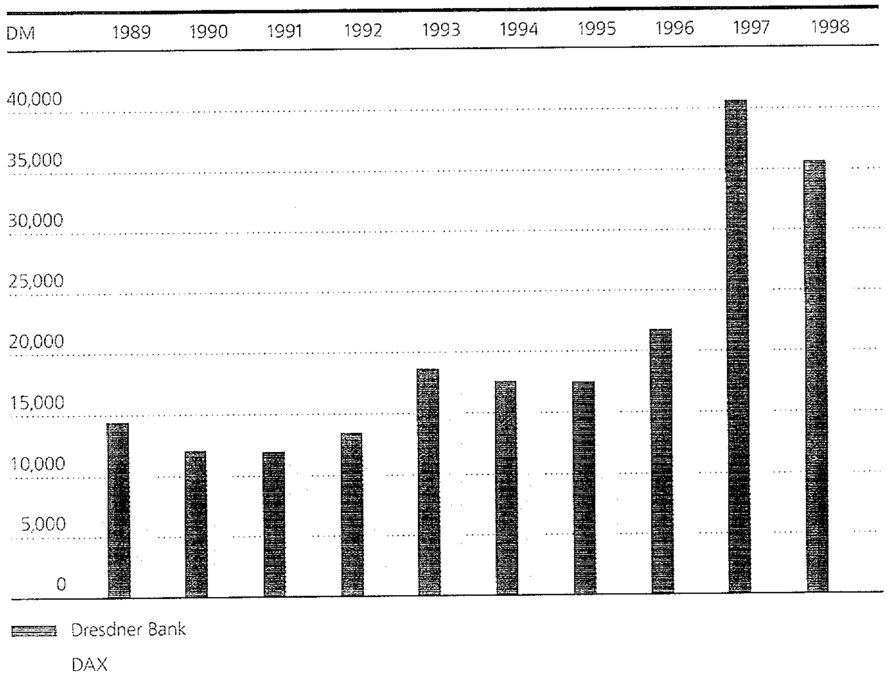
On 4 January 1999, official stock exchange quotations for most German listed securities were converted to **Euro**, at the official conversion rate of DM 1.95583 per Euro.

In the first weeks of 1999, the Dresdner Bank share posted slight gains amid high volatility. At the time of going to press (25 March 1999) the share price stood at EUR 37.40, a good 4 % above the 1998 year-end level. The share price developed somewhat less favourably than the Dow Jones STOXX Bank Index, but nevertheless outperformed the DAX.

High return on long-term investment

Dresdner Bank shares offer attractive returns to long-term investors. The chart below shows the return on a DM 10,000 investment in Dresdner Bank shares at the beginning of 1989 under the assumption that dividends and earnings from the sale of subscription rights were reinvested **(opération blanche)**. In comparison, we have also charted the development of the same amount

An attractive investment: Dresdner Bank shares – high long-term performance*)



*) Development of a DM 10,000 investment (applying "opération blanche") over the last 10 years.

invested in the DAX. In the10-year period reflected, the original investment of DM 10,000 would have grown to more than DM 35,000, whereas a comparable investment in a DAX portfolio would have yielded DM 38,000. On this basis, the annual average yield for an investment in Dresdner Bank shares is 13.5 % and thus lower than the yield for a comparable DAX investment (14.2 % p. a.) for a ten-year horizon. However, this view of a single comparative period, although commonly applied, does not provide a comprehensive picture. The chart opposite clearly shows that since 1989, the Dresdner Bank share has outperformed the DAX for each period within the one-year to nine-year time horizon. In addition, for the ten-year period the share has significantly outperformed the yield on fixed income securities (8 % p. a.), as measured by the German Bond Index (REX).

An international investment

Dresdner Bank will list its shares on the **New York Stock Exchange**. With this step we wish to emphasise our commitment to the world's largest capital market. Another goal of this listing is to broaden the market for Dresdner Bank shares. In addition, Dresdner Bank's international orientation is also reflected in its listing on seven other European stock exchanges (Amsterdam, Antwerp, Brussels, Luxembourg, Paris, Vienna, Switzerland) and on the Tokyo Stock Exchange.

The Dresdner Bank share is quoted on all eight German stock exchanges. As one of the leading German equities, it is also traded in the electronic trading system **Xetra**, and included in options trading at **Eurex**, which resulted from the merger between Deutsche Terminbörse (DTB) and the Swiss Options and Financial Futures Exchange (SOFFEX).

On the Frankfurt Stock Exchange alone, the 1998 **trading volume** in Dresdner Bank shares **increased significantly**, exceeding DM 115 billion. The average daily turnover rose to more than 5.3 million shares. Thus, our share continued to rank among the 20 most actively traded equities in 1998.

Stable dividend

We shall propose to the Annual General Meeting an unchanged dividend of DM 1.55 (EUR 0.79) per share. Taking the tax credit of DM 0.66 (EUR 0.34) into account, shareholders subject to domestic income or corporation tax will thus receive a **total return of DM 2.21 (EUR 1.13) per share**. Based on the year-end share price of DM 70 (EUR 35.79), this is equivalent to a dividend yield of 2.2 %, or 3.2 % including the tax credit. Due to the exercise of option rights on Dresdner Bank shares, the **total dividend payout** is set to reach a record amount of DM 802 million (EUR 410 million).

The Dresdner Bank share at a glance

Figures are on a "per share" basis		1994	1995	1996	1997	1998
Earnings [1]	DM	2.25	2.64	2.87	2.41	3.56
Dividend	DM	1.35	1.35	1.45+0.10	1.55	1.55
Tax credit	DM	0.58	0.58	0.66	0.66	0.66
Dividend yield based on the year-end share price	%	3.3	3.5	3.4	1.9	2.2
incl. tax credit	%	4.7	5.0	4.8	2.7	3.2
Book value at year-end [2]	DM	30.1	30.1	31.4	38.2	39.8
High	DM	46.65	41.85	46.35	89.20	115.50
Low	DM	34.60	36.60	37.20	44.85	50.00
Price at year-end (closing)	DM	40.70	38.30	46.10	83.00	70.00
Shares outstanding at year-end (mn)		443.5	445.1	467.4	513.3	517.6
Market capitalisation at year-end (DM bn)		18.1	17.0	21.5	42.5	36.2
Outstanding shares attached to warrants at year-end (mn) [3]		51.1	49.5	26.9	33.4	29.2

[1] Up to and including 1996 according to DVFA/SG, thereafter based on IAS.

[2] Up to and including 1996 according to the German Commercial Code (HGB), thereafter based on IAS.

[3] For further information, see page 89 of this Annual Report.

Substantial value in corporate holdings

In 1998 we continued the divestment of interests in the non-bank sector. Nevertheless, unrealised revaluation reserves on our total holdings of listed securities continued to grow and amounted to almost DM 25 billion as at the year-end 1998. This amount alone represents approximately 70 % of our market capitalisation.

In December 1998, we spun off corporate holdings with a market value of approximately DM 25 billion into limited partnerships. We believe that this step will significantly increase our flexibility, also in terms of strategic issues.

Stable shareholder structure

We estimate the number of Dresdner Bank shareholders to exceed 200,000. Allianz Aktiengesellschaft holds approximately 22 % of the share capital, and FGF Frankfurter Gesellschaft für Finanzwerte mbH and Vermo Vermögensverwaltungsgesellschaft mbH hold approximately 10 % each. These latter two firms pool together the Dresdner Bank shareholdings of many leading industrial and insurance companies in Germany, which in some cases have been held for decades. Private and institutional investors represent further important shareholder groups, while 2 % of the shares are held by employees (current and retired) of the Dresdner Bank Group. The stability of our shareholder structure is demonstrated by the high level of attendance at Annual General Meetings (70.3 % in 1998).

Active Investor Relations

In 1998, we expanded our extensive Investor Relations programme even further – both geographically as well as with regard to the range of topics covered, which we presented to target groups in an increasing number of financial centres around the world.

Our membership in the German Investor Relations Circle (Deutscher Investor Relations Kreis – **DIRK**) underscores our high ambitions and our commitment to investor relations.

We are continuing with our very successful programme of presentations to **private investors** in our main branches, which began in the preceding year. We plan to further increase the number of these events in 1999.

Updated information on the Dresdner Bank share is, of course, also available on our **website** at **www.dresdner-bank.de**.

Both existing and potential shareholders of Dresdner Bank can now take advantage of a service which we recently introduced: mobile telephone users subscribing to a German telephone company can receive the current Dresdner Bank share price on their display at any time. Further information on this service is available at the Mobile Banking Hotline at 0 18 03/23 23 54, or on our website at http://www.dresdner-bank.de/d_dresdn/i_invest/home.htm.

The **Investor Relations Info Line** has been in service for a number of years. Information regarding Dresdner Bank and its shares is available by telephoning +49 69 263 11111 or by faxing +49 69 263 10111 at any time.

Significant dates 1999/2000

28 May 1999 – 10.00 a.m.
Annual General Meeting
Frankfurt/Main-Höchst, Jahrhunderthalle

31 May 1999
Dividend payment

7 April 2000
Annual press conference and presentation of 1999 Annual Report

19 May 2000 – 10.00 a.m.
Annual General Meeting
Frankfurt/Main-Höchst, Jahrhunderthalle

22 May 2000
Dividend payment

» As a bank, we have a **place at the centre of society**, and we accept the **responsibility** that this creates. «

For me, social responsibility is not just about charitable donations – it means giving direct and practical help to the local community. Here in the City of London we're not far from the socially disadvantaged parts of East London which are in particular need of support. We each make our own contribution. Some of us advise new small businesses, some donate half an hour at lunchtime every week to help school children practise reading or maths. Others act as mentors for older pupils as they approach the start of their working careers. Doing voluntary work in areas local to your business is increasingly common in Britain – and we at Dresdner Kleinwort Benson have found it benefits everyone.

Dresdner Bank's Business Activities

Strategic Positioning

The Dresdner Bank Group is one of the leading European **universal banks** with a comprehensive, integrated range of products and services that encompasses all banking services relating to lending and deposit taking, investment banking and asset management. Our customers include private individuals, companies of all sizes, including multinational corporations, as well as government bodies and institutions.

Dresdner Bank's objective is to **create shareholder value**. We are convinced that the only way to attain this goal is through the continuous improvement of customer satisfaction. This is only possible with highly motivated staff, providing excellent service. Moreover, we wish to contribute to the positive development of the society of which we are a part.

The following **guiding principles** underlie all of the activities of the Dresdner Bank Group:

- **"Dresdner Bank. The Advisory Bank."** is more than a slogan, it is our commitment. Our business activities are driven by the dual goal of serving our customers and building lasting business relationships, both in Germany and internationally. In expanding our advisory capacities, it is our aim to significantly increase growth in our commission income relative to interest income. Our goal is that these two sources of revenue achieve the same level; currently commission income represents 74 % of interest income.
- As an integrated universal bank, we want to take full advantage of our **cross-selling potential**. Cross-divisional structures, team-oriented management and incentive systems, with a strong emphasis on tangible customer benefits and shareholder value, characterise the Group and provide us with a competitive advantage.
- In **Germany** we want to continue expanding our market position in all our businesses. We are relying mainly on organic growth to achieve this goal. We are keeping an open mind regarding further joint-ventures, especially where such co-operations strengthen our distribution power and our product range.
- With the creation of a single European currency zone, we regard **Euroland** as our domestic market. In addition to developing our relationship with existing corporate customers and institutions, we aim to enhance our distribution network and to significantly expand our business with private and corporate customers in the core European countries. We have several options here. In addition to expanding existing activities such as our multi-media distribution channels, we are giving particular consideration to acquisitions as a means of accomplishing our objectives in Europe. Realistically, these goals are achievable more in the medium to long term.
- Outside Europe the Dresdner Bank Group plans to build on its existing **international presence**, particularly in the US, the world's largest capital market, where we intend to intensify our investment banking activities.
- From Dresdner Bank's point of view, any **potential acquisition** must satisfy three **key criteria**: any target company must closely match our bank's strategic profile, the required purchase price must not jeopardise our profitability targets, and thirdly, despite the rapid consolidation in the international banking industry, we will not allow ourselves to succumb to pressure nor take any steps that are not well considered.

The Dresdner Bank Group is organised into **four divisions**:

- Corporate customer business
- Institutional asset management
- Investment banking
- Private customer business

The **core principles of our business** for all four divisions are a strong emphasis on the customer and a high quality of advisory service, combined with innovative products and state-of-the-art technology:

- We have adapted our advisory systems to the individual requirements and corresponding needs of our customers.
- We want our advisors to be both mobile and above all customer-focused, which is why we have invested heavily in state-of-the-art technology.
- We are continuously developing further innovations in technology-driven products.
- In parallel, we undertake comprehensive training and quality control measures for our personnel.

Dresdner Bank Group

Board of Managing Directors of Dresdner Bank AG

Institutional Asset Management Division

Global, group-wide alignment and steering of the Division by **Management Board**

Geschäftsbereich Institutional Asset Management

Investment Banking Division

Global, group-wide alignment and steering of the Division by **Management Board**

Business Line Global Corporate Finance

Business Line Global Equities

Business Line Global Finance

Business Line Global Markets

Relationship Global Corporates

Our goal in the **corporate customer business** is to be the leader in terms of quality in advisory services and product range. Our new strategic orientation has laid the foundation for the integration of products and services in commercial and investment banking.

In the high-growth **institutional asset management** division we have built a global presence in recent years both through organic growth and acquisitions. Although we already rank amongst the largest European providers, we wish to grow further by expanding our distribution network, primarily in the core European markets of Spain, France and Italy.

Dresdner Bank conducts its **investment banking** activities under the brand name **Dresdner Kleinwort Benson**. We have completed the integration of our investment banking with the diversified customer base of our commercial banking business. The success of this fully integrated unit is built on its prominent market position in its two traditional markets, Germany and the United Kingdom. Dresdner Kleinwort Benson is intent on building on its position as a leading force in European investment banking, and to expand its global reach.

The objective in **private customer business** is to further strengthen Dresdner Bank's position in the German market as the Advisory Bank for capital investment and capital growth. We wish to consistently increase customer satisfaction and loyalty.

We have created a new **relationship global corporates** unit providing a selected number of multinational corporations with customised solutions based on the entire range of products and services we offer across regions and divisions. This unit forms the link between our commercial and investment banking businesses and is the living proof of a comprehensive, integrated and highly professional service concept on a global scale.

Corporate Customer Business Division

Geschäftsbereich
Corporates and Institutions

Private Customer Business Division

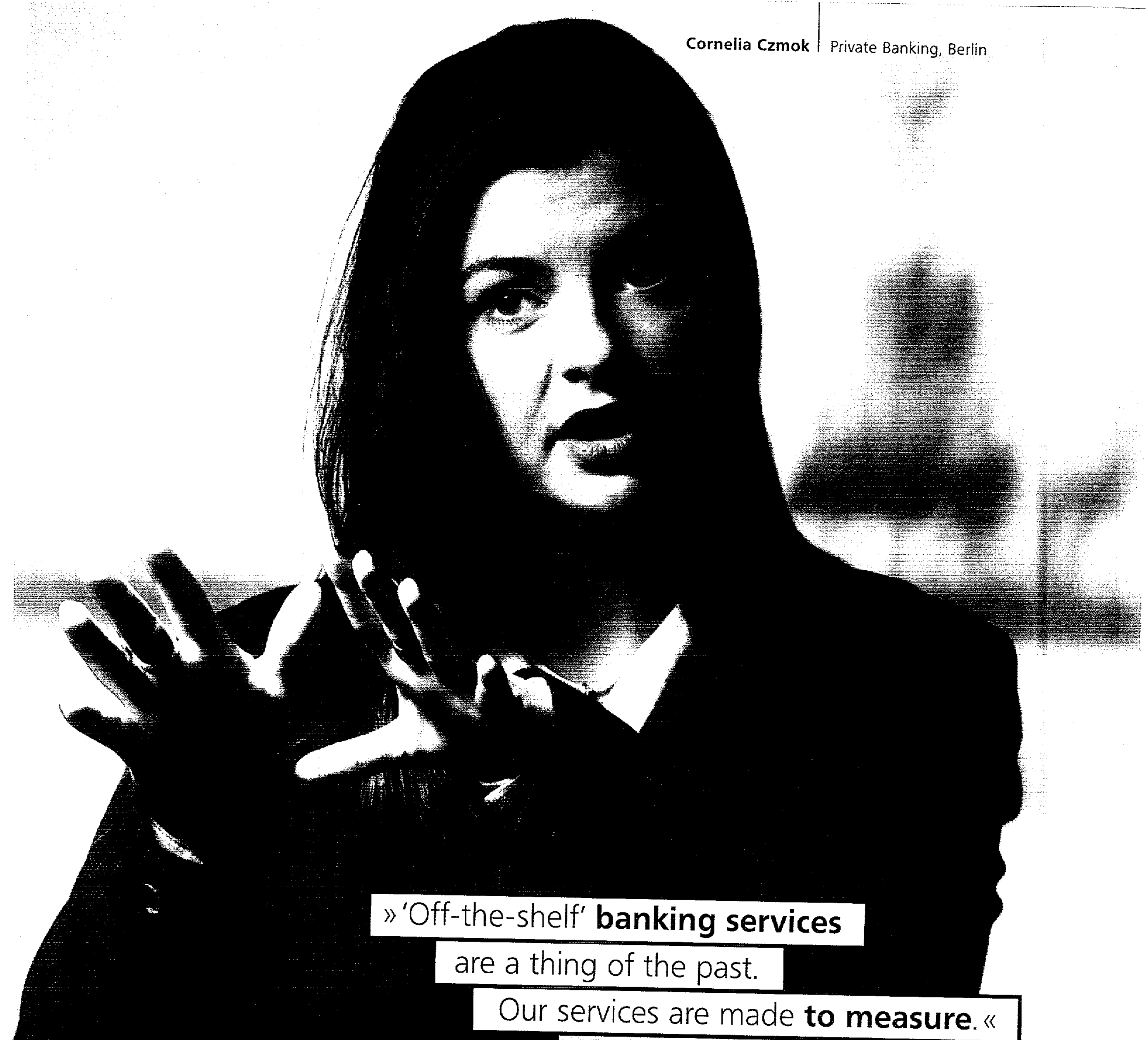
Geschäftsbereich
Individual Banking

Global alignment and steering of International Private Customer Business by **Management Board**

Infrastructure (Group Services)

Audit
Compliance/
Corporate Security
Corporate Communications
Finance
General Secretariat
Group Strategy
Credit
Human Resources
Legal Services
Organisation and
Information Technology
Payments and Settlements
Procurement/
Premises Management
Risk Control

Cornelia Czmok | Private Banking, Berlin



»'Off-the-shelf' **banking services** are a thing of the past. Our services are made **to measure**.«

Nowadays, private banking is all about providing an individual service – and that's what we offer. Our customers determine "when" – whether it's during the day, in the evening or at the weekend ... They also determine "where" – in the bank, at home, or in the office ... And they give us details of their individual circumstances. Based on this information, we offer each customer a product tailored to his or her specific needs from the extensive investment product range at our disposal. In my view, the focus of modern private banking should be on alerting customers to attractive opportunities. This means taking time to assess customers' needs properly. They may or may not know precisely what they require, and sometimes this only becomes clear during the course of a conversation. You often need the instincts of a detective! There is one main objective behind all my work: to do the best possible job for my customers. That's what makes it so satisfying.

Corporate Customer Business

Focus on the customer

To ensure maximum customer satisfaction our corporate customer activities are designed to suit the differing product and service needs of:

- **corporate customers**, with predominantly domestic activities;
- **enterprise customers** with ongoing demands for specialist advice; and
- **multinationals** with complex needs on a global scale.

The clear distinction between our production and distribution activities provides for clear reporting lines and creates additional sales incentives.

We provide products and services to more than 200,000 corporate and institutional customers world-wide, 145,000 of whom are located in Germany. Our particular strength lies in business with medium-sized companies, where we have achieved a market penetration of approximately 50 %.

Corporate customers and enterprise customers are served by 80 account management teams each covering all of Germany. These teams possess the ideal professional and interpersonal qualities to fulfil their role as **"Local Entrepreneurs"**. Their high level of mobility enables them to respond quickly to the needs of our customers.

The **integration of commercial and investment banking** was completed earlier than anticipated. We are thus able to satisfy the growing demand from customers, including medium-sized companies, for the full range of investment banking products and services.

The main focus of our corporate customer and enterprise customer business outside Germany is the core European countries. Since we regard **"Euroland"** as our domestic market, we are strengthening our presence throughout Western Europe. We are able to offer state-of-the-art, customised Euro cash management services for our German customers with European operations. For this purpose, we are expanding our payments facilities throughout our existing European network, in addition to opening new branches in Belgium and the Netherlands. We count among the very few banks that can offer customers a Europe-wide payments capability, including cash management, pooling and netting options. Our activities in Scandinavia have been greatly strengthened by the acquisition of two banks in Stockholm and Copenhagen.

In the autumn of 1998, a new subsidiary in Romania provided another link in our already extensive network of banking subsidiaries in **Central and Eastern Europe**, which we manage jointly with Banque Nationale de Paris. In addition, we opened a joint-venture bank in Vienna in early 1999.

The **major emerging market countries**, such as China, India, Korea, Brazil, Argentina and South Africa, continue to offer significant business potential in the long term. However, given recent developments, we have been pursuing expansion in these markets only on a very selective basis.

World-wide relationships with a selected number of German and European multinational companies are managed by Directors of the unit **Global Corporates**, who report directly to our Board of Managing Directors. They are the key contacts for the customer's top management, with the task of proposing ongoing solutions, tailored to the needs of their customers.

Last year we continued to strengthen our close business ties with **international financial institutions**. The wide variety of services we provide to more than 2,600 banks in almost every country around the world has been very successful in this special customer segment.

The introduction of the Euro has prompted the majority of banks within the Monetary Union to concentrate their business on a small number of correspondent banks. Our attractive range of services has helped us achieve significant growth in transaction volumes in commercial banking business. At the same time, numerous major banks outside the Euro-zone have entrusted us with their

Euro accounts and the clearing of their Euro-denominated payments.

High level of advisory service at all levels

We are continuously developing our advisory expertise for the benefit of our corporate and enterprise customers, spanning the whole breadth of specialist banking fields. We have **expanded** our **specialist advisory resources** in the teams. It is our objective to offer our customers the highest level of expertise in money market business, foreign exchange, securities and derivatives activities, as well as in international business and in Office Banking.

A newly-developed customer service support system as well as **sophisticated distribution, information and planning systems** are setting new standards in the planning and management of our business with all our customers. All advisors receive, on a monthly basis, information graphically presenting their sales performance and, in particular, a comprehensive overview of each of their corporate customers. The calculation of customer profitability takes into account default costs based on empirical data as well as the cost of capital. This is essential for advisors to operate in an independent, entrepreneurial and consciously profit-oriented manner, with the objective of achieving increased quality of service and advice.

We were the first bank in Germany to set up **Service Centres** for our eight regions, supporting our corporate customers in routine banking transactions throughout a longer working day (from 7 a.m. to 8 p.m.). More than 400,000 calls, registered in the fourth quarter of 1998 alone, demonstrate that this service has met with great customer approval.

To ensure optimal sales and service processes, the local distribution units are supported by professional quality, distribution and marketing management teams, both in the regions and at Head Office level.

Since the beginning of 1999, we have, of course, also been offering our customers all commercial and investment banking products in **Euro**. Since 1996, several thousand customers have benefited from our PC-based advisory programme EUR-A.

We are also offering our customers the "Go 2000" product to help them prepare for the **year 2000**.

The question of the environmental impact of individual projects is also being addressed proactively when developing financial solutions. Wherever we identify the need for action, we offer our customers **environmental analyses** and related consultancy services.

Innovative products

We have again updated our Dresdner Office Banking product range with innovative services. For instance, **Dresdner Cash Management** now permits customers to submit domestic, foreign or EDIFACT payment orders without any formatting changes. We have further extended our real-time service with the "Dresdner Avis Modul", providing customers with even more information on incoming and outgoing payments before they are posted.

Dresdner Document Management enables our customers to process their documentary payments with Dresdner Bank electronically. We now also deliver foreign exchange confirmations online, directly to customers' PCs. Providing access to our products through the Internet is a major topic for our ongoing development.

Application of state-of-the-art technology

New, interactive IT tools enable all staff in our corporate customer business to operate faster, more efficiently and to be more focused on the customer.

All work-stations are integrated in a client/server environment based on a modern systems platform, and all our corporate advisors are equipped with notebook computers and mobile telephones.

Institutional Asset Management

Asset management is one of the fastest-growing sectors in financial services world-wide. The driving force behind this growth is primarily **capital investment** by a growing share of the population in many countries, as well as the trend to enhance both corporate and private **retirement provision**. This is supported by the progressive deregulation of capital markets and the growing willingness to invest on an international basis, with the creation of a single European currency zone playing an important role.

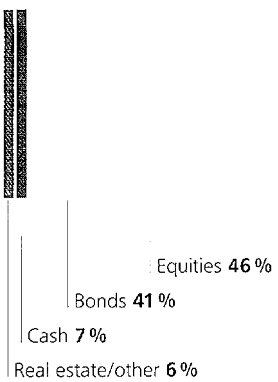
Customer proximity through diversified distribution

One of the greatest challenges facing global asset managers today is building effective sales and advisory structures that address customer needs. This requires **adaptation to local markets** and circumstances. One possibility is to co-operate with local partners with a strong distribution network, as Dresdner Bank has agreed and implemented together with Meiji Life in Japan. Today our Group already operates 17 portfolio management and customer service centres, employing some 475 portfolio managers and analysts world-wide.

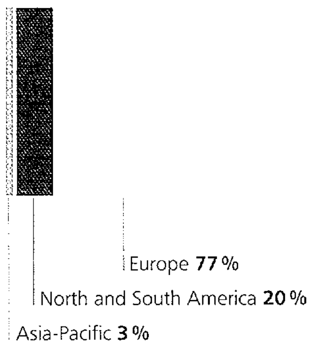
Our modern asset management utilises an increasing number of different distribution channels. Within the scope of a **multi-channel strategy** we are responding to our customers' wishes for service around-the-clock, by introducing new forms of distribution, such as the Internet and call centres. Some 200 staff in our domestic service centre now administer more than 1 million investment fund accounts. In 1998 alone we acquired 234,000 new accounts.

