

# Management Report

The following discussion and analysis should be read in conjunction with the consolidated financial statements and the related notes to them. Our consolidated financial statements for the years ended December 31, 2005 and 2004 have been audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft that issued an unqualified opinion.

## Business and Operating Environment

### Our Organization

Headquartered in Frankfurt am Main, Germany, we are the largest bank in Germany, and one of the largest financial institutions in Europe and the world, as measured by total assets of € 992 billion as of December 31, 2005. As of this date, we employed 63,427 people on a full-time equivalent basis, operating in 73 countries out of 1,588 facilities worldwide, of which 53% were in Germany. We offer a wide variety of investment, financial and related products and services to private individuals, corporate entities and institutional clients around the world.

In order to best serve our clients and manage our own investments, we are organized into three group divisions, two of which are further sub-divided into corporate divisions. As of December 31, 2005, our group divisions were:

- *The Corporate and Investment Bank* (CIB), comprising two corporate divisions:
  - Corporate Banking & Securities (CB&S)
  - Global Transaction Banking (GTB)
- *Private Clients and Asset Management* (PCAM), comprising two corporate divisions:
  - Asset and Wealth Management (AWM)
  - Private & Business Clients (PBC)
- *Corporate Investments* (CI)

Our organization also includes our Corporate Center and an infrastructure group into which we centralized our business support areas (which were formerly part of our group divisions). Additionally, we created a regional management function that covers regional responsibilities worldwide.

### Economic Environment in 2005

In 2005, the global economy grew by 4.5%, above its long-term trend rate. China, with GDP growth of 9.9% and the United States, at 3.5%, together generated nearly half of the rise in global GDP. Japan's GDP growth accelerated to 2.8%, while economic growth in the Eurozone slowed to 1.3%, however Germany, against a backdrop of weak consumer spending, lagged significantly behind the other countries with a growth rate of only 0.9%. In the last months of 2005 business confidence in the industrialized nations improved strongly. The capital markets developed better than expected last year and confidence in the international financial markets increased. The Nikkei Index and the DAX gained 40% and 27%, respectively. The Dow Jones was volatile but ended the year hardly changed from its starting level, partly reflecting continued interest rate increases by the Federal Reserve.

Banks world-wide posted exceptionally strong results in 2005. For the fourth year running, pre-tax profits in the global banking industry rose significantly, exceeding by a wide margin even the boom year 2000 both in absolute terms and relative to assets and capital. Dynamic revenue growth coincided with a successful restraint of costs and, most importantly, a strong decline in risk provisions reflecting the benign credit environment and markedly improved credit risk management. The rise of banks' profits extended to those countries where it had been absent before, including Germany. On the back of buoyant global capital markets, commission income and trading results were the main drivers for revenue growth. Net interest income also increased, but less so than the other two categories reflecting ongoing margin pressure due to strong competition as well as the normalization of interest rates from the unusually low levels. Growth in net interest income was strongest in household lending, especially in those markets where house prices rose strongly. In contrast, corporate lending remained subdued in

most mature markets, especially in Europe, reflecting ample corporate liquidity and – in Europe – low investment volumes. On balance, cost levels edged up slightly, though this mainly reflected higher business volumes and performance-related increases in staff compensation; overall, however, cost discipline remained well intact with outsourcing and industrialization of processes becoming a major theme in the financial industry, too.

## Executive Summary

Thanks to our strong global presence, especially in corporate and investment banking and our investment management businesses, we took advantage of the generally favorable economic and market environment. We generated higher revenues in most business areas which, combined with some expense growth and a similar level of loan loss provisions, resulted in significant bottom-line profit growth.

Income before income tax expense increased from € 4.0 billion in 2004 to € 6.1 billion, including restructuring charges of € 767 million related to the Business Realignment Program (“BRP”) (similar charges in 2004 amounted to € 400 million). We reported a pre-tax return on average active equity of 24% in 2005 – a substantial improvement over 16% in 2004 (pre-tax return on average total shareholders’ equity was 22% and 15%, respectively, for these years). Net income for 2005 increased 43% to € 3.5 billion compared to € 2.5 billion in 2004, and diluted earnings per share grew 53% to € 6.95.

Compared to 2004, total net revenues excluding the provision for loan losses increased by € 3.7 billion, or 17%, to € 25.6 billion. Revenues grew in all major categories. Net interest and trading revenues were up € 819 million, or 16%, and € 1.2 billion, or 20%, respectively. This growth was primarily attributable to our Sales & Trading businesses, which achieved total revenues (net interest, trading, fee and other revenues) of € 10.6 billion, up 21% from 2004 to a new record level. Our business model, which emphasizes high-value ‘intellectual capital’ products and customized solutions, performed strongly – in both the good and challenging market conditions in 2005. Commission and fee revenues improved by € 582 million to € 10.1 billion in 2005, driven by strong results in both our origination/advisory and investment management businesses. Also contributing to higher revenues in 2005 was an increase of € 821 million in gains on sales from our portfolio of securities available for sale, mainly reflecting gains from the further reduction of our stake in DaimlerChrysler AG.

Our total noninterest expenses were € 19.2 billion compared to € 17.5 billion in 2004. Noninterest expenses reflected restructuring expenses of € 767 million in 2005 and € 400 million in 2004, increased provisions in 2005 related to legal exposures for legacy issues, and € 203 million in 2005 related to grundbesitz-invest, an open-end property fund sponsored and managed by a German subsidiary of ours. Declines in noninterest expenses due to headcount reductions and other additional measures were offset by higher performance-related bonuses, in line with strong business results, as well as by investments in growth businesses.

In 2005 the provision for loan losses was € 374 million compared to € 372 million in 2004. The level in 2005 partly reflects growth in our consumer lending business, consistent with our stated strategy. At the end of 2005, problem loans were € 3.9 billion, down 20% from € 4.8 billion at the end of 2004, reflecting the quality of our loan book, tight credit risk management, the positive results of workout processes and the overall benign credit environment.

The following table presents our condensed consolidated statement of income for 2005 and 2004.

in € m.	2005	2004	2005 increase (decrease) from 2004	
			in €	in %
Net interest revenues	6,001	5,182	819	16
Provision for loan losses	374	372	2	1
<b>Net interest revenues after provision for loan losses</b>	<b>5,627</b>	<b>4,810</b>	<b>817</b>	<b>17</b>
Commissions and fee revenues	10,089	9,506	582	6
Trading revenues, net	7,429	6,186	1,243	20
Net gains on securities available for sale	1,055	235	821	N/M
Net income from equity method investments	418	388	30	8
Other noninterest revenues	648	421	227	54
<b>Total noninterest revenues</b>	<b>19,639</b>	<b>16,736</b>	<b>2,903</b>	<b>17</b>
<b>Total net revenues</b>	<b>25,266</b>	<b>21,546</b>	<b>3,719</b>	<b>17</b>
Compensation and benefits	10,993	10,222	771	8
Goodwill impairment/impairment of intangibles	–	19	(19)	N/M
Restructuring activities	767	400	367	92
Other noninterest expenses	7,394	6,876	518	8
<b>Total noninterest expenses</b>	<b>19,154</b>	<b>17,517</b>	<b>1,637</b>	<b>9</b>
<b>Income before income tax expense and cumulative effect of accounting changes</b>	<b>6,112</b>	<b>4,029</b>	<b>2,083</b>	<b>52</b>
Income tax expense	2,039	1,437	602	42
Reversal of 1999/2000 credits for tax rate changes	544	120	424	N/M
<b>Income before cumulative effect of accounting changes, net of tax</b>	<b>3,529</b>	<b>2,472</b>	<b>1,056</b>	<b>43</b>
Cumulative effect of accounting changes, net of tax	–	–	–	–
<b>Net income</b>	<b>3,529</b>	<b>2,472</b>	<b>1,056</b>	<b>43</b>

N/M – Not meaningful

Our net income included the effects of reversing income tax credits related to 1999 and 2000 tax law changes, as described in “Effects of 1999/2000 German Tax Reform Legislation and Accounting for Income Taxes” and the cumulative effect of accounting changes as described in Note [2] to our consolidated financial statements. The following table shows our net income excluding these effects.

in € m. (except per share amounts)	2005	Per share (basic)	Per share (diluted)	2004	Per share (basic)	Per share (diluted)
<b>Net income</b>	<b>3,529</b>	<b>7.62</b>	<b>6.95</b>	<b>2,472</b>	<b>5.02</b>	<b>4.53</b>
<b>Add (deduct):</b>						
Reversal of 1999/2000 credits for tax rate changes	544	1.18	1.07	120	0.24	0.23
Cumulative effect of accounting changes, net of tax	–	–	–	–	–	–
<b>Net income before reversal of 1999/2000 credits for tax rate changes and cumulative effect of accounting changes, net of tax</b>	<b>4,073</b>	<b>8.80</b>	<b>8.02</b>	<b>2,592</b>	<b>5.26</b>	<b>4.76</b>

Net income above included pre-tax gains of € 750 million in 2005, € 140 million in 2004 and € 222 million in 2003 on sales of securities that generated the reversal of the 1999/2000 credits for tax rate changes.

## Effects of 1999/2000 German Tax Reform Legislation and Accounting for Income Taxes

The German Tax Reform Act stipulated that profits on the sale of shareholdings in German corporations were exempt from tax beginning January 1, 2002. For our consolidated financial statements for 2000, this meant that the respective deferred tax liability formed in connection with the unrealized gains from equity securities available for sale accumulated in other comprehensive income (OCI) had to be released as a credit in the tax line of the income statement although the gains were still unrealized since the securities were not yet sold.

The release of the deferred tax liability through the income statement did not affect the offset amount in OCI. It remains fixed in the amount determined at the date of the release of the deferred tax liability until such time as the securities are sold.

The following table presents the level of unrealized gains and related effects for available for sale equity securities of DB Investor, which holds most of our industrial holdings.

in € bn.	2005	2004	2003	2002	2001
Market value	4.1	5.4	6.3	5.3	14.1
Cost	2.2	4.0	4.6	5.0	5.7
<b>Unrealized gains in other comprehensive income</b>	<b>1.9</b>	<b>1.4</b>	<b>1.7</b>	<b>0.3</b>	<b>8.4</b>
Less: deferred tax relating to 1999 and 2000 tax rate changes in Germany	2.1	2.7	2.8	2.9	5.5
<b>Other comprehensive income (loss), net</b>	<b>(0.2)</b>	<b>(1.3)</b>	<b>(1.1)</b>	<b>(2.6)</b>	<b>2.9</b>

As a consequence, the accounting for income tax rate changes related to eligible equity securities may result in significant impacts on our results of operations in periods in which we sell these securities. This effect is illustrated in 2005, 2004, 2003, 2002 and 2001 when we sold portions of our eligible equity securities. The gains resulting from most of these sales were not subject to tax. We reversed the deferred taxes which had accumulated in other comprehensive income, through December 31, 2000, in respect of these securities. We recognized these reversals as tax expense of € 544 million in 2005, € 120 million in 2004, € 215 million in 2003, € 2.8 billion in 2002 and € 995 million in 2001.

The only tax payable is on 5% of any gain as a result of the 2004 Tax Reform Act which was enacted in December 2003. Under the Act, effective starting in 2004, corporations effectively became subject to tax on 5% of capital gains from the disposal of foreign and domestic shareholdings irrespective of holding percentage and holding period; losses from a shareholding disposal continue to be non-tax deductible.

Neither the initial release of the deferred tax liability nor the unrealized gains and losses from securities available for sale are included in regulatory core capital or in the calculation of our adjusted return on equity. The entire procedure is a U.S. GAAP specific accounting requirement. We believe that the economic effects of the tax rate changes are not appropriately reflected in the individual periods up to and including the period of the sale.

For more information on this accounting method, see the respective section of our Form 20-F filed March 23, 2006.

## Operating Results

You should read the following discussion and analysis in conjunction with the consolidated financial statements.

### Net Interest Revenues

The following table sets forth data related to our net interest revenues.

in € m. (except percentages)	2005	2004	2005 increase (decrease) from 2004	
			in €	in %
Total interest revenues	41,708	28,023	13,685	49
Total interest expenses	35,707	22,841	12,866	56
<b>Net interest revenues</b>	<b>6,001</b>	<b>5,182</b>	<b>819</b>	<b>16</b>
Average interest-earning assets <sup>1</sup>	866,750	751,557	115,193	15
Average interest-bearing liabilities <sup>1</sup>	809,321	695,094	114,227	16
Gross interest yield <sup>2</sup>	4.81%	3.73%	1.08 ppt	29
Gross interest rate paid <sup>3</sup>	4.41%	3.29%	1.12 ppt	34
Net interest spread <sup>4</sup>	0.40%	0.44%	(0.04) ppt	(9)
Net interest margin <sup>5</sup>	0.69%	0.69%	–	–

ppt – Percentage points

<sup>1</sup> Average balances for each year are calculated based upon month-end balances.

<sup>2</sup> Gross interest yield is the average interest rate earned on our average interest-earning assets.

<sup>3</sup> Gross interest rate paid is the average interest rate paid on our average interest-bearing liabilities.

<sup>4</sup> Net interest spread is the difference between the average interest rate earned on average interest-earning assets and the average interest rate paid on average interest-bearing liabilities.

<sup>5</sup> Net interest margin is net interest revenues expressed as a percentage of average interest-earning assets.

Net interest revenues in 2005 were € 6.0 billion, an increase of € 819 million from 2004. Average interest-bearing volumes of assets and liabilities each increased by approximately € 115 billion, the overall net interest spread narrowed by 4 basis points and our net interest margin stood at 69 basis points in both years. Much of the increase in net interest revenues was related to our trading activities. Factors in this increase include a € 49 billion increase in interest-earning trading assets outstanding (mainly in non-German offices) and the effect of a larger increase in noninterest-bearing trading liabilities than noninterest bearing trading assets. Interest revenues from loans remained nearly unchanged as strong competition held down interest yields and our average loans outstanding changed little year-to-year, though lending picked up later in the year primarily in our retail and wealth management businesses. Our overall funding costs rose by 112 basis points due primarily to the higher rates in the U.S. as the Federal Reserve continued its policy of rate increases.

