Financial Report 2006

Facts and figures

DZ BANK
Achieving more together.

Key Figures

DZ BANK Group

in € million	2006	2005
Profitability		
Operating result before risk provisions	1,850	1,904
Risk provisions	-380	-423
Operating result after risk provisions	1,470	1,481
Result after taxes	1,401	634
Cost-income ratio[1] (in percent)	54.8	55.8
Financial Status		
Assets		
Placements with, and loans and advances to, other banks	112,590	107,840
Loans and advances to non-bank customers	103,947	101,160
Securities[2]	157,613	133,828
Insurance-related investments	43,816	41,253
Other insurance-specific assets	2,203	1,799
Other assets	18,815	15,748
Liabilities		
Deposits from other banks	165,161	155,588
Amounts owed to other depositors	94,092	85,463
Securitised liabilities	106,202	92,364
Underwriting reserves	42,112	38,335
Other insurance-specific liabilities	2,953	3,732
Other liabilities	18,707	18,089
Proprietary capital according to balance sheet[3]	9,757	8,057
Balance sheet total	**438,984**	**401,628**
Business volume[4]	612,994	562,023
Regulatory capital ratios (BIS)		
Equity ratio (in percent)	12.6	10.4
Tier 1 capital ratio (in percent)	8.6	8.1
Off-balance-sheet futures business		
Nominal volume	1,266,150	1,076,354
Replacement costs	15,617	20,586
Average annual staff figures	24,055	23,849

[1] 2006: The additional expense incurred through the lowering of the applicable interest rate for calculating provisions for pensions and similar obligations from 6.0 percent to 4.5 percent has not been included in this calculation.
[2] Bonds and other fixed-interest securities plus equity shares and other variable-yield securities
[3] Balance-sheet equity less consolidated profit and minority interests including fund for general banking risks
[4] Balance-sheet total including contingent liabilities, other obligations and specialist funds managed on behalf of shareholders

DZ BANK AG

in € million	2006	2005
Profitability		
Operating result before risk provisions	492	694
Risk provisions	-61	-130
Operating result after risk provisions	431	564
Result after taxes	528	220
Cost-income ratio[1] (in percent)	58.3	53.4
Financial Status		
Assets		
Placements with, and loans and advances to, other banks	103,628	97,164
Loans and advances to non-bank customers	27,282	24,019
Securities[2]	104,364	87,328
Other assets	17,433	15,219
Liabilities		
Deposits from other banks	150,186	140,424
Amounts owed to other depositors	38,525	33,025
Securitised liabilities	44,776	32,571
Other liabilities	11,990	11,389
Proprietary capital according to balance sheet[3]	7,230	6,321
Balance sheet total	**252,707**	**223,730**
Business volume[4]	277,816	243,207
Regulatory capital ratios (KWG)		
Total capital ratio (in percent)	21.7	14.6
Tier 1 capital ratio (in percent)	14.0	13.3
Off-balance-sheet futures business		
Nominal volume	1,106,891	965,137
Replacement costs	14,548	19,570
Average annual staff figures	3,923	4,016

[1] 2006: The additional expense incurred through the lowering of the applicable interest rate for calculating provisions for pensions and similar obligations from 6.0 percent to 4.5 percent has not been included in this calculation.
[2] Bonds and other fixed-interest securities plus equity shares and other variable-yield securities
[3] Balance-sheet equity less cumulative profit including fund for general banking risks
[4] Balance-sheet total including contingent liabilities and other obligations

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Combined Management Report on the DZ BANK Group and DZ BANK AG

I. Business Performance in Fiscal 2006

1. Macroeconomic framework

The last financial year has seen the upturn of the German economy gain significant momentum. Gross domestic product (GDP) expanded by 2.7 percent, the fastest rate of growth since 2000.

Global economic growth was overall extremely robust in the year just ended, thanks mainly to the strength of demand from the rapidly-growing Asian economies. On the other hand, the United States' previous strong growth slowed perceptibly over the course of 2006.

The strength of international demand has allowed exports to keep their place as the most important contributory factor in the growth of the German economy, as in the previous two years. Strong order books and rising profitability have allowed the corporate sector to increase its headline investment activity. Spending on plant and equipment rose by more than 7.0 percent in the year under report, with the pick-up of investment activity also extending increasingly to domestically-oriented companies. Construction investment experienced a turnaround in 2006 and made a positive contribution to GDP growth again for the first time since 1999.

The economic upswing was additionally reinforced by the 0.8 percent expansion of private consumption demand during the year under report. The improved trend on the labour market, with employment rising by 0.7 percent compared with 2005, has helped the growth of household incomes. However, the extremely encouraging growth of private consumption spending was also flattered to an extent as shoppers brought forward major purchases to beat the deadline for the value-added tax increase scheduled for January 1, 2007.

Although the higher tax revenues that flow from the economic upturn are relieving some of the strain on the public finances, the persistent public-sector deficits are a continuing brake on economic circulation that is still restricting the fiscal scope to create the reformed, future-capable social insurance systems that the country urgently needs.

2. Wider developments in the banking and financial services industry

Intense competition was once again the outstanding feature of the banking sector in 2006. The penetration of the domestic market by foreign credit institutions has presented the German financial services industry with major challenges and reinforced the already severe competition in the traditional banking business lines.

This has led the financial services industry to focus even more closely on strengthening its defined core competencies. It has also emphasised initiatives to increase customer loyalty and acquire new customers as well as to intensify cross-selling activity. The strengthening of the forces driving the upswing of the economy and the overall encouraging trend of capital-markets-related business volumes over the year were also sources of positive stimulus.

Net interest income has been boosted by the dynamism of the economy and resurgent credit demand; however, fierce competition means the pressure on margins has remained severe.

The resurgence of demand for institutional and corporate products in the first quarter of 2006 and the resulting boost to net commission income and trading results were followed by sharp corrections of prices in the international financial markets in May and June of last year. Following the subsequent stabilisation of the capital markets environment, capital-market-oriented income flows returned to normal and then strengthened further during the second half of 2006 as the outlook for the economy became consistently brighter.

The initiatives the German banks had taken in earlier years to reduce their costs, coupled with conservative risk management policies, have kept their administrative expenses broadly stable in the year under report and reduced their risk provisioning costs to a historically low level.

3. DZ BANK as a "bank for banks": financial services to meet every need

The most important task of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, (DZ BANK) and its subsidiaries is to help the local cooperative banks to succeed in the marketplace. To facilitate this, the companies of the DZ BANK Group offer Germany's local cooperative banks a comprehensive spectrum of products and services. The combination of the central services provided by the cooperative-sector-owned specialist companies with the local expertise of the cooperative banks is one of the network's key success factors. The number one principle and priority – as ever – is to observe subsidiarity: the cooperative financial services network only provides those services centrally that cannot be provided locally or which it would be inefficient to provide locally.

During 2006 the DZ BANK Group has once again continued to extend, tailor and refine its product and service offering in close consultation with the primary banks – focusing on the three fields of activity Allfinanz products, institutional and corporate products and processing services. Our motto "Achieving More Together" is now engraved on the heart of the DZ BANK Group and runs in the blood of the entire cooperative financial services network, since all now know that close cooperation and collaborative task-sharing are the key to success for all the partners in the process. The starting pistol has also been fired for a systematic process to continuously develop strategic priorities for the DZ BANK Group and its individual business segments. The aim is to develop the DZ BANK Group's existing strengths in a focused manner for the benefit of its customers and shareholders. This means further expanding and securing the group's strong position in Germany, but also systematically tapping into further international growth potential based on the strengths of its intra-network business.

At the centre: Germany's local cooperative banks
The main focus of the DZ BANK Group's various activities is to assist the local cooperative banks and the cooperative financial services network as a whole to be successful in the marketplace. This means firstly the local cooperative banks' interface with their own personal customers and small and medium-size enterprise (SME) customers. The DZ BANK Group supports their presence in this market with a comprehensive assortment of attractive Allfinanz products with high recognition profiles and strong brand names, together with appropriate distribution strategies. The second priority area is assisting the local cooperative banks to manage their assets and liabilities balancing by using their central bank's capital markets expertise: DZ BANK acts as its local bank partners' "gateway to the national and international capital market". The third key activity area is processing services – which can mean payments handling or securities, loans or cards administration. These services are subject to economies of scale. The strength of the DZ BANK Group and the benefits it brings to the local cooperative banks build on these three pillars: Allfinanz products, institutional and corporate products and processing services.

The DZ BANK Group's offering is closely tailored to the needs of the local cooperative banks and their customers: both products and their marketing strategies are developed in the closest consultation with the primary banks. Their services spectrum also makes the companies of the DZ BANK Group attractive business partners for banks and institutional and corporate clients beyond the cooperative financial services network. The DZ BANK Group already generates a substantial proportion of its income from business partners outside the German cooperative financial services network. However, the DZ BANK Group only markets its Allfinanz offering beyond the cooperative network in Germany where this does not compete with the local cooperative banks' own market positioning. This risk does not arise outside Germany, and one of the key roles the DZ BANK Group performs for the network as a whole is to identify and develop growth and earnings potentials outside of the cooperative financial services network – and specifically beyond Germany – for the benefit of all in the sector. This essentially means business with institutional customers, an area that has expanded substantially in 2006 – especially abroad. Substantial progress was also made last year in the area of direct business with large corporate customers – for instance, in structured finance.

DZ BANK's international operations are backed up by numerous principal investments in other countries of Europe. Most importantly, during 2006 DZ BANK increased its equity interests in NATIXIS S.A., Paris, the investment bank jointly owned by the French cooperative and savings banks sectors, as well as Österreichische Volksbanken-AG, Vienna, (ÖVAG), and its East European network, in order to increase its exposure to these regions' growth potential. One long-standing relationship has been strengthened by taking a stake in the North Italian cooperative central bank Cassa Centrale Casse Rurali Trentine – BCC Nord Est, Trento/Italy.

The DZ BANK Group's extra-network activities benefit the local cooperative banks in many ways: firstly, centrally-provided services and products can be offered more cheaply to a wider customer base. Secondly, non-network customers suggest numerous product and process innovations whose advantages the local cooperative banks also enjoy. Additionally, the group's non-network business generates extra earnings that permit bigger distributions to the DZ BANK Group's shareholders and help to further diversify the group's revenue streams. The DZ BANK Group's internationalisation strategy is both sensitive and flexible; it builds on the spectrum of services developed for the local cooperative banks and is therefore a logical extension of DZ BANK's successful domestic market positioning.

The first pillar of DZ BANK's business model: Allfinanz products for personal and SME business customers

The cooperative financial services network is one of Germany's market-leading providers of many Allfinanz services such as retirement pensions, asset management, home savings and mortgage credit, insurance and consumer credit. This success is based on the network's structure of role-sharing, which is decades-old in some cases: their closeness to the market means the local cooperative banks know everything there is to know about their customers' needs and the local competition situation. They inject this knowledge into the network companies' product development process at a very early stage. The network's specialist service providers meanwhile have built powerful brands in their respective business lines. These brands constitute a key success factor in the financial services market and – when combined with top product quality and good service – they promote customer loyalty and facilitate cross selling.

We can cite numerous examples: in the 75th year of its existence, Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, (BSH), has just expanded its share of the German market to over 28 percent and seized the number one spot in the buildings societies ranking. This is due not least to the impressively high profile of its brand and the quality of its products. BSH has also achieved a strong market position in several Eastern European states. Union Asset Management Holding AG, Frankfurt am Main, (Union Asset Management Holding), which celebrated its 50th anniversary last year, is the cooperative financial services network's centre of expertise in asset management and has played a decisive role in building the network's strong competitive position in this business line. UMH is the market-leading distributor of funds-based Riester pension products. R+V Versicherung AG, Wiesbaden, (R+V), successfully markets tailor-made insurance solutions of every conceivable variety to private individuals and businesses; important additions to its range during 2006 were a new Riester pension designed for members of local cooperative banks and an innovative equities-based annuity insurance product.

In the "certificates" business line, the launch of a dedicated white-label "AKZENT Invest" brand in May 2006 fired the starting pistol for an even more aggressive approach to this market. Every local cooperative bank now has the opportunity to exploit the high profile of the central AKZENT Invest brand and simultaneously increase direct customer loyalty: the title of the resulting investment product, now marketed by more than 1,100 local cooperative banks, includes both the bank name and the AKZENT Invest brand name.

The exceptional recognition factor of the cooperative "easy-Credit" brand is an important value driver in the consumer credit business. This was why the brand name was deliberately excluded from the transaction when the group sold the noris-bank branch network in November 2006, and retained by the DZ BANK Group for subsequent assignment to TeamBank AG Nürnberg, Nuremberg, (TeamBank), the new name since January 2007. More than € 60 million of the proceeds from this sale has been reserved to fund the local cooperative banks' own marketing initiatives in the consumer credit arena – an example of the especially close meshing of the cooperative financial services network's distribution activity. The roll-out of the new "easyCredit Shops" that began in October will also attract new customers to the cooperative financial services network as a whole; many more openings are planned during the current year.

A host of product innovations have allowed the winning combination of the DZ BANK Group and the local cooperative banks to acquire new customers and increase the loyalty of existing customers. Under the umbrella of the "Financial Services Partners with the Cooperative Financial Services Network" project for instance, attractive investment solutions have been developed for the deposit-taking business line that are successfully countering the competition from direct banks. Other significant examples include "VR-EigenVorsorgeReport" which helps advisers guide customers to the right pension products, and a card services product campaign that will be outlined in more detail later. A new retail offering is being trialled in the property finance business line with selected local cooperative banks under the working title "immo express".

During 2006 DZ BANK has also intensified its efforts to increase the local cooperative banks' market shares and profitability in business banking. The "Corporate Customers Marketing Campaign" has generated several successful initiatives to help new customer acquisition and improve the local cooperative banks' servicing of their existing small and mid-sized corporate customers base. These are systematically strengthening the network's market position in the syndicated, agribusiness and development credit fields as well as interest rate and exchange-rate management, and successfully realising cross-selling potential.

Within all this effort however, the customer relationship remains the sole responsibility of the local cooperative banks. DZ BANK's role is to support local cooperative banks' business banking operations – where necessary, acting jointly with other corporate customers specialists such as VR-LEASING AG, Eschborn, (VR-LEASING), DZ Equity Partner GmbH, Frankfurt am Main, (DZ Equity Partner), or R+V in the occupational pensions space. As a result of the network-wide "Corporate Customers Sales Campaign", sales personnel from the local cooperative banks' business banking units have been systematically trained and equipped to prioritise their marketing of capital-market-related products and services. In the area of lending operations, radical initiatives were put in train back in 2005 to standardise rating procedures and administration processes and thereby create the necessary foundation for the speedy, but still thorough evaluation of credit risks. Through this effort, DZ BANK has also continued in 2006 to play a major role in raising the profile of the local cooperative banks as the natural partner of business.

In its role as a "bank for banks" DZ BANK also sees significant growth and cross-selling potential in retail personal and business banking at the European level. In October 2006 DZ BANK acquired an equity stake of 25 percent (plus one share) in the Italian cooperative central bank Cassa Centrale Casse Rurali Trentine – BCC Nord Est. The aim of this commitment is to extend the long-standing successful partnership with this wholesale bank's more than 100 affiliated local cooperative banks in North-East Italy (which has focused primarily on the distribution of fund products) initially to consumer finance and business banking. This strategic cooperation will further expand the sales of the DZ BANK Group companies' retail products in an economically attractive region of Europe and simultaneously strengthen the market position of Cassa Centrale Casse Rurali Trentine – BCC Nord Est and its affiliated local cooperative banks. The provision of support services to the cooperative banking group's internationally active wealthy private customers has also been improved by the establishment of a merchant banking unit in Singapore in Autumn 2006 as a joint venture between DZ BANK International S.A., Luxembourg-Strassen, (DZI), and DZ PRIVATBANK (Schweiz) AG, Zurich, (DZ Privatbank Schweiz).

The second pillar of DZ BANK's business model: Institutional and corporate products

DZ BANK is the local cooperative banks' gateway to the capital markets and the network's centre of expertise for a wide range of capital market services such as (intra-network) asset securitisations and derivatives operations. The exceptional quality of DZ BANK's performance was again confirmed by the award of numerous prizes and distinctions during 2006, in particular the second place the bank won in the derivatives ranking compiled by "Deutsches Risk" magazine, when DZ BANK prevailed over numerous German and international rivals.

DZ BANK assists the local cooperative banks to issue their own individually featured structured bearer bonds, and the aggregate volume of these issues increased significantly in 2006. It was again appointed to co-lead-manage major bond issues that it was able to place successfully, including on occasions through syndicates of other European cooperative central banks. In an environment of low interest rates and a flat yield curve, DZ BANK concentrated its efforts on the one hand on developing innovative investment products (such as rate-spread or rate-corridor bonds) aimed at retail and own-account investors, and on the other hand on offering securitised and structured investment instruments aimed at the corporate clientele. DZ BANK has further expanded its "VR Cross-Selling" branded business model that gives corporate customers easier access to interest-rate and exchange-rate risk management products most importantly.

DZ BANK also assists the local cooperative banks in diversifying their credit risk. VR-Circle is a platform that makes it possible for them – however large or small the bank – to transfer credit risks without affecting their immediate relationship with their borrower customers. After the success of the third deal issued in November 2006, there is every prospect that the volume securitised via VR-Circle will rise again in 2007.

One of the foundations on which DZ BANK's success in capital investment products is built, is exceptional securities research, and independent institutions have recognised this excellence through repeated distinctions again in 2006. The research and capital markets expertise and the structuring know-how that DZ BANK makes available to the local cooperative banks is also eagerly sought after by non-network customers. They are also attracted by the (unique in Germany) placing power of DZ BANK and the German local cooperative banks as well as DZ BANK's specific issuing rights. This constellation offers the DZ BANK Group interesting growth opportunities in servicing institutional and corporate customers. As a result, DZ BANK was able to maintain its leadership position in the placing of pfandbriefe and "European covered bonds" again in 2006. In Singapore, DZ BANK was awarded the "Deal Award 2006" prize.

To ensure its ability to provide the range of services required by the local cooperative banks and its institutional clients, DZ BANK maintains bases in all the major capital markets. To build on its many years of close business relations with partners in Turkey, and especially in the areas of structured finance and capital markets operations, DZ BANK opened a new representative office in Istanbul in May 2006. DZ BANK's annual Emerging Markets Conference, held in Moscow in April 2006, is an important stimulus for DZ BANK's bond-related business in these markets.

The third pillar of DZ BANK's business model: Processing services

The DZ BANK Group's objective in transaction banking is also to offer the local cooperative banks high-quality services at advantageous conditions. As bulk processing permits substantial unit cost degression through the application of technology, the DZ BANK Group was an early mover in opening up its processing platforms to customers from outside the cooperative financial services network, and has thereby been able to generate further economies of scale for the local cooperative banks.

The cooperative financial services network's high share of the domestic market provides DZ BANK with a good starting position that it has systematically and successfully expanded in recent years. The DZ BANK Group is the German market leader in financial services processing, and has now assumed the role of active consolidator at the European level as well as in some areas of the transaction banking market. This course has been resolutely maintained during 2006.

Transaktionsinstitut für Zahlungsverkehrsdienstleistungen AG, Frankfurt am Main, (Transaktionsinstitut), which was born in 2003 from a division of DZ BANK, was merged in September 2006 with the Dutch payment services provider Equens Nederland B.V. (formerly Interpay Nederland B.V.), Utrecht, under the umbrella of a joint holding company Equens N.V., Utrecht, to create the first pan-European payments processor. The new entity provides payment handling services in Germany, the Netherlands and Belgium. It is also provisionally scheduled to take over the international payments traffic of Finland's OP Bank Group, Helsinki, from the second quarter of 2007. Equens is one of the European market leaders. Its offer to handle bulk payments processing in Germany and within the Single Euro Payments Area (SEPA) is open to other banks.

Deutsche WertpapierService Bank AG, Frankfurt am Main, (dwpbank), a joint venture with Germany's savings banks sector, also expanded its client base in October 2006, firstly by taking on mandates from savings banks in North Germany, secondly by signing an agreement in principle to cooperate with TxB transactionsbank GmbH, München. VR Kreditwerk Hamburg - Schwäbisch Hall AG, Hamburg and Schwäbisch Hall, (VR Kreditwerk), which as Germany's biggest loans processing "factory" has already realised cost benefits for the group's building society and mortgage banking operations, has also increased its appeal to customers from beyond the cooperative sector by taking over the former Aareal Hypotheken Management GmbH, Mannheim, in January 2006. Further efficiency gains on the home loans processing front are also promised by the signing of a cooperation agreement with the cooperative computing centres in March 2006. With effect from the start of 2007, Kreditwerk has also taken over the processing of the cooperative financial services network's development credit business from DZ BANK.

Local dialogue and inter-segment coordination

The foundation of all DZ BANK's business and strategic thinking is its commitment to strict subsidiarity, in other words it is determined to operate in its central-institution role in a way that respects and supports the primary banks' market presence and to cultivate an intensive and permanent exchange of views with the local cooperative banks. Banking Advisory Councils covering the Baden-Württemberg, Bavaria, Central and North-East Germany regions provide an opportunity for 40 board members from the local cooperative banks in each area to provide advice and act as communications multipliers. Our 2006 Autumn conferences, along with other events and most importantly the numerous bilateral meetings with boards of managing directors, have again provided important opportunities to generate ideas for improving the DZ BANK Group's products and services offering and for increasing the market effectiveness of the cooperative financial services network.

The operational direction of the DZ BANK Group across business segments is the task of the Group Coordination Circle. Its membership comprises the entire Board of Managing Directors of DZ BANK, plus the Chairmen of the Board of Managing Directors of R+V, Union Asset Management Holding, Bausparkasse Schwäbisch Hall, Deutsche Genossenschafts-Hypothekenbank AG, Hamburg, (DG HYP), TeamBank and VR-LEASING. Their collaboration promotes integrated management and efficient processes across the DZ BANK Group.

A member of the Board of Managing Directors from the DZ BANK Group heads up each of the group's seven business segments in the capacity of business segment coordinator. Each coordinator is supported in turn by a local bank advisory council consisting of five or six local cooperative bank board members. Focus initiatives are defined and implemented in close consultation with these specialist advisory councils that are intended to strengthen the cooperative network's market position. In addition to the previously mentioned initiatives aimed at the local cooperative banks retail customers – "Financial services partners with the cooperative financial services network" and "Growing the retail property finance volumes" – 2006 has also brought good progress on the other initiatives launched during 2005, such as the "Building on corporate customers business in the cooperative financial services network" initiative. The portfolio of group-wide focus initiatives was extended in 2006 with the addition of a new theme – "Capital Management/Securitisation".

In addition to the business-segment-specific committees, five cross-segment working parties are also in place that focus on
- International Coordination,
- Product and Sales Coordination,
- IT, Operations and Resources,
- Risk Management, and
- Corporate and Group Management.

They have continued to provide effective help to the Group Coordination Circle in implementing operating and strategic improvements across the DZ BANK Group in 2006.

"The better our network, the better our rating"

During 2006 DZ BANK successfully placed a rights issue that raised € 455 million of fresh capital. This capital increase is a significant demonstration of the solidarity and cohesion of the cooperative financial services network. It has significantly strengthened DZ BANK's capitalisation, whose structural quality previously left something to be desired compared with sector peers. As at the end of 2006, the DZ BANK Group's core capital ratio stood at 8.6 percent on the Bank for International Settlements, Basel, (BIS), definition.

The progress made during the 2006 year under report was recognised by another rating upgrade from the Standard & Poor's (S&P) agency: having raised the outlook for its long-term rating of DZ BANK from "stable" to "positive" in August 2006, S&P followed up in December 2006 by announcing a one-notch upgrade of the long-term ratings to the present "A+" – the second uplift in just 18 months. This rating level leaves DZ BANK and the cooperative financial services network in a leadership position in Germany, and at the high end of the middle range compared with other European financial institutions.

This relatively positive rating is a reflection of the exceptional cohesion of the German cooperative financial services network. It rests essentially on the financial strength of the cooperative financial services network and the DZ BANK Group, the network's broad Allfinanz offering and its powerful market position in the domestic retail segment. S&P's analysts also acknowledged that both the DZ BANK Group and the cooperative financial services network have continuously reduced the risk component of their credit operations over recent years and are now satisfactorily capitalised (not least thanks to the capital increase).

In the wake of the latest upgrade of DZ BANK by Standard & Poor's, other group companies have also seen their ratings improve to "A+", most significantly DZI, DZ BANK Ireland plc., Dublin, (DZ BANK Ireland), BSH and DG HYP. The long-term ratings of DVB Bank AG, Frankfurt am Main, (DVB), and VR-LEASING have also gone up by one notch to "A".

4. Earnings performance

The key income statement measures for the DZ BANK Group and DZ BANK evolved as follows in fiscal 2006:

Total operating income amounted for the DZ BANK Group to € 4,535 million (2005: € 4,311 million) and for DZ BANK to € 1,413 million (2005: € 1,490 million).

General administrative expenses increased by € 278 million at the DZ BANK Group to € -2,685 million; excluding the one-time extra endowment of the provisions for pensions and similar obligations (€ -193 million) following the lowering of the discounting rate from 6.0 percent to 4.5 percent, the change was +3.5 percent. DZ BANK's administrative expenses increased by € 125 million to € -921 million; similarly excluding the effect of reducing the discounting rate in the year under report from 6.0 percent to 4.5 percent and the resulting exceptional charge of € -97 million, DZ BANK's administrative expenses also increased by +3.5 percent compared with 2005.

The **cost-income ratio** for the DZ BANK Group was 54.8 percent (2005: 55.8 percent) while the equivalent figure for DZ BANK was 58.3 percent (2005: 53.4 percent). The additional costs incurred under the Provisions for pensions and similar obligations heading during 2006 as a result of the reduction of the discounting rate from 6.0 percent to 4.5 percent during the year under report have not been included in the calculation of either the DZ BANK Group's or DZ BANK's cost-income ratio for the year just ended.

Summary income statement

	DZ BANK Group			DZ BANK		
	2006	2005	Change	2006	2005	Change
	in € million	in € million	in %	in € million	in € million	in %
Net interest income [1]	2,412	2,361	2.2	758	817	-7.2
Net commission income	1,014	1,028	-1.4	269	292	-7.9
Net trading result	394	375	5.1	375	358	4.7
Net income from insurance operations	175	206	-15.0	–	–	–
Personnel expenses	-1,492	-1,222	22.1	-576	-445	29.4
Other administrative expenses [2]	-1,193	-1,185	0.7	-345	-351	-1.7
General administrative expenses	-2,685	-2,407	11.5	-921	-796	15.7
Balance of other operating income/expense	540	341	58.4	11	23	-52.2
Operating result before risk provisions	1,850	1,904	-2.8	492	694	-29.1
Risk provisions	-380	-423	-10.2	-61	-130	-53.1
Operating result after risk provisions	1,470	1,481	-0.7	431	564	-23.6
Balance of other income/expense [3]	-112	-287	-61.0	-251	-335	-25.1
Result before taxes	1,358	1,194	13.7	180	229	-21.4
Taxes	43	-560	>100.0	348	-9	>100.0
Result after taxes	1,401	634	>100.0	528	220	>100.0

[1] Includes current income, income from profit sharing agreements
[2] Other administrative expenses plus depreciation and valuation allowances on tangible and intangible assets
[3] Result of financial investments, extraordinary income/expenses (including for group: taxes on extraordinary result) and other items

The DZ BANK Group's **risk provisioning** amounted to € -380 million, compared with the prior-year € -423 million. DZ BANK was able to reduce its risk provisioning by € 69 million to € -61 million.

The **operating result after risk provisions** amounted for the DZ BANK Group to € 1,470 million (2005: € 1,481 million) and for DZ BANK to € 431 million (2005: € 564 million). Excluding the effect on the Provisions for pensions and similar obligations heading of the reduction of the discounting rate from 6.0 percent to 4.5 percent during the year, the DZ BANK Group's operating result after risk provisions increased by € 192 million or 13.0 percent; DZ BANK's moderated by € 36 million or 6.4 percent.

DZ BANK's Annual General Meeting will be asked to approve the distribution of an increased **dividend** (by € 0.03) of € 0.13 per share.

The detailed breakdown of the fiscal 2006 results for the DZ BANK Group and DZ BANK is as follows:

The **net interest income** of the DZ BANK Group increased by 2.2 percent compared with 2005 to € 2,412 million.

The interest surplus for DZ BANK alone was € 758 million; this was 7.2 percent less than in 2005. DZ BANK's net interest income would have decreased by 29.2 percent year-on-year if shares of affiliates were excluded, primarily due to higher funding costs after the intervening rise in the general interest rates level and to the delayed effects of large prepayment penalties in earlier years.

Interest income from the credit and money market operations made a significant contribution to the overall interest result. The improved business climate in Germany and the concomitant upturn of corporate investment activity generated increased demand for credit products. DZ BANK was able to position itself as an innovative and stable partner in a fiercely competitive corporate-finance environment characterised by continuing consolidation pressure. The year under report has seen DZ BANK continue to raise its profile as a trustworthy and reliable banking partner and win numerous new customers that appreciate its concept of combining sector expertise with ongoing customer relationship management and support from "under one roof". Cooperation with group specialist service providers and international branches was further intensified last year and helped to keep business on a positive trend.

Having successfully extended its product offering in recent years, DZ BANK was able once again last year to expand its market position in acquisition finance. DZ BANK increased the number of acquisition finance mandates won during 2006, and at the same time was able to attract some prestigious new clients. DZ BANK played a leadership role in several transactions as "mandated lead arranger" or "underwriter".

In the export finance product area, the sustained upturn of exporting activity has enabled DZ BANK to entrench its position as one of Germany's top export finance providers. This was especially true of export finance provided on the back-to-back or countertrade basis where DZ BANK finances its customers' exports in return for deliveries of highly saleable commodities. The establishment of an export finance team in Singapore has substantially boosted DZ BANK's activity in the fast-growing South-East Asian market that is crucial to the German economy.

On the project finance side, last year's new business was primarily concentrated in North America and Asia. The main sectoral focuses were energy supply and exploration, mining and infrastructure, and the high proportion of prominent financing projects was once again a notable feature.

The income from participations (shares of affiliates) reported for DZ BANK increased by 21.5 percent compared with 2005 to € 430 million, mainly as a result of higher distributions by BSH and DZI; there is naturally an interest expense component on the capital tied up in participations and shares in related companies. The DZ BANK Group's income from participations increased to € 136 million.

BSH was able to increase its net interest income again last year. The reported 3.0 percent growth was based on focused financial management combined with a new-business-driven volume effect.

DG HYP's 2006 net interest income was slightly improved (+0.6 percent) over the preceding year.

The trading performance of the private property finance operations was characterised by more intense competition from direct banks and internet players especially. DG HYP responded by developing strategic initiatives aimed at further strengthening the cooperative financial services network's market position in this business line. These include the standardised beacon product "immo express" as well as innovative special products designed specifically to strengthen the loyalty of the local cooperative banks' customers in the crucial "anchor" business of home finance.

In Spring 2006 DG HYP also restructured its distribution organisation inside the cooperative financial services network and combined several channels into a new sales unit. It now offers the local cooperative banks all-round advice and support from one source. This starts from fundamental strategic consultancy on the property finance business line, and covers DG HYP's entire services offering from forms of private and commercial property financing through local authority lending to property loans portfolio management.

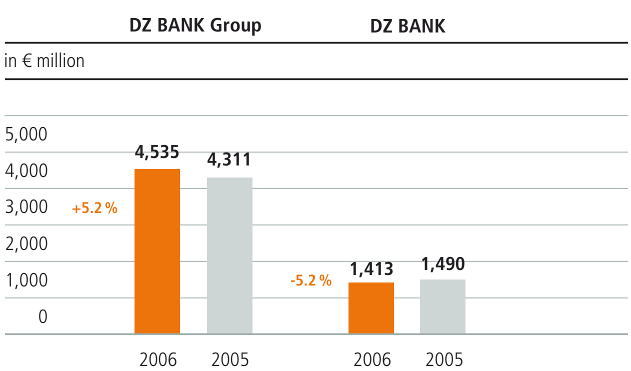
While the aggregate volume of DG HYP's new and extension private mortgage finance business was 11.3 percent lower compared with 2005, the volume of its commercial property lending was 7.9 percent higher in the year under report. Alongside DG HYP's positioning in Germany's established business centres of Hamburg, Berlin, Frankfurt, Düsseldorf, Stuttgart and Munich, its international operations were also a substantial contributory factor in the positive trend of the commercial property finance business.

In the local authority loans origination business, new and extension business ended the year higher again by 3.3 percent. This performance confirms DG HYP's market leadership in tandem with the cooperative financial services network and underscores its close working relations with the country's approx. 1,250 local cooperative banks.

In the credit treasury business line where DG HYP has bundled its active portfolio management transactions and services, the volume of credit and capital market transactions increased again last year. Following the successful sale of a portfolio of non-performing private mortgage loans at the end of 2005, the group's mortgage bank confirmed its important role in managing the risk inherent in property loan portfolios by completing the true-sale disposal during the first quarter of 2006 of a portfolio of non-strategy-compliant commercial property loans with a combined volume of € 422 million.

An attractive growth market is also opening up for DG HYP in the provision of services covering every aspect of the administration and outplacement of non-performing loans on behalf of third parties, and specifically for the cooperative financial services network. DG HYP's 100-percent-owned specialist subsidiary in this area, IMMOFORI Gesellschaft für Immobilien Forderungsinkasso mbH, Hamburg, has already started to serve more than 30 local cooperative banks in the last year by standardising the selling of their terminated loans.

Gross operating income



In the dynamically expanding market for consumer credit, the strength of demand last year has again increased TeamBank's net interest income substantially by +12.2 percent compared with 2005 (including ten months of interest income from the since-sold branches).

TeamBank has made further progress in the year under report with making itself an integral part of the cooperative financial services network: as at December 31, 2006 no less than 894 of the around 1,250 local cooperative banks were already partnering TeamBank in marketing easyCredit. The former norisbank has also reinforced its role as the cooperative financial services network's consumer credit specialist with the sale of its branch network to Deutsche Bank AG, Frankfurt am Main, on November 2, 2006. The sale involved not only the physical premises, but existing norisbank customer relationships and the rights to the norisbank name. Most of the workforce has stayed with TeamBank. The most important assets excluded from the sale were the easyCredit brand and the partner banks' existing business. This change strategically profiles TeamBank clearly as a subsidiary network company.

In order to win new market share with its partners in the cooperative financial services network even though competition is stiffening in the instalment credit market, between July 2005 and Spring 2006 TeamBank proactively piloted what it called easyCredit Shops with selected partner banks in twelve locations. Even during this market testing phase, these partner banks were able to increase their new business by around 30 percent, and around 70 percent of the new customers the "shops in shops" were able to introduce to their local bank partners had been attracted from the big commercial banks or municipal savings banks. So the easyCredit experts were a help to the local cooperative banks.

Between the end of the pilot phase and the end of the financial year, the number of easyCredit Shops installed in local banks in the major population centres rose to 38. TeamBank's branch-based staff are also ready to put their sales and consultancy expertise at their hosts' disposal to help with other market development tasks.

It is intended to strengthen the local market position both of the cooperative primary banks and the cooperative financial services network as a whole by opening a large number of further easyCredit Shops during 2007. The easyCredit experts will also step up the on-site support they provide to local cooperative banks.

Despite the persistently difficult capital market situation, DZI increased its net interest income by 4.7 percent compared with 2005. The bank makes the most of Luxembourg's locational advantages for the benefit of the cooperative financial services network and its private and institutional customers. Its activities focus on four business lines – private banking, investment funds, lending and treasury operations.

One of the bank's functions is to be the DZ BANK Group's centre of expertise in the areas of foreign-currency financing and investment as well as fund management and wealth management. Its foreign-currency lending business LuxCredit, whose role is to help fund the local cooperative banks and also cover their guaranteed loans, has delivered significant added-value in both areas of operation. Its Swiss-franc financing capability in particular has added a positive exchange-rate trend (from the borrowers' point of view) on top of the benefits of lower interest rates. The result is that the attractions of LuxCredit financing have gained acceptance in local cooperative bank circles.

The net interest income of the DVB subgroup has increased by a substantial 28.9 percent. This outcome was helped especially by the continuing strongly positive trend of the international transport finance market on the back of the generally robust global economy.

Growing customer demand (new business has increased by 25.5 percent year-on-year to € 5.9 billion) coupled with generous margins lie behind this impressive growth, especially in the shipping and aviation segments of the international transport finance market. On the shipping finance side, the container boxes unit was especially profitable again. A decision was taken in Autumn 2006 to withdraw from the transport infrastructure business. The reason is that although the portfolio was growing and this business has always contributed positive top-line growth, the size of the projects in this segment means that DVB has been unable to position itself as a leading player on the global stage. Another source of growth last year was the new corporate-finance services offered by the group investment management division.

The award to DVB last year of the distinction "European Rail Deal of the Year 2006" underscores the bank's important market position in international transport finance. The bank's shipping research unit was also honoured for the third year in succession by "Lloyd's Shipping Economist" with the title of "The Best Shipping Finance Research for 2006".

Net commission income decreased at the group level by 1.4 percent to € 1,014 million. This reflects the deconsolidation of the former Transaktionsinstitut für Zahlungsverkehrsdienstleistungen AG to facilitate this previously consolidated DZ BANK subsidiary's merger with the Dutch payments processor Equens Nederland B.V. (formerly Interpay Nederland B.V.) under the umbrella of the joint-venture holding company Equens N.V.. If this exceptional effect is excluded, net commission income was 3.0 percent higher last year.

The securities processing business segment was able to significantly increase its contribution to the group's commissions surplus compared with 2005. While the revenue contribution of the payments processing segment to the group was down compared with 2005, the credit segment again contributed higher net commission income to the group than in 2005, while the international segment matched its 2005 outcome.

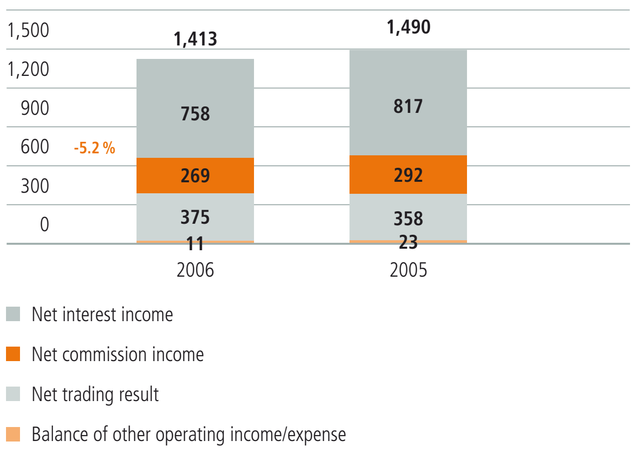
DZ BANK's net commission income decreased by 7.9 percent to € 269 million.

The credit segment's net commission income contribution showed a marked improvement over 2005. On the other hand, commissions from payments processing were down. The securities segment's commissions surplus failed to match the strong 2005 outcome. The international segment recorded modest growth compared with 2005.

After the recent years' falling financial markets, the renewed slide of the stock exchange indices in the middle of 2006 made investors exceptionally safety-conscious again. As a result, the substantial growth of equity transaction volumes in the first half of the year was replaced by a sharply falling trend in the second half. Rising interest rates caused customers to tend to prefer single and multi-callable bonds and simple structured products that generated lower commissions. Last year also saw extremely lively demand for low-interest bonds, such as DZ BANK's innovative COBOLD Plus bond, that offer tax advantages.

Gross operating income of DZ BANK

in € million



In the light of the importance the local cooperative banks attach to their on-balance-sheet investments, the cooperative financial services network was unable to repeat the record sales recorded in 2005 from placings of structured retail securities products. As still one of the biggest players in the important market for derivatives, structured securities and certificates, DZ BANK sees itself as especially obligated to fulfill its investors' expectations with regard to quality and transparency.

During 2005 DZ BANK became the first financial institution in Germany to have its quality management system certified according to the ISO 9001 standard by TÜV SÜD. The certification applies to the bank's certificates and structured investment products development process. This certificate was renewed in 2006 after a follow-up audit. The report confirmed that DZ BANK operates a smoothly functioning, effective and high-grade quality management system.

