[7] Loans

The following table summarizes the composition of loans:

in € m.	Dec 31, 2002	Dec 31, 2001
German		
Banks and insurance	1,600	7,444
Manufacturing	9,388	12,612
Households (excluding mortgages)	13,768	13,509
Households – mortgages	25,226	35,283
Public sector	1,750	20,752
Wholesale and retail trade	4,549	6,569
Commercial real estate activities	15,841	28,311
Lease financing	416	436
Other	15,898	22,878
Total German	**88,436**	**147,784**
Non-German[1]		
Banks and insurance	9,120	12,465
Manufacturing	13,157	19,490
Households (excluding mortgages)	6,937	7,873
Households – mortgages	7,276	6,503
Public sector	2,834	2,906
Wholesale and retail trade	9,918	9,200
Commercial real estate activities	2,519	7,306
Lease financing	3,905	3,263
Other	27,768	49,297
Total Non-German	**83,434**	**118,303**
Gross loans	**171,870**	**266,087**
Less: Unearned income	250	664
Less: Allowance for loan losses	4,317	5,585
Total loans, net	**167,303**	**259,838**

[1] For 2001 certain exposures were reclassified from banks and insurance to other (€ 0.5 billion) and from commercial real estate activities to households (€ 2.8 billion).

The "other" category included no single industry group with aggregate borrowings from the Group in excess of 10 percent of the total loan portfolio at December 31, 2002.

Certain related third parties have obtained loans from the Group on various occasions. All such loans have been made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons. There were € 897 million and € 1.6 billion of related party loans (excluding loans to equity method investees) outstanding at December 31, 2002 and 2001, respectively.

Impaired Loans

This table sets forth information about the Group's impaired loans:

in € m.	Dec 31, 2002	Dec 31, 2001	Dec 31, 2000
Total impaired loans[1]	8,922	10,797	10,296
Allowance for impaired loans under SFAS 114[2]	3,144	3,720	4,577
Average balance of impaired loans during the year	9,710	10,363	7,399
Interest income recognized on impaired loans during the year	166	248	376

[1] Included in these amounts are € 8.0 billion, € 8.2 billion and € 8.5 billion as of December 31, 2002, 2001 and 2000, respectively, that require an allowance. The remaining impaired loans do not require a specific allowance because either the present value of expected future cash flows, the fair value of the underlying collateral or the market price of the loan exceed the recorded investment.
[2] The allowance for impaired loans under SFAS 114 is included in the Group's allowance for loan losses.

[8] Allowances for Credit Losses

The allowances for credit losses consist of an allowance for loan losses and an allowance for credit losses on lending-related commitments.
The following table shows the activity in the Group's allowance for loan losses:

in € m.	2002	2001	2000
Balance, beginning of year	**5,585**	**6,745**	**7,281**
Provision for loan losses	2,091	1,024	478
Net charge-offs			
Charge-offs	(2,728)	(2,055)	(1,296)
Recoveries	112	67	75
Total net charge-offs	(2,616)	(1,988)	(1,221)
Allowance related to acquisitions/divestitures	(421)	(156)	44
Foreign currency translation	(322)	(40)	163
Balance, end of year	**4,317**	**5,585**	**6,745**

The following table shows the activity in the Group's allowance for credit losses on lending-related commitments:

in € m.	2002	2001	2000
Balance, beginning of year	**496**	**453**	**569**
Provision for credit losses	17	(30)	(33)
Net charge-offs	–	(22)	(34)
Allowance related to acquisitions/divestitures	(11)	(2)	5
Foreign currency translation	(17)	97	(54)
Balance, end of year	**485**	**496**	**453**

quently provides better guidance for losses inherent in the portfolio that have not yet been individually identified.

Charge-off Policy

We take charge-offs based on credit risk management's assessment when we determine that the loans are uncollectable. We generally charge off a loan when all economically sensible means of recovery have been exhausted. Our determination considers information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that the proceeds from collateral will not be sufficient to pay the loan.

Prior to 2001, our entities regulated outside the United States, which accounted for approximately 87 % of our net charge-offs in 2000, consistently charged off loans when all legal means of recovery had been exhausted. This practice resulted in charge-offs occurring at a later date than for our entities regulated in the United States.

We began to develop a methodology in 2001 to bring our worldwide charge-off practices more into line with industry practices in the United States and had anticipated that the timing of our charge-offs would accelerate. In 2001, entities regulated outside the United States began to implement this change, which resulted in a higher level of charge-offs relative to that which would have occurred under the prior practice.

Problem Loans

Our problem loans are comprised of nonaccrual loans, loans 90 days or more past due and still accruing and troubled debt restructurings.

The following table presents the components of our 2002 and 2001 problem loans:

	Dec 31, 2002			Dec 31, 2001		
in € bn.	Impaired Loans[1]	Nonperforming Homogeneous Loans	Total	Impaired Loans[1]	Nonperforming Homogeneous Loans	Total
Nonaccrual loans	8.5	1.6	10.1	10.0	1.5	11.5
Loans 90 days or more past due and still accruing	0.2	0.3	0.5	0.5	0.4	0.9
Troubled debt restructurings	0.2	–	0.2	0.3	–	0.3
Total problem loans	**8.9**	**1.9**	**10.8**	**10.8**	**1.9**	**12.7**

[1] Loans for which we determine that it is probable that we will be unable to collect all principal and interest due according to the contractual terms of the loan agreements.

The decrease in our total problem loans in 2002 is due to € 2.7 billion of gross charge-offs, a € 1.4 billion reduction due to the deconsolidation of various entities and a € 0.8 billion reduction as a result of exchange rate movements offset by € 3.0 billion of net new problem loans. Included in the € 1.9 billion nonperforming homogeneous loans, as of December 31, 2002, are € 1.3 billion of loans that are 90 days or more past due as well as € 541 million of loans that are less than 90 days past due.

The following table illustrates our total problem loans based on the domicile of our counterparty (within or outside Germany) for the last five years. We have no other material interest-bearing assets that are nonperforming:

in € m.	Dec 31, 2002	Dec 31, 2001	Dec 31, 2000	Dec 31, 1999	Dec 31, 1998
Nonaccrual loans					
German	4,587	6,538	3,730	3,899	4,550
Non-German	5,511	4,990	2,824	2,104	1,024
Total nonaccrual loans	**10,098**	**11,528**[1]	**6,554**	**6,003**	**5,574**
Loans 90 days or more past due and still accruing					
German	439	658	1,028	985	1,028
Non-German	70	189	470	1,275	1,043
Total loans 90 days or more past due and still accruing	**509**	**847**	**1,498**	**2,260**	**2,071**
Troubled debt restructurings					
German	38	57	14	242	55
Non-German	154	222	141	154	144
Total troubled debt restructurings	**192**	**279**	**155**	**396**	**199**

[1] Total nonaccrual loans for 2001 includes approximately € 3.4 billion of impaired loans that were classified as potential problem loans in 2000.

Nonaccrual Loans. We place a loan on nonaccrual status if either

- the loan has been in default as to payment of principal or interest for 90 days or more and the loan is neither well secured nor in the process of collection, or
- the loan is not yet 90 days past due, but in the judgment of management the accrual of interest should be ceased before 90 days because it is probable that we will be unable to collect all principal and interest due according to the contractual terms of the loan agreement.

When a loan is placed on nonaccrual status, any accrued but unpaid interest previously recorded is reversed against current period interest revenue. Cash receipts of interest on nonaccrual loans are recorded as either interest revenue or a reduction of principal according to management's judgment as to collectability of principal.

As of December 31, 2002 our nonaccrual loans totaled € 10.1 billion, a net decrease of € 1.4 billion, or 12%, from 2001. The net decrease in nonaccrual loans is mainly due to charge-offs, deconsolidations and exposure reductions, partially offset by loans classified as nonaccrual for the first time.

As of December 31, 2001 our nonaccrual loans totaled € 11.5 billion, a net increase of € 4.9 billion, or 74%, from 2000. We estimate that the impact of the previously disclosed change in our nonaccrual practice was approximately € 3.4 billion. € 2.0 billion was due to additional nonaccruals in our U.S. entities, a further € 745 million was due to our medium-sized corporate portfolio and real estate businesses in Germany, and € 290 million was due to a deterioration in our smaller-balance homogeneous portfolio in Italy. These increases were partially offset by movements in other portfolios and net charge-offs.

Loans Ninety Days or More Past Due and Still Accruing. These are loans in which contractual interest or principal payments are 90 days or more past due but on which we continue to recognize interest revenue. These loans are well secured and in the process of collection.
In 2002, our 90 days or more past due and still accruing interest loans decreased by € 338 million, or 40% to € 509 million. This decrease is mainly due to deconsolidations (€ 217 million), the placing of loans on nonaccrual status and charge-offs.
In 2001, our 90 days or more past due and still accruing interest loans decreased by € 651 million, or 44%, to € 847 million, primarily reflecting the movement of some of our real estate portfolios in Germany (€ 410 million) and the smaller-balance homogeneous portfolio in Italy (€ 255 million) to nonaccrual status.

Troubled Debt Restructurings. Troubled debt restructurings are loans which we have restructured due to deterioration in the borrower's financial position. We may restructure these loans in one or more of the following ways:
- reducing the stated interest rate for the remaining portion of the original life of the debt;
- extending the maturity date (or dates) at an interest rate lower than the current market rate for new debt with a similar risk profile;
- reducing the face amount or maturity amount of the debt; and
- reducing the accrued interest on the debt.

If a borrower performs satisfactorily for one year under a restructured loan involving a modification of terms, we no longer consider that borrower's loan to be a troubled debt restructuring, unless at the time of restructuring the new interest rate was lower than the market rate for similar credit risks. These loans are not included in the reported troubled debt restructurings amounts.
Our troubled debt restructurings totaled € 192 million as of December 31, 2002, a decrease of 31% from 2001. The decrease in our troubled debt restructurings is mainly due to exposure reductions and loans now classified as nonaccrual.
Our troubled debt restructurings totaled € 279 million as of December 31, 2001, an 80% increase from 2000. This increase is primarily attributable to restructured credits in Western Europe and Asia.