The development of our net interest revenues is also influenced to a significant extent by the accounting treatment of some of our derivatives transactions. We enter into nontrading derivative transactions as economic hedges of the interest rate risks of our nontrading assets and liabilities. Some of these derivatives qualify as hedges for accounting purposes while others do not. When derivative transactions qualify as hedges for accounting purposes, the interest arising from the derivatives appear in interest revenues and expense, where they offset the interest flows from the assets and liabilities they are intended to hedge. When derivatives do not qualify for hedge accounting treatment, the interest flows that arose from the derivatives during any period all appear in trading revenues for that period.

### Trading revenues, net

The following table sets forth data related to our trading revenues.

in € m. (except percentages)	2005	2004	2005 increase (decrease) from 2004	
			in €	in %
CIB – Sales & Trading (equity)	3,273	2,192	1,081	49
CIB – Sales & Trading (debt and other products)	3,725	3,666	59	2
Other trading revenues	431	328	103	31
<b>Total trading revenues, net</b>	<b>7,429</b>	<b>6,186</b>	<b>1,243</b>	<b>20</b>

Trading revenues from CIB – Sales & Trading (equity) increased € 1.1 billion, mainly driven by substantial growth in our equity derivatives business and to a lesser extent greater results from our proprietary activity.

The increase in other trading revenues was mainly due to higher mark-to-market results from credit default swaps used to hedge our investment-grade loan exposure, to a loss of € 13 million in 2005 from a loss of € 231 million in 2004. This development was partly offset because mark-to-market gains related to AWM's guaranteed-value mutual funds business were reflected in the 2004 results but not in 2005 following its deconsolidation pursuant to the adoption of FIN 46(R).

Our trading and risk management businesses include significant activities in interest rate instruments and related derivatives. Under U.S. GAAP, interest revenues earned from trading assets (e.g., coupon and dividend income), and the costs of funding net trading positions are part of net interest revenues. Our trading activities can periodically shift revenues between trading revenues and interest revenues, depending on a variety of factors, including risk management strategies. In order to provide a more business-focused commentary, we discuss the combined net interest and trading revenues by group division and by product within the Corporate and Investment Bank, rather than by type of revenues generated.

The following table sets forth data relating to our combined net interest and trading revenues by group division and product within Corporate and Investment Bank.

in € m.	2005	2004	2005 increase (decrease) from 2004	
			in €	in %
Net interest revenues	6,001	5,182	819	16
Trading revenues, net	7,429	6,186	1,243	20
<b>Total net interest and trading revenues</b>	<b>13,430</b>	<b>11,368</b>	<b>2,062</b>	<b>18</b>
Breakdown by Group Division/CIB product <sup>1</sup> :				
Sales & Trading (equity)	2,465	1,594	871	55
Sales & Trading (debt and other products)	6,433	5,368	1,065	20
Total Sales & Trading	8,899	6,963	1,936	28
Loan products <sup>2</sup>	766	698	68	10
Transaction services	913	828	85	10
Remaining products <sup>3</sup>	(20)	(135)	115	85
Total Corporate and Investment Bank	10,558	8,354	2,204	26
Private Clients and Asset Management	2,818	2,923	(105)	(4)
Corporate Investments	37	118	(81)	(69)
Consolidation & Adjustments	17	(26)	43	N/M
<b>Total net interest and trading revenues</b>	<b>13,430</b>	<b>11,368</b>	<b>2,062</b>	<b>18</b>

N/M – Not meaningful

<sup>1</sup> Note that this breakdown reflects net interest and trading revenues only. For a discussion of the group divisions' total revenues by product please refer to "Results of Operations by Segment".

<sup>2</sup> Includes the traditional net interest spread on loans as well as the results of credit default swaps used to hedge our investment-grade loan exposure.

<sup>3</sup> Includes origination, advisory and other products.

**Corporate and Investment Bank (CIB).** The significant increase in combined net interest and trading revenues from sales and trading products of € 1.9 billion to € 8.9 billion reflected our results in commodity, credit, equity and interest rate derivatives and emerging markets. Strong gains from the proprietary business additionally contributed to this development. In loan products, net interest and trading revenues were higher by € 68 million due to lower trading losses on credit risk hedge positions. This was partly offset by a decrease in net interest revenues from our corporate loan book reflecting lower interest margins. The increase of € 85 million in transaction services was due to higher interest revenues from Cash Management products and from Trust and Securities Services. Net interest and trading revenues from remaining products were € 115 million higher than in 2004 mainly due to foreign currency effects on certain corporate liabilities and lower goodwill funding costs.

**Private Clients and Asset Management (PCAM).** Combined net interest and trading revenues were € 2.8 billion in 2005, a decrease of € 105 million compared to 2004. Net interest and trading revenues in 2004 included € 155 million attributable to the aforementioned deconsolidation of AWM's guaranteed-value mutual funds business. This deconsolidation impact was partly offset by higher net interest revenues in 2005 resulting from increased loan volumes in the retail and wealth management business.

**Corporate Investments (CI).** The decrease of € 81 million to € 37 million included lower dividend income from our downsized industrial holdings portfolio.

### **Provision for Loan Losses**

Our provision for loan losses reflects charges to and releases from the allowance we carry for credit losses on loans. The allowance consists of a specific loss component, which relates to specific loans, and an inherent loss component. The inherent loss component consists of a country risk allowance, an allowance for smaller-balance standardized homogeneous loans and an inherent loss component to cover losses in our loan portfolio that have not yet been individually identified, and reflects the imprecisions and uncertainties in estimating our loan loss allowance.

Our provision for loan losses in 2005 was € 374 million, nearly unchanged from the prior year (€ 372 million), reflecting tight credit risk management, positive results of workout processes as well as the overall benign credit environment. Exposure in our smaller-balance standardized homogeneous loan portfolio accounted for 98% of our total loan loss provision in 2005.

For further information on the provision for loan losses see our Risk Report.

## Noninterest Revenues, Excluding Trading Revenues

in € m.	2005	2004	2005 increase (decrease) from 2004	
			in €	in %
Commissions and fee revenues <sup>1</sup>	10,089	9,506	582	6
Net gains on securities available for sale	1,055	235	821	N/M
Net income from equity method investments	418	388	30	8
Other noninterest revenues	648	421	227	54
<b>Total noninterest revenues, excluding trading revenues</b>	<b>12,210</b>	<b>10,550</b>	<b>1,660</b>	<b>16</b>

N/M – Not meaningful

<sup>1</sup> Includes	2005	2004	in €	in %
Commissions and fees from fiduciary activities:				
Commissions for administration	396	281	115	41
Commissions for assets under management	3,009	2,847	163	6
Commissions for other securities business	151	83	67	81
<b>Total</b>	<b>3,556</b>	<b>3,211</b>	<b>345</b>	<b>11</b>
Commissions, broker's fees, mark-ups on securities underwriting and other securities activities:				
Underwriting and advisory fees	2,059	1,793	266	15
Brokerage fees	1,998	1,918	80	4
<b>Total</b>	<b>4,057</b>	<b>3,711</b>	<b>346</b>	<b>9</b>
Fees for other customer services	2,476	2,584	(108)	(4)
<b>Total commissions and fee revenues</b>	<b>10,089</b>	<b>9,506</b>	<b>582</b>	<b>6</b>

**Commissions and Fee Revenues.** Total 2005 commissions and fee revenues were € 10.1 billion, an increase of € 582 million, or 6%, compared with 2004. The increase of € 345 million in commissions and fees from fiduciary activities mainly resulted from higher assets under management in our mutual funds business and higher performance fees in AM's Real Estate business. Underwriting and advisory fees increased by € 266 million, mainly attributable to improved results from Origination (equity) and Advisory in CIB. The decrease of € 108 million in fees for other customer services was driven by higher sales of insurance products in 2004, due largely to changes in German tax legislation.

**Net Gains on Securities Available for Sale.** Results in 2005 included € 666 million from gains on sales of DaimlerChrysler AG shares in our industrial holdings portfolio. Additionally, the gains from the disposal of our interest in Südzucker AG and from the partial disposal of HCL Technologies Ltd. contributed to the 2005 profit. In 2004, results included several disposal gains of which the most significant was a € 118 million net gain related to sales of DaimlerChrysler AG shares.

**Net Income from Equity Method Investments.** The key contributors to net income from equity method investments in 2005 and in 2004 were structured transactions in CIB's sales & trading areas as well as CI's equity method investments. Both years also include income related to real estate investments in AWM.

**Other Noninterest Revenues.** Total other noninterest revenues increased by € 227 million in 2005 compared to 2004. The improvement primarily arose because 2004 included provisions for the beneficial interest of the investors in AWM's guaranteed value mutual funds business. Also contributing to the increase was higher income from other investments in CI and in AWM's real estate business. These positive factors were partly offset by lower returns from loans held for sale subsequent to interest rate increases, predominantly in the U.S.

## Noninterest Expenses

The following table sets forth information on our noninterest expenses.

in € m.	2005	2004	2005 increase (decrease) from 2004	
			in €	in %
Compensation and benefits	10,993	10,222	771	8
Other noninterest expenses <sup>1</sup>	7,394	6,876	518	8
Goodwill impairment/impairment of intangibles	–	19	(19)	N/M
Restructuring activities	767	400	366	92
<b>Total noninterest expenses</b>	<b>19,154</b>	<b>17,517</b>	<b>1,637</b>	<b>9</b>

N/M – Not meaningful

<sup>1</sup> Includes:	2005	2004	in €	in %
Net occupancy expense of premises	1,014	1,258	(244)	(19)
Furniture and equipment	169	178	(9)	(5)
IT costs	1,539	1,726	(187)	(11)
Agency and other professional service fees	895	824	72	9
Communication and data services	599	599	–	–
Other expenses	3,178	2,291	886	39
<b>Total other noninterest expenses</b>	<b>7,394</b>	<b>6,876</b>	<b>518</b>	<b>8</b>

**Compensation and Benefits.** The increase of € 771 million in 2005 compared to 2004 reflected several partly offsetting factors:

- Performance-related compensation increased in 2005 driven by improved operating results across all of our businesses.
- Severance payments of € 51 million in 2005 decreased by € 231 million compared to 2004, with almost 60% of the decline attributable to CB&S.
- Salaries and benefits showed net decreases reflecting headcount reductions related to the BRP and sales of non-core businesses, partly offset by the effects of headcount increases in selected growth businesses.

**Other Noninterest Expenses.** Total other noninterest expenses increased by € 518 million in 2005. The increase of € 886 million in the category “Other expenses” was mainly attributable to two factors: higher provisions for legal exposures, including provisions related to legacy issues included in Consolidation & Adjustments, and provisions of € 203 million related to grundbesitz-invest, an open-end property fund sponsored and managed by a German subsidiary of ours. In December 2005, the issuance and redemption of fund share units was temporarily suspended pending an extraordinary revaluation of assets. The provisions of € 203 million represented the estimated costs of direct and indirect compensation to certain share unit holders. The direct compensation would be paid to certain investors who, taking into account the purchase price of their share units and earnings distributions received, would incur a loss due to the revaluation of the properties. Other noninterest expenses also increased due to volume-driven expense increases for payment and clearing services. Declines in net occupancy and IT costs were a modest offset to the increased expenses. Net occupancy expenses decreased in 2005 primarily because 2004 included costs related to the elimination of excess space and sublease losses. Both net occupancy and IT costs also decreased because of ongoing cost containment efforts.

**Goodwill Impairment/Impairment of Intangibles.** The previous year included an impairment loss of € 19 million in Asset and Wealth Management following the termination of certain investment management agreements in the UK.

**Restructuring Activities.** During 2005 we continued our BRP which included restructuring charges of € 767 million in 2005 and € 400 million in 2004. For further information on restructuring activities see Note [28] to our consolidated financial statements.

### Income Tax Expense

Income tax expense was € 2.6 billion in 2005 compared to € 1.6 billion in 2004, primarily attributable to the increase of operating income and an increase of the reversal, required under U.S. GAAP, of 1999/2000 credits for tax rate changes due to sales of equity securities that are exempt from German income taxes. The reversal of 1999/2000 credits for German tax rate changes was € 544 million in 2005 and € 120 million 2004. The actual effective tax rates were 42% in 2005 and 39% in 2004. Excluding the effect of the reversal, our effective tax rates were 33% in 2005 and 36% in 2004, with the lower effective tax rate in 2005 mainly due to greater tax-exempt capital gains.

### Results of Operations by Segment

The following is a discussion of the results of our business segments. See Note [27] to the consolidated financial statements for information regarding

- our organizational structure;
- effects of significant acquisitions and divestitures on segmental results;
- changes in the format of our segment disclosure;
- a discussion of the framework of our management reporting systems;
- consolidating and other adjustments to the total results of operations of our business segments;
- definitions of non-GAAP financial measures that are used with respect to each segment, and
- the rationale for excluding items in deriving the measures.

The criterion for segmentation into divisions is our organizational structure as it existed at December 31, 2005. For further discussion of our business segments, see Note [27] to the consolidated financial statements. Segment results were prepared in accordance with our management reporting systems.

