First Choice Deka

Financial Statements 2006

DekaBank
Deutsche Girozentrale

Finanzgruppe

DekaBank

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Management Report for 2006

Being first choice for a growing number of customers by offering first class products and services. Ensuring our position as exclusive partner of savings banks and *Landesbanken* (regional state banks) with the optimum interplay of strategic business divisions and ongoing sales. Adding considerable value to the business through focused exploitation of all potential for earnings and efficiency improvements. These objectives are all part of "First Choice Deka" – our motto for the initiative programme for the Group's strategic and organisational refocusing, which was launched and largely completed during 2006.

We have already come a long way to improve DekaBank's performance and efficiency. Our funds and asset management products are very well positioned in the market in terms of both quality and performance. Indeed, we enjoyed particular success with our guarantee funds in 2006. DekaBank has developed tailored, innovative solutions for the changing requirements of private and institutional investors. We managed to stabilise the Deka-ImmobilienFonds considerably more quickly than planned while meeting the requirements for a profit-focused market position in property finance. Furthermore, at the end of 2006 we began the process to combine our expertise in liquidity, credit and risk management, capital market trading and sales and refinancing in the new Corporates & Markets business division while aligning them with the specific requirements of foreign and domestic customers.

The refocusing is designed to meet ambitious targets for increasing value. We want to achieve a higher return on equity over the next few years and bring down the cost-income ratio. During our special anniversary year – 2006 marked the 50th anniversary of the foundation of Deka Deutsche Kapitalanlagegesellschaft and the launch of the first fund as well as the 75th anniversary of the Bank's legal independence – the various measures already began to bear fruit. DekaBank Group closed the financial year with a pre-tax profit of 447 million euros – an increase of around 6% on the previous year. Net commission income of 883 million euros was the highest in the company's history.

Strategy and structure of DekaBank Group

DekaBank is the main provider of fund services to the German *Sparkassen-Finanzgruppe* (Savings Banks Finance Group). As the asset manager of choice, it aims to achieve sustainable added value for shareholders, sales partners and customers through excellent products and services and by boosting cost efficiency and profitability. In addition to asset management, DekaBank's services extend to credit business, capital market trading and sales activities as well as financing.

DekaBank is a German public institution with registered offices in Frankfurt and Berlin.

It functions as a central institution of he German *Sparkassen-Finanzgruppe*. The Deutsche Sparkassen- und Giroverband (DSGV ö.K.) (German Savings Banks and Giro Association), and eight *Landesbanken* are guarantors of DekaBank. DSGV and *Landesbanken* both hold 50% equity stakes in DekaBank; the shares of the *Landesbanken* are held directly by GLB GmbH & Co. OHG (49.17%) and NIEBA GmbH (0.83%).

The main subsidiaries and investments of DekaBank include capital investment companies in Germany, Luxembourg and Ireland, banks in Luxembourg and Switzerland as well as further investments including land and property management companies.

Strategic refocusing: "First Choice Deka"

For the DekaBank Group, 2006 was very much shaped by the strategic refocusing and the resulting adaptation of group structures. The initiatives brought together under the "First Choice Deka" motto have the primary objective of expanding our partnership with savings banks and *Landesbanken*, creating added value for the alliance partners in the *Sparkassen-Finanzgruppe* through excellent sales and service performance, and achieving a long-term position for the DekaBank Group as an exclusive partner. The close integration of the business divisions with the retail business of the savings banks should allow the full potential of the Savings Banks Finance alliance to be exploited. Building on the exposed market position of the savings banks, DekaBank Group seeks to win market share in areas that have been underrepresented until now such as retirement pensions in particular. This will be accompanied by a targeted strategy of internationalisation.

In order to achieve these objectives, DekaBank has set itself at all levels of the Group six underlying principles. This means that for any strategic and operative measures we take, we will apply the following:

- Rapidity and innovation
- Strict focus on process
- First-class product quality
- Constant customer-focus
- Clear earnings orientation
- Solution-focused and transparent teamwork.

Achieving sustainable structures

The new organisation structure finalised in May 2006 reflects the strategic refocusing promoting a close relationship of the Bank with its partners in the *Sparkassen-Finanzgruppe*.

A core element was the definition of three business divisions – Asset Management Capital Markets, Asset Management Property and Corporates & Markets – of the Savings Banks Sales, which spans across all business divisions and a total of seven Corporate Centres.

The reorganisation was accompanied by new Corporate Governance principles for group management and supervision. It has set clear and distinct responsibilities for boards and committees and promotes rapid decision-making.

The Board of Management takes overall responsibility for managing DekaBank. In 2006, the number of Board members rose to six. These members are supported by management committees of individual business divisions and savings banks sales. The objective is to ensure all businesses work closely together, which should also result in improved investment management.

DekaBank also integrates the expertise of the Savings Banks Organisation in its decision-making via several advisory boards and sales committees.

The main supervisory body is the Administrative Board, which consists of 30 members in accordance with the Bank's statutes. In order to increase effectiveness, the Administrative Board has formed two expert committees: the General Committee and the Audit Committee.

Business divisions, markets and products

Asset Management Capital Markets (AMK) business division

Asset Management Capital Markets (AMK) is the largest business division of DekaBank Group based on operating income. AMK focuses on the capital market-driven management of currently 297 public funds and 517 special funds as well as 52 funds of funds and fund-linked asset management. Business activities cover master capital investment companies and fund administration, sales to institutional investors as well as services concerning custodial management for the Deka investment funds and for the funds of our partners.

AMK enjoys an excellent market position: In terms of fund volume, DekaBank is by far the market leader for structured investment concepts led by the Deka funds of funds and fund-linked asset management with the main DynamikDepot product. For public funds and special funds, the management of which is grouped together in Deka Investment GmbH, we are currently in third place. In total, we manage more than 5 million customer deposits.

AMK aims to offer each investor a type of investment, which is precisely suited to his individual return vs. risk profile and enables the exact implementation of his chosen investment strategy. In order to achieve this, the services of the business division extend to the basic value creation levels: production, development and sale. In addition to the funds and structured investment concepts of the DekaBank Group, the product range also covers product offerings from well-known international partners. The sale of public funds is performed by the savings banks, while the realigned institutional business, which includes operational retirement pensions, is also handled through additional sales channels.

The newly formed AMK business division has set itself some demanding strategic objectives. In close cooperation with the savings banks and *Landesbanken*, it concentrates on its sales and product skills and aims to significantly increase sales figures of the funds. In order to achieve this, classic and alternative investment instruments must be even more closely linked than before. New, tailored product lines, which allow for the relevant earnings and risk profiles, are being created especially for institutional customers such as local authorities. These should supplement the established special funds and asset-management concepts, through which institutional investors can already access a wide repertoire in a variety of asset categories.

Asset Management Property (AMI) business division

The Asset Management Property (AMI) business division was formed towards the end of 2006. AMI covers all the property business activities of DekaBank Group. The division pursues a two-brand strategy in the market: Deka Immobilien Investment GmbH, Frankfurt, and WestInvest Gesellschaft für Investmentfonds GmbH, Düsseldorf, structure property funds with the objective of achieving an attractive return for private and institutional investors.

The product spectrum currently encompasses public property funds, special property funds and individual property funds. In addition, the proprietary property division has already been integrated in the business division in 2006 and property finance will be integrated from the beginning of 2007.The main focus of property asset management includes the purchase, professional management and sale of commercial property suitable for third party use in liquid markets. In open-ended public property funds, Deka Immobilien and WestInvest are market leaders in Germany with a joint investment capital of approx. 16.8 billion euros, distributed among 313 properties in Germany and abroad.

Institutional investors essentially have access to special property funds, open-ended public property funds and individual property funds. The individual property funds are not subject to the German Investment Act, are managed in the legal form of a German joint-stock company and can therefore be very flexibly designed in terms of investment policy and investment form. An investment volume of more than 300 million euros is allotted to the two currently-managed individual property funds. Another open-ended public property fund, WestInvest ImmoValue, is available for the proprietary investment of the savings banks.

The management of the properties used by the Group units – independently of whether these are rented or owned – is incorporated in the unit Own Properties. The management of landed property according to demand also covers facility management.

The property finance subdivision, which concentrates on the financing of larger property investments for professional investors, is currently extended. Commercial or residential property suitable for third party use is financed in liquid property markets. The business focus is currently still concentrated on Germany and the USA but it should extend to other markets as from 2007. We will use syndications, securitisations and fund constructions to convert property credit into attractive assets for institutional investors.

Corporates & Markets (C&M) business division

DekaBank has grouped together its previous business divisions known as Corporate Banking and Capital Markets as well as sales from the

Financial Services business division in the new Corporates & Markets (C&M) business division. This division is responsible for the lending business, trading and sales activities in the Capital Markets division and for funding. This grouping leads to considerably more efficient structures and procedures.

The focus of activities in the loans subdivision is the process of origination. Loans are generated through the consortium business or foreign direct customer business. These loans are either taken over by DekaBank in its proprietary accounts or transferred to third parties via syndication and securitisation. Within the core asset classes, a distinction is made between special financing (Structured and Leveraged Loans business sector), financing for transport, export and trade (Transport and Trade business sector) and financing of infrastructures (Public Infrastructure business sector).

In the Liquid Credits subdivision, DekaBank acts as an active portfolio manager for structured capital market products and therefore acts as both investor and structurer. This subdivision also further contributes to the active management of the Group's economic capital. The management of the default risk portfolio takes place as part of the group-wide credit risk strategy and the risk profile defined therein.

The Markets subdivision is responsible for the DekaBank customer-focused capital markets business. We manage the funding of the entire banking business as well as the interest and liquidity positioning – in each case respecting the prescribed market risk limits – through the "ALM/Strategic Investments" and "Funding/ Liquidity Management" Treasury divisions. A future focal point will be on structured issues. The new organisation of the Markets subdivision will in particular guarantee a clear segregation between the control function of these two treasury units and trading execution. Further core elements of the refocusing are the division of interest and liquidity risk control as well as the transfer of these risks to the trading books.

With regard to trading activities, the main focus is on the construction of the repo/lending business and the organic development of the derivatives business according to the requirements of DekaBank Group's capital investment companies. Product and market-specific trading strategies have been defined for the three risk areas – Short Term Products (money market and foreign exchange trading, repo/loans), Trading Debt (fixed income, credit spreads and interest derivatives) as well as equity trading. The objective of the trading units is to generate income through intelligent and innovative products rather than by building up risk positions. The expertise of the Trading Desk also forms an important basis for successful sales activities.

The newly structured factoring business strives to optimise execution for customers and the capital investment companies of the DekaBank Group as well as related services. The service offering is due to be extended step by step.

As part of its sales activities, DekaBank carries out derivatives and securities transactions on various national and international markets for savings banks and banks, capital investment companies, local authorities and other institutional investors, while providing consultancy services relating to these activities.

The Credits and Liquid Credits subdivisions were basically created from the previous Corporate Banking business division, whilst the activities in the Markets subdivision can to a great extent be traced back to the previous Capital Markets business division. The property finance division, from 1 January 2007 part of the AMI business division, is still shown as part of Corporate Banking for 2006.

Savings Banks Sales and Corporate Centres

All business divisions work closely with the savings banks sales division, for which a particular Management Board member is responsible. In addition to the central marketing and sales management, the business is divided into three main regions of Germany (North/East, Mid and South).

In addition, the business divisions are supported by a total of seven Corporate Centres with clearly defined core skills, business objectives and control objectives (fig. 1).

Management system at DekaBank Group

DekaBank's strategy, recently formulated as "First Choice Deka", is represented by ongoing financial and non-financial targets.

Financial performance indicators

DekaBank's corporate value is set to increase due to a sustained increase in earnings. The profit target of the DekaBank Group is broken down by individual business divisions. Targets for growth are also defined. DekaBank seeks to increase its assets under management as well as its combined performance in cooperation with its partners in the German *Sparkassen-Finanzgruppe*.

All targets are established taking account of sustainable risk. The key figures used are cost-income-ratio and return on equity.

Non-financial performance indicators

Non-financial performance indicators are presented differently in the business divisions and corporate centres and have an effect on the financial performance indicators. The higher-ranking objective in the AMK and AMI business divisions is to achieve sales success through excellent product quality and through the resulting good rating. In the C&M business division we want to achieve success in all the main markets through innovative products and consistent focus on customer requirements.

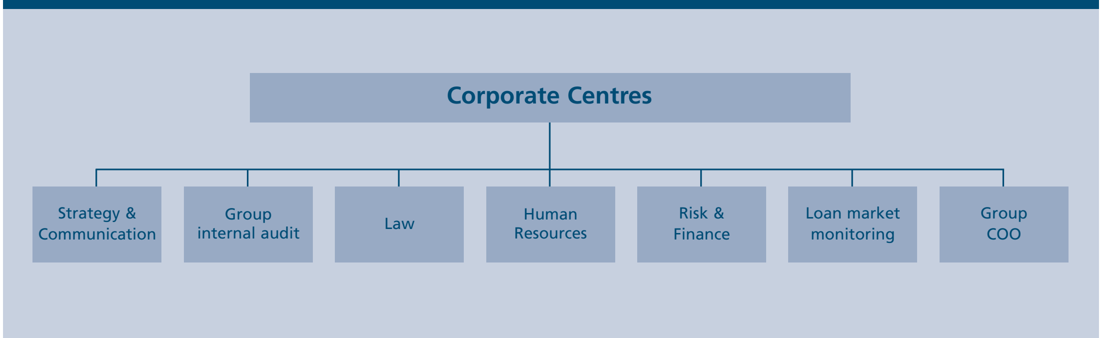
Performance indicators in business divisions and corporate centres

A major financial performance indicator in the AMK business division is assets under management. Significant non-financial performance indicators in AMK are above all market share and product performance. We are striving, inter alia, for a higher market share in the public mutual funds and special funds sectors. In addition, we would like to increase the share of top-rated funds and the number of outperformers. Market-driven product performance on the basis of an outstanding product quality along with positive sales performance bolster assets under management, which in turn underpin commissions based on the portfolio value.

Major financial performance indicators in the AMI business division are assets under management and transaction volumes. We earn transaction fees through active portfolio management (acquisition and sale of property) carried out by our capital investment companies. With the integration of property financing, AMI will continue to generate stable income from interest and fees from these property-based activities. As for AMK, market share and product performance are the core non-financial performance indicators, which also have an indirect financial effect. AMI's objective is not only to maintain its leading role in property-based asset management, but also to enlarge it still further. We want to be able to measure the achievement of this goal not only in terms of assets under management but also and above all in the quality and attractiveness of our products for our alliance partners.

Income in the Corporates & Markets business division is derived from several core sources. As a traditional provider of finance, in the Loans subdivision DekaBank earns interest, which depends on lending volumes and the interest

Corporate Centres (fig.1)



margin achieved. In addition, commission income is generated from the structuring of special financing and from the arrangement of credit securitisations (liquid credits subdivision). Moreover, DekaBank also acts as a capital market investor; in this case interest income depends inter alia on the market spread. In the Markets subdivision, commission income derives from client transactions, interest from cash investments and net financial items are included within total net profit. In terms of non-financial performance indictors, it is a matter of focusing the asset classes in the originating business into core segments, for example, as well as markedly increasing the share of off-balance financing via syndications or securitisations.

For Corporate Centres, control systems have been developed, which ensure that exacting service standards towards internal customers are maintained.

Business and profit trend

Economic environment

DekaBank's operations enjoyed a generally buoyant economic environment in 2006. The global economy picked up perceptibly, as did the economy in Europe and in Germany in particular. This in turn bolstered equity markets, which posted gains worldwide.

While the major indices were clearly up in Germany, this did not boost sales of equity funds either in DekaBank Group or the competition. Equity funds suffered massive outflows, whilst low risk products, in particular money market funds posted high growth. Ascending global property markets promoted the stability of our property funds. Several large portfolios as well as individual properties were sold in 2006.

Overall economic trends

The growth in the global economy gathered pace again in 2006 following a brief pause in 2005, which was partly caused by increasing oil prices. The global gross domestic product rose by 5.2% based on provisional figures, almost matching growth rates in 2004, which was a record high for the past three decades.

The global economy is in the third wave of globalisation, which, driven by the Internet and new up-and-coming national economies – aided by the effects of the collapse of the Eastern bloc, is forging a more dynamic and at the same time more stable expansion of the global economy. The USA continues to be the most important driver of the economy. In 2006 the gross domestic product for the USA was slightly above the potential for expansion at 3.3%. In addition, the Asia region with the outstanding national economy of China is becoming increasingly significant. Emerging Markets already account for more than half of global economic growth.

The buoyant global economic environment has also given a push to the European national economies. In the twelve countries of the Euro zone, the gross domestic product enjoyed an above average growth rate of 2.7%. Economic growth in Germany was very strong: Germany experienced a real boom with the strongest growth in six years at 2.5% due to the one-off factors of the football World Cup and the pull-in effect of the three percentage points increase in value-added tax to 19%. It is noteworthy that not only consumers have increased their expenditure, but also employers have exploited the favourable economic situation for investments. This has lent considerably more substance to economic growth.

The European Central Bank raised the base rate in a total of five small steps, each time by 25 base points, to 3.5%. Against the backdrop of an inflation rate that in the meantime is clearly above target and an above-average economic expansion, these steps were intended to achieve a neutral interest level. The normal level can lie at 3.5% and has therefore been achieved. The US Federal Reserve has exceeded its normal level with a base rate of 5.25%. Overall the Central Banks have clearly emphasised that they are still taking the goal of stability seriously. This is an important basis for the sustainability of the current economic expansion.

Trends in capital markets

Bolstered by the buoyant growth of the global economy and by upbeat corporate news, major stock exchanges worldwide once again undergone a bull trend. Only in May and June 2006 did the stock markets pause marked by doubt and setbacks against a background of rising commodity prices and increasing interest rate uncertainty. This was subsequently seen to be a starting point for a renewed bull trend rather than the end of the trend. The broadly weakening commodity prices and the emerging end of the cycle of interest rate hikes in the USA led to relief and gave the markets new impetus. Therefore, in spite of some differences in details, overall, 2006 was very similar to the previous year. In comparison to the good results in the stock markets, trends in the bond markets once more offered fewer opportunities.

Of the dominant investment regions of USA, Japan and Europe, Europe performed the best – and the German market indicators were way ahead of the rest. German blue-chip equities (DAX) rose by 22%, second-tier stocks (MDAX) rose by 29% and technology shares (TecDAX) by 26%. This performance was surpassed in Europe only by the Spanish IBEX (+ 31%). The main drivers were the upbeat global economic climate, further increases in corporate profits as well as brisk activity in company mergers and acquisitions. Some markets managed to outperform capital markets of the major regions including Peru, China, Russia and India even if these are countries that have been favourites among experts for a while.

The upside of falling prices was rising yields. In the Euro zone, coupon income for all maturities just exceeded the average sufficiently to compensate for capital losses caused by the increase in yields. For more long-term securities this comparison turned out to be more unfavourable. Unexpectedly, the rise in yields was less significant in the USA and the price losses therefore more moderate. For investors in the Euro zone, the results of their US investments where however very disappointing, since the weakness of the US dollar against the Euro either materially reduced their earnings in respect of equities, or even converted them into a significant loss in respect of bonds.

For investors in funds, the bull trend on the equity markets – which has already entered its fourth year in succession – was not inviting. Quite the opposite in fact. Many investors took advantage of increasing prices to take profits. In 2006 classic equity funds had industry-wide net outflows of 5.6 billion euros. Part of this was reinvested in mixed funds and guaranteed funds. In the same period these products had net cash inflows of 4.5 respectively 4.4 billion euros. We see this adjustment as evidence of investors' high requirements for security. This is reflected even more in the demand for money market funds. This investment category received more than half of the total inflow of the industry with 10.6 billion euros out of a total of 18.6 billion euros.

According to *Deutsches Aktieninstitut* (German Equities Institute), fewer investors invested in securities in 2006 due to the overall positive market trend. The number of shareholders and unitholders in equity funds reduced in comparison to 2005 by 4.5% or 482,000 to around 10.3 million. Therefore at the end of 2006, only 15.8% of the population still owned equities or units in a fund. However, the race to catch up looks optimistic for the second half of the year – in particular for the owners of equity and mixed funds, whose number has increased since the middle of 2006 by more than 500,000.

In 2006, approximately 48 billion euros industry-wide flowed into special funds. In this market segment, the interest of many institutional investors was directed towards the services of the master and service capital investment companies. Companies with corresponding offers also recorded above-average net inflows for 2006.

The economic environment for the DekaBank Treasury and our underwriting business continues to be driven by the ongoing globalisation of markets, which in 2006 also led to buoyant growth in both products and issuers. For example, this trend could be observed in covered bonds. After numerous European countries change the law to allow their banks to accept this type of funding, the volume of issues of covered bonds rose significantly in Europe. In addition, the overhaul of the German covered bond law has liberated market entry to this segment so much that the number of domestic issuing bodies has also significantly increased in this market sector.

On the European level, the underwriting business has been affected by the implementation of EU prospectus guidelines. The continuing Europe-wide harmonisation of securities prospectus requirements has considerably increased the acceptance across national boundaries of securities prospectuses and promotes the internationalisation of the issuing business within the European market.

Trends in money and currency markets

For the currencies of the emerging markets, a mixed picture took shape for money and currency markets. The profits accrued in the first half of the year had largely reversed by the end of the year; in some currencies, the Euro even stood below the level of the previous year by the end of 2006. However, it recovered during the course of the year from its weakness against the US dollar of the previous year. The currency markets were largely affected in the past year by the commitments of big investors and hedge funds in the interest markets of some emerging market currencies. They were also influenced by the movements in commodities markets and the dependent commodity currencies.

Trends in property markets

Property markets worldwide

The continuing expansion of the US office building property market has been evident in continuing positive net absorption as well as decreasing numbers of vacant properties. The top rents for class A floor space in the best areas are increasing. The volume of transactions increased in all North American property investment markets. The pressure of available capital on the net cap rates, which serve as a reflection in the industry for property prices, continues to hold. In the best areas of Manhattan or Washington D.C. the top yields were at a historically low level of below 5%. In the Asia-Pacific office markets, the top rents increased considerably in cities such as Hong Kong and Tokyo. In particular demand exceeded supply of class A spaces in Tokyo, but in other locations as well the proportion of vacant property decreased. Even with the present low top yields of 3.5% for office buildings in Tokyo, the investment market remained lively given that the outlook for rent increases offset any worries about possible increases in interest rates.

European property markets

The turnover of office space in European commercial centres increased significantly in 2006 in comparison to the previous year. Vacancies were reduced due to the increased demand for property in the face of a reduction in the volume of new builds. London and Madrid in particular recorded a growth in rents; in most markets the extent of rent incentives remained high. The European property investment market posted a new record volume. Portfolio sales had considerable influence on the overall profit. The number of investments across national boundaries with the participation of global sources of capital continued to grow. For property with a secure income potential demand outstripped supply, which led to correspondingly high pressure on yields.

German property market

In the main German commercial property markets, vacancies have stagnated, while the number of vacant class A office space decreased. Top rents were maintained at a uniformly stable level, with moderate increases recorded in Munich and Hamburg. Retail space in A1 locations enjoyed high demand with stable rents. Due to portfolio sales in particular, the investment volume for commercial property continued to increase in comparison to the previous year, which was already very good. On the buyer side, foreign investors dominated with a share of over 80%. They benefited from the financial possibilities, which were still favourable in spite of increases in interest rates, as well as from yields that were higher than the rest of Europe. Domestic institutional investors are currently tending to be buyers. In 2006 open-ended funds bought German property valued at almost 10 billion euros.