The following table shows the approximate effect on interest revenue of nonaccrual loans and troubled debt restructurings. It shows the gross interest income that would have been recorded in 2002 if those loans had been current in accordance with their original terms and had been outstanding throughout 2002 or since their origination, if we only held them for part of 2002. It also shows the amount of interest income on those loans that was included in net income for 2002:

in € m.	2002
German loans	
Gross amount of interest that would have been recorded at original rate	212
Less interest, net of reversals, recognized in interest revenue	114
Reduction of interest revenue	98
Non-German loans	
Gross amount of interest that would have been recorded at original rate	302
Less interest, net of reversals, recognized in interest revenue	82
Reduction of interest revenue	220
Total reduction of interest revenue	**318**

Allowance for Loan Losses

The following table sets forth the components of our allowance for loan losses by industry of the borrower, and the percentage of our total loan portfolio accounted for by those industry classifications, on the dates specified. The breakdown between German and non-German borrowers is based on the location of the borrowers:

in € m. (except percentages)	Dec 31, 2002		Dec 31, 2001		Dec 31, 2000		Dec 31, 1999		Dec 31, 1998	
German										
Specific loan loss allowance										
Banks and insurance	37	1%	7	3%	67	4%	6	2%	10	3%
Manufacturing	317	5%	427	5%	668	5%	707	5%	781	6%
Households (excluding mortgages)	121	8%	102	5%	110	5%	64	5%	83	6%
Households—mortgages	5	15%	73	13%	58	12%	171	13%	162	13%
Public sector	–	1%	–	8%	–	8%	–	8%	–	9%
Wholesale and retail trade	130	3%	187	2%	359	3%	407	4%	438	6%
Commercial real estate activities	287	9%	643	11%	773	9%	689	9%	568	10%
Other	479	9%	606	9%	840	11%	990	13%	788	16%
Specific German total	1,376		2,045		2,875		3,034		2,830	
Inherent loss allowance	495		1,098		1,395		1,435		1,768	
German total	**1,871**	**51%**	**3,143**	**56%**	**4,270**	**57%**	**4,469**	**59%**	**4,598**	**69%**
Non-German										
Specific loan loss allowance	1,768		1 675		1,702		1,575		882	
Inherent loss allowance	678		767		773		1,237		1,036	
Non-German total	**2,446**	**49%**	**2,442**	**44%**	**2,475**	**43%**	**2,812**	**41%**	**1,918**	**31%**
Total allowance for loan losses	**4,317**	**100%**	**5,585**	**100%**	**6,745**	**100%**	**7,281**	**100%**	**6,516**	**100%**
Total specific allowance	3,144		3,720		4,577		4,609		3,712	
Total inherent loss allowance	1,173		1,865		2,168		2,672		2,804	
Total allowance for loan losses	**4,317**		**5,585**		**6,745**		**7,281**		**6,516**	

Movements in the Allowance for Loan Losses. We record increases to our allowance for loan losses as an expense on our Consolidated Statement of Income. If we determine that we no longer need provisions we have taken previously, we decrease our allowance and record the amount as a reduction of the provision on our Consolidated Statement of Income. Charge-offs reduce our allowance while recoveries increase the allowance without affecting the Consolidated Statement of Income.

The following table sets forth a breakdown of the movements in our allowance for loan losses for the periods specified:

in € m. (except percentages)	2002	2001	2000	1999	1998
Allowance at beginning of year	**5,585**	**6,745**	**7,281**	**6,516**	**6,388**
Charge-offs					
German					
Banks and insurance	8	7	13	5	4
Manufacturing	196	280	123	127	107
Households (excluding mortgages)	400	214	37	41	15
Households – mortgages	45	27	39	48	32
Public sector	–	–	–	–	–
Wholesale and retail trade	140	192	60	81	58
Commercial real estate activities	127	209	148	158	154
Lease financing	–	1	3	2	1
Other	567	426	220	147	128
Total German	1,483	1,356	643	609	499
Non-German					
Excluding lease financing	1,244	697	652	215	243
Lease financing only	1	2	1	15	1
Total Non-German	1,245	699	653	230	244
Total charge-offs	**2,728**	**2,055**	**1,296**	**839**	**743**
Recoveries					
German					
Banks and insurance	–	–	–	1	2
Manufacturing	4	4	10	8	1
Households (excluding mortgages)	24	15	3	2	2
Households – mortgages	2	2	–	–	–
Public sector	–	–	–	–	–
Wholesale and retail trade	3	1	–	–	–
Commercial real estate activities	3	–	3	5	2
Lease financing	–	–	–	–	–
Other	42	11	35	5	19
Total German	78	33	51	21	26
Non-German					
Excluding lease financing	34	34	24	23	10
Lease financing only	–	–	–	6	–
Total Non-German	34	34	24	29	10
Total recoveries	**112**	**67**	**75**	**50**	**36**
Net charge-offs	**2,616**	**1,988**	**1,221**	**789**	**707**
Provision for loan losses	2,091	1,024	478	725	908
Other changes (currency translation and allowance related to acquisitions/divestitures)	(743)	(196)	207	829	(73)
Allowance at end of year	**4,317**	**5,585**	**6,745**	**7,281**	**6,516**
Percentage of total net charge-offs to average loans for the year	1.15 %	0.71 %	0.39 %	0.31 %	0.35 %

The following table presents an analysis of the changes in the international component of the allowance for loan losses. As of December 31, 2002, 57 % of our total allowance was attributable to international clients:

in € m.	2002	2001	2000	1999	1998
Allowance at beginning of year	**2,441**	**2,475**	**2,812**	**1,918**	**1,735**
Charge-offs	1,245	699	653	230	244
Recoveries	34	34	24	29	10
Net charge-offs	1,211	665	629	201	234
Provision for loan losses	1,500	710	219	296	443
Other changes (currency translation and allowance related to acquisitions/divestitures)	(284)	(79)	73	799	(26)
Allowance at end of year	**2,446**	**2,441**	**2,475**	**2,812**	**1,918**

Our allowance for loan losses as of December 31, 2002 was € 4.3 billion, 23% lower than the € 5.6 billion at the end of 2001. This decrease in our allowance balance was principally due to increases in our charge-offs, partially offset by increases in our provisions due to adverse economic conditions that continued to persist in 2002. The overall reduction in our allowance for loan losses can also be attributed to net deconsolidations of € 421 million and exchange rate movements.

Our gross charge-offs grew to € 2.7 billion in 2002, an increase of € 673 million, or 33%, over 2001 charge-offs. Of the charge-offs for 2002, € 1.9 billion were related to our corporate credit exposure, mainly driven by our German and North American portfolios, and € 777 million were related to our consumer credit exposure.

Our provision for loan losses in 2002 was € 2.1 billion, an increase of 104% from the prior year. This amount is composed of both net new specific and inherent loan loss provisions. The provision for the year is primarily due to provisions raised to address the downturn in the telecommunications industry and specific loan loss provisions reflecting the deterioration in various industry sectors represented within our German portfolio and the Americas.

Our specific loan loss allowance was € 3.1 billion as of December 31, 2002, a decrease of € 576 million, or a 15% reduction from 2001. The change in our allowance includes a net specific loan loss provision of € 2.0 billion, 74% of which was for non-German clients. The provision was 111% higher than the previous year. The increased provision, however, was nearly offset by net charge-offs of € 1.8 billion. As the specific loan loss allowance is the largest component of our total allowance for loan losses, the net reduction in our specific loan loss allowance for 2002 is also due to the reasons outlined above for the overall reduction in our total allowance for loan losses.

Our inherent loan loss allowance totaled € 1.2 billion as of December 31, 2002, a decrease of € 692 million, or 37%, from the level at the end of 2001. A major driver of the net reduction was € 716 million net charge-offs in our homogeneous loan portfolio, partially offset by a net provision for smaller-balance standardized homogeneous exposures of € 179 million. The volume of charge-offs in the homogeneous portfolio in 2002 was affected by the establishment of days-past-due thresholds at which certain homogeneous loan types are completely charged-off.

Our allowance for loan losses as of December 31, 2001 was € 5.6 billion, 17% lower than the € 6.7 billion at the end of 2000. This decrease in our allowance balance was principally due to increases in our charge-offs, offset by increases in provisions due to weakened economic conditions in 2001.

Our charge-offs grew to € 2.1 billion in 2001, an increase of € 759 million, or 59%, over 2000 charge-offs. This was principally due to a change in practice in our entities regulated outside the United States. Out of the total charge-offs for 2001 € 1.4 billion or two-thirds were in our German portfolio, of which € 957 million applied to clients in the medium-sized corporate portfolio and € 407 million related to smaller-balance standardized homogeneous exposures. Approximately 25% of the charge-offs in the German-Other category, which totaled € 426 million, related to a single medium-sized German corporate client in the construction industry. The remaining € 700 million were charge-offs in our non-German portfolio, of which € 402 million, or 58%, related to charge-offs in North America, principally in our leveraged business.

Our total provision for loan losses in 2001 was € 1.0 billion, an increase of 114% from the prior year. This amount is comprised of both new specific and inherent loan loss provisions, reflecting the downturn in the global economy.

Our specific loan loss allowance was € 3.7 billion as of December 31, 2001, a 19% decrease from 2000. The change in the allowance includes a specific loan loss provision of € 951 million, 70% of which was for non-German clients. The provision was 18% higher than the prior year and included increased provisions related to a single American borrower in the utilities industry, various Argentine exposures and our leveraged business. The increased provision was offset in part by € 1.6 billion in net charge-offs.

Our inherent loss allowance totaled € 1.9 billion as of December 31, 2001, a decrease of € 303 million, or 14%, from the level at the end of 2000. A major driver of the net reduction was € 383 million of charge-offs in our Private and Personal Banking business in Germany, partially offset by a provision for smaller-balance standardized homogeneous exposures of € 127 million. Furthermore, our country risk allowance shows a net decrease of 16%, reflecting the sell down of assets which previously attracted country risk allowance in Turkey and throughout Asia excluding Japan, and an increase in collateral held against cross border assets.

Our allowance for loans losses as of December 31, 2000 was € 6.7 billion, 7% lower than the € 7.3 billion at the end of 1999. This decrease in our allowance balance was principally due to increases in our charge-offs, lower specific provisions and a net release of our inherent loss provisions.

Our charge-offs increased to € 1.3 billion in 2000, a € 457 million, or 54%, increase over 1999 charge-offs. Of this increase, € 423 million was exclusively attributable to our non-German customers. Approximately 70%, or € 296 million, of this increase was due to charge-offs related to Russia and Iraq. We also had € 34 million of charge-offs for our German clients in the medium-sized corporate portfolio. Approximately 60% of the charge-offs captured in the German-Other category related to a single medium-sized German corporate customer in the construction industry.

Our total provision for loan losses in 2000 was € 478 million, a decline of 34% from the prior year. This balance was composed of net new specific loan loss provisions and a release of our inherent loss provision. Our total net new specific loan loss provision amounted to € 805 million, which was almost equally split between German and non-German clients. Our specific loan loss provisions declined between 1999 and 2000, reflecting the improvement of the quality of our loan portfolio. Specific provisions were approximately 13% less in 2000 than the prior year due in large part to provisions we took in 1999 with respect to a significant exposure to a single German borrower in the real estate industry.

Our inherent loss allowance totaled € 2.2 billion as of December 31, 2000, a 19% drop from the level at the end of 1999. This decline reflected the effect of the € 296 million of charge-offs described above and country provision releases totaling € 154 million. Of the € 154 million country provision releases, € 88 million was due to reduced exposure (mainly in Brazil and Turkey), € 34 million was due to a net reduction in provisioning rates applied to individual countries, and the remaining amount related to other changes, primarily foreign exchange.