The quality strategy that DZ BANK has assiduously pursued in the last several years has also been validated by awards of numerous prestigious prizes and distinctions. DZ BANK's large range of attractive capital-guaranteed certificates – the biggest sellers in 2006 were the MaxiRend and Bonus TRACKER products, while the launch of the compelling AKZENT Invest label was another success – was acknowledged to be the strongest factor that persuaded the expert jury to rank DZ BANK – on behalf of the cooperative financial services network – in first place again in 2006 – for the fourth year in a row – in the public poll for the title of "Zertifikatehaus des Jahres" organised by "Zertifikate-Journal", "Die Welt" and "Welt am Sonntag". DZ BANK was also ranked third in the category "Bester Emittent Kapitalschutz-Zertifikate 2006". The business magazine "Focus Money" awarded DZ BANK – representing the cooperative financial services network as a whole – its 2006 Certificates Prize for the "Garantiezertifikate" category.

DZ BANK has further diversified and expanded its international portfolio of non-tied financing loans in the year under report. In product terms, syndicated loans were easily the dominant format. DZ BANK's acknowledged structuring and placing expertise and the successful strengthening of its global loan syndication units have broadened the revenue base and generated extra commission streams.

For the bank's asset securitisation group that operates out of New York and covers the NAFTA countries, 2006 was a year of consolidation as it focused on developing new initiatives based on its proven business model, which is to offer the full range of structured finance products while emphasising securitisations of unconventional assets. The unit has developed specialist know-how in this segment over the years that allows it to offer attractive financing alternatives most importantly to companies that have no previous capital market involvement.

The equity markets were generally in good shape in 2006, as the flood of IPOs during the year testifies. DZ BANK played a commensurate part in this process with a range of lead mandates. DZ BANK also co-lead-managed numerous secondary market transactions. The bank was also able to further raise its international profile in M&A advisory through its involvement in cross-border transactions.

The Union Investment Group was able to increase its net commission income by 18.6 percent last year. It should be noted that in preparation for the changeover to IFRS accounting, several items have been reclassified and moved from the Balance of other operating income/expense heading to the Net commission income heading. Adjusted for this reclassification, the rate of increase was 12.7 percent.

As in 2005, this positive trend was primarily due to the encouraging performance of the stock markets. The reported funds inflow resulted principally from the positive sales trend of value-assured funds and institutional asset management solutions.

Despite the substantial rise of the equity indices over the year compared with 2005, investors generally remained reluctant to commit to equity funds during the year under report. Apart from the hangover effect of their negative experiences of the capital markets in the years from 2000 to 2003, the short-lived correction of the equity markets in mid-2006 – after several years of a rising trend – also made investors nervous.

Given that interest rates had moved off their historic low at the end of 2005, the pension fund scene was overshadowed by the progressive rise of interest rates during 2006. The resulting price discounts also caused investors to prioritise the safety of their invested capital.

In this context, fund sales were essentially driven by solutions designed to at least reduce the capital market risk inherent in the return: apart from their continuing strong interest in capital-guaranteed funds, value-assured and tax-optimised products were at the centre of customer attention.

The Union Investment Group was quick to respond to these changes in the structure of investors' needs: funds that allow customers to combine a range of investment targets with a fixed or dynamic guarantee have been part of its product range since back in 2001. As the market leader in the value-assured funds class, Union Investment was able to take a very impressive share of the German fund sector's total new business in the year under report.

The growing public recognition of the implications of demographic change and the parlous funding situation of the state pensions funds have enabled Union Investment to make even more of its opportunities in the private pensions business line that promises so much for the future. With the aid of the local cooperative banks' nationwide distribution network, Union Investment was able to sell a total of around 600,000 new Riester pensions in 2006; as at December 31, 2006 it had around 1.06 million contracts under administration.

At the end of the year under report, Union Investment's "UniProfiRente" Riester funds product accounted for a market share of around 90 percent of all the Riester pension sales recorded to date by the Bundesverband Investment and Asset Management industry association (BVI). Remarkably, a representative survey by the market research institute TNS Infratest GmbH, Munich, shows that despite the rising sales of Riester products, around 70 percent of all those qualified for state subsidies are still not claiming their entitlement.

The Union Investment Group has also had international successes. Its Polish fund management subsidiary Union Investment Towarzystwo Funduszy Inwestycyjnych S.A., Warsaw, has been named Poland's "Best Funds Manager" for the fourth year in succession by the media. Once again, the decisive factors were its consistently above-average funds performance and the high quality of its products and service. DZ BANK's acquisition of a 25 percent stake in the capital of Cassa Centrale Casse Rurali Trentine – BCC Nord Est at the end of October 2006 is intended to further deepen the long-standing successful cooperation between the Union Investment Group and North Italy's local cooperative banks.

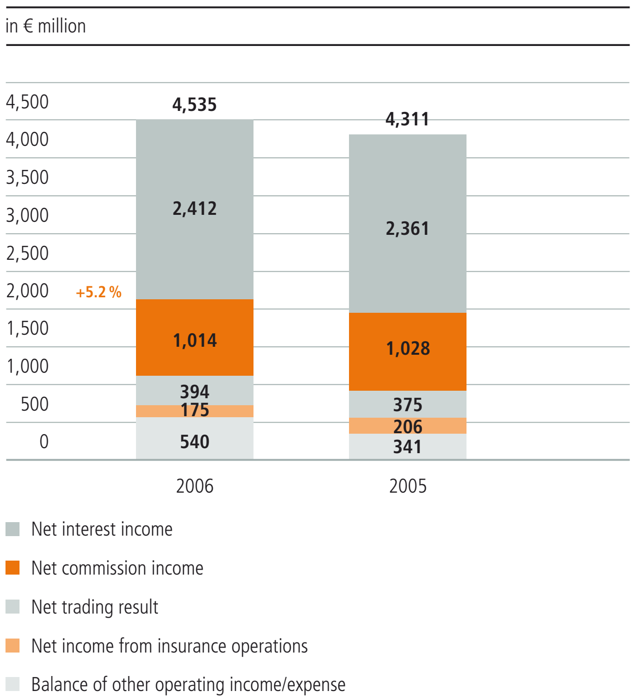
Over the last year the Union Investment Group and R+V have also continued to intensify their drive to tap into the market potential of the cooperative financial services network in the rapidly-expanding occupational pensions market through the vehicle of their joint-venture sales and consultancy company Compertis Beratungsgesellschaft für betriebliches Vorsorgemanagement mbH, Wiesbaden (compertis). compertis develops working-lifetime-account solutions that offer SME customers fund solutions to match their individual requirements profile.

Union Investment is positioning itself in the institutional customers market specifically as an asset management risk manager. Thanks to Union Investment's more than 10 years experience with the dynamic, asymmetric value-assurance concept IMMUNO, a fast-growing business line, risk-management and risk-controlling know-how and processes are an integral component of Union Investment's portfolio management offering. They provide the enterprise with a stable foundation for developing, introducing and implementing new investment strategies. With more than € 21 billion of assets now under management, the Union Investment Group is the market leader in providing these value-assurance concepts to institutional investors.

The Union Investment Group is also responding to institutional investors' needs to spread their risk by diversifying across a range of asset classes and investment styles. To this end the Union Investment Group now markets institutional funds (public funds designed specifically for institutional investors) alongside its asset management and advisory solutions. As well as encouragingly strong growth from existing accounts, these funds are also increasingly attracting large-scale, demanding mandates from the non-cooperative sector.

The Union Investment Group's joint venture company with Boston-based PanAgora Asset Management, Union PanAgora Asset Management GmbH, Frankfurt am Main, has maintained its consistent growth during the year under report and numbers many renowned institutional investors amongst its clients. In this way the Union Investment Group's specialist in quantitative investment strategies has more than doubled its assets under management in the last three years, and now looks after approximately € 10 billion in total.

Gross operating income of the DZ BANK Group



With the global economy continuing its upswing in the year under report and freight and passenger traffic increasing in every segment of the transportation industry, the DVB subgroup's net commision income has risen by an impressive 36.9 percent. Commissions earned have grown in parallel with the expansion of volumes – both loan commissions on syndicated lending new business and consultancy fees on the bank's corporate finance activity. DVB has been able to exploit its acknowledged expertise in the structuring of complex transactions – at a time of elevated demand from customers for tailor-made international transport finance solutions.

Significant commission income growth of 31.4 percent in 2006 has again left DZI substantially ahead of 2005's already strong outcome. The increase was attributable to the higher commissions earned on funds-related business, where DZI acts as a "full service provider" for Luxembourg-based funds. Its commissions on securities transactions in the area of treasury sales have also improved again. DZI has also substantially improved its revenues from the provision of services to wealthy private clients, thanks to the more favourable stock market climate as well as to intensive sales promotion efforts. DZ BANK International has also increased the number of local cooperative partner banks for its PPS Private Portfolio Strategy and augmented the volumes of PPS business acquired by the local cooperative banks. As well as PPS, DZI's add-on advisory services (such as financial and inheritance planning) supplement the local cooperative banks' own services for wealthy personal customers and allow them to establish private banking efficiently without overloading their own resources.

The net commission income of DZ PRIVATBANK Schweiz was only slightly (4.9 percent) down on the challenging 2005 outcome. DZ PRIVATBANK Schweiz has stepped up its sales effort substantially and in the process increased its assets under management perceptibly; one result is higher commissions expense compared with 2005. This extra sales effort represents another milestone along the bank's road as it improves its effectiveness in tapping the potential of the private banking market for the benefit of the cooperative financial services network. During the year under report, DZ PRIVATBANK Schweiz has continued to make its broad-based and needs-driven offering of wealth management and advisory services available to the customers and banks of the cooperative financial services network from its base in Switzerland, one of the world's leading financial centres.

TeamBank's reported net commision income was significantly down on 2005. The higher business introduction commissions paid to the local cooperative banks corresponding to the increase of their easyCredit sales have substantially boosted TeamBank's commission expense and thereby reduced the net commision income. This fall was further reinforced by the sale of the branch network to Deutsche Bank AG, Frankfurt am Main, on November 2, 2006.

Both BSH and DG HYP pay commissions to the local cooperative banks and their field sales force on the new business they sign up.

BSH's net commission expense decreased by € 40 million to € -175 million. This was due essentially to the expansion of new business, the lower commissions earned under BSH's new tariff structure, and the newly-introduced trailing commissions it pays to the local cooperative banks (€ 20 million); the total intermediary's commissions paid to the local cooperative banks on new save-to-build business have increased by 37 percent since 2002.

The intensification of its cooperation with the local cooperative banks and other network partners has allowed BSH to expand its sales output in all three of its business lines. Aggregate sales were 3.7 percent higher at € 44.8 billion.

In the save-to-build segment, BSH's new business in the year under report amounted to € 28.3 billion; this represents growth of 1.7 percent and has further entrenched its market leadership position.

In the construction finance segment, BSH's credit volume rose to € 10.6 billion; BSH acted as intermediary for the local cooperative banks in respect of no less than € 8.0 billion of this total (+1.1 percent). This demonstrates BSH's important role in construction finance as the cooperative financial services network's distribution partner.

In the other financial services segment, Schwäbisch Hall's sales force mediated substantially more pension business for the local cooperative banks, Union Investment and R+V. The combined volume of € 5.9 billion was 31.3 percent higher than the 2005 total. BSH was the benficiary of heightened public awareness of the need for private retirement provision.

BSH enjoyed particular success in its intermediation of fund products for Union Investment; it sold around 150,000 products, a growth rate of 21.9 percent. The most important positive factor was the demand for Riester funds. BSH's field sales force sold 100,000 UniProfiRente contracts and in the process more than doubled its performance.

In total Schwäbisch Hall's field sales force arranged almost 400,000 cross-selling products for local cooperative banks and group specialist service providers, 10.5 percent more than in 2005. Working closely at all times with the local cooperative banks, Schwäbisch Hall is planning to strengthen its mobile sales resource in the next few years as part of its "Primus" growth strategy in order to improve its exploitation of the available market potental on behalf of the cooperative financial services network. The main thrust of its expansion will be to extend the network's market presence into the regions where its reach is currently below-par – for instance, the major cities and conurbations – and feed new customers to the local cooperative banks in these areas. Another of BSH's strategic objectives is to further optimise its cross-selling in combination with its anchor save-to-build product; it sees this as an effective counter to the growing competition from direct and online banks and rejigged financial service providers.

Young customers especially appreciate the safety and predictability of save-to-build agreements. The option to borrow at preferential rates is gaining ground again as interest rates rise. Schwäbisch Hall's "Tarif Fuchs" product pays a low deposit rate on the savings balance, but the halving of the saver's tax allowance makes it even more attractive. Within the private pension provision regime, the save-to-build approach is becoming the key to eventual home ownership for more and more customers.

The prospects for BSH's construction finance business segment are also good. Germany's ageing housing stock, high energy costs and the additional burden of the government's new Energy Passport system are expected to boost modernisation projects. The trend towards buying pre-owned property is also accelerating. The threat of another rate hike is similarly pressing many private developers into action. The importance of private construction finance for the cooperative financial services network as a strategic customer retention product is bound to increase.

The same is true of private pension provision. As a crucial need, it offers the ideal jumping-off point for all-round financial advice. Bausparkasse Schwäbisch Hall's and the local cooperative banks' existing customer base have lots more potential yet.

DG HYP's net commission income improved by 20.3 percent last year. The expansion of its private lending business increased the cost of the commissions paid by DG HYP on business acquired by distributors, which was slightly higher than in 2005. However, this higher commissions expense was easily more than offset by its reduced issuing fees as it scaled back both its jumbo pfandbrief issuance and loan securitisation deals compared with 2005.

The **net trading result,** which at the level of the DZ BANK Group was slightly higher (+5.1 percent) than the equivalent 2005 figure of € 375 million, is essentially the product of DZ BANK's trading activities, the result from which (€ 375 million) topped even the impressive 2005 outcome by a further 4.7 percent. The keys to this extremely encouraging performance lie in the positive trend of the capital markets and the bank's stable market position that flows from DZ BANK's focus on the needs of its cooperative financial services network partners and other institutional customers.

After consolidation, the **net income from insurance operations** generated by the R+V Versicherung subgroup amounted in fiscal 2006 to € 175 million compared with € 206 million in 2005. The assignment during the year of nearly all the R+V companies' pension obligations to an independent provident fund and to R+V Pensionsfonds AG, Wiesbaden, depressed annual earnings through a one-off charge of € 48 million. The lowering of the group-wide discounting rate for calculating pension provisions from 6.0 percent to 4.5 percent caused an exceptional expense of around € 10 million in respect of the pension obligations retained within the R+V group companies. Excluding these exceptional factors, the 2006 net income from insurance operations amounted to € 233 million; this was € 27 million or 13.1 percent above the strong 2005 outcome.

The cooperative insurer recorded exceptionally encouraging revenue growth last year thanks to its close cooperation with the local cooperative banks. R+V's deep roots in the cooperative financial services network take on additional significance considering the tidal wave of radical change that is flowing over the industry – to cite just a few examples, the proposed healthcare reform in Germany, the EU's intermediaries directive and the reform of Germany's Insurance Contracts Law. At the same time as the political framework is getting more difficult, competition between insurance providers is also intensifying.

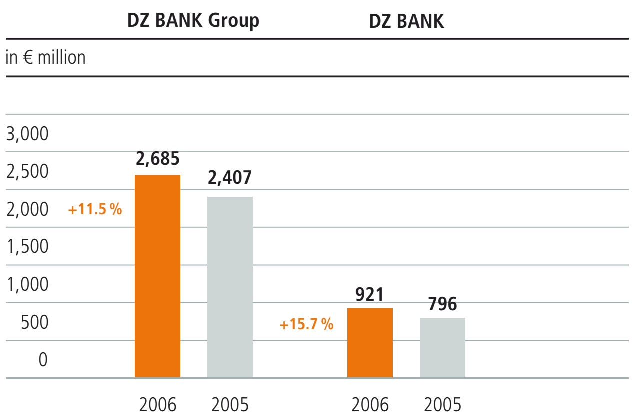
Despite this stiffer competition, R+V has managed to grow faster than the market and gain market share during fiscal 2006.

Its life and pensions insurance business expanded most importantly on the back of strong growth in funds-linked annuity products and in occupational pension provision. R+V's successful adaptation to the new product world with its focus on flexible, capital-market-oriented pension products two years after the introduction of Germany's Old Age Incomes Act (Alterseinkünftegesetz) is most clearly demonstrated by the market's positive reception of "R+V PremiumRente", its innovative equities-based pension product, and "R+V creative plus", a funds-based retirement insurance product that can be tailored to individual cooperative banks' specific needs and was designed jointly with Union Investment.

Despite perceptibly tougher price competition, especially in R+V's biggest individual business, vehicle insurance, R+V's premium income in the property and casualty insurance segment showed a much better trend than the industry as a whole. The premium income growth reported by R+V's health insurance specialist R+V Krankenversicherung AG, Wiesbaden, was the result of appreciable growth in the sales of comprehensive healthcare policies, but also of supplementary insurance products.

R+V's outstanding competitive situation, its financial strength and its risk-driven investment strategy, plus the fact that the local cooperative banks are its primary distribution channel, led Standard & Poor's to maintain its "A+" credit rating of R+V in 2006.

General administrative expenses



At the level of the DZ BANK Group, **general administrative expenses** increased by +11.5 percent compared with 2005 to € -2,685 million including the costs of the deconsolidation of Transaktionsinstitut (€ 38 million). Within this total, non-personnel expenses increased by 0.7 percent. Personnel expenses increased by 22.1 percent; however, this includes the group-wide non-recurring cost of endowing the provisions for pensions and similar obligations by an additional € -193 million due to the cut in the applicable discounting rate from 6.0 percent to 4.5 percent in the year under report. Excluding this exceptional charge, personnel expenses increased by +6.3 percent. Adjusted for this exceptional component of the personnel expense total, the group's general administrative expenses were 3.5 percent higher.

DZ BANK's general administrative expenses were 15.7 percent higher than in 2005. Its non-personnel costs moderated by -1.7 percent. The +29.4 percent headline increase in DZ BANK's personnel costs falls to +7.6 percent if the additional expense from the lowering of the pension discounting rate is excluded; this increase resulted essentially from performance-related and collectively-negotiated pay adjustments as well as the extra endowment of the pension reserves under the bank's two-stage collective agreement. In total, adjusted for the exceptional charge of € 97 million arising from the cut in the discounting rate from 6.0 percent to 4.5 percent, DZ BANK's general administrative expenses increased by +3.5 percent.

As previously, one of the DZ BANK Group's top priorities in the year under report was to concentrate its business activities and aggregate them effectively into newly defined business segments with the objective of increasing the efficiency and – by extension – strengthening the competitive position of the entire cooperative financial services network. One of the most important initiatives to this end in the year under report was the merger of the former group company Transaktionsinstitut with the Dutch payments processing specialist Equens Nederland B.V. (formerly Interpay Nederland B.V.) to create the first-ever pan-European payment services provider under the umbrella of a jointly-owned holding company Equens N.V., in which the previous partners in Transaktionsinstitut – DZ BANK and Belgium's KBC Bank NV, Brussels – will each hold 35 percent in future. The higher transaction volumes that will result from this merger are expected to deliver significant economies of scale.

Following the successful upgrading of VR-BankenPortal to an integrated information platform, the addition of WGZ-Bank AG Westdeutsche Genossenschafts-Zentralbank, Düsseldorf, (WGZ BANK), to the circle of information providers from the middle of 2006 has now made it possible for all the local cooperative banks nationwide to access the entire wealth of information provided by their central institutions and the cooperative financial services network's specialised service providers. Additional hardware and software integration initiatives are now planned for the cooperative computing centres' portals that will equip them to provide optimal process support to every local cooperative bank customer adviser in the country via their workstation.

2006 has seen significant progress on rolling out the "Workstation VAP" project, a nationwide joint initiative to provide consistent online support of the sales process for the cooperative financial services network's entire product offering. The first components are already in everyday use. As a result, advisers in the local cooperative banks can now sell R+V's insurance products or BSH's save-to-build products using a live electronic link to these specialist service providers via the computing centres – either the "agree"platform run by FIDUCIA IT AG, Karlsruhe, (FIDUCIA), or the "bank21" platform run by GAD eG, Münster, (GAD). Another important step was taken in 2006 towards integrating the entire process of advising on and selling the cooperative financial services network's entire property finance offering: the local banks' own financing modules can now be combined with the modules of BSH or other network companies and sold in the adviser's familiar IT environment.

The joint project between the two cooperative central institutions and Union Investment to establish a nationally-harmonised IT support system for securities and funds processes was implemented for the first time with the release of Union Investment's "UniProfiRente" product in FIDUCIA's catchment area via its "agree" application; "UniProfiRente" will also be ported to GAD's "bank21" application during the first half of 2007.

The DZ BANK Group has also initiated further measures during the year under report that will enhance its efficiency and improve its cost structures by concentrating IT resources. An external service provider has been maintaining R+V's PCs and printers and the standard software used by staff since 2005, and has been doing the same for Union Investment since 2006. It will also take over this task at DZ BANK from 2007.

The IT/Organisation division has been concentrating its functions to reflect the fact that most of the line divisions operate out of Frankfurt am Main, and has decided to centralise on a single location. This has resulted in the leasing of more accommodation and sales of individual properties that have helped to further reduce DZ BANK's administration budget.

The biggest element in the group's **balance of other operating income/expense** of € 540 million – apart from the net contribution of € 203 million from the sale of the former norisbank's branch network – was the leasing result of € 193 million generated by the VR-LEASING subgroup; in addition, the contribution in kind of the former Transaktionsinstitut to the holding company Equens N.V. produced deconsolidation income of € 51 million.

The VR LEASING Group's new business volume of € 4.0 billion in sales and investment finance represents an approx. +13.3 percent increase over 2005, and stemmed from both the domestic and the foreign operations. The international leasing operations signed up no less than € 1.9 billion in new business, a rate of increase of 17.7 percent. As Germany's SME sector becomes increasingly international, VR-LEASING is also accompanying them abroad and supporting its customers' foreign activity. VR-LEASING has subsidiaries and affiliates in eleven countries to cover the fast-growing markets of Central and Eastern Europe.

The VR LEASING Group's domestic new business recorded a substantial 9.7 percent rise last year as the German economy strengthened and the investment backlog from earlier years was gradually cleared. The VR LEASING Group grew fastest in plant and machinery leasing as well as vehicle leasing. As a result, the core leasing business easily beat the average growth rate for the sector of 7.8 percent.

VR FACTOREM GmbH, Eschborn, a joint venture between VR-LEASING and NATIXIS S.A., markets factoring services specifically to SME customers with annual turnover of at least € 1 million via the cooperative financial services network. This company was able to increase its generated factoring turnover by 43.6 percent to € 1.3 billion in 2006, mainly through cooperation with the local cooperative banks. Alongside factoring services, the VR LEASING Group also offers bank-supported group purchasing via its wholly-owned subsidiary VR DISKONTBANK GmbH, Eschborn.

Bank-mediated leasing volumes (i.e. with local cooperative banks acting as agents) have also increased encouragingly during the year under report, and further progress has been made on realising customer-centric administrative processes. It is now possible for local bank staff to use the "VR-LeasyOnline" online tool to calculate and complete leasing offers and contracts at the counter. By the year-end, leases to the value of € 28.8 million had been processed online, more than double the aggregate total for 2005.

The balance of DZ BANK's other operating income/expense decreased by 52.2 percent in 2006 to € 11 million. Unlike the year under report, the total reported under this heading in 2005 included the costs arising from a major property purchase. As in 2005, the corporation and municipal trade tax contributions received on the basis of tax unity relationships in the year under report have been assigned to the Taxes heading and not counted as other operating income.

The DZ BANK Group's **cost-income ratio** improved to 54.8 percent in 2006 from 55.8 percent in 2005. The same ratio for DZ BANK for the year under report was 58.3 percent (2005: 53.4 percent). The additional costs incurred under the Provisions for pensions and similar obligations heading during 2006 as a result of the reduction of the discounting rate from 6.0 percent to 4.5 percent during the year under report, have not been included in the calculation of either the DZ BANK Group's or DZ BANK's cost-income ratio for the year just ended.

The DZ BANK Group's **risk provisioning** during 2006 amounted to € -380 million, compared with the prior-year € -423 million. This was mainly due to substantially lower risk provisioning in the lending operations compared with 2005 – including the allocation to the prudential (§340f HGB) reserve. Lower net additions to individual valuation allowances were offset by higher net additions to global provisions.

The lion's share of the improvement in the group's net new risk provisioning was due to DZ BANK, which reduced its own risk provisioning by 53.1 percent compared with 2005 – including the change in the §340f HGB reserve – from € -130 million to € -61 million. DZ BANK reduced its net additions to individual loan loss provision again last year. Its net additions to global loan loss provisions rose substantially.

The credit risk strategy was reviewed as part of the annual planning process and aligned with market needs. Alongside the establishment of new management and controlling instruments, other priorities were the methodical and economic management and monitoring of the credit portfolio. This effort was also a proactive response to the more demanding quality standards imposed on loans processing under the German Banking Act (KWG), the Solvency Order and the Minimum Requirements for Risk Management (MaRisk).

New lending business, which returned to growth for the first time again in all the market segments on the pick-up of the German economy, remained subject to the existing mandatory conservative risk-limiting and profitability criteria. Additionally, 2006 saw the implementation of further improvements in the organisational and process structures of lending operations.

More in-depth information on the risk situation of DZ BANK and the DZ BANK Group can be found in the Risk Report on page 31ff. of this Management Report.

The **balance of other income/expense** for fiscal 2006 came in at € -112 million (2005: € -287 million) for the group and € -251 million (2005: € -335 million) for DZ BANK. Within these totals, the result from financial investments of € -25 million (2005: € -79 million) for the DZ BANK Group and € 0 million (2005: € -84 million) for DZ BANK includes both income from participations (shares of affiliates) and value adjustments on securities held as financial assets. The income from participations reported for 2005 includes impairment charges at the DZ BANK Group and at DZ BANK respectively of € -65 million (2006: € -4 million) relating to DVG Deutsche Vermögensverwaltungsgesellschaft mbH & Co. Objekt Cityhaus 1 KG, Frankfurt am Main. The revaluation of the shares of Transaktionsinstitut for the purposes of its injection into the holding company Equens N.V. also made a positive contribution of € 40 million to DZ BANK's income from participations. Expenses from the assumption of losses during 2006 amounted to € -23 million (2005: € -66 million) for the DZ BANK Group and € -145 million (2005: € -160 million) for DZ BANK; the 2005 figure included impairments at the DZ BANK Group and at DZ BANK, respectively, of € -62 million (2006: € -1 million) relating to DGI Immobilien-Verwaltungsgesellschaft mbH, Frankfurt am Main. DZ BANK also incurred expense of € -95 million in 2005 through the assumption of losses at VR-Immobilien GmbH, Frankfurt am Main, (VR IMMO), while the equivalent amount for the year under report was € -123 million. The DZ BANK Group's extraordinary income/expense result of € -17 million (2005: € -45 million €) – which corresponds to DZ BANK's similar balance of € -29 million (2005: € -69 million) – essentially reflects personnel restructuring expenses and expenses arising from ongoing early-retirement obligations under the social plan currently in force. The further sub-headings of this position amounted in total (including the change in the § 340g HGB reserve) to € -47 million (2005: € -97 million) for the DZ BANK Group; the equivalent total for DZ BANK represents the change in the § 340g HGB reserve and amounted to € -77 million (2005: € -22 million).

The DZ BANK Group's **result after taxes** – including tax income of € 43 million – amounted to € 1,401 million (2005: € 634 million). Including tax income of € 348 million, DZ BANK reported a result after taxes of € 528 million (2005: € 220 million). DZ BANK's positive tax position is essentially the product of DZ BANK's entitlement to a tax refund arising from corporation tax credits that a change in the tax law now requires to be capitalised at December 31, 2006 at a discounted present value of € 225 million and shown in the income statement. The DZ BANK Group's equivalent tax entitlement amounted at December 31, 2006 to € 277 million.

DZ BANK's tax income of € 348 million for 2006 referred to above also includes income arising from intra-group tax transfers due to tax unity, which following the sale of the branches of the former norisbank during 2006 resulted in corresponding exceptional tax-transfer income of approximately € 104 million. Both DZ BANK's and the DZ BANK Group's Tax headings for 2005 include tax reliefs of € 65 million essentially arising from an external tax inspection of DZ BANK.

The DZ BANK Group reported total income of € 140 million in respect of 2006 arising from the capitalisation of deferred taxes, € 79 million of which resulted from the change of the discounting rate used to calculate pension provisions. After other taxes (net expense of € -11 million), the group's remaining tax expense for the year amounted to € -86 million.

The **consolidated unappropriated result after taxes** amounted to € 151 million (2005: € 110 million) after deducting the share of profit due to minorities of € 233 million, the allocation of € 1,041 million to the revenue reserves and the withdrawal of € 24 million from the reserve for own shares.

DZ BANK's **unappropriated result after taxes** amounted to € 151 million (2005: € 110 million).

5. Regulatory capital

The change in the regulatory capital ratios of the DZ BANK Group and DZ BANK, based on the KWG definition, was as follows at December 31, 2006 compared with the end of 2005:

– The DZ BANK Group's **Tier 1 capital** stood at € 9,708 million (December 31, 2005: € 8,789 million) and included a capital increase of € 455 million from authorised capital plus the proceeds of placing the stock of own-shares, and also issues of Tier 1 bonds with an aggregate volume of € 260 million during 2006 by DZ BANK Perpetual Funding (Jersey) Ltd., Jersey, St. Helier, Jersey.

  DZ BANK's Tier 1 capital stood at € 6,729 million (December 31, 2005: € 6,127 million), and included a capital increase of € 455 million from authorised capital plus the proceeds of placing the stock of own-shares.

– The group's **supplementary capital** stood at € 4,011 million (December 31, 2005: € 4,620 million), while the equivalent total for DZ BANK was € 4,867 million (December 31, 2005: € 4,974 million) including the above-mentioned TIER 1 issues adding up to € 260 million.

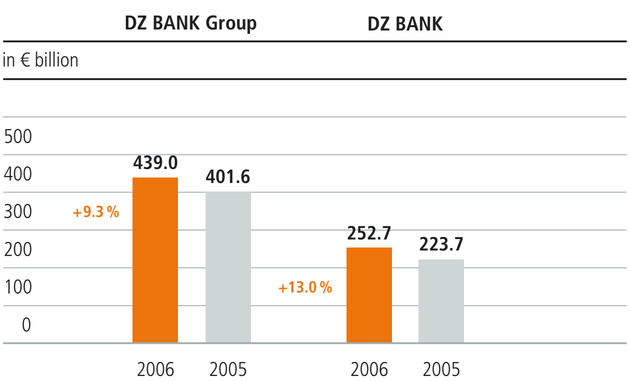
– Neither the DZ BANK Group nor DZ BANK had any **third-tier capital** as at December 31, 2006 (as in 2005).

The group-wide total regulatory capital at the end of the year under report amounted to € 13,361 million (December 31, 2005: € 13,306 million), and the equivalent figure for DZ BANK was € 11,559 million (December 31, 2005: € 11,064 million). The total capital ratio (KWG basis) for the DZ BANK Group is now 12.6 percent (December 31, 2005: 10.4 percent), and for DZ BANK 21.7 percent (December 31, 2005: 14.6 percent), while the core capital ratio for the DZ BANK Group now stands at 9.7 percent (December 31, 2005: 9.0 percent) and for DZ BANK at 14.0 percent (December 31, 2005: 13.3 percent).

The DZ BANK Group's **total capital according to BIS** (Bank for International Settlements) stood on the closing date at € 13,474 million (December 31, 2005: € 13,213 million), while the BIS-basis core capital closed the year at € 8,859 million (December 31, 2005: € 7,938 million). The BIS core capital ratio of 8.6 percent and the BIS total capital ratio of 12.6 percent are both clearly above the prescribed minimum standards.

The procedures and systems for **managing risk capital** and **managing and controlling liquidity risks** within DZ BANK and the DZ BANK Group are described in detail in the Risk Report on page 28ff. and page 43ff. of this Management Report. The change in the cash flows from operating, investing and financing activities between the year under report and 2005 is shown in the cash flow statement provided in the Group Financial Statements.

Total assets as at 31.12.



6. Number of branches

At December 31, 2006 DZ BANK had four branches in Germany (in Berlin, Hanover, Munich and Stuttgart) and also four foreign branches (in London, New York, Hong Kong and Singapore).

The four German branches oversee two sub-offices (in Hamburg and Nuremberg).

7. Volume development

The DZ BANK Group's **total assets** stood € 37.4 billion or 9.3 percent higher at December 31, 2006 at € 439.0 billion. The dominant factor in this volume expansion was the € +29.0 billion assets growth at DZ BANK to € 252.7 billion.

DZ BANK's foreign branches account for around 13.8 percent of the group parent's total assets with a volume of € 34.8 billion. New York (€ 13.4 billion) and London (€ 11.2 billion) account for around 71 percent of the branches' combined volume of € 34.8 billion, with the remaining amount of € 10.2 billion split between the Singapore branch (€ 5.2 billion) and the Hong Kong branch (€ 5.0 billion).

The **total volume of business** amounted at the year-end to € 613.0 billion (December 31, 2005: € 562.0 billion) for the DZ BANK Group; in addition to the reported total assets, this figure includes the group's contingent liabilities, irrevocable credit commitments, and the sum of the inventory values of the special funds managed on behalf of shareholders.

DZ BANK's total business volume at the accounting date amounted to € 277.8 billion (December 31, 2005: € 243.2 billion); this figure includes both the group parent's total assets and its contingent liabilities and irrevocable credit commitments.

The **nominal volume of off-balance-sheet forward transactions** was € 189.8 billion higher at the reporting year-end at € 1,266.2 billion for the DZ BANK Group, and € 141.8 billion higher at € 1,106.9 billion for DZ BANK. The positive market values were € 5.0 billion lower at € 15.6 billion for the group, and € 5.1 billion lower at € 14.5 billion in the case of DZ BANK.

The DZ BANK Group's **placements with, and loans and advances to, other banks** increased by € 4.8 billion or 4.5 percent to € 112.6 billion in the year under report. The equivalent figure for DZ BANK shows an increase of € 6.4 billion.

The increase in the DZ BANK Group's total of **loans and advances to non-bank customers** by € 2.7 billion or 2.7 percent to € 103.9 billion primarily reflects the expanded lending at DZ BANK, where the new business policy (based on prudent and strict risk limitation and profitability criteria as the domestic upturn strengthened) produced a € 3.3 billion increase in the debtors total to € 27.3 billion; € +2.2 billion of this increase resulted from the expanded volume of the bank's repo operations. DVB's and BSH's claims on customers rose in line with their volume growth by € +0.5 billion and € +0.4 billion respectively; however, this measure was lower in the case of both TeamBank and DG HYP by € 0.8 billion, respectively.

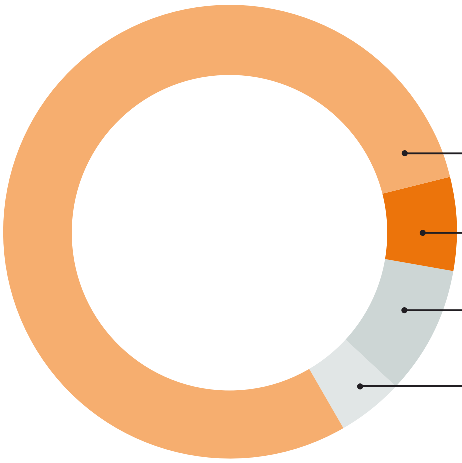
The group's **securities holdings** ended the year under report at € 157.6 billion (December 31, 2005: € 133.8 billion €). DG HYP's securities holdings increased by € 6.2 billion. DZ BANK's securities portfolio increased by € 17.1 billion to € 104.4 billion essentially because of increased holdings of bonds and other fixed-interest securities.

Deposits from other banks amounted to € 165.2 billion at the DZ BANK Group at the end of the year under report, and therefore exceeded the 2005 total by € 9.6 billion. DZ BANK's liabilities to other banks increased by € 9.8 billion to € 150.2 billion; the increase at DZ BANK was due essentially to the expansion of open market operations by € +8.3 billion and time deposits by € +7.9 billion coupled with a € 9.6 billion contraction of repo activity.

The DZ BANK Group's **amounts owed to other depositors** grew by € 8.6 billion or 10.1 percent to € 94.1 billion. DZ BANK's customer deposits expanded by € +5.5 billion to € 38.5 billion on a € 1.8 billion increase in the Repo heading, primarily because of a higher stock of term money and current-account balances (€ +3.7 billion in total). While customer deposits declined by

Shareholders of DZ BANK

*directly and indirectly



	in € million	in percent
Local cooperative banks*	2,412.27	79.65 %
WGZ-Bank AG Westdeutsche Genossenschafts-Zentralbank*	202.14	6.68 %
Other cooperative societies	275.48	9.10 %
Other	138.54	4.57 %
Total registered capital:	**3,028.43**	**100.00 %**

€ -1.6 billion at TeamBank, DG HYP, BSH and DVB respectively reported increases of € +2.5 billion, € +1.5 billion and € +0.7 billion in their customer liabilities that matched their business growth.

Securitised liabilities increased at the group level to end the year at € 106.2 billion (2005: € 92.4 billion). This was primarily the result of an increase of around € +12.2 billion in the volume of bonds and other securitised liabilities issued by DZ BANK to € 44.8 billion; DG HYP's securitised liabilities increased by € +1.3 billion to € 54.1 billion.

The DZ BANK Group's reported **capital and reserves** amounted to € 9.4 billion (December 31, 2005: € 7.6 billion); this included the capital increase of € 455 million from authorised capital plus the proceeds of placing the stock of own-shares, and also issues of Tier 1 bonds with an aggregate volume of € 260 million during 2006 by DZ BANK Perpetual Funding.

DZ BANK's reported capital and reserves of € 5.8 billion represent an increase of € 0.9 billion; this includes the capital increase of € 455 million from authorised capital plus the proceeds of placing the stock of own-shares. € 377 million of this total resulted from the endowment of the revenue reserves and a further € 41 million stemmed from the higher unappropriated result after taxes.

II. Risk Report

1. Risk management system

The systematic and controlled acceptance of risks in relation to return targets is an integral component of corporate management at the DZ BANK Group. The operating activities resulting from the DZ BANK Group's business model require the capability to effectively identify, measure, evaluate, communicate and manage as well as monitor and control risk. The backing of risk with adequate equity capital is also recognised as an essential prerequisite of business operations. All the DZ BANK Group's activities are guided by the principle of only taking on the minimum risk required to achieve the set business-policy goals.

The DZ BANK Group has implemented a group-wide risk monitoring and management system that assists the internal commercial management standards and also fully complies with the statutory requirements. All the group companies are integrated into the DZ BANK Group's risk management system according to the materiality of the risks involved. The management entities are DZ BANK AG's business segments and the group's principal subsidiaries: BSH, DG HYP, DVB, DZ BANK Ireland, DZI, R+V, TeamBank, Union Asset Management Holding AG, Frankfurt am Main (UMH) and VR LEASING.

Categories of risk

Credit risk is the most important category of risk for the DZ BANK Group. It results especially from the group-wide corporate banking and investment banking activities as well as the retail-oriented lending operations. Market risk originates primarily in the companies that make significant capital market investments or conduct trading operations. Equity risk stems from the equity stakes that the DZ BANK Group holds in enterprises to further its business strategy. The activities of the group's insurance arm R+V generate underwriting risk. Liquidity risks, operational risks and strategic risks are associated with all forms of entrepreneurial activity and are therefore a substantial factor for all the companies involved in group risk management.

Segregation of functions

The DZ BANK group's **risk management** activity is built on the risk strategy authorised by the Board of Managing Directors and encompasses the areas of active risk management, risk controlling, and risk monitoring/control.

For the group, active **risk management** means the operational implementation of the risk strategy on a decentralised basis by the risk-bearing units. The business units responsible for risk management decide whether to consciously assume or reduce risk. In doing so they observe the centrally-prescribed framework prescriptions and the relevant risk limits. The risk management units are kept organisationally and functionally separate from their downstream units. This applies most importantly in the areas of controlling, accounting and settlement.

The **risk controlling** function is responsible for the identification, measurement and evaluation, and reporting of risks to the Board of Managing Directors, the risk-managing entities and the Supervisory Board. DZ BANK's controlling function coordinates the risk measurement methodologies to be used with the Controlling units of the group companies and thereby ensures group-wide risk capital management. DZ BANK AG's central risk controlling unit also works together with the group companies to produce a system of minimum-standards-based group-wide risk reports that cover every risk category on a methodologically consistent basis.

Controlling, both at the level of the group parent and in the group companies, is responsible for ensuring the transparency of the risks entered into across all risk categories and for ensuring that the risk measurement approaches employed are methodologically up-to-date. The individual companies' risk controlling units also monitor local compliance with the operating limits that the subsidiaries have defined on the basis of the risk capital allocated to them by the group parent. Furthermore, the risk controlling function at DZ BANK and the equivalent units at the other group companies are responsible for risk reporting in the respective companies.