Funds under management (as at 31 December 1998)

DM 383 bn



by asset class



by investment region

Despite difficult market conditions and increasing competition, the **overall volume of assets under management and care** of the Dresdner Bank Group in 1998 **rose to DM 383 billion**. Taking into account the disposal last year of our US subsidiary Oechsle, we were able to record an adjusted growth figure of DM 40 billion (on a DM-basis), or 12 %. The **proportion of equities** in the asset mix remains very high, at **46 %**.

Almost 45 % of our institutional business is now attributable to the particularly demanding customer group consisting of pension funds, central banks and government bodies.

Consistent improvement in service and advisory quality

Efficient management of risks at every level, consistent development in performance through stable and clearly-defined investment processes as well as comparability of investment results are the most important criteria for ensuring good service and outstanding advice in asset management. We have set new standards in risk management throughout the Group by instituting a comprehensive system that extends beyond merely controlling performance and quality. In addition, we have responded to the increasing expectations of our customers world-wide regarding transparency and comparability of investment returns by introducing **"Performance Presentation Standards"** throughout the Group, based on the demanding specifications of the US market. Our professionalism and success were also illustrated once again in 1998 with the outstanding performance of many of our products.

We focused on "Euroland" at an early stage, with an emphasis on innovative products, improvements in technology and administrative systems, as well as on the continued development of direct targeting of customers, for example through the Internet. In addition, our competitive position has been strengthened by excellent investment results.

Innovative product know-how

Complementing the product range with innovative products is increasingly important in gaining a competitive edge. Last year we rose to this challenge by launching new **Sector Funds** (in biotechnology, software and financial services), as well as special funds with a focus on emerging markets and high-yield bond issues. We also created a comprehensive product range in the sector of **special pension funds** (Altersvorsorge-Sondervermögen) based on life cycle concepts and the "DIT-AS Retirement Plan", which is derived from them.

Application of state-of-the-art technology

We have entered into a co-operation with Allianz Aktiengesellschaft to combine our efforts in the cost-intensive area of information technology, under the umbrella of **ADAM Service GmbH**. The focus of this joint venture ranges from the setting up of investment service centres for international fund distribution to the development of software platforms for portfolio management and Internet funds banking. In addition to higher system quality and shorter development time, this co-operation also yields considerable cost savings.

Investment Banking

The Dresdner Bank Group conducts its investment banking business under the brand name of **Dresdner Kleinwort Benson**. Four business lines – Global Corporate Finance, Global Equities, Global Finance and Global Markets – conduct our world-wide investment banking activities. They report to the Management Board of Dresdner Kleinwort Benson, which is responsible for daily operations as well as the global and group-wide strategic orientation and management of the business division.

We have completed the integration of our investment banking operation with the diversified customer base of our commercial banking business. Through this integration of two business cultures, Dresdner Kleinwort Benson has reached even more customers with its underwriting, bridge financing, debt and equity finance products, and advisory services.

As a powerful European investment banking organisation with a global presence, Dresdner Kleinwort Benson is able to provide tailored solutions for customers world-wide through a wide range of products and services.

During the year, we expanded our business activities with the acquisition of a controlling stake in Albertini & C., one of Italy's most respected brokerage firms. We also increased our private equity capability in the United States and United Kingdom and considerably strengthened our Scandinavian operations.

Focus on the customer

Dresdner Kleinwort Benson is one of the few providers equipped to handle complex cross-border transactions meeting the needs of customers ranging from middle tier companies to large multinationals.

With more than 250 equity and debt analysts world-wide we are able to provide our global institutional and corporate customer base with **high quality research** by company, industrial sector and by country. Our macro-economic and portfolio research are equally well-regarded.

We excel in our **Global Corporate Finance** business through **sector-specific expertise** based on a **global presence**.

In **Global Equities** we are a key player in major primary and secondary offerings and are one of the **leaders in the distribution** of European equities into the US. Through our recognised **equity placing power** we provide our customers with access to an international investor base.

In **Global Finance** we combine our strong European business with a global presence to provide **tailored financial solutions** to our customers around the world.

We strengthened many areas of our **Global Markets** businesses in 1998, with particular emphasis on customer orientation. One example is our structured products group, which applies its capabilities to provide innovative risk management solutions for our customers. Our strong position in the former DM bond market has helped us to gain a **leading role in the primary market for Euro issues**.

1998 was a challenging but profitable year for investment banking. The business division's investment was primarily focused on its core European businesses with selective development of complementary business opportunities. The **transaction flow** was again **very satisfactory**:

- We advised our customers on 119 mergers and acquisitions valued at more than USD 60 billion.
- We lead-managed 36 equity issues raising USD 17 billion in 12 countries.
- We were bookrunner for 231 bond issues raising a total of USD 36 billion.
- We arranged and co-arranged 230 syndicated loan transactions raising more than USD 65 billion.

We underwrote, arranged and co-arranged 75 structured loans with a total value of USD 6.7 billion.

Our project and export finance portfolio grew to over USD 6 billion, comprising more than 400 project finance transactions and 600 export credit loans.

We managed USD 2.3 billion of committed private equity capital.

High level of advisory service

Our in-depth knowledge of global debt and equity markets enables us to provide expert advice to our customers. We use the strength of our balance sheet and our considerable resources to provide services such as credit-finance, international marketing and placement of securities, implementation of parallel financing solutions on various levels, as well as in global distribution.

We are one of the top three houses in European **equity trading and execution**, focusing on cash and portfolio trading and derivative products.

We have continued to invest in our **corporate finance advisory** practice (including Mergers & Acquisitions) through the recruitment of highly talented people to further strengthen our product and geographic coverage.

In 1998 we integrated our world-wide **project finance and export finance** activities to provide a comprehensive service to our customers through our offices in Europe, Latin America, North America, Asia and Australia.

We have also combined our debt and syndicated loan coverage in one group, **global debt origination**, to further improve the top-quality professional coverage of our customers.

Innovative products

Innovation is at the heart of our business. Our culture of innovation has enabled us to develop new ideas and structures which range from pioneering the use of advanced technology in international bookbuilding systems to a new approach in large leasing projects.

In order to enhance the **asset backed securitisation** business we have restructured our operations. The new globally operating business unit is pursuing its activities from offices in Frankfurt, London and New York. In 1998 we arranged the first issue backed by the securitisation of part of the credit portfolio of a German bank.

Our highly regarded **credit research** team complements and differentiates our capital market activities from those of our competitors. In addition, we significantly expanded our structured products group. This has enhanced our capacity to focus on customer-oriented solutions. Our **innovative structuring approach** enables us to deliver tailor-made solutions to our customers.

Application of state-of-the-art technology

Using state-of-the-art security mechanisms, we can now give our clients unprecedented access to many of the same systems and information as are used internally by our investment banking professionals. Our "SynAGi" system has revolutionised the bookbuilding process by giving issuers world-wide access to the issue book and related market and deal information, 24 hours a day. "GlobalBite" provides our customers using foreign exchange and derivative products with real-time trading, settlement and risk management capabilities.

Private Customer Business

Focus on the customer

Made to measure advisory services – this sums up our approach to some 6 million private customers throughout the Dresdner Bank Group. By consistently developing our strengths we have managed to consolidate our reputation in the market as **"Dresdner Bank. The Advisory Bank."**. We have achieved a market penetration among high-net worth customers of 12 %. We have continued building on the key elements of the Advisory Bank. These are firstly, the professionalism of our staff and secondly, the consistent application of a structured advisory process as a basis for our proactive customer management and in order to achieve lasting sales success. The third key element is the performance of our information, communications and distribution systems.

Results from customer and employee surveys, consumer reports and the successful earnings development are a strong confirmation of the success of our advisory bank philosophy. In 1998, earnings from our private customer business in domestic regions reached record levels. Our volume-related commission revenues, in particular earnings from asset management, rose significantly, thereby reducing the exposure of our business to cyclical swings.

We recognise the importance of complaints management, regarding it as an instrument to ensure lasting customer satisfaction and loyalty. The Dresdner Bank **Ombudsman** works in tandem with regional complaints management units, acting on customer criticism and taking corrective action wherever we do not live up to our high standards of quality.

High levels of advisory service

Our strength lies in providing comprehensive and individual advice. The main emphasis of our advisory activities in 1998 centred on the **Euro** and **private retirement provision**. During our nationwide "Europe initiative", we informed customers and other interested parties fully about the impact of the introduction of the Euro, advising on how to manage financial investments. We are successfully implementing a new computer-based advisory programme for our private retirement provision planning activities. Customer surveys credited us with top marks in how customers rated our advisory services, and also in their willingness to recommend us to others. This positive response could also be attributed to our **comprehensive advisory approach**. Based on a detailed analysis of our customers' financial situation and requirements we are able to offer customised recommendations for capital investment and capital growth. In 1998 approximately 380,000 customers took advantage of this service, an increase of 50 % over the previous year.

We are continuously developing our **distribution network** to provide our customers with easy access to our range of products and services. Our branches remain at the centre of our on-the-ground distribution network. To offer our customers particularly comfortable surroundings we are successively redesigning each of our 1,400 branches. At the same time we are building up our **multimedia distribution** via telephone and PC. Half a million Dresdner Bank Group customers regularly use our various homebanking services. This trend towards homebanking was also of benefit to our advisory-oriented direct bank, which, in the course of a single year, increased the number of customers by approximately 150 % to over 100,000. Furthermore, retail distribution through our mobile sales force is constantly gaining in importance. Sales related earnings in this area increased by 40 % in 1998. Our philosophy is that customers should be able to choose their preferred channel to reach us.

For customers with a business volume in excess of USD 1 million, or those with highly complex financial structures, we offer customised and comprehensive advisory services of the highest quality under the brand name of **"Dresdner Private Banking"**. The volume of business under management and care for this customer group is at present approximately DM 90 billion world-wide. The international business of "Dresdner Private Banking" has grown significantly and will be expanded further.

Innovative products

Our **securities business** performed particularly strongly in 1998. We could confirm our leading position in equity offerings for individual customers. Major equity issues, such as Mannesmann or the conversion of Daimler-Benz shares into Daimler-Chrysler shares, as well as numerous smaller issues on the Neuer Markt were positively received by our investors. In **Portfolio Management with Mutual Funds** we now manage a volume of approximately DM 13 billion on behalf of 140,000 customers. Tax-efficient investments increased by 17 % over the previous year, to around DM 880 million. In addition to the more traditional closed-end real estate funds and equipment leasing funds, the successful placement of a specialised media fund contributed to this result. Our goal is to use innovative products to achieve further growth in this segment.

In our **loan business** we introduced a new pricing model in the autumn of 1998 which combines a fixed rate of interest with a special early repayment option. In this way we are responding to the desire of many of our customers for additional flexibility regarding loan repayments. The increase in lending volumes in our eight domestic regions was predominantly due to significant growth in home-loan financing.

Our innovative "stock exchange starter account" enabled us to attract significant new **deposits** from the market.

In spite of the unfavourable trend in the sector as a whole, we were able to increase our **sales of home loan savings contracts** in 1998 by approximately 13 %, to 72,000. This was partly due to the extremely popular new home loan savings tariff "R 66".

We are also continuously expanding our **credit cards business**, in which we are one of the biggest issuers in Germany, with more than 3 million credit and debit cards. For the approximately 2.3 million customers with a Dresdner Bank debit card, we offer cash withdrawals free of charge at 6,000 cash Automated Teller Machines across Germany, as well as the use of a further 300,000 ATMs world-wide. It is also accepted as payment at nearly 4 million retail outlets world-wide.

Revenues from the sale of **life insurance products** grew by 9 % over the previous year, with most of this growth attributable to our consistent focus on products tailored to our customers' needs.

Application of state-of-the-art technology

Information technology is becoming an ever more critical success factor in a competitive market. We are investing significantly in our technological development.

For instance, the expansion of customised software packages enables us to accommodate the growing expectations of private customers regarding financial planning and advisory services.

In the field of consumer lending we were also able to make considerable progress due to the introduction of a new computer-based credit analysis programme and the application of the most up-to-date scoring techniques.

For a banker, Thailand has not exactly been the calmest of places during the last two years. While some of our competitors have been badly hit, we saw the opportunities. Flexibility, professionalism and teamwork helped us not only to survive, but also to excel in a challenging environment. Thanks to Dresdner Bank's vast experience, we were not caught off guard by the crisis in Thailand. We had already adjusted our portfolio mix accordingly and our recommendations to customers reflected our cautious approach. We would go so far as to say that we have been strengthened by the crisis.

» Thanks to our **expertise** and **experience**, we excel at **times of crisis**.«

Management Report, Dresdner Bank Group

The consolidated financial statements for 1998 were prepared for the first time in accordance with International Accounting Standards (IAS), including comparative figures for 1997. This is the first time that it is possible, since the coming into force of the Capital Raising Promotion Act (Kapitalaufnahme-erleichterungsgesetz-KapAEG), that, in preparing our consolidated financial statements according to IAS, we are exempt from presenting them according to the German Commercial Code. At the same time, these consolidated financial statements have been drawn up in accordance with applicable EU Directives.

The IAS framework is characterised by a stronger focus on capital markets and the emphasis on information for investors. In the light of this we had already for some years voluntarily extended the scope of disclosure by providing additional information according to IAS requirements. Given the greater level of information in the financial statements according to IAS – compared with accounts presented in accordance with the German Commercial Code – the reader can gain an even more comprehensive view of the bank's net worth, financial position and profitability.

Based on Anglo-Saxon accounting traditions, IAS provides for the "mark-to-market" valuation of trading positions and correspondingly also includes unrealised profits, whereas the creation of hidden reserves is not permissible. The focus is on the reporting of results in the accounting period where they occur.

Moreover, under IAS accounting there is no reconciliation with the tax result.

Economic environment

In the past year the world economy lost a considerable amount of its momentum. Despite growing turbulence in European economies due to the turmoil in emerging markets and the recession in Japan, the German economy grew strongly until autumn of last year and only started levelling off towards the end of 1998. The overall trend for the year was positive, with GDP recording a growth rate of 2.8 %. For much of the year, economic growth was again export-driven. Some momentum was also provided by capital investments, with corporate demand for plant and equipment increasing substantially over previous years. Consumer demand also showed gradual signs of improvement. In 1998, for the first time since German reunification, employment showed an increase. However, as yet there is no evidence of a lasting reversal of conditions in the labour market.

At the end of last year, expectations differed to a significant extent: while consumers were relatively confident, scepticism dominated in the majority of corporations. Prices and costs were stable across the board. In Germany, price developments benefited from lower commodity prices. At a rate of 1.0 %, the consumer price index hit a ten-year low.

Strategic positioning

We have defined our objectives clearly and precisely:

We will increase our market share in Germany, with the goal to be the "Best of Business" in corporate customer business, and "The Advisory Bank" in our private customer business. Since we regard Euroland as our home market, we want our presence to cover the core European countries completely in the long term, both by way of acquisitions and organic growth. We will expand our investment banking activities in North America in order to also join the ranks of the major institutions in this market. In asset management, we want to be among the top ten offering products of outstanding quality. We have already carefully identified and determined the ways and means to achieve these goals.

In 1998 we successfully completed the implementation of our domestic strategy in the corporate customer business, with a strong emphasis on customer focus, and taking into account the differing product and services requirements of three customer groups. We continued to expand our international corporate customer business. Our activities in Euroland, which we regard as our domestic market, were strengthened by the opening of two branches in Stockholm and Copenhagen. In the autumn of 1998 we improved the coverage of Central and Eastern Europe by adding a Romanian unit to the network of joint ventures operated in co-operation with Banque Nationale de Paris. Given recent developments we have been pursuing our expansion in the major emerging markets on a selective basis only.

Now that we have completed the integration of commercial and investment banking, the entire product spectrum is also available to our medium-sized customers. During the year we acquired a controlling stake in Albertini & C., one of Italy's most respected securities houses and increased our private equity capability in the United States and the United Kingdom and, as already mentioned above, further strengthened our presence in Scandinavia.

Following the successful integration of the wide range of Kleinwort Benson's activities into the Dresdner Bank Group, we will in the coming year streamline the structures in our investment banking operations, with a view to harmonising our regulatory set-up with our global trading concept.

Asset management is one of the fastest-growing sectors in financial services world-wide. One of the greatest challenges facing global asset managers today is in building effective sales and advisory structures, which improve customer service. As an example, last year we entered into a joint venture with Meiji Life Insurance Co., the fourth largest Japanese insurance group. Also, within the scope of our multi-media strategy our services are available to customers around the clock with the introduction of new forms of distribution channels such as the Internet and call centres. We demonstrated expertise in product innovation with the launch of new Sector Funds and the introduction of special pension funds. We are in the process of entering into a co-operation with Allianz AG to combine our efforts in the cost-intensive area of information technology under the umbrella of ADAM Service GmbH. In addition to higher system quality and shorter development time, this co-operation also yields considerable cost savings.

We have managed to consolidate our reputation in the market as "The Advisory Bank." Comprehensive and personal advice is our strength, with a particular focus on topics such as the Euro and private pension provisions. Our increasingly popular computer-based, comprehensive advisory approach allows us to provide customers with a tailor-made recommendation regarding their personal investments. We firmly believe that customers should be able to choose their preferred channel to reach us. On the basis of our branch network, which forms the core of our on-the-ground distribution, we have therefore expanded multi-channel sales via telephone or PC. This process has been enhanced by the integration of our advisory-oriented direct bank.

Towards the end of last year, we spun off a part of our non-bank shareholdings into separate limited partnerships, in a tax neutral manner. This step was designed to enhance our flexibility in our approach to these investments. For example, in the event of an acquisition we may be able to use these shareholdings as part of the purchase price.

We completed the merger of our three mortgage bank subsidiaries, as already announced a year ago. The merged institution, Deutsche Hyp Deutsche Hypothekenbank Frankfurt-Hamburg AG, is set to strengthen its market position, given the growing integration of the European economy, and to seize the opportunities arising in the enlarged marketplace. In addition, the integration of three head offices will result in significant synergy effects.

Moreover, we have realigned our activities in the real estate sector, which have been integrated under the brand name of "Dresdner Bank Immobiliengruppe" as of 1 January 1999. A total of DM 17 billion in real estate assets are managed by this operation, which is focused on increasing returns on the Group's real estate portfolio, reducing costs and improving standards of quality.

At the end of 1998, Dresdner Bank Group was active worldwide with 1,506 branches and some 49,000 employees in more than 70 countries, including all major financial centres. The Dresdner Bank Group is one of Europe's leading financial services groups as measured by the number of its customers as well as in terms of consolidated total assets and market value.

Results of operations

The accompanying table sets out the principal components of the consolidated income statement for 1998 and 1997, and the corresponding changes.

1998 was characterised by two extremes: whilst the first half raised expectations of record results, financial crises in emerging markets sparked off turmoil in the international financial markets during the second half of the year, which had a negative impact on our earnings development.

With pre-tax profit down 6.8 % to DM 2,616 million, however, the negative developments could be contained. In contrast, due to special tax effects prevailing both in 1997 and 1998, net income for the year rose by 55.4 % to DM 1,858 million.

We shall propose to the Annual General Meeting of Dresdner Bank AG to pay an unchanged dividend of DM 1.55 per share, equivalent to a total dividend payout of DM 802 million. The remaining amount in excess of DM 1 billion will be transferred to the earnings reserves of the Dresdner Bank Group.

Net interest income grew by DM 293 million, or 4.1 %, to DM 7,499 million, with this growth being exclusively attributable to increased business volumes. Despite the fact that the interest margin has been shrinking for years, our interest related business remains a very significant – and rather predictable – source of income in our banking activities.

In light of developments during the second half of 1998 we significantly increased net loan loss provisions, in particular during the fourth quarter, resulting in an above-average DM 751 million, or 52.3 %, increase for 1998 as a whole, to a level of DM 2,185 million. In keeping with our prudent and stringent standards of provisioning, we therefore adequately accounted for all identifiable risks as of the reporting date.

	1998	1997	Change	
	DM mn	DM mn	DM mn	%
Net interest income	7,498.6	7,205.4	+ 293.2	+ 4.1
Net loan loss provisions	2,185.2	1,434.5	+ 750.7	+ 52.3
Net interest income				
after net loan loss provisions	5,313.4	5,770.9	– 457.5	– 7.9
Net commission income	5,549.3	4,895.8	+ 653.5	+ 13.3
Trading profits	1,453.7	1,770.5	– 316.8	– 17.9
Administrative expenses	11,524.6	9,894.5	+ 1,630.1	+ 16.5
Other income	2,767.3	1,125.8	+ 1,641.5	+ 145.8
Other expenses	943.2	861.4	+ 81.8	+ 9.5
Pre-tax profit	2,615.9	2,807.1	– 191.2	– 6.8
Income taxes	757.9	1,611.7	– 853.8	– 53.0
Net income for the year	1,858.0	1,195.4	+ 662.6	+ 55.4

In Germany counterparty risks in lending to our corporate customers in the New Federal States required significant increases in specific loan loss provisions. In contrast, specific risk provisions in western Germany stabilised at the lower levels seen in the previous year, both in corporate and private customer lending. We have made specific loan loss provisions for loans to debtors in Indonesia, South Korea and Thailand in the aggregate amount of approximately DM 450 million. These provisions were made predominantly in our Asian branches and subsidiaries and were set off against the general country risk provisions set aside for risks in the Asian region in 1997, with a corresponding neutral effect on the income statement. Country risk provisions for claims with respect to Indonesian debtors, for which no specific loan loss provisions were made, have been maintained.

We have accounted for the turbulence in emerging market economies by adding approximately DM 400 million to country risk provisions charged to the income statement. These provisions were predominantly related to risks in Latin America and Russia as well as a number of other countries whose ratings had deteriorated in our internal country rating system.

The provisioning ratio (net specific provisions to customer lending) increased to 0.53 % (1997: 0.41 %).

The Group did not suffer any major loan defaults in 1998. The charge-off ratio (actual loan losses to customer lending volume) again declined slightly to 0.18 % (1997: 0.19 %). This ratio reflects the default probabilities implied by specific loan loss provisions made in previous years, whereas the provisioning ratio reflects current credit risks.

Total loan loss provisions increased to DM 11.2 billion in 1998. This is equivalent to 3.3 % of customer lending (1997: 3.1 %). Excluding communal loans, the ratio was 4.2 %.

Net interest income after net loan loss provisions was 7.9 % lower than in the previous year. When analysing this commonly used indicator, however, it should be taken into account that loan loss provisions for a given year are offset by interest income on the exposures involved in income statements of previous years. Correspondingly, net interest income after net loan loss provisions is typically subject to higher volatility than net interest income excluding provisions.

Even after the strong growth in excess of DM 1 billion recorded in each of the previous two years, net commission income of DM 5,549 million clearly exceeded the previous year's record by DM 654 million, or 13.3 %. Commission income now stands at 74 % of interest income, compared to a mere 50 % three years ago. This positive development was mainly attributable to earnings in our securities and underwriting business which rose by DM 500 million and now account for 45 % of overall net commission income. The strongest contribution was due to commission business in equities, which even – despite the loss of momentum on securities markets – strongly exceeded the previous year's levels in the second half of the year. Sales of investment certificates also increased. The growth of earnings in private and institutional asset management was sustained; in 1998 these were up by just under DM 200 million. Since this business is based on volume-related commission revenues, it is therefore less affected by cyclical fluctuations in the market. A slight decline was recorded in our foreign commercial business.

Trading profits – including all interest elements attributable to trading operations, including refinancing cost for positions held – fell by DM 317 million, or 17.9 %, to DM 1,454 million. In view of the turmoil in international capital markets triggered by crises in emerging markets, this result is still satisfactory. Following the slump during the third quarter of 1998, the decline turned out to be much smaller than feared at the time. The results of our securities trading activities fell by DM 74 million to DM 689 million, with reductions attributable equally to trading in equities and bonds. Trading in foreign exchange, foreign notes and coins and precious metals, however, improved, with earnings up DM 39 million, to DM 515 million. The turmoil due to the emerging markets crisis had a particularly strong impact on trading activities in other financial instruments. Despite a more pronounced earnings decline, we were able to record a clearly positive result of DM 250 million.

Administrative expenses were DM 11,525 million, up DM 1,630 million, or 16.5 %, on the previous year. The increase was primarily caused by special factors prevailing in 1998. Against the backdrop of tough international competition, we have once again doubled costs of an investive nature for forward-looking strategic measures and information technology to DM 1.2 billion. The investment phase for product development should therefore be completed this year. We will, however, continue to invest in information technology. Additional expenses of approximately DM 400 million were incurred with respect to projects related to the launch of the Euro and preparations for the year 2000. First-time consolidations, in particular the consolidation of ADVANCE Bank AG, also contributed to the cost increase.

Excluding these special factors, the growth rate was 6.1 %.

Staff expenses grew by 9.7 % to DM 6,732 million. Since the year-end 1997, the number of employees increased by 2,371, or 5.1 %, to 48,948 as at 31 December 1998, with just under 60 % of this increase within Germany. Other administrative expenses and regular depreciation of tangible fixed assets together amounted to DM 4,793 million, up 27.5 %, mainly as a result of the special factors referred to above.

Our cost-income ratio increased to 79.5 % (1997: 71.3 %), due to the comparatively strong increases in expenses which exceeded earnings growth in 1998. In 1999 we will concentrate on reversing this development.

Other income includes income from non-trading investments and other operating income, which cannot be attributed to other items of the income statement. The strong increase of DM 1,642 million, or 145.8 %, to DM 2,767 million was almost exclusively attributable to income from non-trading investments.

As a result of successful management of our liquidity portfolio, we could increase the result to DM 1.2 billion. This amount includes profits on the disposal of positions in equities, bonds and investment certificates. A write-off of our investment in Long-Term Capital Management (LTCM) in the amount of DM 240 million negatively impacted the income statement. Up to the beginning of 1998 we had received distributions of profits that corresponded to our overall investment in LTCM.

