



\$1,000,000,000
1,000,000 Dated Silent Partnership Certificates
Dresdner Funding Trust I
8.151% Non-cumulative Dated Silent Partnership Certificates
(Liquidation Amount \$1,000 per Dated Silent Partnership Certificate)
each representing a Dated Silent Partnership Interest in
Dresdner Capital LLC I
(a wholly-owned subsidiary of Dresdner Bank Aktiengesellschaft)

Each of the Dated Silent Partnership Certificates, stated liquidation amount \$1,000 per certificate (the “Certificates”), of Dresdner Funding Trust I, a statutory business trust created under the laws of the State of Delaware (the “Trust”), represents a Dated Silent Partnership Interest, liquidation preference \$1,000 per interest (each, a “Partnership Interest”), of Dresdner Capital LLC I, a Delaware limited liability company (the “LLC”). Payments of distributions and amounts upon early redemption, liquidation, and maturity of the Partnership Interests, when, as and if paid by the LLC to the Trust, will be passed through upon receipt by the Trust (the sole assets of which are the Partnership Interests) to holders of Certificates. The Partnership Interests will pay non-cumulative distributions semi-annually in arrears at a fixed rate per annum equal to 8.151% and will mature on June 30, 2031. The Partnership Interests are callable by the LLC in part or in whole after June 30, 2029 in certain circumstances as described herein. All of the common limited liability company interests of the LLC (the “LLC Common Securities”) will be owned by Dresdner Bank Aktiengesellschaft (“Dresdner Bank” or the “Bank” and, together with its consolidated subsidiaries, “Dresdner Bank Group” or the “Group”), acting through its New York Branch (the “Branch”).

An offering of 500,000 Dated Silent Partnership Certificates of Dresdner Funding Trust II in an aggregate liquidation amount of € 500,000,000 is being made simultaneously with the offering of the Certificates being offered hereby (the “Offering”). See “Overview—The Combined Offering.”

See “Risk Factors” beginning on page 35 for a discussion of certain factors that should be considered by prospective investors in evaluating an investment in the Certificates.

Application has been made to list the Certificates on the Luxembourg Stock Exchange.

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE SECURITIES LAWS AND, UNLESS SO REGISTERED, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. ACCORDINGLY, THE SECURITIES OFFERED HEREBY ARE BEING OFFERED AND SOLD ONLY (A) TO “QUALIFIED INSTITUTIONAL BUYERS” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”)) IN RELIANCE ON RULE 144A, (B) TO A LIMITED NUMBER OF INSTITUTIONAL “ACCREDITED INVESTORS” (AS DEFINED IN RULE 501 (a) (1), (2), (3) OR (7) UNDER THE SECURITIES ACT), AND (C) TO CERTAIN PERSONS OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT (“REGULATION S”). FOR A DESCRIPTION OF CERTAIN RESTRICTIONS ON REALES OR TRANSFERS, SEE “NOTICE TO INVESTORS.”

	Price to Investors	Initial Purchasers’ Commission(1)	Proceeds to Trust (2)(3)
Per Certificate	\$1,000	(2)	\$1,000
Total	\$1,000,000,000	(2)	\$1,000,000,000

(1) The Trust, the LLC and the Bank, acting through the Branch, have agreed to indemnify the Initial Purchasers (as defined herein) against certain liabilities, including liabilities under the Securities Act. See “Plan of Distribution.”

(2) In view of the fact that the proceeds of the Certificates will ultimately be invested in the Subordinated Note, the Bank, acting through the Branch, has agreed to pay the Initial Purchasers’ commissions in connection with the Offering. See “Plan of Distribution.”

(3) The Bank, acting through the Branch, has agreed to pay certain expenses relating to the Offering on behalf of the Trust and the LLC.

The Certificates are offered severally by the Initial Purchasers, as specified herein, subject to prior sale, when, as and if issued to and accepted by the Initial Purchasers, and subject to the approval of certain legal matters by counsel for the Initial Purchasers and to certain other conditions. It is expected that delivery of the Certificates will be through the facilities of The Depository Trust Company (“DTC”), Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System (“Euroclear”) or Cedelbank, société anonyme (“Cedelbank”), and, in certain circumstances, in certificated form on or about May 25, 1999 (the “Closing Date”) against payment therefor in immediately available funds.

Dresdner Kleinwort Benson

Merrill Lynch & Co.

The Total Silent Partnership Capital Contribution (as defined herein), together with the proceeds from the sale of the LLC Common Securities, will be used by the LLC to purchase a subordinated note (the “Subordinated Note”) of the Bank, acting through the Branch. The Certificates that are initially sold to “qualified institutional buyers” in reliance on Rule 144A will be represented by one or more Global Certificates (as defined herein under “Description of the Certificates—Form, Book-Entry Procedures and Transfer”) in registered form will be deposited on or about the Closing Date with a custodian for, and registered in the name of a nominee of, DTC. Certificates initially sold in transactions outside the United States in reliance on Regulation S will be represented by one or more Global Certificates in registered form in the name of a nominee for, and shall be deposited on or about the Closing Date with a common depository (the “Common Depository”) for Euroclear and Cedelbank. Certificates sold to Non-U.S. Persons (as defined in Regulation S) will initially be evidenced by a Temporary Regulation S Global Certificate (as defined herein under “Description of the Certificates—Form, Book-Entry Procedures and Transfer”) in registered form deposited with the Common Depository for the accounts of Euroclear and Cedelbank. Beneficial interests in such Global Certificates will be shown on, and transfers thereof will be effected through, records maintained by DTC, Euroclear and Cedelbank and their respective participants. Interests in the Temporary Regulation S Global Certificate may be exchanged 40 days after the closing date for interests in the Permanent Regulation S Global Certificate (as defined herein under “Description of the Certificates—Form, Book-Entry Procedures and Transfer”) in registered form upon certification of non-U.S. beneficial ownership. No payment will be made in respect of an interest in the Temporary Regulation S Global Certificate unless and until the beneficial owner of such interest has provided the required certification and such interest has been exchanged for an interest in the Permanent Regulation S Global Certificate. Any Certificates sold other than in reliance upon Rule 144A or Regulation S will be issued in certificated form. Except under the limited circumstances described herein, Certificates in certificated form will not be issued in exchange for interests in the Global Certificates. The Certificates sold pursuant to Rule 144A will be initially issued and may be initially transferred, only in blocks having an aggregate liquidation amount of not less than \$100,000 and integral increments of \$1,000 in excess thereof.

The Bank, the Trust and the LLC, upon having made all reasonable inquiries, confirm that, as of the date hereof, this Offering Memorandum contains all information with respect to the Bank, the Bank’s subsidiaries and affiliates, the LLC, the Trust, the Subordinated Note, the Silent Partnership Agreement (as defined herein under “Summary—The Offering—The LLC”), the Partnership Interests and the Certificates that is material in the context of the issuance, offer and sale of the Certificates, that all the information contained herein is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed herein are honestly held and that there are no other facts the omission of which would make this Offering Memorandum as a whole or any of such information or the expression of any such opinions or intentions misleading.

Each of the Bank of New York (Delaware) (“BNY Delaware”) and The Bank of New York (“BNY”) has been appointed to act as trustees of the Trust. Neither BNY nor BNY Delaware is responsible for the contents of this Offering Memorandum concerning the Trust, the Certificates, the Partnership Interests or any other person or matter contained herein.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE CERTIFICATES. SUCH TRANSACTIONS MAY INCLUDE OVER-ALLOTMENT, STABILIZING, SHORT-COVERING TRANSACTIONS AND THE IMPOSITION OF PENALTY BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE “PLAN OF DISTRIBUTION.” AS USED HEREIN, AN “AFFILIATE” OF THE BANK MEANS ANY ENTITY THAT, DIRECTLY OR INDIRECTLY, THROUGH ONE OR MORE INTERMEDIARIES, IS CONTROLLED BY, CONTROLS OR IS UNDER COMMON CONTROL WITH THE BANK.

THE SECURITIES OFFERED HEREBY ARE NOT DEPOSITS OR OTHER OBLIGATIONS OF A BANK AND ARE NOT INSURED BY THE U.S. FEDERAL DEPOSIT INSURANCE CORPORATION (“FDIC”) OR ANY OTHER GOVERNMENTAL AGENCY.

THIS OFFERING IS BEING MADE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT FOR AN OFFER AND SALE OF SECURITIES WHICH DOES NOT INVOLVE A PUBLIC OFFERING. ACCORDINGLY, EACH PURCHASER OF CERTIFICATES, IN MAKING ITS PURCHASE, WILL BE DEEMED TO HAVE MADE CERTAIN ACKNOWLEDGMENTS, REPRESENTATIONS AND AGREEMENTS RELATING TO TRANSFER RESTRICTIONS, AS SET FORTH UNDER “NOTICE TO INVESTORS.” INVESTORS SHOULD BE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THEIR INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF DRESDNER BANK, THE LLC AND THE TRUST AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THIS OFFERING IS BEING MADE ON THE BASIS OF THIS OFFERING MEMORANDUM AND ANY DECISION TO PURCHASE THE CERTIFICATES IN THIS OFFERING MUST BE BASED ON THE INFORMATION CONTAINED HEREIN. NO REPRESENTATION IS MADE TO ANY OFFEREE OR PURCHASER OF THE CERTIFICATES REGARDING THE LEGALITY OF AN INVESTMENT THEREIN BY SUCH OFFEREE OR PURCHASER UNDER ANY APPLICABLE INVESTMENT OR SIMILAR LAWS OR REGULATIONS. THE CONTENTS OF THIS OFFERING MEMORANDUM ARE NOT TO BE CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT HIS OR HER OWN ATTORNEY, BUSINESS AND TAX ADVISOR AS TO LEGAL, BUSINESS AND TAX ADVICE.

PROSPECTIVE INVESTORS ARE HEREBY OFFERED THE OPPORTUNITY, PRIOR TO PURCHASING ANY CERTIFICATES, TO ASK QUESTIONS AND RECEIVE ANSWERS CONCERNING THE TERMS OF THE OFFERING OF THE CERTIFICATES AND TO OBTAIN ADDITIONAL INFORMATION FROM THE BANK, THE LLC AND THE TRUST, TO THE EXTENT THAT EACH POSSESSES SUCH INFORMATION OR CAN ACQUIRE IT WITHOUT UNREASONABLE EFFORT OR EXPENSE, THAT IS NECESSARY TO VERIFY THE ACCURACY OF THE INFORMATION CONTAINED HEREIN OR PROVIDED PURSUANT HERETO.

THE SECURITIES DESCRIBED HEREIN HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT REVIEWED THIS OFFERING MEMORANDUM NOR CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE TRUST AND THE INITIAL PURCHASERS RESERVE THE RIGHT (I) TO REJECT ANY OFFER TO PURCHASE, IN WHOLE OR IN PART, FOR ANY REASON, OR (II) TO SELL LESS THAN THE FULL AMOUNT OF THE CERTIFICATES OFFERED HEREBY.

FOR THE PURPOSES OF THE OFFERING, INCLUDING WITHOUT LIMITATION THE OFFERING OF CERTIFICATES FOR RESALE IN THE UNITED STATES IN ACCORDANCE WITH RULE 144A, THIS OFFERING MEMORANDUM IS PERSONAL TO THE OFFEREE AND HAS BEEN PREPARED SOLELY FOR USE IN CONNECTION WITH THE PLACEMENT OF THE CERTIFICATES AND DOES NOT CONSTITUTE AN OFFER TO ANY OTHER PERSON OR TO THE PUBLIC GENERALLY TO SUBSCRIBE FOR OR OTHERWISE ACQUIRE CERTIFICATES. DISTRIBUTION OF THIS OFFERING MEMORANDUM TO ANY PERSON OTHER THAN THE OFFEREE AND THOSE PERSONS, IF ANY, RETAINED TO ADVISE SUCH OFFEREE WITH RESPECT TO THE OFFER AND SALE OF THE CERTIFICATES IS NOT AUTHORIZED, AND ANY DISCLOSURE OF ANY OF ITS CONTENTS IS PROHIBITED. EACH OFFEREE, BY ACCEPTING DELIVERY OF THIS OFFERING MEMORANDUM, AGREES TO THE FOREGOING AND TO MAKE NO COPIES OF THIS OFFERING MEMORANDUM AND, IF THE OFFEREE DOES NOT PURCHASE THE CERTIFICATES OR THE OFFERING IS TERMINATED, TO RETURN THIS OFFERING MEMORANDUM UPON REQUEST TO: MERRILL LYNCH & CO., WORLD FINANCIAL CENTER, NORTH TOWER, NEW YORK, NEW YORK 10281, ATTENTION: SYNDICATE DEPARTMENT.

PROSPECTIVE PURCHASERS MUST CAREFULLY CONSIDER THE RESTRICTIONS ON PURCHASE SET FORTH IN “NOTICE TO INVESTORS” AND “CERTAIN ERISA CONSIDERATIONS.”

NO EMPLOYEE BENEFIT PLAN SUBJECT TO TITLE I OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“ERISA”), AND NO PLAN SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “CODE”) (EACH, A “PLAN”), NO ENTITY WHOSE UNDERLYING ASSETS INCLUDE “PLAN ASSETS” BY REASON OF ANY PLAN’S INVESTMENT IN THE ENTITY (A “PLAN ASSET ENTITY”), AND NO PERSON INVESTING “PLAN ASSETS” OF ANY PLAN, MAY ACQUIRE OR HOLD THE CERTIFICATES OR ANY INTEREST HEREIN, UNLESS SUCH PURCHASE AND HOLDING IS COVERED BY THE EXEMPTIVE RELIEF PROVIDED BY U.S. DEPARTMENT OF LABOR PROHIBITED TRANSACTION CLASS EXEMPTION (“PTCE”) 96-23, 95-60, 91-38, 90-1 OR 81-14 OR ANOTHER APPLICABLE EXEMPTION WITH RESPECT TO SUCH PURCHASE AND HOLDING AND, IN THE CASE OF ANY PURCHASER OR HOLDER RELYING ON ANY EXEMPTION OTHER THAN PTCE 96-23, 95-60, 91-38, 90-1 OR 84-14, SUCH PURCHASER OR HOLDER HAS COMPLIED WITH ANY REQUEST BY THE BANK, THE BRANCH OR THE TRUSTEES FOR AN OPINION OF COUNSEL OR OTHER EVIDENCE WITH RESPECT TO THE APPLICABILITY OF SUCH EXEMPTION. ANY PURCHASER OR HOLDER OF THE CERTIFICATES OR ANY INTEREST THEREIN WILL BE DEEMED TO HAVE REPRESENTED BY ITS PURCHASE AND/OR HOLDING THEREOF THAT EITHER (A) THE PURCHASER AND HOLDER ARE NOT PLANS OR PLAN ASSET ENTITIES AND ARE NOT PURCHASING SUCH SECURITIES ON BEHALF OF OR WITH “PLAN ASSETS” OF ANY PLAN OR (B) THE PURCHASE AND HOLDING OF THE CERTIFICATES IS COVERED BY THE EXEMPTIVE RELIEF PROVIDED BY PTCE 96-23, 95-60, 91-38, 90-1 OR 84-14 OR ANOTHER APPLICABLE EXEMPTION.

THE DISTRIBUTION OF THIS OFFERING MEMORANDUM AND THE OFFERING AND SALE OF THE CERTIFICATES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. PERSONS INTO WHOSE POSSESSION THIS OFFERING MEMORANDUM COMES ARE REQUIRED BY THE TRUST, THE LLC, THE BANK AND THE INITIAL PURCHASERS TO INFORM THEMSELVES ABOUT AND TO OBSERVE ANY SUCH RESTRICTIONS.

IN PARTICULAR, THERE ARE RESTRICTIONS ON THE OFFER AND SALE OF THE CERTIFICATES IN THE UNITED KINGDOM. NO ACTION HAS BEEN TAKEN TO PERMIT THE CERTIFICATES TO BE OFFERED TO THE PUBLIC IN THE UNITED KINGDOM. THIS DOCUMENT MAY ONLY BE ISSUED OR PASSED ON IN OR INTO THE UNITED KINGDOM TO A PERSON WHO IS OF A KIND DESCRIBED IN ARTICLE 11(3) OF THE FINANCIAL SERVICES ACT 1986 (INVESTMENT ADVERTISEMENTS) (EXEMPTIONS) ORDER 1996 (AS AMENDED) OR WHO IS A PERSON TO WHOM THE DOCUMENT MAY OTHERWISE LAWFULLY BE ISSUED OR PASSED ON. IT IS THE RESPONSIBILITY OF ALL PERSONS UNDER WHOSE CONTROL OR INTO WHOSE POSSESSION THIS DOCUMENT COMES TO INFORM THEMSELVES ABOUT AND TO ENSURE OBSERVANCE OF ALL APPLICABLE PROVISIONS OF THE FINANCIAL SERVICES ACT 1986 AND OTHER APPLICABLE LAWS AND REGULATIONS WITH RESPECT TO ANYTHING DONE BY IT IN RELATION TO THE CERTIFICATES IN, FROM OR OTHERWISE INVOLVING, THE UNITED KINGDOM. AN AUTHORIZED PERSON UNDER THE FINANCIAL SERVICES ACT 1986, SHOULD ONLY PROMOTE (AS THAT TERM IS DEFINED IN REGULATION 1.02 OF THE FINANCIAL SERVICES (PROMOTION OF UNREGULATED SCHEMES) REGULATIONS 1991) THE CERTIFICATES TO ANY PERSON IN THE UNITED KINGDOM IF THAT PERSON IS OF A KIND DESCRIBED EITHER IN SECTION 76(2) OF THE FINANCIAL SERVICES ACT 1986 OR IN REGULATION 1.04 OF THE FINANCIAL SERVICES (PROMOTION OF UNREGULATED SCHEMES) REGULATIONS 1991.

IN ADDITION, EACH INITIAL PURCHASER HAS REPRESENTED AND AGREED THAT IT HAS NOT, DIRECTLY OR INDIRECTLY, OFFERED OR SOLD AND WILL NOT, DIRECTLY OR INDIRECTLY, OFFER OR SELL IN THE NETHERLANDS ANY CERTIFICATES OTHER THAN TO PERSONS WHO TRADE OR INVEST IN SECURITIES IN THE CONDUCT OF A PROFESSION OR BUSINESS (WHICH INCLUDE BANKS, STOCKBROKERS, INSURANCE COMPANIES, PENSION FUNDS, OTHER INSTITUTIONAL INVESTORS AND FINANCE COMPANIES AND TREASURY DEPARTMENTS OF LARGE ENTERPRISES).

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

ADDITIONAL INFORMATION

The Bank currently furnishes to the U.S. Securities and Exchange Commission (the "Commission") certain information in accordance with Rule 12g3-2(b) under the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and the Bank is currently included in the list of foreign private issuers that claim exemption from the registration requirements of Section 12(g) of the Exchange Act. If, at any time, the Bank is neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-3(b), it will furnish, upon request, to any holder of Certificates and to a prospective purchaser designated by such holder, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act. The Bank will furnish the depositary referred to under "Description of the Certificates" with copies of any communication available to holders of Certificates or any securities regulatory authority or stock exchange, by publication or otherwise, in English or with an English translation or summary to the extent required under Rule 12g3-2(b). Upon receipt thereof, the Depositary will promptly mail copies of such notices, reports and communications to all Certificate holders.

FORWARD-LOOKING STATEMENTS

Certain statements included herein constitute "forward-looking statements" within the meaning of Section 21E of the Exchange Act and are subject to a number of risks and uncertainties. Any such forward-looking statements contained herein should not be relied upon as predictions of future events. Certain such forward-looking statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "are expected to," "will," "will allow," "will continue," "will likely result," "should," "would be," "seeks," "approximately," "intends," "plans," "projects," "estimates" or "anticipates" or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions. In addition, all information included herein with respect to projected or future results of operations, financial condition, financial performance or other financial or statistical matters constitute such forward-looking statements. Such forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realized and in some instances are based on consensus estimates of analysts not affiliated with the Bank. In that regard, the following factors, among others and in addition to the matters discussed elsewhere in this Offering Memorandum, could cause actual results and other matters to differ materially from those in such forward-looking statements: increases in defaults by borrowers and other loan delinquencies; increases in the provision for loan losses; deposit attrition, customer loss or revenue loss; trading losses; the Bank's ability to sustain or improve its performance; changes in interest rates which may, among other things, adversely affect margins; competition in the banking, financial services, funds transfer services, credit card services and related industries; government regulation and tax matters; adverse legal or regulatory disputes or proceedings; credit and other risks of lending and investment activities; changes in conditions in the securities markets; and changes in regional, national and international business and economic conditions and inflation. As a result of the foregoing, no assurance can be given as to future results of operations or financial condition

or as to any other matters covered by any such forward-looking statements, and the Bank wishes to caution prospective investors not to rely on any such forward-looking statements. The Bank does not undertake, and specifically disclaims any obligation, to update any forward-looking statements, which speak only as of the date made.

PRESENTATION OF FINANCIAL INFORMATION

Unless otherwise indicated, any reference in this Offering Memorandum to the “Consolidated Financial Statements” is to the audited consolidated financial statements of the Bank and the Group (including the notes thereto) at and for the year ended December 31, 1998 which are included in this Offering Memorandum. In certain cases, statistical information appearing in this Offering Memorandum is derived from statutory reports and from statistical information reported to the German Federal Banking Supervisory Authority or the Deutsche Bundesbank (the German central bank) for regulatory purposes. Such information is compiled as a normal part of the Group’s financial reporting and management information systems.

In this Offering Memorandum, references to “DM” are to Deutsche Mark, references to “U.S.\$,” “\$” and “U.S. dollars” are to United States dollars and references to “€” and “euro” are to the common currency of eleven member states of the European Union which as of January 1, 1999 have begun to replace their national currencies with the euro. The Bank publishes its financial statements in Deutsche Mark. Solely for the convenience of the reader, certain Deutsche Mark amounts have been translated into U.S. dollars and euro, at the exchange rate of \$1 = DM 1.6730 (the rate determined by Dresdner Bank on December 30, 1998, the last business day of that year in Germany, for use in connection with its financial reports as of and for the year ended December 31, 1998) and at the Locking Rate (as defined under “Exchange Rates” below) of € 1 = DM 1.95583 unless otherwise indicated. These translations should not be construed as representations that the Deutsche Mark amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated. See “Exchange Rates” for information regarding the rates of exchange between the Deutsche Mark and the U.S. dollar for the preceding five calendar years and the exchange rate between the euro and the U.S. dollar for 1999 through April 30.

The Bank’s Consolidated Financial Statements are prepared in accordance with International Accounting Standards (“IAS”). The Bank’s fiscal year ends on December 31, and references in this Offering Memorandum to any specific fiscal year are to the twelve-month period ended December 31 of such year. In this Offering Memorandum, all references to “billions” are references to one thousand millions.

Dresdner Bank Aktiengesellschaft is incorporated as a stock corporation organized under the laws of the Federal Republic of Germany. As used in this Offering Memorandum, (i) “Dresdner Bank” or the “Bank” refers to Dresdner Bank Aktiengesellschaft, which is both the primary operating bank within, and the parent company of the various subsidiaries that together with the Bank make up, the Dresdner Bank Group and (ii) “Dresdner Bank Group” or the “Group” refers to Dresdner Bank and its consolidated subsidiaries.

OVERVIEW

The following paragraphs contain a brief overview of the most significant features of the securities being offered. This overview is necessarily incomplete and investors are urged to read carefully the Summary and the full text of the Offering Memorandum for a more precise description of the Offering and the securities and for information concerning the Bank, the LLC and the Trust.

Dresdner Capital LLC I, a Delaware limited liability company (the “LLC”) of which Dresdner Bank Aktiengesellschaft (“Dresdner Bank” or the “Bank” and together with its consolidated subsidiaries, “Dresdner Bank Group” or the “Group”), through its New York branch (the “Branch”), owns all of the common limited liability company interests, will issue \$1,000,000,000 of Dated Silent Partnership Interests (the “Partnership Interests”) to Dresdner Funding Trust I (the “Trust”) and \$1,000,000 of common limited liability interests to the Bank, acting through the Branch. The LLC will invest all of the proceeds from the issuance of the Partnership Interests and the common limited liability company interests in a subordinated note (the “Subordinated Note”) of the Bank, acting through the Branch, which will be the only asset of the LLC. Subject to the terms of the Subordinated Note and the Waiver and Improvement Agreement between the Bank, acting through the Branch, and the LLC (the “Waiver and Improvement Agreement”), the Subordinated Note will bear interest at the annual rate of 8.151%, payable semi-annually on June 30 and December 31, and will mature on June 30, 2031. Upon receipt of payments on the Subordinated Note, the LLC will make corresponding distributions on the Partnership Interests. The Partnership Interests will mature on June 30, 2031, the date on which the Subordinated Note is also scheduled to mature.

For the convenience of investors, each Partnership Interest will be represented by a Non-cumulative Dated Silent Partnership Certificate (the “Certificates”) of the Trust, a Delaware statutory business trust in which neither the Bank nor any of its affiliates has any interest. The Trust will pass through to holders of the Certificates all payments that the Trust receives on the Partnership Interests held by the Trust. Although the Trust may facilitate the exercise of remedies under the Partnership Interests, the holders of Certificates will also be able to exercise all rights of the Partnership Interests and may obtain direct ownership of the Partnership Interests at any time. It should be noted that the income in respect of the Certificates may be reported for U.S. Federal income tax purposes on the simple Form 1099, but that the income in respect of the Partnership Interests would have to be reported on the more complicated Form K-1 applicable to partnership income.

The Subordinated Note and the Partnership Interests will be subject to certain linkage features that will have the effect of making the obligation of the Bank, acting through the Branch, to pay interest and principal on the Subordinated Note, and the LLC’s corresponding obligation to make distributions and maturity payments on the Partnership Interests, dependent on the financial condition and capital ratios of the Bank. These linkage features are briefly summarized in the following paragraphs. The Bank intends to treat the proceeds of the Offering as consolidated tier one capital of the Bank, together with its subsidiaries, for purposes of determining its compliance with regulatory capital requirements. Under current German law relating to regulatory capital requirements, the Partnership Interests will lose their tier one capital status two years prior to maturity.

The Combined Offering. Simultaneously with the Offering of the Certificates by the Trust, Dresdner Funding Trust II (“Trust II”) is offering (the “Parallel Offering”) an aggregate of up to 500,000 5.79% Non-cumulative Dated Silent Partnership Certificates (the “Parallel Certificates”), liquidation amount € 1,000 per Parallel Certificate, each representing a Dated Silent Partnership Interest in Dresdner Capital LLC II (“LLC II”), a Delaware limited liability company of which Dresdner Bank, through the Branch, owns all of the common limited liability company interests. The Parallel Certificates differ from the Certificates as to currency of denomination and term until maturity but otherwise have terms substantially identical to those of the Certificates. The Offering and the Parallel Offering are referred to in this Offering Memorandum collectively as the “Combined Offering.”

The Board of Managing Directors (*Vorstand*) of Dresdner Bank has authorized the Combined Offering in an aggregate amount of approximately DM 2.8 billion. It is contemplated that the Certificates will be offered in an aggregate liquidation amount of up to \$1 billion and that the Parallel Certificates will be offered in an aggregate liquidation amount of up to € 500 million. Under certain circumstances, however, the portion of the Combined Offering represented by the Offering or the Parallel Offering may be reduced or eliminated. In such event, the aggregate liquidation amount of the Dated Silent Partnership Certificates offered in the other offering making up the Combined Offering may be correspondingly increased. The consummation of neither the Offering nor the Parallel Offering is conditioned on the consummation of the other.

Features of the Partnership Interests. Distributions on the Partnership Interests are payable, whether or not declared by the Board of Directors of the LLC, on a non-cumulative basis only out of profits of the LLC for the semi-annual period ending on or before the distribution payment date and, except in limited circumstances, only if no accumulated deficit has been notionally allocated to the Partnership Interests. Inasmuch as the LLC does not conduct any operations other than its investment in the Subordinated Note, it is not expected to incur any losses. Because distributions are non-cumulative, the LLC will have no obligation to pay in a subsequent period any distribution that was not payable for a prior period.

While a Shift Event (as defined herein) is in effect, pursuant to the Waiver and Improvement Agreement the LLC will waive all payments of principal and interest on the Subordinated Note, subject to reinstatement of (i) the obligation of the Bank, acting through the Branch, to pay interest if the Bank or certain of its subsidiaries make payments in respect of junior or *pari passu* securities and (ii) its obligation to repay principal if the liquidation of the Bank is commenced, each as described in greater detail below under “Features of the Subordinated Note.” If the foregoing waiver is in effect, the LLC will not earn any profit and accordingly will have no obligation to make distributions on the Partnership Interests.

The Partnership Interests are scheduled to mature on June 30, 2031. Nevertheless, if the scheduled maturity occurs while a Shift Event is in effect, the maturity of the Partnership Interests and the Subordinated Note will be extended until the earlier of the cessation of the Shift Event or the commencement of liquidation of the Bank.

The Partnership Interests are callable by the LLC in part or in whole at any time on or after June 30, 2029 (the “First Call Date”) at the current nominal value thereof plus any unpaid distributions for the current period, but only with the prior approval of the German Federal Banking Supervisory Authority (*Bundesaufsichtsamt für das Kreditwesen*; the “FBSA”) and only if no accumulated deficit has been notionally allocated to the Partnership Interests. The Partnership Interests are redeemable in full prior to the First Call Date at the same amount or, if greater, a make whole amount, but only if (i)(a) the Partnership Interests can no longer be included in the consolidated tier one capital of the Bank, together with its subsidiaries under current or future regulatory requirements (“Tier One Capital”), (b) under certain determinations there is more than an insubstantial risk that the LLC or the Trust will be subject to more than a *de minimis* amount of taxes (including withholding taxes) or (c) under certain determinations there is more than an insubstantial risk that the LLC or the Trust will be considered an “investment company” under the U.S. Investment Company Act of 1940 (the “1940 Act”); (ii) the FBSA consents to such redemption and (iii) no accumulated deficit has been notionally allocated to the Partnership Interests.

Shift Event. The linkage features described below come into effect only upon the occurrence of a “Shift Event” and remain in effect only so long as the Shift Event remains in effect. A Shift Event will occur if (i) the Board of Managing Directors (*Vorstand*) of the Bank determines that either (A) the Bank’s total capital ratio or tier one capital ratio has declined below the minimum percentage required from time to time (presently 8% and 4%, respectively) by the German Banking Act (*Kreditwesengesetz*; the “German Banking Act”) or (B) the Bank’s non-compliance with the foregoing capital ratio requirements is immediately imminent, (ii) the Bank is declared insolvent or overindebted and insolvency proceedings are to be commenced, or (iii) the FBSA either (A) exercises its extraordinary supervisory powers pursuant to Section 45 *et seq.* of the German Banking Act or (B) announces its intention to take such measures. The aforementioned powers of the FBSA may be invoked, among other things, if in the determination of the FBSA it is or might be impossible to effectively supervise a banking institution, if the insolvency or overindebtedness of the institution is imminent or is connected with a serious deterioration in a banking institution’s financial situation, including an insufficiency of regulatory capital or liquidity, or a possible inability of that institution to satisfy its obligations to creditors, in particular depositors.

Features of the Subordinated Note. The Subordinated Note is scheduled to mature on June 30, 2031. However, if the scheduled maturity occurs while a Shift Event is in effect, the maturity of the Subordinated Note will be extended until the earlier of the cessation of the Shift Period or the commencement of the liquidation of the Bank. In addition, pursuant to the Waiver and Improvement Agreement, the LLC will waive all payments of interest and principal on the Subordinated Note while a Shift Event is in effect, subject to the reinstatement of such payment obligations under the circumstances described below.

The obligation of the Bank, acting through the Branch, to pay interest on the Subordinated Note will be reinstated for the interest period or periods corresponding to the time period for which the Bank pays any dividends or makes other payments in respect of its common shares or other voting or non-voting shares (*Stammaktien* and *Vorzugsaktien*) or in respect of its securities ranking junior to the Bank Parity Securities (collectively, the “Ordinary Securities”) or the Bank makes any payment under or in connection with any Parity Securities. “Parity Securities” encompass (i) any silent partnership agreement or any other instrument of the Bank that has rights to payment that are expressly or legally subordinated to all creditors of the Bank (including holders of *Genußscheine*, a form of participating obligation qualifying as tier two capital for German regulatory capital purposes) but that are senior to the rights of the Ordinary Securities of the Bank and that would qualify as consolidated Tier One Capital of the Bank, together with its subsidiaries, (or would have so qualified except for the provisions of German law relating to regulatory capital requirements, pursuant to which Tier One Capital treatment of such instrument is lost for a period of time prior to maturity) (the “Bank Parity Securities”) and (ii) any silent partnership agreement or any other instrument of any subsidiary of the Bank that has rights to payment that are (a) expressly or legally subordinated to all creditors of such subsidiary (including holders of *Genußscheine*) and (b) linked to the Bank through any mechanism that expressly (through one or more agreements) makes such payments subordinated to all creditors of the Bank (other than creditors subject to similar agreements) but senior to the Bank’s Ordinary Securities at all times or under circumstances similar to a Shift Event or other failure to comply with regulatory capital requirements and that would qualify as consolidated Tier One Capital of the Bank, together with its subsidiaries (or would have so qualified except for the provisions of German law relating to regulatory capital requirements, pursuant to which Tier One Capital treatment of such instrument is lost for a period of time prior to maturity).

The obligation of the Bank, acting through the Branch, to pay principal on the Subordinated Note will be reinstated if the liquidation of the Bank is commenced while a Shift Event is in effect. Because the Subordinated Note is subordinated to all creditors of the Bank, including holders of *Genußscheine*, in certain circumstances the LLC may not, in such liquidation proceedings, receive all or any payment in respect of its claim on the Subordinated Note.

The interest rate on the Subordinated Note is subject to a gross-up to cover any withholding obligations imposed on the Bank, the LLC or the Trust. The Subordinated Note will be callable by the Bank, acting through the Branch, at any time if the LLC is able to invest in other securities of the Bank or any subsidiary of the Bank that satisfy certain other requirements, such as rating agency confirmation.

Independent Directors. The Bank will control the LLC at all times through its right to elect all or a majority of the Directors of the LLC. At all times, one member of the Board of Directors of the LLC must be an independent director. If the LLC has failed to pay distributions on the Partnership Interests for any semi-annual period or if a Shift Event is in effect, the holders of the Certificates and Partnership Interests will be entitled to replace the independent director appointed by the Bank and to elect two additional independent directors. The independent directors will be entitled, acting by a majority vote, to enforce the Subordinated Note and the Waiver and Improvement Agreement and to veto various actions of the LLC that may be adverse to the interests of the holders of the Certificates and Partnership Interests.

The holders of the Partnership Interests (and the holders of the Certificates on a pass-through basis) will not have any other voting rights other than on proposed adverse changes to the terms of the Partnership Interests.

Risks. Through the various linkage features of the Partnership Interests and Certificates, as described herein, such securities function similar to non-cumulative preferred stock. If the Bank’s financial condition deteriorates to such an extent that a Shift Event occurs, the holders of the Partnership Interests and the Certificates would likely suffer direct and materially adverse consequences, including the suspension or termination of current distributions and partial or total loss of value. For additional details regarding the risks associated with an investment in the Certificates, see “Risk Factors,” “Description of the Certificates” and “Description of the Subordinated Note and the Waiver and Improvement Agreement.”

SUMMARY

The following summary is qualified in its entirety by the more detailed information appearing elsewhere in this Offering Memorandum. Certain terms used in this Summary are defined elsewhere in this Offering Memorandum.

CERTAIN INFORMATION REGARDING THE BANK, THE GROUP AND THE BRANCH

The Bank and the Group

General

Dresdner Bank is a widely-held, private commercial bank founded in 1872 in Dresden. Based on its total assets at December 31, 1998, the Dresdner Bank Group was the third largest banking organization in Germany. On the basis of total assets at December 31, 1997, the Group was the ninth largest banking organization in Europe and the seventeenth largest in the world (source: *Institutional Investor*). Dresdner Bank is a universal bank and both the primary operating bank within, and the parent company of the various subsidiaries that together with it make up, the Dresdner Bank Group. The Dresdner Bank Group carries out a full range of banking and financial services including deposit taking, lending, mortgage lending, securities underwriting, securities trading and derivatives business on its own account and for its customers, portfolio management, international trade finance, corporate finance, capital and money market services, foreign exchange, leasing, factoring and insurance broking. In addition, the Dresdner Bank Group has a number of significant investments in German companies (see “The Bank—Business Operations—Certain Investments”). For information regarding the German banking system, see “The German Banking System and its Supervision and Regulation.”

The Dresdner Bank Group, which at December 31, 1998 had over 1,500 offices employing approximately 49,000 employees, is represented in over 75 countries including the major financial centers of the world. The Dresdner Bank Group has a total client base of approximately six million corporate and private customers. The Dresdner Bank Group’s activities are conducted through the domestic and international branch network of Dresdner Bank and through various subsidiaries both in Germany and abroad, some of which also have branch networks. At December 31, 1998, in Germany alone, Dresdner Bank had 1,133 branch offices. In Europe, the Bank is also represented through its cooperation in France with Banque Nationale de Paris (“BNP”), one of the largest French banks, and through joint ventures with BNP in most eastern European countries.

In the German domestic market, Dresdner Bank Group offers a comprehensive range of products to a broad range of customer groups. The Group offers a full range of banking and financial services to individuals, corporate customers, including multinational corporations, and public authorities. In accordance with its client-oriented strategy, Dresdner Bank Group’s services are tailored to the specific requirements of its various client groups.

Internationally, the Dresdner Bank Group’s major focus is on investment banking, which is conducted under the brand name “Dresdner Kleinwort Benson.” Since its acquisition of Kleinwort Benson Group plc in 1995, the Group has capitalized on its traditional competitive strengths in its two domestic markets, Germany and the United Kingdom, and Dresdner Kleinwort Benson has become a leading participant in European investment banking. In addition, Dresdner Bank Group offers a wide range of asset management and commercial banking services through its worldwide operations. Recently, the Group has focused on strengthening its position as a leading financial institution in the countries that have adopted the euro, the so-called “Euro Zone.”

At December 31, 1998, the Dresdner Bank Group had total assets of DM 714.8 billion (U.S.\$ 427.3 billion) and shareholders’ equity of DM 21.4 billion (US\$ 12.8 billion). At December 31, 1998 the Dresdner Bank Group had approximately DM 383 billion (€ 196 billion) (U.S.\$ 229 billion) of assets under management.

Strategy

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. The Group's customers include private individuals, companies of all sizes, including multinational corporations, as well as government bodies and institutions.

A primary objective of Dresdner Bank is the creation of shareholder value. The Bank believes that the only way to attain this goal is through the continuous improvement of customer satisfaction. This in turn is only possible with highly motivated staff, providing excellent service. Moreover, the Bank seeks to contribute to the positive development of the society of which it is a part.

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

- "Dresdner Bank. The Advisory Bank." is not merely the Group's marketing slogan but expresses commitment to the Group's fundamental philosophy of conducting its business activities with the dual goal of serving its customers and building lasting business relationships, both in Germany and internationally. In expanding its advisory capacities, the Group's objective is to significantly increase growth in commission income relative to interest income. The Group's 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, Dresdner Bank seeks to take full advantage of cross-selling potential. Cross-divisional structures and team-oriented management and incentive systems, with a strong emphasis on tangible customer benefits and shareholder value, characterize the Dresdner Bank Group and, in the Bank's belief, provide the Group with a competitive advantage.
- In Germany, the Group seeks to continue expanding its market position in all businesses. The Group relies primarily on organic growth to achieve this goal. The Group also intends to consider further joint ventures, especially where such co-operations strengthen the Group's distribution power and product range.
- With the creation of a single European currency zone, the Group regards the Euro Zone as its domestic market. In addition to developing relationships with existing corporate customers and institutions, the Group aims to enhance its distribution network and to significantly expand its business with private and corporate customers in the core European countries. In addition to expanding existing activities such as multi-media distribution channels, the Group gives particular consideration to acquisitions as a means of accomplishing its objectives in Europe. The Bank believes that these goals are achievable in the medium to long term.
- Outside Europe the Dresdner Bank Group plans to build on its existing international presence, particularly in the U.S., the world's largest capital market, where the Group intends to intensify its investment banking activities.

The Dresdner Bank Group is organized into four divisions: corporate and institutional clients; institutional asset management; investment banking; and individual customer banking.

All divisions. The core principles of the Group's 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:

- The Group has adapted its advisory systems to the individual requirements and corresponding needs of its customers.
- Advisors should be mobile and, above all, customer-focused; to assist advisors in meeting this standard, the Group has made significant investments in state-of-the-art technology.
- The Group is continuously developing further innovations in technology-driven products.

- In parallel, the Group undertakes comprehensive training and quality control measures for its personnel.

Corporate and institutional clients. The Group's goal in its corporate and institutional clients business is to be the leader in terms of quality in advisory services and product range. The Bank believes that the Group's new strategic orientation lays the foundation for the integration of products and services in commercial and investment banking.

Institutional asset management. In the high-growth institutional asset management division the Group has built a global presence in recent years through both organic growth and acquisitions. Although it already ranks amongst the largest European providers of investment management services, the Group seeks to grow further by expanding its distribution network, primarily in the core European markets of Spain, France and Italy.

Investment banking. The Bank has completed the integration of investment banking with the diversified customer base of its commercial banking business. The Bank believes that the success of this fully integrated unit will be 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 expanding its global reach.

Individual customer banking. The objective in private customer business is to further strengthen Dresdner Bank Group's position in the German market as the Advisory Bank for capital investment and capital growth. Accordingly, the Bank aims to consistently increase customer satisfaction and loyalty.

The Bank has created a new global corporates unit providing a selected number of multinational corporations with customized solutions based on the entire range of products and services offered by the Bank across regions and divisions. This unit forms the link between the Group's commercial and investment banking businesses and is intended to put into practice a comprehensive, integrated and highly professional service concept on a global scale.

The Branch

Dresdner Bank, New York Branch (the "Branch") has been in operation since 1972 pursuant to a license granted by the Superintendent of Banks of the State of New York. Prior to the establishment of the Branch, Dresdner Bank maintained operations in New York through a representative office.

Dresdner Bank's commercial banking operations in the United States are comprised of the New York Branch, the Chicago Branch and the Los Angeles Agency. The financial results of the U.S. banking operations are fully consolidated with Dresdner Bank's financial reports and are included in the audited financial statements of Dresdner Bank Group. The U.S. banking offices do not publish separate financial results.

The Branch provides commercial banking services to U.S. companies and U.S. subsidiaries of non-U.S. enterprises.

THE OFFERING

The LLC Dresdner Capital LLC I (the “LLC”), is a newly formed limited liability company organized under the laws of the State of Delaware of which the Bank, through the Branch, owns all of the common limited liability company interests. The LLC was formed under the Delaware Limited Liability Company Act (the “LLC Act”), pursuant to a limited liability company agreement dated as of May 14, 1999, which will be amended and restated in its entirety immediately prior to the consummation of the Offering on the Closing Date (as so amended and restated, the “Charter”). The Bank anticipates that the LLC will be treated as a partnership for U.S. federal income tax purposes.

The LLC will initially be capitalized with 1,000 common limited liability company interests (the “LLC Common Securities”). The LLC Common Securities will have an issue price of \$1,000 per LLC Common Security, consisting of a nominal value of \$10 each and an additional contribution to capital (the “Paid Additional Capital”) of \$990 each. All of the LLC Common Securities will be acquired by the Bank, acting through the Branch. The LLC will enter into a Silent Partnership Agreement (the “Silent Partnership Agreement”) with the Property Trustee of the Trust (as described below) providing for 1,000,000 dated silent partnership interests (each, a “Partnership Interest”), having an aggregate liquidation preference of \$1,000,000,000 and which mature on June 30, 2031, subject to extension as described herein. Each Partnership Interest will have an issue price of \$1,000, representing a contribution to capital of \$1,000 per Partnership Interest, and the Partnership Interests will rank *pari passu* among themselves. The LLC will use the proceeds from the sale of the LLC Common Securities and the Partnership Interests to purchase a subordinated note (the “Subordinated Note”) of the Bank, acting through the Branch, that matures on June 30, 2031, the same date on which the Partnership Interests are scheduled to mature, subject to extension under the same circumstances that would lead to the extension of the maturity of the Partnership Interests as described herein. The sole asset of the LLC will initially be the Subordinated Note. The rights of the LLC in respect of the Subordinated Note will be subject to a Waiver and Improvement Agreement (the “Waiver and Improvement Agreement”) between the Bank, acting through the Branch, and the LLC.

The LLC was formed for the exclusive purposes of (1) entering into the Silent Partnership Agreement providing for the Partnership Interests, (2) acquiring and holding the Subordinated Note and entering into the Waiver and Improvement Agreement described below, (3) if the Subordinated Note is redeemed prior to maturity, acquiring and holding certain Eligible Intercompany Investments (as defined herein), and (4) engaging in other activities incidental to the foregoing. So long as any Partnership Interests are outstanding, the LLC may not incur any indebtedness and may not issue any securities that are *pari passu* with, or rank senior to, the Partnership Interests.

For so long as any Partnership Interests are outstanding, the Bank, acting through the Branch, will covenant (i) to maintain direct or indirect ownership of 100% of the outstanding LLC Common Securities, (ii) to cause the LLC to remain a limited liability company under the LLC Act and not voluntarily dissolve the LLC unless the Bank is also being liquidated and (iii) to take such commercially reasonable actions as may be appropriate to prevent the LLC from being deemed to be either (A) an “investment company” required

to register under the U.S. Investment Company Act of 1940, as amended (the “1940 Act”) or (B) other than a partnership for U.S. federal income tax purposes.

The Trust Dresdner Funding Trust I (the “Trust”), is a newly created statutory business trust organized under the laws of the State of Delaware. The Trust was created under the Delaware Business Trust Act (the “Trust Act”) pursuant to a declaration of trust dated as of May 14, 1999, which will be amended and restated in its entirety immediately prior to the consummation of the Offering on the Closing Date (as so amended and restated, the “Declaration”). The Bank anticipates that the Trust will be treated as a grantor trust for U.S. federal income tax purposes.

The Trust was formed for the exclusive purposes of (1) entering into the Silent Partnership Agreement providing for the Partnership Interests, holding the Partnership Interests for the benefit of the holders of Certificates and passing through to such holders all payments received thereon, including Distributions (as defined herein under “—Distributions Other Than During a Shift Period” and “—Distributions During a Shift Period”), redemption payments, liquidation payments and maturity payments as well as all other rights in respect of the Partnership Interests, (2) issuing certificates (the “Certificates”) in an aggregate liquidation amount of \$1,000,000,000, each representing a Partnership Interest, and (3) engaging in other activities incidental to the foregoing. Pursuant to the terms of the Declaration, the Trust may not issue any securities other than the Certificates and may not incur any indebtedness. The sole assets of the Trust will be the Partnership Interests.

Pursuant to the Declaration, there will be two trustees (the “Trustees”) of the Trust. One Trustee (the “Property Trustee”) will be a financial institution that is unaffiliated with the Bank and its affiliates. The second Trustee (the “Delaware Trustee”) will be an entity that maintains its principal place of business in the State of Delaware, which is required to satisfy a requirement of the Trust Act that at least one Trustee be located in Delaware. Initially, The Bank of New York will act as Property Trustee and The Bank of New York (Delaware) will act as Delaware Trustee. Holders of a majority in aggregate liquidation amount of the outstanding Certificates will have the right to appoint, remove or replace any of the Trustees, subject to the foregoing Delaware statutory requirements.

The Trust will not be controlled by or consolidated with the Bank. Neither the Bank nor the LLC will have any rights to elect officers or otherwise have any voting rights over the affairs of the Trust or otherwise control or direct the actions of the Trust or the Trustees. The Bank, acting through the Branch, has agreed to provide certain administrative services for the Trust, indemnify the Trustees for certain liabilities and pay for all expenses of the Trust and the Trustees in connection with the performance of their duties under the Declaration. The Bank, acting through the Branch, will also pay all fees and expenses related to the Offering and the organization and operations of the Trust (including any taxes, duties, assessments or governmental charges of whatever nature, imposed upon the Trust by the United States, Germany, or the jurisdiction of the obligor of any Eligible Intercompany Investments or any other taxing authority of any of the foregoing).

For so long as the Certificates remain outstanding, the Bank, acting through the Branch, in cooperation with the Property Trustee, will covenant (i) to cause the Trust to remain a statutory business trust under the Trust Act and not voluntarily dissolve or terminate the Trust, except as permitted by the Declaration and (ii) to take such commercially reasonable actions as may be appropriate to prevent the Trust from being deemed to be either (A) an “investment company” required to register under the 1940 Act or (B) other than a grantor trust for U.S. federal income tax purposes.

The Property Trustee The Property Trustee, on behalf of the Trust, will enter into the Silent Partnership Agreement providing for the Partnership Interests and will hold the Partnership Interests on behalf of the Trust for the benefit of the holders of the Certificates.

Under the terms of the Certificates, the Property Trustee will remit to the holders of the Certificates, on a *pro rata* basis, all amounts received in respect of the Partnership Interests including Distributions, redemption payments, liquidation payments and amounts payable at maturity if, as, and when received by the Trust from the LLC. The Property Trustee will also pass through to holders of Certificates any voting rights and rights of consent or approval that may arise.

Subject to the terms of the Declaration, the Property Trustee will have the right to enforce the terms of the Partnership Interests, including the right to receive payments thereon, and to enforce the covenants and other terms contained therein and in the Silent Partnership Agreement. Notwithstanding the foregoing, any holder or beneficial owner of Certificates will be able to institute a direct action (a “Direct Action”) against the LLC to enforce the terms of the Silent Partnership Agreement and the Partnership Interests represented by the Certificates held by such holder or beneficial owner, including the right to receive payments on such Partnership Interests.

The Property Trustee will have no financial obligation of any kind under or with respect to the Certificates. Because the sole assets of the Trust consist of the Partnership Interests, the Trust will make payments in respect of the Certificates solely out of funds received by the Trust in respect of the Partnership Interests.

Certificates The Trust is offering 1,000,000 Certificates with an aggregate liquidation amount of \$1,000,000,000. Each Certificate will represent one Partnership Interest.

Currency The Certificates, the Partnership Interests and the Subordinated Note will be denominated in U.S. dollars.

LLC Common Securities and Control by the Bank The LLC Common Securities will represent common limited liability company interests of the LLC. All of the LLC Common Securities will be acquired by the Bank, acting through the Branch, and the Bank, acting through the Branch, will agree to maintain, directly or indirectly, ownership of 100% of the LLC Common Securities for so long as any of the Partnership Interests are outstanding. As the holder of all the issued and outstanding LLC Common Securities, the Bank, acting through the Branch, will have the right to elect and control the Board of Directors of the LLC, subject to the right of

the holders of the Partnership Interests under certain circumstances to replace the independent director initially designated by the Bank with a new director and to elect two additional directors (the total number of independent directors including those persons designated by the Bank or elected or replaced by the holders of the Partnership Interests always constituting a minority of the Board of Directors) and subject to certain rights and enforcement powers that such independent directors have. Under no circumstances will the holders of the Partnership Interests, or any directors that they may elect, have the power to amend the terms of the Silent Partnership Agreement or to cause the LLC to pay Distributions or other amounts that are not required to be paid under the terms of the Partnership Interests.

So long as any Partnership Interests are outstanding, the LLC Common Securities may not be redeemed or repurchased.

Silent Partnership Agreement;

Partnership Interests

The LLC and the Trust will enter into a Silent Partnership Agreement providing for 1,000,000 Partnership Interests with an aggregate liquidation preference of \$1,000,000,000. Each Partnership Interest will have a nominal value of \$1,000 (such \$1,000 nominal value of each Partnership Interest referred to as the “Initial Nominal Value”) and a liquidation preference of \$1,000 (the “Liquidation Preference”). Each Partnership Interest will also have a notional current nominal value (the “Current Nominal Value”) that will initially equal the Initial Nominal Value and that will thereafter be reduced on a notional basis to reflect the allocation of any Accumulated Deficit (as defined herein under “—‘Available Distributable Profits,’ ‘Profit’ and ‘Accumulated Deficit’”) in excess of Paid Additional Capital as described under “—Loss Participation.”

Total Partnership Interest

Capital Contribution

The Total Partnership Interest Capital Contribution, which represents the aggregate capital contribution to the LLC by the Trust upon the execution of the Silent Partnership Agreement, will be \$1,000,000,000, which amount is equal to the aggregate liquidation preference of the Partnership Interests.

Distributions Other than

During a Shift Period

Periodic distributions (each, a “Distribution”) in respect of the Partnership Interests will be payable on a noncumulative basis when, as and if declared (or deemed to be declared) by the Board of Directors of the LLC out of Available Distributable Profits (as defined herein under “—‘Available Distributable Profits,’ ‘Profit’ and ‘Accumulated Deficit’”) semi-annually in arrears on each June 30 and December 31, commencing June 30, 1999 (each a “Distribution Payment Date”). Distributions on each Partnership Interest will be payable at a fixed rate per annum equal to 8.151%.

Distributions on the Certificates will be made semi-annually by the Trust on a pass-through basis upon (and subject to) receipt by the Trust of Distributions by the LLC on the Partnership Interests. Distributions in respect of each Certificate will be made semi-annually on each Distribution Payment Date, commencing June 30, 1999. The only source of funds for payment of Distributions in respect of the Certificates will be the payment of Distributions by the LLC in respect of the Partnership Interests.

The LLC will be required to make Distributions in respect of the Partnership Interests to the extent that (i) such payments can be made from the Available Distributable Profits for the relevant fiscal semi-annual period and (ii) the Current Nominal Value of each Partnership Interest is equal to the Liquidation Preference. To the extent that interest payments are made on the Subordinated Note in respect of any semi-annual period, the LLC is expected to have Available Distributable Profits sufficient to pay Distributions on the Partnership Interests for such semi-annual period. If the Bank, acting through the Branch, does not pay interest on the Subordinated Note, either because it is not obligated to do so during a Shift Period or because it has not otherwise made such payments, the LLC will not have Available Distributable Profits to pay Distributions on the Partnership Interests for such Distribution Period.

Distributions will not be made in respect of the Partnership Interests if, and for so long as, the Current Nominal Value of the Partnership Interests, as calculated for the relevant semi-annual period, is less than the Liquidation Preference of the Partnership Interests, except to the extent that the LLC is obligated to pay Distributions in respect of the Partnership Interests out of Available Distributable Profits when the obligation of the Bank, acting through the Branch, to pay interest on the Subordinated Note has been reinstated pursuant to the Waiver and Improvement Agreement. Except possibly during a Shift Period (as defined herein under “—Shift Event; Shift Period”), the LLC does not expect that the Current Nominal Value of any Partnership Interest will be less than the Liquidation Preference of such Partnership Interest.

Distributions not declared (or deemed to be declared) by the LLC in respect of the Partnership Interests for any Distribution Period will not accumulate and the holders of Partnership Interests will have no right to receive a Distribution on the Partnership Interests in respect of such Distribution Period, whether or not Distributions are declared with respect to a future Distribution Period.

The obligation of the LLC to make Distributions in respect of the Partnership Interests will rank senior to the rights of the holders of the LLC Common Securities to receive Distributions in respect thereof, but are subordinated in every respect to the claims of any creditors of the LLC. Accordingly, the LLC may pay Distributions in respect of the LLC Common Securities in any Distribution Period only if it has paid in full the Distributions in respect of the Partnership Interests for such Distribution Period.

Distributions on the Certificates and on the Partnership Interests in respect of each Distribution Period will be calculated on the basis of a 360-day year of twelve 30-day months in such Distribution Period. Distributions payable on each Distribution Payment Date will be calculated from and including the immediately preceding Distribution Payment Date to but excluding the relevant Distribution Payment Date (each such period, a “Distribution Period”). If any Distribution Payment Date or other payment date falls on a day that is not a Business Day, the applicable Distribution or other payment will be payable on the next succeeding Business Day without adjustment, interest or further payment as a result of the delay. “Business Day” means a day that is both (i) a Target business day and (ii) a day other than Saturday, Sunday or a day on which banking institutions in the City of New York or, as long as any Certificates are listed on the Luxembourg Stock Exchange, in Luxembourg are authorized or required by law or executive order to remain closed.

Distributions During A

Shift Period During a Shift Period, pursuant to the Waiver and Improvement Agreement, the LLC will waive payment by the Bank, acting through the Branch, of interest on the Subordinated Note except to the extent payments are made on any Ordinary Securities or Parity Securities (as defined herein under “—Required Payments”). Consequently, except in such circumstances, no Distributions will be made on the Partnership Interests or the Certificates during a Shift Period.

Required Payments Taken together, the Subordinated Note and the Waiver and Improvement Agreement provide, in effect, that interest must be paid on the Subordinated Note at all times other than during a Shift Period and also, during a Shift Period, to the extent payments are being made in respect of any Ordinary Securities or Parity Securities. The Waiver and Improvement Agreement accomplishes this result for periods during a Shift Period by providing that if, during such Shift Period, the Bank makes or declares dividends, other distributions or other payments in respect of its Ordinary Securities or makes any payments, or provides funds to a subsidiary, in respect of Parity Securities, then interest payments in full must be paid on the Subordinated Note for the following periods (each, a “Corresponding Period”): (x) the two consecutive interest payment dates, commencing with the next interest payment date contemporaneous with or following the date on which the Bank redeems, repurchases or otherwise acquires or defeases or otherwise terminates its obligations in respect of any Ordinary Securities or any Parity Securities or provides funds to any subsidiary in respect of the redemption, repurchase or acquisition by such subsidiary of any Ordinary Securities or Parity Securities or the defeasance or other termination of the obligations of the issuer thereof in respect of any Ordinary Securities or Parity Securities (other than (i) in connection with transactions effected by or for the account of customers of the Bank or its subsidiaries or in connection with the distribution, trading or market-making in respect of such securities based on an authorization by the Bank’s shareholders referred to in § 71 (1) No. 7 of the German Stock Corporation Act, (ii) in connection with the satisfaction by the Bank or any of its subsidiaries of its obligations under any employee benefit plans or similar arrangements, with or for the benefit of any employees, officers, directors or consultants of the Bank or any of its subsidiaries, (iii) as a result of a reclassification of the capital stock of the Bank or any of its subsidiaries or the exchange or conversion of one class or series of such capital stock for another class or series of such capital stock, (iv) the purchase of fractional interests in shares of the capital stock of the Bank or any of its subsidiaries pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged, (v) a repurchase pursuant to § 71(1) No. 3 of the German Stock Corporation Act resulting from an obligation of the Bank to offer its shares to shareholders of a company that has entered into a domination or profit-and-loss-pooling agreement with, or has been integrated (*Eingliederung*) into, the Bank in exchange for the shares of that company, or in connection with an obligation of the Bank to purchase its shares from shareholders that have dissented to a split-up (*Aufspaltung*), spin-off (*Abspaltung*) or change of the legal form (*Umwandlung*) of the Bank, (vi) as a result of a merger or other succession involving less than 1% of any class of Ordinary Securities or Parity Securities and which transaction is not entered into for the purpose of, directly or indirectly, acquiring any Ordinary Securities or Parity Securities, or (vii) the satisfaction of an obligation on a regularly scheduled maturity

date which is required by the terms of the applicable governing instrument); (y) the two consecutive interest payment dates, commencing with the next interest payment date contemporaneous with or following the date on which the Bank or any subsidiary pays dividends or makes other distributions or payments on any Ordinary Securities or any Parity Securities, in each case where such dividends, distributions or other payments are made no more frequently than annually and (z) the next interest payment date contemporaneous with or following the date on which the Bank or any subsidiary pays dividends or makes other distributions or payments on any Ordinary Securities or any Parity Securities, in each case where such dividends, distributions or other payments are made more frequently than annually.