Internal Audit, a capability established at all the relevant group companies as well as at DZ BANK, is a further component of the group's risk management and supervision system. It performs systematic and regular risk-based audits to ensure full compliance with the statutory and regulatory requirements. Internal Audit is additionally tasked with ensuring the adequacy and effectiveness of the risk management system and performs the follow-up process of reported engagement recommendations. The group companies' and DZ BANK's internal audit units all report directly to their respective Managing Director or Chairman of the Board of Managing Directors. Germany's defined Minimum Requirements for the Internal Audit Function of Credit Institutions are fully complied with in the banking subsidiaries and at DZ BANK.

As part of the planned improvement of the DZ BANK Group's management and controlling instruments and in the spirit of increased interaction between specialist staff across the Group, DZ BANK has worked with the most risk-exposed companies to refine the core functionalities of a group audit capability. Integrated group-wide investigations are now regularly performed in key areas of the audit function.

DZ BANK Group Committees

The **Group Coordination Circle** is tasked with coordination between the key DZ BANK Group enterprises to ensure consistency of business and risk management, strategy development and capital allocation. The Group Coordination Circle provides the forum for the Strategic Planning Dialogue, which is organised to cover the following four modules: financial planning, regulatory and economic capital planning, planning of targets for commissions and bonuses payable to local cooperative banks, and strategic initiatives. The Strategic Planning Dialogue therefore ensures the integrated management of the DZ BANK Group subject to the considered weighing of opportunity and risk. Coordination on issues of principle concerning corporate management, international operations, risk management, IT, operations and resources strategy, and product and sales management is the responsibility of the members of the Board of Managing Directors of DZ BANK and takes place in other committees that report to the Group Coordination Circle.

The DZ BANK Group's central management body is the **Group Risk Committee**. Its membership comprises the members of the Board of Managing Directors of DZ BANK responsible for corporate management, risk management and investment banking. The committee also includes members of the Board of Managing Directors of group companies that have a significant influence on the group's risk profile. This committee meets quarterly and assists the Group Coordination Circle on questions of principle concerning corporate and risk management, and concerns itself inter alia with all the categories of risk relevant to the DZ BANK Group as well as group-wide risk capital management. This ensures the group's subsidiaries are integrated into a coordinated management and controlling approach and guarantees a holistic view. The Group Risk Committee has set up the following working groups to conduct pre-decision analysis and implement approved management actions:

– The **Group Risk Management Working Group** assists the Group Risk Committee with work on any risk themes and issues arising from the group-wide management of risk capital. This working group also acts as the central platform for any issues arising from the implementation of Basel II, external risk reporting and group-wide strategic and operational planning.

– The Group Risk Committee is advised by the **Group Accounting Working Group** on the consistent application of German accounting regulations across the DZ BANK Group to ensure compliance with regulatory requirements, and also on questions of group-wide tax management.

– The group's credit risk management activities are coordinated by the **Group Credit Management Working Group**. This committee includes management representatives from the key group subsidiaries' risk management and lending operations. The working group is responsible for developing and refining group-wide harmonised business processes, organisational structures and IT systems in the lending area.

– The **Market Working Group** is responsible for group-wide liquidity management. This involves planning and coordinating cash investments and own issues, as well as optimising intra-group funding.

The **Group IT Committee**, which comprises the IT directors of the main group companies, assists the Group Coordination Circle on questions of IT strategy. The committee oversees and directs all IT activities within the DZ BANK Group whose effects go beyond the immediate company concerned. Most importantly, the committee decides on issues of cooperation, identifies and realises common synergies, and initiates joint projects.

Ever since 2003, DZ BANK has been coordinating semi-annual meetings of the **Group Audit Heads Working Group**. Based on jointly-developed principles approved by all the relevant companies' Boards of Managing Directors, these meetings are focused on coordinating group-relevant audit themes, planning group-wide audits and other activities, specialist information exchange (most importantly on current developments in audit practice), and agreeing best practices for the audit function. The working group has also established two group-wide specialist working parties for IT and credit auditors, whose members also meet several times a year.

DZ BANK Committees

During 2006 DZ BANK established a new **Risk Committee**. This committee assists with monitoring the bank's total banking risk.

The Board of Managing Directors has formed a **Credit Committee** from amongst its own members tasked with managing the bank's overall credit portfolio. The Credit Committee decides on significant DZ BANK credit exposures in relation to the bank's and the group's credit risk strategy. This committee is also responsible for managing DZ BANK's credit processes and country risk across the DZ BANK Group.

DZ BANK's **Treasury Committee** is responsible for the areas of market price risk and liquidity risk. It meets weekly to discuss the management of the bank-specific risk, performance and liquidity parameters, and prepares corresponding action proposals for submission to the Entire Board of Managing Directors. The Treasury Committee is also responsible for implementing capital measures that do not involve voting rights.

Risk reporting

The **Quarterly Group Risk Report** is the central instrument for reporting on group risks to the Board of Managing Directors, the Group Risk Committee and the Supervisory Board. The **quarterly Group Credit Risk Report** also provides group management and the Supervisory Board with portfolio and exposure-specific management information.

The DZ BANK Group has additionally installed reporting systems specific to all the relevant risk categories at DZ BANK and in all the key group companies; these are intended – subject to the materiality of the risk positions concerned – to ensure that decision-makers and supervisory committees at all times have transparency as to the risk profile of the risk units they are responsible for.

Risk Manual

The Group Risk Manual is made available to all staff. In addition to listing the universal prescriptions governing the management of risk capital and risk categories, this manual also provides extensive descriptions and definitions of methods, processes and authorities. Similar risk manuals are also provided in most of the main group subsidiaries that are tailored to the specific circumstances of the companies concerned.

2. Risk capital management

To ensure that the group's risk-taking remains in harmony with its capital underpinning at all times, the regulatory capital adequacy measures are actively managed across the group, as is the economic capital adequacy that results from the group's own internal risk measurement methods.

The group companies' risk capital requirements are also integrated into the **performance measurement**, and this extends the conventional earnings components by also factoring in the capital tied up by their risk exposures. This is done by relying on two risk-adjusted metrics, namely **economic value added** (EVA) and **return on risk adjusted capital** (RORAC), which are calculated and reported on the basis of the defined risk capital requirement and the allocated capital.

Managing economic capital adequacy

The DZ BANK Group's system of economic capital management is based on internal risk measurement methods. These factor in all the risk categories relevant to the DZ BANK Group. Credit risk, market risk, underwriting risk and the equity risk stemming from those participations not directly integrated into the group's risk management committees are measured using internal value-at-risk-based models plus (to a lesser extent) simpler approaches that identify similar loss potentials. The group applies the regulatory standard approach to estimate the potential for losses from operational risks at group level. The quantification of strategic risk is based on empirical benchmarking analysis.

The DZ BANK Group's overall risk capital requirement is the result of simple aggregation of the various categories of risk applying to the group's companies. Allowance is made for diversification effects between different risk categories.

The DZ BANK Group's **risk-taking capacity** is derived from the available risk capital. This value is determined on the basis of the group's capital after allowing for all relevant consolidation effects. The available risk capital includes balance sheet capital plus disclosed and undisclosed reserves, and amounted to € 10,990 million in respect of the 2006 financial year (2005: € 9,134 million).

This provided the basis for the Board of Managing Directors to define the **allocated risk capital** for 2006. The group-wide allocated capital was increased by just under € 1.5 billion compared with 2005. This was due to the fact that R+V has been using a risk quantification model since 2006 that conforms with the risk management strategy for the DZ BANK Group as a whole. In addition, the first-time inclusion of collective and new-business risk as an industry-specific feature of building society operations increased the allocated capital for strategic risk. As a consequence, the Building Societies Guarantee Fund has now been included in the group's total risk cover. The individual companies' respective risk management process and operating risk limit systems are all based on this group-wide framework.

The **risk capital requirement** is calculated in all cases as the value-at-risk over a one-year holding period. The assumed confidence level is commensurate with the DZ BANK Group's rating. The tables below show the respective allocated capital for 2006 and the group risk capital requirement as at December 31, 2006.

Allocated capital and risk capital consumption by risk categories in the DZ BANK Group

in € million	Allocated capital 2006	Risk capital consumption 31.12.2006	Allocated capital 2005	Risk capital consumption 31.12.2005
Credit risk	4,585	2,609	4,344	2,647
Equity risk	689	548	724	344
Market risk	2,772	1,583	2,360	1,508
Underwriting risk	1,785	1,262	1,158	931
Operational risk	779	563	708	625
Strategic risk	1,361	1,124	399	276
Total (after diversification)	**9,708**	**6,203**	**8,228**	**4,988**

Allocated capital and risk capital consumption by risk categories at DZ BANK

in € million	Allocated capital 2006	Risk capital consumption 31.12.2006	Allocated capital 2005	Risk capital consumption 31.12.2005
Credit risk	2,500	1,088	2,500	1,267
Equity risk	500	526	700	341
Market risk	300	230	300	234
Operational risk	330	192	250	203
Strategic risk	158	75	153	85
Total (after diversification)	**3,311**	**1,818**	**3,476**	**1,836**

The capital available to the group for 2007 amounts to more than € 12.1 billion; this works out at an increase of roughly € 1.1 billion over 2006. The principal factors behind this increase are DZ BANK's capital increase, the substantial endowment of the revenue reserves from retained 2006 earnings, and further taps of the rolling Tier 1 issue authorised by the Board of Managing Directors.

Managing regulatory capital adequacy

Alongside the DZ BANK Group's economic capital management activity – which defines the performance targets for all business activity – the other strict priority is to comply with the solvency/capital adequacy requirements defined by the various regulators as they affect the DZ BANK financial conglomerate in its entirety, the DZ BANK group of banks, and the R+V insurance group.

The Financial Conglomerates Directive Implementation Act came into force in Germany on January 1, 2005 and its provisions now govern **DZ BANK as a financial conglomerate**. The additional requirements imposed by the EU directive apply to conglomerates that have substantial operations in different sectors of the financial services industry, such as bancassurers, and are intended amongst other things to permit a more accurate assessment of risks at the conglomerate level, specifically risks in connection with capitalisation, risk concentration and intra-group transactions. The German financial services regulator (BaFin) has categorised the DZ BANK Group as a financial services conglomerate, with DZ BANK functioning as the higher-level (controlling) financial services conglomerate company. The DZ BANK financial services conglomerate comprises the DZ BANK banking group and the R+V insurance group.

DZ BANK submitted its first financial services conglomerate solvency reports during 2006. The financial services conglomerate solvency measure is the value of the difference between the sum of the conglomerate's qualifying equity and the sum of its solvency requirements. The resulting cover rate is required to be at least 100 percent. The DZ BANK financial services conglomerate was above this threshold as at December 31, 2005; the calculations identify an appropriate level of capitalisation that exceeds the minimum required standards.

The active management of the regulatory capital adequacy of the **DZ BANK banking group** is based on internal targets that are significantly higher than the minimum standards defined by the regulators of 4 percent for the Tier I capital ratio and 8 percent for the total capital ratio. The group performs an annual group-wide risk assets planning process as part of the Strategic Planning Dialogue to avoid unforeseen stressing of these capital ratios and to ensure that the growth or reduction of the group's credit risks and market risks as defined by Principle I conforms with the defined strategy. This process ends with the specifica-

Regulatory ratios of the DZ BANK banking group

					Companies of the DZ BANK banking group (KWG)													
in € billion	DZ BANK banking group (BIS)		DZ BANK banking group (KWG)		DZ BANK		BSH		DG HYP		DVB Group		DZI		DZ BANK Ireland		TeamBank	
at 31.12.	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Risk-weighted assets	107.0	126.8	105.9	127.7	42.3	65.7	12.7	12.9	22.5	20.1	10.5	9.7	3.3	3.0	2.2	2.2	3.2	3.6
Capital																		
– Tier I capital	8.9	7.9	9.7	8.8	6.7	6.1	1.8	1.8	1.5	1.5	0.7	0.6	0.4	0.5	0.2	0.2	0.3	0.2
– Tiers II and III	4.6	5.3	4.0	4.6	4.9	5.0	0.6	0.5	0.7	0.8	0.3	0.4	0.0	0.0	0.0	0.0	0.1	0.1
Ratios																		
– Core capital ratio in %	8.6	8.1	9.7	9.0	14.0	13.3	13.5	13.3	6.5	7.0	6.2	6.3	12.1	13.7	11.5	10.4	8.8	6.1
– Total capital ratio in %	12.6	10.4	12.6	10.4	21.7	14.6	18.2	17.2	9.4	10.6	9.0	9.7	12.7	13.8	9.8	9.4	12.3	8.8

tion of a group-wide planned regulatory capital requirement. The covering of this need and the performance of the resulting issuance transactions is centrally coordinated by DZ BANK's Treasury function.

These ratios were significantly higher than the prescribed minimum values at all times during 2006 both for the individual institutions and for the DZ BANK banking group as a whole. The relevant regulatory capital ratios are shown in the table at the bottom of page 30.

R+V uses the defined regulatory requirements for the **solvency of insurance companies** as the starting point for evaluating its overall risk position. All of the R+V insurance subsidiaries satisfy these solvency standards even before their valuation reserves are taken into account. Calculating the adjusted solvency ratios of all the relevant R+V companies under the terms of the Insurance Supervision Law confirms that the insurance group as a whole also satisfies the regulatory group solvency requirements without reference to latent reserves.

Basel II and IFRS

In line with the Basel II implementation strategy approved by the Board of Managing Directors, the DZ BANK Group is in the process of implementing the internal-ratings-based Stage 1 approach (basic IRB approach) to calculate the group's **(Basel pillar 1)** capital requirements in respect of credit risk, and the standard approach in respect of operational risk. BaFin gave its permission for the DZ BANK Group to start using the basic IRB approach from 2007. DZ BANK has also formally notified the banking industry regulator that it will apply the standard approach to operational risk from 2007.

The new **Basel pillar 2**, which regulates supervisory review procedures, will increase the demands made on banks' risk management systems in future. DZ BANK made an early start on implementing some of the main aspects of the new MaRisk rules package published at the end of 2005. The bank has for instance established a group-wide integrated risk capital management system that is a central element of the Group Coordination Circle's Strategic Planning Dialogue.

A group-wide interdisciplinary Disclosure Project is currently busy on implementing both the risk transparency ("publicity") requirements imposed by the German Banking Act (KWG) and the Solvency Order **(Basel pillar 3)** and also the risk-specific disclosure requirements arising from the **International Financial Reporting Standards** (IFRS). The regulatory risk report is based on the so-called application examples developed jointly by the German banking regulator and the banking industry. Given the advanced status of the design and implementation process, DZ BANK is confident of its ability to fulfil these statutory requirements comprehensively and promptly when they take effect in 2007.

DZ BANK has continued to play an extremely active part in helping to shape and implement Germany's response to Basel II in 2006 by contributing to the relevant BaFin committees.

Solvency II

The EU Commission has been working hard for several years on a new model of insurance industry supervision under the working title Solvency II. The central thrust of the EU's approach is the holistic assessment and management of insurance providers' risks and capital resources. As a result of its participation in the internal projects and working parties organised by the German industry association and BaFin, the R+V Group is in a good position to handle the coming challenges and comply with all the requirements that will flow from Solvency II.

3. Credit risk

The DZ BANK Group understands credit risk or default risk as the risk of loss arising from the failure of a business partner to fulfil its contractual obligations. Default risk can arise on both lending transactions and trading transactions. Default risk on trading transactions occurs in the form of counterparty risk and issuer risk. Counterparty risk has two components: replacement risk and settlement risk.

Credit risk is incurred primarily at DZ BANK AG, BSH, DG HYP, DVB and TeamBank. It is the natural result of each company's specific business operations and therefore displays different characteristic patterns of distribution and scale relative to volume. Default risk on trading transactions is incurred primarily at DZ BANK AG, BSH and DG HYP and R+V.

Risk strategy

The **DZ BANK Group** operates in harmony with the cooperative financial services sector's "Combined Energies: One Network – One Strategy" concept, which means pursuing a business policy of strict subsidiarity in furthering the interests of the local cooperative banks. The group's risk-taking capacity provides the basis for formulating business and risk policies for the group's core credit-risk-bearing segments. The result is that the group's credit risk strategy provides the foundation for group-wide credit risk management and reporting, and ensures a consistent approach to credit risks across the group.

At the heart of these group-wide credit processes stand what are known as the VR ratings – credit quality assessment procedures that DZ BANK AG develops in collaboration with the Federal Association of German Cooperative Banks (BVR) and WGZ-Bank. The fundamental aim – both at DZ BANK and in the group subsidiaries subject to material credit risk – is that lending portfolios should display a good credit quality structure. This means that the portfolios will continue to be highly diversified. The risk-sensitive pricing of each financing arrangement is of central importance to the group's lending operations; this must incorporate both adequate standard risk costs and risk-adjusted capital costs.

DZ BANK's credit risk strategy stipulates that all new business may be taken on where the VR rating class is 3B or above, or 3C in the case of domestic SME customers provided other ancillary conditions are also satisfied. Credit transactions involving a worse rating than these are normally only agreed if the specific customer rating is not a critical factor in the financing decision. Existing business with a VR rating class of 4C and worse is subjected to intensive oversight and the exposure must be reduced. Credit exposures in respect of which a specific risk provision has been made are assigned to the VR rating class 5B or a worse rating class.

Organisation and responsibilities structure

As required by Germany's defined Minimum Requirements for Risk Management (MaRisk regulations), all credit process authorities from application through approval to ongoing contract processing including periodic loan monitoring with regular credit quality analysis have been specified and documented in organisation manuals. Decision-making powers have been defined in formal Authority Regulations that reflect the varying risk content of credit operations.

Established **reporting and monitoring processes** help keep the decision-makers promptly informed of changes in the risk structures of credit portfolios and provide the basis for the active management of credit risks. Coordinating and harmonising the organisation of the group-wide credit processes is the responsibility of the Group Credit Management Working Group.

DZ BANK AG especially has built up a wide range of tools for monitoring and managing **problem credit exposures** in the traditional lending business. These include reports that assist the early detection of at-risk cases, the monitoring of exposures at latent risk of default, and the supervision of acute default-threatened credits. These reports permit highly informative, target-group-specific and close-to-real-time internal reporting. As part of the bank's rating-linked credit monitoring process, it also reviews the size of the agreed lines as the need arises, but generally at yearly intervals. The other credit-risk-exposed group companies have also implemented analogous procedures wherever appropriate that reflect the risk characteristics of their respective lending operations.

Identified problem credits are transferred to DZ BANK's **workout units** at a very early critical stage. By providing hands-on "intensive care" and applying tailor-made remedial concepts to critical problem cases, these specialist units create the necessary basis for rescuing and optimising problem risk positions. Equivalent procedures have been implemented in the other group companies with a significant credit risk profile, allowing for the demands of their respective business environments.

Rating and pricing systems in lending operations

The **VR ratings** system is intended to permit the generation of harmonised and consistent credit ratings right across the cooperative financial services network. VR ratings are differentiated by customer segments and are being successively extended to cover all relevant customer groups. During 2006 the VR rating systems were subjected to comprehensive validation processes and the first VR rating systems were audited by the credit industry regulators. This same year also saw the introduction of an internal rating procedure for non-externally-rated risk positions acquired under asset-backed commercial paper programmes, together with a rating module for arms-length local government enterprises. Based on the 20-level Master Scale and linked to default probabilities, the VR rating outcomes provide the basis for risk-adjusted pricing in the group's lending operations and for the expansion of activities in the area of securitising credit risks.

The **VR country ratings system** provides the basis for assessing country risks. This cooperative-sector-developed country ratings system both meets the standards required of a modern risk management system and satisfies the regulatory requirements that will be imposed from 2007 by the German Banking Act (KWG) and the Solvency Order. The VR country ratings take account of rating-relevant macroeconomic risk measures as well as qualitative factors that make it possible to assess political risk and evaluate a country's institutional framework.

The VR rating systems are made available to all of DZ BANK's subsidiaries. Where a hardware implementation of the rating systems in a subsidiary is not cost-efficient, DZ BANK generates the relevant ratings and forwards them for the subsidiary to use in its internal credit process. DZ BANK's so-called **Rating Desk** (installed during 2005) performs the function of communicating ratings to subsidiaries. The Rating Desk is available not only to the DZ BANK Group companies, but also to all local cooperative banks and covers all the central-bank-typical customer segments.

The ratings that result from the group companies' respective rating systems are assigned to a rating scale approved by the Group Risk Committee – and therefore known as the **GRC rating scale** – to assist group-wide standardised credit risk reporting.

To ensure lending business is profitable, **standard risk costs** are calculated in many areas of the DZ BANK Group as part of the discrete transactions management process. Standard risk costs are intended to help cover the average predictable losses arising from borrower defaults. The aim is to ensure that in actuarial terms, in the long run the lender's net risk provisioning is covered by the standard risk costs received.

Standard risk costs are calculated pre-transaction using a pre-calculation process and post-transaction using a post-calculation process. The standard risk costs are factored as a cost component into the contribution costing of group company transactions and are determined in most companies' cases using empirical default probabilities linked to specific rating grades. Other factors influencing the calculation of standard risk costs are the anticipated utilisation of the agreed facility at the time of default and the anticipated loss at default. Customer-provided collateral and standard anticipated recovery values in respect of unsecured transactions (liquidation proceeds) are allowed for and reduce the exposure at default. The aim of this approach is to permit credit-differentiated pricing.

In addition to standard risk costs, notional **capital costs** based on the economic capital requirement are also integrated into the contribution margin calculation. This makes it possible to identify a risk-adequate return on the capital employed that serves as cover for unforeseen losses.

Credit portfolio management

The **economic management of the credit portfolio** draws a distinction between the expected losses on individual transactions and unexpected credit portfolio losses. "Creeping" capital erosion is pre-empted by calculating the predictable loss per discrete transaction; most of the group companies now perform the necessary calculation of rating-dependent standard risk costs. The unexpected losses on the group companies' and DZ BANK's credit portfolios are also quantified using portfolio models based on value-at-risk approaches. DZ BANK AG's risk measurement procedures incorporate the default risk from credit transactions as well as from trading transactions. During 2006 the DZ BANK Group continued to refine the methods used to measure portfolio risk throughout the group. This involved optimising the recording of liquidation risk and the mapping of interrelated risk structures (risk complexes) within DZ BANK's credit portfolio model.

During 2006 the DZ BANK Group refined its harmonised credit portfolio evaluation and management procedures and processes to incorporate **volume-oriented credit portfolio management**. The management and controlling system implemented satisfies the requirements of MaRisk.

The quarterly **Group Credit Risk Report** provides the basis for analysing the group's portfolio structure by reference to a wide range of key risk parameters such as countries, sectors and ratings – in each case either in the form of a group overview or company-specific view. The resulting management initiatives are reported to the Group Risk Committee. The group reporting system is backed up in the relevant companies by powerful credit portfolio reporting systems that are tailored to each subsidiary's specific needs. Country risk is managed by defining limits for individual countries at the level of the DZ BANK Group. To support portfolio-level limit management, analyses are also performed of selected strategic portfolios by parameters such as country, country group, product type or sector.

Within the DZ BANK Group, **asset securitisation** is systematically used as a tool to actively manage the credit portfolio and to optimise risk-return relativities. The aim of this primary-bank activity in the asset backed securities arena is to lighten the burden on the group's economic and regulatory capital, and further intensification of these securitisation operations is planned. The focus will be on multiseller transactions that will be designed to provide the local cooperative banks with access to a risk transfer option and thereby enable them to better spread their risk.

To improve the group's ability to assess the appropriateness of its economic and regulatory capital backing in the event of changes in the framework conditions governing its business operations, there are plans to perform **stress tests** and scenarios-based analyses during 2007 focusing on the group's most important risk factors. The framework for running such stress tests at the group level and at DZ BANK is currently being prepared. The outcomes of these stress tests will be used to improve the accuracy of the ongoing assessments of the current risk profile and to assist the capital planning process.

Managing credit exposures and limits

The DZ BANK Group has installed a system of **framework limits** for individual business partners and borrower units. These apply both to DZ BANK and the other relevant group companies, and at the whole-group level. Group-wide credit exposures are aggregated via the Group Credit Management Working Group.

Early warning processes have been implemented as the essential key to timely limit reviews. Processes for handling overdraft situations have also been defined at DZ BANK. Other group companies whose credit risk profile has group-level significance have installed equivalent procedures that have been modified to meet the needs of their particular business model.

The **Group Credit Risk Reports** analyse the ten biggest exposures by a range of risk parameters. The reports always provide a breakdown for each group company separately and also as a group view. The Group Risk Committee is kept informed of these exposures on a quarterly basis.

Measuring the default risk of trading activities

The DZ BANK Group's replacement risk and settlement risk essentially stem from DZ BANK AG's trading operations. Issuer risk on the other hand is of group-wide significance; it results from the trading and investment activities of DZ BANK and the group subsidiaries BSH, DG HYP and R+V.

DZ BANK calculates **replacement risk** by adding the market value of a discrete exposure to its add-on factor. This add-on incorporates specific risk factors and residual terms. To calculate the replacement risk at the counterparty level, the risk-reducing effects of both netting agreements and collateral agreements are recognised provided they are legally enforceable. The group companies either apply the Principle I KWG method or a conservative global rate when measuring replacement risk. The methodology used to calculate replacement risk across the DZ BANK Group has been progressively harmonised since 2006.

The exposure amount of the **settlement risk** is the payment owed, in other words the size of the amount the counterparty is due to actually pay to DZ BANK. The settlement risk is related to an assumed settlement period.

DZ BANK calculates its **issuer risk** on the basis of each securities position's market value. All securities held for investment and trading purposes have to be included. The procedure for calculating the DZ BANK Group's issuer risk is different in that securities held for trading purposes are factored into the calculation at market value, while those held for investment purposes are included at book value.

Limit management of default risk on trading transactions
To limit the default risk arising from trading transactions, a **volume-oriented limits system** has been implemented at DZ BANK. This limits structure is subdivided into maturity bands to help manage replacement risk. A daily limit is assigned to manage settlement risk. Each issuer is assigned a rating-dependent global or specific limit to help manage issuer risk. The DZ BANK Group trading limits relevant to group management have been stored in a central IT system since 2006.

As in the commercial lending business, adequate **early warning and overdraft escalation procedures** have also been implemented in respect of the trading operations. As required by Germany's Minimum Requirements for the Trading Activities of Credit Institutions (MaH), daily reports notify the member of the Board of Managing Directors responsible for risk monitoring of any overdraft of the trading limits. There is also a monthly exposures-based report of the aggregate default risk from trading activities.

A centralised IT-supported **limit management system** is used to ensure the methodologically-consistent measurement and supervision of the default risk from DZ BANK's trading transactions; this system has interfaces to all the relevant trading systems. This central limit management system has been aggregating all the group's trading exposures since 2006.

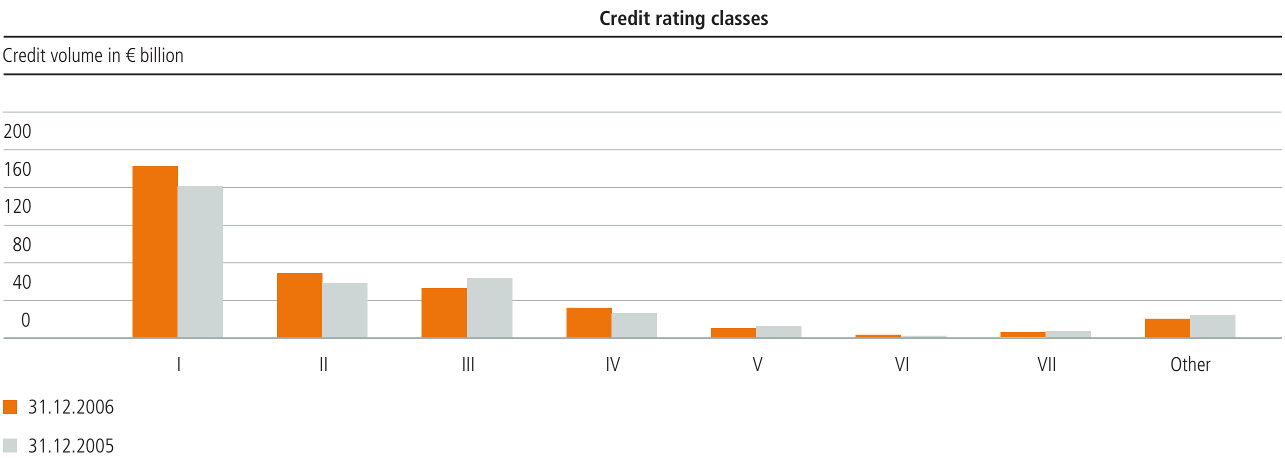
Collateral management
Following the upgrade in 2005 of the IT system that administers **traditional collateral**, the focus in 2006 was to further enhance data quality in this area, most importantly in order to be able to respond to the new Basel II standards of required credit risk mitigation techniques. The work of specifying the specialist functions' requested improvements has also continued.

Collateral used within the trading business is exchanged on the basis of framework agreements as part of a so-called margining process. This margining process is an automated daily monitoring process that ensures the adequate collateralisation of the trading portfolio. Collaterals are recorded in a dedicated IT system.

Analysis of the credit portfolio
As part of the ongoing refinement of the group's credit risk management system, the group reporting system was reorganised during 2006. The introduction of the GRC ratings scale means that ratings are now fully comparable right across the group. Moreover, two further companies have been integrated into the credit risk reporting system and the facility to consolidate intra-group transactions is now completely installed at the major group companies. Finally, non-consolidated affiliates have been removed from the group credit risk reporting system and are now reported under equity risk. These actions reduced the comparison reference value for the credit volume as at December 31, 2005 from € 353.5 billion to € 351.9 billion. The 2005 risk report showed an unconsolidated group credit volume of € 420.1 billion as at December 31, 2005.

The total credit extended by the DZ BANK Group increased by approximately 6 percent compared with the previous year to € 373.4 billion, essentially due to the expansion of securities-related business. The newly included companies were responsible for € 2.0 billion of this total. The diagram at the top of the next page shows the group's consolidated credit volume broken down by the **credit rating classes** of the GRC ratings scale. Unlike last year, these figures are shown after consolidation.

Credit volume of DZ Bank Group by rating classes

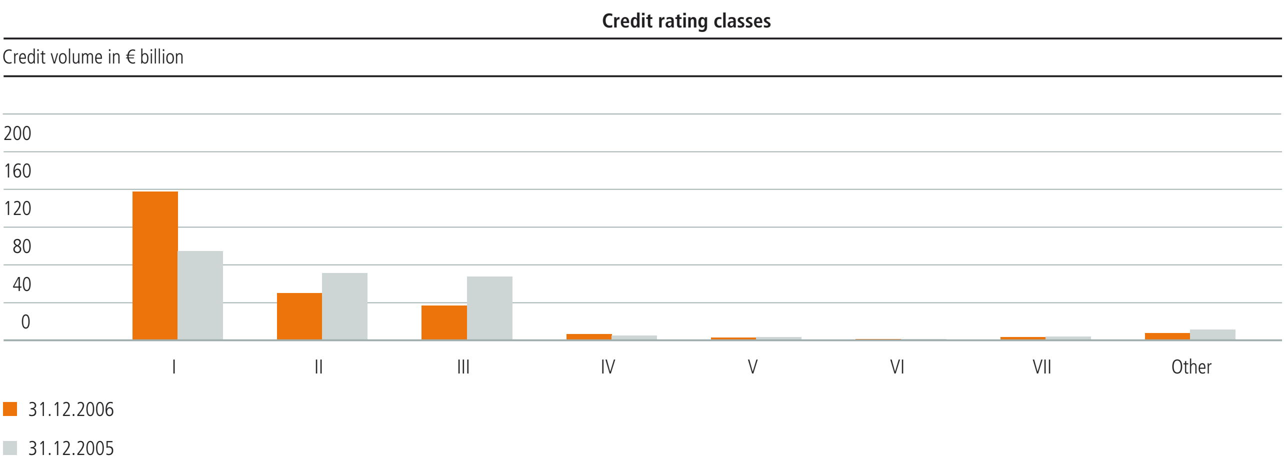


Rating classes I to III (investment-grade) had most entries and accounted for over 81 percent of the total credit volume at the end of 2006, while the credit volume assignable to rating classes IV to VII (non-investment-grade including defaulted) is much less significant at almost 14 percent. Defaulted loans (assigned to class VII) remained at the previous year's low level and are equivalent to just under 2 percent of the DZ BANK Group's total lending portfolio.

DZ BANK's credit volume as at December 31, 2006 was approximately 3 percent higher than the prior-year total at € 258.2 billion. As the diagram below shows, lending to soundly-rated borrowers is easily the predominant component of DZ BANK's credit portfolio. 93 percent of the credit volume was rated investment-grade as at December 31, 2006, while less than 4 percent qualifies as non-investment-grade. The volume of defaulted credits was unchanged from the prior-year level, and represents less than 1 percent of DZ BANK's total credit extended.

The volume of assets subject to valuation allowances at the group level was reduced by 30 percent during 2006 to € 4.2 billion. The equivalent figure for DZ BANK was reduced from € 4.1 billion to € 2.0 billion. Adequate risk provisions are in place for this assets volume.

Credit volume of DZ Bank by rating classes



Credit volume by bank and non-bank segments

	DZ BANK Group				DZ BANK			
	31.12.2006		31.12.2005		31.12.2006		31.12.2005	
	in € million	in %	in € million	in %	in € million	in %	in € million	in %
Financial sector	155,060	42	147,033	42	159,108	62	161,124	64
Non-banks[1]	218,349	58	204,864	58	99,111	38	89,659	36
Total	**373,409**	**100**	**351,897**	**100**	**258,219**	**100**	**250,783**	**100**

[1] Includes other financial institutions (insurers, fund managers, brokerages)

The "Other" heading covers business partners that did not require a credit quality judgment under the provisions of section 18 KWG or internal rules.

The credit portfolio's **sector structure** illustrates the wide degree of lending diversification at the group and DZ BANK levels. The major group companies invest their free liquidity in high-grade securities, which explains the high proportion of claims on other banks. In performing its function as the central institution for the cooperative financial services network, DZ BANK provides funding resources to the companies of the DZ BANK Group and the local cooperative banks. This makes the local cooperative banks the second-biggest assets position in the group's credit portfolio. DZ BANK also assists the local cooperative banks in major financing deals for their corporate customers. The resulting syndication business and DZ BANK's direct business with large domestic and international corporate customers, plus BSH's and DG HYP's real estate operations, essentially determine the sector composition of the rest of the credit portfolio.

The sector breakdown is shown in the overview at the top of the page; the non-bank portfolio's sector spread is shown in the table below.

The table overleaf shows the **geographical distribution** of the credit portfolio broken down by country risk groups. The term gross utilisation relates to the types of business defined in section 19.1 KWG. Deducting collateral and allowing for third-country insurance cover identifies the net utilisation rate. As at December 31, 2006, 98 percent of the net foreign credit volume was

Sector structure of the credit portfolio (non-banks)

	DZ BANK Group		DZ BANK	
in %	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Services (including healthcare, transport)	6	6	6	5
Retail (including food, consumer goods)	2	2	3	3
Manufacturing (including energy, construction, telemedia)	10	9	9	9
Real estate	13	14	1	2
Public sector	13	12	4	4
Other financial institutions	12	10	15	13
Other	2	5	0	0
Total	**58**	**58**	**38**	**36**

Credit volume by country risk groups

Country risk group	Group country limit	Credit volume in the DZ BANK Group				Credit volume at DZ BANK			
in € million		31.12.2006		31.12.2005		31.12.2006		31.12.2005	
		Gross	Net	Gross	Net	Gross	Net	Gross	Net
1	Unlimited	123,710	117,027	98,982	92,352	82,239	81,535	67,556	66,609
2		14,335	7,531	11,584	6,242	3,882	3,355	2,856	2,736
3		4,300	2,312	4,134	2,148	3,320	2,094	3,455	2,013
4		1,173	357	726	221	1,018	305	606	206
5	Case-by-case	38	12	72	21	38	12	72	21
Unrated		70	1	94	6	22	1	20	5
Offshore	Unlimited	2	0	0	0	0	0	0	0
Total		**143,628**	**127,240**	**115,592**	**100,990**	**90,519**	**87,302**	**74,565**	**71,590**

assigned to the country risk groups 1 and 2, for which country risk provisions are not formed. For the DZ BANK Group, there was a 26 percent year-on-year increase in the net utilisation in respect of country risk groups 1 and 2. The rate of increase was significantly slower for country risk groups 3 to 5 at 12 percent.

Analysis of the default risk of trading activities

The group's investment banking activities are concentrated at DZ BANK. As the table below shows, the utilisation rates have increased significantly year-on-year in respect of all the categories of default risk relevant to **trading operations**. However, the utilisation rates remained inside the assigned limits during 2006, as they did in 2005.

The group's aggregate **issuer risk** exposure amounted at December 31, 2006 to € 179.0 billion (2005: € 163.2 billion). Pfandbriefe and government bonds accounted for € 59.5 billion of this total (2005: € 48.5 billion). The 2005 figures cited are only partially comparable with the data provided in last year's risk report because of changes in the composition of the companies included in the issuer risk calculation during 2006.

Risk provisioning and valuation allowances

DZ BANK's internal guidelines stipulate that an individual loan loss provision must be formed when a borrower's unsatisfactory financial circumstances or lack of adequate collateral provide reasonable grounds to question the collectibility of the outstanding entitlements or when there are indications that the borrower will not be able to service the loan long-term. The individual risk provision must comply with the requirements of the Commercial Code, and most importantly comply with the prudential principle. In other words, it must be sufficiently

Default risk of trading activities for DZ BANK

in billion €	31.12.2006		31.12.2005	
	Limits	Utilisation	Limits	Utilisation
Replacement risk	158.5	29.3	144.6	25.7
Settlement risk	105.8	12.9	100.2	12.4
Issuer risk	178.4	72.8	149.6	60

dimensioned to at least cover the probable loss in the circumstances of the individual case. This requirement also necessitates a conservative valuation of collaterals. The **group companies** have all implemented similar guidelines, in line with the needs of their particular business, to regulate the formation of individual loan loss provisions. The group-wide planning of this activity forms part of the DZ BANK Group's strategic planning process. Individual risk provisioning is reported in the quarterly Group Credit Risk Report.

The tables below show the scale of the group's 2006 risk provisioning compared with the preceding year.

Risk provisions of the DZ BANK Group

in € million	Individual loan loss provisions	Country risk provisions	Global loan loss provisions
Position at 31.12.2005	2,526	64	207
Change during 2006	-660	-6	99
Position at 31.12.2006	1,866	58	306

Risk provisions of DZ BANK

in € million	Individual loan loss provisions	Country risk provisions	Global loan loss provisions
Position at 31.12.2005	1,597	64	114
Change during 2006	-559	-6	113
Position at 31.12.2006	1,038	58	227

Summary and outlook

Significant milestones in the upgrading of the group's credit risk management and controlling system during 2006 were the continuing refinement of the group's rating procedures, the many improvements in the group-wide portfolio reporting system, and the optimising of data quality in the area of collateral management.

During 2007 the group plans to develop rating systems for additional specialist and smaller customer segments in order to increase the coverage of the group's activity by rating systems that meet the new standards demanded of IRB systems by the German Banking Act and Solvency Order. The implementation of these rating systems will be backed up by simultaneously introducing differentiated standard risk costs and capital costs for the business lines concerned. The capital costs that have hitherto been calculated on the basis of regulatory capital will be replaced from 2007 onwards by economic capital costs. Economic capital costs are an expression of the interest return entitlement on the committed economic capital. The next upgrade stage of DZ BANK's collateral administration system is scheduled to come on stream in the second half of 2007. The planned functional enhancements will include recognising the hedging of trading transactions through traditional loan collaterals and also the recording of trading products furnished as collateral.

The economic capital requirement for the group's credit risks amounted at the end of 2006 to € 2,609 million (December 31, 2005: € 2,647 million). This compares with the total allocated capital of € 4,585 million (2005: € 4,344 million). DZ BANK's risk capital requirement stood at December 31, 2006 at € 1,088 million (December 31, 2005: € 1,267 million), which compares with the total allocated capital of € 2,500 million (no change from 2005). These limits were observed at all times throughout 2006, at both the group and DZ BANK levels.

Despite the progressive flexibilisation of the group's credit risk strategy, the management remains confident that the risk situation will continue to be proportionate to the returns the group expects from its credit operations in 2007 – not least because of the anticipated positive trend of the economy.