Profits on the disposal of non-bank shareholdings doubled to approximately DM 1 billion. Major transactions included the disposal of shares held in AMB Aachener und Münchener Beteiligungs-AG, Hapag-Lloyd AG and Société Européenne des Satellites (SES).

Therewith, we continued our strategy to use such unrealised reserves to fund investments and to strengthen our capital base.

In addition to goodwill depreciation, other expenses include other operating expenses, which cannot be classified as administrative expenses, such as the costs of raising long-term finance and the raising of capital, indemnity payments and losses on the disposal of property and equipment.

Taking into account all income and expense items, pre-tax profit declined by DM 191 million, or 6.8 %, to DM 2,616 million.

The tax charge fell disproportionately, by more than half, to DM 758 million. This was largely the result of special tax effects, where expenses incurred outside Germany in 1997, which were not tax-deductible, were offset by tax-free foreign sourced income in 1998.

The net income for the year is DM 1,858 million, up DM 663 million, or 55.4 %, on the previous year.

Creation	1998 DM mn	1997 DM mn	Change DM mn	%
Net income	17,268.9	14,997.5	+2,271.4	+ 15.1
less:				
Other administrative expenses				
including regular depreciation	4,793.0	3,759.2	+1,033.8	+ 27.5
Net loan loss provisions	2,185.2	1,434.5	+ 750.7	+ 52.3
Other expenses	882.2	781.7	+ 100.5	+ 12.9
Value added	9,408.5	9,022.1	+ 386.4	+ 4.3

Utilisation	1998 DM mn	1997 DM mn	Change DM mn	%
Value added	9,408.5	9,022.1	+ 386.4	+ 4.3
Employees (staff expenses)	6,731.6	6,135.3	+ 596.3	+ 9.7
including: income tax paid	1,158.0	1,001.3	+ 156.7	+ 15.6
social security contributions	717.3	686.3	+ 31.0	+ 4.5
pension expenses	500.4	480.9	+ 19.5	+ 4.1
Public sector (taxes)	818.9	1,691.4	– 872.5	– 51.6
Shareholders (dividends)*)	841.6	804.0	+ 37.6	+ 4.7
Company (retained earnings)	1,016.4	391.4	+ 625.0	+159.7

*) Including distributions to minority shareholders of subsidiaries.

Creation and utilisation of value added in the Dresdner Bank Group

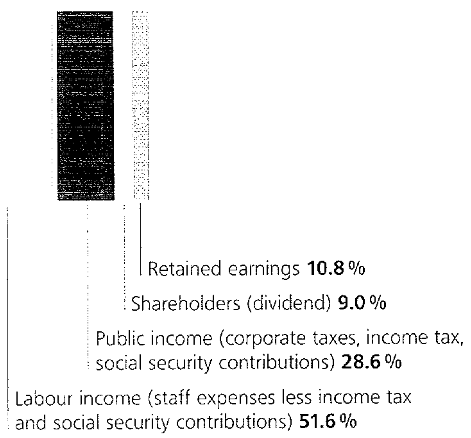
Taking into account aggregate income as set out above, less expenses (excluding staff expenses and tax charges), we determined the value added by the Dresdner Bank Group. From an economic point of view, this is defined as the contribution of our Group to national income.

The appropriation of value added to various social groups is provided in the utilisation breakdown.

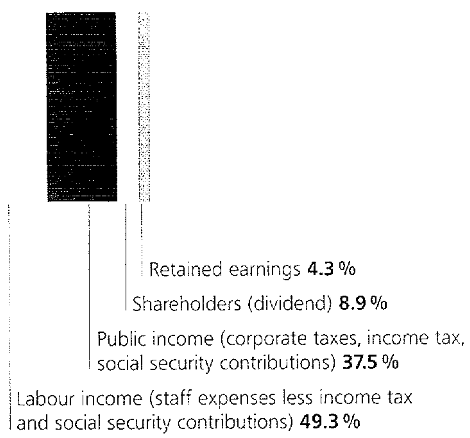
Value added in 1998 increased by DM 386 million, or 4.3 %, to DM 9,409 million.

Of this amount, DM 4,857 million (52 %) was used for labour income (employees) and DM 2,694 million (29 %) for public income (taxes and other charges). The shareholder value created amounted to just under DM 1.9 billion, or 20 % of total added value created, consisting of DM 842 million (9 %) in terms of dividends distributed and DM 1,016 million (11 %) by way of retained earnings.

Utilisation of value added in 1998



Utilisation of value added in 1997



Balance sheet developments

Consolidated total assets increased by DM 42.9 billion, or 6.4 %, to DM 714.8 billion in 1998. This increase is mainly due to a DM 30.6 billion increase in claims on customers. Trading activities contributed DM 11.0 billion to the increase in consolidated total assets. This growth in volume was predominantly refinanced by a DM 26.6 billion increase in the issuance of certificated liabilities.

Lending volume

In 1998 our lending volume reported after deduction of loan loss provisions grew by DM 30.8 billion to DM 388.2 billion. With an increase of DM 26.1 billion, customer lending contributed significantly to this development. Lending to banks increased by DM 4.7 billion. Main contributors were mortgage loans and communal loans, which accounted for almost two thirds of the growth.

Three quarters of our lending volume of DM 388.2 billion are related to domestic borrowers. We achieved the highest growth in lending to private customers (DM 10.6 billion) and corporate customers (DM 10.3 billion). Claims on public-sector borrowers increased by DM 7.3 billion.

Lending volume	1998 DM mn	1997 DM mn	Change DM mn	Change %
Loans extended on bills not shown under claims	3,939	6,074	– 2,135	– 35.1
Claims on customers *)	337,806	309,575	+ 28,231	+ 9.1
– Mortgage loans	91,181	82,675	+ 8,506	+ 10.3
– Communal loans	75,553	65,726	+ 9,827	+ 15.0
– Other loans	171,072	161,174	+ 9,898	+ 6.1
– Loans with a residual term of less than 5 years	*181,628*	*172,561*	*+ 9,067*	*+ 5.3*
– Loans with a residual term of more than 5 years	*156,178*	*137,014*	*+ 19,164*	*+ 14.0*
Customer lending *)	341,745	315,649	+ 26,096	+ 8.3
Loans to banks	46,473	41,811	+ 4,662	+ 11.2
– Mortgage loans	34	16	+ 18	+ 112.5
– Communal loans	25,049	24,030	+ 1,019	+ 4.2
– Other loans	21,390	17,765	+ 3,625	+ 20.4
Total lending volume *)	388,218	357,460	+ 30,758	+ 8.6

*) Excluding money market business backed by securities (reverse repos).

Trading in financial derivatives continued to expand in 1998. In addition to trading, derivatives are being used to hedge on-balance sheet risks.

The following table provides a breakdown of nominal amounts by market segment.

Type of instrument DM mn	Nominal amount/Residual term <= 1 y.	> 1–5 y.	> 5 y.	Total	Counter-party risk
Interest rate-related	478,144	730,247	426,467	1,634,858	33,844
Currency-related	454,637	63,719	35,233	553,589	11,897
Equity/index-related	46,842	13,972	851	61,665	2,068
Other transactions	6,163	7,763	2,717	16,643	371
Total	985,786	815,701	465,268	2,266,755	48,180

Trading assets and liabilities

The consolidated balance sheet reflects the trading activities of the Dresdner Bank Group under trading assets and trading liabilities, comprising trading positions in securities, derivatives and other tradable instruments managed by our trading units. Trading assets have increased by DM 11.0 billion to DM 113.8 billion, predominantly as a result of higher securities positions. Trading liabilities, which consist mainly of short-term refinancing and negative market values for derivatives, have increased by DM 11.7 billion to DM 54.1 billion.

Customer demand for all types of financial derivatives is steadily increasing. In addition to our customer business in derivatives, we use these instruments – in line with standard international practice – to hedge on-balance sheet risks and to take advantage of identifiable arbitrage opportunities in financial markets.

The total volume of outstanding derivatives contracts at the 1998 year-end was DM 2,267 billion, up 15 % on the previous year. At DM 1,635 billion, the focus remained on interest rate instruments, predominantly interest rate swaps, followed by currency-related contracts amounting to DM 554 billion.

The volume of equity and index instruments also continued to grow.

Non-trading investments

DM mn	Book value 1998	Book value 1997	Market value 1998	Market value 1997	Revaluation reserve 1998	Revaluation reserve 1997
Debt and other fixed-income securities	35,774	41,621	37,126	42,485	1,352	864
Equities and other non-fixed-income securities	10,615	9,142	17,779	15,215	7,164	6,073
Investments in non-affiliated enterprises	8,056	8,010	24,083	20,489	16,027	12,479
Investments in non-consolidated affiliated enterprises	113	104	113	104		
Non-trading investments	54,558	58,877	79,101	78,293	24,543	19,416

The DM 4.3 billion reduction in book value of non-trading investments, to DM 54.6 billion, was mainly due to reduced holdings of debt and other fixed-income securities (down DM 5.8 billion to DM 35.8 billion), whereas holdings of shares were increased by DM 1.5 billion, to DM 10.6 billion.

Revaluation reserves on non-trading investments grew by DM 5 billion to just under DM 25 billion despite the turmoil in international financial markets and realisations carried out in the course of 1998.

At the 1998 year-end, the market value of the entire non-bank shareholdings of the Dresdner Bank Group amounted to more than DM 30 billion. The accompanying table provides an overview of major shareholdings.

Company	Percentage of capital held %	Market value DM mn
Bilfinger + Berger Bauaktiengesellschaft, Mannheim	25.1	334.4
Heidelberger Zement Aktiengesellschaft, Heidelberg	20.8	1,293.8
Metallgesellschaft AG, Frankfurt/Main	13.5	497.4
Buderus AG, Wetzlar	11.4	178.4
Allianz Aktiengesellschaft, Berlin/Munich	10.0	15,184.7
Dyckerhoff AG, Wiesbaden	10.0	143.3
Karstadt AG, Essen	10.0	732.5
Münchener Rückversicherungs-Gesellschaft AG, Munich	9.3	6,590.5
Continental AG, Hanover	5.3	282.9
AMB Aachener und Münchener Beteiligungs-AG, Aachen	5.1	555.5
Bayerische Motorenwerke AG, Munich	5.0	1,625.5

Deposits and certificated liabilities

	1998	1997	Change	
	DM mn	DM mn	DM mn	%
Liabilities to banks	154,800	158,165	– 3,365	– 2.1
Liabilities to customers	261,682	252,531	+ 9,151	+ 3.6
Certificated liabilities	183,613	156,967	+ 26,646	+ 17.0
Deposits and certificated liabilities	600,095	567,663	+ 32,432	+ 5.7
incl. Repo transactions	67,049	50,089	+ 16,960	+ 33.9

Deposits and certificated liabilities, which include liabilities to customers and banks as well as certificated liabilities, increased by DM 32.4 billion to DM 600.1 billion. The increase in deposits and certificated liabilities was primarily due to the DM 26.6 billion increase in certificated liabilities, to DM 183.6 billion, with 50 % of this growth in public mortgage bonds issued by our mortgage bank subsidiary.

DM 416.5 billion of customer and bank deposits include DM 67.0 billion of repo transactions, up significantly by DM 17.0 billion predominantly attributable to customer deposits.

The registered mortgage bonds issued by the mortgage bank, which are included under customer deposits, grew by DM 8.4 billion to DM 37.7 billion. Customer deposits payable on demand also grew, whereas both time deposits and savings deposits decreased. Bank deposits also decreased slightly, with the decline divided in almost equal proportions between demand deposits and time deposits.

Capital and reserves

Capital and reserves of the Dresdner Bank Group amount to DM 20.0 billion. The DM 0.4 billion increase on the previous year was mainly due to the exercise of option rights to purchase shares of Dresdner Bank AG and net income transferred to earnings reserves.

The core capital for regulatory purposes stands at DM 20.8 billion. Total capital for regulatory purposes amounts to DM 36.6 billion, including DM 8.8 billion of subordinated liabilities, DM 3.8 billion of profit-participation rights and revaluation reserves in the amount of DM 4.2 billion. The total capital ratio according to the German Banking Act is 10.6 %, and the core capital ratio is 6.0 %. The recommended capital backing according to the Bank for International Settlements, which also provides for a minimum capital ratio of 8 %, is clearly exceeded at 11.7 %.

Segment reporting

The Group's operations are managed by divisions.

The Investment Banking division comprises the business lines Global Corporate Finance, Global Equities, Global Markets and Global Finance. The latter constitutes a link to the Corporate Customer Business division, particularly through project and structured financing, syndicated loans and asset-backed transactions. Here we provide our customers with the entire product range of a universal bank.

In addition to traditional securities business, lending and deposit taking, the Private Customer Business division covers home-loan savings business as well as the distribution of life-insurance products and credit cards. In Private Customer Business as well as in Corporate Customer Business, we respond to the varying requirements of our customers by means of corresponding service concepts oriented towards our customers' needs.

The Institutional Asset Management division is responsible for the administration and management of assets with which our Group has been entrusted.

		Investment Banking		Institutional Asset Management		Corporate Customer Business		Private Customer Business		Corporate Items		Total Dresdner Bank Group	
		1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997
Pre-tax profit	DM mn	1,013.0	1,151.4	349.7	339.3	628.8	781.9	669.2	622.5	– 44.8	– 88.0	2,615.9	2,807.1
Equity*)	DM bn	6.1	6.3	–	–	7.5	6.8	5.5	5.2	1.5	1.3	20.6	19.6
Return on Equity	%	16.7	18.4	–	–	8.3	11.5	12.2	12.0	–	–	12.7	14.3

*) As at 31 December according to the balance sheet without amounts to be distributed.

The Group's pre-tax profit is almost entirely attributable to the four operative divisions. (A detailed description is provided in the Notes to the Consolidated Financial Statements, note 12, page 72 f.).

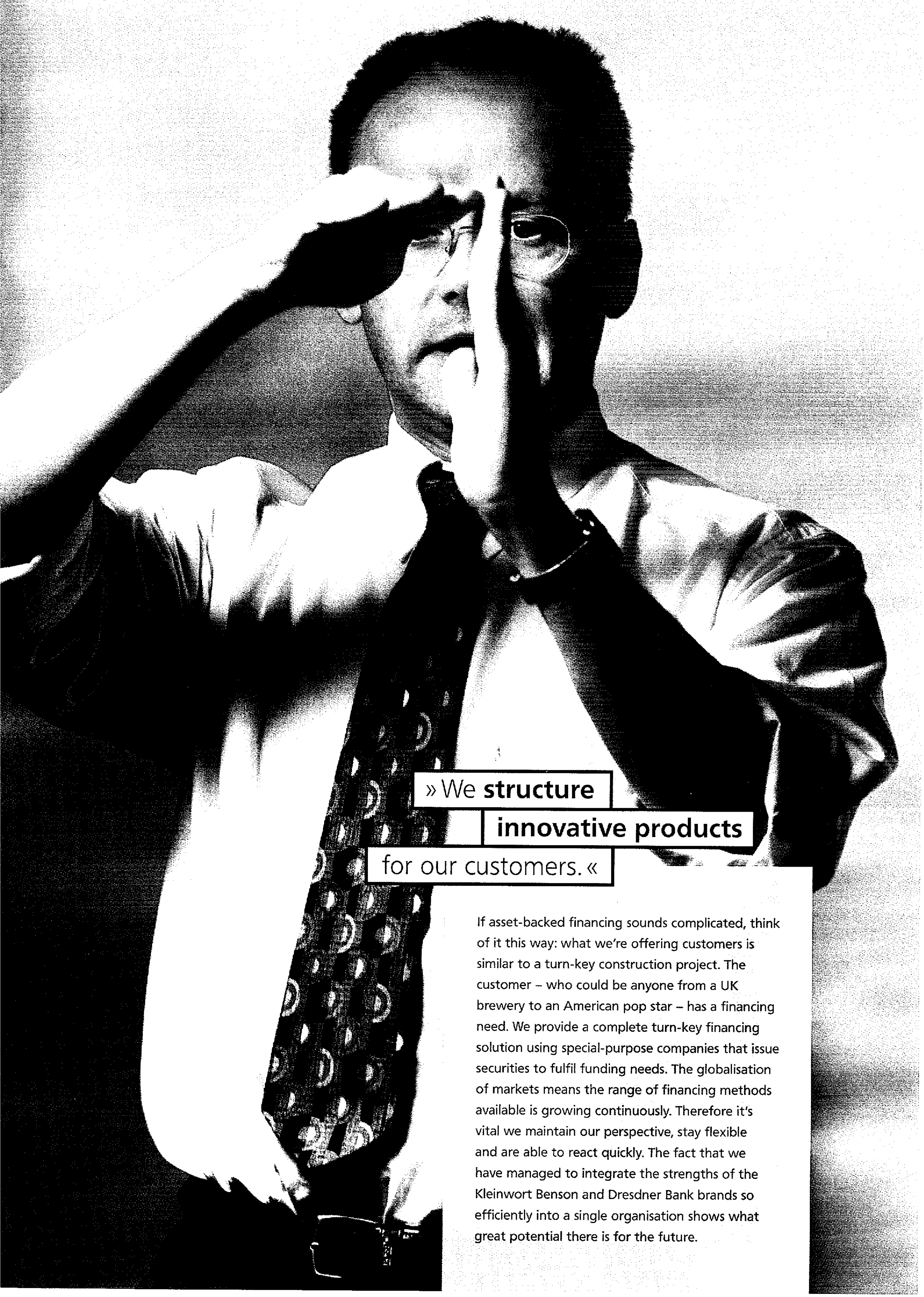
With the amount of DM 1 billion the Investment Banking division, despite experiencing a slight decline, continued to contribute the largest amount to the Group's pre-tax profit. The loss of earnings caused by market turbulence was limited by a markedly improved result of the Global Finance business line. In addition, investment in business expansion and restructuring had a negative effect.

Our Institutional Asset Management division continues to achieve steady growth figures.

Despite pleasing earnings growth, which clearly exceeded the increase in costs, the results of the Corporate Customer Business division declined due to increased need for debt provisioning. In particular, provisions for credit risk in the New Federal States as well as for country risks had a negative effect.

Higher earnings in our Private Customer Business division exceeded both additional loan loss provisions required and the increase in costs, which was moderate despite the development of new distribution channels.

The division Corporate Items comprises those items that cannot be attributed to the four business divisions, such as the results of investments held for the liquidity reserve and of shareholdings as well as traditional transfer risks within the context of country risk provisioning. In addition, general expenses for Group functions and cross-divisional projects are captured under this heading.



» We **structure** **innovative products** for our customers. «

If asset-backed financing sounds complicated, think of it this way: what we're offering customers is similar to a turn-key construction project. The customer – who could be anyone from a UK brewery to an American pop star – has a financing need. We provide a complete turn-key financing solution using special-purpose companies that issue securities to fulfil funding needs. The globalisation of markets means the range of financing methods available is growing continuously. Therefore it's vital we maintain our perspective, stay flexible and are able to react quickly. The fact that we have managed to integrate the strengths of the Kleinwort Benson and Dresdner Bank brands so efficiently into a single organisation shows what great potential there is for the future.

Risk management

Organisation of risk management

Success in banking depends on the conscious and controlled taking and managing of financial risks.

Risk management comprises the identification, measurement, monitoring and management of risks. As a fundamental structural principle, Dresdner Bank has created a two-tier system of risk management, with a clear distinction between risk management and risk controlling. Thus an independent controlling function is guaranteed.

The consistent definition of areas of responsibility also ensures that the quality standards set out by regulatory authorities in the context of the Minimum Requirements for the Trading Activities of Credit Institutions are adhered to throughout the Group. On 1 May 1998, the Law on Corporate Governance and Transparency (KonTraG) came into force. Among other things, the new legislation requires the Board of Managing Directors of public limited companies to take appropriate measures, in particular to establish a monitoring system to record financial risks, so that any developments which might threaten the existence of the company are recognised at an early stage. Banks had already been subject to requirements for independent risk controlling, along the lines of the KonTraG, in accordance with legal provisions and regulatory guidelines for some time. These guidelines had of course already been implemented in the Dresdner Bank Group.

In uniting its risk controlling activities for market, counterparty and operational risk in a separate Risk Control unit, Dresdner Bank recognises the growing challenges for risk management. This is also a response to the increasingly complex interdependencies between different types of risk.

We differentiate between counterparty risk, country risk, market risk, liquidity risk and operational risk.

Counterparty risk

The professional management of counterparty risks, both in terms of individual counterparties and on a Group total portfolio level, has always been of particular importance to us. Depending on the size of the exposure and credit quality, these risks are analysed and decided upon either regionally or at Head Office. The analysis of sector and country risks for the Group is carried out exclusively at Head Office. This process covers all bank products that are subject to counterparty risk: loans, securities and derivatives.

In order to minimise counterparty risks, transactions are increasingly entered into on the basis of comprehensive, cross-product master agreements with our counterparties, which provide for the mutual set-off of claims, even across different types of product (so called "netting"). In addition, we utilise these agreements to a growing extent to reduce the cost of capital employed and the utilisation of counterparty limits.

The scope of risk management always takes into account the total exposure to any borrower. If the borrower is part of a group, we, of course, take into account the creditworthiness of and our exposure to the group as a whole.

Operationally, our risk management is based on three elements. In addition to the approval of individual loans, the loan portfolio is regularly screened at both branch and Head Office level. In addition, Head Office carries out Group-wide internal audits. In addition a "Risk Report" compiled on a monthly basis highlights the risk structures and changes by branch and areas of distribution. Specific loan agreements related to project, shipping or real-estate financing are drafted by specialists involved in the complex structuring process of such finance agreements. Experienced credit staff with specialist know-how are assigned worldwide to closely monitor loans at risk as well as those for which rescheduling arrangements have become necessary.

We have developed a set of tools for the efficient evaluation of risks. In corporate lending, we have developed a computer-based corporate customer rating system, based on computerised balance sheet analysis, which utilises credit quality scoring to allow us to classify corporates according to credit risk. This corporate customer rating system is supported by industry or sector ratings. Adverse economic influences on any particular sector are recognised and pinpointed quickly, triggering an immediate and detailed review of the Bank's lending exposure in that sector. We have also introduced ratings for our international corporate and banking customers, taking into account the relevant local factors in addition to the usual individual credit quality criteria.

Our assessment of country risk is based on a country-rating system with a proven track record over many years, which combines both quantitative and qualitative factors for a more detailed analysis.

The various methods of credit quality classification combined with sophisticated IT-applications allow for a timely and up-to-date analysis of our portfolio of counterparty risks. The management of individual risks is complemented by portfolio transparency and inherent portfolio management instruments, such as the "Risk Report" or the "Country Risk Framework" used to limit transfer risks across all business lines.

Counterparty risk in trading activities is managed along the lines of traditional lending business, on the basis of a credit approval process and utilising credit limits and monitoring systems. The credit approval process includes an assessment of the credit quality of each business partner as well as an evaluation on whether the scope of business planned is appropriate.

The credit equivalent values for trading activities are calculated on the basis of current market value, taking into account additional factors to measure future market price fluctuation dependent on the product and remaining lifetime ("potential exposure"). In order to reduce risks, the Dresdner Bank Group has entered into netting agreements with a number of counterparties. In addition, where this is deemed necessary, collateral is provided by the counterparty to reduce the risk.

In keeping with internationally accepted practice we publish the replacement cost of transactions in the event of potential counterparty default. At the end of 1998, the gross total counterparty risk for all outstanding derivative transactions (positive market value), calculated on a mark-to-market basis, amounted to DM 48.2 billion (excluding any netting agreements).

Type of counterparty	Counterparty risk	
DM mn	31 Dec 1998	31 Dec 1997
OECD governments	1,343	621
OECD banks	39,417	23,803
Other OECD financial institutions	3,591	2,924
Other enterprises and private individuals	3,034	2,932
Non-OECD governments	4	1,082
Non-OECD banks	627	960
Other non-OECD financial institutions	164	37
Total	48,180	32,359

The DM 15.8 billion increase on the previous year was due to growing business volumes, but also to changed market parameters, with the impact of falling interest rates being particularly strong. Counterparty risk is reduced by DM 18.9 billion when recognised netting agreements are included ("netting effect"). This compares with a credit equivalent value for derivatives of DM 12.4 billion according to the regulatory Principle I (amended) of the German Banking Act. Since the coming into force of the 6th amendment to the German Banking Act on 1 October 1998, credit equivalent values are determined on the basis of market value, as a result of which comparisons to the previous year's credit equivalent values are impossible.

The share of transactions entered into with OECD banks and financial institutions has grown from more than 80 % in 1997 to approximately 90 % in 1998.

Market risk in trading activities

Market risk is defined as the fluctuation in value of the trading portfolio as a result of changes in market prices and parameters. Market risks in the trading portfolios of the Dresdner Bank Group are measured using the value-at-risk method. Value-at-risk is defined as the potential loss which may occur during the following day (or during another period of time), based on assumptions regarding the fluctuation of market prices such as share prices or interest rates. Our internal "Dresdner Bank Value-at-Risk Model" was audited by the Federal Banking Supervisory Authority in 1998 and approved for the reporting required under Principle I (amended), which came into force with the 6th amendment to the German Banking Act, and for the purposes of reporting in accordance with the Basle Accord on market risk. We have taken this as evidence for the quality of our risk management and controlling instruments.

We recognise the varying risk characteristics of different Group portfolios by way of differentiated risk approaches. Value-at-risk is used for our global trading units managing more than 90 % of trading risks within the Dresdner Bank Group, on the basis of complex risk structures. The risks incurred by smaller trading units with lower trading volumes are measured applying standard procedures.

As a prerequisite for approval of the value-at-risk method, certain minimum qualitative and quantitative standards laid down by the regulatory authorities must be complied with. The qualitative requirements include the integration of the value-at-risk concept into the risk management process. The Dresdner Bank Group has been using value-at-risk as the basis for trading limits for some time. The quantitative requirements include statistical parameters measuring risks on the basis of market fluctuation. For instance, value-at-risk data used to calculate the capital backing required for regulatory purposes must take into account the potential market volatility within a confidence level of 99 %, based on an assumed holding period of 10 trading days. For this purpose, market volatility must be calculated using data for the previous 250 days. Some 1,200 risk elements are being monitored, with market parameters updated on a daily basis, to cover market risks in trading.