As used herein, “Ordinary Securities” means the Ordinary Shares and any other security ranking junior to the Bank Parity Securities; and “Parity Securities” means Bank Parity Securities and Subsidiary Parity Linked Securities.

For purposes of the foregoing definitions, “Ordinary Shares” means the Bank’s common shares and other voting and non-voting shares (*Stammaktien* and *Vorzugsaktien*); “Bank Parity Securities” means any silent partnership agreement or any other instrument of the Bank that has rights to payment that are expressly or legally subordinated to all creditors of the Bank (including holders of *Genußscheine*) but that are senior to the rights of the Ordinary Securities of the Bank and that would qualify as the consolidated tier one capital of the Bank, together with its consolidated subsidiaries under current or future regulatory requirements (“Tier One Capital”) (or would have so qualified except for the provisions of German law relating to regulatory capital requirements, pursuant to which tier one capital treatment of such instrument is lost a period of time prior to maturity). “Subsidiary Parity Linked Securities” means any silent partnership agreement or any other instrument of any subsidiary of the Bank that has rights to payment that are (i) expressly or legally subordinated to all creditors of such subsidiary (including holders of *Genußscheine*) and (ii) linked to the Bank through any mechanism that expressly (through one or more agreements) makes such payments subordinated to all creditors of the Bank (other than creditors subject to similar agreements) but senior to the Bank’s Ordinary Securities at all times or under circumstances similar to a Shift Event or other failure to comply with regulatory capital requirements and that would qualify as consolidated Tier One Capital of Dresdner Bank Group under current or future regulatory requirements (or would have so qualified except for the provisions of German law relating to regulatory capital requirements, pursuant to which Tier One Capital treatment of such instrument is lost a period of time prior to maturity).

“Available Distributable Profits,” “Profit” and “Accumulated Deficit”

As used herein, the LLC’s “Available Distributable Profits” for a particular fiscal semi-annual period means the LLC’s Profit only with respect to such fiscal semi-annual period.

“Profit” of the LLC with respect to the income statements of the LLC covering such semi-annual period means the profit earned for such semi-annual period as shown in the unaudited semi-annual income statements of the LLC for such semi-annual period and as determined in accordance with

U.S. GAAP. "Accumulated Deficit" means any deficit in retained earnings of the LLC in respect of periods after the issuance of the Partnership Interests and the receipt of the Paid Additional Capital, as shown on the relevant unaudited, unconsolidated semi-annual balance sheet of the LLC prepared in accordance with U.S. GAAP.

Loss Participation If any semi-annual balance sheet of the LLC shows an Accumulated Deficit, then such Accumulated Deficit will be allocated on a notional basis first to the Paid Additional Capital of the LLC Common Securities until such Paid Additional Capital is exhausted, and then to the nominal value of the LLC Common Securities and the Initial Nominal Value of the Partnership Interests in proportion to the nominal value of the LLC Common Securities and the Initial Nominal Value of the Partnership Interests.

The allocation of any Accumulated Deficit to the Partnership Interests and the LLC Common Securities will be solely on a notional basis for purposes of allocating loss participation between the Partnership Interests and the LLC Common Securities and, accordingly, will not result in the actual write down of the nominal value of either the Partnership Interests or the LLC Common Securities. Unless the Current Nominal Value equals the Liquidation Preference of the Partnership Interests, no Distributions may be paid in respect of the Partnership Interests or the LLC Common Securities, except to the extent interest on the Subordinated Note is paid pursuant to the requirements of the Waiver and Improvement Agreement.

Shift Event; Shift Period A "Shift Event" will be deemed to have occurred if (i) the Board of Managing Directors (*Vorstand*) of the Bank determines that either (A) the Bank's total capital ratio or tier one capital ratio has declined below the minimum percentages required from time to time by the German Banking Act (*Kreditwesengesetz*; the "German Banking Act") (presently, 8% and 4%, respectively) or (B) the Bank's non-compliance with the foregoing capital ratio requirements is immediately imminent, (ii) the Bank is declared insolvent or overindebted and insolvency proceedings are to be commenced, or (iii) the German Banking Supervisory Authority (*Bundesaufsichtsamt für das Kreditwesen*; the "FBSA") either (A) exercises its extraordinary supervisory powers pursuant to the provisions of Section 45 *et seq.* of the German Banking Act or (B) announces its intention to take such measures. The aforementioned powers of the FBSA may be invoked, among other things, if in the determination of the FBSA it is or might be impossible to effectively supervise a banking institution, if the insolvency or overindebtedness of the institution is imminent or is connected with a serious deterioration in a banking institution's financial situation, including an insufficiency of regulatory capital or liquidity, or a possible inability of that institution to satisfy its obligations to creditors, in particular depositors.

A "Shift Period" is defined as any period commencing on the occurrence of any Shift Event and ending upon the date immediately preceding the first date upon which no Shift Event exists.

Payment of Additional Amounts All payments by the Trust in respect of the Certificates will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or other governmental charges of whatever nature, imposed or levied by or on behalf of the Federal Republic of Germany

(“Germany”), the United States or the jurisdiction of residence of any obligor on the Partnership Interests, the Subordinated Note or any Eligible Intercompany Investments (each such jurisdiction, together with the United States and Germany, a “Relevant Jurisdiction”) or any political subdivision or authority therein or thereof having power to tax (the taxes so imposed, each a “Relevant Tax”), unless the withholding or deduction of such Relevant Tax is required by law. In that event, the Trust will pay, as further Distributions, such additional amounts (“Additional Amounts”) as may be necessary in order for the net amounts received by the holders of the Certificates after such withholding or deduction to equal the amount that such holders would have received in respect of the Certificates in the absence of such withholding or deduction, except that no such Additional Amounts will be payable to a holder of Certificates (or to a third party on any holder’s behalf) with respect to any Certificates (i) to the extent that such Relevant Tax is imposed or levied by virtue of such holder (or the beneficial owner of such Certificates) having some connection with the Relevant Jurisdiction, or any political subdivision or authority therein or thereof having power to tax, that is imposing such tax, other than being a holder (or the beneficial owner) of such Certificates (including indirect ownership of the Partnership Interests) or (ii) to the extent that such Relevant Tax is imposed or levied by virtue of any such holder (or beneficial owner) not having made a declaration of non-residence in, or other lack of connection with, the Relevant Jurisdiction or any political subdivision or authority therein or thereof having power to tax, that is imposing such tax, provided that the Bank, acting through the Branch, or its agent has provided the holder (or beneficial owner) of such Certificate or its nominee with at least 60 days prior written notice of an opportunity to make such a declaration or claim.

The LLC will pay, subject to the same exceptions set forth in the preceding paragraph as applied to the holders of the Partnership Interests and the holders of the Certificates (provided, however, that no such exceptions will apply with respect to the Trust as holder of any Partnership Interests), such Additional Amounts to each holder of Partnership Interests as may be necessary in order that every net payment in respect thereof, after withholding for any Relevant Tax, will not be less than the amount otherwise required to be paid in respect of the Partnership Interests or the Certificates. The Bank, acting through the Branch, will also pay under the terms of the Subordinated Note, subject to the same exceptions set forth in the preceding paragraph as applied to the holders of the Partnership Interests and the holders of the Certificates (provided, however, that no such exceptions will apply with respect to the Trust as holder of any Partnership Interests or the LLC or any other holder of the Subordinated Note), such Additional Amounts to any holder of the Subordinated Note as may be necessary in order that every net payment in respect thereof, after withholding for any Relevant Tax, will not be less than the amount otherwise required to be paid in respect of the Subordinated Note, the Partnership Interests or the Certificates. The Bank, acting through the Branch, will also pay such additional amounts as may be necessary to pay any taxes that may be imposed on the Partnership Interests, the LLC, or the Trust by any Relevant Jurisdiction or any political subdivision or authority therein or thereof having power to tax that is imposing such tax.

Liquidation Preference The Liquidation Preference for each Partnership Interest is \$1,000.

Liquidation

In the event of any liquidation of the LLC, holders of Partnership Interests will be entitled to receive out of assets of the LLC available for distribution after satisfaction of any claims of creditors, if any, and before any distributions of assets to the holders of the LLC Common Securities an amount per Partnership Interest equal to the sum of (i) the Liquidation Preference (regardless of whether the Current Nominal Value is less than the Liquidation Preference of the Partnership Interests) and (ii) any unpaid Distributions in respect of each Partnership Interest for the then current Distribution Period (such amount being the ‘Liquidation Distribution’). In the event that the Liquidation Distribution cannot be made in full because the LLC does not have sufficient funds to do so, the Liquidation Distribution will be made on a *pro rata* basis among the Partnership Interests. Upon receipt of the Liquidation Distribution by the Trust in respect of the Partnership Interests, the Trust will make a corresponding Liquidation Distribution in respect of the Certificates. So long as any of the Partnership Interests are outstanding, the Charter provides that the Bank, acting through the Branch, as the holder of the LLC Common Securities, will not cause the LLC to dissolve and liquidate unless the Bank is also liquidated. The Charter provides that the LLC will dissolve and be liquidated if the Bank is also liquidated. Under the terms of the Charter, and to the fullest extent permitted by law, the LLC will not be liquidated until all claims under the Subordinated Note or Eligible Intercompany Investments will have been paid to the extent required by the terms of such instruments and the Waiver and Improvement Agreement.

The Declaration will provide that the Trust may not be dissolved so long as any Partnership Interests are outstanding except (i) in connection with a Trust Dissolution Event (as defined herein under ‘—Liquidation of the Trust upon a Trust Dissolution Event’), (ii) if no Certificates are outstanding or (iii) upon the dissolution and liquidation of the LLC. If the LLC is liquidated, the Trust will be dissolved.

If the Bank is liquidated during a Shift Period, the LLC will be entitled to receive the repayment of principal in respect of the Subordinated Note, provided, however, that such right with respect to the Subordinated Note will be subordinated to the rights of all creditors of the Bank (including the rights under *Genußscheine*), but will rank senior to the rights of the shareholders (including common shares and other voting and non-voting shares (*Stammaktien* and *Vorzugsaktien*)) and any other Ordinary Security and will rank *pari passu* with Bank Parity Securities and any debt instruments of the Bank issued to, and held by, the issuer of any Subsidiary Parity Linked Securities in respect of such Subsidiary Parity Linked Securities.

Maturity; Maturity Payments

The Partnership Interests will mature on June 30, 2031 (the ‘Scheduled Partnership Interest Maturity Date’), but if the Scheduled Partnership Interest Maturity Date occurs during a Shift Period, the maturity will be extended to the earlier of (i) the date liquidation proceedings are commenced in respect of the LLC in connection with the commencement of liquidation proceedings in respect of the Bank and (ii) the date after the Shift Period ends (such earlier date, the ‘Extended Maturity Date’ and, together with the Scheduled Partnership Interest Maturity Date, the ‘Partnership Interest Maturity Date’). If the Partnership Interest Maturity Date occurs other than in connection with the liquidation of the Bank, the LLC will pay the Current Nominal Value, not to exceed the Liquidation Preference, of each Partnership Interest as calculated based on the most recent semi-annual unaudited financial statements of the

LLC plus accrued and unpaid Distributions for the then current Distribution Period (the “Maturity Payment”). If the Partnership Interest Maturity Date occurs in connection with the liquidation of the Bank, the holders of Partnership Interests will receive the amounts to which they are entitled in connection with the related liquidation of the LLC as set forth in “—Liquidation” above. The LLC will make the Maturity Payment out of the amounts received upon maturity of the Subordinated Note. Upon receipt by the Trust of the Maturity Payment, if any, from the LLC in respect of each Partnership Interest, the Trust will make a corresponding payment in respect of each Certificate.

Call Provisions Prior to the Partnership Interest Maturity Date and except during a Shift Period, the Partnership Interests may be called in part or in full by the LLC on June 30, 2029 (the “First Call Date”), and thereafter on any Distribution Payment Date (such date, together with the First Call Date, the “Call Date”) for an amount per Partnership Interest equal to the Current Nominal Value plus any unpaid Distributions for the then current Distribution Period with (i) the prior consent of the FBSA and (ii) no less than 30 and no more than 60 days’ prior written notice to holders of the Partnership Interests. The LLC may not call the Partnership Interests prior to the Partnership Interest Maturity Date unless the Current Nominal Value of each Partnership Interest is equal to the Liquidation Preference. In the event that the LLC exercises its option to call the Partnership Interests, the funds will be passed through by the Trust to redeem the Certificates corresponding to the Partnership Interests so called. Unless the LLC defaults in payment of the call price, on and after the Call Date, Distributions will cease to accrue on the Partnership Interests, or portions thereof, called for redemption.

Early Redemption Prior to the First Call Date and except during a Shift Period, the Partnership Interests will be redeemable only in full and not in part by the LLC upon the occurrence of an LLC Early Redemption Event (as defined below) at an amount (the “Early Redemption Amount”) equal to the greater of (a) the Current Nominal Value plus any unpaid Distributions for the then current Distribution Period or (b) the Make Whole Amount, with (i) the prior consent of the FBSA and (ii) no less than 30 and no more than 60 days’ prior written notice to holders of the Partnership Interests. The LLC may not, prior to the First Call Date, as a result of an LLC Early Redemption Event, redeem the Partnership Interests unless the Current Nominal Value of each Partnership Interest is equal to the Liquidation Preference. In the event that the LLC exercises its option to redeem the Partnership Interests, the funds will be passed through by the Trust to redeem the Certificates corresponding to the Partnership Interests so redeemed.

The “Make Whole Amount” is equal to the sum of (a) the present value of the Liquidation Preference of each Partnership Interest at the date of redemption (the “Early Redemption Date”) in connection with an LLC Early Redemption Event and (b) the aggregate present value of Distributions scheduled to be made in respect of each Partnership Interest from the Early Redemption Date to the First Call Date (the “Remaining Life”), in each case discounted to the Early Redemption Date from the First Call Date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus (i) in the event that the Early Redemption Date occurs on or prior to June 30, 2000, 125 basis points or (ii) in the event that the Early Redemption Date occurs after such date, 50 basis points.

“Treasury Rate” means, with respect to any Early Redemption Date, the rate per annum equal to the equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Early Redemption Date.

“Comparable Treasury Issue” means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the Remaining Life of the Partnership Interests to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Partnership Interests. “Independent Investment Banker” means one of the Reference Treasury Dealers appointed by the Bank.

“Comparable Treasury Price” means, with respect to any redemption date, (A) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (B) if the Bank of New York in its role as calculation agent (the “Calculation Agent”) obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations. “Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Calculation Agent, of the bid and offered prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Calculation Agent by such Reference Treasury Dealer at 3:30 p.m. New York time on the third business day preceding such redemption date.

“Reference Treasury Dealer” means each of CS First Boston Corporation, Lehman Brothers Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated and Salomon Smith Barney, Inc. and their respective successors; provided, however, that if any of the foregoing or their affiliates will cease to be a primary U.S. Government securities dealer in The City of New York (a “Primary Treasury Dealer”), the LLC will substitute therefor another reference treasury dealer, in consultation with the Bank.

Unless the LLC defaults in payment of the redemption price, on and after the Early Redemption Date, Distributions will cease to accrue on the Partnership Interests called for redemption.

In the event that the Partnership Interests are redeemed upon the occurrence of an LLC Early Redemption Event, the Certificates will likewise be redeemed for an amount per Certificate equal to the Early Redemption Price and both the Trust and the LLC will, upon such redemption, be liquidated.

An “LLC Early Redemption Event” means (i) a Tax Event with respect to the LLC or (ii) an Investment Company Event with respect to the LLC or (iii) a Capital Event.

A “Tax Event” means the receipt by the Bank of an opinion of a nationally recognized law firm or other nationally recognized tax adviser in any Relevant Jurisdiction, experienced in such matters, to the effect that, as a result of (i) any amendment to, or clarification of, or change (including any announced prospective change) in the laws or treaties (or any regulations

promulgated thereunder) of the Relevant Jurisdiction or any political subdivision or authority therein or thereof having power to tax, (ii) any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) (an “Administrative Action”) or (iii) any amendment to, clarification of, or change in the official position or the interpretation of any Administrative Action or any interpretation or pronouncement that provides for a position with respect to any Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification or change is made known, which amendment, clarification, change or Administrative Action is effective, or which interpretation, pronouncement or decision is announced, on or after the date of the original execution of the Silent Partnership Agreement and the Certificates, there is more than an insubstantial risk (i) with respect to the Trust or the LLC, that either the Trust or the LLC, as the case may be, is or will be subject to more than a *de minimis* amount of taxes, duties or other governmental charges or (ii) with respect to the LLC, that the Trust, the LLC, the Bank, acting through the Branch, or the issuer of any Eligible Intercompany Investments, as the case may be, would be required to pay any Additional Amounts as described herein under “—Payment of Additional Amounts.”

An “Investment Company Event” means that the Bank will have requested and received an opinion of a nationally recognized U.S. law firm, experienced in such matters, to the effect that there is more than an insubstantial risk that the Trust or the LLC is or will be considered to be an “investment company” within the meaning of, and required to register as an “investment company” under, the 1940 Act.

A “Capital Event” means the determination by the Bank that the Partnership Interests may not be included in the consolidated Tier One Capital of Dresdner Bank Group for purposes of the German Banking Act or the rules of the Committee on Banking Supervision at the Bank for International Settlements, Basle, Switzerland (the “BIS”).

**Liquidation of the Trust upon
a Trust Dissolution Event . . .**

Upon the occurrence of a Trust Dissolution Event (as defined below), the Trust will be dissolved and the Certificates will be redeemed. Upon such dissolution of the Trust, each holder of Certificates will receive as its liquidation distribution, by way of an assignment by the Trust to such holder, the number of Partnership Interests represented by the Certificates held by such holder. As described herein, any Partnership Interest received upon the liquidation of the Trust will not be listed on the Luxembourg Stock Exchange and will not be eligible for clearance through Euroclear or Cedelbank and a holder thereof will receive annually a Form K-1 in lieu of a Form 1099 for U.S. federal income tax reporting purposes. The Partnership Interests distributed upon the liquidation of the Trust may, therefore, trade at a discount to the price of the Certificates prior to such liquidation.

A “Trust Dissolution Event” means the occurrence of either a Tax Event or an Investment Company Event, in each case with respect to the Trust.

A Trust Dissolution Event, absent a simultaneous LLC Early Redemption Event, will not result in either the liquidation of the LLC or the redemption of any Partnership Interests.

Voting Rights

Generally, holders of Certificates will not have any voting rights. If at any time the holders of the Partnership Interests will be entitled to vote, including with respect to the election of independent directors, the consent to amendments and other matters requiring the approval of the holders of Partnership Interests pursuant to the terms of the LLC's Charter, the Property Trustee will (a) notify the holders of the Certificates of such rights, (b) request specific direction of each holder of a Certificate as to the vote with respect to the Partnership Interest represented by such Certificate and (c) vote the Partnership Interests held by the Trust only in accordance with such specific directions.

Except as expressly required by applicable law, or as indicated below, the holders of Partnership Interests will not be entitled to vote. If (i) the LLC fails to pay full Distributions on the Partnership Interests for the most recent Distribution Period or (ii) a Shift Event occurs, the holders of the Partnership Interests will be entitled to replace the Designated Independent Director (as defined herein under "—Management; LLC Independent Directors") with a new director and to elect two additional directors (such replaced director and such additional directors, referred to as the "Elected Independent Directors" and, together with the Designated Independent Director, the "Independent Directors"). Any member of the Board of Directors of the LLC elected by the holders of the Partnership Interests will be deemed to be "independent" for purposes of the actions requiring, pursuant to the Charter, the approval of a majority of the Independent Directors. The Elected Independent Directors will be required to vacate office when the corresponding Shift Period ends, if applicable, or, if not applicable, when the next full Distribution is made on the Partnership Interests, except that, if any Elected Independent Director was elected to replace a Designated Independent Director, such Elected Independent Director will be entitled to remain in office until the Bank, acting through the Branch, as holder of all of the outstanding LLC Common Securities designates another person as an Independent Director.

In addition, certain actions require the approval of holders of two-thirds in aggregate liquidation preference of the Partnership Interests. Other than with respect to those actions and with respect to the election, removal and replacement of the Independent Directors in the circumstances described above, the Partnership Interests will not have any voting rights.

The Bank, acting through the Branch, as holder of all of the outstanding LLC Common Securities, will at all times have the right to elect a majority of the Board of Directors of the LLC.

**Management; LLC
Independent Directors**

Pursuant to the Charter of the LLC, the LLC will be managed by a Board of Directors consisting initially of five directors, of whom one (1) director will be an independent director ("the Designated Independent Director"). The Designated Independent Director will be selected by the Bank, acting through the Branch, as holder of all of the outstanding LLC Common Securities and may be replaced by the Bank (except during a Shift Period or during such time as the LLC will have failed to pay Distributions on the Partnership Interests for the most recent Distribution Period). The Designated Independent Director may not be an affiliate of the Bank or an employee of the Bank or of any affiliate of the Bank. The LLC's initial Designated Independent Director is Winfried H. Spaeh. In addition, the holders of the

Partnership Interests, upon the failure of the LLC to pay Distributions on the Partnership Interests for the most recent Distribution Period or upon the occurrence of a Shift Event, may replace the existing Independent Director with a new director and may elect two additional Independent Directors to the Board of Directors of the LLC.

The LLC's Charter provides that, for as long as any Partnership Interests are outstanding, certain actions by the LLC must be approved by a majority of the Independent Directors as well as by a majority of the entire Board of Directors. As long as there is only one Independent Director, any action that requires the approval of a majority of the Independent Directors must be approved by such Independent Director. The following actions require approval of a majority of the Independent Directors: (i) to the fullest extent permitted by law, any liquidation of the LLC while any Partnership Interests are outstanding that is not concurrent with a liquidation of the Bank, (ii) payment of Distributions on Partnership Interests other than out of income received by the LLC on the Subordinated Note or the Eligible Intercompany Investments, (iii) the conversion of the LLC into another type of entity or the consolidation or merger of the LLC with or into any other entity, the consolidation or merger of any other entity with or into the LLC or the sale of all or substantially all of the assets of the LLC, and (iv) any transactions with the Bank or any affiliate of the Bank, including, without limitation, any modification of any of the terms of the Subordinated Note, but excluding the reinvestment by the LLC of the proceeds received upon redemption of the Subordinated Note in Eligible Intercompany Investments in accordance with the applicable investment guidelines.

A majority of the Independent Directors, acting together and without the vote or consent of the other members of the Board of Directors, will have the sole and exclusive right and obligation on behalf of the LLC to enforce and otherwise act on behalf of the LLC with respect to the Waiver and Improvement Agreement, the Subordinated Note, any Eligible Intercompany Investments, and documents related to the enforcement of any of the foregoing. The holders of the Partnership Interests, and hence the holders of the Certificates, will have a direct right to enforce the Waiver and Improvement Agreement only in the event the Independent Directors fail to enforce the rights of the LLC in respect of the Waiver and Improvement Agreement. However, for so long as the Partnership Interests are outstanding, the Waiver and Improvement Agreement may not be amended or modified without the consent of holders of two-thirds of the aggregate liquidation preference of the Partnership Interests. The LLC's Charter provides that the Independent Directors (i) as to matters relating to the Subordinated Note, the Eligible Intercompany Investments, the Waiver and Improvement Agreement and other documents relating to the enforcement of any of the foregoing, will consider only the interests of the holders of the Partnership Interests and (ii) as to all other matters, will consider the interests of holders of both the LLC Common Securities and the Partnership Interests in determining whether any proposed action requiring their approval is in the best interests of the LLC.

Withdrawal Rights A holder of Certificates will be entitled to surrender the Certificates and receive, by way of an assignment by the Trust to such holder, one Partnership Interest for each Certificate so surrendered. Any holder exercising such rights will be responsible for any transfer taxes or fees incurred in connection with the surrender of the Certificates and the assignment of the Partnership

Interests. Upon the receipt of a Partnership Interest in exchange for a Certificate, a holder thereof will thereafter be precluded from retransferring the Partnership Interest to the Trust in exchange for a Certificate. As described herein, any Partnership Interest assigned in exchange for a Certificate will not be listed on the Luxembourg Stock Exchange and will not be eligible for clearance through Euroclear or Cedelbank, and the holder thereof will receive annually a Form K-1 in lieu of a Form 1099 for U.S. federal income tax reporting purposes. The Partnership Interests assigned upon exercise of the withdrawal rights may, therefore, trade at a discount to the price of the Certificates prior to such assignment.

Subordinated Note The Subordinated Note will have an aggregate original principal amount of U.S.\$1,001,000,000. The Subordinated Note will be scheduled to mature on June 30, 2031, but if such date occurs during a Shift Period the maturity will be extended to the earlier of (i) the date liquidation proceedings are commenced in respect of the LLC in connection with the commencement of liquidation proceedings in respect of the Bank and (ii) the date after such Shift Period ends. Interest on the Subordinated Note will accrue from the original date of issue and be payable semi-annually in arrears on each Distribution Payment Date, commencing June 30, 1999. Interest on the Subordinated Note will be calculated on a semi-annual basis at a fixed rate per annum equal to 8.151% of the principal amount of the Subordinated Note. The right to receive interest payments and principal on the Subordinated Note will, under certain circumstances, be waived. See “—Waiver and Improvement Agreement.” Thereafter, under certain circumstances in connection with the payment by the Bank or its subsidiaries of dividends or other distributions on certain other securities or upon the cessation of a Shift Event, the obligation of the Bank, acting through the Branch, to pay interest and principal under the Subordinated Note will be reinstated. Any amounts not payable in respect of the Subordinated Note during a Shift Period will not accumulate and will not thereafter be paid subsequent to the termination of the relevant Shift Period. The Subordinated Note will contain call provisions and early redemption rights that correspond to the call provisions and early redemption rights applicable to the Partnership Interests as described herein under “—Call Provisions” and “—Early Redemption.” The Subordinated Note may also be redeemed by the Bank, acting through the Branch, at any time prior to maturity, provided that the LLC invests the proceeds thereof in Eligible Intercompany Investments. See “—Eligible Intercompany Investments.”

The Subordinated Note will constitute an unsecured obligation of the Bank, acting through the Branch, and will be subordinate and junior in right of payment to all present and future Other Obligations. See “Liquidation.” “Other Obligations” means all other liabilities of the Bank (including the rights under *Genußscheine*) (a form of participation qualifying as tier two capital) but excluding any indebtedness that by its terms is subordinated to or ranks *pari passu* with the Subordinated Note or any other instruments of the Bank payments on which would, during a Shift Period, require the Bank, acting through the Branch, to make any payments in respect of the Subordinated Note as described herein under “—Required Payments.”

Waiver and Improvement Agreement Except as otherwise stated below, pursuant to the Waiver and Improvement Agreement, during a Shift Period, (i) the LLC will waive its right to interest under the Subordinated Note for each interest payment date which occurs during such Shift Period and (ii) its right to principal and any other payments

under the Subordinated Note, and the Bank, acting through the Branch, will not be obligated to make such payments. As a result, the LLC will have no income, and no Distributions will be paid to holders of the Partnership Interests during a Shift Period. The LLC does not expect that any waiver of interest, principal and other payments under the Subordinated Note will result in either a loss or an Accumulated Deficit, unless a Shift Event were in certain circumstances to cause a permanent impairment in the value of the Subordinated Note.

If a Shift Period has ceased to exist, the foregoing waiver will terminate and all rights of the LLC and all obligations of the Bank, acting through the Branch, in respect of the Subordinated Note will be reinstated (i) in respect of interest payments, as of the first day following the last interest payment date during such Shift Period and (ii) in respect of other obligations, from and after cessation of the Shift Period. Any interest not payable in respect of the Subordinated Note during the time a Shift Period was continuing is not cumulative and therefore will not be paid following the end of the Shift Period. Other than its obligations pursuant to the Subordinated Note and the Waiver and Improvement Agreement, the Bank, acting through the Branch, has no obligation to contribute any funds, whether through the subscription of additional equity or otherwise, into the LLC or to provide credit support for the obligations of the LLC.

The Subordinated Note and the Waiver and Improvement Agreement will each provide that, at all times (whether or not during a Shift Period), if the Bank makes or declares dividends, other distributions or any other payments in respect of its Ordinary Securities or makes any payments, or provides funds to a subsidiary, in respect of any Parity Securities, then interest payments on the Subordinated Note must be made as described herein under “—Required Payments.”

Eligible

Intercompany Investments . . .

“Eligible Intercompany Investments” are those instruments of the Bank itself, the Bank, acting through either the Branch or another branch of the Bank, or an affiliate of the Bank that is not a U.S. Person (as defined below) that satisfy each of the following conditions prior to their substitution for the Subordinated Note as assets of the LLC: (i) each Rating Agency then rating the Certificates or the Partnership Interests then outstanding, if then rated, will have informed the Bank in writing that such substitution will not result in a downgrading of the rating then assigned by such Rating Agency to the Certificates or the Partnership Interests; (ii) the Eligible Intercompany Investments will be scheduled to mature on the same date as the Subordinated Note, subject to extension on the same terms as the Subordinated Note, if such maturity date occurs during a Shift Period; (iii) the Eligible Intercompany Investments will provide for periodic payments to the LLC in amounts sufficient to enable the LLC and the Trust to make Distributions in respect of the Partnership Interests and the Certificates in the same circumstances and to the same extent as currently provided by the Partnership Interests and the Certificates; (iv) there would be no adverse tax consequences to the Bank as a consequence of such substitution that would give rise to a Tax Event; (v) there would be no adverse withholding tax consequences to holders of Eligible Intercompany Investments, Partnership Interests, or Certificates, including the imposition of more burdensome tax identification requirements with respect to residents; (vi) if, immediately prior to such substitution, the Partnership Interests qualify as consolidated Tier One Capital of the Bank, together with its subsidiaries, then upon consultation with the FBSA, the Bank will have determined that the

Partnership Interests would continue to qualify as consolidated Tier One Capital of the Bank, together with its subsidiaries; (vii) neither the Trust nor the LLC would be required to register as an investment company under the 1940 Act; (viii) the LLC would continue to be treated as a partnership and the Trust would continue to be classified as a grantor trust, in each case for U.S. federal income tax purposes; (ix) the investment in the Eligible Intercompany Investments will not cause a Tax Event based on either (A) present applicable law or (B) any change or prospective change in applicable law to become effective at a later date and which change is known at the time of the investment in the Eligible Intercompany Investments; (x) the prior approval of the FBSA is obtained, if required; (xi) the new obligor will have irrevocably submitted to the jurisdiction of any state or U.S. federal courts in the County of New York, State of New York; (xii) either the new obligor will have also become a party to the Waiver and Improvement Agreement or an agreement with terms substantially similar to the Waiver and Improvement Agreement will have become applicable to the Eligible Intercompany Investments; and (xiii) the LLC will have delivered to the Independent Directors an officers' certificate and an opinion of counsel stating that such investment complies with the terms of the Charter and that all conditions precedent in the Charter to such substitution have been complied with.

For these purposes, a "U.S. Person" is (i) an individual citizen or resident of the U.S., (ii) a corporation or partnership organized in or under the laws of the U.S. or any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax regardless of source or (iv) a trust over which a court within the U.S. is able to exercise primary supervision over its administration and one or more U.S. holders have the authority to control all substantial decisions of the trust.

Form and Denomination

The Certificates will be represented by one or more Global Certificates (as defined herein under "Description of the Certificates—Form; Book-Entry Procedures and Transfer"). Certificates sold to qualified institutional buyers in reliance on Rule 144A will be evidenced by a Global Certificate in registered form, and which will be deposited on or about the Closing Date with a custodian for, and registered in the name of a nominee of, DTC. Certificates sold to Non-U.S. Persons (as defined in Regulation S) will initially be evidenced by a temporary Regulation S Global Certificate (as defined herein under "Description of the Certificates—Form; Book-Entry Procedures and Transfer") in registered form in the name of a nominee of, and shall be deposited on or about the Closing Date with, the Common Depositary for Euroclear and Cedelbank. Beneficial interests in such Global Certificates will be shown on, and transfers thereof will be effected through, records maintained by DTC, Euroclear and Cedelbank and their respective participants. Interests in the temporary Regulation S Global Certificate may be exchanged 40 days after the Offering and the closing date, for interests in the permanent Regulation S Global Certificate (as described herein under "Description of the Certificates—Form; Book-Entry Procedures and Transfer") in registered form upon certification of non-U.S. beneficial ownership. No payment will be made in respect of an interest in the temporary Regulation S Global Certificate unless and until the beneficial owner of such interest has provided the required certification and such interest has been exchanged for an interest in the permanent Regulation S Global Certificate. Any Certificates sold other than in reliance upon Rule 144A or Regulation S will be issued in certificated form. Except in the

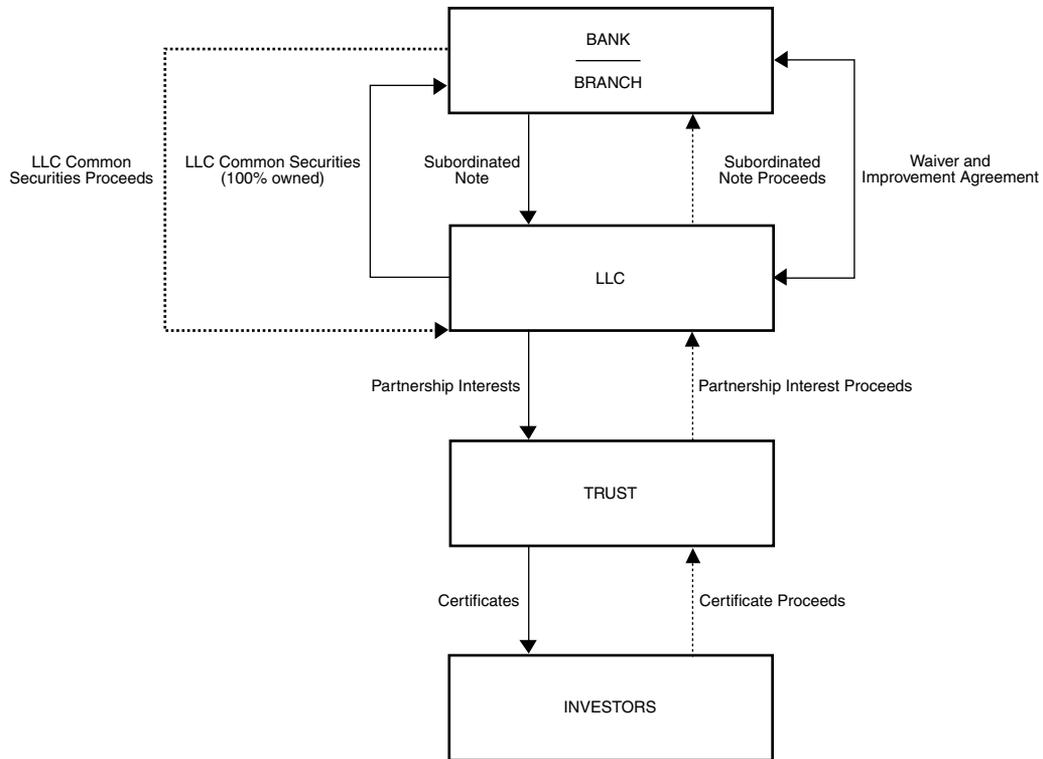
limited circumstances set forth herein, Certificates in certificated form will not be issued in exchange for interests in the Global Certificates. See “Description of the Certificates—Form, Book-Entry Procedures and Transfer.”

- Transfer Restrictions** Neither the Certificates nor the Partnership Interests have been registered under the Securities Act and may therefore not be offered, sold, pledged or otherwise transferred, except as described under “Notice to Investors.” The Certificates sold pursuant to Rule 144A will be initially issued only in blocks having an aggregate liquidation amount of not less than \$100,000 (100 Certificates) and integral increments of \$1,000 in excess thereof. See “Description of the Certificates—Form, Book Entry Procedures and Transfer” and “Notice to Investors.”
- Listing** Application has been made to list the Certificates on the Luxembourg Stock Exchange.
- Settlement** Settlement instructions relating to transfers of the Certificates within Euroclear and Cedelbank will be expressed in aggregate Initial Nominal Value.
- Ratings** It is expected that, upon issuance, the Certificates, each representing a Partnership Interest, will be rated “aa2 (under review for possible downgrade)” by Moody’s Investors Service Inc., “A+ (outlook negative)” by Standard & Poor’s and “AA-” by Fitch IBCA (each, a “Rating Agency”).
- Governing Law** The Waiver and Improvement Agreement and the Subordinated Note will be governed by, and construed in accordance with, the laws of the State of New York. The Declaration, the Certificates, and the Charter will be governed by, and construed in accordance with, the laws of the State of Delaware. The Silent Partnership Agreement will be governed by the laws of Germany.

FORMATION OF THE TRUST AND THE LLC

Prior to or simultaneously with the completion of the Offering, the Trust, the LLC and the Bank will engage in the transactions described under “Certain Transactions Constituting the Formation.” These transactions are designed to facilitate the Offering, including the acquisition of the Subordinated Note by the LLC and the execution of the Silent Partnership Agreement by the Trust and the LLC.

The following diagram outlines the relationship between the Trust, the LLC and the Bank following completion of the Offering:



SUMMARY CONSOLIDATED FINANCIAL AND OPERATING DATA

DRESDNER BANK GROUP

	1998		1997		1997 ¹	1996 ¹
	(IAS)		(IAS)		(German Commercial Code)	(German Commercial Code)
	(€ millions)	(U.S.\$ millions)	(DM millions)	(DM millions)	(DM millions)	(DM millions)
Certain Income						
Statement Data						
Net interest income	3,834.0	4,482.1	7,498.6	7,205.4	7,528.2	6,965.0
Net loan loss provisions . .	1,117.3	1,306.1	2,185.2	1,434.5	1,286.0	1,101.5
Net interest income after loan loss provisions	2,716.7	3,176.0	5,313.4	5,770.9	6,242.2	5,863.5
Net commission income . .	2,837.3	3,317.0	5,549.3	4,895.8	5,341.3	4,128.8
Trading profits	743.3	868.9	1,453.7	1,770.5	1,259.6	666.5
Administrative expenses . .	5,892.4	6,888.6	11,524.6	9,894.5	9,868.7	8,536.9
Other income	1,414.9	1,654.1	2,767.3	1,125.8	N/A ⁽³⁾	N/A ⁽³⁾
Other operating income . . .	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	354.9	351.9
Result from the liquidity portfolio	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	378.6	791.1
Results from financial assets	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	552.5	(77.6)
Other expenses	482.3	563.8	943.2	861.4	N/A ⁽³⁾	N/A ⁽³⁾
Other operating expenses	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	566.7	398.6
Additions to special items with partial reserve character	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	253.5	—
Extraordinary expenses . . .	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	153.9	—
Other items	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾	(5.9)	(26.1)
Pre-tax profit	1,337.5	1,563.6	2,615.9	2,807.1	3,280.4	2,762.6
Net income for the year . .	950.0	1,110.6	1,858.0	1,195.4	1,687.3	1,579.9

¹ Income statement and balance sheet data for 1998 and 1997 have been prepared in accordance with IAS. These data for 1997 have also been prepared in accordance with the German Commercial Code, as have the corresponding data for 1996. Financial information prepared in accordance with IAS is not directly comparable to that prepared in accordance with the German Commercial Code. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—1997 under IAS and under the German Commercial Code: significant differences."

² Not an individual line item under IAS.

³ Not calculated in accordance with the German Commercial Code.

	December 31,			
	1998 (IAS)	1997 (IAS)	1997 German Commercial Code	1996 German Commercial Code
	(DM millions)	(DM millions)	(DM millions)	(DM millions)
Certain Balance Sheet Data				
Total loans	388,218	357,460	361,570	322,791
Trading assets	113,818	102,780	68,964	51,822
Other assets	212,772	211,683	246,351	186,550
Total assets	714,808	671,923	676,885	561,163
Deposit and certificated liabilities	600,095	567,663	613,953	512,228
Total liabilities	693,415	651,561	657,929	545,941

	1998 (IAS)	1997 (IAS)	1997 German Commercial Code	1996 German Commercial Code
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Selected Ratios

Net interest margin (based on Risk weighted assets) ⁽¹⁾	2.56%	2.77%	2.51%	2.60%
Cost-income ratio	79.5%	71.3%	69.9%	72.6%
Return on Equity ⁽²⁾	12.7%	14.3%	20.9%	19.9%
Provisioning ratio	0.53%	0.41%	0.35%	0.40%
Charge-off ratio	0.18%	0.19%	0.22%	0.24%
Tier 1 capital (German Banking Act)	6.0%	5.7%	5.7%	5.1%
Total capital ratio (German Banking Act)	10.6%	10.5%	10.5%	9.0%
Total capital ratio according to BIS rules	11.7%	11.0%	11.0%	9.4%

¹ IAS: Net interest income to risk weighted assets excluding trading assets.

German Commercial Code: Net interest income to average risk weighted assets.

² IAS: Equity as at 31 December according to the balance sheet excluding amounts to be distributed.

German Commercial Code: Average Equity.

	December 31,		
	1998	1997	1996
	(German Banking Act)		
	(DM millions)	(DM millions)	(DM millions)
Tier One capital	20,777	17,900	14,500
Profit participation certificates	3,828	3,745	2,262
Subordinated liabilities	8,842	8,117	6,950
Total liable equity capital	36,622	32,727	25,800

RISK FACTORS

Prospective investors should carefully consider the following information in conjunction with the other information contained in this Offering Memorandum before purchasing any Certificates in the Offering. Prospective investors should also carefully consider the information regarding Dresdner Bank and the Branch contained herein.

Risk Associated with the Financial Conditions of the Bank and the Branch

If the financial condition of the Bank were to deteriorate with the consequence that a Shift Event (as defined herein) were to occur, the LLC and the holders of the Certificates could suffer direct and materially adverse consequences, including suspension of Distributions on the Partnership Interests and, as a consequence, Distributions on the Certificates. In addition, if the Bank was liquidated, the LLC would be liquidated and holders of the Certificates could suffer loss of their initial investment. ***Accordingly, potential investors in the Certificates should carefully consider the descriptions herein of the consequences of a Shift Event and the financial and other information regarding the Bank contained herein.***

A Shift Event will occur if (i) the Board of Managing Directors (*Vorstand*) of the Bank determines that either (A) the Bank's total capital ratio or tier one capital ratio has declined below the minimum percentage required from time to time by the German Banking Act (presently 8% and 4%, respectively) or (B) the Bank's non-compliance with the foregoing capital ratio requirements is immediately imminent, (ii) the Bank is declared insolvent or overindebted and insolvency proceedings are to be commenced, or (iii) the Federal Banking Supervisory Authority (*Bundesaufsichtsamt für das Kreditwesen*; the "FBSA") either (A) exercises its extraordinary supervisory powers pursuant to Section 45 *et seq.* of the German Banking Act or (B) announces its intention to take such measures. The aforementioned powers of the FBSA may be invoked, among other things, if in the determination of the FBSA it is or might be impossible to effectively supervise a banking institution, if the insolvency or overindebtedness of the institution is imminent or is connected with a serious deterioration in a banking institution's financial situation, including an insufficiency of regulatory capital or liquidity, or a possible inability of that institution to satisfy its obligations to creditors, in particular depositors.

While a Shift Event is in effect, pursuant to the Waiver and Improvement Agreement the LLC will waive all payments of principal and interest on the Subordinated Note, subject to reinstatement of (i) the obligation of the Bank, acting through the Branch, to pay interest if the Bank or certain of its subsidiaries make payments in respect of junior or *pari passu* securities and (ii) its obligation to repay principal if the liquidation of the Bank is commenced. If the foregoing waiver is in effect, the LLC will not earn any profit and accordingly will have no obligation to make distributions on the Partnership Interests.

The obligation of the Bank, acting through the Branch, to pay interest on the Subordinated Note will be reinstated for the interest period or periods corresponding to the time period for which the Bank pays any dividends or makes other payments in respect of its Ordinary Securities or the Bank makes any payment under or in connection with any Parity Securities.

The obligation of the Bank, acting through the Branch, to pay principal on the Subordinated Note will be reinstated if the liquidation of the Bank is commenced while a Shift Event is in effect. Because the Subordinated Note is subordinated to all creditors of the Bank, including holders of *Genußscheine*, in certain circumstances the LLC may not, in such liquidation proceedings, receive all or any payment in respect of its claim on the Subordinated Note.

Distributions Not Cumulative

Distributions on the Partnership Interests are not cumulative. The Silent Partnership Agreement provides that Distributions on the Partnership Interests will be paid on each Distribution Payment Date to the extent that (i) such payments can be made from the Available Distributable Profits for any fiscal semi-annual period and (ii) the Current Nominal Value of each Partnership Interest is equal to the Liquidation Preference. To the extent that interest payments are made on the Subordinated Note in respect of any semi-annual period, the LLC is expected to have Available Distributable Profits sufficient to pay Distributions on the Partnership Interests for such semi-annual period. If the Bank, acting through the Branch, does not pay interest on the Subordinated Note, whether

it is not obligated to do so during a Shift Period or whether because it has not otherwise made such payments, the LLC will not have Available Distributable Profits to pay Distributions on the Partnership Interests for such Distribution Period. If a Distribution on the Partnership Interests does not become payable in respect of a Distribution Period for any reason, the LLC will have no obligation to make a Distribution for such period, whether or not Distributions on the Partnership Interests are made for any future Distribution Period. See “Description of the Partnership Interests—Distributions Other Than During a Shift Period.”

Bank Regulatory Restrictions on Operations of the LLC

Because the Subordinated Note will be issued by the Bank, acting through the Branch, the New York State Banking Department and the Board of Governors of the Federal Reserve System, each of which has regulatory authority over the Branch, could make determinations in the future with respect to the Branch that could adversely affect the ability of the Bank, acting through the Branch, to pay interest on the Subordinated Note and, accordingly, the LLC’s ability to pay Distributions on the Partnership Interests. See “The Branch” for a description of New York State banking regulations applicable to the Branch. However, the Subordinated Note is an obligation of the Bank, and upon a liquidation of the Branch or a failure by the Branch to make payments under the Subordinated Note, the Bank, in accordance with German law, remains fully responsible for all obligations of the Branch under the Subordinated Note. The Bank, acting through the Branch, has agreed with the LLC that, so long as any Partnership Interests are outstanding, it will maintain direct or indirect ownership of 100% of the LLC Common Securities. Similarly, because the LLC is a subsidiary of the Bank, the FBSA could make determinations in the future with respect to the Bank that could adversely affect the LLC’s ability to make distributions to its securityholders (including Distributions to the Trust as the holder of Partnership Interests) or to redeem any of its securities, including any Partnership Interests. See “The German Banking System and its Supervision and Regulation” for a description of German banking regulations applicable to the Bank.

Redemption upon Occurrence of an Early Redemption Event

Prior to the First Call Date and except during a Shift Period, the Partnership Interests will be redeemable only in full and not in part by the LLC upon the occurrence of an LLC Early Redemption Event at a price equal to the Early Redemption Amount, which would be equal to the greater of (a) the Current Nominal Value plus any unpaid Distributions for the then current Distribution Period and (b) the Make Whole Amount, with (i) the prior consent of the FBSA and (ii) no less than 30 and no more than 60 days’ prior written notice to holders of the Partnership Interests. The LLC may not, prior to the First Call Date, as a result of an LLC Early Redemption Event, redeem the Partnership Interests unless the Current Nominal Value of each Partnership Interest is equal to the Liquidation Preference. In the event that the LLC exercises its option to redeem the Partnership Interests, the funds paid by the LLC upon such a redemption will be passed through by the Trust to redeem the Certificates corresponding to the Partnership Interests so redeemed. See “Description of the Partnership Interests—Early Redemption.”

Liquidation of the Trust upon Occurrence of a Trust Dissolution Event

If either a Tax Event or an Investment Company Event were to occur, each with respect to the Trust, then the Trust would be dissolved and liquidated. Upon such liquidation of the Trust, each Holder of Certificates would receive as its liquidation distribution a corresponding number of Partnership Interests. Upon such distribution, the Partnership Interests would not be listed on the Luxembourg Stock Exchange or any other exchange, and the holders thereof, or their nominees, would become subject to Form K-1 reporting requirements under the Internal Revenue Code of 1986, as amended. Therefore, the Partnership Interests distributed upon the liquidation of the Trust could trade at a discount to the price of the Certificates prior to such liquidation. See “Description of the Certificates—Liquidation upon a Trust Dissolution Event.”

No Voting Rights

Holders of the Certificates will not have any voting rights, except as described under “Description of the Certificates—Voting Rights.” The Partnership Interests will be non-voting, except that, if (i) the LLC fails to pay full Distributions on the Partnership Interests for the most recent Distribution Period or (ii) a Shift Event occurs, the holders of the Partnership Interests will be entitled to replace the Designated Independent Director

with a new Independent Director and to elect two additional Independent Directors. Any member of the Board of Directors of the LLC elected by the holders of the Partnership Interests will be deemed to be “independent” for purposes of the actions requiring, pursuant to the Charter, the approval of a majority of the Independent Directors. The Elected Independent Directors will be required to vacate office when the corresponding Shift Period ends, if applicable, or, if not applicable, when the next full Distribution is made on the Partnership Interests, except that, if any Elected Independent Director was elected to replace a Designated Independent Director, such Elected Independent Director will be entitled to remain in office until the Bank, acting through the Branch, as holder of all of the outstanding LLC Common Securities designates another person as an Independent Director. See “Description of the Partnership Interests—Voting Rights.”

Ranking of the Partnership Interests

Although the assets of the LLC will consist of the Subordinated Note (subject to replacement in whole or in part by Eligible Intercompany Investments), upon a liquidation of the Bank the Partnership Interests will effectively rank subordinate and junior in right of payment to all Other Obligations of the Bank and rank *pari passu* with the Bank’s Parity Securities. There are no agreements relating to the Offering that restrict the ability of the Bank to incur additional indebtedness.

No Third Party Opinion as to the Fairness of the Terms of the Subordinated Note

The LLC and the Bank, acting through the Branch, intend that the terms of the Subordinated Note, which will be issued by the Bank, acting through the Branch, will be fair to the LLC. However, no third-party opinion as to the fairness of the terms of the Subordinated Note has been or will be obtained for purposes of the Offering, and there can be no assurance that the terms of the Subordinated Note are no less favorable to the LLC than could have been obtained by the LLC in an arm’s-length transaction with an unaffiliated party.

Relationship with the Bank and its Affiliates; Conflicts of Interest

The Bank and its affiliates are involved in all aspects of the LLC. The Bank, acting through the Branch, is the sole holder of the LLC Common Securities and is the issuer of the Subordinated Note. The Bank, acting through the Branch, will have the right to elect all directors of the LLC (including the initial Independent Director) other than the Independent Directors elected by the holders of Partnership Interests upon the failure of the LLC to pay Distributions on Partnership Interests for an applicable Distribution Period or during a Shift Period. The initial (and the LLC anticipates that all future) officers and employees of the LLC, including the officers and employees who administer the Subordinated Note (and, to the extent that the LLC acquires Eligible Intercompany Investments, such other assets of the LLC) and make decisions on behalf of the LLC with respect to the acquisition and disposition of Eligible Intercompany Investments, will also be officers or employees of the Bank or one of its affiliates. Conflicts of interest may arise between the discharge by such individuals of their duties as officers or employees of the LLC on the one hand, and the Bank and its affiliates on the other hand.

The Bank and its affiliates may have interests which are not identical to those of the LLC. Consequently, conflicts of interest may arise with respect to transactions, including without limitation, the LLC’s administration of the Subordinated Note or Eligible Intercompany Investments.

It is the intention of the LLC and the Bank that the terms of any agreements and transactions, including the terms of the Subordinated Note, between the LLC, on the one hand, and the Bank or its affiliates, on the other hand, be fair to all parties and consistent with market terms. The requirement in the LLC’s Charter that, under certain circumstances, certain actions of the LLC be approved by a majority of the Independent Directors is also intended to ensure fair dealings between the LLC and the Bank and its affiliates. However, there can be no assurance that such agreements or transactions will be on terms as favorable to the LLC as those that could have been obtained from unaffiliated third parties.

Lack of Public Market

The Certificates are a new issue of securities for which there is no existing market. Application will be made to list the Certificates on the Luxembourg Stock Exchange. There can be no assurance that an active market for the Certificates will develop or be sustained in the future on the Luxembourg Stock Exchange. Although the Initial Purchasers have informed the Trust and the Bank that they intend to make a market in the Certificates, the Initial Purchasers are not obligated to do so, and any such market making activity will be subject to the limits imposed by applicable law and may be interrupted or discontinued at any time without notice. See “Plan of Distribution.”

CONSOLIDATED CAPITALIZATION OF THE BANK

The following table sets forth the consolidated capitalization of Dresdner Bank as of December 31, 1998 and as adjusted to reflect the consummation of (i) the Offering and (ii) the Combined Offering and the use of the net proceeds from each as described under "Use of Proceeds."

	As of December 31, 1998		
	Actual	As Adjusted for the Offering	As Adjusted for the Combined Offering
	(DM millions)		
Subordinated debt	10,670	10,670	10,670
Profit participation certificates	4,378	4,378	4,378
Silent Partnership ¹	0	1,673	2,651
Minority interests	427	427	427
Equity capital			
Subscribed capital	2,588	2,588	2,588
Capital reserve	10,402	10,402	10,402
Treasury stock	(38)	(38)	(38)
Earnings reserves	7,039	7,039	7,039
Distributable profit of Dresdner Bank	1,402	1,402	1,402
Total equity capital	21,393	21,393	21,393
Total capitalization ²	36,868	38,541	39,519

¹ The U.S. dollar amounts are translated into Deutsche Mark at a rate of U.S.\$1 = DM 1.6730. The euro amounts are translated into Deutsche Mark at a rate of €1 = DM 1.95583.

² There has been no material change in the consolidated capitalization of the Bank since December 31, 1998.

CAPITAL RATIOS OF THE BANK

The following table sets forth the capital ratios of Dresdner Bank on a consolidated and unconsolidated basis as of December 31, 1998 as adjusted to reflect the consummation of (i) the Offering and (ii) the Combined Offering, and the use of the net proceeds from each as described under ‘‘Use of Proceeds.’’

	As of December 31, 1998		
	Actual	As Adjusted for the Offering	As Adjusted for the Combined Offering
Capital ratios of Dresdner Bank, consolidated			
Tier I capital ratio	6.0%	6.5%	6.8%
Total capital ratio in accordance with Principle I of the German Banking Act	10.6%	11.1%	11.3%
Total capital ratio in accordance with BIS rules	11.7%	12.2%	12.5%

Capital ratios of Dresdner Bank, unconsolidated

The Tier 1 capital ratio of the Bank as of December 31, 1998 amounted to 8.0%, the Total capital ratio in accordance with Principle I of German Banking Act amounted to 11.9%. The capital ratios of the Bank (unconsolidated) are not affected by the Offering.

For a more detailed discussion of the Bank’s equity capital and the capital adequacy requirements to which the Bank is subject, see ‘‘The German Banking System and its Supervisions and Regulation—Capital Adequacy Requirements’’ and Note 33 to the Consolidated Financial Statements for the year ended December 31, 1998.

CAPITALIZATION OF THE LLC AND THE TRUST

The following tables set forth the capitalization of the LLC and the Trust, in each case as of May 14, 1999 and as adjusted to reflect the consummation of the Offering and the use of the net proceeds therefrom as described under “Use of Proceeds.”

Capitalization of the LLC

	May 14, 1999	
	Actual	As Adjusted
	(\$ thousands)	
Debt		
Total long-term debt	0	0
Securityholders’ Equity		
Partnership Interests, liquidation preference \$1,000 per security; none issued and outstanding, actual; and 1,000,000 securities authorized, 1,000,000 securities issued and outstanding, as adjusted	0	1,000,000
LLC Common Securities; 1 security authorized, none issued and outstanding, actual; and 1,000 securities authorized, 1,000 securities issued and outstanding, as adjusted	0	1,000
Total securityholders’ equity	0	1,001,000
Total Capitalization¹	0	1,001,000

¹ There has been no material change in the capitalization of the LLC since its formation, except as disclosed in the above table.

Capitalization of the Trust

	May 14, 1999	
	Actual	As Adjusted
	(\$ thousands)	
Debt		
Total debt	0	0
Securityholders’ Interests		
Trust Certificates, liquidation amount of \$1,000 per security; none issued and outstanding, actual; and 1,000,000 securities authorized, 1,000,000 securities issued and outstanding; as adjusted	0	1,000,000
Total securityholders’ interests	0	1,000,000
Total Capitalization¹	0	1,000,000

¹ There has been no material change in the capitalization of the Trust since its creation, except as disclosed in the above table.

USE OF PROCEEDS

The Trust will use the proceeds from the issue and sale of the Certificates to purchase the Partnership Interests from the LLC. The LLC will use the proceeds from the sale of the Partnership Interests and the LLC Common Securities to purchase the Subordinated Note from the Bank, acting through the Branch.

With the issuance of the Partnership Interests, Dresdner Bank intends to improve its regulatory capital base on a consolidated basis and to cost-efficiently strengthen the future growth of the Dresdner Bank Group. The U.S.\$ denominated portion of the proceeds from the Combined Offering will also provide currency diversification of the core capital and provide a cushion for future exchange rate movements as regards Dresdner Bank's conversion of its U.S.\$ denominated asset base into euro.

The proceeds from the issue and sale of the Subordinated Note will be employed by the Branch for general banking purposes.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The selected consolidated financial data as of and for the fiscal years ended December 31, 1996, 1997 and 1998 set forth below have been derived from and should be read in conjunction with the Consolidated Financial Statements and Notes thereto included elsewhere in this Offering Memorandum, which have been prepared in accordance with IAS for 1998 and 1997 and the German Commercial Code for 1997 and 1996. The Consolidated Financial Statements have been audited by C&L Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, as independent public accountants, who have given their unqualified audit opinion.

Results of operations

1998 Compared to 1997

The consolidated financial statements of the Dresdner Bank Group for 1998 were prepared for the first time in accordance with International Accounting Standards ("IAS"), including comparative figures for 1997. This became possible with the effectiveness of the Capital Raising Promotion Act (*Kapitalaufnahmeerleichterungsgesetz*, the "KapAEG"). Under the KapAEG, by preparing its consolidated financial statements according to IAS, the Group is exempt from the requirement of presenting such financial statements in accordance with the German Commercial Code. At the same time, these consolidated financial statements have been prepared in accordance with applicable EU Directives.

The principal components of the consolidated income statement for 1998 and 1997, and the changes in such components in 1998 from the previous year, are set forth in the following table.

	1998	1997	Change	
	(DM millions)	(DM millions)	(DM millions)	(%)
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	<u>1,858.0</u>	<u>1,195.4</u>	662.6	55.4

1998 was characterized by two opposing trends: whilst the first half of the year raised expectations of record results, financial crises in emerging markets sparked turmoil in the international financial markets during the second half-year, which had a negative impact on the Group's earnings.