The change in the DZ BANK Group's risk provisioning requirement has been positive – and better than projected – in 2006. The biggest contributory factor has been DZ BANK's excellent valuation result. DZ BANK's risk provisioning trend has been exceptionally positive as the new provisioning need has been very low overall and there have been large write-backs due to the recoveries from successful "workouts" of rehabilitation cases. However, the run-down of the workout portfolio has naturally reduced the potential for future exceptional income from this source. It follows that the DZ BANK Group expects the 2007 risk provisioning requirement to return to a level that is more commensurate with the scale of business.

4. Equity risk

The DZ BANK Group understands the term equity risk as referring to the danger of unexpected losses incurred through the fall of the market value of participations below their book value. Equity risk is measured on the basis of a variance-covariance approach and expressed as **value at risk**. Equity risk is calculated only in respect of participating interests that are not part of the group's direct risk management structures. The DZ BANK Group's equity risk arises primarily at DZ BANK.

DZ BANK's **economic capital requirement** in respect of equity risk amounted at December 31, 2006 to € 526 million, which was significantly above the previous year's total of € 341 million. DZ BANK's allocated capital for 2006 was € 500 million (2005: € 700 million). The breach of this ceiling was due to DZ BANK's duly authorised subscription to a capital increase by a strategic affiliate. Action has been taken to ensure that the allocated capital for 2007 will cover this increased risk capital requirement.

The aggregate **volume of equity investments** in non-consolidated affiliates amounted at December 31, 2006 to € 2,125 million (December 31, 2005: € 1,903 million). Two companies feature in both the credit risk volume analysis and the equity risk calculation.

5. Market risk

By market risk the DZ BANK Group understands the risk of loss that can result from detrimental changes in market prices or price-determining parameters. Market risk further subdivides according to the underlying factors into the following component categories: interest rate risk, foreign exchange risk, equity price risk and commodity price risk.

For the DZ BANK Group market risk is generated primarily through customer-driven and proprietary trading activities as well as through DZ BANK's, BSH's and DG HYP's lending and real estate operations. R+V's investment activities also add to the group's market risk. Market risk also arises from DZ BANK's issuance of own securities. Interest rate risk is the most significant category of market risk for the DZ BANK Group. While significant portions of the interest rate risks facing DZ BANK are credit-rating-dependent, general non-rating-dependent interest rate risks are predominant in the other group companies.

Risk strategy

DZ BANK, DG HYP and R+V all operate on the principle that additional market risk may only be taken on if it is proportionate to the associated excess return potential and then only within the established limits. BSH does not engage in proprietary trading in the sense of exploiting short-term price fluctuations, so the focus of its risk strategy is on limiting the market risk resulting from its core business.

DZ BANK engages in proprietary trading in fixed-income, equity and forex products primarily to support its customer business. In contrast to traditional own-account trading, which centres on generating profit by taking risk, the bank sees its core expertise as the ability to enter into and manage risk in order to be in a position to offer a customer-demand-driven product range. DZ BANK's trading strategy therefore essentially focuses on generating income from customer and structuring margins, and the bank only enters into open market risk positions on a very limited scale. DZ BANK's hedging of market risks is sensitivities-based and either takes the form of internal transactions with the relevant product-responsible trading division that provides the market interface, or is effected through public exchanges.

The market risk strategy for capital investments in connection with R+V's **insurance activities** is determined by the provisions of Germany's Investment Order and the regulator-defined principles and rules for investing tied assets. Insurance companies are obliged to so invest their cover pool portfolios and other reserved assets as to ensure the maximum possible security and return while maintaining the liquidity of the cover at all times as well as the commensurate mix and spread of investments. As part of R+V's additional assets and liabilities management, institutionalised cooperation between the actuarial and investment divisions ensures that the potential of the invested assets is constantly balanced against the payment liabilities inherent in the insurance contracts.

The market risk taken on by R+V reflects its investments portfolio structure as developed through the strategic asset allocation process and reflects the individual risk capacity and the defined long-term return requirements of the R+V group companies. This risk is managed in compliance with the group-wide allocated risk capital.

Organisation and responsibilities

In the group's trading book institutions, market risk is managed on a decentralised basis by portfolios, with the risk and performance responsibilities assigned to the individual portfolio managers. R+V manages its market risk at the individual companies level.

A Quarterly Group Risk Report on the key market risk measures at the group level is submitted to the Group Risk Committee. Limit infringements at the level of group companies are notified to DZ BANK on an ad-hoc reporting basis.

As a routine part of management reporting, the risk controlling units of the group companies provide daily, weekly or monthly market risk updates both to the board members responsible for risk management and risk controlling and to the portfolio managers themselves. In the R+V subgroup, additional monthly reports are submitted to all the board members of the individual companies as well as the nominated group-wide risk managers and the portfolio managers. R+V's central risk management committee, known as the "Risk Conference", is also kept informed on a quarterly basis.

Measuring and limiting market risk

Market risk is measured using the **value-at-risk** approach, identifying the risk both across the group and for each individual consolidated group company. At the majority of the banking subsidiaries, market risk is managed by means of a **limits system** that is matched to the sub-portfolios structure and which sets limits for both the market risk entered into in specified parts of the group and also the losses that are potentially incurred over the course of the year. Within DZ BANK's trading divisions, value-at-risk-based risk management is supplemented by a sensitivities and scenarios-oriented limits structure.

The market risk of the banking operations' **non-trading portfolios** and the market risk of the non-banking activities result primarily from the group's capital investments. The procedures for quantifying and limiting the risk in the non-trading portfolios basically follow the same approach as for the trading operations. The risk inherent in the insurance business assigned to non-banking activities is measured using an internal risk model based on the concept used for the DZ BANK Group and the current regulatory status of R+V's Solvency II project.

Most of the group's **trading activities** are concentrated at DZ BANK. In order to satisfy Principle I KWG as well as for internal risk management purposes, an **internal risk model** is used to calculate the value-at-risk in DZ BANK's trading units at a 99 percent confidence level. A value-at-risk calculation is performed daily for all levels of DZ BANK's portfolio hierarchy with the aid of an historic simulation over a one-year observation period. DZ BANK's internal risk model has been approved by BaFin for calculating the required capital backing for general and specific market risk as defined by Principle I.

Backtesting and stress tests

Back tests are performed to verify the predictive quality of DZ BANK's value-at-risk approaches. This involves a comparison of the actual daily gains and losses with the value-at-risk values obtained from risk modelling. The bank also performs an annual fitness-for-purpose audit that involves extensive statistical testing of the internal model's predictive quality.

Stress tests are also run to factor extreme market movements into the internal risk model. The crisis scenarios involve simulating high-magnitude fluctuations in the risk factors and serve to identify potential losses not shown up by the value-at-risk approach. These stress tests model both extreme market movements that have actually occurred in the past and also crisis scenarios which – irrespective of the market data history – are deemed to be economically relevant. The value losses simulated through this stress testing are used as the basis for continuously reviewing the fitness-for-purpose of the internal limits.

The annual stress tests prescribed by BaFin check R+V's ability to fulfil its contractual obligations to policyholders in the event of an enduring crisis situation afflicting the capital markets.

As part of the **quarterly group risk report**, the group banking subsidiaries report to DZ BANK both any infringements of the institution-specific value-at-risk identified by back testing and the loss potentials simulated during stress testing.

Analysis of market risk for the DZ BANK Group

The risk capital requirement of the group's **banking operations** amounted to € 484 million at December 31, 2006 (December 31, 2005: € 522 million). As at the same date, the risk capital requirement of the trading operations amounted to € 161 million (December 31, 2005: € 180 million), and that of the non-trading portfolios to € 336 million (December 31, 2005: € 373 million). The risk capital requirement of investments in connection with the group's **non-banking operations** amounted to € 1,099 million at the year-end (December 31, 2005: € 986 million).

As at December 31, 2006 the DZ BANK Group's economic capital requirement for **aggregate market risk** amounted to € 1,583 million (December 31, 2005: € 1,508 million). This total results from the simple addition of the risk capital requirements for banking and non-banking activities. This compares with the allocated capital of € 2,772 million (2005: € 2,360 million), a ceiling that was complied with at all times during 2006.

The DZ BANK Group's **ad-hoc reporting system** did not establish any overdrafts of the limits at group companies during 2006.

Analysis of market risk for DZ BANK

The value-at-risk in DZ BANK's **trading operations**, based on a 99% confidence level and a one-business-day holding period, amounted at December 31, 2006 to € 24 million (December 31, 2005: € 39 million). The chart at the top of page 43 shows the evolution of the daily value-at-risk in DZ BANK's trading divisions during 2006. The reduction in the value-at-risk in January and December resulted essentially from a scenario change in the historical simulation which involved a credit spread change – that had previously determined the value-at-risk – falling out of the historic data period through the passage of time.

The value-at-risk in DZ BANK's **non-trading portfolios** was measured at December 31, 2006 at € 13 million (December 31, 2005: € 20 million). The reduction compared with the figure at the end of 2005 was due to multiple scenario changes.

DZ BANK's **total value-at-risk** amounted at December 31, 2006 to € 36 million (December 31, 2005: 56 million €). DZ BANK was allocated risk capital of € 300 million in respect of 2006, the same as in 2005; the measured risk capital requirement did not reach this ceiling at any time during the course of the year. At December 31, 2006 DZ BANK's economic capital requirement for market risk amounted to € 230 million (December 31, 2005: € 234 million).

Change in DZ Bank's trading operations' daily value-at-risk

in € million; 99% confidence level, holding period of 1 business day

Summary and outlook

Throughout the course of 2006, both the group's and DZ BANK's risk capital requirement for market risk remained at all times below the board-defined allocated capital for market risk. The DZ BANK Group will continue to pursue basically the same market risk strategy in 2007 as in previous years, and the limits set will continue to reflect the group's risk-taking capacity. As in all the recent years, the group's trading operations will continue to prioritise customer-driven business.

6. Liquidity risk

By liquidity risk the DZ BANK Group means the danger that insufficient funds will be available to fulfil due payment obligations. Market liquidity risk is the potential for loss created by detrimental changes in market liquidity – for instance, deteriorating market depth or disturbances of the market. The group is exposed to liquidity risk primarily through the operations of DZ BANK, BSH, DG HYP and DZI.

Risk strategy

The defined objective of liquidity management, both at the level of the DZ BANK Group and at DZ BANK, is to ensure solvency at all times. Another aim is to sustainably minimise the incurred liquidity costs.

Organisation and responsibilities

The strategic framework requirements for the DZ BANK Group's liquidity management are defined and approved by the Group Risk Committee. It is on this foundation that the Market Working Group centrally coordinates all liquidity risk management via DZ BANK's Treasury unit. Operational liquidity risk management is located both at DZ BANK and at the group companies and covers both euro and foreign-currency exposures. To ensure the efficient management of the group's liquidity risk, the liquidity flows of all major group companies have been integrated through DZ BANK's group clearing function.

Intra-year liquidity

Intra-year liquidity monitoring is based on daily, weekly or monthly **cash flow projections**. At DZ BANK and in some group companies, the reporting is performed by Controlling units. DZ BANK's short-term liquidity is monitored via a daily report that captures the cumulative liquidity flows (forward cash exposure) and available liquidity reserves (counterbalancing capacity). This report analyses liquidity in business-as-usual conditions as well as under selected stress scenarios and covers both expected and unexpected liquidity flows. It includes significant positions at DZ BANK as well as clearing payment flows to and from the subsidiaries. Limiting is based on the minimum liquidity surplus that is forecast over a twelve-month period.

Liquidity ratios

Maturity band up to 1 month	31.12.2006	30.09.2006	30.06.2006	31.03.2006	31.12.2005
DZ BANK Group[1]	1.16	1.27	1.12	1.11	1.06
DZ BANK[2]	1.22	1.34	1.16	1.17	1.10

1 Calculations based on Principle II KWG approach
2 Regulatory liquidity ratios as defined by Principle II KWG

The monitoring of **intraday liquidity** is performed within the ongoing management of the central bank accounts and other accounts in Germany and abroad, by the units responsible for liquidity management at the group companies.

In addition to the group's internal management tools, short-term liquidity risk is also limited by **regulatory requirements**. This is the case both for DZ BANK and for its main German and foreign subsidiaries, which are all subject to equivalent regulatory regimes for liquidity monitoring under the relevant national law. An institution's liquidity is deemed to be adequate provided the liquidity ratio it is required to report on a monthly basis to the regulator, does not fall below the value 1. The liquidity ratio expresses the relationship between the funds available in the first maturity band and payment obligations that can be called down during this period. The DZ BANK Group's domestic credit institutions complied with the requirements of section 11 KWG in conjunction with Principle II KWG at all times during 2006.

As part of the group-wide liquidity risk reporting system, each quarter the Principle II KWG data for the domestic group companies with bank status and the Principle-II-equivalent values of the foreign group companies and non-bank companies are consolidated with the corresponding data for DZ BANK. This provides the basis for calculating what is known as a **"Group Principle II KWG"** measure that enables existence-threatening liquidity risks to be determined within the group.

The table above shows both DZ BANK's regulatory liquidity ratios and the liquidity ratios for the DZ BANK Group calculated on the basis of the Principle II KWG system.

Maturity ladder

A maturity ladder tool is used to manage medium and long-term liquidity. At DZ BANK and in selected subsidiaries, maturity ladders are generated at least once a month and the results are reported to the committees responsible for strategic liquidity positioning decisions. DZ BANK's Controlling division produces a maturity ladder on a daily basis and reports the results to the Treasury function and to the members of the Board of Managing Directors responsible for Treasury and Controlling. The Treasury Committee and the Entire Board of Managing Directors are included in the information exchange on a once-weekly cycle.

Strategically undesired liquidity gaps are closed by managing the processes of issuance and repurchases of own securities. Liquidity management is further assisted by setting internal transfer prices for liquidity-binding assets and liabilities.

Funding

The DZ BANK Group's and DZ BANK's **short and medium-term funding** is built on the principle of appropriately broad diversification in terms of investor groups, regions and products. DZ BANK's core funding resources are deposits by local cooperative banks. The table at the top of page 45 shows the changes in the composition of the main unsecured short and medium-term funding headings compared with 2005.

Since unsecured wholesale funding is a finite resource, DZ BANK's liquidity management unit performs monthly structural analyses of the differentiated liabilities-side resources. These analyses provide management information and are the basis for the active management of the bank's liabilities profile.

Unsecured short and medium-term refinancing by investor groups

	DZ BANK Group		DZ BANK	
in %	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Local cooperative banks	28	36	33	43
Interbank	37	36	38	38
Corporate customers	19	20	16	14
Commercial paper/certificates of deposit	16	8	13	5

To secure day-to-day liquidity, the liquidity management unit maintains portfolios of highly liquid securities which can be used to raise funds either by selling the assets or by depositing as eligible collateral for open-market funding transactions with central banks. These securities can also be used for bilateral repurchase agreements or in the tri-partite repurchase agreement market (secured funding). In the event of a temporary liquidity shortage, the liquidity management unit can also call on non-repo-refinanced securities held by DZ BANK's trading divisions to use for intraday liquidity management purposes with central banks.

Long-term funding is generated through structured and unstructured capital market products that are mostly distributed via local cooperative banks' own and third-party securities account operations and via other German and international institutional customers. Both DZ BANK and DG HYP are authorised to raise liquidity by issuing covered bonds – DZ BANK Briefe in the case of DZ BANK and pfandbriefe in the case of DG HYP. The group's funding operations primarily target institutional investors.

Market liquidity risk

At DZ BANK the responsibility for and management of market liquidity risk has been delegated to the portfolio managers tasked with managing market risk. Significant market liquidity risks only arise for DZ BANK in relation to certain credit-risk-bearing securities and credit derivatives positions. In terms of securities, these are mainly asset backed securities held on the basis of strategic considerations.

Summary and outlook

The liquidity gaps identified by the maturity ladders do not constitute potentially existence-threatening incongruences in the DZ BANK Group's funding structure. The group's liquidity risk monitoring capability will be further upgraded in the coming year.

7. Underwriting risk

Underwriting risk refers to the danger of unforeseen losses arising from insurance operations. Underwriting risk arises within the DZ BANK Group through the business activities of the insurance subgroup R+V.

Risk management in the direct business of life and health insurance

The key determinant of the underwriting risk situation in the life insurance operations is the long-term nature of the benefit guarantees on the insured event at the same time as the premiums are fixed. To ensure their ability to satisfy all their payment obligations under the insurance contracts, the companies set aside reserves. The dimensioning of these reserves is based on assumptions about the future trend of biometric risks, investment returns and costs plus allowances for cancellation risk. These calculation bases are dimensioned to cope with both the present risk situation and a possible change risk. The risk that these calculation bases will change over time is kept manageable through the companies' prudent product development and actuarial controlling systems.

Claims rates and winding-up results on underwriting risks in the direct business of property and casualty insurance

in %	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Net claims rate in % of earned premiums										
Including large-scale/catastrophe claims	71.0	71.5	72.0	71.8	80.7	73.2	71.3	68.0	64.2	60.4
Excluding catastrophe claims	69.8	70.4	71.1	71.2	77.7	72.0	71.2	66.6	63.9	60.4
Winding-up results	7.1	5.7	2.5	4.4	4.5	8.2	9.6	17.0	13.2	14.3

The interest guarantee and reinvestment risk are particularly closely monitored in view of the generally low level of capital market rates. The short-term earnings situation of the R+V group companies is not impaired, and the companies are also taking medium to long-term initiatives to cap the guarantees on new and existing business.

The size of the cover resources needed to preserve solvency is continually reviewed using stress tests and scenario analyses as a part of the routine assets/liabilities management process. The profit-participation rate is fixed annually to ensure that the free with-profits reserve together with the investment valuation reserves – allowing for anticipated current interest income – always provide sufficient free funds to cover the interest guarantee risk.

The outstanding feature of the underwriting risk situation in health insurance is the steady rise in the costs of claims, due firstly to the expansion of the customer base and secondly to changes in the behaviour of policyholders and service providers. The companies are countering these risks by applying a risk-aware business acceptance policy characterised by binding acceptance guidelines, meticulous risk selection and targeted benefits and costs management. The responsible actuary continuously monitors the adequacy of the assumptions and parameters factored into the calculation.

Risk management in the direct business of property and casualty insurance

The key determinants of the underwriting risk situation for property and casualty insurers are the premiums/claims risk and the reserve risk. To make these risks manageable, the pricing of this category of business is the subject of precise calculations based on mathematical-statistical models. Actively managing the composition of its business enables R+V to balance its risks over regions and segments. Passive reinsurance helps to limit the cost of discrete risks and cumulative claims. Adequate claims reserves have been formed to cover both known and unknown losses. R+V continuously monitors the consumption of these reserves and the lessons learned are fed back into the current estimates. The equalisation funds also help to balance out chance variations in the claims incidence over time.

The overall claims situation eased again in 2006, as it did during 2005. In the patterns of natural hazards claims, there were marked regional excursions due to severe hail storms in eastern and southern Germany. On the whole however, the burden of natural hazard losses was not exceptional. The above table shows the annual changes in the claims rates and winding-up results for the last ten years.

Risk management in the indirect reinsurance business

The main underwriting risks facing reinsurers are imbalances in the portfolio, excessive exposure to catastrophe claims and far-reaching changes in the fundamental trends of the principal market segments. R+V counters these risks through continuous observation of the market. It pays particular attention to maintaining a balanced portfolio, both in terms of its worldwide territorial diversification and in terms of its sectoral mix.

R+V's assumption of risks is subject to prescribed subscription limits that cap its liability in respect of both individual and cumulative claims. The possible burden from catastrophe losses is continuously recorded, broken down by scale and frequency, and monitored using market-standard methods including an IT system and backed up by in-house-developed verification processes.

The absence of large-scale disasters in 2006 and R+V's disciplined approach to the writing of business has improved profitability.

Summary and outlook
The economic capital requirement for underwriting risk was measured at € 1,262 million at December 31, 2006 and was therefore higher than the 2005 figure of € 931 million. This increased risk capital requirement resulted from a change of risk calculation methodology – R+V has stopped using the German insurance industry association's (GDV) factor-based model and has adopted a market-value-oriented approach that is in harmony with the standards of the DZ BANK Group. The allocated capital in respect of underwriting risk of € 1,785 million (2005: € 1,158 million) was complied with at all times during the year. Heightened underwriting risks were not identified during 2006.

The first draft of the proposals for the root-and-branch reform of Germany's insurance law regime published during 2006, and the risks these preliminary proposals present, will have serious implications for the insurance industry and its business model in the years to come, and specifically for the life assurer R+V Lebensversicherung AG, Wiesbaden. The reform bill is expected to be finalised and passed into law during 2007. R+V's health insurance business believes the coming healthcare reforms will expose it to particular risks in the area of comprehensive healthcare insurance.

8. Operational risk

Using an approach that is based closely on the banking regulators' definition, the DZ BANK Group understands operational risk as the threat of unforeseen losses caused through human behaviour, technological failures, process or project management weaknesses, or external events. This definition includes legal risks, but excludes strategic risks and reputation risks.

Besides DZ BANK, the major group companies such as BSH, DG HYP, DZI, R+V and UMH are integrated into the group-wide operational risk management system.

Risk strategy
The strategy for handling operational risk is based on the DZ BANK Group's and DZ BANK's risk-taking capacity. At present the implementation of the risk strategy is predominantly qualitative in nature. The group-wide operational risk loss potential is estimated using the standard approach defined by Basel II.

Organisation and responsibilities
The group's functional organisation model provides a central point of reference for all other tools, in that it comprehensively describes the roles and responsibilities of all process participants. The fundamental management responsibility for operational risks has been distributed to the individual organisation units. Universal functions, such as legal, personnel or IT management, are centrally delivered by specialised divisions and departments within the framework of central risk management. The group companies and DZ BANK have set up stand-alone Controlling units that are charged with developing and implementing methodologies for the controlling and management of operational risks and with independently monitoring risk management.

Management tools
Loss data collection occurs at group level with the objective of identifying, analysing and evaluating loss events in order to be able to detect trends and concentrations of operational risks. The collected loss data is used to build up a data history that is further enriched with external loss data. This external data takes the form of published sources (Fitch FIRST) as well as the anonymised data shared between the German public-sector banks' data consortium (DakOR).

In order to identify and evaluate all operational risks and create the maximum possible transparency as to the group's risk situation, **self-assessment processes** have been established in many areas of the DZ BANK Group. This involves experts from all the business segments assessing operational risk. The core components of self-assessment are a risk potential assessment to identify significant risks, guided questionnaires on the risk management process, and questions on specific discrete risks.

Supplementing the loss data archive and self-assessment, **risk indicators** make it possible to draw early-stage conclusions about emerging risk trends. Risk situations are signalled by a traffic light system based on prescribed thresholds. Risk indicators are extensively, systematically and regularly surveyed within the DZ BANK Group.

The regular reporting of internal and external loss data, self-assessments and risk indicators to the management and Board levels ensure the timely management of operational risk.

Summary and outlook

DZ BANK has continued during 2006 to work hard on the design and implementation of sophisticated tools for managing and controlling operational risk. DZ BANK has surveyed the degree of readiness for the Basel standard approach amongst the companies that make up the DZ BANK banking group, and has established an operational risk management toolkit. These initiatives have prepared the ground for notifying the banking regulator of the bank's adoption of the standard approach. The banking operations will report their operational risk capital underpinning to BaFin on the basis of the standard approach for the first time in 2007. Work will also continue group-wide to extend and upgrade the existing operational risk management system in the current year.

The DZ BANK Group's economic capital requirement in respect of operational risk was measured at € 563 million (December 31, 2005: € 625 million) as at December 31, 2006. This figure was below the allocated risk capital of € 779 million (2005: € 708 million) at all times throughout 2006. DZ BANK's risk capital requirement was measured at € 192 million (December 31, 2005: € 203 million) at December 31, 2006. The allocated capital was € 330 million (2005: € 250 million); this ceiling was not breached at any time during 2006.

9. Strategic risk

By strategic risk the DZ BANK Group understands the danger of losses that result from management decisions on the business-policy positioning of the DZ BANK Group and DZ BANK.

Strategic risks also result from unforeseen changes in market trends or environmental conditions that have a negative impact on profitability.

An important sub-aspect of strategic risk is business risk. This is understood as the potential for losses that results from the fact that falling revenue cannot be fully compensated by equivalent cost reductions. Strategic risk is also determined by the unique characteristics of different industries. In this context, BSH's collective risk is of particular significance for the DZ BANK Group.

Organisation and responsibilities

The management of strategic risk at the group level is the primary role of the Board of Managing Directors of DZ BANK in consultation with the directors of the group companies.

Group management is embedded into a committees structure whose apex is the Group Coordination Circle. This top-level body is supported by 5 function-specific working groups with representation from all business segments: International Coordination, Product and Sales Coordination; IT, Operations and Resources; Risk Management; Corporate and Group Management. The Group Coordination Circle's business-line-centred corporate management activity is supported by segment-specific Advisory Councils made up of representatives of the local cooperative banks. This structure is a major contributory factor in the avoidance and containment of strategic errors and permits the maximum degree of coordination – while preserving full subsidiarity – for the benefit of the local cooperative banks.

Planning and management system

The DZ BANK Group's management of strategic risk is based on the forward-looking evaluation of success factors coupled with the definition from these of performance targets for the key group companies and DZ BANK's business segments. The foundation for this target-setting is the Strategic Planning Dialogue and its component modules: financial planning, regulatory and economic capital planning, planning of targets for commissions and bonuses payable to local cooperative banks, and strategic initiatives. A management information system monitors the achievement of targets.

Repositioning and Focus Initiatives
DZ BANK embarked on a repositioning process in 2003 that has made a significant contribution toward limiting strategic risk.

DZ BANK's divisions and subsidiaries have consulted closely with the business-line-based Advisory Councils to develop and launch a series of strategic initiatives – dubbed Focus Initiatives – that all aim to strengthen the effectiveness of the local cooperative banks. Examples include the "Financial services partners with the cooperative financial services network" initiative led by DZ BANK, which is aimed at improving the local cooperative banks' retail operations. The progress of the individual Focus Initiatives is regularly reported to the Group Coordination Circle.

Collective risk in the home savings and loan business
A unique feature of the home savings and loan business is that BSH measures its risk position by reference to a simulated "living collective base" that evolves in response to a wide range of influence parameters mapping customers' optional behaviour. Negative effects that result from non-interest-rate-induced behavioural changes are referred to as collective risk. Regular analysis of changes in the collective patterns of behaviour (by way of either monthly collective simulations or supplementary scenario and stress analyses) allows BSH to continuously test the stability of its home savings collective, so that it is in a position to take prompt management action when required. The management responses operate through forward-looking tariff-structure and product strategies and also through the integrated management of collective and non-collective business.

Changes in markets and framework conditions
The "Outlook" section on page 50 of the Management Report outlines the DZ BANK Group's business strategy and view of the probable environmental and market trends during 2007, and their implications for earnings growth. These factors are the key determinants of the group's strategic positioning in the current financial year.

The DZ BANK Group's **economic capital requirement** for strategic risk amounted as at December 31, 2006 to € 1,124 milion (December 31, 2005: € 276 million) and was at all times during the year below the allocated risk capital of € 1,361 million (2005: € 399 million). The marked increase in this risk capital requirement compared with 2005 was due primarily to the first-time inclusion of the building-society-specific components in the strategic risk calculation. DZ BANK's risk capital requirement as at December 31, 2006 was measured at € 75 million (December 31, 2005: € 85 million). In this case too, the allocated risk capital of € 158 million (2005: € 153 million) was not exceeded at any point during 2006.

10. Summary

Modern management and monitoring tools have been deployed in every area of risk across the DZ BANK Group, and they will continue to be progressively refined and improved. The group is guided in the development of its risk management capability by the regulatory solvency requirements.

The group-wide risk capital management system ensures consistent and comprehensive risk determination across six exclusively demarcated risk categories. This risk capital management system directly integrates all the major group subsidiaries. The remaining group companies are recognised under the heading of equity risk and managed in this way. As part of ongoing economic capital adequacy analysis, a value-at-risk approach based on the DZ BANK Group's credit rating is used to identify both the group's risk-taking capacity and its risk capital requirement. This is then built on to establish the group's risk-adjusted profitability. As central management ratios, EVA and RORAC are both integral components of the strategic planning process. The combination of these approaches enables the DZ BANK Group to generate the requisite transparency as to its risk structure and profitability and to thereby create the foundation for risk and return-related corporate management.

Both the DZ BANK Group as a whole as well as DZ BANK and the other group companies consistently operated within the boundaries of the defined economic risk-taking capacity during 2006. The regulatory capital adequacy requirements were also satisfied at all times throughout 2006, whether they related to the DZ BANK financial services conglomerate, the DZ BANK banking group or the R+V insurance group. The DZ BANK Group is very confident the same will be true in 2007.

III. Outlook

Strongly growing foreign demand is continuing to buoy up the German economy, and foreign trade is likely to make approximately the same level of contribution to economic growth in 2007 as last year. On the other hand, the growth of domestic demand is likely to slow in the coming year as the value-added tax increase in Germany early in the year will sap demand and affect private consumption spending and residential construction especially. The prospects for corporate investment remain positive on the other hand.

The improvement of the jobs market will have an increasingly positive effect on private consumption as the year goes on, however. Falling joblessness and resurgent employment growth will lift consumer confidence. Overall however, economic growth is expected to be slightly weaker in 2007 than in 2005. The savings rate will rise again slightly compared with 2006. Private pension provision is continuing to increase in significance, and this should continue to support the financial services sector's sales of deposit and pension products.

On the basis of this favourable macroeconomic environment, the Board of Managing Directors is confident that business opportunity will outweigh the downside potential described in the Risk Report again in 2007.

The DZ BANK Group expects modest operating income growth. Together with TeamBank's success in distributing easyCredit and the positive trend of the save-to-build business, the volume expansion of the business banking conducted by the local cooperative banks and the DZ BANK Group's direct business with large corporate customers are likely to have the most important positive effect on net interest income. Building on the cross-selling successes achieved in the corporate customers segment during 2006, a similar rate of growth is expected in 2007.

The DZ BANK Group's net commission income is seen broadly stable in 2007. DZ BANK is going to step up its effort in the certificates area. The continuing growth of new business in the save-to-build sector also appears to be generating additional commission payments from Bausparkasse Schwäbisch Hall to the local cooperative banks. In the consumer credit sector similarly, the flow of commission payments from TeamBank to the primary banks is expected to swell. On the basis of the current projections for our capital market operations, we also expect a slightly higher net gain from financial and investment banking operations.

General administration expenses will fall on balance both at the DZ BANK Group and at DZ BANK. This is firstly because the additions to the provisions for pensions and similar obligations will be significantly lower in 2007. The discounting rate used to calculate pension liabilities and value pension reserves was reduced from 6.0 percent to 4.5 percent during 2006 in order to reflect the enduring fall of bond market yields, and this required an exceptional endowment of € 193 million in 2006 that will not recur. Excluding this one-off cost, administrative expenses can be expected to rise slightly in line with the expansion of business.

The DZ BANK Group's and DZ BANK's risk provisioning needs have benefited substantially in recent years from the previous conservative approach applied when making individual valuation allowances: large numbers of these earlier provisions have since been released and this has significantly reduced the risk provisioning requirements to below-budget in the most recent years. This situation is expected to revert to the norm in the current year and produce a small rise in the DZ BANK Group's provisions for risk.

The retail and business banking initiatives launched in the last two years have already started to bear fruit, and will have a positive impact on operating income in the Bank segment especially in 2007. Operating income is also expected to continue to increase in the Retail business segment because of initiatives that are currently underway aimed most importantly at raising the profiles of Union Investment as an asset management solutions provider and of TeamBank as the local cooperative banks' exclusive partner in instalment credit.

In the Property Finance business segment, the DZ BANK Group is confident of further growth in both the save-to-build and the construction/ mortgage finance operations. The Insurance business segment is aiming for market-beating premium income growth again despite the more difficult political and legal framework it will have to operate in. One of the main sources of stimulus will again be close cooperation between Union Investment and R+V in the retirement pensions market. In the aggregate, the packages of initiatives described are expected to keep earnings stable at both the DZ BANK Group and DZ BANK in the current financial year.

Issuers of listed debt instruments with domiciles in the European Union (EU) are obliged to prepare their consolidated financial statements in accordance with IFRS (International Financial Reporting Standards) in respect of the 2007 financial year at the latest. The DZ BANK Group has done the necessary preparatory work to permit this. This consolidated annual report will therefore be the last in which accounting is based on Germany's Commercial Code (HGB).

Financial Statements of the DZ BANK Group and DZ BANK AG

Consolidated Balance Sheet of the DZ BANK Group as at December 31, 2006
Assets

in € million	(Note)	31.12.2006	31.12.2005
1. Cash reserve		**1,386**	**457**
a) Cash on hand		61	110
b) Balances with central banks		1,325	346
of which: with Deutsche Bundesbank		(1,124)	(145)
c) Balances with postal giro agencies		–	1
2. Debt instruments of public-sector entities and bills of exchange eligible for refinancing at central banks		**250**	**29**
Treasury bills, discountable treasury notes and similar debt instruments of public-sector entities		250	29
of which: eligible for refinancing at Deutsche Bundesbank		(215)	(10)
3. Placements with, and loans and advances to, other banks	(7)	**112,590**	**107,840**
a) Repayable on demand		7,978	6,258
b) Other receivables		104,612	101,582
of which: relating to saver's building loans		(11)	(11)
relating to mortgage loans		(217)	(237)
relating to local authority loans		(4,400)	(4,486)
4. Loans and advances to non-bank customers	(7)	**103,947**	**101,160**
of which: secured by mortgages (excluding construction loans advanced by Bausparkasse Schwäbisch Hall)		(23,255)	(25,033)
a) Mortgage loans		23,303	24,746
b) Local authority loans		19,780	18,815
c) Construction loans advanced by Bausparkasse Schwäbisch Hall		17,163	17,778
of which: secured by mortgages		(13,364)	(13,680)
ca) Allocations of saver's building loans		6,224	6,957
cb) Preliminary and bridge finance		10,106	9,920
cc) Other		833	901
d) Other receivables		43,701	39,821
5. Bonds and other fixed-interest securities	(7, 19, 20)	**154,983**	**131,027**
a) Money-market instruments issued by		667	585
aa) public-sector issuers		64	202
of which: qualifying as repo collateral at Deutsche Bundesbank		(–)	(202)
ab) other issuers		603	383
of which: qualifying as repo collateral at Deutsche Bundesbank		(–)	(141)
b) Bonds issued by		137,704	115,644
ba) public-sector issuers		29,329	28,405
of which: qualifying as repo collateral at Deutsche Bundesbank		(27,125)	(24,639)
bb) other issuers		108,375	87,239
of which: qualifying as repo collateral at Deutsche Bundesbank		(65,743)	(56,545)
c) Own bonds		16,612	14,798
Nominal value		(16,433)	(14,635)

in € million	(Note)	31.12.2006	31.12.2005
6. Equity shares and other variable-yield securities	(19, 20)	**2,630**	**2,801**
7. Insurance-related investments	(13)	**43,816**	**41,253**
8. Other insurance-specific assets	(14)	**2,203**	**1,799**
9. Participations	(20, 21)	**578**	**352**
of which: in banks		(439)	(179)
in financial services institutions		(7)	(9)
10. Shares in associated companies	(21)	**470**	**371**
of which: in banks		(336)	(325)
in financial services institutions		(42)	(34)
11. Shares in related companies	(20, 21)	**1,024**	**1,026**
of which: in banks		(76)	(72)
in financial services institutions		(10)	(2)
12. Assets held on trust basis	(15)	**2,576**	**2,674**
of which: trust loans		(1,183)	(1,152)
13. Intangible assets	(21)	**132**	**146**
14. Property and equipment	(21)	**5,408**	**5,206**
15. Own equity or partnership shares	(22)	**–**	**24**
Calculated value		(–)	(10)
16. Other assets	(25)	**3,593**	**2,184**
17. Deferred tax assets	(26)	**1,660**	**1,532**
18. Accrued income and deferred expenses	(27)	**1,738**	**1,747**
a) from issuance and lending operations		827	810
b) other		911	937
Total assets		**438,984**	**401,628**

Equity and liabilities

in € million	(Note)	31.12.2006	31.12.2005
1 . Deposits from other banks	(7)	**165,161**	**155,588**
a) Repayable on demand		25,732	29,463
b) Fixed-term or agreed notice		139,429	126,125
of which: issued registered mortgage pfandbriefe		(788)	(718)
issued registered public-sector pfandbriefe		(1,807)	(1,303)
issued registered mortgage and public-sector pfandbriefe assigned to lenders as security on loans taken out		(14)	(16)
savings deposits under save-to-build plans		(252)	(309)
of which: relating to plans under notice		(1)	(–)
relating to allocated saver's building loans		(2)	(–)
2. Amounts owed to other depositors	(7)	**94,092**	**85,463**
a) Deposits under save-to-build plans and on savings accounts		31,750	30,569
aa) Savings deposits with three-months notice term		–	292
ab) Savings deposits with more than three-months notice term		–	11
ac) Savings deposits under save-to-build plans		31,750	30,266
of which: relating to plans under notice		(48)	(46)
relating to allocated saver's building loans		(108)	(110)
b) Other liabilities		62,342	54,894
ba) Repayable on demand		9,994	9,265
bb) Fixed-term or agreed notice		52,348	45,629
of which: issued registered mortgage pfandbriefe		(2,977)	(3,060)
issued registered public-sector pfandbriefe		(8,549)	(5,969)
issued registered mortgage and public-sector pfandbriefe assigned to lenders as security on loans taken out		(43)	(65)
3. Securitised liabilities	(7)	**106,202**	**92,364**
a) Issued bonds		90,742	83,453
aa) Mortgage pfandbriefe		13,219	14,344
ab) Public-sector pfandbriefe		35,554	33,472
ac) Other bonds		41,969	35,637
b) Other securitised liabilities		15,460	8,911
of which: money-market instruments		(9,898)	(3,179)
4. Liabilities arising from trust operations	(15)	**2,576**	**2,674**
of which: trust loans		(1,183)	(1,152)

in € million	(Note)	31.12.2006	31.12.2005
5. Other liabilities	(28)	**4,282**	**3,077**
6. Accrued expenses and deferred income	(27)	**3,128**	**3,086**
a) from issuance and lending operations		182	183
b) other		2,946	2,903
7. Provisions	(7, 26)	**3,455**	**2,994**
a) Provisions for pensions and similar obligations		1,100	848
b) Provisions for taxes		462	478
c) Other provisions		1,893	1,668
8. Building societies guarantee fund		**508**	**493**
9. Insurance reserves	(29)	**42,112**	**38,335**
10. Other insurance-specific liabilities	(30)	**2,953**	**3,732**
11. Subordinated liabilities	(7, 31)	**2,579**	**2,975**
12. Participatory capital	(7, 32)	**1,795**	**2,467**
of which: maturing within two years		(331)	(796)
13. Fund for general banking risks		**786**	**786**
14. Capital and reserves	(23)	**9,355**	**7,594**
a) Subscribed capital		3,028	2,879
b) Capital reserve		834	528
c) Revenue reserves		1,578	569
ca) Statutory reserve		53	27
cb) Reserve for own shares		–	24
cc) Other revenue reserves		1,525	518
d) Adjustment item for minority interests		3,764	3,508
e) Consolidated profit		151	110
Total equity and liabilities		**438,984**	**401,628**

1. Contingent liabilities		**14,231**	**12,225**
a) Liabilities arising from guarantees and warranties provided		14,225	12,115
b) Liabilities arising from the provision of securities on third-party liabilities		6	110
2. Other obligations		**22,504**	**18,892**
Irrevocable credit commitments		22,504	18,892
3. Specialist funds managed on behalf of shareholders		**137,275**	**129,278**
Sum of inventory values		137,275	129,278
Number of specialist funds administered: 623 (2005: 622)			

Consolidated Income Statement of the DZ BANK Group for the Period from January 1 to December 31, 2006

in € million	(Note)	2006	2005
1. Interest earned from		**12,409**	**11,536**
a) Lending and money-market operations		8,852	8,592
of which: relating to saver's building loans		(312)	(384)
relating to preliminary and bridge finance		(531)	(545)
relating to other construction loans		(52)	(57)
b) Fixed-interest securities and government-inscribed debt		3,557	2,944
2. Interest expense		**10,238**	**9,342**
of which: on savings deposits under save-to-build plans		(786)	(755)
3. Current income from		**192**	**156**
a) Equity shares and other variable-yield securities		105	92
b) Participations		34	25
c) Shares in associated companies		25	23
d) Shares in related companies		28	16
4. Income from profit pools and profit transfer or profit sharing agreements		**49**	**11**
5. Commissions earned	(36)	**2,595**	**2,380**
of which: business conclusion and introduction fees from Bausparkasse Schwäbisch Hall		(256)	(250)
loan administration fees following allocation by Bausparkasse Schwäbisch Hall		(26)	(33)
6. Commission expense	(36)	**1,581**	**1,352**
of which: business conclusion and introduction fees paid by Bausparkasse Schwäbisch Hall		(541)	(501)
7. Net gain from financial and investment banking transactions		**394**	**375**
8. Income from insurance operations	(37)	**11,650**	**10,993**
9. Expense from insurance operations	(38)	**11,475**	**10,787**
10. Other operating income	(40)	**2,823**	**2,358**
11. General administrative expenses		**2,568**	**2,282**
a) Personnel expenses		1,492	1,222
aa) Wages and salaries		1,028	988
ab) Compulsory social security contributions and expenses for pension benefits and welfare		464	234
of which: for pensions provision		(328)	(100)
b) Other administrative expenses		1,076	1,060
12. Depreciation and valuation allowances on tangible and intangible assets		**117**	**125**

in € million	(Note)	2006	2005
13. Other operating expenses	(40)	**2,283**	**2,017**
14. Depreciation and valuation allowances on loans and advances and certain securities, plus additions to provisions on lending business		**380**	**423**
15. Depreciation and valuation allowances on participations, shares in related companies and securities treated as fixed assets		**25**	**79**
16. Addition to the fund for general banking risks		**–**	**50**
17. Expenses from the assumption of losses		**23**	**66**
18. Result of ordinary operations		**1,422**	**1,286**
19. Extraordinary expenses	(41)	**29**	**75**
20. Taxes on extraordinary result	(42)	**-12**	**-30**
21. Net extraordinary result		**-17**	**-45**
22. Taxes on the result of ordinary operations	(42)	**-54**	**544**
23. Other taxes not included under Other operating expenses heading		**11**	**16**
24. Earnings paid out under profit pools and profit transfer or profit sharing agreements		**47**	**47**
25. Result after taxes		**1,401**	**634**
26. Attributable to minority interests		**233**	**213**
27. Withdrawals from revenue reserves		**24**	**–**
From reserve for own shares		24	–
28. Allocations to revenue reserves		**1,041**	**311**
a) to statutory reserve		26	11
b) to other revenue reserves		1,015	300
29. Consolidated profit		**151**	**110**

Consolidated Cash Flow Statement

in € million	2006	2005
Net result on period (including minority interests) before extraordinary items and taxes	**1,422**	**1,286**
Non-cash items included in net result on period and reconciliation with cash flows from operating activities:		
Depreciation, valuation allowances and write-ups on loans and advances, property and equipment and non-current financial assets (including leasing)	1,513	1,495
Increase/decrease in provisions (excluding deferred taxes)	475	-300
Increase/decrease in insurance reserves	3,777	3,368
Other non-cash income/expense (including insurance-related items)	-131	17
Profit/loss on disposals of non-current financial assets and property/equipment	-15	-5
Other adjustments (net)	-3,156	-2,623
Sub-total	**3,885**	**3,238**
Cash change in current assets and liabilities from operating activities:		
Claims		
– Placements with, and loans and advances to, other banks	-2,744	-9,608
– Loans and advances to non-bank customers	-3,062	-4,387
Securities held for dealing purposes	-19,672	-21,311
Other current assets	-1,301	-120
Other insurance-specific assets	-194	537
Liabilities		
– Deposits from other banks	7,393	23,783
– Amounts owed to other depositors	8,590	5,136
Securitised liabilities	13,814	10,446
Other current liabilities	1,162	1,202
Other insurance-specific liabilities	-995	-898
Interest and dividend received	10,187	9,764
Interest paid	-7,300	-6,876
Actual tax payments	-74	-401
Cash flow from operating activities	**9,689**	**10,505**
Proceeds from		
– the sale of non-current financial assets	4,368	4,334
– the sale of property and equipment	1,254	1,130
Payments for		
– the acquisition of non-current financial assets	-8,556	-11,343
– the acquisition of property and equipment	-2,503	-2,258
Proceeds from the sale of insurance-related investments	7,310	5,531
Payments for the acquisition of insurance-related investments	-9,674	-8,449
Effects from changes in the basis of consolidation	–	-32
Changes in funds from other investing activity (net)	-46	-54
Cash flow from investing activities	**-7,847**	**-11,141**

in € million	2006	2005
Proceeds from capital increases	479	–
Cash payments to owners and minority shareholders (dividends)	-282	-229
Change in funds from other capital (net) – including participatory and subordinated capital	-889	-39
Cash flow from financing activities	**-692**	**-268**

Cash funds at start of period	**486**	**1,390**
Cash flow from operating activities	9,689	10,505
Cash flow from investing activities	-7,847	-11,141
Cash flow from financing activities	-692	-268
Cash funds at end of period	**1,636**	**486**

The Consolidated Cash Flow Statement for the DZ BANK Group is structured in compliance with the requirements of the German Accounting Standard GAS (DRS) 2-10. It reconciles the starting value of the group's cash and cash-equivalents (funds) with the funds position at the close of the year by representing the year's net cash flows from operating, investing and financing activities.