2005 in € m. (except percentages)	Corporate and Investment Bank	Private Clients and Asset Management	Corporate Investments	Total Management Reporting	Consolidation & Adjustments	Total Consolidated
<b>Net revenues<sup>2</sup></b>	<b>15,918</b>	<b>8,594</b>	<b>1,229</b>	<b>25,741</b>	<b>(102)</b>	<b>25,640</b>
Provision for loan losses	32	342	–	374	–	374
Provision for off-balance sheet positions	(22)	(2)	–	(24)	–	(24)
<b>Total provision for credit losses</b>	<b>10</b>	<b>340</b>	<b>(1)</b>	<b>350</b>		
Operating cost base <sup>1</sup>	11,120	6,342	181	17,642		
Policyholder benefits and claims	–	49	–	49	3	52
Minority interest	37	30	(2)	66	(11)	55
Restructuring activities	418	347	2	767	–	767
Goodwill impairment/impairment of intangibles	–	–	–	–	–	–
<b>Total noninterest expenses<sup>3</sup></b>	<b>11,575</b>	<b>6,768</b>	<b>181</b>	<b>18,524</b>	<b>654</b>	<b>19,178</b>
<b>Income (loss) before income taxes<sup>4</sup></b>	<b>4,333</b>	<b>1,485</b>	<b>1,049</b>	<b>6,867</b>	<b>(756)</b>	<b>6,112</b>
<b>Add (deduct):</b>						
Net (gains) from businesses sold/ held for sale	–	(90)	–	(90)		
Significant equity pick-ups/net (gains) from investments	–	–	(156)	(156)		
Net (gains) on securities available for sale/industrial holdings including hedging	–	–	(801)	(801)		
Net (gains) on the sale of premises	–	–	(57)	(57)		
Restructuring activities	418	347	2	767		
Goodwill impairment/impairment of intangibles	–	–	–	–		
<b>Underlying pre-tax profit</b>	<b>4,751</b>	<b>1,742</b>	<b>37</b>	<b>6,531</b>		
Cost/income ratio in %	73	79	15	72	N/M	75
Underlying cost/income ratio in %	70	75	84	72		
Assets <sup>5</sup>	881,643	123,785	15,025	984,318	7,843	992,161
Risk-weighted positions (BIS risk positions)	167,742	74,074	7,448	249,264	1,938	251,202
Average active equity <sup>6</sup>	14,385	6,700	3,047	24,132	998	25,130
Return on average active equity in %	30	22	34	28	N/M	24
Underlying return on average active equity in %	33	26	1	27		

N/M – Not meaningful

<sup>1</sup> Includes:

Severance payments 17 22 – 38 13 51

<sup>2</sup> Net interest revenues and noninterest revenues.<sup>3</sup> Excludes provision for off-balance sheet positions (reclassified to provision for credit losses).<sup>4</sup> Before cumulative effect of accounting changes.<sup>5</sup> The sum of corporate divisions does not necessarily equal the total of the corresponding group division because of consolidation items between corporate divisions, which are to be eliminated on the group division level. The same approach holds true for the sum of group divisions compared to Total Management Reporting.<sup>6</sup> See Note [27] to the consolidated financial statements for a description of how average active equity is allocated to the divisions.

2004 in € m. (except percentages)	Corporate and Investment Bank	Private Clients and Asset Management	Corporate Investments	Total Management Reporting	Consolidation & Adjustments	Total Consolidated
<b>Net revenues<sup>2</sup></b>	<b>13,414</b>	<b>8,023</b>	<b>621</b>	<b>22,058</b>	<b>(140)</b>	<b>21,918</b>
Provision for loan losses	89	264	19	372	–	372
Provision for off-balance sheet positions	(65)	(1)	–	(65)	–	(65)
<b>Total provision for credit losses</b>	<b>24</b>	<b>263</b>	<b>19</b>	<b>307</b>		
Operating cost base <sup>1</sup>	10,327	6,206	414	16,948		
Policyholder benefits and claims	–	50	–	50	210	260
Minority interest	5	1	(1)	4	(1)	3
Restructuring activities	299	98	3	400	–	400
Goodwill impairment/impairment of intangibles	–	19	–	19	–	19
<b>Total noninterest expenses<sup>3</sup></b>	<b>10,631</b>	<b>6,373</b>	<b>416</b>	<b>17,420</b>	<b>162</b>	<b>17,582</b>
<b>Income (loss) before income taxes<sup>4</sup></b>	<b>2,759</b>	<b>1,386</b>	<b>186</b>	<b>4,331</b>	<b>(302)</b>	<b>4,029</b>
<b>Add (deduct):</b>						
Net (gains) from businesses sold/ held for sale	(31)	(8)	(38)	(76)		
Significant equity pick-ups/net (gains) from investments	–	–	(148)	(148)		
Net (gains) on securities available for sale/industrial holdings including hedging	–	–	(176)	(176)		
Net (gains) on the sale of premises	–	–	(20)	(20)		
Restructuring activities	299	98	3	400		
Goodwill impairment/impairment of intangibles	–	19	–	19		
<b>Underlying pre-tax profit (loss)</b>	<b>3,027</b>	<b>1,496</b>	<b>(194)</b>	<b>4,329</b>		
Cost/income ratio in %	79	79	67	79	N/M	80
Underlying cost/income ratio in %	77	78	174	79		
Assets <sup>5</sup>	729,872	113,818	16,442	832,933	7,135	840,068
Risk-weighted positions (BIS risk positions)	139,124	65,677	10,242	215,044	1,742	216,787
Average active equity <sup>6</sup>	12,860	6,715	3,933	23,507	1,271	24,778
Return on average active equity in %	21	21	5	18	N/M	16
Underlying return on average active equity in %	24	22	(5)	18		

N/M – Not meaningful

<sup>1</sup> Includes:

Severance payments	170	101	1	272	10	282
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<sup>2</sup> Net interest revenues and noninterest revenues.<sup>3</sup> Excludes provision for off-balance sheet positions (reclassified to provision for credit losses).<sup>4</sup> Before cumulative effect of accounting changes.<sup>5</sup> The sum of corporate divisions does not necessarily equal the total of the corresponding group division because of consolidation items between corporate divisions, which are to be eliminated on the group division level. The same approach holds true for the sum of group divisions compared to Total Management Reporting.<sup>6</sup> See Note [27] to the consolidated financial statements for a description of how average active equity is allocated to the divisions.

## Group Divisions

### Corporate and Investment Bank Group Division

The following table sets forth the results of our Corporate and Investment Bank Group Division for the years ended December 31, 2005 and 2004, in accordance with our management reporting systems.

in € m. (except percentages)	2005	2004
<b>Net revenues:</b>		
Sales & Trading (equity)	3,312	2,489
Sales & Trading (debt and other products)	7,336	6,299
Origination (equity)	647	499
Origination (debt)	1,017	916
Advisory	604	488
Loan products	1,256	1,139
Transaction services	1,971	1,863
Other	(225)	(277)
<b>Total net revenues</b>	<b>15,918</b>	<b>13,414</b>
Therein: Net interest and trading revenues	10,558	8,354
<b>Provision for credit losses:</b>		
Provision for loan losses	32	89
Provision for off-balance sheet positions	(22)	(65)
<b>Total provision for credit losses</b>	<b>10</b>	<b>24</b>
<b>Noninterest expenses<sup>1</sup>:</b>		
Operating cost base	11,120	10,327
Minority interest	37	5
Restructuring activities	418	299
Goodwill impairment	–	–
<b>Total noninterest expenses<sup>1</sup></b>	<b>11,575</b>	<b>10,631</b>
Therein: Severance payments	17	170
<b>Income before income taxes</b>	<b>4,333</b>	<b>2,759</b>
<b>Add (deduct):</b>		
Net (gains) from businesses sold/held for sale	–	(31)
Restructuring activities	418	299
Goodwill impairment	–	–
<b>Underlying pre-tax profit</b>	<b>4,751</b>	<b>3,027</b>
Cost/income ratio in %	73%	79%
Underlying cost/income ratio in %	70%	77%
Assets	881,643	729,872
Risk-weighted positions (BIS risk positions)	167,742	139,124
Average active equity <sup>2</sup>	14,385	12,860
Return on average active equity in %	30%	21%
Underlying return on average active equity in %	33%	24%

<sup>1</sup> Excludes provision for off-balance sheet positions (reclassified to provision for credit losses).

<sup>2</sup> See Note [27] to the consolidated financial statements for a description of how average active equity is allocated to the divisions.

The following paragraphs discuss the contribution of the individual corporate divisions to the overall results of the Corporate and Investment Bank Group Division.

### Corporate Banking & Securities Corporate Division

The following table sets forth the results of our Corporate Banking & Securities (CB&S) Corporate Division for the years ended December 31, 2005 and 2004, in accordance with our management reporting systems.

in € m. (except percentages)	2005	2004
<b>Net revenues:</b>		
Sales & Trading (equity)	3,312	2,489
Sales & Trading (debt and other products)	7,336	6,299
Origination (equity)	647	499
Origination (debt)	1,017	916
Advisory	604	488
Loan products	1,256	1,139
Other	(225)	(308)
<b>Total net revenues</b>	<b>13,947</b>	<b>11,520</b>
<b>Provision for credit losses:</b>		
Provision for loan losses	25	79
Provision for off-balance sheet positions	3	(66)
<b>Total provision for credit losses</b>	<b>28</b>	<b>14</b>
<b>Noninterest expenses<sup>1</sup>:</b>		
Operating cost base	9,675	8,752
Minority interest	37	5
Restructuring activities	331	272
Goodwill impairment	–	–
<b>Total noninterest expenses<sup>1</sup></b>	<b>10,043</b>	<b>9,028</b>
Therein: Severance payments	18	154
<b>Income before income taxes</b>	<b>3,877</b>	<b>2,478</b>
<b>Add (deduct):</b>		
Net (gains) losses from businesses sold/held for sale	–	–
Restructuring activities	331	272
Goodwill impairment	–	–
<b>Underlying pre-tax profit</b>	<b>4,207</b>	<b>2,750</b>
Cost/income ratio in %	72%	78%
Underlying cost/income ratio in %	69%	76%
Assets	871,941	720,557
Risk-weighted positions (BIS risk positions)	155,467	128,066
Average active equity <sup>2</sup>	13,070	11,479
Return on average active equity in %	30%	22%
Underlying return on average active equity in %	32%	24%

<sup>1</sup> Excludes provision for off-balance sheet positions (reclassified to provision for credit losses).

<sup>2</sup> See Note [27] to the consolidated financial statements for a description of how average active equity is allocated to the divisions.

*Income before income taxes* increased by € 1.4 billion to € 3.9 billion for the year ended December 31, 2005. The improvement was driven by revenue growth of 21%, spread across most business units, together with continued tight cost management, with the increase of 11% in noninterest expenses driven by performance-related compensation. Underlying pre-tax profit, at € 4.2 billion, increased by € 1.5 billion compared to € 2.8 billion in 2004.

*Net revenues* of € 13.9 billion in 2005 were € 2.4 billion higher than net revenues of € 11.5 billion in 2004.

Sales & Trading (debt and other products) revenues were a record € 7.3 billion in 2005 and increased by € 1.0 billion compared to 2004. Sales & Trading (equity) revenues were € 3.3 billion, € 823 million higher than 2004.

Improved earnings in our Debt and Equity franchises reflected sustained leadership in high-value structured products in commodity, credit, equity and interest rate derivatives, emerging markets and securitized products. Customer demand for these products remained robust throughout the year. Equity derivatives in particular showed substantial growth, benefiting from synergies arising from closer integration with our institutional fixed income sales force.

Margin compression remained a significant factor in the performance of more mature 'flow' businesses such as foreign exchange, money markets and cash equities. Despite this compression, we nonetheless succeeded in making modest earnings gains in most of these businesses by growing market share. In cash equities, however, difficult conditions in program trading marginally reduced overall performance versus 2004.

Market conditions presented a number of attractive proprietary trading opportunities throughout the year. While remaining committed to a customer-centric business model, we took selective advantage of these opportunities, and together with the re-engineering of the equities proprietary trading unit at the beginning of the year, generated strong gains versus 2004.

Revenues from Origination and Advisory were € 2.3 billion, € 366 million higher than in 2004. Origination (equity) increased market share in both the U.S. and Europe, and regained the no. 1 position in European equity/equity-linked issuance as measured by fees according to *Dealogic*. In Origination (debt), high-yield issuance rose to the global no.1 position in the fee league table in 2005 according to *Dealogic*, and we acted as bookrunner on the three largest leveraged buyouts of 2005 in the North American market. In Advisory, the mergers and acquisitions environment continued to gain momentum throughout the year and we improved our fee league table position in 2005 as a result of market share gains in the U.S. and Europe. We ranked no. 8 globally as an M&A advisor, as measured by fees according to *Dealogic*, compared to no. 10 in 2004. In Europe, we advised on ten of the twenty largest transactions announced in 2005 (source: *Thomson Financial*).

Revenues from Loan Products were € 1.3 billion, € 118 million higher than in 2004. The main driver was an increase in mark-to-market gains on credit default swaps used to hedge the bank's investment grade loan exposure. While credit spreads tended to tighten, reflecting the continuing overall benign credit environment, the credit spreads that particularly impacted CIB's hedge portfolio widened.

*The provision for credit losses* remained low at € 28 million in 2005, compared to € 14 million in 2004, reflecting the continued benign credit environment and tight credit discipline.

*Noninterest expenses* in 2005 were € 10.0 billion, an increase of € 1.0 billion compared to € 9.0 billion in 2004, driven by an increase in performance-related compensation consistent with improved operating results. Also contributing to the increase were charges of € 331 million for restructuring activities related to the Business Realignment Program. In 2004, similar charges amounted to € 272 million.

The *cost income ratio* improved by 6 percentage points in 2005 to 72%, resulting from the increased revenues and continued tight cost management. After adjusting for the restructuring activities, the underlying cost income ratio improved by 7 percentage points from 76% to 69%.