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

Net interest income

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, the Group's interest related business remains a highly significant source of income in its banking activities.

	1998	1997	Change	
	(DM millions)		(DM millions)	(%)
Interest income from				
Lending and money market operations	26,454.2	24,334.6	2,119.6	8.7
Fixed-income securities and government debt	2,429.4	2,308.5	120.9	5.2
Current income from				
Equities and other non-fixed income securities	454.3	539.2	(84.9)	(15.7)
Investments in non-affiliated enterprises	361.6	456.8	(95.2)	(20.8)
Investments in affiliated enterprises	65.9	14.0	51.9	370.7
Investments in enterprises valued at equity	91.9	146.5	(54.6)	(37.3)
Current income from leasing business	211.6	148.0	63.6	43.0
Income from profit transfer agreements	2.6	4.5	(1.9)	(42.2)
Total interest income	30,071.5	27,952.1	2,119.4	7.6
Interest expense for				
Deposits	9,609.7	9,659.0	(49.3)	(0.5)
Certificated liabilities	11,562.7	9,916.0	1,646.7	16.6
Subordinated liabilities	631.9	655.7	(23.8)	(3.6)
Other	768.6	516.0	252.6	49.0
Total interest expense	22,572.9	20,746.7	1,826.2	8.8
Net interest income	7,498.6	7,205.4	293.2	4.1

Net loan loss provisions

In 1998 the Bank significantly increased net loan loss provisions, in particular during the fourth quarter, in light of the developments during the second half of 1998, 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. The Bank believes that this conservative standard for provisioning adequately accounted for all identifiable risks as of the reporting date.

	1998	1997	Change	
	(DM millions)		(DM millions)	(%)
Additions to provisions, including direct write-offs	3,106.9	2,338.4	768.5	32.9
Amounts released	811.8	841.2	(29.4)	(3.5)
Recoveries on loans previously written off	109.9	62.7	47.2	75.3
Net loan loss provisions	2,185.2	1,434.5	750.7	52.3

In Germany, counterparty risks in lending to the Group's corporate customers (in the five new *Bundesländer* (the "New Federal States") of the former German Democratic Republic ("GDR")) required significant increases in specific loan loss provisions in 1998. In contrast, specific risk provisions in western Germany stabilized at the lower levels seen in the previous year, both in corporate and private customer lending. The Group has made specific loan loss provisions for loans to debtors in Indonesia, South Korea and Thailand in the aggregate amount of DM 452 million. These provisions were made predominantly in the Group's 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.

The Group has accounted for the turbulence in emerging market economies by adding DM 398 million to country risk provisions charged to the income statement in 1998. 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 the Bank's internal country rating system. The Group also added approximately DM 200 million in 1998 to specific provisions for exposures to Russian banks and certain Chinese companies. Although these were not formally country risk provisions, the Group regards them as having been made in a broad sense in response to the prevailing economic environment in the countries.

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 was equivalent to 3.3 % of customer lending (1997: 3.1%). Excluding communal loans (direct or indirect public sector loans), the ratio was 4.2%.

Net interest income after net loan loss provisions was 7.9% lower than in the previous year. Net interest income after net loan loss provisions is typically subject to greater volatility than net interest income excluding such provisions, as loan loss provisions for a given year are offset by interest income on the exposures involved in income statements of previous years.

	Counterparty risks		Country risks		Potential risks (General loan loss provisions)		Total	
	1998	1997	1998	1997	1998	1997	1998	1997
<i>January 1</i>	7,887	7,174	1,175	982	721	850	9,783	9,006
(DM millions)								
Additions								
Additions to provisions recognized 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 recognized 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
<i>December 31</i>	<u>9,389</u>	<u>7,887</u>	<u>1,110</u>	<u>1,175</u>	<u>748</u>	<u>721</u>	<u>11,247</u>	<u>9,783</u>

Net commission income

After growth in net commission income in excess of DM 1 billion recorded in each of the previous two years, the 1998 net commission income of DM 5,549 million exceeded the previous year's record by DM 654 million, or 13.3%. This continuing increase was mainly attributable to earnings in the Group's securities and underwriting business, which rose by DM 500 million and accounted for 45% of overall net commission income. The strongest contribution was due to commission business in equities, which, despite depressed pricing levels and trading volume in the securities markets, in particular during the third quarter, 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 the Group's foreign commercial business. Commission income as of year-end 1998 stood at 74% of interest income, compared to 50% three years ago.

	1998	1997	Change	
	(DM millions)	(DM millions)	(DM millions)	(%)
Securities and underwriting business	2,503.5	2,009.1	494.4	24.6
Asset management	1,302.3	1,121.6	180.7	16.1
Foreign commercial business	336.3	365.5	(29.2)	(8.0)
Payment transactions	550.6	544.0	6.6	1.2
Other	856.6	855.6	1.0	0.1
Net commission income	<u>5,549.3</u>	<u>4,895.8</u>	653.5	13.3

Trading profits

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. The Group believes that, in view of the turmoil in international capital markets triggered by crises in emerging markets, this result is nonetheless satisfactory. Following the slump during the third quarter of 1998, the decline for the full year was considerably smaller than previously anticipated. The results of the Group's 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. Turbulence in emerging markets had a particularly strong impact on trading activities in other financial instruments. Despite the foregoing, the Group was able to record a positive result of DM 250 million.

	1998	1997	Change	
	(DM millions)	(DM millions)	(DM millions)	(%)
Bond trading	271.6	300.5	(28.9)	(9.6)
Equity trading	486.5	516.5	(30.0)	(5.8)
Brokerage	(69.1)	(54.2)	14.9	27.5
Securities trading	689.0	762.8	(73.8)	(9.7)
Foreign exchange/precious metals trading	514.5	475.2	39.3	8.3
Other financial instruments	250.2	532.5	(282.3)	(53.0)
Trading profits	<u>1,453.7</u>	<u>1,770.5</u>	(316.8)	(17.9)

Administrative expenses

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 vigorous international competition, the Group once again doubled investment related to expansion and restructuring measures as well as information technology to DM 1.2 billion. The investment phase for product development is expected to be completed this year. The Group expects, however, to continue to invest in information technology. Additional non-recurring 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. See "The Bank—Business Operations—Individual Customer Banking." Excluding these special factors, the growth rate for administrative expenses was 6.1%.

	1998	1997	Change	
	(DM millions)	(DM millions)	(DM millions)	(%)
Wages and salaries	5,513.9	4,968.1	545.8	11.0
Social security contributions	717.3	686.3	31.0	4.5
Pensions and other employee benefits	500.4	480.9	19.5	4.1
Staff expenses	<u>6,731.6</u>	<u>6,135.3</u>	596.3	9.7
Other administrative expenses	3,866.5	2,943.9	922.6	31.3
Regular depreciation of tangible fixed assets	926.5	815.3	111.2	13.6
Administrative expenses	<u>11,524.6</u>	<u>9,894.5</u>	1,630.1	16.5

Staff expenses grew by 9.7% to DM 6,732 million. Since 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.

The Group's cost-income ratio increased to 79.5% (1997: 71.3%), due to comparatively strong increases in expenses, which exceeded earnings growth in 1998.

Other income and expenses

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

Results from the Group's liquidity portfolio increased the result to DM 1.2 billion. This amount includes profits on the disposal of positions in equities, bonds and investment certificates. Portions in the liquidity portfolio are recorded on the balance sheet at cost. A write-off of the Group's 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, the Group had received distributions of profits that corresponded to its 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). In 1998, the Group continued its strategy of using such unrealized reserves to fund investments and to strengthen its 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.

	<u>1998</u>	<u>1997</u>	<u>Change</u>	
	(DM millions)		(DM millions)	(%)
Other Income				
Other operating income	502.0	354.9	147.1	41.4
Result from the liquidity portfolio	1,198.7	218.4	980.3	448.9
Results from other non-trading investments	1,066.6	552.5	514.1	93.0
Income from financial assets	<u>2,265.3</u>	<u>770.9</u>	1,494.4	193.9
Other income	<u>2,767.3</u>	<u>1,125.8</u>	1,641.5	145.8
Other expenses				
Other operating expenses	625.3	537.9	87.4	16.2
Other taxes	61.0	79.7	(18.7)	(23.5)
Amortization of goodwill	<u>256.9</u>	<u>243.8</u>	13.1	5.4
Other expenses	<u>943.2</u>	<u>861.4</u>	81.8	9.5

Pre-tax profit, taxes, net income

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, by which 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 1998 was DM 1,858 million, up DM 663 million, or 55.4%, on the previous year.

1997 Compared to 1996

Contrary to expectations, the KapAEG had not yet been passed at the end of 1997. As a consequence, the preparation of consolidated financial statements conforming to IAS would not have exempted the Dresdner Bank Group from presenting its financial statements according to the German Commercial Code. Accordingly, the Dresdner Bank Group's results of operations for 1997 as compared with those for 1996 as discussed below are presented in accordance with the accounting principles set forth in the German Commercial Code. See below, "—1997 under IAS and under the German Commercial Code: significant differences" and Note 3 to the Consolidated Financial Statements for the year ended December 31, 1998.

The table shown below sets out the principal components of the consolidated profit and loss account for 1997 and the changes compared to 1996.

	<u>1997</u>	<u>1996</u>	<u>Change</u>	
	(DM millions)	(DM millions)	(DM millions)	(%)
Interest surplus	7,528.2	6,965.0	563.2	8.1
Commission surplus	5,341.3	4,128.8	1,212.5	29.4
Net profit on financial operations	1,259.6	666.5	593.1	89.0
Administrative expenses	9,868.7	8,536.9	1,331.8	15.6
- staff expenses	6,055.1	5,396.0	659.1	12.2
- other administrative expenses ¹	3,813.6	3,140.9	672.7	21.4
Balance of other income/other expenses	(211.8)	(46.7)	(165.1)	(353.5)
Result from the liquidity portfolio	378.6	791.1	(412.5)	(52.1)
Net loan loss provisions	1,286.0	1,101.5	184.5	16.7
Results from financial assets	552.5	(77.6)	630.1	
Additions to special items with partial reserve character	253.5	—	253.5	—
Extraordinary expenses	153.9	—	153.9	—
Other items	(5.9)	(26.1)	20.2	77.4
Profit before taxation	<u>3,280.4</u>	<u>2,762.6</u>	517.8	18.7
Taxes	<u>1,593.1</u>	<u>1,182.7</u>	410.4	34.7
Net income for the year	<u>1,687.3</u>	<u>1,579.9</u>	107.4	6.8

¹ Including regular depreciation of tangible fixed assets.

The profit and loss account continued to show a single position “Net risk provisions” in order to maintain consistency of presentation. In the table above this composite figure has been split into its two components, “Result from the liquidity portfolio” and “Net loan loss provisions.”

Changes in the composition of the consolidated Dresdner Bank Group companies had a minor impact on the 1997 results. Higher exchange rates for the U.S. dollar and sterling had a more significant impact.

In 1997 the Dresdner Bank Group posted an increase in earnings over the previous year. At the same time, it managed to broaden its earnings base. For instance, commission surplus increased by more than DM 1 billion for the second consecutive year, reaching a level equivalent to approximately 71% of interest surplus. Profits on own-account trading nearly doubled in comparison to 1996, thereby substantially exceeding the previous record year of 1993. The strong revenue growth exceeded the cost growth, a portion of which represented expenses of an investive nature in expansion and restructuring measures as well as information technology. The Group’s cost/income ratio was therefore reduced to 69.9% (1996: 72.6%). Thus the Group was able to weather a decline in the result from the liquidity portfolio and to make appropriate provisions for risks in South East Asia. In addition, it was able to transfer a large portion of gains from the sale of the Degussa AG holding to reserves. The appropriation of the Group’s net income thus comprised the highest allocation to retained earnings to date in the amount of DM 883 million as well as a dividend hike.

Interest surplus

Interest surplus was up DM 563 million, or 8.1%, on the previous year, to DM 7,528 million, due to an increase in business volume, as shown by the following table.

	<u>1997</u>	<u>1996</u>	<u>Change</u>	
	(DM millions)	(DM millions)	(DM millions)	(%)
Interest income from	28,143.0	26,086.8	2,056.2	7.9
- lending and money market operations	25,357.5	24,110.2	1,247.3	5.2
- fixed-income securities and government debt	<u>2,785.5</u>	<u>1,976.6</u>	808.9	40.9
Current income from	1,441.1	944.4	496.7	52.6
- shares and other non-fixed-income securities	843.0	519.7	323.3	62.2
- investments in non-affiliated enterprises	517.3	365.2	152.1	41.6
- investments in affiliated enterprises	17.5	14.3	3.2	22.4
- leasing business ¹	<u>63.3</u>	<u>45.2</u>	18.1	40.0
Income from profit transfer agreements	4.5	4.7	(0.2)	(4.3)
Income from investments in associated enterprises	<u>28.3</u>	<u>23.9</u>	4.4	18.4
Total interest income	29,616.9	27,059.8	2,557.1	9.4
Interest expenses	<u>22,088.7</u>	<u>20,094.8</u>	1,993.9	9.9
Interest surplus	<u><u>7,528.2</u></u>	<u><u>6,965.0</u></u>	563.2	8.1

¹ Attributed to interest-related business for the first time.

Excluding interest and dividend income as well as refinancing costs attributable to trading (which under the German Commercial Code were required to be included under this item but were, from an economic point of view, attributable to own-account trading) interest surplus rose by 8.2%.

1997 saw a continuation of the changes in the structure of the Dresdner Bank Group's balance sheet that had been evident in recent years. Money market- and capital market-related assets and loans to local authorities continued to increase significantly. Since this volume represents low-risk business requiring little capital cover, the significance of the overall interest margin as an indicator for traditional commercial banking business is greatly reduced. This is also illustrated by the fact that the increase in average business volume of approximately DM 110 billion, or 22%, significantly exceeded that in average risk-weighted assets, which was up by approximately DM 30 billion or 12%. The interest margin based on the Group's average risk-weighted assets decreased by 9 basis points from 1996, to 2.51%; over the course of the year it stabilized at this level.

Commission surplus

Commission surplus rose substantially by 29.4%, or approximately DM 1.2 billion, to DM 5,341 million, as shown by the following table.

	<u>1997</u>	<u>1996</u>	<u>Change</u>	
	(DM millions)	(DM millions)	(DM millions)	(%)
Commissions received	5,576.9	4,291.5	1,285.4	30.0
Commissions paid	<u>235.6</u>	<u>162.7</u>	72.9	44.8
Commission surplus	<u><u>5,341.3</u></u>	<u><u>4,128.8</u></u>	1,212.5	29.4

Against the background of largely favorable developments in European and North American capital markets during the course of the year, the Group increased profits in its securities and underwriting business by nearly DM 700 million. The development of the Group's commission business in equities and investment certificates was particularly positive. Due to the first-time full consolidation of Dresdner RCM Global Investors L.L.C. and increased domestic demand for investment fund products, the profit of the asset management business was up by more than DM 300 million. The Group's other commission-based businesses also outperformed last year's figures, most with double-digit growth rates.

In 1998 Dresdner Bank continued to implement its objective of expanding capital-efficient advisory activities, as the Group's commission surplus reached 71% of interest surplus, compared with 59% in 1996 and 38% five years earlier.

Net profit on financial operations

Dresdner Bank Group's trading business enjoyed significant success in 1997; with an increase of 89%, or DM 593 million, over the previous year, net profit on financial operations—according to European accounting standards—nearly doubled to DM 1,260 million.

	<u>1997</u>	<u>1996</u>	<u>Change</u>	
	(DM millions)		(DM millions)	(%)
Net profit on:				
securities trading	375.0	284.5	90.5	31.8
currency/precious metals trading	307.2	96.8	210.4	217.3
other financial instruments	<u>577.4</u>	<u>285.2</u>	292.2	102.5
Net profit on financial operations	<u>1,259.6</u>	<u>666.5</u>	593.1	89.0

Securities trading contributed DM 375 million. While results from bond trading declined, the contribution of equities increased significantly, reflecting a change in customer demand. Trading profits in other financial instruments doubled to DM 577 million, while foreign exchange and precious metals trebled to a level of DM 307 million.

At the foreign subsidiaries Dresdner Kleinwort Benson (Marchés), Paris, Kleinwort Benson, London, and Dresdner Kleinwort Benson North America, New York, the interest and dividend income attributable to trading operations and related refinancing costs constituted an integral element of trading profits. All other business units in the Group included the interest components attributable to their trading operations under interest surplus; if this income had been treated as trading income, net profit on financial operations would have been DM 1,566 million, up by approximately two thirds on the previous year.

Administrative expenses

Administrative expenses were DM 9,869 million in 1997, representing an increase of 15.6%, or DM 1,332 million, over the previous year. Excluding changes in the composition of the Group, exchange rate fluctuations and the increase in expenses of an investive nature, administrative expenses rose by around 8%.

	<u>1997</u>	<u>1996</u>	<u>Change</u>	
	(DM millions)		(DM millions)	(%)
Wages and salaries	4,932.4	4,309.3	623.1	14.5
Social security contributions, pensions and other employee benefits	<u>1,122.7</u>	<u>1,086.7</u>	36.0	3.3
Total staff expenses	<u>6,055.1</u>	<u>5,396.0</u>	659.1	12.2
Other administrative expenses	<u>2,989.3</u>	<u>2,429.1</u>	560.2	23.1
Regular depreciation of tangible fixed assets	<u>824.3</u>	<u>711.8</u>	112.5	15.8
Total administrative expenses	<u>9,868.7</u>	<u>8,536.9</u>	1,331.8	15.6
Cost/income ratio ¹	69.9%	72.6%		

¹ Administrative expenses expressed as a percentage of interest and commission surplus and net profit on financial operations.

Staff expenses were up from 1996 by 12.2%. In 1997, the total number of employees in the Dresdner Bank Group rose by 353 to 46,169. Whilst the staff levels in the domestic branch network continued to decline, some international investment banking subsidiaries were expanding. Other administrative expenses and regular depreciation of tangible fixed assets together increased by 21.4%. Among other factors, expenses of an investive nature contributed to the marked increase in other administrative expenses. This includes restructuring costs and expenses for the development of new products and business areas, as well as for the continued upgrading of information and communications technology.

Despite such increased expenses, in 1997 revenue growth of approximately 20% exceeded cost growth, both on a pre- and post provisioning basis. Consequently, the Group's cost/income ratio—administrative expenses expressed as a percentage of interest and commission surplus and net profit on financial operations—improved to 69.6% (1996: 72.6%).

Result from the liquidity portfolio

The result from the liquidity portfolio of DM 379 million, down DM 413 million in 1997, was half the previous year's level, reflecting the Group's strategic decision to realize a lower level of pending revaluation reserves than in the previous year. The requirement for provisions on bonds, predominantly those issued by South East Asian borrowers, also contributed to the lower result in 1997. The gain on the sale of the stake in Degussa AG is included in the results from financial assets, since this represented an investment in a non-affiliated enterprise.

	<u>1997</u>	<u>1996</u>	<u>Change</u>	
	(DM millions)		(DM millions)	(%)
Result from the liquidity portfolio	378.6	791.1	(412.5)	(52.1)

Risk provisions

Against the backdrop of risks in Asian business which became evident in the last quarter of 1997, and with corporate insolvencies in Germany at a record high, the Group continued to apply conservative standards of provisioning in its lending business in order to adequately take account of all identifiable risks. Net loan loss provisions were increased by DM 185 million, or 16.7%, to DM 1,286 million.

	<u>1997</u>	<u>1996</u>	<u>Change</u>	
	(DM millions)		(DM millions)	(%)
Additions to provisions, including direct write-offs	2,558.3	1,892.9	665.4	35.2
Less amounts released and write-backs	<u>1,272.3</u>	<u>791.4</u>	480.9	60.8
Net loan loss provisions	<u><u>1,286.0</u></u>	<u><u>1,101.5</u></u>	184.5	16.7

In view of developments in certain Asian economies, the Group increased country risk provisions for exposure in this region by DM 600 million. Accumulated provisions built up against other countries were, however, no longer required in their full previous extent. In net terms, country risk provisions were increased by more than DM 350 million charged to the profit and loss account.

Higher additions to specific provisions for lending to corporate customers in the New Federal States were necessary. International units, in particular those in Asia, also posted higher provisions for specific risks. Risk provisions in lending to private customers remained at the previous year's level. The increase in additions to specific provisions was more than offset by amounts released from provisions no longer required in their full previous extent.

This resulted in a slight decline in the net loan loss provisions for specific risks. Hence, the provisioning ratio (specific provisions to customer lending) declined to 0.35%, again falling below the low levels seen in 1996 and 1995. The Group did not suffer any major loan defaults in 1997.

The charge-off ratio (actual loan losses to customer lending volume) slightly declined to 0.22%. This ratio reflects the realization of default probabilities implied in specific loan loss provisions made in previous years. The current risk in the lending portfolio is best illustrated by the provisioning ratio.

Movements in loan loss provisions

The risk provisions shown in the following table include not only loan loss provisions for specific risks but also general loan loss provisions and mandatory general reserves for latent risks in the portfolio, as well as provisions for country risks.

	<u>1997</u>	<u>1996</u>
	(DM millions)	
<i>January 1</i>	9,338	8,704
Adjustments for exchange rate movements	155	77
Provisions charged to P/L account ¹	2,605	1,907
Releases ¹	(1,147)	(691)
Charge-offs	(743)	(643)
Other additions/reductions	5	(16)
<i>December 31</i>	<u>10,213</u>	<u>9,338</u>

¹ Including provisions for interest.

At the end of 1997, country risk provisions amounted to DM 1.3 billion compared with DM 1.0 billion at year-end 1996. Under the Group's internal country rating system, Indonesia, South Korea and Thailand were classified as requiring provisions. See "The Bank—Risk management." As at December 31, 1997, the aggregate exposure attributable to these three countries was DM 4.1 billion.

Total loan loss provisions rose to DM 10.2 billion, which was equivalent to an unchanged 3.2% of customer lending volume. Excluding communal loans, the ratio was 4.1% (1996: 4.0%).

Other income and expenses

The balance of other income and other expenses resulted in an expenditure of DM 212 million after being nearly flat in the previous year. These two items comprised income and expenses which could not be attributed to other profit and loss account items. In 1997, major income items included rents received, income from the release of provisions and gains on sale of real estate; major expense items consisted primarily of the cost of issuing own bonds to raise long-term finance, costs for the raising of capital, realized losses on sale of real estate, indemnities and project development costs associated with the establishment of direct banking activities. The last three items were also the major contributors to the increase in other expenses.

The restatement of other income in 1996 was due to the reallocation of income from leasing business in the amount of DM 45.2 million to interest income.

	<u>1997</u>	<u>1996</u>	<u>Change</u>	
	(DM millions)		(DM millions)	(%)
Other income	354.9	351.9	3.0	0.9
Other expenses	<u>566.7</u>	<u>398.6</u>	168.1	42.2
Balance of other income/other expenses	<u>(211.8)</u>	<u>(46.7)</u>	(165.1)	(353.5)

Results from financial assets

In 1997 the Group achieved a profit of DM 553 million in the result from financial assets, primarily reflecting the gain of approximately DM 590 million on the disposal of the shareholding in Degussa AG. DM 254 million of this gain was transferred to special items with partial reserve character which are exempt from taxation under section 6b of the German Income Tax Act.

Special reserves

DM 253 million of reserves made in previous years under section 6b of the German Income Tax Act were first released as prescribed by accounting rules, affecting current-period results, and then utilized as a special depreciation allowance for land and buildings, thereby effectively retaining these reserves on a long-term basis.

Extraordinary expenses

Extraordinary expenses of DM 154 million were exclusively related to the 125-year anniversary of Dresdner Bank. The vast majority of these expenses were staff-related, including the issue of employee shares and the offer of options to purchase additional Dresdner Bank shares.

Pre-tax profit, taxes, net income

Profit before taxation was DM 3,280 million, up 18.7%, or DM 518 million on the previous year. The tax charge rose by DM 410 million to DM 1,593 million; the substantial 34.7% increase was mainly related to income subject to German taxation. In principle, any increase in corporation tax is proportional to increased profits before taxation. However, higher undistributed profits lead to a disproportionate increase in the tax charge due to the split tax rate in Germany. In addition, the trade income tax charge increased at a higher rate since, in contrast to corporation tax, certain expenses are not deductible.

The recognition of deferred tax assets under section 274(2) of the German Commercial Code effectively reduced the tax charge by DM 337 million. This reflected the different treatment of provisions for impending losses in the accounting balance sheet and the tax balance sheet, which has been in force since the beginning of 1997.

After taxation, the Dresdner Bank Group posted a net income DM 1,687 million, an increase of 6.8% or DM 107 million. DM 883 million of this amount was transferred to earnings reserves. This was the most substantial transfer to reserves to date, and represented an increase of 8.6% over the previous year's figure.

Already having improved pre-tax return on equity significantly in 1996, the Group achieved a further increase in 1997, with a return of 20.9% (1996; 19.9%).

1997 under IAS and under the German Commercial Code: significant differences

In accordance with German law, Dresdner Bank currently prepares its consolidated financial statements in accordance with IAS. For 1997 and prior years, the Bank prepared its consolidated financial statements in accordance with the accounting principles set forth in the German Commercial Code.

IAS differs from the German Commercial Code accounting principles in several significant ways. Among other things, the valuation of securities, the reversal of write-downs and valuation principles for taxation purposes, provisions for general banking risks and accounting for goodwill, deferred taxes, pension provisions, securities lending, joint ventures, treasury stock and interest accrual are treated differently under IAS and under the German Commercial Code. IAS provides for the "mark-to-market" valuation of trading positions and correspondingly includes unrealized profits, whereas the creation of hidden reserves is not permissible. IAS focuses on the reporting of results in the accounting period during which they occur. Moreover, under IAS accounting there is no reconciliation with the tax result. For a more detailed discussion of the differences between IAS and German Commercial Code accounting principles, see Note 3 to the Consolidated Financial Statements for the year ended December 31, 1998.

Results of operations

The following table summarizes certain significant differences between the results of operations for 1997 as presented under IAS and the German Commercial Code, respectively.

	<u>Pre-tax profit</u>	<u>Net income</u>
	(DM millions)	
In accordance with the German Commercial Code	3,280	<u>1,687</u>
Less other taxes	<u>(88)</u>	
Pre-tax profit in accordance with the German Commercial Code (excluding other taxes)	<u>3,192</u>	
Reversal of write-backs which, under IAS, had already been made prior to January 1, 1997	(331)	(331)
Annual write-down of goodwill	(244)	(244)
Liquidity discounts on market prices used for the valuation of trading positions	(89)	(89)
Adjustments of provisions for pensions and long-service awards	(52)	(52)
Elimination of special depreciation for tax purposes (primarily pursuant to Section 6b of the German Income Tax Act)	252	252
Valuation of trading positions at market prices	82	82
Transfer of specific reserves set aside for banking purposes	13	13
Deferred taxes	—	(107)
Miscellaneous regroupings and valuation changes	<u>(16)</u>	<u>(16)</u>
Total adjustments	<u>(385)</u>	<u>(492)</u>
Total in accordance with IAS	<u>2,807</u>	<u>1,195</u>

Equity capital reconciliation

The following table reconciles the equity capital of the Dresdner Bank Group in accordance with the German Commercial Code as at December 31, 1996 with that in accordance with IAS as at January 1, 1997.

	<u>(DM millions)</u>	
Equity capital according to the German Commercial Code as at December 31, 1996		15,222
Less reconciliation for minority interests		<u>(429)</u>
Equity capital according to the German Commercial Code (excluding minority interests) as at December 31, 1996		<u>14,793</u>
Adjustments according to IAS which increased equity capital:		
Capitalization of goodwill	1,714	
Valuation of trading positions at market prices	661	
Transfers of specific reserves set aside for banking purposes	639	
Elimination of special depreciation for tax purposes (largely pursuant to section 6b of the German Income Tax Act)	516	
Reversal of write-downs made in previous years (not required according to the German Commercial Code)	<u>373</u>	
		<u>3,903</u>
Adjustments according to IAS which decreased equity capital:		
Adjustment of provisions for pensions and long-service awards	(906)	
Liquidity discounts on market prices used for the valuation of trading positions	(293)	
Deferred taxes	(332)	
Miscellaneous re-groupings and valuation changes	<u>(173)</u>	
		<u>(1,704)</u>
Equity capital according to IAS as at January 1, 1997		<u>16,992</u>

Balance sheet developments

Overview

Consolidated total assets increased by DM 42.9 billion, or 6.4%, to DM 714.8 billion in 1998. This increase was primarily due to a DM 30.6 billion increase in claims on customers (customer lending plus reverse repos). 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

	December 31,		Change	
	1998	1997	(DM millions)	(%)
	(DM millions)			
Loans extended on bills not shown under claims	3,939	6,074	(2,135)	(35.1)
Claims on customers ¹⁾²⁾	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
Customer lending ¹⁾	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 ¹⁾	388,218	357,460	30,758	8.6

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

2) Of which at year-end 1998 DM 181.6 billion represented loans with a residual term of less than five years (an increase of 5.3% from the 1997 figure of DM 172.6 billion) and DM 156.2 billion represented loans with a residual term of more than five years (a 14.0% increase from the 1997 figure of DM 137.0 billion).

In 1998 the Group's 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 this growth. Mortgage loans granted by Dresdner Bank and its mortgage banking subsidiary totaled DM 91.2 billion, or 23.5% of the Dresdner Bank Group's lending volume. DM 100.6 billion, or 25.9% of the Group's total loans, were made to, or guaranteed or otherwise secured by, public-sector entities.

Three quarters of the Bank's lending volume of DM 388.2 billion was related to borrowers in Germany. The Group 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.

	December 31,		Change	
	1998	1997	(DM millions)	(%)
	(DM millions)			
Public authorities:				
Germany	63,138	57,212	5,926	10.4
Other countries	6,000	4,641	1,359	29.3
Total public authorities	<u>69,138</u>	<u>61,853</u>	7,285	11.8
Corporate customers:				
Germany	88,428	82,561	5,867	7.1
Other countries	64,107	59,658	4,449	7.5
Total corporate customers	<u>152,535</u>	<u>142,219</u>	10,316	7.3
Private customers:				
Germany	112,904	102,615	10,289	10.0
Other countries	3,229	2,888	341	11.8
Total private customers	<u>116,133</u>	<u>105,503</u>	10,630	10.1
Loans extended on bills ¹⁾	3,939	6,074	(2,135)	(35.1)
Customer lending	<u>341,745</u>	<u>315,649</u>	26,096	8.3
Loans to banks	46,473	41,811	4,662	11.2
Lending volume	<u><u>388,218</u></u>	<u><u>357,460</u></u>	30,758	8.6

¹⁾ Loans extended on bills not shown under claims.

The table shown below provides a breakdown by sector of lending to corporate and private customers in Germany.

	December 31,		Change	
	1998	1997	(DM millions)	(%)
	(DM millions)			
Manufacturing industry	21,245	21,677	(432)	(2.0)
Construction	5,818	6,006	(188)	(3.1)
Wholesale and retail trade	17,386	16,449	937	5.7
Financial institutions (excluding banks) and insurance companies	7,463	6,694	769	11.5
Services and professions	30,815	23,718	7,097	29.9
Other	5,701	8,017	(2,316)	(28.9)
Corporate customers	<u>88,428</u>	<u>82,561</u>	5,867	7.1
Private customers	<u>112,904</u>	<u>102,615</u>	10,289	10.0
Lending to domestic corporate and private customers	<u><u>201,332</u></u>	<u><u>185,176</u></u>	16,156	8.7

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 the Group's trading units. Trading assets increased by DM 11.0 billion to DM 113.8 billion, predominantly as a result of higher securities positions. Trading liabilities, which consisted mainly of short-term refinancing and negative market values for derivatives, increased by DM 11.7 billion to DM 54.1 billion.

Trading in financial derivatives continued to expand in 1998. In addition to trading, derivatives were used to hedge on-balance sheet risks. The following table provides a breakdown of nominal amounts by market segment as of December 31, 1998.

Type of Instrument	Nominal amount/Residual term:				Counterparty risk
	Less than 1 year	More than 1 to 5 years	More than 5 years	Total	
			(DM millions)		
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	<u>985,786</u>	<u>815,701</u>	<u>465,268</u>	<u>2,266,755</u>	<u>48,180</u>

Customer demand for all types of financial derivatives increased steadily. In addition to the Group's customer business in derivatives, these instruments were used, 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 year-end 1998 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

	Book value as of December 31,		Market value as of December 31,		Revaluation reserve as of December 31,	
	1998	1997	1998	1997	1998	1997
			(DM millions)			
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	<u>54,558</u>	<u>58,877</u>	<u>79,101</u>	<u>78,293</u>	<u>24,543</u>	<u>19,416</u>

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 realizations carried out in the course of 1998.

Significant shareholdings (non-banks)

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

Company	Percentage of	Market value
	capital held (%)	(DM millions)
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

Deposits and certificated liabilities, which included 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 the Bank's mortgage bank subsidiary.

DM 416.5 billion of customer and bank deposits included 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.

	December 31,		Change	
	1998	1997	(DM millions)	(%)
	(DM millions)		(DM millions)	(%)
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 ¹	<u>600,095</u>	<u>567,663</u>	32,432	5.7

¹ Of total deposits and certificated liabilities as of December 31, 1998, an aggregate DM 67 billion represented repo transactions, an increase of DM 17 billion, or 33.9%, over the corresponding value at year-end 1997 of DM 50 billion.

Capital and reserves

At year-end 1998, capital and reserves of the Dresdner Bank Group amounted 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 and net income transferred to earnings reserves.

The core capital for regulatory purposes stood at DM 20.8 billion. Total capital for regulatory purposes amounted 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 was 10.6%, and the core capital ratio was 6.0%. The recommended capital backing according to the BIS, which also provides for a minimum capital ratio of 8%, was significantly exceeded at 11.7%.

	December 31,		Change	
	1998	1997	(DM millions)	(%)
	(DM millions)			
Core capital	20,777	17,900	2,877	16.1
Profit-participation certificates	3,828	3,745	83	2.2
Subordinated liabilities	8,842	8,117	725	8.9
Revaluation reserves for securities ¹	4,238	3,234	1,004	31.0
Supplementary capital	16,908	15,096	1,812	12.0
Other deductibles	(1,063)	(269)	794	295.2
Total liable equity capital	36,622	32,727	3,895	11.9

¹ See “The German Banking System and its Supervision and Regulation” below.

Segment reporting

The Group’s operations are managed by divisions. In addition to traditional securities business, lending and deposit taking, the individual customer banking division covers home-loan savings business as well as the distribution of life-insurance products and credit cards. In individual customer banking as well as in its corporate and institutional client business, the Bank responds to the varying requirements of its customers by means of corresponding service concepts oriented towards its customers’ needs. 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 and institutional client division, particularly through project and structured financing, syndicated loans and asset-backed transactions. Here the Bank provides customers with the entire product range of a universal bank. The Institutional Asset Management division is responsible for the administration and management of assets with which the Group has been entrusted. See “The Bank—Business Operations”. The Group’s pre-tax profit is almost entirely attributable to these four operative divisions.

	Investment Banking		Institutional Asset Management		Corporate and Institutional Clients		Individual Customer Banking		Corporate Items		Total Dresdner Bank Group	
	1998	1997	1998	1997	1998	December 31, 1997		1998	1997	1998	1997	
	(DM millions)											
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 (December 31) ¹	114,200	99,400	—	—	119,700	108,300	87,000	82,400	25,200	21,300	346,100	311,400

¹ Risk-weighted assets have been calculated on the basis of applicable rules and provisions at the respective date.

Despite satisfactory earnings growth exceeding the increase in costs, the results of the corporate and institutional client division declined in 1998 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 the individual customer banking division exceeded both additional loan loss provisions required and the increase in costs, which was moderate despite the development of new distribution channels.

The investment banking division, despite experiencing a decline from 1997, once again contributed the largest amount to the Group's pre-tax profit, over DM 1 billion in 1998. 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.

The institutional asset management division continued to achieve steady growth figures.

The figures under "Corporate Items" in the table above comprise those items that could not 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.

1997 compared with 1996

Overview

Consolidated total assets of the Dresdner Bank Group at year-end 1997 amounted to DM 677 billion, an increase of nearly DM 116 billion, or 20.6%, from the previous year. Average business volume was DM 646 billion in 1997, up 22% from 1996. Growth in risk-weighted assets accounted for less than a quarter of overall balance sheet growth since the bulk of the expansion consisted of transactions that require little or no capital cover, such as loans to local authorities, interbank transactions and other money market and capital market business. DM 15 billion of the increase in total assets was attributable to exchange rate fluctuations, in particular against British pound sterling and the U.S. dollar.

Lending volume

Lending volume (excluding reverse repos) was steadily increased by DM 38.8 billion, or 12.0%, to DM 361.6 billion in the course of the year, as shown in the following table.

	1997	1996	Change	
	(DM millions)	(DM millions)	(DM millions)	(%)
Loans extended on bills not shown under claims	6,074	4,979	1,095	22.0
Loans to customers ⁽¹⁾	313,153	285,321	27,832	9.8
of which:				
- mortgage loans	82,952	76,278	6,674	8.7
- communal loans	69,756	56,106	13,650	24.3
- short and medium-term loans	96,523	96,355	168	0.2
- long-term loans	216,630	188,966	27,664	14.6
Loans to banks	42,343	32,491	9,852	30.3
of which:				
- mortgage loans	16	14	2	14.3
- communal loans	24,030	18,881	5,149	27.3
Total lending volume ⁽¹⁾	<u>361,570</u>	<u>322,791</u>	38,779	12.0

⁽¹⁾ Excluding money market business backed by securities and claims from international settlement balances.

Lending to customers grew by DM 29 billion, or 10%, to DM 319.2 billion, the increase being entirely attributable to long-term loans. The corporate customer business, including lending to public sector institutions, contributed more than 80% of this increase. Private customer demand focused on long-term housing loans.

Loans to banks amounted to DM 42.3 billion at year-end, an increase of nearly DM 10 billion or 30.3%. This growth rate prevailed across short, medium, and long-term lending to banks.

Communal lending accounted for approximately 50% of growth in lending to customers and also to banks; the aggregate increase amounted to nearly DM 19 billion. Mortgage loans rose by nearly DM 7 billion. Communal loans and mortgage loans accounted for a volume of DM 177 billion, or 49% of total lending business.

While lending to domestic private and corporate customers each declined by two percentage points, the share of public authorities and international customers each increased by two percentage points.

Securities holdings; investments in non-affiliated and affiliated enterprises

In 1997 Dresdner Bank Group increased its holdings of debt and other fixed-income securities by DM 28.6 billion, or 38.7% to DM 102.3 billion, mainly focusing on public sector issues. This business was geared towards a distinct increase in global trading activities. The increase in Group portfolios primarily related to Europe and North America. In 1997 the Group did not build up positions in emerging markets bonds.

Shares and other non-fixed-income securities rose by DM 6.3 billion, or 56.5%, to DM 17.5 billion. In addition to an increase in investment banking activities, these figures also reflect the expansion of the product range in the Group's securities business.

The book value of investments in non-affiliated enterprises was up DM 0.4 billion to DM 8.2 billion. Investments in associated enterprises (DM 55 million) and affiliated enterprises (DM 78 million) increased insignificantly.

	1997	1996	Change	
	(DM millions)	(DM millions)	(DM millions)	(%)
Debt and other fixed-income securities	102,317	73,763	28,554	38.7
- public sector issuers	55,786	38,470	17,316	45.0
- other issuers	45,048	33,948	11,100	32.7
- issued by Group companies	1,483	1,345	138	10.3
Shares and other non-fixed-income securities	17,508	11,190	6,318	56.5
Interests in non-affiliated enterprises	8,244	7,817	427	5.5
Investments in associated enterprises	275	220	55	25.0
Investments in affiliated enterprises	145	67	78	116.4
Total	<u>128,489</u>	<u>93,057</u>	35,432	38.1

At year-end 1997, the book values referred to above corresponded to a market value of DM 103.3 billion with respect to debt securities, and of DM 23.6 billion with respect to shares and investment certificates. The Group's securities holdings were classified, pursuant to the German Commercial Code, as either trading or liquidity portfolios. Both portfolios reported similar growth, resulting in market values of DM 69.1 billion and DM 57.8 billion respectively. Investments in non-affiliated, associated and affiliated enterprises were classified as financial investments; these had a market value of DM 21.1 billion. Market values for listed securities and financial investments were determined on the basis of stock exchange prices at year-end 1997. For unlisted securities, the book values were used. The value in excess of book value, which had accumulated in the majority of the Group's participations in unlisted companies, was thus not included in this calculation of market value.

The unrealized revaluation reserves at year-end related entirely to listed securities. Despite the disposal of the shareholding in Degussa AG, the sustained positive trend in equity markets led to a strong DM 7.8 billion increase in unrealized revaluation reserves, to DM 19.6 billion.

	Book value		Market value		Revaluation reserve	
	1997	1996	1997	1996	1997	1996
			(DM millions)			
Trading portfolio	68,964	51,822	69,123	51,930	159	108
- Debt and other fixed-income securities	60,501	46,419	60,597	46,487	96	68
- Shares and other non-fixed-income securities	8,463	5,403	8,526	5,443	63	40
Liquidity reserve	50,861	33,131	57,798	37,772	6,937	4,641
- Debt and other fixed-income securities	41,816	27,344	42,680	28,263	864	919
- Shares and other non-fixed-income securities	9,045	5,787	15,118	9,509	6,073	3,722
Financial investments	8,664	8,104	21,143	15,149	12,479	7,045
- Non-affiliated enterprises	8,244	7,817	20,723	14,862	12,479	7,045
- Associated and affiliated enterprises	420	287	420	287	—	—
Total	<u>128,489</u>	<u>93,057</u>	<u>148,064</u>	<u>104,851</u>	<u>19,575</u>	<u>11,794</u>

Significant Shareholdings (non-banks)

Dresdner Bank held shares, directly or indirectly, in a number of domestic companies not engaged in banking business. Interests were also held in insurance and industrial companies, which in some cases underpin long-standing business associations. Frequently, these investments were made together with other investors, taking advantage of certain tax concessions. The total market value of the Group's shareholdings in non-banks at year-end 1997, excluding trading portfolios, was nearly DM 26 billion (DM 18 billion at year-end 1996). The companies in which the Group directly or indirectly held financial interests of 5% or more at year-end 1997, the majority of which were listed companies, are set out below.

Company	Percentage of capital held (%)	Market value (DM millions)
Bilfinger + Berger Bauaktiengesellschaft, Mannheim	25.1	512.6
Heidelberger Zement Aktiengesellschaft, Heidelberg	20.9	1,235.5
(interest represents 20.5% of voting shares)		
Bremer Woll-Kämmerei AG, Bremen	14.7	17.3
AMB Aachener und Münchener Beteiligungs-AG, Aachen	13.1	1,270.1
Metallgesellschaft AG, Frankfurt/Main	12.6	554.4
Buderus AG, Wetzlar	11.4	234.0
Allianz Aktiengesellschaft Berlin/Munich	10.0	10,708.5
Dyckerhoff AG, Wiesbaden (interest represents 15.0% of voting shares)	10.0	155.6
Hapag-Lloyd AG, Hamburg/Bremen ^{1,2)}	10.0	255.2
Herlitz Falkenhöh AG, Berlin	10.0	³⁾
Karstadt AG, Essen	10.0	522.5
Münchener Rückversicherungs-Gesellschaft AG, Munich (interest represents 9.9% of voting rights)	10.0	5,585.7
Fresenius AG, Bad Homburg v.d.H.	5.6	339.9
Continental AG, Hanover	5.3	247.5
Bayerische Motorenwerke AG, Munich	5.0	1,302.8

1) Listed in the Regulated Market (second market segment of the Frankfurt Stock Exchange).

2) Disposed of in 1998.

3) No figure given, as company is not listed.

Derivative instruments

The strategic expansion during recent years of the Group's derivatives trading continued in 1997. The following table shows the aggregate notional amounts by type of risk.

Type of instrument	Nominal amount/Residual term:				Counterparty risk
	Up to 1 year	1-5 years	Over 5 years	Total	
	(DM millions)				
Interest rate-related	511,816	547,778	233,165	1,292,759	16,313
Currency-related	551,526	47,692	20,816	620,033	15,319
Equity/index-related	30,456	6,817	994	38,267	335
Other instruments	8,479	2,801	1,229	12,509	392
Total	<u>1,102,277</u>	<u>605,088</u>	<u>256,204</u>	<u>1,963,568</u>	<u>32,359</u>

Customer demand for derivative products increased steadily across all market segments. In addition to its customer business in derivatives, Dresdner Bank Group used 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 Group managed own-account positions created in this manner using state-of-the-art risk management techniques involving, but not limited to, the calculation of sensitivity indicators and the simulation of worst-case scenarios.

The total volume of outstanding derivatives contracts at the 1997 year-end was DM 1,964 billion, up 41% from 1996. The major portion of derivatives trading was in interest rate-related instruments, which accounted for

DM 1,293 billion, dominated by interest rate swaps followed by listed interest rate futures. Traditional foreign exchange forwards accounted for more than 70% of the DM 620 billion contract volume in currency-related transactions.

Equity/index-related contracts gained further ground and expanded to a volume of DM 38 billion. As in previous years, DAX Options and Futures predominated. The contract volumes in other instruments, comprising gold and silver derivatives in particular, amounted to DM 13 billion.

As in previous years, the majority of transactions (56%) had residual terms of less than one year. 31% had maturities between one and five years, and only 13% extended beyond 5 years.

The internationally published notional volumes for derivatives merely 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. Risk exposure is calculated using replacement values of potential defaults. At the end of 1997, the total counterparty risk for all outstanding derivative transactions, calculated on a mark-to-market basis, was DM 32.4 billion. The DM 8.9 billion increase over 1996 was in line with the increase in nominal amounts. Total counterparty risk was equivalent to 10.4% of the Group's risk-weighted assets. This compares with a credit equivalent value of DM 10.4 billion (1996: DM 9.3 billion) according to regulatory Principle I of the German Banking Act.

The Group continued to exercise great care in selecting counterparties for its derivatives trading. OECD banks and financial institutions were the counterparties to more than 80% of transactions.

Deposits and certificated liabilities

Deposits and certificated liabilities in 1997 increased from the previous year by DM 101.7 billion, or 19.9%, to DM 614 billion, as shown by the following table. Customer and bank deposits included repo transactions in the amount of DM 70.2 billion, up DM 25.5 billion or 57.2%.

	<u>1997</u>	<u>1996</u>	<u>Change</u>	
	(DM millions)	(DM millions)	(DM millions)	(%)
Liabilities to banks	174,619	147,276	27,343	18.6
Liabilities to customers	278,583	237,711	40,872	17.2
Certificated liabilities	<u>160,751</u>	<u>127,241</u>	33,510	26.3
Total deposits and certificated liabilities	<u>613,953</u>	<u>512,228</u>	101,725	19.9

Whilst bank deposits payable on demand grew by DM 17.8 billion, or 51.0%, time deposits increased by a more moderate 8.5% or DM 9.5 billion. In contrast, customer deposits reported stronger growth rates for time deposits (up DM 28.4 billion or 27.5%) than for demand deposits (up DM 13.0 billion or 18%). Growth in customer deposits came exclusively from corporate customers and institutional investors. Savings deposits fell slightly by DM 1.3 billion, or 3.9%, due to a trend by private customers to move into higher-yielding investments. The increase in certificated liabilities of DM 33.5 billion, or 26.3%, primarily reflected increased issuance activities of longer-term communal bonds and other bonds, but also an increase of short-term money market paper.

From an economic point of view, subordinated liabilities and profit-participation certificates with an aggregate volume of DM 14.8 billion were classified as deposits from third parties. However, because these liabilities qualified as supplementary capital for regulatory purposes, and thus constituted an element of "liable capital" as defined in section 10 of the German Banking Act, they are discussed in the following section.

Liable capital equity components disclosed in the consolidated balance sheet

"Liable capital," as defined by the German Banking Act, comprises core capital and supplementary capital. Core capital includes subscribed capital, reserves, and the fund for general banking risks. The vast majority of supplementary capital consists of profit-participation certificates, subordinated liabilities and revaluation reserves. See "Consolidated Capitalization of the Bank."

The capital components disclosed in the consolidated balance sheet and notes thereto pursuant to the German Commercial Code are not precisely comparable with the regulatory definition, because in calculating liable capital for regulatory purposes more companies are consolidated than for commercial law purposes. However, movements in capital as disclosed in financial statements prepared in accordance with the German Commercial Code generally do have an impact on “liable capital” as defined for regulatory purposes. In 1997 Dresdner Bank Group increased its disclosed capital and reserves by DM 3.7 billion to DM 18.2 billion. Of this, DM 1.6 billion were raised by a rights issue in August 1997. In addition, capital was increased by DM 0.9 billion in connection with the exercise of option rights on Dresdner Bank shares—primarily related to the bond with warrants redeemed in December—and DM 0.2 billion from the premium on the bond with warrants issued in April. DM 0.9 billion out of net income was transferred to reserves.

In addition, the Group strengthened items which qualify as supplementary capital in the course of 1997. Subordinated liabilities amounted to DM 10.4 billion, up DM 2.0 billion from 1996. Profit-participation certificates outstanding were doubled, with an increase of DM 2.2 billion to DM 4.4 billion. An unchanged 35% of revaluation reserves on securities was recognized as supplementary capital. At year-end these amounted to DM 3.2 billion. Revaluation reserves for land have not been included. The increased capital provided the Group with the strategic scope required for the further development of its investment banking activities—with a focus on project and structured finance—as well as of its asset management business.

The combination of a marked increase in core and supplementary capital and the Group’s objective of “controlled growth” of risk-weighted assets resulted in a significant improvement of capital ratios at year-end 1997. The Group’s core capital ratio rose to 5.7%. The total capital ratio calculated in accordance with Principle I of the German Banking Act was 10.5%, or 11.0% according to the BIS rules.

	<u>1997</u>	<u>1996</u>	<u>Change</u>	
	<u>(DM millions)</u>	<u>(DM millions)</u>	<u>(DM millions)</u>	<u>(%)</u>
Subscribed capital	2,567	2,337	230	9.8
Reserves	15,172	11,732	3,440	29.3
Fund for general banking risks	600	600	—	—
Profit-participation certificates	4,412	2,262	2,150	95.1
- of which are eligible as regulatory capital	3,745	2,262	1,483	65.6
Subordinated liabilities	10,421	8,380	2,041	24.4
- of which are eligible as regulatory capital	8,117	6,950	1,167	16.8
Revaluation reserves for securities (of which 35%)	3,234	2,587	647	20.0

THE BANK

General

Dresdner Bank is a widely-held, private commercial bank founded in 1872 in Dresden. Based on its total assets at December 31, 1998, the Dresdner Bank Group was the third largest banking organization in Germany. On the basis of total assets at December 31, 1997, the Group was the ninth largest banking organization in Europe and the seventeenth largest in the world (source: *Institutional Investor*). Dresdner Bank is a universal bank and both the primary operating bank within, and the parent company of the various subsidiaries that together with it make up, the Dresdner Bank Group. The Dresdner Bank Group carries out a full range of banking and financial services including deposit taking, lending, mortgage lending, securities underwriting, securities trading and derivatives business on its own account and for its customers, portfolio management, international trade finance, corporate finance, capital and money market services, foreign exchange, leasing, factoring and insurance broking. In addition, the Dresdner Bank Group has a number of significant investments in German companies (see “—Business Operations—Certain Investments”). For information regarding the German banking system, see “The German Banking System and its Supervision and Regulation.”

The Dresdner Bank Group, which at December 31, 1998 had over 1,500 offices employing approximately 49,000 employees, is represented in over 75 countries including the major financial centers of the world. The Dresdner Bank Group has a total client base of approximately six million corporate and private customers. The Dresdner Bank Group’s activities are conducted through the domestic and international branch network of Dresdner Bank and through various subsidiaries both in Germany and abroad, some of which also have branch networks. At December 31, 1998, in Germany alone, Dresdner Bank had 1,133 branch offices. In Europe, the Bank is also represented through its cooperation in France with Banque Nationale de Paris (“BNP”), one of the largest French banks, and through joint ventures with BNP in most eastern European countries.

In the German domestic market, Dresdner Bank Group offers a comprehensive range of products to a broad range of customer groups. The Group offers a full range of banking and financial services to individuals, corporate customers, including multinational corporations, and public authorities. In accordance with its client-oriented strategy, Dresdner Bank Group’s services are tailored to the specific requirements of its various client groups.

Internationally, the Dresdner Bank Group’s major focus is on investment banking, which is conducted under the brand name “Dresdner Kleinwort Benson.” Since its acquisition of Kleinwort Benson Group plc in 1995, the Group has capitalized on its traditional competitive strengths in its two domestic markets, Germany and the United Kingdom, and Dresdner Kleinwort Benson has become a leading participant in European investment banking. In addition, Dresdner Bank Group offers a wide range of asset management and commercial banking services through its worldwide operations. Recently, the Group has focused on strengthening its position as a leading financial institution in the countries that have adopted the euro, the so-called “Euro Zone.”

At December 31, 1998, the Dresdner Bank Group had total assets of DM 714.8 billion (U.S.\$ 427.3 billion) and shareholders’ equity of DM 21.4 billion (U.S.\$ 12.8 billion). At December 31, 1998 the Dresdner Bank Group had approximately DM 383 billion (€ 196 billion) (U.S.\$ 229 billion) of assets under management.

Strategy

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. The Group’s customers include private individuals, companies of all sizes, including multinational corporations, as well as government bodies and institutions.

A primary objective of Dresdner Bank is the creation of shareholder value. The Bank believes that the only way to attain this goal is through the continuous improvement of customer satisfaction. This in turn is only possible with highly motivated staff, providing excellent service. Moreover, the Bank seeks to contribute to the positive development of the society of which it is a part.

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

- “Dresdner Bank. The Advisory Bank.” is not merely the Group’s marketing slogan but expresses commitment to the Group’s fundamental philosophy of conducting its business activities with the dual goal of serving its customers and building lasting business relationships, both in Germany and internationally. In expanding its advisory capacities, the Group’s objective is to significantly increase growth in commission income relative to interest income. The Group’s 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, Dresdner Bank seeks to take full advantage of cross-selling potential. Cross-divisional structures and team-oriented management and incentive systems, with a strong emphasis on tangible customer benefits and shareholder value, characterize the Dresdner Bank Group and, in the Bank’s belief, provide the Group with a competitive advantage.
- In Germany, the Group seeks to continue expanding its market position in all businesses. The Group relies primarily on organic growth to achieve this goal. The Group also intends to consider further joint ventures, especially where such co-operations strengthen the Group’s distribution power and product range.
- With the creation of a single European currency zone, the Group regards the Euro Zone as its domestic market. In addition to developing relationships with existing corporate customers and institutions, the Group aims to enhance its distribution network and to significantly expand its business with private and corporate customers in the core European countries. In addition to expanding existing activities such as multi-media distribution channels, the Group gives particular consideration to acquisitions as a means of accomplishing its objectives in Europe. The Bank believes that these goals are achievable in the medium to long term.
- Outside Europe the Dresdner Bank Group plans to build on its existing international presence, particularly in the U.S., the world’s largest capital market, where the Group intends to intensify its investment banking activities.
- From Dresdner Bank’s point of view, any potential acquisition must satisfy three key criteria: any target company must closely match the Bank’s strategic profile; the required purchase price must not jeopardize profitability targets; and finally, despite the rapid consolidation in the international banking industry, the Bank will not allow itself to succumb to pressure or take any steps that are not well considered.

The Dresdner Bank Group is organized into four divisions: corporate and institutional clients; institutional asset management; investment banking; and individual customer banking.

All divisions. The core principles of the Group’s 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:

- The Group has adapted its advisory systems to the individual requirements and corresponding needs of its customers.
- Advisors should be mobile and, above all, customer-focused; to assist advisors in meeting this standard, the Group has made significant investments in state-of-the-art technology.
- The Group is continuously developing further innovations in technology-driven products.
- In parallel, the Group undertakes comprehensive training and quality control measures for its personnel.

Corporate and institutional clients. The Group’s goal in its corporate and institutional clients business is to be the leader in terms of quality in advisory services and product range. The Bank believes that the Group’s new strategic orientation lays the foundation for the integration of products and services in commercial and investment banking.

Institutional asset management. In the high-growth institutional asset management division the Group has built a global presence in recent years through both organic growth and acquisitions. Although it already ranks amongst the largest European providers of investment management services, the Group seeks to grow further by expanding its distribution network, primarily in the core European markets of Spain, France and Italy.

Investment banking. Dresdner Bank Group conducts its investment banking activities under the “Dresdner Kleinwort Benson” brand name. The Bank has completed the integration of investment banking with the diversified customer base of its commercial banking business. The Bank believes that the success of this fully integrated unit will be 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 expanding its global reach.

Individual customer banking. The objective in private customer business is to further strengthen Dresdner Bank Group’s position in the German market as the Advisory Bank for capital investment and capital growth. Accordingly, the Bank aims to consistently increase customer satisfaction and loyalty.

The Bank has created a new global corporates unit providing a selected number of multinational corporations with customized solutions based on the entire range of products and services offered by the Bank across regions and divisions. This unit forms the link between the Bank’s commercial and investment banking businesses and is intended to put into practice a comprehensive, integrated and highly professional service concept on a global scale.

Business Operations

The Dresdner Bank Group is comprised of four principal operating divisions as set forth in the table below. The Group also provides certain other services, such as insurance, together with strategic partners. It also has significant investments in certain German companies.

Division	Pre-tax profit, year ended December 31, 1998	Percentage of total pre-tax profit of Dresdner Bank Group, year ended December 31, 1998
	(DM millions)	(%)
Corporate and Institutional Clients	628.8	24
Institutional Asset Management	349.7	13
Investment Banking	1,013.0	38
Individual Customer Banking	669.2	25

Corporate and Institutional Clients

General. The corporate and institutional clients division serves a broad range of customers including German companies, foreign corporations (including their German subsidiaries), institutions and public sector entities. At December 31, 1998, the Dresdner Bank Group had more than 200,000 corporate clients worldwide, approximately 145,000 thereof in Germany, and served more than 2,600 banks and other institutions worldwide with a wide variety of products.

The primary focus of the Group’s corporate customer business outside Germany is the core European countries. Because the Group regards the Euro Zone as its new domestic market, it is strengthening its presence throughout Western Europe. The Group offers customized euro cash management services for German customers with European operations. To this end, it is expanding payment facilities throughout its existing European network. During 1999 the Bank opened offices in Amsterdam, Brussels and Paris to complement the Bank’s existing offices in London, Milan, Madrid, Stockholm, Copenhagen and Zurich and its joint venture bank in Vienna, all of which provide payment and cash pooling capabilities.

Recent Restructuring. In 1998, Dresdner Bank completed a restructuring of its domestic corporate client business with a view to strengthening the spirit of entrepreneurship in its local operations. Pursuant to the restructuring, the Bank grouped its corporate customers, according to their needs, as follows: (i) corporate customers with activities primarily in Germany (“Domestic Customers”), (ii) customers that continually require specialist advice (“Enterprise Customers”), such as in the areas of foreign currency exchange, foreign trade, international cash management, derivatives, structured finance and asset management and (iii) multinational customers with complex needs on a global scale (“Multinational Customers”). The Group intends to offer its corporate customers the full range of products and services available and to develop comprehensive relationships on a global scale.