The funds reported include cash on hand and balances with central banks (cash reserve). The cash equivalents include debt instruments of public-sector entities and bills of exchange.

Acquisitions of shares in fully consolidated companies generated negligible outflows during the year (2005: € 32 million). Negligible cash or cash equivalents were acquired. Deconsolidations of subsidiaries had no impact on the funds position (as in 2005).

The first-time consolidation of companies resulted primarily in the acquisition of other insurance-specific assets to the value of € 210 million, non-current financial assets to the value of € 28 million, property and equipment to the value of € 19 million and deposits from other banks to the value of € 22 million. Deconsolidations of subsidiaries resulted most importantly in the disposal of placements with, and loans and advances to, other banks to the value of € 31 million and non-current financial assets to the value of € 32 million.

Segment reporting

By business line

2006 financial year

in € million	Bank	Retail	Property Finance	Insurance	Other/ Consolidation	Total
Net interest earned	897	520	1,231	–	-236	2,412
Risk provisions	-127	-125	-128	–	–	-380
Net commission income	440	795	-221	–	–	1,014
Net income from insurance operations	–	–	–	187	-12	175
Net gain from financial and investment banking transactions	380	14	–	–	–	394
Administration expense	-1,253	-829	-611	–	8	-2,685
Balance of other income/expense	482	232	4	–	-178	540
Result after risk provisions	**819**	**607**	**275**	**187**	**-418**	**1,470**
Segment assets	250,174	21,374	119,838	46,019	-15,850	421,555
Segment liabilities	249,546	18,326	113,754	45,065	-16,171	410,520
Balance sheet equity	5,826	1,903	3,073	1,198	-2,796	9,204
Return on equity in %[1]	15.8	33.4	11.1	16.4	–	18.2
Risk positions	58,438	8,295	35,232	–[2]	601	102,566
Cost/income ratio in %[1]	52.4	51.3	53.8	–	–	54.8
Total employees	6,479	4,033	3,703	9,840	–	24,055

[1] The additional expense incurred through the lowering of the applicable interest rate from 6.0 percent to 4.5 percent when calculating the year's provisions for pensions have not been included in the above figures.

[2] An adjustment to align insurance risks with banking metrics has not been made. The regulatory risk capital requirement of the insurance subgroup (group solvency) amounts to approximately € 1.9 billion.

By region

2006 financial year

in € million	Germany	Rest of Europe	Rest of world	Consolidation	Total
Result before risk provisions	1,371	407	242	-170	1,850
Risk provisions	-345	-49	14	0	-380
Result after risk provisions	**1,026**	**358**	**256**	**-170**	**1,470**
Segment assets	369,055	39,412	28,023	-14,935	421,555
Segment liabilities	358,124	42,486	23,215	-13,305	410,520
Cost/income ratio in %[1]	57.9	48.9	21.9	–	54.8

[1] The additional expense incurred through the lowering of the applicable interest rate from 6.0 percent to 4.5 percent when calculating the year's provisions for pensions have not been included in the above figures.

By business line

2005 financial year

in € million	Bank	Retail	Property Finance	Insurance	Other/ Consolidation	Total
Net interest earned	889	473	1,207	–	-208	2,361
Risk provisions	-44	-119	-224	–	-36	-423
Net commission income	482	739	-193	–	–	1,028
Net income from insurance operations	–	–	–	215	-9	206
Net gain from financial and investment banking transactions	364	11	–	–	–	375
Administration expense	-1,125	-715	-559	–	-8	-2,407
Balance of other income/expense	392	93	11	–	-155	341
Result after risk provisions	**958**	**482**	**242**	**215**	**-416**	**1,481**
Segment assets	220,998	22,180	112,078	43,052	-11,971	386,337
Segment liabilities	220,270	19,268	106,597	42,067	-12,720	375,482
Balance sheet equity	5,164	1,802	3,054	1,150	-3,686	7,484
Return on equity in %	18.6	26.7	7.9	18.7	–	19.8
Risk positions	80,720	8,157	32,957	–[1]	569	122,403
Cost/income ratio in %	52.9	54.3	54.5	–	–	55.8
Total employees	6,602	3,695	3,727	9,825	–	23,849

[1] An adjustment to align insurance risks with banking metrics has not been made. The regulatory risk capital requirement of the insurance subgroup (group solvency) amounts to approximately € 1.8 billion.

By region

2005 financial year

in € million	Germany	Rest of Europe	Rest of world	Consolidation	Total
Result before risk provisions	1,506	348	161	-111	1,904
Risk provisions	-447	-35	98	-39	-423
Result after risk provisions	**1,059**	**313**	**259**	**-150**	**1,481**
Segment assets	342,335	34,316	23,080	-13,394	386,337
Segment liabilities	332,621	38,458	16,509	-12,106	375,482
Cost/income ratio in %	58.2	50.3	27.8	–	55.8

The segment reporting is prepared in accordance with the requirements of the German Accounting Standards GAS 3 and GAS 3-10. The results are broken down into segments primarily on the basis of core operating business lines and secondarily on the basis of geographical areas.

The separate annual results, assets and liabilities of the DZ BANK Group's consolidated subsidiaries have all been measured on a consistent basis and allocated to the business segment that best reflects their respective operating focus.

The **Bank** segment encompasses all of the DZ BANK Group's activities in the areas of business with local cooperative banks, business with direct corporate customers, business with institutional customers and investment banking. The focus is on business customers as a target group. The VR-LEASING, Eschborn, and DVB Bank, Frankfurt am Main, subgroups are included under this heading, as are the companies DZ BANK Ireland plc, Dublin, ReiseBank AG, Frankfurt am Main, Cash Express Gesellschaft für Finanz- und Reisedienstleistungen mbH, Frankfurt am Main, and DZ BANK Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main.

The **Retail** segment covers the DZ BANK Group's private banking operations and activities relating primarily to asset management, and the focus is therefore on private customers as a target group. The main companies included are DZ PRIVATBANK (Schweiz) AG, Zurich, DZ BANK International SA, Luxembourg-Strassen and TeamBank AG Nürnberg, Nuremberg, formerly norisbank AG, Nuremberg, plus the subgroup Union Asset Management Holding, Frankfurt am Main.

The **Property Finance** segment takes in the group's building society and mortgage lending businesses. The main companies concerned are Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, Deutsche Genossenschafts-Hypothekenbank AG, Hamburg, and VR Kreditwerk Hamburg-Schwäbisch Hall AG, Hamburg and Schwäbisch Hall (which will be part of the Bank segment from the 2007 financial year onwards).

The group's insurance operations are shown under the **Insurance** segment, which includes the R+V Versicherung, Wiesbaden, subgroup.

The **Others/Consolidation** heading reports the companies that do not count as part of the DZ BANK Group's core operating business lines. This segment also includes the inter-segment consolidation adjustments. This includes inter alia the deconsolidation of Equens Deutschland AG (Equens), Frankfurt am Main, formerly Transaktionsinstitut für Zahlungsverkehrsdienstleistungen AG, Frankfurt am Main.

The components taken into account in reporting the profitability of the segments include their net interest earned, risk provisioning, net commission income, net income from insurance operations, net gain from financial and investment banking transactions, administration expense and balance of other income and expense.

The segments' net worth and financial situation is shown by reference to their assets and liabilities. The segment assets include their cash reserve, claims on other banks and non-bank customers, bonds and other fixed-interest securities, equity shares and other variable-yield securities, insurance-related investments and other insurance-specific assets. The segment liabilities include their liabilities to other banks and non-bank customers, securitised liabilities, insurance reserves and other insurance-specific liabilities.

The balance-sheet equity item aggregates the DZ BANK Group's capital and reserves excluding the consolidated profit. The segment figures aggregate the equity of the companies assigned to the segment, adjusted for intra-segment effects.

The benchmarks chosen for judging the success of the business segments are the rate of return on their balance-sheet equity and their cost-income ratio. The return on equity has been calculated as the ratio of result after risk provisions to balance-sheet equity. The cost-income ratio shows the relationship between their respective administration expense and their operating income and reflects the business segments' cost efficiency.

The risk positions item shows the aggregated risk-weighted assets of the investment book and the market risk of the trading book of the companies included in the Group Financial Statements according to the definitions required by Germany's Banking Act (Kreditwesengesetz, KWG).

In the secondary reporting format the assignment was made in accordance with the respective registered offices of the operating units concerned.

Equens was included in the Bank and Germany segments in 2005. Following its deconsolidation, its figures are not included in this year's totals.

Statement of Changes in Equity

2005 financial year

in € million	Balance at 31.12.2004	Proceeds from issue of shares	Purchase/ cancellation of own shares	Dividends paid	Changes in reporting entity	Group net income for the year	Other gains and losses recognised directly in equity	Balance at 31.12.2005
DZ BANK Group								
Subscribed capital	2,879	–	–	–	–	–	–	2,879
Capital reserve	528	–	–	–	–	–	–	528
Equity earned by the group	269	–	–	-66	4	421	–	628
Accumulated other gains and losses recognised directly in equity:								
– Translation differences	15	–	–	–	–	–	-4	11
– Other items	40	–	–	–	–	–	–	40
Equity as disclosed in consolidated balance sheet (without minority interest)	**3,731**	**–**	**–**	**-66**	**4**	**421**	**-4**	**4,086**
Own shares not held for redemption	24	–	–	–	–	–	–	24
Equity	3,707	–	–	-66	4	421	-4	**4,062**
Minority interest								
Minority interest in capital and earned results	3,071	258	–	-163	167	213	–	3,546
Accumulated other gains and losses recognised directly in equity:								
– Translation differences	-111	–	–	–	–	–	55	-56
– Other items	18	–	–	–	–	–	–	18
Equity	2,978	258	–	-163	167	213	55	**3,508**
Total group equity	**6,685**	**258**	**–**	**-229**	**171**	**634**	**51**	**7,570**

2006 financial year

in € million	Balance at 31.12.2005	Proceeds from issue of shares	Purchase/ cancellation of own shares	Dividends paid	Changes in reporting entity	Group net income for the year	Other gains and losses recognised directly in equity	Balance at 31.12.2006
DZ BANK Group								
Subscribed capital	2,879	149	–	–	–	–	–	3,028
Capital reserve	528	306	–	–	–	–	–	834
Equity earned by the group	628	–	–	-110	-2	1,168	–	1,684
Accumulated other gains and losses recognised directly in equity:								
– Translation differences	11	–	–	–	–	–	-6	5
– Other items	40	–	–	–	–	–	–	40
Equity as disclosed in consolidated balance sheet (without minority interest)	**4,086**	**455**	**–**	**-110**	**-2**	**1,168**	**-6**	**5,591**
Own shares not held for redemption	24	-44	20	–	–	–	–	–
Equity	4,062	499	-20	-110	-2	1,168	-6	**5,591**
Minority interest								
Minority interest in capital and earned results	3,546	211	–	-172	28	233	–	3,846
Accumulated other gains and losses recognised directly in equity:								
– Translation differences	-56	–	–	–	–	–	-44	-100
– Other items	18	–	–	–	–	–	–	18
Equity	3,508	211	–	-172	28	233	-44	**3,764**
Total group equity	**7,570**	**710**	**-20**	**-282**	**26**	**1,401**	**-50**	**9,355**

This statement of changes in equity has been drawn up in accordance with GAS 7. The group equity total shown in this statement is reduced by the value of the own shares compared to the capital and reserves shown in the consolidated balance sheet.

Notes to the Financial Statements of the DZ BANK Group – Contents

Notes to the Financial Statements of the DZ BANK Group

A. General Information

1 | Legal basis on which the Group Financial Statements have been drawn up

The Consolidated Financial Statements of the DZ BANK Group for the year ending December 31, 2006 have been prepared in accordance with the requirements of the German Commercial Code (HGB) and the Order on the Accounting of Credit Institutions and Financial Services Institutions (RechKredV). At the same time, the Consolidated Financial Statements are in compliance with the provisions of Germany's Joint Stock Corporations Act (AktG), the DG BANK Transformation Act (DG BANK-Umwandlungsgesetz), as well as the Articles of Association of DZ BANK AG Deutsche Zentral-Genossenschaftsbank (DZ BANK), Frankfurt am Main. The Consolidated Financial Statements additionally comply with all other standards approved by the German Accounting Standards Board (Deutsche Standardisierungsrat, DSR).

The DZ BANK Group includes one subsidiary with a stock exchange listing in DVB Bank Aktiengesellschaft, Frankfurt am Main (DVB Bank). As required by the law and within the set time frame, on June 29, 2006, September 11, 2006 and December 14, 2006 the Board of Managing Directors and Supervisory Board of DVB Bank published the fifth, sixth and seventh declaration of conformity with the recommendations of the government commission on the "German Corporate Governance Code" in the electronic version of the Federal Gazette (Bundesanzeiger) in accordance with section 161 AktG.

All monetary values are stated in euro in compliance with section 298 (1) HGB in conjunction with section 244 HGB. Advantage has been taken of the option to provide information through the notes rather than the balance sheet. In the interests of clarity, certain balance sheet and income statement headings have been aggregated.

The separate financial statements of all the companies consolidated into the group were prepared using the same presentation and valuation principles that apply to DZ BANK.

Significant information on the group's building society business has been included in the standard forms prescribed by the RechKredV. In addition, aggregated headings from the reporting forms prescribed for insurance companies have been included in the balance sheet and income statement. Insurance-specific items have been expanded on in the Notes. The Consolidated Financial Statements also comply with the special rules for reporting on leasing and investment companies.

2 | Basis of consolidation

The Consolidated Financial Statements include, in addition to DZ BANK as the parent company, a further 22 (2005: 24) subsidiaries and 4 (2005: 4) subgroups comprising a total of 871 (2005: 848) subsidiaries.

The DZ BANK Group's basis of direct consolidation was extended during the year under report by the first-time consolidation of DZ BANK Perpetual Funding (Jersey) Ltd., St. Helier, Jersey. Additionally, because of their overall minor significance to the DZ BANK Group's assets and liabilities, financial position and profit situation, two companies have been deconsolidated – namely DZ Beteiligungsgesellschaft mbH Nr. 2, Frankfurt am Main, and DZ Gesellschaft für Grundstücke und Beteiligungen mbH, Frankfurt am Main. DZ BANK's 95 percent equity interest in Equens

Deutschland AG (Equens), Frankfurt am Main, formerly Transaktionsinstitut für Zahlungsverkehrsdienstleistungen AG, Frankfurt am Main, has been brought as a contribution in kind into Equens N.V. (Equens N.V.), Utrecht, Netherlands. In return, DZ BANK now owns 34 percent of the share capital of Equens N.V. Equens has accordingly been deconsolidated. In its place, Equens N.V. is reported as an associated company and valued at-equity. There were further changes in the basis of consolidation at the subgroups level.

A total of 135 (2005: 129) related companies were not included in the consolidated financial statements because of their overall minor significance to the group's assets and liabilities, financial position and profit situation as defined by section 296 (2) HGB.

A total of 6 companies (2005: 5) are valued as associated companies using the at-equity method in compliance with section 312 HGB and GAS 8 because their business and financial policy is subject to significant control by the group.

It was decided not to apply the at-equity method in the case of 17 (2005: 16) associated companies on grounds of materiality, as permitted by section 311 (2) HGB.

The complete list of shareholdings can be viewed via the webpage of the electronic business register.

3 | Principles of consolidation

In line with previous practice, capital consolidation was carried out according to the book value method based on the valuations recognised at the date of the acquisition of the equity interests. The resulting goodwill of € 18 million (2005: € 40 million) following the proportional disclosure of undisclosed reserves and liabilities in the acquired assets and debts has been set directly against the reserves in compliance with section 309 (1) sentence 3 HGB.

An adjustment item has been established to reflect minority interests.

The group's shares in associated companies are valued and reported at equity based on their book values at the time of first-consolidation. These companies' annual financial statements have accordingly not been aligned with the group-wide presentation and valuation methods. Goodwill originated in the past has been set against the reserves in compliance with section 312 (2) sentence 3 HGB in conjunction with section 309 (1) sentence 3 HGB.

Intra-group receivables, liabilities, provisions, accrued and deferred items, contingent liabilities, and income and expenditure have been netted as required by sections 303 and 305 HGB. Intra-group profits and losses have been eliminated (section 304 HGB). However, this consolidation has been dispensed with where the sums involved were trivial.

In variance of these principles, the group insurance subsidiaries' results were included in the Consolidated Financial Statements on an unadjusted basis due to the unique nature of this business. Their intra-group components have accordingly not been netted. Intra-group receivables and liabilities are shown as part of the insurance-specific headings. The balance of the expenses and income not offset in this way is € 21 million (2005: € 29 million). This has no impact on the DZ BANK Group's result after taxes. The surplus shown in the segment reporting is therefore equivalent to the earnings contributions generated by the insurance operations.

4 | Accounting and valuation principles

Claims on banks and non-bank customers

Claims on banks and non-bank customers (placements, loans and advances) are shown at their nominal value or cost of acquisition. Differences between their nominal value and disbursement value are apportioned pro rata temporis and shown under accrued and deferred items. Note receivables, registered bonds and lease receivables purchased from third parties are shown at cost of acquisition.

Without exception, all receivables fall under current assets and are valued strictly at the lower of cost or market. The totals shown for loans and advances to bank and non-bank customers include the note loans, registered bonds and lease receivables assigned to the investment book that are matched by corresponding hedge transactions. These respectively constitute distinct valuation units.

The provision for risk in the lending business encompasses valuation allowances and loan-loss provisions in respect of credit, country and latent default risks plus the prudential reserves (section 340f (1) HGB). Appropriate provision at the level of the anticipated loss is made in respect of all identifiable credit and country risks. Latent credit risks are covered by a global loan loss provision, based on the average actual loan loss incurred in the preceding five financial years. The responsible authority's rules for the tax recognition of general provisions by banks, which are also commensurate from the commercial perspective, have been applied.

Bonds and other fixed-interest securities and equity shares and other variable-yield securities

All current and non-current securities are reported strictly at the lower of cost or market. Certain securities held as non-current assets or as part of the liquidity reserve and structured into portfolios are treated in the DZ BANK Group's Financial Statements according to the rules governing valuation units. Risks of the same category are aggregated in valuation units comprising the underlying on-balance-sheet transactions and their corresponding hedge transactions. Within particular valuation units, positive and negative valuation results on the constituent financial instruments are netted off. While an overall valuation gain will never be counted towards earnings, provision for pending potential losses will be made in respect of a net valuation loss.

Dividend income from shares and other variable-yield securities held as investment assets or as part of the liquidity reserve is shown under the heading of Current income from equity shares and other variable-yield securities.

Participations and shares in associated and related companies
Participations and shares in related companies are shown at amortised cost. The shares in associated companies include participating interests valued by the at-equity method.

Tangible and intangible fixed assets
Tangible fixed assets (property and equipment) are valued at cost of acquisition or production less regular depreciation over their expected service life, based in principle on the values shown in the depreciation tables published by the German tax authorities. Minor-value assets are written off in full in the year of acquisition.

The property and equipment heading includes the leasing assets as well as operating equipment and furniture. As a rule operating equipment and systems, including office furniture, are depreciated on a straight-line basis.

Where impairments are expected to be enduring in nature, exceptional write-downs are made. If the causes of the write-down cease to apply, the value is written up again.

Intangible assets are valued at cost of acquisition and regularly amortised on a straight-line basis. The assumed useful life ranges from three to ten years.

Liabilities
Liabilities are shown at their repayment value. The difference between their nominal and repayment values is taken to accruals and deferrals and released over time.

Provisions
Provisions for pensions and similar obligations are calculated according to actuarial principles. Current pension commitments to retired pensioners and contributions on behalf of ex-employees with pension entitlement are shown at their pro-rata value. The provisions for pensions and similar obligations were valued in previous years in accordance with section 6a of the Income Tax Act (Einkommenssteuergesetz – EStG). In 2006 the discounting rate was reduced from 6.0 percent to 4.5 percent to reflect the lasting lower level of bond market yields. This required a one-off appropriation to the pension reserves to the value of € 193 million at the level of the DZ BANK Group during the year. To ensure that its pension obligations are covered from independent resources, DZ BANK avails itself of DZ BANK Mitarbeiter-Unterstützungseinrichtung GmbH, Frankfurt am Main, and has also transferred funds to DZ BANK Pension Trust e.V., Frankfurt am Main, which performs the role of trustee vis-à-vis the bank's pension-entitled employees and current pension recipients.

Provisions for actual tax liabilities were formed in accordance with the German tax regulations, and other provisions were formed on the basis of prudent business judgment to correspond with the group's uncertain liabilities or threatened losses from uncompleted transactions.

Insurance-specific positions

Investments made for the account and at the risk of holders of life insurance policies are shown at their present value.

Equity shares and investment interests treated as non-current assets under the terms of section 341b (2) sentence 1 HGB are reported at their current market value as at December 31, 2006 up to a maximum of the acquisition costs.

Where the reasons for a previous write-down have ceased to apply, the value is written up again to the stock market value subject to a maximum of the original acquisition cost, under the terms of section 280 (1) HGB.

Receivables from self-contracted insurance business are shown at their nominal value. Where necessary, value allowances are made.

The formation of insurance reserves encompasses the following positions and approaches: the insurance cover provisions reflect the individual value of all policies; the calculation of the provisions for outstanding insurance claims is also individualised; the provision for premium reimbursements ("bonus reserve") is formed in accordance with statutory requirements as well as contractual agreements; the equalisation reserve and similar provisions are formed in accordance with the relevant statutory requirements; the other insurance provisions are dimensioned to cater for the anticipated need.

Trading operations

The trading positions encompass bonds and other fixed-interest securities, equity shares and other variable-yield securities, note loans, registered bonds and derivative financial instruments (interest rate, exchange rate, credit and equity derivatives).

Trading positions that are demonstrably permanently hedged against market risk as part of the limits system are valued using a modified market value methodology as part of the portfolio valuation system. This involves aggregating these trading positions into portfolios, valuing them by reference to the applicable fair values, and then marking down this value by applying a mathematically determined loss potential (value-at-risk) discount. The determination of this value-at-risk discount is based on the bank's internal risk management model that focuses on the regulatory qualitative and quantitative requirements defined by Principle I KWG, and which factors in specific interest rate risks. This value-at-risk discount ensures that only unrealised gains on predominantly closed positions are recognised in the income statement. The applicable fair values of the derivative and non-derivative financial instruments included in trading positions are derived from the relevant market values where these can be reliably established, or by relying on generally accepted valuation models and methods.

Other trading positions are valued strictly at the lower of cost or market.

In addition to the valuation results, current interest payments and dividend income on securities held for trading purposes, current payments on derivative financial instruments held for trading purposes, and on securities repurchase and securities lending transactions, and the refinancing costs attributable to trading positions (including deferred income and expense) are shown under the Net gain from financial and investment banking transactions heading.

Miscellaneous

Investment expenses are offset against the corresponding income. Valuation income and expense from lending transactions and securities held as part of the liquidity reserve are shown net.

The fund for general banking risks required under the terms of section 340g HGB amounts to € 786 million, the same as in 2005. Prudential reserves have also been established within the meaning of section 340f HGB.

Application of German Accounting Standards (GAS/DRS)

The German Accounting Standards Board (Deutsche Standardisierungsrat, DSR) develops recommendations for the correct application of consolidated accounting principles in order to achieve greater harmonisation with international accounting principles. The Federal Justice Ministry (BMJ) has mandated the DSR as a private accounting standards body to promote this end. Standards approved by the DSR and published by the BMJ in the Federal Gazette are assumed to constitute proper accounting principles for consolidated financial reporting within the meaning of section 342 (2) HGB. DZ BANK's Consolidated Financial Statements comply consistently with the following German Accounting Standards (GAS/DRS):

GAS/DRS 2	Cash Flow Statements
GAS/DRS 2-10	Cash Flow Statements of Financial Institutions
GAS/DRS 3	Segment Reporting
GAS/DRS 3-10	Segment Reporting by Financial Institutions
GAS/DRS 5	Risk Reporting
GAS/DRS 5-10	Risk Reporting by Financial Institutions and Financial Services Institutions
GAS/DRS 7	Group Equity and Total Recognised Results
GAS/DRS 8	Accounting for Investments and Associates in Consolidated Financial Statements
GAS/DRS 10	Deferred Taxes in Consolidated Financial Statements
GAS/DRS 11	Related Party Disclosures
GAS/DRS 12	Non-Current Intangible Assets
GAS/DRS 13	Continuity Principle and Correction of Errors
GAS/DRS 14	Foreign Currency Translation
GAS/ DRS 15	Management Reporting

GAS/DRS 4 Acquisition Accounting in Consolidated Financial Statements is also applied where consistent with the German Commercial Code (HGB – see also 3 | Principles of Consolidation).

5 | Deferred taxes in the Consolidated Financial Statements

Under the provisions of section 274 HGB in conjunction with section 298 (1) HGB and section 306 HGB, deferred tax positions are formed in respect of differences between the results shown in the commercial (HGB) financial statements and the taxable profit that are expected to be neutralised in the subsequent financial years (timing differences concept). In addition to the HGB rules, DZ BANK also applies German Accounting Standard No. 10 (DRS 10) "Deferred Taxation in Consolidated Financial Statements".

Deferred tax assets and liabilities result from timing differences between the carrying value of an asset or liability in the balance sheet and in the tax balance sheet, from consolidation processes and from tax loss carry-forwards.

Deferred taxes are recognised for timing differences which, on reversal in future periods, will result in tax expenses or reductions. Timing differences also include quasi-permanent differences. Deferred tax assets are reported if it is sufficiently probable that the tax benefits can be recovered.

The measurement of deferred taxes is based on tax rates that are expected to apply when the timing differences reverse. This is always based on the legal rules and procedures in force at the accounting date or formally approved for future implementation. In principle, individual tax rates are applied for each company. Group companies whose relationship with DZ BANK constitutes tax unity apply a unified tax rate.

Deferred tax assets are shown under tax deferrals and deferred tax liabilities are shown as part of tax provisions.

6 | Currency translation

Currency translations for assets and liabilities as well as rights and delivery obligations arising from foreign exchange transactions are translated in accordance with the principles defined in section 340h HGB and Statement 3/1995 of the Banking Experts Committee (BFA) of the German Institute of Certified Public Accountants (IDW) plus GAS 14 Currency Translation.

Assets denominated in foreign currency, that are treated as non-current assets and are not specifically covered in the same currency, are carried at historic cost of acquisition. Specifically covered assets are defined as assets that are matched by contrary positions on the liabilities side, or futures or option transactions.

Other foreign-currency assets and liabilities and open spot transactions are translated at the mid spot rate on the accounting date, and forward forex transactions at the forward rate on the accounting date.

Where forward exchange deals are connected with the hedging of interest-bearing balance sheet items, the resulting swap expense and income is treated as interest expense and interest earned, reflecting its character.

For the purposes of the Consolidated Financial Statements, the foreign-currency accounting data of foreign group subsidiaries are translated into euro as the functional currency at the EuroFX reference rates. The accounting-date exchange rates are used for monetary and non-monetary assets and liabilities. Income and expense items are also translated using the accounting-date exchange rates; the use of average rates would only have had insignificant effects. Gains and losses arising out of the translation of the consolidated capital, liabilities and income and expense are offset directly against the revenue reserves and minority interests.

B. Notes to the Group Balance Sheet

7 | Maturity structure

Asset positions

in € million	31.12.2006	31.12.2005
Other placements with, and loans and advances to, other banks	**104,612**	**101,582**
– up to 3 months	44,230	41,198
– between 3 months and 1 year	9,134	11,922
– between 1 year and 5 years	23,811	24,844
– more than 5 years	27,437	23,618
Loans and advances to non-bank customers	**103,947**	**101,160**
– up to 3 months	20,070	15,159
– between 3 months and 1 year	8,645	9,401
– between 1 year and 5 years	33,138	32,872
– more than 5 years	40,131	41,913
– no fixed term	1,963	1,815
Bonds and other fixed-interest securities	**154,983**	**131,027**
– up to 3 months (maturing in the subsequent year)	6,669	8,308
– between 3 months and 1 year (maturing in the subsequent year)	16,065	14,369
– between 1 year and 5 years	77,127	66,359
– more than 5 years	54,803	41,898
– no fixed term	319	93

Liability positions

in € million	31.12.2006	31.12.2005
Deposits from other banks with an originally agreed term or notice period (excluding savings deposits under save-to-build plans)	**139,177**	**125,816**
– up to 3 months	81,893	73,660
– between 3 months and 1 year	11,031	10,579
– between 1 year and 5 years	19,983	18,094
– more than 5 years	26,270	23,483
Amounts owed to other depositors:		
Savings deposits with an agreed notice period of more than three months	**–**	**11**
– up to 3 months	–	2
– between 3 months and 1 year	–	9
Other liabilities with an agreed term or notice period	**52,348**	**45,629**
– up to 3 months	18,335	16,285
– between 3 months and 1 year	3,031	2,362
– between 1 year and 5 years	9,822	9,512
– more than 5 years	21,160	17,470

in € million	31.12.2006	31.12.2005
Securitised liabilities:		
Bonds issued	**90,742**	**83,453**
– of which: maturing in the subsequent year	13,278	12,441
Other securitised liabilities	**15,460**	**8,911**
– up to 3 months	11,741	4,405
– between 3 months and 1 year	2,027	2,178
– between 1 year and 5 years	1,533	2,170
– more than 5 years	159	158
Provisions	**3,455**	**2,994**
– up to 3 months	666	569
– between 3 months and 1 year	669	534
– between 1 year and 5 years	735	719
– more than 5 years	1,385	1,172
Subordinated liabilities	**2,579**	**2,975**
– up to 3 months	114	265
– between 3 months and 1 year	379	193
– between 1 year and 5 years	1,239	1,276
– more than 5 years	847	1,241
Participatory capital	**1,795**	**2,467**
– up to 3 months	116	156
– between 3 months and 1 year	128	640
– between 1 year and 5 years	1,156	1,115
– more than 5 years	395	556

8 | Arrears of interest and capital payments on building loans advanced by Bausparkasse Schwäbisch Hall

The Loans and advances to non-bank customers heading includes the arrears of € 80 million (2005: € 81 million) outstanding on the interest and capital payments on building loans advanced by the group's building society.

9 | Building loans agreed but not yet paid out by Bausparkasse Schwäbisch Hall

The following building loans were committed but not yet paid out on the accounting date:

in € million	31.12.2006	31.12.2005
To banks	**136**	**149**
of which: allocated	136	149
To non-bank customers	**3,049**	**3,044**
of which: a) allocated	2,531	2,466
b) preliminary and bridging finance	517	542
c) other	1	36

10 | Related companies and companies with which a participation relationship exists

Claims and liabilities in respect of related companies:

in € million	31.12.2006	31.12.2005
Placements with, and loans and advances to, other banks	**111**	**234**
Loans and advances to non-bank customers	**460**	**202**
Deposits from other banks	**179**	**259**
Amounts owed to other depositors	**256**	**497**
Securitised liabilities	**1**	**–**
Subordinated liabilities	**4**	**74**

Claims and liabilities in respect of companies with which a participation relationship exists:

in € million	31.12.2006	31.12.2005
Placements with, and loans and advances to, other banks	**23,261**	**22,113**
Loans and advances to non-bank customers	**3,707**	**1,673**
Bonds and other fixed-interest securities	**5,934**	**4,661**
Deposits from other banks	**23,801**	**22,318**
Amounts owed to other depositors	**4,926**	**3,445**
Securitised liabilities	**3,224**	**2,936**
Subordinated liabilities	**60**	**82**

11 | Claims and liabilities in respect of affiliated banks

The reported claims and liabilities totals include the following sums due from or to affiliated banks:

in € million	31.12.2006	31.12.2005
Due from affiliated banks	**40,867**	**40,507**
of which: from cooperative central institutions	297	471
Due to affiliated banks	**41,155**	**39,785**
of which: to cooperative central institutions	146	163

12 | Subordinated assets

Subordinated assets are included in the following balance sheet headings:

in € million	31.12.2006	31.12.2005
Placements with, and loans and advances to, other banks	118	692
Loans and advances to non-bank customers	10	11
Bonds and other fixed-interest securities	2,575	1,858
Equity shares and other variable-yield securities	221	260
Total	2,924	2,821

13 | Insurance-related investments

The structure of the insurance-related investments is as follows:

Own-account investments

in € million	Balance sheet value 31.12.2005	Additions	Reclass-ifications	Disposals	Write-ups	Write-downs	Balance sheet value 31.12.2006
Land, leasehold rights and buildings including buildings on third-party land	993	19	–	49	35	41	957
Participations, shares in related companies	533	109	-1	42	–	13	586
Lending to companies with which a participation relationship exists and to related companies	2,272	351	–	598	–	2	2,023
Equity shares, investment shares and other variable-yield securities	11,269	1,301	–	1,237	71	37	11,367
Bearer bonds and other fixed-interest securities	4,899	2,602	-3	2,337	4	66	5,099
Claims secured by mortgages, land charges and annuity land charges	3,616	280	–	330	–	1	3,565
Registered bonds, promissory notes, loans and other lending	14,780	3,634	3	1,813	–	–	16,604
Deposits with other banks	231	–	–	11	–	–	220
Other investments	284	189	1	145	–	–	329
Custody receivables from reinsurance business	310	–	–	141	–	–	169
Total	39,187	8,485	–	6,703	110	160	40,919

Investments for the account and at the risk of life insurance policy holders

Specialist funds in € million	Shares	31.12.2006
DEVIF Fonds Nr. 301 R+V Kurs	63,924,332	439
DEVIF Fonds Nr. 300 R+V Zins	66,223,234	346
VR-Vermögenskonzept Fonds A 30	3,011,091	148
R+V Aktien Europa	13,684,906	146
R+V Anleihen Europa	7,550,226	104
Union Investment GMBH VR-Vermögenskonzept R Anteile	1,997,391	87
LifePlus Ertrag	7,149,978	85
RAIFFPLANET AGGRESSIVA	14,732,751	75
Lux-Fonds Renten	6,375,669	71
UniEuropaRenta -net-	1,291,994	60
VR-Vermögenskonzept Fonds Nr. 50	1,406,226	60
RAIFFPLANET EQUILIBRATA	10,838,605	58
Unigaranttop: Europa	494,564	53
LifePlus Wachstum	4,228,584	52
INDEX TITANIUM	8,803,873	47
Altro Dom.Pianeta B.2-99	56,965,461	47
Uni-Strategie: Konservativ	853,988	43
UniGlobal -net-	600,699	43
Anlagestock Premiumrente	425,324	42
Unieuroparenta	905,872	39
Pensionsfonds Chancen PP		39
UniEuroKapital -net-	875,484	37
Unieurokapital	584,052	37
EASY VALUE GOLD	5,504,600	33
INDEX TOP FIFTY	5,015,722	27
UniKapital -net-	621,108	27
PIANETA BORSA DICEMBRE 2006		27
VR-Vermögenskonzept Fonds A 70	599,946	24
EUROQUOTA AGGRESSIVA	4,279,175	23
PIANETA BORSA NOVEMBRE 2006		21
Pianeta B.- NEW INDEX SHARE	5,078,364	21
PIANETA BORSA SETTEMBRE 2006		20
Altro Dom.Pianeta B.1-99	11,094,875	20
EUROQUOTA EQUILIBRATA	3,490,449	20
Uni-Strategie: Ausgewogen	447,448	17
EASY VALUE COUPON	53,161	17
PIANETA BORSA GIUGNO 2006		17
Unieuropa	9,614	16
UniEuroKapital Corporates -net- A	377,211	16
VR Mainfranken Select Union	284,971	16
Altro Dom.Pianeta B.1-00	74,059,788	15
VR Vermögenskonzept Fonds A 100	338,841	15
UniDividendenAss -net- A	183,526	13

Specialist funds in € million	Shares	31.12.2006
PIANETA BORSA CEDOLA FIX & MIX	5,459,240	13
Pianeta B.- BEST EUROPE INDEX	490,016	13
UnieuroAspirant A	230,987	12
RAIFFPLANET PRUDENTE	2,056,597	11
EASY VALUE GOLD II	10,191,584	11
PIANETA BORSA DICEMBRE 2005		11
UniEuroRenta	182,300	11
UniRenta -net-	288,670	11
PIANETA BORSA MARZO 2006		11
Miscellaneous	17,792,536	230
Total		**2,897**

14 | Other insurance-specific assets

in € million	31.12.2006	31.12.2005
Receivables from self-contracted insurance business	**340**	**324**
– from policy holders	200	233
– from insurance intermediaries	140	91
Settlement receivables on reinsurance business	**73**	**98**
Other receivables	**1,790**	**1,377**
Total	**2,203**	**1,799**

The Other insurance-specific assets heading comprises mainly current balances with banks, plus interest and rent receivables.

