

# Group Management Report

## GROUP MANAGEMENT REPORT

## Business Performance

IN WHAT WAS, ON THE WHOLE, A FAVOURABLE CAPITAL MARKET ENVIRONMENT, THE SAL. OPPENHEIM Group generated its best pre-tax net income to date with € 309 million. € 258 million of this amount is attributable to Sal. Oppenheim and € 87 million to BHF-BANK. As far as group management is concerned, expenses totalled € 36 million. Net income after tax amounted to € 241 million; deferred tax expenses of € 39 million (previous year: deferred tax income of € 9 million) were deducted here, which were largely attributable to BHF-BANK. Income increased by 12% to € 1,093 million, breaking the one billion barrier for the first time. The main growth drivers in this respect were net commission income and net trading income.

	2006	2005	+/-	+/-
	€ M	€ M	€ M	%
Net interest income	242	222	20	9
Allocation to provision for loan losses	-2	-3	1	33
Share of the profit or loss from associates	47	36	11	31
Net commission income	528	420	108	26
Net trading income	151	102	49	48
Net income/(loss) from non-current financial assets	118	88	30	34
Administrative expenses	-782	-680	-102	15
Other operating income and expenses, net	7	98	-91	-93
<b>Profit/(loss) from operating activities</b>	<b>309</b>	<b>283</b>	<b>26</b>	<b>9</b>
Income taxes	-68	-32	-36	>100
<b>Net income/(loss) for the period</b>	<b>241</b>	<b>251</b>	<b>-10</b>	<b>-4</b>

INCOME STATEMENT  
FROM 1 JANUARY TO 31 DECEMBER 2006

### NET INTEREST INCOME

Net interest income amounted to € 242 million, and in addition to the traditional components from lending and money market business, also includes interest income and expense from banking book derivatives. It was divided between Sal. Oppenheim with € 143 million and BHF-BANK with € 115 million. Interest expense at Group level was € 16 million.

## ALLOCATION TO PROVISION FOR LOAN LOSSES

Provision for loan losses amounted to € 2 million. While allowances for loan losses gained € 15 million in net terms, provisions for loan losses fell by € 13 million due to reversals. The vast majority of the loan portfolio comprises Investment Grade borrowers. As in the previous year, BHF-BANK's total lending volume was reduced in a risk-oriented manner as scheduled.

## SHARE OF THE PROFIT OR LOSS OF ASSOCIATES

€ 44 million of the share of the profit or loss of associates, which totals € 47 million, is attributable to Sal. Oppenheim, while € 3 million is attributable to BHF-BANK.

## NET COMMISSION INCOME

Net commission income increased by 26% and, at € 528 million, is traditionally the Group's main source of income. The rise in income from the underwriting and the securities business, due to increased trading activity among our clients, is particularly worth mentioning, as is the commission income from asset management. The first-time full consolidation of Oppenheim Pramerica Fonds Trust GmbH resulted in a net commission income contribution of € 16 million. € 320 million of the total net commission income is attributable to Sal. Oppenheim and € 208 million to BHF-BANK.

## NET TRADING INCOME

Net trading income totalled € 151 million, € 142 million of which was generated by Sal. Oppenheim and € 9 million by BHF-BANK. Equity trading remains Sal. Oppenheim's key source of income. The volume of retail derivatives issues was once again increased considerably. The high dividend income from equities reflects the positive situation of listed companies. BHF-BANK focuses on interest rate and currency trading.

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

Net income from non-current financial assets totalled € 118 million, € 83 million of which was generated by Sal. Oppenheim and € 35 million by BHF-BANK. Sal. Oppenheim sold 25% of its stake in Oppenheim Immobilien-Kapitalanlagegesellschaft mbH to IVG Immobilien AG, resulting in a profit of € 51 million. A number of smaller shareholdings were also sold. The sale of securities held in the investment portfolio generated € 23 million.

## ADMINISTRATIVE EXPENSES

Administrative expenses rose by a total of 15% to € 782 million, primarily due to higher provisions for profit-based remuneration and an increase in the number of employees by 330. On average, we employed a total workforce of 3,490 in the Group in the reporting year. Personnel expenses increased correspondingly to € 468 million. Other administrative expenses increased to € 277 million as a result of the dynamic business performance. Depreciation, amortisation and write-downs totalled € 37 million. € 462 million of administrative expenses are attributable to Sal. Oppenheim, € 300 million to BHF-BANK, and € 20 million to the Group.

## OTHER OPERATING INCOME AND EXPENSES, NET

Other operating income and expenses (net) totalled € 7 million. The year-on-year decline of € 91 million relates mainly to the fact that the prior year included income resulting from the derecognition of negative goodwill from the acquisition of BHF-BANK.

## CONSOLIDATED NET INCOME

Consolidated net income before taxes was € 309 million. After current income tax expenses of € 29 million, and deferred tax expenses of € 39 million are taken into account, consolidated net income for the period totalled € 241 million. The share of profit attributable to minority interests amounted to € 7 million.

## TOTAL ASSETS

The Group's total assets amount to € 35.3 billion, an increase of € 3.3 billion compared to the previous year. This growth relates solely to Sal. Oppenheim and reflects the positive operating development in Equity Trading and Retail Business in particular. € 17.5 billion of total assets are attributable to Sal. Oppenheim and € 17.8 billion to BHF-BANK.

