1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

02_Accounting policies

The accounts for the Sal. Oppenheim Group were prepared in accordance with uniform group accounting policies. Any options exercised are explained in detail under each balance sheet item.

The consolidated financial statements are based on the going concern principle. Income and expenses are recorded pro rata temporis and recognised in profit or loss in the period to which the respective transactions are attributable.

Assumptions and estimations must be made to a certain extent when preparing the consolidated financial statements in accordance with IFRS. All assumptions and estimations underlying the accounting process are assessed on an ongoing basis and are based on either historical experience or expected future events. All estimations and assumptions are made in line with the relevant IFRS or IAS standards and are explained under the descriptions of the individual accounting policies for each balance sheet item.

Net income/(loss) for the period of Oppenheim-Esch Holding GbR was determined using the percentage of completion method for the first time in financial year 2008. In this method, property, plant and equipment are recognised in proportion to the stage of completion of contract activity in accordance with IAS 11.

03_Scope of consolidated financial statements

In addition to the group parent company, Sal. Oppenheim jr. & Cie. S.C.A., 15 domestic (previous year: 26) and 59 foreign subsidiaries (previous year: 58) in which the Sal. Oppenheim Group directly or indirectly holds a majority of the capital or voting rights, or over which the Group has control, were included in the scope of the consolidated financial statements. In addition, 13 special purpose entities and investment funds (previous year: 12) were included in the consolidated financial statements in accordance with IAS 27 in conjunction with SIC 12, as the Sal. Oppenheim Group has control over them.

The following companies were included in the consolidated financial statements for the first time in financial year 2008:

–> 4IP Management AG, Zurich
–> BHF Asset Servicing GmbH, Frankfurt am Main
–> Grundstücksgesellschaft Bockenheimer Landstr. GbR, Frankfurt am Main
–> Oppenheim ACA GmbH, Frankfurt am Main
–> Sal. Oppenheim Asia Alternative Investments GmbH, Cologne
–> Sal. Oppenheim Boulevard Konrad Adenauer S.à r.l., Luxembourg
–> Sal. Oppenheim Private Equity Partners GmbH, Cologne
–> Zimbo Beteiligungsgesellschaft mbH, Cologne

Sal. Oppenheim jr. & Cie. S.C.A., Luxembourg, acquired 100% of the shares in SGG Corporate Services S.A., Luxembourg, in May 2008, after which SGG Corporate Services S.A., Luxembourg, was brought under the umbrella of and merged with SGG S.A. (formerly Services Généraux de Gestion S.A.), Luxembourg.

In the reporting year, SGG S.A. acquired 100% of shares in the following companies, which were all fully consolidated:

–> BOCARIL S.A., Luxembourg
–> Fiduciaire F. Winandy & Associés S.A., Luxembourg
–> SGG (Nederland) B.V., Amsterdam

With effect from 1 July 2008, BHF-BANK AG spun off its custody, custodian bank and securities servicing business into BHF Asset Servicing GmbH. As an independent bank, BHF Asset Servicing GmbH is a wholly-owned subsidiary of BHF-BANK AG, which is included as a fully consolidated company in the consolidated financial statements of BHF-BANK AG. No hidden reserves were realised in relation to this spin-off.

In December 2008, 94.9% of capital shares and 49% of voting rights in BHF Asset Servicing GmbH were sold to SODALIS Beteiligungs GmbH, Cologne. The remaining capital share still held by BHF-BANK AG amounts to 5.1%, and voting rights still held to 51%. As BHF-BANK AG still retains the majority of voting rights, BHF Asset Servicing GmbH continues to be included as a fully consolidated company in the consolidated financial statements.

During the current financial year, the share in CAM Private Equity Consulting & Verwaltungs-GmbH, Cologne, was increased from 63.8% to 100%.

The shares in Oppenheim Investment Managers Limited, Dublin, and Walespart Holding S.A., Luxembourg, were sold in the reporting year.