15 | Trust operations

The total value of the group's trust assets and liabilities is apportioned between the following assets-side and liabilities-side headings:

in € million	31.12.2006	31.12.2005
Trust assets		
– Placements with, and loans and advances to, other banks	466	475
– Loans and advances to non-bank customers	842	778
– Participations	1,268	1,421
Total	**2,576**	**2,674**

in € million	31.12.2006	31.12.2005
Trust liabilities		
– Deposits from other banks	1,055	940
– Amounts owed to other depositors	1,488	1,700
– Other	33	34
Total	**2,576**	**2,674**

16 | Foreign currency positions

Assets and liabilities denominated in foreign currencies exist in the following amounts:

in € million	31.12.2006	31.12.2005
Assets	**62,478**	**53,866**
Liabilities	**41,735**	**39,158**

17 | Business subject to repurchase agreements

As at December 31, 2006 the book value of assets sold subject to a repurchase agreement amounts to € 40,043 million (2005: € 40,150 million).

18 | Assets assigned as security

Assets with the value stated below were assigned as security in respect of the following liabilities and contingent liabilities:

in € million	31.12.2006	31.12.2005
Deposits from other banks	**54,212**	**55,514**
Amounts owed to other depositors	**6,563**	**4,925**
Securitised liabilities	**834**	**804**
Other obligations	**3,232**	**4,046**
Total	**64,841**	**65,289**

19 | Structure of securities portfolio by purpose

The securities portfolio breaks down into the following categories according to the purpose of the holding:

in € million	31.12.2006	31.12.2005
Bonds and other fixed-interest securities		
– Investment portfolio	49,787	46,572
– Trading portfolio	59,510	42,365
– Liquidity reserve	45,686	42,090
Total	**154,983**	**131,027**

in € million	31.12.2006	31.12.2005
Equity shares and other variable-yield securities		
– Investment portfolio	700	99
– Trading portfolio	939	757
– Liquidity reserve	991	1,945
Total	**2,630**	**2,801**

20 | Securities eligible for stock exchange listing

The following assets-side headings include securities eligible for stock exchange listing in the amounts stated:

in € million	31.12.2006	31.12.2005
Bonds and other fixed-interest securities	**154,983**	**130,334**
of which: listed	129,724	112,325
Equity shares and other variable-yield securities	**1,823**	**1,529**
of which: listed	816	745
Participations	**359**	**114**
of which: listed	352	91
Shares in related companies	**50**	**50**
of which: listed	50	50

21 | Structure and movement of intangible assets, property and equipment and financial assets

Intangible assets, property and equipment

	Cost of acquisition/production				Write-ups	Depreciation		Residual book value at	
in € million	01.01.2006	Additions	Disposals	Reclassi-fications		Current-year	Cumulative	31.12.2006	31.12.2005
Intangible assets	486	53	39	0	–	51	368	**132**	**146**
Land and buildings	525	7	6	–	–	13	263	**263**	**271**
of which: used for own operations	(488)	(5)	(1)	(–)	–	(12)	(239)	(253)	(261)
Operating and office equipment	711	43	140	0	–	53	483	**131**	**153**
Leasing assets	7,300	2,480	2,113	–	–	974	2,656	**5,011**	**4,782**
Prepayments made	–	3	–	–	–	–	–	**3**	**–**
Total	**9,022**	**2,586**	**2,298**	**–**	**–**	**1,091**	**3,770**	**5,540**	**5,352**

The depreciation on leasing assets is included in other operating expenses.

Financial assets

	Net changes	Book value at	
in € million		31.12.2006	31.12.2005
Bonds and other fixed-interest securities	3,215	**49,787**	**46,572**
Equity shares and other variable-yield securities	601	**700**	**99**
Participations	226	**578**	**352**
Shares in associated companies	99	**470**	**371**
Shares in related companies	-2	**1,024**	**1,026**
Total	**4,139**	**52,559**	**48,420**

22 | Own shares

At the accounting date, group companies had no own shares in treasury (2005: 3,665,569 registered unit shares).

In February 2006 DZ BANK acquired 3,177,852 shares at a purchase price of € 19,998,222.64 under the provisions of section 71 (1) point 2 AktG.

These shares were subsequently offered for sale under DZ BANK's 2006 sales programme at a price of € 7.11 per share. 906,600 shares were sold in July 2006 and generated proceeds of € 6,445,926.00.

In addition to the shares created through its capital increase, shareholders were also offered the opportunity in July 2006 to acquire own shares at a price of € 7.90 per share. 5,936,821 shares were sold in this way and generated proceeds of € 46,900,885.90.

Timetable of purchases and sales of own shares

Time of transaction	Purchase/sale of own shares	Capital value	Proportion of registered share capital
	Number	in €	in %
August 1998	200,000	520,000.00	0.0172
September 1999	293,000	761,800.00	0.0252
November 1999	1,220,000	3,172,000.00	0.1047
December 2001	5,082	13,213.20	0.0004
January 2002	475,648	1,236,684.80	0.0408
February 2002	536,772	1,395,607.20	0.0461
March 2002	859,848	2,235,604.80	0.0738
April 2002	75,219	195,569.40	0.0065
February 2006	3,177,852	8,262,415.20	0.2728
Total purchases	**6,843,421**	**17,792,894.60**	**0.5875**
July 2006	-5,936,821	-15,435,734.60	0.5097
July 2006	-906,600	-2,357,160.00	0.0778
Total sales	**-6,843,421**	**-17,792,894.60**	**0.5875**

The surplus proceeds realised through the sale of these own shares are included in the balance of other operating income/expense.

23 | Authorised capital

The DZ BANK Group's subscribed capital consists of DZ BANK's registered capital of € 3,028,427,238.20. This is divided into 1,164,779,707 registered unit shares each conveying a notional proportional entitlement in the share capital of € 2.60.

On the basis of its existing authorities, the Board of Managing Directors, with the consent of the Supervisory Board, resolved to increase the share capital by € 149,999,998.20 from € 2,878,427,240.00 to € 3,028,427,238.20. The performance of this capital increase through cash contributions by way of the issuance of 57,692,307 registered unit shares at an issue price of € 7.90 was recorded under the group's entry in the Companies Register on July 6, 2006. The new shares are dividend-qualifying with effect from January 1, 2006.

The Board of Managing Directors is authorised, subject to the approval of the Supervisory Board, to increase the share capital by August 31, 2011 on one or more occasions by up to a total of € 50 million by way of issuing new registered non-par value shares in return for cash or non-cash contributions. The Board of Managing Directors is authorised, subject to the approval of the Supervisory Board, to exclude the subscription right of shareholders both in the case of capital increases in return for non-cash contributions and in the case of capital increases in return for cash contributions if the capital is increased for the purpose of

a) issuing new shares to employees of the company (employee shares);
b) issuing new shares to one or more cooperative banks which, measured in terms of their total assets, directly and indirectly have a below-average stake in the corporation's share capital, i.e. less than 0.5 percent of their total assets (using the nominal value of € 2.60 per DZ BANK share);
c) acquiring companies, equity investments in companies or for granting equity investments in the corporation in order to back strategic partnerships.

The Board of Managing Directors is also authorised, subject to the approval of the Supervisory Board, to exclude fractions from the subscription right of shareholders ("Authorised capital I").

The Board of Managing Directors is authorised, subject to the approval of the Supervisory Board, to increase the share capital by August 31, 2011 on one or more occasions by up to a total of € 200 million by issuing new registered non-par value shares in return for cash contributions. The Board of Managing Directors is authorised, subject to the approval of the Supervisory Board, to exclude fractions from the subscription right of shareholders ("Authorised capital II").

The changes in the group's capital structure are shown in the Statement of Changes in Equity.

24 | Shareholder disclosures

The proportion of the share capital held by cooperative undertakings at the end of the financial year under report was approximately 95.4 percent. Cooperative undertakings include the cooperative societies, the cooperative central institutions and other corporate entities and trading companies with business connections to the cooperative housing sector and the cooperative movement generally.

25 | Other assets

Other assets primarily comprise premiums for acquired option rights to the value of € 1,778 million (2005: € 1,301 million), an adjustment item that represents the valuation gains on trading transactions of € 677 million (2005: € 326 million) following the deduction of a value-at-risk discount, plus tax credits and entitlements arising from intra-group tax allocations to the value of € 562 million (2005: € 155 million).

26 | Deferred tax assets and provisions for deferred taxes

Deferred tax assets and provisions for deferred taxes are shown for the timing differences between the commercial and the tax balance sheets in respect of the following balance-sheet headings:

Deferred tax assets

in € million	31.12.2006	31.12.2005
Assets-side positions		
– Tax loss carryforward	131	119
– Placements with, and loans and advances to, other banks and non-bank customers	383	397
– Securities	54	60
– Intangible assets and property and equipment	11	27
– Other assets	17	13
Liability positions		
– Provisions	519	369
– Fund for general banking risks and building societies guarantee fund	515	514
– Other liabilities	30	33
Total	**1,660**	**1,532**

Provisions for deferred taxes

in € million	31.12.2006	31.12.2005
Asset-side positions		
– Placements with, and loans and advances to, other banks and non-bank customers	7	8
– Securities	132	135
– Participations and shares in related companies	57	70
– Intangible assets and property and equipment	18	19
– Other assets	8	10
Liability positions		
– Amounts owed to other depositors and provisions	12	13
– Other liabilities	48	33
Total	**282**	**288**

Deferred tax assets on unused tax loss carryforwards are only recognised if there is sufficient probability that a tax benefit can be realised in the future. Tax loss carryforwards can be used indefinitely in Germany.

Deferred tax assets have not been shown in respect of € 6 million (2005: € 45 million) of corporation tax loss carryforwards in accordance with GAS 10.39 k).

27 | Accruals and deferrals

in € million	31.12.2006	31.12.2005
Assets		
– Discounts on payables	763	730
– Premiums on receivables	64	80
– Other deferred expenses and accrued income	911	937
Total	**1,738**	**1,747**

in € million	31.12.2006	31.12.2005
Liabilities		
– Discounts on receivables	87	129
– Premiums on issued bonds	95	54
– Deferred proceeds from sales of leasing receivables	1,483	1,372
– Other deferred income and accrued expenses	1,463	1,531
Total	**3,128**	**3,086**

The premiums on receivables arising from mortgage bank loans amount to € 4 million (2005: € 0 million), while the discounts on receivables arising from mortgage bank loans amount to € 33 million (2005: € 41 million).

28 | Other liabilities

Other liabilities include deferred option premiums to the value of € 3,061 million (2005: € 2,442 million), plus participating certificates maturing within a year including distributions to the value of € 677 million (2005: € 28 million), and non-bank loans totalling € 57 million (2005: € 58 million).

29 | Insurance reserves

in € million	31.12.2006	31.12.2005
Insurance reserves	**39,215**	**36,269**
– Premium transfers	1,054	1,061
– Insurance cover provisions	29,014	26,853
– Provision for outstanding insurance claims	4,194	3,920
– Provision for premium reimbursements ("bonus reserve")	3,794	3,431
– Equalisation reserve and similar provisions	1,074	941
– Other insurance provisions	85	63
Life-insurance-related reserves on which the policy holders bear the investment risk	**2,897**	**2,066**
– Insurance cover provisions	2,897	2,066
Total	**42,112**	**38,335**

The insurance reserves represent the insurer's obligations to policy holders and qualifying claimants and are backed by investments on the assets side of the balance sheet. The equalisation fund is used to smooth fluctuations in the incidence of claims over time.

30 | Other insurance-specific liabilities

in € million	31.12.2006	31.12.2005
Custody liabilities from reinsurance business	**83**	**519**
Payables from self-contracted insurance business	**1,917**	**2,272**
– to policy holders	1,855	2,225
– to insurance intermediaries	62	47
Settlement payables on reinsurance business	**121**	**112**
Other liabilities	**832**	**829**
Total	**2,953**	**3,732**

The liabilities to policyholders essentially include guaranteed with-profits bonuses and premium reserve accounts for life and accident insurance policies.

31 | Subordinated liabilities

The subordinated borrowings do not involve any early redemption obligation on the part of the issuers. The rights arising from these liabilities (including entitlement to interest) are secondary to the claims of all the issuer's other, non-subordinated creditors in the event of bankruptcy or liquidation.

There is no agreement or intention to convert these funds to capital or another form of debt.

Subordinated liabilities are mainly issued in the form of fixed-interest and variable-rate securities and note loans, and variable-rate registered bonds.

This heading does not include any single item which exceeds 10 percent of the total value of the subordinated liabilities.

The interest expense on the group's subordinated liabilities amounted to € 153 million (2005: € 168 million).

Deferred not yet payable interest totalling € 70 million (2005: € 86 million) is included in the Subordinated liabilities heading.

32 | Participatory capital

The total volume of participatory capital recognised as qualifying liable capital within the definition of section 10 (5) of the German Banking Act (KWG) was € 1,504 million.

Participatory capital shares to the full extent in potential losses. Coupons are only paid subject to the availability of unappropriated profit. Participation certificate holders' entitlements to repayment of their capital are subordinate to the rights of other creditors. DZ BANK has issued the following series of bearer participation certificates:

Year of issue	Nominal amount	Interest rate	Due
	in € million	in %	
1984	133	8.50	2011
1989	42	7.50	2009
1993	26	7.00	2008
1996	41	7.25	2007
1997	38	6.75	2008
1998	22	6.50	2010
1999	160	4.70[1]	2009
1999	1	7.00	2010
2000	60	6.25	2009
2001	100	5.50	2008
2002	28	6.50	2011

[1] Tied to market rate: H1: 4.09 %, H2: 4.70 %

The issue terms of the 1984 participatory capital tranche make the eventual distribution dependent on the dividend declared. The issue terms also require a minimum coupon. This is distributed unless the dividend is higher.

Other issues by group companies:

Year of issue	Nominal amount	Interest rate	Due
	in € million	in %	
1993	51	7.25	2008
1993	51	7.00	2013
1994	26	6.50	2007
1995	51	Dividend (min. 7.00)	2011
1998	51	6.27	2008
2000	75	7.59	2010

Registered participation certificates with an aggregate nominal volume of € 723 million have been issued by DZ BANK Group companies. This total is composed of 265 separate issues with original terms of between 6 and 16 years and bearing interest of between 5.38 percent and 7.63 percent.

Servicing the interest on the participation certificate stock involved expense of € 162 million (2005: € 161 million).

Deferred not yet payable interest totalling € 116 million (2005: € 156 million) is included in the Participatory capital heading.

33 | Off-balance-sheet forward transactions by product area

The following table shows the breakdown of the DZ BANK Group's forward transactions by product area:

	Nominal amount					Market value			
	Residual term			Total		Positive		Negative	
in € million	≤ 1 year	> 1–5 years	> 5 years	31.12.2006	31.12.2005	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Interest-based transactions	**348,294**	**395,441**	**390,910**	**1,134,645**	**973,060**	**13,415**	**19,132**	**15,234**	**20,263**
OTC products									
– FRAs	20,207	139	4	20,350	10,417	4	4	4	1
– Interest swaps (same currency)	263,084	327,336	348,178	938,598	816,345	12,154	17,905	12,330	17,750
– Interest options – calls	8,277	20,915	15,588	44,780	41,310	1,158	1,178	129	3
– Interest options – puts	24,740	43,463	27,030	95,233	69,632	6	5	2,659	2,471
– Other interest contracts	328	98	110	536	1,448	1	4	–	1
Exchange-traded products									
– Interest futures	28,897	3,490	–	32,387	33,628	83	35	112	36
– Interest options	2,761	–	–	2,761	280	9	1	–	1
Forex-based transactions	**48,235**	**2,539**	**83**	**50,857**	**45,564**	**419**	**307**	**432**	**398**
OTC products									
– Forward exchange transactions	39,232	2,083	83	41,398	40,221	347	255	354	361
– Forex options – calls	4,809	279	–	5,088	2,917	72	51	0	2
– Forex options – puts	4,182	177	–	4,359	2,402	0	1	78	35
Exchange-traded products									
– Forex futures	12	–	–	12	17	0	0	0	0
– Forex options	–	–	–	–	7	–	0	–	–
Equity/index-based transactions	**11,196**	**13,349**	**2,507**	**27,052**	**20,271**	**1,230**	**782**	**406**	**145**
OTC products									
– Equity/index options – calls	222	1,231	49	1,502	1,166	240	138	2	12
– Equity/index options – puts	187	818	25	1,030	584	1	2	49	36
– Other equity/index contracts	766	9,022	2,366	12,154	10,081	671	485	321	78
Exchange-traded products									
– Equity/index futures	3,028	2	–	3,030	1,520	19	8	19	8
– Equity/index options	6,993	2,276	67	9,336	6,920	299	149	15	11
Other transactions	**4,361**	**8,817**	**3,065**	**16,243**	**15,756**	**288**	**205**	**290**	**323**
OTC products									
– Cross-currency swaps	4,301	8,635	3,059	15,995	15,149	263	187	276	306
– Precious metals transactions	12	–	–	12	9	5	1	–	–
– Commodities transactions	–	175	6	181	575	18	16	13	17
Exchange-traded products									
– Futures	22	0	–	22	18	0	1	1	0
– Options	26	7	–	33	5	2	0	–	–

	Nominal amount					Market value			
	Residual term			Total		Positive		Negative	
in € million	≤ 1 year	> 1–5 years	> 5 years	31.12.2006	31.12.2005	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Credit derivatives	**8,105**	**20,479**	**8,769**	**37,353**	**21,703**	**265**	**160**	**208**	**314**
Hedge beneficiary									
– Credit default swaps	3,941	10,551	4,278	18,770	11,111	10	75	169	111
– Total return swaps	180	1,629	1,321	3,130	1,632	94	1	5	107
Hedge provider									
– Credit default swaps	3,954	8,299	2,790	15,043	8,960	119	84	6	96
– Total return swaps	30	–	380	410	–	42	–	28	–
Total	**420,191**	**440,625**	**405,334**	**1,266,150**	**1,076,354**	**15,617**	**20,586**	**16,570**	**21,443**

A substantial proportion of the transactions listed were entered into to hedge interest rate, exchange rate or market price fluctuations. The bulk of these transactions related to trading activities.

34 | Off-balance-sheet forward transactions by counterparties structure

The following table shows the breakdown of the DZ BANK Group's off-balance-sheet forward transactions by counterparties structure:

	Market value			
	Positive		Negative	
in € million	31.12.2006	31.12.2005	31.12.2006	31.12.2005
OECD governments	**5**	**0**	**27**	**16**
Banks in OECD countries	**15,046**	**18,610**	**15,803**	**19,376**
Financial services institutions in OECD countries	**29**	**4**	**31**	**7**
Other companies and private individuals	**534**	**1,969**	**701**	**2,027**
Banks in non-OECD countries	**3**	**3**	**8**	**17**
Total	**15,617**	**20,586**	**16,570**	**21,443**

C. Notes to the Group Income Statement

35 | Breakdown of income by geographical markets

The origin of the sum total of interest earned, current income from equity shares and other variable-yield securities, participations and shares in related and associated companies, commissions earned, net gain from financial and investment banking transactions and other operating income is as follows:

in %	2006	2005
Germany	**86.68**	**85.84**
International	**13.32**	**14.16**

36 | Commissions earned and commission expense

The surplus of commissions earned over commission expense results from the following services:

in € million	2006	2005
Securities business	**953**	**855**
Payments business/International business	**68**	**122**
Asset management	**45**	**32**
Lending and guarantees business	**21**	**18**
Building society operations	**-259**	**-218**
Other	**186**	**219**
Total	**1,014**	**1,028**

37 | Income from insurance operations

in € million	2006	2005
Earned net premiums	**8,899**	**7,976**
– Non-life insurance	3,724	3,627
– Life and health insurance	5,175	4,349
Income from investments	**2,432**	**2,631**
Other underwriting income	**231**	**236**
Other non-underwriting income	**88**	**150**
Total	**11,650**	**10,993**

38 | Expense from insurance operations

in € million	2006	2005
Claims	**5,585**	**5,317**
– Non-life insurance	2,645	2,594
– Life and health insurance	2,940	2,723
Changes in other insurance reserves – net	**2,664**	**2,078**
– Non-life insurance	131	134
– Life and health insurance	2,533	1,944
Premium refunds (bonus fund)	**928**	**1,201**
– profit-related bonuses	911	1,185
– non-profit-related bonuses	17	16
Operating expenses	**1,490**	**1,382**
Investment expenses	**306**	**189**
Other underwriting expenses	**263**	**402**
Other non-underwriting expenses	**239**	**218**
Total	**11,475**	**10,787**

39 | Administration and agency services provided for third parties

Services to third parties relate in particular to book-entry administration and trust assets administration.

40 | Other operating income and expenses

The Other operating income heading includes primarily current income from leasing business, but also income from the dissolution of provisions, income from deconsolidations, income from cost apportionment and the reimbursement of expenses, and rent income.

The group's other operating expenses result primarily from sundry leasing expenses and depreciation on leased assets. The heading also includes the losses on sales of non-current assets and additions to other provisions.

41 | Extraordinary income and expenses

Extraordinary expenses essentially include personnel restructuring expenses and costs arising from DZ BANK's existing social plan. The total of the extraordinary result is shown in the Income Statement net of the applicable tax.

42 | Taxes on income

The "Taxes on income" heading encompasses the current tax liabilities on income and earnings plus net deferred taxes:

in € million	2006	2005
Taxes on actual income	**74**	**401**
of which: relating to result from ordinary operations	86	431
relating to extraordinary result	-12	-30
Balance of deferred tax credits and debits	**-140**	**113**
of which: relating to result from ordinary operations	-140	113
Total	**-66**	**514**

The actual taxes on income for the year under report include income of € 277 million from the capitalisation of the group's discounted refund entitlement in relation to corporation tax credit. This entitlement arises as at December 31, 2006 as a consequence of Germany's law concerning tax measures to accompany the introduction of the Societas Europae and amending other tax-law provisions (SEStEG). This law provides for payment of this tax credit to companies in ten instalments between 2008 and 2017 (irrespective of distributions). This change eliminates the potential corporation tax reduction amount resulting from the corporation tax credit rolled forward in accordance with section 37 (2) of the previous version of the German Corporation Tax Law (Körperschaftsteuergesetz, KStG), which amounted in 2005 to € 319 million. The potential corporation tax increase resulting from the balance of EK 02 equity rolled forward in accordance with section 38 (1) KStG amounts to € 2 million, the same as in 2005.

The reported deferred taxes total includes income of € 79 million from the capitalisation of deferred tax assets due to the lowering of the Commercial Code's mandatory discounting rate for pension calculations from 6.0 percent to 4.5 percent.

During the year under report, deferred taxes to the value of € 2 million (2005: € 7 million) were booked against shareholders' equity with a neutral effect on profits.

Deconsolidations during the year resulted in the retirement of deferred tax assets to the value of € 8 million (2005: € 0 million). The corresponding earnings effect is included under other operating income as a component of the deconsolidation result.

The following reconciliation statement shows the relationship between the reported tax expense and the expected tax expense calculated using the currently applicable German tax rate:

in € million	2006	2005
Net income before taxes on income	**1,335**	**1,148**
Group effective tax rate	40.143 %	40.143 %
Expected income tax expense	**536**	**461**
Tax effects:		
– Tax mitigation from tax-free income	-167	-192
– Increase in tax liability from non-deductible expenses	80	180
– Variances in tax rates	-43	-21
– Tax in respect of earlier years	-453	115
– Other	-19	-29
Total	**-66**	**514**

The consolidated income tax rate used for this reconciliation remains unchanged from the 2005 rate at 40.143 percent.

Starting from the uniform corporation tax rate of 25 percent, the applied basis for calculating the deferred tax effects in the 2006 Financial Statements is an effective corporation tax rate of 26.375 percent (including the solidarity surcharge) for German corporations. The applicable effective municipal trade tax for DZ BANK and its tax-integrated companies is 13.449 percent (2005: 13.768 percent). The change in the latter tax rate compared with 2005 is in response to the vote by the city council of Frankfurt am Main to reduce the assessment base for this tax from 490 percent to 460 percent with effect from 2007.

D. Other Information on the Group Financial Statements

43 | Other financial obligations

The total amount of the group's other financial obligations is € 1,577 million (2005: € 889 million). The commitments essentially relate to rental contracts, investment projects, obligations arising from outsourcing contracts, and unsettled transactions. This total includes obligations to non-consolidated subsidiaries to the value of € 29 million (2005: € 28 million).

In addition, liabilities of € 1 million exist from capital shares of cooperative associations (2005: € 1 million).

Furthermore, DZ BANK has given transfer guarantee declarations to domestic companies and public institutions in respect of certain deposits at its branches in Great Britain and the USA for the event that the branches are prevented by national decision from discharging their repayment obligations.

44 | Placing and underwriting obligations

As last year, no claims have been made against the companies of the DZ BANK Group under guarantees given to issuers over the placement or underwriting of financial instruments.

45 | Letters of comfort

In respect of two consolidated banks and one non-consolidated bank that are listed in DZ BANK's List of Shareholdings as required by section 313 (2) HGB and identified therein as falling within the ambit of these letters of comfort, DZ BANK will ensure the ability of these companies to fulfill their contractual obligations in proportion to its shareholding, excluding political risk. Obligations arising from letters of comfort will only be accepted as founded as long as DZ BANK has a direct or indirect equity interest in the undertakings covered by the letters of comfort. Subordinated support undertakings are also in force in respect of DZ BANK Capital Funding LLC I, DZ BANK Capital Funding LLC II, and DZ BANK Capital Funding LLC III, all of Wilmington, USA. During the year under report, DZ BANK has issued a further subordinated support undertaking in respect of DZ BANK Perpetual Funding (Jersey) Ltd., St. Helier, Jersey.

46 | Employees

The average number of persons employed is as follows:

	2006	2005
Female staff	**11,082**	**10,898**
of which: full-time employees	7,992	7,949
part-time employees	3,090	2,949
Male staff	**12,973**	**12,951**
of which: full-time employees	12,621	12,618
part-time employees	352	333
Total employees	**24,055**	**23,849**

47 | Auditors' fees

The breakdown of the total fees paid to the group auditors Ernst & Young AG Wirtschaftsprüfungs-gesellschaft Steuerberatungsgesellschaft by type of service is as follows:

in € thousand	2006	2005
Audit services	**4,888**	**5,183**
Other certification or valuation services	**3,591**	**481**
Tax consultancy services	**117**	**117**
Other services	**262**	**693**
Total	**8,858**	**6,474**

The stated fees for audit services covers the costs of auditing DZ BANK's Consolidated Financial Statements and Combined Management Report and performing the statutory audits of the Annual Financial Statements of DZ BANK and the consolidated subsidiaries. The other certification or valuation services essentially reflect the costs of audit services provided in connection with the changeover from HGB to IFRS accounting. The Tax consultancy services heading aggregates the fees paid by German group companies for services within the meaning of section 1 of Germany's Tax Consultancy Law (Steuerberatungsgesetz). The other services relate primarily to advisory services.

48 | Cover statement for DZ BANK

The following cover is in place for the total value of DZ BANK bonds in circulation (including registered bonds):

in € million	31.12.2006	31.12.2005
Sum of cover assets	**33,392**	**33,017**
Regular cover	**32,300**	**32,367**
Loans and advances		
– to banks	12,799	12,818
– to non-bank customers	293	660
Bonds and other fixed-interest securities	19,208	18,889
Substitute cover	**1,092**	**650**
Loans and advances to banks	1,092	650
Cover requirements	**28,440**	**27,339**
Outstanding covered		
– bearer bonds	8,241	8,565
– registered bonds	20,199	18,774
Excess cover	**4,952**	**5,678**

49 | Cover assets trustees

The trustees are appointed by the German Financial Services Regulator (Bundesanstalt für Finanzdienstleistungsaufsicht) and their statutory duty is to ensure that the issuance, administration and collateralisation of DZ BANK's covered bonds comply with the legal requirements and the provisions of the bank's own Articles of Association as well as the bonds' terms and conditions.

Trustee:

Dr. Dieter Eschke
Presiding Judge,
Superior Provincial Court
Frankfurt am Main (retd.)

Deputy Trustee:

Klaus Schlitz
Vice-President,
Provincial Court
Frankfurt am Main (retd.)

50 | Cover statement for the mortgage bank's mortgage and local authority lending business

The liabilities listed below are collateralised as follows:

	Mortgage pfandbriefe		Public-sector pfandbriefe	
in € million	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Regular cover	**18,286**	**18,862**	**47,429**	**43,832**
– Mortgage loans	18,286	18,862	1,141[1]	–
– Local authority loans including securities issued by local authorities	–	–	46,288	43,832
Substitute cover	**394**	**395**	**1,661**	**–**
– Securities	394	395	1,061	–
– Other loans and advances to banks	–	–	600	–
Total cover	**18,680**	**19,257**	**49,090**	**43,832**
Pfandbriefe requiring cover	**16,999**	**18,114**	**46,896**	**42,280**
Nominal excess cover	**1,681**	**1,143**	**2,194**	**1,552**
Present value excess cover	**2,007**	**1,913**	**2,910**	**2,465**
Risk-weighted present value excess cover	**1,675**	**1,644**	**2,783**	**2,230**

[1] Subject to local authority guarantees

The present value excess cover is higher than the nominal overcollateralisation because the former calculation includes accrued interest. The money-market and swap rates applicable on the accounting date are used as the basis for identifying the issues' present value. The composition of the cover assets is as follows: € 34,706 million in loans and advances to non-bank customers, € 5,836 million in loans and advances to other banks, € 27,228 million in bonds and other fixed-interest securities.

Residual terms of outstanding mortgage pfandbriefe and public-sector pfandbriefe

	Mortgage pfandbriefe		Public-sector pfandbriefe	
in € million	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Maturity of outstanding issues				
– less than 1 year	2,373	2,877	6,829	2,842
– between 1 year and 5 years	10,844	10,985	17,938	21,636
– between 5 years and 10 years	3,459	4,191	15,119	11,490
– more than 10 years	323	61	7,010	6,312
Total	**16,999**	**18,114**	**46,896**	**42,280**
Fixed-interest period of cover assets				
– less than 1 year	2,313	2,875	6,475	4,544
– between 1 year and 5 years	7,252	8,421	18,848	17,713
– between 5 years and 10 years	7,808	7,134	16,292	16,109
– more than 10 years	1,307	827	7,475	5,466
Total	**18,680**	**19,257**	**49,090**	**43,832**

731 (2005: 710) properties were in court-ordered receivership on the accounting date. The total arrears on the mortgage loans included in the cover pool stand at € 103 million (2005: € 103 million).

83 percent of the mortgage loans in the cover pool are originated in the former West Germany, 14 percent in the former East Germany and 3 percent outside Germany.

51 | Information on leasing business

The composition of the leasing business is essentially as follows:

in € million	31.12.2006	31.12.2005
Leasing assets	**5,011**	**4,782**
Deposits from other banks	**1,344**	**1,190**
Amounts owed to other depositors	**328**	**165**
Other liabilities	**90**	**208**
Accrued expenses and deferred income from leasing business	**1,483**	**1,372**
Provisions	**120**	**101**
Current income from leasing business	**2,250**	**2,078**
Depreciation on leasing assets	**974**	**927**
Other expenses from leasing business	**1,083**	**954**

52 | Changes in the business book of Bausparkasse Schwäbisch Hall

Overview of the changes in the number of existing (allocated and unallocated) save-to-build contracts and savings balances:

	Loan not allocated		Loan allocated		Total	
Cumulative savings targets in € million	Number of contracts	Cumulative savings target	Number of contracts	Cumulative savings target	Number of contracts	Cumulative savings target
Position at end of 2005	**5,697,367**	**151,015**	**1,430,665**	**32,278**	**7,128,032**	**183,293**
Additions during year through:						
a) New business (activated contracts)[1]	869,880	27,460	–	–	869,880	27,460
b) Transfers	23,273	552	3,832	108	27,105	660
c) Loan not requested or revoked	7,285	191	–	–	7,285	191
d) Splits	152,289	–	607	–	152,896	–
e) Loan acceptances	–	–	403,487	8,497	403,487	8,497
f) Other	220,063	6,768	76	5	220,139	6,773
Total	**1,272,790**	**34,971**	**408,002**	**8,610**	**1,680,792**	**43,581**
Disposals during year through:						
a) Loan acceptances	403,487	8,497	–	–	403,487	8,497
b) Target reductions	–	893	–	–	–	893
c) Cancellations	390,869	7,829	279,642	5,284	670,511	13,113
d) Transfers	23,273	552	3,832	108	27,105	660
e) Combinations[1]	143,799	–	27	–	143,826	–
f) Contract maturities	–	–	275,813	5,903	275,813	5,903
g) Loan not requested or revoked	–	–	7,285	191	7,285	191
h) Other	220,063	6,768	76	5	220,139	6,773
Total	**1,181,491**	**24,539**	**566,675**	**11,491**	**1,748,166**	**36,030**
Net additions/disposals	91,299	10,432	-158,673	-2,881	-67,374	7,551
Position at end of 2006	**5,788,666**	**161,447**	**1,271,992**	**29,397**	**7,060,658**	**190,844**

[1] includes the target increases

Contracts not activated:

Cumulative savings targets in € million	Number of contracts	Cumulative savings target
a) Accounts opened prior to January 1, 2006	**39,165**	**1,736**
b) Accounts opened during year	**214,297**	**7,829**

For information on changes at different levels of the tariff structure, please refer to the Annual Report of Bausparkasse Schwäbisch Hall AG (BSH), Schwäbisch Hall.

53 | Changes in the loan allocation volume of Bausparkasse Schwäbisch Hall

in € million	
A. Additions	
I. Brought-forward from 2005 (surplus)	
Not yet advanced loans	24,204
II. Additions during the year	
a) Savings inputs (including credited house building premiums)	6,680
b) Capital repayments (including credited house building premiums)[1]	2,240
c) Interest on save-to-build deposits	727
d) Building societies guarantee fund[2]	93
Total	**33,944**
B. Withdrawals	
I. Withdrawals during the year	
a) Allocated loans paid out	
aa) Save-to-build deposits	4,789
ab) Building loans	1,508
b) Repayment of save-to-build deposits on unallocated save-to-build contracts	1,189
c) Balancing of reduced capital repayments through term extension (debt reduction)	1
II. Surplus of additions	
(not yet advanced volume) at end of financial year[3]	26,457
Total	**33,944**

[1] Capital repayments are those portions of instalments used solely for loan redemption.
[2] The additional funds allocation to the building societies guarantee fund at the group level was the minimum statutory endowment (€ 15 million).
[3] The additions surplus includes inter alia:
a) the not yet returned save-to-build deposits of savers who have been allocated a loan: € 110 million
b) the not yet paid out loan components of allocated saver's building loans: € 2,667 million

54 | Borrowings by Bausparkasse Schwäbisch Hall

Deposits from other banks

The group's building society borrowed external funds as defined by section 4 (1) point 5a of the Building Societies Act (Bausparkassengesetz, BSpKG) in the sum of € 1,400 million (2005: € 1,567 million) for the purposes of refinancing redemption break loans and € 130 million (2005: €169 million) for the purposes of refinancing other construction loans (KfW loans). In respect of the tied-purpose KfW funds, the building society assigned other construction loans totalling € 102 million (2005: € 142 million) as collateral.

Securitised liabilities

All the securitised liabilities matured and were repaid in the year under report. Securitised bonds with a nominal value of € 365 million were issued during 2005 to refinance the building society's non-group business under the provisions of section 4 (1) point 5c BSpKG. Matched-maturity interest-rate hedging contracts with an aggregate nominal value of € 300 million were entered into.

55 | Statutory bodies

The total remuneration for members of the Board of Managing Directors of DZ BANK during 2006 amounted to € 6,571 thousand (2005: € 6,053 thousand) and € 511 thousand (2005: € 441 thousand) for members of the Supervisory Board.

Total emoluments of € 7,780 thousand (2005: € 7,576 thousand) were paid to former members of the Board of Managing Directors or their surviving dependents, and pension reserves of € 93,282 thousand (2005: € 76,064 thousand) were endowed to their benefit.

Board of Managing Directors of DZ BANK

Wolfgang Kirsch
(Chief Executive Officer
from September 15, 2006,
Deputy Chairman to September 15, 2006)

Dr.Dr.h.c. Ulrich Brixner
(to September 15, 2006,
Chairman to September 15, 2006)

Heinz Hilgert
(Deputy Chief Executive Officer
from February 13, 2007)

Dr. Thomas Duhnkrack

Albrecht Merz

Dietrich Voigtländer

Frank Westhoff
(from May 1, 2006)

Supervisory Board of DZ BANK

Dr. Christopher Pleister
(Chairman)
President
Bundesverband der Deutschen Volksbanken
und Raiffeisenbanken e.V.

Helga Preußer
(Deputy Chairwoman)
Employee
DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

Rolf Hildner
(Deputy Chairman)
Chairman of the Board of Managing Directors
Wiesbadener Volksbank eG

Wolfgang Apitzsch
Lawyer

Ulrich Birkenstock
Employee
R+V Allgemeine Versicherung AG

Werner Böhnke
Chairman of the Board of Managing Directors
WGZ-Bank AG
Westdeutsche Genossenschafts-Zentralbank

Gerhard Bramlage
Chairman of the Board of Managing Directors
Emsländische Volksbank eG
(to May 23, 2006)

Henning Deneke-Jöhrens
Spokesman of the Board of Managing Directors
Volksbank eG Lehrte-Springe-Pattensen-Ronnenberg
(from May 23, 2006)

Carl-Christian Ehlers
Chairman of the Board of Managing Directors
Kieler Volksbank eG

Karl Eichele
Employee
VR Kreditwerk Hamburg - Schwäbisch Hall AG

Helmut Gottschalk
Spokesman of the Board of Managing Directors
Volksbank Herrenberg-Rottenburg eG

Hans-Josef Hoffmann
Chairman of the Board of Managing Directors
Bank 1 Saar eG

Rita Jakli
Management Employee
R+V Versicherung AG
(from February 1, 2007)

Sigmar Kleinert
Employee
DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

Willy Köhler
Chairman of the Board of Managing Directors
Volksbank Rhein-Neckar eG

Rainer Mangels
Employee
R+V Rechtsschutzversicherung AG

Walter Müller
Chairman of the Board of Managing Directors
Volksbank Raiffeisenbank Fürstenfeldbruck eG

Siegfried Reiner
Management Employee
R+V Allgemeine Versicherung AG
(to February 1, 2007)

Mark Roach
Secretary
Vereinte Dienstleistungsgewerkschaft
ver.di Bundesverwaltung

Gudrun Schmidt
Regional Group Director
Vereinte Dienstleistungsgewerkschaft
ver.di Landesbezirk Hessen

Winfried Willer
Employee
VR Kreditwerk Hamburg - Schwäbisch Hall AG

Dr.h.c. Uwe Zimpelmann
Spokesman of the Board of Managing Directors
Landwirtschaftliche Rentenbank

56 | Appointments held by members of the Board of Managing Directors and employees on supervisory bodies

Directors and employees of DZ BANK:
Bank officers and directors served on the statutory supervisory bodies of major German corporations as at December 31, 2006. These and other significant mandates are listed below. Companies included in the Group Financial Statements are identified by (*).