In addition to a small increase in our allowances on the homogeneous loan portfolio, we released a net € 98 million from our other inherent loss allowance in 2000 due to two legal entities: EUROHYPO and Bankers Trust. Each of these entities had a decrease in its loss factors in 2000 because of a decline in its historical average charge-offs and an increase in its average loan exposures.

Our allowance for loan losses at December 31, 1999 was € 7.3 billion, a 12% increase from 1998. This increase in our allowance for loan losses was principally due to substantial increases in our specific provisions, and the Bankers Trust acquisition (€ 477 million), partially offset by releases of country risk provisions, a substantial decrease in the inherent loss provision and a slight increase in charge-offs (€ 96 million).

Our total charge-offs increased 13% during 1999 to € 839 million. This increase was primarily attributable to the German domestic portfolio. Approximately 30% of the German-Other charge-off was related to the construction industry.

During 1999, our provision for loan losses totaled € 725 million, a 20% or € 183 million decrease from the preceding year. This decrease was mainly attributable to higher specific loan loss provisions, offset in part by releases of country risk provision. Our German specific provision increased to € 568 million, a 65% increase from the preceding year. This increase was mainly attributable to higher provisions for the German borrower we refer to above.

Our non-German specific provision totaled € 358 million in 1999, a 30% increase from the preceding year. This increase was due to the fact that we were able to specifically identify those exposures, recorded in various Emerging Market countries, which required a specific provision. At the same time, we released country risk provisions, particularly in Indonesia and Turkey.
Our allowance for loan losses at December 31, 1998 was € 6.5 billion, a 2% increase from 1997. This increase was primarily due to the effects of the Asian and Russian financial crisis.
The following table presents an analysis of the changes in our allowance for credit losses on lending-related commitments:

in € m.	2002	2001	2000
Allowance at beginning of year	**496**	**453**	**569**
Provision for credit losses	17	(30)	(33)
Net charge-offs	–	(22)	(34)
Other changes (currency translation and allowance related to acquisitions/divestitures)	(28)	95	(49)
Allowance at end of year	**485**	**496**	**453**

Settlement Risk

Our extensive trading activities may give rise to risk at the time of settlement of those trades. Settlement risk is the risk of loss due to the failure of a counterparty to honor its obligations to deliver cash, securities or other assets as contractually agreed.
For many types of transactions, we mitigate settlement risk by closing the transaction through a clearing agent which effectively acts as a stakeholder for both parties, only settling the trade once both parties have fulfilled their sides of the bargain.
Where no such settlement system exists, as is commonly the case with foreign exchange trades, the simultaneous commencement of the payment and the delivery parts of the transaction is common practice between trading partners (free settlement). In these cases, we may seek to mitigate our settlement risk through the execution of bilateral payment netting agreements. We are also an active participant in industry initiatives to reduce settlement risks. Acceptance of settlement risk on free settlement trades requires approval from our credit risk personnel, either in the form of pre-approved settlement risk limits, or through transaction-specific approvals. We do not aggregate settlement risk limits with other credit exposures for credit approval purposes, but we take the aggregate exposure into account when we consider whether a given settlement risk would be acceptable.

we feel is exposed to default and cross border transfer risk. We exclude exposures that we treat as subject to risks other than default and cross border transfer risk (e.g., exposure for which we assign economic capital under market risk policies). The following table shows our default and cross border transfer risk exposure, and expected loss and economic capital, by Group Division, as we calculate it for expected loss and economic capital purposes.

	As of December 31, 2002			
	Corporate and Investment Bank	Private Clients and Asset Management	Other[1]	Total Group
	(in € millions)			
Loans	€ 101,672	€ 66,120	€ 3,828	€ 171,620
OTC derivatives	60,277	18	—	60,295
Contingent liabilities	27,590	1,492	622	29,704
Irrevocable loan commitments (including letters of credit)	103,146	4,186	465	107,797
Repurchase and reverse repurchase agreements and securities lending and borrowing	9,031	1	—	9,032
Interest-earning deposits with banks	19,356	223	6,112	25,691
Total credit exposure	€ 321,072	€ 72,040	€ 11,027	€ 404,139
Expected loss	€ 1,063	€ 241	€ 12	€ 1,316
Economic capital for default and cross border transfer risk	€ 7,564	€ 1,008	€ 69	€ 8,641

(1) Primarily relates to the Corporate Investments Group Division.

Credit Loss Experience and Allowance for Loan Losses

We establish an allowance for loan losses that represents our estimate of probable losses in our loan portfolio. The responsibility for determining our allowance for loan losses rests with credit risk management. The components of this allowance are:

- *Specific Loss Component:* Allowances we maintain to cover the default risk of specific exposures.
- *Inherent Loss Component:*
  - *Country Risk Allowance:* Allowances we maintain to cover credit losses inherent in our pool of cross border loans to borrowers located in certain countries solely as a result of transfer and currency convertibility risks.
  - *Smaller-Balance Standardized Homogeneous Loan Loss Allowance:* Allowances we maintain at a portfolio level to cover credit losses inherent in these types of loans.
  - *Other Inherent Loss Allowance:* Allowances we maintain as an estimate of credit losses which we have not otherwise identified.

Specific Loss Component

The specific loss component relates to all loans deemed to be impaired, following an assessment of the counterparty's ability to repay. A loan is considered to be impaired when we determine that it is probable that we will be unable to collect all interest and principal due in accordance with the terms of the loan agreement. We determine the amount, if any, of the specific provision we should make, taking into account the present value of expected future cash flows, the fair value of the underlying collateral or the market price of the loan.

We regularly re-evaluate all credit exposures which have already been specifically provided for, as well as all credit exposures that appear on our watchlist.

Inherent Loss Component

The inherent loss component relates to all other loans we do not individually provide for, but which we believe to have some inherent loss on a portfolio basis.

Country Risk Allowance

We establish a country risk allowance for loan exposures in countries where we have serious doubts about the ability of our counterparties to comply with the repayment terms due to the economic or political situation prevailing in the respective countries of domicile, that is, for transfer and currency convertibility risks. We determine the percentage rates for our country risk allowance on the basis of a comprehensive matrix that encompasses both historical loss experience and market data, such as economic, political and other relevant factors affecting a country's financial condition. In making our decision, we focus primarily on the cross border transfer risk ratings that we assign to a country and the amount and type of collateral.

Smaller-Balance Standardized Homogeneous Loan Loss Allowance

Our smaller-balance standardized homogeneous portfolio includes smaller-balance personal loans, residential and nonresidential mortgage loans, overdrafts and loans to self-employed and small business customers of our private and retail business. These loans are evaluated for inherent loss on a collective basis, based on analyses of historical loss experience from each product type according to criteria such as past due status and collateral recovery values. The resulting allowance encompasses the loss inherent both in current and performing loans, as well as in delinquent and nonperforming loans within the homogeneous loan portfolio.

Other Inherent Loss Allowance

This component of the allowance represents an estimate of our inherent losses resulting from the imprecisions and uncertainties in determining credit losses. This estimate of inherent losses excludes those exposures we have already considered in the specific loss component as described above or considered when establishing our allowance for smaller-balance standardized homogeneous loans. We have historically used a ratio of an entity's historical average losses (net of recoveries) to the historical average of its loan exposures, the result of which we applied to our corresponding period end loan exposures and adjusted the result for relevant environmental factors. As a consequence of our improved risk management processes and capabilities, in 2002 we refined the measure for calculating our other inherent loss allowance. This refinement was made in order to make the provision more sensitive to the prevailing credit environment and less based on historical loss experience. The new measurement incorporates the expected loss results which we generate as part of our economic capital calculations outlined above. Therefore, the new measurement considers, among other factors, our internal rating information which results in a better reflection of the current economic situation and consequently provides better guidance for losses inherent in the portfolio that have not yet been individually identified.

Charge-off Policy

We take charge-offs based on credit risk management's assessment when we determine that the loans are uncollectable. We generally charge off a loan when all economically sensible means of recovery have been exhausted. Our determination considers information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that the proceeds from collateral will not be sufficient to pay the loan.

Prior to 2001, our entities regulated outside the United States, which accounted for approximately 87% of our net charge-offs in 2000, consistently charged off loans when all legal means of recovery had been exhausted. This practice resulted in charge-offs occurring at a later date than for our entities regulated in the United States.

We began to develop a methodology in 2001 to bring our worldwide charge-off practices more into line with industry practices in the United States and had anticipated that the timing of our charge-offs would accelerate. In 2001, entities regulated outside the United States began to implement this change, which resulted in a higher level of charge-offs relative to that which would have occurred under the prior practice.

Problem Loans

Our problem loans are comprised of nonaccrual loans, loans 90 days or more past due and still accruing and troubled debt restructurings.

The following table presents the components of our 2002 and 2001 problem loans:

	At December 31, (in € billions)					
	2002			2001		
	Impaired Loans[1]	Nonperforming Homogeneous Loans	Total	Impaired Loans[1]	Nonperforming Homogeneous Loans	Total
Nonaccrual loans	€ 8.5	€ 1.6	€ 10.1	€ 10.0	€ 1.5	€ 11.5
Loans 90 days or more past due and still accruing	0.2	0.3	0.5	0.5	0.4	0.9
Troubled debt restructurings	0.2	—	0.2	0.3	—	0.3
Total problem loans	€ 8.9	€ 1.9	€ 10.8	€ 10.8	€ 1.9	€ 12.7

(1) Loans for which we determine that it is probable that we will be unable to collect all principal and interest due according to the contractual terms of the loan agreements.

The decrease in our total problem loans in 2002 is due to € 2.7 billion of gross charge-offs, a € 1.4 billion reduction due to the deconsolidation of various entities and a € 0.8 billion reduction as a result of exchange rate movements offset by € 3.0 billion of net new problem loans. Included in the € 1.9 billion nonperforming homogeneous loans, as of December 31, 2002, are € 1.3 billion of loans that are 90 days or more past due as well as € 541 million of loans that are less than 90 days past due.

The following table illustrates our total problem loans based on the domicile of our counterparty (within or outside Germany) for the last five years. We have no other material interest-bearing assets that are nonperforming.

	As of December 31,				
	2002	2001	2000	1999	1998
			(in € millions)		
Nonaccrual loans:					
German	€ 4,587	€ 6,538	€ 3,730	€ 3,899	€ 4,550
Non-German	5,511	4,990	2,824	2,104	1,024
Total nonaccrual loans	€ 10,098	€ 11,528[(1)]	€ 6,554	€ 6,003	€ 5,574
Loans 90 days or more past due and still accruing:					
German	€ 439	€ 658	€ 1,028	€ 985	€ 1,028
Non-German	70	189	470	1,275	1,043
Total loans 90 days or more past due and still accruing	€ 509	€ 847	€ 1,498	€ 2,260	€ 2,071
Troubled debt restructurings:					
German	€ 38	€ 57	€ 14	€ 242	€ 55
Non-German	154	222	141	154	144
Total troubled debt restructurings	€ 192	€ 279	€ 155	€ 396	€ 199

(1) Total nonaccrual loans for 2001 includes approximately € 3.4 billion of impaired loans that were classified as potential problem loans in 2000.