FRANKFURT-TRUST Vertriebsgesellschaft mbH, Frankfurt am Main, was first sold to the BHF-BANK AG subsidiary FRANKFURT-TRUST Investment-Gesellschaft mbH, Frankfurt am Main, as at 1 January 2008 and then merged with it. Moreover, The Sal. Oppenheim Figaro Currency Fund, Dublin, was merged with Sal. Oppenheim Figaro Currency Fund PLC (formerly The Sal. Oppenheim Feeder Fund I Plc), Dublin.

In financial year 2008, the following investment funds were included in the scope of consolidated financial statements; the Sal. Oppenheim Group owns more than 50% of each of the funds.

–> FT Liquima, Frankfurt am Main
–> OP Cash Euro Plus, Luxembourg
–> OP Hedge Multi Strategies, Cologne
–> OP Hedge Multi Strategies Plus, Cologne

The shares in OP Strategieportfolio IV, Cologne, and in OP Strategieportfolio V, Cologne, were sold.

18 companies or investment funds (previous year: 5) were deconsolidated due to the discontinuation of their business activities or their minor significance for the net assets, financial position and results of operations of the Group. These companies are:

–> BLUESTONE HOLDING S.A., Luxembourg
–> CAM Private Equity-Schweiz AG, Zurich
–> Co Invest GbR, Munich
–> DELFAS S.A., Luxembourg
–> DMC S.à r.l., Luxembourg
–> EFFIGI S.à r.l., Luxembourg
–> FIDIS S.à r.l., Luxembourg
–> FIN-CONTRÔLE S.A., Luxembourg
–> FINDI S.à r.l., Luxembourg
–> Fitrus Limited BVI, Tortola
–> KANAKA HOLDING S.A., Luxembourg
–> LOUV S.à r.l., Luxembourg
–> MADAS S.à r.l., Luxembourg
–> Oppenheim Eunomia GmbH, Cologne
–> SGG Limited (BVI), Tortola
–> SIBEMOL HOLDING S.A., Luxembourg
–> TEXTO INTERNATIONAL S.A., Luxembourg
–> TREMA HOLDING S.A., Luxembourg

In addition, 17 companies (previous year: 15) were included at equity in the scope of consolidated financial statements.

Due to expansion of the scope of business, Baigo Capital Partners Fund I Parallel GmbH & Co. KG, Frankfurt am Main, Cipio Partners Fund V GmbH & Co. KG, Munich, and Cipio Partners Fund Va GmbH & Co. KG, Munich, were accounted for using the equity method for the first time. Altigefi S.A., Paris, was also included at equity in the scope of consolidated financial statements for the first time.

The associated company MS “CONELBE” 1240 Bereederungsgesellschaft mbH & Co. KG, Bremen, was sold. CAM-Fairview Private Equity Partners LP, Farmington, was deconsolidated due to its minor significance for the net assets, financial position and results of operations of the Group.

The total number of companies included in the consolidated financial statements is shown in the table below:

	2008	2007
Number of fully consolidated companies	88	97
Number of companies included using the equity method	17	15
Total	**105**	**112**

213 subsidiaries and associated companies (previous year: 165) that have no significant impact on the presentation of the Group's net assets, financial position and results of operations have not been included in the scope of consolidated financial statements. These companies account for less than 2% of the Group's total assets.

With respect to the effects of the deconsolidation of the companies, please refer to note 39 Net income/(loss) from non-current financial assets.

A detailed list of consolidated companies and investment funds can be found in note 89. The majority of the consolidated companies prepared their annual financial statements as at 31 December 2008.

04_Basis of consolidation

The first-time consolidation of group companies is based on the purchase method. This means that the acquired subsidiary's assets, liabilities and contingent liabilities identified under IFRS 3 are restated at fair value at the time of acquisition, allowing for deferred taxes, and compared with the cost of the acquisition of the company (purchase price allocation).

