GROUP MANAGEMENT REPORT

Business Performance

THE FINANCIAL WORLD IS SUFFERING FROM A SEVERE CRISIS. THE SAL. OPPENHEIM GROUP ALSO FELT *the impact in financial year 2008. Net loss for the period totalled € -117 million (previous year: net income of € 255 million). This unsatisfactory result is largely due to considerable losses in equity trading and impairment losses in the banking book of Sal. Oppenheim jr. & Cie. KGaA. Satisfactory results were achieved in asset management, corporate banking, equity sales, and currency and fixed-income trading. Total assets remain nearly unchanged at € 41 billion.*

	2008	2007	+/-	+/-
	€ M	€ M	€ M	%
Net interest income	344	249	95	38
Share of the profit or loss of associates and joint ventures accounted for using the equity method	44	81	-37	-46
Provision for loan losses	-1	-10	9	90
Net commission income	573	629	-56	-9
Net trading income/(loss)	-295	-37	-258	>-100
Net income/(loss) from non-current financial assets	96	327	-231	-71
Administrative expenses	-906	-918	12	1
Other operating income and expenses, net	8	26	-18	-69
Profit/(loss) from operating activities in continuing operations	-137	347	-484	>-100
Profit/(loss) from operating activities in discontinued operations	-7	-14	7	50
Profit/(loss) from operating activities	**-144**	**333**	**-477**	**>-100**
Income taxes	27	-78	105	>100
Net income/(loss) for the period	**-117**	**255**	**-372**	**>-100**

INCOME STATEMENT 1 JANUARY TO 31 DECEMBER 2008

NET INTEREST INCOME

Net interest income amounted to € 344 million, and in addition to the traditional components from lending and money market business, also includes interest income and expense from banking book securities.

PROVISION FOR LOAN LOSSES

Provision for loan losses amounted to € 1 million. While allowances for impairment losses on loans and advances increased by € 6 million in net terms, provisions for loan losses fell by € 5 million due to reversals. Net additions to allowances for impairment losses on loans and advances relate primarily to the increase in specific valuation allowances. The vast majority of the loan portfolio comprises Investment Grade borrowers.

SHARE OF THE PROFIT OR LOSS OF ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD

The share of the profit or loss of associates and joint ventures accounted for using the equity method was € 44 million.

NET COMMISSION INCOME

The financial market crisis had a considerably negative impact on the equity business. This resulted among other things in a sharp decline in retail derivatives sales. Thus net commission income of € 573 million stood at 9% below the prior-year level. In particular, the net commission income from the securities business as well as the advisory business and brokerage was unable to achieve the very high level of the previous year. This was offset by continued positive development in net commission income from asset management.

NET TRADING INCOME

Net trading loss totalled € -295 million. This was particularly due to the result from bonds and interest rate derivatives as well as equities and equity derivatives. At Sal. Oppenheim, the focus is on equity retail derivatives business, while BHF-BANK AG concentrates on fixed-income and currency trading.

NET INCOME/(LOSS) FROM NON-CURRENT FINANCIAL ASSETS

The net income from non-current financial assets of € 96 million is primarily composed of gains from the disposal of equity investments and securities in the amount of € 300 million as well as impairments on equity investments and securities amounting to € 202 million. The gains from the sale of equity investments relate primarily to the sale of 94.9% of the shares in BHF Asset Servicing GmbH.

ADMINISTRATIVE EXPENSES

Administrative expenses decreased slightly to € 906 million. Personnel expenses were, despite an increase in the number of employees, considerably less than those of the previous year due to lower profit-based remuneration, while other administrative expenses increased. These included for example legal, auditing and consultancy costs. Depreciation and amortisation totalled € 41 million.

CONSOLIDATED NET INCOME

Profit/(loss) from operating activities totalled € -144 million. After current tax expenses of € 43 million, and deferred tax income of € 70 million, the net loss for the period totalled € -117 million. The share of profit attributable to minority interests amounted to € 13 million.

	2008	2007	+/-	+/-
	€ M	€ M	€ M	%
Cash and cash equivalents	709	475	234	49
Assets held for trading	10,522	13,472	-2,950	-22
Positive fair values from hedge accounting	47	31	16	52
Financial assets designated at fair value through profit or loss (fair value option)	1,802	3,190	-1,388	-44
Loans and advances to banks	8,913	10,170	-1,257	-12
Loans and advances to customers	7,626	7,116	510	7
Allowances for impairment losses on loans and advances	-172	-167	-5	-3
Non-current financial assets and investments accounted for using the equity method	9,865	5,531	4,334	78
Property, plant and equipment	490	322	168	52
Remaining assets	971	950	21	2
Non-current assets held for sale and assets from discontinued operations	594	0	594	–
Assets	**41,367**	**41,090**	**277**	**1**
Liabilities held for trading	10,512	12,439	-1,927	-15
Negative fair values from hedge accounting	145	17	128	>100
Deposits from banks	8,662	5,206	3,456	66
Deposits from customers	18,751	19,614	-863	-4
Debt securities	420	676	-256	-38
Provisions	80	85	-5	-6
Remaining liabilities	632	693	-61	-9
Liabilities from discontinued operations	91	0	91	–
Subordinated capital	207	186	21	11
Equity	1,867	2,174	-307	-14
Liabilities and equity	**41,367**	**41,090**	**277**	**1**

BALANCE SHEET AS AT 31 DECEMBER 2008

TOTAL ASSETS

The Group's total assets amount to € 41.4 billion, practically unchanged compared to the previous year.