Each Corporate Customer is assigned an experienced account officer who acts as a permanent advisor. These account officers are organized in 30 account management teams in Germany and are supported by regional customer call-in centers for routine transactions and information. Each of the Enterprise Customers is assigned to one of a further 80 account management teams. These teams, which are comprised of account officers and various product experts, provide such customers with an integrated portfolio of commercial and investment banking products from one source.

World-wide relationships with a selected number of German and European Multinational Customers are managed by directors of the Global Corporates unit. They report directly to the Board of Managing Directors (*Vorstand*) of Dresdner Bank. The Global Corporates directors are key contacts for customers’ top management, tasked with proposing ongoing solutions tailored to the needs of their customers.

The restructuring also included the formation of eight independent sales regions, each with its own headquarters and staffed with qualified personnel offering specialized advisory services to clients located in the region and support divisions of experts on quality; marketing management and sales enhancement. Management believes that the restructuring has led to higher quality client counseling and a more efficient organizational structure that is better focused on varying client needs and will ultimately result in important productivity increases.

Customer Service. The Bank’s corporate and institutional customers are no longer restricted by traditional bank opening hours. Dresdner Bank has opened eight service centers throughout Germany that are open between the hours of 7:00 a.m. and 8:00 p.m. to provide additional telephone banking services to its corporate customers for routine banking transactions and information. The Bank is the first German bank to offer such services to corporate and institutional customers. Dresdner Bank also provides its customers with a broad selection of electronic data processing supported services to assist with cash management transactions and financial planning.

Products. The corporate and institutional clients division itself arranges non-syndicated bank loans and foreign trade financing for its customers, accepts deposits and provides them with payment, clearing, cash and account management and electronic and other banking services and products. In addition, the account officers of the corporate and institutional clients division market the Group’s entire range of commercial and investment banking products to their clients. For more detail regarding such products, see “—Investment Banking” below. Corporate clients are also able to arrange insurance coverage through Dresdner Bank’s branch network; management consulting services are provided through its subsidiary DMC Dresdner Management Consult GmbH; real estate services are provided through its subsidiary Dr. Lübke GmbH as well as leasing and factoring facilities through various subsidiaries.

The Bank believes that the scale of the electronic networks in its domestic branches gives it a competitive technological advantage over its competitors. Pursuant to its “Dresdner Office Banking Initiative,” Dresdner Bank developed and offers to its customers Cyber Cash, a payment system on the Internet, and is a market leader in mobile telephone banking. Through its “drecash EDI” product, Dresdner Bank was the first German bank to offer its customers a service pursuant to which the Bank can inform customers through their personal computers about incoming domestic or international payments prior to their account posting.

Institutional Asset Management

The Dresdner Bank Group is the leading German provider of institutional asset management services as well as a leading European asset management group with an increasingly global reach. The Group is active in mutual fund services, pension fund and institutional services and retirement provision services. The international asset management units market the Group's products and services to a broad customer base that also includes pension funds, insurance companies, corporations, central and other banks and state and other institutions. At December 31, 1998, assets under the management and advice of the Dresdner Bank Group totaled DM 383 billion (\$229 billion), approximately 70% of which were managed for institutional clients. In 1997, the Group was among Europe's top ten and the world's top 25 asset managers in terms of assets under management (source: *Fundforum*, May 1998).

The Group provides a comprehensive range of investment products that are tailored to both customer and local market requirements. Such investment products also include pension funds, mutual funds, unit trusts, defined contribution pension plans and open-end real estate funds (*Grundwert-Fonds*). In 1998, Dresdner Bank Investment Group, which primarily operates the division's domestic mutual fund business and its domestically sponsored institutional asset management business, recently expanded its range of sector-based funds to include biotechnology, software and financial institutions. Its largest mutual fund, *Industria*, which invests primarily in European blue chip stock, had DM 6 billion (\$4 billion) in assets at year-end 1998. In 1997, Dresdner Bank Investment Group was one of Europe's five largest managers of mutual funds. In 1995, the Group launched its internet brokerage service, "DIT-Direkt", for sales and purchases of mutual funds by customers in Germany. This service also provides investment information, including product ranges, performance data and investment strategies, and is linked to the Group's other internet services.

The Group considers customer service an important competitive factor and over the last three years has developed a diversified and salesfield oriented network of marketing, operations and customer support functions. The institutional asset management division operates a global marketing and sales network, which at year-end 1998 was comprised of more than 2000 employees (of which nearly 480 are investment professionals) located in 17 client service centers in Europe, Asia and the Americas. At the Bank's headquarters in Frankfurt, a group of portfolio managers and customer service specialists manage and advise approximately DM 25.2 billion (\$15 billion) primarily for central banks, as well as for governments and multinational institutions. The Dresdner Bank Investment Group manages approximately DM 161 billion (\$96 billion) for clients located in Germany and Luxembourg and Dresdner RCM Global Investors and other regional offices of Dresdner Asset Management, Singapore, and Meiji Dresdner Asset Management, Tokyo, manage a total of approximately DM 107 billion (\$64 billion) for international clients.

The Group believes that the European pension fund market provides significant growth opportunities. Demands on traditional public "pay-as-you-go" pension systems which dominate Europe are increasing drastically. Specifically, an ageing European population, as a result of increasing life span and falling birth-rates, are steadily worsening the dependency ratio (i.e., the ratio of active workers paying into the public pension fund to the number of retirees). In order to avoid financial collapse, several European countries, including Germany, Italy, Spain and France, are in the process of discussing possible reforms to their traditional "pay-as-you-go" pension systems, including, among other things, raising the retirement age, increasing required contributions and lowering pensions. Governments are also promoting private pensions arrangements. For example, in October 1998 the German government for the first time approved special old age mutual funds ("AS Funds") for private individuals' retirement provision purposes. AS Funds may invest a greater percentage of their assets in equity and property than traditional fixed income funds and the Group began marketing AS Funds via its distribution network in October 1998. According to the European Federation for Retirement Provisions, even under the conservative assumption that the ratio of benefits paid out under pension plans to total pension benefits increases from 7% in 1999 to 25% in 2020, pension assets would grow nearly 10 times. In addition, Europeans hold less of their total investments in managed assets than the global average, which the Group believes will result in growth in the European market in the future. The Group believes that due to its demonstrated expertise in this field and global marketing and sales network it is well-positioned to capitalize on growth opportunities in this immature, highly fragmented market. European institutional clients count for approximately 65% of the Group's institutional assets under management.

The Group's strategic acquisitions in the United States from 1996 to 1998, and the subsequent integration of local U.S. asset management operations, together with their investment approach and investment management platform, with the Group's facilities in other parts of the world have positioned the Group's asset management business well for growth in the U.S. market, which currently accounts for approximately 21% of the Group's institutional assets under management. The Group's style-differentiated investment platform has adopted techniques to satisfy the "Anglo-American"-minded investment philosophy of many global investors and employs two clearly-distinguished investment approaches across a wide range of services including institutional investment, mutual funds and retirement provision.

The first of these approaches may be characterized as "growth at the right price." The allocation process is bottom-up and currency risk is not hedged out of the asset allocation decision-making process. The driving force behind the stock selection process is primary research performed by local experts worldwide. Research may be broken down into three categories: macroeconomic (global and regional outlooks); (fundamentals (organized by business sector); and non-financial "grassroots" research (the gathering of in-depth information on marketplace trends, the competitive environment on potential investee companies and relevant global business developments). Grassroots research aims to identify signals which might remain hidden from traditional research, complementing it by using methods developed by investigative journalism to create additional value for the investment decision-making process.

Under the second process, stock selection is based on a bottom-up approach drawing on fundamental criteria to select the leading companies in each business sector. Fundamental quantitative criteria (earnings, ratios and valuation) and qualitative criteria (competitive situation, management quality) are analyzed under a disciplined scoring process to identify quality stocks and avoid risk. In addition, quantitative techniques and appropriate instruments are used to support the portfolio construction process and for risk-control purposes.

In addition, the Group offers a limited number of quantitative products.

The Bank has responded to the increasing expectations of its 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.

In the focused defined contribution business, it is essential to offer plan design, investment management, recordkeeping and consulting/servicing as a bundled service. Relying not only on its investment expertise but also on its position at the forefront of European fund administration providers gained through its long-term experience in Germany with more than one million accounts administered by a service unit of its mutual fund flagship DIT, the Group believes it is well positioned to win the confidence of investors and consultants in its system leadership capabilities.

In the Asia/Pacific area, which accounts for approximately 6% of the Group's clientele, the Group's core markets are Japan, Singapore and China. At December 31, 1998, the Group had a total of DM 8 billion (\$5 billion) of assets under management in the region as a whole. In April 1998, Dresdner Bank formed a joint venture with Meiji Life, Japan's fourth largest life insurance company. The joint venture, named Meiji Dresdner Asset Management and in which Dresdner Bank holds 49%, offers asset management services and manages institutional mandates and is seeking the necessary approvals to conduct an investment trust business. In order to establish a fully operational asset management facility in Beijing, in July 1997 the Dresdner Bank Group agreed to form a joint venture with China Guo Tai Securities, a leading Beijing securities firm anticipating deregulatory legislation. The joint venture, in which Dresdner Bank will hold 49%, will offer a full range of asset management services. Since 1990, a wholly-owned subsidiary of the Dresdner Bank Group in Taiwan has offered investment consulting services as a securities investment consulting enterprise or "SICE." The Bank intends to establish a securities investment trust enterprise, or "SITE," in Taiwan, thereby expanding the scope of its activities in that country.

Investment Banking

The Dresdner Bank Group conducts its fully integrated investment banking activities under the "Dresdner Kleinwort Benson" brand name. Dresdner Kleinwort Benson's global investment banking activities, which include corporate finance advisory services such as advice on strategic matters, mergers and acquisitions, divestitures and restructurings, securities underwriting and market making, securities and derivatives trading,

portfolio management and custodian services, are conducted through four business lines: Global Corporate Finance, Global Equities, Global Finance and Global Markets.

Each of these four business lines reports to the Management Board of Dresdner Kleinwort Benson which, in turn, reports to the Board of Managing Directors of Dresdner Bank (*Vorstand*). The Board of Managing Directors sets strategic and planning guidelines for the Group's Investment Banking division. The Management Board of Dresdner Kleinwort Benson has been tasked by the Board of Managing Directors with the day-to-day management of the Investment Banking division, subject to the reservation of certain matters to the Board of Managing Directors. Membership of the Management Board consists of (i) the members of the Board of Managing Directors responsible for the Investment Banking division; (ii) the global heads of the Investment Banking division's four business lines; (iii) the regional heads of the Investment Banking division in North America and the Asia/Pacific region; and (iv) the head of finance of the Dresdner Bank Group.

Further important parts of Dresdner Kleinwort Benson's management structure are the Commitment Committee and the Audit Committee, the latter constituted as a sub-committee of the Board of Managing Directors of Dresdner Bank. Whilst the Commitment Committee approves equity and debt underwritings above certain amounts, the Audit Committee is authorized to review and investigate any matters arising from the activities of Dresdner Kleinwort Benson. Furthermore, four Business Line Executive Committees and three Regional Executive Committees, which are constituted as sub-committees of the Management Board of Dresdner Kleinwort Benson, manage business activities and risk within the strategic and planning guidelines, budget and policies set by the Board of Managing Directors and the Management Board.

Dresdner Kleinwort Benson's focus is to build on its five major strengths: a culture dedicated to sustaining long-term relationships with its clients; concentration on specific industry sectors and products; strong debt and equity distribution; effective integration of its advisory and distribution skills; and financing capabilities combining innovative structuring skills with a strong balance sheet.

Global Corporate Finance. The Global Corporate Finance business line provides domestic and international equity-related financial advisory services to a range of corporate, institutional and governmental clients. These services include strategic and financial advice on privatizations, mergers and acquisitions, divestitures, restructurings, leveraged buy-outs, defensive projects and valuation. In addition, Global Corporate Finance manages, coordinates and works with Global Equities in the underwriting of corporate and government equity and equity-linked issues, including those in privatizations, capital increases, initial public offerings and secondary distributions.

In 1998 Dresdner Bank Group lead managed 36 equity issues raising U.S.\$17 billion and advised on 119 M&A transactions valued at over U.S.\$60 billion.

Global Corporate Finance is organized to provide geographic coverage and sector expertise in the major countries and industry groups around the world.

Global Equities. The Global Equities business line researches, distributes, makes markets in and trades a wide range of cash equity and equity derivative products to a global client base in both secondary and primary equity markets and is represented on the world's major stock markets—New York, London, Tokyo, Hong Kong, Frankfurt, Paris, Milan and Stockholm.

In 1998, Global Equities played a major role in the expanding equity markets, with Dresdner Kleinwort Benson lead managing 36 equity issues raising a total of DM 17 billion. Global Equities has built its success on its leading position in two major home markets, Germany and the UK, its globally integrated service, a commitment to excellence in research and in-depth industry knowledge, and its placement capability in major markets worldwide.

Global Equities offers its clients a comprehensive range of services and products, including equities, equity and debt derivative products and portfolio trading, based around quality research and global distribution capabilities. The Global Equities business is strengthened by its ability to use the substantial financial and other resources of Dresdner Bank Group.

The Global Equities business line has four main areas of expertise:

Equity Trading: The equity trading business undertakes proprietary and client execution trading in equities, futures, options and ADRs out of London, Frankfurt, Paris, Milan, New York, Tokyo and Hong Kong.

Equity Derivatives: The equity derivatives group is active in over-the-counter options, exchange-traded futures and options, convertibles, corporate issues and structured products, such as covered warrants. The group supports two research teams whose products range from formulating trading strategies to developing state-of-the-art option pricing techniques to model building.

Sales and Distribution: Global Equities has an integrated sales and global distribution capacity with offices in 13 cities, including all major financial markets.

Research: With 250 equity and debt analysts worldwide Global Equities is able to provide the Bank's global institutional and corporate client base with high quality research by company, industrial sector and by country. This is supported by a well recognized macro-economic and strategic product.

Global Finance. The Global Finance business line includes the Group's asset-backed finance, international leasing, private equity, project and export finance, structured finance, structured trade finance and syndicated loans businesses. In addition, it is responsible, together with Global Markets, for global debt origination. The global debt origination team is responsible for the origination of all syndicated loans, public bonds, private placements and asset-backed securities for the Group. Its main focus is on European issuers and markets but it is intended that the business will become more global.

The principal areas of activity in the Global Finance business line are:

Asset Backed Finance: The asset backed finance group uses securitization techniques as a bridge to source new assets that would have traditionally been funded by the banking market and to repackage these assets as securities sold into the debt capital markets.

International Leasing: Global Finance is one of the European leaders in leasing and tax-based financing. The principal areas of activity are big ticket leasing, vendor finance and vehicle leasing.

Private Equity: Managing approximately €2 billion of committed capital, the private equity group has an established track record in both equity and mezzanine investments for leveraged buyouts, management buyins, expansion financing, bridge equity, recapitalizations, corporate joint venture transactions and late stage development capital.

Project and Export Finance: The project and export finance group provides its clients with a full, tailor-made service, acting as advisor, arranger, underwriter and lender. The Group is also a leading participant in co-financing arrangements with multilateral institutions, such as the Inter American Development Bank and the World Bank.

Structured Finance: The structured finance operations, having local expertise in offices in London, Frankfurt, Hong Kong, Luxembourg, Madrid, New York, Paris, Sao Paulo, Singapore, Sydney, and Toronto, engineers financial solutions for the worldwide client base with a wide range of products including senior debt, mezzanine, and bridge financing.

Structured Trade Finance: Global Finance's structured trade finance group covers structured commodity trade finance, finance of merchandise purchase programs, forfaiting and the syndication of documentary import / export transactions.

Syndicated Loans: The activities of the syndicated loans group include advising, arranging, underwriting and participating in high volume credit transactions spread across a syndicate of lenders. The Group is able to use its balance sheet to underwrite entire transactions and to commit its own funds for long term investment.

Global Markets. The Global Markets business line engages in the origination, underwriting and secondary trading of various types of debt instruments. In addition, it makes markets and trades in money market instruments and commodities, interest rate and foreign currency swaps, and foreign exchange. Global Markets may act as principal or on intermediary basis and engages in proprietary trading and arbitrage activities.

Global Markets is recognized as a leading innovator in the Euro Zone, with excellent sales and distribution capabilities.

There are seven major areas of activity in the Global Markets business line:

Sales and Distribution: Global Markets is placing increasing emphasis on client-driven transactions and has both multi-product and specialist sales teams in all major financial locations.

Research: The Global Markets business line provides fixed-income, foreign exchange and credit research services to Dresdner Kleinwort Benson's institutional and private client sales force and customers.

Foreign Exchange, Money Markets, Commodities and Exchange Traded Derivatives: Global Markets actively trades numerous foreign currencies on a spot and forward basis with its customers, for its own account and to hedge its securities positions or liabilities. The business also transacts in a wide variety of money market instruments both for customers and the Bank's treasury management.

Global Markets is one of the foremost participants in the transaction of exchange traded Futures and Options contracts internationally. The focus is predominantly customer driven offering areas of specialization encompassing Technical and Fundamental Analysis, Relative Value and Complex Structure Execution/Evaluation and Exchange Traded Options.

Market Risk Management: Global Markets provides trade execution and structuring advice to Corporates and Institutions seeking to hedge their exposures to interest rate and commodities utilizing the full range of risk management tools. Market Risk Management also manages the complex interest rate book of Global Markets.

Fixed Income Trading: The Debt Trading team is a primary dealer in UK, German, French, Austrian and US Government Bonds and an active market-maker in all other major European Government Bond markets. In addition, Fixed Income Trading acts as originator and market maker for *Pfandbriefe*.

Credit Spread: The Credit Spread business line engages in the origination and underwriting of primary issues, private placements, medium-term notes and secondary trading of a diverse range of both corporate and sovereign debt. The Global Credit Derivatives desk deals in derivatives on traded credit spread instruments including both bonds and loans.

Structured Products: The Global Structured Products team engineers tailored solutions to meet a client's objectives in credit repackagings, market risk structuring, balance sheet management and portfolio restructuring.

Individual Customer Banking

The Dresdner Bank Group's banking activities for individual customers extend from a basic range of products for retail banking customers to the full range of banking products and services for high net worth individuals.

Customers. At December 31, 1998, the Dresdner Bank Group had more than 6 million individual customers worldwide. Of these, 4.2 million represented customers of Dresdner Bank, grouped as follows: approximately 8,200 "high net worth" customers worldwide, approximately 275,000 high income "personal banking" customers in Germany and approximately 3.9 million "private" retail customers in Germany. "Dresdner Private Banking" serves high net worth customers that invest at least \$ 1 million with the Bank. Personal banking customers, which like private customers include small businesses, must invest at least DM 200,000 with the Bank.

Distribution System. Dresdner Bank Group operates a "multi-channel" distribution system comprised of its branches, mobile sales force, home banking and direct banking. All branches offer basic banking products, while a broader range of services is offered in selected branches by dedicated teams of specialists. See "— Distribution Channels." Dresdner Private Banking maintains five main service centers located in major financial centers (Frankfurt, Geneva, London, Miami and Singapore) as well as 16 regional centers. In addition to traditional branch banking, Dresdner Vermögensberatungsgesellschaft mbH ("DreVB"), a wholly owned subsidiary of Dresdner Bank, provides mobile banking services. DreVB has approximately 150 customer advisors that travel to the homes of customers to provide them with the whole range of the Group's products and services. The Bank is also able to offer certain of its products directly into customers' homes through its cross-

selling arrangements with three leading German insurance companies. See “—Other Services.” To supplement its branch and mobile banking, Dresdner Bank also offers home banking services. The Bank’s home banking services are comprised of a 24-hour telebanking service by telephone and computer through which customers can execute basic banking transactions as well as place buy and sell orders for stocks, bonds and mutual funds. In order to accomplish multi-channel access for its customers, the Bank is currently developing an internet payment system in addition to the already available Dresdner Order Discount.

On January 1, 1998, Dresdner Bank purchased ADVANCE Bank, the direct banking unit of Bayerische Vereinsbank AG. Direct banking offers an alternative to traditional branch banking by providing an online connection between the bank and the customer’s PC. As a result, clients are able to bank 24-hours a day, seven days a week, in the convenience of their own homes. Due to significantly reduced transaction and overhead costs, ADVANCE Bank, which as a direct bank does not have a branch network, is able to provide services to its customers at low or no fees and customers are able to earn higher interest rates on their accounts with the bank. ADVANCE Bank customers can maintain checking and savings accounts, purchase life insurance and pension plans, receive investment advice and obtain broker dealer and cash management services. At December 31, 1998, ADVANCE Bank had approximately 100,000 customers.

Products. The Bank’s individual customer banking products and services include the acceptance of deposits, the transmission of payments, commercial and consumer lending, mortgage lending and other property-related financing services, credit card operations, securities brokerage and asset management services and insurance. Dresdner Private Banking provides sophisticated solutions tailored to the individual requirements of its clients. Its services include advisory and discretionary portfolio management, fund-based portfolio management, administration of trusts and estates and structural asset analysis, including tax planning.

The Bank is in the process of developing a structured, EDP-based advisory and financial planning service (the “Dresdner Structured Advisory Approach”), which will provide its customers with one centralized and customized solution to all of their financial requirements. The Dresdner Structured Advisory Approach will also allow the Bank to significantly broaden the distribution of certain services it currently provides to only a limited number of customers. The Bank believes that this approach will be instrumental in providing more efficient, effective customer service. In 1997, the Bank launched this approach by offering customized investment proposals to its customers. After a detailed analysis of the customer’s financial situation, the Bank tailors a program to the customer’s individual goals and needs. In 1998, the Bank added retirement planning services to the Dresdner Structured Advisory Approach. Dresdner Bank intends to expand the range of services offered pursuant to this approach over the next several years. Such services are expected to include real estate investment, planning services and retirement financial planning services. The Bank will also use the EDP-based infrastructure that it plans to install for this approach for other purposes, including marketing and assessing customer risk. At December 31, 1998, more than 600,000 customers had taken advantage of the Dresdner Structured Advisory Approach.

The provision of personal unsecured credit through charge and credit cards is also an important aspect of the Dresdner Bank Group’s individual customer business. At December 31, 1998, Dresdner Bank had approximately 400,000 Dresdner “Eurocard” charge cards in circulation, all of which can be used at its own ATMs and those of certain other German banks. In addition, in 1997 Dresdner Bank introduced the Dresdner Bank Visa credit card, of which it had more than 70,000 cards in circulation at December 31, 1998.

Other Services

Custody Business. The Dresdner Bank Group believes it is the second largest provider of custody services in the Euro Zone (based on the value of assets in custody), offering a comprehensive range of products and services. Dresdner Bank is a leading provider of German custodian services to international financial intermediaries, including providing custodian services for approximately 80% of the German equities held by U.S. based institutional investors. In this capacity, Global Custodian magazine recently named Dresdner Bank as the Agent Bank of the Decade 1989-1998 worldwide. As of December 31, 1998, the total market value of securities in the custody of the Group amounted to DM 1,600 billion.

Insurance. Pursuant to its cross-selling arrangements with three leading German insurance companies, Allianz AG, Hamburg-Mannheimer AG and Deutsche Kranken Versicherung AG, Dresdner Bank sells a broad range of insurance products, including life insurance, private pension policies and health insurance, to both individual and corporate customers through its branch network in Germany. Dresdner Bank receives commission income from the sale of these insurance policies. In return, these companies cross-sell, by way of introduction and referral, a range of Dresdner Bank's products, particularly loans.

Distribution Channels

Domestic Activities and Branch Network. The Dresdner Bank Group conducts its banking business in Germany for private and corporate clients primarily through the branch networks of Dresdner Bank and of all other banking subsidiaries of the Dresdner Bank Group as well as through its mortgage banking subsidiary and, since January 1998, its direct banking subsidiary.

The Dresdner Bank Group provides a full range of banking and related financial services to private and corporate clients in Germany. In addition to taking deposits and lending, the Bank's branches, together with those of its subsidiaries (including the mortgage bank subsidiary), act as distribution networks for a variety of the Dresdner Bank Group's own products as well as third-party products. More specifically, certain specialized subsidiaries of Dresdner Bank offer additional products and services to clients, including mutual funds, special funds, real estate funds, *Bausparverträge* (savings and credit packages for homebuilding and home improvement) and real estate advice. The Bank's branches are also able to sell insurance pursuant to its cross-selling arrangements with three leading German insurance companies. Branch services also include investment advice, securities brokerage and insurance business.

Dresdner Bank has the second largest banking branch network in Germany. At December 31, 1998, Dresdner Bank had 1,133 domestic branches located throughout Germany. Its branch network is supplemented by the branch networks of other companies in the Dresdner Bank Group. In addition to ATMs located at a branch or other office of the Dresdner Bank Group, at December 31, 1998, the Group also had approximately 150 stand-alone ATMs in Germany. As a result, the Dresdner Bank Group has a presence in all major German towns and cities.

The breakdown of the Group's branches at December 31, 1998 was as follows:

	<u>Domestic</u>	<u>Foreign</u>	<u>Total</u>
Dresdner Bank	1,133	23	1,156
Other Dresdner Bank Group companies	<u>278</u>	<u>72</u>	<u>350</u>
Total	<u>1,411</u>	<u>95</u>	<u>1,506</u>

Returning to its birthplace of Dresden with the opening of an office in that city on January 2, 1990, Dresdner Bank became the first western German financial institution to be represented in the New Federal States. Dresdner Bank acted quickly to develop its presence in the New Federal States by acquiring a significant number of branches of the former GDR state-owned bank, Deutsche Kreditbank, and by setting up new branches of its own. Dresdner Bank has established a significant presence in the New Federal States and management believes that the Bank's market share in the New Federal States exceeds that in the western *Bundesländer*, on the basis of deposits and loans to private and corporate clients.

On January 1, 1998, Dresdner Bank purchased ADVANCE Bank, the direct banking unit of Bayerische Vereinsbank AG. See above, “—Individual Customer Banking—Distribution System.”

International Activities. The Dresdner Bank Group conducts its international operations through its foreign branches and subsidiaries, associated companies in selected markets and its representative offices worldwide. At December 31, 1998, the Dresdner Bank Group had 95 foreign branches in various locations throughout the world.

Pursuant to the Bank's cooperation agreement with BNP, Dresdner Bank and its corporate customers have full use of BNP's branch network in France where the Bank is able to provide its customers a full range of banking services. In return, BNP and its corporate customers use the Bank's German branch network. As a result,

each bank is able to offer a wider range of products to its customers throughout Germany and France at reduced costs. Since 1996, outside of Germany and France, the Bank and its partner BNP have established joint banks, primarily in seven central and eastern European countries, as well as in Turkey and Chile. The Bank and BNP generally each own 50% of such joint banks, except in certain cases where local law requires a domestic bank as part-owner or limits the Bank's and BNP's maximum holdings. In such cases the joint bank is formed with a domestic partner bank; with the Bank and BNP holding equal stakes in the joint bank. The cooperation of the two banks is primarily focused on providing commercial banking services to the partners' corporate customers. In view of the increasing competition in the banking industry, particularly in the European common market, both banks wish further to strengthen this cooperation.

Dresdner Bank has recently built up its operating units in the Asia/Pacific region. A high point of this expansion was the opening in 1993 of its Shanghai branch, making Dresdner Bank the first German bank to open a branch in the People's Republic of China. The Dresdner Bank Group is now represented by 29 operating units in 12 countries in the Asia Pacific economic region.

Certain Investments

The Dresdner Bank Group holds equity stakes in a number of German companies, details of which are set forth in the "Management's Discussion and Analysis of Financial Condition and Results of Operations." At December 31, 1998, the market value of the non-bank share participations of the Dresdner Bank Group was approximately DM 30 billion. For a more detailed description of the Group's investments in non-banking companies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—1998 Compared with 1997—Balance Sheet Developments". The Dresdner Bank Group also maintains a portfolio of shares and bonds. Further details are set forth in the Notes to the Consolidated Financial Statements.

Risk management

Organization

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, ensuring an independent controlling function.

The consistent definition of areas of responsibility also ensures that the quality standards set out by regulatory authorities in the context of Minimum Requirements for the Trading Activities of Credit Institutions are adhered to throughout the Group. On May 1, 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 recognized 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 already been implemented in the Dresdner Bank Group.

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

Dresdner Bank differentiates 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 Dresdner Bank. Depending on the size of the exposure and credit quality, these risks are analyzed and decided upon either regionally or at head office. The analysis of sector and country risks for the Group is carried out exclusively at the head office. This process covers all bank products that are subject to counterparty risk: loans, securities and derivatives.

In order to minimize counterparty risks, transactions are increasingly entered into on the basis of comprehensive, cross-product master agreements with counterparties, which provide for the mutual set-off of claims, even across different types of product (so called “netting”). In addition, the Bank utilizes such agreements to a growing extent to reduce the cost of capital employed and the utilization 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, the Bank takes into account the creditworthiness of, and the Bank’s exposure to, such group as a whole.

Operationally, the Bank’s 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, the 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 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.

Dresdner Bank has developed a set of tools for the efficient evaluation of risks. In corporate lending, the Bank has developed a computer-based corporate customer rating system, based on a computerized balance sheet analysis, which utilizes credit quality scoring to allow the Bank 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 recognized and pinpointed quickly, triggering an immediate and detailed review of the Bank’s lending exposure in that sector. The Bank has also introduced ratings for its international corporate and banking customers, taking into account the relevant local factors in addition to the usual individual credit quality criteria.

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 makes possible a timely and up-to-date analysis of the Bank’s 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 the traditional lending business, on the basis of a credit approval process and utilizing 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 of 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 in order to reduce the risk.

In keeping with internationally accepted practice, the Bank publishes 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 in the total counterparty risk during the previous year was not only 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 recognized 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 October 1, 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. The Bank's internal "Dresdner Bank Value-at-Risk Model" was audited by the FBSA 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.

Dresdner Bank recognizes the varying risk characteristics of different Group portfolios by way of differentiated risk approaches. Value-at-risk is used for 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 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 several years. 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 monitored, with market parameters updated on a daily basis, to cover market risks in trading.

The Bank has established a global system to consistently track and analyze market risks in trading and non-trading activities. This platform comprises a data warehouse and analytical 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 year-end 1998 the value-at-risk of trading activities amounted to DM 207 million (1997: DM 252 million). Value-at-risk is categorized 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 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 purpose 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. Rather, risks are aggregated to a single figure, thereby facilitating the comparability of different areas. Although this figure is of significant importance, it is subject to 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 its business the Bank has 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. Furthermore, the extent of defaults by creditors whose credit quality was originally good could not have been predicted. However, the Asian crisis prompted the Bank—like many other institutions—to address improvements and in particular the increased networking of risk management systems. One of the issues highlighted by the Asian crisis is the fact that institutions like the Bank increasingly face a crossover effect of market and counterparty risks. The Bank believes that credit spread volatilities must also be integrated as additional risk elements in its 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. Current consideration of the adequacy of counterparty risk measurement is informed 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 December 31, 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 FBSA form the external framework for the liquidity management of the Bank. The Bank's treasury actively manages liquidity and thus ensures compliance with the corresponding regulatory requirements.

Liquidity risks for the Bank as a whole are analyzed and managed at head office level. Professional liquidity planning and management conducted by the treasury involves the identification of interest rate and maturity mismatches on the basis of liquidity balance sheets and cash flow forecasts. For these purposes the Bank uses a liquidity management and information system that integrates the various organizational 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 multiple redundancy of electronic data processing equipment, allowing the continuation of business activities in the event of failure.

In its business the Bank 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. The Bank's new Risk Control division will therefore also monitor infrastructural adequacy with respect to the Bank's activities.

Insurance

Dresdner Bank maintains general liability insurance covering claims on a worldwide basis with coverage limits and retention amounts which management believes to be adequate and appropriate in light of Dresdner Bank's businesses and the risks to which they are subject.

Significant Shareholdings in Dresdner Bank

As of January 31, 1999, Dresdner Bank had an aggregate number of 517,609,372 Ordinary Shares without par value outstanding, which are issued in bearer form only.

Dresdner Bank has been informed that, as of December 30, 1998, Allianz Aktiengesellschaft, Munich, held 22.3% of the voting rights of Dresdner Bank through controlled subsidiaries. Of this stake AVG Beteiligungsgesellschaft mbH & Co and Nona Beteiligungsgesellschaft mbH & Co each held 10.12%.

Dresdner Bank has also been informed that, as of March 31, 1999, Vermo Vermögensverwaltungsgesellschaft mbH and FGF Frankfurter Gesellschaft für Finanzwerte mbH held 10.02% and 10.10%, respectively, of the Bank's voting rights.

Vermo Vermögensverwaltungsgesellschaft mbH and FGF Frankfurter Gesellschaft für Finanzwerte mbH act as holding companies for over 20 German insurance companies, banks and industrial companies which, because of certain German tax benefits (*Schachtelprivileg*) have pooled their respective Ordinary Shares of Dresdner Bank.

OPERATING ENVIRONMENT

Overview

The business and operations of Dresdner Bank, Germany's third largest bank, are affected by social, political and economic developments and conditions in Germany and elsewhere. Labor costs, corporate taxes and personnel expenses are high in Germany and weekly working hours are shorter compared to the rest of the European Union, the United States and Japan. Nonetheless, Germany's competitive position in world trade continues to benefit from many factors, including monetary and political stability, relatively high national savings, productivity gains and a well-educated, highly qualified workforce.

By virtue of its operations outside Germany, the Dresdner Bank Group is also subject to the risks normally associated with cross-border business transactions and business activities, principally those relating to exchange rate fluctuations for countries outside of the Euro Zone. In addition, because most of the Group's operations are based in Europe, both the integration of the European market and the developments in eastern Europe will continue to create new opportunities and challenges for Dresdner Bank.

German Economic Background

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 leveling 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 labor 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 benefitted from lower commodity prices. At a rate of 1.0%, the consumer price index hit a ten-year low.

According to the German Federal Bureau of Statistics, real gross domestic product rose by 2.8 percent in 1998, as compared to 2.2% in 1997. Among the demand components, exports and investments in machinery and equipment were significant contributors to economic growth in 1998. After a decline in the years 1995 to 1997, investment in construction in 1998 once again had a decelerating impact. Private consumer demand made a below-average contribution to economic growth in 1998. In 1999, the German economy is expected to grow at a rate of approximately 2.0% mainly due to weak export performance. Private consumption is expected to stabilize economic development. Inflation in 1998 was at 0.9% compared to 1.8% in 1997.

The New Federal States continue to enjoy significant growth, but growth rates have been declining to below the growth rates of the older *Bundesländer*. From 1991 to 1997, overall output in the New Federal States rose on average by 5.0% per year. In 1998, the increase was almost 2.4%.

Long-term interest rates fell in 1998. Since April 1996, when the Bundesbank lowered the discount rate to 2.5% and the Lombard rate to 4.5%, the lowest levels since 1987, the official rates have remained unchanged. In December 1998, the Bundesbank slightly decreased the repo rate by 30 basis points to 3.0%.

Germany's competitive position in world trade continues to benefit from many factors, including monetary and political stability, a reputation for quality and the recent productivity gains. In 1998, Germany achieved an estimated current account deficit of DM 2 billion. In 1997, the current account deficit was DM 6.9 billion. The huge trade surplus offset the deficit in services and the capital account.

Despite the economic upswing, unemployment remained high in Germany in 1998 (1997: 4.4 million; 1998: 4.2 million). The reasons for unemployment are predominantly of a structural nature and include, among other factors, extensive regulation and high labor costs (compared to the rest of the European Union (the "EU"), the United States and Japan).

European Union

In 1992, the twelve original member states of the EU signed the Treaty on European Union (the “Treaty”) as a significant step towards creating a single integrated European market. The Treaty provides a complete working program for European integration by 1999 through the coordination of economic policies of the EU countries, the adoption of a single currency and the establishment of a European Central Bank. On January 1, 1999, the euro, a new single currency, was adopted by Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland (the “participating countries”). The United Kingdom, Sweden and Denmark chose not to be initial participants in the euro. Greece has not yet qualified for participation in the euro. For additional detail regarding the euro and exchange rates pertaining to the euro, the Deutsche Mark and the U.S. dollar, see “Exchange Rates”.

Since the ratification of the Treaty, the EU has been enlarged from twelve to fifteen member states, with the entry of Austria, Finland and Sweden in January 1995. Other important events were the signing and approval of the EU-EFTA agreement for an enlarged European Economic Area and the signing and approval of association agreements with certain eastern European countries.

German banks will have to adjust to significant changes in the monetary and financial environment. Funding opportunities will change, with corresponding consequences for liability management. Further sectors which will be affected include investments, the presentation of accounts and payments. In addition, competition in the European banking arena will intensify. However, German banks, which have been operating in one of the least regulated markets, should be well equipped to face these challenges.

For Dresdner Bank, the integration of the European market presents a number of opportunities. As a bank that maintains a network in several European countries, engages in a large number of cross-border transactions in Europe and views Europe as its principal market, Dresdner Bank expects, on balance, to benefit from measures designed to facilitate intra-European commerce.

Central and Eastern Europe

The revolutionary political and economic changes which began in 1989 in virtually all of the countries of central and eastern Europe are still continuing. Economic reforms introduced to facilitate the transition from centrally planned to market economies have resulted in the liberalization of foreign investment laws and the privatization of public-sector enterprises. Dresdner Bank’s management believes that the major political and economic changes in central and eastern Europe are of special importance to the Dresdner Bank Group and has taken steps to expand its activities in this region.

Legal proceedings

There are no judicial or arbitral proceedings pending or, to Dresdner Bank’s knowledge, threatened which could have a material adverse effect on the Bank’s financial condition or which have had such an effect in the last twelve months.

Several class action suits and individual actions against Dresdner Bank and other named and unnamed German and Austrian credit institutions in connection with events that occurred during the period of Nazi rule, 1933-1945, were filed in 1998 and consolidated in 1999 in a single class action in a U.S. federal district court in New York. In addition, in January 1999, an individual action was filed against Dresdner Bank in a U.S. federal court in New York. The suits allege that these banks collaborated with the Nazi regime before and during World War II and enriched themselves by, *inter alia*, financing Nazi activities, cooperating with companies that used slave labor and dealing in looted gold and other property of victims of the regime. Dresdner Bank has also been named as a defendant in a class action filed in January 1999 in the U.S. federal district court for the District of New Jersey. The plaintiffs in this action, which has not yet been formally served on the Bank, seek an unspecified amount of compensatory and punitive damages for the alleged use of slave labor during the Nazi period. In March 1999, Dresdner Bank was also named as a defendant in an action filed in a California state court in San Francisco. In this action, which has not yet been formally served on the Bank, the plaintiffs seek to enjoin the defendants from doing business in California and to force them to disgorge alleged illegal profits and to compensate Holocaust victims for violation of the California Unfair Competition Act. According to recent information, former Polish concentration camp inmates intend to bring an action against the Bank before the state court in Frankfurt am Main, Germany, seeking damages in the amount of DM 5.4 billion. According to information received, the claimants have applied to the court for a grant of legal aid to bring such complaints. The complaints have not yet been served on Dresdner Bank.

Some time before these actions were brought, Dresdner Bank, in recognition of its historical responsibility, asked the Hannah Arendt Institute for the Study of Totalitarianism at the University of Dresden to conduct independent scientific research into the history of the former Dresdner Bank during the period of Nazi rule. Published in early 1999, 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, together with other leading German companies as well as the German government, is also involved in the proposed "German Enterprises Foundation Initiative: Remembrance, Responsibility, the Future" (*Stiftungsinitiative Deutscher Unternehmen: Erinnerung, Verantwortung, Zukunft*). The objectives of this initiative will be, *inter alia*, to respond to the moral responsibility of German enterprises for the injustices of the Nazi era by supporting humanitarian and future-oriented projects and to create a basis to counter legal actions, especially class actions in the United States. The achievement of satisfactory legal certainty is a prerequisite to the establishment of this initiative.

Based on its own knowledge and investigations conducted to date, Dresdner Bank does not believe that any potential liabilities related to the legal actions described above or to a contribution by the Bank to the German Enterprises Foundation Initiative would have a material adverse effect on the Bank's financial condition.

The District Attorney's Offices (*Staatsanwaltschaft*) of several German cities have investigated certain members or former members of the Board of Managing Directors, and continue to investigate certain employees of the Bank, alleging that such persons acted as accessories to tax fraud committed by customers transferring funds from Germany to Luxembourg or Switzerland. A settlement has been reached in the proceedings conducted by the Düsseldorf District Attorney's Office, which played a leading role in the investigations. Under this settlement, Dresdner Bank has agreed to make a payment of DM 37 million. The former Chairman of the Board of Managing Directors, Jürgen Sarrazin, accepted a suspended sentence of one year on payment of a fine of DM 1.5 million, and Friedrich Otto Wendt, a General Manager of Dresdner Bank Luxembourg S.A., has accepted a suspended sentence of one year on payment of a fine of DM 0.5 million. Proceedings against four further members and former members of the Board of Managing Directors have been terminated on payment of DM 0.5 million by each such person. The Bank believes that, in light of these settlements, settlement of the remaining proceedings pending against other employees of the Bank can be achieved. The Bank maintains that it has not at any time operated a system designed to aid customers in the performance of illegal acts. The Bank believes that the proceedings will not have a material adverse effect on its financial condition.

Year 2000

The Year 2000 ("Y2K") issue is the result of many computer programs being written using two digits rather than four to define the applicable year. Any computer or information technology ("IT") programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in a major system failure or miscalculation.

In 1996, Dresdner Bank Group established a group-wide Y2K project team exclusively in charge of all issues in connection with Y2K. In 1996, the Y2K project team developed a plan for the Group containing clearly defined objectives and deadlines for the tasks to be completed. The plan comprises the remediation efforts of the Bank and its subsidiaries as well as the assessment of the Y2K readiness of the Group's material suppliers, borrowers and banking partners.

The Group's remediation efforts are focused on three areas: (i) the Bank's internally developed software application programs, (ii) software, middleware and hardware provided by outside vendors and (iii) embedded technology such as micro-controllers. The Bank's internally developed mission-critical software application programs have been Y2K compliant since March 1999. Since November 1996, the Bank has required all outside vendors to represent that their products are Y2K compliant as a prerequisite to the Bank's purchase of such products. All outside vendors have been requested to confirm that their products are Y2K compliant. All such confirmations have been subsequently verified by testing within the Bank's own environment. The Bank expects to complete its Y2K compliance assessment of products supplied by outside vendors by June 1999. The Bank is in the process of assessing the Y2K compliance of its material embedded technology. The Bank expects to complete such assessment by June 1999. The Y2K project team has also implemented a testing program pursuant

to which it tests its internally developed software application programs, products provided by outside vendors and, to the extent possible, embedded technology for Y2K compliance. Since autumn 1997, the Group's subsidiaries are required to report monthly to the Y2K project team on the status of their remediation efforts. The Y2K project team continuously monitors Group-wide remediation progress and reports monthly on such progress to senior management.

Dresdner Bank is in the process of continuously assessing the Y2K readiness of its borrowers worldwide. In August 1998, the Group's account managers began interviewing corporate borrowers using a standard list of questions to assess their Y2K readiness and in connection therewith completing a standard Y2K rating checklist that became part of the borrowers' files and credit applications. If the Bank determines that a particular borrower's level of preparation was unsatisfactory, it lowers such borrower's credit rating and schedules a follow-up meeting. The Bank is constantly contacting its corporate borrowers to determine their status of Y2K readiness. Also in August 1998, Dresdner Bank completed a mailing to approximately 120,000 corporate clients, offering them a Y2K advisory program (Go 2000) it developed on CD-ROM. The program uses a dialogue format to examine the company's internal preparedness as well as its external business relations with suppliers and buyers. The program also provides a comprehensive list of measures to be taken by the company to ensure Y2K readiness. For the benefit of both its customers and itself, the Group aims to ensure that its clients achieve timely Y2K readiness and that the Bank does not experience any losses or credit deterioration due to the lack of Y2K readiness of customers.

The Bank estimates that the costs of Y2K preparation will total approximately DM 150 million, DM 90 million of which had already been incurred at December 31, 1998. Such costs consist principally of personnel costs.

Dresdner Bank is actively involved in Y2K issues in Germany as a member of the *Bundesverband Deutscher Banken*, and internationally as a member of the Global Y2K Project pursuant to which the bank exchanges information and experience related to Y2K preparations with other multinational banks and companies.

Distinctive features of the German banking system

The German banking system can be characterized as a system of universal banks controlled by one principal regulator which is supported in its function by the German central bank and the German auditing profession. Together with a traditionally conservative accounting system, particularly in terms of valuation, a particular feature of the German banking system is its split disclosure system which consists of an extensive, but confidential, disclosure to the banking supervisory authorities (who have the power to take immediate action where required) and a less onerous disclosure to the public (including investors, creditors and competitors). The universal banking system gives Dresdner Bank the freedom to operate in all financial sectors, which leads to a more balanced business portfolio. On balance, a universal bank is relatively insulated against the impact of those crises which may affect banks offering more limited services and carrying on only deposit and lending business or investment banking. A favorable business trend in one sector can compensate for negative developments in another, thereby ameliorating an otherwise adverse effect on a bank's overall earnings. This effect, as experienced over the years, has been aided by the time lag between the general economic cycles affecting asset quality in the loan portfolio versus the cycles in the capital markets.

This universal banking system is characterized by extensive supervision by one principal regulator, the FBSA. It performs its duties in relation to both the main banking sectors, commercial lending as well as investment banking, and in particular in relation to the trading activities of the universal banks. There are two main features of this supervisory system: (i) the involvement of external auditors and (ii) routine and extensive periodic filings with the German central bank (the "Bundesbank"). See "The German Banking System and its Supervision and Regulation." The external auditors, whose election by the annual shareholders' meeting may be rejected by the FBSA, are required to follow in the course of their annual audit detailed audit and reporting requirements published by the FBSA. The auditors' findings as well as extensive descriptions of the internal management and control systems and of the Bank's financial condition (including amounts and quality of undisclosed reserves) are included in the auditors' annual audit report, copies of which are sent directly to the FBSA and the Bundesbank. This system of monitoring by supervision is complemented by monthly and quarterly filings of information by the Bank with the Bundesbank in relation to the development of the accounts as well as

compliance with capital adequacy and liquidity ratios. This extensive disclosure to supervisory authorities on a confidential basis is accompanied by the preparation of the accounts of Dresdner Bank in accordance with the German Commercial Code. The traditions of these accounting principles has to be understood in the context of the role of companies, in particular banks, in the social environment in Germany and the importance of a stable system of financial institutions for the German economy. Other countries may have different social environments and priorities. In Germany, the emphasis is put on the maintenance of capital and creditors' protection leading to more conservative and prudent accounting in contrast to more optimistic profit estimates in some other countries.

MANAGEMENT

In accordance with the German Stock Corporation Act (*Aktiengesetz*), Dresdner Bank has a Supervisory Board (*Aufsichtsrat*) and a Board of Managing Directors (*Vorstand*). The two Boards are separate and no individual may be a member of both Boards at the same time.

The Board of Managing Directors is responsible for managing the day to day business of Dresdner Bank as well as the strategic direction and focus of the Group, in accordance with applicable laws and the Articles of Association (*Satzung*) of Dresdner Bank.

The principal function of the Supervisory Board is to supervise the Board of Managing Directors. It is also responsible for appointing and removing the members of the Board of Managing Directors. Certain major or unusual transactions, such as large capital expenditure items or strategic issues, require the prior consent of the Supervisory Board. The Supervisory Board does not, however, supervise the day to day business of Dresdner Bank.

Both the members of the Board of Managing Directors and the members of the Supervisory Board manage their own affairs. In carrying out their duties, the individual Board members must exercise the standard of care of a diligent and prudent businessperson. In complying with such standard of care, the Boards must take into account a broad range of considerations including the interests of Dresdner Bank and its shareholders, employees and creditors.

Supervisory Board (*Aufsichtsrat*)

The present Supervisory Board of Dresdner Bank consists of 20 members, ten of whom are elected by the shareholders in general meeting in accordance with the provisions of the Stock Corporation Act, and ten of whom are elected by the employees in accordance with the Co-determination Act (*Mitbestimmungsgesetz*).

A member of the Supervisory Board elected by the shareholders may be removed by the shareholders by a majority of at least three quarters of the votes cast at a general meeting of shareholders. A member of the Supervisory Board elected by the employees may be removed by a majority of at least three quarters of the votes cast by the relevant class of employees. The Supervisory Board appoints a Chairman and a Deputy Chairman from amongst its members. At least half the members of the Supervisory Board must be present to constitute a quorum. Unless otherwise provided for by law or the Articles of Association, resolutions are passed by a simple majority of the Supervisory Board. In the event of a tie, another vote is held and the Chairman (who is, in practice, always a representative of the shareholders) then has a casting vote.

The members of the Supervisory Board are each elected for a term of approximately five years (the term expires at the end of the general shareholders meeting after the fourth fiscal year following the year in which such member was elected). The remuneration of the members of the Supervisory Board is determined by the Articles of Association of Dresdner Bank.

The present members of the Supervisory Board of Dresdner Bank, the years in which they were first elected to the Supervisory Board and their principal occupations, are as follows:

Name	Member Since	Principal Occupation
Dr. Alfons Titzrath	1996	Chairman of the Supervisory Board of Dresdner Bank
Dipl.-Kfm. Uwe Plucinski ¹	1983	Dresdner Bank, Hamburg, Deputy Chairman
Klaus Carlin ¹	1988	Member of the Executive Board of the trade union HBV, Düsseldorf
Meinhard Carstensen	1998	Former Member of the Board of Managing Directors of Dresdner Bank, Hamburg
Reinhard Drönner ¹	1993	Head of the Section Banks and Savings Banks, Federal Executive Board of the trade union DAG, Hamburg
Claudia Eggert-Lehmann ¹ . .	1998	Dresdner Bank, Hagen
Bernhard Enseling ¹	1998	Dresdner Bank, Frankfurt
Dr. Martin Frühauf	1998	Chairman of the Supervisory Board of Hoechst AG
Peter Haimerl ¹	1991	Dresdner Bank, Munich
Manfred Karsten ¹	1998	Oldenburgische Landesbank AG, Oldenburg
Ainis Kibermanis ¹	1996	Dresdner Bank, Frankfurt am Main
Bernd Kriegeskorte ¹	1998	Dresdner Bank, Munich
Dr. rer. pol. Heinz Kriwet . .	1997	Chairman of the Supervisory Board of Thyssen AG, Düsseldorf
Dr. Edward Krubasik	1998	Member of the Board of Managing Directors of Siemens AG
Dr. jur. Dietmar Kuhnt	1998	Chairman of the Board of Managing Directors of RWE AG
Michel Pébereau	1997	Président-Directeur Général Banque Nationale de Paris S.A., Paris
Bernd Pischetsrieder	1998	Former Chairman of the Managing Board of Directors of BMW AG
Sultan Salam ¹	1978	Dresdner Bank, Frankfurt am Main
Dr. Hans-Jürgen Schinzler . .	1993	Chairman of the Board of Managing Directors of Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft, Munich
Dr. jur. Henning Schulte-Noelle	1996	Chairman of the Board of Managing Directors of Allianz Aktiengesellschaft, Munich

¹ Elected by the employees.

Board of Managing Directors (*Vorstand*)

The Board of Managing Directors of Dresdner Bank consists of two or more members (the total number is determined by the Supervisory Board), who are appointed by the Supervisory Board in accordance with the Stock Corporation Act. At present, there are 11 members of the Board of Managing Directors.

Pursuant to the Articles of Association of Dresdner Bank, any two members of the Board of Managing Directors or one member of the Board of Managing Directors and the holder of a special power of attorney (*Prokura*), may legally represent Dresdner Bank.

The Board of Managing Directors must report regularly to the Supervisory Board, in particular, on proposed business policy and strategy, profitability and on the current business of Dresdner Bank as well as on any exceptional matters which arise from time to time.

The members of the Board of Managing Directors are appointed by the Supervisory Board for a maximum term of five years. They may be re-appointed or have their term extended for one or more maximum terms of five years. Under certain circumstances, such as a serious breach of duty or a bona fide vote of no confidence by the shareholders' meeting, a member of the Board of Managing Directors may be removed by the Supervisory Board prior to the expiration of such term. A member of the Board of Managing Directors may not deal with, or vote on, matters relating to proposals, arrangements or contracts between himself and Dresdner Bank.

The present members of the Board of Managing Directors of Dresdner Bank (all of whom are based in Frankfurt), their position, the year in which they were appointed to their positions and the year their term expires are as follows:

<u>Name</u>	<u>Position</u>	<u>Year First Appointed</u>	<u>Year Term Expires</u>
Bernhard Walter	Speaker	1987	2003
Andreas Bezold	Deputy Member	1999	2002
Gerhard Eberstadt	Full Member	1988	1999
Dr. Bernd Fahrholz	Full Member	1998	2003
Leonhard H. Fischer	Full Member	1998	2000
Dr. Joachim v. Harbou	Full Member	1996	2002
Gerd Häusler	Full Member	1996	2001
Prof. Dr. Ernst-Moritz Lipp	Full Member	1996	2002
Dr. Horst Müller	Full Member	1992	2000
Heinz-Jörg Platzek	Full Member	1992	2000
Dr. Bernd W. Voss	Full Member	1986	2001

The Board of Managing Directors, instead of being headed by a President, Chairman or Chief Executive Officer, is a group with equal voting power and a speaker (*Sprecher*) acting as the “first among equals”. All important Board decisions are taken unanimously. This general principle of consensus is based upon the broad experience and expertise of all Board members.

Compensation of Directors and Officers

In accordance with the Articles of Association of Dresdner Bank the aggregate amount of compensation paid by Dresdner Bank to the members of its Supervisory Board in 1998 amounted to DM 2,223,138.60. Members of the Supervisory Board receive an annual fixed fee of DM 6,000, with the Chairman receiving DM 12,000 and the Deputy Chairman receiving DM 9,000. In addition, the Supervisory Board as a group receive an annual variable fee of DM 35,000 for each 0.5% that the rate of dividend exceeds 4.0%. The Supervisory Board apportions this fee amongst its members based on each member’s activities on the Supervisory Board, including service on committees. Members of the Supervisory Board are not entitled to a pension for their service on the Supervisory Board. The aggregate amount of compensation paid by Dresdner Bank during the year ended December 31, 1998 to all members of its Board of Managing Directors was DM 20,193,251.06. Payments to retired members of the Board of Managing Directors and their beneficiaries totaled DM 18,880,044.22 in 1998.

For the year ended December 31, 1998 Dresdner Bank recorded provisions of DM 153.0 million for pension obligations to retired members of the Board of Managing Directors and their beneficiaries.

At December 31, 1998, loans to members of the Board of Managing Directors and liabilities assumed on their behalf totaled DM 12,916,627.43, including DM 3,446,544.65 from subsidiaries.

MANAGEMENT OF THE LLC

Directors and Executive Officers of the LLC

The LLC's Board of Directors will initially be composed of five members, one of whom will be an independent director (the "Designated Independent Director"). The directors will serve three-year terms (five years in the case of the Independent Director), subject to earlier resignation or removal. There is no current intention to alter the number of directors comprising the Board of Directors and the Amended and Restated Limited Liability Company Agreement of the Company (the "Charter") will provide that the Board of Directors may not consist of more than seven members. Except with respect to the Subordinated Note, any Eligible Intercompany Investments or the Waiver and Improvement Agreement and any other documents relating to the enforcement of any of the foregoing, the Charter provides that the Independent Directors are required to take into account the interests of the holders of both Partnership Interests and the LLC Common Securities in assessing the benefit to the LLC of any proposed action requiring their consent. With respect to the Waiver and Improvement Agreement, the Subordinated Note, the Eligible Intercompany Investments and any documents relating to the enforcement of the foregoing, the Independent Directors shall only take into account the interests of the holders of the Partnership Interests. In considering the interests of the holders of Partnership Interests, the Independent Directors shall owe the holders of Partnership Interests the same duties which the Independent Directors owe to the holders of the LLC Common Securities.

It is expected that each of the following persons will serve as an initial director and, where applicable, hold the executive office of the LLC shown below.

<u>Name</u>	<u>Position and Offices Held</u>
Gerd Häusler <i>Chairman</i>	Member of the Board of Managing Directors of Dresdner Bank AG
Georg N. Fugelsang <i>Director</i>	President and CEO of Dresdner Kleinwort Benson North America Inc.
Dr. George Handjinicolaou <i>Director</i>	Executive Vice President of Dresdner Kleinwort Benson North America Inc.
Dr. Hartmut G. Grossmann <i>Director</i>	Executive Vice President of Dresdner Kleinwort Benson North America Inc.

The following is the summary of the experience of each of the directors and the executive officers of the LLC:

Gerd Häusler studied law and economics in Frankfurt/Main and Geneva. After passing his state exam in law in 1978, he joined Deutsche Bundesbank until 1983. After working at the Bank for International Settlements in Basle, he returned to Deutsche Bundesbank in 1984 and was appointed Member of the Directorate and Member of the Central Bank Council of Deutsche Bundesbank in 1994. On December 1, 1996, Gerd Häusler joined the Board of Managing Directors of Dresdner Bank AG. His regional responsibilities within Dresdner Bank Group include North America, the Asian-Pacific region and the United Kingdom. He is also Chairman of the Management Board of Dresdner Bank's Investment Banking division, Dresdner Kleinwort Benson.

Georg N. Fugelsang joined Citicorp/Citibank in 1964 after receiving a Bachelor of Foreign Trade in 1963. In 1986 he joined Morgan Stanley where he became a Managing Director in Morgan Stanley's Investment Banking Division in London. Fugelsang joined Dresdner Bank AG in February 1994 as President of Dresdner Securities (USA) Inc. He is currently President and CEO of Dresdner Kleinwort Benson North America Inc.

Dr. George Handjinicolaou is Executive Vice President with Dresdner Kleinwort Benson, with responsibility for managing the firm's Global Market activities for the Americas. Prior to joining Dresdner Kleinwort Benson, George Handjinicolaou was Managing Director and Head of Fixed Income derivatives for UBS Securities Inc., with responsibility for the Americas. He also served as Head of Treasury with the International Finance Corporation (IFC) overseeing IFC's funding, liquid assets management, client risk

management services, and asset/liability management of IFC's balance sheet. Before that, he was senior vice president of Bank of America's derivative operations based in San Francisco, and managing director of Security Pacific where he headed the derivative activities for a number of years out of London and New York. A Greek and U.S. national, Dr. Handjinicolaou earned his B.A. in Economics from the University of Athens, and both his MBA and PhD. in Finance from New York University.

Dr. Hartmut G. Grossmann is responsible for the North American Service Company including Finance, Human Resources, Legal and Compliance functions. Major assignments included the reorganization of North American units and the Integration of Kleinwort Benson North America. He is a member of the North American and New York Management Committees. Prior to joining Dresdner Bank, Dr. Grossmann was Legal Counsel to the World Bank responsible for projects in Portugal, Turkey, Iran, Thailand and Pakistan as well as funding of the World Bank in the international capital markets. Before that he served as Regional Counsel at Dow Chemical Germany where he was responsible for all legal matters of the company. Dr. Grossmann received law degrees from the University of Hamburg, Germany and the University of California at Berkeley.

