The third key aspect of the "New Dresdner" Programme is the bundling of our support and service units. The IT, Human Resources, Risk Management and Finance units provide uniform, cross-divisional processes for the entire Bank, resulting in fewer redundant functions and streamlined, efficient structures and processes. This allows our customer-oriented divisions to devote their full effort and attention to advising our customers and to sales. In addition, we can strengthen our earnings base long-term and reduce costs. These measures are designed to ensure that Dresdner Bank is always on a sound footing regardless of the economic environment. This increases confidence in our Bank and safeguards our employees' jobs. We are striving to make up ground quickly, because our aim is to make Dresdner Bank, in conjunction with Allianz, into one of the best providers of integrated financial solutions for private and business customers, large enterprises, groups and multinational clients – locally, nationally, and around the world.

Result of Operations

The following table provides an overview of the consolidated income statement of the Dresdner Bank Group for 2003 and 2002 (2002 is also given after adjustments for deconsolidations):

Table 1	2003	2002 adjusted*)	2002	Change in relation to 2002 (unadjusted)	
	€ mn	€ mn	€ mn	€ mn	%
Net interest and current income	2,525	2,939	3,276	–751	–22.9
Net fee and commission income	2,590	2,848	3,090	–500	–16.2
Net trading income	1,526	1,309	1,044	482	46.2
Operating income	**6,641**	**7,096**	**7,410**	**–769**	**–10.4**
Loan loss provisions	1,016	2,154	2,218	–1,202	–54.2
Operating income after loan loss provisions	**5,625**	**4,942**	**5,192**	**433**	**8.3**
Administrative expenses	5,929	7,139	7,500	–1,571	–20.9
Operating result	**–304**	**–2,197**	**–2,308**	**2,004**	**86.8**
Other operating income/expenses, net	–474	–216	–179	–295	–164.8
Results from investment securities	–1,061	2,757	2,761	–3,822	
Amortisation of and impairment losses on goodwill	194	1,176	1,176	–982	–83.5
Restructuring charges	840	231	244	596	244.3
Income/loss before taxes	**–2,873**	**–1,063**	**–1,146**	**–1,727**	**–150.7**
Income tax expense	–895	–364	–211	–684	–324.2
Income/loss after taxes	**–1,978**	**–699**	**–935**	**–1,043**	**–111.6**
Income attributable to minority interests	11	5	7	4	57.1
Net income/net loss for the year	**–1,989**	**–704**	**–942**	**–1,047**	**–111.1**

*) After deconsolidations

We succeeded in stabilising the Dresdner Bank Group's operating income during fiscal year 2003; this declined by 6% after adjustment for deconsolidations. While both net interest income and net fee and commission income fell, net trading income improved. The trend in loan loss provisions was encouraging, with the adjusted figure down approximately 53% on 2002. At the same time, the adjusted ratio of specific loan loss provisions to the average lending volume improved from 1.56% to 1.10%. Operating income after loan loss provisions improved by 8.3% year-on-year to €5,625 million as a result.

On an adjusted basis, administrative expenses fell 17% year-on-year to under €6 billion. This means that we exceeded our cost-cutting targets for fiscal year 2003. The Dresdner Bank Group generated an operating result of €–304 million for fiscal year 2003 – an improvement of about €2 billion year-on-year. After factoring in the non-operating result, the loss before taxes amounted to €2,873 million (previous year: loss of €1,146 million). The loss after taxes totalled €1,978 million (previous year: loss of €935 million).

Breaking down the operating result into strategic and non-strategic business reveals the following conclusions: in the case of our strategic business, the operating result for our three divisions – Private and Business Clients, Corporate Banking and Dresdner Kleinwort Wasserstein – developed positively: we succeeded in improving the previous year's loss of €1,063 million by about €1.5 billion, to a positive €473 million.

Table 2	2003 € mn	2002 € mn	Change € mn	%
Operating result	**–304**	**–2,308**	**2,004**	**86.8**
Strategic business	473	–1,063	1,536	
Non-strategic business	–777	–1,245	468	37.6

We took this opportunity to continue our withdrawal from our non-strategic business, which consists in particular of our Institutional Restructuring Unit and Corporate Investments. The operating result for our non-strategic business amounted to €–777 million, up from €–1,245 million in the previous year.

In the non-operating area, we spent a total of €2.6 billion to eliminate hidden liabilities and future risks. The net other operating income/expenses of €–474 million includes impairment losses in the IT area and portfolio streamlining measures. Our equity interests were written down to fair value, producing a negative result from investment securities of €1,061 million (2002: income of €2,761 million). In addition, we recognised restructuring charges totalling €840 million in 2003 in connection with the systematic implementation of our "New Dresdner" Programme and other programmes.