Goodwill arising on a business combination is recognised at cost, less any impairment, under Intangible assets. Goodwill is subsequently subject to an impairment test at least once a year. Please refer to note 17 Intangible assets for a more detailed explanation of the impairment test. Negative goodwill from consolidation is recognised immediately in profit or loss.

Any inter-company assets and liabilities are eliminated, as are inter-company expenses and revenues, and intra-group profits.

Joint ventures and associated companies were accounted for in accordance with IAS 31 and IAS 28 using the equity method, with assets included at restated values, and reported separately on the balance sheet under Investments accounted for using the equity method (see note 15). The first-time measurement of any difference between the cost of acquisition and the share of equity attributable to the stake acquired is based on the principles of purchase price allocation applicable to full consolidation.

Shares in minor subsidiaries and associated companies not included in the scope of consolidated financial statements are recognised in accordance with IAS 39 at fair value or, if none can be reliably determined, at cost under non-current financial assets.

05_Significant changes in the scope of consolidated financial statements

The owners of Sal. Oppenheim jr. & Cie. S.C.A. resolved to restructure the business and investment activities of the Group. In the future, industry holdings will be managed in a newly formed, independent holding structure that is not affiliated with the Bank. This affects the shares acquired in 2008 in ARCANDOR Aktiengesellschaft, Essen, Sal. Oppenheim Private Equity Partners S.A., Luxembourg, and Sal. Oppenheim Private Equity Partners GmbH, Cologne, which held the shares in CAM Private Equity Consulting & Verwaltungs-GmbH and VCM Capital Management GmbH. The share in CAM Private Equity Consulting & Verwaltungs-GmbH was increased to 100% in 2008. Furthermore, the interest in IVG Immobilien AG, Bonn, which was increased to 20% plus one share in 2008, was sold.

The impacts of the acquisitions made in 2008 and the sale to the new holding company resolved on 11 November 2008 are detailed as follows.

CAM Private Equity Consulting & Verwaltungs-GmbH and VCM Capital Management GmbH

The Group increased its share in CAM Private Equity Consulting & Verwaltungs-GmbH via a number of transactions from 63.8% to 100.0%. The shares were acquired by Sal. Oppenheim jr. & Cie. S.C.A. and Sal. Oppenheim Private Equity Partners S.A. and then brought under the umbrella of the newly formed Sal. Oppenheim Private Equity Partners GmbH. The difference between the cost and the net fair value of the identifiable assets, debt and contingent liabilities at the time of acquisition was € 54 million. The company's contribution to consolidated net income amounted to € -5 million.

As at 31 December 2007, BHF-BANK AG held a 69.0% stake in VCM Capital Management GmbH, Munich. Due to the additional put and call options on the remaining minority interests agreed as part of the business combination, the company was included in the scope of consolidated financial statements as at 31 December 2007 with a stake of 100%.

Sal. Oppenheim jr. & Cie. S.C.A., Luxembourg, acquired all shares from BHF-BANK AG on 14 November 2008. Moreover, all shares were acquired from minority shareholders, after which Sal. Oppenheim jr. & Cie. S.C.A. brought all shares under the umbrella of the newly formed Sal. Oppenheim Private Equity Partners GmbH. The acquisition of minority shares resulted in additional goodwill in the amount of € 7 million.

The VCM Capital Management GmbH contribution to consolidated net income amounted to € -1 million.

The resolution to sell the interest in Sal. Oppenheim Private Equity Partners GmbH to the new holding company was adopted on 11 November 2008. Just as CAM Private Equity Consulting & Verwaltungs- GmbH and VCM Capital Management GmbH, the company will remain fully consolidated in the Sal. Oppenheim jr. & Cie. S.C.A. financial statements until its final disposal. The companies' assets and liabilities are to be recognised as separate items on the balance sheet in accordance with IFRS 5. As the companies meet the criteria of a discontinued operation, their result is reported in the income statement as a separate item Profit/(loss) from operating activities in discontinued operations. The prior year's figures were adjusted accordingly on the income statement.