Property funds sector

At the beginning of the year, the temporary closure of the three funds Grundbesitz-invest, KanAm US-grundinvest and KanAm grundinvest late in 2005 or early 2006 led to significant returns in open-ended public property funds, in particular in the Germany-focused funds. During the year, the sector was able to win back the trust of investors. The interest of institutional capital investors in special property funds is greater than ever before, as shown by surveys. It was only the lack of suitable property products that put a brake on the growth required by the market.

Business growth and profit trends of DekaBank

Main trends for DekaBank Group

DekaBank Group continued to improve its competitive position in key points in the 2006 financial year.

In the investment fund business, new business reached its highest level for six years. At the same time, important progress was made with regard to performance. Our guaranteed funds maintained their top position in the market and posted net inflows of more than 1 billion euros. Workflows in product management were optimised, which will in future lead to a significant acceleration in the development of new products. In addition, the refocusing of institutional sales was introduced.

Against the background of a favourable market environment for property investments, the stabilisation of the Deka-ImmobilienFonds was successfully completed in 2006, which was therefore considerably faster than planned. In spite of reduced fund volumes, DekaBank Group was able to maintain its leading market position.

In the Corporates & Markets business division, we recorded a positive development in capital market investments inter alia. In the large credit sector we are increasingly successful in the capital market with complex credit structures.

Earnings development

DekaBank posted satisfactory results in 2006. The total of net interest and commission income, trading income and other operating income amounted to €837m.

Net interest income was down 24% at €461 million (2005: €603m) dragged down mainly by positional changes and higher interest expense due to increases in interest rates. At €161 million, net commission income was clearly above 2005’s level. 2006 trading income was again buoyant at €14 million (2005: €5m). Other operating income amounted to €201 million (2005: €197m). As in 2005, the results from Group intercompany services accounted for the largest share.

2006 operating expenses came in at €482 million, up 5% above the 2005 largely due to additional expenses for strategic reorganization, especially in personal and material costs. Personal expenses increased by 7% to €185 million. Material costs rose on account of increased IT consulting fees and development costs, as well as marketing and selling expenses. Movement on risk provisions came in at a net €354 million income, which was €129 million or 27% lower than in 2005.

The total revaluation adjustments in credit, securities and investment transactions, as well as risk provisions amounted to a loss of –€239 million in 2006 (2005: –€347m). The loss from securities transactions of –€110 million arose from shares in the Deka-ImmobilienFonds acquired for stabilisation purposes. This loss was accentuated by the expected fund price decrease as a result of the dividend distribution for the 2005/2006 fund financial year, which was accrued in net interest income for the same year. The planned reduction in investment fund shares in 2007 will take this into account. The loss from investments of €129 million was primarily due to an impairment charge on a subsidiary’s office complex. The restructuring expenses, which amounted to €33 million (2005: €567m), included €123 million of capital contributions to stabilise the Deka-ImmobilienFonds. As a consequence, the reorganisation and restructuring of the fund was completed ahead of schedule. Approximately a further €12 million was allotted to reorganization measures as a part of the restructuring of the DekaBank Group. This expenditure was partly offset by a capital gain of €103 million from sale of the property that DekaBank had acquired in 2005 as a further stabilisation of Deka-Immobilien-Fonds. Operating profit of €115 million was €21 million below the level of 2005. After deducting interest on typical silent capital contributions and income tax, DekaBank posted profit after tax of €50 million, up €2 million over 2005 (fig. 2).

Asset Management Capital Markets

In its largest business division, Asset Management Capital Markets, DekaBank Group has maintained its prominent position in the market. Not only were very high gross sales achieved in public funds, but also the performance of the main products improved in a market comparison. We have systematically extended the product range through numerous innovations and new, intelligent fund concepts. DekaBank was particularly successful with its fund-based asset management product range. We also achieved average growth for mandates from institutional investors, even if these remained behind market growth.

Public funds: Successful new business

New business in the investment fund business was very buoyant – a high since 2000, which was an exceptional year. Given the high value of redemptions of fund units, the net inflows of own public funds of 1.4 billion euros remained below the values for 2005 of 2.3 billion euros. New business was boosted by our guaranteed products reflecting the current general requirement among investors for security, which were successfully launched on the market. In addition to the net inflows of equity and bond funds, which grew in line with the industry trend, all other asset classes posted sharp growth.

Consequently, money market funds were up 21% on 2005 at 13.1 billion euros, while guaranteed funds increased to 3.1 billion euros. Since 2006, a part of the funds which were issued in conjunction with fund-based asset management has been taken into account in the mixed fund asset class. In total, the assets of the public funds increased in 2006 to 90.4 billion euros. DekaBank Group's market share in the public fund sector increased in 2006 to 18.3% (2005: 16.5%).

Fund-based asset management retirement products, which are being adopted by an increasing number of investors, drove sales as in previous years. In 2006, a total of 4.4 billion euros was invested in our fund-based products. Fund-linked asset management received cash-inflows of some 2.3 billion euros and funds of funds over 2.0 billion euros. Most net inflows were invested in income-focused products (fig. 3).

In spite of the moderate growth in comparison to the exceptional year of 2005, in terms of volume DekaBank remained the market leader in Germany in the fund-based asset management product sector. The volume of the product line grew from 36.5 billion euros in the previous year to 42.8 billion euros in 2006 (fig. 4).

Earnings (fig. 2)

	2006	2005	Change	
	€m	€m	€m	%
Net interest income	461	603	–142	–24
Net commission income	161	137	24	18
Trading income	14	5	9	180
Administrative expences	460	434	26	6
Provision for risk/valuation	–239	–347	108	31
Income tax	1	24	–23	–96
Net income after tax	**50**	**48**	**2**	**4**

Convincing Performance

The package of measures implemented in 2005 to improve the funds' quality was successful. A persistently held investment principle, which follows the guidelines of transparency, measurability and responsibility, along with clear decision-making structures and the personal performance responsibility of fund managers, led to a significantly higher identification and noticeably better performance of products. Initiatives such as "Giving the fund a face" also contributed to a more stringent product and teamwork.

Whilst the bond funds, which were already well positioned, also fulfilled expectations in 2006, we achieved marked improvements in equity funds in particular. Our top equity funds designed to outperform our leading competitors largely met their objectives. With a gain of around 24%, DekaFonds exceeds the benchmark by over 2 percentage points and is way ahead in a market comparison. The globally oriented DekaSpezial fund has completed a long-term turnaround and with growth of 8% is also significantly above its benchmark. AriDeka has increased its attractiveness for investors with absolute growth of approximately 15% (one year) or 50% (three years), but is still behind some competitive products.

According to S&P Micropal, in 2006, over 50% of DekaBank equity funds came in the top two quintiles – i.e. the top 40% of all comparative funds, whilst the proportion of funds in the

Net sales – public securities funds and fund-based asset management (fig. 3)

<table>
<tr><th></th><th>2006
€m</th><th>2005
€m</th></tr>
<tr><td>Equity funds</td><td>–3,219</td><td rowspan="2">–3,333</td></tr>
<tr><td>Guaranteed funds[1)]</td><td>1,077</td></tr>
<tr><td>Bond funds</td><td>–402</td><td>5,367</td></tr>
<tr><td>Money market funds</td><td>2,127</td><td>4</td></tr>
<tr><td>Other funds</td><td>1,843</td><td>234</td></tr>
<tr><td>Public securities funds</td><td>1,426</td><td>2,272</td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td>Funds of funds</td><td>2,025</td><td>2,682</td></tr>
<tr><td>Fund-linked asset management</td><td>2,344</td><td>4,157</td></tr>
<tr><td>Fund-based asset management</td><td>4,369</td><td>6,839</td></tr>
</table>

[1)] In accordance with *Bundesverband Investment und Asset Management* (BVI) principles, guaranteed funds (e.g. Deka-WorldGarant funds) are shown in the new guaranteed funds asset class as from January 2006.

Fund assets – public securities funds and fund-based asset management (fig. 4)

<table>
<tr><th></th><th>2006</th><th>2005</th><th colspan="2">Change</th></tr>
<tr><th></th><th>€m</th><th>€m</th><th>€m</th><th>%</th></tr>
<tr><td>Equity funds</td><td>31,687</td><td rowspan="2">33,170</td><td rowspan="2">1,622</td><td rowspan="2">5</td></tr>
<tr><td>Guaranteed funds[1)]</td><td>3,105</td></tr>
<tr><td>Bond funds</td><td>29,353</td><td>30,482</td><td>–1,129</td><td>–4</td></tr>
<tr><td>Money market funds</td><td>13,101</td><td>10,819</td><td>2,282</td><td>21</td></tr>
<tr><td>Other funds</td><td>13,121</td><td>1,331</td><td>11,790</td><td>(>300)</td></tr>
<tr><td>Public securities funds</td><td>90,367</td><td>75,802</td><td>14,565</td><td>19</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Funds of funds</td><td>20,697</td><td>17,681</td><td>3,016</td><td>17</td></tr>
<tr><td>Fund-linked asset management</td><td>22,062</td><td>18,824</td><td>3,238</td><td>17</td></tr>
<tr><td>Fund-based asset management</td><td>42,759</td><td>36,505</td><td>6,254</td><td>17</td></tr>
</table>

[1)] In accordance with *Bundesverband Investment und Asset Management* (BVI) principles, guaranteed funds (e.g. Deka-WorldGarant funds) are shown in the new guaranteed funds asset class as from January 2006.

two bottom quintiles – the worst 40% of all comparative funds – continued to fall.

This upward trend was also reflected in the ratings of the funds issued by rating agencies. The number of funds with a top rating has grown considerably. The calculation of these ratings over several years takes account of earlier less good years. Over time we continue to strive for a further significant improvement in ratings.

Innovative product range

We have extended our product range offering for public funds with intelligent concepts such as tax-optimised products, money market funds with clear yield targets or innovative guaranteed funds. These pursue current capital market objectives and have attractive fund solutions while developing new product ideas. Examples:

- With Deka-Commodities the growth opportunities of the commodities markets can be directly exploited.
- Deka-KickGarant 2006 and 2006 II attracted strong interest during the football World Cup and generated cash inflows of more than 600 million euros within a few weeks.
- With Deka-Best of Garant 10/2013, a new concept was set up, which throughout its seven-year duration exploits equity and bond opportunities as well as the money markets and alternative investments.
- Deka-Global ConvergenceRenten invests worldwide in government and corporate loans in emerging countries and invests significantly in local currencies.
- Deka-OptiCash and Deka-OptiRent stand for tax-optimised fixed-term funds.
- Deka-GeldmarktPlan provides a competitive alternative to the products offered by direct banks for short-term investments.

Special funds: Moderate cash inflows

The performance of the special funds also continued to improve in 2006. However, DekaBank Group was below average in the sales growth of the entire sector.

In the special funds and mandates business, there was a clear trend away from classic special funds in favour of master capital investment company mandates and advisory/management mandates, which resulted in outflows of 6.8 billion euros for the special securities funds. However, these were offset by sales growth in advisory/management mandates (4.4 billion euros) and master capital investment company mandates (8.6 billion euros) (fig. 5).

The performance of managed volumes of special funds and mandates was in line with sales growth. While for classic special securities funds, the managed fund volume reduced from 42.0 billion euros to 35.2 billion euros, master capital investment company mandates saw a volume increase to 10.3 billion euros and the volume of advisory/management mandates more than doubled to 7.6 billion euros (fig. 6).

Net sales – special securities funds/mandates (fig. 5)

	2006 €m	2005 €m
Special securities funds	–6,831	–3,367
Master-KAG mandates	8,635	1,040
Advisory/management mandates	4,382	1,167

Fund assets – special securities funds/mandates (fig. 6)

	2006	2005	Change	
	€m	€m	€m	%
Special securities funds	35,196	42,037	–6,841	–16
Master-KAG mandates	10,316	1,332	8,984	(>300)
Advisory/management mandates	7,614	3,234	4,380	135

Profit trend in the AMK business division

DekaBank's Asset Management Capital Markets business division posted earnings of 286 million euros, up 19% over 2005 earnings of 240 million euros.

Total income amounted to 682 million euros, up over 93 million euros compared with 2005 total income of 589 million euros. Income of the AMK business division consisted largely of commissions, which mostly comprised fees for administrative and custodial bank functions. Total income also includes custodial fees.

The positive trend is above all due to the sales success of fund-based asset management as well as the positive growth of our funds.

Expenses amounted to a total of 397 million euros (2005: 349 million euros) and in both years, the vast majority of expenses consisted of administrative expenses, which increased 9% to 369 million euros compared with 338 million euros in 2005. This increase is largely due to intensive activities undertaken for our sales partners. The increase of other expenses is due in part to the measures introduced in connection with the strategic refocusing in the AMK business division (fig. 7).

Asset Management Property

In the Asset Management Property business division, DekaBank Group took full advantage of the favourable German property market: the structure of the Deka-ImmobilienFonds was considerably improved by the sale of large property portfolios and a series of individual sales and the financial restructuring was completed three years sooner than planned.

In addition, the situation stabilised in the second half of 2006 following high cash outflows in the first half of the year. In spite of an overall decline in fund volume, we managed to maintain the market leadership in the open-ended public property fund business.

Stabilisation of the property funds

The main focus in 2006 was on the stabilisation of Deka Immobilien Investment GmbH and the financial restructuring of the Deka-Immobilien-Fonds. Both measures were achieved successfully. A considerable contribution to this success was made by the aforementioned portfolio sales of the Germany-focused funds Deka-ImmobilienFonds and WestInvest 1.

The total value of these transactions alone was approximately 1.5 billion euros. With these transactions we exploited the current market opportunities in line with fund strategies, in order to sell off properties not suited to the portfolio strategy and to boost earnings for our products.

Through consistent cost and income management, we have prepared the ground for a significantly improved efficiency in the business division in future. In addition, the IT environment was reorganised during the year and an integral risk management approach set up.

Positive performance

The performance of all public funds sharply improved. This, together with other measures

Asset Management Capital Markets (fig. 7)

	2006 €m	2005 €m	Change €m	%
Net commission income	679.2	596.0	83.2	14.0
Other income	2.9	–7.3	10.2	139.7
Total income	**682.1**	**588.7**	**93.4**	**15.9**
Administrative expenses	369.3	337.8	31.5	9.3
Other expenses	27.3	11.1	16.2	145.9
Total expenses	**396.6**	**348.9**	**47.7**	**13.7**
Net income before tax	**285.5**	**239.8**	**45.7**	**19.1**

for the restructuring of the Deka-Immobilien-Fonds and for protecting the interests of investors, resulted in upgrades to fund ratings by the Scope rating agency for the open public funds WestInvest 1, WestInvest InterSelect, Deka-ImmobilienFonds and Deka-Immobilien-Global. In the management rating, both subsidiaries are now among the top five companies in the sector. Deka Immobilien won the Scope special award for the successful reorganisation of the Deka-ImmobilienFonds.

Stabilisation of net sales

Net sales of –4.0 billion euros for public property funds in 2006 were some 1.6 billion euros lower than 2005 due to industry-wide customer redemptions as well as the control of special assets in accordance with product strategy. In the second half of the year, the demand of savings banks' customers for our products noticeably picked up again, so that customers' redemptions normalised again. Since the guarantee covering product performance is in the spotlight and, after the sales, all funds have a high liquidity, we have in agreement with our sales partners only targeted authorised cash inflows and only to quite a small extent (fig. 8).

The fund assets of the public property funds amounted to a total of 16.8 billion euros (2005: 20.8 billion euros) at the end of 2006. In spite of the reduced fund volume, we have maintained market leadership with a comfortable margin with a 22.3% share (2005: 24.5%).

Due to higher cash commitments, the special property funds' assets of 963 million euros were only slightly above the 2005 level of 943 million euros.

Here too, the growth was caused by the investment options and not by investor interest in the market. In the individual property fund sector, fund assets were up 60% at 99 million euros over 2005 assets of 62 million euros (fig. 9).

Profit trend in the AMI business division

2006 earnings in the AMI business division was hit by the Deka-ImmobilienFonds restructuring costs. The reorganisation of the fund was completed by the end of the 2005/2006 fund financial year rather than 2008/2009, as scheduled in the original timetable. The 2006 loss of 150 million euros reflected the expense caused by the purchase of Deka-ImmobilienFonds units as part of the stabilisation measures undertaken by DekaBank, by the fee waiver and by restructuring costs. Without these exceptional costs the segment earnings would amount to approx. a loss of 46 million euros. The key factors underpinning these ongoing losses included write-downs following impairment tests on own property as well as renovation work for own property during preparations for sale.

Net sales – property funds (fig. 8)

	2006 €m	**2005 €m**
Deka-ImmobilienEuropa	–1,602	–1,082
Deka-ImmobilienFonds	–1,530	–1,128
Deka-ImmobilienGlobal	–269	–75
WestInvest 1	–600	–323
WestInvest ImmoValue	41	14
WestInvest InterSelect	–22	243
Public property funds	**–3,982**	**–2,351**
Special property funds	**8**	**–13**
Individual property funds	**36**	**29**
Institutional business	**44**	**16**
Total	**–3,938**	**–2,335**

Breaking down the individual components of earnings, the division's net interest income includes both income earned of 127 million euros on the distribution of Deka-ImmobilienFonds units held by the Bank and interest costs incurred of 94 million euros due to this distribution and due to the Group's own property. Since the Deka-ImmobilienFonds units are being reduced over 2007, the expected fund price reduction as a consequence of the distribution has been accrued in the non-trading financial result.

Net commission income increased by 7 million euros to 110 million euros (2005: 103 million euros), in particular due to a rise in acquisition fees and building fees due to an increase in transaction volumes generating income. Earnings from other financial assets reflect a capital gain of some 26 million euros on the sale of a Group-owned property.

Total expenditure decreased from 223 million euros in 2005 to 186 million euros in 2006 suggesting that the increase in administrative expenditure – due to higher write-downs – of 8 million euros was compensated by a reduction in other operating expenses. The restructuring expenditure of 20 million euros (2005: 55 million euros), largely comprises capital injections to the Deka-ImmobilienFonds of 123 million euros for stabilisation purposes. This expenditure was partly compensated by a capital gain of 97 million euros on sale of a property, which DekaBank had acquired in 2005 as part of the stabilisation of the Deka-ImmobilienFonds. Further income was generated by the write back of a provision for sales incentives of approximately 12 million euros, which was no longer necessary (fig. 10).

Corporates & Markets

In the Corporate & Markets business division DekaBank consistently developed its strategy during 2006. As a complementary activity to the acquisition of direct loan business, the company is increasingly acting as an investor in structured loan-capital market products. There has been a particularly strong demand for special financing, but we have also been able to strengthen our market position in the field of project and property financing. In addition, business in the field of capital market investments has been successful, despite the narrow spread. New issue business grew in line with expectations.

Successful financing business

In our loan business with major customers the focus in the year lay on medium to long-term maturities. Alongside its role as a classic lender, DekaBank has also created increasingly complex loan-structures in the capital market, through its Corporate Banking segment, and has in addition operated increasingly as an investor in corporate bonds as well as in structured loan investments.

Fund assets – property funds (fig. 9)

	2006 €m	2005 €m	Change €m	%
Deka-ImmobilienEuropa	6,865	8,409	–1,544	–18
Deka-ImmobilienFonds	3,182	4,799	–1,617	–34
Deka-ImmobilienGlobal	1,744	1,960	–216	–11
WestInvest 1	2,134	2,779	–645	–23
WestInvest ImmoValue	364	322	42	13
WestInvest InterSelect	2,558	2,547	11	0
Public property funds	**16,847**	**20,816**	**–3,969**	**–19**
Special property funds	**963**	**943**	**20**	**2**
Individual property funds	**99**	**62**	**37**	**60**
Institutional business	**1,062**	**1,005**	**57**	**6**
Total	**17,909**	**21,821**	**–3,912**	**–18**

Thus, in the new sub-divisions of credits and liquid credits, DekaBank is developing as a provider of special financing and as an asset manager in the primary and secondary markets.

In the various loan markets in 2006, DekaBank's Corporate Banking segment was successful both in bringing in new business and in the active management of existing business.

In special financing operations the Bank's range of products once again met with growing demand. Due to the sustained growth of the global transport market (airlines and shipping) we were able to boost our transport financing activities as a result of buoyant new business. In leveraged finance and project financing, DekaBank expanded its position despite increasing competition from institutional investors. In the financing of commercial property the domestic market continued to prove difficult, although an upturn in the economy caused a slight reduction in vacant buildings in certain sub-markets and a rising demand for tenancies could be observed. Through a selective approach to the market we were able to more than absorb the regular repayments and slightly increase our loan-book. In international property financing North America continued to be by far the most important market for DekaBank. Against a largely stable background our new business grew very satisfactorily. In the financing of open-ended property funds the year under review delivered positive growth in new business, albeit with significant pressure on margins. DekaBank was able to take more than its share of business both in the area of liquidity lines and in the financing of property purchases in the German market (special funds) as well as abroad (mainly public funds).

Capital market investments: Cautious moves in a challenging market

An equally gratifying trend was shown by capital market investments in the Corporate Banking segment. In a fundamentally positive market environment, our credit-spread products proved particularly successful. We were able to counteract the generally narrow spread environment through the targeted buying-in of more "granular" and structured credit risks.

Risk-adjusted yield control

We have successfully completed the measures for implementing the minimum equity regulations in accordance with Basel II and the subsequent examination for admission as an IRB institution (Internal Rating-Based Approach) by the supervisory authorities. Through the newly constructed loan portfolio model, the division can be even more actively controlled on the basis of a risk-adjusted yield-optimisation at the level of individual transactions.

Asset Management Property (fig. 10)

	2006	2005	Change	
	€m	€m	€m	%
Net interest income	33.2	57.2	−24.0	−42.0
Net commission income	109.6	102.7	6.9	6.7
Financial income – non-trading	−149.9	−41.4	−108.5	−262.1
Income from other financial investments	25.6	0.0	25.6	n/a
Other operating income	17.6	14.8	2.8	18.9
Total income	**36.1**	**133.3**	**−97.2**	**−72.9**
Administrative expenses	165.5	157.7	7.8	4.9
Other operating expenses	1.1	10.8	−9.7	−89.8
Restructuring expenses	19.6	54.6	−35.0	−64.1
Total expenses	**186.2**	**223.1**	**−36.9**	**−16.5**
Net income before tax	**−150.1**	**−89.8**	**−60.3**	**−67.1**

Profit trend in the Corporate Banking segment

The Corporate Banking segment contributed 69 million euros to group earnings in 2006. The decline of 49 million euros compared with 2005 earnings (118 million euros) can chiefly be attributed to the trends in risk provision, in the financial result and in administrative expenditure. In 2005, the sales of individual loan portfolios and the resulting cancellation of bad-debt provisions that were no longer required, led to a significantly higher balance in risk provision. The net interest income before risk provision stood at 94 million euros, 12% above 2005's value (84 million euros). Along with this, both in special financing and in project and property financing, we succeeded in more than compensating for the declining margins by increasing the loan volume. These core segments were also responsible for a marked increase in net commission income. In the net financial result income was depressed by a change to the overall assessment in the default risk management of the loan-book.

Administrative expenses rose by about 26% over last year's figure of 32 million euros, to 40 million euros. The change is chiefly attributable to a rise in transaction costs (fig. 11).

Capital Markets: High flexibility with risks continually monitored

In the Capital Markets segment DekaBank continued to pursue its strategy of guaranteeing maximum possible flexibility in trading activities while monitoring risk at all times. In line with the Bank's risk standards we in fact only maintained business relations with partners whose credit-rating was impeccable. As in previous years we concentrated on transactions with credit institutions abroad. Open-ended trading positions were only taken up in moderate volumes.

In the money market, as in previous years, we transacted the take-up of short-term funds mainly though our Euro Commercial Paper programme (ECP). The ECP enables us to issue debt instruments at various points in time and with a high degree of flexibility as regards volume and currency.