### Global Transaction Banking Corporate Division

The following table sets forth the results of our Global Transaction Banking (GTB) Corporate Division for the years ended December 31, 2005 and 2004, in accordance with our management reporting systems.

in € m. (except percentages)	2005	2004
<b>Net revenues:</b>		
Transaction services	1,971	1,863
Other	–	31
<b>Total net revenues</b>	<b>1,971</b>	<b>1,894</b>
<b>Provision for credit losses:</b>		
Provision for loan losses	7	9
Provision for off-balance sheet positions	(25)	1
<b>Total provision for credit losses</b>	<b>(18)</b>	<b>11</b>
<b>Noninterest expenses<sup>1</sup>:</b>		
Operating cost base	1,445	1,576
Minority interest	–	–
Restructuring activities	87	28
Goodwill impairment	–	–
<b>Total noninterest expenses<sup>1</sup></b>	<b>1,532</b>	<b>1,603</b>
Therein: Severance payments	(1)	16
<b>Income before income taxes</b>	<b>457</b>	<b>280</b>
<b>Add (deduct):</b>		
Net (gains) from businesses sold/held for sale	–	(31)
Restructuring activities	87	28
Goodwill impairment	–	–
<b>Underlying pre-tax profit</b>	<b>544</b>	<b>277</b>
Cost/income ratio in %	78%	85%
Underlying cost/income ratio in %	73%	85%
Assets	17,966	16,636
Risk-weighted positions (BIS risk positions)	12,275	11,058
Average active equity <sup>2</sup>	1,315	1,381
Return on average active equity in %	35%	20%
Underlying return on average active equity in %	41%	20%

<sup>1</sup> Excludes provision for off-balance sheet positions (reclassified to provision for credit losses).

<sup>2</sup> See Note [27] to the consolidated financial statements for a description of how average active equity is allocated to the divisions.

*Income before income taxes* increased by € 176 million to € 457 million for the year ended December 31, 2005.

*Net revenues* increased by 4% to almost € 2 billion in 2005. Trust and Securities Services improved its revenues significantly through new business and expanded its lead as the no. 1 trustee for U.S. asset-backed securities and mortgage-backed securities. Cash Management earned higher interest revenues across all customer segments while Trade Finance increased its revenues due to Structured Export Finance deals in Europe and sales of interest and currency risk products. Net revenues in 2004 included a gain of € 55 million following the sale of a substantial part of our Global Securities Services (GSS) business to State Street Corporation in 2003 and a charge of € 24 million, representing GTB's share of the loss on the sale of DB Payments. Excluding the net gains on sales, net revenues increased in 2005 by € 108 million, or 6%, compared to 2004.

*The provision for credit losses* amounted to a net release of € 18 million in 2005, compared to a charge of € 11 million for 2004 reflecting the continued benign credit environment and tight credit discipline.

*Noninterest expenses* of € 1.5 billion decreased by € 71 million from 2004, although charges for restructuring activities, which represent GTB's share of the Business Realignment Program, increased

by € 59 million from € 28 million in 2004 to € 87 million in 2005. The savings in noninterest expenses reflected ongoing gains in cost efficiency and the fact that 2004 expenses included some costs related to the sold GSS business, partly offset by higher performance-related compensation in 2005 in line with improved operating results.

*The cost income ratio of 78% was 7 percentage points lower than in 2004. After adjusting for the net gains on sales and the restructuring activities, the underlying cost income ratio improved by 12 percentage points from 85% to 73%, reflecting the aforementioned improvements in revenues and noninterest expenses.*

### Private Clients and Asset Management Group Division

The following table sets forth the results of our Private Clients and Asset Management Group Division for the years ended December 31, 2005 and 2004, in accordance with our management reporting systems.

in € m. (except where indicated)	2005	2004
<b>Net revenues:</b>		
Portfolio/fund management	2,718	2,526
Brokerage	1,847	1,657
Loans/deposits	2,415	2,359
Payments, account & remaining financial services	857	915
Other	757	565
<b>Total net revenues</b>	<b>8,594</b>	<b>8,023</b>
Therein: Net interest and trading revenues	2,818	2,923
<b>Provision for credit losses:</b>		
Provision for loan losses	342	264
Provision for off-balance sheet positions	(2)	(1)
<b>Total provision for credit losses</b>	<b>340</b>	<b>263</b>
<b>Noninterest expenses<sup>1</sup>:</b>		
Operating cost base	6,342	6,206
Policyholder benefits and claims	49	50
Minority interest	30	1
Restructuring activities	347	98
Goodwill impairment/impairment of intangibles	–	19
<b>Total noninterest expenses<sup>1</sup></b>	<b>6,768</b>	<b>6,373</b>
Therein: Severance payments	22	101
<b>Income before income taxes</b>	<b>1,485</b>	<b>1,386</b>
<b>Add (deduct):</b>		
Net (gains) losses from businesses sold/held for sale	(90)	(8)
Restructuring activities	347	98
Goodwill impairment/impairment of intangibles	–	19
<b>Underlying pre-tax profit</b>	<b>1,742</b>	<b>1,496</b>
Cost/income ratio in %	79%	79%
Underlying cost/income ratio in %	75%	78%
Assets	123,785	113,818
Risk-weighted positions (BIS risk positions)	74,074	65,677
Average active equity <sup>2</sup>	6,700	6,715
Return on average active equity in %	22%	21%
Underlying return on average active equity in %	26%	22%
Invested assets (in € bn.) <sup>3</sup>	867	828

<sup>1</sup> Excludes provision for off-balance sheet positions (reclassified to provision for credit losses).

<sup>2</sup> See Note [27] for a description of how average active equity is allocated to the divisions.

<sup>3</sup> We define invested assets as (a) assets we hold on behalf of customers for investment purposes and/or (b) client assets that are managed by us. We manage invested assets on a discretionary or advisory basis, or these assets are deposited with us.

The following paragraphs discuss the contribution of the individual corporate divisions to the overall results of Private Clients and Asset Management Group Division.

### Asset and Wealth Management Corporate Division

The following table sets forth the results of our Asset and Wealth Management (AWM) Corporate Division for the years ended December 31, 2005 and 2004, in accordance with our management reporting systems.

in € m. (except where indicated)	2005	2004
<b>Net revenues:</b>		
Portfolio/fund management (AM)	2,199	2,040
Portfolio/fund management (PWM)	303	300
<b>Total portfolio/fund management</b>	<b>2,501</b>	<b>2,339</b>
Brokerage	769	667
Loans/deposits	165	133
Payments, account & remaining financial services	15	18
Other	431	332
<b>Total net revenues</b>	<b>3,881</b>	<b>3,488</b>
<b>Provision for credit losses:</b>		
Provision for loan losses	–	(6)
Provision for off-balance sheet positions	–	–
<b>Total provision for credit losses</b>	<b>–</b>	<b>(6)</b>
<b>Noninterest expenses<sup>1</sup>:</b>		
Operating cost base	2,984	2,923
Policyholder benefits and claims	49	50
Minority interest	30	1
Restructuring activities	220	88
Goodwill impairment/impairment of intangibles	–	19
<b>Total noninterest expenses<sup>1</sup></b>	<b>3,284</b>	<b>3,080</b>
Therein: Severance payments	4	51
<b>Income before income taxes</b>	<b>597</b>	<b>414</b>
<b>Add (deduct):</b>		
Net (gains) losses from businesses sold/held for sale	(81)	(32)
Restructuring activities	220	88
Goodwill impairment/impairment of intangibles	–	19
<b>Underlying pre-tax profit</b>	<b>736</b>	<b>489</b>
Cost/income ratio in %	85%	88%
Underlying cost/income ratio in %	80%	86%
Assets	37,269	34,945
Risk-weighted positions (BIS risk positions)	13,811	11,424
Average active equity <sup>2</sup>	4,993	5,034
Return on average active equity in %	12%	8%
Underlying return on average active equity in %	15%	10%
Invested assets (in € bn.) <sup>3</sup>	704	679

AM – Asset Management

PWM – Private Wealth Management

<sup>1</sup> Excludes provision for off-balance sheet positions (reclassified to provision for credit losses).

<sup>2</sup> See Note [27] to the consolidated financial statements for a description of how average active equity is allocated to the divisions.

<sup>3</sup> We define invested assets as (a) assets we hold on behalf of customers for investment purposes and/or (b) client assets that are managed by us. We manage invested assets on a discretionary or advisory basis, or these assets are deposited with us.

*Income before income taxes* was € 597 million in 2005, € 183 million higher than in 2004. The current year included charges of € 220 million for restructuring activities and net gains of € 81 million from the sale of businesses. In 2004, income before income taxes included charges of € 88 million for restructuring activities, gains of € 32 million from the sale of businesses and an impairment loss of € 19 million related to intangible assets. Excluding these items, income before income taxes would have increased € 247 million from € 489 million in 2004 to € 736 million in 2005.

*Net revenues* were € 3.9 billion in 2005, an increase of € 392 million, or 11%, compared to 2004. This was a record year for net revenues of the Asset and Wealth Management Corporate Division with growth in all major product areas.

Portfolio/fund management revenues of € 2.2 billion in our Asset Management Business Division increased by € 159 million, or 8%, from 2004. This improvement mainly reflected higher levels of invested assets, particularly in Germany and the rest of Continental Europe, as well as higher performance fees in the Real Estate and Hedge Fund businesses. Partly offsetting these results was a decline in revenues for the division attributable to the sale of a substantial part of our UK- and Philadelphia-based Asset Management businesses to Aberdeen Asset Management PLC in 2005.

Portfolio/fund management revenues of € 303 million in our Private Wealth Management Business Division were slightly ahead of 2004, even though the previous year included operating revenues of € 27 million generated by Scudder Private Investment Counsel (PIC) business, which was sold in the fourth quarter 2004. Excluding this deconsolidation effect, the 11% increase in revenues was mainly attributable to the successful gathering of new assets, performance improvements in the client portfolios and higher performance fees.

Brokerage revenues of € 769 million increased € 102 million, or 15%, primarily due to strong customer demand for high-value products as well as higher transaction-based revenues as a result of improved market conditions. Brokerage revenues also benefited from net inflows of invested assets.

Revenues related to loans/deposits of € 165 million increased by € 32 million, or 24%, driven by higher volumes, particularly in our margin loan business.

Revenues from other products of € 431 million were € 99 million, or 30%, greater than in 2004 due to higher gains from the sale of investments, mainly in the Real Estate business, and an increase of € 49 million in net gains from the sale of businesses. Such gains totaled € 81 million in 2005 (UK-AM, € 68 million; PIC, € 13 million) and € 32 million in 2004 (Australia-AM and PIC).

*Noninterest* expenses were € 3.3 billion in 2005, an increase of € 204 million, or 7%, from 2004. Most of the increase was due to restructuring charges, which increased from € 88 million in 2004 to € 220 million in 2005. The remaining increase in noninterest expenses was primarily driven by higher performance-related compensation. Partly offsetting these increases were lower severance payments and the effect of an intangible asset impairment loss of € 19 million in 2004.

*The cost/income ratio* was 85% in 2005, an improvement of 3 percentage points compared to 88% in 2004. Excluding restructuring charges, gains from the sale of businesses and the 2004 intangible asset impairment loss, the cost/income ratio decreased by 6 percentage points from 86% in 2004 to 80% in 2005. This improvement was mainly driven by the aforementioned revenue growth with non-interest expenses increasing at a lower rate.

*Invested assets* increased by € 25 billion to € 704 billion in 2005. Our Private Wealth Management Business Division gathered net new assets of € 11 billion across all major regions. Invested Assets in our Asset Management Business Division were essentially unchanged at € 536 billion at the end of 2005. Invested assets attributable to the sold UK- and Philadelphia-based Asset Management businesses amounted to € 77 billion at date of sale in 2005. Excluding the invested assets of the sold businesses, invested assets in Asset Management grew from € 458 billion in 2004 to € 535 billion in 2005. The increase of € 77 billion or 17% was due equally to market appreciation and foreign exchange rate developments, as well as net new assets of € 14 billion. In Germany, our mutual fund company DWS achieved record net inflows of € 9 billion in Germany and record funds under management of € 110 billion at year-end 2005. DWS continues to be the market leader in Germany with a 24% market share (as measured by the German Investment Association, BVI) and it remains one of the leading retail asset managers in Europe by size and investment performance. In 2005, DWS was awarded the Standard & Poor's Fund Award for the best-performing mutual fund company in Germany for the eleventh consecutive year.

### Private & Business Clients Corporate Division

The following table sets forth the results of our Private & Business Clients (PBC) Corporate Division for the years ended December 31, 2005 and 2004, in accordance with our management reporting systems.

in € m. (except where indicated)	2005	2004
<b>Net revenues:</b>		
Portfolio/fund management	216	187
Brokerage	1,078	991
Loans/deposits	2,251	2,226
Payments, account & remaining financial services	842	898
Other	326	233
<b>Total net revenues</b>	<b>4,713</b>	<b>4,534</b>
<b>Provision for credit losses:</b>		
Provision for loan losses	342	270
Provision for off-balance sheet positions	(2)	(1)
<b>Total provision for credit losses</b>	<b>340</b>	<b>269</b>
<b>Noninterest expenses<sup>1</sup>:</b>		
Operating cost base	3,358	3,283
Policyholder benefits and claims	–	–
Minority interest	–	–
Restructuring activities	127	10
Goodwill impairment / impairment of intangibles	–	–
<b>Total noninterest expenses<sup>1</sup></b>	<b>3,485</b>	<b>3,293</b>
Therein: Severance payments	17	50
<b>Income before income taxes</b>	<b>888</b>	<b>972</b>
<b>Add (deduct):</b>		
Net (gains) losses from businesses sold/held for sale	(9)	24
Restructuring activities	127	10
Goodwill impairment / impairment of intangibles	–	–
<b>Underlying pre-tax profit</b>	<b>1,006</b>	<b>1,006</b>
Cost/income ratio in %	74%	73%
Underlying cost/income ratio in %	71%	72%
Assets	86,554	78,930
Risk-weighted positions (BIS risk positions)	60,263	54,253
Average active equity <sup>2</sup>	1,707	1,681
Return on average active equity in %	52%	58%
Underlying return on average active equity in %	59%	60%
Invested assets (in € bn.) <sup>3</sup>	163	150
Loan volume (in € bn.)	74	69
Deposit volume (in € bn.)	66	63

<sup>1</sup> Excludes provision for off-balance sheet positions (reclassified to provision for credit losses).