ARCANDOR Aktiengesellschaft

On 29 September 2008, Sal. Oppenheim jr. & Cie. KGaA acquired 23,020,552 shares in ARCANDOR Aktiengesellschaft, Essen, in a capital increase. Moreover, Sal. Oppenheim acquired 49,377,900 shares from the majority shareholder Madeleine Schickedanz, thus giving Sal. Oppenheim jr. & Cie. KGaA a total of 28.6% of the shares in ARCANDOR Aktiengesellschaft. Acquisition cost totalled € 154 million. 24.9% of shares in ARCANDOR Aktiengesellschaft were acquired for resale to the newly formed holding structure. For this reason, ARCANDOR Aktiengesellschaft was not included as an associated company in the consolidated financial statements of Sal. Oppenheim jr. & Cie. S.C.A. The shares held for sale are reported as of the balance sheet date as non-current assets held for sale and measured at the lower of carrying amount and fair value less selling costs. The 3.7% of shares retained by the Group are reported under Non-current financial assets and recognised at fair value in accordance with IAS 39.

IVG Immobilien AG

In 2008, the shareholding in IVG Immobilien AG, Bonn, was increased to 20% plus one share. Thus the company was included in the scope of consolidated financial statements and accounted for using the equity method as at 30 September 2008. The interest in IVG Immobilien AG will also be sold to the new holding company as part of restructuring investment activities. Equity accounting was thus terminated with adoption of the resolution on disposal as at 11 November 2008. The shares are recorded as of the balance sheet date as non-current assets held for sale, and accounted for at the lower of carrying amount and fair value less selling costs. The valuation did not result in a need for impairment. The result of pro rata temporis inclusion using the equity method is recognised in the share of the profit or loss of associates and joint ventures accounted for using the equity method.

06_Foreign currency translation

Foreign currency denominated monetary assets and liabilities, as well as unsettled foreign currency spot contracts and non-monetary items carried at fair value were translated at mean exchange rates, and outstanding forward contracts were translated at the forward rate prevailing on the balance sheet date. Non-monetary items carried at cost were translated using historical exchange rates.

Effects resulting from the translation of balance sheet items are recognised in profit or loss.

Annual financial statements prepared by consolidated subsidiaries in foreign currencies are translated into euros for the consolidated financial statements in accordance with IAS 21 using the concept of functional currency. The same method was applied to the translation of adjustments to the carrying amount of foreign companies included using the equity method. The translation of assets and liabilities is based on the mean exchange rate at the balance sheet date, whereas the income statement is translated using the annual average exchange rate, and net income recognised directly in equity is converted using historical exchange rates.

Exchange rate gains/losses arising on consolidation are recognised directly in equity (revaluation surplus). Where companies are deconsolidated, the corresponding cumulated exchange differences are amortised to profit or loss.

07_Financial instruments: recognition and measurement (IAS 39)

IAS 39 prescribes principles for recognising and measuring financial assets and liabilities. On first-time recognition, financial assets and liabilities are to be assigned, according to their features and purpose, to one of the following categories:

–> Financial assets/financial liabilities designated at fair value through profit or loss
–> Held-to-maturity investments
–> Loans and receivables
–> Available-for-sale financial assets
–> Other liabilities

Financial assets/financial liabilities at fair value through profit or loss

The category Financial assets/financial liabilities designated at fair value through profit or loss is broken down into Held for trading and Financial Assets (fair value option).

Held for trading comprises financial instruments that were primarily acquired with the intention of generating gains from short-term market price fluctuations or changes in the dealer's margin. Financial assets held for trading include, in particular, fixed-income securities, equities, borrower's note loans and all derivative financial instruments with positive fair values. Negative fair values from derivative transactions are recognised under Financial liabilities at fair value. Bonds issued and delivery obligations from short sales are also recognised under this item.