We have established a global system to consistently track and analyse market risks in trading and non-trading activities. This platform comprises a data warehouse and analytic instruments to calculate value-at-risk data, conduct stress testing and determine limit parameters. This ensures the efficient implementation of global standards and the application of a uniform approach across the Dresdner Bank Group. The system therefore serves as a data pool for management reporting purposes, and as a platform for comprehensive analyses, such as back testing to validate the quality of the internal model used.

At the year-end 1998 the value-at-risk of our trading activities amounted to DM 207 million (1997: DM 252 million). Value-at-risk is categorised into interest rate risks, currency risks (including commodities), equity and index risks. The internal model captures risks taking into account diversification and hedging effects between the various risk factors and portfolios. In view of market turmoil, portfolios were realigned, with higher weighting of standard markets. The higher correlation between these markets, which is important for hedging purposes, led to a significant reduction in the risk position and overall risk in comparison with the year-end 1997.

In parallel to the regulatory requirements regarding the measurement of risks, within the framework of its trading limits, the Dresdner Bank Group also calculates daily value-at-risk data for its global trading portfolio, using internal parameters (95 % confidence level, one-day holding period). The results are submitted to the Board of Managing Directors for the purposes of managing the risks of the Group on an overall level.

On a Dresdner Bank Group level, no daily loss actually incurred exceeded the risk quantified on the previous day. The maximum loss on any single trading day amounted to DM 48 million. The Group value-at-risk measured for this day by the internal model (95 % confidence level, one-day holding period) amounted to DM 56 million.

The limitation of risk within Dresdner Bank Group is not exclusively based on value-at-risk. It aggregates risks to a single figure and therefore facilitates the comparability of different areas. Although this figure is very important, we are aware of its inherent constraints. The assessment of positions as part of daily risk management cannot be based on a single figure alone. To support the operational management of our business we have therefore introduced a series of additional key parameters and limits in addition to value-at-risk limits.

The emerging markets crisis and the Russian moratorium have forced the entire banking industry to re-examine the management adequacy of existing parameters and indicators. In 1998, the Task Force on Risk Assessment of the Institute of International Finance (IIF) also dealt with proposals on refining risk measurement procedures during 1998. Dresdner Bank Group was involved in this initiative.

The Asian crisis could not necessarily be anticipated in terms of its dimension and systemic risks. Also the extent of defaults by creditors whose credit quality was originally good could not have been predicted. However, the Asian crisis prompted us – like many other institutions – to address improvements and in particular the increased networking of risk management systems. Of course, further action is necessary, and this is not restricted to the financial services industry. Politicians also face the challenge of joining the private sector in the creation of a framework which provides an efficient risk management structure with more transparency and more comprehensive documentation.

The relationship between market volatility and the quality of loans must be made transparent. One of the issues highlighted by the Asian crisis is the fact that we are increasingly facing a crossover effect of market and counterparty risks. Credit spread volatilities must also be integrated as additional risk elements in our overall view of risk. At that point, however, value-at-risk is no longer restricted to an isolated view of market risk, but also embraces counterparty risk components. The current discussion about adequate counterparty risk measurement is inspired by methods used in the measurement of market risks.

Market risk in commercial business

The non-trading portfolio of the Dresdner Bank Group comprises all loans and deposits in commercial banking, the Bank's own issues as well as securities held for investment purposes or in the liquidity portfolio. Most of the market risk of these positions is related to interest rate risk, primarily as a result of granting long-term fixed-rate loans, which are partly funded by short-term deposits. Additional interest rate risks arise from securities held for investment purposes or in the liquidity portfolio.

Dresdner Bank has established a Treasury Committee, which is responsible for the analysis and management of interest rate risks in commercial banking activities. The activities of the Treasury Committee are bound by limits. Risk controlling monitors compliance with risk limits in commercial business on a daily basis.

To quantify interest rate risk, maturity mismatches are aggregated by comparing fixed-rate positions on the asset and liability side in a maturity balance sheet. In analogy to the trading portfolio, risks resulting from maturity mismatches are calculated as value-at-risk. According to the market parameters described above, value-at-risk as at 31 December 1998, for a confidence level of 99% and a ten-day holding period, amounted to DM 90 million (1997: DM 145 million).

Naturally, the bank is subject to currency risk on all loans and deposits denominated in foreign currency. It is a general business policy in commercial banking that all loans and deposits in foreign currency are funded and re-invested in the same currency and with matching maturities. The residual risk pertaining to currency fluctuations is concentrated in foreign exchange trading and therefore transferred into the currency risks of trading activities.

Liquidity risk

The requirements laid down by the Federal Banking Supervisory Authority form the external framework for the liquidity management of our bank. Our Treasury actively manages liquidity and thus ensures compliance with the corresponding regulatory requirements.

Liquidity risks for the bank as a whole are analysed and managed at Head Office. Professional liquidity planning and management conducted by our Treasury involves the identification of interest rate and maturity mismatches on the basis of liquidity balance sheets and cash flow forecasts. For these purposes we use a liquidity management and information system that integrates the various organisational units within the Dresdner Bank Group and thus enables analyses of the liquidity situation.

Operational risks

Like any company, the Dresdner Bank Group is also subject to operational risks. Causes for such risks include systems or communication failures, technical errors in bookings or human error. Controls have been implemented across all levels to contain these risks as much as possible. Trading units are clearly separated from back office operations, and manual work is supported or replaced by IT systems wherever possible. Another level of protection is provided by the multiple redundancy of EDP equipment, allowing the continuation of business activities in the event of failure.

In our business we must constantly act upon changing market circumstances by developing new products and distribution channels. The speed of this on-going development raises the issue of time delays required for the adaptation or development of the necessary infrastructure. Our new Risk Control division will therefore also be monitoring the infrastructural adequacy with respect to our activities.

German Remembrance Fund

Dresdner Bank is one of many other German, and indeed other foreign, companies, which have been sued in the United States for activities during the Nazi regime. Some time before these actions were brought, Dresdner Bank, in recognition of its historical responsibility, had already asked the Hannah-Arendt-Institut für Totalitarismusforschung e.V. at the University of Dresden to conduct independent scientific research into the history of the predecessor of today's Dresdner Bank during the period of Nazi rule. Published in December 1998, an initial report on the bank's gold trading activities during World War II has quantified the bank's involvement in gold transactions under dispute, including their repercussions for the post-war era. Dresdner Bank is a founder member of the German Remembrance Fund which has been established in answer to the moral responsibility of German enterprises for the atrocities committed during the Nazi regime, and to support humanitarian and future-oriented projects. The German government also supports this Fund. The prerequisite for the establishment of this fund will be a satisfactory settlement of the pending legal issues.

Outlook

The economic weakness at the turn of the year 1998/1999 negatively affected economic perspectives. The German economy cannot be expected to grow by more than 2 % in 1999. Growth for the Euroland countries should be somewhat stronger, with a rate of approximately 2½ %. The sluggish development of world trade continues to depress the outlook for exports. Thus, German exports will probably show only a slight improvement in 1999.

For the domestic economy, however, the perspectives are somewhat more positive. Collapsing commodity prices have presented consumers with a significant increase in purchasing power. Consumer demand is likely to gain further momentum during the course of 1999. In contrast, due to world economic risk and uncertainty regarding economic policy, the growth rates forecast for capital expenditure in equipment are only moderate. In this environment, progress in the labour market is likely to be slow.

The increase in prices in 1999 is expected to be modest, similarly to 1998. For this reason, we believe that particularly low interest rate levels will continue to prevail. However, some upward pressure on interest rates might come from the robust state of the U.S. economy.

The business environment for banks in 1999 will again be characterised by increasing competition, rapid progress in technological developments, globalisation as well as increasingly sophisticated customers. The introduction of the Euro currency should accelerate these developments so that across the entire spectrum, no relief can be expected. The level of margins, as well as prices in general, will continue to remain under pressure. We are responding to these challenges by continuing on our chosen path of concentrating on the needs of the various customer groups, combined with a highly competitive product range.

We continue to pursue our goal of business partnerships in order to strengthen the position of our bank. This includes being present across the major Euroland economies. In addition, we want to strengthen our Investment Banking activities in the United States.

Since we wish to place increased emphasis on advisory services and product distribution, it should be possible to further increase our commission income and come even closer to the amount of our interest income.

We do not expect our activities on the international money and capital markets to be influenced by declining markets. The implementation of our new Investment Banking structures and the centralisation of risk management are expected to keep an even tighter control on trading risks. With a backdrop of calmer emerging markets, we expect a significant improvement in our trading profits over 1998.

We will contain increases in administrative expenses through strict cost management. With the exception of investments in the sector of information technology, which is an increasingly important factor for success, the phase of future-oriented investments in business expansion connected with the restructuring within our business fields has been completed. Our goal is, therefore, to achieve an appreciable improvement of our cost/income ratio.

We will continue our policy of applying unrealised reserves in our non-bank shareholdings for strategic purposes.

After the high loan loss provisions for last year, we expect a significant improvement in the situation.

Commercial banking business is expected to benefit from a significant reduction in insolvencies across the European market. Nevertheless certain unforeseen developments cannot be excluded. In particular, we expect high default risks in the New Federal States. In order to keep risks at a reasonable level, our exposure to this area is already subject to very close monitoring, both regarding individual risks and the overall portfolio. Measures are being taken on the basis of our proven credit quality classification concept for individual loans and loan portfolios to contain unexpected and rapid deterioration of credit risks at source. Our focus regarding country and transfer risks remains on Southeast Asia. Although there are no signs for relief in Indonesia, we consider that South Korea and Thailand are on the road to recovery. Therefore, we consider our provisions for the future development of this region to be adequate, whilst events in Russia and Latin America will continue to require our close attention.

In summary, we believe that we are well equipped to successfully rise to the growing competitive challenges associated with the rapid structural changes, particularly in the European banking community.

» High tech for **high benefits.**
Our customers expect
state-of-the-art services. «

Already, more than half of all Advance Bank payments are carried out through the Internet. This means our customers have convenient access to services, whatever the time or place – you certainly can't describe it as "second-class" banking. Advising customers interactively through the Internet plays an increasingly important role. In this area, Advance Bank is at the cutting edge, setting the standards for others to follow. For proof, look no further than our "two channel customer service" for home-loan financing, where the Internet and the telephone work in parallel. All things considered, it's not a case of "man against machines", but "machines working for man". New media and innovative technologies are critical success factors in customer service. However, it is people that make the ultimate difference if you want to gain the competitive edge.

Dresdner Bank Employees

Best people for top business

Our ability to achieve outstanding results for our customers depends on the skills, determination to perform and willingness to change of our employees. Their commitment is the best guarantee for the successful future of our bank. Finding the best people for each task, training them and retaining them for Dresdner Bank over the long term is the critical mission of our Human Resources professionals.

Dresdner Bank vocational training

In 1998 a total of 1,400 school leavers, 6 % more than the previous year, started their vocational training with the Dresdner Bank Group. As many as 1,300 of them started in Dresdner Bank AG, where the **training ratio** (ratio of apprentices to total bank employees in the AG) continued at a traditionally high level of **8.9 %**, which also compares favourably with the banking industry as a whole.

Recent changes in the rules for vocational training in banking in Germany only confirmed what had long been common practice for us. From the very outset our training focuses on **providing service in a market and customer-driven environment**. This means learning to recognise customer needs, sell products, acquire new customers and build long-term business relationships. In addition, we emphasise acquiring competence in work methods and social skills. Communications and teamwork, creativity and flexibility plus the willingness to regard learning as a life-long activity are the habits of mind we expect of our employees.

Graduate trainees

The growth in all our lines of business has led to a **considerable increase in the demand** for university graduates. As a result we have stepped up our efforts to recruit graduates both at home and abroad and were able to attract more than 300 graduates for Dresdner Bank in 1998, of whom 136 are taking part in a targeted professional qualification programme which will prepare them for their initial challenges in advising private or corporate customers. An additional 200 entered the IT or investment banking areas directly.

Management training and on-the-job training

Changing markets and more intense competition pose new challenges for our executives and staff. **Willingness to change** has become a **core competence** which we encourage through targeted training and coaching measures. In this connection we attach particular importance to our concept of management and team coaching. We have acted on the results of the first bank-wide employee survey by establishing in-house management consultancy services.

We have speeded up the implementation of networked PC-based training workstations to emphasise the importance of independent learning. We are also introducing Intranet-based training and the concept of tele-tutoring throughout the entire bank. We are continuously broadening our range of multimedia PC-based training programmes.

Long Term Incentive Plan/ Employee Share Scheme

Following the approval of the 1998 Annual General Meeting, we offered, for the first time, a Long Term Incentive Plan to some 300 key executives throughout the Dresdner Bank Group. Participants were able to purchase convertible bonds which are blocked for an initial three-year period. If, during this qualifying period, the Dresdner Bank share price outperforms the benchmark Dow Jones STOXX Bank Index – comprising more than 50 banks across 16 European countries – eligible holders can convert these bonds into Dresdner Bank shares. The primary goal of the Long Term Incentive Plan is to increase our executives' focus on the **long-term creation of shareholder value**.

Furthermore, we wish to increase employee awareness of the importance of our share price. Following the extraordinarily strong response by Dresdner Bank staff to the Employee Share Scheme in the anniversary year 1997, we have developed a new, updated concept including the granting of call options initially for the next three years. This new programme which we are introducing in 1999 is targeted at our staff across the Dresdner Bank Group.

Employee Survey 1998

In the spring of 1998, we for the first time invited all of the bank's employees in Germany to respond to questions related to all aspects of their employment. Almost 70% of our personnel returned their questionnaires – a **very good response rate** for this type of survey. Close to 10,000 members of staff added personal comments beyond the replies to standardised questions. Both facts demonstrate the clear willingness of our staff to divulge their knowledge and experience for the benefit of Dresdner Bank's development.

The results of the survey form a **complex picture of the strengths and weaknesses** of our bank from our employees' perspective and express a clear need for action as shown by the numerous concrete proposals for improvement. The results are being followed up within a communication process comprising team meetings and workshops at all levels and in all parts of the business.

We have already launched numerous intiatives for making improvements. This process will be a major catalyst for forthcoming changes throughout the bank.

We plan to conduct employee surveys at regular intervals in the future.

Facts and figures on Dresdner Bank's employees

On 31 December 1998 the Dresdner Bank Group employed 48,950 personnel, up 5% over 1997 (46,580). More than 8,200 members of staff work outside Germany; an increase of more than 13% over the previous year. This underlines the **growing importance of our international activities**.

At the year-end 1998, 34,720 staff were employed by Dresdner Bank AG, 3% more than the previous year. In Germany we have **increased** the number of staff dedicated to **customer service and advice**. We have also reinforced selected strategic areas, such as risk controlling, in addition to intensifying our investment in the sectors of information and communication technology.

Thanks and acknowledgements

The success of the bank depends on the motivation and individual commitment demonstrated by all our personnel. We would like to take this opportunity to express both our thanks and acknowledgements for their contribution.

In 1998 we again consulted and discussed relevant issues in detail with our employee representatives. Our thanks for the constructive and trusting co-operation, which contributed to the success of our bank, go to the members of the employees' councils and the executives' representative committees across all levels of the Group.

Report of the Supervisory Board

The Supervisory Board has performed all duties incumbent upon it under applicable statutes and the Articles of the bank and has constantly monitored the management of the bank. The Supervisory Board has been kept informed regularly, in writing and verbally, by the Board of Managing Directors on the business policies contemplated by that body on fundamental issues regarding the future management of the bank, the position and development of the bank and the Group, as well as on significant business events, and has conferred with the Board of Managing Directors on these matters.

In 1998, the Supervisory Board met on 20 February, 24 March, 15 May (constituent meeting), 14 September and 26 November. At its four regular meetings, the Supervisory Board was informed by the Board of Managing Directors about business developments, major lending commitments and corporate holdings, as well as about other matters of fundamental importance to the Group. Regular reports were also given on the extent to which the bank had utilised the risk exposure limits for trading and investment activities. In the meeting on 14 September 1998, the Board of Managing Directors explained in detail the new Group Risk Framework, which is based on the value-at-risk concept, to the Supervisory Board. In affairs dealt with by the Supervisory Board last year, discussions centred on the business policy of the bank, including its strategic positioning, the changes within the national and international competitive environment, the preparations for European Monetary Union, and the impact of the crises in the emerging markets on the bank. The Supervisory Board concerned itself in detail with the implementation of the Law on Corporate Supervision and Transparency within the bank and with the current state of the bank's risk controlling procedures.

The Supervisory Board has formed the following committees: the Executive Committee, the Credit Committee, the Operations Committee, the Accounts Committee and the Mediation Committee in accordance with Article 27 par. 3 of the Co-determination Act.

The Executive Committee of the Supervisory Board met on four occasions during the 1998 financial year to consider personnel matters concerning the Board of Managing Directors as well as to prepare specific items on the agenda for Supervisory Board meetings. The Credit Committee, in three meetings as well as through ongoing written consultation among the members, dealt with lending and business transactions falling within its area of responsibility. Additional subjects discussed with the Board of Managing Directors concerned the composition of the loan portfolio and risk management, with special attention devoted to dealings in derivative financial instruments and the control of the various risk components. The Operations Committee of the Supervisory Board met twice in the 1998 financial year to consider structural, organisational, social and other internal issues. The Accounts Committee met once to deal with the Annual Accounts and Consolidated Financial Statements as of 31 December 1998. No meeting of the Mediation Committee was required.

The Chairman of the Supervisory Board reported to the plenum on the work of the Supervisory Board Committees. In addition to the meetings held by the Supervisory Board and its Committees, the Chairman met regularly with the Board of Managing Directors and had numerous individual conversations with its Members, and particularly with the Chairman of the Board of Managing Directors on business policy issues, as well as on the position and development of the bank.

The Annual Accounts and the Management Report, as well as the Consolidated Financial Statements and the Group Management Report for the 1998 financial year, together with the accounting records, have been examined and certified without qualification by C & L Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, the auditors appointed by the Annual General Meeting.

The auditors who signed the Auditor's Report were also present at the meeting held by the Supervisory Board to examine the Annual Accounts of Dresdner Bank AG and the Consolidated Financial Statements, as well as at the preparatory meeting of the Accounts Committee of the Supervisory Board. They gave an account of their audit as a whole and on major individual items, and provided detailed answers to questions from the members of the Supervisory Board. The Supervisory Board duly noted and approved the Auditors' report. The final examination by the Supervisory Board of the Annual Accounts and Consolidated Financial Statements, the Management Report and the Group Management Report as of 31 December 1998, as presented by the Board of Managing Directors, as well as their proposal for the appropriation of the distributable profit gave no cause for objections. At its meeting on 8 April 1999, the Supervisory Board therefore approved the Annual Accounts and the Management Report. The Annual Accounts are thereby confirmed. The proposal of the Board of Managing Directors for the appropriation of the distributable profit is endorsed by the Supervisory Board.

The term of office of all Members of the Supervisory Board ended at the close of the Annual General Meeting on 15 May 1998. Within the course of this Annual General Meeting, the ten representatives of shareholders were elected to the Supervisory Board. Among these representatives, the following were elected to the Supervisory Board for the first time: Messrs. Meinhard Carstensen, Dr. Martin Frühauf, Dr. Edward G. Krubasik, Dr. Dietmar Kuhnt and Bernd Pischetsrieder. Of the employees' representatives to the Supervisory Board, the following were elected for the first time: Mrs. Claudia Eggert-Lehmann as well as Messrs. Bernhard Enseling, Manfred Karsten and Bernd Kriegeskorte. Dr. Alfons Titzrath was elected as Chairman of the Supervisory Board at the constituent meeting on 15 May 1998. Messrs. Karl Beusch, Dr. Friedhelm Gieske, Hans Graf von der Goltz, Prof. Dr. Dr. Wolfgang Hilger and Dr. Kurt Werner have ceased to be Members of the new Supervisory Board as shareholders' representatives. Ms. Marina Dauernheim, Messrs. Harald Bieler, Manfred Leonhard and Gunter Rose no longer hold the position of employee representative. We wish to express our thanks and appreciation for their constructive commitment over the course of many years of service.

In September, the Supervisory Board appointed Dr. Wolfgang Röller as Honorary Chairman of the Supervisory Board, honouring Dr. Röller's outstanding contribution to the bank.

The Supervisory Board appointed the previous Deputy Member Mr. Leonhard H. Fischer a full Member of the Board of Managing Directors with effect from 1 March 1999.

Frankfurt/Main, 8 April 1999

THE SUPERVISORY BOARD

A. Titzrath

Dr. Alfons Titzrath
Chairman

Consolidated Income Statement of the Dresdner Bank Group

Profit an loss account	Note	1998		1997	Change	
		EUR mn	DM mn	DM mn	DM mn	%
Interest and similar income	(4)	**15,375.3**	**30,071.5**	27,952.1	2,119.4	7.6
Interest and similar expenses	(4)	**11,541.3**	**22,572.9**	20,746.7	1,826.2	8.8
Net interest income	(4)	**3,834.0**	**7,498.6**	7,205.4	293.2	4.1
Net loan loss provisions	(5)	**1,117.3**	**2,185.2**	1,434.5	750.7	52.3
Net interest income after net loan loss provisions		**2,716.7**	**5,313.4**	5,770.9	– 457.5	– 7.9
Commissions received		**2,956.5**	**5,782.5**	5,124.5	658.0	12.8
Commissions paid		**119.2**	**233.2**	228.7	4.5	2.0
Net commission income	(6)	**2,837.3**	**5,549.3**	4,895.8	653.5	13.3
Trading profits	(7)	**743.3**	**1,453.7**	1,770.5	– 316.8	– 17.9
Administrative expenses	(8)	**5,892.4**	**11,524.6**	9,894.5	1,630.1	16.5
Other income	(9)	**1,414.9**	**2,767.3**	1,125.8	1,641.5	145.8
Other expenses	(10)	**482.3**	**943.2**	861.4	81.8	9.5
Pre-tax profit		**1,337.5**	**2,615.9**	**2,807.1**	**– 191.2**	**– 6.8**
Income taxes	(28)	**387.5**	**757.9**	1,611.7	– 853.8	– 53.0
Net income for the year		**950.0**	**1,858.0**	**1,195.4**	**662.6**	**55.4**

Appropriation of Distributable Profit	Note	1998		1997	Change	
		EUR mn	DM mn	DM mn	DM mn	%
Net income for the year		**950.0**	**1,858.0**	1,195.4	662.6	55.4
Profit attributable to minority interests		**20.1**	**39.3**	26.8	12.5	46.6
Transfer to earnings reserves		**212.9**	**416.4**	391.4	25.0	6.4
Distributable profit of Dresdner Bank AG		**717.0**	**1,402.3**	**777.2**	**625.1**	**80.4**

	Note	1998		1997
		EUR	DM	DM
Earnings per share	(11)	**1.82**	**3.56**	2.41
Diluted earnings per share	(11)	**1.77**	**3.47**	2.35

Consolidated Balance Sheet of the Dresdner Bank Group

Assets	Note	31 Dec 1998		31 Dec 1997	Change	
		EUR mn	DM mn	DM mn	DM mn	%
Cash funds	(13)	**3,823**	**7,477**	6,735	742	11.0
Trading assets	(14)	**58,194**	**113,818**	102,780	11,038	10.7
Claims on banks	(15)	**66,424**	**129,915**	124,086	5,829	4.7
Claims on customers	(16)	**201,120**	**393,356**	362,740	30,616	8.4
./. Loan loss provisions	(17)	**–5,384**	**–10,531**	– 9,380	– 1,151	– 12.3
Financial investments	(18)	**27,895**	**54,558**	58,877	– 4,319	– 7.3
Investments in enterprise valued at equity	(18)	**256**	**500**	628	– 128	– 20.4
Property and equipment	(19)	**3,593**	**7,028**	6,667	361	5.4
Goodwill	(20)	**828**	**1,620**	1,586	34	2.1
Other assets	(21)	**8,726**	**17,067**	17,204	– 137	– 0.8
Including: Deferred tax assets	(28)	**191**	**374**	157	217	138.2
Total assets		**365,475**	**714,808**	**671,923**	**42,885**	**6.4**

Liabilities	Note	31 Dec 1998		31 Dec 1997	Change	
		EUR mn	DM mn	DM mn	DM mn	%
Trading liabilities		**27,682**	**54,141**	42,456	11,685	27.5
Liabilities to banks	(24)	**79,148**	**154,800**	158,165	– 3,365	– 2.1
Liabilities to customers	(25)	**133,796**	**261,682**	252,531	9,151	3.6
Certificated liabilities	(26)	**93,880**	**183,613**	156,967	26,646	17.0
Provisions	(27)	**4,681**	**9,155**	8,587	568	6.6
Including: Deferred tax liabilities	(27/28)	**304**	**595**	501	94	18.8
Other liabilities	(30)	**7,439**	**14,549**	17,834	– 3,285	– 18.4
Subordinated liabilities	(31)	**5,455**	**10,670**	10,137	533	5.3
Profit-participation certificates	(32)	**2,238**	**4,378**	4,412	– 34	– 0.8
Minority interests		**218**	**427**	472	– 45	– 9.5
Equity capital	(33)	**10,938**	**21,393**	20,362	1,031	5.1
– Subscribed capital		**1,323**	**2,588**	2,567	21	0.8
– Capital reserve		**5,318**	**10,402**	10,192	210	2.1
– Treasury stock		**– 19**	**– 38**	– 23	– 15	– 65.2
– Earnings reserves		**3,599**	**7,039**	6,849	190	2.8
– Distributable profit of Dresdner Bank AG		**717**	**1,402**	777	625	80.4
Total liabilities		**365,475**	**714,808**	**671,923**	**42,885**	**6.4**

Contingencies	(37)	**21,513**	**42,075**	42,351	– 276	– 0.7
Other commitments	(37)	**39,609**	**77,468**	83,883	– 6,415	– 7.6

Consolidated Statement of Changes in Equity of the Dresdner Bank Group

DM mn	1 Jan 1998	Change	31 Dec 1998	1 Jan 1997	Change	31 Dec 1997
Equity capital of the Dresdner Bank Group	**20,362**			16,992		
Subscribed capital	**2,567**			2,337		
Additions from capital increase in 1997		–			+ 120	
Additions resulting from the exercise of option rights attached to the subordinated bonds with warrants issued by Dresdner Finance B. V. in 1992 (matured in 1997)		–			+ 82	
Additions resulting from the exercise of option rights attached to the bonds with warrants issued by Dresdner Finance B. V. in 1994 and 1997		+ 21			+ 28	
		+ 21	**2,588**		+ 230	2,567
Capital reserve	**10,192**			7,758		
Additions from capital increase in 1997		–			+ 1,440	
Premium from bonds with warrants issued by Dresdner Finance B. V. in 1997		–			+ 225	
Additions resulting from the exercise of option rights attached to the subordinated bonds with warrants issued by Dresdner Finance B. V. in 1992 (matured in 1997)		–			+ 540	
Additions resulting from the exercise of option rights attached to the bonds with warrants issued by Dresdner Finance B. V. in 1994 and 1997		+ 167			+ 215	
Income of trading in own shares		+ 43			+ 14	
		+ 210	**10,402**		+ 2,434	10,192
Treasury stock	**– 23**			– 117		
		– 15	**– 38**		+ 94	– 23
Earnings reserve	**6,849**			6,290		
Additions from net income for the year 1997 and 1998, respectively		+ 416			+ 391	
Effects of exchange rate and other changes		– 226			+ 168	
		+ 190	**7,039**		+ 559	6,849
Distributable profit	**777**			724		
		+ 625	**1,402**		+ 53	777
Equity capital of the Dresdner Bank Group			**21,393**			**20,362**

The Board of Managing Directors of Dresdner Bank AG proposes to use the distributable profit in the amount of DM 1,402.3 million to pay a dividend of DM 1.55 per Dresdner Bank share, and to transfer the remainder of DM 600 million to earnings reserves. Taking the corporation tax credit into account, shareholders subject to domestic income or corporation tax will receive DM 2.21 per share.