Nonaccrual Loans

We place a loan on nonaccrual status if either

- the loan has been in default as to payment of principal or interest for 90 days or more and the loan is neither well secured nor in the process of collection, or
- the loan is not yet 90 days past due, but in the judgment of management the accrual of interest should be ceased before 90 days because it is probable that we will be unable to collect all principal and interest due according to the contractual terms of the loan agreement.

When a loan is placed on nonaccrual status, any accrued but unpaid interest previously recorded is reversed against current period interest revenue. Cash receipts of interest on nonaccrual loans are recorded as either interest revenue or a reduction of principal according to management's judgment as to collectability of principal.

As of December 31, 2002, our nonaccrual loans totaled € 10.1 billion, a net decrease of € 1.4 billion, or 12%, from 2001. The net decrease in nonaccrual loans is mainly due to charge-offs, deconsolidations and exposure reductions, partially offset by loans classified as nonaccrual for the first time.

As of December 31, 2001, our nonaccrual loans totaled € 11.5 billion, a net increase of € 4.9 billion, or 74%, from 2000. We estimate that the impact of the previously disclosed change in our nonaccrual practice was approximately € 3.4 billion. € 2.0 billion was due to additional nonaccruals in our U.S. entities, a further € 745 million was due to our medium-sized corporate portfolio and real estate businesses in Germany, and € 290 million was due to a deterioration in our smaller-balance homogeneous portfolio in Italy. These increases were partially offset by movements in other portfolios and net charge-offs.

Loans Ninety Days or More Past Due and Still Accruing

These are loans in which contractual interest or principal payments are 90 days or more past due but on which we continue to recognize interest revenue. These loans are well secured and in the process of collection.

In 2002, our 90 days or more past due and still accruing interest loans decreased by € 338 million, or 40% to € 509 million. This decrease is mainly due to deconsolidations (€ 217 million), the placing of loans on nonaccrual status and charge-offs.

In 2001, our 90 days or more past due and still accruing interest loans decreased by € 651 million, or 44%, to € 847 million, primarily reflecting the movement of some of our real estate portfolios in Germany (€ 410 million) and the smaller-balance homogeneous portfolio in Italy (€ 255 million) to nonaccrual status.

Troubled Debt Restructurings

Troubled debt restructurings are loans which we have restructured due to deterioration in the borrower's financial position. We may restructure these loans in one or more of the following ways:

- reducing the stated interest rate for the remaining portion of the original life of the debt;
- extending the maturity date (or dates) at an interest rate lower than the current market rate for new debt with a similar risk profile;
- reducing the face amount or maturity amount of the debt; and
- reducing the accrued interest on the debt.

If a borrower performs satisfactorily for one year under a restructured loan involving a modification of terms, we no longer consider that borrower's loan to be a troubled debt restructuring, unless at the time of restructuring the new interest rate was lower than the market rate for similar credit risks. These loans are not included in the reported troubled debt restructurings amounts.

Our troubled debt restructurings totaled € 192 million as of December 31, 2002, a decrease of 31% from 2001. The decrease in our troubled debt restructurings is mainly due to exposure reductions and loans now classified as nonaccrual.

Our troubled debt restructurings totaled € 279 million as of December 31, 2001, an 80% increase from 2000. This increase is primarily attributable to restructured credits in Western Europe and Asia.

The following table shows the approximate effect on interest revenue of nonaccrual loans and troubled debt restructurings. It shows the gross interest income that would have been recorded in 2002 if those loans had been current in accordance with their original terms and had been outstanding throughout 2002 or since their origination, if we only held them for part of 2002. It also shows the amount of interest income on those loans that was included in net income for 2002.

	Year ended December 31, 2002
	(in € millions)
German loans:	
Gross amount of interest that would have been recorded at original rate	€ 212
Less interest, net of reversals, recognized in interest revenue	114
Reduction of interest revenue	98
Non-German loans:	
Gross amount of interest that would have been recorded at original rate	302
Less interest, net of reversals, recognized in interest revenue	82
Reduction of interest revenue	220
Total reduction of interest revenue	€ 318

Allowance for Loan Losses

The following table sets forth the components of our allowance for loan losses by industry of the borrower, and the percentage of our total loan portfolio accounted for by those industry classifications, on the dates specified. The breakdown between German and non-German borrowers is based on the location of the borrowers.

	As of December 31,									
	2002		2001		2000		1999		1998	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(in € millions, except percentages)									
German:										
Specific loan loss allowance:										
Banks and insurance	€ 37	1%	€ 7	3%	€ 67	4%	€ 6	2%	€ 10	3%
Manufacturing	317	5	427	5	668	5	707	5	781	6
Households (excluding mortgages)	121	8	102	5	110	5	64	5	83	6
Households-mortgages	5	15	73	13	58	12	171	13	162	13
Public sector	—	1	—	8	—	8	—	8	—	9
Wholesale and retail trade	130	3	187	2	359	3	407	4	438	6
Commercial real estate activities	287	9	643	11	773	9	689	9	568	10
Other	479	9	606	9	840	11	990	13	788	16
Specific German total	1,376		2,045		2,875		3,034		2,830	
Inherent loss allowance	495		1,098		1,395		1,435		1,768	
German total	1,871	51	3,143	56	4,270	57	4,469	59	4,598	69
Non-German:										
Specific loan loss allowance	1,768		1,675		1,702		1,575		882	
Inherent loss allowance	678		767		773		1,237		1,036	
Non-German total	2,446	49	2,442	44	2,475	43	2,812	41	1,918	31
Total allowance for loan losses	€ 4,317	100%	€ 5,585	100%	€ 6,745	100%	€ 7,281	100%	€ 6,516	100%
Total specific allowance	€ 3,144		€ 3,720		€ 4,577		€ 4,609		€ 3,712	
Total inherent loss allowance	1,173		1,865		2,168		2,672		2,804	
Total allowance for loan losses	€ 4,317		€ 5,585		€ 6,745		€ 7,281		€ 6,516	

Movements in the Allowance for Loan Losses

We record increases to our allowance for loan losses as an expense on our Consolidated Statement of Income. If we determine that we no longer need provisions we have taken previously, we decrease our allowance and record the amount as a reduction of the provision on our Consolidated Statement of Income. Charge-offs reduce our allowance while recoveries increase the allowance without affecting the Consolidated Statement of Income.

The following table sets forth a breakdown of the movements in our allowance for loan losses for the periods specified.

	Year ended December 31,				
	2002	2001	2000	1999	1998
	(in € millions, except percentages)				
Allowance at beginning of year	€ 5,585	€ 6,745	€ 7,281	€ 6,516	€ 6,388
Charge-offs:					
German:					
Banks and insurance	8	7	13	5	4
Manufacturing	196	280	123	127	107
Households (excluding mortgages)	400	214	37	41	15
Households-mortgages	45	27	39	48	32
Public sector	—	—	—	—	—
Wholesale and retail trade	140	192	60	81	58
Commercial real estate activities	127	209	148	158	154
Lease financing	—	1	3	2	1
Other	567	426	220	147	128
Total German	1,483	1,356	643	609	499
Non-German:					
Excluding lease financing	1,244	697	652	215	243
Lease financing only	1	2	1	15	1
Total Non-German	1,245	699	653	230	244
Total charge-offs	2,728	2,055	1,296	839	743
Recoveries:					
German:					
Banks and insurance	—	—	—	1	2
Manufacturing	4	4	10	8	1
Households (excluding mortgages)	24	15	3	2	2
Households-mortgages	2	2	—	—	—
Public sector	—	—	—	—	—
Wholesale and retail trade	3	1	—	—	—
Commercial real estate activities	3	—	3	5	2
Lease financing	—	—	—	—	—
Other	42	11	35	5	19
Total German	78	33	51	21	26
Non-German:					
Excluding lease financing	34	34	24	23	10
Lease financing only	—	—	—	6	—
Total Non-German	34	34	24	29	10
Total recoveries	112	67	75	50	36
Net charge-offs	2,616	1,988	1,221	789	707
Provision for loan losses	2,091	1,024	478	725	908
Other changes (currency translation and allowance related to acquisitions/divestitures)	(743)	(196)	207	829	(73)
Allowance at end of year	€ 4,317	€ 5,585	€ 6,745	€ 7,281	€ 6,516
Percentage of total net charge-offs to average loans for the year	1.15%	0.71%	0.39%	0.31%	0.35%

The following table presents an analysis of the changes in the international component of the allowance for loan losses. As of December 31, 2002, 57% of our total allowance was attributable to international clients.

	Year ended December 31,				
	2002	2001	2000	1999	1998
			(in € millions)		
Allowance at beginning of year	€ 2,441	€ 2,475	€ 2,812	€ 1,918	€ 1,735
Net charge-offs:					
Charge-offs	1,245	699	653	230	244
Recoveries	34	34	24	29	10
Net charge-offs	1,211	665	629	201	234
Provision for loan losses	1,500	710	219	296	443
Other changes (currency translation and allowance related to acquisitions/divestitures)	(284)	(79)	73	799	(26)
Allowance at end of year	€ 2,446	€ 2,441	€ 2,475	€ 2,812	€ 1,918

Our allowance for loan losses as of December 31, 2002 was € 4.3 billion, 23% lower than the € 5.6 billion at the end of 2001. This decrease in our allowance balance was principally due to increases in our charge-offs, partially offset by increases in our provisions due to adverse economic conditions that continued to persist in 2002. The overall reduction in our allowance for loan losses can also be attributed to net deconsolidations of € 421 million and exchange rate movements.

Our gross charge-offs grew to € 2.7 billion in 2002, an increase of € 673 million, or 33%, over 2001 charge-offs. Of the charge-offs for 2002, € 1.9 billion were related to our corporate credit exposure, mainly driven by our German and North American portfolios, and € 777 million were related to our consumer credit exposure.

Our provision for loan losses in 2002 was € 2.1 billion, an increase of 104% from the prior year. This amount is composed of both net new specific and inherent loan loss provisions. The provision for the year is primarily due to provisions raised to address the downturn in the telecommunications industry and specific loan loss provisions reflecting the deterioration in various industry sectors represented within our German portfolio and the Americas.

Our specific loan loss allowance was € 3.1 billion as of December 31, 2002, a decrease of € 576 million, or a 15% reduction from 2001. The change in our allowance includes a net specific loan loss provision of € 2.0 billion, 74% of which was for non-German clients. The provision was 111% higher than the previous year. The increased provision, however, was nearly offset by net charge-offs of € 1.8 billion. As the specific loan loss allowance is the largest component of our total allowance for loan losses, the net reduction in our specific loan loss allowance for 2002 is also due to the reasons outlined above for the overall reduction in our total allowance for loan losses.