ASSETS HELD FOR TRADING

Assets held for trading decreased by € 2,950 million year-on-year to € 10,522 million. They include positive fair values from derivative financial instruments at € 8,531 million, bonds and other fixed-income securities at € 1,058 million, and equities and other non-fixed income securities at € 928 million.

FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets designated at fair value through profit or loss decreased by € 1,388 million to € 1,802 million. This item includes, in particular, bonds and other fixed-income securities totalling € 1,438 million, and equities and other non-fixed income securities totalling € 329 million.

LOANS AND ADVANCES

Loans and advances to banks amounted to € 8,913 million at the reporting date, a decrease of 12% year-on-year. This item includes liquidity provided to us that was not channelled into other asset items. As far as loans and advances are concerned, we substituted unsecured money market transactions with repo transactions with top-quality collateral. These transactions were concluded on a short-term basis as far as possible, to ensure sufficient flexibility for the outflow of funds. From the loans and advances to banks, € 3,398 million are due on demand. Loans and advances to customers rose by € 510 million to € 7,626 million. € 4,733 million of this amount is attributable to business with corporate clients, and € 2,750 million to private client business. The remaining € 143 million is primarily attributable to public-sector clients.

ALLOWANCES FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES

Allowances for impairment losses on loans and advances were up slightly on the prior year at € 172 million, € 132 million of which was attributable to specific valuation allowances and € 40 million to general allowances for doubtful accounts.

NON-CURRENT FINANCIAL ASSETS

Non-current financial assets including investments accounted for using the equity method increased by 78% to € 9,865 million. € 8,758 million of this amount is attributable to bonds and other fixed-income securities, and € 573 to equity investments. An additional € 187 million is attributable to investment property. In light of the financial market crisis, securities held for trading and available for sale were reclassified to the loans and receivables category.

REMAINING ASSETS

Remaining assets totalling € 971 million include income tax refund claims at € 475 million, and intangible assets at € 266 million.

LIABILITIES HELD FOR TRADING

Liabilities held for trading decreased by € 1,927 million to € 10,512 million. These are largely attributable to negative fair values from derivative financial instruments of € 8,922 million, and bonds and notes issued from the trading portfolio of € 1,425 million.

LIABILITIES

Deposits from banks rose by 66% to € 8,662 million. These relate primarily to money market deposits at BHF-BANK AG. Client deposits have decreased by € 863 million to € 18,751 million und continue to account for nearly half of total liabilities and equity. These deposits remain the Group's main refinancing instrument and reflect the trust placed in our Bank. Debt securities also serve for refinancing. The portfolio amounts to € 420 million compared to € 676 million the previous year due to maturities.

REMAINING LIABILITIES

Remaining liabilities totalled € 632 million. These include current and deferred income tax liabilities of € 235 million, and minority interests qualified as debt of € 138 million.

SUBORDINATED CAPITAL

The subordinated capital of € 207 million relates solely to BHF-BANK AG and contains subordinated liabilities only.

EQUITY

Equity was reduced by 14% to € 1,867 million, which is, in particular, a result of the net loss for the period and the decrease in revaluation surplus.

PERFORMANCE INDICATORS

The Bank uses the cost/income ratio as a key performance indicator. The calculation of the cost/income ratio includes all of the pre-tax income statement items with the exception of impairments and the proceeds from the sale of equity investments. Administrative expenses are weighed against income items. This produces a cost/income ratio higher than 100% for the reporting year. Return on equity is another key indicator. To calculate return on equity, net income for the period before taxes is weighed against equity. The annual result is assumed to have been continuously generated throughout the year for the purpose of the calculation. Thus, equity as at 1 January 2008, less dividends paid, plus half of the annual net income, forms the basis for the calculation. This produces return on equity of -6.8%. The solvency ratio and the related risk assets serve as additional indicators. At the end of financial year 2008, the total capital ratio was 11.0% after allowing for IFRS 5 with risk assets of € 16.4 billion. Own funds are composed primarily of tier 1 capital.

SUPPLEMENTARY REPORT

The owners of Sal. Oppenheim jr. & Cie. S.C.A. have resolved to restructure the business and investment activities of the Group. In the future, industry holdings will be managed in a newly formed holding structure that is not affiliated with the Bank. This affects the industrial holding ARCANDOR Aktiengesellschaft in which Sal. Oppenheim jr. & Cie. S.C.A. has a 28.6% stake, 24.9% of which will be sold to the new holding company. In addition, 20% of shares in IVG Immobilien AG held by the wholly-owned subsidiary Sal. Oppenheim jr. & Cie. Beteiligungen S.A. will be sold to the industrial holding company. The group parent company Sal. Oppenheim jr. & Cie. S.C.A. will sell Sal. Oppenheim Private Equity Partners S.A. and Sal. Oppenheim Private Equity Partners GmbH with its subsidiaries CAM Private Equity Consulting & Verwaltungs-GmbH and VCM Capital Management GmbH to the industrial holding company.