Members of the Board of Managing Directors

Wolfgang Kirsch (Chief Executive Officer)	Banco Cooperativo Español S.A., Madrid, Member, Board of Directors
	Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, Chairman of the Supervisory Board (*)
	Deutsche Genossenschafts-Hypothekenbank AG, Hamburg, Chairman of the Supervisory Board (*)
	DZ BANK Ireland plc., Dublin, Director, Board of Directors (*)
	Österreichische Volksbanken-AG, Wien, Member of the Supervisory Board
	R+V Versicherung AG, Wiesbaden, Chairman of the Supervisory Board (*)
Heinz Hilgert (Deputy Chief Executive Officer)	Deutsche WertpapierService Bank AG, Frankfurt am Main, Member of the Supervisory Board
	DZ BANK International S.A., Luxembourg-Strassen, Chairman of the Board of Administration (*)
	DZ PRIVATBANK (Schweiz) AG, Zürich, President of the Board of Administration (*)
	R+V Versicherung AG, Wiesbaden, Member of the Supervisory Board (*)
	TeamBank AG Nürnberg, Nürnberg, Chairman of the Supervisory Board (*)
	Union Asset Management Holding AG, Frankfurt am Main, Chairman of the Supervisory Board (*)

Dr. Thomas Duhnkrack	DVB Bank AG, Frankfurt am Main, Chairman of the Supervisory Board (*)
	DZ BANK Polska S.A., Warszawa, Chairman, Supervisory Board
	EDEKABANK AG, Hamburg, Member of the Supervisory Board
	Österreichische Volksbanken-AG, Wien, Member of the Supervisory Board
	VR-LEASING AG, Eschborn, Chairman of the Supervisory Board (*)
Albrecht Merz	Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, Member of the Supervisory Board (*)
	BayWa AG, München, Member of the Supervisory Board
	DZ BANK Ireland plc., Dublin, Director, Board of Directors (*) (to December 31, 2006)
	R+V Allgemeine Versicherung AG, Wiesbaden, Member of the Supervisory Board (*)
	R+V Lebensversicherung AG, Wiesbaden, Member of the Supervisory Board (*)
	TeamBank AG Nürnberg, Nürnberg, Member of the Supervisory Board (*)
	VR-LEASING AG, Eschborn, Member of the Supervisory Board (*)

Dietrich Voigtländer	Deutsche Genossenschafts-Hypothekenbank AG, Hamburg, Member of the Supervisory Board (*)
	Deutsche WertpapierService Bank AG, Frankfurt am Main, Deputy Chairman of the Supervisory Board
	Equens Deutschland AG, Frankfurt am Main, Chairman of the Supervisory Board
	Equens N.V., Utrecht, Chairman, Supervisory Board
	Equens Nederland B.V., Utrecht, Chairman, Supervisory Board
	FIDUCIA IT AG, Karlsruhe, Member of the Supervisory Board
	VR Kreditwerk Hamburg - Schwäbisch Hall AG, Hamburg and Schwäbisch Hall, Second Deputy Chairman of the Supervisory Board (*)
Frank Westhoff	BAG Bankaktiengesellschaft, Hamm, Member of the Supervisory Board
	Deutsche Genossenschafts-Hypothekenbank AG, Hamburg, Member of the Supervisory Board (*)
	DVB Bank AG, Frankfurt am Main, Member of the Supervisory Board (*)
	DZ BANK Ireland plc., Dublin, Director, Board of Directors (*) (from January 1, 2007)
	Volksbank International AG, Wien, Second Deputy Chairman of the Supervisory Board

Employees of DZ BANK

Dr. Luis-Esteban Chalmovsky	Banco Cooperativo Español S.A., Madrid, Member, Board of Directors
Ulrich Dexheimer	Raiffeisen-Warenzentrale Kurhessen-Thüringen GmbH, Kassel, Member of the Supervisory Board (to February 7, 2007)
Jochen Friedrich	Union Investment Institutional GmbH, Frankfurt am Main, Member of the Supervisory Board (*) (to February 15, 2007)
Lars Hille	DZ BANK International S.A., Luxembourg-Strassen, Member of the Board of Administration (*) ReiseBank AG, Frankfurt am Main, Chairman of the Supervisory Board (*) Union Investment Privatfonds GmbH, Frankfurt am Main, Member of the Supervisory Board (*)
Thomas Kaltwasser	DZ BANK Ireland plc., Dublin, Director, Board of Directors (*)
Karl-Heinz von Oppenkowski	DZ BANK Polska S.A., Warszawa, Vice Chairman, Supervisory Board
Gregor Roth	ReiseBank AG, Frankfurt am Main, Member of the Supervisory Board (*)

Board members and employees of other DZ BANK Group companies:

Officers and directors of group companies served on the statutory supervisory bodies of the following major German corporations as at December 31, 2006. Companies included in the Group Financial Statements are identified by (*).

Board members/employees

Dr. Matthias Metz Chairman of the Board of Managing Directors (Bausparkasse Schwäbisch Hall AG)	WL-BANK WESTFÄLISCHE LANDSCHAFT Bodenkreditbank AG, Münster, Member of the Supervisory Board VR Kreditwerk Hamburg - Schwäbisch Hall AG, Hamburg and Schwäbisch Hall, Chairman of the Supervisory Board (*)
Gerhard Hinterberger Member of the Board of Managing Directors (Bausparkasse Schwäbisch Hall AG)	VR Kreditwerk Hamburg - Schwäbisch Hall AG, Hamburg and Schwäbisch Hall, Member of the Supervisory Board (*)
Hans-Theo Macke Chairman of the Board of Managing Directors (Deutsche Genossenschafts-Hypothekenbank AG)	Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, Member of the Supervisory Board (*) VR Kreditwerk Hamburg - Schwäbisch Hall AG, Hamburg and Schwäbisch Hall, Member of the Supervisory Board (*)

Dr. Friedrich Caspers Chairman of the Board of Managing Directors (R+V Versicherung AG)	KRAVAG-ALLGEMEINE Versicherungs-AG, Hamburg, Chairman of the Supervisory Board (*) KRAVAG-LOGISTIC Versicherungs-AG, Hamburg, Chairman of the Supervisory Board (*) Raiffeisendruckerei GmbH, Neuwied, Member of the Supervisory Board R+V Allgemeine Versicherung AG, Wiesbaden, Chairman of the Supervisory Board (*) R+V Krankenversicherung AG, Wiesbaden, Chairman of the Supervisory Board (*) R+V Lebensversicherung AG, Wiesbaden, Chairman of the Supervisory Board (*) R+V Rechtsschutzversicherung AG, Wiesbaden, Chairman of the Supervisory Board (*) Union Asset Management Holding AG, Frankfurt am Main, Member of the Supervisory Board (*)
Dr. Christoph Lamby Member of the Board of Managing Directors (R+V Versicherung AG)	KRAVAG-ALLGEMEINE Versicherungs-AG, Hamburg, Member of the Supervisory Board (*)
Hans-Christian Marschler Member of the Board of Managing Directors (R+V Versicherung AG)	R+V Krankenversicherung AG, Wiesbaden, Deputy Chairman of the Supervisory Board (*) R+V Rechtsschutzversicherung AG, Wiesbaden, Deputy Chairman of the Supervisory Board (*)

Rainer Neumann Member of the Board of Managing Directors (R+V Versicherung AG)	GWG Gesellschaft für Wohnungs- und Gewerbebau Baden-Württemberg AG, Stuttgart, Chairman of the Supervisory Board (*) KRAVAG-ALLGEMEINE Versicherungs-AG, Hamburg, Member of the Supervisory Board (*) KRAVAG-LOGISTIC Versicherungs-AG, Hamburg, Member of the Supervisory Board (*) Paul Hartmann AG, Heidenheim, Member of the Supervisory Board Protektor Lebensversicherungs-AG, Berlin, Member of the Supervisory Board Union Investment Institutional GmbH, Frankfurt am Main, Member of the Supervisory Board (*)
Rainer Sauerwein Chairman of the Board of Managing Directors (R+V Lebensversicherung AG)	GWG Gesellschaft für Wohnungs- und Gewerbebau Baden-Württemberg AG, Stuttgart, Deputy Chairman of the Supervisory Board (*) TeamBank AG Nürnberg, Nürnberg, Member of the Supervisory Board (*)
Hans-Dieter Schnorrenberg Member of the Board of Managing Directors (R+V Versicherung AG)	KRAVAG-ALLGEMEINE Versicherungs-AG, Hamburg, Member of the Supervisory Board (*) KRAVAG-LOGISTIC Versicherungs-AG, Hamburg, Member of the Supervisory Board (*)
Peter Weiler Member of the Board of Managing Directors (R+V Versicherung AG)	KRAVAG-ALLGEMEINE Versicherungs-AG, Hamburg, Member of the Supervisory Board (*) KRAVAG-LOGISTIC Versicherungs-AG, Hamburg, Member of the Supervisory Board (*)

Theophil Graband Chairman of the Board of Managing Directors (TeamBank AG Nürnberg)	ReiseBank AG, Frankfurt am Main, Deputy Chairman of the Supervisory Board (*)
Dr. Rüdiger Ginsberg Chairman of the Board of Managing Directors (Union Asset Management Holding AG)	Union Investment Institutional GmbH, Frankfurt am Main, Chairman of the Supervisory Board (*) Union Investment Privatfonds GmbH, Frankfurt am Main, Chairman of the Supervisory Board (*) Union Investment Real Estate AG, Hamburg, Chairman of the Supervisory Board (*)
Ulrich Köhne Member of the Board of Managing Directors (Union Asset Management Holding AG)	Union Investment Service Bank AG, Frankfurt am Main, Chairman of the Supervisory Board (*)
Dr. Wolfgang Mansfeld Member of the Board of Managing Directors (Union Asset Management Holding AG)	Union Investment Real Estate AG, Hamburg, Deputy Chairman of the Supervisory Board (*)
Hans Joachim Reinke Member of the Board of Managing Directors (Union Asset Management Holding AG)	Union Investment Privatfonds GmbH, Frankfurt am Main, Deputy Chairman of the Supervisory Board (*) Union Investment Service Bank AG, Frankfurt am Main, Member of the Supervisory Board (*)
Alexander Schindler Member of the Board of Managing Directors (Union Asset Management Holding AG)	Union Investment Institutional GmbH, Frankfurt am Main, Member of the Supervisory Board (*)
Oliver Best Employee (Union Asset Management Holding AG)	Union Investment Service Bank AG, Frankfurt am Main, Member of the Supervisory Board (*)

Balance Sheet of DZ BANK as at December 31, 2006
Assets

in € million	(Note)	31.12.2006	31.12.2005
1. Cash reserve		**946**	**104**
a) Cash on hand		0	6
b) Balances with central banks		946	98
of which: with Deutsche Bundesbank		(937)	(94)
2. Debt instruments of public-sector entities and bills of exchange eligible for refinancing at central banks		**250**	**29**
Treasury bills, discountable treasury notes and similar debt instruments of public-sector entities		250	29
of which: eligible for refinancing at Deutsche Bundesbank		(215)	(10)
3. Placements with, and loans and advances to, other banks	(4, 6)	**103,628**	**97,164**
a) Repayable on demand		6,808	4,499
b) Other receivables		96,820	92,665
4. Loans and advances to non-bank customers	(4)	**27,282**	**24,019**
of which: secured by mortgages		(144)	(514)
local authority loans		(2,180)	(1,698)
5. Bonds and other fixed-interest securities	(4, 12, 13)	**102,687**	**86,439**
a) Money-market instruments issued by		1,080	1,655
aa) public-sector issuers		64	202
of which: qualifying as repo collateral at Deutsche Bundesbank		(–)	(202)
ab) other issuers		1,016	1,453
of which: qualifying as repo collateral at Deutsche Bundesbank		(–)	(141)
b) Bonds issued by		98,172	82,285
ba) public-sector issuers		9,174	8,424
of which: qualifying as repo collateral at Deutsche Bundesbank		(7,856)	(7,206)
bb) other issuers		88,998	73,861
of which: qualifying as repo collateral at Deutsche Bundesbank		(51,787)	(45,600)
c) Own bonds		3,435	2,499
Nominal value		(3,403)	(2,474)
6. Equity shares and other variable-yield securities	(12, 13)	**1,677**	**889**
7. Participations	(13, 14)	**677**	**333**
of which: in banks		(529)	(263)
8. Shares in related companies	(13, 14)	**9,427**	**9,545**
of which: in banks		(1,473)	(1,480)
in financial services institutions		(8)	(1)
9. Assets held on trust basis	(8)	**1,703**	**1,970**
of which: trust loans		(468)	(583)
10. Intangible assets	(14)	**50**	**51**
11. Property and equipment	(14)	**67**	**83**
12. Own equity or partnership shares	(15)	**–**	**24**
Calculated value		(–)	(10)
13. Other assets	(18)	**2,908**	**1,651**
14. Accrued income and deferred expenses	(19)	**1,405**	**1,429**
a) from issuance and lending operations		545	525
b) other		860	904
Total assets		**252,707**	**223,730**

Equity and liabilities

in € million	(Note)	31.12.2006	31.12.2005
1. Deposits from other banks	(4, 6)	**150,186**	**140,424**
a) Repayable on demand		24,636	28,331
b) Fixed-term or agreed notice		125,550	112,093
2. Amounts owed to other depositors	(4)	**38,525**	**33,025**
Other liabilities		38,525	33,025
a) Repayable on demand		6,370	5,695
b) Fixed-term or agreed notice		32,155	27,330
3. Securitised liabilities	(4)	**44,776**	**32,571**
a) Issued bonds		35,735	29,463
b) Other securitised liabilities		9,041	3,108
of which: money-market instruments		(9,041)	(3,108)
4. Liabilities arising from trust operations	(8)	**1,703**	**1,970**
of which: trust loans		(468)	(583)
5. Other liabilities	(20)	**3,962**	**2,591**
6. Accrued expenses and deferred income	(19)	**388**	**368**
a) from issuance and lending operations		60	79
b) other		328	289
7. Provisions	(2, 4)	**1,156**	**1,036**
a) Provisions for pensions and similar obligations		442	323
b) Provisions for taxes		85	109
c) Other provisions		629	604
8. Subordinated liabilities	(4, 21)	**3,193**	**3,202**
9. Participatory capital	(4, 22)	**1,437**	**2,112**
of which: maturing within two years		(209)	(764)
10. Fund for general banking risks		**1,627**	**1,550**
11. Capital and reserves	(16)	**5,754**	**4,881**
a) Subscribed capital		3,028	2,879
b) Capital reserve		1,109	803
c) Revenue reserves		1,466	1,089
ca) Statutory reserve		53	27
cb) Reserve for own shares		–	24
cc) Other revenue reserves		1,413	1,038
d) Profit		151	110
Total equity and liabilities		**252,707**	**223,730**

1. Contingent liabilities		**5,404**	**3,654**
a) Liabilities arising from guarantees and warranties provided		5,404	3,544
b) Liabilities arising from the provision of securities on third-party liabilities		–	110
2. Other obligations		**19,705**	**15,823**
Irrevocable credit commitments		19,705	15,823

Income Statement of DZ BANK
for the Period from January 1 to December 31, 2006

in € million	(Note)	2006	2005
1. Interest earned from		**5,570**	**5,072**
a) Lending and money-market operations		3,996	3,731
b) Fixed-interest securities and government-inscribed debt		1,574	1,341
2. Interest expense		**5,260**	**4,616**
3. Current income from		**270**	**251**
a) Equity shares and other variable-yield securities		18	7
b) Participations		15	8
c) Shares in related companies		237	236
4. Income from profit pools and profit transfer or profit sharing agreements		**178**	**110**
5. Commissions earned	(26)	**643**	**640**
6. Commission expense	(26)	**374**	**348**
7. Net gain from financial and investment banking transactions		**375**	**358**
8. Other operating income	(28)	**65**	**60**
9. General administrative expenses		**881**	**759**
a) Personnel expenses		576	445
aa) Wages and salaries		368	361
ab) Compulsory social security contributions and expenses for pension benefits and welfare		208	84
of which: for pensions provision		(164)	(41)
b) Other administrative expenses		305	314
10. Depreciation and valuation allowances on tangible and intangible assets		**40**	**37**
11. Other operating expenses	(28)	**54**	**37**
12. Depreciation and valuation allowances on loans and advances and certain securities, plus additions to provisions on lending business		**61**	**130**
13. Depreciation and valuation allowances on participations, shares in related companies and securities treated as fixed assets		**0**	**84**
14. Addition to the fund for general banking risks		**77**	**22**
15. Expenses from the assumption of losses		**145**	**160**
16. Result of ordinary operations		**209**	**298**
17. Extraordinary expenses	(29)	**29**	**69**
18. Net extraordinary result		**-29**	**-69**
19. Taxes on income	(30)	**-348**	**-15**
20. Other taxes not included under Other operating expenses heading		**0**	**24**
21. Result after taxes		**528**	**220**
22. Earnings brought forward from previous year		**0**	**0**
23. Withdrawals from revenue reserves		**64**	**–**
a) from the reserve for own shares	(16)	44	–
b) from other revenue reserves		20	–
24. Allocations to revenue reserves		**441**	**110**
a) to the statutory reserve		26	11
b) to the reserve for own shares		20	–
c) to other revenue reserves		395	99
25. Profit		**151**	**110**

Notes to the Annual Financial Statements of DZ BANK – Contents

Notes to the Annual Financial Statements of DZ BANK

A. General Information

1 | Legal basis on which the Annual Financial Statements have been drawn up

The Annual Financial Statements of DZ BANK AG Deutsche Zentral-Genossenschaftsbank (DZ BANK), Frankfurt am Main, for the year ending December 31, 2006 have been prepared in accordance with the requirements of the German Commercial Code (HGB) and the Order on the Accounting of Credit Institutions and Financial Services Institutions (RechKredV). At the same time, the Annual Financial Statements are in compliance with the provisions of Germany's Joint Stock Corporations Act (AktG) and the DG BANK Transformation Act (DG BANK-Umwandlungsgesetz), as well as the Articles of Association of DZ BANK.

All monetary values are stated in euro in compliance with section 244 HGB. Advantage has been taken of the option to provide information through the notes rather than the balance sheet.

2 | Accounting and valuation principles

Claims on banks and non-bank customers

Claims on banks and non-bank customers (placements, loans and advances) are shown at their nominal value or cost of acquisition. Differences between their nominal value and disbursement value are apportioned pro rata temporis and shown under accrued and deferred items. Note receivables, registered bonds and lease receivables purchased from third parties are shown at cost of acquisition.

Without exception, all receivables fall under current assets and are valued strictly at the lower of cost or market. The total shown for loans and advances to bank and non-bank customers includes the note loans, registered bonds and lease receivables assigned to the bank's investment book that are matched by corresponding interest-rate hedge transactions as part of bank-wide risk management. These respectively constitute distinct valuation units.

The provision for risk in the lending business encompasses valuation allowances and loan-loss provisions in respect of credit, country and latent default risks plus the prudential reserves (section 340f (1) HGB). Appropriate provision at the level of the anticipated loss is made in respect of all identifiable credit and country risks. Latent credit risks are covered by a global loan loss provision, based on the average actual loan loss incurred in the preceding five financial years. The responsible authority's rules for the tax recognition of general provisions by banks, which are also commensurate from the commercial perspective, have been applied.

Bonds and other fixed-interest securities and equity shares and other variable-yield securities
All current and non-current securities are reported strictly at the lower of cost or market. Certain securities held as non-current assets or as part of the liquidity reserve and structured into portfolios are treated in DZ BANK's Financial Statements according to the rules governing valuation units. Risks of the same category are aggregated in valuation units comprising the underlying on-balance-sheet transactions and their corresponding hedge transactions. Within particular valuation units, positive and negative valuation results on the constituent financial instruments are netted off. While an overall valuation gain will never be counted towards earnings, provision for pending potential losses will be made in respect of a net valuation loss.

Dividend income from shares and other variable-yield securities held as investment assets or as part of the liquidity reserve is shown under the heading of Current income from equity shares and other variable-yield securities.

Participations and shares in related companies
Participations and shares in related companies are shown at amortised cost.

Tangible and intangible fixed assets
Tangible fixed assets (property and equipment) are valued at cost of acquisition or production less regular depreciation over their expected service life, based in principle on the values shown in the tables published by the German tax authorities. Minor-value assets are written off in full in the year of acquisition.

As a rule operating equipment and systems, including office furniture, are depreciated on a straight-line basis.

Where impairments are expected to be enduring in nature, exceptional write-downs are made. If the causes of the write-down cease to apply, the value is written up again.

Intangible assets are valued at cost of acquisition and regularly amortised on a straight-line basis. The assumed useful life ranges from three to ten years.

Liabilities

Liabilities are shown at their repayment value. The difference between their nominal and repayment values is taken to accruals and deferrals and released over time.

Provisions

Provisions for pensions and similar obligations are calculated according to actuarial principles. Current pension commitments to retired pensioners and contributions on behalf of ex-employees with pension entitlement are shown at their pro-rata value. The provisions for pensions and similar obligations were valued in previous years in accordance with section 6a of the Income Tax Act (Einkommenssteuergesetz - EStG). In 2006 the discounting rate was reduced from 6.0 percent to 4.5 percent to reflect the lasting lower level of bond market yields. This required a one-off appropriation to the pension reserves to the value of € 97 million during the year. To ensure that its pension obligations are covered from independent resources, DZ BANK avails itself of DZ BANK Mitarbeiter-Unterstützungseinrichtung GmbH, Frankfurt am Main, and DZ BANK also has transferred funds to DZ BANK Pension Trust e.V., Frankfurt am Main, which performs the role of trustee vis-à-vis the bank's pension-entitled employees and current pension recipients.

Provisions for actual tax liabilities were formed in accordance with the German tax regulations, and other provisions were formed on the basis of prudent business judgment to correspond with the group's uncertain liabilities or threatened losses from uncompleted transactions.

Trading operations

The trading positions encompass bonds and other fixed-interest securities, equity shares and other variable-yield securities, note loans, registered bonds and derivative financial instruments (interest rate, exchange rate, credit and equity derivatives).

Trading positions that are demonstrably permanently hedged against market risk as part of the limits system are valued using a modified market value methodology as part of the portfolio valuation system. This involves aggregating these trading positions into portfolios, valuing them by reference to the applicable fair values, and then marking down this value by applying a mathematically determined loss potential (value-at-risk) discount. The determination of this value-at-risk discount is based on the bank's internal risk management model that focuses on the regulatory qualitative and quantitative requirements defined by Principle I KWG, and which factors in specific interest rate risks. This value-at-risk discount ensures that only unrealised gains on predominantly closed positions are recognised in the income statement. The applicable fair values of the derivative and non-derivative financial instruments included in trading positions are derived from the relevant market values where these can be reliably established, or by relying on generally accepted valuation models and methods.

Other trading positions are valued strictly at the lower of cost or market.

In addition to the valuation results, current interest payments and dividend income on securities held for trading purposes, current payments on derivative financial instruments held for trading purposes, and on securities repurchase and securities lending transactions, and the refinancing costs attributable to trading positions (including deferred income and expense) are shown under the Net gain from financial and investment banking transactions heading.

Miscellaneous

Investment expenses are offset against the corresponding income. Valuation income and expense from lending transactions and securities held as part of the liquidity reserve are shown net.

The fund for general banking risks required under the terms of section 340g HGB amounts to € 1,627 million (2005: € 1,550 million). Prudential reserves have also been established within the meaning of section 340f HGB.

3 | Currency translation

Currency translations for assets and liabilities as well as rights and delivery obligations arising from foreign exchange transactions are translated in accordance with the principles defined in section 340h HGB and Statement 3/1995 of the Banking Experts Committee (BFA) of the German Institute of Certified Public Accountants (IDW).

Assets denominated in foreign currency, that are treated as non-current assets and are not specifically covered in the same currency, are carried at historic cost of acquisition. Specifically covered assets are defined as assets that are matched by contrary positions on the liabilities side, or futures or option transactions.

Other foreign-currency assets and liabilities and open spot transactions are translated at the mid spot rate on the accounting date, and forward forex transactions at the forward rate on the accounting date.

Where forward exchange deals are connected with the hedging of interest-bearing balance sheet items, the resulting swap expense and income is treated as interest expense and interest earned, reflecting its character.

B. Notes to the Balance Sheet of DZ BANK

4 | Maturity structure

Asset positions

in € million	31.12.2006	31.12.2005
Other placements with, and loans and advances to, other banks	**96,820**	**92,665**
– up to 3 months	47,451	42,734
– between 3 months and 1 year	11,750	13,787
– between 1 year and 5 years	18,760	19,279
– more than 5 years	18,859	16,865
Loans and advances to non-bank customers	**27,282**	**24,019**
– up to 3 months	12,506	9,285
– between 3 months and 1 year	1,897	2,407
– between 1 year and 5 years	6,858	7,058
– more than 5 years	4,206	3,684
– no fixed term	1,815	1,585
Bonds and other fixed-interest securities	**102,687**	**86,439**
– up to 3 months (maturing in the subsequent year)	3,722	4,347
– between 3 months and 1 year (maturing in the subsequent year)	11,605	11,730
– between 1 year and 5 years	56,864	48,174
– more than 5 years	30,177	22,095
– no fixed term	319	93

Liability positions

in € million	31.12.2006	31.12.2005
Deposits from other banks with an originally agreed term or notice period	**125,550**	**112,093**
– up to 3 months	72,283	64,784
– between 3 months and 1 year	10,581	9,304
– between 1 year and 5 years	17,143	15,281
– more than 5 years	25,543	22,724
Amounts owed to other depositors:		
Other liabilities with an agreed term or notice period	**32,155**	**27,330**
– up to 3 months	15,223	12,535
– between 3 months and 1 year	2,207	1,294
– between 1 year and 5 years	5,415	5,453
– more than 5 years	9,310	8,048
Securitised liabilities:		
Bonds issued	**35,735**	**29,463**
– of which: maturing in the subsequent year	6,924	4,474
Other securitised liabilities	**9,041**	**3,108**
– up to 3 months	8,285	2,796
– between 3 months and 1 year	756	312
Provisions	**1,156**	**1,036**
– up to 3 months	185	191
– between 3 months and 1 year	208	176
– between 1 year and 5 years	298	320
– more than 5 years	465	349
Subordinated liabilities	**3,193**	**3,202**
– up to 3 months	81	164
– between 3 months and 1 year	272	159
– between 1 year and 5 years	907	893
– more than 5 years	1,933	1,986
Participatory capital	**1,437**	**2,112**
– up to 3 months	89	131
– between 3 months and 1 year	120	632
– between 1 year and 5 years	1,010	970
– more than 5 years	218	379

5 | Related companies and companies with which a participation relationship exists

Claims and liabilities in respect of related companies:

in € million	31.12.2006	31.12.2005
Placements with, and loans and advances to, other banks	**12,932**	**9,779**
Loans and advances to non-bank customers	**2,150**	**1,974**
Bonds and other fixed-interest securities	**12,263**	**11,851**
Deposits from other banks	**5,068**	**4,570**
Amounts owed to other depositors	**1,087**	**1,404**
Securitised liabilities	**413**	**55**
Subordinated liabilities	**1,426**	**1,165**

Claims and liabilities in respect of companies with which a participation relationship exists:

in € million	31.12.2006	31.12.2005
Placements with, and loans and advances to, other banks	**22,911**	**21,780**
Loans and advances to non-bank customers	**3,707**	**1,671**
Bonds and other fixed-interest securities	**5,924**	**4,651**
Deposits from other banks	**23,698**	**22,220**
Amounts owed to other depositors	**4,926**	**3,444**
Securitised liabilities	**3,224**	**2,936**
Subordinated liabilities	**28**	**69**

The complete list of shareholdings can be viewed via the webpage of the electronic business register.

6 | Claims and liabilities in respect of affiliated banks

The reported claims and liabilities totals include the following sums due from or to affiliated banks:

in € million	31.12.2006	31.12.2005
Due from affiliated banks	**37,461**	**36,355**
of which: from cooperative central institutions	7	157
Due to affiliated banks	**39,510**	**38,549**
of which: to cooperative central institutions	110	99

7 | Subordinated assets

Subordinated assets are included in the following balance sheet headings:

in € million	31.12.2006	31.12.2005
Placements with, and loans and advances to, other banks	**1,005**	**792**
of which: to related companies	895	490
to companies with which a participation relationship exists	35	15
Loans and advances to non-bank customers	**0**	**1**
of which: to companies with which a participation relationship exists	0	–
Bonds and other fixed-interest securities	**2,524**	**1,849**
of which: of related companies	8	19
of companies with which a participation relationship exists	2	1
Equity shares and other variable-yield securities	**279**	**260**
of which: in related companies	58	47
in companies with which a participation relationship exists	0	0
Total	**3,808**	**2,902**

8 | Trust operations

The total value of the trust assets and liabilities is apportioned between the following assets-side and liabilities-side headings:

in € million	31.12.2006	31.12.2005
Trust assets		
– Placements with, and loans and advances to, other banks	340	374
– Loans and advances to non-bank customers	128	209
– Participations	1,235	1,387
Total	**1,703**	**1,970**

in € million	31.12.2006	31.12.2005
Trust liabilities		
– Deposits from other banks	341	375
– Amounts owed to other depositors	1,362	1,595
Total	**1,703**	**1,970**

9 | Foreign currency positions

Assets and liabilities denominated in foreign currencies exist in the following amounts:

in € million	31.12.2006	31.12.2005
Assets	**46,514**	**37,571**
Liabilities	**30,252**	**29,610**

10 | Business subject to repurchase agreements

As at December 31, 2006 the book value of assets sold subject to a repurchase agreement amounts to € 37,166 million (2005: € 36,650 million).

11 | Assets assigned as security

Assets with the value stated below were assigned as security in respect of the following liabilities and contingent liabilities:

in € million	31.12.2006	31.12.2005
Deposits from other banks	**53,209**	**54,261**
Amounts owed to other depositors	**6,190**	**4,541**
Securitised liabilities	**834**	**804**
Other obligations	**3,232**	**4,046**
Total value of assigned security	**63,465**	**63,652**

12 | Structure of securities portfolio by purpose

The securities portfolio breaks down into the following categories according to the purpose of the holding:

in € million	31.12.2006	31.12.2005
Bonds and other fixed-interest securities		
– Investment portfolio	23,311	23,129
– Trading portfolio	57,608	41,460
– Liquidity reserve	21,768	21,850
Total	**102,687**	**86,439**

in € million	31.12.2006	31.12.2005
Equity shares and other variable-yield securities		
– Investment portfolio	625	86
– Trading portfolio	937	755
– Liquidity reserve	115	48
Total	**1,677**	**889**

13 | Securities eligible for stock exchange listing

The following asset-side headings include listing-eligible securities to the values shown:

in € million	31.12.2006	31.12.2005
Bonds and other fixed-interest securities	**102,687**	**86,439**
of which: listed	81,274	71,476
Equity shares and other variable-yield securities	**917**	**762**
of which: listed	659	597
Participations	**352**	**91**
of which: listed	352	91
Shares in related companies	**2,088**	**2,088**
of which: listed	406	406

14 | Structure and movement of intangible assets, property and equipment and financial assets

Intangible assets, property and equipment

	Cost of acquisition/production				Write-ups	Depreciation		Residual book value at	
in € million	01.01.2006	Additions	Disposals	Reclassi-fications		Current-year	Cumulative	31.12.2006	31.12.2005
Intangible assets	208	16	1	0	–	17	173	**50**	**51**
Land and buildings	12	–	5	–	–	0	3	**4**	**6**
of which: used for own operations	(6)	(–)	(–)	(–)	(–)	(0)	(3)	(3)	(3)
Operating and office equipment	274	9	40	0	–	23	181	**62**	**77**
Prepayments made	–	1	–	–	–	–	–	**1**	**–**
Total	**494**	**26**	**46**	**–**	**–**	**40**	**357**	**117**	**134**

Financial assets

in € million	Net changes	Book value at 31.12.2006	Book value at 31.12.2005
Bonds and other fixed-interest securities	182	**23,311**	**23,129**
Equity shares and other variable-yield securities	539	**625**	**86**
Participations	344	**677**	**333**
Shares in related companies	-118	**9,427**	**9,545**
Total	**947**	**34,040**	**33,093**

15 | Own shares

At the accounting date, DZ BANK had no own shares in treasury (2005: 3,665,569 registered unit shares).

In February 2006 DZ BANK acquired 3,177,852 shares at a purchase price of € 19,998,222.64 under the provisions of section 71 (1) point 2 AktG.

These shares were subsequently offered for sale under DZ BANK's 2006 sales programme at a price of € 7.11 per share. 906,600 shares were sold in July 2006 and generated proceeds of € 6,445,926.00.

In addition to the shares created through its capital increase, shareholders were also offered the opportunity in July 2006 to acquire own shares at a price of € 7.90 per share. 5,936,821 shares were sold in this way and generated proceeds of € 46,900,885.90.

Timetable of purchases and sales of own shares

Time of transaction	Purchase/sale of own shares	Capital value	Proportion of registered share capital
	Number	in €	in %
August 1998	200,000	520,000.00	0.0172
September 1999	293,000	761,800.00	0.0252
November 1999	1,220,000	3,172,000.00	0.1047
December 2001	5,082	13,213.20	0.0004
January 2002	475,648	1,236,684.80	0.0408
February 2002	536,772	1,395,607.20	0.0461
March 2002	859,848	2,235,604.80	0.0738
April 2002	75,219	195,569.40	0.0065
February 2006	3,177,852	8,262,415.20	0.2728
Total purchases	**6,843,421**	**17,792,894.60**	**0.5875**
July 2006	-5,936,821	-15,435,734.60	0.5097
July 2006	-906,600	-2,357,160.00	0.0778
Total sales	**-6,843,421**	**-17,792,894.60**	**0.5875**

The surplus proceeds realised through the sale of these own shares are included in the balance of other operating income/expense.

16 | Changes in equity

The subscribed capital consists of DZ BANK's registered capital of € 3,028,427,238.20. This is divided into 1,164,779,707 registered unit shares each conveying a notional proportional entitlement in the share capital of € 2.60.

The equity capital evolved as follows:

in € million	01.01.2006	Additions/ (–) Withdrawals	31.12.2006
Subscribed capital	**2,879**	**149**	**3,028**
Capital reserve	**803**	**306**	**1,109**
Revenue reserves	**1,089**	**377**	**1,466**
– Statutory reserve	27	26	53
– Reserve for own shares	24	20 -44	–
– Other revenue reserves	1,038	395 -20	1,413
Profit	**110**	**41**	**151**
– Appropriation/distribution from prior year	110	-110	–
– Profit 2006	–	151	151
Total equity	**4,881**	**873**	**5,754**

On the basis of its existing authorities, the Board of Managing Directors, with the consent of the Supervisory Board, resolved to increase the share capital by € 149,999,998.20 from € 2,878,427,240.00 to € 3,028,427,238.20. The performance of this capital increase through cash contributions by way of the issuance of 57,692,307 registered unit shares at an issue price of € 7.90 was recorded under the group's entry in the Companies Register on July 6, 2006. The new shares are dividend-qualifying with effect from January 1, 2006.

The Board of Managing Directors is authorised, subject to the approval of the Supervisory Board, to increase the share capital by August 31, 2011 on one or more occasions by up to a total of € 50 million by way of issuing new registered non-par value shares in return for cash or non-cash contributions. The Board of Managing Directors is authorised, subject to the approval of the Supervisory Board, to exclude the subscription right of shareholders both in the case of capital increases in return for non-cash contributions and in the case of capital increases in return for cash contributions if the capital is increased for the purpose of

a) issuing new shares to employees of the company (employee shares);
b) issuing new shares to one or more cooperative banks which, measured in terms of their total assets, directly and indirectly have a below-average stake in the corporation's share capital, i.e. less than 0.5 percent of their total assets (using the nominal value of € 2.60 per DZ BANK share);
c) acquiring companies, equity investments in companies or for granting equity investments in the corporation in order to back strategic partnerships.

The Board of Managing Directors is also authorised, subject to the approval of the Supervisory Board, to exclude fractions from the subscription right of shareholders (“Authorised capital I”).

The Board of Managing Directors is authorised, subject to the approval of the Supervisory Board, to increase the share capital by August 31, 2011 on one or more occasions by up to a total of € 200 million by issuing new registered non-par value shares in return for cash contributions. The Board of Managing Directors is authorised, subject to the approval of the Supervisory Board, to exclude fractions from the subscription right of shareholders (“Authorised capital II”).

17 | Shareholder disclosures

The proportion of the share capital held by cooperative undertakings at the end of the financial year under report was approximately 95.4 percent. Cooperative undertakings include cooperative societies, cooperative central institutions and other corporate entities and trading companies with business connections to the cooperative housing sector and the cooperative movement in general.

18 | Other assets

Other assets primarily comprise premiums for acquired option rights to the value of € 1,610 million (2005: € 1,139 million), an adjustment item that represents the valuation gains on trading transactions of € 677 million (2005: € 326 million) following the deduction of a value-at-risk discount, plus tax credits and entitlements arising from intra-group tax allocations to the value of € 479 million (2005: € 98 million).

19 | Accruals and deferrals

in € million	31.12.2006	31.12.2005
Assets		
– Discounts on payables	545	525
– Other deferred expenses and accrued income	860	904
Total	**1,405**	**1,429**

in € million	31.12.2006	31.12.2005
Liabilities		
– Discounts on receivables	52	69
– Premiums on issued bonds	8	10
– Other deferred income and accrued expenses	328	289
Total	**388**	**368**

20 | Other liabilities

Other liabilities include deferred option premiums to the value of € 3,057 million (2005: € 2,440 million), plus participating certificates maturing within a year including distributions to the value of € 677 million (2005: € 28 million).

21 | Subordinated liabilities

Out of the total volume of subordinated liabilities as at December 31, 2006, € 2,741 million is recognised as qualifying (liable) capital within the definition of section 10 (5a) of the German Banking Act (KWG). There is no third-tier capital within the definition of section 10 (7) KWG.

The subordinated borrowings do not involve any early redemption obligation on the part of the issuers. The rights arising from these liabilities (including entitlement to interest) are secondary to the claims of all the issuer's other, non-subordinated creditors in the event of the issuer's liquidation or the opening of bankruptcy proceedings against the issuer.

There is no agreement or intention to convert these funds to capital or another form of debt.

The subordinated liabilities have an average interest rate of 4.86 percent (2005: 4.76 percent) and initial terms of between 6 and 30 years.

Subordinated liabilities are mainly issued in the form of fixed-interest securities, variable-rate securities, fixed-rate note loans, and variable-rate registered bonds.

The total reported includes two single items that exceed 10 percent of the total value of the subordinated liabilities. One € 500 million registered bond pays interest of 3-months EURIBOR plus a margin of 1.6 percent and matures in 2034, though the issuer has a call option that is exercisable for the first time in 2009. The second registered bond (€ 350 million) pays interest of 3-months EURIBOR plus a margin of 1.5 percent and matures in 2035, though the issuer has a call option that is exercisable for the first time in 2012.

The interest expense on the subordinated liabilities amounted to € 164 million (2005: € 153 million).

Deferred not yet payable interest totalling € 55 million (2005: € 62 million) is included in the Subordinated liabilities heading.

22 | Participatory capital

The total volume of participatory capital recognised as qualifying liable capital within the definition of section 10 (5) KWG amounts to € 1,217 million.

Participatory capital participates to the full extent in potential losses. Interest payments are only made subject to the availability of unappropriated profit. Participation certificate holders' entitlements to repayment of their capital are subordinate to the rights of other creditors. DZ BANK has issued the following series of bearer participation certificates:

Year of issue	Nominal amount	Interest rate	Due
	in € million	in %	
1984	133	8.50	2011
1989	42	7.50	2009
1993	26	7.00	2008
1996	41	7.25	2007
1997	38	6.75	2008
1998	22	6.50	2010
1999	160	4.70[1]	2009
1999	1	7.00	2010
2000	60	6.25	2009
2001	100	5.50	2008
2002	28	6.50	2011

[1] Tied to market rate: H1: 4.09 %, H2: 4.70 %

The issue terms of the 1984 participatory capital tranche make the eventual distribution dependent on the dividend declared. The issue terms also require a minimum coupon. This is distributed unless the dividend is higher.

Registered participation certificates with an aggregate nominal volume of € 697 million have been issued by DZ BANK. This total is composed of 256 separate issues with original terms of between 7 and 16 years and bearing interest of between 5.38 percent and 7.63 percent.

Servicing the interest on the participation certificate stock involved expense of € 135 million (2005: € 135 million).

Deferred not yet payable interest totalling € 89 million (2005: € 131 million) is included in the Participatory capital heading.