Our inherent loan loss allowance totaled € 1.2 billion as of December 31, 2002, a decrease of € 692 million, or 37%, from the level at the end of 2001. A major driver of the net reduction was € 716 million net charge-offs in our homogeneous loan portfolio, partially offset by a net provision for smaller-balance standardized homogeneous exposures of € 179 million. The volume of charge-offs in the homogeneous portfolio in 2002 was affected by the establishment of days-past-due thresholds at which certain homogeneous loan types are completely charged-off.

Our allowance for loan losses as of December 31, 2001 was € 5.6 billion, 17% lower than the € 6.7 billion at the end of 2000. This decrease in our allowance balance was principally due to increases in our charge-offs, offset by increases in provisions due to weakened economic conditions in 2001.

Our charge-offs grew to € 2.1 billion in 2001, an increase of € 759 million, or 59%, over 2000 charge-offs. This was principally due to a change in practice in our entities regulated outside the United States. Out of the total charge-offs for 2001 € 1.4 billion or two-thirds were in our German portfolio, of which € 957 million applied to clients in the medium-sized corporate portfolio and € 407 million related to smaller-balance standardized homogeneous exposures. Approximately 25% of the charge-offs in the German-Other category, which totaled € 426 million, related to a single medium-sized German corporate client in the construction industry. The remaining € 700 million were charge-offs in our non-German portfolio, of which € 402 million, or 58%, related to charge-offs in North America, principally in our leveraged business.

Our total provision for loan losses in 2001 was € 1.0 billion, an increase of 114% from the prior year. This amount is comprised of both new specific and inherent loan loss provisions, reflecting the downturn in the global economy.

Our specific loan loss allowance was € 3.7 billion as of December 31, 2001, a 19% decrease from 2000. The change in the allowance includes a specific loan loss provision of € 951 million, 70% of which was for non-German clients. The provision was 18% higher than the prior year and included increased provisions related to a single American borrower in the utilities industry, various Argentine exposures and our leveraged business. The increased provision was offset in part by € 1.6 billion in net charge-offs.

Our inherent loss allowance totaled € 1.9 billion as of December 31, 2001, a decrease of € 303 million, or 14%, from the level at the end of 2000. A major driver of the net reduction was € 383 million of charge-offs in our Private and Personal Banking business in Germany, partially offset by a provision for smaller-balance standardized homogeneous exposures of € 127 million. Furthermore, our country risk allowance shows a net decrease of 16%, reflecting the sell down of assets which previously attracted country risk allowance in Turkey and throughout Asia excluding Japan, and an increase in collateral held against cross border assets.

Our allowance for loans losses as of December 31, 2000 was € 6.7 billion, 7% lower than the € 7.3 billion at the end of 1999. This decrease in our allowance balance was principally due to increases in our charge-offs, lower specific provisions and a net release of our inherent loss provisions.

Our charge-offs increased to € 1.3 billion in 2000, a € 457 million, or 54%, increase over 1999 charge-offs. Of this increase, € 423 million was exclusively attributable to our non-German customers. Approximately 70%, or € 296 million, of this increase was due to charge-offs related to Russia and Iraq. We also had € 34 million of charge-offs for our German clients in the medium-sized corporate portfolio. Approximately 60% of the charge-offs captured in the German-Other category related to a single medium-sized German corporate customer in the construction industry.

Our total provision for loan losses in 2000 was € 478 million, a decline of 34% from the prior year. This balance was composed of net new specific loan loss provisions and a release of our inherent loss provision. Our total net new specific loan loss provision amounted to € 805 million, which was almost equally split between German and non-German clients. Our specific loan loss provisions declined between 1999 and 2000, reflecting the improvement of the quality of our loan portfolio. Specific provisions were approximately 13% less in 2000 than the prior year due in large part to provisions we took in 1999 with respect to a significant exposure to a single German borrower in the real estate industry.

Our inherent loss allowance totaled € 2.2 billion as of December 31, 2000, a 19% drop from the level at the end of 1999. This decline reflected the effect of the € 296 million of charge-offs described above and country provision releases totaling € 154 million. Of the € 154 million country provision releases, € 88 million was due to reduced exposure (mainly in Brazil and Turkey), € 34 million was due to a net reduction in provisioning rates applied to individual countries, and the remaining amount related to other changes, primarily foreign exchange. In addition to a small increase in our allowances on the homogeneous loan

portfolio, we released a net € 98 million from our other inherent loss allowance in 2000 due to two legal entities: EUROHYPO and Bankers Trust. Each of these entities had a decrease in its loss factors in 2000 because of a decline in its historical average charge-offs and an increase in its average loan exposures.

Our allowance for loan losses at December 31, 1999 was € 7.3 billion, a 12% increase from 1998. This increase in our allowance for loan losses was principally due to substantial increases in our specific provisions, and the Bankers Trust acquisition (€ 477 million), partially offset by releases of country risk provisions, a substantial decrease in the inherent loss provision and a slight increase in charge-offs (€ 96 million).

Our total charge-offs increased 13% during 1999 to € 839 million. This increase was primarily attributable to the German domestic portfolio. Approximately 30% of the German-Other charge-off was related to the construction industry.

During 1999, our provision for loan losses totaled € 725 million, a 20% or € 183 million decrease from the preceding year. This decrease was mainly attributable to higher specific loan loss provisions, offset in part by releases of country risk provision. Our German specific provision increased to € 568 million, a 65% increase from the preceding year. This increase was mainly attributable to higher provisions for the German borrower we refer to above.

Our non-German specific provision totaled € 358 million in 1999, a 30% increase from the preceding year. This increase was due to the fact that we were able to specifically identify those exposures, recorded in various Emerging Market countries, which required a specific provision. At the same time, we released country risk provisions, particularly in Indonesia and Turkey.

Our allowance for loan losses at December 31, 1998 was € 6.5 billion, a 2% increase from 1997. This increase was primarily due to the effects of the Asian and Russian financial crisis.

The following table presents an analysis of the changes in our allowance for credit losses on lending-related commitments.

	Year ended December 31,		
	2002	2001	2000
		(in € millions)	
Allowance at beginning of year	€ 496	€ 453	€ 569
Provision for credit losses	17	(30)	(33)
Net charge-offs	—	(22)	(34)
Other changes (currency translation and allowance related to acquisitions/divestitures)	(28)	95	(49)
Allowance at end of year	€ 485	€ 496	€ 453

Settlement Risk

Our extensive trading activities may give rise to risk at the time of settlement of those trades. Settlement risk is the risk of loss due to the failure of a counterparty to honor its obligations to deliver cash, securities or other assets as contractually agreed.

For many types of transactions, we mitigate settlement risk by closing the transaction through a clearing agent which effectively acts as a stakeholder for both parties, only settling the trade once both parties have fulfilled their sides of the bargain.

Where no such settlement system exists, as is commonly the case with foreign exchange trades, the simultaneous commencement of the payment and the delivery parts of the transaction is common practice between trading partners (free settlement). In these cases, we may seek to mitigate our settlement risk through the execution of bilateral payment netting agreements. We are also an active participant in industry initiatives to reduce settlement risks. Acceptance of settlement risk on free settlement trades requires approval from our credit risk personnel, either in the form of pre-approved settlement risk

Basel II

The regulatory requirements are a key factor in determining the strategy behind Dresdner Bank's risk policy. The revised version of the Basel Capital Accord (Basel II) entails a major overhaul of the existing regulations governing capital adequacy in the case of credit risks, as well as including operational risks for the first time. The goal of the banking regulators is to ensure that the capital adequacy requirements reflect the risks involved in a more adequate way, and that the regulations are in line with "best practice" risk measurement in the banking sector. Although some revision of the current drafts is still necessary, Dresdner Bank expressly welcomes these improvements to the Basel Capital Accord.

Basel II, which is scheduled to come into force in 2006, will set out fundamental guidelines for risk-oriented price determination at banks.

Dresdner Bank's participation in the committees of both national and international banking associations means that it is actively involved in the discussion on the Basel II drafts. In addition, Dresdner Bank supports the regulatory authorities in carrying out surveys and collecting data on subjects relevant to Basel II, such as in relation to the Third Quantitative Impact Study of the Basel Committee on Banking Supervision (QIS 3).

The aim of Dresdner Bank's Basel II project is to calculate the regulatory capital for credit and counterparty risks from 2006 onwards using the Advanced-Internal-Rating-Approach, and that for operational risks on the basis of the Advanced Measurement Approach.

Credit and counterparty risks

Dresdner Bank defines credit and counterparty risk as the potential loss resulting from the default of a business partner, or write-downs resulting from an unforeseen deterioration in his or her creditworthiness. In more detail, this definition comprises credit risks in the lending area, including country risks; issuer risks in the case of securities offerings; and counterparty risks from trading activities.

In 2002, priority was given to the further development of credit processes and the expansion of the credit risk control infrastructure. Key components including the operational portfolio management in the Corporates & Markets division were implemented. With a view to the requirements set out by Basel II, the organisational and methodical foundations were put in place for the optimal utilisation of risk capital and expected loss as central elements of credit risk management and risk-oriented performance measurement.

Credit quality assessment methodology

The central element of the authorisation, monitoring and control process in our lending and derivatives business is the individual credit rating of customers and their loan commitments. We employ modern rating procedures tailored to individual customer segments.

The result of this credit assessment is the individual classification of each customer in a rating class. In order to provide even greater detail of information and to form the basis for more precise pricing, Dresdner Bank has increased the number of rating classes from VIII to XVI. Classes I to VI correspond to the external investment-grade ratings, while classes VII to XIV correspond to the non-investment-grade ratings. The two lowest categories (XV and XVI) are for commitments classified as impaired or defaulted. Dresdner Bank determines the default probabilities for individual rating procedures and classes on the basis of annual calibration processes.

We ensure the quality of our rating procedures via continuous development and have intensified our activities in this area in the past year. The combination of our many years of rating experience with the latest statistical methods has allowed us to further improve our rating procedures. These modifications are in line with the Basel II requirements relating to the IRB Advanced Approach that Dresdner Bank intends to adopt.

The quality of the rating forecasts and the rating process itself (consistency of the procedures applied, topicality and portfolio coverage) are monitored independently, primarily by Risk Control, on a regular basis.

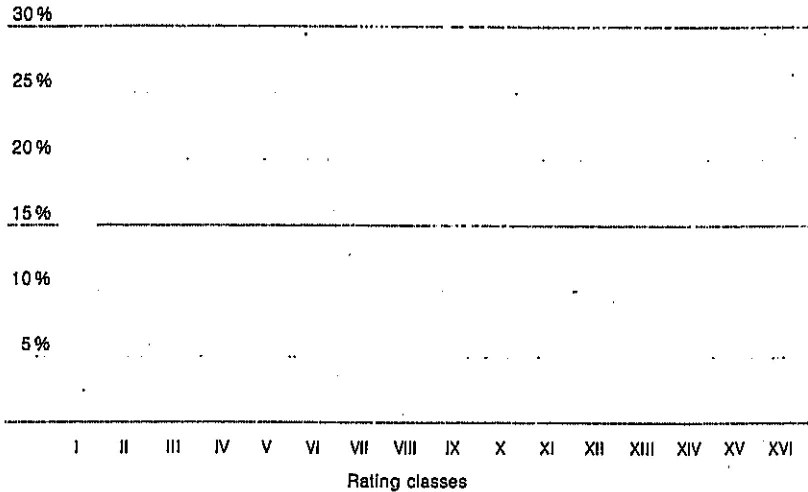
Automated, statistics-based assessment methods (application and behaviour scoring) are used in the high-volume business of our Private and Business Clients division. For business clients in particular, credit quality assessment is also supplemented by qualitative factors.

