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).

09_Cash and cash equivalents

All assets are carried at face value.

10_Assets held for trading

Securities, loans and advances, foreign currency assets and precious metals held for trading, as well as all derivative financial instruments with positive fair values are measured at fair value.

Exchange-traded products are recognised at their trading price. Non-listed products are measured using the net present value method or another suitable valuation model (e.g. option pricing models).

All realised and unrealised gains/losses are recognised in profit or loss and stated under Net trading income. Net trading income also includes interest and dividend income from financial assets and liabilities held for trading, as well as refinancing costs.

11_Financial assets designated at fair value through profit or loss (fair value option)

This balance sheet item includes financial assets that are designated at fair value through profit or loss upon initial recognition.

Assets designated at fair value are measured in the same way as assets held for trading in note 10.

12_Loans and advances to banks and customers

Loans and advances to banks and customers which are neither held for trading nor quoted on an active market, are carried at amortised cost. As the difference between the amount received and the amount repayable, premiums and discounts are deferred using the effective interest method and recognised in profit or loss as interest expense/income. Impairments are recognised in profit or loss. They are deducted from loans and advances, and reported separately as provision for loan losses.

13_Allowances for impairment losses on loans and advances

The risks in lending business are addressed through specific valuation allowances and general allowances for doubtful accounts. Provisions for off-balance sheet transactions are presented as provisions for loan losses. Impairment is calculated on the basis of the discounted cash flow method.

Any need for provisioning in relation to individual exposures is determined using a catalogue of criteria to assess whether there is substantial objective evidence of loan impairment. Such evidence is deemed to exist concerning a specific debtor, if the loan is more than 90 days overdue or a default on the loan is highly probable or has already occurred (e.g. due to a debt waiver or the institution of insolvency or restructuring proceedings against the debtor).

In the event that potential impairment is identified, the estimated recoverable amount is calculated and compared with the carrying amount. The estimated recoverable amount is measured as the present value of all expected interest and principal payments plus proceeds from the disposal of collateral, discounted at the original effective interest rate of the loan. The amount by which the carrying amount exceeds the estimated recoverable amount is accounted for as an impairment.

Uncollectible loans are directly written off. Receipts from written-off loans are recognised as income. All other impairments are recorded in an allowance account.

General allowances for doubtful accounts are made on the basis of portfolios of assets with similar credit risk characteristics. The level of portfolio impairments is determined by the underlying default probabilities and recovery rates.

14_Non-current financial assets

Non-current financial assets includes all bonds and other fixed-income securities, shares and other non-fixed income securities, equity investments, shares in non-consolidated subsidiaries as well as investment property, which are not classified as financial assets held for trading or financial assets designated at fair value through profit or loss (fair value option).

Available-for-sale financial instruments are recognised and measured at fair value. In cases where fair value cannot be reliably measured, such assets are carried at amortised cost. Interest and dividend income is recognised under Net interest income.

Temporary fair value changes are recognised directly in equity (revaluation surplus) after allowing for deferred tax. Impairments due to changes in credit risk, by contrast, are recognised in profit or loss under Net income/(loss) from non-current financial assets. For fixed-income securities, the recognition of impairments in profit or loss is based on the same criteria as for loans and receivables. Please refer to the notes on Allowances for impairment losses on loans and advances. In accordance with IAS 39, a significant or prolonged decline in fair value below cost is objective evidence of an impairment in the case of equity instruments. In these cases the net losses previously recognised in equity are to be transferred from the revaluation surplus to the income statement.

If the causes for impairment losses cease to exist in subsequent periods, the reversal of impairment losses for shares and equity investments results in a corresponding increase in the revaluation surplus (recognition directly in equity). For fixed-income securities, the reversal of impairment losses is recognised in profit or loss under Net income/(loss) from non-current financial assets.

Financial instruments allocated to the loans and receivables category are carried and measured at amortised cost. Interest income from bonds, including premiums or discounts spread over the term, is recognised under Net interest income. Impairments are recognised in Net income/(loss) from non-current financial assets.

Land, buildings or parts of buildings held for the purpose of generating rental income or capital appreciation, but not for own use or sale in the context of ordinary business, are recognised as Investment property (Non-current financial assets) in accordance with IAS 40, and carried at cost. Buildings under Investment property are depreciated using the straight-line method over a useful life of 50 years. We report the rental income from these investment properties under Other operating income. Depreciation and impairments are recognised under Net income/(loss) from non-current financial assets.

For information on changes in non-current financial assets, please refer to note 54 or 58.