Independent Directors

The Designated Independent Director will be selected by the Bank, acting through the Branch, as holder of all of the outstanding LLC Common Securities and may be replaced by the Bank (except during a Shift Period or during such time as the LLC will have failed to pay Distributions on the Partnership Interests for the most recent Distribution Period). The Designated Independent Director may not be an affiliate of the Bank or an employee of the Bank or of any affiliate of the Bank. The LLC's initial Designated Independent Director is Winfried H. Spaeh.

The Charter will require that, so long as any Partnership Interests are outstanding, certain actions by the LLC must be approved by a majority of the Independent Directors of the LLC. See "Description of the Partnership Interests—Rights of Enforcement." For so long as there is only one Independent Director, any action that requires the approval of a majority of Independent Directors must be approved by such Independent Director.

In addition, the holders of the Partnership Interests, upon the failure of the LLC to pay Distributions on the Partnership Interests for the most recent Distribution Period or upon the occurrence of a Shift Event, may replace the existing Independent Director with a new director and may elect two additional Independent Directors to the Board of Directors of the LLC (such new director and the two additional Independent Directors, collectively, the "Elected Independent Directors"). The term of the Elected Independent Directors will terminate, and the total number of directors will be decreased by two, upon (x) full Distributions having been paid or declared and a sum sufficient for payment thereof set apart for payment on the Partnership Interests in accordance with the Silent Partnership Agreement or (y) if the number of directors was increased as a result of a Shift Event, the related Shift Period shall having terminated (with termination determined as set forth in "Description of the Partnership Interests—'Shift Event,' 'Shift Period'"), *provided, however*, that the Elected Independent Director elected to replace the Designated Independent Director shall remain in office until the holders of the LLC Common Securities elect a replacement Designated Independent Director.

The Partnership Interest holders will have the right to remove any such Elected Independent Director at any time with or without cause. Removal of an Elected Independent Director will require the vote of the Partnership Interest holders holding a majority (by liquidation preference) of the outstanding Partnership Interests. Election of an Elected Independent Director will require the majority by liquidation preference of votes cast for such an election. A meeting of the holders of Partnership Interests may be called by the holders of at least 25% (by liquidation preference) of the outstanding Partnership Interests.

Compensation of Directors and Officers

The LLC intends to pay the Independent Directors fees for their services as directors. An Independent Director (including any Elected Independent Director) will receive annual compensation of \$5,000, plus reimbursement of expenses for attendance of each meeting of the Board of Directors.

The LLC will not pay any compensation to its officers and employees or to directors who are not Independent Directors.

Limitation on Liability of Directors and Officers

The Charter will provide that the LLC's directors and officers have no personal liability to the LLC or its security holders for monetary damages for breach of, in the case of a director, such director's fiduciary duty or, in the case of a director or an officer, for any act or omission performed or omitted by such director or officer in good faith on behalf of the LLC, except for such director's or officer's gross negligence or willful misconduct. The Charter will also provide that the Bank, acting through the Branch, will indemnify any director or officer of the LLC for any loss, damage or claim incurred by such director or officer by reason of any act or omission performed or omitted by such director or officer in good faith on behalf of the LLC and in a manner reasonably believed to be within the scope of authority conferred on such director or officer by the Charter, except with respect to any act or omission determined by a court of competent jurisdiction to have constituted gross negligence or willful misconduct of such director or officer; *provided, however*, that holders of Partnership Interests will have no personal liability on account thereof.

THE GERMAN BANKING SYSTEM AND ITS SUPERVISION AND REGULATION

Introduction to the German Banking System

The German banking system is made up of a variety of public and private banks of two general types: universal banks and specialized banks. Most banks, including Dresdner Bank, are universal banks (also known as full-service or multi-purpose banks) and not only carry out deposit and lending business but also investment banking, underwriting and securities trading for themselves and their customers. Specialized banks are more restricted in their activities and concentrate on certain types of credit business or have special functions (such as the mortgage banks whose principal activity is secured mortgage lending). In addition, financial service institutions are engaged primarily in the securities business (such as new issues, trading, portfolio management).

Universal banks can be divided into three broad types: private sector commercial banks like Dresdner Bank (*private Geschäftsbanken*), public sector savings banks (*Sparkassen*) and their central institutions (*Landesbanken-Girozentralen*) and cooperative banks (*Volksbanken* and *Raiffeisenbanken*) and their central institutions.

At January 1999, the private sector commercial banks had an approximate 33.5% share in the combined business volume of all the universal banks (35.3% including German branches of foreign banks), the public sector banks had an approximate share of 48.3% (47.0% including German branches of foreign banks) and the cooperative banks and their central institutions had an approximate share of 18.2% (17.7% including German branches of foreign banks).

German universal banks traditionally hold participations in industrial companies. The participations generally arise because of long-standing relationships with such companies (the “*Hausbank*” principle), certain German tax benefits (the “*Schachtelprivileg*”) and, in some cases, because such participations were acquired in connection with the restructuring of the relevant company.

The Banking Act and Regulation by the German Federal Banking Supervisory Authority

All banks in Germany, including Dresdner Bank, are subject to comprehensive governmental supervision and regulation on a consolidated basis by the Federal Banking Supervisory Authority (*Bundesaufsichtsamt für das Kreditwesen*; the “FBSA”) in accordance with the German Banking Act (*Kreditwesengesetz*; the “German Banking Act”). The FBSA is an independent federal authority which reports to and is supervised by the Federal Minister of Finance. The FBSA is authorized to issue regulations and guidelines implementing the provisions of the German Banking Act and other laws affecting German banks. Its main purpose is to protect the soundness of the German banking system. The German Banking Act and the regulations issued thereunder have been amended over time in order to keep them in line with internationally accepted principles. In doing so, Germany has implemented the recommendations on banking supervision issued by the Basle Committee on Banking Supervision at the BIS and transformed into German law the relevant European Council Directives.

Under the German Banking Act, all German banking and financial service institutions are required to have a license from the FBSA to carry on business. The FBSA supervises the operations of all banks, including Dresdner Bank, to ensure that it conducts its business in accordance with the provisions of the German Banking Act and other applicable German laws and regulations. Particular emphasis is placed on compliance with capital adequacy and liquidity requirements, lending limits and restrictions on certain activities imposed by the German Banking Act and the regulations promulgated thereunder.

Regulation by the Bundesbank

The FBSA carries out its banking supervision role in close cooperation with the Deutsche Bundesbank (the “Bundesbank”), the German central bank, as required under the German Banking Act. Although the authority to issue administrative orders (*Verwaltungsakte*) that are binding on specific banks is vested solely with the FBSA, the FBSA must consult with the Bundesbank before it issues general regulations (*Verordnungen*) and must obtain the consent of the Bundesbank if the regulations affect the Bundesbank, as, for example, in the case of regulations affecting capital adequacy and liquidity requirements. The Bundesbank is responsible for organizing the collection and analysis of the periodic and other reports from the banks (described in more detail below). The task of analyzing these reports is performed by the relevant regional office (*Landeszentralbank*) of

the Bundesbank responsible for the State in which the bank has its head office. Dresdner Bank reports to the *Landeszentralbank* for the State of Hesse, which is based in Frankfurt am Main. The Bundesbank also maintains a checks and control system as part of its own internal reporting systems in order to monitor unusual developments which must then be explained by the relevant banks to the Bundesbank if questions are raised.

Capital Adequacy Requirements

The German Banking Act and the regulations promulgated thereunder contain certain capital adequacy requirements.

Under the German risk-based capital adequacy rules, each bank's ratio (the "Solvency Ratio") of Liable Capital (defined below) to risk-weighted assets and certain off-balance sheet items (described below) must equal at least 8% at the end of each business day ("Principle I"). As described below, at least half of Liable Capital must be Core Capital.

Pursuant to the German Banking Act, for a bank such as Dresdner Bank, "Liable Capital" (the numerator of the Solvency Ratio) consists principally of (i) paid-in share capital without preferred stock (*Vorzugsaktien*), (ii) capital reserves, (iii) earnings reserves which are disclosed in the bank's annual balance sheet, (iv) net profits which are shown in audited interim financial statements and which will not be used for distribution or the payment of taxes, (v) the fund for general banking risks (pursuant to Section 340g of the German Commercial Code, a bank may create a fund from its after-tax retained earnings on the liability side of its balance sheet if advisable in its reasonable commercial judgment in light of the special risks inherent in the banking business), (vi) capital paid in by silent partners which meets certain conditions set forth in the German Banking Act, including subordination to all other creditors and participation in the bank's losses, (vii) reserves for general banking risks (pursuant to Section 340f of the German Commercial Code, a bank may record on its balance sheet certain receivables and securities, which are neither investment securities nor part of the trading portfolio, at a lower value than that permitted for industrial and other non-banking corporations if the use of a lower value is advisable in its reasonable commercial judgment to safeguard against the special risks inherent in the banking business) *provided* that such reserves may not exceed 4% of the book value of such receivables and securities, (viii) preferred stock, (ix) capital paid in consideration of profit participation rights (*Genußrechte*) which meets certain conditions set forth in the German Banking Act, including subordination to all creditors and participation in the bank's losses, (x) long-term subordinated debt (with a term of at least five years) meeting certain conditions set forth in the German Banking Act, (xi) certain revaluation reserves (described below) and (xii) reserves pursuant to Section 6b of the German Income Tax Act (*Einkommensteuergesetz*) (such reserves are shown in the balance sheet under "special item including a reserve element" and are counted in the amount of 45%, to the extent that they were created from the proceeds for the sale of real estate, property rights equivalent to real estate, and buildings). The German Banking Act also requires that balance sheet losses and certain intangible assets (including goodwill), certain investments in banks or financial institutions and certain other items be deducted in computing Liable Capital.

Revaluation reserves which may be counted as Liable Capital are (x) an amount of up to 45% of the difference between the book value and the lending value of land and buildings, (y) an amount of up to 35% of the difference between the book value and the market value of securities listed on an exchange or traded in another organized market and (z) an amount of up to 35% of the difference between the book value and the published redemption price of shares issued by certain securities or real estate funds, *provided* that in computing the revaluation reserves under (x), (y) and (z) any reserves for general banking risks created with respect to such land, buildings and securities must be added back to the respective book value of such assets. Such undisclosed revaluation reserves can be included in Liable Capital only if the Core Capital (defined below) of the bank amounts to at least 4.4% of the risk-weighted assets plus certain off-balance sheet items, and then only in an amount up to 1.4% of such risk-weighted assets and risk-weighted off-balance sheet items.

Core Capital is the portion of Liable Capital set forth in items (i) through (vi) above, less balance sheet losses, certain intangible assets (including goodwill) and certain other items. Supplementary Capital is the portion of Liable Capital referred to in items (vii) through (xii), less certain deductions. The German Banking Act provides that the aggregate amount of Supplementary Capital must not exceed the Core Capital. In addition, the sum of long-term subordinated debt must not exceed 50% of the Core Capital. Core Capital reflects the same concept as Tier I capital and Supplementary Capital reflects a similar concept as Tier II capital (as such terms are used in the United States capital adequacy rules).

To compute risk-weighted assets and certain off-balance sheet items (the sum of which is the denominator of the Solvency Ratio), the assets of a bank are assigned to six broad categories of relative credit risk depending on the debtor or on the type of instrument or collateral securing the asset (0%, 10%, 20%, 50%, 70% and 100%), and the balance sheet value of each asset is multiplied by the percentage weight applicable to its risk category to arrive at the risk-weighted value. With respect to off-balance sheet items, such as financial guarantees, letters of credit, swaps and other financial derivatives, first, their value (in the case of (i) guarantees and letters of credit, their amount, and (ii) swaps and other derivatives, unless such items are allocated to the trading book discussed below, their market value) is adjusted according to their risk classification depending on the type of instrument (20%, 50% and 100%), or, in the case of derivatives, on the counterparty (20% and 50%). After such adjustment, they are assigned, in the same manner as on-balance sheet assets, to the credit risk categories depending on the type of the counterparty or the debtor and multiplied by the applicable percentage weight.

The Sixth Amendment to the German Banking Act, which became effective on January 1, 1998, requires market risk and counterparty risk associated with securities transactions, transactions in derivative products and foreign exchange transactions of banks to be covered by adequate capital. The Sixth Amendment to the German Banking Act also introduced two related concepts: (i) Bank Funds (*Eigenmittel*) and (ii) the distinction between trading transactions which are allocated to a bank's trading book (*Handelsbuch*) and transactions in commercial banking business which are allocated to a bank's investment book (*Anlagebuch*).

Bank Funds consist of Liable Capital plus Tier III Capital. Tier III Capital consists of (i) short-term subordinated debt (with a term of at least two years but less than five years) that meets certain conditions set forth in the German Banking Act and (ii) the net profits which would be realized if all positions in the trading book were matched, if all anticipated expenses and distributions on capital were deducted and if all losses that would be incurred in the investment book if the bank were liquidated were deducted. The sum of Tier III Capital plus the portion of Supplementary Capital that is not required to cover risk positions in the investment book cannot exceed 250% of the portion of Core Capital that is not required to cover risk positions in the investment book.

The trading book of a bank is comprised of the following: (i) securities, money market instruments, derivatives and marketable obligations and participations (all "instruments") that are held by the bank for its own account for resale or trading; (ii) instruments held and transactions entered into for the purpose of hedging the market risk of the trading book and transactions to refinance such hedging; (iii) transactions subject to the designation of the counterparty (*Aufgabegeschäfte*); (iv) receivables for fees, interest and dividends related to positions in the trading book and (v) securities lending, loans or similar transactions related to positions in the trading book. Banks must establish guidelines for the inclusion of transactions in its trading book, which must be submitted to the FBSA and the Bundesbank.

The investment book of a bank consists of all transactions that are not contained in the trading book as set forth above.

The sum of the risk-weighted values of market risk positions (foreign exchange positions, commodity positions and positions allocated to the trading book) and, under certain circumstances, separately computed option positions, may not exceed the difference between Bank Funds and an amount equal to 8% of the risk-weighted assets plus certain risk-weighted off-balance sheet items. This limitation must be computed daily at the close of business. The risk-weighted values of market risk positions and option positions must be computed in accordance with rules set forth in Principle I or, in the case of market risk positions, in accordance with the bank's own risk computation models which have been approved by the FBSA. The positions allocated to the trading book are risk-weighted according to market risk (interest rate and equity security price related) and according to counterparty risk. As a result, the risk-weighted values of market risk positions are covered by Liable Capital or Tier III Capital at the end of every day. Principle I does not permit Bank Funds that have already been used to cover a risk to cover other risks under Principle I.

Capital adequacy rules must not only be met by a bank and its banking subsidiaries on an individual basis, but also by the entire banking group (*Institutsgruppe*) as a whole. A banking group exists if a bank, a financial services institution, a financial enterprise or a bank service enterprise is a subsidiary (voting majority or controlling influence by the parent bank) of a parent bank. An otherwise existing banking group also includes a bank (i) in which a member of the banking group owns at least 20% of the shares, (ii) which is jointly managed

by such banking group member and other enterprises that are not banking group members and (iii) for the obligations of which a banking group member is liable in proportion to its capital investment in such bank. The subordinated enterprises of a banking group may have their registered office in Germany or outside of Germany. The banking group of Dresdner Bank consists principally of ADVANCE Bank AG, Bankhaus Reuschel & Co., DEGI Deutsche Gesellschaft für Immobilienfonds mbH, Deutsche Hyp Deutsche Hypothekenbank Frankfurt-Hamburg AG, Deutscher Investment-Trust, dresdnerbank investment management Kapitalanlagegesellschaft mbH, Dresdner Bank Lateinamerika AG, Dresdner Bauspar AG and Oldenburgische Landesbank AG in Germany and of, among others, Dresdner Luxembourg S.A., Luxembourg, Dresdner (South East Asia) Ltd., Singapore and Kleinwort Benson Group plc, London, abroad.

In computing its Liab Capital, a bank must deduct, among other things, (i) investments in banks, financial institutions (other than investment companies) or financial enterprises if the investment exceeds 10% of the capital of such bank, financial institution or financial enterprise and (ii) the aggregate amount of all such investments up to and including 10% of the capital the respective banks or financial institutions (other than investment companies) to the extent such aggregate amount exceeds 10% of the Liab Capital of the investor bank. If the investor bank includes banks or financial institutions in which it owns at least 10% of the capital in its banking group, for purposes of computing capital adequacy on a consolidated basis, it need not deduct such investment from its Liab Capital. Dresdner Bank has included most of its 10% investments in banks and financial institutions in the computation of the capital adequacy of its banking group.

As of December 31, 1998, Dresdner Bank, the banking group of which it forms part, and the German bank members of such group all met, and currently meet, the risk-based capital adequacy rules of the German Banking Act.

Liquidity Requirements

The German Banking Act and the regulations issued by the FBSA also contain liquidity requirements.

Each bank must invest its funds in a manner designed to provide adequate liquidity at all times. Under the so-called Principle II, the aggregate amount of long-term loans (loans having an original term of four years or more) and certain other assets of an illiquid nature may not exceed the aggregate amount of a bank's capital, reserves, long-term liabilities (liabilities having an original term of four years or more) and specified percentages of certain other liabilities. Under the so-called Principle III, the aggregate amount of a bank's short- and medium-term loans and investments may not exceed the aggregate amount of its short- and medium-term liabilities and specified percentages of certain other liabilities.

Beginning July 1, 2000, a new Principle II to measure the liquidity of banks will replace the current Principles II and III. Banks may voluntarily apply the new Principle II prior to that date. According to the new Principle II, banks must compute four liquidity factors at the end of every calendar month. Each liquidity factor is the quotient of available funds to payment obligations for one of the following four time bands: (i) one day to one month; (ii) more than one month to three months; (iii) more than three months to six months and (iv) more than six months to twelve months. The liquidity factor for the first time band cannot be less than 1. The excess of available funds over payment obligations in one of the other time bands may be counted as available funds for the succeeding time band.

Lending and Investment Limits

The two new concepts of the German Banking Act, Bank Funds and the distinction between the Bank's trading book and investment book, are also relevant for the limitations on large credits.

The German Banking Act as it applies to Dresdner Bank distinguishes between the following lending limits: (i) investment book lending limits, (ii) combined investment and trading books lending limits and (iii) trading book lending limits. The limits are as follows:

- (i) A credit constitutes a "large investment book credit" if the sum of credits allocated to the investment book extended to any one borrower or related group of borrowers, in the aggregate, equals or exceeds 10% of a bank's Liab Capital. No single large investment book credit may exceed 25% (40% until December 31, 1998) of the bank's Liab Capital (20% (30% until December 31, 1998) in the case of

a bank's unconsolidated affiliate). The sum of all of a bank's disbursed large investment book credits may not exceed eight times the bank's Liabe Capital.

Credits exceeding the 25% or 20% ceilings referred to above must be reduced to the 25% or 20% ceiling by December 31, 2001.

(ii) A credit constitutes a "large combined investment and trading book credit" if the sum of credits allocated to both the investment and trading books extended to any one borrower or related group of borrowers, in the aggregate, equals or exceeds 10% of the bank's Bank Funds. No single large combined investment trading book credit may exceed 25% (40% until December 31, 1998) of the bank's Bank Funds (20% (30% until December 31, 1998) in the case of a bank's unconsolidated affiliate). The sum of all of a bank's disbursed large combined investment trading book credits may not exceed eight times the bank's Bank Funds.

Credits exceeding the 25% or 20% ceilings referred to above must be reduced to the 25% or 20% ceiling by December 31, 2001.

(iii) If a single large combined investment and trading book credit exceeds the respective percentage of the bank's Bank Funds set forth in (ii) above, the sum of credits extended to any one borrower or related group of borrowers that is allocated to the trading book cannot exceed five times that portion of the bank's Bank Funds that is not required to cover risk positions in the investment book.

(iv) The sum of all portions of single large combined investment and trading book credits that exceed the respective percentage of the bank's Bank Funds set forth in (ii) above for more than 10 days cannot exceed six times that portion of the bank's Bank Funds that is not required to cover risk positions in the investment book.

A bank must report its large credits to the Bundesbank and must notify the FBSA and the Bundesbank if it exceeds the ceilings set forth above. With the approval of the FBSA, a bank may exceed the eight times Liabe Capital or Bank Funds and the respective percentage of Liabe Capital or Bank Funds set forth in (i) and (ii) above, if the amount exceeding these ceilings is covered by Liabe Capital and Bank Funds, respectively. The bank may exceed the Bank Funds ceilings with the approval of the FBSA only if the excess results from large trading book credits and not from large investment book credits. The amounts of Liabe Capital used to cover such excess amount must be disregarded when computing the adequacy of Liabe Capital under the capital adequacy rules discussed under "—Capital Adequacy Requirements" above. If the respective percentage ceilings and the eight times Liabe Capital ceiling or Bank Funds ceiling are exceeded, the larger of both excess amounts must be covered by Liabe Capital and Bank Funds, respectively. If a bank exceeds the five times Bank Funds ceiling referred to in paragraph (iii) above or the six times Bank Funds ceiling referred to in (iv) above, it must cover such excess amounts with Bank Funds.

The term "credit" is defined to include all items on the asset side of the balance sheet, derivative transactions and related guarantees, and other off-balance sheet positions. The term also includes equity investments. The term "borrower" includes certain affiliates of the borrower. The limitations on large credits are applied on a risk-weighted basis in a manner similar to the application of the risk-weighted capital adequacy rules discussed under "—Capital Adequacy Requirements" above.

The provisions of the German Banking Act limiting large credits by a bank apply also to the aggregate credits extended by members of a banking group. In order to determine whether members of a banking group in the aggregate have extended a large credit, all credits extended by members of the group to one borrower are consolidated and measured against the consolidated Liabe Capital and Bank Funds of the banking group. "Banking group" for purposes of the large credit limitation is defined in the same manner as for purposes of computing the Liabe Capital of banking groups. Consolidation of credits to one borrower or related group of borrowers is only required if the credit of at least one member of the banking group to such borrower is equal to or exceeds 5% of such member's Liabe Capital.

The total nominal value (as opposed to book value or purchase price) of a deposit-taking bank's Significant Investments (defined below) in an enterprise (other than a bank, financial services institution, financial enterprise, insurance company or a bank service enterprise) may not exceed 15% of the Liabe Capital of such bank, and the aggregate nominal value of all such Significant Investments may not in the aggregate exceed 60% of such bank's Liabe Capital. With the approval of the FBSA, a bank may exceed the 15% and 60% limitations on investments if it covers the Significant Investments in excess of these limits by Liabe Capital. If both limitations are exceeded, the larger of both excess amounts must be covered by Liabe Capital. "Significant Investment" is defined in the German

Banking Act as an investment (i) directly or indirectly in at least 10% of the capital or voting rights of an enterprise or (ii) affording the possibility of exercising a significant influence over the management of the enterprise in which the investment has been made. All of the shares of an enterprise which a bank owns indirectly through one or more subsidiaries are fully attributed to the bank. The limitations on investments also apply to Dresdner Bank and all companies that form the banking group with Dresdner, on a consolidated basis.

Financial Statements and Audits

Dresdner Bank's financial statements are prepared in accordance with the German Commercial Code (which permits the Group to prepare its consolidated financial statements in accordance with IAS), the German Banking Act, general corporate law, the Bank Accounting Directives Law of 1990 (*Bankenbilanzrichtlinien Gesetz*), and the Regulation on Accounting by Credit Institutions of February 10, 1992 (*Verordnung über Rechnungslegung der Kreditinstitute*) issued by the Federal Minister of Justice (in conjunction with the Federal Minister of Finance and the Bundesbank).

Under German law, Dresdner Bank and the Dresdner Bank Group must both be audited annually by a German certified public accountant (*Wirtschaftsprüfer*) who is appointed annually at the shareholders' annual general meeting (on the recommendation of the Supervisory Board). The FBSA must be informed of such appointment and may reject it. The certified public accountants are required to prepare annually a very detailed and comprehensive audit report (*Prüfungsbericht*) which is submitted to the Supervisory Board of the Bank, the FBSA and the Bundesbank. This comprehensive audit report is in contrast to the much shorter audit reports typically prepared for other German companies. The contents of the report are prescribed in a regulation issued by the FBSA. In particular, the auditor must review that the bank is in compliance with: (i) the regulatory reporting requirements; (ii) the large credit limitations; (iii) the limitations on extension of credit to related companies; (iv) the requirements of the capital adequacy and liquidity principles (described above) and (v) the regulations concerning the prudent granting of credit. The audit report must also discuss in detail certain large or important loans and review compliance with certain provisions of the German Banking Act.

Reporting Requirements

In order to enable the FBSA and the Bundesbank to monitor compliance with the German Banking Act and other applicable legal requirements and to obtain information on the financial condition of the German banks, the FBSA and the Bundesbank require the routine, periodic filing of information.

Each bank must file with the FBSA or the Bundesbank, or both, among other things, the following information: (i) immediate notice of certain organizational changes, the extension or increase of large credits, the extension of certain credits to companies in which the bank owns more than 25% (or, under certain circumstances, 10%) of the capital, the acquisition or disposition of more than 10% of the equity of another company or certain changes in the amount of such equity investment, and the commencement or termination of certain non-banking activities; (ii) monthly balance sheet and statistical information and annual audited unconsolidated and consolidated financial statements; (iii) the acquisition or disposition of a direct or indirect investment in the bank representing 10% or more of the voting rights or capital of the bank or giving the person making the investment a significant influence over the management of the bank ("Significant Shareholding"), or an increase or decrease of a Significant Shareholding which results in the investment reaching or passing the threshold of 20%, 33% or 50% of such voting rights or capital, as well as the fact that the bank became or ceased to be a subsidiary of another enterprise, if the bank has knowledge of such facts; and on an annual basis, the names and addresses of holders of Significant Shareholdings in the bank and its foreign subsidiary banks, and the amount of such investment if the bank has knowledge of such facts; (iv) monthly compliance statements with regard to the capital adequacy rules and the requirements on liquidity and statements on certain foreign lending; and (v) quarterly statements listing the borrowers to whom the reporting bank has outstanding loans of DM 3 million or more and certain information about the amount and the type of the loan, including syndicated loans exceeding this amount even if the reporting bank's share does not reach DM 3 million.

If several banks report to the Bundesbank loans of DM 3 million or more to the same borrower, the Bundesbank must inform the reporting banks of the total reported indebtedness and of the type of such indebtedness of such borrower and of the number of reporting lending banks.

Compliance and Sanctions for Non-compliance

In order to secure compliance with the German Banking Act and regulations issued thereunder, the FBSA and the Bundesbank may require information and documents from a bank and the FBSA may investigate a bank without having to give any particular reason. Investigations may also be conducted at a foreign subsidiary that is part of a banking group if necessary to verify the accuracy of data required for consolidation, large credit limitations and reports relating thereto but only to the extent permitted under the law of the domicile of such subsidiary. In addition, the FBSA can attend meetings of the bank's Supervisory Board and of the bank's shareholders (and require such meetings to be convened). In practical terms, because the FBSA and the Bundesbank have access to the books and records of Dresdner Bank in Germany, they are able to monitor the world-wide activities the Dresdner Bank Group.

To ensure that German banks, including Dresdner Bank, fully comply with all applicable legislation and reporting requirements, the FBSA requires that they maintain an effective internal auditing department of adequate size and quality and have procedures for monitoring and controlling their own activities. A bank must also establish a written plan of organization which sets forth the responsibilities of the employees and operating procedures. The internal audit department must also examine compliance with this plan and these responsibilities and procedures.

In 1995, the FBSA issued a release concerning certain minimum requirements that German banks need to observe with respect to transactions relating to money market activities, securities, foreign exchange, precious metals and derivatives. The release stresses the responsibility of senior management for the proper organization and monitoring of trading and sales activities, requires that banks adopt written policies regarding such activities, imposes specific requirements with respect to activities in new products and deals with the qualifications and remuneration of trading and sales staff, record retention, risk controlling and management, and the internal organization of trading, sales, settlement and accounting.

If the FBSA discovers irregularities, it has a wide range of enforcement powers. The FBSA can challenge the qualifications of a bank's management. If the Liabile Capital of a bank is not adequate or if the liquidity requirements are not met and the bank has failed to remedy the deficiency within a period determined by the FBSA, the FBSA may prohibit or restrict the bank's distribution of profits or extension of credit. These prohibitions also apply to the parent bank of a banking group if the Bank Funds of the bank members of the group does not meet the legal requirements. If the liquidity requirements are not met, the FBSA may also prohibit further investments in illiquid assets.

If a bank is in danger of defaulting on its obligations to creditors, the FBSA may take emergency measures to avert default. In this connection, it may, among other things: (i) issue instructions relating to the management of the bank; (ii) prohibit or restrict the acceptance of deposits and the extension of credit; (iii) prohibit or restrict management of the bank from carrying on their functions; and (iv) appoint supervisors. If these measures are inadequate, the FBSA may revoke the bank's licence and, if appropriate, order the bank to close. To avoid the insolvency of a bank, the FBSA has the authority to prohibit payments and disposals of assets, suspend customer services and prohibit the acceptance of payments other than in payment of debt owed to the bank. In addition, violations of the German Banking Act may result in criminal and administrative penalties.

Deposit Protection

In order to comply with the EC Directives on Deposit-Guarantee Schemes and Investor Compensation Schemes and the German Law For Transformation of the EC Directives on Deposit-Guarantee Schemes and Investor Compensation Schemes (*Gesetz zur Umsetzung der EG-Einlagensicherungsrichtlinie und der EG Anlegerentschädigungsrichtlinie*) (the "Deposit Guarantee Act") the Bundesverband Deutscher Banken, the association of the German private sector commercial banks, established a company under the name *Entschädigungseinrichtung deutscher Banken GmbH* (the "Compensation Institution") to carry out the deposit guarantee scheme of the German private sector commercial banks. The Deposit Guarantee Act provides that the aggregate deposits of a given depositor at a given bank and claims resulting from securities transactions by a customer with a given bank must each be covered up to 90% of the aggregate amount or € 20,000, whichever is less. The deposit guarantees will be funded through annual contributions by the private sector commercial banks to the Compensation Institution. Although organized under private law, the Compensation Institute carries out the obligation of the German Government, imposed by the EU Deposit-Guarantee Directive, to ensure that a deposit guarantee scheme is maintained in Germany.

In addition, the banking industry has voluntarily set up various protection funds for the protection of depositors. Almost all private sector commercial banks, including Dresdner Bank, are members of the *Einlagensicherungsfond*, a deposit protection association with a fund which covers liabilities to each creditor up to an amount equal to 30% of the Core Capital and the Supplementary Capital (to the extent that the Supplementary Capital does not exceed 25% of the Core Capital). Payments from the *Einlagensicherungsfond* cover the portion of a deposit not already covered by the Compensation Institution. Members of this association are required to give all necessary information to the association and also to the *Prüfungsverband deutscher Banken e.V.* (an institution for the auditing of German banks). This auditing institution conducts its own inspections of banks in order to reduce the risk of failures within the deposit protection system.

Furthermore, depositors and other creditors of German banks are protected by the arrangements in relation to *Liquiditäts-Konsortialbank GmbH* (“LIKO”), a bank founded by the German government in 1974 in order to provide funding for any German bank which experiences liquidity problems. The shares in LIKO are owned 30% by the Bundesbank, with the rest of the shares being held by all other German banks and banking associations. The shareholders have provided DM 372 million of capital to fund LIKO; Dresdner Bank’s participation is DM 20,460,000 (5.5%). The Dresdner Bank Group is contingently liable to pay in additional capital to LIKO of DM 113 million. In addition, as a member of the *Einlagensicherungsfond*, which is itself a shareholder in LIKO, Dresdner Bank is severally liable with the other members of the association for its maximum possible additional capital contribution in the amount of its annual contribution, which was approximately DM 38.8 million in 1998.

Minimum Reserves and the European Central Bank

For the conduct of the single European monetary policy a European System of Central Banks (“ESCB”) consisting of the ECB and the central banks of the eleven participating countries, including the Bundesbank (the “National Central Banks”) was established. The primary objective of the ESCB is to maintain price stability. Furthermore, without prejudice to the objective of price stability, it shall support the general economic policies in those participating countries. The basic function to be carried out by the ESCB is to define and implement the monetary policy of these participating countries, conduct foreign exchange operations, hold and manage the official foreign reserves of the Member States and promote the smooth operation of payment systems. The ESCB is governed by the decision making bodies of the ECB. The National Central Banks, including the Bundesbank, retain all the functions which have not been transferred to the ESCB.

The ECB requires credit institutions established in the eleven participating countries to hold minimum reserves on accounts with the National Central Banks, which, in the case of Dresdner Bank, are held with the Bundesbank. By issuance of a regulation on minimum reserves, the ECB, as of January 1, 1999, set a 2% reserve ratio on the following liability categories: overnight deposits, deposits with agreed maturity up to 2 years, deposits redeemable subsequent to a notice period of up to 2 years, debt securities with agreed maturity up to 2 years, and money market obligations. For deposits and debt securities with a maturity of more than 2 years, as well as repos, the ECB set a 0% reserve ratio. The ECB may at any time change the reserve ratios. Liabilities to other institutions subject to the ESCB’s minimum reserve system and liabilities to the ECB and the National Central Banks are not included in the reserve basis.

Mortgage Banks

Dresdner Bank owns all the shares of Deutsche Hypo Deutsche Hypothekenbank Frankfurt-Hamburg AG, a mortgage bank. Mortgage banks are specialized banks that are principally engaged in mortgage lending and lending to public authorities and public-sector entities. They are regulated by a special statute, the Mortgage Bank Act (*Hypothekbankgesetz*). Under this Act, mortgage banks are authorized to finance themselves through the issuance of mortgage-backed bonds (*Pfandbriefe*) and public-debt backed bonds (*Kommunalobligationen*). These bonds are generally long-term bonds (typically with an original maturity of four years or longer), the principal and interest of which are at all times required to be covered by a pool of specified qualifying assets (“cover”) listed in a register maintained by the mortgage bank. Mortgage-backed bonds are backed by mortgage loans extended by the mortgage bank which cover 60% or less of the market value of the respective real estate property, and public-debt backed bonds are backed by loans (communal loans) extended by the mortgage bank to German public authorities or entities organized under public law or to member states of the European Union

and their territorial subdivisions (or which are guaranteed or otherwise secured by such persons). A separate pool is maintained for the mortgage-backed bonds and for the public-debt backed bonds. Each pool is required to be replenished when necessary to assure that all bonds issued by the mortgage bank are fully covered. The qualifying assets remain on the mortgage bank's balance sheet. In case of insolvency proceedings relating to the mortgage bank, the asset pools constituting cover will be exempt from such proceedings. Mortgage-backed bonds and public debt-backed bonds may be issued in registered or bearer form and they are general recourse obligations of the issuing mortgage bank.

Securities Trading Act

The Securities Trading Act (*Wertpapierhandelsgesetz*; "Securities Trading Act") of 1995 established an independent federal agency, the Federal Supervisory Authority for Securities Trading (*Bundesaufsichtsamt für den Wertpapierhandel*; the "Securities Trading Authority"), which supervises securities trading and deals with irregularities in the securities market.

The Securities Trading Act also prohibits insider trading with respect to securities admitted to trading or included in the over-the-counter market at a German exchange or the exchange in another European country. The Act also requires that the issuer of securities admitted to trading on a German stock exchange publish promptly any new fact relating to the issuer which is not publicly known if such fact could have a material influence on the market price of such securities due to its effects on the financial condition or the overall business performance of the issuer.

To enable the Securities Trading Authority to carry out its supervisory functions, the German banks and the other institutions that are members of a German stock exchange are subject to comprehensive reporting requirements with respect to all transactions in securities and derivatives that are listed or traded on an exchange or other organized market in Germany or another member country of the European Union. The reporting obligation applies to transactions for a bank's own account as well as for the account of its customers.

The Securities Trading Act also introduced so-called "Rules of Conduct" for banks and securities firms. These Rules of Conduct apply to all investment services firms, i.e., firms engaged in the purchase and sale of securities or derivatives for others or the intermediation of transactions in securities or derivatives. In practice, the Rules of Conduct therefore apply principally to the German banks. The Securities Trading Authority has broad powers to investigate investment services firms with a view to monitoring compliance with the Rules of Conduct. The Securities Trading Act provides for an annual examination by the Securities Trading Authority of a bank's compliance with its obligations under the Securities Trading Act.

THE BRANCH

General

Dresdner Bank, New York Branch (the “Branch”) has been in operation since 1972 pursuant to a license granted by the Superintendent of Banks of the State of New York. Prior to the establishment of the Branch, Dresdner Bank maintained operations in New York through a representative office.

Dresdner Bank’s commercial banking operations in the United States are comprised of the Branch, the Chicago Branch and the Los Angeles Agency. The financial results of the U.S. banking operations are fully consolidated with Dresdner Bank’s financial reports and are included in the audited financial statements of Dresdner Bank. The U.S. banking offices do not publish separate financial results.

The Branch provides commercial banking services to U.S. companies and U.S. subsidiaries of non-U.S. enterprises. These activities cover a broad range of credit and advisory products such as commercial paper back-up, liquidity and credit enhancement facilities, term loans, bridge loans and standby letters of credit. The Branch seeks lead positions by underwriting significant amounts in medium to large syndicated credits. The Branch offers tax advantaged and structured lease financing. The Branch’s lending and credit enhancement activities are focused on the following sectors and products: non-bank financial institutions, health care, commercial/industrial, media/telecommunications, real estate, leveraged and acquisition finance, project finance (with a special emphasis on energy and infrastructure), asset backed finance and leasing. The Branch has a commodities unit and a unit which specializes in derivatives activities including swaps and options in a variety of currencies. The Branch also provides private banking products and services.

The Branch funds itself by taking corporate, bank and government deposits, borrowing in the inter-bank market and issuing certificates of deposit. The Branch also obtains funding from an affiliate, Dresdner U.S. Finance Inc., which issues commercial paper. The Branch is active in money market dealing, foreign exchange, interest rate swaps and currency swaps in both the corporate and inter-bank markets.

The U.S. banking offices employed a total of 164 persons as of December 31, 1998, of which 134 were employed by the Branch. The Branch is located at 75 Wall Street, New York, New York 10005-2889. The Branch is not required to be and is not a member of the Federal Deposit Insurance Corporation (the “FDIC”) and the obligations of the Branch are not insured by the FDIC.

Regulation and Supervision of Dresdner Bank and the Branch in the United States

The Branch is licensed and the Board of Governors of the Federal Reserve System (the “Board”) by the Superintendent of Banks of the State of New York (the “Superintendent”) under the Banking Law of the State of New York. The Branch is examined by the New York State Banking Department and is subject to the banking laws and regulations applicable to a foreign bank that operates a New York branch. Under New York Banking Law, Dresdner Bank must maintain with approved banks or trust companies in the State of New York specified types of interest-bearing governmental obligations, dollar deposits, investment grade commercial paper, obligations of certain international financial institutions and other specified obligations in an aggregate amount determined by the Superintendent as security for the benefit of depositors and certain other creditors of the Branch. This amount is currently set at 5% of the liabilities of the Branch (excluding liabilities to other offices and wholly owned subsidiaries of Dresdner Bank and liabilities of the Branch that are booked at its International Banking Facility). Under the New York Banking Law, the Superintendent is also empowered to require foreign banks operating a New York branch to maintain in New York specified assets equal to such percentage of the branch’s liabilities payable at or through the branch as the Superintendent may designate. At present, the Superintendent has set this percentage at zero percent, although specific asset maintenance requirements may be imposed by the Superintendent on a case-by-case basis. No such requirement has been prescribed for the Branch. Under the New York Banking Law, Dresdner Bank is also subject to reporting and examination requirements.

The New York Banking Law authorizes the Superintendent to take possession of the business and property of the New York branch of a foreign bank under circumstances similar to those that would permit the Superintendent to take possession of the business and property of a state-chartered bank. These

circumstances include the violation of any law, unsafe business procedures, capital impairments, suspension of payment of obligations, the initiation of liquidation proceedings against the foreign bank in the jurisdiction of its domicile or elsewhere or the existence of reason to doubt its ability or willingness to pay in full the accepted claims specified in the New York Banking Law. Pursuant to Section 606.4 of the New York Banking Law, in liquidating or dealing with the branch's business after taking possession of the Branch, the claims of creditors which arose out of transactions with the Branch may be accepted or registered by the Superintendent; those which are not rejected are "accepted" with respect to the Branch's assets to the exclusion of the claims of other creditors of the foreign bank, without prejudice to the rights of the holders of such "accepted" claims to be satisfied out of other assets of the foreign bank.

In addition to being subject to the New York Banking Law and regulations, Dresdner Bank and the Branch are also subject to federal regulation and supervision under the International Banking Act of 1978 ("IBA"), and Dresdner Bank is subject to United States federal regulation under the Bank Holding Company Act of 1956 (the "BHCA"). Under the IBA and applicable regulations, the Branch is subject to reserve requirements on deposits held by the Branch. In December 1990, the Board reduced from three to zero percent the reserve requirement applicable to non-personal time deposits (time deposits by persons other than natural persons) with original maturities of less than 18 months and to net Eurocurrency liabilities. Because the Branch does not engage in "retail" deposit taking, its deposits need not be, and are not, insured by the FDIC. The IBA and the BHCA also contain certain restrictions on Dresdner Bank's ability to engage directly or through subsidiaries in non-banking activities in the United States. Under the BHCA, Dresdner Bank is subject to reporting and examination requirements of the Board similar to those imposed on domestic banks that are members of the Federal Reserve System.

The Foreign Bank Supervision Enhancement Act of 1991 (the "FBSEA"), increased the degree of United States federal bank regulation of and supervision over United States branches of foreign banks such as the Branch. The FBSEA provides, among other things, that the Board may examine such a branch and that each branch of a foreign bank shall be examined at least once during each 12-month period in an on-site examination. The FBSEA also provides that the Board may order a foreign bank that operates a State branch to terminate the activities of such branch if the Board finds that the foreign bank is not subject to comprehensive supervision or regulation on a consolidated basis by the appropriate authorities in its home country, or that there is reasonable cause to believe that such foreign bank, or any affiliate of such foreign bank, has committed a violation of law or engaged in an unsafe or unsound banking practice in the United States and, as a result of such violation or practice, the continued operation of the branch would not be consistent with the public interest or with the IBA, the BHCA or the Federal Deposit Insurance Act. A foreign bank so required to terminate activities conducted at a branch in the United States must comply with the requirements of applicable federal and state law with respect to procedures for the closure or dissolution thereof. The FBSEA also provides that a state branch of a foreign bank such as the Branch may not engage in any type of activity that is not permissible for a United States federal branch of a foreign bank unless the Board has determined that such activity is consistent with sound banking practice. Based upon the activities presently conducted by the Branch, the Branch does not believe that this provision materially limits its activities.

The Branch is generally subject under New York Banking Law to the same lending limits to a single borrower as a ratio of capital as apply to a New York State-chartered bank, except that for the Branch such limits are based on the capital of the Bank. The FBSEA makes the Branch also subject to the same lending limits that apply to a United States federally-licensed branch of a foreign bank. Compliance with the FBSEA-imposed lending limits has not required the Branch to alter its lending activities in a material manner.

EXCHANGE RATES

On January 1, 1999, the third stage of European Economic and Monetary Union (“EMU”) commenced with the adoption of a single currency, the euro. With effect from January 1, 1999, the Council of the European Union irrevocably fixed exchange rates of the legacy currencies of the participating countries against the euro. From such date through December 31, 2001 (the “transition period”), legacy currencies remain legal tender in the participating countries as a subdivision of the euro and the euro will exist in electronic form only. During the transition period, non-cash transactions will generally be conducted in either the euro or the legacy currencies but all financial records and accounts will be stated in the euro. Euro notes and coins are expected to be circulated for the first time on January 1, 2002. On and after July 1, 2002, it is expected that only euro notes and coins will be legal tender in the participating member states and all national currencies, including the Deutsche Mark, will be withdrawn.

As of December 31, 1998, the Deutsche Mark has a fixed value relative to the euro of 1.95583 (the “Locking Rate”), which rate will remain unchanged for as long as the Deutsche Mark continues to be legal tender in Germany, and no longer trades on the currency markets as an independent currency.

The euro is a fully convertible currency. There are no legal restrictions in EMU countries on international capital movements and foreign exchange transactions. Against major international currencies, the euro has free floating exchange rates.

The following table sets forth, for the periods indicated, the high, low, average and period end exchange rates for Deutsche Marks against U.S. dollars (expressed in Deutsche Mark per \$1.00). For convenience only, the amounts in Deutsche Mark have been converted into euro equivalents at the Locking Rate (expressed in euro per \$1).

Year	High		Low		Average(1)		Period End	
	DM	€	DM	€	DM	€	DM	€
1994	1.7627	0.9013	1.492	0.7628	1.6218	0.8292	1.5488	0.7919
1995	1.5612	0.7982	1.3565	0.6936	1.4338	0.7331	1.4335	0.7329
1996	1.5655	0.8004	1.4354	0.7339	1.5037	0.7688	1.5548	0.7950
1997	1.8873	0.9617	1.5413	0.7881	1.7348	0.8870	1.7921	0.9163
1998	1.8545	0.9482	1.6165	0.8265	1.7592	0.8995	1.6730	0.8554
1999 (through April 30)	1.8484	0.9451	1.6589	0.8482	1.7619	0.9008	1.8456	0.9437

Source: Official exchange rates of the Frankfurt Stock Exchange released by the Deutsche Bundesbank (1994-1997, 1999); Datastream (1998).

- (1) The period average is based on the monthly statistics published in the Monthly Report of the Deutsche Bundesbank.

CERTAIN TRANSACTIONS CONSTITUTING THE FORMATION

The Formation

Prior to or simultaneously with the completion of the Offering, the Trust, the LLC, and the Bank, acting through the Branch, will engage in the transactions described below designed to facilitate (i) the issuance, offer and sale of the Certificates, (ii) the execution of the Silent Partnership Agreement by the Trust and the LLC and (iii) the acquisition of the Subordinated Note by the LLC.

- The Bank, acting through the Branch, will purchase the 1,000 common limited liability company interests of the LLC (the “LLC Common Securities”), each having an issue price of \$1,000 per LLC Common security, consisting of a nominal value of \$10 each and an additional contribution to capital of (the “Paid Additional Capital”) of \$990 each, for an aggregate purchase price of \$1,000,000.
- The Trust will sell to the Initial Purchasers in the Offering the Certificates for \$1,000,000,000. The Trust will enter into the Silent Partnership Agreement with the LLC, providing for the issuance and sale by the LLC of \$1,000,000,000 of the Partnership Interests, and in connection therewith will contribute to the LLC the gross proceeds from the sale of the Certificates.
- The LLC will purchase the Subordinated Note from the Branch for \$1,001,000,000.
- The Bank, in its own capacity and acting through the Branch, will enter into the Waiver and Improvement Agreement with the LLC.
- The Bank will pay the expenses of the Offering, the formation of the LLC and the creation and operation of the Trust.

The LLC and the Bank intend that the terms of the Subordinated Note, which will be issued by the Bank, acting through the Branch, will be fair to the LLC. However, no third-party opinion as to the fairness of the terms of the Subordinated Note has been or will be obtained for purposes of the Offering, and there can be no assurance that the terms of the Subordinated Note are no less favorable to the LLC than could have been obtained by the LLC in an arm’s length transaction with an unaffiliated party.

Benefits to Dresdner Bank Group

Dresdner Bank Group expects to realize the following benefits in connection with the Offering:

- Dresdner Bank Group is required by the FBSA to maintain certain levels of capital under applicable regulatory capital requirements. It is intended to treat the Partnership Interests as consolidated Tier One Capital of Dresdner Bank Group.
- Dresdner believes that the capital increase resulting from the sale of the Partnership Interests, together with the LLC’s expected treatment as a partnership for United States federal income tax purposes, will provide Dresdner Bank Group with a cost-effective means of obtaining additional Tier One Capital.

DESCRIPTION OF THE PARTNERSHIP INTERESTS

The Partnership Interests will be provided for in the Silent Partnership Agreement, to be dated May 25, 1999 (the “Silent Partnership Agreement”), between the LLC and the Property Trustee, on behalf of the holders of the Certificates, and in the Charter. The following summary sets forth the material terms and provisions of the Partnership Interests, and is qualified in its entirety by reference to the terms and provisions of the Silent Partnership Agreement and the Charter, copies of which are available from the LLC or the Initial Purchasers upon request.

General

The Partnership Interests are preferred rights in, and represent preferred rights to participate in the profits of, the LLC, the terms of which are set forth in the Silent Partnership Agreement, and as such entail the holders thereof to participate in the profits of the LLC. When issued pursuant to the terms of the Silent Partnership Agreement, the Partnership Interests will be validly issued, fully paid and non-assessable. The holders of the Partnership Interests will have no pre-emptive or similar rights with respect to any limited liability company interests in the LLC or any other securities of the LLC convertible into or carrying rights or options to purchase any such securities. Partnership Interests are not convertible into LLC Common Securities or any other class or series of limited liability company interests in, or preferred rights to participate in the profits of, the LLC and are not subject to any sinking fund or other obligation of the LLC for its repurchase or retirement. The obligations of the LLC to make payments in respect of the Partnership Interests, and the rights of holders of Partnership Interests to participate in the profits of the LLC, will rank senior to the rights of the holders of the LLC Common Securities to receive payments in respect thereof, but are subordinated in every respect to the claims of any creditors of the LLC. So long as any Partnership Interests are outstanding, the LLC may not incur any debt obligations and may not issue any other securities that are *pari passu* with, or rank senior to, the Partnership Interests.

Each Partnership Interest will have a nominal value of \$1,000 (such \$1,000 nominal value of each Partnership Interest referred to as the “Initial Nominal Value”) and a liquidation preference of \$1,000 (the “Liquidation Preference”). Each Partnership Interest will also have a notional current nominal value (the “Current Nominal Value”) that will initially equal the Initial Nominal Value and that will thereafter be reduced on a notional basis to reflect the allocation of any Accumulated Deficit (as defined herein under “—‘Available Distributable Profits’, ‘Profit’ and ‘Accumulated Deficit’”) in excess of Paid Additional Capital as described under “—Loss Participation.”

Distributions Other Than During A Shift Period

Periodic Distributions (each a “Distribution”) in respect of the Partnership Interests will be payable on a noncumulative basis when, as, and if declared (or deemed declared) by the Board of Directors of the LLC out of Available Distributable Profits (as defined herein under “—‘Available Distributable Profits’, ‘Profit’ and ‘Accumulated Deficit’”) in arrears on each June 30 and December 31, commencing June 30, 1999 (each, a “Distribution Payment Date”). Distributions on each Partnership Interest will be payable at a fixed rate per annum equal to 8.151%. Upon receipt by the Trust of a Distribution in respect of each Partnership Interest from the LLC, the Trust will make a corresponding Distribution in respect of each Certificate. As used herein, all references to “Distributions” in respect of the Partnership Interests shall be deemed to include any Additional Amounts in respect of the Partnership Interests. See “—Payment of Additional Amounts”. Except as described in this section, holders of the Partnership Interests will have no right to participate in the profits of the LLC.

The LLC will be required to make Distributions in respect of the Partnership Interests to the extent that (i) such payments can be made from the Available Distributable Profits for the relevant fiscal semi-annual period and (ii) the Current Nominal Value of each Partnership Interest is equal to the Liquidation Preference. To the extent that interest payments are made on the Subordinated Note in respect of any semi-annual period, the LLC is expected to have Available Distributable Profits sufficient to pay Distributions on the Partnership Interests for such semi-annual period. If the Bank, acting through the Branch, does not pay interest on the Subordinated Note, whether it is not obligated to do so during a Shift Period (as defined herein under “—‘Shift Event’; ‘Shift Period’”) or whether because it has not otherwise made such payments, the LLC will not have Available Distributable Profits to pay Distributions on the Partnership Interests.

In addition, Distributions will not be made in respect of the Partnership Interests and, accordingly, Distributions will not be made in respect of the Certificates if, and for so long as, the Current Nominal Value of the Partnership Interests, as calculated for the relevant semi-annual period, is less than the Liquidation Preference of the Partnership Interests, except to the extent that the LLC is obligated to pay Distributions in respect of the Partnership Interests out of Available Distributable Profits when the obligation of the Bank, acting through the Branch, to pay interest on the Subordinated Note has been reinstated pursuant to the Waiver and Improvement Agreement. Except during a Shift Period, the LLC does not expect that the Current Nominal Value of any Partnership Interest will be less than the Liquidation Preference of such Partnership Interest.

Distributions not declared (or deemed to be declared) by the LLC in respect of the Partnership Interests for any Distribution Period will not accumulate and the holders of Partnership Interests will have no right to receive a Distribution on the Partnership Interests in respect of such Distribution Period, whether or not Distributions are declared with respect to a future Distribution Period.

The obligation of the LLC to make Distributions in respect of the Partnership Interests will rank senior to the rights of the holders of the LLC Common Securities to receive Distributions in respect thereof, but are subordinated in every respect to the claims of any creditors of the LLC. Accordingly, the LLC may pay Distributions in respect of the LLC Common Securities in any Distribution Period only if it has paid in full the Distributions in respect of the Partnership Interests for such Distribution Period.

Distributions on the Certificates and on the Partnership Interests in respect of each Distribution Period will be calculated on the basis of a 360-day year of twelve 30 day months in such Distribution Period. Distributions payable on each Distribution Payment Date will be calculated from and including the immediately preceding Distribution Payment Date (or, in the case of the initial Distribution Payment Date, from and including the Closing Date) to but excluding the relevant Distribution Payment Date (each such period, a “Distribution Period”). If any Distribution Payment Date or other payment date falls on a day that is not a Business Day, the applicable Distribution or other payment will be payable on the next succeeding Business Day without adjustment, interest or further payment as a result of the delay. “Business Day” means a day that is both (i) a Target business day and (ii) a day other than Saturday, Sunday or a day on which banking institutions in the City of New York or, as long as any Certificates are listed on the Luxembourg Stock Exchange, in Luxembourg are authorized or required by law or executive order to remain closed.

Each payment in respect of the Partnership Interests will be payable to holders of record as they appear on the securities register of the Property Trustee on the corresponding record date. The record dates for the Partnership Interests will be, if the Partnership Interests are solely in global form, one Business Day prior to the relevant Distribution Payment Date and, in the event that any of the Partnership Interests are not in book-entry form, the first day (whether or not a Business Day) of the month of the relevant Distribution Payment Date.

The only source of funds for payment of Distributions in respect of the Partnership Interests will be the payments received by the LLC in respect of the Subordinated Note or the Eligible Intercompany Investments, as the case may be. See “Description of the Subordinated Note and Waiver and Improvement Agreement.”

Distributions During A Shift Period

Pursuant to the terms of the Waiver and Improvement Agreement and the Subordinated Note, during a Shift Period, the LLC will waive its right to interest, principal and other payments under the Subordinated Note, and the Bank, acting through the Branch, will not be obligated to make such payments. In such event, the LLC will have no income. As described herein under “—Loss Participation,” if any semi-annual balance sheet of the LLC shows an Accumulated Deficit, then such Accumulated Deficit will be allocated on a notional basis first to the Paid Additional Capital of the LLC Common Securities until such Paid Additional Capital is exhausted and then to the nominal value of the LLC Common Securities and the Initial Nominal Value of the Partnership Interests in proportion to the nominal value of the LLC Common Securities and the Initial Nominal Value of the Partnership Interests.

Under certain circumstances in connection with payments by the Bank in respect of any Ordinary Securities or Parity Securities or upon the end of a Shift Period, the obligation of the Bank, acting through the Branch, to pay interest, principal and other payments under the Subordinated Note will be reinstated. In particular, the Waiver and Improvement Agreement provides that, during a Shift Period, if the Bank makes or

declares dividends, other distributions or other payments in respect of its Ordinary Securities, or makes any payments, or provides funds to a subsidiary, in respect of any Parity Securities, then interest payments in full must be paid on the Subordinated Note for the Corresponding Period. See “—Required Payments.” The Bank’s current practice is to pay dividends in respect of its Ordinary Securities in May of each year with respect to its fiscal year ended on the preceding December 31.

If a Shift Period has ceased to exist, pursuant to the Waiver and Improvement Agreement, the waiver thereunder will terminate and all rights of the LLC and all obligations of the Bank, acting through the Branch, in respect of the Subordinated Note will be reinstated (i) in respect of interest payments, as of the first day following the last interest payment date during such Shift Period and (ii) in respect of other obligations, from and after cessation of the Shift Period. Any interest not payable in respect of the Subordinated Note during the time a Shift Period was continuing is not cumulative and therefore will not be paid following the end of the Shift Period. Other than its obligations pursuant to the Subordinated Note and the Waiver and Improvement Agreement, the Bank, acting through the Branch, has no obligation to contribute any funds, whether through the subscription of additional equity or otherwise, into the LLC or to provide credit support for the obligations of the LLC.

Required Payments

Taken together, the Subordinated Note and the Waiver and Improvement Agreement provide, in effect, that interest must be paid on the Subordinated Note at all times other than during a Shift Period and also, during a Shift Period, to the extent payments are being made in respect of any Ordinary Securities or Parity Securities. The Waiver and Improvement Agreement accomplishes this result for periods during a Shift Period by providing that if, during such Shift Period, the Bank makes or declares dividends or other distributions or makes any payments in respect of its Ordinary Securities or makes any payments, or provides funds to a subsidiary, in respect of any Parity Securities, then interest payments in full must be paid on the Subordinated Note for the following periods (each, a “Corresponding Period”): (x) the two consecutive interest payment dates, commencing with the next interest payment date contemporaneous with or following the date on which the Bank redeems, repurchases or otherwise acquires or defeases or otherwise terminates its obligations in respect of any Ordinary Securities or any Parity Securities or provides funds to any subsidiary in respect of the redemption, repurchase or acquisition by such subsidiary of any Ordinary Securities or Parity Securities or the defeasance or other termination of the obligations of the issuer thereof in respect of any Ordinary Securities or Parity Securities (other than (i) in connection with transactions effected by or for the account of customers of the Bank or its subsidiaries or in connection with the distribution, trading or market-making in respect of such securities based on an authorization by the Bank’s shareholders referred to in § 71(1) No. 7 of the German Stock Corporation Act, (ii) in connection with the satisfaction by the Bank or any of its subsidiaries of its obligations under any employee benefit plans or similar arrangements, with or for the benefit of any employees, officers, directors or consultants of the Bank or any of its subsidiaries, (iii) as a result of a reclassification of the capital stock of the Bank or any of its subsidiaries or the exchange or conversion of one class or series of such capital stock for another class or series of such capital stock, (iv) the purchase of fractional interests in shares of the capital stock of the Bank or any of its subsidiaries pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged, (v) a repurchase pursuant to § 71(1) No. 3 of the German Stock Corporation Act resulting from an obligation of the Bank to offer its shares to shareholders of a company that has entered into a domination or profit-and-loss-pooling agreement with, or has been integrated (*Eingliederung*) into, the Bank in exchange for the shares of that company, or in connection with an obligation of the Bank to purchase its shares from shareholders that have dissented to a split-up (*Aufspaltung*), spin-off (*Abspaltung*) or change of the legal form (*Umwandlung*) of the Bank, (vi) as a result of a merger or other succession involving less than 1% of any class of Ordinary Securities or Parity Securities and which transaction is not entered into for the purpose of, directly or indirectly, acquiring any Ordinary Securities or Parity Securities, (vii) the satisfaction of an obligation on a regularly scheduled maturity date which is required by the terms of the applicable governing instrument); (y) the two consecutive interest payment dates, commencing with the next interest payment date contemporaneous with or following the date on which the Bank or any subsidiary pays dividends or makes other distributions or payments on any Ordinary Securities or any Parity Securities, in each case where such dividends, distributions or other payments are made no more frequently than annually and (z) the next interest payment date contemporaneous with or following the date on which the Bank or any subsidiary pays dividends or makes other distributions or payments on any Ordinary Securities or any Parity Securities, in each case where such dividends, distributions or other payments are made more frequently than annually.