<sup>2</sup> See Note [27] to the consolidated financial statements for a description of how average active equity is allocated to the divisions.

<sup>3</sup> We define invested assets as (a) assets we hold on behalf of customers for investment purposes and/or (b) client assets that are managed by us. We manage invested assets on a discretionary or advisory basis, or these assets are deposited with us.

*Income before income taxes* of € 888 million in 2005 was € 84 million lower than in 2004, largely due to an increase in restructuring charges of € 117 million to € 127 million in 2005. Both years included results from the sale of businesses. A loss of € 24 million in 2004 was related to the disposal of DB Payments. In 2005, the sale of the private banking business in the Netherlands resulted in a gain of € 9 million. Excluding restructuring activities and results from the sale of businesses, income before income taxes of € 1 billion matched the record level of 2004, as revenue growth offset higher noninterest expenses and an increased provision for credit losses.

*Net revenues* of € 4.7 billion increased by € 179 million or 4% compared to 2004 despite modest GDP growth in Germany and Italy, PBC's core markets, as well as exceptional market conditions for insurance brokerage in Germany in 2004 following changes in tax legislation.

Portfolio/fund management revenues and brokerage revenues were the key drivers of the growth in 2005. These revenues increased by € 29 million and € 87 million, respectively. The improvements reflected successful placements of investment products, such as the Kompass Life Funds and other innovative investment products, as well as higher transaction-based flow revenues.

Loans/deposits revenues increased by € 24 million, driven by higher loan volumes reflecting PBC's strategy of growing consumer lending. Revenues attributable to deposits decreased due to margin pressure in a very competitive environment, especially in Germany.

Payments, account and remaining financial services revenues decreased by € 56 million, due to the aforementioned increase from tax legislation on insurance brokerage in 2004, in part offset by higher revenues from payment services in 2005.

Revenues from other products of € 326 million in 2005 increased by € 93 million compared to 2004, primarily due to improved results from asset and liability management activities as well as the effect from the sale of businesses described above.

*Provision for credit losses* increased by € 71 million, or 26%, to € 340 million in 2005 reflecting the growth in consumer lending and lower values realized on real estate collateral supporting distressed loans, especially in Germany.

*Noninterest expenses* of € 3.5 billion were € 191 million higher than in 2004, primarily due to the € 117 million increase in restructuring charges. Excluding restructuring charges, the rise in costs was due to investments in growing the business, including the launch of branch banking in India, the extension of the branch network in Poland, as well as the expansion of the sales forces in Germany, Italy and Spain.

*The cost/income ratio* increased slightly by 1 percentage point to 74% in 2005, driven by the aforementioned higher restructuring charges. Excluding restructuring charges and the impact of business disposal results, the cost/income ratio improved from 72% in 2004 to 71% in 2005.

*Invested assets* of € 163 billion at the end of 2005 grew by € 13 billion or 9%. The increase was attributable to both market appreciation and net inflows.

## Corporate Investments Group Division

The following table sets forth the results of our Corporate Investments Group Division for the years ended December 31, 2005 and 2004, in accordance with our management reporting systems.

in € m. (except percentages)	2005	2004
<b>Net revenues</b>	<b>1,229</b>	<b>621</b>
Therein: Net interest and trading revenues	37	118
<b>Provision for credit losses:</b>		
Provision for loan losses	–	19
Provision for off-balance sheet positions	–	–
<b>Total provision for credit losses</b>	<b>(1)</b>	<b>19</b>
<b>Noninterest expenses<sup>1</sup>:</b>		
Operating cost base	181	414
Minority interest	(2)	(1)
Restructuring activities	2	3
Goodwill impairment / impairment of intangibles	–	–
<b>Total noninterest expenses<sup>1</sup></b>	<b>181</b>	<b>416</b>
Therein: Severance payments	–	1
<b>Income before income taxes</b>	<b>1,049</b>	<b>186</b>
<b>Add (deduct):</b>		
Net (gains) losses from businesses sold/held for sale	–	(38)
Significant equity pick-ups/net (gains) losses from investments	(156)	(148)
Net (gains) losses on securities available for sale/ industrial holdings including hedging	(801)	(176)
Net (gains) losses on sale of premises	(57)	(20)
Restructuring activities	2	3
Goodwill impairment / impairment of intangibles	–	–
<b>Underlying pre-tax profit (loss)</b>	<b>37</b>	<b>(194)</b>
Cost/income ratio in %	15%	67%
Underlying cost/income ratio in %	84%	174%
Assets	15,025	16,442
Risk-weighted positions (BIS risk positions)	7,448	10,242
Average active equity <sup>2</sup>	3,047	3,933
Return on average active equity in %	34%	5%
Underlying return on average active equity in %	1%	(5)%

<sup>1</sup> Excludes provision for off-balance sheet positions (reclassified to provision for credit losses).

<sup>2</sup> See Note [27] to the consolidated financial statements for a description of how average active equity is allocated to the divisions.

Our Corporate Investments Group Division reported an *income before income taxes* of € 1.0 billion in 2005 compared to an income before income taxes of € 186 million in 2004.

*Net revenues* were € 1.2 billion in 2005, an increase of € 609 million compared to 2004. Net revenues in 2005 included net gains of € 801 million on sales of securities available for sale and from our industrial holdings portfolio. The largest gains, totaling € 666 million, resulted from sales which further reduced our investment in DaimlerChrysler AG from 10.4% to 4.4%. The sale of our stake in Südzucker AG, the partial sale of HCL Technologies Ltd., and the sale of some smaller investments also contributed to the overall net gains on securities available for sale and our industrial holdings portfolio in 2005. Net revenues in 2004 included net gains of € 176 million on sales of securities available for sale and from our industrial holdings portfolio. The largest transaction was the reduction of our investment in DaimlerChrysler AG from 11.8% to 10.4%, which resulted in a net gain of € 118 million. The reduction of our investment in DEUTZ AG from 10.5% to 4.5% and the sale of our investments in Fresenius AG and Motor-Columbus AG also contributed to the overall net gains on securities available for sale and our industrial holdings portfolio in 2004.

Net revenues in 2005 also included net gains of € 57 million from the disposal of premises and net gains of € 156 million from significant equity method and other investments, including a € 44 million gain from the reduction of our stake in EUROHYPO AG.

In 2004, net revenues included net gains of € 38 million from sold businesses related to our remaining North American commercial and consumer finance business. Net revenues in 2004 also reflected net gains of € 20 million from the disposal of premises and net gains of € 148 million from significant equity method and other investments, including a € 52 million gain from the sale of our 49% stake in DSI Financial Solutions Pte Ltd.

Excluding these items, the remaining variance between net revenues in 2005 and 2004 was mainly attributable to lower dividend income from our reduced industrial holdings portfolio and revenues subsequent to the sale of businesses.

Total *noninterest expenses* decreased in 2005 to € 181 million from € 416 million in 2004. The savings primarily resulted from a reduction in vacant office space costs, which amounted to € 173 million in 2004 compared to € 14 million in 2005. Noninterest expenses in 2005 also decreased as a result of business sales in prior periods.

At year-end 2005, the alternative assets portfolio of the Corporate Investments Group Division had a carrying value of € 1.4 billion, of which 36% was private equity direct investments, 26% was real estate investments and 38% was private equity indirect and other investments. This compares to a value at year-end 2004 of € 1.6 billion. We continue to monitor portfolio values on a quarterly basis to determine if valuation adjustments, including potential impairments, are necessary.

## Other Financial Information

### Liquidity and Capital Resources

Liquidity and capital are managed by Group Treasury. At the group level and on a consolidated basis this is the responsibility of Corporate Treasury, whereby regional treasuries manage liquidity and capital locally in each region. The allocation of financial resources (capital, liquidity, balance sheet limits) in general and capital in particular favors business portfolios with the highest positive impact on our profitability and shareholder value. As a result, Corporate Treasury periodically reallocates available capital among business portfolios.

Corporate Treasury develops and implements our capital strategy including the issuance and repurchases of shares. We are committed to maintain our sound capitalization. Overall capital demand and supply are constantly monitored and adjusted, if necessary, to meet the need for capital from various perspectives. These include book equity based on U.S. GAAP accounting standards, regulatory capital based on BIS and economic risk driving the capital usage of the business portfolios, commonly called economic capital. Our target for the BIS Tier I capital ratio is to stay within an 8-9% target range.

Milestones in capital management in 2005 were the completion of the third share buy-back program and the start of a fourth program. Under the third program, which was completed in April 2005, 45.5 million shares were repurchased. Based on the authority to buy back up to 10% of total shares issued, which was granted at the 2005 Annual General Meeting and expires at the end of October 2006, the fourth buy-back program was launched in July 2005. The program serves equity-based compensation programs and allows us to return excess capital to shareholders. Buy-backs were mainly funded from surplus capital and current earnings. As of December 31, 2005, 16.1 million shares (approximately 2.9% of our share capital) were repurchased under the fourth program. In total, 35.5 million shares were repurchased in 2005 under our share buy-back programs.

In 2005, we issued € 0.9 billion hybrid Tier I capital. Total outstanding hybrid Tier I capital as of December 31, 2005 amounted to € 3.6 billion.

While the funding plan and liquidity risk at the group level are managed centrally, the issuance of liability products in accordance with the funding plan and all other measures related to the mitigation of liquidity risk are executed by our regional treasuries. Group Treasury controls the demand for liquidity through limits on unsecured funding and caps on daily maximum cash outflows. Furthermore, investor concentration and liability roll-off reports are prepared to analyze the sources of funds and to identify trends within our refinancing base. This information allows for adjustments with respect to our funding strategy. In total, Treasury issued approximately € 15 billion of capital market instruments in various currencies and regions in 2005.

Treasury applies stress testing to all local liquidity profiles to quantify the potential effects of developments unfavorable to our funding capability. The stress testing covers expected cash flows and the salability of trading assets under various adverse scenarios including systemic shocks as well as unfavorable rating changes.

The allocation and re-allocation of resources such as capital, the determination of the appropriate limits for unsecured funding as well as other resource issues are framed by the Asset and Liability management process. The Group Asset and Liability Committee (Group ALCO), on which all corporate divisions and Group Treasury are represented, has the responsibility to balance group-wide business needs with resource availability. In particular, the Group ALCO makes proposals to our Management Board with respect to decisions on financial resources, including the allocation of capital and liquidity to the divisions.

Most of our subsidiaries are subject to legal and regulatory capital requirements as well as minimum liquidity thresholds. Local ALCOs attend to those needs under the stewardship of regional treasuries. Furthermore they safeguard compliance with requirements such as restrictions on dividends allowable for remittance to Deutsche Bank AG or on the ability of our subsidiaries to make loans or advances to the parent bank. See "Item 4: Information on the Company-Regulation and Supervision." In developing, implementing and testing our liquidity and capital strategy, we take such legal and regulatory requirements into account and seek to ensure that the attendant requirements are not likely

to have a material impact on our ability to meet our expected cash obligations. In our opinion, our working capital is sufficient for our present requirements.

For a detailed discussion of our liquidity risk management, see our Risk Report.

### Pension Plans

We have a global policy for determining the significant assumptions and estimates that are applied to our pension and other employee benefit plans. These assumptions and estimates are measurable against market factors, or equivalents where market factors are not available. As stated in Note [24] to our consolidated financial statements, "Pension and Other Employee Benefit Plans", below are the significant assumptions and estimates related to our pension plans.

The discount rate is determined on the basis of yields to maturity of AA-rated corporate bond indices of the same currency, similar duration of the liability, and representing sufficient depth of market. Alternatively, benchmark government bonds are used for countries where sufficient depth of AA-corporate bond markets is not available. In cases of significant differences between the published bond duration and the calculated duration of the obligation, an adjustment is made equal to this difference multiplied by the slope of the yield curve. No such adjustment was made in the Eurozone, the UK and the U.S. The resulting discount rate was rounded to the nearest multiple of 10 basis points. At December 31, 2005, the average discount rate used to measure our pension obligations (Projected Benefit Obligation (PBO) and Accumulated Benefit Obligation (ABO)) was 4.3%. In determining our pension expense for the year ended December 31, 2005, an average discount rate of 5.0% (i.e., the December 31, 2004 rate) was applied. The respective average discount rates for the Defined Benefit Postretirement Plans were 5.4% as of December 31, 2005 and 5.7% for determining the expected expense for 2005.

The expected return on our defined benefit pension plans' assets is calculated by applying a risk premium, which reflected the inherent risks associated with each relevant asset category, over a risk-free return. Using this so-called "building block" approach globally ensures that we have a consistent framework in place. In addition, it allows sufficient flexibility for changes that must be made to reflect specific local conditions. The average expected return on plan assets for the net periodic benefit expense for 2005 (NPBC 2005) was 5.0%. The determination of the expected return on plan assets for 2006 was based on the actual asset allocation as of the measurement date. The ten-year government fixed interest bond yield for the country in which each plan is located was used as the basis for the risk-free return, taking into account the duration of the bonds held compared to the ten-year benchmark. The additional return for debt securities was calculated by reference to the mix of debt securities in each plan. For cash, we estimated the expected return to be equivalent to the market yield on three-month treasury instruments for the applicable country. The average expected return for the 2006 NPBC is 4.4%.