In foreign exchange trading we were significantly active in classic spot and forward currency trades. Our objective in this was to provide customers with optimum order execution with regard to quality and price. In proprietary trading we continued to hold open equity and fixed-interest positions to a small extent and within prescribed limits.

The new issue business of the DekaBank Group developed in line with expectations. As in 2005

Corporate Banking (fig. 11)

	2006	2005	Change	
	€m	€m	€m	%
Net interest income	94.0	83.8	10.2	12.2
Risk provision	2.2	36.1	–33.9	–93.9
Net interest income after risk provision	96.2	119.9	–23.7	–19.8
Net commission income	12.3	7.3	5.0	68.5
Financial income – non-trading	–0.4	12.5	–12.9	–103.2
Other income	1.9	10.1	–8.2	–81.2
Total income	**110.0**	**149.8**	**–39.8**	**–26.6**
Administrative expenses	39.7	31.5	8.2	26.0
Other expenses	1.0	0.0	1.0	n/a
Total expenses	**40.7**	**31.5**	**9.2**	**29.2**
Net income before tax	**69.3**	**118.3**	**–49.0**	**–41.4**

the greatest proportion was accounted for by the European Medium Term Note (EMTN) prgramme.

Profit trend in the Capital Markets segment

With a profit contribution of 263 million euros, the Capital Markets segment significantly exceeded 2005's figure (203 million euros) by 60 million euros, or nearly 30%.

Income totalled 335 million euros (2005: 269 million euros). The sharp decline in net interest income from 229 million euros to just 77 million euros this year chiefly reflects the high costs of refinancing and a narrowing of interest-structure curves. In addition, against the background of current trends in interest rates, changes in the treasury position were undertaken, which, while depressing net interest income in 2006, at the same time create a good starting-base for the 2007 financial year. Net commission income of 79 million euros was up nearly 21% on 2005. It is based, inter alia, on successful commission business in money market and foreign exchange trading as well as in equity trading, the latter being determined by market volatility and the resulting high volume of transactions in capital market-based asset management. The net profit from trading positions (77 million euros) showed a significant increase over 2005. The rise can be attributed to successful trading in equities and foreign exchange. The principal effect on the upward trend in revenue came from net financial income from non-trading positions, at 111 million euros. A significant driver of value was the result of reassessing interest-rate risk positions, which in 2006 produced a positive profit contribution. In 2005 the financial result was still considerably depressed by this position. The trend in other income is predominantly attributable to the markedly lower expenses arising from the redemption of our own new issues.

Total expenses rose due to a slight increase in administrative expenses, to 72 million euros (2005: 66 million euros). The chief causes for this were investments with long-term maturities and projects for implementing the new strategic focus of this business (fig. 12).

Financial position and assets and liabilities

Balance sheet development

The business volumes of DekaBank declined in 2006 by €6.8 billion or 5.4% to €119.8 billion (2005: €126.6 billion). The balance sheet total fell by €6.5 billion or 5.4% from €118.9 billion to €112.4 billion.

The asset side of the balance sheet was lower than the 2005 primarily because of the smaller volume of bonds and other fixed-interest

Capital Markets (fig. 12)

	2006	2005	Change	
	€m	€m	€m	%
Net interest income	76.9	229.0	–152.1	–66.4
Net commission income	79.4	65.8	13.6	20.7
Net income from trading positions	76.6	39.1	37.5	95.9
Financial income – non-trading	110.7	2.4	108.3	(>300)
Other income	–8.3	–67.4	59.1	87.7
Total income	**335.3**	**268.9**	**66.4**	**24.7**
Administrative expenses	71.2	66.1	5.1	7.7
Other expenses	1.2	0.2	1.0	(>300)
Total expenses	**72.4**	**66.3**	**6.1**	**9.2**
Net income before tax	**262.9**	**202.6**	**60.3**	**29.8**

securities. Amounts due from banks fell by €4.3 billion to €48.0 billion (2005: €52.3 billion).

This corresponds to a 42.7% share of the balance sheet total (2005: 44.0%). Amounts due from customers rose by €3.4 billion to €21.0 billion, representing approximately 19% of the balance sheet total (2005: 14.7%). Amounts due to customers increased by €3.8 billion to €33.9 billion (2005: €30.1 billion). Amounts due to banks shrank slightly to €31.2 billion (2005: €32.4 billion). Securitised liabilities sank by €9.8 billion to €41.3 billion. Balance-sheet equity capital amounted to €1.4 billion at the end of the period and consequently comprised 1.3% of the balance sheet total (2005: 1.2%).

Lending volume

The main focus of the lending business was loans to banks, which totalled €31.3 billion (2005: €34.3 billion). This amount represented 59.5% of the total credit volume of €52.7 billion (2005: €53.0 billion). The volume of credit to customers came to €16.5 billion, which was €2.1 billion above the value at the end of 2005. Contingent liabilities stood at €2.9 billion, up €0.7 billion over 2005. Irrevocable lending commitments amounted to €2.2 billion, down €0.3 billion from 2005.

Money market activities

Money market activities were predominantly undertaken with domestic and foreign banks. Call money and deposits as well as repo and loan transactions amounted to a total volume of €21.0 billion as at year-end 2006 (2005: €21.4 billion).

Securities portfolio

As at the balance sheet date of 31 December 2006, "Bonds and other fixed-interest securities" stood at €32.6 billion in the balance sheet, down €7.4 billion over the year. "Shares and other non fixed-interest securities" rose by €1.4 billion to €7.8 billion.

Of the €40.5 billion total value of the investment portfolio, 62.1% was allocated to cash reserves and 37.9% to the trading portfolio.

Development of regulatory capital and reserves

Calculated in accordance with the German Banking Act (Kreditwesengesetz or KWG), the regulatory capital and reserves of DekaBank comprise core capital, supplementary capital and third-tier capital. Core capital, which primarily consists of subscribed capital, atypical and

Capital and reserves (KWG) of DekaBank (fig. 13)

	2006 €m	2005 €m	Change %
Core capital	1,892	1,892	0.0
Supplementary capital	1,451	1,439	0.8
Liable equity capital	**3,307**	**3,395**	**0.4**
Capital and reserves	**3,309**	**3,298**	**0.3**
Risk assets	**23,611**	**23,049**	**2.4**
Market risk positions	**511**	**285**	**79.3**
	%	**%**	**Change %-points**
Capital ratio under Principle I	**14.0**	**14.3**	**–0.3**
Core capital ratio under Principle I	**8.0**	**8.2**	**–0.2**
Total ratio under Principle I	**11.0**	**12.4**	**–1.4**

typical silent capital contributions as well as reserves, was unchanged from the 2005, amounting to €1,892 million as of the balance sheet date on 31 December 2006. Supplementary capital, amounting to €1,451 million, was €12 million higher than in 2005. It consists of reserves calculated according to Section 340f of the German Commercial Code (HGB), subordinated liabilities and participating certificates. Allowing for deductible items and third-tier capital, the bank regulatory equity capital amounted to €3,309 million, up €11 million. Year-on-year, risk assets rose by 2.4% to €23,611 million.

The bank regulatory capital and reserves and liquidity principle were respected both at the bank and at the group level. In accordance with regulations, the liquidity of a bank must be assessed on the basis of the liquidity ratio specified in Principle II. Liquidity is sufficient if the liquidity ratio is at least 1.0, as stipulated in Principle II. In 2006, the liquidity ratio for the DekaBank lay between 1.36 and 1.90. The year-end value for 2006 amounted to 1.46 (fig. 13).

Employees

Moderate growth in positions filled

The average number of employees rose during the year by 1.9% to 3,300; of these 87.0% were employed full time. The number of occupied posts rose on average by an equivalent amount. As at the 2006 year-end DekaBank group employed 3,453 staff (of which 82 were trainees) (fig. 14).

A clear management structure

The strategic refocusing under the banner of "First Choice Deka" is particularly noticeable in the reorganisation of the Group's business division and management structure. We have established responsibilities for management and results even more clearly and strengthened our position in strategically critical areas.

Active personnel management

Management development

As part of the reorganisation of the management structure, mandatory targets were agreed for the Group and business divisions and a new strategic management process was introduced. During 2006 we expanded our management development activities. On the basis of an individual development audit and a personal development plan we are preparing more than 50 experienced managers in a targeted manner for even more challenging managerial assignments. The follow-up plan has been carried out throughout the Group for the first and second levels of management.

Performance-based remuneration

In the past financial year, with the introduction of the system of agreed targets and

Employees (fig. 14)

	2006	2005	Change number	Change %
Employees	**3,453**	**3,453**	**0**	**0.0**
of which trainees	82	84	–2	–2.4
Average posts occupied	**3,030**	**2,983**	**47**	**1.6**
Average number employed	**3,300**	**3,239**	**61**	**1.9**
of which full-time employees	2,872	2,848	24	0.8
of which part-time and auxiliary staff	428	391	37	9.5
Average age (in years)	**38.4**	**37.7**	**0.7**	**1.9**

performance-based remuneration, the foundation was laid for a modern bonus system geared to the commercial success of the company and to individual performance. With the introduction of the new system in WestInvest GmbH and in Deka(Swiss) Privatbank AG in 2006, the entire DekaBank Group now possesses an appropriate system of agreed targets and remuneration. Initial experience shows that the new tool encourages a results-orientated attitude at all levels of the company and offers transparent, comprehensible assessment criteria for fixing bonuses for management and staff.

The life-stage concept in personnel management

Thanks to our consistent personnel management approach based on life-stages, we are prepared for the demographic revolution that is taking place. Against this background we have extended our measures aimed at balancing family and professional life.

With regard to the creation of a family-friendly company, the proportion of part-time working is an important factor in our competitiveness. The proportion of part-timers in our active group workforce showed a clear and gratifying rise from 9.9 to 10.4%.

Optimisation of company pension provision

In 2006 the company pension provision for group units located in Germany was completed by offering the opportunity for converting remuneration into products of the *Sparkassen Pensionskasse AG* [Savings Banks' Pension Fund]. With this offer of provision DekaBank now fully complies with the legislative requirement for the conversion of remuneration in company pension provision. With the introduction of the Deka Basic and Bonus pension plan as well as the *Sparkassen Pensionskasse*, WestInvest has been integrated into the provision system of the other group companies based in Germany.

Post balance sheet events

No major developments and events of particular significance occurred after the 2006 balance sheet date.

Forecast report

Consistent pursuit of the new corporate strategy

With the new strategic orientation and the creation in 2006 of an organisational structure fit for the future, DekaBank has laid a stable foundation for growth and an increase in value in the coming financial years. Through the efficient system of management and control, in which responsibilities are clearly defined, we ensure entrepreneurial scope and a higher degree of transparency for our staff – as well as the greatest possible proximity to our markets and customers, and an optimum quality of service for the savings banks. Our overriding objective continues to be, as regards quality of products and services, cost-effectiveness and profitability, to create added value for DekaBank's unit-holders, sales partners and customers.

Comments on the future

We are planning future business development on the basis of assumptions that seem the most probable from today's standpoint. However, our plans and statements about future growth are fraught with uncertainties. The actual trends in international capital, money and property markets, or in DekaBank's areas of business, may diverge markedly from our assumptions. For the sake of providing a balanced presentation of the major opportunities and risks, these are shown broken down by division. In addition, the risk report included in the group management report contains a summarised presentation of the risk position of the DekaBank Group.

Anticipated external conditions

Macro-economic trends

Following the gradual interest-rate increases by the central banks we anticipate, in the next two years, largely stable external conditions based on the level of interest rates that has now been reached. Despite the higher interest rates and increased commodity prices we expect a slight acceleration in the global economy. The past few years have shown that the global economy withstands such downward pressures very robustly.

In Germany the increase in Value-Added Tax is likely to have a noticeable negative effect on household consumption, particularly in the first quarter. Due to predictable added pressure on incomes, for example through rising social security contributions, consumption for the rest of the year may hardly grow at all. The rise in GDP will therefore depend less on consumer spending and rather more on growth in investment and exports. We anticipate that Germany will once again be defending its unofficial title of "world export champion". Provided the unsettled political situation in the Middle East calms down and the currently overheated global economy achieves a soft landing, the chances of a sustained upturn in Germany are good.

Trends in capital markets

Following what is now the fourth successive good year for equities, most market players are entering 2007 with confidence. Despite marked upward movements in share prices, investing in the equities market has not fundamentally become more expensive, since corporate profits have risen to the same extent. Also, the anticipated intensive M & A activity in the wake of corporate restructuring may give a positive boost to the equities market and open up attractive new opportunities.

On the other hand, once again, only relative modest yields can be expected from fixed-interest investments. Like the majority of market observers, we do not foresee any marked rise in bond yields.

Trends in property markets

In the USA we anticipate in general a continuation of the positive trend in markets for office buildings and tendency towards lower vacancy rates. The top rentals ought to show the strongest growth in New York and San Francisco. At the lower level of "cap rates" there is not likely to be much change during 2007, due to the still favourable level of interest rates and the lack of comparably high-yielding investment opportunities. In Asian markets we expect only a very slight weakening in rental growth; the high demand, especially from the banking and financial sector, continues to offer good prospects for rental growth. The supply of first-class premises in the major capitals remains limited.

In Europe, high liquidity chiefly among institutional investors is ensuring a continuing high level of purchase prices, especially in the case of rented buildings with stable yields. In the medium term, however, we foresee a weakening in investor demand in markets such as Britain, where the yield from property is increasingly approaching that from bonds. For the two big markets of London and Paris, but also for locations in Spain and Scandinavia, we anticipate a decline in vacancy and a growth in rentals. Expectations for other locations are less optimistic.

The investment markets in Prague, Budapest and Warsaw are particularly buoyant. Here there is an adequate supply of A-class premises and a well-filled pipeline of projects, but even so we have been waiting a long time for growth in rentals.

In Germany, the market for office buildings is still on the way to recovery. However, vacancy levels are in general declining more slowly than expected – despite a lively demand for A-class premises and only a moderate volume of new builds. However, there is a split to be seen here between the trend in A-class premises and the rest. At the top end of the market, Frankfurt and Munich have the best chance of rises in rentals. In the retail sector as well, we expect a continued two-tracked trend. In heavily frequented locations we are assuming a stable trend in the rental market. The limited supply of A1 sites is increasingly expanded by inner-city shopping-centres. By contrast, in inner-city locations and on the outskirts, traditional retail premises and older shopping-centres have had to contend with rises in vacancy levels and declining rentals; it is here that the number of specialist market centres is increasing.

The continuing high investment pressure in property investment is likely to last in the short to medium term. We regard the current interest-rate driven level of purchase prices as unsustainable. Opportunistic investors – predominantly from abroad – see their opportunities in older building stock in need of renovation.

Expected trend in business and financial results

In the financial years 2007 and 2008 DekaBank Group plans to increase group earnings substantially and sustainably on the basis of a stronger penetration of the market and customer groups as well as a high level of product quality.

In this, a key financial performance indicator must be the expansion of assets under management, based on first-class product performance and a higher level of sales. On this basis we believe we will achieve a marked increase in net commission income in the Capital Market Asset Management division. In the Property Asset Management division, after completing the stabilisation of the Deka-ImmobilienFonds and the integration of property financing, we expect a noticeable improvement in financial results. In the Corporates & Markets business division as well, we expect revenues in the next two years to show a positive trend overall.

Through consistent exploitation of our potential for efficiency, in our opinion, expenses will only increase moderately – despite additional growth-related spending on the basis of the re-focused business model.

We plan to achieve this sustained improvement in earnings while maintaining a largely stable risk-capital. The opportunity-risk profile of the DekaBank group should be improved in this way, as should the yield ratios and the cost-income ratio.

Asset Management Capital Markets (AMK) business division

In order to guarantee a sustained positive trend in business and financial results, in the AMK division DekaBank is concentrating chiefly on five key measures:

- Increasing sales to private and institutional clients
- Further improving the performance and rating of our securities funds
- Creating sales incentives by means of a competitive price model
- Renewed intensification of product innovation, and
- Expanding our presence in attractive foreign markets

Increasing sales effectiveness

In our business with private and institutional investors we are focusing our product and sales offensive on the very successful fund-based asset management activity (funds of funds, fund-related asset management). Here we intend to extend our market leadership. In addition, it is our objective, in the direct sale of publicly marketed funds up to the year 2008, to regain market-share and thereby to widen our sales and revenue base.

In institutional business, as part of the "Pro Sales Institutional" sales initiative, DekaBank plans to exploit the alliance with the savingsbanks – the key customers for the management of their own investments – and to raise sales on an ongoing basis. For this purpose new acquisition and sales processes have been defined and new products launched.

Further improvement to performance

In the future, too, we intend to continue improving product performance in relation to the market – especially in the case of our European equity funds. Our objective is for our funds to beat the relevant benchmarks and to end up in the top two quintiles, that is to say in the top 40% of the relevant comparison groups. We are confident that the changes in fund management will continue to show their impact and anticipate a further improvement in our ratings. Overall, therefore, we are assuming significant inflows of funds and an improvement in the market position of our fund products.

Competitive pricing

By adjusting the price structures in public funds to an average level and through a stronger orientation of the bonus-system to net sales performance, we intend to create increased incentives for the savings-banks as exclusive sales partners, and to acquire new funds for the fund business with DekaBank.

Continued product innovation

The product range in the AMK division will be systematically broadened and developed through targeted innovation. In so doing we are aiming at a balanced ratio between new and existing products. In 2007, among other things, we will exploit the wave of globalisation: interesting investment ideas such as Deka-UmweltInvest, Deka-GlobalChampions and Deka-Commodities will be presented as product offers, principally to individual customers. In addition we will further expand our successful range of targeted funds. We envisage time-scales of 10 to 50 years, in order to be able to offer targeted, opportunity-orientated saving for different customer needs.

As a further variant on this idea, we are planning to launch a fund under the title "Zielfonds-Garant". These products offer our customers a monthly guaranteed maximum in savings phases that are also of 10 to 50 years.

Internationalisation

After establishing a representative office in Vienna early in 2007, the AMK Division intends to use it as a base for an intensive development of the Austrian and central and east European markets. Among other things, Austria is an attractive and growing market in the field of asset management for institutional investors. In central and eastern Europe the banking market offers particular growth potential in loan and deposit business, since this is being actively upgraded to western standards.

Significant opportunities and risks

For 2007 and 2008 we forecast a rise in assets under management. This growth will be driven chiefly through successful selling of both existing newly developed products. In addition we anticipate contributions to growth through the positive value-growth of our products.

Risks arise chiefly through uncertainties with regard to further trends in international securities markets. An unfavourable development might impair hoped-for growth in value. Furthermore, planning by the sales department of sales to private and institutional clients is beset with uncertainty.

Expected trend in financial results

Overall, DekaBank forecasts significant increased revenues in the AMK division for the next two years, with only a moderate increase in costs. Through a new fee structure, designed to encourage sales, additional income should be generated in the medium term. However, in 2007 and 2008 we expect the new sales commission model, which accompanies the new fee structure, initially to dampen income.

Asset Management Property (AMI) business division

Following the integration of property financing, all property activities in DekaBank Group have been brought together in the AMI division. After the successfully completed stabilisation in 2006, the division is once again aiming for revenue-orientated growth. On the basis of the structure created with "First Choice Deka", we intend to position ourselves more strongly than before as a manager of property-based assets for our savings-bank customers. With the traditional products we will continue to follow the proven dual market strategy with WestInvest and Deka Immobilien. At the same time we will be developing new property- and property-loan based investment products. We will also continue to drive forward the improvement in performance and in the cost and revenue structures.

Targeted purchasing policy for public funds

The high proportion of liquidity in the funds, after extensive sales in 2005 and 2006 will be used for the purchase of high-yielding properties. With an eye on the high purchase prices which are reflected in the historically low yields (cap rates) in all established property markets, we will also engage with new countries and with secondary markets in established countries. In doing this, the focus will be strongly placed on the asset classes of retail outlets, logistics facilities and hotels.

Expansion of our range of special and individual funds

As shown by the brisk demand for our special and individual funds, there is no waning of interest in special property funds among institutional capital investors. The anticipated market introduction of the G-REIT will make little difference to this, since, due to its equity-based holdings, it displays a completely different risk-return profile to that of open-ended funds. Therefore we will continue to be in a position to expand our range of special and individual funds independently of the investment opportunities.

Integration of property financing

With the integration of the property financing sub-division, the AMI division is extending its activities to the financing of major property investments for professional investors. We will use the majority of these assets to put together additional attractive investment products with a property background for our alliance partners, through syndication, securitisation and possibly also fund designs. Here too the focus lies on commercial or residential properties, immediately available for third-party use, in fluid property markets throughout the world.

Exploitation of synergies

Similar activities throughout the division will be bundled in order to improve professionalism further and thereby most importantly to improve our access to the market. We intend to have largely completed this process during 2007. The standardisation of the IT systems will continue into 2009.

Introduction of new products to the market

The high demand for property-based investment products both to private customers and institutional businesses will also be met by the AMI division with new fund concepts and innovative products outside the fund business. In addition, the division is taking all necessary steps to be REIT-compliant as early as the first half of 2007. Provided a suitable property portfolio is available, the launch of a REIT is planned. In any case, the existing public and special funds have clear precedence in the purchase of properties. Thus, in the medium term, we regard REITs as a possible vehicle for the capital-market placement of properties which do not fit our fund strategy. We will consistently pursue the path already embarked upon with the individual funds of Deka Immobilien, namely that of building up alternatives alongside the investment products regulated under the Investment Act.

Significant opportunities and risks

Under our plans, assets under management, in the case of public funds, will maintain the level of 2005. The background to this is provided by the funds' high liquid reserves, the limited availability of attractively priced properties and the redemption of remaining units held by DekaBank in the Deka-ImmobilienFonds planned for 2007. On the other hand, we expect growth in the special and individual funds for institutional investors. Likewise, newly developed products are expected to have their first positive impact on the volume of properties held. Overall, we therefore anticipate a slight growth in assets under management in the AMI division.

Due to the ongoing re-focusing of property financing, in 2007 we expect new business in this area only to be at 2005's level.

The significant risks in the AMI division include possible yield risks for the capital investment companies (KAGs) in connection with the growth in assets under management and the volume of transactions. The growth of assets under management and thus also of holdings-related commissions are currently being held back by a shortage of products in the property market. However, the negative impact on purchase transaction fees may be partly compensated for by advantageous sale terms as a result of active portfolio management. The liquidity-control of the funds is carried out on a daily basis by making use of suitable instruments and in dialogue with our sales partners. Monitoring the risk of withdrawal of liquidity, still present in older public funds, is the focus of the risk management of special assets, where the systems developed to reduce this risk are being used consistently and are biting.

In the case of our own properties there exists the fundamental risk that rental yields will be absent or that expected growth in value may not be achieved, due to market or local factors. Typical risks in property financing lie in the drying up of cash-flows, for example as a result of trends in business activity. Such risks can be kept within limits through a risk-orientated underwriting policy.

Expected trend in financial results

On the basis of planned measures we expect in each of the next two years a noticeable improvement in the financial results of the AMI division. In addition to the market-related measures, there should also be a positive impact from the optimisation of the divisional structure, handling procedures and the IT system configuration.

Corporates & Markets (C&M) business division

The bundling of loan business, trading and sales activities in capital markets, as well as the refinancing assignments in the new division will lead to markedly more efficient structures and processes and will have a positive impact both on income and costs.

Strategic orientation and measures

In the Credits sub-division, against the background of high liquidity and the resulting narrower spreads, we are focussing on special financing operations which meet our yield and risk standards. The emphasis continues to be on transport, export and trade financing, on transaction-orientated credit investments in leveraged loans, project, cross-over and other special financing operations, as well as on the financing of infrastructure projects abroad.