The less homogeneous portfolio in the Corporates & Markets division demands a series of specific rating procedures. Common to all of these procedures is a consistent structure combining the automatic calculation of the quantitative rating component with the structured assessment of qualitative factors and a clearly defined process for individual adjustments. This ensures the highest possible level of objectivity and uniformity throughout the entire Dresdner Bank Group. The Group-wide concept for the risk-optimised pricing of new business, taking into account expected and unexpected losses, was further refined. Expected losses from credit or transfer risks and an adequate return on the capital required to cover unexpected risks are taken into account when fixing the terms and conditions for loans. The central control parameter in loan decisions is the expected loss, which is calculated on the basis of historical credit risk parameters such as default rates and revenue quotas. It is also a key parameter in the planning process and in performance measurement. This ensures that internal planning and control processes are based on the same credit risk parameters that are also applied to external – i.e. accounting and regulatory – requirements.

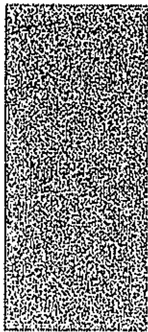
Portfolio overview

The breakdown of our rated Group exposure by internal ratings shows that rating classes I to VI (i.e. investment-grade loans) account for around 70 % of the total exposure.

Percentage share of rated Group exposure



Lending portfolio and trading activities by industry sector



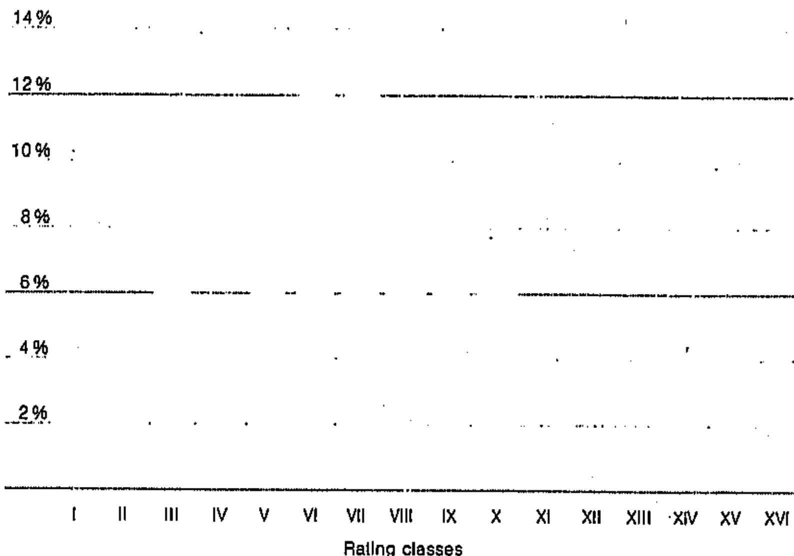
37 % Banks and financial service providers
19 % Public authorities and organisations
14 % Service providers
15 % Industrial companies
10 % Private individuals
4 % Wholesale and retail trade
1 % Others

The volume of the total portfolio is largely determined by the Bank's trading activities; in this context, it should be noted that the most important transactions in this area (transactions with the public sector and banks/financial service providers) have substantially lower default probabilities. For example, rating class I accounts for around 85 % of the volume with public authorities/non-profit organisations, while rating classes III to V account for 60 % of the volume with banks/financial service providers. These two sectors represent 56 % of the Bank's total portfolio.

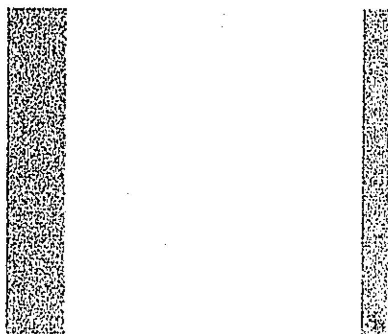
Credit risk from lending activities

The rating distribution in the Bank's lending business, almost two-thirds of which is transacted in the Corporates & Markets division and over one-third of which is transacted in the Private and Business Clients division, is presented in the following overview.

Percentage share of rated lending exposure



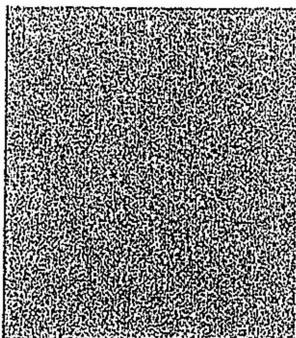
Lending portfolio by industry sector



15% Banks and financial services
1% Public authorities and organisations
27% Service providers
29% Industrial companies
20% Private individuals
7% Wholesale and retail trade
1% Others

75% of the Group's lending exposure with private individuals consists of construction finance secured by mortgage loans. The bulk of transactions in the Corporates & Markets division are performed with service providers and industrial companies.

Lending portfolio by regional unit in the Dresdner Bank Group



75% Germany
14% Western Europe
5% North America
4% Latin America
2% Other

The business of the domestic regions, Dresdner Bank subsidiaries and the headoffice account for three-quarters of the lending business. In fiscal year 2002, lending business at associated companies located outside of Western Europe declined and now totals 11% of the total lending volume.

Loan loss allowances and provisions for credit risks

Loan loss allowances comprise specific loan loss allowances, general loan loss allowances and country risk allowances.

Specific loan loss allowances are set up for risks arising from loans identified and quantified during the fiscal year; they are established either as asset-sided provision or for contingent liabilities (amongst others: guarantees) taking into consideration existing collateral.

General loan loss allowances are set up for loan related risks which may already have arisen but which had not yet been identified by the balance sheet date. The amount of these loan loss allowances is determined by empirical calculation of historical default probabilities and loss ratios for the lending portfolio (provided that other risk provisions have not already been set up). This calculation is based on statistical methods of credit risk measurement and considers current development of economic cycle as well as overall economic conditions.

Country risk allowances cover the risk to the Bank that a country will be unable or unwilling to provide sufficient funds in the underlying currency to service its cross-border debt as agreed, or that it will employ appropriate measures (such as a moratorium) to freeze the settlement of corresponding liabilities by the Bank's borrowers domiciled in the respective country ("transfer risk").

The following overview presents the amounts of the respective loan loss allowances as at the balance sheet date 31 December 2002 (31 December 2001):

€ mn	Counterparty risks		Country risks		Potential risks (General loan loss allowances)		Total	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
31 December	6,069	6,760	367	488	813	804	7,249	8,052

Counterparty risks contain €4,720 million for domestic risks and €1,349 million for foreign risks. Of this total amount, loans and advances to customers account for €5,735 million and loans and advances to banks for €334 million.

The net increase in loan loss provisions in the past fiscal year amounted to €2,218 million. A breakdown by division is provided in the segment reporting section.

The development of the total loan loss allowance over the course of the year is presented in greater detail in the Notes (see Note 17 on page 114).

Counterparty risk from trading activities

Client demand for our worldwide trading activities in financial derivatives is primarily focused on tailor-made instruments for the individual management of market, credit and counterparty risks, as well as on the utilisation of derivative components as part of structured financial transactions. We also use derivatives to manage the risk of our proprietary trading positions and for asset/liability management.

The counterparty risks associated with derivative trading activities mainly arise with over-the-counter (OTC) transactions. However, the resulting potential risk cannot be seen from the published notional volumes for the latter. Rather, these notional volumes serve merely as a reference when determining mutually agreed settlement payments (e.g. interest claims and/or liabilities arising from interest swaps). As a result, they are not directly comparable with the assets and liabilities reported on the balance sheet. From the Bank's point of view, the decisive criterion when calculating counterparty risk at any given time are the positive replacement costs. These correspond to the additional expense or reduced revenue that would result from the replacement of the transaction by an equivalent position if the counterparty were to default. At the end of the year, aggregate positive replacement costs for all OTC traded derivatives amounted to €64,412 million (gross, before netting).

ments continue to be reported in the Group's balance sheet as trading assets or investment securities, as appropriate. The proceeds from the sale of these securities are reported as Liabilities to banks or Liabilities to customers, as appropriate.

A reverse repurchase agreement involves the purchase of securities with the simultaneous agreement to resell the same securities at a certain later date and at an agreed price. If the control over the securities remains with the seller, the securities are reported in the balance sheet items Loans and advances to banks or Loans and advances to customers, as appropriate.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised in Net trading income.

Securities lending and borrowing transactions are performed both for the account of customers and to meet the Bank's own delivery and acceptance obligations.

In securities lending and borrowing transactions, securities are borrowed from a market participant (the lender) by a counterparty (the borrower) for a certain period. These transactions are accounted for in the same way as repurchase and reverse repurchase agreements. If control remains with the lender, they are reported on the latter's balance sheet; borrowed securities are not reported. If the securities are subsequently sold on, the amounts for both purchases and sales are reported on the balance sheet and the gain or loss is recognised in Net trading income. The obligation to return the borrowed securities is reported at fair value under Trading liabilities. Securities loaned to third parties are reported under Trading assets or Investment securities, as appropriate.

Income and expenses from securities lending and borrowing transactions are accrued and recognised in Net interest and current income or Net trading income.

Loans and advances to banks and loans and advances to customers

Held-to-maturity loans and advances to banks and to customers, including finance leases, are measured at amortised cost, less any impairment losses; promissory notes acquired are reported at fair value. Interest income and loan origination fees are recognised using the effective interest method. Any differences between the amount paid out and the nominal amount that are equivalent to interest are amortised to income using the effective interest method. Loans are placed on non-accrual status when, based on the available information or events, the orderly payment of interest or principal by the client is doubtful, taking the collateral furnished into account. Irrespective of any legal claim to interest payment, interest income is no longer recognised where the collectability of such claim is highly unlikely. Where there is doubt regarding the ultimate collectability of principal, all cash receipts are reported as reductions of principal.

Loan impairments and loan loss provisions

The total amount of loan loss provisions includes allowances for loan losses deducted from assets and specific provisions for risks associated with contingent liabilities such as guarantees, loan commitments, or other obligations, which are recognised as liabilities. When setting up loan loss provisions, we distinguish between specific loss allowances, general loss allowances and country risk provisions.

Specific loss allowances are established to provide for specifically identified counterparty risks. The amount of the allowance represents the difference between the outstanding receivable, including accrued interest and the present value of the relevant future cash flows, after allowing for the fair value of recoverable collateral.