15_Investments accounted for using the equity method

Investments in associates and joint ventures are carried at amortised cost using the equity method. Upon acquisition, the investments are recognised at cost and subsequently increased or decreased by the share attributable to the Sal. Oppenheim Group of net income for the period of the associated company or joint venture. Distributions received from companies accounted for using the equity method also diminish the carrying amount. Moreover, changes in equity not recognised in the income statement of companies accounted for using the equity method affect their carrying amount without running through the income statement.

Goodwill from companies accounted for using the equity method is included under Investments accounted for using the equity method. The Sal. Oppenheim Group currently holds no shares in listed associated companies or joint ventures.

Every balance sheet date, a check is carried out using objective evidence in accordance with IAS 36, to ascertain whether the carrying amount of the shares in investments accounted for using the equity method is impaired.

For a breakdown of investments accounted for using the equity method, please refer to note 89. The changes in investments accounted for using the equity method are available under note 55 or note 58.

16_Property, plant and equipment

Land and buildings for own use, operating and office equipment as well as assets under construction are recognised under Property, plant and equipment. They are measured at cost less straight-line depreciation according to their expected useful life. Useful life is determined on the basis of physical life, technical advancement and legal and contractual limitations. Subsequent expenditure is only capitalised provided it increases the economic benefit of the respective asset. Maintenance measures for property, plant and equipment are reported as expenses in the year in which they are carried out.

All property, plant and equipment is depreciated over the following periods:

	Estimated useful life
Buildings	30 to 50 years
Operating and office equipment	3 to 23 years

Additional impairments are accounted for in the form of write-downs. Once the reasons for impairment losses cease to exist, they are reversed up to a maximum of the amortised cost amount.

Depreciation is recognised under Other administrative expenses. Gains or losses on the disposal of property, plant and equipment are included under Other operating income or Other operating expenses.

With respect to investment property, please refer to note 14. For information on finance lease assets please refer to note 18.

Please refer to note 56 and 58 for information on changes in non-current assets.

17_Intangible assets

This item primarily includes goodwill from full consolidation, acquired and leased software and client relationships. Internally generated intangible assets are of minor significance for the Group.

Goodwill carries an indefinite useful life. All goodwill assets are assessed annually to determine their future economic benefits. For this purpose, the goodwill assets are allocated, at the time of acquisition, to the cash-generating units intended to profit from the synergies of the business combination. A cash-generating unit is defined as the smallest identifiable group of assets within the Sal. Oppenheim Group that generates cash inflows that are largely independent of the cash inflows from other assets. For impairment testing purposes, the expected cash flows from the most recent management projections at the level of the cash-generating unit are used, and discounted with specific growth rates and cost of equity. A write-down is performed if the assets, including goodwill, less the debt of the cash-generating unit exceed the recoverable amount (value in use) calculated in accordance with the criteria above. Write-downs resulting from the impairment test are recognised under Other operating expenses. A reversal of impairment losses is not possible.

An additional impairment test will be carried out during the year if events occur which indicate a sustained value decrease.

Please refer to note 57 regarding the individual assumptions used for the impairment tests in financial year 2008.

Acquired software is carried at amortised cost and amortised over a period of three to seven years. With respect to finance lease software assets, please refer to note 18.

Amortisation of intangible assets is recognised under Other administrative expenses.

Purchase price allocation in accordance with IFRS 3 in connection with company acquisitions included identifying and capitalising client relationships which have a contractually specified limited useful life. These can be amortised using the straight line method over a maximum of the term of the contract or over a shorter expected economic useful life.

Amortisation of capitalised client relationships is recognised under Amortisation and impairments on intangible assets as other administrative expenses. Please refer to note 57 or note 58 for information on changes in intangible assets.

18_Leases

IAS 17 distinguishes between operating leases and finance leases. A lease is classified as a finance lease if it substantially transfers all the risks and rewards incident to ownership of the asset to the lessee. Otherwise, the lease is deemed an operating lease.

The companies included in the scope of consolidated financial statements are only lessees.

Leasing payments made on operating leases are included in rental payments under Administrative expenses.

Under finance leases, leased assets are recognised at inception of the lease at their fair value or, if lower, at the present value of the outstanding lease payments, under Property, plant and equipment or, for intangible assets, under Intangible assets.

The leased assets are depreciated over the subsequent years in line with their useful life. At inception, outstanding lease payments are recognised as a liability.

Payments made on finance leases are apportioned between the finance charge and the reduction of the outstanding liability; the finance charge is allocated to the periods during the lease term, subject to a constant rate of interest.

19_Other assets

Other assets is a compound item for all remaining assets not attributable to the foregoing asset items, and which have minimal significance when considered individually.

20_Non-current assets held for sale and assets from discontinued operations

Non-current assets the carrying amount of which will be recovered principally through a sale transaction rather than through continuing use and which meet the requirements of IFRS 5 are to be classified as held for sale.