As used herein, “Ordinary Securities” means the Ordinary Shares and any other security ranking junior to the Bank Parity Securities; and “Parity Securities” means Bank Parity Securities and Subsidiary Parity Linked Securities.

For purposes of the foregoing definitions, “Ordinary Shares” means the Bank’s common shares and other voting and non-voting shares (*Stammaktien* and *Vorzugsaktien*); “Bank Parity Securities” means any silent partnership agreement or any other instrument of the Bank that has rights to payment that are expressly or legally subordinated to all creditors of the Bank (including holders of *Genußscheine*) but that are senior to the rights of the Ordinary Securities of the Bank and that would qualify as consolidated Tier One Capital of Dresdner Bank Group under current or future regulatory requirements. “Subsidiary Parity Linked Securities” means any silent partnership agreement or any other instrument of any subsidiary of the Bank that has rights to payment that are (i) expressly or legally subordinated to all creditors of such subsidiary (including holders of *Genußscheine*) and (ii) linked to the Bank through any mechanism that expressly (through one or more agreements) makes such payments subordinated to all creditors of the Bank (other than creditors subject to similar agreements) but senior to the Bank’s Ordinary Securities at all times or under circumstances similar to a Shift Event or other failure to comply with regulatory capital requirements and that would qualify as consolidated Tier One Capital of Dresdner Bank Group under current or future regulatory requirements.

The Dated Silent Partnership Interests to be issued by LLC II pursuant to the Parallel Offering will fall within the definition of Subsidiary Parity Linked Securities and, accordingly, payments on such securities during a Shift Period will trigger payment obligations on the Partnership Interests. See “Overview—The Combined Offering.”

“Available Distributable Profits”, “Profit” and “Accumulated Deficit”

As used herein, the LLC’s “Available Distributable Profits” for a particular fiscal semi-annual period means the LLC’s Profit only with respect to such fiscal semi-annual period.

“Profit” of the LLC with respect to the income statements of the LLC covering such semi-annual period means the profit earned for such semi-annual period as shown in the unaudited semi-annual income statements of the LLC for such semi-annual period and as determined in accordance with U.S. GAAP.

“Accumulated Deficit” means any deficit in retained earnings of the LLC in respect of periods after the issuance of the Partnership Interests and the receipt of the Paid Additional Capital, as shown on the relevant unaudited, unconsolidated semi-annual balance sheet of the LLC prepared in accordance with U.S. GAAP.

Loss Participation

Pursuant to the Silent Partnership Agreement and the Charter, a holder of the Partnership Interests will participate in any Accumulated Deficit of the LLC. If any semi-annual balance sheet of the LLC shows an Accumulated Deficit, then such Accumulated Deficit will be allocated on a notional basis first to the Paid Additional Capital of the LLC Common Securities until such Paid Additional Capital is exhausted, and then to the nominal value of the LLC Common Securities and the Initial Nominal Value of the Partnership Interests in proportion to the nominal value of the LLC Common Securities and the Initial Nominal Value of the Partnership Interests.

The allocation of any Accumulated Deficit to the Partnership Interests and the LLC Common Securities will be solely on a notional basis for purposes of allocating losses among the Partnership Interests and the LLC Common Securities and, accordingly, will not result in the actual write down of the nominal value of either the Partnership Interests or the LLC Common Securities. Unless the Current Nominal Value equals the Liquidation Preference of the Partnership Interests, no Distributions may be paid in respect of the Partnership Interests or the LLC Common Securities, except to the extent Distributions are required to be paid pursuant to the requirements of the Waiver and Improvement Agreement.

“Shift Event,” “Shift Period”

A “Shift Event” will be deemed to have occurred if (i) the Board of Managing Directors (*Vorstand*) of the Bank determines that either (A) the Bank’s total capital ratio or tier one capital ratio has declined below the minimum percentages required from time to time by the German Banking Act (*Kreditwesengesetz*; the “German Banking Act”) (presently, 8% and 4%, respectively) or (B) the Bank’s non-compliance with the foregoing capital ratio requirements is immediately imminent, (ii) the Bank is declared insolvent or overindebted and insolvency proceedings are to be commenced, or (iii) the German Banking Supervisory Authority (*Bundesaufsichtsamt für das Kreditwesen*; the “FBSA”) either (A) exercises its extraordinary supervisory powers pursuant to the provisions of Section 45 *et seq.* of the German Banking Act or (B) announces its intention to take such measures. The aforementioned powers of the FBSA may be invoked, among other things, if in the determination of the FBSA it is or might be impossible to effectively supervise a banking institution, if the insolvency or overindebtedness of the institution is imminent or in connection with a serious deterioration in a banking institution’s financial situation, including an insufficiency of regulatory capital or liquidity, or a possible inability of that institution to satisfy its obligations to creditors, in particular depositors.

A “Shift Period” is defined as any period commencing on the occurrence of any Shift Event and ending upon the date immediately preceding the first date upon which no Shift Event exists.

Payment of Additional Amounts

All payments by the Trust in respect of the Certificates will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or other governmental charges of whatever nature, imposed or levied by or on behalf of Germany, the United States or the jurisdiction of residence of any obligor on the Partnership Interests, the Subordinated Note or any Eligible Intercompany Investments (each such jurisdiction, together with Germany and the United States, a “Relevant Jurisdiction”) or any political subdivision or authority therein or thereof having power to tax (the taxes so imposed, each a “Relevant Tax”), unless the withholding or deduction of such Relevant Tax is required by law. In that event, the Trust will pay, as further Distributions, such additional amounts (“Additional Amounts”) as may be necessary in order for the net amounts received by the holders of the Certificates after such withholding or deduction to equal the amount that such holders would have received in respect of the Certificates in the absence of such withholding or deduction, except that no such Additional Amounts will be payable to a holder of Certificates (or to a third party on any holder’s behalf) with respect to any Certificates (i) to the extent that such Relevant Tax is imposed or levied by virtue of such holder (or the beneficial owner of such Certificates) having some connection with the Relevant Jurisdiction, or any political subdivision or authority therein or thereof having power to tax that is imposing such tax other than being a holder (or the beneficial owner) of such Certificates (including indirect ownership of the Partnership Interests) or (ii) to the extent that such Relevant Tax is imposed or levied by virtue of any such holder (or beneficial owner) not having made a declaration of non-residence in, or other lack of connection with, the Relevant Jurisdiction, or any political subdivision or authority therein or thereof, having power to tax that is imposing such tax, provided that the Bank, acting through the Branch, or its agent has provided the holder (or beneficial owner) of such Certificate or its nominee with at least 60 days prior written notice of an opportunity to make such a declaration or claim.

The LLC will pay, subject to the same exceptions set forth in the preceding paragraph as applied to the holders of the Partnership Interests and the holders of Certificates (provided, however, that no such exceptions will apply with respect to the Trust as holder of any Partnership Interests), such Additional Amounts to each holder of Partnership Interests as may be necessary in order that every net payment in respect thereof, after withholding for any Relevant Tax, will not be less than the amount otherwise required to be paid in respect of the Partnership Interests or the Certificates. The Bank, acting through the Branch, will also pay under the terms of the Subordinated Note, subject to the same exceptions set forth in the preceding paragraph as applied to the holders of the Partnership Interests and the holders of the Certificates (provided, however, that no such exceptions will apply with respect to the Trust as holder of any Partnership Interests or the LLC or any other holder of the Subordinated Note), such Additional Amounts to any holder of the Subordinated Note as may be necessary in order that every net payment in respect thereof, after withholding for any Relevant Tax, will not be less than the amount otherwise required to be paid in respect of the Subordinated Note, the Partnership Interests or the Certificates. The Bank, acting through the Branch, will also pay such additional amounts as may be

necessary to pay any taxes that may be imposed on the Partnership Interests, the LLC, or the Trust by any Relevant Jurisdiction or any political subdivision or authority therein or thereof having power to tax that is imposing such tax.

Liquidation

In the event of any dissolution and liquidation of the LLC, holders of Partnership Interests will be entitled to receive out of assets of the LLC available for distribution after satisfaction of any claims of creditors, if any, and before any distributions of assets to the holders of the LLC Common Securities an amount per Partnership Interest equal to the sum of (i) the Liquidation Preference (regardless of whether the Current Nominal Value is less than the Liquidation Preference of the Partnership Interests) and (ii) any unpaid Distributions in respect of each Partnership Interest for the then current Distribution Period (such amount being the “Liquidation Distribution”). In the event that the Liquidation Distribution cannot be made in full because the LLC does not have sufficient funds to do so, the Liquidation Distribution will be made on a *pro rata* basis among the Partnership Interests. So long as any of the Partnership Interests are outstanding, the Charter provides that the Bank, acting through the Branch, as the holder of the LLC Common Securities, will not cause the LLC to liquidate unless the Bank is also liquidated. The Charter also provides that the LLC will be liquidated if the Bank is liquidated. Under the terms of the Charter, and to the fullest extent permitted by law, the LLC will not be liquidated until all claims under the Subordinated Note or Eligible Intercompany Investments have been paid to the extent required by the terms of such instruments and the Waiver and Improvement Agreement. Upon receipt of the Liquidation Distribution by the Trust in respect of the Partnership Interests, the Trust will make a corresponding Liquidation Distribution in respect of the Certificates. If the LLC is liquidated, the Trust will also be liquidated.

Notwithstanding the foregoing, the Declaration will provide that the Trust may not be liquidated so long as any Partnership Interests are outstanding except (i) in connection with a Trust Dissolution Event (as defined herein under “Description of the Certificates—Liquidation upon a Trust Dissolution Event”), (ii) if no Certificates are outstanding or (iii) upon the liquidation of the LLC.

If the Bank is liquidated during a Shift Period, the LLC will be entitled to receive the repayment of principal in respect of the Subordinated Note, provided, however, that such right with respect to the Subordinated Note will be subordinated to the rights of all creditors of the Bank (including the rights under *Genußscheine*), but will rank senior to the rights of the shareholders (including common shares and other voting and non-voting shares (*Stammaktien* and *Vorzugsaktien*)) and any other Ordinary Security and will rank *pari passu* with Bank Parity Securities and any debt instruments of the Bank held by any Parity Issuer in respect of any Subsidiary Parity Linked Securities.

Maturity; Maturity Payments

The Partnership Interests will mature on June 30, 2031 (the “Scheduled Partnership Interest Maturity Date”), but if the Scheduled Partnership Interest Maturity Date occurs during a Shift Period, the maturity will be extended to the earlier of (i) the date liquidation proceedings are commenced in respect of the LLC in connection with the commencement of liquidation proceedings in respect of the Bank or (ii) the date after the Shift Period ends (such earlier date, the “Extended Maturity Date” and, together with the Scheduled Partnership Interest Maturity Date, the “Partnership Interest Maturity Date”). If the Partnership Interest Maturity Date occurs other than in connection with the liquidation of the Bank, the LLC will pay the Current Nominal Value, not to exceed the Liquidation Preference, of each Partnership Interest as calculated based on the most recent semi-annual unaudited financial statements of the LLC plus accrued and unpaid Distributions for the then current Distribution Period (the “Maturity Payment”). If the Partnership Interest Maturity Date occurs in connection with the liquidation of the Bank, the holders of Partnership Interests will receive the amounts to which they are entitled in connection with the related liquidation of the LLC as set forth in “—Liquidation” above. If any Partnership Interest Maturity Date falls on a day that is not a Business Day, the applicable Maturity Payment will be payable on the next succeeding Business Day without adjustment, interest or further payment as a result of the delay. The LLC will make the Maturity Payment out of the amounts received upon maturity of the Subordinated Note. Upon receipt by the Trust of the Maturity Payment, if any, from the LLC in respect of each Partnership Interest, the Trust will make a corresponding payment in respect of each Certificate.

Call Provisions

Prior to the Partnership Interest Maturity Date and except during a Shift Period, the Partnership Interests may be called in part or in full by the LLC on June 30, 2029 (the “First Call Date”), and thereafter on any Distribution Payment Date (such date, together with the First Call Date, the “Call Date”) for an amount per Partnership Interest equal to the Current Nominal Value plus any unpaid Distributions for the then current Distribution Period with (i) the prior consent of the FBSA and (ii) no less than 30 and no more than 60 days’ prior written notice to holders of the Partnership Interests. The LLC may not call the Partnership Interests prior to the Partnership Interest Maturity Date unless the Current Nominal Value of each Partnership Interest is equal to the Liquidation Preference. If any Call Date falls on a day that is not a Business Day, the applicable amount payable as a result of the call will be so payable on the next succeeding Business Day without adjustment, interest or further payment as a result of the delay. In the event that the LLC exercises its option to call the Partnership Interests, the funds paid by the LLC upon such a call will be passed through by the Trust to redeem the Certificates corresponding to the Partnership Interests so called.

In the event that fewer than all the outstanding Partnership Interests are to be called, the number of Partnership Interests to be called shall be determined by the Board of Directors, and the securities to be called shall be determined by lot or *pro rata* as may be determined by the Board of Directors in its sole discretion to be equitable; provided that such method satisfies any applicable requirements of any securities exchange or automated quotation system on which the Partnership Interests may then be listed or quoted and, if the Partnership Interests are then held by DTC (or its nominee) in the form of a global security, any applicable requirements of DTC. The LLC shall promptly notify the registrar and transfer agent for the Partnership Interests in writing of the securities to be called and, in the event less than all of the Partnership Interests are to be called, the aggregate liquidation preference of the Partnership Interests to be called.

Early Redemption

Prior to the First Call Date and except during a Shift Period, the Partnership Interests will be redeemable only in full and not in part by the LLC upon the occurrence of an LLC Early Redemption Event (as defined below) at an amount (the “Early Redemption Amount”) equal to the greater of (a) the Current Nominal Value plus any unpaid Distributions for the then current Distribution Period and (b) the Make Whole Amount, with (i) the prior consent of the FBSA and (ii) no less than 30 and no more than 60 days’ prior written notice to holders of the Partnership Interests. The LLC may not, prior to the First Call Date, as a result of an LLC Early Redemption Event, redeem the Partnership Interests unless the Current Nominal Value of each Partnership Interest is equal to the Liquidation Preference. In the event that the LLC exercises its option to redeem the Partnership Interests, the funds paid by the LLC upon such a redemption will be passed through by the Trust to redeem the Certificates corresponding to the Partnership Interests so redeemed.

The “Make Whole Amount” is equal to the sum of (a) the present value of the Liquidation Preference of each Partnership Interest at the date of redemption (the “Early Redemption Date”) in connection with an LLC Early Redemption Event and (b) the aggregate present value of Distributions scheduled to be made in respect of each Partnership Interest from the Early Redemption Date to the First Call Date (the “Remaining Life”), in each case discounted to the Early Redemption Date from the First Call Date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus (i) in the event that the Early Redemption Date occurs on or prior to June 30, 2000, 125 basis points or (ii) in the event that the Early Redemption Date occurs after such date, 50 basis points.

“Treasury Rate” means, with respect to any Early Redemption Date, the rate per annum equal to the equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Early Redemption Date.

“Comparable Treasury Issue” means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the Remaining Life of the Partnership Interests to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Partnership Interests. “Independent Investment Banker” means one of the Reference Treasury Dealers appointed by the Bank.

“Comparable Treasury Price” means, with respect to any redemption date, (A) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (B) if the calculation agent obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations. “Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the calculation agent, of the bid and offered prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the calculation agent by such Reference Treasury Dealer at 3:30 p.m. New York time on the third business day preceding such redemption date.

“Reference Treasury Dealer” means each of CS First Boston Corporation, Lehman Brothers Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated and Salomon Smith Barney, Inc. and their respective successors; *provided, however*, that if any of the foregoing or their affiliates will cease to be a primary U.S. Government securities dealer in The City of New York (a “Primary Treasury Dealer”), the Company will substitute therefor another reference treasury dealer in consultation with the Bank.

Unless the LLC defaults in payment of the redemption price, on and after the Early Redemption Date, Distributions will cease to accrue on the Partnership Interests called for redemption.

In the event that the Partnership Interests are redeemed upon the occurrence of an LLC Early Redemption Event, the Certificates will likewise be redeemed for an amount per Certificate equal to the Early Redemption Price and both the Trust and the LLC will, upon such redemption, be liquidated.

If full Distributions on any Partnership Interests are unpaid, then (i) no Partnership Interests shall be redeemed unless all outstanding Partnership Interests are redeemed and (ii) the LLC shall not purchase or otherwise acquire any Partnership Interests; *provided, however*, that the LLC may purchase or acquire Partnership Interests pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding Partnership Interests.

An “LLC Early Redemption Event” means (i) a Tax Event with respect to the LLC or (ii) an Investment Company Event with respect to the LLC or (iii) a Capital Event.

A “Tax Event” with respect to the LLC means the receipt by the Bank of an opinion of a nationally recognized law firm or other nationally recognized tax adviser in any Relevant Jurisdiction, experienced in such matters, to the effect that, as a result of (i) any amendment to, or clarification of, or change (including any announced prospective change) in the laws or treaties (or any regulations promulgated thereunder) of the Relevant Jurisdiction or any political subdivision or authority therein or thereof having power to tax, (ii) any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) (an “Administrative Action”) or (iii) any amendment to, clarification of, or change in the official position or the interpretation of any Administrative Action or any interpretation or pronouncement that provides for a position with respect to any Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification or change is made known, which amendment, clarification, change or Administrative Action is effective, or which interpretation, pronouncement or decision is announced, on or after the date of the original execution of the Silent Partnership Agreement, there is more than an insubstantial risk that (i) the LLC is or will be subject to more than a *de minimis* amount of taxes, duties or other governmental charges or (ii) the Trust, the LLC, the Bank, acting through the Branch, or the Issuer of any Eligible Intercompany Investments, as the case may be, would be required to pay any Additional Amounts in respect of the Partnership Interests as described herein under “—Payment of Additional Amounts.”

An “Investment Company Event” with respect to the LLC means that the Bank will have requested and received an opinion of a nationally recognized U.S. law firm, experienced in such matters, to the effect that there is more than an insubstantial risk that the LLC is or will be considered an “investment company” within the meaning of, and required to register as an “investment company” under, the 1940 Act.

A “Capital Event” means the determination by the Bank that the Partnership Interests may not be included in the consolidated tier one capital of the Group (the “Tier One Capital”) for purposes of the German Banking Act or the rules of the Committee on Banking Supervision at the BIS.

Voting Rights

Except as expressly required by applicable law, or as indicated below, the holders of Partnership Interests will not be entitled to vote. In the event the holders of Partnership Interests are entitled to vote as indicated below, each Partnership Interest will be entitled to one vote. Any voting rights in respect of the Partnership Interests will be passed through by the Property Trustee, as nominee of the holders of the Certificates, to such Certificate holders. Generally, holders of Certificates will not have any voting rights. If at any time the holders of the Partnership Interests will be entitled to vote, including with respect to the election of certain of the independent directors, or to consent to amendments to the Charter and the Partnership Interests and other matters requiring the approval of the holders of Partnership Interests pursuant to the terms of the LLC's Charter, the Property Trustee will (a) notify the holders of the Certificates of such rights, (b) request specific direction of each holder of a Certificate as to the vote with respect to the Partnership Interest represented by such Certificate and (c) vote the Partnership Interests held by the Trust only in accordance with such specific directions. The Board of Directors of the LLC will seek instructions with respect to matters requiring a vote by holders of the Partnership Interests, and the Property Trustee will vote the Partnership Interests held by the Trust solely in accordance with instructions received from the holders of Certificates. In the absence of specific instructions from a holder of Certificates, the Property Trustee will not vote or cause to be voted the Partnership Interests represented by such Certificates.

If (i) the LLC fails to pay full Distributions on the Partnership Interests for the most recent Distribution Period or (ii) a Shift Event occurs, the holders of the Partnership Interests will be entitled to replace the Designated Independent Director (see "Management of the LLC—Directors and Executive Officers of the LLC") with a new director and to elect two additional directors (such replaced director and such additional directors, referred to as the "Elected Independent Directors" and, together with the Designated Independent Director, the "Independent Directors"). Any member of the Board of Directors of the LLC elected by the holders of the Partnership Interests will be deemed to be "independent" for purposes of the actions requiring, pursuant to the Charter, the approval of a majority of the Independent Directors. The Elected Independent Directors will be required to vacate office when the corresponding Shift Period ends, if applicable, or, if not applicable, when the next full Distribution is made on the Partnership Interests, except that, if any Elected Independent Director was elected to replace a Designated Independent Director, such Elected Independent Director will be entitled to remain in office until the Bank, acting through the Branch, as holder of all of the outstanding LLC Common Securities designates another person as an Independent Director.

Any Elected Independent Director may be removed by, and shall not be removed except by, the vote of the holders of record of the outstanding Partnership Interests entitled to vote, voting as a single class of the LLC's securityholders. As long as Distributions on Partnership Interests shall not have been paid for an applicable Distribution Period or during a Shift Period, any vacancy in the office of any Elected Independent Director may be filled by the vote of the holders of the outstanding Partnership Interests voting together as a single class at a meeting of the holders of Partnership Interests called for that purpose.

So long as any Partnership Interests are outstanding, the LLC shall not, without the consent or vote of the holders of at least two-thirds of the outstanding Partnership Interests (based on aggregate Liquidation Preference), voting separately as a class, (a) amend, alter or repeal or otherwise change any provision of the Silent Partnership Agreement (including the terms of the Partnership Interests), the Subordinated Note or the Waiver and Improvement Agreement if such amendment, alteration, repeal or change would materially and adversely affect the rights, preferences, powers or privileges of the Partnership Interests, (b) merge, consolidate, reorganize or effect any other business combination involving the LLC unless (i) the resulting entity will thereafter have no class or series of equity securities either authorized or outstanding ranking prior to the Partnership Interests as to Distributions, or as to the distribution of assets upon liquidation, dissolution or winding up, except the same number of shares of such equity securities with the same preferences, conversion or other rights, voting powers, restrictions, limitations as to Distributions, or other distributions, qualifications or terms or conditions or redemption as the shares of equity securities of the LLC that are authorized and outstanding immediately prior to such transaction, (ii) each holder of the Partnership Interests immediately prior to such transaction shall receive securities with the same preferences, conversion or other rights, voting powers, restrictions, limitations as to Distributions, or other distributions, qualifications or terms or conditions or redemption of the resulting entity as the Partnership Interests held by such holder immediately prior thereto, (iii) such transaction does not result in the Certificates being delisted or removed from any securities exchange

on which the Certificates are then listed or quoted or the Partnership Interests or the Certificates being downgraded by any Rating Agency then rating such securities, or the Partnership Interest holders or the Certificate holders recognizing any gain or loss for U.S. federal income tax consequences, (iv) such successor entity shall not be treated as an association or publicly traded partnership subject to tax as a corporation for U.S. federal income tax purposes, and (v) such transaction shall not adversely affect the limited liability of the holders of the Partnership Interests, (c) cause itself to be dissolved or liquidated except in connection with a liquidation of the Bank or (d) sell the Subordinated Note and do other than invest the proceeds from such sale in Eligible Intercompany Investments or redeem the Partnership Interests. So long as any Partnership Interests are outstanding, the LLC shall not, without the consent of the holders of each outstanding Partnership Interest, authorize, create or increase the authorized amount of or issue any class or series of any equity securities of the LLC, or any warrants, options or other rights convertible or exchangeable into any class or series of any equity securities of the LLC.

Notwithstanding that holders of Partnership Interests are entitled to vote or consent under the limited circumstances described above, any Partnership Interests that are beneficially owned at such time by the Bank or any of its affiliates shall not be entitled to vote or consent and shall, for purposes of such vote or consent, be treated as if such Partnership Interests were not outstanding, except for the Partnership Interests purchased or acquired by the Bank or its affiliates in connection with transactions effected by or for the account of customers of the Bank or any of its affiliates or in connection with the distribution or trading of or market-making in connection with such Partnership Interests; *provided, however*, that persons (other than affiliates of the Bank) to whom the Bank or any of its affiliates have pledged Partnership Interests may vote or consent with respect to such pledged Partnership Interests pursuant to the terms of such pledge.

The Bank, acting through the Branch, as holder of all of the outstanding LLC Common Securities, will at all times have the right to elect a majority of the Board of Directors of the LLC.

Rights of Enforcement

The Property Trustee, for so long as the Partnership Interests are held by the Property Trustee, will have the right to enforce the terms of the Partnership Interests, including the right to receive payments thereon, and to enforce the covenants and other terms contained therein and in the Silent Partnership Agreement.

Notwithstanding the foregoing paragraph, a holder of Certificates will be able to institute a direct action against the LLC to enforce the terms of the Silent Partnership Agreement and Partnership Interests represented by the Certificates held by such holder, including the right to receive payments on the Partnership Interests.

A majority of the Independent Directors, acting together and without the vote or consent of the other members of the Board of Directors, shall have the sole and exclusive right and obligation on behalf of the LLC to enforce the Waiver and Improvement Agreement, as well as the Subordinated Note and the Eligible Intercompany Investments, if any, held by the LLC. The holders of the Partnership Interests, and hence the holders of the Certificates, shall not have any direct right to enforce the Waiver and Improvement Agreement absent the failure by the Independent Directors to enforce the LLC's rights thereunder. However, for so long as the Partnership Interests are outstanding, the Waiver and Improvement Agreement may not be amended or modified without the consent of holders of two-thirds of the aggregate Liquidation Preference of the Partnership Interests.

The Property Trustee

The Property Trustee will execute the Silent Partnership Agreement and hold the Partnership Interests for the holders of the Certificates. To induce the Property Trustee to act as trustee, the LLC and the Bank, acting through the Branch, will agree to indemnify the Property Trustee for certain liabilities incurred in connection with the performance by the Property Trustee of its duties with respect to the Partnership Interests and the holders

of Certificates. The LLC will also agree to provide certain information to the Property Trustee and to perform certain administrative tasks with respect to payments and notices to the Property Trustee on behalf of the Certificate holders.

The Property Trustee will account to all holders of Certificates for all payments in respect of the Partnership Interests if, as and when received from the LLC and will take certain other actions in connection with the administration of the Partnership Interests, including the transfer of an individual Partnership Interest upon surrender of a Certificate by a holder thereof and the initiation of enforcement actions against the LLC on behalf of the Certificate holders other than any Certificate holder that has chosen to bring an enforcement action directly.

The Property Trustee, in its role as trustee, is entitled to enforce the Partnership Interests on behalf of the Trust, including the right to receive payments with respect to the Partnership Interests. Notwithstanding the foregoing, each holder of Certificates may bring an action directly against the LLC to enforce the rights of such holder under the Partnership Interests evidenced by the Certificates held by such holder.

Merger, Consolidation or Amalgamation of the LLC

The LLC may not consolidate, amalgamate, merge with or into, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to, any corporation or other body, except as described below or elsewhere herein. The LLC may, without the consent of the holders of the Partnership Interests, consolidate, amalgamate, merge with or into, or be replaced by a limited partnership, limited liability company or trust organized as such under the laws of any state of the United States of America, *provided* that (i) such successor entity either (x) expressly assumes all of the obligations of the LLC under the Partnership Interests or (y) substitutes for the Partnership Interests other agreements having substantially the same terms as the Partnership Interests (the “LLC Successor Securities”) so long as the LLC Successor Securities are not junior to any equity securities of the successor entity, with respect to participation in the profits, distributions and assets of the successor entity, (ii) the Bank expressly acknowledges such successor entity as the holder of the Subordinated Note or equivalent Eligible Intercompany Investment, (iii) such merger, consolidation, amalgamation or replacement does not cause the Certificates (or, in the event that the Trust is liquidated in connection with a Trust Dissolution Event, the Partnership Interests (including any LLC Successor Securities)) to be downgraded by any Rating Agency, (iv) such merger, consolidation, amalgamation or replacement does not adversely affect the powers, preferences and other special rights of the holders of the Certificates or Partnership Interests (including any LLC Successor Securities) in any material respect, (v) such successor entity has a purpose substantially identical to that of the LLC, and (vi) prior to such merger, consolidation, amalgamation or replacement, the LLC has received an opinion of a nationally recognized law firm experienced in such matters to the effect that (A) such successor entity will be treated as a partnership, and will not be treated as an association or a publicly traded partnership taxable as a corporation for U.S. federal income tax purposes, (B) such merger, consolidation, amalgamation or replacement would not cause the Trust to be classified as other than a grantor trust for U.S. federal income tax purposes, (C) following such merger, consolidation, amalgamation or replacement, such successor entity will not be required to register under the 1940 Act and (D) such merger, consolidation amalgamation or replacement will not adversely affect the limited liability of the holders of the Partnership Interests or the LLC Successor Securities.

Withdrawal Rights

A holder of Certificates will be entitled to surrender the Certificates and receive, by way of an assignment by the Trust to such holder, one Partnership Interest for each Certificate so surrendered. Any holder exercising such rights will be responsible for any transfer taxes or fees incurred in connection with the surrender of the Certificates and the assignment of the Partnership Interests. In the case of Certificates in definitive form, such assignment will be made upon presentation by the holder thereof of the Certificates to a registrar and transfer agent in exchange for which holders will receive an instrument of assignment of the Partnership Interests represented by the Certificates surrendered. Upon the receipt of a Partnership Interest in exchange for a Certificate, a holder will thereafter be precluded from retransferring the Partnership Interest to the Trust in exchange for a Certificate. Any Partnership Interest assigned in exchange for a Certificate will not be listed on the Luxembourg Stock Exchange and will not be eligible for clearance through Euroclear or Cedelbank, and the holder thereof will receive annually a Form K-1 in lieu of a Form 1099 for U.S. federal income tax reporting purposes. The Partnership Interests assigned upon exercise of the withdrawal rights may, therefore, trade at a discount to the price of the Certificates prior to such assignment.

Registrar, Transfer Agent, Paying Agent and Calculation Agent

The Bank of New York will act as registrar, transfer agent, paying agent and calculation agent for the Partnership Interests.

Registration of transfers of Partnership Interests will be effected without charge by or on behalf of the LLC, but upon payment (with the giving of such indemnity as the LLC may require) in respect of any tax or other governmental charges that may be imposed in relation to it.

The LLC will not be required to register or cause to be registered the transfer of Partnership Interests after such Partnership Interests have been called for redemption.

Miscellaneous

The Board of Directors of the LLC is authorized and directed to conduct the affairs of the LLC in such a way that (i) the LLC will not be deemed to be required to register under the 1940 Act and (ii) the LLC will be treated as a partnership for U.S. federal income tax purposes. In this connection, the Board of Directors of the LLC is authorized to take any action, not inconsistent with applicable law or the Charter, that the Board of Directors determines in its discretion to be necessary or desirable for such purposes, so long as such action does not adversely affect the interests of the holders of the Partnership Interests.

DESCRIPTION OF THE CERTIFICATES

The Certificates will be issued by the Trust pursuant to the terms of the Amended and Restated Declaration of Trust of the Trust (the “Declaration”). The aggregate liquidation amount of the Certificates is \$1,000,000,000. The Bank of New York will act as the Property Trustee and The Bank of New York (Delaware) will act as Delaware Trustee (together with the Property Trustee, the “Trustees”). The following summary of the material terms and provisions of the Certificates does not purport to be complete and is subject to, and qualified in its entirety by reference to, the Declaration (a copy of which is available upon request from the Trust or the Initial Purchasers), the Delaware Business Trust Act (the “Trust Act”) and the U.S. Trust Indenture Act of 1939, as amended (the “Trust Indenture Act”).

General

The Declaration authorizes the Trust to issue the Certificates, each of which represents (i) an undivided beneficial ownership interest in the assets of the Trust and (ii) the right to receive a direct interest in the underlying Partnership Interest upon the exercise of the holder’s withdrawal rights, as described herein. Accordingly, an investment in the Certificates will have substantially the same risks and rewards as an investment in the Partnership Interests. See “Description of the Partnership Interests”. The Declaration does not permit the issuance by the Trust of any securities other than the Certificates or the incurrence of any indebtedness for borrowed money by the Trust. Pursuant to the Declaration, the Property Trustee will hold legal title to the Partnership Interests purchased by the Trust for the benefit of the holders of Certificates, provided that, upon exercise of a holder’s withdrawal rights, as described herein, such holder will then hold legal title to the Partnership Interests.

The Trust’s funds available for distribution to the holders of the Certificates will be limited solely to payments received from the LLC as Distributions, redemption payments, liquidation payments, amounts payable at maturity and other payments in respect of the Partnership Interests, which payments will be passed through, on a *pro rata* basis, if, as and when received by the Trust from the LLC to the holders of the Certificates. See “Description of the Partnership Interests—Distributions Other Than During A Shift Period” and “—Distributions During A Shift Period”. Consequently, if the LLC does not make any payments in respect of the Partnership Interests, the Trust will not have sufficient funds to make the corresponding payments on the Certificates. The Property Trustee will pass through to holders of Certificates any voting rights, rights to consent, and other related matters requiring the approval of the holders of the Partnership Interests.

The Declaration provides that, to the fullest extent permitted by law, the Property Trustee, in its role as trustee, is entitled to enforce the terms of the Partnership Interests on behalf of the Trust, including the right to receive payments thereon and to enforce the covenants and other terms contained therein and in the Silent Partnership Agreement. Notwithstanding the foregoing, each holder of Certificates may bring an action directly against the LLC to enforce the terms of the Silent Partnership Agreement and the Partnership Interests represented by the Certificates held by such holder, including the right to receive payments on such Partnership Interests.

Application has been made to list the Certificates on the Luxembourg Stock Exchange.

Distributions

Distributions on the Certificates will be made semi-annually by the Trust on a pass-through basis upon (and subject to) receipt by the Trust of Distributions by the LLC on the Partnership Interests. Distributions in respect of each Certificate will be made semi-annually in arrears on each Distribution Payment Date, commencing June 30, 1999. The only source of funds for payment of Distributions in respect of the Certificates will be the payment of Distributions by the LLC in respect of the Partnership Interests. See “Description of the Partnership Interests—Distributions Other Than During A Shift Period” and “—Distributions During A Shift Period”. Distributions not payable on the scheduled Distribution Payment Date will not accumulate, and holders of Certificates will not be entitled to recover such Distributions, whether or not Distributions on the Certificates are paid in any future Distribution Period. If any Distribution Payment Date or other payment date falls on a day that is not a Business Day, the applicable Distribution or other payment will be payable on the next succeeding

Business Day without adjustment, interest or further payment as a result of the delay. “Business Day” means a day that is both (i) a Target business day and (ii) a day other than Saturday, Sunday or a day on which banking institutions in the City of New York or, as long as any Certificates are listed on the Luxembourg Stock Exchange, in Luxembourg are authorized or required by law or executive order to remain closed.

The assets of the LLC will initially consist only of the Subordinated Note. Prior to the occurrence of a Shift Event, to the extent that the Bank, acting through the Branch, as issuer of the Subordinated Note, fails to make any interest payment, maturity payment or other payment in respect of the Subordinated Note, the LLC will not have sufficient funds to pay and will not make payment of Distributions and other payments on the Partnership Interests and, accordingly, Distributions and other payments will not be made in respect of the Certificates. In addition, Distributions will not be made in respect of the Partnership Interests and, accordingly, Distributions will not be made in respect of the Certificates if, and for so long as, the Current Nominal Value of the Partnership Interests, as calculated for the relevant semi-annual period, is less than the Liquidation Preference of the Partnership Interests except in the limited circumstances described herein.

In certain circumstances, including during a Shift Period, no Distributions will be paid on the Partnership Interests. Notwithstanding the existence of a Shift Period, however, upon the occurrence of certain events, including, among other things, upon the payment of dividends or other distributions or other amounts in respect of any Ordinary Securities or Parity Securities, the payment of Distributions on the Partnership Interests will be mandatory, except for certain limitations. See “Description of the Partnership Interests—Distributions Other Than During A Shift Period” and “—Distributions During A Shift Period.”

Distributions and other payments on the Certificates will be payable to the holders thereof as they appear on the books and records of the Trust on the relevant record dates, which, if the Certificates are solely in book-entry form, will be one Business Day prior to the relevant payment dates. Such payments will be paid by the Property Trustee, who will hold amounts received in respect of the Partnership Interests for the benefit of the holders of Certificates. Subject to any applicable laws and regulations and the provisions of the Declaration, each such payment will be made as described under “—Form, Book-Entry Procedures and Transfer” below. In the event that the Certificates are not solely in book-entry only form, the relevant record dates shall be the fifteenth day of the month of the relevant payment dates.

Payment of Additional Amounts

All payments by the Trust in respect of the Certificates will be made without withholding or deduction for or on account of any Relevant Tax imposed or levied by or on behalf of any Relevant Jurisdiction or any political subdivision or authority therein or thereof having power to tax, unless the withholding or deduction of such Relevant Tax is required by law. In that event, the Trust will pay, as further Distributions out of additional payments received from the LLC, such Additional Amounts as may be necessary in order that the net amounts received by the holders of the Certificates after such withholding or deduction will equal the amount that such holders would have received in respect of the Certificates in the absence of such withholding or deduction, except that no such Additional Amounts will be payable to a holder of Certificates (or to a third party on any holder’s behalf) with respect to any Certificates (i) to the extent that such Relevant Tax is imposed or levied by virtue of such holder (or the beneficial owner of such Certificates) having some connection with the Relevant Jurisdiction, or any political subdivision or authority therein or thereof having power to tax, that is imposing such tax, other than being a holder (or the beneficial owner) of such Certificates (including indirect ownership of the Partnership Interests) or (ii) to the extent that such Relevant Tax is imposed or levied by virtue of any such holder (or beneficial owner) not having made a declaration of non-residence in, or other lack of connection with, the Relevant Jurisdiction or any political subdivision or authority therein or thereof having power to tax, that is imposing such tax, provided that the Bank, acting through the Branch, or its agent has provided the holder (or beneficial owner) of such Certificate or its nominee with at least 60 days prior written notice of an opportunity to make such a declaration or claim. See “Description of the Partnership Interests—Payment of Additional Amounts.”

Maturity; Maturity Payments

Upon receipt by the Trust of the Maturity Payment, if any, from the LLC in respect of each Partnership Interest on the Partnership Interest Maturity Date, the Trust will make a corresponding payment in respect of each Certificate.

Call Provisions

In the event that the LLC exercises its option to call the Partnership Interests as described herein under “Description of the Partnership Interests—Call Provisions,” the funds will be passed through by the Trust to redeem the number of Certificates representing the Partnership Interests so redeemed. In the event that fewer than all of the outstanding Certificates are to be redeemed, the Certificates will be redeemed *pro rata* as described under “—Form, Book-Entry Procedures and Transfer” below.

Early Redemption

In the event that the Partnership Interests are redeemed upon the occurrence of an LLC Early Redemption Event as described under “Description of the Partnership Interests—Early Redemption”, the Certificates will likewise be redeemed for an amount per Certificate equal to the Early Redemption Price.

Notice of Call or Redemption

If the Trust gives a notice of call or redemption in respect of any Certificates (which notice will be irrevocable), then, by 12:00 noon, New York City time, on the redemption date, provided that the LLC has paid to the Property Trustee cash in the amount of either the call price or the Early Redemption Amount in connection with the redemption of the Partnership Interests, the Trust will irrevocably deposit with the DTC, Euroclear or Cedelbank, as applicable, funds sufficient to pay the applicable redemption amount in respect of Certificates in book-entry form for payment to the beneficial owners of the Certificates represented by Global Certificates (as defined herein) and will irrevocably deposit with the paying agent for the Certificates funds sufficient to pay such applicable redemption amount in respect of any Certificates in certificated form and will give such paying agent irrevocable instructions and authority to pay such amount to the holders thereof on surrender of their Certificates. See “—Form, Book-Entry Procedures and Transfer”. If notice of an early call or redemption shall have been given and funds deposited as required, then, immediately prior to the close of business on the date of such deposit, all rights of holders of such Certificates so called for redemption will cease, except the right of the holders of such Certificates to receive the applicable redemption amount (but without interest on such redemption amount). Certificates called or redeemed as described above will be cancelled.

In the event that fewer than all of the outstanding Certificates are to be redeemed, the Certificates will be redeemed *pro rata* as described below under “—Form, Book-Entry Procedures and Transfer.”

Subject to the foregoing and applicable law (including, without limitation, U.S. federal securities laws), Dresdner Bank may, at any time and from time to time, purchase outstanding Certificates by tender, in the open market or by private agreement.

Liquidation upon a Trust Dissolution Event

Upon the occurrence of a Trust Dissolution Event (as defined below), the Trust will, except in the limited circumstances described below, be liquidated and the Certificates redeemed. Upon such liquidation of the Trust, after satisfaction of creditors of the Trust, if any, Partnership Interests with an aggregate Liquidation Preference equal to the aggregate liquidation amount of the Certificates will be distributed by way of assignment to the holders of the Certificates in liquidation of such holders’ interests in the Trust on a *pro rata* basis within 90 days following the occurrence of such Trust Dissolution Event; *provided, however*, that in the case of the occurrence of a Trust Dissolution Event, that such dissolution and distribution shall be conditioned on (i) the Trust’s receipt of a written opinion of a recognized independent U.S. tax counsel experienced in such matters (a “No Recognition Opinion”), which opinion may rely on published revenue rulings of the U.S. Internal Revenue Service, to the effect that the holders of the Certificates whose functional currency is U.S. dollars will not recognize any gain or loss for U.S. federal income tax purposes as a result of such liquidation and distribution of Partnership Interests and (ii) the LLC being unable to avoid such Trust Dissolution Event within such 90 day period by taking some ministerial action or pursuing some other reasonable measure that will have no adverse effect on the Trust, the Bank, the Branch, the LLC or the holders of the Certificates.

If, after receipt by the Trust of a tax opinion with respect to the occurrence of a Tax Event, the Trust shall have been informed by U.S. tax counsel that it cannot deliver a No Recognition Opinion to the Trust, the LLC will have the right, upon not less than 30 nor more than 60 days' notice to holders of Certificates, to redeem the Partnership Interests, in whole or in part, for cash within 90 days following the occurrence of such Trust Dissolution Event, and, following such redemption, Certificates with an aggregate liquidation amount equal to the aggregate Liquidation Preference of the Partnership Interests so redeemed shall be redeemed by the Trust on a *pro rata* basis; *provided, however*, that, if at the time there is available to the LLC or the Trust the opportunity to eliminate a Tax Event with respect to the Trust within such 90 day period by taking some ministerial action, such as filing a form or making an election or pursuing some other similar reasonable measure that has no adverse effect on the Trust, the LLC or the holders of the Certificates or the Partnership Interests, the LLC or the Trust will pursue such measure in lieu of redemption.

A "Trust Dissolution Event" means the occurrence of either a Tax Event or an Investment Company Event, in each case with respect to the Trust.

A "Tax Event" with respect to the Trust means the receipt by the Bank of an opinion of a nationally recognized law firm or other nationally recognized tax adviser in any Relevant Jurisdiction, experienced in such matters, to the effect that, as a result of (i) any amendment to, or clarification of, or change (including any announced prospective change) in the laws or treaties (or any regulations promulgated thereunder) of the Relevant Jurisdiction or any political subdivision or authority therein or thereof having the power to tax, (ii) any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) (an "Administrative Action") or (iii) any amendment to, clarification of, or change in the official position or the interpretation of any Administrative Action or any interpretation or pronouncement that provides for a position with respect to any Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification or change is made known, which amendment, clarification, change or Administrative Action is effective, or which interpretation, pronouncement or decision is announced, on or after the date of the original execution of the Silent Partnership Agreement and the Certificates, there is more than an insubstantial risk that (i) the Trust is or will be subject to more than a *de minimis* amount of taxes, duties or other governmental charges or (ii) the Trust would be required to pay any Additional Amounts.

A Trust Dissolution Event, absent a simultaneous LLC Early Redemption Event, will not result in either the liquidation of the LLC or the redemption of any Partnership Interests.

An "Investment Company Event" with respect to the Trust means that the Bank shall have requested and received an opinion of a nationally recognized U.S. law firm, experienced in such matters, to the effect that there is more than an insubstantial risk that the Trust is or will be considered an "investment company" within the meaning of, and required to register as an "investment company" under, the 1940 Act.

Effect of Liquidation of the Trust

Pursuant to the Declaration, the Trust will dissolve (i) upon liquidation of the Bank, (ii) upon the filing of a certificate of dissolution or its equivalent with respect to the LLC, (iii) upon the entry of a decree of judicial dissolution of the Trust, (iv) when the Certificates shall have been called for redemption by call or early redemption and the amounts necessary for redemption thereof shall have been paid to the Holders in accordance with the terms of the Certificates; (v) upon the election of the Trustees, following the occurrence and continuation of a Trust Dissolution Event, pursuant to which the Trust shall have been dissolved in accordance with the terms of the Certificates and all of the Partnership Interests shall have been distributed to the Holders of Certificates in exchange for all of the Certificates or cash paid in lieu of distribution of Partnership Interests; or (vi) before the issuance of any Certificates, with the consent of all of the Trustees and the LLC, as grantor of the Trust.

In the event of any voluntary or involuntary liquidation, dissolution, winding-up or termination of the Trust, the then holders of the Certificates will be entitled to receive out of the assets of the Trust, after satisfaction of liabilities to creditors (whether by payment or the making of reasonable provisions for payment thereof) (i) distributions in an amount equal to the call price or the Early Redemption Amount upon call or early redemption of the Partnership Interests, as the case may be, (ii) the Maturity Payment upon maturity of the Partnership Interests or

(iii) upon a Trust Dissolution Event, Partnership Interests in an aggregate Liquidation Preference equal to the aggregate liquidation amount of the Certificates to be redeemed in connection with such Trust Dissolution Event or cash paid in lieu of distribution of such Partnership Interests.

If, upon any such liquidation, the call price or Early Redemption Amount can be paid only in part because the Trust has insufficient assets available to pay in full the aggregate call price or Early Redemption Amount, then the amount payable directly by the Trust on the Certificates shall be paid on a pro rata basis as described below under “—Form, Book-Entry Procedures and Transfer.”

Withdrawal Rights

Any beneficial owner of a Certificate may withdraw, by way of an assignment by the Trust to such owner, any or all of the Partnership Interests represented by such Certificate. In order to receive Partnership Interests, a beneficial owner of Certificates must provide written notice to the Property Trustee, together with (i) evidence of beneficial ownership in a form satisfactory to the Property Trustee and, if applicable, certification as to the beneficial ownership by a Non-U.S. Person (as defined in Regulation S) and (ii) provision to the LLC of such documents or information as are requested by the LLC for tax reporting purposes. Such notice shall also be deemed to be such beneficial owner’s agreement to be subject to the terms of the Charter and the Silent Partnership Agreement applicable to the rights of holders of Partnership Interests. Within a reasonable time period after such request has been properly made, the Property Trustee will reduce the Partnership Interests represented by the relevant Global Certificate by the aggregate stated liquidation amount of the Partnership Interests so withdrawn by the owner or, if the Partnership Interests are represented by a Certificated Security, cancel such Certificated Security. The LLC will then assign Partnership Interests in an aggregate Liquidation Preference equal to the aggregate liquidation amount of the Certificates subject to withdrawal. The Property Trustee, on behalf of the owner exercising such right, shall notify the Registrar of the withdrawal and the identity of the assignee of the Partnership Interests. Any owner exercising such rights will be responsible for any transfer taxes or fees incurred in connection with the surrender of Certificates and the assignment of Partnership Interests. Upon the receipt of a Partnership Interest in exchange for a Certificate, a holder thereof will thereafter be precluded from retransferring the Partnership Interest to the Trust in exchange for a Certificate. As described herein, any Partnership Interest assigned in exchange for a Certificate will not be listed on the Luxembourg Stock Exchange and will not be eligible for clearance through Euroclear or Cedelbank and the holder thereof will receive annually a Form K-1 in lieu of a Form 1099 for US federal income tax reporting purposes. The Partnership Interests assigned upon exercise of the withdrawal rights may, therefore, trade at a discount to the price of the Certificates prior to such assignment.

Voting Rights

Generally, holders of Certificates will not have any voting rights. However, if at any time the holders of the Partnership Interests shall be entitled to vote, including with respect to the election of Independent Directors, or to consent to amendments and other matters requiring the approval of the holders of Partnership Interests pursuant to the terms of the Charter, the Property Trustee will (a) notify the holders of the Certificates of such rights, (b) request specific directions of each holder of a Certificate as to the vote with respect to the Partnership Interests represented by such Certificate and (c) vote the Partnership Interest held by the Trust only in accordance with such specific directions. See “Description of the Partnership Interests—Voting Rights”.

Upon receipt of notice of any meeting at which the holders of Partnership Interests are entitled to vote, the Property Trustee is required, as soon as practicable thereafter, to mail to the holders of Certificates a notice, and publish a notice to such effect in one English language daily newspaper of general circulation in London (which is expected to be the *Financial Times*) and, so long as the Certificates are listed on the Luxembourg Stock Exchange, in a daily newspaper of general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) which notice must contain (i) such information as is contained in such notice of meeting, (ii) a statement that the holders of Certificates will be entitled, subject to any applicable provision of law, to direct the Property Trustee specifically as to the exercise of the voting rights pertaining to the number of Partnership Interests represented by their respective Certificates, and (iii) a brief statement as to the manner in which such specific directions may be given.

Upon the written direction of a holder of Certificates, the Property Trustee will vote or cause to be voted a corresponding amount of Partnership Interests represented by such Certificates in accordance with the instructions set forth in such direction. In the absence of specific instructions from a holder of Certificates, the Property Trustee will not vote or cause to be voted the Partnership Interests represented by such Certificates.

Modification of the Declaration

The Declaration may be modified and amended by a written instrument approved and executed by the Trustees; *provided, however*, that no such amendment will be effective for so long as any Partnership Interests are outstanding unless the holders of two-thirds of the Partnership Interests by Liquidation Preference voting as a class consent to the terms of such amendment unless (i) the proposed amendment would not materially and adversely affect the rights, preferences, powers or privileges of the Trust, (ii) the Trust has received a letter from each Rating Agency then rating the Partnership Interests or the Certificates, as the case may be, to the effect that such amendment will not result in a downgrading of its respective rating then assigned to the Partnership Interests or the Certificates, as the case may be, and (iii) a majority of the Independent Directors have consented to such modification or amendment.

Notwithstanding the foregoing, no amendment or modification may be made to the Declaration if such amendment or modification would (i) cause the Trust to be classified for purposes of U.S. federal income taxation as other than a grantor trust, (ii) reduce or otherwise adversely affect the powers of any of the Trustees in contravention of the Trust Indenture Act or (iii) cause the Trust to be deemed an “investment company” which is required to be registered under the 1940 Act.

Form, Book-Entry Procedures and Transfer

The Certificates will be issued in fully registered form, without coupons.

Global Certificate; Book-entry Form. Except as provided below, Certificates sold to “qualified institutional buyers,” as defined in Rule 144A (“QIBs”), otherwise than in reliance on Regulation S, will be evidenced by one or more global certificates in registered form representing Certificates (collectively, the “Restricted Global Certificate”), which will be deposited on or about the Closing Date with a custodian for, and registered in the name of a nominee of, DTC. Certificates sold to persons who acquired such Certificates in compliance with Regulation S under the Securities Act (“Non-U.S. Persons”) will initially be evidenced by one or more temporary global certificates (collectively, the “Regulation S Global Certificate” and together with the Restricted Global Certificate, the “Global Certificates” or each individually, a “Global Certificate”), which will be in registered form, registered in the name of a nominee for, and deposited on or about the Closing Date with the Common Depository for, Euroclear and Cedelbank. Beneficial interests in such Global Certificates will be shown on, and transfers thereof will be effected through, records maintained by DTC, Euroclear and Cedelbank and their respective participants. The Global Certificates (and any Certificates issued in exchange therefor) will be subject to certain restrictions on transfer set forth therein and in the Declaration and will bear the legend regarding such restrictions set forth under “Notice to Investors.” Until the 40th day after the later of the commencement of the Offering and the last clearing date for the Certificates (such period, the “Restricted Period”), beneficial interests in the temporary Regulation S Global Certificate may be held only through Euroclear or Cedelbank, unless delivery is made through the Restricted Global Certificate in accordance with the certification requirements described below. Interests in the temporary Regulation S Global Certificate may be exchanged, not earlier than 40 days after the later of the commencement of the Offering and the closing date, for interests in the permanent Regulation S Global Certificate upon certification of non-U.S. beneficial ownership. No payment will be made in respect of an interest in the temporary Regulation S Global Certificate unless and until the beneficial owner of such interest has provided the required certification and such interest has been exchanged for an interest in the Permanent Regulation S Global Certificate. See “—Payments; Certifications by Holders of the Temporary Regulation S Global Certificate.”

A QIB may hold its interests in the Restricted Global Certificate directly through DTC if such QIB is a participant in DTC, or indirectly through organizations which are participants in DTC (the “Participants”). Transfers between Participants will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds. The laws of some states require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer a beneficial interest in the Restricted Global Certificate to such persons may be limited.

Prior to the expiration of the Restricted Period, a beneficial interest in the Regulation S Global Certificate may be transferred to a person who takes delivery in the form of an interest in the Restricted Global Certificate only upon receipt by the Common Depository of a written certification from the transferor to the effect that such transfer is being made (i) to a person whom the transferor reasonably believes is purchasing for its own account or accounts as to which it exercises sole investment discretion and that such person and each such account is a QIB in a transaction meeting the requirements of Rule 144A and (ii) in accordance with all applicable securities laws of any state of the United States or any other jurisdiction. After the expiration of the Restricted Period, such certification requirements will no longer apply to such transfers.

Beneficial interests in the Restricted Global Certificate may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Certificate, whether during or after the Restricted Period, only upon receipt by the Common Depository of a written certification from the transferor to the effect that such transfer is being made in accordance with Regulation S or Rule 144A and that, if such transfer occurs prior to the expiration of the Restricted Period, the interest transferred will be held immediately thereafter through Euroclear or Cedelbank. Any beneficial interest in one of the Global Certificates that is transferred to a person who takes delivery in the form of an interest in another Global Certificate will, upon transfer, cease to be an interest in such other Global Certificate and, accordingly, thereafter will be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Certificate for as long as it remains such an interest.

Investors may hold their interests in the Regulation S Global Certificate through Euroclear or Cedelbank, if they are participants in such systems, or indirectly through organizations that are participants in such systems. After the expiration of the Restricted Period (but not earlier), investors also may hold such interests through organizations other than Euroclear or Cedelbank that are Participants in DTC. The Regulation S Global Certificate will be deposited with the Common Depository. Euroclear and Cedelbank will hold interests in the Regulation S Global Certificate on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositories, which in turn, will hold such interests in the Regulation S Global Certificate in customers' securities accounts in the depositories' names on the books of DTC. All interests in a Global Certificate, including those held through Euroclear or Cedelbank, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Cedelbank also may be subject to the procedures and requirements of such systems. Upon exercise of withdrawal rights, holders of Certificates will receive Partnership Interests having an equal aggregate Liquidation Preference and thereafter will not be able to re-transfer such Partnership Interests for Certificates. Holders who have exercised their withdrawal rights will subsequently receive tax reporting information regarding such holder's Partnership Interests from the LLC on a Form K-1 rather than from the Trust on a Form 1099. Any Partnership Interest issued in exchange for a Certificate will not be listed on the Luxembourg Stock Exchange and will not be eligible for clearance through Euroclear or Cedelbank.

QIBs and Non-U.S. Persons who are not Participants may beneficially own interests in a Global Certificate held by DTC only through Participants, including Euroclear and Cedelbank, or certain banks, brokers, dealers, trust companies and other parties that clear through or maintain a custodial relationship with a Participant, either directly or indirectly ("Indirect Participants").

Except as provided below, owners of beneficial interest in a Global Certificate will not be entitled to have Certificates registered in their names, will not receive or be entitled to receive physical delivery of certificates in definitive form, and will not be considered holders thereof.

Subject to compliance with the transfer restrictions applicable to the Global Certificates described herein and in the Declaration, cross-market transfers between holders of interests in the Restricted Global Certificate and direct or indirect account holders at a Euroclear or Cedelbank participant (each, a "Member Organization") holding interests in the Regulation S Global Certificate will be effected in accordance with the normal rules and operating procedures of DTC, Euroclear or Cedelbank, as applicable. Such cross-market transactions will require, among other things, delivery of instructions by such Member Organization to Euroclear or Cedelbank, as the case may be, in accordance with the rules and procedures and within deadlines (Brussels time) established by Euroclear or Cedelbank, as the case may be. If the transaction complies with all relevant requirements, Euroclear or Cedelbank, as the case may be, will then deliver instructions to its depository to take action to effect final settlement on its behalf.

Conveyance of notices and other communications by DTC to Participants, by Participants to Indirect Participants and by Participants and Indirect Participants to owners of beneficial interests in the Global Certificate held by DTC will be governed by arrangements among them, subject to any statutory or regulatory requirements that may be in effect from time to time. Redemption notices shall be sent to Cede and Co (“Cede”), as nominee for DTC. If less than all of the Certificates are being redeemed, DTC will reduce the amount of the interest of each Participant in such Certificates in accordance with its procedures.

Although voting with respect to the Certificates is limited, in those cases where a vote is required, neither DTC nor Cede will itself consent or vote with respect to Certificates. Under its usual procedures, DTC would mail an omnibus proxy to the Trust as soon as possible after the record date. The omnibus proxy assigns Cede’s consenting or voting rights to those Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the omnibus proxy). The Trust believes that the arrangements among DTC, Participants and Indirect Participants, and owners of beneficial interests in the Global Certificate held by DTC will enable such beneficial owners to exercise rights equivalent in substance to the rights that can be directly exercised by a holder of a beneficial interest in the Trust.

The information in this section concerning DTC, Euroclear and Cedelbank has been obtained from sources that the Trust believes to be reliable, but the Trust takes no responsibility for the accuracy thereof.

So long as DTC or its nominees or Euroclear, Cedelbank or the nominee of the Common Depositary is the registered holder of a Global Certificate, DTC, Euroclear, Cedelbank or such nominee, as the case may be, will be considered the sole owner or holder of the Certificates represented by such Global Certificate for all purposes under the Declaration and the Certificates. Payments in respect of Global Certificates will be made to DTC, Euroclear, Cedelbank or such nominee, as the case may be, as the registered holder hereof. None of Dresdner Bank, the LLC, the Trust, any agent or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Certificate or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions with respect to book-entry interests in the Certificates held through Euroclear or Cedelbank will be credited, to the extent received by Euroclear or Cedelbank from the Certificates paying agent, to the cash amounts of Euroclear or Cedelbank customers in accordance with the relevant system’s rules and procedures.