After adjustment for these measures, the loss before taxes amounted to €2,873 million. The recognition of a tax benefit of €895 million resulted in a loss after taxes of €1,978 million. After the deduction of income attributable to minority interests, the net loss for the year amounted to €1,989 million.

We offset the net loss for 2003 by withdrawing the corresponding amount from retained earnings recognised in previous years. No dividend will be distributed for fiscal year 2003.

Net interest and current income

At €2,525 million, net interest and current income was down 22.9% on the figure for the previous year (or 14% after adjustment for deconsolidations). This decrease was partially attributable to the planned reduction of risk-weighted assets. These declined in the banking book alone by 24.6% over the year to an average of €122.0 billion.

Table 3	2003 € mn	2002 € mn	Change € mn	%
Net interest and current income	**2,525**	**3,276**	**–751**	**–22.9**
Of which: remeasurement gains/losses from the application of IAS 39	**–365**	–119	–246	–206.7
Risk-weighted assets (average) *)	**122,049**	161,891	–39,842	–24.6
Interest margin, %	**2.07**	2.02		

*) BIS banking book

At €334 million, current income from equities and investments in affiliated and non-affiliated enterprises as well as from investments in companies accounted for using the equity method was almost unchanged year-on-year. The effect of the application of IAS 39 had a negative impact of €365 million on net interest and current income for the year as a whole. The deconsolidation of Deutsche Hyp in the second half of 2002 also contributed to the decline. The interest margin, calculated on the basis of the average risk-weighted assets held in the banking book in accordance with BIS, amounted to 2.07% for 2003 – an improvement on 2002.

Net fee and commission income

Net fee and commission income declined as against the previous year by 16.2% to €2,590 million (or 9% after adjustment for deconsolidations). This decrease was attributable in particular to a drop in income from asset management as a result of the transfer of our domestic asset management companies to Allianz in fiscal year 2002.

Table 4	2003	2002	Change	
	€ mn	€ mn	€ mn	%
Securities business	1,112	979	133	13.6
Asset management	463	799	–336	–42.1
Payment transactions	284	287	–3	–1.0
Mergers & acquisitions and underwriting business	232	369	–137	–37.1
Foreign commercial business	154	160	–6	–3.8
Other	345	496	–151	–30.4
Net fee and commission income	**2,590**	**3,090**	**–500**	**–16.2**

Net fee and commission income from our securities business increased by slightly less than 14% year-on-year to €1,112 million. The share of total net fee and commission income accounted for by the securities business thus increased to 43%. Income from payment transactions and foreign commercial business remained stable. Income generated by mergers and acquisitions and the underwriting business fell by around 37% to €232 million. Income from our leasing and guarantee businesses included under other fee and commission income fell significantly as a result of our reduced lending activity.

Net trading income

Net trading income amounted to €1,526 million, up approximately 46% on the previous year.

Table 5	2003	2002	Change	
	€ mn	€ mn	€ mn	%
Trading in interest rate products	832	650	182	27.9
Equities trading	176	–34	210	
Foreign exchange and precious metals trading	357	301	56	18.6
Measurement gains from the application of IAS 39	161	127	34	26.8
Net trading income	**1,526**	**1,044**	**482**	**46.2**

All areas contributed to the increase of €482 million. The negative contribution to income made by the equities business in 2002 improved by €210 million to €176 million in the year under review. This was primarily due to equity derivatives as well as to a better market environment overall. Income from trading in interest rate products amounted to €832 million, up just under 28% on the previous year.
Foreign exchange and precious metals trading contributed €357 million to net trading income – another significant increase on the prior-year level.

IAS 39

The aggregate effect of the application of IAS 39 reported in both net interest and current income and net trading income reduced the operating result by €204 million in 2003; in contrast, the net effect in the previous year was only slight.

Table 6	2003 € mn	2002 € mn	Change € mn	%
Net loss reported in net interest and current income	–365	–119	–246	–206.7
Net gain reported in net trading income	161	127	34	26.8
Overall effect of IAS 39	**–204**	**8**	**–212**	

The strict criteria applicable to the allocation of hedging instruments to hedged items meant that not all hedging instruments qualified for hedge accounting in accordance with IAS 39. Only the measurement gains and losses for those hedging instruments that could not be allocated exactly to underlyings are reported in net trading income.

Loan loss provisions

Loan loss provisions for the year amounted to €1,016 million; as a result, we were able to scale back loan loss provisions on credit risks by about 54% as against the high level for the previous year. Around four-fifths of total loan loss provisions for the year under review were attributable to the IRU.