The long term price inflation assumption is set by reference to region-specific consensus indices (published in October) adjusted where necessary to extend the duration. Salary increases are expressed as a percentage over this base inflation assumption. Other assumptions, such as mortality tables, were set by us in consultation with our local actuaries.

We made contributions of € 521 million and € 310 million to our defined benefit pension plans for the fiscal years 2005 and 2004, respectively. These contributions were funded with cash from operations and were recorded as a component of prepaid pension benefit cost (€ 1,365 million at December 31, 2005 and € 1,094 million at December 31, 2004) in our consolidated balance sheet.

The contributions were determined by considering several factors (e.g., ratio of fair value of plan assets to respective Projected Benefit Obligations, funding requirements in accordance with the Employee Retirement Income Security Act of 1974 (ERISA)). No minimum ERISA contributions were required for our U.S. pension plan.

Our funding policy is to ensure a proper coverage of the PBO by plan assets for our funded plans. Any obligation for our unfunded plans was accrued for accordingly and is funded when paid to the beneficiaries.

Our principle is to finance pension plans using external financing vehicles (e.g., trusts, insured arrangements) unless circumstances justify an exception, for example where it would not comply with legislation or be tax inefficient. The goal is to maintain a financing level within a range of 90% to 110% of the obligation and to spread the deficit or surplus over 5 years (i.e., to return to the target level of 100%).

The net periodic benefit expense for the year ended 2005 was determined by external local actuaries and based on certain estimates and market-related assumptions as of January 1, 2005 (e.g. discount rates, expected return on plan assets etc.). The current service element was subsequently revised for the effects of curtailments in the UK, Japan and Germany. This process was reviewed by our independent global actuary.

The downward market trends in discount rates and the expected return on assets will result in an increase in the P/L charge in 2006. We anticipate an increase in expenses of approximately 7% for our Defined Benefit Plans (2005 NPBC: € 301 million) and approximately 25% for our Defined Postretirement Schemes (2005 NPPBC: € 16 million) in the U.S. and the UK.

The unrecognized actuarial gains on the plan assets and the losses on the PBO for our funded pension schemes amounted to a total of € 1,058 million as of December 31, 2005. Following the corridor approach we generally amortize, as part of the net periodic benefit cost, the excess of the corridor (10% of the higher of Projected Benefit Obligation (PBO) or the Fair Value of Plan Assets) over the average future service periods (approximately 12 years). The loss amortized for our Defined Benefit Pension Plans was € 40 million for fiscal year 2005 and € 61 million for fiscal year 2004. The losses amortized for the Defined Postretirement Pension Plans were € 1 million for fiscal year 2005 (2004: –). The amortization period for these losses is the average remaining life expectancy of approximately 9 years.

In 2006, we will record expenses of € 69 million for the Defined Benefit Pension Plans and € 3 million for the Defined Benefit Postretirement Plans.

Our goal is to match the maturity profiles of the assets and liabilities and to reduce the future volatility of pension expense and funding status of the plans, reducing the exposure to the equity market. This has been achieved over a period of time with a reduction of the portfolio's equity exposure to 17% in 2004. Our pension plan investment strategy is unchanged since 2004. Due to this strategy, the expected return on assets was based on the following allocation.

	Target allocation	Percentage of plan assets	
	Dec 31, 2006	Dec 31, 2005	Dec 31, 2004
<b>Asset category:</b>			
Equity securities	15%	17%	17%
Debt securities	75%	71%	73%
Real Estate and other	10%	12%	10%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

The asset allocation of each of our pension plans is reviewed regularly.

Given this strategy, it is expected that the earnings volatility from the assets will be reduced and that earnings variations on the assets will be offset by compensating movements in the obligation. Deviations between the expected return and the actual return are usual and sometimes material (for example, our expected return on plan assets for fiscal year 2005 was € 391 million, whereas the actual return was € 1.3 billion). For fiscal year 2005, this deviation was nearly compensated by the decline in the discount rate. There is no material discretionary funding expected at this point in time because the funded status of our Defined Benefit Schemes is positive.

Our primary investment objective is to have a low volatility of the funded status and downside protection. Within this, the goal is to achieve the highest return consistent with a defined risk tolerance, in order to ensure that pension costs are not a competitive disadvantage.

#### **Off-balance Sheet Arrangements with Unconsolidated Entities**

We carry out certain business activities via arrangements with unconsolidated entities. We may provide financial support or otherwise be exposed to risks of loss as a result of these arrangements, typically through guarantees that we provide or subordinated retained interests that we hold. The purposes, risks, and effects of these arrangements are described below. Also, see Note [30] to the consolidated financial statements for disclosure of total outstanding guarantees and lending-related commitments entered into in the normal course of business which give rise to off-balance sheet credit risk.

We provide financial support related to off-balance sheet activities chiefly in connection with asset securitizations, commercial paper programs, commercial real estate leasing vehicles and guaranteed value mutual funds that we manage and that we do not consolidate. With the adoption of FIN 46 and FIN 46(R), some of the vehicles related to these activities have been consolidated and some remain unconsolidated. See Note [2] to the consolidated financial statements for further information regarding the adoption of FIN 46 and FIN 46(R). We are addressing only the unconsolidated portion of these activities in this section. See Note [9] to the consolidated financial statements for financial information regarding both the consolidated and unconsolidated portions of these activities.

We may provide financial support in connection with asset securitizations by retaining a subordinated interest in the assets being securitized. In an asset securitization, we sell financial assets to a securitization vehicle that funds its purchase by issuing debt (asset-backed securities) to investors. We have no control over the securitization vehicle after the sale, and our creditors and we have no claim on the assets that we have sold. Similarly, the investors and the securitization vehicle have no recourse to our other assets if the loans go into default. Asset-backed securities are attractive to investors in what is a deep and liquid market that lowers borrowing costs and increases credit availability to businesses and to consumers.

The securitization vehicles we use in these transactions pose limited liquidity risks since the payments to investors are directly tied to the payments received from the vehicles' assets and are unaffected by changes in our own credit rating or financial situation. A sudden drop in investor demand for asset-backed securities could cause us to restrict our lending thereafter for the types of loans we typically securitize, but we are not dependent on securitizations as a source of funding and such a market shift would not pose any significant additional liquidity risk not already considered in our risk analyses. To the extent we hold senior or subordinated debt issued by a securitization vehicle we have credit risk that is considered as part of our credit risk assessments or market valuations. Note [9] to the consolidated financial statements provides additional information regarding the extent of our retained interests in securitizations and the volume of our asset securitization activities.

Commercial paper programs represent a way for third parties to securitize their financial assets. In commercial paper programs, we do not securitize any of our own financial assets, but act as administrative agent. As administrative agent, we facilitate the sale of loans, other receivables, or securities from various third parties to an unconsolidated special purpose entity. We may also facilitate the transfer of the loans and securities that represent collateral provided by the third parties in return for loans granted by the unconsolidated entity. The entity then issues collateralized commercial paper to the market. In these situations, the commercial paper issuer is restricted from purchasing assets from or making loans to us. Rating agencies typically rate such commercial paper in the highest short-term category because of the collateral and credit support normally provided by a financial institution.

Unlike securitization vehicles, commercial paper programs do pose liquidity risk since the commercial paper issued is short-term whereas the issuer's assets are longer term. We take on this risk whenever we provide a liquidity support facility to the issuer. In 2003, a methodology to incorporate these contingent liabilities in our liquidity risk framework (including stress testing) was developed and approved by the Group Asset and Liability Committee.

We may also guarantee the assets of the issuer as part of the facility, giving us secondary credit risk with the first loss taken by the third parties who sold their assets to the entity.

We sponsor commercial real estate leasing vehicles and closed-end funds where third party investors essentially provide senior financing for the purchase of commercial real estate, which is leased to other third parties. We typically provide subordinated financing, which exposes us to real estate market risk, and we receive fees for our administrative services.

In the case of guaranteed value mutual funds managed by ourselves, the value of the mutual funds units is being guaranteed. These mutual funds are investment vehicles that were established to provide returns to investors in the vehicles.

The extent of the financial support we provide for certain of the arrangements described above is disclosed in Note [9] to the consolidated financial statements in the disclosure of the Group's maximum exposure to loss as a result of its involvement with unconsolidated variable interest entities in which the Group holds a significant variable interest. The risks from these arrangements are included in our overall assessments of credit, liquidity and market risks.

### Tabular Disclosure of Contractual Obligations

The table below shows the cash payment requirements from specified contractual obligations outstanding as of December 31, 2005.

Contractual obligations in € m.	Payment due by period				
	Total	Less than 1 year	1–3 years	3–5 years	More than 5 years
Long-term debt obligations	113,554	14,877	22,782	27,681	48,214
Capital (finance) lease obligations	964	109	318	93	444
Operating lease obligations	3,125	484	839	618	1,184
Purchase obligations	2,944	548	1,106	769	521
Long-term deposits	28,256	–	8,028	6,156	14,072
Other long-term liabilities	5,869	927	2,025	758	2,159
<b>Total</b>	<b>154,712</b>	<b>16,945</b>	<b>35,098</b>	<b>36,075</b>	<b>66,594</b>

Operating lease obligations exclude the benefit on noncancelable sublease rentals of € 388 million. Purchase obligations reflect minimum payments due under long-term real-estate-related obligations, and long-term outsourcing agreements. Long-term deposits exclude contracts with a remaining maturity of less than one year. Other long-term liabilities consist primarily of obligations to purchase common shares, and insurance policy reserves which are classified in the “More than 5 years” column since the obligations are long term in nature and actual payment dates cannot be specifically determined. See the following notes to the consolidated financial statements for further information: Note [11] regarding lease obligations, Note [15] regarding deposits, Note [17] regarding long-term debt and Note [18] regarding obligation to purchase common shares.

### Long-Term Credit Ratings

We believe that maintaining our credit quality is a key part of the value we offer to our clients, bondholders and shareholders. Below are our long-term credit ratings.

	Dec 31, 2005	Dec 31, 2004
Moody's Investors Service, New York <sup>1</sup>	Aa3	Aa3
Standard & Poor's, New York <sup>2</sup>	AA–	AA–
Fitch Ratings, New York <sup>3</sup>	AA–	AA–

<sup>1</sup> Moody's defines the Aa3 rating as denoting bonds that are judged to be high quality by all standards. Moody's rates Aa bonds lower than the best bonds (which it rates Aaa) because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risk appear somewhat greater than Aaa securities. The numerical modifier 3 indicates that Moody's ranks the obligation in the lower end of the Aa category.

<sup>2</sup> Standard and Poor's defines its AA rating as denoting an obligor that has a very strong capacity to meet its financial commitments. The AA rating is the second-highest category of Standard and Poor's ratings. Standard and Poor's notes that an AA rated obligor differs from the highest rated obligors only in small degree. The minus sign shows relative standing within the AA rating category.

<sup>3</sup> Fitch Ratings defines its AA rating as very high credit quality. Fitch Ratings uses the AA rating to denote a very low expectation of credit risk. According to Fitch Ratings, AA-ratings indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. Category AA is Fitch Ratings second-highest rating category.

As of the date of this document, there has been no change in any of the above ratings.

Each rating reflects the view of the rating agency only at the time it gave us the rating, and you should evaluate each rating separately and look to the rating agencies for any explanations of the significance of their ratings. The rating agencies can change their ratings at any time if they believe that the circumstances so warrant. You should not view these long-term credit ratings as recommendations to buy, hold or sell our securities.

## Balance Sheet Development

The table below shows information on the balance sheet development.

in € m.	2005	2004
Total assets	992,161	840,068
Central Bank funds sold and securities purchased under resale agreements	130,993	123,921
Trading assets	448,393	373,147
Loans, net	151,355	136,344
Deposits	380,787	320,796
Trading liabilities	194,347	169,606
Long-term debt	113,554	106,870
Total shareholders' equity	29,936	25,904
Tier I risk-based capital (BIS)	21,898	18,727
Total risk-based capital (BIS)	33,886	28,612

The Group's total assets at the end of the year were € 992.2 billion, an increase compared to the previous year of € 152.1 billion, or 18% (2004: € 840.1 billion). The development of exchange rates, in particular the U.S. dollar, contributed significantly to the increase in total assets.

The growth in total assets was largely the result of growth in trading assets by € 75.2 billion, to € 448.4 billion, reflecting the expansion of our business with structured high-value products. Securities borrowed increased by € 35.5 billion, to € 101.1 billion, and central bank funds sold and securities purchased under resale agreements grew by € 7.1 billion, to € 131.0 billion. In addition, loans rose by € 15.0 billion, to € 151.4 billion. This increase resulted from the expansion of the profitable consumer finance business in PCAM and higher loans to business and corporate clients in CIB. In other assets, loans held for sale increased by € 17.3 billion, to € 25.5 billion, due mainly to the strong growth of this business in North America, with the claims acquired in the course of our securitization activities or originated in our loan business.

The increase in total liabilities stemmed, to a considerable extent, from the growth of € 60 billion in deposits, which totalled € 380.8 billion at the end of the year. This was primarily caused by a rise of € 54.3 billion in interest-bearing deposits at our non-German offices. Certificates of deposit with remaining maturities of up to one year at our non-German offices increased by € 19.0 billion, other short-term time deposits outside Germany with remaining maturities of up to three months rose by € 20.7 billion. Furthermore, liabilities from central bank funds purchased and securities sold under repurchase agreements grew by € 38.2 billion, to € 143.5 billion. Securities loaned rose by € 11.7 billion, to € 24.6 billion, and trading liabilities increased by € 24.7 billion, to € 194.3 billion. Our long-term debt (including financial instruments at fair value) increased by € 6.7 billion, to € 113.6 billion. Although new long-term bonds and notes (including index certificates) for € 44.6 billion were issued, the resulting rise in our long-term debt was partly offset by early repayments, repurchases and bond repayments totaling € 39.8 billion.