General loss allowances are established to provide for incurred but unidentified losses that are inherent in the loan portfolio as of the balance sheet date. The amount of the general loss allowance is based on historical loss experience for the average identification period, and appropriate evaluation of current events and economic conditions.

Country risk allowances are established for transfer risks. Transfer risk is a reflection of the likely ability of borrower in a certain country to repay its debt denominated in foreign currency in light of the economic or political situation prevailing in that country. Country risk allowances are based on an internal rating system that incorporates current and historical economic, political and other data to categorise countries by risk profile.

As soon as a loan becomes uncollectable, it is written off against any existing specific loan loss allowance or directly recognised as expense in the income statement. Subsequent recoveries are recognised by crediting the Net loan loss provisions in the income statement.

Property and equipment

Property and equipment is reported at amortised historical cost less accumulated depreciation and impairment, if any. Subsequent costs or additions are capitalised to the extent that they increase the future economic benefit of the related assets. Costs for repairs, maintenance, or other measures to maintain the property or equipment are charged to the income statement when the expenditure is incurred.

Straight-line depreciation is based on the useful life terms set out below in accordance with the expected benefit periods:

Buildings	25–50 years
Office furniture and equipment	4–10 years
Self-developed software	3 or 7 years

Lending volume

In contrast to the reporting of loans and advances, the lending volume does not include reverse repurchase agreements or other advances. However, this item does comprise loans extended on bills that are not reported under loans and advances to banks or customers, as appropriate.

€ mn	31 Dec 2002			31 Dec 2001		
	Germany	Other countries	Total	Germany	Other countries	Total
Loans extended on bills*)	277	1	278	380	2	382
Corporate customers	36,236	34,996	71,232	52,314	50,181	102,495
Public authorities	606	2,068	2,674	28,776	5,229	34,005
Private customers	43,041	1,217	44,258	61,991	1,935	63,926
Customer lending	**80,160**	**38,282**	**118,442**	**143,461**	**57,347**	**200,808**
Loans to banks	**1,525**	**3,122**	**4,647**	**12,982**	**5,420**	**18,402**
Lending volume	**81,685**	**41,404**	**123,089**	**156,443**	**62,767**	**219,210**
Less loan loss allowance	5,141	1,479	6,620	5,573	1,982	7,555
Lending volume after loan loss allowance	**76,544**	**39,925**	**116,469**	**150,870**	**60,785**	**211,655**
Including: Promissory notes at fair value	1,308	91	1,399	41,609	2,361	43,970

*) Loans extended on bills not shown under advances.

(17) Net loan loss allowance

The overall volume of loan loss allowance includes loan loss allowance deducted from the asset side of the balance sheet in the amount of €6,620 million (2001: €7,555 million) and allowance for contingent liabilities – included in Provisions and other liabilities – in the amount of €629 million (2001: €497 million).

€ mn	Counterparty risks		Country risks		Potential risks (General loan loss allowance)		Total	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
1 January	**6,760**	**5,740**	**488**	**524**	**804**	**595**	**8,052**	**6,859**
Additions								
Additions to allowances/provisions recognised in the income statement	2,826	2,332	111	55	106	262	3,043	2,649
Reductions								
Charge-offs	1,883	853	–	3	–	–	1,883	856
Amounts released	544	562	203	59	28	48	775	669
Changes in consolidated companies	– 928	–	–	–	– 63	–	– 991	–
Other additions/reductions	56	63	– 12	– 34	0	– 3	44	26
Currency translation differences	– 218	40	– 17	5	– 6	– 2	– 241	43
31 December	**6,069**	**6,760**	**367**	**488**	**813**	**804**	**7,249**	**8,052**

The loan portfolio includes non-accrual loans amounting to €10,005 million (2001: €10,537 million). This amount includes €7,695 million (2001: €7,662 million) representing loans that were placed on non-accrual status, and €2,310 million (2001: €2,915 million) of loans which have a specific allowance against the interest accrued. Interest amounting to €447 million (2001: €448 million), which would have been recognised had these loans been accruing interest, was not included in net interest income.

Risk Elements

Nonperforming loans

The following table sets forth the outstanding balance of our nonperforming loans. The allocation between German and non-German components is based on the location of the borrower.

	At December 31,				
	2001	2000	1999	1998	1997
	(€ in millions)				
Nonaccrual loans:					
German	8,751	7,991	7,516	6,322	5,790
Non-German	2,404	1,928	1,618	869	443
Total nonaccrual loans	11,155	9,919	9,134	7,191	6,233
Loans past due 90 days and still accruing interest:					
German	1,640	1,238	1,526	1,876	1,499
Non-German	309	300	305	196	154
Total loans past due 90 days and still accruing interest	1,949	1,538	1,831	2,072	1,653
Troubled debt restructurings:					
German	215	253	261	307	350
Non-German	336	323	289	294	271
Total troubled debt restructurings	551	576	550	601	621

Nonaccrual loans

Nonaccrual loans are loans on which interest income is no longer recognized on an accrual basis and loans for which a specific provision is recorded for the full amount of accrued interest receivable. We place loans on nonaccrual status when we determine, based on management's judgement, that the payment of interest or principal is doubtful.

When a loan is placed on nonaccrual status, any accrued and unpaid interest receivable is reversed and charged against interest income. We restore loans to accrual status only when interest and principal are made current in accordance with the contractual terms and, in management's judgement, future payments are reasonably assured. When we have doubts about the ultimate collectibility of the principal of a loan placed on nonaccrual status, all cash receipts are recorded as reductions in principal. Once the recorded principal amount of the loan is reduced to zero, future cash receipts are recognized as interest income. For all remaining loans, interest income is recognized when received.

Loans past due 90 days and still accruing interest

Loans past due 90 days and still accruing interest are loans that are contractually past due 90 days or more as to principal or interest on which we continue to recognize interest income on an accrual basis.

Troubled debt restructurings

Troubled debt restructurings are loans that we have restructured due to a deterioration in the borrower's financial position and in relation to which, for economic or legal reasons related to the borrower's deteriorated financial position, we have granted a concession to the borrower that we would not have otherwise granted.

Interest Income on Nonperforming Loans

The following table sets forth the gross interest income that would have been recorded during the year ended December 31, 2001 on nonaccrual loans and troubled debt restructurings if such loans had been current in accordance with their original contractual terms and the interest income on such loans that was actually included in interest income during the year ended December 31, 2001.

	Year ended December 31, 2001		
	In German offices	In non-German offices	Total
		(€ in millions)	
Interest income that would have been recorded in accordance with the original contractual terms	561	202	763
Interest income actually recorded	69	36	105

Potential Problem Loans

Potential problem loans are loans that are not classified as nonaccrual loans, loans past due 90 days and still accruing interest or as troubled debt restructurings, but where known information about possible credit problems causes us to have serious doubts as to the ability of the borrower to comply with the present loan repayment terms and which may result in classifying the loans in one of the three categories of nonperforming loans described above. The outstanding balance of our potential problem loans was €2,876 million at December 31, 2001.

Each of our potential problem loans has been subject to our normal credit monitoring and review procedures. Of these loans, approximately €1,071 million have a specific loss allowance. The remaining loans have also been reviewed for impairment, however, based on our estimated measurement of the impairment, no specific loss allowance has been recorded on such loans.

Approximately 10% of our potential problem loans are to private individuals in Germany. The remaining loans are to corporate borrowers in manufacturing, wholesale and retail trade, service and other industry sectors. Our potential problem loans to corporate borrowers are diversified across the following geographic regions:

	At December 31, 2001
	Percent of total potential problem loans
Germany	52%
Europe (outside Germany)	14%
North America	12%
Asia/Pacific	8%
Latin America	4%

Foreign Outstandings

Cross-border outstandings consist of loans, net of allowances for loan losses, accrued interest receivable, acceptances, interest-bearing deposits with other banks, other interest-bearing investments and other monetary assets that either are recorded in an office that is not in the same country as the domicile of the borrower, guarantor, issuer or counter-party, or are denominated in a currency that is not the local currency of the borrower, guarantor, issuer or counter-party or are net local country claims. Net local country claims are domestic claims recorded in offices outside Germany that are denominated in local or foreign currency and that are not funded by liabilities in the same currency as the claim and recorded in the same office.

Our cross-border outstandings are allocated by country based on the country of domicile of the borrower, guarantor, issuer or counter-party of the ultimate credit risk. At head-office level we set limits on and monitor actual cross-border outstandings on a country-by-country basis based on transfer, economic and political risks.

The following table sets forth our cross-border outstandings by geographic location for countries that exceeded 0.75% of the total assets of our banking operations. At December 31, 2001, there were no cross-border outstandings that exceeded 0.5% of the total assets of our banking operations in any country currently facing debt restructurings or liquidity problems that we expect would materially impact the borrowers' ability to repay their obligations.

	At December 31, 2001						
	Government and official institutions	Banks and financial institutions	Other(1)	Net local country claims	Total cross-border outstandings	Percent of total assets(2)	Cross-border commitments(3)
	(€ in millions, except %)						
Country							
United States	1,266	8,200	7,135	1,178	17,779	3.4%	14,301
United Kingdom	354	9,472	2,495	—	12,321	2.3%	7,137
France	556	6,834	4,020	—	11,410	2.2%	124
Italy	11,320	1,344	361	1,088	14,113	2.7%	2,409
Netherlands	1,408	4,561	2,105	—	8,074	1.5%	—
Japan	361	1,334	422	644	2,761	0.5%	3,132
Switzerland	86	2,995	1,887	—	4,968	0.9%	219
Luxembourg	5	3,415	441	—	3,861	0.7%	1,686
Spain	2,509	1,530	1,004	32	5,075	1.0%	133
Cayman Islands	—	2,624	719	—	3,343	0.6%	266

	At December 31, 2000						
	Government and official institutions	Banks and financial institutions	Other(1)	Net local country claims	Total cross-border outstandings	Percent of total assets(2)	Cross-border commitments(3)
	(€ in millions, except %)						
Country							
United States	1,130	11,944	6,632	1,421	21,127	4.2%	18,568
United Kingdom	216	12,398	2,891	—	15,505	3.1%	6,685
France	730	6,454	3,513	—	10,697	2.1%	69
Italy	6,548	3,098	314	77	10,037	2.0%	1,041
Netherlands	1,131	4,809	2,510	—	8,450	1.7%	—
Japan	966	2,316	424	696	4,402	0.9%	3,204
Switzerland	116	3,531	2,181	455	6,283	1.3%	248
Luxembourg	5	2,236	526	—	2,767	0.6%	1,184
Spain	2,281	1,430	712	182	4,605	0.9%	775
Cayman Islands	—	2,283	642	—	2,925	0.6%	289

Country	Government and official institutions	Banks and financial institutions	Other(1)	Net local country claims	Total cross-border outstandings	Percent of total assets(2)	Cross-border commitments(3)
	At December 31, 1999						
	(€ in millions, except %)						
United States	1,059	8,069	3,977	1,493	14,598	3.5%	17,277
United Kingdom	470	10,402	2,322	26	13,220	3.2%	7,354
France	532	6,036	3,364	—	9,932	2.4%	—
Italy	6,324	1,176	284	—	7,784	1.9%	681
Netherlands	695	3,181	1,681	—	5,557	1.3%	—
Japan	1,599	997	620	663	3,879	0.9%	3,244
Switzerland	81	2,209	1,196	59	3,545	0.9%	252
Luxembourg	5	1,050	234	3	1,292	0.3%	1,424
Spain	1,577	1,126	668	111	3,482	0.8%	794
Cayman Islands	—	2,303	943	—	3,246	0.8%	237

(1) Other includes insurance, commercial, industrial, service providers and other corporate counter-parties.