Reclassifications are possible for non-derivative financial assets held for trading if the management no longer intends to hold these assets for trading and one of the two subsequent requirements is met at the same time:

–> Rare circumstances prevail at the time of reclassification, such as the deterioration of the global financial markets since the third quarter of 2008, or
–> the asset fulfils the definition of the category Loans and Receivables and management has the intention and ability to hold this asset for the foreseeable future at the time of reclassification.

All gains and losses from these assets accumulated prior to reclassification remain part of net trading income. The fair value on the date of reclassification represents the new cost of the reclassified asset. Reclassification out of the held-for-trading category is irreversible. In the current financial year, fixed-income securities from this category were reclassified to the loans and receivables as well to the available-for-sale financial assets categories. Further information on this subject is provided in note 73 Disclosures on financial instruments. Reclassifications are still not allowed for derivatives and financial liabilities held for trading.

In addition, in accordance with the fair value option introduced in IAS 39, financial instruments not acquired for the purposes of trading, which fall within the scope of IAS 39, and whose fair value can be reliably measured, may be designated at fair value, with value changes recognised in profit or loss. The requirements for such designation are met if the designated financial instruments are either structured

financial instruments with one or more embedded derivatives requiring separation, or a group of financial instruments which are managed in accordance with a documented risk management or investment strategy, or which, if designated, eliminate measurement inconsistency.

The decision to exercise the fair value option is made at the time of acquisition. Subsequent reclassification of financial instruments into or out of this category is not possible.

We use the fair value option for equities and bonds which are hedged with derivatives, in order to avoid or reduce measurement differences from these securities, as well as for bond funds whose positions are managed on a fair value basis and whose performance is measured at fair value. Moreover, we also use the fair value option for equity investments, which are managed on a fair value basis.

The financial instruments allocated to this category are recognised at fair value in the balance sheet under Financial assets designated at fair value through profit or loss (fair value option) or Financial liabilities designated at fair value through profit or loss (fair value option). Market price fluctuations and gains or losses on disposal are recognised immediately in the income statement under Result from fair value option.

Interest and dividend payments for financial assets and liabilities held for trading, less refinancing costs, are recognised under Net trading income. Interest and dividend payments for assets and liabilities which were reported as financial assets or liabilities designated at fair value through profit or loss (fair value option) upon initial recognition are included under Net interest income.

Derivatives embedded in structured financial instruments which are to be separated in accordance with IAS 39, are also allocated to the held-for-trading category.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity acquired with the positive intention and ability to hold to maturity can be classified as held-to-maturity investments. These financial assets are carried at amortised cost. The Sal. Oppenheim Group did not use the category Held-to-maturity investments in 2008 either.

Loans and receivables

This category contains non-derivative financial assets with fixed or determinable payments which are not quoted in an active market and do not belong to any other category. These include both loans originated and purchased.

Loans and receivables are carried at amortised cost and reported under Loans and advances to banks, Loans and advances to customers and Non-current financial assets. Premiums and discounts are deferred using the effective interest method and recognised as interest expense/income in the income statement.

Impairments due to changes in credit risk, causing the fair value to fall below amortised cost due to full or partial uncollectibility of a financial asset, are included in the Provision for loan losses.

There are currently no loans outside this category in the Sal. Oppenheim Group. Borrower's note loans are also allocated to this category provided that they are not held for trading.

Securities from the categories Financial assets held for trading as well as Available-for-sale financial assets were reclassified to this category in the current financial year.

Available-for-sale financial assets

This category comprises all non-derivative financial assets that have not been allocated to any of the aforementioned categories. In the Sal. Oppenheim Group, these include, in particular, fixed-income securities, shares and equity investments. A reclassification out of this category to the loans and receivables category is possible if management no longer has the intention or ability to dispose of the asset, and the asset fulfils the criteria for the loans and receivables category at this time. Reclassification to the held-to-maturity category is also possible, although the reclassified asset is then subject to the strict requirements of this category.