Holders of book-entry interests in the Certificates through DTC will receive, to the extent received by DTC from the paying agent, all Distributions with respect to book-entry interests in the Certificates from the paying agent through DTC. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

The Trust has been informed by DTC that, with respect to any distribution payments on the Global Certificates, DTC’s practice is to credit Participants’ accounts on the payment date therefor with payments in amounts proportionate to their respective beneficial interests in the Certificates represented by a Global Certificate, as shown on the records of DTC, unless DTC has reason to believe that it will not receive payment on such payment date. Payments by Participants to owners of beneficial interests in Certificates represented by a Global Certificate held through such Participants will be the responsibility of such Participants, as is not the case with securities held for the accounts of customers registered in “street name”.

Because DTC can only act on behalf of Participants, who in turn act on behalf of Indirect Participants and certain banks, the ability of a person having a beneficial interest in Certificates represented by a Global Certificate to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect to such interest, may be affected by the lack of a physical certification evidencing such interest.

None of the Trust, the Property Trustee, the Common Depositary or the custodian (or any registrar, paying agent or conversion agent under the Declaration) will have any responsibility for the performance by DTC (or its Participants or Indirect Participants), Euroclear or Cedelbank of their respective obligations under the rules and procedures governing their operations. DTC has advised the Trust that it will take any action permitted to be taken by a holder of Certificates (including, without limitation, the presentation of Certificates for exchange as

described below) only at the direction of one or more Participants to whose account with DTC interests in the Global Certificate are credited and only in respect of the number of Certificates represented by the Global Certificates as to which such Participant or Participants has or have given such direction.

Although DTC, Euroclear and Cedelbank have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Certificates among Participants of DTC, Euroclear and Cedelbank, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. If DTC is at any time unwilling or unable to continue as depository and a successor depository is not appointed by the Trust within 90 days, the Trust will cause the Certificates to be issued in definitive form in exchange for the Global Certificates. None of the Trust, the Property Trustee, the Common Depository or any of their respective agents will have any responsibility for the performance by DTC, Euroclear and Cedelbank, the Participants or Indirect Participants or their respective obligations under the rules and procedures governing their operations, including maintaining, supervising or reviewing the records relating to, or payments made on account or, beneficial ownership interests in the Global Certificate.

Certificated Certificates. Certificates sold to investors that are neither QIBs nor Non-U.S. Persons will be issued initially in definitive registered form in minimum denominations of \$100,000 liquidation amount and integral multiples of \$1,000 in excess thereof (the “Certificated Securities” or each a “Certificated Security”), and may not be represented by the Global Certificate. Certificated Securities, in denominations of \$1,000 and integral multiples thereof, may be issued in exchange for Certificates represented by the Global Certificate if no successor depository is appointed by the Trust as set forth above under “—Global Certificate; Book-entry Form” or in certain other circumstances set forth in the Declaration. Payments in respect of Certificated Securities shall be made by wire transfer, direct deposit or check mailed to the address of the holder entitled thereto as such address appears on the register and, in the case of a Maturity Payment, against presentation to the paying agent of the relevant Certificated Security.

Transfers of Certificated Securities may be made in whole or in part in an authorized denomination upon the surrender of such Certificated Securities, together with a form of transfer endorsed on it when completed and executed, at the specified office of a transfer agent. In the case of a transfer of only part of a Certificated Security, a new Certificated Security in respect of the balance not transferred will be issued to the transferor within three business days of receipt of such form of transfer, by uninsured post at the risk of the holder to the address of the holder, appearing in the Register. Each new Certificated Security to be issued upon a transfer of a Certificated Security will, within three business days of receipt of such form of transfer, be sent by uninsured post at the risk of the holder entitled to the Certificated Security to such address as may be specified in such form of transfer.

Payments; Certifications by Holders of the Temporary Regulation S Global Certificate. A certificate must be provided by or on behalf of a beneficial interest in the temporary Regulation S Global Certificate to Euroclear or Cedelbank, as the case may be, certifying that the beneficial owner of the interest in Certificates represented thereby is not a U.S. Person, and Euroclear or Cedelbank, as the case may be, must provide to the Common Depository a certificate prior to (i) the payment of Distributions or amounts on redemption or any other payment with respect to such holder’s beneficial interest in the temporary Regulation S Global Certificate and (ii) any exchange of such beneficial interest for a beneficial interest in the permanent Regulation S Global Certificate.

Restrictions on Transfer; Legends. The Certificates will be subject to certain transfer restrictions as described below under “Notice to Investors” and certificates evidencing the Certificates will bear a legend to such effect. The Certificates initially sold pursuant to Rule 144A will be issued initially only in blocks having a liquidation amount of not less than \$100,000 (100 Certificates). Any transferee who has not received Certificates in accordance with the provisions described below under “Notice to Investors” shall be deemed not to be the holder of such Certificates for any purpose, including but not limited to the receipt of payments on such Certificates, and such transferee shall be deemed to have no interest whatsoever in such Certificates.

Information Concerning the Property Trustee

The Property Trustee, prior to the occurrence of a default with respect to the Certificates and after the curing of any defaults that may have occurred, undertakes to perform only such duties as are specifically set forth in the Declaration and, after default, shall exercise the same degree of care as a prudent individual would

exercise in the conduct of his or her own affairs. Subject to such provisions, the Property Trustee is under no obligation to exercise any of the powers vested in it by the Declaration at the request of any holder of Certificates, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby.

Payment of Fees and Expenses of the Trust

All fees or expenses of the Trust, including the fees and expenses of the Trustees in connection with the performance of their duties under the Declaration, will be paid on behalf of the LLC by the Bank, acting through the Branch; provided that, if the Trustees incur fees, charges or expenses, for which they are not otherwise liable under the Declaration, at the request of a holder of Certificates or other person, such holder or other person will be liable for such fees, charges and expenses. The Bank, acting through the Branch, will also pay all fees and expenses related to the Offering and the organization and operations of the Trust (including any taxes, duties, assessments or governmental charges of whatever nature, imposed upon the Trust by the United States, Germany, or the jurisdiction of the obligor of any Eligible Intercompany Investments or any other taxing authority of any of the foregoing).

To assist the Trustees in carrying out their obligations, the Bank, on behalf of the LLC and acting through the Branch, has agreed to provide certain administrative services, and to indemnify the Trustees for certain liabilities.

Registrar, Transfer Agent and Paying Agent

The Property Trustee will act as registrar, transfer agent and paying agent and may designate an additional or substitute paying agent at any time. Registration of transfers of Certificates will be effected without charge by or on behalf of the Trust, but upon payment (with the giving of such indemnity as the Trust may require) in respect of any tax or other government charges that may be imposed in relation to it. The Trust will not be required to register or cause to be registered the transfer of Certificates after such Certificates have been called for redemption.

In addition, as long as the Certificates are listed on the Luxembourg Stock Exchange, an agent for making payments on, and transfers of, Certificates will be maintained in Luxembourg.

Governing Law

The Declaration and the Certificates will be governed by, and construed in accordance with, the laws of the State of Delaware.

Miscellaneous

The Property Trustee is authorized and directed to operate the Trust in such a way so that the Trust will not be required to register as an “investment company” under the 1940 Act or characterized as other than a grantor trust for U.S. federal income tax purposes. In this connection, the Property Trustee is authorized to take an action, not inconsistent with applicable law or the Declaration, that the Property Trustee determines in its sole discretion to be necessary or desirable to achieve such end, as long as such action does not adversely affect the interests of the holders of the Certificates or vary the terms thereof.

Holders of the Certificates have no pre-emptive or similar rights.

Notices

All notices shall be deemed to have been given upon (i) the mailing by first class mail, postage prepaid, of such notices to holders of the Certificates at their registered addresses as recorded in the register of holders of Certificates and (ii) so long as the Certificates are listed on the Luxembourg Stock Exchange and it is required by the rules of the Luxembourg Stock Exchange, publication of such notice to the holders of the Certificates in English in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if such publication is not practicable, in one other leading English language newspaper with general circulation in Europe, such newspaper being published on each business day in morning editions, whether or not it shall be published in Saturday, Sunday or holiday editions provided that, so long as securities are held in registered global form and if the rules of the Luxembourg Stock Exchange would so permit, notifications may be made through DTC, Euroclear and Cedelbank in place of publication in a newspaper as described above. Without limiting the generality of the foregoing, notice of (a) the commencement and termination of a Shift Period, (b) a change in the Current Nominal Value of the Partnership Interests due to an Accumulated Deficit and (c) the call or redemption of any Certificates will be given as described in this paragraph.

DESCRIPTION OF THE SUBORDINATED NOTE AND THE WAIVER AND IMPROVEMENT AGREEMENT

The following summary sets forth the material terms and provisions of the Subordinated Note, including the criteria for investment in Eligible Intercompany Investments, and the Waiver and Improvement Agreement. The descriptions of the Subordinated Note and the Waiver and Improvement Agreement do not purport to be complete and are subject to, and are qualified in their entirety by reference to, the terms and provisions of the Subordinated Note and the Waiver and Improvement Agreement, the forms of which are available from the Property Trustee or the Initial Purchasers upon request.

General

Concurrently with the execution of the Silent Partnership Agreement with the Trust and the sale of the LLC Common Securities to the Bank, acting through the Branch, the LLC will invest the proceeds thereof in the Subordinated Note issued by the Bank, acting through the Branch. The Subordinated Note will have an aggregate original principal amount of \$1,000,000,000. The Subordinated Note will be scheduled to mature on June 30, 2031 (the “Scheduled Subordinated Note Maturity Date”), but if such date occurs during a Shift Period the Scheduled Subordinated Note Maturity Date will be extended to the earlier of (i) the date liquidation proceedings are commenced in respect of the LLC in connection with the commencement of liquidation proceedings in respect of the Bank or (ii) the day immediately following the last day of such Shift Period (such earlier date, together with the Scheduled Subordinated Note Maturity Date, the “Subordinated Note Maturity Date”). Upon maturity of the Subordinated Note, the Bank, acting through the Branch, will repay the principal in full, except during a Shift Period pursuant to the terms of the Waiver and Improvement Agreement. See “—Waiver and Improvement Agreement”.

Interest

The Subordinated Note will bear interest semi-annually at a fixed rate per annum equal to 8.151% of the principal amount from the original date of issuance and will be payable in arrears on June 30 and December 31 of each year (each, an “Interest Payment Date”), which dates correspond to the Distribution Payment Dates in respect of the Partnership Interests and the Certificates, except that interest on the Subordinated Note will be waived by the LLC and the Bank, acting through the Branch, will therefore not be obligated to pay interest during a Shift Period pursuant to the terms of, and except as otherwise set forth in, the Waiver and Improvement Agreement. Interest payable on each Interest Payment Date will be calculated from and including the immediately preceding Interest Payment Date (or, in the case of the Initial Payment Date, from and including the Closing Date) to but excluding the relevant Interest Payment Date (each such period, an “Interest Payment Period”). Under certain circumstances in connection with the payment by the Bank or its subsidiaries of dividends, distributions or other payments on either Ordinary Securities or Parity Securities, or upon the end of a Shift Period, the obligation of the Bank, acting through the Branch, to pay interest and principal under the Subordinated Note will be reinstated. See “—Waiver and Improvement Agreement”.

Interest on the Subordinated Note in respect of each Interest Payment Period will be calculated on the basis of a 360-day year of twelve 30 day months in such Interest Payment Period. If any Interest Payment Date, or any other date on which a payment is to be made in respect of the Subordinated Note, falls on a day that is not a Business Day, then the payment due on such date will be made on the immediately preceding Business Day, provided that such payment will be made without adjustment, reduced interest or any other payment reductions.

Additional Amounts

All payments by the Bank, acting through the Branch, in respect of the Subordinated Note will be made without withholding or deduction for or on account of any Relevant Tax imposed or levied by or on behalf of any Relevant Jurisdiction or any political subdivision or authority therein or thereof having power to tax, unless the withholding or deduction of such Relevant Tax is required by law. In such event, or in the event that withholding is required with respect to distributions on the Partnership Interests or the Certificates, the Bank, acting through the Branch, will pay such Additional Amounts as may be necessary in order for every net payment of (x) the principal of and interest on the Subordinated Note, (y) Distributions on the Partnership Interests and (z) Distributions on the Certificates, after withholding or deduction for or on account of any Relevant Tax in connection with the payment of such distributions, interest or principal, to equal the amount the holders thereof

would have received in respect of the Subordinated Note, the Partnership Interests or the Certificates, as the case may be, in the absence of such withholding or deduction; provided, however, that the Bank, acting through the Branch, shall not be obligated to pay such Additional Amounts (i) to the extent such Relevant Tax is imposed or levied by virtue of a holder of Partnership Interests (if not the Trust) or Certificates (or the respective beneficial owner thereof), as the case may be, having some connection with the Relevant Jurisdiction, or any political subdivision or authority therein or thereof having power to tax, that is imposing such tax, other than being a holder (or beneficial owner) of such Partnership Interests or Certificates, or (ii) to the extent that such Relevant Tax is imposed or levied by virtue of any such holder (or beneficial owner) not having made a declaration of non-residence in, or other lack of connection with, the Relevant Jurisdiction or any political subdivision or authority therein or thereof having power to tax, that is imposing such tax, provided that the Bank, acting through the Branch, or its agent has provided the holder (or beneficial owner) of such Partnership Interests or Certificates, or their respective nominees, with at least 60 days prior written notice of an opportunity to make such a declaration or claim.

The Borrower shall also pay such additional amounts as may be necessary to pay any taxes that may be imposed on the Partnership Interests, the LLC, or the Trust by any Relevant Jurisdiction or any political subdivision or authority therein or thereof having power to tax that is imposing such tax.

Early Call; Redemptions and Eligible Intercompany Investments

Prior to the Subordinated Note Maturity Date, the Bank, acting through the Branch, will have the right to redeem the Subordinated Note in whole or in part on June 30, 2029, which date is the First Call Date in respect of the Partnership Interests and the Certificates, and thereafter on any Interest Payment Date, for a redemption price equal to 100% of the principal amount of the Subordinated Note, plus accrued and unpaid interest to the date of redemption (and from and after such date on any overdue amount) with no less than 30 and no more than 60 days' prior written notice. In addition, upon the occurrence of an LLC Early Redemption Event, the Bank, acting through the Branch, will have the right to redeem the Subordinated Note in whole (but not in part) for a redemption price equal to the greater of (a) 100% of the principal amount of the Subordinated Note and (b) the Make-Whole Amount for the Subordinated Note (as defined below), plus, in either case, accrued and unpaid interest to the date of redemption with no less than 30 and no more than 60 days' prior written notice.

The "Make Whole Amount" for the Subordinated Note will be equal to the sum, as determined by the Calculation Agent, of (x) the present value of the principal amount of the Subordinated Note at the relevant redemption date and (y) the aggregate present value of scheduled interest payments from the relevant redemption date to the First Call Date, in each case discounted to the relevant redemption date from the First Call Date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus (i) in the event that the date of redemption occurs on or prior to June 30, 2000, 125 basis points or (ii) in the event that the date of redemption occurs after such date, 50 basis points.

The Subordinated Note will also be redeemable by the Bank, acting through the Branch, in whole or in part at any time, provided that the LLC invests the proceeds thereof in Eligible Intercompany Investments. "Eligible Intercompany Investments" are those instruments of the Bank itself, the Bank, acting through either the Branch or another branch of the Bank, or an affiliate of the Bank that is not a U.S. Person (as defined below) that satisfy each of the following conditions prior to their substitution for the Subordinated Note as assets of the LLC: (i) each Rating Agency then rating the Certificates or the Partnership Interests then outstanding, if then rated, will have informed the Bank in writing that such substitution will not result in a downgrading of the rating then assigned by such Rating Agency to the Certificates or the Partnership Interests; (ii) the Eligible Intercompany Investments will be scheduled to mature on the same date as the Subordinated Note, subject to extension on the same terms as the Subordinated Note, if such maturity date occurs during a Shift Period; (iii) the Eligible Intercompany Investments will provide for periodic payments to the LLC in amounts sufficient to enable the LLC and the Trust to make Distributions in respect of the Partnership Interests and the Certificates in the same circumstances and to the same extent as currently provided by the Partnership Interests and the Certificates; (iv) there would be no adverse tax consequences to the Bank as a consequence of such substitution that would give rise to a Tax Event; (v) there would be no adverse withholding tax consequences to holders of Eligible Intercompany Investments, Partnership Interests, or Certificates, including the imposition of more burdensome tax identification requirements with respect to residents; (vi) if, immediately prior to such

substitution, the Partnership Interests qualify as consolidated Tier One Capital of the Bank, together with its subsidiaries, then upon consultation with the FBSA, the Bank will have determined that the Partnership Interests would continue to qualify as consolidated Tier One Capital of the Bank, together with its subsidiaries; (vii) neither the Trust nor the LLC would be required to register as an investment company under the 1940 Act; (viii) the LLC would continue to be treated as a partnership and the Trust would continue to be classified as a grantor trust, in each case for U.S. federal income tax purposes; (ix) the investment in the Eligible Intercompany Investments will not cause a Tax Event based on either (A) the then applicable law or (B) any change or prospective change in applicable law to become effective at a later date and which change is known at the time of the investment in the Eligible Intercompany Investments; (x) the prior approval of the FBSA is obtained, if required; (xi) the new obligor will have irrevocably submitted to the jurisdiction of any state or U.S. federal courts in the County of New York, State of New York; (xii) either the new obligor will have also become a party to the Waiver and Improvement Agreement or an agreement with terms substantially similar to the Waiver and Improvement Agreement will have become applicable to the Eligible Intercompany Investments; and (xiii) the LLC will have delivered to the Independent Directors an officers' certificate and an opinion of counsel stating that such investment complies with the terms of the Charter and that all conditions precedent in the Charter to such substitution have been complied with.

For these purposes, a "U.S. Person" is (i) an individual citizen or resident of the U.S., (ii) a corporation or partnership organized in or under the laws of the U.S. or any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax regardless of source or (iv) a trust over which a court within the U.S. is able to exercise primary supervision over its administration and one or more U.S. holders have the authority to control all substantial decisions of the trust.

Subordination

The Subordinated Note will constitute an unsecured obligation of the Bank, acting through the Branch, and will be subordinate and junior in right of payment to all Other Obligations. No payment of principal (including prepayments), or interest on the Subordinated Note may be made at any time when (i) any Other Obligations are not paid when due, (ii) any applicable grace period with respect to such default has ended and such default has not been cured or waived or ceased to exist, or (iii) the maturity of any Other Obligations has been accelerated because of a default. As used herein, "Other Obligations" means all other liabilities of the Bank (including the rights of holders of *Genußscheine*), but excluding any indebtedness that by its terms is subordinated to or ranks *pari passu* with the Subordinated Note, or any other instruments of the Bank payments on which would, during a Shift Period, require the Bank, acting through the Branch, to make any payments in respect of the Subordinated Note.

The Subordinated Note does not limit the aggregate amount of Other Obligations that may be issued or entered into by the Bank.

Modification and Amendment of the Subordinated Note

The Subordinated Note may be modified or amended only by the written agreement of the Bank, acting through the Branch, and the LLC; *provided, however*, that no such modification or amendment will be effective for so long as any Partnership Interests are outstanding unless the holders of two-thirds of the Partnership Interests by Liquidation Preference voting as a class consent to the terms of such modification or amendment unless (i) the proposed modification or amendment would not materially and adversely affect any of the rights, preferences, powers or privileges of the LLC under the Subordinated Note, (ii) the LLC has received a letter from each Rating Agency then rating the Partnership Interests or the Certificates, as the case may be, to the effect that such modification or amendment will not result in a downgrading of its respective rating then assigned to the Partnership Interests or the Certificates, as the case may be, and (iii) a majority of the Independent Directors have consented to such modification or amendment.

Limitation on Mergers and Sales of Assets; Liquidation of the Branch

So long as any amount under the Subordinated Note remains unpaid, the Bank may not consolidate with, or merge into, any Person or convey or transfer its properties and assets as an entirety to any Person unless the successor entity expressly assumes the obligations of the Bank, acting through the Branch, under the Subordinated Note if such assumption does not otherwise occur by operation of law.

Upon a liquidation of the Branch, the Bank, in accordance with German law, will remain fully responsible for all obligations of the Bank, acting through the Branch, under the Subordinated Note.

Waiver and Improvement Agreement

Pursuant to the terms of the Subordinated Note and the Waiver and Improvement Agreement, upon the occurrence of a Shift Event, and during the Shift Period commenced thereby, the LLC will waive (i) its right to interest under the Subordinated Note for each Interest Payment Date which occurs during such Shift Period and (ii) its right to principal and any other payments under the Subordinated Note, and the Bank, acting through the Branch, will not be obligated to make such payments or any other payments under the Subordinated Note for the duration of the Shift Period commenced thereby, and the Bank, acting through the Branch, will not be obligated, whether upon the cessation of such Shift Period or otherwise, to make any payments in respect of any such interest, principal or other payment obligations under the Subordinated Note. Such waiver in respect of interest payments will apply to full semi-annual interest payments. Therefore, all interest accrued prior to the start of any Shift Period which would, absent the occurrence of such Shift Period, be due and payable on an Interest Payment Date occurring during such Shift Period, will be waived by the LLC.

If a Shift Period has ceased, the waiver by the LLC in respect of the Subordinated Note will terminate, and all rights of the LLC in respect of the Subordinated Note and all obligations of the Bank, acting through the Branch, in respect of the Subordinated Note will be reinstated (i) in respect of interest payments, as of the first day following the last Interest Payment Date which occurred during such Shift Period and (ii) in respect of other obligations, from and as of the first day following such Shift Period. Any interest or other payments not paid in respect of the Subordinated Note during such Shift Period are not cumulative, and therefore will not be paid upon the end of the Shift Period.

At all times during a Shift Period, if the Bank makes or declares dividends, other distributions or any other payments in respect of its Ordinary Securities or makes any payments, or provides funds to a subsidiary, in respect of any Parity Securities, then the waiver by the LLC in respect of the Subordinated Note will not apply to the payment of interest on the Subordinated Note, and such interest must therefore be paid in full, for the Corresponding Periods.

In the event during a Shift Period of any commencement of liquidation proceedings in respect of the LLC in connection with the commencement of liquidation proceedings in respect of the Bank, the waiver by the LLC in respect of the Subordinated Note will not apply to the payment of principal on the Subordinated Note and therefore, upon reinstatement of the maturity of the Subordinated Note pursuant to the terms thereof, the full aggregate principal amount of the Subordinated Note will become due and payable.

Pursuant to the Waiver and Improvement Agreement, the LLC will be obligated to enforce its rights thereunder by instituting legal action for that purpose or otherwise if directed by at least a majority of the Independent Directors. In the event that the Independent Directors fail to cause the LLC to enforce its rights, or fail to enforce the rights of the LLC, under the Waiver and Improvement Agreement after a beneficial holder of Partnership Interests or Certificates has provided a written notice, then such beneficial holder of Partnership Interests or Certificates, as the case may be, may, to the fullest extent permitted by law, directly institute a legal proceeding against the Bank to enforce the LLC's rights under the Waiver and Improvement Agreement without first instituting any legal proceeding against the Independent Directors, the LLC or any other person or entity.

Except in limited circumstances, for so long as any Partnership Interests are outstanding, the Waiver and Improvement Agreement may be modified or amended only upon the consent by the holders of two-thirds of the Partnership Interests by Liquidation Preference voting as a class to the terms of such modification or amendment unless (i) the proposed modification or amendment would not materially and adversely affect any of the rights, preferences, powers or privileges of the holders of the Partnership Interests, (ii) the LLC has received a letter from each Rating Agency then rating the Partnership Interests or the Certificates, as the case may be, to the effect that such modification or amendment will not result in a downgrading of its respective rating then assigned to the Partnership Interests or the Certificates, as the case may be and (iii) a majority of the Independent Directors have consented to such modification or amendment.

Governing Law

Each of the Subordinated Note and the Waiver and Improvement Agreement will be governed by and construed in accordance with the laws of the State of New York.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of certain U.S. federal income tax consequences of the purchase, ownership and disposition of the Certificates. This summary addresses only the U.S. federal income tax consequences to a person who purchases Certificates in this Offering and who will hold the Certificates as a capital asset. This summary does not address all aspects of United States federal tax law that may be applicable in light of a holder's particular circumstances. In particular, the following discussion does not address (i) investors subject to special U.S. federal income tax rules, such as financial institutions, insurance companies, regulated investment companies, real estate investment trusts, broker-dealers, and tax exempt organizations, (ii) persons that will hold the Certificates as part of a straddle, hedge, synthetic security, or other integrated investment transaction for U.S. federal income tax purposes, or (iii) persons that have a functional currency other than the United States dollar. In addition, this summary does not discuss any state, local or foreign tax considerations. Further, the following discussion does not address the United States federal tax treatment of a holder of Certificates during or after a Shift Event or in the event the Silent Partnership Agreements are called or terminated. This summary is based upon the Internal Revenue Code of 1986, as amended (the "Code"), Treasury regulations promulgated thereunder and other administrative and judicial authorities in effect as of the date hereof, all of which are subject to change, possibly with retroactive effect.

Prospective investors are urged to consult their tax advisors regarding the U.S. federal income tax consequences of an investment in the Certificates, as well as the effect of any state, local or foreign tax laws.

As used herein, a "U.S. Holder" is a beneficial owner of a Certificate who is (i) an individual citizen or resident of the United States, (ii) a corporation or partnership organized in or under the laws of the United States or any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax regardless of source or (iv) a trust if a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust. A "Non-U.S. Holder" is a beneficial owner of a Certificate who is not a U.S. Holder.

General

There is no ruling or other legal authority that directly addresses the tax treatment of the Certificates or the specific transactions described herein. Accordingly, there can be no assurance that the Internal Revenue Service (the "IRS") will not assert an alternative tax treatment of an investment in the Certificates than that set forth herein.

Classification of the LLC and the Trust for U.S. Federal Income Tax Purposes

For U.S. federal income tax purposes, the LLC will be treated as a partnership, and the Trust will be treated as a grantor trust. Under the Silent Partnership Agreement, the LLC and the Trust agree to treat the Trust as a holder of an interest in the LLC for all purposes (and not as a holder of an interest in the Bank, the Branch, or in any other person). The following discussion is based on the assumption that (i) the LLC and the Trust will be so treated for U.S. federal income tax purposes and (ii) each obligation required or contemplated by the Silent Partnership Agreement, the Charter of the LLC and any related agreement will be performed in accordance with their respective terms.

Treatment of the Subordinated Note for U.S. Federal Income Tax Purposes

The Bank and the LLC intend to treat the Subordinated Note as an equity interest in the Bank for U.S. federal income tax purposes. Pursuant to section 385(c) of the Code, this characterization generally will be binding on the LLC and therefore also on the Trust and the U.S. Holders of Certificates, but will not be binding on the IRS. The following discussion is based on the assumption that this characterization will apply for U.S. federal income tax purposes.

U.S. Holders

Income from the Certificates

For U.S. federal income tax purposes, each U.S. Holder of Certificates will be considered the owner of an undivided interest in the Partnership Interests underlying such Certificates. Accordingly, each U.S. Holder of

Certificates will be required to take into account its distributive share of each item of income, gain, deduction and loss of the LLC, regardless of whether distributions are actually made on the Partnership Interests. Generally, income on the Certificates will be reported to U.S. Holders on the IRS Form 1099.

It is expected that the LLC's income will consist primarily of payments of "interest" on the Subordinated Note. For U.S. federal income tax purposes, these payments will be treated as distributions in respect of an equity interest in the Bank. Accordingly, each U.S. Holder's allocable share of "interest" payments received by the LLC on the Subordinated Note will constitute dividend income (taxable as ordinary income) to the extent paid out of the Bank's current or accumulated earnings and profits calculated for U.S. federal income tax purposes. If any "interest" payment exceeds the Bank's allocable earnings and profits, such excess will be treated as return of capital to the extent of the LLC's tax basis in the Subordinated Note (which will not be taxable to the U.S. Holders of Certificates) and thereafter as capital gain (which will be allocated and taxable as such to the U.S. Holders of Certificates).

It is expected that a U.S. Holder's distributive share of the LLC's income will be foreign source income for purposes of determining the limitation on the allowable foreign tax credit. The foreign tax credit limitation is calculated separately with respect to specific classes of income. For this purpose, a U.S. Holder's distributive share of the LLC's income will generally constitute "passive income" or, in the case of certain U.S. Holders, "financial services income."

No portion of the income derived from the LLC by a U.S. Holder in respect of the Certificates will be eligible for the dividends received deduction generally available to U.S. corporations.

Sale or Other Disposition of Certificates

A U.S. Holder will recognize gain or loss on a sale or other taxable disposition of Certificates (including the receipt of cash in a complete redemption of Certificates) in an amount equal to the difference between the U.S. Holder's adjusted tax basis in the Certificates on the date of such disposition and the amount realized from such disposition. In general, a U.S. Holder's adjusted tax basis in Certificates will equal the amount paid for the Certificates, increased by the amount of income allocated to such U.S. Holder, and decreased by the amount of any cash or other property distributed to such U.S. Holder by the LLC. In general, any gain or loss so recognized will be capital gain or loss. In the case of individual U.S. Holders, capital gains are subject to U.S. federal income tax at preferential rates if specified minimum holding periods are met. Capital losses may be subject to certain restrictions on deductibility under the Code.

It is expected that the LLC will distribute, on a semi-annual basis, all of its accrued income that is allocable to the holders of Certificates. As a result, a U.S. Holder that sells or otherwise disposes of the Certificates will be required to include in income its allocable share of any accrued but undistributed income of the LLC through the date of disposition. Such income generally would be treated as ordinary dividend income (as described above in "—Income from the Certificates") and would be added to the U.S. Holder's adjusted tax basis in the disposed Certificates. If the price received for the Certificates does not reflect this accrued but undistributed income, the U.S. Holder will recognize a capital loss to the extent such holder's tax basis (increased by such income) is greater than the selling price.

Receipt of Partnership Interests in Exchange for Certificates

Upon the occurrence of a Trust Dissolution Event (such as a Tax Event or Investment Company Event), the Trust will be liquidated and the Certificates will be redeemed in exchange for Partnership Interests. If the Trust were to be liquidated because it is determined pursuant to a Tax Event that the Trust is subject to U.S. federal income tax as a corporation with respect to income accrued or received on the Partnership Interests, a U.S. Holder would recognize gain or loss upon the receipt of Partnership Interests as a distribution in liquidation of the Trust. Such gain or loss would generally be equal to the difference between the U.S. Holder's aggregate tax basis in the Certificates redeemed and the aggregate fair market value of the Partnership Interests received.

If a U.S. Holder receives Partnership Interests in exchange for Certificates because of a Trust Dissolution Event other than the Tax Event described above or because such U.S. Holder exercises Withdrawal Rights, the U.S. Holder will not generally recognize gain or loss upon receipt of Partnership Interests. In such case, the U.S.

Holder's aggregate tax basis in the Partnership Interests would be equal to aggregate tax basis in the Certificates exchanged, and the U.S. Holder's holding period for the Partnership Interests so received would include the holding period for the Certificates.

A U.S. Holder that directly holds Partnership Interests will receive a Form K-1 from the LLC each year in lieu of Form 1099 with respect to its U.S. federal income tax reporting obligations.

Non-U.S. Holders

The LLC intends to operate in such a manner that all of its income that is allocable to holders of Certificates will not be treated as effectively connected with the conduct of a trade or business within the United States for U.S. federal income tax purposes. Moreover, it is expected that income from the Subordinated Note will not be subject to U.S. federal withholding tax. In general, a Non-U.S. Holder of Certificates will not be subject to U.S. federal income tax or withholding tax on any portion of its distributive share of the LLC's income or gain, or on gain realized by the Non-U.S. Holder on the sale or exchange of the Certificates, unless (i) such income or gain is effectively connected with the conduct by the non-U.S. Holder of a trade or business in the United States, or (ii) in the case of gain realized by an individual Non-U.S. Holder, the Non-U.S. Holder is present in the United States for 183 days or more in the taxable year in which the gain is realized and certain other conditions are met.

Information Reporting and Backup Withholding

In general, a Non-U.S. Holder who holds Certificates through a non-United States bank or other non-United States financial institution that is a participant in Euroclear or Cedelbank will not be required to provide certification of non-U.S. status for withholding purposes. In other contexts, however, it may be necessary for a Non-U.S. Holder to provide certification of non-U.S. status to avoid withholding.

The amount of income paid or accrued on the Certificates will be reported to the IRS. A U.S. Holder will be subject to backup withholding at a rate of 31% with respect to payments made on the Certificates and payment of proceeds from a disposition of Certificates unless (i) the U.S. Holder furnishes its taxpayer identification number in the manner prescribed in applicable Treasury regulations, certifies that such number is correct, certifies as to no loss of exemption from backup withholding and meets certain other conditions or (ii) the U.S. Holder is otherwise exempt from backup withholding.

Finalized Treasury regulations have generally expanded the circumstances under which information reporting and backup withholding may apply for payments made after December 31, 2000. Amounts withheld from a holder of Certificates under the backup withholding rules will be allowed as a refund or a credit against such holder's U.S. federal income tax liability, provided the required information is furnished to the IRS.

CERTAIN ERISA CONSIDERATIONS

Before authorizing an investment in the Certificates, fiduciaries of Plans subject to the U.S. Employee Retirement Income Security Act (“ERISA”) should consider, among other matters, (a) ERISA’s fiduciary standards, (b) whether such investment in the Certificates by the Plan satisfies the prudence and diversification requirements of ERISA, taking into account the overall investment policy of the Plan, the composition of the Plan’s portfolio and the limitations on the marketability of the Certificates, (c) whether such fiduciaries have authority to make such investment in the Certificates under the applicable Plan investment policies and governing instruments and (d) rules under ERISA and the code that prohibit Plan fiduciaries from causing a Plan to engage in a “prohibited transaction.”

Section 406 of ERISA and Section 4975 of the code prohibit Plans, any entity whose underlying assets include “plan assets” by reason of any Plan’s investment in the entity (a “Plan Asset Entity”), as well as individual retirement accounts and Keogh and other plans subject to Section 4975 of the Code (also “Plans”), from, among other things, engaging in certain transactions involving “plan assets” of a Plan with persons who are “parties in interest” under ERISA or “disqualified persons” under Section 4975 of the Code (“Parties in Interest”) with respect to such Plan. A violation of these “prohibited transaction” rules may result in imposition of an excise tax or other liabilities and adverse consequences under ERISA and/or Section 4975 of the Code for such persons, unless exemptive relief is available under an applicable statutory or administrative exemption. Employee benefit plans that are governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and foreign plans (as described in Section 4(b)(5) of ERISA) are not subject to the requirements of ERISA or Section 4975 of the Code.

Under a regulation (the “Plan Assets Regulation”) issued by the U.S. Department of Labor (the “DOL”), the assets of the Trust (and, consequently, the assets of the LLC) would be deemed to be “plan assets” of a Plan for purposes of ERISA and Section 4975 of the Code if “plan assets” of the Plan and/or a Plan Asset Entity were used to acquire an equity interest in the Trust and no exception were applicable under the Plan Assets Regulation. An “equity interest” is defined under the Plan Assets Regulation as any interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has not substantial equity features and specifically includes a beneficial interest in trust.

Pursuant to an exception contained in the Plan Assets Regulation, the assets of the Trust would not be deemed to be “plan assets” of investing Plans if, immediately after the most recent acquisition of any equity interest in the Trust, less than 25% of the value of each class of equity interests in the Trust were held by Plans, other employee benefit plans not subject to ERISA or Section 4975 of the Code (such as governmental, church and foreign plans), and Plan Asset Entities (collectively, “Benefit Plan Investors”). No monitoring or other measures will be taken with respect to limiting the value of the Certificates held by Benefit Plan Investors to less than 25% of the total value of such Certificates at the completion of the initial offering or thereafter. Thus, the conditions of the exception may not be satisfied.

Under the terms of the Plan Asset Regulation, if the Trust and the LLC were deemed to hold plan assets by reason of a Plan’s investment in the Certificates, such Plan assets would include an undivided interest in the assets held by the Trust (such as the Partnership Interests) and the assets held by the LLC (such as the Subordinated Note). In such event, the persons providing services with respect to the assets of the Trust or the LLC may become Parties in Interest with respect to such an investing Plan and may become subject to the fiduciary responsibility provisions of Title I of ERISA and the prohibited transaction provisions of ERISA and the Code with respect to transactions involving such assets. In this regard, if the person or persons with discretionary responsibility with respect to such assets were affiliated with the Branch or the Bank, any such discretionary actions taken with respect to such assets could be deemed to constitute a prohibited transaction under ERISA or the Code (for example, the use of such fiduciary authority or responsibility in circumstances under which such persons have interests that may conflict with the interests of the Plans for which they act and affect the exercise of their best judgment as fiduciaries). In order to minimize the likelihood of such prohibited transactions, each investing Plan, by purchasing one or more Certificates will be deemed to have (i) directed the Trustees of the Trust to invest in the Partnership Interests, (ii) appointed the Independent Directors of the LLC and (iii) directed the directors of the LLC to invest in the Subordinated Note.

In addition, certain transactions involving the Trust, the LLC and/or the Certificates could be deemed to constitute direct or indirect prohibited transactions under ERISA and Section 4975 of the Code with respect to a Plan if the Certificates were acquired with “plan assets” of such Plan and/or assets of the Trust were deemed to be “plan assets” of Plans investing in the Trust. For example, if the Bank is a Party in Interest with respect to an investing Plan (or becomes a Party in Interest in connection with this transaction), indirect extensions of credit between the Bank and the Trust (as represented by the Subordinated Note and the Trust’s ownership of 100% of the Partnership Interests) would likely be prohibited by Section 406(a)(1)(B) of ERISA and Section 4975(c)(1)(B) of the Code, unless exemptive relief were available under an applicable administrative exemption (see below).

The DOL has issued five prohibited transaction class exemptions (“PTCEs”) that may provide exemptive relief if required for direct or indirect prohibited transactions that may arise from the purchase or holding of the Certificates or the Partnership Interests if the Certificates or the Partnership Interests are acquired directly or indirectly from or for the benefit of a Party in Interest. Those class exemptions are PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company pooled separate accounts), and PTCE 84-14 (for certain transactions determined by independent qualified professional asset managers).

Because of the foregoing restrictions, the Certificates may not be purchased or held by any Plan, any Plan Asset Entity or any person investing “plan assets” of any Plan, unless such purchase or holding is covered by the exemptive relief provided by PTCE 96-23, 95-60, 91-38, 90-1 or 84-14 or another applicable exemption. Any purchaser or holder of the Certificates or any interest therein will be deemed to have represented by its purchase and holding thereof that either (a) it is not a Plan or a Plan Asset Entity and it not purchasing such securities on behalf of or with “plan assets” or any Plan or (b) the purchase and holding of the Certificates is covered by the exemptive relief provided by PTCE 96-23, 95-60, 91-38, 90-1 or 84-14 or another applicable exemption. If a purchaser or holder of the Certificates that is a Plan or a Plan Asset Entity elects to rely on an exemption other than PTCE 96-23, 95-60, 91-38, 90-1 or 84-14, the Bank, the Branch or the Trustees may require a satisfactory opinion of counsel or other evidence with respect to the availability of such exemption for such purchase and holding.

Even if the conditions of one or more of the foregoing exemptions are satisfied, no assurance can be given that such exemptions would apply to discretionary actions taken by the Trustees or the Directors of the LLC, if the need for such discretionary actions were to arise. For this reason, in order to minimize any potential conflicts of interest, although the Bank will control the LLC at all times through its right to elect a majority of the Directors of the LLC, one of which must be an independent director, if the LLC has failed to pay semi-annual distributions on the Partnership Interests for any such semi-annual period or if a Shift Event is in effect, the holders of the Certificates and Partnership Interests will be entitled to replace the independent director appointed by the Bank and to elect two additional independent directors. The independent directors will be entitled to enforce the Subordinated Note and the Waiver and Improvement Agreement and to veto various actions of the LLC that may be adverse to the interests of the holders of the Certificates and Partnership Interests. Notwithstanding the foregoing, the proceeds from the maturity or redemption of the Subordinated Note may be invested by the LLC in Eligible Intercompany Investments without any action by the Directors or Independent Directors of the LLC.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in nonexempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the Certificates on behalf of or with “plan assets” of any Plan consult with the counsel regarding the potential consequences if the assets of the Trust were deemed to be “plan assets” and the availability of exemptive relief under PTCE 96-23, 95-60, 91-38, 90-1 or 84-14 or any other applicable exemption.

Governmental plans, as defined in Section 3(32) of ERISA, are not subject to ERISA, and are also not subject to the prohibited transaction provisions under Section 4975 of the Code. However, state laws or regulations governing the investment and management of the assets of such plans may contain fiduciary and prohibited transaction requirements similar to those under ERISA and the Code discussed above. Accordingly, fiduciaries of governmental plans, in consultation with their advisors, should consider the impact of their respective state pension codes on investments in the Certificates and the considerations discussed above, to the extent applicable.

CUSTODY, CLEARANCE AND SETTLEMENT

The Certificates will be represented by one or more global certificates as follows: (i) with respect to the Certificates sold pursuant to Rule 144A, in registered form to be deposited on or about the Closing Date with a custodian for, and registered in the name of a nominee of, DTC and (ii) with respect to Certificates sold pursuant to Regulation S, in registered form in the name of a nominee of, and shall be deposited on or about the Closing Date with the Common Depository for, Euroclear and Cedelbank. The Certificates sold pursuant to Regulation S initially will be issued in the form of the temporary Regulation S Global Certificate. Not earlier than the date which is 40 days after the later of the commencement of the offering and the Closing Date, interests in the temporary Regulation S Global Certificate will be exchangeable for interests in the Regulation S Global Certificate. Such exchange of interests will only occur to the extent that the beneficial owner of an interest certifies that it is not a U.S. Person (as defined in Regulation S). No payment will be made in respect of an interest in the temporary Regulation S Global Certificate unless and until the beneficial owner of such interest has provided the required certification and such interest has been exchanged for an interest in the Regulation S Global Certificate. The Certificates sold pursuant to Rule 144A will be issued in the form of the Restricted Global Certificate. The Regulation S Global Certificate and the Restricted Global Certificate are together referred to as the “Global Certificates” and each of them is a “Global Certificate.” Certificates sold to investors who are neither QIBs nor Non-U.S. Investors will be issued initially as the certificated securities in definitive registered form and may not be represented by a Global Certificate.

For additional information regarding the form in which the Certificates will be issued and may be held, see “Description of the Certificates—Form, Book-Entry Procedures and Transfer.”

Custody

Investors who hold accounts with DTC, Euroclear or Cedelbank may acquire, hold and transfer Security Entitlements with respect to the Certificates against DTC, Euroclear and Cedelbank and its respective property by book-entry to accounts with DTC, Euroclear or Cedelbank. “Security Entitlement” means the rights and property interests of an account holder against its securities intermediary under applicable law in or with respect to a security, including any ownership, contractual or other rights. Investors who do not have accounts with DTC, Euroclear or Cedelbank may acquire, hold and transfer Security Entitlements with respect to the Certificates against the securities intermediary and its property with which such investors hold accounts by book-entry to accounts with such securities intermediary, which in turn may hold a Security Entitlement with respect to the Certificates through DTC, Euroclear or Cedelbank, each of which will annually provide the Trust with the names of the Participants (account holders at DTC, Euroclear and Cedelbank) on whose behalf the Certificates are held and the amounts paid to such Participants.

DTC

DTC has advised the Trust as follows: DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its Participants deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Participants in DTC include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly. The rule applicable to DTC and its Participants are on file with the U.S. Securities and Exchange Commission.

Euroclear

Euroclear has advised the Trust as follows: Euroclear acts as an international CSD (“ICSD”) located in Belgium, holding securities and entitlements with respect thereto in custody for Euroclear participants through

accounts with an international network of depositary banks and local CSDs, and facilitating the clearance and settlement of securities transactions settled in any of more than 30 currencies, including euros, among Euroclear participants, and between Euroclear participants and holders of accounts with Cedelbank and certain other securities intermediaries, through electronic book-entry changes in accounts of such participants or its accounts with other securities intermediaries. Euroclear participants include banks, brokers, central banks and other professional investors and securities intermediaries.

Cedelbank

Cedelbank has advised the Trust as follows: Cedelbank acts as an ICSD located in Luxembourg, holding securities and security entitlements with respect thereto in custody for Cedelbank participants through accounts with an international network of depositary banks and local CSDs, and facilitating the clearance and settlement of securities transactions settled in any of more than 30 currencies, including euros, among Cedelbank participants, and between Cedelbank participants and holders of accounts with Euroclear and certain other securities intermediaries, through electronic book-entry changes in accounts of such participants or its accounts with other securities intermediaries. Cedelbank participants include banks, brokers, central banks and other professional investors and securities intermediaries.

Disclaimer

Although DTC, Euroclear and Cedelbank have agreed to the applicable procedures in order to facilitate the acquisition, holding and transfer of security entitlement with respect to the Certificates, they are under no obligation to perform or continue to perform such procedures and such procedures may be modified or discontinued at any time. Neither the Trust nor the Initial Purchasers will have any responsibility for the non-performance or misperformance (as a result of insolvency, mistake, misconduct or otherwise) of DTC, Euroclear, Cedelbank or any other securities intermediary through which an investor may acquire, hold or transfer a security entitlement with respect to the Certificates or such securities intermediary's obligations under the rules, procedures or contractual provisions governing their operations.

Initial Distribution and Secondary Market

Investors electing to acquire security entitlements with respect to the Certificates through an account with DTC, Euroclear or Cedelbank or some other securities intermediary must follow the settlement procedures of its securities intermediary with respect to the settlement of new issues of securities. Security entitlement with respect to the Certificates to be acquired through an account with DTC, Euroclear or Cedelbank will be credited to such an account as of the settlement date against payment in Euro (or ECU, as applicable) for value as of the settlement date.

Investors electing to acquire, hold or transfer security entitlements with respect to the Certificates through an account with DTC, Euroclear, Cedelbank or some other securities intermediary other than in connection with the initial distribution of the Certificates must follow the settlement procedures of their securities intermediary with respect to the settlement of secondary market transaction in securities.

The information in this section concerning DTC, Euroclear and Cedelbank has been obtained from sources that the Trust believes to be accurate, but the Trust assumes no responsibility for the accuracy thereof. The Trust has no responsibility for the performance by DTC, Euroclear and Cedelbank of their respective obligations as described herein or under the rules and procedures governing their respective operations.

PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in the Purchase Agreement, dated May 17, 1999 (the “Purchase Agreement”), among Dresdner Bank Aktiengesellschaft, London Branch (the “London Branch”), Merrill Lynch, Pierce, Fenner & Smith Incorporated, (together, the “Initial Purchasers”), Dresdner Bank, the LLC and the Trust, the Trust has agreed to sell to each of the Initial Purchasers, and each of the Initial Purchasers has severally agreed to purchase, all of the Certificates offered hereby. The Initial Purchasers will be obligated to purchase all the Certificates, if any are purchased. In addition, Dresdner Kleinwort Benson North America LLC will act as selling agent for the London Branch with respect to the Certificates offered by the London Branch for resale in the United States.

The Purchase Agreement provides that the obligations of the Initial Purchasers to pay for and accept delivery of the Certificates are subject to, among other conditions, the delivery of certain legal opinions by their counsel.

The Certificates have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of U.S. persons (as defined in Regulation S) except in certain transactions exempt from the registration requirements of the Securities Act. The Initial Purchasers propose to offer the Certificates for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A under the Securities Act. The Initial Purchasers will not offer or sell the Certificates except (i) to persons they reasonably believe to be QIBs, (ii) to a limited number of Accredited Investors or (iii) pursuant to offers and sales to Non-U.S. Persons that occur outside the United States (within the meaning of Regulation S). Certificates sold pursuant to Regulation S may not be offered or resold in the United States or to U.S. persons (as defined by Regulation S), except pursuant to an exemption from the registration requirements of the Securities Act or pursuant to a registration statement declared effective under the Securities Act. Each purchaser of the Certificates offered hereby in making its purchase will be deemed to have made certain acknowledgments, representations and agreements as set forth under “Notice to Investors” and, in the case of purchasers which are Accredited Investors, will be required to complete and deliver to the Initial Purchasers a form of Transferee Letter of Representations prior to acceptance of any order. The Certificates will initially be offered at the price of \$1,000 per Certificate. After the initial offering of the Certificates, the offering price and other selling terms of the Certificates may from time to time be varied by the Initial Purchasers.

Until 40 days after the commencement of the Offering, an offer or sale of Certificates within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act.

It is expected that delivery of the Certificates will be made against payment therefor on or about the date specified in the last paragraph of the cover page of this Offering Memorandum, which will be the sixth business day following the date of pricing of the Certificates (such settlement being herein referred to as “T+6”). Under Rule 15(c)6-1 under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trades expressly agree otherwise. Accordingly, purchasers who wish to trade the Certificates on the date of pricing or the next five succeeding business days will be required, by virtue of the fact that the Certificates initially will settle in T+6, to specify an alternate settlement cycle at the time of any such trade to prevent failed settlement. Purchasers of the Certificates who wish to trade the Certificates on the date of pricing or the next succeeding five business days should consult their own advisor.

In view of the fact that the proceeds from the sale of the Certificates will ultimately be invested in the Subordinated Note, the Bank has agreed to pay the Initial Purchasers’ aggregate commissions of \$10,000,000 in connection with the Offering.

The Purchase Agreement provides that the LLC and the Bank will indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, and will contribute to payments that the Initial Purchasers may be required to make in respect thereof.

In connection with the Offering, certain persons participating in the Offering may engage in transactions that stabilize, maintain or otherwise affect the price of the Certificates. Specifically, the Initial Purchasers may bid for and purchase Certificates in the open market to stabilize the price of the Certificates. The Initial Purchasers may also over allot the Offering, creating a syndicate short position, and may bid for and purchase the Certificates in the open market to cover the syndicated short position. In addition, the Initial Purchasers may bid

for and purchase the Certificates in market-making transactions and impose penalty bids. These activities may stabilize or maintain the market price of the Certificates above market levels that may otherwise prevail. The Initial Purchasers are not required to engage in these activities and, if commenced, may end these activities at any time.

No action has been taken in any jurisdiction (including the United States) by the Trust, the LLC, Dresdner Bank or the Initial Purchasers that would permit a public offering of the Certificates. Accordingly, the Certificates may not be offered or sold, directly or indirectly, nor may this Offering Memorandum or any other offering material or advertisements in connection with the offer and sale of the Certificates be distributed or published in any jurisdiction, except under the circumstances that will result in compliance with the applicable rules and regulations of such jurisdiction. Persons into whose possession this Offering Memorandum comes are advised to inform themselves about and to observe any restrictions relating to the Offering and the distribution of this Offering Memorandum. This Offering Memorandum is not an offer to purchase or a solicitation of an offer to sell any of the Certificates offered in any jurisdiction in which such an offer or a solicitation is unlawful.

There is no existing market for the Certificates. Application has been made to list the Certificates on the Luxembourg Stock Exchange. There can be no assurance as to the liquidity of any market that may develop for the Certificates, the ability of the holders of the Certificates to sell their Certificates, or the price at which holders would be able to sell their Certificates. The Trust has been advised by the Initial Purchasers that following completion of the Offering, the Initial Purchasers currently intend to make a market in the Certificates. The Initial Purchasers are not obliged to make a market in the Certificates and any market-making activities with respect to the Certificates may be discontinued at any time without notice.

For a description of restrictions on the transfer of the Certificates, see “Notice to Investors.”

GENERAL LISTING INFORMATION

Listing

Application has been made to list the Certificates on the Luxembourg Stock Exchange. If approved for a listing on the Luxembourg Stock Exchange, the Certificates will be considered debt securities for the purposes of the Luxembourg Stock Exchange rules and regulations and will appear in the Official Price List of the Luxembourg Stock Exchange under the heading “*Emprunts Ordinaires*”. The Charter and Certificate of Formation of the LLC, the Declaration and Certificate of Trust of the Trust and the legal notice relating to the issue of the Certificates will be deposited prior to the listing with the Registrar of the District Court in Luxembourg (*Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*), where such documents are available for inspection and where copies can be obtained upon request. As long as the Certificates are listed on the Luxembourg Stock Exchange, an agent for making payments on, and transfers of, Certificates will be maintained in Luxembourg.

Consents

The Trust has obtained all necessary consents, approvals and authorizations in connection with the issue of the Certificates.

The Board of Directors of the LLC, in resolutions dated May 14, 1999, and the Board of Managing Directors of Dresdner Bank, in resolutions approved at a meeting held on April 6 and April 7, 1999, approved the actions of the LLC and the Bank, respectively, necessary for the consummation of the transactions described in this Offering Memorandum.

No Material Change

There has been no material adverse change in the financial position of the Trust since its creation and formation on May 14, 1999 and no material adverse change in the financial position of the LLC since its creation and formation on May 14, 1999.

Except as disclosed in this Offering Memorandum, there has been no material adverse change in the financial position of the Dresdner Bank Group since December 31, 1998.

Litigation

Legal proceedings have been initiated against Dresdner Bank in a number of jurisdictions, but on the basis of information currently available, and having taken counsel with legal advisers, the Board of Managing Directors of the Bank is of the opinion that the outcome of these proceedings is unlikely to have a material adverse effect on the consolidated operations or financial position of the Dresdner Bank Group.

Available Documents

Copies of the following documents will be available for inspection at the specified office of the paying and transfer agent in Luxembourg:

- the articles of incorporation of the Bank;
- the Charter and the Certificate of Formation of the LLC;
- the Declaration and Certificate of Trust of the Trust; and
- the Silent Partnership Agreement

In addition, annual and semi-annual interim reports of the Dresdner Bank Group will be available at the specified office of the paying and transfer agent in Luxembourg for as long as the Certificates are listed on the Luxembourg Stock Exchange. Financial statements will not be published by the Trust or the LLC.

Clearing Systems and Settlement

The Certificates have been accepted for clearance through the facilities of Euroclear and Cedelbank. The ISIN number for the Certificates sold pursuant to Regulation S is XS0097772965 and the common code is 009777296. The CUSIP number for the Certificates sold pursuant to Rule 144A is 26156FAA1. The CUSIP number for the Certificates sold neither pursuant to Rule 144A nor Regulation S is 26156FAB9.

Settlement instructions relating to transfer of the Certificates within DTC, Euroclear and Cedelbank should be expressed in the aggregate liquidation amount to be transferred (e.g. \$10,000,000 rather than number of Certificates (e.g. 10,000 Certificates)).

Notices

All notices shall be deemed to have been given upon (i) the mailing by first class mail, postage prepaid, of such notices to holders of the Certificates at their registered addresses as recorded in the register of holders of Certificates and (ii) so long as the Certificates are listed on the Luxembourg Stock Exchange and it is required by the rules of the Luxembourg Stock Exchange, publication of such notice to the holders of the Certificates in English in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if such publication is not practicable, in one other leading English language newspaper with general circulation in Europe, such newspaper being published on each business day in morning editions, whether or not it shall be published in Saturday, Sunday or holiday editions provided that, so long as securities are held in registered global form and if the rules of the Luxembourg Stock Exchange would so permit, notifications may be made through DTC, Euroclear and Cedelbank in place of publication in a newspaper as described above.

NOTICE TO INVESTORS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Certificates.

General

Some jurisdictions may have restrictions on the distribution of the Offering Memorandum and the offer and sale of the Certificates. Because no action has been taken to permit a public offer and sale of the Certificates or the possession or distribution of the Offering Memorandum in any jurisdiction, the Certificates may not be offered or sold and the Offering Memorandum may not be distributed in any jurisdiction except in accordance with the legal requirements applicable in such jurisdiction.

Dresdner Bank, the Trust, the LLC and the Initial Purchasers will require persons possessing the Offering Memorandum to inform themselves of and observe these restrictions. None of Dresdner Bank, the Trust, the LLC or the Initial Purchasers accepts any legal responsibility for any violation by any person, whether or not a prospective purchaser of the Certificates, of these restrictions.

The Offering Memorandum will not be an offer to sell or a solicitation of an offer to buy any security other than the Certificates. It will not constitute an offer to sell or a solicitation of an offer to buy the Certificates to or from any person in any jurisdiction in which it is unlawful to make such an offer or solicitation to such person.

The Initial Purchasers have agreed that they will (to the best of their knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which they purchase, offer, sell or deliver the Certificates or possess or distribute the Offering Memorandum and will obtain any consent, approval or permission required for the purchase, offer, sale or delivery by them of the Certificates under the laws and regulations in force in any jurisdiction to which they are subject or in which they make such purchases, offers, sales or deliveries and none of Dresdner Bank, the LLC or the Trust shall have any responsibility therefor.

None of Dresdner Bank, the Trust, the LLC or the Initial Purchasers (i) represent that the Certificates or the Partnership Interests may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or (ii) assumes any responsibility for facilitating such sale.

The Netherlands

Each Initial Purchaser has represented and agreed that it has not, directly or indirectly, offered or sold and will not directly or indirectly, offer or sell in The Netherlands any Certificates or Partnership Interests other than to persons who trade or invest in securities in the conduct of a profession or business (which include banks, stockbrokers, insurance companies, pension funds, other institutional investors and finance companies and treasury departments of large enterprises).

United Kingdom

The Certificates may not be offered or sold in or into the United Kingdom except in circumstances which do not constitute an offer to the public within the meaning of the Public Offers of Securities Regulations 1995. All applicable provisions of the Financial Services Act 1986 must be complied with in respect of anything done in relation to the Certificates in, from or otherwise involving the United Kingdom. The Certificates may only be sold to and the Offering Memorandum and any document issued in connection with the offer of the Certificates may only be issued or distributed to a person of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemption) Order 1996 (as amended) or to such other person to whom the Certificates may otherwise be lawfully sold or to whom the Offering Memorandum may otherwise be lawfully issued or passed on.

United States

The Certificates have not been and will not be, at the time of offering, registered under the Securities Act and may not be offered or sold within the United States to, or for the account or benefit of, U.S. persons,

except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Certificates will be offered and sold only (i) to qualified institutional buyers within the meaning of Rule 144A (“QIBs”), (ii) to a limited number of institutional “accredited investors” within the meaning of Rule 501(a)(1), (2), (3) or (7) of the Securities Act and (iii) outside the United States to persons other than U.S. persons (“foreign purchasers”, which term shall include dealers or other professional fiduciaries in the United States acting on a discretionary basis for foreign beneficial owners, other than an estate or trust, in offshore transactions meeting the requirements of Rule 903 of Regulation S). The terms “offshore transaction”, “U.S.”, and “U.S. person” have the meanings given to them in Regulation S.

Each purchaser of Certificates will be deemed to have represented and agreed as follows:

(a) It understands and acknowledges that the Certificates have not been registered under the Securities Act or any other applicable securities law, are being offered for resale in transactions not requiring registration under the Securities Act or any other securities laws, and, unless so registered, may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act or any other applicable securities law, pursuant to an exemption therefrom or in a transaction not subject thereto, and in each case in compliance with the conditions for transfer set forth in paragraph (d) below.