In the Liquid Credits sub-division, in addition to classic bonds and single-name credit default swaps, considerably higher priority is also being given to capital market instruments such as collateralised debt obligations and asset backed securities.

In the Markets sub-division the product range will be broadened once again to meet customer needs. One area for attention is the expansion of repo/loan business within short-term interest-rate and liquidity management with the aim of combine repo business activities more closely with classic short-term business and to exploit collateral holdings as far as possible. In addition, our commission business will be expanded.

Significant opportunities and risks

We expect that the demand for special financing will continue to grow in the next two financial years. By strengthening our offer of tailor-made financing we intend to make above-average profits from it in the Credits business. In Liquid Credits we are counting on growth and income opportunities through an improved range of structured and complex products for the loan-capital market; here we are principally acting as an investor. The impending implementation of the Financial Services Directive MIFID will, in our estimation, strengthen the confidence of investors in the capital markets and guarantee an even higher degree of transparency in the execution of customer orders.

Risks exist with regard to the trend in spreads and to the volatility in the loan and capital markets. A further narrowing of spreads might lead to downward pressure on profits.

Expected trend in financial results

The Corporates & Markets business division is aiming in 2007 and 2008 for a significant increase in net interest income, net commission income and financial result. This should lead to higher earnings for DekaBank Group.

In the Credits sub-division, thanks to our focus on attractive special financing opportunities, we expect higher net interest income and net commission income, with costs declining slightly. In the Liquid Credits sub-division, the expansion of the product range should also lead to a rise in contribution, with only moderate cost growth. In the Markets sub-division, we intend to increase income further through optimised processes and, above all, through an above-average quality of products and services for customers inside and outside the Bank.

Risk report

The following risk report corresponds in form and content to the risk report published in the Group Management Report. Risk management and control is focused on the group and therefore includes all business lines and legal entities. A risk report at the level of the individual bank has therefore not been prepared.

Risk management principles

Professional management and real-time monitoring of all risks are an integral part of the overall control of the Bank. Only in this way can the DekaBank Group incur controlled risks in accordance with the business strategy and regard them in a holistic manner along with the risk capital available and the required return.

The aim of DekaBank is to generate an appropriate return on equity under risks that are monitored at all times. The basis for this is a risk system with which risks can be identified at an early stage and limited in accordance with the risk-bearing capacity of the Group. The information required for risk-control is made available in real time to the responsible quarters under the risk management system.

Against this background DekaBank maintains a high-performance risk management and monitoring system, which it is continuously reworking and developing. Based on this, risks are identified, quantified, analysed and captured within an objective and comprehensive risk reporting system.

Organisation of the group-wide risk management and risk control system

Risk management

DekaBank's risk management is a system for actively controlling risk positions. The risk management functions are fulfilled by the Board of Management, the Asset-Liability Control Committee and the Corporates & Markets business division.

Responsibility for the implementation, organisation and effectiveness of the group-wide risk management system in compliance with regulations rests with the Board of Management of DekaBank as the parent company of the DekaBank Group. It determines the strategic focus of the Group and lays down its business policy with regard to risk and return. In this context the Board gives approval for the overall risk at group level – as well as the allocation of risk capital reserves. This is divided, in particular, between default and market-price risks and, within the market-price area, between trading-book and strategic positions.

The group control of default risk is the responsibility of the Corporates & Markets business division.

The Asset-Liability Control Committee sets out the framework for the management of the strategic market risk position in accordance with the limits laid down by the Board of Management. The implementation is then carried out by the Corporates & Markets business division under their own responsibility.

Within the strategy, which the Board lays down for the Group, the heads of the Group are responsible for the operational risks of their organisational units.

Control of risks

Risk control is based in the Corporate Risk and Finance Centre. Its key task is the development of a standardised and self-contained system, which quantifies and monitors the risks associated with the Group's activity. Particular attention is paid to all market-price, default, liquidity and operational risks, as well as other risks including property, direct shareholding and business risks. Risk control itself does not initiate transactions of any kind and acts independently of the business divisions.

The functions of risk control also include monitoring the limits approved by the Board of Management and the responsible divisions, as well as the ongoing further development of the relevant methods and processes according to operational and regulatory criteria.

Internal audit

Internal Audit, as a unit independent of other processes, has the task of supporting the Board and other levels of management in their supervisory function. It examines and assesses all activities and procedures on the basis of an audit plan, which has been set up in a risk-orientated manner using a scoring-model, and has been approved by the Board. Among its most important tasks is to assess the business organisation with regard to whether the internal control systems, and in particular that for controlling and monitoring risk, are fit for purpose. The Internal Audit department also examines internal and external reporting, as well compliance with legislative, regulatory and internal rules.

Risk-tolerance and Integrated Bank Control

Within the framework of overall bank control, the financial targets of the business divisions are fixed with reference, among other things, to the reserved risk-capital, in order to guarantee an appropriate return on equity for the unit-holders. The allocation of risk-capital to the individual business divisions is based on the business and risk strategy approved by the Board and forms part of both the overall planning in the form of future risk-profiles and also of the individual business case planning. Under the plans, a planned capital requirement is calculated by the business divisions ("bottom-up" view) and at the same time the available risk-capital is efficiently allocated from the standpoint of the Group as a whole ("top down" view), and then distributed among the individual business-generating units.

The risk-tolerance analysis is an essential component of DekaBank's overall banking control. DekaBank uses it to determine to what extent risks should be taken on. This ensures that DekaBank is able bear losses that may arise. For this purpose, firstly the risk control department calculates at regular intervals the Group's risk-cover funds, which can be drawn upon to cover losses. They reveal the level to which risks can be incurred pursuant to our business policy.

Secondly, the group risk is regularly calculated, taking in all significant income-generating types of risk. These include not only default, market and operational risks, but also property risk, shareholding risk, property fund risk and general business risk. To this extent the group risk also includes those risks that are not considered from a regulatory standpoint.

The comparison of the group risk with the risk-cover funds ensures that DekaBank's overall risk-bearing capacity is known. The risk-tolerance analysis thus conforms with DekaBank's prudent business policy. It serves to protect creditors and is a precondition for a further improvement in our already good ratings.

In the framework of integrated bank control, the risk-bearing capacity is quantified with the aid of graduated risk-cover funds. In doing so, DekaBank distinguishes, according to the legal status of the capital provider, between primary and secondary risk-cover funds: the primary risk-cover funds principally comprise IFRS-defined equity and retained net profit for the year; the secondary risk-cover funds contain items of a hybrid capital nature. The retained net profit for the year represent the planned net profit reduced by a safety-margin. Both types of reserve funds may be used to cover losses without any charge on DekaBank's priority creditors. While calls on the primary cover funds are exclusively borne by the providers of equity, recourse to the secondary cover funds also impacts on dormant partners, the holders of profit-sharing rights and second-rank creditors of DekaBank.

The risk-cover funds are set against group risk, which is made up of all income-generating types of risk incurred by DekaBank.

In this the individual risks are uniformly summarised under a "value-at-risk" index-figure over a one-year duration. This means that DekaBank can always cover unexpected losses that occur within a given year. The "value-at-risk" measurement makes it possible to compare and aggregate individual types of risk. At the same time, the Board has aligned the upper loss-limit

Group risk through the year (fig. 15)

for the taking on of risk arising from normal business activities, with a corresponding limiting of risk-cover funds.

Under the risk-tolerance analysis we calculate the group risk to a confidence-level of 99.9% and 99.97%. The latter is thus based on default probability of a maximum of 3 basepoints and is thus one of the most prudent approaches generally taken in the market.

The aggregation of individual risks to make up the group risk is cumulative. Thus in calculating the overall risk of the Group, correlations across the individual risk types are left out of account. From this, too, it is clear that DekaBank proceeds in a prudent and conservative manner when calculating group risk.

The risk-tolerance analysis is carried out regularly and, since the middle of 2006, on a monthly basis. On each occasion the results are reported to the Board of Management and, on a quarterly basis, to the Administrative Board.

In our view the risk-tolerance analysis tool together with overall bank control are sufficient to meet the demands of modern business as well as regulatory requirements.

At the 2006 balance sheet date the group risk, calculated to a confidence-level of 99.9%, totalled 2,322 million euros (2005: 2,588 million euros). As at 31 December 2006 only 44.1% of the total risk-bearing capacity was taken up.

The proportions of the overall risk taken by the individual risk-types have remained largely unchanged over the year, and there have been no strucural shifts. A reduction is recorded in the property risk as at the 2006 balance sheet date due to the sale of the "Skyper" office tower (fig. 15).

The default risk represents the principal individual risk for DekaBank. However, the credit-risk indices in the reporting period are comparable with each other to a limited extent, due to beginning to use the loan portfolio model as from 30 June 2006. In particular, the new loan portfolio model also includes low-risk claims on the Federal Government or within the *Sparkassen-Finanzgruppe* (fig. 16).

Risk categories – individual risks

Market-price risks

Definition

By market-price risk, DekaBank means the risk of a financial loss on positions in its holdings, arising from future market-price fluctuations. DekaBank incurs market-price risks in the form of interest-rate, equity, credit-spread and currency risks, including any option risks attached to them.

Organisation of business subject to market risk

The tasks of risk control and risk monitoring for market-price risks are assumed by the Board of

Group risk by risk-type (fig. 16)

Management, the Asset-Liability Control Committee (ALCC) and the Corporates & Markets business division, as well as the risk-control department in the Corporate Risk & Finance Centre.

Risk control is carried out by the Corporates & Markets business division and by the ALCC. The ALCC is made up of the Board members responsible for the Corporates & Markets business division and the Corporate Risk & Finance Centre, together with their departmental managers and a representative of the Macro Research Unit of the Asset Management Capital Markets business division. The ALCC holds formal meetings twice a month. The limits laid down by the Board are always announced at the Board meeting, which follows the meeting of the ALCC. Changes to the limits for the trading portfolios as a whole, and for strategic positions, are discussed by the ALCC and submitted to the Board for decision.

Risk monitoring is carried out by the Risk Control unit in the Corporate Risk and Finance Centre. The unit is responsible for developing the methodology, for quality assurance and for supervising the procedure for quantifying market price risks. The tasks of Risk Control also include risk reporting, as well as monitoring limits and reporting any overstepping of the limits up the line to the Group Board.

For the measurement and monitoring of the risk position, all the DekaBank Group's individual positions as at the balance sheet date are taken into account. The measurement, monitoring and reporting of the risk figures are based on a standardised group-wide portfolio hierarchy. In particular, a distinction is made between the trading-book and the treasury (strategic positions). Each transaction is immediately assigned to a portfolio at close of business.

Quantifying market-price risks

The most significant market-price risks for DekaBank Group lie in interest-rate changes and equity risk and arise both from strategic positions and from traded holdings. Because of the extent of transactions affected by interest rates and equity prices, and because of their complexity and risk-content, DekaBank assigns a particularly high priority to the development and refinement of the system for measuring and monitoring the risks in interest-rate and equity positions.

Under the internal market-price risk calculation, risk indices are calculated daily by means of scenario analyses using the scenario-matrix method and the value-at-risk procedure. In addition to the limiting of risk positions, stop-loss limits are applied at the portfolio level to ensure an effective containment of loss.

Standard scenarios

In the framework of the scenario-analyses, standard scenarios are defined to cover each of the different risk factors: interest-rate, credit-spread, foreign exchange and equity price changes. The scenarios provide operational control and limiting of linear risks arising from trading and treasury positions.

As a standard scenario for calculating interest-rate risk, use is made of a hypothetical parallel shift in current currency-specific and sector-specific yield-curves by 100 base-points upwards or downwards. The calculation of the interest-rate risk is performed for each currency by a comparison of the cash value of all individual transactions, which are calculated by means of current and shifted interest-rate curves.

The negative value change reflects the potential loss or interest-rate risk. At the same time it documents whether the risk exists of a general increase or decrease in interest rates.

In addition to the scenario analyses described above for the general risk of an interest-rate change, there is also an examination of the specific risk of interest-rate change arising from capital market products and credit derivatives. The specific risk for these products results from the variability of the product-specific or borrower-specific spreads. In order to quantify the risk, the borrower-specific spread-curves are shifted according to the portfolio-specific degree of diversification. The specific risk of interest-rate change across all individual transactions is then defined by the difference of the cash values calculated by means of the current and shifted spread-curves.

The currency risk is determined by the shift of a particular exchange-rate by 5% against the Euro. For each individual portfolio there is thus an assumption that the exchange-rate will move against the position.

In calculating the equity risk DekaBank takes account of the varying degrees of diversification of the portfolios. Whereas for portfolios with low diversification a price change of 20% is set against the net position, the hypothetical price-change for diversified portfolios such as the treasury portfolio is only 10%.

Stress scenarios
In order to be able to estimate the risk of extreme movements in the market, in addition to the standard scenarios, supplementary stress-tests are regularly carried out to analyse the interest-rate risk position. These are currency and sector-specific and are divided into market- and portfolio-orientated stress-tests.

Market-orientated stress-tests are derived from historical trends in interest rates. In addition to the classic parallel shift, further scenarios such as twisting, tipping and bending of the yield-curve are brought into the analysis. In comparison to these, portfolio-orientated stress-tests are more strongly related to the current positioning of the portfolio being analysed.

Additionally, in collaboration with the Macro Research Unit, the impact of concrete results for given positions is analysed on the basis of current interest-rate expectations.

Value-at-risk
In addition to the potential losses estimated by means of scenario analyses, risk indices are calculated for the linear risks on the basis of value-at-risk. The calculation of the value-at-risk indices is carried out for the whole group using the variance-covariance method.

The indices are calculated daily for all risk-categories and for all portfolios, and set against the appropriate portfolio-orientated limits. The calculations are based on volatilities and correlations derived from historical market-price changes. Here account is taken of market correlations within the risk categories of interest rates, foreign currencies and equities; correlations across the individual risk categories are only taken into consideration for the treasury portfolio.

Because of the different anticipated settlement-periods or decision-making horizons, the treasury's value-at-risk index is calculated for a duration of ten trading days, whereas the value-at-risk index for trading portfolios is only calculated for one trading day. The confidence-level in both cases is 95 percent. A value-at-risk figure calculated on this basis thus indicates, with a probability of 95%, the maximum loss when holding a position for a period of one or ten trading days, as the case may be.

Scenario-matrix procedure
The scenario-matrix method is applied when taking account of the non-linear risks associated with options. The method consists of a scenario-analysis for changes in the two risk-defining parameters which are significant for the type of option in question. The matrix boundaries are regularly adjusted to the current fluctuation-intensities of the underlying parameters. DekaBank only takes up option positions to a very small extent.

Limiting and reporting of market-price risks

Under internal calculations of market-price risk, risk indices, as described above, are calculated daily by means of scenario-analyses, using the scenario-matrix method and the value-at-risk procedure, and are used in particular for the operational limiting of trading and treasury positions. The limiting of the calculated loss-potential is carried out at portfolio level.

In addition to these risk limits, stop-loss limits are defined to contain losses effectively. The basis of calculation for the uptake of stop-loss limits is the accumulated financial earnings for the year. This is calculated by the Accounting Unit in the Corporate Risk & Finance Centre.

All risk limits are monitored by Risk Control. The uptake of limits is reported daily to the relevant business divisions and to the Board members responsible for those divisions. In addition, the Chief Risk Officer is informed daily about the risk positions and the corresponding limit uptakes both in the trading-books and in the treasury position.

Breaches of the limits are immediately reported by Risk Control to the Group Board.

Back-testing of the risk indices

In order to test the validity of our value-at-risk forecast, we carry out regular back-testing.

In this process, on the basic assumption of unchanged positions, the day's results, which are theoretically achieved on the basis of observed market movements on the following day, are compared with the value-at-risk figures for the previous day, which were forecast using the variance-covariance method. We use the results of back-testing in the further development of the risk model.

A report on the back-testing results is made quarterly to the ALCC by Risk Control.

Current risk situation

Overall outlook

The following chart shows current VAR for the Group according to interest rate, share price and currency risk: (fig. 17).

Looking at the various risk types, at the 2006 year-end (given a holding-period of ten days) 10.23 million euros was accounted for by interest rate-change risks. This equates with a share of 31% of the group-wide market price risk. Share price risks, at 22.11 million euros, accounted for 67% and currency risks, at 0.51 million euros, for the remaining 2%. Share price risks resulted largely from special investor fund investments and to a smaller extent from start-up financing activities.

Interest rate risk

Compared with year-end 2005, interest rate-change risks decreased by 17.01 million euros Group-wide. This drop in risk can be attributed to the marked reduction of risk positions given a flattening interest-rate curve.
The following chart shows the interest rate-change risk for the Group during 2006 (fig. 18).

At Group level the interest rate-change risk on trading positions based on VAR in 2006 was between 9.16 and 40.57 million euros.

The interest rate-change risk was also determined by the euro positions in 2006 although the risk positions as a whole decreased significantly over all periods. As at year-end 2006 the share of the risk from euro positions was nearly 82 percent of interest rate risk Group-wide.

Share price risk

The share price risks rose by a total of 9.39 million euros compared with 2005. With prices firming during the year and volatilities increas-

Value-at-risk of DekaBank Group[1)] (fig. 17)

	Holding period in days	Year-end 2006 €m	Average 2006 €m	Min./Max. 2006 €m	Year-end 2005 €m	Average 2005 €m	Min./Max. 2005 €m
Interest rate risk							
Trading	1	0.88	1.74	0.79/3.19	1.53	0.63	0.25/2.04
Treasury	10	8.94	20.34	8.94/35.55	23.96	28.53	19.18/42.37
DekaBank Group	10	10.23	23.16	9.16/40.57	27.24	29.60	19.75/42.98
Share price risk							
Trading	1	0.65	1.41	0.65/2.24	0.84	1.28	0.56/1.98
Treasury	10	20.71	14.66	8.57/21.93	11.01	10.92	6.59/16.81
DekaBank Group	10	22.11	17.86	10.44/26.00	12.72	13.83	10.08/21.15
Currency risk							
Trading	1	0.06	0.16	0.04/0.39	0.06	0.24	0.02/0.55
Treasury	10	0.63	0.99	0.37/1.68	0.64	0.54	0.12/1.30
DekaBank Group	10	0.51	1.07	0.31/2.29	0.52	1.06	0.21/2.27

[1)] all VARs were calculated on the basis of parameters used for internal risk calculation ing, equity positions were further built up, especially in the special fund area.

Growth in share price risk during the year can be seen in the following graph (fig. 19).

In 2006 Group-wide share price risk ranged between 10.44 and 26 million euros and resulted mainly from positions in the euro zone. As at year-end the share of risk emanating from the euro zone was around 73 percent of Group-wide share price risk.

Currency risk

The exchange rate risk remained at an extremely low level between 0.31 million and 2.29 million euros throughout the past year, standing at 0.51 million euros at year-end, just 0.01 million euros lower than at year-end 2005. The following graph shows the change in the currency risk during 2006 (fig. 20).

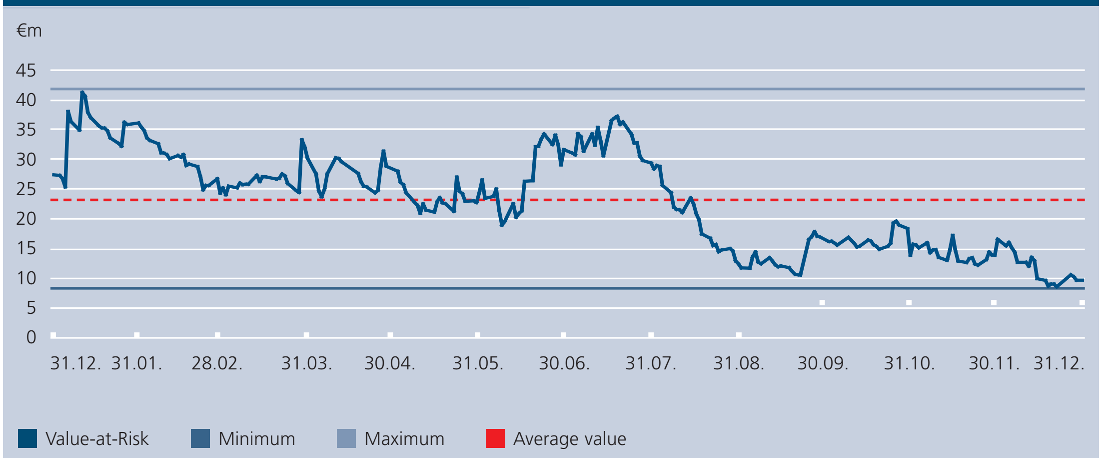
The currency risk comprises primarily US dollar positions.

Default risks

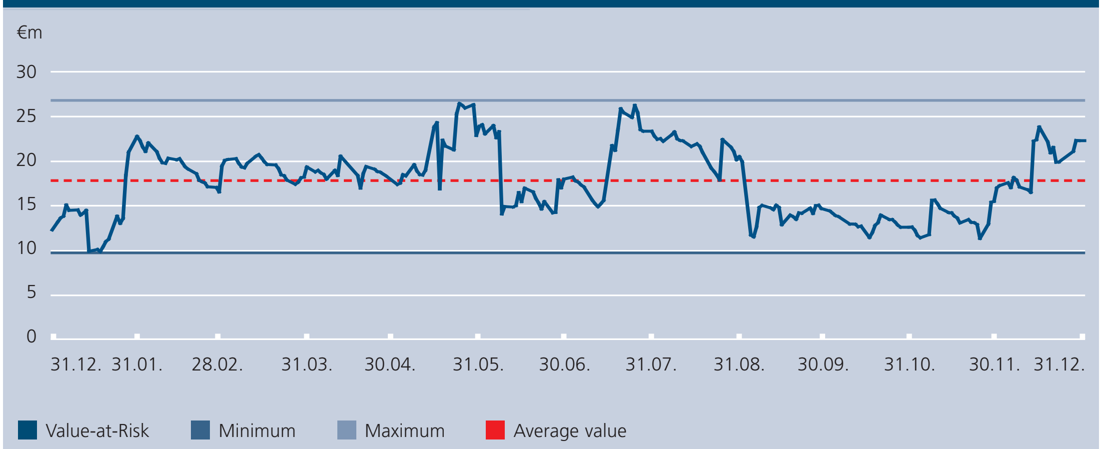
Definition

Default risks are defined as risks which arise if a borrower or counterparty is unable to meet his contractual obligations on time or to meet them at all. DekaBank uses its own internally defined risk concepts above in addition to those laid down by the regulatory authorities in order to ensure that all the different risk types are covered. The default risk is subdivided into position risk and advance performance risk. Position risk subsumes borrower risk or issuer risk as well as buying-in risk and uncleared items. Advance performance risk is the risk that the counterparty does not render consideration after advanced

Interest rate risk: Group – 2006 (fig. 18)



Share price risk: Group – 2006 (fig. 19)



performance by the institution. The monitoring of default risks is ensured in DekaBank by the daily monitoring of limits as well as the regular analysis of loan portfolios.

Organisational structure for default risks

The monitoring and control of default risks follows standard principles, regardless of whether the risks result from trading or non-trading transactions. The related tasks are performed by the Board of Management, the Corporates & Markets business divisions, the loan-office department of the Corporate Centre Loan Market Tracking division and the Risk Control Unit of the Corporate Centre Risk and Finance division.

The Corporates & Markets business division is responsible for drawing up and implementing a uniform default risk policy and for managing the Group's default risks. It is here that, among other things, business is generated, risks analysed, internal rating scores established, decision-parameters for lending decisions drawn up, first-vote status assigned and products developed. As a result, group-wide portfolio management for counterparty risk is also handled here.