Moreover, financial assets held for trading may be reclassified to this category if the requirements for this category are met.

At the time of acquisition or reclassification, the financial assets are recognised at their fair value (at cost) plus any transaction costs incurred. Subsequent measurement is at fair value. Any changes in the value of available-for-sale assets arising from the subsequent measurement of financial assets are recognised directly in equity (revaluation surplus) after allowing for deferred tax, until the asset is sold or an impairment loss has to be recognised in profit or loss. If the reasons for impairment losses cease to exist in subsequent periods, such losses may only be reversed through the revaluation surplus, i.e. recognition directly in equity, in the case of equity instruments. For all other securities, a reversal of impairment losses is recognised in profit or loss. An impairment test is conducted at every balance sheet date. Any premiums and discounts are spread over the term and recognised under Net interest income using the effective interest method. If financial assets are reclassified to the loans and receivables category, the accumulated changes in fair value at the time of reclassification recognised directly in equity in the revaluation surplus are reversed over the maturity of the asset through profit or loss and included in the net interest income using the effective interest method. The effective interest rate is to be redetermined at the time of reclassification in this case.

Hedge accounting overwrites the recognition and measurement rules described above.

Available-for-sale assets are included under Non-current financial assets or Other assets. Any impairments due to changes in credit risk arising in connection with non-current financial assets are recognised under Net income/(loss) from non-current financial assets; similar impairments relating to Other assets are included under Other operating income and expenses, net. In the current financial year, fixed-income securities from this category were reclassified to the loans and receivables category. Further information on this subject is provided in note 73 Disclosures on financial instruments.

Other liabilities

This category includes all other financial liabilities which are not held for trading or are designated to be measured at fair value. They are measured at amortised cost. Any premiums and discounts are spread over the term and recognised under Net interest income using the effective interest method. In the Sal. Oppenheim Group, this category includes Deposits from banks and customers, Debt securities and Subordinated capital.

Hedge accounting overwrites the recognition and measurement rules described above.

Moreover, this item covers all shares held by minority investors in fully consolidated investment funds reported under Other liabilities. Shares of these investors represent a financial liability from the Group's

point of view as the minority investors have the possibility of redeeming their shares at the current share price at any time and the Group or the fully consolidated investment fund has no means of avoiding the payment obligation. This redemption obligation is measured at fair value for initial as well as subsequent measurement. Changes in the value are recognised through profit or loss in the net interest income.

Recognition and derecognition of financial instruments

Financial instruments are recognised for the first time upon entry into the contract. As far as the recognition of standard market purchases or sales of financial assets is concerned, IAS 39 provides for recognition either on the trade date or on the settlement date, with a single option per category. The Sal. Oppenheim Group always recognises such transactions on the trade date, irrespective of the category.

Financial instruments are only partially or fully derecognised if the risks and rewards of ownership have been transferred to the new owner (risk and reward approach). As a result, lent securities are not derecognised, because both the market risk and the credit risk of the underlying security remain with the repo seller or borrower.

If, when assets are transferred, the transfer of risks and rewards is unclear, an examination is required to ascertain whether or not the transferor has retained control of the asset

Allocation to classes in accordance with IFRS 7

Due to the classification of financial instruments prescribed by IFRS 7.6, we have allocated the financial instruments to the following classes:

Valuation	Classes (IFRS 7)	
	Balance sheet item	Measurement category (IAS 39)
Amortised cost*	Cash and cash equivalents	Loans and receivables
	Loans and advances to banks	Loans and receivables
	Loans and advances to customers	Loans and receivables
	Non-current financial assets	Available-for-sale financial assets
	Non-current financial assets	Loans and receivables
	Deposits from banks	Other liabilities
	Deposits from customers	Other liabilities
	Debt securities	Other liabilities
	Subordinated capital	Other liabilities
Fair value	Assets held for trading	Financial assets held for trading
	Liabilities held for trading	Financial liabilities held for trading
	Positive fair values from hedge accounting	
	Negative fair values from hedge accounting	
	Financial assets designated at fair value through profit or loss	Fair value option
	Non-current financial assets	Available-for-sale financial assets
	Other assets	Available-for-sale financial assets
Not measured in accordance with IAS 39	Irrevocable loan commitments	
	Contingent liabilities	
	Financial guarantees	
	Liabilities from finance lease agreements	
	Assets held for sale (IFRS 5)	

*Including fair value changes to the hedged risk for hedged positions (fair value hedge).

The class definition is the result of assigning financial instrument categories in accordance with IAS 39 in conjunction with the corresponding balance sheet items.

The Sal. Oppenheim Group does not use the category Held-to-maturity investments.

Details on the nature and extent of risks resulting from financial instruments, as required by IFRS 7, are presented in the risk report if not presented in the Notes.

08_Hedge accounting

At present, only BHF-BANK AG makes use of the option to use hedge accounting in accordance with IAS 39 in the Sal. Oppenheim jr. & Cie. S.C.A. consolidated financial statements. Of the various types of hedging relationships, BHF-BANK AG only implements fair value hedges.

This involves using derivatives to hedge the fair value of financial assets and liabilities. The risk of changes in fair value is particularly relevant for fixed-interest loans, securities and issued debt. In a fair value hedge, the hedging instrument is recognised at fair value under Positive or Negative fair values from hedge accounting. Changes in the fair value of hedging instruments are recognised in the income statement. Any changes in the fair value of the hedged assets or liabilities are also recognised, in the amount of the hedged exposure, in profit or loss. Any changes in the fair value of the hedging instruments and/or hedged assets and liabilities are recognised under the Result from hedge accounting as measurement gains/(losses) from hedging.

If the hedged asset or liability is carried at amortised cost in accordance with general accounting rules, the carrying amount is adjusted for the cumulative change in fair value resulting from the hedged exposure. If, at the start of the hedging relationship, there is already a difference between the amortised cost (carrying amount) and the fair value, this amount is also amortised into net interest income over the remaining life of the hedged financial instrument.

Qualification for hedge accounting is also subject to a series of additional conditions. These relate, in particular, to the documentation of the hedging relationship at inception, as well as the effectiveness of the hedge. Documentation of the hedging relationship includes a description of the hedging instrument and hedged item, as well as the hedged exposure and the method used to assess the effectiveness of the hedge. Within a single hedging relationship, for instance, one or more hedging instruments can be designated to hedge one or more equivalent hedged assets, liabilities, forecast transactions or firm commitments (homogeneous sub-portfolios). Hedging instruments must be designated for their entire life. In order for a hedging transaction to be effective at group level as well, hedging instruments and hedged items must be concluded with external third parties.

The hedging relationship must be highly effective, both at inception and over its entire life, i.e. changes in fair value of the hedging instrument and the hedged item must balance almost completely. The effectiveness of the hedge must be tested regularly throughout its life. A hedge is deemed highly effective if the ratio of fair value changes is between -0.8 and -1.25.

At BHF-BANK AG, hedge accounting is used only in respect of the hedging of interest rate risks by means of fair value hedges. The hedging of interest rate risks relates solely to long-term fixed-interest debt (own issues). The only hedging instruments used are interest rate swaps, which transform fixed-interest payments into variable-interest payments. Fair value hedging is used for both individual transactions and homogeneous sub-portfolios. All fair value hedges are subject to ex ante effectiveness evaluation in the form of a sensitivity analysis of the hedging instrument and the hedged item, including a homogeneity test in the case of sub-portfolios. The ex post effectiveness evaluation is performed on the basis of a statistical method (linear regression analysis).