(2) Percent of total assets is defined as total cross-border outstandings divided by total assets of our banking operations. The total assets of our banking operations were €526 billion and €501 billion and €414 billion at December 31, 2001, 2000 and 1999, respectively.

(3) Cross-border commitments have been presented separately as they are not included as cross-border outstandings unless utilized.

At December 31, 2001, total cross-border outstandings disclosed above included €668 million and €114 million of gross loans outstanding to borrowers in the United States that are also disclosed within the categories of nonperforming loans and potential problem loans, respectively.

Summary of Loan Loss Experience

We establish allowances for loan losses in our loan portfolio that represent our management's estimate of probable losses in the portfolio at the balance sheet date. The components of these allowances are:

- *Specific loss allowances.* A specific loss allowance is established to provide for specifically identified counter-party risks. Loans are identified as impaired if it is probable that borrowers are no longer able to make their contractually agreed-upon interest and principal payments. Specific allowances are established for impaired loans. The amount of the impairment is measured based on the present value of expected future cash flows or based on the fair value of the collateral if the loan is collateralized and foreclosure is probable. If the amount of the impairment subsequently increases or decreases due to an event occurring after the initial measurement of impairment, a change in the allowance is recognized in earnings by a charge or a credit to net loan loss provisions.
- *General loss allowances.* General loss allowances are established to provide for incurred but unidentified losses that are inherent in the loan portfolio as of the relevant balance sheet date. General allowances for loan losses are established for loans not specifically identified as impaired. The amount of the allowance is based on historical loss experience and management's evaluation of the loan portfolio under current events and economic conditions.
- *Country risk allowances.* Country risk allowances are established for transfer risk. Transfer risk is a measure of the likely ability of a borrower in a certain country to repay

its foreign currency-denominated debt in light of the economic or political situation prevailing in that country. Country risk allowances are based on our country rating system that incorporates current and historical economic, political and other data to categorize countries by risk profile.

The following table sets forth an analysis of the specific loan loss allowances by industry sector and geographic category of the borrowers, and the percentage of our total loan portfolio accounted for by those industry and geographic categories, on the dates specified. The allocation between German and non-German components is based on the location of the borrower.

	At December 31,									
	2001		2000		1999		1998		1997	
	Amount	Percent of total loans in each category to total loans	Amount	Percent of total loans in each category to total loans	Amount	Percent of total loans in each category to total loans	Amount	Percent of total loans in each category to total loans	Amount	Percent of total loans in each category to total loans
	(€ in millions, except %)									
German:										
Corporate:										
Manufacturing industry	884	5.7%	687	6.0%	840	5.9%	738	7.5%	705	9.0%
Construction	353	1.0%	381	1.1%	389	1.2%	372	2.0%	312	2.3%
Wholesale and retail trade	448	3.8%	506	3.9%	585	4.0%	557	6.0%	493	6.5%
Financial institutions (excluding banks) and insurance companies	133	2.6%	135	2.2%	110	0.5%	126	2.5%	105	2.6%
Banks	5	0.3%	1	0.3%	—	1.3%	—	0.4%	7	0.1%
Service providers	982	12.2%	1,030	11.1%	887	12.6%	654	9.1%	609	7.9%
Other	59	2.1%	95	1.6%	130	2.4%	97	1.8%	80	2.9%
Corporate total	2,864	27.7%	2,835	26.2%	2,941	27.9%	2,544	29.3%	2,311	31.3%
Public authorities	—	0.4%	—	0.3%	1	0.1%	2	0.7%	6	1.0%
Private individuals (including self-employed professionals)	2,090	33.8%	1,730	34.4%	1,342	34.6%	1,170	36.3%	965	37.8%
German total	4,954	61.9%	4,565	60.9%	4,284	62.6%	3,716	66.3%	3,282	70.1%
Non-German:										
Corporate:										
Manufacturing industry, wholesale and retail trade, service providers and construction	1,201	20.4%	998	22.9%	1,183	20.9%	1,001	14.8%	643	13.2%
Financial institutions (excluding banks) and insurance companies	96	5.5%	109	5.3%	107	4.3%	17	4.4%	—	7.2%
Banks	118	2.7%	92	3.3%	142	3.5%	195	5.3%	60	5.9%
Other	247	2.1%	118	1.8%	85	1.8%	98	2.7%	38	1.9%
Corporate total	1,662	30.7%	1,317	33.3%	1,517	30.5%	1,311	27.2%	741	28.2%
Public authorities	15	1.8%	14	0.5%	30	1.6%	15	0.7%	—	0.5%
Private individuals	211	5.6%	224	5.3%	231	5.3%	216	5.8%	41	1.2%
Non-German total	1,888	38.1%	1,555	39.1%	1,778	37.4%	1,542	33.7%	782	29.9%
Total specific loan loss allowances	6,842	100.0%	6,120	100.0%	6,062	100.0%	5,258	100.0%	4,064	100.0%
Country risk allowances	443		480		659		529		560	
General loss allowances	753		523		386		344		331	
Total loan loss allowances	8,038		7,123		7,107		6,131		4,955	

The following table sets forth the movements in the loan loss allowance according to the industry sector and geographic category of the borrower. The allocation between German and non-German components is based on the location of the borrower.

	Year ended December 31,				
	2001	2000	1999	1998	1997
	(€ in millions)				
Total allowances for loan losses at beginning of the year	7,123	7,107	6,131	4,955	4,543
Gross charge-offs:					
German:					
Corporate:					
Manufacturing industry	66	211	71	47	46
Construction	16	53	33	11	8
Wholesale and retail trade	54	163	71	26	44
Financial institutions (excluding banks) and insurance companies	17	19	4	1	2
Service providers	103	131	82	78	39
Other	16	36	5	5	20
Corporate total	272	613	266	168	159
Public authorities	—	1	—	—	—
Private individuals (including self-employed professionals)	211	337	173	115	90
German total	483	951	439	283	249
Non-German:					
Corporate:					
Manufacturing industry, wholesale and retail trade, service providers and construction	516	594	93	116	78
Financial institutions (excluding banks) and insurance companies	23	48	6	5	35
Banks	13	14	19	3	18
Other	2	72	1	4	9
Corporate total	554	728	119	128	140
Private individuals	49	32	9	11	4
Non-German total	603	760	128	139	144
Total gross charge-offs	1,086	1,711	567	422	393

	Year ended December 31,				
	2001	2000	1999	1998	1997
	(€ in millions)				
Recoveries:					
German:					
Corporate:					
Manufacturing industry	1	9	1	1	4
Construction	—	—	1	—	1
Wholesale and retail trade	—	—	1	—	3
Financial institutions (excluding banks) and insurance companies	—	—	—	—	1
Service providers	—	—	10	1	3
Other	—	—	—	1	1
Corporate total	1	9	13	3	13
Private individual (including self-employed professionals)	25	21	17	17	10
German total	26	30	30	20	23
Non-German:					
Corporate:					
Manufacturing industry, wholesale and retail trade, service providers and construction	3	1	1	3	6
Financial institutions (excluding banks) and insurance companies	7	—	—	—	3
Banks	4	1	—	—	1
Other	2	1	—	37	—
Corporate total	16	3	1	40	10
Public authorities	—	1	—	—	—
Private individuals	6	2	5	6	—
Non-German total	22	6	6	46	10
Total recoveries	48	36	36	66	33
Net charge-offs	1,038	1,675	531	356	360
Additions to allowances charged to operations	1,901	1,595	1,237	1,024	749
Increase in allowances due to mergers and acquisitions and other increases/(decreases)	12	41	158	555	—
Foreign exchange translation adjustments	40	55	112	(47)	23
Total allowances for loan losses at end of the year	8,038	7,123	7,107	6,131	4,955
Ratio of net charge-offs during the year to average loans outstanding during the year	0.46%	0.78%	0.27%	0.15%	0.18%

When we determine that a loan is uncollectible, the loan is charged off against any existing specific loss allowance or directly recognized as expense in the income statement. Subsequent recoveries, if any, are recognized in the income statement as a credit to the net loan loss provisions. Since 2000, we have charged off loans when, based on management's judgement, all economically sensible means of recovery have been exhausted. Our determination considers information such as the age of specific loss allowances and expected proceeds from liquidation of collateral and other repayment sources. Prior to 2000, we charged off loans only when all legal means of recovery had been exhausted, for example only after completion of bankruptcy

proceedings. The change in practice has affected both the timing and amount of charge-offs since 2000.

Deposits

The following table sets forth the average balances and the average interest rates on deposit categories in excess of ten percent of average total deposits of our banking operations. The allocation between German and non-German components is based on the location of the office that recorded the transaction.

	Year ended December 31,					
	2001		2000		1999	
	Average balance	Average rate	Average balance	Average rate	Average balance	Average rate
	(€ in millions, except %)					
In German offices:						
Non-interest-bearing demand deposits	1,854		1,874		3,323	
Interest-bearing demand deposits	31,608	1.5%	33,849	2.1%	46,377	1.4%
Savings deposits	10,352	3.4%	14,457	2.6%	15,570	2.4%
Time deposits	128,749	3.6%	91,686	3.3%	68,741	2.7%
German total	172,563		141,866		134,011	
In non-German offices:						
Non-interest-bearing demand deposits	6,098		8,405		7,807	
Interest-bearing demand deposits	11,351	3.8%	10,392	4.2%	10,040	3.2%
Savings deposits	1,073	3.9%	612	3.1%	1,225	4.0%
Time deposits	57,432	5.3%	44,358	7.5%	33,720	8.8%
Non-German total	75,954		63,767		52,792	
Total deposits	248,517		205,633		186,803	

The aggregate amount of deposits by foreign depositors in our German offices was €63,663 million, €55,263 million and €42,999 million at December 31, 2001, 2000 and 1999, respectively.

Time Deposits

The following table sets forth the balance of time certificates of deposit and other time deposits in the amount of €100,000 or more issued by our German offices by time remaining to maturity at December 31, 2001.

	At December 31, 2001 Time deposits of €100,000 or more
	(€ in millions)
Maturing in three months or less	61,236
Maturing in over three months through six months	6,872
Maturing in over six months through twelve months	5,033
Maturing in over twelve months	19,110
Total	92,251

The amount of time deposits of €100,000 or more issued by our non-German offices was €45,166 million at December 31, 2001.