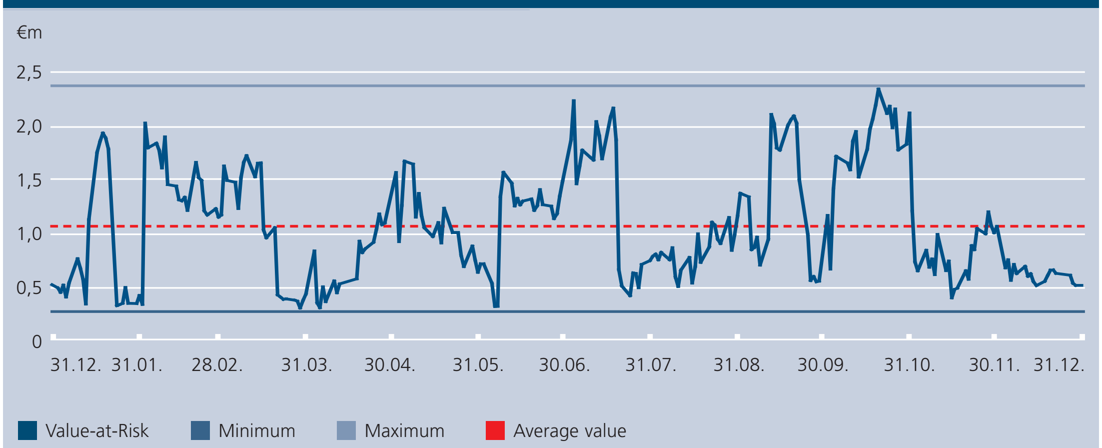
As a market segment, the Corporates & Markets business division is integrated into the process chain of the lending and trading business. In accordance with MaRisk requirements (Minimum requirements for the Risk Management), certain functions must be segregated from the 'market' or front office segment. Some of these tasks, designated as "market tracking functions", are carried out in the loan-office department in the Loan Market Monitoring Corporate Centre and include the assignment of market-independent second vote status for loan decisions, the verification of specific collateral as required by MaK and the monitoring of the processing of urgent problem loans as a permanent member of the Monitoring Committee. In addition the loan office department is responsible for the development and quality assurance of loan procedures. The monitoring committee, established in 2004, is responsible for controlling and tracking the processing of significant exposures and consists of representatives of the Corporates & Markets business division and the Legal and Loan Market Monitoring corporate centres.

Along with the loan office, the corporate centre's Risk & Finance risk control unit assumes back office functions. It monitors default risks at portfolio level and also at borrower unit level and is responsible for drawing up risk reports on default risks. In addition it is responsible for the methodical development, quality assurance and monitoring of the procedures for identifying and quantifying default risk.

The functional and organisational separation of risk control and the loan office from the Corporates & Markets business division's operational responsibilities guarantees independent risk assessment and risk management.

The control and monitoring of default risks takes place for each borrower in relation to individual transactions and also at portfolio

Currency risk: Group – 2006 (fig. 20)



level. DekaBank has established limits for borrowers and borrower units for the control and monitoring of risks. The control and monitoring of portfolios is done by dividing the borrower portfolios into risk segments. In this process, all financing operations with comparable financing and risk structures or with special features of a specific market or industry background, are assigned to one risk segment.

Assessing creditworthiness

The internal assessment of a borrower's creditworthiness is of central importance for the control of default risks. In the framework, also, of the new rules for the equity backing of banks ("Basel II") the estimation of probability of default is becoming a key benchmark for regulatory minimum equity requirements.

DekaBank has been quick to adapt to the increasing importance of valid quantitative procedures for the assessment of creditworthiness, and as early as 2001 began to develop appropriate internal rating systems in conjunction with eight other *Landesbanken*. As a result of this development work DekaBank today has at its disposal a differentiated rating system, which not only covers the field of classic borrower risks, for example in business with companies, banks and sovereign states, but also delivers highly selective creditworthiness indicators in the area of special and project financing.

The first rating modules were put into service in the middle of 2003 and subsequently the range of tools was increased with the addition of further modules up to 2005. Today DekaBank employs ten rating modules, of which six can be defined as classic scorecard models. Lastly, under these models, an estimation of creditworthiness is carried out on the basis of current quantitative and qualitative borrower features. In order to be able to take fuller account of the particularities of genuine special financing, four further modules are used, which use simulated macro- and micro-scenarios of the relevant risk-generators to carry out an assessment of the probability of default, based on expected future cash-flows. In addition to the assessment of creditworthiness focussing on the borrower or on the project being financed, allowance is also made in the rating score for risk-reducing factors such as possible liability assumption commitments from third parties.

In order to measure existing transfer risks in payment obligations, denominated in foreign currencies from the debtor's viewpoint, borrower ratings and country ratings are combined.

All the rating modules currently in use are calibrated to a one-year probability of default, in which the DSGV master-scale serves as a standardised reference-point for a differentiated assesment of creditworthiness.

The DSGV master-scale provides for a total of 21 rating classes for non-defaulting borrowers and 3 rating classes for defaulters. A mean probability of default is assigned to each class. The class designations and mean probabilities of default (PDs) are shown in the following table (fig. 21).

The existence of three default classes (classes 16 to 18) is explained by the need to facilitate a differentiated categorisation of defaults.

DSGV-Master scale (fig. 21)

Rating-class	mean PD in basis points
1 (AAA)	1
1 (AA+)	2
1 (AA)	3
1 (AA–)	4
1 (A+)	5
1 (A)	7
1 (A–)	9
2	12
3	17
4	26
5	39
6	59
7	88
8	132
9	198
10	296
11	444
12	667
13	1,000
14	1,500
15	2,000
16–18	Outturn

Regulatory definitions of defaulting in connection with Basel II embrace a broad spectrum of default scenarios, which can range from temporary interruptions in payment right up to a borrower's insolvency proceedings.

All told, use of the DSGV master-scale makes possible the exceptionally differentiated measurement and forecasting of default risks, which match to a high degree the demands of DekaBank's market environment.

Rating systems should be regarded as dynamic systems that must be continuously adapted to changing risk structures and commercial demands, and their validity tested against this background. The best way to meet the regulatory and managerial demands on the ongoing maintenance and validation of our systems as well as on efficient IT support for the rating system of the *Landesbanken* participating in the project, is for a central service provider to perform the tasks associated with this and for this purpose DekaBank has appointed the Rating Service Unit GmbH & Co. KG (RSU), a company established in 2004 in Munich as a joint company owned by the participating *Landesbanken*. Since then, that company has taken over key tasks in the area of central operation of IT applications as well as documentation, maintenance, validation and further development. In addition, the RSU, a joint venture of the participating *Landesbanken*, is supporting the institutions to a significant extent to comply with regulatory requirements. The optimised division of work facilitates the cost-effective provision of central processes and services.

The rating system in use is an integral part of all transaction processes and reporting formats relevant to credit risk control and is consequently the key instrument in the measurement and control of credit risks. In order to be able to also use the internal rating procedures for determining regulatory equity cover in accordance with the IRBA [internal ratings based approach], in the past year the rating systems and internal credit risk systems and processes were subject to a regulatory equity audit as a result of which DekaBank was granted corresponding recognition as at 1 January 2007 at group and bank level.

Quantifying default risks

The monitoring of default risks per borrower takes place on a daily basis for all group-wide transactions. For this purpose the limits centrally administered in the Risk Control Unit are applied to major exposures arising from securitised and unsecuritised receivables as well as from derivative transactions.

For the calculation of the total default risk a basic distinction is made between position risk and advance performance risk. To calculate these types of risk all transactions liable to default risk that are concluded group-wide are taken into account. In principle, calculation of the default risk is based on the market value of the products in question. In the case of products for which there is no immediately observable market value, the cash value or the maximum current or future recourse is applied.

Monitoring of limits and reporting of default risks

The monitoring of default risk limits is carried out daily by the Risk Control Unit per economic borrower unit or, where no economic borrower unit exists, per economic partner. The position risk and the advance performance risk are limited as sub-limits and the total position of the borrower unit or partner as an aggregate limit.

Instances where the overall limit is exceeded are immediately reported to the main Board of Management.

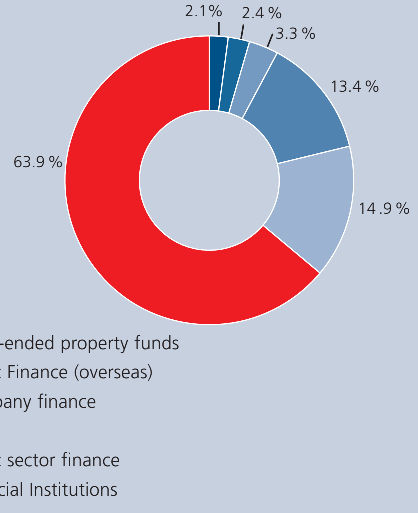
Every month the Risk Control Unit draws up a comprehensive report containing additional explanations and also any breaches of sub-limits during the month in question.

Credit risk report

In addition to the daily calculation of the default risk position per borrower, the Risk Report also contains an analysis of the major structural features of the loan portfolio. The Risk Report presents the DekaBank loan portfolio, divided into risk segments, in accordance with the definition in paragraph 19 (1) KWG (Banking Act) for the entire DekaBank Group.

The Risk Report is drawn up at the end of each quarter and submitted both to the Board of Management and the Administrative Board.

Gross loan volume (fig. 22)



The purpose of the Risk Report is to provide a fully comprehensive presentation of the loan portfolio with respect to the default risks it contains in accordance with the MaRisk requirements. Consequently, the Risk Report contains an extensive structural analysis of the loan portfolio, an analysis of the limits and their uptake as well as a presentation of the collateral. Other components of the Risk Report are analyses of concentration, a presentation of rating-related changes in the form of a migration analysis and a presentation of noteworthy commitments and of new market and product activities.

Portfolio analysis

In addition to the structural analysis of the loan portfolio presented in the Risk Report, credit risk is regularly quantified with the aid of a portfolio model. Given the increased economic and regulatory requirements, in 2006 DekaBank developed and introduced a new portfolio model that aims to comprehensively cover credit risks per portfolio. It will focus specifically on

- determining the capital requirement or equity uptake from default risks and incorporating this into the analysis of capacity to sustain risk
- quantifying concentration, diversification and offsetting effects and
- providing suitable risk ratios and risk premiums for portfolio and bank control.

The portfolio model is based on a credit metrics approach. In addition to the default risks in the narrower sense the risks due to a change in creditworthiness are also taken into account in the form of rating migration. Probability allocation for portfolio value changes driven by credit risk is generated using a Monte Carlo simulation. A key result of the portfolio model is that it determines a credit value-at-risk with a confidence level of 99.9% and an assumed holding duration of one year. The credit risk is currently determined each month at the level of the entire portfolio and incorporated into the processes and reports that are relevant to the control of credit risks.

Current risk situation

As at 31 December 2006 total gross loans amounted to 112.5 billion euros, down 5.9 billion euros compared to 118.4 billion euros as at 31 December 2005. In 2006, the two largest

Gross loan volume/net loan volume reconciliation (fig. 23)

	€bn
Gross loan volume	**112.5**
Guarantors	31.5
Federal government, states and municipalities	13.0
Netting of reverse repurchases	6.7
Personal and material collateral	6.5
Covered transactions	3.8
Netting in borrowing transactions	3.1
Netting of financial option transactions	1.2
Other risk reductions	0.1
Net loan volume	**46.6**

segments – Financial Institutions (71.9 billion euros) and Public Sector Financing (16.7 billion euros) – represented some 88.6 billion euros or 79% of total gross loans (fig. 22).

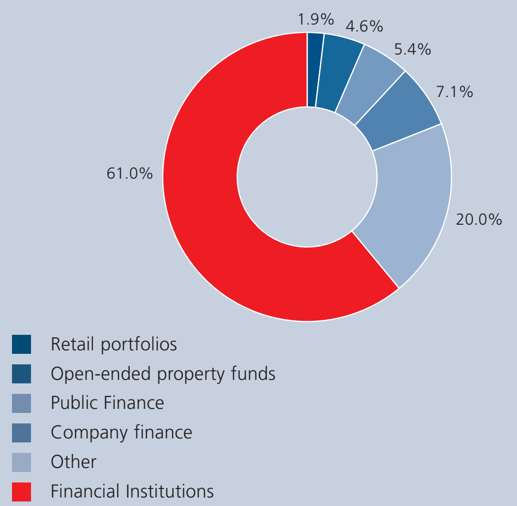
Total gross loans correspond to a net loan volume of 46.6 billion euros (2005: 45.3 billion euros) after adjusting for risk reduction factors such as, for example, guarantor's liability, amounts due from the Federal and state governments and from municipalities, and personal and material collateral (fig. 23).

The default risk from derivative instruments is reduced on our books by framework contracts concluded bilaterally with our business partners (netting agreements such as the 1992 ISDA Master Agreement Multicurrency Cross Border, the German Framework Contract for Financial Forward Transactions). By means of these netting agreements the positive and negative market values of derivative contracts covered by a framework contract can be netted off against each other. In the context of this netting process the default risk is reduced to a single net liability to the contracting partner (Close-out netting). After deduction of the risk reduction factors the Financial Institutions risk segment represented the largest net loan volume at 28.4 billion euros (fig. 24 and 25).

The average rating of the total gross loans according to the DSGV rating scale was A (7 basis-points) in 2006 (2005: A with 6 basis-points). The net loans achieved an average rating of A– with 10 basis-points (2005: A– with 9 basis-points). In total, 72% of the total net loans was rated higher than A–. This is essentially attributable to the good ratings in the Financial Institutions and Public Sector Finance risk segments.

Whereas 36% of the total gross loans showed a residual duration of under 1 year, 5% had a residual duration of over 10 years. The average residual duration of the total gross loans was 3.4 years.

Net loan volume (Abb. 24)



Risk segments (fig. 25)

	Gross loan volume €m	Net loan volume €m
Financial Institutions	71,908	28,421
Public sector finance	16,709	848
Public Finance (overseas)	2,758	2,529
Municipal construction projects	810	0
Company finance	3,689	3,308
Transportation finance	2,369	585
Structured company finance	1,330	1,321
Export-/ trade finance	621	425
International real estate finance	1,354	621
Domestic property finance	1,211	418
Open-ended property funds	2,370	2,163
Retail portfolios	2,282	895
Equity investments	119	119
Funds[1)]	4,922	4,922
Total	**112,450**	**46,572**

[1)] This risk segment contains fund units exclusively. DekaBank transactions with funds are allocated in each case to the corresponding risk segment based on investment focus.

With a figure of 93.5 billion euros the bulk of total gross loans was concentrated in countries in the Euro zone. The Federal Republic of Germany accounted for 79.1 billion euros or 85% and Luxembourg for 2.9 billion euros or 3%. Only a small proportion of the total gross loans (13.5 billion euros or 12%) was lent outside the Euro zone.

The credit value-at-risk (risk horizon one year, confidence level 99.9%) was 1.17 billion euros at year-end 2006. Driven mainly by concentration effects in the leading Financial Institutions risk segment, credit value-at-risk stood at 1.51 billion euros at its peak mid-year.

Acute default risk is accrued in the consolidated financial statements by setting aside a risk provision. Credit receivables are verified for impairment in the Corporates & Markets business division. Individual value adjustments are booked if it is probable that not all interest and capital payments can be made as agreed, subject to impairment criteria being met. The amount of the impairment corresponds to the difference between the book value of a receivable and the cash value of the estimated future payments taking account of the fair value of the collateral.

Portfolio adjustments for creditworthiness are carried out for credit portfolio value write-downs that have already occurred but are not yet known at the balance sheet date.

Account is taken of transfer risk by carrying out portfolio country adjustments.

Individually adjusted loan volume as at 31.12.2006 (fig. 26)

	Gross loan-volume €m	Fair value-collateral €m	Net loan-volume €m	Ind. val. adj. & reserves[1] €m
Export-/trade-finance	12.1	0.0	12.1	12.2
Domestic property-finance	124.2	50.2	74.0	78.9
Municipal construction projects	0.0	0.0	0.0	0.0
Structured company-finance	3.2	2.2	1.0	1.0
Transportation finance	127.3	95.0	32.3	31.9
Company finance	0.7	0.0	0.7	0.7
Equity investments	0.0	0.0	0.0	2.9
Total	**267.5**	**147.4**	**120.1**	**127.6**

Individually adjusted loan volume as at 31.12.2005 (fig. 27)

	Gross loan-volume €m	Fair value-collateral €m	Net loan-volume €m	Ind. val. adj. & reserves[1] €m
Export-/trade-finance[1]	13.6	0.0	13.6	13.7
Domestic property-finance[1]	228.9	99.9	129.0	134.3
Municipal construction projects	17.4	0.0	17.4	1.7
Structured company-finance	4.0	3.0	1.0	1.0
Transportation finance	174.3	128.6	45.7	45.5
Company finance	17.6	0.0	17.6	17.6
Total	**455.8**	**231.5**	**224.3**	**213.8**

[1] Risk provision exceeds net liability since special reserves have been created.

The total risk provision for 2006 amounted to 201 million euros for the Group. Of this, 107 million euros was in individual adjustments, 20 million euros in country adjustments, 53 million euros in portfolio adjustments for creditworthiness risks and 21 million euros in reserves.

The loan volume subject to acute default risk and the fair value of the collateral pertaining thereto are shown in the tables (fig. 26 and 27).

By way of collateral for individually adjusted commitments, DekaBank was assigned land charges for the domestic property finance risk segment and aircraft mortgages and pledges for the transportation risk segment.

In 2006, land charges and aircraft mortgages provided as collateral were sold in the amount of 11 million euros. In 2005 a pledge of 5 million euros that was provided as collateral was utilised by DekaBank.

Operational Risks

Definition

Operational risks (OR) are defined as risks associated with the Group's general business activity, which arise as a result of the unsuitability or ailure of internal procedures, human error or system failure, or as the result of external influences.

Organisational structure for operational risks

The Board of Management is responsible for the adequate handling of operational risks. Among its most important duties are establishing, regularly monitoring and guaranteeing the necessary framework for handling operational risks Group-wide.

The risk control unit is responsible for the harmonisation and appropriateness of Group-wide terminology and methods and procedures and for reporting regularly to the Board and senior management in relation to operational risks. The risk control unit is also in charge of implementing the supervisory and statutory requirements for the management and control of operational risks.

Group audit is responsible for the independent monitoring and correct implementation and execution of methods and procedures within the Group as well as compliance with supervisory and statutory requirements.

Based on Group policies, the heads of all Group units are responsible for managing the operational risks of their respective organisational units.

Classification and differentiation

To identify, evaluate and manage operational risks, DekaBank uses the following cause-based risk categories (fig. 28).

Operational risks by class (fig. 28)

Risk	Risk category	Risk sub-category
Operational Risks	**Technology**	IT applications
		IT infrastructure
		Other infrastructure
	Staff	Human capital
		Unauthorised acts
		Processing errors
	Internal procedures	Processes
		Organisational structure
		Methods and models
		Internal service providers and suppliers
		Projects
	External factors	Catastrophes
		Criminal acts
		Service providers and suppliers
		Political / legal framework

Quantifying operational risks

DekaBank benefits from a comprehensive system for the management and control of operational risks, which was successively implemented group-wide in 2001 to 2006. Here, the key methods employed are decentralised self-assessment, the group-wide collection of loss data and scenario analyses. Based on the data generated using these methods DekaBank determines the operational risk on the value-at-risk basis using the internal model.

Self Assessment

Process-based self assessment involves the detailed, regular and structured identification and assessment of operational risks in the form of damage scenarios by special employees (assessors) for their respective identification units. The risk assessment is performed by assessing the potential loss frequency and extent of the relevant risk scenarios. This then yields the loss potential. The main objective of the self-assessment is to construct a standard risk inventory that is consistent for the whole Group and that will allow us to draw up and prioritise action plans for reducing operational risk.

Scenario analysis

In the framework of the scenario analysis methods implemented in financial year 2005, a detailed examination and assessment is being carried out into serious potential losses arising from operational risks.

Like self-assessment, scenario analysis is a method of ex-ante estimation of operational risks by experts in procedures and systems. However, unlike self-assessment, the analysis is here applied to scenarios such as, for example, the "premises-related loss" scenario, whose potential impact can spread over several Group units and thus cannot be adequately covered by self-assessment. Risk-assessment by scenario analysis has the characteristic that the impact of different scenarios can be evaluated. For this purpose, the principal risks triggering a loss-scenario can be identified and systematically adjusted to their specific features.

The result is that scenario analysis provides a comprehensive representation of events leading to loss or damage; this covers a range of possible types of loss including consideration of an extreme stress event.

Besides quantifying risk, scenario analysis is used by DekaBank to produce potential measures to reduce operational risk and recommendations for possible action should the scenario event become a reality.

By combining scenario analysis and self-assesment the entire range of operational risks is covered and evaluated.

Loss database

A central loss database compiles and analyses any losses that have occurred through operational risks. To this database are reported all loss-events with a value in excess of 5,000 euros together with documentation of the measures for reducing or avoiding same and an analysis of the actions required. In addition, by means of an immediate comparison with the actual loss events, a validation of the results of self assessment or scenario analysis is carried out. This generates the data needed to draw up distribution assumptions for the extent and frequency of losses, which form the main basis for the deployment of quantitative models to identify capital requirements.

In addition, DekaBank participates in external loss consortia. These include the consortium of the Bundesverband Investment und Asset Management e.V. (BVI, German Federation of Investment and Asset Management) as well as the GOLD consortium of the British Bankers Association (BBA). The external loss event data are used in the quantification both directly and indirectly for the self-assessment and scenario analysis.

Advanced measurement approach

Within the new minimum equity requirements under Basel II, which come into force in 2007, with respect to the equity approach to be chosen for operational risks, companies are entitled to choose between a calculation of regulatory equity cover in accordance with a simple approach (standard approach or base indicator approach) or an AMA (Advanced Measurement Approach). DekaBank decided at the end of 2005 to opt for an Advanced Measurement Approach and in 2006 applied to the BaFin (German Financial Services Control Authority) for recognition of the approach. Verification of the AMA was conducted in the second half of the year. As at 31 December 2006 balance sheet date the BaFin had not yet made its final evaluation. Concurrently, internal control and monitoring of operational risks was converted to the Advanced Approach.

Reporting of operational risks

The executives responsible for these decisions in DekaBank receive quarterly risk reports, which give information on all significant operational risks and thus make effective control possible.

In addition to the risk reports to the heads of the Group units, an aggregate report is compiled for the Board of Management on a quarterly basis. This contains not only summary information on operational risks in the Group but also detailed information on measures taken or planned for the largest individual risks of each Group unit. In addition, each month a risk indicator in the form of value-at-risk (99.9% and 99.97% confidence level) is calculated and then entered in the Group's analysis of capacity to sustain risk.

There is an additional duty to report loss situations as they occur – graded according to the amount of the loss or damage – which ensures the timely alerting of the Board of Management and internal audit.

Current risk situation

Since the first quarter of 2006 DekaBank has been using the AMA approach for internal control. The risk ratio determined each month on the basis of value-at-risk was 97.3 million euros at year-end and between 96 and 101 million euros over the course of 2006. The figure calculated using the base indicator approach is 168 million euros, which is the same level as 2005's figure using the standard approach.

The number of loss-events was down slightly in comparison to 2005. On the other hand, the total of losses in 2006 was virtually unchanged compared to 2005 (fig. 29 and 30).

Liquidity risks

Definition

Liquidity risk in the narrow sense refers to the risk of being unable to meet payment obligations in full or when they are due. A broader definition also covers market liquidity risk and funding risk. The latter describes the risk of not being able to obtain sufficient liquidity under the expected conditions when needed (for example, as a result of a rating downgrade) while market liquidity risk is the risk that as a result of insufficient market depth or market disruptions positions can only be liquidated with market discounts.