Group shareholders' equity increased in 2005 by € 4.0 billion, or 16%, to € 29.9 billion. The main contributors to this were net income of € 3.5 billion, positive effects of exchange rate changes (especially the U.S. dollar) amounting to € 1.1 billion and higher unrealized gains on securities available for sale (€ 0.7 billion). Furthermore, the increased reserves for share awards (€ 0.6 billion) and the issuance of common shares in connection with employee stock option programs (€ 0.4 billion) had positive effects on shareholders' equity. These factors were partly offset by items reducing shareholders' equity, including share buybacks (€ 1.8 billion), the cash dividend paid for the 2004 financial year (€ 0.9 billion) and the increased obligation to purchase common shares (€ 0.4 billion).

Total regulatory capital in accordance with the recommendations of the Basel Committee on Banking Supervision increased in 2005 by € 5.3 billion, to € 33.9 billion. Of this growth € 3.1 billion is attributable to core capital. Changes included the aforementioned developments in net income, exchange rate changes, share awards, employee stock option programs, share buybacks and obligations to purchase common shares. Other factors on core capital are accrued dividends (deduction of

€ 1.3 billion), an increased goodwill/intangible deduction (€ 0.9 billion), as well as changes, totalling € 1.9 billion, in the regulatory adjustment relating to securities available for sale, in hybrid capital components in the regulatory group of consolidated companies and in other items. Supplementary capital increased primarily due to new issuances of subordinated liabilities.

## Employees and Social Responsibility

### Employees

As of December 31, 2005, we employed a total of 63,427 staff members as compared to 65,417 as of December 31, 2004. We calculate our employee figures on a full-time equivalent basis, meaning we include proportionate numbers of part-time employees.

The following table shows our numbers of full-time equivalent employees as of December 31, 2005, and 2004.

Employees <sup>1</sup>	Dec 31, 2005	Dec 31, 2004
Germany	26,336	27,093
Europe (outside Germany) <sup>2</sup>	18,444	19,538
Asia-Pacific	7,169	6,458
North America <sup>3</sup>	11,134	11,954
South America	345	374
<b>Total employees</b>	<b>63,427</b>	<b>65,417</b>

<sup>1</sup> Full-time equivalent employees.

<sup>2</sup> Includes a small number of employees in Africa.

<sup>3</sup> Primarily the United States.

The number of our employees decreased by 1,990 to 63,427 during the year. In the course of implementing the global BRP, we completed approximately 5,900 employee departures and notifications as of December 31, 2005 out of the announced 6,400. This reduction was offset by some of our growth initiatives in other parts of our businesses.

The proportion of employees working in Germany as a percentage of our total staff remained essentially the same at 41.5%.

### Corporate Citizenship

The assumption of social responsibility is a prerequisite for the generation of value for shareholders. As a good corporate citizen, we are more than glad to accept our responsibility for our society. We are committed to improving educational prospects for young people and are there to provide assistance to victims of natural disasters that often affect entire regions. We consider it our duty to support our employees in various ways in their active social commitment. Boosted by good results, expenditure on Deutsche Bank's commitment to society and its worldwide foundations was increased from almost € 73 Mio in 2004 to just short of € 90 Mio in 2005.

For more information see our Corporate Social Responsibility Report that can be downloaded at our website <http://www.db.com/csr/en/index.html>.

## Subsequent Events

In 2005, grundbesitz-invest (“Grundbesitz”), an open-end property fund sponsored and managed by a subsidiary of ours, temporarily suspended the issuance and redemption of its share units pending an extraordinary revaluation of its real estate assets. The suspension was deemed necessary to protect unit holders and to ensure equal treatment for current and potential investors. In light of the extraordinary nature of the temporary closure, we are committed to compensate certain unit holders for any loss in value due to the revaluation, including by direct payments to certain unit holders who, taking into account the purchase price of their share units and earnings distributions received, would incur a loss due to the revaluation of the properties, and by other indirect compensation. Grundbesitz re-opened for issuance and redemption on March 3, 2006. We committed to support Grundbesitz’s liquidity upon its re-opening by various means, which may include offering to purchase its units from time to time, at prevailing redemption prices. At the end of the first quarter 2006, we will evaluate whether we must consolidate Grundbesitz based on the extent of our exposure to it at that time. For the year ended December 31, 2005, we recorded provisions of € 203 million representing the estimated direct and indirect compensation costs mentioned above.

## Significant Accounting Policies and Critical Accounting Estimates

We have prepared our consolidated financial statements in accordance with U.S. GAAP. Our significant accounting policies, as described in Note [1] to the Consolidated Financial Statements, are essential to understanding our reported results of operations and financial condition. Certain of these accounting policies require critical accounting estimates that involve complex and subjective judgments and the use of assumptions, some of which may be for matters that are inherently uncertain and susceptible to change. Such critical accounting estimates could change from period to period and have a material impact on our financial condition, changes in financial condition or results of operations. Critical accounting estimates could also involve estimates where management could have reasonably used another estimate in the current accounting period. Actual results may differ from these estimates if conditions or underlying circumstances were to change.

We review the selection of these policies and the application of these critical accounting estimates with our Audit Committee. We have identified the following significant accounting policies that involve critical accounting estimates:

- Fair value estimates,
- allowance for loan losses,
- impairment of assets other than loans,
- deferred tax assets valuation allowance,
- legal, regulatory and tax contingencies.

For more information on critical accounting estimates, see the respective section of our Form 20-F filed March 23, 2006.

## Recent Accounting Developments

### FSP FAS 109-2

In December 2004, the FASB issued Staff Position No. 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" ("FSP FAS 109-2"). The Act, which was signed into law in the U.S. on October 22, 2004, provides for, among other things, a reduced rate of U.S. tax on dividends received from foreign subsidiaries of U.S. taxpayers. FSP FAS 109-2 provides additional time beyond the financial reporting period of the enactment to evaluate the effects of this provision of the Act for purposes of applying SFAS No. 109, "Accounting for Income Taxes." We do not intend to repatriate any earnings from foreign subsidiaries in accordance with the provisions of the Act and thus FSP FAS 109-2 did not have an impact on our consolidated financial statements.

### SOP 03-3

In December 2003, the American Institute of Certified Public Accountants issued Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer" ("SOP 03-3"). SOP 03-3 addresses the accounting for differences between contractual and expected cash flows for loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. The SOP prohibits the creation of an allowance for loan losses in the initial accounting for all loans within its scope. The SOP also limits the income that can be recognized and specifies the accounting for future changes in expected cash flows on the acquired loans or securities. SOP 03-3 is effective for loans or debt securities acquired in fiscal years beginning after December 15, 2004. The adoption did not have a material impact on our consolidated financial statements.

### SFAS 155

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments" ("SFAS 155"). SFAS 155 allows any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" to be carried at fair value in its entirety, with changes in fair value recognized in earnings. In addition, SFAS 155 requires that beneficial interests in securitized financial assets be analyzed to determine whether they are freestanding derivatives or contain an embedded derivative. SFAS 155 also eliminates a prior restriction on the types of passive derivatives that a qualifying special purpose entity is permitted to hold. SFAS 155 is applicable to new or modified financial instruments in fiscal years beginning after September 15, 2006, though the provisions related to fair value accounting for hybrid financial instruments can also be applied to existing instruments. Early adoption, as of the beginning of an entity's fiscal year, is also permitted, provided interim financial statements have not yet been issued. We are currently evaluating the potential impact, if any, that the adoption of SFAS 155 will have on our consolidated financial statements.

### EITF 05-5

In June 2005, the FASB ratified the consensus reached in EITF Issue No. 05-5, "Accounting for Early Retirement or Postemployment Programs with Specific Features (Such As Terms Specified in Altersteilzeit Early Retirement Arrangements)" ("EITF 05-5"). EITF 05-5 addresses the timing of recognition of salaries, bonuses and additional pension contributions associated with certain early retirement arrangements typical in Germany (as well as similar programs). The EITF also specifies the accounting for government subsidies related to these arrangements. EITF 05-5 is effective in fiscal years beginning after December 15, 2005. The adoption of EITF 05-5 is not expected to have a material impact on our consolidated financial statements.

### SFAS 154

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections – A Replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS 154"). SFAS 154 replaces APB Opinion No. 20, "Accounting Changes" ("APB 20") and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for the accounting for and reporting of a change in accounting principle. APB 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 requires retrospective application to prior periods' financial statements for voluntary changes in accounting principle and for changes required by new accounting pronouncements that do not include specific transition provisions, unless such application is impracticable. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The impact of SFAS 154 will depend on the accounting change, if any, in a future period.

### EITF 03-1, FSP EITF 03-1-1 and FSP FAS 115-1 and FAS 124-1

In March 2004, the FASB ratified the consensus reached in EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("EITF 03-1"). The decisions established a common approach to evaluating other-than-temporary impairment for equity securities accounted for at cost, and debt and equity securities available for sale. In September 2004, the FASB issued a final FASB Staff Position, No. EITF 03-1-1 ("FSP EITF 03-1-1"), which delayed the effective date for the measurement and recognition guidance included in EITF 03-1. The disclosure requirements under EITF 03-1 were effective beginning December 31, 2004.

In June 2005, the FASB decided not to provide additional guidance on the meaning of other-than-temporary impairment, but directed its staff to issue FSP FAS 115-1 and FAS 124-1. The final FSP FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," was issued in November 2005 and nullified certain provisions of EITF 03-1. FSP FAS 115-1 and FAS 124-1 require reference to existing accounting guidance when assessing whether impairment is other-than-temporary.

FSP EITF 03-1-1, and hence the delay of the effective date for the measurement and recognition guidance included in EITF 03-1, was superseded with the final issuance of FSP FAS 115-1 and FAS 124-1, which is effective for fiscal years beginning after December 15, 2005. The adoption of FSP FAS 115-1 and FAS 124-1 is not expected to have a material impact on our consolidated financial statements.

### SFAS 123 (Revised 2004)

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"). SFAS 123(R) replaces SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". The new standard requires companies to recognize compensation cost relating to share-based payment transactions in their financial statements. That cost is to be measured based on the fair value of the equity or liability instruments issued. Starting January 1, 2003, we accounted for our share-based compensation awards under the fair value method prescribed under SFAS 123. The method was applied prospectively for all employee awards granted, modified or settled after January 1, 2003. Currently, we use a Black-Scholes option pricing model to estimate the fair value of stock options granted to employees and expect to continue to use this option valuation model upon the adoption of SFAS 123(R). SFAS 123(R) also includes some changes regarding the timing of expense recognition, the treatment of forfeitures and the re-measurement of liability classified awards at their current fair value. SFAS 123(R) indicates that it is effective for reporting periods beginning after June 15, 2005.

In March 2005, the SEC released Staff Accounting Bulletin No. 107, "Share-Based Payment" ("SAB 107"), which provides interpretive guidance related to the interaction between SFAS 123(R) and certain SEC rules and regulations. It also provides the SEC staff's views regarding valuation of share-based payment arrangements. In April 2005, the SEC amended the compliance dates for SFAS 123(R), to allow companies to implement the standard at the beginning of their next fiscal year, instead of the next reporting period beginning after June 15, 2005. Accordingly, the Group adopted SFAS 123(R) effective January 1, 2006. For transition purposes, the Group elected the modified prospective application method. Under this application method, FAS 123(R) applies to new awards and to awards modified, repurchased, or cancelled after the required effective date.

Upon adoption in 2006, the Group recognized a gain of € 42 million, net of taxes, as a cumulative effect of a change in accounting principle. This effect relates to an adjustment of accrued compensation costs, which under SFAS 123(R) are required to be based on the estimated number of share-based payment awards to vest, with consideration of expected forfeitures. Under SFAS 123, the Group had accounted for forfeitures on an actual basis, and therefore had reversed compensation expense in the period an award was forfeited. Compensation expense for future awards granted in relation to annual bonuses, but which include a vesting period, will no longer be recognized in the applicable performance year as part of compensation earned for that year.

Prior to the adoption of SFAS 123(R), the Group had recognized compensation cost for all awards granted as a retention incentive over the vesting period. With the adoption of SFAS 123(R), the Group will be accelerating the expense accrual for future grants which, due to early retirement provisions, are determined to include a nominal, but nonsubstantive service period. For existing awards, the accounting remains unchanged.

If compensation expense for such awards had previously been recognized on an accelerated basis, the additional compensation expense recognized for the years ended December 31, 2005, 2004 and 2003 would have been € 101 million, € 177 million and € 130 million, respectively.

On November 10, 2005, the FASB released the final FASB Staff Position No. FAS 123(R)-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards" ("FSP FAS 123(R)-3"), which provides a practical transition election related to the calculation of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of FAS 123(R) (that is, the additional paid-in-capital (APIC) pool). The Group is in the process of evaluating the alternatives made available by the FSP to calculate its APIC pool.

## IFRS

*Regulations regarding IFRS.* In accordance with EU and German regulations, we will adopt International Financial Reporting Standards (IFRS) in our consolidated financial statements filed with the EU and German regulatory authorities for fiscal years starting January 1, 2007 (with 2006 comparative figures).

We will also adopt IFRS as our basis of reporting in SEC filings. Financial statements prepared according to IFRS are accepted in SEC filings provided a reconciliation between U.S. GAAP and IFRS net income and shareholders' equity is disclosed as supplemental information.

*IFRS project.* We commenced preparations for the conversion to IFRS in 2004. A dedicated project team was assembled and separate work streams were established to handle the various aspects of the conversion. The objective of the project is to ensure a structured and well-considered approach to implementation. The project involves all business areas and group functions.