Non-current assets held for sale are assets or groups of assets which can be sold in their present condition and for which sale is highly probably. Discontinued operations are components of an entity that have been sold or are classified as held for sale. Non-current assets held for sale are to be recognised in accordance with IFRS 5 on the balance sheet date at the lower of carrying amount and fair value less costs to sell and are to be stated separately from other assets. They are reported as Non-current assets held for sale and assets from discontinued operations. Liabilities from discontinued operations are reported separately from other liabilities under Liabilities from discontinued operations. Information on the assets and liabilities allocated to this balance sheet item is presented in note 61 and note 70.

Gains and losses from the recognition of assets held for sale at fair value less costs to sell and profit/loss from discontinued operations are to be reported as a separate item Profit/(loss) from operating activities in discontinued operations in the income statement. We have accordingly adjusted the comparative figures on the income statement.

The disposal approved by the owners of Sal. Oppenheim jr. & Cie. S.C.A. of Sal. Oppenheim Private Equity Partners S.A. and Sal. Oppenheim Private Equity Partners GmbH with the majority holdings in CAM Private Equity Consulting and Verwaltungs-GmbH and VCM Capital Management GmbH constitutes a discontinued operation in accordance with IFRS 5.

21_Liabilities held for trading

Derivative financial instruments with negative fair value, as well as delivery obligations under short sales are recognised at fair value as liabilities held for trading. Bonds issued by the Bank are also recognised under this item.

Trading prices are used for measuring exchange-traded products. Non-listed products are measured using the net present value method or other suitable valuation model (e.g. option pricing models).

Net trading income in the income statement includes all realised and unrealised gains/losses, as well as trading-related interest and dividend income and refinancing costs.

22_Liabilities

All liabilities, with the exception of liabilities held for trading, are classified as Other liabilities. Liabilities are carried at amortised cost. As the difference between the amount received and the amount repayable, premiums and discounts are deferred using the effective interest method and recognised in profit or loss as interest expense/income.

23_Employee benefits

Both direct pension commitments (book reserve schemes), which are classified as defined benefits plans, and indirect, defined contribution plans, are made available to the employees of several group companies, particularly to those of Sal. Oppenheim jr. & Cie. KGaA, as well as those of BHF-BANK AG and its subsidiaries. The contributions for these are paid to BVV Versicherungsverein des Bankgewerbes a.G. (Pensionskasse) or BVV Versorgungskasse des Bankgewerbes e.V., Berlin.

The payments to the pension schemes are expensed as incurred and do not entail any provisions. The level of provisions for defined benefit plans is based on the number of years of service and the pensionable salary level.

Besides general pension commitments, Sal. Oppenheim jr. & Cie. KGaA and several other German subsidiaries provided additional individual benefits through the conversion of cash payments to pension contributions. During financial year 2005, this model was replaced by a new occupational pension model (AV OPP 2005), which is also based on the conversion of salary payments to pension contributions.

With effect from 1 January 2005, Sal. Oppenheim jr. & Cie. KGaA and several other German subsidiaries closed all previous, primarily employer-funded pension schemes. For all employment contracts concluded prior to this date, the old plans will continue unchanged; for contracts as of 1 January 2005, a new model applies exclusively, allowing all employees to convert salary components into pension contributions. Depending on the length of employment, the employer makes a contribution to the plan based on a percentage of the amount converted. In financial year 2005, all funds for the refinancing of old and new pension commitments were transferred to Sal. Oppenheim Treuhand e.V., in order to qualify as plan assets in accordance with IFRS.

In line with a contractual trust arrangement (CTA), assets were transferred to BHF Pension Trust e.V. on 16 January 2006, in order to secure the pension liabilities of BHF-BANK AG and five German subsidiaries of the BHF-BANK group unit. The assets transferred were classified as plan assets in accordance with IAS 19.7. The market value of the plan assets and pension liabilities were netted.

Pensions for the majority of employees at BHF-BANK AG and its German subsidiaries are covered by Versorgungsverein der BHF-BANK e.V., in the form of a support fund (Unterstützungskasse). Based on their salary class, employees acquire a so-called “basic building block” each year, which later serves to define their monthly pension entitlement. This future benefit can be enhanced with a self-financed building block (salary conversion) of up to 50% of the basic building block. If this option is exercised, the resulting pension entitlement is doubled with the granting of a supplementary building block of equal amount. The obligations of the Versorgungsverein are determined actuarially in the same manner as for book reserve schemes, for which pension provisions are recognised, and are covered for the most part by the scheme assets. The scheme assets are treated as plan assets, measured at fair value and offset against pension liabilities.