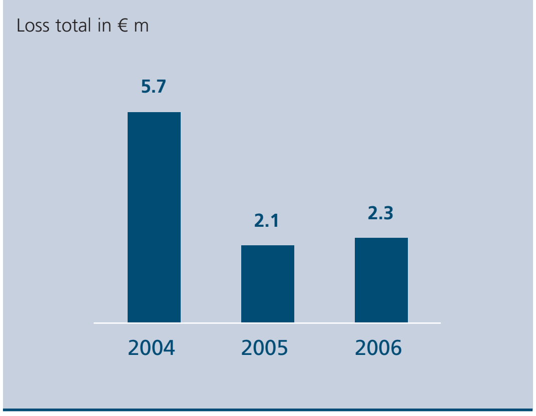
Control and monitoring of liquidity risks

The Bank's liquidity status and liquidity balance form the basis of liquidity planning and liquidity surveys.

Control of liquidity risk is in principal carried out across all portfolios. The process takes in all relevant product types. The central aim of all methods is to avoid liquidity shortages for the entire bank and thereby to ensure overall ongoing solvency of DekaBank.

Losses from operational risks (fig. 29)

Losses from operational risks (fig. 30)



Liquidity status
The current liquidity status of DekaBank is measured on a daily basis by the Corporates & Markets business division and is used for allocating daily liquidity and for short-term control.

Liquidity surveys
To control medium and long-term liquidity, DekaBank's liquidity position is analysed in the corporate centre Risk & Finance with reference to various scenarios.

In essence the liquidity surveys resulting from the scenario considerations are divided into a presentation of expected cash inflows and outflows based on legal payment deadlines underlying the transactions (standard survey) and a representation that takes account of stress scenarios. The standard survey is prepared monthly and the stress scenarios quarterly and both are reported to the Assets and Liabilities Control Committee.

The standard liquidity survey is based on date-specific, cross-portfolio documentation of future undiscounted cash flows. Allocating the future cash flows for each maturity period is in principle based on legal maturities. Where appropriate, for certain types of product such as currrent account liabilities, overnight money and the ECP [European commercial paper] issue programme conservative extension assumptions are made that are derived from historical empirical values and are verified on a regular basis. Credit drawdowns, for example based on guarantees or loan commitments, are also taken into account on the basis of historical empirical values.

On this basis the resulting liquidity requirement or surplus is determined for each maturity period. In addition to the presentation of the net total payment-stream, there is a separation by product group according to incoming and outgoing payments. The aggregated total payment stream shows the liquidity surplus or shortfall based on a maturity screen. In a further step, the resulting liquidity balances per maturity-band are cumulated, so that the cumulative balances show the level of funding required at a given point in time.

In contrast to the cumulated liquidity balances there are the available funds. Where there are liquidity shortfalls, steps are taken to procure funding, such as, for example, funding through the European Central Bank or the use of the available assets to develop the secured funding.

Stress scenarios
We use stress scenarios in order to study the impact of unanticipated events on the liquidity position. These scenarios are based on models which can in turn be subdivided into internal scenarios (such as creditworthiness downgrading of the Bank by rating agencies) and external scenarios (for instance, fund crisis or bank crisis). Depending on the stress scenario various extension measures are taken in addition to an increase of varying degrees in the funding requirement.

Liquidity ratios under Principle II
For liquidity reserve measurement and limits, DekaBank additionally applies the liquidity requirements of Principle II [of the German Banking Act].

The basis for the ratio is formed by offsetting DekaBank's short-term liquid funds with liabilities falling due within one year. Potential payment liabilities, e.g. in connection with promised lines of credit or capital contributions, are reviewed in respect of their likelihood of being drawn on (call-off risk) using the weighting factors laid down by regulatory rules in the individual maturity bands. This does not include certain product types defined by supervisory regulation, such as derivatives.

Current risk situation
DekaBank's overall liquidity position is very strong. Not least among the determining factors here are the holdings in highly liquid securities eligible for refinancing with central banks. For example, a short-term liquidity reserve of 9.2 billion euros in securities is available within one month. A total liquidity reserve of 4.8 billion euros is available within 12 months (fig. 31).

The requirements of Principle II were clearly exceeded at all times in 2006. The relevant liquidity ratio determined on a daily basis stood at between 1.36 and 1.90. It was 1.46 at year-end 2006, the average for the year being 1.56.

Other risks

Investment and property risks

Definition
DekaBank defines investment risk as the danger of a financial loss due to a reduction in value of the portfolio of equity holdings in companies, to

the extent that they cannot be consolidated within risk calculation. Likewise, DekaBank defines property risk as the risk of a decreased value of properties owned by DekaBank Group.

Quantifying investment and property risks

The basis for calculating the investment and property risk position is the most recent market value established for the equity holding or property in question. Risk measurement is performed on the basis of the volatilities of historical yields. For investment risk, we use historical data from equity market benchmark indices. For property risk, we use the volatilities of the relative change in value yields for commercial properties at the site of our offices in Frankfurt since DekaBank's property portfolio is focussed on the Frankfurt site. One event that was relevant for our property risk in 2006 was the sale of the "Skyper" property and the "Mainzer Landstraße 50" property.

Property fund risks

Definition

As part of the stabilisation measures between 2004 and 2006 DekaBank took units in the Deka-ImmobilienFonds into its own investment holdings. The resulting property fund risk is defined as the risk of a financial loss due to a reduction in value of these fund units.

Quantifying property fund risks

Property fund risk is measured by using volatilities of historical change-in-value yields of the properties in the Deka-ImmobilienFonds portfolio. The change-in-value yields are drawn up separately according to location and utilisation type and weighted with the corresponding property values. This supplies the aggregated volatility of the change-in-value yields of the property portfolio.

In the past year the amount of the property fund risk decreased significantly due to the return of the units of the Deka-ImmobilienFonds taken over into its own investment holdings and at year-end it was 168 million euros. At its peak the property fund risk was 440 million euros, the average being 333 million euros.

Business risks

Definition

Business risk is the risk of financial losses arising from changes in client behaviour or the economic environment or due to technical advances. Factors which lead to changes in volume or margin are of great importance to DekaBank. Business risk plays a particularly large role in asset management.

Quantifying business risks

Business risks in the asset management segment are calculated by using scenarios that simulate the reduction in key success parameters such as fund volume, administrative commissions and the ratio of individual fund categories to total volume. The scenario analyses are performed separately for the Asset Management Capital Markets and Asset Management Property business divisions.

In the Corporate & Markets business division, business risks are assessed according to fixed sector-typical benchmarks.

Contingency planning/Business Continuity Planning (BCP)

DekaBank has a Group-wide framework structure at its disposal, along with organisational and technical regulations, to ensure a standard contingency response in the event of an emergency.

Premises-related failure or loss

To ensure against the loss or failure of premises, DekaBank has opted for a domestic and overseas internal recovery strategy, in which Group-owned property and infrastructure are utilised. In Germany, this means, for example, that our two Frankfurt city centre and Frankfurt-Niederrad sites have a shared back-up function due to their geographical proximity. The procedure provides for the affected technical units to have at their emergency work sites all the data and equipment they need to ensure that operations can continue in an emergency.

IT failure

We have a series of organisational and technical guidelines in place to ensure the immediate recovery of failed IT systems. Comprehensive and practice-based tests are carried out on a regular basis to monitor whether our recovery measures are successful.

Organisation – business continuity planning (BCP)

To be able to respond appropriately in an emergency situation, we have developed a highly flexible business continuity planning (BCP) system. This involves organisational counter-measures to deal with a wide range of service disruptions in a precisely defined escalation procedure. Depending on their scope and extent, emergencies are reported directly to a crisis management team, to which the Board of Management also belongs.

To assure the continued emergency operation or re-establishment of critical business processes, we have dedicated re-establishment teams consisting of employees from all technical units. The teams are responsible for restoring all business processes disrupted by a disaster and for ensuring the continued smooth functioning of operational processes.

Liquidity survey as at 31.12.2006 (fig. 31)

	<= 1M €m	> 1M–12M €m	> 12M–5YR €m	> 5YR €m
Securities				
Cash inflows	1,576	10,533	16,181	18,101
Cash outflows	–1,570	–8,665	–22,608	–36,272
Net	**6**	**1,868**	**–6,427**	**–18,170**
Derivatives				
Cash inflows	17,977	20,260	8,515	6,019
Cash outflows	–19,233	–19,707	–8,364	–4,628
Net	**–1,257**	**553**	**152**	**1,392**
Current account accounts and money transactions				
Cash inflows	26,415	45,724	39	30
Cash outflows	–31,483	–49,940	–326	–3,723
Net	**–5,068**	**–4,215**	**–287**	**–3,692**
Loans and loans against borrowers' notes[1]				
Cash inflows	889	8,220	24,237	18,265
Cash outflows	–641	–1,027	–3,918	–7,003
Net	**248**	**7,193**	**20,319**	**11,262**
Other positions				
Cash inflows	0	0	0	1,137
Cash outflows	0	–64	–256	–1,583
Net	**0**	**–64**	**–256**	**–446**
Liquidity balance	**–6,071**	**5,334**	**13,501**	**–9,655**
Cum. liquidity balance	**–6,071**	**–737**	**12,764**	**3,109**
(Total) financing	**9,245**	**5,575**	**3,069**	**0**
Liquidity reserve	**3,174**	**4,838**	**15,834**	**3,109**

[1] including irrevocable loan commitments and guarantees

Financial Statements

Balance sheet
as at 31 December 2006

Assets	€	€	€	31.12.2006 €	31.12.2005 € 000
1. Cash reserves					
a) cash in hand			38,485.86		**71**
b) balances with central banks			242,891,040.67		**295,659**
including:					
with Deutsche Bundesbank	242,891,040.67			**242,929,526.53**	(295,659)
2. Due from banks					
a) payable on demand			7,104,882,639.91		**6,793,603**
b) other receivables			40,850,711,674.57	**47,955,594,314.48**	**45,536,055**
3. Due from customers				**20,954,853,469.57**	**17,511,709**
including:					
secured by mortgages	587,687,134.00				(649,746)
public sector loans	10,061,031,474.82				(10,401,528)
4. Bonds and other fixed-interest securities					
a) money market instruments					
of other issuers					**20,069**
including:					
eligible as collateral with Deutsche Bundesbank					(20,069)
b) bonds and loan stock					
ba) of public sector issuers		9,856,623,706.08			**13,930,628**
including:					
eligible as collateral with Deutsche Bundesbank	8,684,211,594.82				(13,077,607)
bb) von anderen Emittenten		18,980,315,387.25	28,836,939,093.33		**20,878,265**
including:					
eligible as collateral with Deutsche Bundesbank	15,581,518,382.06				(19,160,988)
c) own bonds			3,792,869,175.84	**32,629,808,269.17**	**5,217,617**
nominal amount	3,698,096,648.36				(6,014,534)
5. Shares and other non fixed-interest securities				**7,822,800,853.29**	**6,410,155**
6. Equity investments				**95,895,778.14**	**117,139**
including:					
in banks	27,449,813.40				(38,450)
7. Shares in affiliated companies				**912,261,862.41**	**1,058,898**
including:					
in banks	319,348,780.80				(269,349)
in financial service institutions	473,599,876.57				(670,236)
8. Trust assets				**563,513,129.64**	**118,154**
9. Intangible assets				**6,239,943.00**	**6,889**
10. Property, plant and equipment				**16,604,453.08**	**316,206**
11. Other assets				**994,493,102.94**	**378,405**
12. Prepaid and accrued income				**212,386,293.83**	**276,772**
Total assets				**112,407,380,996.08**	**118,866,294**

Liabilities

				31.12.2006	31.12.2005
	€	€	€	€	€ 000
1. Due to banks					
a) payable on demand			4,745,919,425.06		**4,376,677**
b) with agreed maturity or period of notice			26,441,260,690.31	**31,187,180,115.37**	**27,974,256**
2. Due to customers					
other liabilities					
a) payable on demand			15,163,274,609.98		**10,348,826**
b) with agreed maturity or period of notice			18,781,478,796.59	**33,944,753,406.57**	**19,783,425**
3. Securitised liabilities					
a) bonds and loan stock issued			41,008,696,642.28		**49,903,614**
b) other securitised liabilities			335,880,558.94	**41,344,577,201.22**	**1,214,668**
4. Trust liabilities				**563,513,129.65**	**118,154**
5. Other liabilities				**1,325,864,891.07**	**754,331**
6. Accruals and deferred income				**54,672,567.97**	**62,470**
7. Provisions					
a) for pensions and similar obligations			195,013,551.09		**185,520**
b) for taxes			157,109,527.51		**149,675**
c) other provisions			511,717,292.91	**863,840,371.51**	**807,725**
8. Subordinated liabilities				**975,406,615.71**	**1,044,662**
9. Profit participation capital				**214,457,284.12**	**214,457**
including: due in less than two years	61,457,284.12				**(0)**
10. Funds for general banking risks				**512,082,236.88**	**512,082**
11. Equity capital					
a) subscribed capital					
aa) subscribed capital		286,323,453.46			**286,323**
ab) silent capital contributions		808,003,532.58	1,094,326,986.04		**807,992**
b) capital reserves			189,366,198.03		**189,366**
c) reserves from retained earnings					
ca) reserves required by Bank's statutes		51,283,598.27			**51,284**
cb) reserves from other earnings		57,424,048.32	108,707,646.59		**52,155**
d) Group retained profit for the year			28,632,345.35	**1,421,033,176.01**	**28,632**
Total liabilities				**112,407,380,996.08**	**118,866,294**
1. Contingent liabilities					
liabilities from guarantees and indemnity agreements				**2,875,016,119.14**	**2,147,661**
2. Other commitments					
irrevocable credit commitments				**2,190,801,505.30**	**2,531,647**

Profit and Loss Account

from 1 January to 31 December 2006

Expenses and income

	€	€	€	2006 €	2005 € 000
1. Interest income from					
a) lending and money market transactions		3,090,703,055.08			**3,231,111**
b) fixed-income securities and government-inscribed debt		1,223,437,892.69	4,314,140,947.77		**1,284,355**
2. Interest paid			4,412,583,927.94	**−98,442,980.17**	**4,416,587**
3. Current income from					
a) shares and other non fixed income securities			300,354,871.34		**250,837**
b) equity investments			2,574,574.90		**1,330**
c) shares in affiliated companies			166,388,746.07	**469,318,192.31**	**148,683**
4. Income from profit pooling, profit transfer and partial profit transfer agreements				**90,499,428.12**	**103,148**
5. Commission income			840,781,493.82		**751,752**
6. Commission paid			679,989,764.04	**160,791,729.78**	**615,166**
7. Net income from trading operations				**14,092,930.69**	**5,361**
8. Other operating income				**310,616,645.72**	**196,726**
9. General administrative expenses					
a) personnel expenses					
aa) wages and salaries		146,270,273.03			**137,055**
ab) social security contributions and expenses for pensions and other employee benefits		39,019,020.73	185,289,293.76		**35,912**
including: for pensions	19,588,061.16				(17,489)
b) other administrative expenses			275,190,814.95	**460,480,108.71**	**260,601**
10. Write-downs and value adjustments on intangible assets and P,P&E				**12,730,241.90**	**14,101**
11. Other operating expenses				**151,503,237.09**	**577,981**
12. Write-downs and value adjustments on loans and certain securities, and increases to loan loss provisions				**77,465,722.68**	**0**
13. Income from revaluation of loans and certain securities. write-backs to loan loss provisions				**0.00**	**240,327**
14. Write-downs and value adjustments on equity investments. shares in affiliated companies and long-term investments				**129,171,316.50**	**20,621**
15. Expenses due to assumption of losses				**827,232,89**	**0**
16. Profit or loss on ordinary activities				**114,698,086.68**	**135,606**
17. Income taxes				**666,242.72**	23,736
18. Income transferred under profit pooling, profit transfer or partial profit transfer agreements				**80,130,619.66**	**83,238**
19. Net profit for the year				**33,901,224.30**	**28,632**
20. Transfers to reserves from retained earnings					
a) to other income reserves				**5,268,878.95**	**0**
21. Group retained profit for the year				**28,632,345.35**	**28,632**

Notes

General information

[1] Compilation of the Financial Statements

The financial statements for DekaBank Deutsche Girozentrale for the year ended 31 December 2006 have been prepared in accordance with the provisions of the German Commercial Code (HGB) and the Regulation on the Accounting Principles Relating to Credit Institutions and Financial Services Institutions (RechKredV).

[2] Accounting and valuation methods

The accounting and valuation of assets, liabilities and pending transactions is carried out in accordance with Sections 252 ff. and Sections 340 ff. HGB

Revaluations were made in accordance with Section 280 Para. 1 HGB.

Due from banks and customers were reported at face value. Differences between face value and amounts payable or acquisition costs were recognized under accruals and deferred income and written back as scheduled.

Identified non-cash risks in the lending business were adequately provided for by making specific value adjustments and provisions. There are sufficient general value adjustments and provisions in accordance with Section 340f HGB to cover unforeseen credit risks. Individual and general value adjustments and provisions have been deducted from the respective asset items.

Securities in the trading portfolio and the liquidity reserve were valued strictly in accordance with the principle lower of cost or market. In connection with the company pension plan, restricted securities were treated as fixed assets and valued according to the mitigated lower of cost or market principle.

Equity investments, shares in affiliated companies and property, plant and equipment are stated at their acquisition or production costs less any scheduled depreciation. Where a loss of value is expected to be permanent, they are written down to the lower attributable value. Minor fixed assets according to Section 6 Para. 2 of the Income Tax Act (Einkommensteuergesetz or EStG) were fully written off in the year of acquisition.

Assets and liabilities in foreign currency as well as claims and commitments from foreign exchange transactions were translated and valued according to the regulations contained in Section 340h HGB. The results from the translation of hedged balance-sheet items were offset by means of equalisation items. Swap premiums were accrued on a pro-rata basis. Provisions were made for residual valuation losses per currency; residual valuation gains were not recognised as income.

Stock exchange-listed derivative financial instruments were valued at exchange prices. Fair values of interest rate swaps and unlisted interest-rate forward transactions were calculated using a discounted cash flow analysis based on the prevailing market interest rates for the residual maturities of the financial instruments. If unlisted, options were valued using recognised option-pricing models. Fair values of forward exchange contracts were determined on the basis of current for-ward rates.

In principle, balance-sheet transactions and derivative financial instruments of the trading book were valued individually on the balance sheet date. Trading portfolios based on sub-portfolios of the trading position were also formed taking into account their risk struc-ture. Along with derivatives, the trading portfolios comprise balance sheet products which are allocated to the same risk category. The valuation results have been offset within the portfolios. In addition, valuation losses were offset against valuation reserves according to portfolio and currency. Under this procedure, existing valuation losses were posted as provisions, while remaining valuation reserves were unrecognised. Additionally, this year also marked the first use of valuation units on micro-hedge levels for stock trading.

Claims and commitments arising from derivative financial instruments not allocated to the trading book were not valued if they actually served to hedge against market risks. Moreover, valuation units from interest-bearing securities of the liquidity reserve and derivatives entered into to hedge against interest rate risks were formed. The financial instruments of these valuation units were valued individually and valuation gains offset against valuation losses. Under this procedure, existing valuation losses were realised as provisions or write-offs, while remaining valuation reserves were unrecognised. All other derivatives not used to hedge against market risks were valued. For unrealised valuation losses, provisions were made for possible losses from pending transactions. Unrealised valuation gains were not recognised as income.

Liabilities are stated at the face value due. Difference between the amounts received and repayable were reported in accruals and deferred income and written back as scheduled.

Based on an expert opinion, provisions for pensions were determined in accordance with the internationally recognized projected unit credit method based on the Heubeck reference table 2005 G.

Pension contributions to the fund-based company pension plan were invested in fund units and term life insurance. If the price of the fund units exceed the contractually agreed minimum payments when pension payments begin, beneficiaries are entitled to pay the contractually agreed minimum amount or the higher price underlying the fund units and, if applicable, the payment for the term life insurance.

Provisions for pensions for the fund-based company pension plan result from the highest amount reported of the corresponding fund shares and the cash value of the pension commitments based on an expert actuarial opinion.

Provisions for taxes and other provisions have been formed in the amounts required under reasonable commercial judgment.

[3] Statement of subsidiaries and equity investments in accordance with Section 285 n° 11

Name, Location	Equity interest in %	Equity[1] € 000	Result[2] € 000
Shares in affiliated companies			
DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg	100.00	301,275.2	145,000.0
Deka Investment GmbH, Frankfurt am Main	100.00	60,225.9	78,835.7[3]
WestInvest Gesellschaft für Investmentfonds mbH, Düsseldorf	99.74	11,000.0	8,477.8[3]
Deka International (Ireland) Ltd., Dublin	100.00	33,212.1	15,311.8
Geschäftshaus am Gendarmenmarkt GmbH, Berlin	100.00	456,792.4	–120,246.9
Deka(Swiss) Privatbank AG, Zurich	80.00	36,639.4	6,951.3
Deka FundMaster Investment GmbH, Frankfurt am Main	100.00	16,171.3	–827.2[3]
Deka Grundstücksverwaltungsgesellschaft I (GbR), Frankfurt am Main	100.00	19,622.7	1,000.0
Deka Long/Short Equities Q Fund plc, Dublin	100.00	0.0	0.0
Deka Immobilien Investment GmbH, Frankfurt am Main	100.00	30,225.9	4,066.0[3]
WIV GmbH & Co. Beteiligungs KG, Mainz	94.90	13,977.1	679.9
GMS Gebäudemanagement und Service GmbH, Frankfurt am Main	100.00	3,970.0	426.5
Deutsche Landesbankenzentrale AG, Berlin	100.00	1,240.0	33.5
Deka Beteiligungsgesellschaft mbH, Frankfurt am Main	100.00	298.6	15
LBG Leasing Beteiligungs-GmbH, Frankfurt am Main	100.00	40.6	0.0
Deka Treuhand GmbH, Frankfurt am Main	100.00	42.0	0.5
Sparkassen-Vermögensbeteiligungs GmbH, Berlin	100.00	32.7	0.2
Deka Vermögensverwaltungs GmbH, Frankfurt am Main	100.00	63.7	8.7
WIV Verwaltungs GmbH, Mainz	94.90	37.1	–1.5
Deka Fixed Income Diversified Q Fund plc, Dublin	100.00	0.0	0.0
Deka Grundstücksgesellschaft mbH, Frankfurt am Main	100.00	84,263.5	7,264.2
Equity investments			
Eufigest S.A., Luxembourg	23.71	340.0	6.0
Deka-Neuburger Institut für wirtschaftsmathematische Beratung GmbH, Frankfurt am Main	50.00	16.3	–8.7
Global Format GmbH & Co. KG, Munich	20.00	1,553.5	–71.5
S PensionsManagement GmbH, Düsseldorf	50.00	88,457.9	32.7
S-Broker AG & Co. KG, Wiesbaden	30.64	53,205.8	–8,930.7

Indirect equity investments			
Deka International S.A., Luxembourg	100.00	122,022.3	66,920.5
Bürohaus Mainzer Landstraße 16 GmbH & Co. KG, Frankfurt am Main	100.00	447,815.3	−117,268.8
International Fund Management S.A., Luxembourg	100.00	27,393.6	21,036.0
Deutsche Girozentrale Overseas Limited, Grand Cayman	100.00	10,024.5	278.7
Deutsche Girozentrale Holding S.A., Luxembourg	100.00	4,435.8	46.1
Europäisches Kommunalinstitut S.A.R.L., Luxembourg	100.00	13.4	−0.3
Trianon GmbH, Frankfurt am Main	100.00	29.2	0.6
WestInvest Zweite Beteiligungs- und Verwaltungs GmbH, Frankfurt am Main	99.74	23.1	−0.6
S-Broker Management AG, Wiesbaden	30.64	52.8	5.6
WestInvest Erste Beteiligungs- und Verwaltungs GmbH, Frankfurt am Main	99.74	71.7	−4.4
Sparkassen Pensionsfonds AG, Düsseldorf	50.00	11,536.6	−99.4
Sparkassen Pensionskasse AG, Düsseldorf	50.00	44,873.8	−13,868.4
Deka-WestLB Asset Management Luxembourg S.A., Luxembourg	51.00	1,000.0	–

[1] Definition of equity according to Section 266 Para. 3 A in conjunction with Section 272 HGB
[2] Net profit/loss in accordance with Section 275 Para. 2 n° 20 HGB
[3] A profit transfer agreement has been concluded with these companies

Off-balance sheet contingent liabilities

[4] Letter of comfort

Except in the case of political risk, DekaBank will ensure that the subsidiaries included in the Group financial statements and listed below will meet their liabilities:

- DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg
- Deutsche Girozentrale Holding S.A., Luxembourg
- Deutsche Girozentrale Overseas Limited, Grand Cayman

[5] Other financial commitments

There are payment commitments for companies in which the Bank has invested, which amount to €3 million (2005: €4m).