(b) It is not an “affiliate” (as defined in Rule 144 under the Securities Act) of Dresdner Bank or the Trust or any of their subsidiaries or acting on behalf of Dresdner or the Trust or any of their subsidiaries and it is

(i) a “qualified institutional buyer” as defined in Rule 144A, and is aware that any sale of the Certificates to it will be made in reliance on Rule 144A. Such acquisition will be for its own account or for the account of another QIB over which it exercises sole investment discretion;

(ii) an institutional “Accredited Investor” (an “Institutional Accredited Investor”) within the meaning of subparagraphs (a)(1), (2), (3) or (7) of Rule 501 under the Securities Act or, if the Certificates are to be purchased for one or more accounts (“investor accounts”) for which it is acting as fiduciary or agent (except if it is a bank as defined in Section 3(a)(2) of the Securities Act, or a savings and loan association or other institution as described in Section 3(a)(5)(A) of the Securities Act, whether acting in its individual capacity or in a fiduciary capacity), each such account is an Institutional Accredited Investor on a like basis; in the normal course of its business, it invests in or purchases securities similar to the Certificates or the Partnership Interests, and it has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of purchasing the Certificates; and it is aware that it (or any investor account) may be required to bear the economic risk of an investment in the Certificates or the Partnership Interests for an indefinite period of time and it (or such investor account) is able to bear such risk for an indefinite period; it has signed an investment letter in the form provided by the Initial Purchasers; or

(iii) a person that, at the time the buy order for the Certificates was originated, was outside the United States and was not a U.S. person (and was not purchasing for the account or benefit of a U.S. person) within the meaning of Regulation S.

(c) It acknowledges that none of Dresdner, the Trust, the LLC, the Initial Purchasers or any person representing Dresdner Bank, the Trust, the LLC, or the Initial Purchasers has made any representation to it with respect to Dresdner Bank, the Trust, the LLC, the Initial Purchasers or the offering or sale of the Certificates, other than, in the case of Dresdner Bank, the Trust and the LLC, the information contained in the Offering Memorandum, which Offering Memorandum has been delivered to it and upon which it is relying in making its investment decision with respect to the Certificates and the Partnership Interests. Accordingly, it acknowledges that no representation or warranty is made by the Initial Purchasers as to the accuracy or completeness of such materials. It has had access to such financial and other information concerning the Trust, the LLC, the Dresdner Bank Group, the Partnership Interests and the Certificates as it has deemed necessary in connection with its decision to purchase any of the Certificates.

(d) It is purchasing the Certificates for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution of the Certificates or the Partnership Interests in violation of the Securities Act or other applicable securities laws, subject to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and subject to its or their ability to resell the Certificates or the Partnership Interests pursuant to an effective registration statement under the Securities Act or pursuant to Rule 144A, Regulation S or any other exemption from registration available under the Securities Act; and it agrees on its own behalf and on behalf of any investor account for which it is purchasing Certificates or Partnership Interests, and each subsequent holder of Certificates or Partnership Interests by its acceptance thereof will be deemed to agree, to offer, sell or otherwise transfer such Certificates or Partnership Interests prior to the date that is two years after the later of the original issuance date thereof and the last date on which Dresdner Bank, the Trust or any “affiliate” of either of the foregoing was the owner of such Certificates or Partnership Interests (or any predecessor securities) (the “Resale Restriction Termination Date”) only (a) to Dresdner Bank or the Trust, (b) pursuant to a registration statement which has been declared effective under the Securities Act, (c) as long as the Certificates or Partnership Interests are eligible for resale pursuant to Rule 144A, to a person it reasonably believes is a QIB that purchases for its own account or for the account of a QIB to whom notice is given that the transfer is being made in reliance on Rule 144A, (d) pursuant to offers and sales to non-U.S. persons that occur outside the United States within the meaning of Regulation S, (e) to an Institutional Accredited Investor that is purchasing the Certificates or Partnership Interests for its own account or for the account of such an Institutional Accredited Investor for investment purposes and not with a view to, or for offer or sale in connection with, any distribution in violation of the Securities Act, or (f) pursuant to any other available exemption from the registration requirements of the Securities Act, subject in each of the foregoing cases to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and to compliance with any applicable state securities laws; it being understood that, if any resale or other transfer of Certificates or Partnership Interests is proposed to be made pursuant to clause (e) above prior to the Resale Restriction Termination Date, the transferor shall deliver a letter of representations from the transferee to the depositary, which shall provide, among other things, that the transferee is an Institutional Accredited Investor and that it is acquiring such Certificates or Partnership Interests for investment purposes and not for distribution in violation of the Securities Act; it being understood further that Dresdner Bank, the LLC and the Trust reserve the right prior to any offer, sale or other transfer prior to the Resale Restriction Termination Date pursuant to clause (d), (e) or (f) above to require the delivery of an opinion of counsel, certifications and other information satisfactory to Dresdner, the LLC and the Trust.

(e) It acknowledges that the Property Trustee will not be required to accept for registration of transfer any Certificates issued by the Trust acquired by it, except upon presentation of evidence satisfactory to the Trust and the Property Trustee that the restrictions set forth herein have been complied with.

(f) It agrees that it will give to each person to whom it transfers Certificates or Partnership Interests notice of any restrictions on transfer of such Certificates or Partnership Interests.

(g) If it is a foreign purchaser, it acknowledges that until the expiration of the “40-day distribution compliance period” within the meaning of Rule 903 of Regulation S, transfers of Certificates and Partnership Interests will be restricted as described herein under “Description of the Certificates—Form, Book-Entry Procedures and Transfer”.

(h) It acknowledges that each Certificate, and each Partnership Interest issued in exchange therefore, will contain a legend substantially to the following effect:

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE OR OTHER SECURITIES LAWS. NEITHER THIS CERTIFICATE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE HOLDER OF THIS

SECURITY BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT (A) IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (B) IT IS AN INSTITUTIONAL “ACCREDITED INVESTOR” (AS DEFINED IN RULE 501((a)1), (2), (3) OR (7) UNDER THE SECURITIES ACT) OR (C) IT IS NOT A U.S. PERSON AND IS ACQUIRING THIS CERTIFICATE IN AN “OFFSHORE TRANSACTION” PURSUANT TO RULE 904 OF REGULATION S, (2) AGREES THAT IT WILL NOT PRIOR TO (X) THE DATE WHICH IS TWO YEARS (OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144(k) UNDER THE SECURITIES ACT OR ANY SUCCESSOR PROVISION THEREUNDER) AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF (OR OF ANY PREDECESSOR OF THIS CERTIFICATE) OR THE LAST DAY ON WHICH DRESDNER BANK AKTIENGESELLSCHAFT (THE “BANK”), DRESDNER FUNDING TRUST I (THE “TRUST”) OR ANY OF THEIR RESPECTIVE AFFILIATES WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF THIS SECURITY) AND (Y) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAWS (THE “RESALE RESTRICTION TERMINATION DATE”), OFFER, SELL OR OTHERWISE TRANSFER THIS CERTIFICATE EXCEPT (A) TO THE BANK OR THE TRUST, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES TO NON-U.S. PERSONS THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS CERTIFICATE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND; PROVIDED THAT THE BANK AND THE TRUST SHALL HAVE THE RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (I) PURSUANT TO CLAUSE (D) OR (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, AND (II) IN EACH OF THE FOREGOING CASES, TO REQUIRE THAT A CERTIFICATION OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS CERTIFICATE IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUST. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE. AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION”, “UNITED STATES” AND “U.S. PERSON” HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

(i) It acknowledges that Dresdner Bank, the Trust, the LLC, the Property Trustee, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that if any of the acknowledgments, representations or agreements deemed to have been made by its purchase of the Certificates are no longer accurate, it shall promptly notify the Trust, the Property Trustee and the Initial Purchasers. If it is acquiring the Certificates as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account, and that each such investor account is eligible to purchase the Certificates.

LEGAL MATTERS

The validity of and certain other legal matters relating to the Certificates, the Silent Partnership Agreement and the Subordinated Note will be passed upon for the LLC and the Trust, with respect to certain issues of German law by the General Counsel of the Bank, with respect to certain issues of New York law, by Shearman & Sterling, United States and German counsel for the Bank and, with respect to certain matters of Delaware law, by Richards, Layton & Finger P.A., special Delaware counsel to the LLC and the Trust. The validity of and certain other legal matters relating to the Certificates, the Silent Partnership Agreement and the Subordinated Note will be passed upon for the Initial Purchasers, with respect to German law by Hengeler Mueller Weitzel Wirtz, German counsel for the Initial Purchasers and with respect to New York and Delaware law by Skadden, Arps, Slate, Meagher & Flom LLP, United States counsel for the Initial Purchasers.

AUDITORS

The 1998 Consolidated Financial Statements included in this Offering Memorandum have been audited by C & L Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, as indicated in their report with respect thereto, and are included herein in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

ENFORCEMENT OF CIVIL LIABILITIES

Any final and conclusive judgement for a definite sum obtained for the recovery of amounts due and unpaid on the Certificates, the Silent Partnership Agreement and the Subordinated Note in a New York State or United States Federal court sitting in the county of New York, New York, will be enforceable, upon issuance of an enforcement judgement, against the Bank in the appropriate courts of Germany without re-examination or re-litigation of the matters adjudicated, except that such judgment will not be so enforceable if any of the reasons for excluding enforceability set forth in Section 328(1) of the German Code of Civil Procedure is present, in particular, if (i) under German law, said New York State or United States Federal court does not have jurisdiction; (ii) the Bank has not been served with process in a proper and timely fashion and has not defended itself against the claim in court, (iii) the judgment conflicts with a prior judgment of a German court or a prior judgment of a foreign court which is to be recognized in Germany, or the litigation resulting in the judgment to be enforced conflicts with litigation previously commenced in Germany, (iv) recognition of the judgment would clearly be contrary to basic principles of German law, in particular contrary to constitutional human rights, or (v) reciprocity is not ensured.

Index to Consolidated Financial Statements

Financial Statements 1998/1997

Auditors' Report	F-2
Consolidated Income Statements of the Dresdner Bank Group	F-3
Consolidated Balance Sheet of the Dresdner Bank Group	F-4
Consolidated Statement of Changes in Equity of the Dresdner Bank Group	F-5
Cash Flow Statement of the Dresdner Bank Group	F-7
Notes to the Consolidated Financial Statements	F-8

Financial Statements 1997/1996

Auditors' Report	F-51
Consolidated Balance Sheet as at December 31, 1997	F-52
Consolidated Profit and Loss Account for the Year 1997	F-54
Notes to the Consolidated Financial Statements of Dresdner Bank Group	F-56

Auditors' report

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
Wirtschaftsprüfer
(German Chartered Accountant)

Borgel
Wirtschaftsprüfer
(German Chartered Accountant)

Consolidated Income Statement of the Dresdner Bank Group

Profit and 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
Earnings per share				(11)	1.82	3.56
Diluted earnings per share				(11)	1.77	3.47

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 DM amount of equity 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 activities 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 banks.

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.

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 rate 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 of 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

(4) Net interest income

DM mn	1998	1997
Interest income		
Lending and money market operations	26,454.2	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.

(5) Net loan loss provisions

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.

Staff	1998			1997		
	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.

(9) Other income

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.

(10) Other expenses

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 break-down 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.

DM mn	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
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).

DM mn	Pre-tax profit		Income		Total assets	
	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.

(15) Claims on banks

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

(16) Claims on customers

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

(17) Aggregate provisions

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).

DM mn	Counterparty risks		Country risks		Potential risks (General loan loss provisions)		Total	
	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.

(21) Other assets

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.

(22) Subordinated assets

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

(23) Assets sold under agreements to repurchase

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

(26) Certificated liabilities

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.

(27) Provisions

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.

DM mn	Deferred tax assets		Deferred tax liabilities	
	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

(30) Other liabilities

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

(31) Subordinated liabilities

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	7.375%	2004	
		Deutsche Hypothekenbank Frankfurt-Hamburg AG, Frankfurt/Main			
1994	DM 25 million	Deutsche Hyp	8.25%	2005	
		Deutsche Hypothekenbank Frankfurt-Hamburg AG, Frankfurt/Main			
1995	DM 240 million	Deutsche Hyp	variable*)	2006	First possible call date 31 December 2000
		Deutsche Hypothekenbank Frankfurt-Hamburg AG, Frankfurt/Main			
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	6.875%	2008	
		Deutsche Hypothekenbank Frankfurt-Hamburg AG, Frankfurt/Main			
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		DM 200 million	2003	
(Authorised capital I)					
1998	DM 225 million		DM 225 million	2003	*)
(Authorised capital II)					

*) 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 provision 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.

Liabe 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 liabe 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.

(36) Structure of residual terms

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	>1 year	More than
		3 months	-1 year	-5 years	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		Up to	>3 months	>1 year	More than
DM mn	Total	3 months	-1 year	-5 years	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		Up to	>3 months	>1 year	More than
DM mn	Total	3 months	-1 year	-5 years	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		Up to	>3 months	>1 year	More than
DM mn	Total	3 months	-1 year	-5 years	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).

(38) Other financial commitments

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.

(39) Trustee business

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				Positive market value
	<= 1 year	>1-5 years	>5 years	Total	
Interest rate instruments					
OTC products					
FRA	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	Nominal amount/Residual term			Positive	
DM mn	= 1 year	1-5 years	5 years	Total	market value
Interest rate instruments					
OTC products					
FRA's	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 DM mn	Counterparty risk	
	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

(41) Fair value of financial instruments

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).

(43) Major subsidiaries, associated enterprises and joint ventures

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. 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

(44) Changes in the companies included in consolidation

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 Grundstücksgesellschaft 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 super- visory 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 Dröner 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)
	Offices held in other statutory supervisory boards of domestic companies	Membership of comparable super visory 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	—	—

Supervisory Board

Name Profession	Offices held in other statutory supervisory boards of domestic companies	Membership of comparable super- visory bodies of business enterprises in Germany and abroad
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)	—
Manfred Leonhard (until 15 May 1998) Member of staff of Dresdner Bank AG	—	—

*) Office held within the Group.

Supervisory Board

Name Profession	Offices held in other statutory supervisory boards of domestic companies	Membership of comparable super- visory bodies of business enterprises in Germany and abroad
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) Vebe 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 super- visory 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.*)
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 (CR) 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.

*) Office held within the Group.

Board of Managing Directors

Name Profession	Offices held in statutory supervisory boards of domestic companies	Membership of comparable super- visory bodies of business enterprises in Germany and abroad
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)
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)

*) Office held within the Group.

Board of Managing Directors

Name Profession	Offices held in statutory supervisory boards of domestic companies	Membership of comparable super- visory bodies of business enterprises in Germany and abroad
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)
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)

*) Office held within the Group.

Offices held by members of staff

Name Profession	Offices held in statutory supervisory boards of domestic companies	Membership of comparable super- visory bodies of business enterprises in Germany and abroad
Dr. A.-M. Graf von Ballestrem	MATERNUS-Kliniken AG	–
Martin Blessing	ADVANCE Bank Aktiengesellschaft*) Dresdner Bauspar AG*)	–
Frank Brade	RETAG AG	–
Gunter Bruß	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*)	–
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 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

The consolidated financial statements, which we have audited in accordance with professional standards, comply with the German legal provisions. The consolidated financial statements present, in compliance with generally accepted accounting principles, a true and fair view of the net worth, financial position and results of the group. The group management report is in agreement with the consolidated financial statements.

Frankfurt/Main, March 19, 1998

C & L Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Kaiser
Wirtschaftsprüfer
(German Chartered Accountant)

Schauss
Wirtschaftsprüfer
(German Chartered Accountant)

Consolidated Balance Sheet as at December 31, 1997

Assets (DM million)	Dec. 31, 1996	
Cash funds		
a) Cash in hand	1,200	1,191
b) Balances with central banks	4,962	2,254
including: with Deutsche Bundesbank	4,707	(2,080)
c) Balances in postal giro accounts	—	1
	6,162	3,446
Public sector securities and bills of exchange		
eligible for refinancing with central banks		
a) Treasury bills, discounted treasury notes and similar treasury securities	797	2,897
including: eligible for refinancing with Deutsche Bundesbank	183	(—)
b) Bills of exchange	459	311
including: eligible for refinancing with Deutsche Bundesbank	431	(306)
	1,256	3,208
		(306)
Claims on banks		
a) payable on demand	12,711	21,429
b) other	121,593	103,515
including: mortgage loans	16	(14)
communal loans	24,030	(18,881)
		134,304
		124,944
Claims on customers		
including: mortgage loans	82,952	377,715
communal loans	69,756	(76,278)
building society loans	340	(56,106)
other loans secured by mortgages	15,580	(246)
		(13,046)
Debt and other fixed-income securities		
a) Money market securities		
aa) public sector issuers	57	39
ab) other issuers	4,615	2,624
	4,672	2,663
b) Bonds and notes		
ba) public sector issuers	55,729	38,431
bb) other issuers	40,433	31,324
including: eligible as collateral for Deutsche Bundesbank advances	23,047	69,755
		(23,004)
c) Bonds and notes issued by Dresdner Bank Group	1,483	1,345
at par	1,445	(1,322)
		102,317
		73,763
Shares and other non-fixed-income securities		
		17,508
		11,190
Investments in non-affiliated enterprises		
including: in banks	216	8,244
		(198)
Investments in associated enterprises		
		275
		220
Investments in affiliated enterprises		
including: in banks	10	145
		(27)
Assets held in trust		
including: loans	9,145	9,160
		8,268
		(7,063)
Recovery claims on public authorities including		
debt securities obtained in exchange		96
		99
Tangible fixed assets		
		6,303
Treasury stock		
at par	1	23
		117
		(15)
Other Assets		
		10,105
		6,761
Deferred tax assets		
		337
		—
Deferred items		
a) from issuing and lending business	1,557	1,360
b) other	1,378	1,149
		2,935
		2,509
Total assets	676,885	561,163

Liabilities and Shareholders' Equity (DM million)	Dec. 31, 1996	
Liabilities to banks		
a) payable on demand	52,824	34,977
b) with agreed maturities or periods of notice	121,795	112,299
	174,619	147,276
including: registered mortgage bonds	2,250	(2,054)
registered communal bonds	2,501	(2,052)
Liabilities to customers		
a) savings and building society deposits		
aa) savings deposits with agreed periods of notice of three months	27,757	29,198
ab) savings deposits with agreed periods of notice of more than three months	1,989	2,320
ac) building society deposits	2,580	2,109
	32,326	33,627
b) registered mortgage bonds	12,733	13,064
c) registered communal bonds	16,635	15,515
d) other liabilities		
da) payable on demand	85,155	72,194
db) with agreed maturities or periods of notice	131,734	103,311
	216,889	175,505
	278,583	237,711
Certificated liabilities		
a) bonds issued		
aa) mortgage bonds	21,638	19,776
ab) communal bonds	64,338	50,803
ac) other bonds	48,614	36,401
	134,590	106,980
b) other certificated liabilities	26,161	20,261
	160,751	127,241
including: money market securities	22,819	(16,600)
own acceptances and promissory notes outstanding	2,417	(1,935)
Liabilities incurred as trustee		
including: loans	9,145	8,268
		(7,063)
Other liabilities		
		8,282
Deferred items		
a) from issuing and lending business	1,419	1,378
b) other	1,441	1,328
		2,860
Provisions		
a) for pensions and similar obligations	2,588	2,483
b) for taxes	1,923	1,273
c) other	3,472	3,007
	7,983	6,763
Special items with partial reserve character		
		258
Subordinated liabilities		
		10,421
Profit-participation certificates		
including: maturing in less than two years	—	(—)
Fund for general banking risks		
		600
Equity capital		
a) Subscribed capital	2,567	2,337
Conditional capital	525	(635)
b) Capital reserve	10,178	7,758
c) Earnings reserves		
ca) legal reserve	6	6
cb) reserve for treasury stock	23	117
cc) other earnings reserves	4,965	3,851
	4,994	3,974
net of goodwill written off		
on initial consolidation in the amount of	—	(434)
d) Minority interests	440	429
e) Distributable profit of Dresdner Bank AG	777	724
	18,956	15,222
Total liabilities and shareholders' equity		
	676,885	561,163
Contingent liabilities		
a) Liabilities on endorsed bills of exchange settled with customers	5,540	4,596
b) Liabilities on guarantees and warranties (see page F-69)	39,013	35,447
	44,553	40,043
Other commitments		
a) Commitments from the sale of assets subject to repurchase agreements	1	3
b) Commitments under underwriting agreements	61	90
c) Irrevocable loan commitments	83,920	76,526
	83,982	76,619

Consolidated Profit and Loss Account for the year 1997

Expenses (DM million)	1996	
Interest expenses	22,088.7	20,094.8
Commissions paid	235.6	162.7
General administrative expenses		
a) Staff expenses		
aa) Wages and salaries	4,932.4	4,309.3
ab) Social security contributions and expenses		
for pensions and other employee benefits	1,122.7	1,086.7
	6,055.1	5,396.0
including: pension expenses	419.3	(410.3)
b) Other administrative expenses	2,989.3	2,429.1
	9,044.4	7,825.1
Amortisation and depreciation		
of intangible and tangible fixed assets	1,083.4	738.1
Other expenses	566.7	398.6
Write-downs of and adjustments		
to claims and certain securities and		
provisions for possible loan losses	907.4	310.4
Write-downs of and adjustments to investments		
in non-affiliated and affiliated enterprises		
and securities treated as fixed assets	--	77.6
Additions to special items with partial reserve character	253.5	--
Extraordinary expenses	153.9	--
Income taxes	1,504.9	1,076.4
Other taxes not included under		
“Other expenses”	88.2	106.3
Net income for the year	1,687.3	1,579.9
Total expenses	37,614.0	32,369.9
Net income for the year	1,687.3	1,579.9
Amounts transferred from earnings reserves		
a) from reserve for treasury stock	93.9	--
b) from other earnings reserves	--	116.5
	93.9	116.5
Amounts transferred to earnings reserves		
a) to reserve for treasury stock	--	116.5
b) to other earnings reserves		
ba) from reserve for treasury stock	93.9	--
bb) from net income	883.1	812.9
	977.0	812.9
	977.0	929.4
Profit attributable to minority interests	27.0	42.6
Distributable profit of Dresdner Bank AG	777.2	724.4

Income (DM million)	1996	
Interest income from		
a) lending and money market operations	25,357.5	24,110.2
b) fixed-income securities and government debt	2,785.5	1,976.6
	28,143.0	26,086.8
Current income from		
a) shares and other non-fixed-income securities	843.0	519.7
b) investments in non-affiliated enterprises	517.3	365.2
c) investments in affiliated enterprises	17.5	14.3
	1,377.8	899.2
Income from profit pooling, profit transfer or partial profit transfer agreements	4.5	4.7
Income from investments in associated enterprises	28.3	23.9
Commissions received	5,576.9	4,291.5
Net profit on financial operations	1,259.6	666.5
Income from revaluations of investments in non-affiliated and affiliated enterprises and securities treated as fixed assets	552.5	-,-
Other income	418.2	397.1
Income from the writing back of special items with partial reserve character	253.2	0.2
Total income	37,614.0	32,369.9

Notes to the Consolidated Financial Statements of Dresdner Bank Group

I. General

Accounting regulations

The consolidated financial statements of Dresdner Bank AG have been prepared in accordance with the provisions of the German Commercial Code (Commercial Code) in conjunction with the Bank Accounting Regulation of February 10, 1992, and with the applicable provisions of the German Stock Corporation Act.

For the consolidated balance sheet the prescribed format has been supplemented, primarily to include items relating to mortgage bank business. In the consolidated profit and loss account the interest components attributable to the trading operations of Dresdner Kleinwort Benson (Marchés), Dresdner KB North America LLC and the Kleinwort Benson Group are included under net profit on financial operations. As a result, DM 277.7 million of interest expenses (1996 DM 254.5 million of interest income) has been included in net profit on financial operations.

Accounting policies

Cash funds are stated at nominal face value; foreign notes and coins are valued on a prudent basis taking account of the year-end market rates.

Public sector securities and bills of exchange are stated net of unearned discount; bills of exchange are also stated net of related risk reserves.

Claims are stated generally at nominal or face value, less any related risk reserves. Where interest accounts for the difference between the nominal amount of a loan and the amount disbursed, such difference is recorded under deferred items on the liabilities side of the balance sheet and written off to the profit and loss account over the term of the loan.

Identifiable risks of loss in the loan portfolio are covered by appropriate specific loan loss reserves and provisions. In addition to these, country risks are covered by global specific reserves and provisions for guarantee obligations. Latent risk of loss is covered by a general reserve, in addition to prescribed general reserves as required by local law in certain countries. General banking risk reserves have also been set up under section 340g of the Commercial Code.

In the profit and loss account the income and expense items relating to risk provisioning have been netted under the caption "Net risk provisions", as permitted by section 340f(3) of the Commercial Code. The components "Result from the liquidity portfolio" and "Net loan loss provisions" are disclosed on page 36ff.

Securities are defined in section 7 of the Bank Accounting Regulation; in the balance sheet they are disclosed under "Debt and other fixed-income securities" and "Shares and other non-fixed-income securities". In disclosing income and expense a distinction is made between securities held in trading portfolios and those held in the liquidity portfolio (securities which are neither treated as fixed assets nor held for trading purposes). In both cases the securities are carried as current assets and are valued, by type of security, at the lower of moving average values and market value at the balance sheet date.

Investments in non-affiliated and affiliated enterprises are valued in accordance with the rules for fixed assets at the lower of cost and market value at the balance sheet date. Significant investments in associated companies are included by the equity method of accounting according to the portion of shareholders' equity attributable to the Group. The income and expense items referred to in section 340c(2) of the Commercial Code have been netted and included under the heading "Net income/expense from financial assets", as permitted by that statute.

Tangible fixed assets are stated at purchase or production cost, where applicable less regular depreciation, which is generally at tax-allowable rates. Low value fixed assets costing not more than DM 800 each, excluding value added tax, are written off in full in the year of acquisition.

In 1997 deferred tax assets were recognised under section 274(2) of the Commercial Code.

Liabilities on which interest is payable are stated at the amounts repayable. Where such liabilities are taken up at a discount the unamortised portion of the discount is included under deferred items on the assets side of the balance sheet. Non-interest bearing securities, such as zero-coupon bonds, are stated at present value.

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

Pension provisions are calculated by actuarial methods applying an interest rate of 6%; pension expectancies are valued by the "Teilwert" method described in section 6a of the German Income Tax Act; current pensions are stated at present value.

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

Off-balance sheet financial instruments used to hedge balance sheet items and which meet the documentation requirements are valued in accordance with the rules applicable to the hedged transaction.

Where instruments are currency-related, the hedged transaction is valued at the forward rate. Income and expense from interest rate-related instruments associated with balance sheet items, which are valued at nominal or face value, is deferred on a straight-line basis. In addition, where such instruments are used to hedge securities, the gain or loss on valuation of the hedge is offset against the gain or loss on valuation of the underlying transaction. This also applies to instruments used to hedge other price risks. Unrealised gains remaining after this procedure are not recognised, but unrealised losses are recognised.

Off-balance sheet transactions related to trading operations are valued by comparing market values with historical rates.

- In the case of currency futures contracts the market rate used is the forward rate split into spot base and swap parts for the unexpired portion of the term.
- In the case of currency options the market rate was arrived at taking account of the official fixing-rate, the yield curve involved and the implied volatilities.
- In the case of interest rate swaps the current portion of the interest payment claims and obligations is dealt with in the profit and loss account. Future cash flows are valued by means of a notional closing based on the current yield curve. Forward rate agreements are valued in a similar manner.
- The market value of interest rate options is arrived at taking account of the yield curve and the implied volatilities.
- For exchange-traded financial instruments we used the rates effective on the last day of trading.

Where derivatives and other financial instruments are treated as forming a separate portfolio, gains and losses within the portfolio are netted. Net unrealised gains are ignored, while net unrealised losses are recognised by setting up provisions for impending losses.

Foreign currency translation:

Assets denominated in a foreign currency which are fixed assets and not specifically covered in the same currency are translated at historical rates.

All other assets and liabilities denominated in a foreign currency and uncompleted spot transactions are translated at the spot middle rate in operation at the balance sheet date.

The translation of currency futures contracts is discussed in the notes to our off-balance sheet business. In arriving at the gain or loss on currency trading the rule in section 340h(2) of the Commercial Code has been followed: gains on currency translation are recognised only where the transaction concerned has been specifically hedged; where it has not been specifically hedged, but cover is available in the same currency, gains are recognised only up to the amount of temporary losses on the hedges.

Companies included in consolidation

The consolidated financial statements comprise Dresdner Bank AG, 39 domestic and 37 foreign subsidiaries, including the financial statements of the five subgroups Kleinwort Benson, Dresdner Kleinwort Benson (Marchés), Dresdner RCM Global Investors Holdings (UK), Dresdner RCM Global Investors (Jersey) and Dresdner Bank (Ireland).

Companies included for the first time are: Dresdner Bank Lateinamerika (Brasil) SA, Banco Múltiplo, São Paulo, Europe Reinsurance SA Luxemburg and Reuschel & Co. Finanz-Service GmbH, München. 3 domestic and 4 foreign companies previously included were excluded in 1997.

In our asset management activities, two new subgroups were formed: Dresdner RCM Global Investors Holdings (UK) and Dresdner RCM Global Investors (Jersey), which assimilated the former Thornton subgroup.

62 domestic and 44 foreign Group companies are not included in consolidation because they are not significant in relation to the size of the Group. Their inclusion would not have materially altered the structure of the consolidated financial statements and would have increased the consolidated balance sheet total by only DM 179 million or 0.03%.

The Accounting Directives Act of 1985 has been applicable to banks since 1993. In compliance with the provisions of this Law relating to consolidated financial statements, 12 (prior year 12) foreign joint ventures, including one subgroup, in which we own interests varying between 30% and 50% have been included in the consolidated financial statements on a pro-rata basis, in accordance with section 310 of the Commercial Code. These foreign joint ventures are all banks operated jointly with our French co-operation partner Banque Nationale de Paris.

Investments in 2 (prior year 2) domestic and 35 (prior year 34) foreign enterprises have been included and valued in the consolidated balance sheet as associated companies in accordance with section 311 of the Commercial Code.

The change in composition of the Group had no significant effect on its financial position or profit.

The list of shareholdings required by section 313(2) of the Commercial Code will be filed with the Commercial Register maintained by the Frankfurt/Main District Court (HRB 14000). A copy may be requested using the enclosed order form.

Consolidation policies

With few exceptions, the financial statements of the companies included in consolidation have been prepared to December 31, 1997. Two domestic companies were included on the basis of financial statements as at September 30, 1997, and three foreign companies were included on the basis of financial statements as at November 30, 1997; in these cases there were no significant events between the date of these balance sheets and the date of the consolidated balance sheet.

The assets and liabilities of the consolidated companies (included in the consolidated balance sheet) have been valued on a uniform basis in accordance with the policies described in the "Accounting policies" section of the Notes. No special adjustments are required in the case of the domestic companies; where the accounting policies adopted in preparing the financial statements of foreign companies differed from the Group's standard policies, the items affected were adjusted in the consolidated financial statements. Company financial statements prepared in a foreign currency have been translated at the rate of exchange effective at the consolidated balance sheet date; differences arising on translation of capital amounts denominated in foreign currencies are included under consolidated earnings reserves.

The companies included for the first time in 1997 have been consolidated by the book value method, no goodwill arose. Post-acquisition reserves are included under consolidated earnings reserves. Generally, the same consolidation rules are applied to associated companies included in the consolidated balance sheet by the equity method of accounting.

The distributable profit shown in the consolidated balance sheet represents that of Dresdner Bank AG, and is thus the amount of the Bank's proposed dividend. Accordingly, the undistributed profits of subsidiaries, and all consolidation measures affecting income are taken into account in arriving at consolidated earnings reserves.

Intercompany receivables and payables have been offset against one another, and intercompany income and expense items, particularly interest and commission, have been dealt with in the same manner. Dividends and other profit distributions relating to 1997 received from consolidated companies have been eliminated. Where material, gains on intercompany transfers of assets have been eliminated. Intercompany gains and losses have not been eliminated where transactions were executed on market terms, and where a determination of the gains or losses would involve disproportionate expense or delay.

II. Notes to the balance sheet and profit and loss account

Analysis of claims and liabilities by original term

DM mn	1997	1996
Claims on banks	134,304	124,944
a) Payable on demand	12,711	21,429
b) Other	121,593	103,515
With agreed original terms or periods of notice of		
- Less than three months	55,196	46,546
- Not less than three months but less than four years	41,376	37,783
- Four years or more	25,021	19,186
Claims on customers	377,715	312,725
With agreed original terms or periods of notice of		
- Less than four years	161,085	123,759
- Four years or more	216,630	188,966
Bonds and notes	96,162	69,755
- Public sector issuers	55,729	38,431
With original maturities of		
- Up to four years	29,949	18,481
- More than four years	25,780	19,950
- Other issuers	40,433	31,324
With original maturities of		
- Up to four years	10,419	13,881
- More than four years	30,014	17,443
Liabilities to banks	174,619	147,276
a) Payable on demand	52,824	34,977
b) With agreed maturities or periods of notice of	121,795	112,299
- Less than three months	68,439	54,909
- Not less than three months but less than four years	31,797	35,642
- Four years or more	21,559	21,748
of which due within four years	7,199	7,499
Liabilities to customers	278,583	237,711
a) Savings deposits	32,326	33,627
b) Other liabilities*)	246,257	204,084
ba) Payable on demand	85,155	72,194
bb) With agreed maturities or periods of notice of*)	161,102	131,890
- Less than three months	91,514	68,824
- Not less than three months but less than four years	28,608	22,988
- Four years or more	40,980	40,078
of which due within four years	14,140	15,513
Certificated liabilities	160,751	127,241
With original maturities of		
- Up to four years	49,337	44,946
- More than four years	111,414	82,295
of which due within four years	39,862	30,555

*) Including the registered mortgage bonds disclosed separately in the consolidated balance sheet.

Trustee business

The assets analysed below are all held by the Group in its own name for the account of others.

Analysed by balance sheet captions DM mn	1997	1996
Assets held in trust:		
Claims on banks	3,787	3,208
Claims on customers	5,358	5,053
Shares and other non-fixed-income securities	1	1
Investments in non-affiliated enterprises	14	6
Total	9,160	8,268
Liabilities incurred as trustee:		
Liabilities to banks	479	237
Liabilities to customers	8,681	8,031
Total	9,160	8,268

Foreign currency volumes

These amounts represent the aggregated totals of the DM equivalents of a wide variety of currencies; the differences between the amounts of assets and liabilities are likely to be coincidental as the information is given, as required, only for items relevant to the balance sheet; the volume of currency futures contracts is not included, and neither, therefore, are the hedges.

Total assets and liabilities denominated in a foreign currency DM mn	1997	1996
Assets	260,951	193,195
Liabilities	277,667	196,089

Claims on and liabilities to affiliated enterprises

Analysed by balance sheet captions DM mn	1997	1996
Claims:		
Claims on customers	332	405
Total	332	405
Liabilities:		
Liabilities to customers	58	210
Total	58	210

In the consolidated balance sheet, claims on and liabilities to affiliated enterprises have been virtually eliminated, as these enterprises have been consolidated. The only amounts included under these captions relate to affiliated enterprises which have not been consolidated as they are not significant in relation to the size of the Group. In the 1997 consolidated balance sheet the amount of inter-company assets and liabilities eliminated, including capital consolidation items, was DM 109 (1996 DM 89) billion (both amounts rounded).

Claims on and liabilities to non-affiliated enterprises

Analysed by balance sheet captions		
DM mn	1997	1996
Claims:		
Claims on banks	2,865	1,116
Claims on customers	3,573	3,538
Debt and other fixed-income securities	12	11
Total	6,450	4,665
Liabilities:		
Liabilities to banks	885	2,041
Liabilities to customers	724	1,169
Certificated liabilities	429	265
Subordinated liabilities	1,718	1,113
Total	3,756	4,588

Subordinated assets

Analysed by balance sheet captions		
DM mn	1997	1996
Claims on banks		
– Other	95	76
Claims on customers	27	101
Bonds and notes		
– Other issuers	59	67
– Own bonds and notes	5	2
Shares and other non-fixed-income securities	253	54
Total	439	300

Marketable securities

DM mn	Total		Listed		Unlisted	
	1997	1996	1997	1996	1997	1996
Debt and other fixed-income securities	102,317	73,763	93,770	68,058	8,547	5,705
Shares and other non-fixed-income securities	11,195	7,225	10,885	6,946	310	279
Investments in non-affiliated enterprises	5,106	4,436	5,082	4,430	24	6

Movements in fixed assets

DM mn	Purchase or production cost	Additions during year	Disposals during year	Accumulated depreciation	Depreciation charge for year	Net book value Dec. 31	Net book value prior year
Investments in non-affiliated enterprises*)	7,817	1,115	688			8,244	7,817
Investments in associated enterprises*)	220	71	16			275	220
Investments in affiliated enterprises*)	67	101	23			145	67
Tangible fixed assets							
– Land and buildings	6,038	844	536	2,092	475	4,254	4,352
– Office furniture and equipment	4,497	1,044	307	3,185	573	2,049	1,677

*) Certain amounts have been aggregated, as permitted by section 34 (3) of the Bank Accounting Regulation.

At Group level, land and buildings with a book value of DM 3,879 million were used for purposes connected with our own activities.

Other assets

Other assets consist of assets which cannot be attributed to other specific asset captions. They include inter alia leasing assets, premiums paid for option rights, cheques and other items received for collection, precious metal holdings and recoverable taxes. Of the DM 10,105 million of other assets, 31% consisted of leasing assets and 29% consisted of premiums paid for unexpired options on foreign currencies, precious metals, securities, interest rate and foreign currency swaps and interest rate limitation agreements.

Deferred tax assets

In 1997 deferred tax assets were recognised in the amount of DM 337 million under section 274 (2) of the Commercial Code. This item represents the tax expected to be recoverable by reason of the different valuations used in arriving at the amounts of provisions for impending losses in the accounting balance sheet and the tax balance sheet. The difference in treatment resulted from the Continuation Act on the Corporate Tax Reform (Gesetz zur Fortsetzung der Unternehmenssteuerreform) of October 29, 1997, in conjunction with section 5 (4a) of the Income Tax Act.

Assets sold under repurchase agreements

At the balance sheet date, the Bank was obligated under commitments to repurchase assets with a net book value of DM 49,713 (1996 DM 44,170) million. These assets continue to be reflected in our balance sheet, and the proceeds are included under liabilities. The majority of these agreements were international money market transactions and require the other party to resell the assets to us on an agreed date or on such date as we may determine.

Deferred items

DM mn	1997	1996
Assets:		
Unamortised debt discount recorded under section 250 (3) of the Commercial Code	862	785
Unamortised loan premiums recorded under section 340e (2) sentence 3 of the Commercial Code	695	574
Liabilities:		
Unamortised loan discounts recorded under section 340e (2) sentence 2 of the Commercial Code	1,035	1,001

Other liabilities

Other liabilities consist of liabilities which cannot be included under other specific liability captions, e.g. goods and services not yet invoiced by suppliers, accrued expenses, payroll deductions payable to the local tax office or social insurance office, premiums received in respect of option liabilities on foreign currencies, precious metals, securities, interest rate and foreign currency swaps and interest rate limitation agreements. At end-1997, premiums received by the Group in respect of unexpired options and interest rate limitation agreements accounted for approximately 53% of the DM 8,282 million of other liabilities.

Provisions

Provisions for taxes, which amounted to DM 1,923 million, included DM 66 (1996 DM 42) million for deferred taxation. The deferred taxation is largely corporation income tax on future profits of partnerships which, as intended, transferred their initial losses to us.

Special items with partial reserve character

After the addition of DM 253.5 million of capital gains, and the writing back to income of DM 253.2 million, which was used for the prescribed purpose, the special item with partial reserve character set up under section 6b of the Income Tax Act amounted at December 31, 1997, to DM 258 (1996 DM 257) million.

Subordinated liabilities

Details of individual borrowings in excess of 10% of total subordinated liabilities are shown below:

Year of issue	Nominal amount	Borrower	Interest rate	Year maturing
1995	USD 500 mn	Dresdner Bank AG	6.625%	2005
1995	USD 500 mn	Dresdner Bank AG	7.250%	2015

Other subordinated liabilities were as follows (at nominal amounts):

Currency	DM equivalent (mn)	Maturity
DM	1,788	1998-2016
USD	3,866	1999-2008*)
NLG	710	2003-2006
CHF	709	2004-2009
GBP	447	2007
LUF	412	2002-2006
Other currencies	520	1999-2006

*) For one issue (DM equivalent 297 million) there is no agreed final maturity date.

Aggregate subordinated liabilities amounted to DM 10,421 (1996 DM 8,380) million.

Total interest paid on subordinated liabilities in 1997 amounted to DM 656.3 (1996 DM 519.3) million.

DM 8,117 million of the subordinated liabilities qualify as “liable capital” under the provisions of the German Banking Act.

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 securities prior to maturity.

Profit-participation certificates

Year of issue	Nominal amount	Issuer	Interest rate	Year maturing	Special features
1991	DM 500 mn	Dresdner Bank AG	9.0%	2002	
1990	DM 500 mn	Dresdner Bank AG	9.5%	2004	First possible redemption date June 30, 1999
1993	DM 45 mn	Norddeutsche Hypothekenund Wechselbank AG, Hamburg	7.375%	2004	
1994	DM 24 mn	Norddeutsche Hypothekenund Wechselbank AG, Hamburg	8.25%	2005	
1995	DM 240 mn	Deutsche Hypothekenbank Frankfurt AG, Frankfurt/Main	variable*)	2006	First possible redemption date December 31, 2000
1995	DM 35 mn	Oldenburgische Landesbank AG, Oldenburg	variable*)	2006	First possible redemption date December 31, 2000
1996	DM 1,000 mn	Dresdner Bank AG	8.0%	2007	
1996	DM 28 mn	Oldenburgische Landesbank AG, Oldenburg	8.125%	2007	First possible redemption date December 31, 2001
1997	DM1,500 mn	Dresdner Bank AG	7.0%	2008	
1997	DM 251 mn	Deutsche Hypothekenbank Frankfurt AG, Frankfurt/Main	6.875%	2008	
1997	DM 147 mn	Dresdner Bank Lateinamerika AG, Hamburg	7.125%	2008	
1997	DM 90 mn	Dresdner Bank Lateinamerika AG, Hamburg	7.125%	2008	

*) DM 6 months LIBOR plus 120 basis points.

The aggregate amount of profit-participation certificates outstanding is DM 4,412 million, of which DM 3,745 million qualifies as "liable equity" under the provisions 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 of Dresdner Bank, 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.

Dresdner Bank Group equity capital

DM mn		
Dresdner Bank Group equity capital at January 1, 1997	15,222	
Subscribed (share) capital	2,337	
Addition from increase of capital in 1997		+ 120
Additions resulting from exercise of subscription rights from the issue of subordinated bonds with warrants launched by Dresdner Finance B.V. in 1992 and maturing in 1997		+ 82
Additions resulting from exercise of subscription rights from the issues of bonds with warrants launched by Dresdner Finance B.V. in 1994 and 1997		+ 28
		2,567
Capital reserve	7,758	
Addition from increase of capital in 1997		+ 1,440
Premium realised on sale of the issue of bonds with warrants launched by Dresdner Finance B.V. in 1997		+ 225
Additions resulting from exercise of subscription rights from the issue of subordinated bonds with warrants launched by Dresdner Finance B.V. in 1992 and maturing in 1997		+ 540
Additions resulting from exercise of subscription rights from the issues of bonds with warrants launched by Dresdner Finance B.V. in 1994 and 1997		+ 215
		10,178
Earnings reserves	3,974	
Additions from 1997 net income		+ 883
Exchange rate movements		+ 83
Other changes		+ 54
		4,994
Minority interests, attributable capital	387	
Change in minority interests		+ 34
		421
Minority interests, attributable profit	42	
Change in minority interests		(23)
		19
Distributable profit	724	
Dividend payment (distributable profit, 1996)		(724)
Net income, 1997		+ 1,687
Transfer to earnings reserves		(883)
Minority interests, attributable profit		(27)
		777
Dresdner Bank Group equity capital at December 31, 1997		18,956

The earnings reserve contains a reserve for treasury stock of DM 22.6 million.

Conditional capital of Dresdner Bank and bonds with warrants outstanding

The aggregate amount of the Bank's conditional capital at January 1, 1997, was DM 634,568,450.

In 1997, subscription rights were exercised with respect to shares having an aggregate nominal value of DM 109,873,820 (21,974,764 shares of DM 5 each). The new shares were issued in accordance with the conditions

attaching to the respective warrants. The premium of DM 755,021,282 realized in excess of the nominal value of the shares has been taken to the capital reserve.

Taking into account the issue of subordinated bonds with warrants launched by Dresdner Finance B.V. in 1992, which matured in 1997, the aggregate amount of the Bank's conditional capital at the balance sheet date was DM 524,693,130. With regard to this bond warrants subscribing to a nominal DM 1,500 of Dresdner Bank shares were not exercised.

Of this amount, DM 167,193,130 will be required to satisfy the subscription rights expected to be exercised in connection with the following bond issues:

Issued by Dresdner Finance B.V., Amsterdam:

DM 475 million 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 at December 31, 1997, entitled holders to subscribe to a total of 4,949,380 shares.

DM 1,500 million 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 at December 31, 1997, entitled holders to subscribe to a total of 28,489,246 shares.

So far, the following authorities given by the respective Annual General Meetings have been either only partly utilised or not utilised at all:

Year of authorisation	Original amount	Amount utilised	Balance	Year expiring
1994	DM 200 mn	DM 142.5 mn in 1997	DM 57.5 mn	1999
1996	DM 300 mn		DM 300.0 mn	2001

Authorised capital of Dresdner Bank

Year of authorisation	Original amount	Amount utilised	Balance	Year expiring	Special features
1995	DM 200 mn	DM 120 mn	DM 80 mn	2000	
	(Authorised Capital I)	in 1997			
1995	DM 175 mn		DM 175 mn	2000	*)
	(Authorised Capital II)				

*) With the Supervisory Board's approval the Board of Managing Directors may exclude shareholders' pre-emptive rights, to enable shares up to a total nominal value of DM 150 million to be issued at a price close to the stock market price; shares with a total nominal value of DM 25 million may be reserved for issue to members of the staff.

In August 1997, the Board of Managing Directors, with the approval of the Supervisory Board, made partial use of the authority given in 1995, and raised the Bank's share capital by DM 120 million. The new shares, which carried dividend rights of one-half for 1997, were offered to shareholders on a one for twenty basis at a price of DM 65.00 per DM 5 share.

Revaluation reserves as liable capital

Unrealised reserves in the amount of DM 3,235 million in securities and investments in non-affiliated and affiliated enterprises have been included under liable capital under section 10(4a) sentence 1 no. 4 of the Banking Act.

Dresdner Bank shares

On May 23, 1997, the Annual General Meeting authorised us 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. In 1997, under this authority, the

Bank and affiliated companies purchased a total of 144,344,142 Dresdner Bank shares with an aggregate nominal value of DM 721,720,710; the average price of these shares and the 3,000,000 shares already held as treasury stock was DM 67.22 per share. We resold 147,048,770 shares having an aggregate nominal value of DM 735,243,850 at an average price of DM 67.44 per share. The difference between purchase and selling price on the aforementioned transactions has been included in the year's income. At December 31, 1997, the Bank thus held as treasury stock 295,372 Dresdner Bank shares having an aggregate nominal value of DM 1,476,860, at an average price of DM 76.37, representing 0.06% of the Bank's issued share capital. In 1997, the maximum holding on any one day represented 0.8% of the Bank's issued share capital.

The holding at the balance sheet date necessitated a reserve for treasury stock in the amount of the carrying value of the shares, which was DM 22,557,813.

On the occasion of the Bank's 125th Anniversary in 1997 we acquired 1,788,340 Dresdner Bank shares having an aggregate nominal value of DM 8,941,700 (representing 0.3% of the Bank's issued share capital) at an average price of DM 62.15 per share, and sold them to employees and pensioners of the Dresdner Bank Group at a preferential price of DM 27.10 per share (1,631,035 of these shares were sold to employees and pensioners of Dresdner Bank. For each such share purchased, employees were also granted two free options entitling them to subscribe to further Dresdner Bank shares. The excess of the cost of the shares sold over the proceeds realised, and the cost of covering the call options, is included in extraordinary expenses. In 1997 we also acquired 10,040 Dresdner Bank shares with an aggregate nominal value of DM 50,200 at an average price of 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. At December 31, 1997, 3,209,737 Dresdner Bank shares with an aggregate nominal value of DM 16,048,685, representing 0.6% of our issued share capital, were pledged to the Bank or related companies as collateral.

Security furnished for own liabilities

Principal types of liabilities DM mn	1997	1996
Liabilities to banks	13,221	12,304
Liabilities to customers	868	1,030
Certificated liabilities	102	33
Other liabilities	5	38
Contingent liabilities	2	31
Other commitments	2,277	1,519
Total value of security furnished	16,475	14,955

By far the greater part of the collateral provided for own liabilities relates to funds provided by Kreditanstalt für Wiederaufbau passed on by Dresdner Bank under Kreditanstalt für Wiederaufbau's terms and conditions, and similarly earmarked funds provided by a number of other banks. Also, in some of Dresdner Bank's foreign operations, local practice or legal requirements have necessitated the furnishing of security; the amount of the assets serving as such security is DM 950 million, of which DM 45 million represents claims and DM 905 million securities.

Contingent liabilities

Principal types of contingent liabilities DM mn	1997	1996
Liabilities on endorsed bills of exchange settled with customers	5,540	4,596
of which rediscounted		
at Deutsche Bundesbank	4,064	3,806
Liabilities on guarantees and warranties	39,013	35,447
Credit guarantees	3,778	3,027
Other guarantees and warranties	30,083	27,034
Letters of credit	5,152	5,386
of which letters of credit opened	2,955	3,500
of which letters of credit confirmed	2,197	1,886

Other commitments

Principal types of other commitments DM mn	1997	1996
Commitments from the sale of assets		
subject to repurchase agreements	1	3
of which: Public sector securities and		
bills of exchange eligible for refinancing		
with central banks	—	3
Commitments		
under underwriting agreements	61	90
Revolving underwriting facilities	31	—
Note issuance facilities	30	90
Irrevocable loan commitments	83,920	76,526
Advances, short-term	27,051	28,080
Advances, medium and long-term	29,216	25,754
Standby facilities	14,537	10,173
Guarantee credits	4,522	4,282
Discount credits	1,425	1,988
Mortgage and communal loans	7,169	6,249

The volumes of commitments under underwriting agreements and irrevocable loan commitments represent amounts not taken up. At December 31, 1997, underwriting commitments had been taken up in the amount of DM 12.7 million.

Analysis of income items by geographical markets

DM mn	1997	1996
Germany	28,391.6	24,829.6
Rest of Europe	9,887.5	8,692.8
North America	2,119.8	1,666.9
Asia	1,208.7	1,222.0
Other	832.9	668.1
Gross revenue	42,440.5	37,079.4
Less consolidation items	5,665.0	4,783.3
Total	36,775.5	32,341.1

The total includes the following profit and loss account items: interest income, current income from shares and other non-fixed-income securities, investments in non-affiliated and affiliated enterprises, commissions received, net profit on financial operations and other income.

Other income

Other operating income amounted to DM 418.2 (1996 DM 397.1) million. It includes inter alia rents received, realised gains on disposal of fixed assets, the release of provisions for expenses no longer required, and income from our leasing business.

Other expenses

Other operating expenses amounted to DM 566.7 (1996 DM 398.6) million. They comprise expense items which cannot be attributed to other captions, such as the cost of raising long-term finance and for capital increases, additions to provisions for early retirement benefits and long-service awards, project development costs associated with the setting up of our direct banking activities, and indemnities.

Extraordinary expenses

All costs incurred in connection with the Bank's 125th Anniversary, amounting to DM 153.9 million, are shown under this heading, including the extra payments to employees, the cost of employee shares and the cost of additional options granted to employees entitling them to subscribe to Dresdner Bank shares.

Income taxes

All income taxes relate to profit on ordinary activities.

III. Other information

Other financial commitments

The commitments, which are stated at the nominal amounts involved, include obligations maturing after 2000, most of which relate to long-term lease agreements. Commitments to pay up shares, bonds and other capital interests totalled DM 543 (1996 DM 423) million; secondary liability under section 24 of the German Limited Liability Companies Act existed in respect of an aggregate amount of DM 43 (1996 DM 46) 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, aggregated DM 113 (1996 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. The financial status of the other partners involved is sound.

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 Dresdner Bank owns a majority interest.

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

DM mn	1997	1996
Obligations under lease agreements	4,807	3,290
Obligations under capital expenditure projects in progress	248	466
Commitments to pay up shares, bonds and other capital interests; secondary liability	525	582
Other	582	361
Total	6,162	4,699

Business in derivatives

DM mn	Nominal amount/Residual term			Total	Counterparty risk
	Up to 1 year	1-5 years	Over 5 years		
Interest rate-related instruments					
OTC products					
- FRAs	60,586	8,433		69,019	21
- Interest rate swaps (same 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 interest rate contracts	4,607	2		4,609	
Exchange-traded 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					
- Currency futures	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 currency contracts	38	950		988	
Exchange-traded products					
- Currency futures					
- Currency options					
Total	551,525	47,692	20,816	620,033	15,319
Equity/index-related 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 equity/index contracts	962	274		1,236	48
Exchange-traded 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	6,804	2,532	1,111	10,447	365
- Other transactions	321	171	118	610	27
Exchange-traded products					
- Futures	734	98		832	
- Options	620			620	
Total	8,479	2,801	1,229	12,509	392
Aggregated total	1,102,276	605,088	256,204	1,963,568	32,359

In addition to meeting customer requirements and hedging on-balance sheet risks, our off-balance sheet business serves principally as a tool for managing our trading portfolios, which are controlled with the help of modern risk management techniques involving sensitivity analysis and simulation of worst-case scenarios.

Counterparty structure in the Group's derivatives business

Type of counterparty DM mn	Counterparty risk
OECD governments	621
OECD banks	23,803
Other OECD financial institutions	2,924
Other business and private persons	2,932
Non-OECD governments	1,082
Non-OECD banks	960
Other non-OECD financial institutions	37
Total	32,359

Management and brokerage services

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

- Portfolio management
- Administration of loans extended under public lending schemes
- Asset management
- Management of investment funds
- Brokerage of insurance policies, savings and loan contracts and real estate

Staff

Excluding apprentices and trainees, the average number of staff employed in 1997 was 43,036, as shown in the table:

The average number of trainees and persons serving apprenticeships in 1997 was 390 and 2,656 respectively.

1,428 persons were employed by joint ventures at the end of 1997.

Staff	Male	Female	Total
Total	22,147	20,889	43,036
Germany	18,012	17,879	35,891
Other countries	4,135	3,010	7,145

Loans to Board members

Loans to Members of the Board of Managing Directors and liabilities assumed on their behalf totalled DM 14,364,332.18, including DM 2,499,377.81 from subsidiaries.

Emoluments of Board members

Emoluments of Members of the Board of Managing Directors in the Group totalled DM 21,760,578.93. Emoluments of Members of the Supervisory Board in the Group totalled DM 2,137,351.85. Aggregate payments to former Members of the Board of Managing Directors or their surviving dependants were DM 13,942,774.01; pension provisions for these persons at December 31, 1997, amounted to DM 118.8 million. Total emoluments of members of the Advisory Management Council were DM 1,302,500.00. Payments to members of the other advisory boards totalled DM 3,270,000.00.

List of Board members

Supervisory Board

Dr. Alfons Titzrath, Chairman, (from October 1, 1997), Dr. Wolfgang Röller (until September 16, 1997), Dipl.-Kfm. Uwe Plucinski (Deputy Chairman), Karl Beusch (from October 1, 1996 to May 23, 1997 and from September 16, 1997), Harald C. Bieler, Klaus Carlin, Marina Dauernheim, Reinhard Drönner, Dr. jur. Friedhelm Gieske, Hans Graf von der Goltz, Peter Haimerl, Prof. Dr. rer. nat. Dr.-Ing. E.h. Wolfgang Hilger, Ainis Kibermanis, Dr. Heinz Kriwet (from May 23, 1997), Manfred Leonhard, Michel Pébereau (from May 23, 1997), Gunter Rose, Sultan Salam, Dr. Hans-Jürgen Schinzler, Dr. jur. Henning Schulte-Noelle, Jacques Henri Wahl (until May 23, 1997), Dr. Dr.-Ing. E.h. Dr. phil. h.c. Kurt Werner.

Board of Managing Directors

Bernhard Walter, Jürgen Sarrazin (until December 31, 1997), Dr. Hans G. Adenauer (until December 31, 1997), Gerhard Eberstadt, Piet-Jochen Etzel (until June 30, 1997), Dr. Bernd Fahrholz (from March 1, 1998), Leonhard H. Fischer (Deputy Member from March 1, 1998), Dr. Joachim v. Harbou, Gerd Häusler, Hansgeorg B. Hofmann (until November 25, 1997), Prof. Dr. Ernst-Moritz Lipp, Dr. Horst Müller, Heinz-Jörg Platzek, Prof. Dr. Christian Seidel (until December 31, 1997), Dr. Bernd W. Voss.

Frankfurt/Main, March 10, 1998

Dresdner Bank
Aktiengesellschaft

No dealer, salesperson or other person has been authorized to give any information or make any representations in connection with the offer contained herein, other than those contained in this Offering Memorandum, and, if given or made, such information or representations must not be relied upon as having been authorized by the Trust, the LLC, Dresdner Bank or the Initial Purchasers. This Offering Memorandum does not constitute an offer to sell or a solicitation of an offer to buy any security other than those to which it relates nor does it constitute an offer to sell, or a solicitation of an offer to buy, any security to any person in any jurisdiction in which such an offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation. Neither the delivery of this Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Trust, the LLC or the Dresdner Bank Group since the date hereof or that the information contained herein is correct as of any time subsequent to the date hereof.

Table of Contents

	Page
Additional Information	5
Forward-Looking Statements	5
Presentation of Financial Information	6
Overview	7
Summary	10
Certain Information Regarding the Bank, the Group and the Branch	10
The Offering	13
Formation of the Trust and the LLC	32
Summary Consolidated Financial and Operating Data	33
Risk Factors	35
Consolidated Capitalization of the Bank	38
Capital Ratios of the Bank	39
Capitalization of the LLC and the Trust	40
Use of Proceeds	41
Management's Discussion and Analysis of Financial Condition and Results of Operations	42
The Bank	64
Operating Environment	80
Management	85
Management of the LLC	88
The German Banking System and its Supervision and Regulation	91
The Branch	100
Exchange Rates	102
Certain Transactions Constituting the Formation	103
Description of the Partnership Interests	104
Description of the Certificates	116
Description of the Subordinated Note and the Waiver and Improvement Agreement	126
Certain U.S. Federal Income Tax Considerations	130
Certain ERISA Considerations	133
Custody, Clearance and Settlement	135
Plan of Distribution	137
General Listing Information	139
Notice to Investors	141
Legal Matters	145
Auditors	145
Enforcement of Civil Liabilities	145
Index to Consolidated Financial Statements	F-1



Dresdner Bank

\$1,000,000,000

**1,000,000
Dated Silent Partnership
Certificates**

Dresdner Funding Trust I

**8.151% Non-cumulative Dated
Silent Partnership Certificates
(Liquidation Amount \$1,000 per Dated
Silent Partnership Certificate)**

**Each representing a Dated Silent
Partnership Interest in**

**Dresdner Capital LLC I
(a wholly-owned subsidiary of
Dresdner Bank Aktiengesellschaft)**

OFFERING MEMORANDUM

**Dresdner Kleinwort Benson
Merrill Lynch & Co.**

May 17, 1999