The bank's subscribed capital of DM 2,566,718,635 at 1 January 1998 (1997: DM 2,336,844,815) was divided into 513,343,727 shares (1997: 467,368,963 shares) of DM 5 each. The Annual General Meeting held on 15 May 1998 approved the conversion of equity capital into unit shares (notional no-par value shares), with each 5 DM share converted into one unit share. As a result of additions in the course of the year, the subscribed capital at 31 December 1998 was DM 2,588,046,860 (1997: DM 2,566,718,635), divided into 517,609,372 unit shares (notional no-par value shares) (1997: 513,343,727 shares of DM 5). All shares are bearer shares, holding one vote each in the Annual General Meeting.

The Annual General Meeting held on 15 May 1998 further approved the conversion of the DEM amount of equtiy capital into an amount denominated in euro, following the start of Stage Three of European Monetary Union on 1 January 1999, on the basis of the EUR/DM conversion rate as determined by the Council of the European Union (1 Euro = 1.95583 DM). This conversion was lodged with the Commercial Register on 11 February 1999. The subscribed capital of DM 2,588,046,860.00 as of 31 December 1998 has thus been converted to EUR 1,323,247,347.67.

The capital reserve includes premiums received on the issue of own shares, convertible bonds or bonds with warrants, or on the exercise of conversion or option rights.

Earnings reserves include the Group's retained earnings as well as the impact of any consolidations on the income statement. The DM 600 million fund for general banking risks, which had been established in accordance with the German Commercial Code, has also been transferred to earnings reserves.

Cash Flow Statement of the Dresdner Bank Group

DM mn	1998	1997
Net income for the year	**1,858**	1,195
Non-cash items in net income for the year and adjustments to reconcile		
net income with net cash provided by operating activities		
Write-downs, depreciation,		
write-ups and change in provisions	**8,573**	5,499
Change in other non-cash items	**1,348**	1,065
Profits on the disposal of non-trading investments, property and equipment	**– 2,841**	– 1,228
Other adjustments (net)	**– 5,593**	– 6,334
Sub-total	**3,345**	197
Change in assets and liabilities from operating acitivities after adjustment		
for non-cash components		
Claims	**– 39,072**	– 71,898
Trading portfolio	**26**	– 16,400
Other assets from operating activities	**5,867**	– 2,862
Liabilities	**5,787**	64,450
Certificated liabilities	**26,646**	33,364
Other liabilities from operating activities	**– 10,840**	114
Interest and Dividends received	**30,071**	27,952
Interest paid	**– 22,573**	– 20,747
Income taxes paid	**– 1,906**	– 871
Cash flow from operating activities	**– 2,649**	**13,299**
Proceeds from the disposal of		
Non-trading investments	**32,157**	28,224
Property and equipment	**451**	557
Payments for the acquisition of		
Non-trading investments	**– 27,054**	– 43,638
Property and equipment	**– 1,996**	– 1,888
Effects of changes in the companies included in consolidation	**– 18**	28
Cash flow from investing activities	**3,540**	**– 16,717**
Proceeds from the issuance of shares	**188**	2,650
Dividends paid	**– 777**	– 724
Other financing activities (net)	**439**	4,066
Cash flow from financing activities	**– 150**	**5,992**
Cash and cash equivalents at the end of the previous period	**6,735**	**4,163**
Cash flow from operating activities	**– 2,649**	13,299
Cash flow from investing activities	**3,540**	– 16,717
Cash flow from financing activities	**– 150**	5,992
Effects of exchange rate changes	**1**	– 2
Cash and cash equivalents at the end of the period	**7,477**	**6,735**

Within the scope of the cash flow statement, the amount of cash and cash equivalents of the Dresdner Bank Group at the beginning of each year is adjusted by cash flows from operating, investing and financing activities, resulting in the amount of cash and cash equivalents at the end of the respective business year. The definition of cash and cash equivalents is restricted to cash funds comprising cash on hand, balances with central banks as well as treasury securities and bills of exchange eligible for refinancing with central bank.

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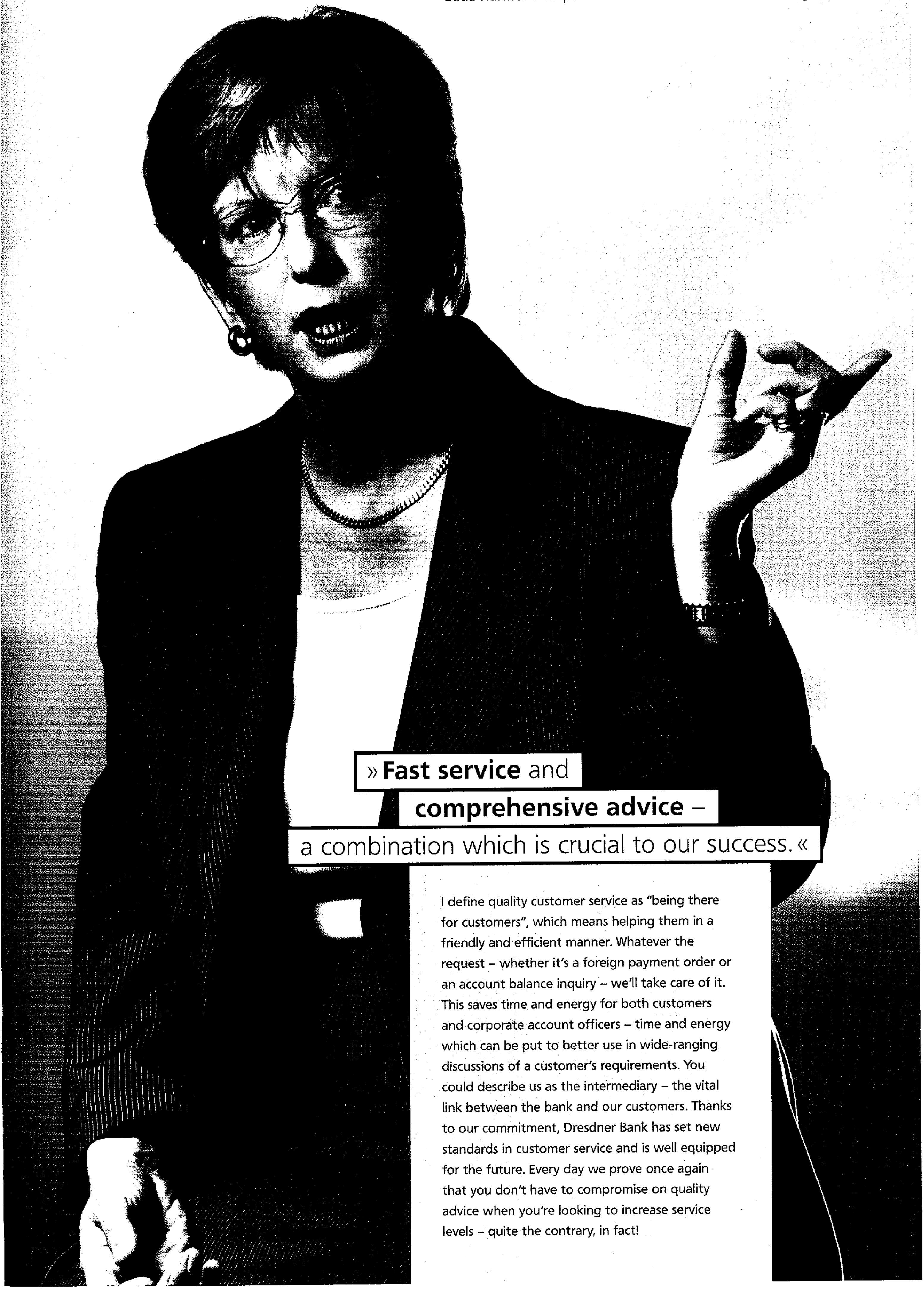

» **Fast service** and **comprehensive advice** – a combination which is crucial to our success. «

I define quality customer service as "being there for customers", which means helping them in a friendly and efficient manner. Whatever the request – whether it's a foreign payment order or an account balance inquiry – we'll take care of it. This saves time and energy for both customers and corporate account officers – time and energy which can be put to better use in wide-ranging discussions of a customer's requirements. You could describe us as the intermediary – the vital link between the bank and our customers. Thanks to our commitment, Dresdner Bank has set new standards in customer service and is well equipped for the future. Every day we prove once again that you don't have to compromise on quality advice when you're looking to increase service levels – quite the contrary, in fact!

Notes to the Consolidated Financial Statements

I. Accounting Principles

(1) Basis of accounting

The consolidated financial statements of Dresdner Bank AG have been prepared in accordance with International Accounting Standards (IAS) for the first time. To facilitate comparisons, the previous year's figures are also stated according to IAS. At the same time, the consolidated financial statements are in accordance with uniform European Union accounting principles and are therefore comparable, in terms of transparency and information provided, to statements prepared in accordance with the German Commercial Code (Handelsgesetzbuch – HGB) in conjunction with the German Accounting Directive for Banks (RechKredV). The provisions of the German Stock Corporation Act (AktG) have been complied with.

In addition to those Standards which were in effect as of 31 December 1998, the Group adopted IAS No. 1 (revised), "Presentation of Financial Statements", and IAS No. 19 (revised), "Employee Benefits", which were approved in 1997 or 1998, respectively, but have not yet come into effect, for the business years 1997 and 1998.

All items disclosed are in millions of DM.

(2) Fundamental accounting policies

a) Companies included in consolidation

The Group consolidates subsidiaries in which the Bank, directly or indirectly, holds either more than 50 % of the voting rights or otherwise has control over operations. Consolidated subsidiaries as of 31 December 1998 consisted of 51 domestic (1997: 40) and 38 foreign (1997: 38) entities, including five sub-groups.

14 domestic and 3 foreign entities were consolidated for the first time in 1998 (1997: one domestic and three foreign entities), including 9 newly established limited holding partnerships. 3 domestic and 3 foreign entities have no longer been consolidated (1997: 3 domestic and four foreign entities).

Changes with respect to the companies included in consolidation did not have any material effect on the Group's net worth, financial position and results.

59 domestic and 44 foreign group companies (1997: 62 domestic and 43 foreign group companies) have not been included in the consolidated financial statements because their inclusion would not have altered the structure of the consolidated financial statements. The consolidated balance sheet total would have increased by only DM 92 million or 0.01 % (1997: DM 178 million or 0.03 %), and pre-tax profit would have increased by DM 4.9 million or 0.18 %.

Investments in one domestic and 31 foreign companies (1997: 2 domestic and 35 foreign companies) have been disclosed as associated enterprises in the consolidated balance sheet and valued accordingly. In addition, 11 (1997: 9) foreign joint ventures managed jointly with Banque Nationale de Paris have also been accounted for under the equity method. The Group's pro rata share of earnings and losses of those companies is included in interest income, under current income from investments in enterprises valued at equity. Ten (1997: seven) other associated enterprises, which were of minor importance to the financial position, net worth and earnings positions of the Group were valued at cost.

The list of our shareholdings pursuant to section 313 (2) of the German Commercial Code will be filed with the Commercial Register at the Frankfurt District Court (Handelsregister beim Amtsgericht Frankfurt am Main), under registration number HRB 14000. A copy of this list may be requested using the enclosed order form.

b) Consolidation policies

Three (1997: two) domestic entities were included in the consolidated financial statements on the basis of accounts prepared as of 30 September 1998, and four (1997: three) foreign entities were included on the basis of accounts prepared as of 30 November 1998. There were no relevant events related to these entities in the period until 31 December 1998.

Subsidiaries which were consolidated for the first time have been accounted for at book value. In 1998 this resulted in goodwill in the amount of DM 375 million, whereas first-time consolidations in 1997 were exclusively related to restructuring or newly established entities, with no goodwill to be disclosed.

Goodwill arising from the acquisition of foreign group companies is translated on the basis of exchange rates prevailing at the time of the transaction, and carried in DM.

All balances as well as income or expenses resulting from transactions between Group companies have been eliminated.

c) Foreign currency translation

All assets and liabilities denominated in foreign currency, as well as outstanding, unsettled spot transactions, have been translated using the spot middle rates as of the reporting date.

Income statements of subsidiaries reporting in foreign currency are generally translated at average rates over the year. Differences in equity resulting from foreign currency translation have been netted against Group earnings reserves, whereas other currency differences are accounted for in the income statement.

Foreign exchange forwards are valued using prevailing forward rates for their respective maturities.

d) Cash funds

Cash funds are stated at their nominal value, with holdings of foreign notes and coins valued at prevailing rates as at year-end.

e) Trading assets

Trading assets are reported at their market value, subject to value-at-risk discounts reflecting market and liquidity risk. Exchange-traded financial instruments are valued at the exchange prices prevailing on the last exchange trading day of the year. Recognised mathematical valuation models are used to determine the market values of unlisted financial instruments.

The results of the valuation of derivatives are reported under trading assets (aggregate of positive market values) or trading liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognised in the net trading income for the year in which they arise. In case of legally enforceable netting agreements in place, trading assets and trading liabilities have been set off in 1998 for the first time.

f) Claims

Claims on banks and on customers are recorded at nominal value. Any differences between the nominal amount and the amount paid out which are equivalent to interest are reported under deferred items, and are amortised as interest over the life of the claim.

Investments in assets, which are the subject of finance leases (i. e. where the chances and risks of such assets are transferred to the lessee), are reported as claims. These leases are recorded at the difference between future lease payments from the lessee and future financing costs. Income from finance leases and partial-payout agreements is recognised in interest income over the term of the lease so that a constant period yield based on the net investment is attained.

g) Loan loss provisions

Identified counterparty risk is covered by specific loan loss provisions. The size of each loan loss provision is determined by the probability of the borrower's agreed payments regarding interest and instalments, with the value of underlying collateral being taken into consideration.

General loan loss provisions have been established, on the basis of historical loss data, to cover expected loan losses which have been incurred but not identified as such at the balance sheet date.

Country risk provisions are established for transfer risks. Transfer risk is a reflection of the ability of a certain country to serve its external debt. These country risk provisions are based on an internal country rating system which incorporates economic data as well as other facts to categorise countries.

Where it is determined that a loan cannot be repaid, the uncollectable amount is first written off against any existing specific loan loss provision, then directly recognised as an expense in the income statement.

h) Non-trading investments

Non-trading investments are grouped into three categories: securities of the liquidity portfolio, shares in affiliated enterprises and shares in non-affiliated enterprises.

Securities of the liquidity portfolio include debentures and other fixed-income securities as well as equities and other non-fixed-income securities which are held for investment purposes and considered to be available for sale.

Affiliated enterprises are those in which the Group holds a majority interest, but which are not consolidated due to their minor importance for the Group.

Non-affiliated enterprises are those in which the Group holds an interest up to 50 %, with the intention to holding it for an extended period of time. The Group does not account for investments in non-affiliated enterprises according to the equity method because it cannot exercise significant influence.

Non-trading investments are valued at cost. Write-downs to the lower current value are made in the event of impairments in value which are deemed to be other than temporary. Securities of the liquidity portfolio are valued at the lower of cost and net realisable value.

i) Property and equipment

Property and equipment are valued at purchase or production cost and depreciated on a regular basis, reflecting the typical utilisation of the respective assets, applying a useful life as set out below.

Useful life (years)	
Buildings	25–50
EDP equipment	4–6
Office furniture and equipment	4–10*)

*) A longer useful life is applied in exceptional cases.

Special depreciation is made for diminutions in value which are deemed to be other than temporary.

To the extent that any subsequent purchase or production cost is associated with a significant operational extension or change of the assets involved, such cost is recognised as an asset. Costs for repairs, maintenance or other measures to maintain the property are reported as expenses for the respective accounting period.

j) Goodwill

Goodwill arising on the acquisition of subsidiaries is recognised at acquisition cost and amortised on a straight-line basis over a period of 10 years, in line with the expected period of economic benefits.

k) Deferred tax

Deferred tax assets and tax liabilities are determined on the basis of the balance sheet approach. This involves taking into account all temporary differences between the values of assets and liabilities for the purposes of taxation and their corresponding balance sheet values, regardless of the time of reversal of such differences. Deferred tax assets are recognised to the extent that realisation of the related tax benefit is probable. These are accounted for at the tax rates expected for the tax period during which the reversal of the tax effect will take place.

l) Liabilities

Interest bearing liabilities are accounted for at the amount to be repaid. Where liabilities are entered into subject to a discount, such discounts are reported as deferred assets and amortised over the life of the respective liabilities. Non-interest bearing liabilities such as zero-coupon bonds are valued at their present value.

m) Provisions

Provisions for taxes, contingent liabilities and impending losses on outstanding transactions are reported at the amount of expected cost.

n) Provisions for pensions and similar liabilities

Post-retirement benefits for employees throughout the Group are protected under various retirement plans, including both defined contribution and defined benefit plans. Payments under defined contribution plans are reported under expenses for pension obligations for the current accounting period, with no provisions required. Pension obligations under defined benefit plans are funded by disclosed pension provisions. These are equivalent to the present value of pension benefits as of the reporting date, subject to certain assumptions regarding future salary and pension increases. The calculation is performed annually by independent actuaries using the Projected Unit Credit method, a certain method for accrued benefit valuation. Additions to pension provisions are also reported under expenses for pension obligations.

o) Treasury stock

Treasury stock held within the Group is deducted from equity. Profits or losses incurred on trading treasury stock are accounted for, net of income tax, in equity.

p) Contingencies

Contingencies are reported at their nominal value.

q) Other financial instruments

The valuation and reporting of derivatives and other financial instruments which are used for the purpose of hedging underlying balance sheet items are subject to the rules applicable for the respective hedged balance sheet item.

Income and expenses incurred on interest rate instruments which are based on balance sheet items are amortised, for the lifetime of such instruments, in net interest income.

The accounting of derivatives positions held for trading purposes is described in section (2)e): "Trading assets".

(3) Significant accounting differences between IAS and the German Commercial Code

a) Securities
In accordance with the provisions of the German Commercial Code, trading securities were valued at the lower of cost and net realisable value.

IAS provides for the accounting of trading assets at market values. Profits and losses resulting from this valuation are recognised in the income statement. According to the German Commercial Code, the results of the valuation of derivatives held for trading purposes (as pending transactions) are not recorded in the balance sheet. These only need to be accounted for by way of provisioning. IAS provides for the accounting under trading assets (aggregate of positive market values) or trading liabilities (aggregate of negative market values), respectively. Securities of the liquidity portfolio are valued at the lower of cost and net realisable value, in line with the provisions of the German Commercial Code.

b) Goodwill
According to the provisions of the German Commercial Code, goodwill arising from the acquisition of subsidiaries is immediately netted against reserves, whereas IAS rules require such goodwill to be recognised as an asset. Goodwill is amortised and debited to the income statement over a period of 10 years.

c) Deferred taxes
The determination of deferred tax assets or liabilities according to the German Commercial Code was based on the profit and loss account, with an option regarding the capitalisation of deferred tax assets. Tax deferral according to IAS is based on a balance sheet approach, subject to mandatory disclosure of deferred tax assets and liabilities.

d) Pension provisions
The valuation of pension provisions in accordance with the German Commercial Code is generally based on the 6% discounting rate laid down in the German Income Tax Act. IAS rules provide for the current level of interest rates prevailing in the capital markets to be used as a discounting factor, also taking into account future salary and pension increases.

e) Reversal of write-downs and valuation principles for taxation purposes
According to IAS, provisions must be reversed if the grounds for the lower valuations have ceased to exist. The consolidated financial statements in accordance with the German Commercial Code comprised write-downs and valuations on the basis of taxation rules. This is not permitted under IAS. Any such write-downs, special items with partial reserve character or special depreciation allowances which were set aside exclusively for taxation purposes were therefore reversed.

f) Securities lending
According to the German Commercial Code, borrowed securities are reported in the borrower's balance sheet, whereas under IAS such securities remain in the lender's accounts.

g) Joint ventures
Joint ventures were reported in the consolidated financial statements according to the German Commercial Code on the basis of the respective stakes held, whereas the equity method is used under IAS.

h) Fund for General Banking Risks
According to German Commercial Law, provisions were made for general banking risks pursuant to section 340f, and a special item pursuant to section 340g of the German Commercial Code was set aside. These provisions were reversed for the consolidated financial statements according to IAS and transferred to earnings reserves.

i) Treasury stock
According to the German Commercial Code, treasury stock must be reported as assets, with provisions set up at the same time. Also, in financial statements according to the German Commercial Code, profits or losses from trading in treasury stock are transferred to the profit and loss account and reported under trading profits. Under IAS, treasury stock held within the Group is deducted from equity. Profits or losses from trading in treasury stock are added to, or subtracted from, equity with no impact on the income statement.

j) Interest accrual
According to the German Commercial Code, accrued interest must be reported in claims on, or liabilities to, banks or customers, whereas IAS provides for the inclusion of accrued interest amounts in other assets or other liabilities, respectively.

II. Notes to the Income Statement and Segment Reporting

Net interest income (4)

DM mn	1998	1997
Interest income		
Lending and money market operations	**2,6454.2**	24,334.6
Fixed-income securities and government debt	**2,429.4**	2,308.5
Current income from		
Equities and other non-fixed income securities	**454.3**	539.2
Investments in non-affiliated enterprises	**361.6**	456.8
Investments in affiliated enterprises	**65.9**	14.0
Investments in enterprises valued at equity	**91.9**	146.5
Current income from leasing business	**211.6**	148.0
Income from profit transfer agreements	**2.6**	4.5
Total interest income	**30,071.5**	**27,952.1**
Interest expense for		
Deposits	**9,609.7**	9,659.0
Certificated liabilities	**11,562.7**	9,916.0
Subordinated liabilities	**631.9**	655.7
Other	**768.6**	516.0
Total interest expense	**22,572.9**	**20,746.7**
Net interest income	**7,498.6**	**7,205.4**

Interest income and expense attributable to trading activities are reported as trading profit.

Net loan loss provisions (5)

DM mn	1998	1997
Additions to provisions, including direct write-offs	**3,106.9**	2,338.4
Amounts released	**811.8**	841.2
Recoveries on loans previously written off	**109.9**	62.7
Net loan loss provisions	**2,185.2**	**1,434.5**

(6) Net commission income

DM mn	1998	1997
Securities and underwriting business	**2,503.5**	2,009.1
Asset management	**1,302.3**	1,121.6
Foreign commercial business	**336.3**	365.5
Payment transactions	**550.6**	544.0
Other	**856.6**	855.6
Net commission income	**5,549.3**	**4,895.8**

Besides securities commission business, the following management and brokerage services comprised in net commission income represent a substantial part of our activities:

Custody administration, management of assets held in trust, asset management, management of investment funds, brokerage of insurance policies, home loan and savings contracts and real estate.

(7) Trading profits

DM mn	1998	1997
Bond trading	**271.6**	300.5
Equity trading	**486.5**	516.5
Brokerage	**– 69.1**	– 54.2
Securities trading	**689.0**	762.8
Foreign exchange/precious metals trading	**514.5**	475.2
Other financial instruments	**250.2**	532.5
Trading profits	**1,453.7**	**1,770.5**

Trading profits include interest income (interest, coupon payments and dividends received) as well as interest expense for the refinancing of trading positions.

(8) Administrative expenses

DM mn	1998	1997
Wages and salaries	**5,513.9**	4,968.1
Social security contributions	**717.3**	686.3
Pensions and other employee benefits (see Note 29)	**500.4**	480.9
Staff expenses	**6,731.6**	6,135.3
Other administrative expenses	**3,866.5**	2,943.9
Regular depreciation of tangible fixed assets	**926.5**	815.3
Administrative expenses	**11,524.6**	**9,894.5**

Staff expenses in 1997 included DM 133.9 million of expenses related to our 125-year anniversary comprising special bonus payments to employees, the issue of employee shares as well as the cost of options to purchase Dresdner Bank shares granted to employees.

Excluding apprentices and trainees, the average number of staff employed in 1998 was 44,809 (1997: 43,036), as shown in the table.

	1998			1997		
Staff	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**
Germany	18,493	18,294	**36,787**	18,012	17,879	35,891
Other countries	4,491	3,531	**8,022**	4,135	3,010	7,145
Total	**22,984**	**21,825**	**44,809**	**22,147**	**20,889**	**43,036**

The average number of trainees and apprentices in 1998 was 403 (1997: 390) and 2,829 (1997: 2,656), respectively.