There is an obligation to put up additional capital amounting to €21 million (2005: €21m) for the Liquiditäts-Konsortialbank GmbH, Frankfurt am Main.

There is an obligation to put up additional capital amounting to €16 million for the Deka-S-Property-Fund No.1 GmbH, Frankfurt am Main as well as an additional capital amount of €5 million for HELI-CON Verwaltungsgesellschaft mbH & Co. Immobilien KG, Pullach.

Contributions to the Guarantee Fund of the *Landesbanken* and *Girozentralen* were revalued in accordance with risk-aligned principles resulting in subsequent payment obligations of €59.6 million in the next six years. If a case arises where financial aid is required the subsequent payments can be immediately called up.

Notes to the balance sheet

[6] Cash reserves

The Bank did not use cash reserves to hedge the covered bonds that it issued (2005: €296 million).

[7] Due from banks

	2006 €m	2005 €m
This item includes: **loans to**		
affiliated companies	132	111
companies in which an interest is held	5,426	6,020
Subordinated loans	–	–
Sub item b (other receivables) breaks down according to residual term to maturity as follows:		
less than three months	8,488	13,771
from three months to one year	6,179	4,045
from one year to five years	13,586	14,033
more than five years	12,598	13,687
	40,851	**45,536**
Used for hedging purposes	25,135	27,246

[8] Due from customers

	2006 €m	2005 €m
This item includes: **loans to**		
affiliated companies	36	16
companies in which an interest is held	575	19
Subordinated loans	0	13
This item breaks down by residual term to maturity as follows:		
with indefinite term to maturity	4,029	2,958
less than three months	2,314	924
from three months to one year	2,249	1,633
from one year to five years	6,697	6,550
more than five years	5,666	5,447
	20,955	**17,512**
Used for hedging purposes	8,616	9,541

[9] Bonds and other fixed-interest securities

	2006 €m	2005 €m
The marketable securities comprising this item include:		
listed companies	31,052	39,559
unlisted companies	1,578	488
Junior securities	135	63
Due within one year	8,630	9,720
Used for hedging purposes	3,765	10,945

[10] Shares and other non fixed-interest securities

	2006 €m	2005 €m
The marketable securities comprising this item include:		
Listed companies	3,367	1,519
Unlisted companies	784	4,312
Junior securities	17	17

This item includes restricted fund shares of the Deka-bAV fund to the amount of €15 million, which are treated by the Bank as fixed assets.

[11] Equity investments

As in 2005, this item does not include any marketable securities.

[12] Shares in affiliated companies

As in 2005, this item does not include any marketable securities.

[13] Trust assets

The reported trust assets comprise amounts due from customers of €42 million, amounts due from banks of €22 million and equities of €500m.

[14] Fixed assets

Changes in the fixed assets of DekaBank in 2006 were as follows:

Assets	Cost of acquisition/ production	Additions	Retirements	Write-ups	Accumulated impairment and depreciation	Impairment and depreciation for the year	Book value 31.12.2006	Book value 31.12.2005
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Equity investments	137,072	2,670	2,913	0	40,933	21,000	95,896	117,139
Shares in affiliated companies	1,080,562	50,000	87,920	0	130,380	108,716	912,262	1,058,898
Securities attributable to fixed assets	11,166	4,100	148	0	28	0	15,090	11,138
Intangible assets	42,471	3,470	0	0	39,701	4,120	6,240	6,889
Property, plant and equipment								
Land and buildings including buildings on third-party land (including: premises used for the Bank's business activities)	310,381	1,913	304,701	0	3,107	4,547	4,486 (4,486)	304,119 (3,264)
Office equipment	43,563	2,374	1,413	0	32,406	2,006	12,118	12,087
Total property, plant and equipment	**353,944**	**4,287**	**306,114**	**0**	**35,513**	**6,553**	**16,604**	**316,206**
Total fixed assets	**1,625,215**	**64,527**	**397,095**	**0**	**246,555**	**140,389**	**1,046,092**	**1,510,270**

[15] Other assets

	2006 €m	2005 €m
This item includes:		
Securities due and interest on such securities	429	–
Tax refund claims	91	119
Income tax, capital gains tax and solidarity surcharge refunds	21	17
Due from custodial account holders	16	22
Leasing assets	12	14
Netting of payment transactions	8	12
Foreign currency equalisation items	0	27

[16] Prepaid expenses and accrued income

	2006 €m	2005 €m
This item includes:		
Premiums and discounts from underwriting and lending business	198	264

[17] Additional information relating to assets

	2006 €m	2005 €m
Assets in foreign currency	7,560	6,323
Book value of pledged assets	12,302	11,025

[18] Due to banks

	2006 €m	2005 €m
This item includes:		
Liabilities to		
affiliated companies	233	532
companies in which an interest is held	3,238	4,774
Sub item b (with agreed maturity or period of notice) breaks down by residual term to maturity as follows:		
less than three months	13,526	16,554
from three months to one year	5,634	3,708
from one year to five years	4,208	4,287
more than five years	3,073	3,425
	26,441	**27,974**

[19] Due to customers

	2006 €m	2005 €m
This item includes:		
Liabilities to		
affiliated companies	178	135
companies in which an interest is held	23	39
Sub item b (with agreed maturity or period of notice) breaks down by residual term to maturity as follows:		
less than three months	1,601	2,578
from three months to one year	971	704
from one year to five years	4,567	3,855
more than five years	11,642	12,646
	18,781	**19,783**

[20] Securitised liabilities

	2006 €m	2005 €m
The issued bonds comprising sub-item a maturing in the following year	6,805	9,199
Sub item b (other securitized liabilities) breaks down by residual term to maturity as follows:		
less than three months	293	1,018
from three months to one year	43	197
	336	**1,215**

[21] Trust liabilities

Trust liabilities comprised €529 million in amounts due to customers and €35 million in amounts due to banks.

[22] Other liabilities

	2006 €m	2005 €m
This item includes:		
Securities loaned	515	420
Foreign currency equalisation items	96	–
Commission payments to sales branches	93	97
Liabilities from delivery and performance	23	26
Liabilities to custodial account holders	18	21
Interest payments on profit participation certificates	15	15
Distribution to atypical silent partners	0	2

[23] Accruals and deferred income

	2006 €m	2005 €m
This item includes:		
Premiums and discounts from issuing and lending business	36	40
Accrual and deferred income derivative financial instruments	15	18
Liabilities from leasing business	4	4

[24] Subordinated liabilities

	2006 €m	2005 €m
Expenses for subordinated liabilities	45	48
Accrued interest on subordinated liabilities	20	25

	due on	Amount €m	Interest rate in %
The liabilities break down as follows:			
Bonds	09.06.2010	190	6-M-Euribor
	09.06.2010	40	6-M-Euribor
	31.01.2014	300	5.38
	21.12.2015	300	4.63
Promissory notes	18.05.2012	85	6.15–6.46
	11.04.2016	40	4.43

The subordinated liabilities comply with the requirements of Section 10 Para. 5a of the German Banking Act (KWG). The conversion of these funds into capital or any other form of debt has not been agreed or planned. DekaBank has no obligation to make an early repayment.

[25] Equity

	2006 €m	2005 €m
Subscribed capital	286	286
Typical silent capital contribution	756	756
Atypical silent capital contribution	52	52

[26] Additional information relating to liabilities

	2006 €m	2005 €m
Foreign currency liabilities	8,800	8,606

[27] Calculation of coverage for mortgage and municipal loan business

Mortgage Pfandbriefe

Total amounts by nominal value and net present value

	Nominal value		Net present value		Risk-adjusted net present value +250 BP		Risk-adjusted net present value −250 BP	
	2006 €m	2005 €m	2006 €m	2005 €m	2006 €m	2005 €m	2006 €m	2005 €m
Outstanding Mortgage Pfandbriefe	100	100	97	100	90	91	104	110
Cover pool Mortgage Pfandbriefe	147	142	146	138	141	131	152	147
Over/under coverage	47	42	49	38	51	40	48	37

As in 2005, the cover pool does not contain any derivatives.

Maturity structure

Maturity ranges	less tan 1 year		from1 to 5 years		from 5 to 10 years		more than 10 years		Total	
	2006 €m	2005 €m	2006 €m	2005 €m	2006 €m	2005 €m	2006 €m	2005 €m	2006 €m	2005 €m
Outstanding Mortgage Pfandbriefe	0	0	100	100	0	0	0	0	100	100
Cover pool Mortgage Pfandbriefe	0	30	44	7	87	71	16	34	147	142

Composition of the cover pool by country

	less than 0.3		from 0.3 to 5		more than 5		Other cover		Total	
	2006 €m	2005 €m	2006 €m	2005 €m	2006 €m	2005 €m	2006 €m	2005 €m	2006 €m	2005 €m
Federal Republic of Germany	0	0	0	0	140	132	7	10	147	142
Total	**0**	**0**	**0**	**0**	**140**	**132**	**7**	**10**	**147**	**142**

Composition of the cover pool by type of use Federal Republic of Germany		
	2006 **€m**	**2005** **€m**
Commercial use	140	132
Residential use	0	0
Other cover	7	10
Total	**147**	**142**

Composition of the cover pool by type of building Federal Republic of Germany		
	2006 **€m**	**2005** **€m**
Office buildings	92	104
Retail buildings	32	13
Industrial buildings	16	15
Other cover	7	10
Total	**147**	**142**

At the date of reporting – as in the prior year – there were no claims on the covered pool of Mortgage Pfandbriefe that are in arrears more than 90 days.

Composition of the total amount of mortgage repayments over the financial year the financial year Federal Republic of Germany		
	2006 **€m**	**2005** **€m**
Repayment through redemption	0	2
Other repayment	0	19
Total	**0**	**21**

As in 2005, there were no pending compulsory sales or mandatory administration procedures at reporting year end. There were no foreclosures during the financial year, as it was also the case in 2005.

As in 2005, the Bank did not have to take over any property to prevent losses on mortgages during the financial year.

As in 2005, there were no arrears on interest payable on the mortgage debt.

Public Pfandbriefe

Total amounts by nominal value and net present value

	Nominal value		Net present value		Risk-adjusted net present value +250 BP		Risk-adjusted net present value –250 BP	
	2006 €m	2005 €m	2006 €m	2005 €m	2006 €m	2005 €m	2006 €m	2005 €m
Outstanding Public Pfandbriefe	30,195	34,950	30,984	36,927	29,002	34,385	33,437	40,161
Cover pool Public Pfandbriefe	37,370	47,887	38,511	51,044	36,007	47,765	41,525	55,067
Over/under coverage	7,175	12,937	7,527	14,117	7,005	13,380	8,088	14,906

As in 2005, the cover pool does not contain any derivatives.

Maturity structure

Maturity ranges	less than 1 year		from1 to 5 years		from 5 to 10 years		more than 10 years		Total	
	2006 €m	2005 €m	2006 €m	2005 €m	2006 €m	2005 €m	2006 €m	2005 €m	2006 €m	2005 €m
Outstanding Public Pfandbriefe	5,552	5,955	14,398	16,426	8,152	10,158	2,093	2,411	30,195	34,950
Cover pool Public Pfandbriefe	3,611	5,384	14,708	18,653	15,977	20,719	3,074	3,131	37,370	47,887

2006 breakdown:

Distribution of the cover pool – 2006

	Country		Regional authorities		Local authorities		Other debtors		Total
	Nominal value €m	Guarantor*	Nominal value €m	Guarantor*	Nominal value €m	Guarantor*	Nominal value €m	Guarantor*	€m
Federal Republic of Germany	498	–	5,825	–	1,356	–	27,228 1,407 68	– 1) 2)	36,383
Greece	50	–	0	–	0	–	0	–	50
Turkey	15	3)	0	–	0	–	0	–	15
Hungary	15	–	0	–	6	–	20	4)	41
Spain	0	–	110	–	0	–	290	5)	400
Finland	0	–	0	–	67	–	3	6)	69
Sweden	0	–	0	–	55	–	6	7)	61
Latvia	0	–	0	–	43	–	0	–	43
Cayman Islands	0	–	0	–	0	–	145 9	8) 3)	155
Bulgaria	0	–	0	–	0	–	28	3)	28
France	0	–	0	–	0	–	25	8)	25
European Investment Bank (EIB)	0	–	0	–	0	–	31	–	31
USA (incl. Puerto Rico)	0	–	0	–	0	–	22	3)	22
Belgium	0	–	0	–	0	–	10	9)	10
Cyprus	0	–	0	–	0	–	12	8)	12
Bermuda	0	–	0	–	0	–	8	3)	8
Tunisia	0	–	0	–	0	–	8	8)	8
Chile	0	–	0	–	0	–	3	10)	3
Croatia	0	–	0	–	0	–	3	8)	3
Russia	0	–	0	–	0	–	2	3)	2
Poland	0	–	0	–	0	–	1	3)	1
Total	**579**		**5,935**		**1,526**		**29,330**		**37,370**

* If there is a guarantor, type and location are indicated to the right of the 100% guaranteed amount. If there is no guarantor, this entry remains blank.

1) Reg. authorities, Germany
2) Loc. authorities, Germany
3) Country, USA
4) Country, Hungary
5) Reg. authority, Spain
6) Loc. Authority, Finland
7) Loc. authority, Sweden
8) Country, Germany
9) Country, Belgium
10) Country, Spain

2005 breakdown:

Distribution of the cover pool – 2005	Country		Regional authorities		Local authorities		Other debtors		Total
	Nominal value €m	Guarantor*	Nominal value €m	Guarantor*	Nominal value €m	Guarantor*	Nominal value €m	Guarantor*	€m
Federal Republic of Germany	479	–	8,118	–	1,931	–	32,784 180 2,469 19	– 1) 2) 3)	45,979
Italy	366	–	0	–	0	–	0	–	366
Greece	50	–	0	–	0	–	0	–	50
Turkey	22	4)	0	–	0	1)	0	–	22
Hungary	15	–	0	–	7	–	20	–	42
Spain	0	–	110	–	0	–	25 270	– 5)	404
Finland	0	–	0	–	73	–	4	6)	76
Sweden	0	–	0	–	55	–	6	7)	61
Cayman Islands	0	–	0	–	0	–	200 13	1) 4)	212
Republic of Ireland	0	–	0	–	0	–	100	–	100
France	350	–	0	–	0	–	37	1)	387
European Investment Bank (EIB)	0	–	0	–	0	–	31	–	31
USA (incl. Puerto Rico)	0	–	0	–	0	–	28	4)	28
Iran	0	–	0	–	0	–	0 19 0 9	8) 1) 9) 10)	28
Israel	0	–	0	–	0	–	31	1)	31
Belgium	0	–	0	–	0	–	19	–	19
Cyprus	0	–	0	–	0	–	14	1)	14
Bermuda	0	–	0	–	0	–	13	4)	13
Tunisia	0	–	0	–	0	–	10	1)	10
Chile	0	–	0	–	0	–	4	11)	4
Croatia	0	–	0	–	0	–	3 0	1) 12)	3
Russia	0	–	0	–	0	–	3	4)	3
Mauritius	0	–	0	–	0	–	2	1)	2
Poland	0	–	0	–	0	–	1	4)	1
Sri Lanka	0	–	0	–	0	–	0	1)	0
Total	**1,282**		**8,228**		**2,065**		**36,312**		**47,887**

* If there is a guarantor, type and location are indicated to the right of the 100% guaranteed amount. If there is no guarantor, this entry remains blank.

1) Country, Germany
2) Reg. authorities, Germany
3) Loc. authorities, Germany
4) Country, USA
5) Reg. authorities, Spain
6) Loc. authority, Finland
7) Loc. authority, Sweden
8) Country, the Netherlands
9) Country, Great Britain
10) Country, Italy
11) Country, Spain
12) Country, Croatia

As in 2005, there are no payments on claims used to cover Public Pfandbriefe that are at least 90 days in arrears.

Notes to the profit and loss account

[28] Write-downs and value adjustments on intangible and property, plant and equipment

Of the amount stated, €2 million (2005: €2m) related to leasing business

[29] Other operating income

Other operating income consisted mainly of €180 million from charges, €103 million from gains on sales of property, plant and equipment, €3 million from release of provisions and €5 million from leasing business.

[30] Audit fees

The following audit fees were charged as expenses in the year.

	2006 €000	2005 €000
Professional fees for:		
audits	1,527	1,184
other accounting services	425	899
tax consulting services	82	144
other services	687	161
	2,721	**2,388**

[31] Off-balance sheet transactions

At the balance sheet date, outstanding forward transactions (Section 36 RechKredV) are broken down as follows:

Derivative transactions – Volumes	Nominal values		Full fair values Positive market values	Full fair values Negative market values
	31.12.2006 €m	31.12.2005 €m	31.12.2006 €000	31.12.2006 €000
Interest rate risks				
Interest rate swaps	409,296.9	502,386.0	1,583,900	1,359,195
Forward Rate Agreements	700.0	1,500.0	15	1,262
Interest rate options				
Purchases	585.0	1,594.0	615	–
Sales	275.0	2,188.7	–	447
Caps, Floors	108.8	302.2	2	19
Stock market contracts	11,128.8	3,841.9	12,328	6,230
Other interest rate forward transactions	272.9	525.0	–	26,108
Total interest rate risks	**422,367.4**	**512,337.8**	**1,596,860**	**1,393,261**
Currency risks				
Forward exchange transactions	7,855.4	8,997.9	57,644	53,285
Currency swaps, interest rate currency swaps	2,539.9	2,867.0	49,921	118,645
Currency options				
Purchases	105.6	129.7	97	–
Sales	49.2	141.8	–	86
Total currency risks	**10,550.1**	**12,136.4**	**107,662**	**172,016**
Equity and other price risks				
Equity forward transactions	272.8	–	21,216	9
Share options				
Purchases	617.0	247.6	75,342	–
Sales	92.5	63.6	–	28,488
Stock market contracts	974.8	39.0	35,176	177,515
Other forward transactions	1,547.0	1,005.2	6,005	23,051
Total equity and other price risks	**3,504.1**	**1,355.4**	**137,739**	**229,063**
Overall total	**436,421.6**	**525,829.6**	**1,842,261**	**1,794,340**

Derivative transactions – classification by maturities (nominal values)	Interest rate risks		Currency risks		Share and other price risks	
	31.12.2006 €m	31.12.2005 €m	31.12.2006 €m	31.12.2005 €m	31.12.2006 €m	31.12.2005 €m
Residual terms to maturity						
less than 3 months	192,172.1	295,543.5	7,051.6	7,560.9	1,913.4	143.5
from 3 months to 1 year	86,068.7	106,234.7	1,651.6	1,982.7	908.5	95.1
from 1 to 5 years	94,540.1	66,070.5	879.9	1,508.0	386.9	900.8
more than 5 years	49,586.5	44,489.1	967.0	1,084.8	295.3	216.0
Total	**422,367.4**	**512,337.8**	**10,550.1**	**12,136.4**	**3,504.1**	**1,355.4**

Derivative transactions – classification by counterparties	Nominal values		Full fair values Positive market values	Full fair values Negative market values
	31.12.2006 €m	31.12.2005 €m	31.12.2006 €000	31.12.2006 €000
Banks in the OECD	419,234.8	514,762.6	1,567,409	1,520,735
Banks outside the OECD	–	–	–	–
Public-sector entities in the OECD	1,268.6	1,000.0	1,776	108
Other counterparties	15,918.2	10,067.0	273,076	273,497
Total	**436,421.6**	**525,829.6**	**1,842,261**	**1,794,340**

Derivative transactions – trading book	Nominal values		Full fair values Positive market values	Full fair values Negative market values
	31.12.2006 €m	31.12.2005 €m	31.12.2006 € 000	31.12.2006 € 000
Interest rate contracts	306,889.9	427,608.8	561,698	573,616
Currency contracts	2,728.4	3,432.2	19,951	18,503
Share contracts	2,481.2	391.1	133,449	226,767
Total	**312,099.5**	**431,432.1**	**715,098**	**818,886**

Other information

[32] Liquidity ratio

Pursuant to Section 11 of the German Banking Act (KWG), banks must invest their funds in such a way as to ensure that adequate cash reserves are ensured at all times. A ratio, calculated in accordance with Liquidity Principle II and relating to cash available over the short term to amounts payable over the same period, serves as the regulatory assessment criterion for liquidity. If the ratio of cash reserves to amounts payable has a value of 1 or higher, liquidity is then assured. As of 31 December 2006, the liquidity ratio for DekaBank was 1.5 (2005: 1.7).