	2006	2005	+/-	+/-
	€ M	€ M	€ M	%
Cash	361	381	-20	-5
Assets held for trading	9,335	10,172	-837	-8
Positive fair values from hedge accounting	26	92	-66	-72
Financial assets designated at fair value through profit or loss (fair value option)	3,484	3,332	152	5
Loans and advances to banks	9,241	7,035	2,206	31
Loans and advances to customers	6,231	5,834	397	7
Allowances for loan losses	-159	-153	-6	4
Non-current financial assets	6,023	4,534	1,489	33
Property, plant and equipment	246	234	12	5
Other assets	559	568	-9	-2
<b>Total assets</b>	<b>35,347</b>	<b>32,029</b>	<b>3,318</b>	<b>10</b>
Liabilities held for trading	9,818	9,451	367	4
Negative fair values from hedge accounting	60	29	31	107
Deposits from banks	7,548	6,948	600	9
Deposits from customers	14,433	11,983	2,450	20
Debt securities issued	715	744	-29	-4
Provisions	109	235	-126	-54
Other liabilities	534	534	0	0
Subordinated capital	195	341	-146	-43
Equity	1,935	1,764	171	10
<b>Total liabilities and equity</b>	<b>35,347</b>	<b>32,029</b>	<b>3,318</b>	<b>10</b>

## BALANCE SHEET AS AT 31 DECEMBER 2006

#### ASSETS HELD FOR TRADING

Assets held for trading recorded a decline, and amounted to € 9,335 million as at the reporting date. They include bonds and fixed-income securities at € 3,004 million, equities and other non fixed-income securities at € 2,073 million and positive fair values from derivative financial instruments at € 4,258 million.

#### FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (FAIR VALUE OPTION)

Financial assets designated at fair value through profit or loss increased by € 152 million to € 3,484 million. This item includes, in particular, bonds totalling € 2,839 million and equities and non-fixed income securities totalling € 590 million.

#### RECEIVABLES

Loans and advances to other banks increased by 31% to € 9,241 million. This item includes liquidity provided to us that was not channelled into other asset items. An increasing number of repo transactions are being concluded as these offer a secured form of money market transactions and therefore serve to place liquidity on the market in a manner that minimises credit risk.

Loans and advances to customers rose by € 397 million to € 6,231 million. € 3,626 million of this amount is attributable to business with corporate clients, and € 2,539 million to private client business. The remaining € 66 million is primarily attributable to public-sector clients.

#### ALLOWANCES

Allowances for loan losses were up slightly on the prior year at € 159 million, € 125 million of which was attributable to itemised loan loss allowances and € 34 million to general allowances for doubtful accounts.

#### NON-CURRENT FINANCIAL ASSETS

Non-current financial assets increased substantially by € 1,489 million to € 6,023 million. € 4,457 million of this amount is attributable to fixed-income securities, and € 571 million to equities and other non fixed-income securities. Of particular note in equity investments and shares in associated companies are the strategic investments in IVG Immobilien AG and IKB Deutsche Industriebank AG, the Bank's partner in an intensive cooperation in the area of SME clients, and the financial investment in Deutsche Hypothekenbank AG.

#### OTHER ASSETS

Other assets totalling € 559 million include tax refund claims at € 296 million, intangible assets at € 98 million, and private equity investments of € 16 million.

#### LIABILITIES HELD FOR TRADING

Liabilities held for trading increased by € 367 million to € 9,818 million. These are largely attributable to bonds and notes issued from the trading portfolio of € 5,005 million, and negative fair values from derivative instruments of € 4,653 million.

#### LIABILITIES

Deposits from other banks total € 7,548 million and relate primarily to money market deposits at BHF-BANK. Deposits from customers rose considerably by € 2,450 million to € 14,443 million,

accounting for 41% of the liabilities. These deposits are not only the Group's main refinancing instrument, but also show the trust placed in us, based on long-standing client relationships. Debt securities represent another refinancing instrument, with a volume of € 715 million.

#### OTHER LIABILITIES

Other liabilities remained unchanged at € 534 million. These include current and deferred income tax liabilities of € 166 million, liabilities from Human Resources of € 80 million, and minority interests qualified as debt of € 78 million.

#### SUBORDINATED CAPITAL

The subordinated capital of € 195 million relates solely to BHF-BANK and contains subordinated liabilities only. Participation rights totalling € 111 million fell due in the reporting year.

#### EQUITY

The € 171 million increase in equity to total € 1,935 million is primarily due to the consolidated net income of € 241 million.

#### 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 positions with the exception of allowances and net income from non-current financial assets. Administrative expenses are weighed against income items. This produces a cost/income ratio of 80.2% 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 2006, less dividends paid, plus half of the annual net income forms the basis for the calculation. This produces return on equity of 16.5%.

The overall ratio in accordance with Principle I under the German Banking Act (Grundsatz I) and the related risk assets serve as further key performance indicators. At the end of 2006, the ratio was 12.3% with risk assets of € 15.8 billion. Equity is composed primarily of tier 1 capital.

#### SUPPLEMENTARY REPORT

No transactions occurred after the close of the financial year that significantly affected the operating results, the financial position, or the net assets of the Group.