Table 7	2003 € mn	2002 € mn	Change € mn	%
Specific loan loss provisions (net)	1,288	2,282	–994	–43.6
Country loan loss provisions (net)	–54	–92	38	41.3
General loan loss provisions (net)	–150	78	–228	
Recoveries on loans previously written off	68	50	18	36.0
Loan loss provisions	**1,016**	**2,218**	**–1,202**	**–54.2**

Specific loan loss provisions were reduced by 43.6% year-on-year to €1,288 million. The focus during 2003 was on domestic private and business clients. In addition, we had to charge impairment losses on our foreign loan portfolio in North America. The adjusted ratio of specific loan loss provisions to the average lending volume fell by 0.46 percentage points year-on-year to 1.10%. Certain country risk provisions were released as a result of a reduction in volumes as well as an improvement in the rating situation of individual countries.

After additions and releases, loan loss allowances totalled €5,952 million as at the balance sheet date. This corresponds to 5.7% of the total lending volume. Total coverage of non-accrual and potential problem loans amounted to 56% (previous year: 54%).

Administrative expenses

We succeeded in reducing administrative expenses for the year under review by 20.9% to €5,929 million (or 17% after adjustment for deconsolidations). The consistent decline in costs over the past two years shows that our cost-cutting measures are taking effect.

Table 8	2003 € mn	2002 € mn	Change € mn	%
Total staff costs	3,561	4,435	–874	–19.7
Non-staff operating costs	2,368	3,065	–697	–22.7
Administrative expenses	**5,929**	**7,500**	**–1,571**	**–20.9**
Cost-income ratio (operating), %	89.3	101.2		
Number of employees at 31 Dec.	42,060	47,016	–4,956	–10.5
Employees (FTEs) at 31 Dec.	34,998	39,754	–4,756	–12.0

The decrease in total staff costs of 19.7% to €3,561 million was attributable both to the planned reduction in the number of staff and to an above-average decline in guaranteed bonus payments.

Non-staff operating costs for 2003 as a whole fell even more sharply than staff costs (down by 22.7% to €2,368 million). This shows that our cost control activities are not confined to headcount reductions but rather relate to all types of costs. Despite the decline in income, our operating cost-income ratio improved to 89.3% (previous year: 101.2%).

Other operating income/expenses, net

Net other operating income/expenses decreased by €295 million year-on-year to €–474 million.

Table 9	2003 € mn	2002 € mn	Change € mn	%
Other operating income	445	428	17	4.0
Other operating expenses	919	607	312	51.4
Other operating income/ expenses, net	**–474**	**–179**	**–295**	**–164.8**

Other operating income increased as against the previous year's figure to €445 million. This item primarily covers cost refunds and gains realised on the disposal of property and equipment as well as business units. Other operating expenses rose by €312 million to €919 million. In addition to general expenses such as other taxes and indemnity payments, the increase also related to the implementation of restructuring concepts for real estate projects, write-downs in the area of IT, and expenses in connection with business discontinuations.

Results from investment securities

The results from investment securities decreased from €2,761 million in 2002 to €–1,061 million.

Table 10	2003	2002	Change	
	€ mn	€ mn	€ mn	%
Net realised gains and losses	349	3,935	–3,586	–91.1
Remeasurement result	–1,410	–1,174	–236	–20.1
Results from investment securities	**–1,061**	**2,761**	**–3,822**	

At the end of 2003, we wrote down our investments to their current fair values. The resulting remeasurement losses amounted to approximately €1.2 billion. In addition, impairment losses were charged in Private Equity. By contrast, gains were realised in connection with the systematic reduction of our investment portfolio.

The strong result for the previous year of €2,761 million included income from the sale of our domestic asset management companies to Allianz AG and gains realised on the disposal of investments.

Amortisation of and impairment losses on goodwill

Amortisation of and impairment losses on goodwill totalled €194 million. The sharp decline as against the previous year is due to an impairment loss on the goodwill of Wasserstein Perella in fiscal year 2002.

Restructuring charges

The restructuring charges of €840 million primarily related to measures connected with our "New Dresdner" Programme as well as to programmes already launched in preceding years.

Table 11	2003	2002	Change	
	€ mn	€ mn	€ mn	%
"New Dresdner" Programme	380		380	
Other programmes	460	244	216	88.5
Restructuring charges	**840**	**244**	**596**	**244.3**

Income tax expense

We reported an income tax expense of €–895 million (i.e. an income tax benefit of €895 million) for the year under review.

Table 12	2003	2002	Change	
	€ mn	€ mn	€ mn	%
Current taxes	47	245	–198	–80.8
Deferred taxes	–942	–456	–486	–106.6
Income tax expense	**–895**	**–211**	**–684**	**–324.2**