Other income (9)

DM mn	1998	1997
Other operating income	**502.0**	354.9
Result from the liquidity portfolio	**1,198.7**	218.4
Results from other non-trading investments	**1,066.6**	552.5
Income from financial assets	**2,265.3**	770.9
Other income	**2,767.3**	**1,125.8**

Other operating income includes balances which cannot be attributed to other items of the income statement, in particular realised profits on the disposal of property and equipment, income from the release of provisions and rental income. Other operating income for 1998 also includes profits on the sale of United European Bank, Geneva.

Other expenses (10)

DM mn	1998	1997
Other operating expenses	**625.3**	537.9
Other taxes	**61.0**	79.7
Amortisation of goodwill	**256.9**	243.8
Other expenses	**943.2**	**861.4**

Other operating expenses include balances which cannot be attributed to other items of the income statement, in particular the costs of raising long-term finance and the raising of capital, indemnity payments and losses on the disposal of property and equipment.

(11) **Earnings per share**

Earnings per share data is related to the portion of earnings attributable to the shareholders of Dresdner Bank. For this purpose, the net income for the year, less profit attributable to minority interests, is divided by the average number of shares outstanding in the course of the business year.

In principle, the calculation of diluted earnings per share is carried out using the same method, taking into account the diluting effect of the potential exercise of all outstanding rights to subscribe to Dresdner Bank shares. For this purpose, the potential cash flow resulting from such rights being exercised is converted into a number of shares, using the average share price (average fair value). The difference between this number and the potential total number of shares is equivalent to a number of shares which would be issued free of payment and would thus have a diluting effect.

	1998	1997
	Number of shares (mn)	Number of shares (mn)
Average number of shares issued	513.7	486.7
Less treasury stock	2.5	2.4
Average number of shares outstanding	511.2	484.3
Diluting number of shares in the event of exercise of all outstanding option rights	13.2	12.0
Adjusted number of shares	524.4	496.3
	DM	DM
Earnings per share	3.56	2.41
Diluted earnings per share	3.47	2.35

(12) **Segment reporting**

The objective of segment reporting is to provide a breakdown of operating results for the business divisions of the Dresdner Bank Group. Segment results are reported for the four operative business divisions Investment Banking, Institutional Asset Management, Corporate Customer Business and Private Customer Business. Income and expenses which cannot be directly attributed to any of the four divisions are shown under the cross-division segment Corporate Items.

The reported segment results comprise net interest income, net commission income, trading profits, loan loss provisions, administrative expenses as well as other income and other expenses. The net interest income for each business division is determined using a transfer pricing concept based on the refinancing or investment of amounts related to assets or liabilities, respectively, at prevailing market interest rates. Internal cross-division transfers of income and expenses are accounted for by crediting the provider of services and debiting the recipient. Income on the investment of equity capital required for regulatory purposes is allocated to the business divisions on the basis of imputed interest.

The result of the Investment Banking division is the aggregate of results of the four business lines Global Corporate Finance, Global Equities, Global Markets and Global Finance. These comprise largely the results of own-account trading in equities, bonds and derivative products, underwriting business, mergers & acquisitions as well as project and structured finance transactions.

The result of the Institutional Asset Management division comprises the results of the institutional asset management business as well as the share of income from mutual funds which is attributable to this division.

The results for the Corporate Customer Business and Private Customer Business divisions include, in addition to net interest income from deposits and lending business, commission income from securities and investment funds, foreign commercial business, payments transactions and from integrated financial services to corporate and private customers, respectively.

The result reported under Corporate Items includes in particular income and expenses, but also imputed funding costs related to assets, which cannot be directly attributed to any of the four business divisions.

	Investment Banking		Institutional Asset Management		Corporate Customer Business		Private Customer Business		Corporate Items		Total Dresdner Bank Group	
DM mn	**1998**	**1997**	**1998**	**1997**	**1998**	**1997**	**1998**	**1997**	**1998**	**1997**	**1998**	**1997**
Total income	**4,190.3**	3,888.6	**1,010.1**	945.1	**4,001.9**	3,632.9	**5,528.7**	5,209.2	**2,537.9**	1,321.7	**17,268.9**	14,997.5
Net loan loss provisions	**– 9.0**	– 246.8			**– 1,320.2**	– 888.8	**– 444.2**	– 331.7	**– 411.8**	32.8	**– 2,185.2**	– 1,434.5
Total expenses	**– 3,168.3**	– 2,490.4	**– 660.4**	– 605.8	**– 2,052.9**	– 1,962.2	**– 4,415.3**	– 4,255.0	**– 2,170.9**	– 1,442.5	**– 12,467.8**	– 10,755.9
Pre-tax profit	**1,013.0**	1,151.4	**349.7**	339.3	**628.8**	781.9	**669.2**	622.5	**– 44.8**	– 88.0	**2,615.9**	2,807.1
Risk-weighted assets (31 Dec)*)	**114,200**	99,400			**119,700**	108,300	**87,000**	82,400	**25,200**	21,300	**346,100**	311,400

*) Risk-weighted assets have been calculated on the basis of applicable rules and provisions at the respective date.

The following table provides a breakdown of our business activities by geographical region (based on the domicile of each operative unit).

	Pre-tax profit		Income		Total assets	
DM mn	**1998**	**1997**	**1998**	**1997**	**1998**	**1997**
Germany	**2,428**	2,664	**28,381**	26,835	**670,969**	582,125
Europe (excluding Germany)	**293**	559	**12,056**	9,072	**136,581**	145,933
North America	**– 91**	52	**2,789**	2,132	**43,001**	31,557
Latin America	**120**	176	**1,355**	1,072	**11,476**	13,415
Asia/Pacific	**– 134**	– 644	**1,782**	1,556	**4,942**	10,610
Consolidation			**– 8,648**	– 5,616	**– 152,161**	– 111,717
Total	**2,616**	**2,807**	**37,715**	**35,051**	**714,808**	**671,923**

The income shown comprises interest income, current income from equities and other non-fixed income securities, investments in non-affiliated and affiliated enterprises, income from leases, commission income, trading profits and other operating income.

III. Notes to the Consolidated Balance Sheet

Assets

(13) **Cash funds**

DM mn	31 Dec 1998	31 Dec 1997
Cash on hand	**1,115**	1,192
Balances with central banks	**5,562**	4,849
including: with Deutsche Bundesbank	**5,397**	4,707
Balances in postal giro accounts	**0**	0
Treasury bills, discounted treasury notes and similar treasury securities	**314**	235
including: eligible for refinancing with Deutsche Bundesbank	**117**	183
Bills of exchange	**486**	459
including: eligible for refinancing with Deutsche Bundesbank	**463**	431
Cash funds	**7,477**	**6,735**

Balances with central banks include DM 3,159 million (1997: DM 1,989 million) of mandatory minimum reserves held with Deutsche Bundesbank.

(14) **Trading assets**

DM mn	31 Dec 1998	31 Dec 1997
Bonds and notes		
Public-sector issuers	**50,860**	39,652
Other issuers	**11,706**	18,966
	62,566	58,618
Money market securities		
Public-sector issuers	**4,105**	386
Other issuers	**2,391**	531
	6,496	917
Own bonds and notes	**197**	160
Debt and other fixed-income securities	**69,259**	**59,695**
including: marketable securities	**69,259**	59,695
including: listed securities	**57,448**	55,734
unlisted securities	**11,811**	3,961
Equities	**8,101**	7,372
Other securities	**3,196**	1,410
Equities and other non-fixed-income securities	**11,297**	**8,782**
including: marketable securities	**9,628**	8,189
including: listed securities	**9,495**	8,028
unlisted securities	**133**	161
Positive market values of derivative financial instruments	**27,163**	**30,029**
Other trading assets	**6,099**	**4,274**
Trading assets	**113,818**	**102,780**

In 1998, trading assets and trading liabilities were set off in the amount of DM 18,949 million on the basis of existing netting agreements.

Claims on banks (15)

DM mn	31 Dec 1998	31 Dec 1997
Claims reported in the balance sheet	**129,915**	124,086
Loan loss provisions	**– 1,057**	– 725
Claims after loan loss provisions	**128,858**	**123,361**
Payable on demand	**4,370**	11,996
Callable reverse repo transactions	**4,872**	31
Term reverse repo transactions	**43,656**	35,813
Other claims	**29,487**	33,710
Loans	**46,473**	41,811
including: Mortgage loans	**34**	16
Communal loans	**25,049**	24,030
Claims after loan loss provisions	**128,858**	**123,361**
Domestic banks	**50,982**	36,082
Foreign banks	**77,876**	87,279
Claims after loan loss provisions	**128,858**	**123,361**

Claims on customers (16)

DM mn	31 Dec 1998	31 Dec 1997
Claims reported in the balance sheet	**393,356**	362,740
Loan loss provisions	**– 9,474**	– 8,655
Claims after loan loss provisions	**383,882**	**354,085**
Loans	**337,806**	309,575
including: Mortgage loans	**91,181**	82,675
Communal loans	**75,553**	65,726
Building society loans	**471**	340
Other loans secured by mortgages	**28,070**	25,222
Reverse repos	**41,800**	37,882
Other claims	**4,276**	6,628
Claims after loan loss provisions	**383,882**	**354,085**

Claims on customers include DM 2,876 million (1997: DM 2,684 million) of claims from finance leases. Future leasing instalments amounted to an aggregate of DM 3,706 million (1997: DM 3,463 million). The residual values of all leasing assets were guaranteed both in 1997 and 1998. Unearned income amounted to DM 830 million (1997: DM 779 million).

DM mn	31 Dec 1998	31 Dec 1997
Corporate customers	198,611	186,729
Public authorities	69,138	61,853
Private customers	116,133	105,503
Claims after loan loss provisions	**383,882**	**354,085**
Domestic customers	264,471	242,388
Foreign customers	119,411	111,697
Claims after loan loss provisions	**383,882**	**354,085**

Lending business

In contrast to the figures reported under claims, the lending volume does not include any transactions backed by securities.

Lending volume

DM mn	31 Dec 1998	31 Dec 1997
Germany	63,138	57,212
Other countries	6,000	4,641
Public authorities	69,138	61,853
Germany	88,428	82,561
Other countries	64,107	59,658
Corporate customers	152,535	142,219
Germany	112,904	102,615
Other countries	3,229	2,888
Private customers	116,133	105,503
Loans extended on bills*)	3,939	6,074
Customer lending	341,745	315,649
Loans to banks	46,473	41,811
Lending volume	**388,218**	**357,460**

*) Loans extended on bills not shown under claims.

Breakdown of lending by sector

The table shown below provides a breakdown of lending to domestic corporate and private customers, in the amount of DM 201,332 million (1997: DM 185,176 million) by sector.

	31 Dec 1998	31 Dec 1997
Manufacturing industry	21,245	21,677
Construction	5,818	6,006
Wholesale and retail trade	17,386	16,449
Financial institutions (excluding banks) and insurance companies	7,463	6,694
Services and professions	30,815	23,718
Other	5,701	8,017
Corporate customers	88,428	82,561
Private customers	112,904	102,615
Lending to domestic corporate and private customers	**201,332**	**185,176**

Lending to foreign corporate and private customers amounted to DM 67,336 million (1997: DM 62,546 million). The breakdown by sector was as follows:

	31 Dec 1998	31 Dec 1997
Industry, wholesale and retail trade and service providers	**43,909**	34,543
Financial institutions (excluding banks)		
and insurance companies	**13,334**	19,758
Other	**6,864**	5,357
Corporate customers	**64,107**	59,658
Private customers	**3,229**	2,888
Lending to foreign corporate and private customers	**67,336**	**62,546**

Aggregate provisions (17)

The overall volume of provisions set aside by the Dresdner Bank Group at year-end 1998 included net loan loss provisions – deducted from the asset side of the balance sheet – in the amount of DM 10,531 million (1997: DM 9,380 million) and provisions for contingencies – reported on the liabilities side of the balance sheet – in the amount of DM 716 million (1997: DM 403 million).

	Counterparty risks		Country risks		Potential risks (General loan loss provisions)		Total	
DM mn	**1998**	**1997**	**1998**	**1997**	**1998**	**1997**	**1998**	**1997**
1 January	**7,887**	**7,174**	**1,175**	**982**	**721**	**850**	**9,783**	**9,006**
Additions								
Additions to provisions recognised as								
expense in the income statement	**2,570**	2,028	**452**	254	**20**		**3,042**	2,282
Reductions								
Charge-offs	**663**	607	**10**	94	**1**	8	**674**	709
Reductions recognised as income in								
the income statement	**758**	737	**54**			104	**812**	841
Other additions/reductions	**– 58**	– 34	**19**	18	**9**	– 19	**– 30**	– 35
Re-grouping	**+ 452**		**– 452**					
Changes due								
to currency translation	**– 41**	63	**– 20**	15	**– 1**	2	**– 62**	80
31 December	**9,389**	**7,887**	**1,110**	**1,175**	**748**	**721**	**11,247**	**9,783**

Debit balances of DM 65 million (1997: DM 56 million) were written off, resulting in a direct charge to the income statement.

The loan portfolio contains claims amounting to DM 13,369 million (1997: DM 10,674 million), which are written-down. As a result DM 601 million (1997: DM 463 million), was not included under net interest income.

In addition to provisions made with respect to claims, which are shown on the asset side of the balance sheet, the overall volume of risk provisions also includes provisions for guarantees and other contingent liabilities shown on the liabilities side.

DM mn	31 Dec 1998	31 Dec 1997
Claims on customers	9,474	8,655
Claims on banks	1,057	725
Net loan loss provisions (deducted from the asset side of the balance sheet)	**10,531**	**9,380**
Provisions for contingencies	716	403
Overall volume of risk provisions	**11,247**	**9,783**

(18) Financial investments and investments in enterprises valued at equity

DM mn	31 Dec 1998	31 Dec 1997
Securities of the liquidity portfolio	46,389	50,763
Investments in non-consolidated affiliated enterprises	113	104
Investments in non-affiliated enterprises	8,056	8,010
Financial investments	**54,558**	**58,877**

DM mn	Investments in enterprises valued at equity	Investments in non-consolidated affiliated enterprises	Investments in non-affiliated enterprises
Purchase or production cost	628	104	8,063
Additions during the year	115	9	881
Disposals during the year	319		638
Accumulated depreciations			250
Depreciation charge for the year			21
Appreciation	76		
Book value			
31 December 1998	500	113 *)	8,056
31 December 1997	628	104	8,010

*) Including DM 15 million of investments in financial services providers.

Investments in non-affiliated enterprises according to IAS are equivalent to participations pursuant to section 271 (1) of the German Commercial Code. These include DM 192 million of investments in banks and DM 105 million of investments in financial services providers.

The list of shareholdings provides a complete breakdown of non-consolidated affiliated enterprises, enterprises valued at equity and all other shareholdings.

Breakdown of securities of the liquidity portfolio

DM mn	31 Dec 1998	31 Dec 1997
Money market securities		
Public-sector issuers	51	50
Other issuers	4,373	5,026
	4,424	5,076
Bonds and notes		
Public-sector issuers	8,126	14,196
Other issuers	21,470	21,060
	29,596	35,256
Own bonds and notes	1,754	1,289
Debt and other fixed-income securities	**35,774**	**41,621**
including: Marketable securities	35,774	41,621
including: listed securities	29,142	36,201
unlisted securities	6,632	5,420
Market value of marketable securities	37,126	42,485
Equities	4,006	3,732
Other	6,609	5,410
Equities and other non-fixed-income securities	**10,615**	**9,142**
including: Marketable securities	3,919	3,381
including: listed securities	3,711	3,217
unlisted securities	208	164
Market value of marketable securities	10,475	8,708
Securities of the liquidity portfolio	**46,389**	**50,763**

Debt and other fixed-income securities with a nominal value of DM 9,155 million will mature in 1999.

Breakdown of investments in non-affiliated enterprises

DM mn	31 Dec 1998	31 Dec 1997
Equities	5,745	5,102
Other	2,311	2,908
Investments in non-affiliated enterprises	**8,056**	**8,010**
including: Marketable securities	5,902	5,126
including: listed securities	5,881	5,106
unlisted securities	21	20
Market value of marketable securities	17,945	14,887
Investments in non-affiliated enterprises	**8,056**	**8,010**

(19) **Tangible fixed assets**

DM mn	Land and buildings	Office furniture and equipment
Purchase or production cost		
1 January 1998	6,140	5,136
Differences due to currency translation	1	– 38
Additions	359	1,262
Transfers	77	74
Reductions	130	628
31 December 1998	6,447	5,806
Appreciation during the year		
Depreciation		
1 January 1998	1,570	3,197
Regular depreciation	200	727
Transfers		
Reductions	27	442
31 December 1998	1,743	3,482
Book value		
31 December 1998	4,704	2,324
31 December 1997	4,650	2,017

In 1998 special depreciation was made in the amount of DM 102 million, and expenses for capital expenditure projects in progress were DM 19 million.

We used land and buildings in the Dresdner Bank Group with a book value of DM 3,950 million for purposes connected with our own activities.

(20) **Goodwill**

DM mn	Goodwill
Cost of purchase	2,550
Additions in 1998	375
Reductions in 1998	255
Accumulated depreciations	1,050
Depreciation in 1998	257
Book value	
31 December 1998	1,620
31 December 1997	1,586

Additions were attributable to ADVANCE Bank AG, Albertini & C. SIM pA as well as Dresdner RCM Global Investors US Holdings LLC.

Other assets (21)

DM mn	31 Dec 1998	31 Dec 1997
Interest accrual	6,969	11,688
Other assets	7,681	3,583
Deferred items	1,950	1,680
Related to underwriting and lending businesses	1,830	1,556
including: Discounts on liabilities	835	861
Premiums on claims	995	695
Other	120	124
Deferred tax assets (see Note 28)	374	157
Equalisation claims against the government	93	96
Other assets	17,067	17,204

Other assets include cheques and other items received for collection and recoverable taxes.

Subordinated assets (22)

DM mn	31 Dec 1998	31 Dec 1997
Claims on banks		
Loans	315	95
Claims on customers	153	27
Trading assets		
Bonds and notes	35	5
Other issuers	29	
Own bonds and notes	6	5
Equities and other non-fixed-income securities	284	201
Financial investments		
Bonds and notes	50	59
Other issuers	50	59
Equities and other non-fixed-income securities	134	51
Subordinated assets	971	438

Assets sold under agreements to repurchase (23)

At the balance sheet date there were commitments to repurchase assets with a net book value of DM 70,103 million (1997: DM 46,407 million). These assets continue to be reflected in our balance sheet, and the proceeds are included under liabilities. The majority of these transactions constitute money market business conducted on international money markets in the form of repurchase agreements.

Liabilities

(24) **Liabilities to banks**

DM mn	31 Dec 1998	31 Dec 1997
Payable on demand	37,015	37,664
Callable repo transactions	1,241	2,108
Term repo transactions	30,830	28,962
Other term liabilities	85,714	89,431
including: Registered mortgage bonds issued	7,798	4,750
Liabilities to banks	**154,800**	**158,165**
Domestic banks	46,758	44,848
Foreign banks	108,042	113,317
Liabilities to banks	**154,800**	**158,165**

(25) **Liabilities to customers**

DM mn	31 Dec 1998	31 Dec 1997
Savings deposits		
with agreed notice periods of three months	26,254	27,757
with agreed notice periods of more than three months	1,690	1,984
Home loan savings deposits	2,868	2,580
Savings deposits and home loan savings	30,812	32,321
Deposits payable on demand	76,323	68,956
Callable repo transactions	3,756	6,121
Term repo transactions	31,222	12,898
Term liabilities	119,569	132,235
including: Registered mortgage bonds issued	37,739	29,368
Other liabilities	230,870	220,210
Liabilities to customers	**261,682**	**252,531**

DM mn	31 Dec 1998	31 Dec 1997
Corporate customers	173,528	173,086
Public authorities	11,962	10,103
Private customers	76,192	69,342
Liabilities to customers	**261,682**	**252,531**
Domestic customers	162,235	155,419
Foreign customers	99,447	97,112
Liabilities to customers	**261,682**	**252,531**

Certificated liabilities (26)

Certificated liabilities comprise debentures and other liabilities for which transferable bearer certificates have been issued.

DM mn	31 Dec 1998	31 Dec 1997
Mortgage bonds	21,675	20,969
Communal bonds	76,248	62,780
Other bonds	56,105	47,057
Bonds issued	154,028	130,806
Money market securities	24,874	22,819
Own acceptances and promissory notes outstanding	2,468	2,417
Other	2,243	925
Other certificated liabilities	29,585	26,161
Certificated liabilities	**183,613**	**156,967**

DM 22,167 million (1997: DM 16,054 million) of bonds issued have maturities in the next year.

Provisions (27)

DM mn	31 Dec 1998	31 Dec 1997
Current taxes	1,475	1,675
Deferred tax liabilities (see Note 28)	595	501
Provisions for taxes payable	2,070	2,176
Provisions for pensions and similar liabilities (see Note 29)	3,611	3,465
Other provisions	3,474	2,946
Provisions	**9,155**	**8,587**

(28) Deferred taxes and income taxes

Deferred tax assets and deferred tax liabilities

As a result of temporary differences between the values of assets and liabilities for the purposes of taxation and their corresponding balance sheet values, deferred tax assets or tax liabilities, respectively, have been created for the balance sheet items set out below.

	Deferred tax assets		Deferred tax liabilities	
DM mn	31 Dec 1998	31 Dec 1997	31 Dec 1998	31 Dec 1997
Financial investments	– 43	– 28	911	463
Tangible fixed assets	– 3	– 1	511	497
Pension provisions			–539	–543
Other provisions	38	39	–752	–464
Loan loss provisions	21	5	– 88	50
Tax losses carried forward	295	93	– 75	– 41
Other	66	49	627	539
Total	**374**	**157**	**595**	**501**

The set-off of deferred tax assets and deferred tax liabilities within the balance sheet of the same company is only permissible with respect to income taxes which are payable to the same tax authority.

Income taxes

Income taxes reported include current taxes on income as well as deferred tax expense (tax income).

DM mn	1998	1997
Current income taxes payable		
Germany	632	1,501
Other countries	244	276
	876	1,777
Deferred income tax expense (tax income)	–118	–165
Income taxes	**758**	**1,612**

German corporation tax law applies an imputation tax credit system with regard to the taxation of the income of a corporation and its shareholders. Retained corporate income is subject to a corporation tax rate of 45 % plus a solidarity surcharge of 5.5 % on the corporation tax payable, resulting in an effective corporation tax rate of 47.475 %. The corporation tax rate for income distributed to shareholders is reduced to 30 % plus solidarity surcharge by way of refunding the difference. The corporation tax levied on the distributions is refunded in the form of a tax credit, which may be set off against the corresponding tax burden of shareholders subject to German income or corporation tax.

As in 1997, the effective corporation tax rate of 47.475 %, plus the effective rate of trade tax at 9.555 %, were used to calculate deferred taxes for domestic companies for 1998.

Based on the Group's 1998 pre-tax income, the German corporation tax rate for retained earnings and taking into account German trade tax, the expected tax expense for 1998 would amount to DM 1,095 million (1997: DM 1,053 million). The table shown below provides a reconciliation of expected to actual tax expense.

DM mn	1998	1997
Profit before income taxes	**2,616**	2,807
German trade tax	**182**	467
Profit after German trade tax	**2,434**	2,340
Deducted prima facie corporation tax	**1,095**	1,053
Solidarity surcharge on German corporation tax	**30**	49
Tax relief on distributions	**–178**	–168
Tax rate differential on income portions subject to taxation outside Germany	**47**	46
Permanent differences	**–347**	187
Other	**– 71**	– 22
German trade tax	**182**	467
Actual income taxes	**758**	**1,612**

All income taxes are due on profits from ordinary activities.

Deferred tax assets are only recognised to the extent that the realisation of the related tax benefit is probable. Therefore, deferred tax assets of DM 329 million (1997: DM 230 million) were not recognised since, on the basis of information available at present, they cannot be realised.

(29) Provisions for pensions and similar liabilities

The majority of Group employees participate in Group-sponsored retirement plans. In addition to defined contribution plans, these include defined benefit plans which are fully funded by provisions. These provisions are equivalent to the present value of pension benefits as of the reporting date, using a discount rate of 5.5 % (1997: 6.0 %), expected future salary increases of 2.5 % (1997: 3.0 %) and expected future pension increases of 1.5 % (1997: 2.0 %). Some units outside Germany have used different parameters. On the basis of a "corridor" approach with respect to actuarial gains and losses, these are only recognised if they exceed the greater of either 10 % of the present value of defined benefit obligations or 10 % of the fair value of the plan assets. As a result, no actuarial gains or losses were recognised in 1998.

Development of pension liabilities from defined benefit plans:

DM mn	1998	1997
Pension liabilities as at 1 January	**3,446**	3,308
Less actuarial gains/losses as at 1 January	**+ 19**	
Reported pension provisions as at 1 January	**3,465**	3,308
Service cost	**78**	76
Interest cost	**199**	203
Other additions	**21**	18
Pensions paid in 1998	**– 152**	– 140
Reported pension provisions as at 31 December	**3,611**	3,465
Actuarial gains (–) or losses (+) as at 31 December	**+ 52**	– 19
Pension liabilities as at 31 December	**3,663**	3,446

The fact that pension provisions are determined on the basis of prevailing data at the beginning of the accounting period gives rise to actuarial gains or losses upon comparing pension provisions and liabilities at the end of the accounting period, with no impact on pension payments.

IAS 19 (revised 1998) stipulates that no gains/losses must be recognised when determining pension provisions for the first year of application of this standard.

The following items were recognised as expenses for pensions:

DM mn	1998	1997
Current service cost	**77.5**	76.0
Interest cost	**199.1**	203.4
Other additions	**21.4**	18.0
Actuarial gains/losses	**–**	–
Expenses for defined benefit plans	**298.0**	297.4
including: Pension payments in 1998	**151.6**	140.0
Expenses for defined contribution plans	**202.4**	183.5
Total expenses for pensions	**500.4**	480.9

Other liabilities

(30)

Other liabilities include deferred liabilities, unsettled trade liabilities and payroll deductions payable to the local tax office or social insurance office.