23 | Off-balance-sheet forward transactions by product area

The following table shows the breakdown of DZ BANK's off-balance-sheet forward transactions by product area:

	Nominal amount					Market value			
	Residual term			Total		Positive		Negative	
in € million	≤ 1 year	> 1–5 years	> 5 years	31.12.2006	31.12.2005	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Interest-based transactions	**290,549**	**352,365**	**346,976**	**989,890**	**876,175**	**12,513**	**18,162**	**13,216**	**17,914**
OTC products									
– FRAs	19,904	–	4	19,908	9,754	4	3	4	2
– Interest swaps (same currency)	208,537	285,416	303,682	797,635	719,446	11,301	16,998	10,139	15,164
– Interest options – calls	8,460	20,319	15,580	44,359	41,897	1,122	1,118	129	1
– Interest options – puts	23,701	43,042	27,600	94,343	70,903	6	6	2,844	2,712
– Other interest contracts	328	98	110	536	1,463	1	4	–	1
Exchange-traded products									
– Interest futures	26,971	3,490	–	30,461	32,712	71	33	100	34
– Interest options	2,648	–	–	2,648	–	8	–	–	–
Forex-based transactions	**38,820**	**2,276**	**83**	**41,179**	**35,762**	**323**	**243**	**397**	**298**
OTC products									
– Forward exchange transactions	29,819	1,858	83	31,760	30,628	251	193	319	263
– Forex options – calls	4,808	241	–	5,049	2,792	72	49	0	2
– Forex options – puts	4,181	177	–	4,358	2,318	0	1	78	33
Exchange-traded products									
– Forex futures	12	–	–	12	17	0	0	0	0
– Forex options	–	–	–	–	7	–	0	–	–
Equity/index-based transactions	**9,057**	**13,261**	**2,507**	**24,825**	**18,579**	**1,213**	**771**	**388**	**133**
OTC products									
– Equity/index options – calls	222	1,231	49	1,502	1,166	240	138	2	12
– Equity/index options – puts	187	818	25	1,030	584	1	2	49	36
– Other equity/index contracts	766	9,022	2,366	12,154	10,081	671	485	321	78
Exchange-traded products									
– Equity/index futures	2,468	2	–	2,470	1,390	17	7	16	7
– Equity/index options	5,414	2,188	67	7,669	5,358	284	139	–	–
Other transactions	**4,564**	**8,804**	**2,804**	**16,172**	**15,303**	**254**	**208**	**289**	**227**
OTC products									
– Cross-currency swaps	4,515	8,622	2,798	15,935	14,705	231	191	275	210
– Precious metals transactions	1	–	–	1	–	3	–	–	–
– Commodities transactions	–	175	6	181	575	18	16	13	17
Exchange-traded products									
– Futures	22	0	–	22	18	0	1	1	0
– Options	26	7	–	33	5	2	0	–	–

	Nominal amount					Market value			
	Residual term			Total		Positive		Negative	
in € million	≤ 1 year	> 1–5 years	> 5 years	31.12.2006	31.12.2005	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Credit derivatives	**8,133**	**19,079**	**7,613**	**34,825**	**19,318**	**245**	**186**	**178**	**311**
Hedge beneficiary									
– Credit default swaps	3,938	9,208	3,499	16,645	8,713	9	75	167	108
– Total return swaps	180	1,629	1,321	3,130	1,632	94	1	5	107
Hedge provider									
– Credit default swaps	3,985	8,242	2,793	15,020	8,973	142	110	6	96
– Total return swaps	30	–	–	30	–	–	–	0	–
Total	**351,123**	**395,785**	**359,983**	**1,106,891**	**965,137**	**14,548**	**19,570**	**14,468**	**18,883**

A substantial proportion of the transactions listed were entered into to hedge interest rate, exchange rate or market price fluctuations. The bulk of these transactions related to trading activities.

24 | Off-balance-sheet forward transactions by counterparties structure

The following table shows the breakdown of DZ BANK's off-balance-sheet forward transactions by counterparties structure:

	Market value			
	Positive		Negative	
in € million	31.12.2006	31.12.2005	31.12.2006	31.12.2005
OECD governments	**5**	**0**	**27**	**16**
Banks in OECD countries	**14,058**	**17,648**	**13,792**	**16,848**
Other companies and private individuals	**482**	**1,919**	**641**	**2,002**
Banks in non-OECD countries	**3**	**3**	**8**	**17**
Total	**14,548**	**19,570**	**14,468**	**18,883**

C. Notes to the Income Statement of DZ BANK

25 | Breakdown of income by geographical markets

The origin of the sum total of interest earned, current income from equity shares and other variable-yield securities, participations and shares in related companies, commissions earned, net gain from financial and investment banking transactions and other operating income is as follows:

in %	2006	2005
Germany	93.18	87.10
International	6.82	12.90

26 | Commissions earned and commission expense

The surplus of commissions earned over commission expense resulted from the following services:

in € million	2006	2005
Securities business	131	171
Payments business/International business	31	35
Lending and guarantees business	62	49
Other	45	37
Total	269	292

27 | Administration and agency services provided for third parties

Services to third parties relate in particular to book-entry administration and trust assets administration.

28 | Other operating income and expenses

The other operating income total of € 65 million includes primarily income from the dissolution of provisions (€ 19 million), income from the sale of own shares (€ 9 million) and rent income of € 8 million.

DZ BANK's other operating expenses of € 54 million result primarily from losses arising from the purchase of a building (€ 16 million), non-personnel expenses in relation to buildings not used for banking (€ 9 million), the cost of provisioning for value-added tax (€ 8 million), losses on sales of non-current assets (€ 7 million), and the cost of provisioning for imminent losses from tenancy voids (€ 6 million).

29 | Extraordinary expenses

Extraordinary expenses essentially include personnel restructuring expenses and the costs of DZ BANK's existing social plan.

30 | Taxes on income

Revenues arising from taxes on income essentially comprise the corporation and municipal trade tax contributions received on the basis of tax unity relationships amounting to € 236 million in the year under report, current-year tax expenditures totalling € 178 million, anticipated tax income in respect of 2005 and earlier years arising essentially from the completion of an external tax inspection and estimated to amount to € 65 million, plus the € 225 million from the capitalisation of the bank's discounted refund entitlement in relation to corporation tax credit. This entitlement arises as of December 31, 2006 as a consequence of Germany's law concerning tax measures to accompany the introduction of the Societas Europae and amending other tax-law provisions (SEStEG). This law provides for payment of this tax credit to companies in ten instalments between 2008 and 2017 (irrespective of distributions).

D. Other Information on the Financial Statements of DZ BANK

31 | Other financial obligations

The total amount of the other financial obligations of the subsequent year is € 248 million (2005: € 240 million). The commitments essentially relate to rental contracts, investment projects and unsettled transactions. This total also includes obligations in respect of related companies to the value of € 35 million (2005: € 34 million).

In addition liabilities of € 1 million (2005: € 1 million) exist from capital shares of cooperative associations.

The other financial obligations affecting the years beyond 2008 amount to € 321 million.

Furthermore, DZ BANK has given transfer guarantee declarations to domestic companies and public institutions in respect of certain deposits at its branches in Great Britain and the USA for the event that the branches are prevented by national decision from discharging their repayment obligations.

32 | Placing and underwriting obligations

As last year, no claims have been made against DZ BANK under guarantees given to issuers over the placement or underwriting of financial instruments.

33 | Letters of comfort

In respect of two consolidated banks and one non-consolidated bank that are listed in DZ BANK's List of Shareholdings as required by section 285 point 11 HGB and identified therein as falling within the ambit of these letters of comfort, DZ BANK will ensure the ability of these companies to fulfill their contractual obligations in proportion to its shareholding, excluding political risk. Obligations arising from letters of comfort will only be accepted as founded as long as DZ BANK has a direct or indirect equity interest in the undertakings covered by the letters of comfort. Subordinated support undertakings are also in force in respect of DZ BANK Capital Funding LLC I, DZ BANK Capital Funding LLC II, and DZ BANK Capital Funding LLC III, all of Wilmington, USA. During the year under report, DZ BANK has issued a further subordinated support undertaking in respect of DZ BANK Perpetual Funding (Jersey) Ltd., St. Helier, Jersey.

34 | Employees

The average number of persons employed is as follows:

	2006	2005
Female staff	**1,690**	**1,739**
of which: full-time employees	1,233	1,282
part-time employees	457	457
Male staff	**2,233**	**2,277**
of which: full-time employees	2,163	2,210
part-time employees	70	67
Total employees	**3,923**	**4,016**

35 | Auditors' fees

The breakdown of the total fees paid to DZ BANK's auditors Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft by type of service is as follows:

in € thousand	2006	2005
Audit services	**3,268**	**3,722**
Other certification or valuation services	**2,745**	**308**
Tax consultancy services	**95**	**47**
Other services	**26**	**300**
Total	**6,134**	**4,377**

The stated fees for audit services covers the costs of auditing the Consolidated Financial Statements and Combined Management Report and performing the statutory audits of the Annual Financial Statements of DZ BANK. The other certification or valuation services essentially reflect the costs of audit services provided in connection with the changeover from HGB to IFRS accounting. The Tax consultancy services heading aggregates the fees paid for services within the meaning of section 1 of Germany's Tax Consultancy Law (Steuerberatungsgesetz). The other services relate primarily to training events.

36 | Cover statement

The following cover is in place for the total value of bonds in circulation (including registered bonds):

in € million	31.12.2006	31.12.2005
Sum of cover assets	**33,392**	**33,017**
Regular cover	**32,300**	**32,367**
Loans and advances		
– to other banks	12,799	12,818
– to non-bank customers	293	660
Bonds and other fixed-interest securities	19,208	18,889
Substitute cover	**1,092**	**650**
Placements with, and loans and advances to, other banks	1,092	650
Cover requirement	**28,440**	**27,339**
Outstanding covered		
– bearer bonds	8,241	8,565
– registered bonds	20,199	18,774
Excess cover	**4,952**	**5,678**

37 | Cover assets trustees

The trustees are appointed by the German Financial Services Regulator (Bundesanstalt für Finanzdienstleistungsaufsicht) and their statutory duty is to ensure that the issuance, administration and collateralisation of DZ BANK's covered bonds comply with the legal requirements and the provisions of the bank's own Articles of Association as well as the bonds' terms and conditions.

Trustee:

Dr. Dieter Eschke
Presiding Judge,
Superior Provincial Court
Frankfurt am Main (retd.)

Deputy Trustee:

Klaus Schlitz
Vice-President,
Provincial Court
Frankfurt am Main (retd.)

38 | Statutory bodies

The total remuneration for members of the Board of Managing Directors of DZ BANK during 2006 amounted to € 6,571 thousand (2005: € 6,053 thousand) and € 511 thousand (2005: € 441 thousand) for members of the Supervisory Board.

Total emoluments of € 7,780 thousand (2005: € 7,576 thousand) were paid to former members of the Board of Managing Directors or their surviving dependents, and pension reserves of € 93,282 thousand (2005: € 76,064 thousand) were endowed to their benefit.

Board of Managing Directors of DZ BANK

Wolfgang Kirsch
(Chief Executive Officer
from September 15, 2006,
Deputy Chairman to September 15, 2006)

Dr.Dr.h.c. Ulrich Brixner
(to September 15, 2006,
Chairman to September 15, 2006)

Heinz Hilgert
(Deputy Chief Executive Officer
from February 13, 2007)

Dr. Thomas Duhnkrack

Albrecht Merz

Dietrich Voigtländer

Frank Westhoff
(from May 1, 2006)

Supervisory Board of DZ BANK

Dr. Christopher Pleister
(Chairman)
President
Bundesverband der Deutschen Volksbanken
und Raiffeisenbanken e.V.

Helga Preußer
(Deputy Chairwoman)
Employee
DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

Rolf Hildner
(Deputy Chairman)
Chairman of the Board of Managing Directors
Wiesbadener Volksbank eG

Wolfgang Apitzsch
Lawyer

Ulrich Birkenstock
Employee
R+V Allgemeine Versicherung AG

Werner Böhnke
Chairman of the Board of Managing Directors
WGZ-Bank AG
Westdeutsche Genossenschafts-Zentralbank

Gerhard Bramlage
Chairman of the Board of Managing Directors
Emsländische Volksbank eG
(to May 23, 2006)

Henning Deneke-Jöhrens
Spokesman of the Board of Managing Directors
Volksbank eG Lehrte-Springe-Pattensen-Ronnenberg
(from May 23, 2006)

Carl-Christian Ehlers
Chairman of the Board of Managing Directors
Kieler Volksbank eG

Karl Eichele
Employee
VR Kreditwerk Hamburg - Schwäbisch Hall AG

Helmut Gottschalk
Spokesman of the Board of Managing Directors
Volksbank Herrenberg-Rottenburg eG

Hans-Josef Hoffmann
Chairman of the Board of Managing Directors
Bank 1 Saar eG

Rita Jakli
Management Employee
R+V Versicherung AG
(from February 1, 2007)

Sigmar Kleinert
Employee
DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

Willy Köhler
Chairman of the Board of Managing Directors
Volksbank Rhein-Neckar eG

Rainer Mangels
Employee
R+V Rechtsschutzversicherung AG

Walter Müller
Chairman of the Board of Managing Directors
Volksbank Raiffeisenbank Fürstenfeldbruck eG

Siegfried Reiner
Management Employee
R+V Allgemeine Versicherung AG
(to February 1, 2007)

Mark Roach
Secretary
Vereinte Dienstleistungsgewerkschaft
ver.di Bundesverwaltung

Gudrun Schmidt
Regional Group Director
Vereinte Dienstleistungsgewerkschaft
ver.di Landesbezirk Hessen

Winfried Willer
Employee
VR Kreditwerk Hamburg - Schwäbisch Hall AG

Dr.h.c. Uwe Zimpelmann
Spokesman of the Board of Managing Directors
Landwirtschaftliche Rentenbank

39 | Appointments held by members of the Board of Managing Directors and employees on supervisory bodies

Bank officers and directors served on the statutory supervisory bodies of major corporations as at December 31, 2006. These and other significant mandates are listed below. Companies included in the Group Financial Statements are identified by (*).

Members of the Board of Managing Directors

Wolfgang Kirsch (Chief Executive Officer)	Banco Cooperativo Español S.A., Madrid, Member, Board of Directors
	Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, Chairman of the Supervisory Board (*)
	Deutsche Genossenschafts-Hypothekenbank AG, Hamburg, Chairman of the Supervisory Board (*)
	DZ BANK Ireland plc., Dublin, Director, Board of Directors (*)
	Österreichische Volksbanken-AG, Wien, Member of the Supervisory Board
	R+V Versicherung AG, Wiesbaden, Chairman of the Supervisory Board (*)
Heinz Hilgert (Deputy Chief Executive Officer)	Deutsche WertpapierService Bank AG, Frankfurt am Main, Member of the Supervisory Board
	DZ BANK International S.A., Luxembourg-Strassen, Chairman of the Board of Administration (*)
	DZ PRIVATBANK (Schweiz) AG, Zürich, President of the Board of Administration (*)
	R+V Versicherung AG, Wiesbaden, Member of the Supervisory Board (*)
	TeamBank AG Nürnberg, Nürnberg, Chairman of the Supervisory Board (*)
	Union Asset Management Holding AG, Frankfurt am Main, Chairman of the Supervisory Board (*)

Dr. Thomas Duhnkrack	DVB Bank AG, Frankfurt am Main, Chairman of the Supervisory Board (*)
	DZ BANK Polska S.A., Warszawa, Chairman, Supervisory Board
	EDEKABANK AG, Hamburg, Member of the Supervisory Board
	Österreichische Volksbanken-AG, Wien, Member of the Supervisory Board
	VR-LEASING AG, Eschborn, Chairman of the Supervisory Board (*)
Albrecht Merz	Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, Member of the Supervisory Board (*)
	BayWa AG, München, Member of the Supervisory Board
	DZ BANK Ireland plc., Dublin, Director, Board of Directors (*) (to December 31, 2006)
	R+V Allgemeine Versicherung AG, Wiesbaden, Member of the Supervisory Board (*)
	R+V Lebensversicherung AG, Wiesbaden, Member of the Supervisory Board (*)
	TeamBank AG Nürnberg, Nürnberg, Member of the Supervisory Board (*)
	VR-LEASING AG, Eschborn, Member of the Supervisory Board (*)

Dietrich Voigtländer	Deutsche Genossenschafts-Hypothekenbank AG, Hamburg, Member of the Supervisory Board (*)
	Deutsche WertpapierService Bank AG, Frankfurt am Main, Deputy Chairman of the Supervisory Board
	Equens Deutschland AG, Frankfurt am Main, Chairman of the Supervisory Board
	Equens N.V., Utrecht, Chairman, Supervisory Board
	Equens Nederland B.V., Utrecht, Chairman, Supervisory Board
	FIDUCIA IT AG, Karlsruhe, Member of the Supervisory Board
	VR Kreditwerk Hamburg - Schwäbisch Hall AG, Hamburg and Schwäbisch Hall, Second Deputy Chairman of the Supervisory Board (*)
Frank Westhoff	BAG Bankaktiengesellschaft, Hamm, Member of the Supervisory Board
	Deutsche Genossenschafts-Hypothekenbank AG, Hamburg, Member of the Supervisory Board (*)
	DVB Bank AG, Frankfurt am Main, Member of the Supervisory Board (*)
	DZ BANK Ireland plc., Dublin, Director, Board of Directors (*) (from January 1, 2007)
	Volksbank International AG, Wien, Second Deputy Chairman of the Supervisory Board

Employees

Dr. Luis-Esteban Chalmovsky	Banco Cooperativo Español S.A., Madrid, Member, Board of Directors
Ulrich Dexheimer	Raiffeisen-Warenzentrale Kurhessen-Thüringen GmbH, Kassel, Member of the Supervisory Board (to February 7, 2007)
Jochen Friedrich	Union Investment Institutional GmbH, Frankfurt am Main, Member of the Supervisory Board (*) (to February 15, 2007)
Lars Hille	DZ BANK International S.A., Luxembourg-Strassen, Member of the Board of Administration (*) ReiseBank AG, Frankfurt am Main, Chairman of the Supervisory Board (*) Union Investment Privatfonds GmbH, Frankfurt am Main, Member of the Supervisory Board (*)
Thomas Kaltwasser	DZ BANK Ireland plc., Dublin, Director, Board of Directors (*)
Karl-Heinz von Oppenkowski	DZ BANK Polska S.A., Warszawa, Vice Chairman, Supervisory Board
Gregor Roth	ReiseBank AG, Frankfurt am Main, Member of the Supervisory Board (*)

Frankfurt am Main, February 27, 2007

DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

Board of Managing Directors

Kirsch	Hilgert	Dr. Duhnkrack
Merz	Voigtländer	Westhoff

Independent Audit Opinion

We have audited the annual financial statements – comprising the balance sheet, the income statement as well as the notes – including the bookkeeping system of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, as well as the consolidated financial statements for the DZ BANK Group prepared by DZ BANK AG – comprising the balance sheet, the income statement, the cash flow statement, the statement of changes in equity, the segment reporting and the notes – as well as the combined management report for the business year from January 1 to December 31, 2006. The preparation of the annual and consolidated financial statements and the combined management report in accordance with German commercial law (and supplementary provisions in the Articles of Association) are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual and consolidated financial statements, together with the bookkeeping system, and the combined management report for the Company and the Group based on our audit.

We conducted our audit of the annual and consolidated financial statements in accordance with section 317 HGB and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual and consolidated financial statements in accordance with German principles of proper accounting and in the management report are detected with sufficient reliability. Knowledge of the business activities and the economic and legal environment of the Company as well as evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system and the evidence supporting the disclosures in the annual and consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles and principles of consolidation used, evaluating the annual financial statements of companies included in the Group Financial Statements and the scope of the basis of consolidation as well as evaluating significant estimates made by the Company's Board of Managing Directors, as well as recognising the overall presentation of the annual financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the results of our audit, the annual and consolidated financial statements comply with the requirements of the law and the Articles, and give a fair and true picture of the net assets, financial position and results of operations of the Company and the Group in accordance with German principles of proper accounting. The combined management report is in harmony with the annual and consolidated financial statements, provides a suitable understanding of the position of the Company and the Group and suitably presents the risks and rewards of future developments.

Eschborn/Frankfurt am Main, March 13, 2007

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Müller-Tronnier	Wagner
Wirtschaftsprüfer	Wirtschaftsprüfer

Translation of the German Audit Opinion

Report of the Supervisory Board

Dr. Christopher Pleister
Chairman of the Supervisory Board of DZ BANK AG

The Supervisory Board and its Sub-committees
As required by the law and the Articles of Association, the Supervisory Board and its sub-committees have monitored the conduct of the business by the Board of Managing Directors during the 2006 financial year and have discussed and voted on the proposed transactions requiring their consent.

To enable it to perform its duties and comply with the statutory requirements, the Supervisory Board formed a Personnel Sub-committee, an Audit Sub-committee, a Risk and Principal Investments Sub-committee (formerly: Credit and Principal Investments Sub-committee) and a Mediation Sub-committee pursuant to section 27 (3) of the German Codetermination Act. The first three sub-committees met on several occasions during 2006. The full Supervisory Board was kept regularly informed about the activities of its sub-committees.

Mr. Gerhard Bramlage retired from the Supervisory Board with effect from the end of the ordinary general meeting of shareholders held on May 23, 2006. Mr. Henning Deneke-Jöhrens was elected as a new member of the Supervisory Board. Mr Siegfried Reiner retired from the Supervisory Board with effect from February 1, 2007. Mrs. Rita Jakli joined the Supervisory Board effective February 1, 2007 to replace Mr. Reiner.

Cooperation with the Board of Managing Directors
The Supervisory Board was kept regularly, promptly and comprehensively informed, both verbally and in writing, by the Board of Managing Directors about the situation and performance of the bank and the group, and the general trend of trading. The Board of Managing Directors also regularly informed the Supervisory Board about current business developments and the future business policy of the bank including its principal strategic and organisational dimensions. Most importantly, DZ BANK's role within the cooperative financial services network was the subject of discussion.

The Supervisory Board also discussed the bank's and the group's risk situation and the refinement of their systems and procedures for controlling risk, especially market, credit and operational risks and the other risks typical of the banking industry.

Supervisory Board meetings
The Supervisory Board convened on five occasions in the most recent financial year. In the course of these ordinary meetings, the Supervisory Board was informed through periodic detailed reports about the prevailing situation of DZ BANK and the work of its committees. The Supervisory Board also approved significant individual business proposals relating to credit facilities, principal investments and property transactions.

The Supervisory Board appointed Mr. Frank Westhoff as an ordinary member of the Board of Managing Directors of DZ BANK with effect from May 1, 2006. At its meeting of May 23, 2006 the Supervisory Board appointed Mr. Wolfgang Kirsch to the post of Chief Executive Officer of DZ BANK AG with effect from the retirement of Dr. Ulrich Brixner from the Board of Managing Directors of DZ BANK AG. Dr. Brixner duly retired from the Board of Managing Directors of DZ BANK AG with effect from September 15, 2006 on reaching the mandatory age limit. The Supervisory Board meeting of February 13, 2007 appointed Mr. Heinz Hilgert to the post of Deputy Chief Executive Officer of DZ BANK AG with immediate effect.

Other focuses of the Supervisory Board's meetings were the annual planning process, the capital raising performed during the year and the DZ BANK Group's strategic development.

Between meetings, the Board of Managing Directors informed the Supervisory Board of key developments through written communications. In urgent cases, the Supervisory Board approved important business matters through postal votes.

The Chairman of the Supervisory Board and the Chairmen of the Audit and the Risk and Principal Investments Sub-committees were also involved in key decisions and exceptional business occurrences through regular indepth discussions with the Chairman of the Board of Managing Directors between meetings.

Cooperation with auditors

Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Eschborn/Frankfurt am Main, who have provided the Supervisory Board with a formal confirmation of independence, audited the bookkeeping records, Annual Financial Statements of DZ BANK AG presented by the Board of Managing Directors as well as the Consolidated Financial Statements and the Combined Management Report for the DZ BANK Group and DZ BANK AG for the year to December 31, 2006, and found them to be in conformance with the statutory regulations. The auditors accordingly issued an unqualified audit certificate. The audit reports were submitted to the members of the Supervisory Board and comprehensively examined and discussed. The Supervisory Board is in agreement with the findings of the auditors.

Adoption of the Annual Financial Statements

Representatives of the auditors attended the meeting of the Supervisory Board called to approve the Annual Financial Statements as well as the preparatory meetings of the Audit Sub-committee and the Risk and Principal Investments Committee in order to report in detail on the key audit outcomes.

They also made themselves available to the members of the Supervisory Board to answer any queries.

The Supervisory Board and the Audit Sub-committee chaired by Mr. Rolf Hildner have examined in detail the Annual and Consolidated Financial Statements and the Management Report for DZ BANK AG and the DZ BANK Group as well as the proposed appropriation of profits. We have no objections to raise.

At its meeting on March 27, 2007 the Supervisory Board approved the Annual and Consolidated Financial Statements for the year to December 31, 2006 prepared by the Board of Managing Directors, which are therefore formally adopted. The Supervisory Board is in agreement with the proposal from the Board of Managing Directors for the appropriation of profits.

The Supervisory Board thanks the Board of Managing Directors and all employees for their commitment and effort during 2006.

Frankfurt am Main, March 27, 2007

DZ BANK AG
Deutsche Zentral-Genossenschaftsbank AG,
Frankfurt am Main

Dr. Christopher Pleister
Chairman of the Supervisory Board

Advisory Councils of DZ BANK

Members of the DZ BANK Group's Local Bank Advisory Councils

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Dr. Thomas Duhnkrack (Coordinator)
Member of the Board of Managing Directors
DZ BANK AG
Deutsche Zentral-Genossenschaftsbank
Frankfurt am Main

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VR-LEASING AG
Eschborn
(from 11/2006)

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Raiffeisenbank-Volksbank Erlangen-Höchstadt eG
Erlangen

Holger Franz
Member of the Board of Managing Directors
Ostfriesische Volksbank eG
Leer

Wolfgang Müller
Chairman of the Board of Managing Directors
Volksbank Chemnitz eG
Chemnitz

Fritz Schäfer
Member of the Board of Managing Directors
Volksbank Pforzheim eG
Pforzheim

Reinhold Schreck
Chairman of the Board of Managing Directors
VR Bank Südpfalz eG
Landau

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DZ BANK AG
Deutsche Zentral-Genossenschaftsbank
Frankfurt am Main

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Regensburg

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Member of the Board of Managing Directors
Volksbank Helmstedt eG
Helmstedt

Dr. Peter Hanker
Spokesman of the Board of Managing Directors
Volksbank Mittelhessen eG
Gießen

Bernhard Link
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Münchner Bank eG
München

Reinhard Schlottbom
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PSD Bank Westfalen-Lippe eG
Münster

Ralf Schmitt
Member of the Board of Managing Directors
Volksbank eG Villingen
Villingen-Schwenningen

Process Management

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DZ BANK AG
Deutsche Zentral-Genossenschaftsbank
Frankfurt am Main

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Wiesbadener Volksbank eG
Wiesbaden

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PSD Bank Rhein-Ruhr eG
Düsseldorf

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Berliner Volksbank eG
Berlin

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Hannoversche Volksbank eG
Hannover
(from 10/2006)

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Karlsruhe

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Raiffeisenbank-Volksbank Varel-Nordenham eG
Varel

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Union Asset Management Holding AG
Frankfurt am Main

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Winsen

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Aschaffenburg

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Volksbank-Raiffeisenbank Bayreuth eG
Bayreuth

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Fellbacher Bank eG
Fellbach
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Hannover

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BBBank eG
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Augusta-Bank eG Raiffeisen-Volksbank
Augsburg
(to 07/2006)

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Ludwigshafen

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Schwäbisch Hall
(from 02/2006)

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VR-Immobilien AG
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R+V Versicherung AG
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Neumarkt i. d. Opf.

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Raiffeisenbank Cham-Roding eG
Cham

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Bank 1 Saar eG
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Groß-Gerauer Volksbank eG
Groß-Gerau
(to 06/2006)

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Mainzer Volksbank eG
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Heuchelheim

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VR Bank Main-Kinzig eG
Langenselbold

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Wetzlar

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Freiberger Bank eG
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Volksbank Riesa eG
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Weimar

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Volksbank Alzey eG
Alzey
(to 01/2006)

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Kassel

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Raiffeisenbank eG Großenlüder
Großenlüder

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Raiffeisenbank Kirtorf eG
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VR Bank Südpfalz eG
Landau

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PSD Bank Karlsruhe-Neustadt eG
Karlsruhe

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VR Bank eG Ludwigshafen
Ludwigshafen

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vr bank Untertaunus eG
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Hannoversche Volksbank eG
Hannover

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Raiffeisen-Volksbank Oder-Spree eG
Beeskow
(to 10/2006)

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Wolfenbüttel

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Bremerhaven

Dieter Mockprang
Member of the Board of Managing Directors
Volksbank eG
Pattensen

Eckhard Rave
Member of the Board of Managing Directors
Volksbank-Raiffeisenbank eG Husum-Eiderstedt-Viöl
Husum

Paul Reisdorf
Member of the Board of Managing Directors
VR Bank Lausitz eG
Cottbus

Walter Rieken
Member of the Board of Managing Directors
Raiffeisenbank Elbmarsch eG
Heist

Stephan Schack
Member of the Board of Managing Directors
Volksbank eG Itzehoe
Itzehoe

Günter Scheffczyk
Member of the Board of Managing Directors
Hümmlinger Volksbank eG
Werlte

Christian Scheinert
Member of the Board of Managing Directors
Volksbank eG
Elmshorn

Werner Schierenbeck
Member of the Board of Managing Directors
Volksbank eG, Syke
Bassum

Reinhard Schoon
Chairman of the Board of Managing Directors
Raiffeisen-Volksbank eG
Aurich

Jürgen von Seggern
Member of the Board of Managing Directors
Volksbank Ganderkesee-Hude eG
Hude

Michael Siegers
Chairman of the Board of Managing Directors
Volksbank Hildesheim eG
Hildesheim

Dieter Söchtig
Member of the Board of Managing Directors
Volksbank eG Braunschweig Wolfsburg
Wolfsburg

Rolf Wagner
Member of the Board of Managing Directors
Volksbank Raiffeisenbank eG
Neumünster

Dr. Walter Weber
Association Director and Member of the Board of Managing Directors
Genossenschaftsverband Norddeutschland e.V.
Hannover

Heinz-Walter Wiedbrauck
Chairman of the Board of Managing Directors
Volksbank Hameln-Stadthagen eG
Hameln

Bernd-Michael Williges
Member of the Board of Managing Directors
Volksbank Celler Land eG
Bergen

Holger Willuhn
Spokesman of the Board of Managing Directors
Volksbank Eichsfeld-Northeim eG
Duderstadt

Advisory Council of DZ BANK AG

Chairman:
Dr. Dr. h.c. Ulrich Brixner
Chairman of the Board of Administration
DZ BANK Stiftung
Karlsruhe
(from 09/2006)

Deputy Chairman:
Prof. Dr. Wolfgang König
Johann Wolfgang Goethe-Universität
Institut für Wirtschaftsinformatik
Frankfurt am Main
(from 09/2006)

Deputy Chairman:
Dr. Wilhelm Bender
Chairman of the Board of Managing Directors
Fraport AG
Frankfurt am Main

Carl Fritz Bardusch
Managing Director
Bardusch GmbH & Co.
Ettlingen

Dr. Wolfgang Baur
Member of the Board of Managing Directors
Schuler AG
Göppingen

Dr. Werner Brandt
Member of the Board of Managing Directors
SAP Aktiengesellschaft
Walldorf

Gerhard Erwin Bruckermann
Chairman CEO
DEPFA BANK plc.
Dublin

Hans-Jürgen Burkert
Member of the Board of Managing Directors
Hymer AG
Bad Waldsee

Wolfgang Deml
Chairman of the Board of Managing Directors
BayWa Aktiengesellschaft
München

Prof. Dr. Hans Heinrich Driftmann
Managing Partner
Peter Kölln KGaA
Elmshorn

Stefan Durach
Managing Director
Develey Senf + Feinkost GmbH
Unterhaching

Konsul Anton-Wolfgang
Graf von Faber-Castell
Chairman of the Board of Managing Directors
Faber-Castell AG
Stein

Manfred Finger
Member of the Board of Managing Directors
Villeroy & Boch AG
Mettlach

Uwe E. Flach
Former Member of the Board of Managing Directors
DZ BANK AG
Deutsche Zentral-Genossenschaftsbank
Frankfurt am Main

Alfons Frenk
Chairman of the Board of Managing Directors
EDEKA AG & Co. KG
Hamburg

Dr. Hans-Jörg Gebhard
Chairman of the Supervisory Board
SZVG Süddeutsche Zuckerrübenverwertungs-
Genossenschaft eG
Stuttgart/Ochsenfurt

Stephan Götzl
Association President
Chairman of the Board of Managing Directors
Genossenschaftsverband Bayern e.V.
München

Rüdiger A. Günther
Chief Financial Officer
Infineon Technologies AG
München
(to March 2007: Executive Board Spokesman
CLAAS KGaA mbH, Harsewinkel)

Dr. Jochen Gutbrod
Deputy Chairman of the Executive Board
Verlagsgruppe Georg von Holtzbrinck GmbH
Stuttgart

Dr. Reiner Hagemann
Chairman Advisory Board
Cerberus Deutschland Beteiligungs-
beratung GmbH
Frankfurt am Main

Dr. Jürgen Heraeus
Chairman of the Supervisory Board
Heraeus Holding GmbH
Hanau

Wolfgang Jeblonski
Member of the Board of Managing Directors
STADA ARZNEIMITTEL AG
Bad Vilbel

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Chairman of the Executive Board
Schunk GmbH
Thale

Prof. Dr. Jan Pieter Krahnen
Johann Wolfgang Goethe-Universität
Lehrstuhl für Kreditwirtschaft und Finanzierung
Frankfurt am Main

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Chairman of the Board of Managing Directors
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Stuttgart

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Former Chairman of the Executive Board
and National Chairman
Unilever Deutschland GmbH
Hamburg

Roland Mack
Managing Partner
EUROPA-PARK Freizeit- und
Familienpark Mack KG
Rust

Peter Mager
Former Chairman of the Supervisory Board
Nordenia International AG
Steinfeld
(to 11/2006)

Ludwig Merckle
Chairman of the Executive Board
Merckle/ratiopharm Arzneimittel GmbH
Ulm

Stefan Müller
Member of the German Parliament
Berlin

Manfred Nüssel
President
Deutscher Raiffeisenverband e.V.
Berlin

Prof. Dr. Rolf Peffekoven
Johannes Gutenberg-Universität Mainz
Lehrstuhl für VWL und Finanzwissenschaft
Mainz

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Chairman of the Board of Managing Directors
Österreichische Volksbanken-AG
Wien

Günter Preuß
Spokesman of the Board of Managing Directors
Deutsche Apotheker- und Ärztebank eG
Düsseldorf

Manfred Renner
Chairman of the Board of Managing Directors
Sanacorp Pharmahandel AG
Planegg

Jürgen Rudolph
Managing Partner
Rudolph Logistik Gruppe/
Rudolph Holding GmbH
Baunatal

Diethelm Sack
Member of the Board of Managing Directors
Deutsche Bahn AG
Frankfurt am Main
(to 12/2006)

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Johann Wolfgang Goethe-Universität
Professur für Derivate und Financial Engineering
Frankfurt am Main

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Aareal Bank AG
Wiesbaden

Dr. Eric Schweitzer
Member of the Board of Managing Directors
ALBA AG
Velten bei Berlin

Joachim Siebert
Chairman of the Board of Managing Directors
anwr Ariston-Nord-West-Ring eG
Mainhausen

Gerd Sonnleitner
President
Deutscher Bauernverband e.V.
Berlin

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Spokesman of the Board of Managing Directors
SÜDZUCKER AG Mannheim/Ochsenfurt
Mannheim

Dr. Thomas Strüngmann
Managing Director
ATHOS Service GmbH
München

Stephan Sturm
Member of the Board of Managing Directors
Fresenius AG
Bad Homburg

Hans Wall
Chairman of the Board of Managing Directors
Wall Aktiengesellschaft
Berlin

Paul-Heinz Wesjohann
Chairman of the Board of Managing Directors
PHW-Gruppe
Visbek

Alexander von Witzleben
Chairman of the Board of Managing Directors
Jenoptik AG
Jena

Major Subsidiaries and Affiliates of DZ BANK

Banks

Name/head office	Consolidated[1]	Share of capital in percent
Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall (indirectly)	•	**82.8**
Ceskomoravská stavebni sporitelna a.s., Praha		45.0
Fundamenta-Lakáskassza Zrt., Budapest		51.2
Prvá stavebná sporitel'na, a.s., Bratislava		32.5
Raiffeisen Banca Pentru Locuinte S. A., Bucuresti		33.3
Sino-German-Bausparkasse Ltd., Tianjin		24.9
VR Kreditwerk Hamburg - Schwäbisch Hall AG, Hamburg-Schwäbisch Hall[2]	•	**100.0**
DZ PRIVATBANK (Schweiz) AG, Zürich (indirectly)	•	**86.7**
Deutsche Genossenschafts-Hypothekenbank AG, Hamburg	•	**100.0**
Deutsche WertpapierService Bank, Frankfurt a.M.		**40.0**
DVB Bank AG, Frankfurt a.M.	•	**93.2**
DVB Bank N.V., Rotterdam	•	100.0
DZ BANK Polska S.A., Warszawa		**99.8**
DZ BANK International S.A., Luxembourg-Strassen[3]	•	**89.7**
DZ BANK Ireland plc., Dublin[3]	•	**100.0**
Magyar Takarékszövetkezeti Bank Zártkörüen Müködö Részvénytársaság, Budapest		**30.0**
TeamBank AG, Nürnberg	•	**90.0**
Österreichische Volksbanken-AG, Wien (indirectly)		**25.001**[4]
Volksbank International AG, Wien (indirectly)		**16.4**[4]

[1] Consolidated under terms of section 294 (1) HGB; aggregate capital shares held by DZ BANK AG or the respective parent company
[2] of which 40% directly held by DZ BANK AG
[3] Subject of letter of comfort from DZ BANK AG
[4] Share of voting rights

Other specialised service providers

Name/head office	Consolidated[1]	Share of capital in percent
DZ Equity Partner GmbH, Frankfurt a.M.		100.0
EURO Kartensysteme GmbH, Frankfurt a.M.		19.6
GVA GENO-Vermögens-Anlage-Gesellschaft mbH, Frankfurt a.M.		66.7
Equens N.V., Utrecht		33.5
VR-LEASING AG, Eschborn	•	83.5
BFL Leasing GmbH, Eschborn	•	72.8
VR BAUREGIE GmbH, Eschborn	•	100.0
VR DISKONTBANK GmbH, Eschborn	•	100.0
VR-FACTOREM GmbH, Eschborn		49.0
VR-IMMOBILIEN-LEASING GmbH, Eschborn	•	100.0
VR-medico LEASING GmbH, Eschborn	•	100.0

[1] Consolidated under terms of section 294 (1) HGB; aggregate capital shares held by DZ BANK AG or the respective parent company

Investment trusts

Name/head office	Consolidated[1]	Share of capital in percent
Union Asset Management Holding AG, Frankfurt a.M.	•	73.4
DEFO Deutsche Fonds für Immobilienvermögen GmbH, Frankfurt a.M.	•	90.0
Union Investment Real Estate Aktiengesellschaft, Hamburg	•	94.5
Union Investment Institutional GmbH, Frankfurt a.M.	•	100.0
Union Investment Luxembourg S.A., Luxembourg	•	100.0
Union Investment Privatfonds GmbH, Frankfurt a.M.	•	100.0

[1] Consolidated under terms of section 294 (1) HGB; aggregate capital shares held by DZ BANK AG or the respective parent company

Insurance companies

Name/head office	Consolidated[1]	Share of capital in percent
R+V Versicherung AG, Wiesbaden	•	74.0
KRAVAG-Allgemeine Versicherungs-AG, Hamburg	•	76.0
KRAVAG-LOGISTIC Versicherungs-AG, Hamburg	•	51.0
R+V Allgemeine Versicherung AG, Wiesbaden	•	95.0
R+V Krankenversicherung AG, Wiesbaden	•	100.0
R+V Lebensversicherung AG, Wiesbaden	•	100.0
R+V Pensionsfonds AG, Wiesbaden (joint venture with Union Asset Management Holding)	•	51.0
R+V Rechtsschutzversicherung AG, Wiesbaden	•	100.0

[1] Consolidated under terms of section 294 (1) HGB; aggregate capital shares held by DZ BANK AG or the respective parent company

Imprint

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Board of Managing Directors:
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Heinz Hilgert (Deputy Chief Executive Officer)
Dr. Thomas Duhnkrack
Albrecht Merz
Dietrich Voigtländer
Frank Westhoff

This Annual Report is also available in German.
The German version of this Annual Report is the
original and authoritative version.

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