The project began with the identification of the differences between U.S. GAAP and IFRS to determine the key financial, business and system impacts. Accounting decisions were made where IFRS offers accounting choices. In addition, technical guidance was provided to business areas and group functions to ensure accurate and consistent application. This is in the process of being documented in an accounting and reporting manual.

In 2005, we made the key changes to required accounting and reporting procedures, and consolidation systems. Other system changes have been identified and will be implemented in 2006 to further automate the IFRS requirements.

The project is designed to ensure readiness for adoption of IFRS by all relevant parties and includes providing the necessary education.

The project is advancing according to plan and is being monitored via normal project controls and change management.

The main risks and uncertainties relate to financial and process impacts due to changing accounting standards. However, developments of both IASB and FASB standards are being closely monitored. In addition, we participate actively in the due process of standards development.

*Main differences between IFRS and U.S. GAAP.* Although IFRS and U.S. GAAP are similar in many ways and the IASB and FASB are committed to convergence, currently several differences remain for financial institutions, with the major differences relating to financial instrument classification and measurement, financial instruments recognition and derecognition, as well as consolidation assessments. However, future rule changes could have an impact on our opening IFRS balance sheet and thus the difference between U.S. GAAP and IFRS earnings or balance sheet amounts cannot be estimated at this time.

## Outlook

### The Global Economy

In the last months of 2005 business confidence in the industrialised nations improved strongly, paving the way for a good start to 2006, when the global economy is expected to grow by approximately 4%. However, the U.S. economy may see GDP growth slowing to around 3% in 2006 as higher interest rates dampen the stimulus from mortgage refinancing and fiscal policy turns neutral. In Asia, growth is again expected to be fuelled by strong GDP growth, of over 9%, in the Chinese economy, while in Japan the upswing should continue due to the structural improvements in the corporate sector. In the Eurozone, GDP growth should approach 2%, as healthy corporate balance sheets and rising capacity utilisation drive stronger investment spending and slightly better employment growth supports private consumption. Germany's GDP should expand by around 1.75% in 2006, with international competitiveness boosted by robust exports and investment, while private consumption should pick up temporarily in anticipation of a rise in VAT in 2007.

The main risks to this global outlook stem from the possibility of further geopolitical tensions. Risk factors include further political instability, the possibility of terrorist activity and rises in energy prices. Moreover, global liquidity has driven prices of financial assets to levels which are only partly justified by the economic fundamentals. A stronger-than-expected tightening of monetary policies could result in a substantial correction, which could cause weaker consumption and investment spending, notably in the U.S. economy. Another risk, albeit difficult to assess, is the potential spread of the avian flu virus.

### The Banking Industry

The global economy's positive start to 2006 created the preconditions for continued strong profitability of the banking industry. However, a normalisation of the interest rate environment and an anticipated slowing of the world economy will make further earnings growth more difficult to sustain during the course of 2006 and beyond, even if the overall environment remains favorable. Growth of net interest income in consumer lending is expected to slow, as continued margin pressure will no longer be compensated for by the strong lending growth, especially in mortgage and consumer loans, witnessed in 2004 and 2005. Corporate lending volumes are expected to pick up, not least in Germany, reflecting increased investment and M&A activity, but margins will be constrained by strong competition. With the upcoming implementation of the Basle II capital framework starting in January 2007, banks may have to maintain higher levels of capital for bank regulatory purposes, which could increase their financing costs.

A favorable capital markets environment will stimulate both corporate activity and demand for investment management services. Consequently, non-interest income is expected to grow slightly faster than interest income, while an upturn in volatility could prove favourable for both commission and trading income. Well-diversified investment banking franchises will benefit most from these developments.

Consolidation in the banking sector appears set to continue in the United States, Europe and Germany. A number of large commercial banks, insurance companies and other broad-based financial services firms have merged with other financial institutions. On the back of their enhanced size and competitive position, these institutions aim to increase their market share and make the most of scale economies, which could result in pricing pressure in some markets and products.

Cost disciplines are likely to be maintained, with banks aiming to hold any increase in costs to levels below the growth rates of earnings. Credit risk may also have a larger impact on bank profitability in 2006-7, notably in sub-investment grade exposure and lending to marginal households, which are most susceptible to interest rate increases. Consequently, banks' provisioning levels are expected to rise modestly, particularly in markets such as the U.S. and the UK, where consumer debt levels are high. The impact of credit risk on the banking industry is likely to be mitigated to some extent now that credit risk is distributed more widely across the financial system by credit derivatives, default swaps and other credit risk transfer instruments. Overall, the impact of the negative factors is predicted to be modest over 2006 as a whole, but may accelerate toward the end of the year. Obviously, adverse external events could accelerate this pattern.

### **The Deutsche Bank Group**

In this environment, Deutsche Bank is well-positioned to continue to deliver profitable growth. With strong positions in our core businesses, we are well-placed to take advantage of growth in specific regions and product areas; our management of cost, risk and capital will continue to be an important element of our success; and our future financial objectives are clearly defined.

Deutsche Bank derives significant proportions of revenues from capital market-related activity, which, by its nature, is liable to fluctuate depending on market conditions. As a result, a planning horizon of 1–3 years, shorter than for some other industries, is appropriate.

Deutsche Bank is strongly positioned in its core businesses: corporate and investment banking, and private clients and asset management. The outlook for these businesses is positive and this is detailed in the sections below. In all core businesses, Deutsche Bank's strong positioning and significant investment in the world's main financial hubs and in key emerging markets, in Asia-Pacific and other regions, provides rich opportunities to take advantage of regional economic growth.

As we grow our core businesses, we consider both organic growth and growth via incremental acquisition. As in most industries, growth by acquisition may involve integration and implementation risks, such as client attrition, loss of key personnel, and failure to meet projected financial benefits. Deutsche Bank rigorously assesses all investments against strict criteria of strategic logic, financial impact, and value to shareholders.

We also expect to sustain our cost discipline, as we see the results of our Business Realignment Program, which was largely completed during 2005, deliver operating cost savings in 2006 and beyond. We will continue to seek ways to improve the cost position and efficiency in all our businesses. Nevertheless, staff numbers are expected to increase gradually as we invest in business growth.

We will continue to pursue tight risk management. In respect of market risk, we continue to exercise tight control of both value at risk and economic capital usage. Risk positions may rise as we take advantage of market conditions or in fulfilling our clients' requirements. In respect of credit risk, we anticipate moderate impact on the corporate side, as we continue our use of loan hedging techniques as part of our ongoing loan exposure management strategy. On the consumer side, we continue our strategy of expanding our consumer finance business which contemplates a measured rise in credit risk.

On the back of increased regulation and supervision in recent years, regulators, counterparties, and others have sought to subject financial services providers to increasing responsibilities and liabilities. As a result, we need to devote additional resources to address these requirements and our exposure to legal risks such as litigation, regulation proceedings has increased, in particular in the U.S. We may settle such proceedings prior to a final judgment or determination pursuant to which our liability is established and quantified. We may do so to avoid continuing cost, management efforts or negative business, regulatory or reputational consequences of continuing to contest liability, even when we believe we have valid defenses to liability. We may also do so when the potential economic, business, regulatory or reputational consequences of failing to prevail would be disproportionate to the cost of settlement. Furthermore, we may, for similar reasons, reimburse counterparties for losses incurred by them even in situations where we do not believe that we are legally compelled to do so. The ongoing financial impact of legal risks might be considerable but is impossible to estimate with confidence.

Sound capital management will continue to play an important role in Deutsche Bank's future performance. During 2005, Deutsche Bank generated significant capital from improved earnings, and deployed this capital to support growth in business volumes, while simultaneously returning significant capital to shareholders through sustained share buyback programs and by a recommended 47% rise in our dividend to € 2.50 per share. Going forward, we aim to continue to generate, and deploy, capital both to grow core businesses and to reward shareholders in this fashion.

The outlook for Deutsche Bank is reflected in clear financial objectives. In 2005, we achieved our published financial target, of pre-tax return on average active equity of 25%. Going forward, our goal is to sustain, over the economic cycle, similar levels of pre-tax return on average active equity and to achieve double-digit growth in our earnings per share.

### **Corporate and Investment Bank Group Division**

The Corporate and Investment Bank, or CIB, includes Deutsche Bank's sales and trading, origination and advisory, corporate lending and transaction banking activities. CIB has established Deutsche Bank as one of the world's leading investment banks as measured by revenues. CIB is well-placed to leverage this strong platform for continued growth and performance.

Demand for corporate and investment banking products and services is currently robust, reflecting generally favorable conditions in the world's capital markets and the global economy. Powerful growth in the world's emerging economies continues to drive demand for capital goods, commodities and energy which will, in turn, stimulate demand for innovative capital market products. Levels of corporate activity remain high, as corporations leverage strong cash flow and balance sheets for expansion. Institutional demand for investment performance, risk mitigation and asset-liability management appears set to remain strong, driving continued growth momentum in sophisticated, structured sales and trading products, including derivatives, securitizations and structured credit products, as clients seek creative solutions for financing, risk mitigation and balance sheet efficiency. This will to some extent be counterbalanced by margin pressure on standardized or commoditized products, reflecting rapid maturity cycles in a highly innovative and competitive global industry.

In our sales & trading businesses, Deutsche Bank is very strongly positioned to take full advantage of this environment. We enjoy commanding positions in capital market access products, including foreign exchange, bond trading and cash equities, where scale-efficiency and broad global reach give us competitive advantages. Deutsche Bank also possesses a pre-eminent franchise in high-value, sophisticated 'intellectual capital' products and solutions, including derivatives and structured credit products, where growth momentum is strong and margins attractive.

In our origination and advisory businesses, Deutsche Bank is also well-placed for continued growth and performance, with a strong position and franchise in Europe, substantial recent investments in our North American platform, and pre-eminent franchises in fast-growing businesses such as Commercial Real Estate, Financial Sponsor advisory and LBO advisory and financing. Both our sales and trading and our origination and advisory businesses are furthermore well-positioned to reap the benefits of local investments, made during 2005, which give us strong platforms in fast-growing, emerging markets in Asia, Russia and Latin America.

We see favorable prospects for growth in CIB's transaction banking business. Trust and Securities Services should benefit from expanding markets for Structured Finance Services and Agency and Custody products and from our expanded European custody offering. In Trade Finance, we aim to increase our cross-selling of risk products. In Cash Management Financial Institutions, we plan to build on our leading position in euro clearing as well as our top five position in U.S. dollar clearing, while in Cash Management Corporates, we will seek to strengthen our position as a global network bank with a focus on European corporate clients.

As our performance in both these business areas is largely dependent on the talents and specialized knowledge of highly-skilled individuals, our continued ability to compete effectively depends on our ability to attract new employees as necessary and to retain and motivate our existing employees.

### **Private Clients and Asset Management Group Division**

Private Clients and Asset Management, or PCAM, contains Deutsche Bank's investment management business, which serves institutions, high net worth individuals and private clients and spans the world's major markets. We expect the global investment management business to be positively impacted by stable, favorable conditions in the global economy, by continued strength in the world's capital markets, by sustained demand for savings and retirement products in industrialized nations and by wealth creation in fast-growing emerging economies. An increasing variety of investment options will drive demand for sophisticated, alternative investments, and for increasingly globalized investment offerings.

PCAM also contains Deutsche Bank's traditional banking services for retail and small corporate customers. This business will be positively impacted by favorable economic conditions, in particular growth in Asian and key emerging markets, and by sustained demand for consumer credit in continental Europe, counterbalanced by ongoing pressure on margins in traditional banking products such as deposits, and by relatively modest economic growth in mature European markets.

Deutsche Bank's Asset Management business is well-positioned to grow in this environment. We have reorganized our mutual fund platform into a single, global business with a consistent global brand, based around our DWS platform, which enjoys a pre-eminent position in German and European retail asset management and which has been expanded into Asian markets. Our institutional business is well-positioned to benefit from strong positions in alternative investments, including an absolute return strategies unit, and the world-leading real estate asset management business, RREEF. In traditional institutional asset management, we aim to leverage our global no. 1 position as asset manager to the insurance sector, as measured by invested assets in 2005.

Our Private Wealth Management (PWM) Business Division is well-positioned to consolidate our position in the top 5 of the Wealth Management industry, as measured by invested assets. We will sustain our hiring of client relationship managers, and continue to leverage Deutsche Bank's wide-ranging product expertise, delivering sophisticated, high-value investment opportunities to our clients by continued collaboration on product development with our colleagues in Asset Management and CIB. Growth in sophisticated investment solutions allows us to raise returns on invested assets, and benefit from recurring revenues through discretionary portfolio mandates. During 2005, we attracted substantial inflows of new client money, which will have a direct positive impact on revenues.

Our Private and Business Clients (PBC) Corporate Division provides traditional banking products, including current account, deposit and lending products together with investment management products to over 13 million clients – the majority in Germany, Italy and Spain. In these mature markets, we aim to accelerate revenue growth by reaching new client segments with innovative distribution initiatives, including a new 'student banking' package in Germany, and a distribution agreement with Germany's largest automobile association (ADAC), allowing us to market specially-tailored savings products to ADAC's 15 million members. We continue to invest in distribution capacity by adding additional sales staff, upgrading our network of Investment and Finance Centers, expanding our mobile sales force, and launching new consumer finance and investment products. In Poland, we are doubling our branch network, while in Asia, we aim to capture regional growth through our newly established branch presence in India and our cooperation agreement with Hua Xia Bank in China.

Overall, we are confident that Deutsche Bank has the right strategy, the right growth dynamics, the right cost and risk discipline as well as the right capital management to achieve these objectives. We enjoy leading franchises in our key businesses areas, and have proven our ability to perform both in favorable and in challenging conditions. Based on our current outlook for the global economy and the world's capital markets, we are confident of maintaining, in 2006, the good progress of 2005.