[33] Average number of employed personnel

	2006	2005
Full-time	1,675	1,683
Part-time / temporary	251	234
	1,926	**1,917**

[34] Remuneration of board members

	2006 €	2005 €
Remuneration of active board members		
Board of Management	3,472,865.16	4,080,399.43
Administrative Board	790,549.54	769,153.33
Remuneration paid to former board members and surviving dependants		
Board of Management	6,349,080.75	1,896,848.04
Provisions for pension commitments to these persons	31,453,607.00	29,790,139.00

[35] Loans to executive bodies

	Board of Management		Administrative Board	
	2006 €	2005 €	2006 €	2005 €
Advances and loans	0.00	0.00	401,918.09	819,629.85
Contingent liabilities	0.00	0.00	0.00	0.00

Mandates in supervisory bodies

[36] Notes to mandates in supervisory bodies (as of January 2007)

Franz S. Waas, Ph.D.	**Chairman of the Board of Management from 1 January 2006**
Deka Investment GmbH – Frankfurt am Main	
Member of the Supervisory Board	from 01.01.2006 to 22.02.2006
Deputy Chairman of the Supervisory Board	from 23.02.2006 to 30.06.2006
Deutsche Landesbankenzentrale – Berlin	
Member of the Supervisory Board	from 20.07.2006
Chairman of the Supervisory Board	from 21.07.2006
Liquiditäts-Konsortialbank GmbH – Frankfurt am Main	
Chairman of the Administrative Board	from 23.02.2006
VÖB-Service GmbH – Bonn	
Member of the Advisory Board	from 05.04.2006

Oliver Behrens	**Member of the Board of Management from 1 January 2007**
Deka Investment GmbH – Frankfurt am Main	
Member of the Supervisory Board	from 01.01.2006 to 22.02.2006
Chairman of the Supervisory Board	from 23.02.2006
Deka FundMaster Investmentgesellschaft mbH – Frankfurt am Main	
Deputy Chairman of the Supervisory Board	from 01.01.2006 to 30.06.2006
Chairman of the Supervisory Board	from 01.07.2006
Deka International (Ireland) Ltd. – Dublin, Ireland	
Member of the Administrative Board	from 01.02.2006 to 04.07.2006
Chairman of the Administrative Board	from 05.07.2006
DekaBank Deutsche Girozentrale Luxembourg S.A. – Luxembourg	
Deputy Chairman of the Administrative Board	from 16.02.2006 to 24.08.2006
Chairman of the Administrative Board	from 25.08.2006
Deka(Swiss) Privatbank AG – Zurich, Switzerland	
Member of the Administrative Board	from 29.03.2006 to 30.06.2006
President of the Administrative Board	from 01.07.2006
S PensionsManagement GmbH – Düsseldorf	
Member of the Supervisory Board	from 01.04.2006
Sparkassen Pensionsfonds AG – Düsseldorf	
Member of the Supervisory Board	from 01.04.2006
Sparkassen Pensionskasse AG – Düsseldorf	
Member of the Supervisory Board	from 01.04.2006

Dr. Matthias Danne	**Member of the Board of Management from 1 July 2006**
Deka Immobilien Investment GmbH – Frankfurt am Main	
Chairman of the Supervisory Board	from 01.07.2006
WestInvest Gesellschaft für Investmentfonds mbH – Düsseldorf	
Chairman of the Supervisory Board	from 01.07.2006

Walter Groll	Member of the Board of Management from 1 July 2006
DekaBank Deutsche Girozentrale Luxembourg S.A. – Luxembourg	
Member of the Administrative Board	from 08.08.2006 to 24.08.2006
Deputy Chairman of the Administrative Board	from 25.08.2006
Deka International (Ireland) Ltd. – Dublin, Ireland	
Deputy Chairman of the Administrative Board	from 25.07.2006

Hans-Jürgen Gutenberger	Member of the Board of Management
S PensionsManagement GmbH – Düsseldorf	
Chairman of the Supervisory Board	
Sparkassen Pensionsfonds AG – Düsseldorf	
Chairman of the Supervisory Board	
Sparkassen Pensionskasse AG – Düsseldorf	
Chairman of the Supervisory Board	
Deka(Swiss) Privatbank AG – Zurich, Switzerland	
President of the Administrative Board	to 30.06.2006
Member of the Administrative Board	from 01.07.2006
DekaBank Deutsche Girozentrale Luxembourg S.A. – Luxembourg	
Chairman of the Administrative Board	to 07.08.2006
Deka Investment GmbH – Frankfurt am Main	
Deputy Chairman of the Supervisory Board	to 22.02.2006
Member of the Supervisory Board	from 23.02.2006 to 30.06.2006
Deka Immobilien Investment GmbH – Frankfurt am Main	
Member of the Supervisory Board	to 30.11.2006
Deputy Chairman of the Supervisory Board	from 01.12.2006
WestInvest Gesellschaft für Investmentfonds mbH – Düsseldorf	
Member of the Supervisory Board	to 30.11.2006
Deputy Chairman of the Supervisory Board	from 01.12.2006
Deka FundMaster Investmentgesellschaft mbH – Frankfurt am Main	
Member of the Supervisory Board	to 30.06.2006
Deputy Chairman of the Supervisory Board	from 01.07.2006
Deutsche Landesbankenzentrale AG – Berlin	
Member of the Supervisory Board	
S Broker AG & Co. KG – Wiesbaden	
Deputy Chairman of the Supervisory Board	from 01.07.2006
S Broker Management AG – Wiesbaden	
Member of the Supervisory Board	from 25.09.2006

Dr. h. c. Fritz Oelrich	Member of the Board of Management
Deka Immobilien Investment GmbH – Frankfurt am Main	
Chairman of the Supervisory Board	to 30.06.2006
Deputy Chairman of the Supervisory Board	from 01.07.2006 to 30.11.2006
Member of the Supervisory Board	from 01.12.2006
WestInvest Gesellschaft für Investmentfonds mbH – Düsseldorf	
Chairman of the Supervisory Board	from 15.02.2006 to 30.06.2006
Deputy Chairman of the Supervisory Board s	from 01.07.2006 to 30.11.2006
Member of the Supervisory Board	from 01.12.2006
DekaBank Deutsche Girozentrale Luxembourg S.A. – Luxembourg	
Deputy Chairman of the Administrative Board	to 16.02.2006
Member of the Administrative Board	from 17.02.2006
Deka FundMaster Investmentgesellschaft mbH – Frankfurt am Main	
Member of the Supervisory Board	from 01.07.2006
Deutsche Landesbankenzentrale AG – Berlin	
Deputy Chairman of the Supervisory Board	
Deka Investment GmbH – Frankfurt am Main	
Member of the Supervisory Board	ab 01.07.2006
S PensionsManagement GmbH – Düsseldorf	
Member of the Supervisory Board	to 31.03.2006
Sparkassen Pensionsfonds AG – Düsseldorf	
Member of the Supervisory Board	to 31.03.2006
Sparkassen Pensionskasse AG – Düsseldorf	
Member of the Supervisory Board	to 31.03.2006
Deka International (Ireland) Ltd. – Dublin, Ireland	
Member of the Administrative Board	
Deka(Swiss) Privatbank AG – Zurich, Switzerland	
Member of the Administrative Board	
VÖB-Service GmbH – Bonn	
Member of the Advisory Board	to 04.04.2006
SIZ Informatikzentrum der Sparkassenorganistion GmbH – Bonn	
Member of the Supervisory Board	from 09.08.2006
S Rating und Risikosysteme GmbH – Berlin	
Member of the Supervisory Board	from 23.10.2006

Dr. Bernhard Steinmetz	Member of the Board of Management to 30 June 2006
WestInvest Gesellschaft für Investmentfonds mbH – Düsseldorf	
Chairman of the Supervisory Board	to 14.02.2006
Deputy Chairman of the Supervisory Board	from 15.02.2006 to 30.06.2006
Deka International (Ireland) Ltd. – Dublin, Ireland	
Chairman of the Administrative Board	to 30.06.2006
SV (Deutschland) GmbH – Langenfeld	
Chairman of the Supervisory Board	
Deka FundMaster Investmentgesellschaft mbH – Frankfurt am Main	
Chairman of the Supervisory Board	to 30.06.2006
Deutsche Landesbankenzentrale AG – Berlin	
Chairman of the Supervisory Board s	to 30.06.2006
Deka Immobilien Investment GmbH – Frankfurt am Main	
Deputy Chairman of the Supervisory Board	to 30.06.2006
S Broker Management AG – Wiesbaden	
Deputy Chairman of the Supervisory Board	to 30.06.2006
S Broker AG & Co. KG – Wiesbaden	
Deputy Chairman of the Supervisory Board	to 30.06.2006
Deka Long/Short Equities Q Fund plc. – Dublin, Ireland	
Deputy Chairman of the Administrative Board	to 30.06.2006
Deka Fixed Income Diversified Q Fund plc. – Dublin, Ireland	
Deputy Chairman of the Administrative Board	to 30.06.2006
Havelländische Stadtwerke GmbH – Werder/Havel	
Member of the Supervisory Board	to 30.06.2006
SIZ Informatikzentrum der Sparkassenorganisation GmbH – Bonn	
Member of the Supervisory Board	to 30.06.2006
S Rating und Risikosysteme GmbH – Berlin	
Member of the Supervisory Board	to 30.06.2006

Executive organs of DekaBank Deutsche Girozentrale

[37] Notes to executive organs of DekaBank Deutsche Girozentrale (as of January 2007)

Board of Management

Franz S. Waas, Ph. D.
Chairman

Oliver Behrens
Member
(from 01.01.2007)

Dr. Matthias Danne
Member
(from 01.07.2006)

Hans-Jürgen Gutenberger
Member

Walter Groll
Member
(from 01.07.2006)

Dr. h. c. Fritz Oelrich
Member

Dr. Bernhard Steinmetz
Member
(to 30.06.2006)

Administrative Board

Heinrich Haasis
First Deputy Chairman (to 30.04.2006),
Chairman (from 01.05.2006)
President of the Savings Banks Association of Baden-Wuerttemberg,
President of the German Savings Banks and Giro Association e.V.

Dr. Dietrich H. Hoppenstedt
Chairman (to 30.04.2006)
President of the German Savings Banks and Giro Association e.V.

Dr. Rolf Gerlach
Member (to 07.06.2006),
First Deputy Chairman (from 08.06.2006)
President of the Savings Banks and Giro Association of Westphalia-Lippe

Dr. Thomas R. Fischer
Second Deputy Chairman
Chairman of the Management Board of WestLB AG

Dr. Stephan Articus
Executive Director of the German Association of Cities

Dr. Karlheinz Bentele
President of the Rhineland Savings Banks and Giro Association

Hans Berger
Chairman of the Management Board of HSH Nordbank AG

Gregor Böhmer
Managing President of the Savings Banks and Giro Association of Hesse-Thuringia

Thomas Christian Buchbinder
(to 31.03.2006)
Chairman of the Management Board of Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –

Hermann Gelsen
Member of the Staff Committee of DekaBank Deutsche Girozentrale

Dr. Max Häring
Chairman of the Management Board of Landesbank Saar

Prof. Dr. Hans-Günter Henneke
Managing Member of the Presiding Board of the German County Association

Reinhard Henseler
(from 01.04.2006)
Chairman of the Management Board of Nord-Ostsee Sparkasse

Dr. Siegfried Jaschinski
Chairman of the Management Board of Landesbank Baden-Württemberg

Dr. Stephan-Andreas Kaulvers
(from 01.06.2006)
Chairman of the Management Board of Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –

Dieter Klepper
Chairman of the Management Board of Sparkasse Saarbrücken

Peter Krakow
Chairman of the Management Board of Sparkasse Leipzig

Thomas Mang
President of the Savings Banks Association of Lower Saxony

Dr. Günther Merl
Chairman of the Management Board of Landesbank Hessen-Thüringen Girozentrale

Dr. Siegfried Naser
Managing President of the Savings Banks Association of Bavaria

Dr. Friedhelm Plogmann
Chairman of the Management Board of LRP Landesbank Rheinland-Pfalz

Dr. Hannes Rehm
Chairman of the Management Board of NORD/LB Norddeutsche Landesbank Girozentrale

Roland Schäfer
Mayor of the City of Bergkamen and President of the German Association of Towns and Municipalities

Heike Schillo
Member of the Staff Committee of DekaBank Deutsche Girozentrale

Werner Schmidt
Chairman of the Management Board of Bayerische Landesbank

Peter Schneider
(from 01.06.2006)
President of the Savings Banks Association of Baden-Wuerttemberg

Gustav Adolf Schröder
Chairman of the Management Board of Sparkasse KölnBonn

Dr. Friedhelm Steinberg
Deputy Chairman of the Management Board of Hamburger Sparkasse AG

Hans Otto Streuber
President of the Savings Banks and Giro Association of Rhineland-Palatinate

Alexander Stuhlmann
(to 31.12.2006)
Chairman of the Management Board of HSH Nordbank AG

Herbert Süß
Chairman of the Management Board of Sachsen LB Landesbank Sachsen Girozentrale

Hans-Jörg Vetter
Chairman of the Management Board of Landesbank Berlin AG

Frankfurt am Main, 16 February 2007

DekaBank
Deutsche Girozentrale

Board of Management

Waas, Ph. D. **Behrens**

Dr. Danne **Groll**

Gutenberger **Dr. h. c. Oelrich**

Auditor’s Report

“We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the DekaBank Deutsche Girozentrale, Berlin/Frankfurt am Main, for the business year from 1 January 2006 to 31 December 2006. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company’s Board of Managing. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Frankfurt am Main, 19 February 2007

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Sahm)	(ppa. Hinz)
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	*[German Public Auditor]*

Glossary

Advanced Measurement Approach (AMA) for operational risks
With this approach, the regulatory equity cover for operational risks is calculated from an internal risk model. Equity cover is determined on a VaR basis.

Advisory/management mandate
External fund which is managed by an investment company (KAG) of DekaBank Group. For advisory mandates, the KAG acts only as an adviser, i.e. the external management company must verify compliance with investment regulations in advance. For management mandates, however, investment decisions are made, verified and implemented by the KAG of DekaBank Group.

Assessor
Decentralized process expert who updates the evaluation of the strategic risk profile of a survey unit. At DekaBank, this update is conducted quarterly. Each group unit consists of one or several survey units.

Asset-backed securities (ABS)
Asset-backed securities are a type of bond or note that is based on pools of assets, or collateralized by the cash flows from a specified pool of underlying assets.

Assets under management (AuM) according to BVI
Assets under management according to BVI comprise the assets of public and special funds in the Asset Management Capital Markets and Asset Management Property business divisions. Assets invested in funds managed by partners, fund-based asset management or advisory/management mandates are ignored. From 2007, assets invested in funds of funds are included in the AuM-calculation.

Base indicator approach to operational risks
Simplified approach to determine the regulatory capital requirements for operational risks. In this way, operational risk is derived from the bank's gross earnings.

Cap Rate
Ratio of the net earnings (earnings minus apportionable marginal costs) to the purchase price plus the usual additional expenses.

Capital requirements (Basel II)
The purpose of the Basel capital requirements is to make the requirements more based on actual risks incurred and to take account of new developments on the financial markets and in risk management by financial institutions. They became mandatory for all German banks on 1 January 2007.

Collateralised debt obligation (CDO)
A bond that is secured by a diversified portfolio – consisting mostly of receivables from loans and bonds. As a rule, a CDO is split into various tranches of different creditworthiness. The CDO is a special form of ABS.

Combined payments
Payments made to savings banks and *Landesbanken* by the DekaBank Group. These include the payment of issuing fees on the sale of funds, along with the corresponding sales performance compensation, asset management fees and sales commissions.

Commission business
Trading and processing of financial-instrument transactions on behalf of customers (bank trades on a third-party account).

Confidence level
Probability that a potential loss will not exceed an upper loss limit defined by means of the value-at-risk (VaR).

Correlation
A correlation reveals the extent of synchronisation by indicating both the strength and direction of the relationship between two risk factors. The standard sizes of a correlation range in value between –1 (perfect negative correlation) and +1 (prefect positive correlation).

Cost income ratio (CIR)
The CIR is a productivity indicator, providing information about the amount that has to be spent in order to earn 1 Euro in profit. In the DekaBank Group, this indictor is calculated form the ratio of total expenses (excluding restructuring expenses) to total income (before risk provision) in the fiscal year.

Emerging markets
A summary term for a group of countries which are in the process of tuning into industrial countries. Their main features are political-economic reforms, high industrial growth, declining but still relatively high inflation rates, large foreign debt and, in many cases, limited political stability.

Equity method
The shares in associated companies or joint ventures are included in the consolidated balance sheet when they have a material impact on acquisition costs. In subsequent years, the balance-sheet equity value is updated by the Group share of changes in the associated company's equity. The proportional net profit of the Group is posted to the statement of comprehensive income as investment income.

Euro medium-term note programme (EMTNP)
Programme for issuing bonds having continuous issues in the middle to long-term range. They are placed with institutional investors by the banks taking care of the issues. The EMTNP possesses standardised documentation and imposes contractual guidelines for the individual issues.

Euro-Commercial Paper Programme (ECPP)
Programme for issuing bonds with terms lasting from a few days to under two years. They are issued by banks and large companies as flexible collateral for short-term requirements for loans revolving in accordance with the agreed total volume. Commercial paper is, as a rule, issued as discounted paper. Yields are geared to representative money-market interest rates over similar terms.

Exposure
In monitoring default risks, exposure is understood as the sum of all risks involved in the transactions of an economic borrower group with the partners comprising it.

Fair value
The amount at which an asset is exchanged between expert, contractually willing and mutually independent business partners or the amount at which a liability can be paid. According to practice, the value concept is fleshed out by standards of value, such as market value, or in the absence of such a standard, by internal valuation models.

Fair value hedge
This primarily concerns fixed-interest items (e.g. loans or securities) that can be secured against changes to fair value by derivatives.

Fund-of-funds
Investment funds that invest indirectly in securities, i.e. via other funds. The investment policy of funds-of-funds is mostly geared to the steady reproduction of a certain portfolio structure on the basis of a defined chance/risk profile.

Goodwill
In a shareholding acquisition or a company takeover, the difference arising from offsetting the acquisition cost against the fair-value of assets and liabilities is called goodwill.

G-REIT (German REIT)
REIT under German law. A REIT (Real Estate Investment Trust) is, as a rule, a listed tax-privileged public limited property company. At the level of the REIT, profit is tax free and is almost entirely distributed. However, taxes are levied on shareholder dividends. Draft legislation in Germany will allow for the introduction of G-REITs in 2007.

Gross sales – net sales
Gross sales corresponds to the total influx of cash into a fund. However, net sales (net cash inflows) reflects net cash inflows less outflows.

Hybrid capital
Mixed form of borrowed capital and equity making it possible to find an optimum position in balancing interests between the desire to assume risk and the constraints placed on corporate management. Typical representatives of hybrid capital are secondary loans, silent capital contributions or participating certificates.

IFRS (International Financial Reporting Standards)
In addition to the standards designated as IFRS, "IFRS" also includes the existing International Accounting Standards and the interpretations of the Standing Interpretation Committee (SIC) and the International Financial Reporting Interpretation Committee (IFRIC), as well as the Standards and Interpretations to be published by the IAS Board in the future.

Impairment
Unplanned reduction in asset values such as goodwill, receivables and tangible assets due to anticipated write-downs to the corresponding assets.

IRB basic approach
Approach to calculating the equity requirements for a credit risk, in which the extent of the credit risk depends on the banks own credit rating. While the probability of default is calculated by the bank for each rating class and borrower, all other risk parameters are set by the supervisory authority, this is referred to as the IRB basic approach.

MaRisk (German minimum requirements for risk management)
Mandatory requirement by the German Federal Financial Supervisory Authority (BaFin) for the risk management practices of German credit institutions. As the supervisory authority concerned with implementing Section 25a Para. 1 of the German Banking Act (KWG), BaFin has established the MaRisk by consolidating, updating and elaborating the applicable minimum requirements existing in the Minimum Requirements for the Trading Requirements of Credit Institutions (Mindestanforderungen an das Betreiben von Handelsgeschäften or MaH), the Minimum Requirements for Conducting Internal Audits (Mindestanforderungen an die Ausgestaltung der internen Revision or MaIR) and the Minimum Requirements for Credit Transactions (Mindestanforderungen an das Kreditgeschäft or MaK). MaRisk was published in December 2005 and came into effect on 1 January 2007.

Master KAG
An investment company functioning as a specialised service KAG (Capital Investment Company) in which it outsources portfolio management tasks for individual mandates to various external asset managers but prepares a consistent series of reports for institutional investors. This enables institutional investors to bundle all their administered assets with a single investment company.

Operational risk
Chance of damage occurring as a result of inadequacy or failure of internal procedures, human resource and systems, or due to external influences.

Primary / Secondary cover pools
Primary cover pools are composed of the annual contribution to operating profit, IFRS balance-sheet equity and atypical silent capital contributions. Secondary cover pools consist of secondary liabilities that can be used to cover primary liabilities.

Primary / Secondary market
The primary market (otherwise known as the issue market) is the capital market for the initial issue of securities. Trading of issued securities, especially bonds and shares occurs on the secondary market (usually in organised trading on stock exchanges).

Rating
Standardised creditworthiness / risk assessment of companies, countries or the debt instruments that they issue based on standardised qualitative and quantitative criteria. From a

bank's point of view, the result of the rating process provides the basis for establishing the probability of default, which must in turn be incorporated in calculating equity requirements for the credit risk. Ratings can be issued by the bank itself (internal ratings) or by specialised rating agencies such as Standard & Poor's, Fitch or Moody's.

Repurchase agreement
Securities are sold under repurchase agreements. At the same time, an agreement is made about the repurchase of the securities at a fixed term and at an ex ante defined price. Durations of repurchase agreements can vary, ranging from overnight, 24 hours, a few days to several months.

Return on equity (RoE)
Overall profit for the period before/after tax divided by equity including atypical silent capital contributions. The RoE also reflects the payment of interest on capital provided by shareholders.

Revaluation reserves
Revaluation reserves include fair-value valuation effects from financial instruments in the "Available for Sale" category and deferred tax effects, while not affecting net profit.

Risk capital
Reserved risk capital is understood to be risk capital allocated to the business divisions concerned with equity allocation. This corresponds, for example, to a limit assigned to a risk category and a business segment. The risk potential corresponds to the actual incurred risk (value-at-risk).

Securities Lending
A process in which securities are lent against monetary consideration for a defined period. The borrower is required to resume ownership of securities of the same quality and nature upon expiry of the time limit (maximum 6 months). The transaction consequently involves assets as defined in Section 607 of the German Civil Code (BGB). The securities lender is therefore regarded as the continuous owner of the securities. For the temporary cession of the securities, the lender receives a lending fee from the borrower. If necessary, the borrower provides security. Contrast this arrangement with a repurchase agreement.

Service KAG
A service KAG is an investment company that, to begin with, concentrates its service provision on the administrative coordination and management of investments, including investment fund accounting, reporting and financial controlling, thus making it possible for an investor to issue public and restricted funds.

Single Name Credit Default Swap
Credit Default Swaps (CDS) are credit derivatives for hedging a given loan against default by the borrower. They make it possible for the credit risk to be separated from the underlying credit relation and the subsequent separate trading of this risk. The CDS buyer pays a regular amount to the seller (party furnishing security). In the case of non-payment of the loan, the latter is required to assume the liability or to make an equalisation payment to the secured party. For a single-name CDS, the contractually agreed flow of payments just depends on the financial performance of a single borrower.

Spread
Difference between the purchase price and the selling price of certain financial products (e.g. foreign currency, certificates, futures, etc.).

Syndication / syndicated loan
A loan collectively awarded by a group of banks (consortium), otherwise known as a consortium loan. Syndication provides an opportunity for several banks to share the overall risk involved in a loan.

Underwriting policy
Underwriting policy describes the investment standards and guidelines to be satisfied internally as part of the internal credit-risk strategy.

Utilisation of capacity to sustain risk
Indicator of the relationship between the Group risk (business, market, default, equity, property, property fund and operational risk) and the cover pools.

Value-at-risk (VaR)
The VaR of a financial-instrument portfolio identifies the possible loss that might arise within a prescribed period (= holding period, for example 10 days) and probability (= confidence level, for example 95 per cent) in the case of presupposed changes in market-risk factors (e.g. interest rates, currencies and share prices).

Variance-covariance method
Procedure for determining the value-at-risk. In the context of this method, which is also labelled the parametric, analytic or delta-normal method, risk factor volatilities and correlations are used to determine the value-at-risk. It is assumed that the fluctuations in the risk factors conform to a normal distribution.

Volatility
Measure of the fluctuation intensity of a risk factor over a predefined period. A distinction is made between historical and implied volatility.

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Concept and design
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Disclaimer

The management report as well as the annual report in other respects contain forward-looking statements as well as expectations and forecasts. These are based on the information available to us at this time, which we have deemed to be reliable after careful consideration. We do not assume an obligation to update based on new information and future events after the publication of this information. We have derived our estimations and conclusions from these forward-looking statements, expectations and forecasts. We expressly point out that all of our future-oriented statements are associated with known or unknown risks or imponderables and are based on conclusions relating to future events, which depend on risks, uncertainties and other factors that are outside of our area of influence. Such developments can result from, among other things, a change in the general economic situation, the competitive situation, the development of the capital markets, changes in the tax law and legal framework as well as the reliability of our procedures and methods for risk management and from other risks. The events actually occurring in the future may thus turn out to be considerably different from our forward-looking statements, expectations, forecasts and conclusions. We can therefore assume no liability for their correctness and completeness or for the actual occurrence of the information provided.

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