DM mn	31 Dec 1998	31 Dec 1997
Interest accrual	8,693	12,618
Other liabilities	3,841	3,022
Deferred Items	2,015	2,194
including: Discounts on claims	1,117	1,034
Other liabilities	**14,549**	**17,834**

Subordinated liabilities

(31)

The aggregate reported volume of subordinated liabilities is DM 10,670 million (1997: DM 10,137 million). None of the borrowings was in excess of 10% of the aggregate volume.

Subordinated liabilities are shown below (at nominal amounts):

Currency borrowed in	DM equivalent (mn)	Maturity
DEM	2,279	1999 – 2016
USD	5,278	2002 – 2015 *)
NLG	710	2003 – 2006
CHF	672	2005 – 2009
LUF	606	2002 – 2008
GBP	420	2007
Other currencies	870	2002 – 2039

*) The terms of one issue in the equivalent nominal amount of DM 276 million do not provide for a final maturity.

DM 8,842 million (1997: DM 8,117 million) of the subordinated liabilities qualify as "liable capital" under the provisions of the German Banking Act.

Total interest paid on subordinated liabilities in 1998 amounted to DM 631.9 million (1997: DM 655.7 million).

In the event of bankruptcy proceedings or liquidation, the subordinated liabilities may not be redeemed until all unsubordinated creditors have been satisfied. There is no obligation to redeem such liabilities prior to maturity.

(32) Profit-participation certificates

Year of issue	Nominal amount	Issued by	Interest rate	Year of maturity	Special features
1991	DM 500 million	Dresdner Bank AG	9.0 %	2002	
1990	DM 500 million	Dresdner Bank AG	9.5 %	2004	First possible call date 30 Juni 1999
1993	DM 50 million	Deutsche Hyp Deutsche Hypothekenbank Frankfurt-Hamburg AG, Frankfurt/Main	7.375 %	2004	
1994	DM 25 million	Deutsche Hyp Deutsche Hypothekenbank Frankfurt-Hamburg AG, Frankfurt/Main	8.25 %	2005	
1995	DM 240 million	Deutsche Hyp Deutsche Hypothekenbank Frankfurt-Hamburg AG, Frankfurt/Main	variable *)	2006	First possible call date 31 December 2000
1995	DM 10 million	Oldenburgische Landesbank AG, Oldenburg	variable *)	2006	First possible call date 31 December 2000
1996	DM 1,000 million	Dresdner Bank AG	8.0 %	2007	
1996	DM 52 million	Oldenburgische Landesbank AG, Oldenburg	8.125 %	2007	First possible call date 31 December 2001
1997	DM 1,500 million	Dresdner Bank AG	7.0 %	2008	
1997	DM 230 million	Deutsche Hyp Deutsche Hypothekenbank Frankfurt-Hamburg AG, Frankfurt/Main	6.875 %	2008	
1997	DM 100 million	Dresdner Bank Lateinamerika AG, Hamburg	7.125 %	2008	First possible call date 31 December 2002
1997	DM 75 million	Dresdner Bank Lateinamerika AG, Hamburg	7.125 %	2008	First possible call date 31 December 2002
1998	DM 96 million	Dresdner Bank Lateinamerika AG, Hamburg	6.125 %	2009	First possible call date 31 December 2003
	DM 4,378 million				

*) 6-month DM LIBOR plus 120 basis points.

DM 3,828 million (1997: DM 3,745 million) of profit-participation certificates qualify as "liable capital" pursuant to section 10 (5) of the German Banking Act. Profit-participation certificates entitle holders to annual interest payments, which take priority over shareholders' dividend entitlements; they are subordinated to obligations to all other creditors, except those similarly subordinated, and share in losses in accordance with the conditions attaching to the certificates. The profit-participation certificates will be redeemed subject to the provisions governing loss sharing.

(33)

Equity capital

The capital components available to the bank to enhance its equity capital are outlined below:

a) Conditional capital of Dresdner Bank AG and bonds with warrants outstanding

The aggregate amount of the Bank's conditional capital on 1 January 1998 was DM 524,693,130.

The Annual General Meeting held on 15 May 1998 revoked the authority given in 1994 for a conditional capital of DM 57,500,000, in view of the impending expiry, and approved a new conditional capital for up to 60,000,000 shares of Dresdner Bank AG in the aggregate nominal value of DM 300,000,000, combined with an authority to issue conversion or option rights to the holders of convertible bonds or bonds with warrants issued on or before 15 May 2003 by wholly-owned foreign subsidiaries of Dresdner Bank AG (whether held directly or indirectly). So far this authority has not been used.

Furthermore, the Annual General Meeting held on 15 May 1998 approved a new conditional capital for up to 8,400,000 shares of Dresdner Bank AG in the aggregate nominal value of DM 42,000,000, combined with an authority to issue, on or before 31 July 2001, convertible bonds up to an aggregate nominal value of DM 42,000,000. The sale of these convertible bonds is restricted to a selected number of key executives throughout the Dresdner Bank Group. The conversion right is subject to a three-year qualifying period during which it cannot be exercised, and may only be exercised if the performance of the Dresdner Bank share is better than the "Dow Jones STOXX Bank" performance index. Convertible bonds in the aggregate nominal value of DM 10,835,000 were issued in 1998 on the basis of this authority.

In 1998 option rights were exercised with respect to shares with an aggregate nominal value of DM 21,328,225 (4,265,645 shares). The new shares were issued in accordance with the conditions attaching to the respective warrants. The premium of DM 166,464,874 realised in excess of the nominal value of the shares has been added to the capital reserve.

Therefore, the aggregate amount of the Bank's conditional capital at the balance sheet date was DM 787,864,905.

Of this amount, DM 156,699,905 will be required to satisfy the option rights expected to be exercised in connection with the following bond issues with warrants:

Issued by Dresdner Finance B.V., Amsterdam:
DM 475,000,000 of 5.375 % Deutsche Mark bonds 1994/1999 with warrants entitling holders to subscribe to a total of 10,450,000 Dresdner Bank shares at a price of DM 44.00 per share. The warrants outstanding as of 31 December 1998 entitled holders to subscribe to a total of 698,080 shares.

DM 1,500,000,000 of 5.5 % Deutsche Mark bonds 1997/2004 with warrants entitling holders to subscribe to a total of 28,500,000 Dresdner Bank shares at a price of DM 51.30 per share. The warrants outstanding as of 31 December 1998 entitled holders to subscribe to a total of 28,474,901 shares.

Issued by Dresdner Bank AG:
DM 10,835,000 of 4.0 % convertible bonds 1998/2003 issued within the scope of the Dresdner Bank AG Long Term Incentive Plan 1998, entitling holders to subscribe to a total of 2,167,000 shares of Dresdner Bank AG, subject to certain conditions. The conversion price will be determined in June 2001. The earliest conversion date is 2 July 2001.

The following authorisations approved by the Annual General Meeting are as yet unused, or have only been used in part:

Year of authorisation	Original amount	Utilisation	Balance	Year expiring
1996	DM 300 million		DM 300.0 million	2001
1998	DM 300 million		DM 300.0 million	2003
1998	DM 42 million	DM 10.8 million in 1998	DM 31.2 million	2001

b) Authorised capital of Dresdner Bank AG

Year of authorisation	Original amount	Utilisation	Balance	Year expiring	Special features
1998	DM 200 million (Authorised capital I)		DM 200 million	2003	
1998	DM 225 million (Authorised capital II)		DM 225 million	2003	*)

*) Subject to approval by the Supervisory Board, the Board of Managing Directors may exclude shareholders' pre-emptive rights.

The Annual General Meeting held on 15 May 1998 has revoked the Authorised Capital I and Authorised Capital II (approved in 1995), due to their impending expiry, and approved a new Authorised Capital I in the amount of DM 200 million. In addition, a new Authorised Capital II was approved in the amount of DM 225 million, of which shares up to an aggregate nominal value of DM 200 million may be issued at a price close to the then prevailing stock market price, under exclusion of shareholders' mandatory pre-emptive rights. DM 25 million have been reserved for the issue of shares to employees.

c) Revaluation reserves as liable capital

Unrealised reserves in the amount of DM 4,238 million (1997: DM 3,234 million) in securities and investments in non-affiliated enterprises have been included under liable capital pursuant to section 10 (2b) sentence 1 no. 7 of the German Banking Act.

d) Treasury stock

On 15 May 1998 (23 May 1997), the Annual General Meeting authorised us, pursuant to section 71 (1), no. 7 of the German Stock Corporation Act, to purchase Dresdner Bank shares for trading purposes, subject to the proviso that the trading portfolio of the shares purchased under this authority may not exceed five percent of the Bank's issued share capital at the close of each day. Under this authority, the bank and affiliated enterprises purchased a total of 230,078,401 Dresdner Bank shares in 1998 (1997: 144,344,142 Dresdner Bank shares); the average price of these shares and the 295,372 shares (1997: 3,000,000 shares) already held as treasury stock was DM 85.58 per share (1997: DM 67.22 per share). In the course of 1998 (1997) we resold 229,809,161 shares (1997: 147,048,770 shares) at an average price of DM 86.33 per share (1997: 67.44 per share). The difference between purchase and selling price on the aforementioned transactions in 1998 (1997) has been included in the capital reserve. On 31 December 1998, the Bank thus held as treasury stock 564,612 Dresdner Bank shares, equivalent to a share of the equity capital of DM 2,823,060.00, at an average price of DM 68.02, representing 0.1 % of the bank's issued share capital (31 December 1997: 295,372 Dresdner Bank shares, equivalent to a share of the equity capital of DM 1,476,860.00, at an average price of DM 76.37, representing 0.06 % of the bank's issued share capital). The maximum holding on any one day in 1998 represented 1.4 % (1997: 0.8 %) of the bank's issued share capital.

In the spring of 1998 we purchased 1,004,676 shares (equivalent to 0.2 % of the bank's issued share capital) at an average price of DM 95.88 per share and sold them to active and retired employees of the Dresdner Bank Group at a preferential price of DM 77.75 per share; 904,503 of these shares were related to Dresdner Bank AG.

In 1998 we also acquired 8,490 Dresdner Bank shares (1997: 10,040 Dresdner Bank shares) at an average price of DM 87.14 per share (1997: DM 81.72 per share) and awarded them as gratuities to employees completing 25 or 40 years of service with the bank. The excess of the cost of the shares sold or awarded to employees over the proceeds realised is included in the year's expenses.

On the occasion of Dresdner Bank's 125-year anniversary in 1997, we purchased 1,788,340 Dresdner Bank shares with a nominal value of DM 8,941,700.00 (0.3 % of the issued share capital) at an average price of DM 62.15 per share and sold them to active and retired employees of the Dresdner Bank Group at a preferential price of DM 27.10 per share. In addition, two call options for the purchase of additional Dresdner Bank shares were granted to employees, free of charge, for each employee share purchased. The excess of the cost of the shares sold to employees over the proceeds realised as well as the cost to cover the call options granted was included in the year's expenses.

At 31 December 1998, 4,455,002 Dresdner Bank shares, equivalent to a share of the equity capital of DM 22,275,010.00 and representing 0.9 % of our issued share capital, were pledged to the bank or affiliated enterprises as collateral.

Liable equity capital and capital ratios

DM mn	31 Dec 1998	31 Dec 1997
Core capital	**20,777**	**17,900**
Profit-participation certificates	**3,828**	3,745
Subordinated liabilities	**8,842**	8,117
Revaluation reserves for securities (of which 35%)	**4,238**	3,234
Supplementary capital	**16,908**	**15,096**
Other deductibles	**– 1,063**	– 269
Total liable equity capital	**36,622**	**32,727**

Risk-weighted assets	**346,095**	311,390
Capital ratios:		
Core capital ratio	**6.0 %**	5.7 %
Total capital ratio in accordance with Principle I of the German Banking Act	**10.6 %**	10.5 %
Total capital ratio according to BIS rules	**11.7 %**	11.0 %

Other Balance Sheet Information

(34) **Collateral furnished for own liabilities**

The table shown below provides a breakdown of liabilities and contingencies for which assets were pledged as collateral, as well as the amounts pledged:

DM mn	31 Dec 1998	31 Dec 1997
Liabilities to banks	12,110	13,222
Liabilities to customers	986	868
Certificated liabilities	11	102
Other liabilities		5
Contingencies	1	1
Other commitments	2,753	2,277
Total collateralised liabilities	15,861	16,475

The total amount of collateral pledged comprises the following assets:

DM mn	31 Dec 1998	31 Dec 1997
Claims on banks	887	2,262
Claims on customers	10,726	10,772
Trading assets	2,986	2,100
Financial investments	1,249	1,341
Tangible fixed assets	13	
Total value of collateral furnished	15,861	16,475

(35) **Foreign currency volumes**

These amounts represent the aggregated DM equivalents of amounts denominated in a wide variety of currencies. Any differences between the amounts of assets and liabilities do not constitute any open positions, since this breakdown does not include foreign exchange forward transactions or currency options, including those transactions entered into for hedging purposes.

DM mn	31 Dec 1998	31 Dec 1997
Assets	319,740	260,951
Liabilities	346,270	277,667

Impact of exchange rate fluctuations
Without exchange rate fluctuations, consolidated total assets would have been DM 16 billion and profit after taxes DM 10.3 million higher.

Structure of residual terms

(36)

The matrix of residual terms provides a breakdown of claims and liabilities by final maturity or call date.

31 December 1998

Claims DM mn	Total	Up to 3 months	>3 months – 1 year	>1 year – 5 years	More than 5 years
Term claims on banks	119,616	82,140	10,985	17,599	8,892
Claims on customers*)	383,882	105,627	26,941	95,136	156,178
Term claims	**503,498**	**187,767**	**37,926**	**112,735**	**165,070**

*) Claims on customers with residual terms of up to 3 months include DM 22,299 million of undated claims. These claims include credit lines available until further notice, overdraft facilities, loans called or overdue, unauthorised overdrafts, call money and internal account balances.

Liabilities DM mn	Total	Up to 3 months	>3 months – 1 year	>1 year – 5 years	More than 5 years
Term liabilities to banks	116,544	82,527	14,003	8,291	11,723
Savings deposits and home loan savings	30,812	26,576	876	2,083	1,277
Other term liabilities to customers	150,791	103,559	10,670	12,362	24,200
Certificated liabilities	183,613	24,340	25,284	92,589	41,400
Subordinated liabilities	10,670	195	511	3,216	6,748
Profit-participation certificates	4,378			500	3,878
Term liabilities	**496,808**	**237,197**	**51,344**	**119,041**	**89,226**

31 December 1997

Claims DM mn	Total	Up to 3 months	>3 months – 1 year	>1 year – 5 years	More than 5 years
Term claims on banks	111,334	68,458	15,094	18,553	9,229
Claims on customers*)	354,085	106,209	30,056	80,806	137,014
Term claims	**465,419**	**174,667**	**45,150**	**99,359**	**146,243**

*) Claims on customers with residual terms of up to 3 months include DM 17,285 million of undated claims. These claims include credit lines available until further notice, overdraft facilities, loans called or overdue, unauthorised overdrafts, call money and internal account balances.

Liabilities DM mn	Total	Up to 3 months	>3 months – 1 year	>1 year – 5 years	More than 5 years
Term liabilities to banks	118,393	86,328	8,868	12,004	11,193
Savings deposits and home loan savings	32,321	27,767	1,434	2,289	831
Other term liabilities to customers	145,133	95,104	12,818	14,283	22,928
Certificated liabilities	156,967	20,888	21,036	80,357	34,686
Subordinated liabilities	10,137	156	128	2,383	7,470
Profit-participation certificates	4,412			500	3,912
Term liabilities	**467,363**	**230,243**	**44,284**	**111,816**	**81,020**

IV. Off-Balance Sheet Business

(37) Contingencies and other commitments

DM mn	31 Dec 1998	31 Dec 1997
Contingent liability		
on endorsed bills of exchange settled with customers	**3,318**	5,540
of which rediscounted at Deutsche Bundesbank	**3,010**	4,064
Contingencies		
on guarantees and warranties		
Credit guarantees	**5,073**	3,772
Other guarantees and warranties	**30,416**	28,245
Letters of credit	**3,268**	4,794
of which letters of credit opened	**1,876**	2,776
of which letters of credit confirmed	**1,392**	2,018
	38,757	36,811
Contingencies	**42,075**	**42,351**
Underwriting commitments	**38**	61
Irrevocable loan commitments		
Advances	**48,172**	56,181
Standby facilities	**15,431**	14,531
Guarantee credits	**4,310**	4,516
Discount credits	**559**	1,425
Mortgage loans/communal loans	**8,958**	7,169
	77,430	83,822
Other commitments	**77,468**	**83,883**

The vast majority of other commitments are irrevocable loan commitments. These are credit facilities – largely advances – with a limited lifetime, which have not yet been drawn upon. In addition, there are standby facilities enabling customers to issue short-term money market instruments. The evaluation of issuers' creditworthiness associated with this type of business is conducted within our framework of credit risk management.

The reported volumes for underwriting commitments as well as regarding irrevocable loan commitments represent amounts not yet drawn upon. On 31 December 1998 there were underwriting commitments drawn in the amount of DM 8.9 million (1997: DM 12.7 million).

Other financial commitments

(38)

Commitments to pay up shares, bonds and other capital interests totalled DM 284 million (1997: DM 387 million); secondary liability under section 24 of the German Limited Liability Companies Act (GmbH-Gesetz) existed in respect of an aggregate amount of DM 43 million (1997: DM 43 million). The Group's commitments to pay further assessments in respect of the holding in Liquiditäts-Konsortialbank GmbH, Frankfurt/Main, under section 26 of the German Limited Liability Companies Act, amounted to DM 113 million (1997: DM 113 million), and secondary liability existed under section 5 (4) of the Articles of Association.

In all cases of secondary liability the financial status of the other shareholders involved is sound.

The liability arising from an interest in one enterprise is unlimited due to the legal form in which this enterprise is organised. Also in this case, the financial status of the other partners involved is sound.

DM mn	31 Dec 1998	31 Dec 1997
Obligations under lease agreements	**4,291**	4,259
Obligations under capital expenditure projects in progress	**266**	237
Commitment to pay up shares, bonds and other capital interests; secondary liability	**440**	525
Other	**533**	578
Other financial commitments	**5,530**	**5,599**

Under section 5 (10) of the Statutes of the Joint Fund for Securing Customer Deposits (Einlagensicherungsfonds) we have undertaken to indemnify the Federal Association of German Banks (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 German Commercial Code, which are engaged in banking business or complementary operations, Dresdner Bank AG, in relation to the proportion of its shareholding, ensures that these companies can fulfil their obligations, with the exception of political risk.

Trustee business

(39)

The table shown below is a breakdown of trustee business not reported in the balance sheet.

DM mn	31 Dec 1998	31 Dec 1997
Claims on banks	**1,335**	1,469
Claims on customers	**5,447**	5,324
Financial investments	**12**	15
Assets held in trust *)	**6,794**	**6,808**
Liabilities to banks	**504**	474
Liabilities to customers	**6,290**	6,334
Liabilities incurred as a trustee	**6,794**	**6,808**

*) Including DM 6,453 million (1997: DM 6,793 million) of trustee loans.

(40) Derivatives business

31 Dec 1998 DM mn	Nominal amount/Residual term <= 1 year	>1 – 5 years	>5 years	Total	Positive market value
Interest rate instruments					
OTC products					
FRAs	71,998	19,936		91,934	70
Interest rate swaps (single currency)	223,847	549,076	356,286	1,129,209	32,289
Interest rate options – purchases	16,315	56,021	22,641	94,977	1,485
Interest rate options – sales	15,986	59,691	47,539	123,216	
Other contracts on interest rates	2,328			2,328	
Listed products					
Interest rate futures	112,858	45,523	1	158,382	
Interest rate options	34,812			34,812	
Total	**478,144**	**730,247**	**426,467**	**1,634,858**	**33,844**
Currency-related instruments					
OTC products					
Foreign exchange forwards	347,828	13,173	7,274	368,275	7,218
Cross-currency swaps	15,755	47,167	27,763	90,685	3,514
Currency options – purchases	40,596	1,620	87	42,303	1,165
Currency options – sales	43,395	1,416	50	44,861	
Other contracts on currencies	164	343	59	566	
Listed products					
Currency futures	6,899			6,899	
Currency options					
Total	**454,637**	**63,719**	**35,233**	**553,589**	**11,897**
Equity/index instruments					
OTC products					
Equity/index swaps	76	546	683	1,305	26
Equity/index options – purchases	12,996	6,870	22	19,888	2,002
Equity/index options – sales	21,999	6,508	146	28,653	
Other contracts on equities/indices	820	17		837	40
Listed products					
Equity/index futures	2,228	18		2,246	
Equity/index options	8,723	13		8,736	
Total	**46,842**	**13,972**	**851**	**61,665**	**2,068**
Other transactions					
OTC products					
Precious metals transactions	4,946	3,596	645	9,187	253
Other transactions	1,217	4,167	2,065	7,449	118
Listed products					
Futures			7	7	
Options					
Total	**6,163**	**7,763**	**2,717**	**16,643**	**371**
Grand total 1998	**985,786**	**815,701**	**465,268**	**2,266,755**	**48,180**

DM 46.1 billion of the total DM 48.2 billion of positive market value is attributable to trading business.

31 Dec 1997 DM mn	Nominal amount/Residual term <= 1 year	 >1–5 years	 >5 years	 Total	Positive market value
Interest rate instruments					
OTC products					
FRAs	60,586	8,433		69,019	21
Interest rate swaps (single currency)	183,365	410,554	192,785	786,704	15,577
Interest rate options – purchases	15,180	41,376	18,282	74,838	715
Interest rate options – sales	13,988	44,007	22,098	80,093	
Other contracts on interest rates	4,607	2		4,609	
Listed products					
Interest rate futures	164,371	42,774		207,145	
Interest rate options	69,719	632		70,351	
Total	**511,816**	**547,778**	**233,165**	**1,292,759**	**16,313**
Currency-related instruments					
OTC products					
Foreign exchange forwards	437,489	15,240	287	453,016	10,969
Cross-currency swaps	7,943	29,147	20,481	57,571	2,655
Currency options – purchases	52,318	1,729	48	54,095	1,695
Currency options – sales	53,737	626		54,363	
Other contracts on currencies	38	950		988	
Listed products					
Currency futures					
Currency options					
Total	**551,525**	**47,692**	**20,816**	**620,033**	**15,319**
Equity/index instruments					
OTC products					
Equity/index swaps	2,756	559	740	4,055	10
Equity/index options – purchases	3,729	1,924	40	5,693	277
Equity/index options – sales	10,584	4,028	214	14,826	
Other contracts on equities/indices	962	274		1,236	48
Listed products					
Equity/index futures	5,403			5,403	
Equity/index options	7,022	32		7,054	
Total	**30,456**	**6,817**	**994**	**38,267**	**335**
Other transactions					
OTC products					
Precious metals transactions	6,804	2,532	1,111	10,447	365
Other transactions	321	171	118	610	27
Listed products					
Futures	734	98		832	
Options	620			620	
Total	**8,479**	**2,801**	**1,229**	**12,509**	**392**
Grand total 1997	**1,102,276**	**605,088**	**256,204**	**1,963,568**	**32,359**

DM 30.0 billion of the total DM 32.4 billion of positive market value is attributable to trading business.

In addition to meeting customer requirements and hedging on-balance sheet risks, our off-balance sheet business – mainly in instruments such as futures, swaps and options on interest rates, foreign exchange rates, share prices, equity indices or precious metals prices as well as foreign exchange forward transactions and FRAs – serves principally as a tool for managing our trading portfolios.

The internationally published nominal volumes for derivatives only constitute a reference for the calculation of mutually agreed settlement payments (e.g. interest claims and liabilities resulting from interest rate swaps) and cannot be compared with balance sheet claims and liabilities.

In keeping with internationally accepted practice we publish the replacement cost of transactions in the event of potential counterparty default. At the end of 1998, the gross total counterparty risk for all outstanding derivative transactions (positive market value), calculated on a mark-to-market basis, amounted to DM 48.2 billion (excluding any netting agreements). The DM 15.8 billion increase on the previous year was due to growing business volumes, but also to changed market parameters, with the impact of falling interest rates being particularly strong. Counterparty risk is reduced by DM 18.9 billion when recognised netting agreements are included. Therefore, the total counterparty risk after netting amounts to DM 29.3 billion, or 7.5 % of lending volume.

The share of transactions entered into with OECD banks and financial institutions has grown to more than 90 % in 1998 (1997: more than 80 %).

Type of counterparty	Counterparty risk	
DM mn	**31 Dec 1998**	**31 Dec 1997**
OECD governments	**1,343**	621
OECD banks	**39,417**	23,803
Other OECD financial institutions	**3,591**	2,924
Other enterprises and private individuals	**3,034**	2,932
Non-OECD governments	**4**	1,082
Non-OECD banks	**627**	960
Other non-OECD financial institutions	**164**	37
Total	**48,180**	**32,359**

V. Supplementary Information

Fair value of financial instruments (41)

The fair value of a financial instrument is the amount for which the instrument would be exchanged between knowledgeable, willing and independent parties in the absence of any pressure for action, at arms-length conditions. Where available, the most suitable measure for fair value is the market value. Financial instruments include predominantly securities, loans, deposits and derivatives.

Assets	31 Dec 1998	
DM bn	Fair value	Book value
Cash funds	7.5	7.5
Trading assets	113.8	113.8
Claims on banks and customers	543.0	523.3
Financial investments	79.1	54.6

Liabilities	31 Dec 1998	
DM bn	Fair value	Book value
Trading liabilities	54.1	54.1
Liabilities to banks and customers	421.6	416.5
Certificated liabilities and subordinated liabilities	206.2	194.3
Profit-participation certificates	5.1	4.4

At year-end, the net fair value of non-trading derivatives amounted to minus DM 0.3 billion.

In the absence of organised markets for many financial instruments, mainly loans, deposits and unlisted derivatives, no direct market prices are available. The fair value shown for these instruments has been estimated, using appropriate valuation models and required assumptions. For instance, there is generally no market price for loans and deposits. Therefore, contractually agreed future cash flows have been calculated and discounted on the basis of prevailing market interest rates. In the event of uncertainty about the collectability of interest payments or instalments, appropriate adjustments are made for creditworthiness and the value of credit collateral. Financial instruments with a term of less than three months (such as cash on hand or short-term liabilities) have been included at book value.

Given the variety of valuation methods and the necessity to use estimates when determining valuation parameters, approximated fair values cannot in every case represent the amount for which the respective instrument could actually be sold. Also, fair value calculations of financial instruments are based on market conditions and information on the specific valuation date and provide no basis to estimate future developments in the respective instrument's value. Furthermore, the fair values shown cannot be compared to those published by other banks. Because valuation techniques differ from institution to institution, fair values are dependent to a great extent on subjective valuation parameters. As a consequence, the aggregate fair value cannot be used to imply the "actual value" of the Dresdner Bank Group.

(42) Information on business with affiliated enterprises, non-affiliated enterprises and executive bodies

a) Claims on and liabilities to affiliated enterprises

DM mn	31 Dec 1998	31 Dec 1997
Claims		
Claims on customers	364	332
Total	**364**	**332**
Liabilities		
Liabilities to customers	59	58
Total	**59**	**58**

b) Claims on and liabilities to non-affiliated enterprises

DM mn	31 Dec 1998	31 Dec 1997
Claims		
Claims on banks	2,340	2,865
Claims on customers	4,427	3,573
Debt and other fixed-income securities	57	12
Total	**6,824**	**6,450**
Liabilities		
Liabilities to banks	3,275	885
Liabilities to customers	810	724
Certificated liabilities	365	429
Subordinated liabilities	1,200	1,718
Total	**5,650**	**3,756**

c) Loans to Board members

Loans to Members of the Board of Managing Directors and liabilities assumed on their behalf totalled DM 12,916,627.49 (1997: DM 14,364,332.18). This included loans extended to, or liabilities assumed on behalf of Members of the Boards of Managing Directors of subsidiaries in the amount of DM 3,446,544.65 (1997: DM 2,499,377.81). These transactions have been entered into at the usual terms.

d) Emoluments of Board members

Emoluments of the Board of Managing Directors in the Group totalled DM 20,193,251.06 (1997: DM 21,760,578.93). In addition, within the scope of the Long Term Incentive Plan, the Members of the Board of Managing Directors acquired a nominal value of DM 795,000.00 of the 4 % convertible bond, at the issue price of 100 %, entitling them to subscribe to a total of 159,000 Dresdner Bank shares. The exercise of the conversion rights is subject to a specific development of the Dresdner Bank share price until June 2001. Emoluments of Members of the Supervisory Board in the Group for the 1998 business year totalled DM 2,223,138.60 (1997: DM 2,137,351.85). Aggregate payments to former Members of the Board of Managing Directors or their surviving dependants were DM 18,880,044.22 (1997: DM 13,942,774.01); pension provisions for these persons as of 31 December 1998 amounted to DM 153.0 million (1997: DM 118.8 million). Total emoluments of members of the Advisory Management Council were DM 1,380,000.00 (1997: DM 1,302,500.00). Payments to members of the other advisory boards totalled DM 3,211,000 (1997: DM 3,270,000).

Major subsidiaries, associated enterprises and joint ventures (43)

The list of our shareholdings pursuant to section 313 (2) of the German Commercial Code will be filed with the Commercial Register at the Frankfurt District Court, under registration number HRB 14000. A copy of this list may be requested using the enclosed order form. Major subsidiaries are identified on pages 3 to 6, associated enterprises and joint ventures on page 7 of this list.

Our share in the aggregate assets and liabilities, as well as in the income and expenses of our joint ventures is set out below.

DM mn	31 Dec 1998	31 Dec 1997
Assets	**2,219**	6,877
Liabilities	**1,978**	6,580
Income	**517**	631
Expenses	**487**	607

Changes in the companies included in consolidation (44)

New acquisitions:

Name and registered office:	ADVANCE Bank AG, Duisburg
Business:	Bank, special focus on direct banking
Day of merger:	1 January 1998
Interest held in capital/ voting rights:	100%
Other commitments:	A controlling and profit transfer agreement has been entered into

All shares in ADVANCE Bank AG, Munich, were acquired by ED Projekt- und Beteiligungs-AG, Duisburg. With effect from 1 January 1998, ADVANCE Bank AG, Munich, was merged with ED Projekt- und Beteiligungs-AG, Duisburg, which was subsequently renamed to ADVANCE Bank AG, Duisburg.

Name and registered office:	Albertini & C. SIM pA., Milan
Business:	Equity and bond trading, asset management
Day of merger	30 June 1998
Interest held in capital/ voting rights:	66.8%

Other additions:

Name and registered office: Dresdner Global Asset Management Beteiligungs-GmbH, Frankfurt/Main
Dresdner Kleinwort Benson Beteiligungs-Gesellschaft mbH, Frankfurt/Main
Dresdner Kleinwort Benson O.O.O. Russia, Moscow
Herakles Beteiligungs-Gesellschaft mbH, Bad Vilbel
Herakles Beteiligungs-Gesellschaft mbH & Co. KG, Bad Vilbel (No. 1 to No. 9)
Thurlestone Securities Trading Company, Dublin

Dresdner Kleinwort Benson Research GmbH, Frankfurt/Main
Kleinwort Benson GmbH, Frankfurt/Main

The series of nine "Herakles" holding companies was established for the spin-off of parts of our shareholdings.

Enterprises no longer consolidated:

Name	Business	Reason for non-consolidation
Deutsche Hypothekenbank Frankfurt AG, Frankfurt/Main	Mortgage bank	Merger with Norddeutsche Hypotheken- und Wechselbank AG, Hamburg
Hypothekenbank in Hamburg AG, Hamburg	Mortgage bank	Merger with Norddeutsche Hypotheken- und Wechselbank AG, Hamburg
Dresdner Asset Management (USA) Corporation, Wilmington/Delaware, New York	Asset management	Sale
Dresdner Bank – Kleinwort Benson (Switzerland) Ltd, Geneva	Bank	Merger with Dresdner Bank (Schweiz) AG, Zurich
Kämmerer & Ernst GmbH & Co. KG, Berlin	Real estate	Merger with Merkur Grundstücks-gesellschaft mbH, Berlin
RCM Capital Trust Company, San Francisco	Asset management	First-time consolidation with the sub-group Dresdner RCM Global Investors US Holdings LLC

Changes of name:

New name	Previous name
ADVANCE Bank AG, Duisburg	ED Projekt- und Beteiligungs-AG, Duisburg
Deutsche Hyp	Norddeutsche Hypotheken- und Wechselbank AG, Hamburg
Deutsche Hypothekenbank Frankfurt-Hamburg AG, Frankfurt/Main	
Dresdner Bank Brasil S.A. Banco Múltiplo, São Paulo	Dresdner Bank Lateinamerika (Brasil) S.A., Banco Múltiplo, São Paulo
Dresdner International Management Services Ltd, Dublin	Dresdner Kleinwort Benson International Management Services Ltd, Dublin
Dresdner Kleinwort Benson Australia Ltd, Sydney	Dresdner Australia Ltd, Sydney

List of Board Members and Offices Held

Supervisory Board

Name Profession	Offices held in other statutory supervisory boards of domestic companies	Membership of comparable supervisory bodies of business enterprises in Germany and abroad
Dr. Alfons Titzrath **Chairman** Former Member of the Board of Managing Directors of Dresdner Bank AG	Allianz AG (Deputy Chairman) Hoechst AG IVG Holding AG RWE AG VAW aluminium AG	–
Dipl.-Kfm. Uwe Plucinski **Deputy Chairman** Deputy Chairman of the Central Employees' Council of Dresdner Bank AG	–	BVV Versicherungsverein des Bankgewerbes a. G.
Karl Beusch (until 15 May 1998) Legal counsellor	–	–
Harald Bieler (until 15 May 1998) Former member of staff of Dresdner Bank AG	Lahmeyer International GmbH Techem Geschäftsführung AG WAYSS & FREYTAG AG	–
Klaus Carlin Member of the Executive Board of Trade Union HBV	Allianz AG BHW Holding AG	–
Meinhard Carstensen (from 15 May 1998) Former Member of the Board of Managing Directors of Dresdner Bank AG	Norddeutsche Affinerie AG	–
Marina Dauernheim (until 15 May 1998) Member of staff of Dresdner Bank AG	–	–
Reinhard Drönner Head of the Section Banks and Savings Banks, Federal Executive Board of Trade Union DAG	Oldenburgische Landesbank AG	–
Claudia Eggert-Lehmann (from 15 May 1998) Member of staff of Dresdner Bank AG	–	–
Bernhard Enseling (from 15 May 1998) Member of staff of Dresdner Bank AG	–	–
Dr. Martin Frühauf (from 15 May 1998) Chairman of the Supervisory Board of Hoechst AG	Hoechst AG (Chairman)	Landesbank Hessen-Thüringen Girozentrale
Dr. jur. Friedhelm Gieske (until 15 May 1998) Former Chairman of the Board of Managing Directors of RWE AG	Allianz AG MAN AG National-Bank AG (Deputy Chairman) RWE AG Thyssen AG	Kraftwerk Laufenburg AG, Schweiz SEO Société Electrique de l'Our SA, Luxembourg (Vice President)

Supervisory Board

Name Profession	Offices held in other statutory supervisory boards of domestic companies	Membership of comparable supervisory bodies of business enterprises in Germany and abroad
Hans Graf von der Goltz (until 15 May 1998)	–	Gerling-Konzern Versicherungs-Beteiligungs-AG
Peter Haimerl Chairman of the Central Employees' Council of Dresdner Bank AG	–	–
Prof. Dr. rer. nat. Dr.-Ing. E. h. Wolfgang Hilger (until 15 May 1998) Former Chairman of the Board of Managing Directors of Hoechst AG	Hüls AG IBM Deutschland GmbH Mannesmann AG VICTORIA Holding AG (Chairman until 31 January 1998) VICTORIA Lebensversicherung AG (Chairman) VICTORIA Versicherung AG (Chairman)	Royal Philips Electronics, Eindhoven
Manfred Karsten (from 15 May 1998) Member of staff of Oldenburgische Landesbank AG	Oldenburgische Landesbank AG (Deputy Chairman)	–
Ainis Kibermanis Member of staff of Dresdner Bank AG	–	–
Bernd Kriegeskorte (from 15 May 1998) Member of staff of Dresdner Bank AG	THURINGIA Versicherungs-AG RATHGEBER AG	–
Dr. Heinz Kriwet Chairman of the Supervisory Board of Thyssen AG	Allianz Lebensversicherungs-AG GEA AG Siemens AG Thyssen AG (Chairman)	–
Dr. Edward Krubasik (from 15 May 1998) Member of the Board of Managing Directors of Siemens AG	KSB Aktiengesellschaft Stinnes AG	BSH Bosch-Siemens-Hausgeräte GmbH*) Siemens Oy, Helsinki*) Siemens S.A., Paris*) Siemens A/S, Oslo*) Siemens Elema AB, Stockholm*) Siemens Building Technologies AG, Zurich*)
Dr. jur. Dietmar Kuhnt (from 15 May 1998) Chairman of the Board of Managing Directors of RWE AG	Allianz Versicherungs-AG Hapag-Lloyd AG Heidelberger Druckmaschinen AG*) (Chairman) HOCHTIEF AG*) (Chairman) LAHMEYER AG*) (Chairman) Metallgesellschaft AG PREUSSAG AG Rheinbraun AG*) (Chairman) RWE-DEA AG*) (Chairman) RWE Energie AG*) (Chairman) RWE Umwelt AG*) (Chairman)	–

*) Office held within the Group.

Supervisory Board

Name Profession	Offices held in other statutory supervisory boards of domestic companies	Membership of comparable supervisory bodies of business enterprises in Germany and abroad
Manfred Leonhard (until 15 May 1998) Member of staff of Dresdner Bank AG	–	–
Michel Pébereau Président-Directeur Général of Banque Nationale de Paris S.A.,	–	AXA-UAP S.A., Paris Banque Nationale de Paris S.A., Paris *) (Président du Conseil d'Administration) Banque pour l'Expansion Industrielle (Banexi), Paris BNP UK Holdings Limited, London *) Compagnie d'Investissements de Paris, Paris *) (Président du Conseil d'Administration) Elf Aquitaine S.A., Paris Financière BNP, Paris *) Galeries Lafayette, Paris Lafarge S.A., Paris Renault S.A., Boulogne-Billancourt La Compagnie de Saint Gobain, Paris
Bernd Pischetsrieder (from 15 May 1998) Former Chairman of the Board of Managing Directors of BMW AG	VIAG AG METRO AG Allianz AG	–
Gunter Rose (until 15 May 1998) Legal counsellor	–	–
Sultan Salam Member of staff of Dresdner Bank AG	–	–
Dr. Hans-Jürgen Schinzler Chairman of the Board of Managing Directors of Münchener Rückversicherungs-Gesellschaft AG	Degussa AG ERGO Versicherungsgruppe AG (Chairman) Hoechst AG MAN AG Münchener Rückversicherungs-Gesellschaft Beteiligungen AG *) (Chairman)	Allianz of America Inc., Wilmington, Delaware American Re Corporation *), Wilmington, Delaware (Chairman) Dresdner Kleinwort Benson North America Inc., New York
Dr. jur. Henning Schulte-Noelle Chairman of the Board of Managing Directors of Allianz Aktiengesellschaft	Allianz Versicherungs-AG *) (Chairman) Allianz Lebensversicherungs-AG *) (Chairman) BASF AG Linde AG MAN AG (Deputy Chairman) Mannesmann AG Münchener Rückversicherungs-Gesellschaft AG (Deputy Chairman) Siemens AG Thyssen AG (Deputy Chairman) Veba AG	AGF, Paris *) (Deputy Chairman) Elvia Versicherungen, Zurich *) (Vice Chairman) Fireman's Fund, Novato, California *) RAS, Milan *) (Vice President)
Dr. Dr.-Ing. E. h. Dr. phil. h. c. Kurt Werner (until 15 May 1998) Managing Director of GOEDA Vermögensverwaltungs GmbH	Maschinenfabrik Goebel GmbH (Chairman) Hermes Kreditversicherungs-AG (Deputy Chairman) SMS AG	–

*) Office held within the Group.

Board of Managing Directors

Name Profession	Offices held in statutory supervisory boards of domestic companies	Membership of comparable supervisory bodies of business enterprises in Germany and abroad
Bernhard Walter **Chairman**	Bilfinger + Berger Bauaktiengesellschaft DaimlerChrysler AG DEGI Deutsche Gesellschaft für Immobilienfonds m.b.H. *) Degussa-Hüls AG Deutsche Hyp Deutsche Hypothekenbank Frankfurt-Hamburg AG *) (Chairman) Deutsche Lufthansa AG Dresdner Capital International Kapitalanlagegesellschaft mbH *) dresdnerbank investment management Kapitalanlagegesellschaft mbH *) Heidelberger Zement AG Henkel KGaA Metallgesellschaft AG Staatliche Porzellan-Manufaktur Meissen GmbH Thyssen AG	Kommanditgesellschaft Allgemeine Leasing GmbH & Co. (Chairman) Reuschel & Co. *) (Deputy Chairman)
Gerhard Eberstadt	AMB Aachener und Münchener Beteiligungs-AG DEGI Deutsche Gesellschaft für Immobilienfonds m.b.H. *) (Chairman) Deutsche Börse AG (Deputy Chairman) Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH *) (Chairman) Dresdner Capital International Kapitalanlagegesellschaft mbH *) (Chairman) dresdnerbank investment management Kapitalanlagegesellschaft mbH *) (Chairman) FAG Kugelfischer Georg Schäfer AG Hamburg-Mannheimer Investment Trust GmbH (Deputy Chairman) Volksfürsorge Deutsche Lebensversicherungs AG	Dresdner (South East Asia) Ltd., Singapore *) (Deputy Chairman) Dresdner Bank (Schweiz) AG, Zurich *) (Vice President) Dresdner Kleinwort Benson North America Inc., New York *) (Chairman) dresdnerbank management S.A., Luxembourg *) (Chairman) Dresdner RCM Global Investors L.L.C., San Francisco *) (Senior Chairman) MEIJI Dresdner Asset Management Company, Ltd., Tokyo Reuschel & Co. *)

*) Office held within the Group.

Board of Managing Directors

Name Profession	Offices held in statutory supervisory boards of domestic companies	Membership of comparable supervisory bodies of business enterprises in Germany and abroad
Dr. Bernd Fahrholz	ASTA Medica AG DEGI Deutsche Gesellschaft für Immobilienfonds m.b.H. *) Dresdner Bank Lateinamerika Aktiengesellschaft *) (Deputy Chairman) DETECON Deutsche Telepost Consulting GmbH (Deputy Chairman) Diskont und Kredit AG Dynamit Nobel Aktiengesellschaft Fresenius Medical Care AG Georgsmarienhütte GmbH Georgsmarienhütte Holding GmbH LECH-ELEKTRIZITÄTSWERKE AKTIEN-GESELLSCHAFT Oldenburgische Landesbank AG *) Unternehmensbeteiligungsgesellschaft für die deutsche Wirtschaft AG *) (Chairman)	BNP-Dresdner Bank (ČR) a.s., Prague (Vice Chairman) BNP-Dresdner Bank (Hungária) Rt., Budapest BNP-Dresdner Bank (POLSKA) S.A., Warsaw (Vice Chairman) BNP-Dresdner Bank ZAO, St. Petersburg (Chairman) Kommanditgesellschaft Allgemeine Leasing GmbH & Co.
Leonhard H. Fischer	Kali und Salz Beteiligungs AG	Dresdner Kleinwort Benson (Asia) Limited, Hong Kong/Tokyo *) (Chairman) Dresdner Kleinwort Benson (Marchés) S.A., Paris *) (Président)
Dr. Joachim v. Harbou	Blohm + Voss Holding Aktiengesellschaft DEGI Deutsche Gesellschaft für Immobilienfonds m.b.H. *) Hamburger Hafen- und Lagerhaus AG Klöckner-Werke AG Rheinmetall AG RWE-DEA Aktiengesellschaft für Mineralöl u. Chemie Rütgers AG Salzgitter Aktiengesellschaft Thyssen Handelsunion AG	Kommanditgesellschaft Allgemeine Leasing GmbH & Co.
Gerd Häusler	Alte Leipziger Versicherung AG DaimlerChrysler Aerospace Airbus Gesellschaft mit beschränkter Haftung Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH *) Dresdner Capital International Kapitalanlagegesellschaft mbH *) dresdnerbank investment management Kapitalanlagegesellschaft mbH *) Esso AG LAHMEYER AKTIENGESELLSCHAFT	ARBED – Aciéries Réunies de Burbach-Eich-Dudelange S.A., Luxembourg Dresdner (South East Asia) Ltd., Singapore *) (Chairman) Dresdner Kleinwort Benson (Asia) Limited, Hong Kong/Tokyo *) (Vice Chairman) Dresdner Kleinwort Benson (Marchés) S.A., Paris *) (Vice Président) Dresdner Kleinwort Benson North America Inc., New York *) Kleinwort Benson Group plc, London *) (Chairman)

*) Office held within the Group.

Board of Managing Directors

Name Profession	Offices held in statutory supervisory boards of domestic companies	Membership of comparable supervisory bodies of business enterprises in Germany and abroad
Prof. Dr. Ernst-Moritz Lipp	Deutsche BP Aktiengesellschaft Dresdner Bank Lateinamerika Aktiengesellschaft *) (Chairman) Dresdner Capital International Kapitalanlagegesellschaft mbH *) dresdnerbank investment management Kapitalanlagegesellschaft mbH *) Nestlé Deutschland AG SGE Deutsche Holding GmbH	Dresdner Bank Luxembourg S.A., Luxembourg *) Dresdner Kleinwort Benson (Marchés) S.A., Paris *) Dresdner Kleinwort Benson North America Inc., New York *) (Vice Chairman)
Dr. Horst Müller	BATIG Gesellschaft für Beteiligungen mbH British-American Tobacco (Germany) GmbH Buderus AG DEGI Deutsche Gesellschaft für Immobilienfonds m.b.H. *) (Deputy Chairman) Herlitz AG Herlitz PBS Aktiengesellschaft Papier-, Büro- und Schreibwaren Hermes Kreditversicherungs-AG Stone Container GmbH (Chairman) STONE EUROPA CARTON AKTIENGESELLSCHAFT (Chairman)	BVV Versicherungsverein des Bankgewerbes a.G. (Deputy Chairman)
Heinz-Jörg Platzek	ADVANCE Bank Aktiengesellschaft *) (Chairman) Asea Brown Boveri Aktiengesellschaft DEGI Deutsche Gesellschaft für Immobilienfonds m.b.H. *) (Deputy Chairman) Deutsche Hyp Deutsche Hypothekenbank Frankfurt-Hamburg AG*) Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH *) (Deputy Chairman) Dresdner Bauspar AG *) (Chairman) Dresdner Capital International Kapitalanlagegesellschaft mbH *) (Deputy Chairman) dresdnerbank investment management Kapitalanlagegesellschaft mbH *) (Deputy Chairman) ERGO Versicherungsgruppe Aktiengesellschaft IWKA Aktiengesellschaft Oldenburgische Landesbank AG *)	Dresdner Bank (Schweiz) AG, Zurich *) Dresdner Bank Luxembourg S.A., Luxembourg *) (Vice Président) dresdnerbank asset management S.A., Luxembourg *) (Deputy Chairman)

*) Office held within the Group.

Board of Managing Directors

Name Profession	Offices held in statutory supervisory boards of domestic companies	Membership of comparable supervisory bodies of business enterprises in Germany and abroad
Dr. Bernd W. Voss	Continental AG Deutsche Hyp Deutsche Hypothekenbank Frankfurt-Hamburg AG *) (Deputy Chairman) Deutsche Schiffsbank AG (Deputy Chairman) Dresdner Bauspar AG *) (Deputy Chairman) Karstadt AG Oldenburgische Landesbank AG *) (Chairman) Preussag AG Stinnes AG Unternehmensbeteiligungsgesellschaft für die deutsche Wirtschaft AG *) (Deputy Chairman) VARTA AG VEBA AG Volkswagen Aktiengesellschaft	Reuschel & Co. *) (Chairman)

Offices held by members of staff (46)

Name Profession	Offices held in statutory supervisory boards of large joint-stock companies
Dr. A.-M. Graf von Ballestrem	MATERNUS-Kliniken AG
Martin Blessing	ADVANCE Bank Aktiengesellschaft *) Dresdner Bauspar AG *)
Frank Brade	REMAG AG
Gunter Brüß	SCHOTT JENAer GLAS GmbH
Gottfried Finken	Reinhold & Mahla AG
Jürgen Flohr	Otavi Minen AG
Dr. Stefan Friedmann	Kellogg (Deutschland) GmbH
Volker von Franqué	Schwälbchen Molkerei Jakob Berz AG (Deputy Chairman)
Michael Fritzsche	Rhodia Acetow Aktiengesellschaft
Klaus Hullmann	ADVANCE Bank Aktiengesellschaft *)
Claus Kleiner	Deutscher Eisenhandel AG
Karl-Heinz Kreissl	ADVANCE Bank Aktiengesellschaft *)
Hans Krogmann	CinemaxX Aktiengesellschaft
Werner Lübberstedt	ADVANCE Bank Aktiengesellschaft *)
Joachim Mädler	Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH *) Dresdner Capital International Kapitalanlagegesellschaft mbH *) dresdnerbank investment management Kapitalanlagegesellschaft mbH *)

*) Office held within the Group.

Name Profession	Offices held in statutory supervisory boards of large joint-stock companies
Franz Graf von Meran	Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH *)
Peter Mick	Peguform-Werke GmbH
Dr. Jürgen Neuhaus	Eisen- und Hüttenwerke AG INTERSEROH Aktiengesellschaft zur Verwertung von Sekundärrohstoffen rhenag Rheinische Energie AG
Dr. Manfred Schaudwet	Aachener und Münchener Lebensversicherung AG Deutsche Vermögensberatung AG (DVAG) Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH*) Fresenius AG
Klaus-Dieter Schillgalies	Kiekert AG
Michael Schilling	O & K Orenstein & Koppel AG
Dr. Christian Willemer	ADVANCE Bank Aktiengesellschaft *)
Johann Gerard Wolbert	Konrad Hornschuch AG

*) Office held within the Group.

Frankfurt/Main, 29 March 1999

Dresdner Bank
Aktiengesellschaft

Auditors' report

(47)

We have audited the Consolidated Financial Statements of Dresdner Bank AG as of 31 December 1998, comprising the Balance Sheet, Income Statement, Statement of changes in Equity , Cash Flow Statement and Notes to the Consolidated Financial Statements. The Board of Managing Directors of the company is responsible for the preparation as well as the contents of the Consolidated Financial Statements. Our responsibility is to express an opinion, having conducted an audit, as to whether the Consolidated Financial Statements are in accordance with International Accounting Standards (IAS).

We conducted our audit in accordance with German auditing rules as well as the International Standards on Auditing (ISA). These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the Consolidated Financial Statements are free of material misstatements. The conduct of an audit includes examining, on a sample basis, evidence supporting the valuations applied and the disclosures in the Consolidated Financial Statements. The scope of an audit also includes assessing the accounting principles used and significant estimates of the Board of Managing Directors, as well as evaluating the overall presentation of the Consolidated Financial Statements. We are confident that our audit provides a sufficiently sound basis on which to form our opinion.

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's net worth, financial position and results as of 31 December 1998, and of the cash flow situation of the business year then ended, and are in accordance with IAS.

Our audit, which also included the Group Management Report and examined as to whether the conditions for exemption pursuant to section 292a of the German Commercial Code had been complied with, led to no objections. In our opinion, the Group Management Report gives a true and fair overall view of the Group's situation and is consistent with the Consolidated Financial Statements. The company has fulfilled the conditions for exemption from presenting Consolidated Financial Statements according to German law.

Frankfurt/Main, 30 March 1999

C & L Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Kaiser	Borgel
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Chartered Accountant)	(German Chartered Accountant)