

## Chairman's report on Corporate Governance and Internal Control

For the financial year ended 31 March 2008, this report covers the conditions under which the work of the Supervisory Board was prepared and organised, as well as the internal control procedures implemented by Paris Orléans, in order to guarantee the reliability of the accounting and financial information.

### I. Corporate governance

Since 29 October 2004, and following the merger with its subsidiary Francarep, Paris Orléans has applied a new administration and management structure with a Executive Board and a Supervisory Board, as provided for in Articles L. 225-57 to L. 225-93 of the Commercial Code.

The Executive Board and the Supervisory Board are assisted by an Audit Committee, the members of which are appointed by the Supervisory Board.

#### 1.1. Organisation and operating procedure of the governance bodies

##### 1.1.1. Presentation of the Supervisory Board

###### **Composition**

The Supervisory Board of Paris Orléans is composed of eleven members. During the financial year, two members of the board resigned and were replaced, and a new standing representative of one of the board members was also appointed.

On the closing date of the financial year, the Paris Orléans Supervisory Board had the following members:

- Chairman: Éric de Rothschild;
- Vice-Chairman: David de Rothschild;
- Members of the Supervisory Board: Martin Bouygues, Claude Chouraqui, Russell Edey, Christian de Labriffe, André Levy-Lang, Philippe de Nicolay, Robert de Rothschild, Rothschild & Cie Banque represented by Marc-Olivier Laurent, Philippe Sereys;
- Non-voting board members: Michel Cicurel, Jean-Philippe Thierry.

In compliance with the provisions of the company's Articles of Association, the members of the Supervisory Board carry out their functions for a period of three years.

Each member of the Supervisory Board must own at least ten of the company's shares.

In the light of the criteria resulting from the recommendations of the so-called Bouton report, the Supervisory Board indicated that, as at 31 March 2008, three of the eleven members qualify as being independent.

Independent members: Martin Bouygues, Claude Chouraqui, André Levy-Lang

###### **Organisation and functioning**

The organisation and operating procedures of the Supervisory Board are established by the law, by the company's Articles of Association and by the internal rules of conduct.

The Supervisory Board may create committees within its organization, as well as determine their duties and members.

On 5 July 2006, the Supervisory Board adopted its own internal rules of conduct.

This document was amended to take account of valid new methods of telecommunication – such as video conferencing – for the holding of Board meetings, and was ratified by the General Meeting of 25 September 2007. It was further amended on 21 January 2008, as an extension of the bylaw changes following the acquisition of control over Concordia BV Group.

###### **Powers**

The Supervisory Board exercises permanent control over management of the company through the Executive Board, and provides the latter with authorisation before it engages in any transactions requiring its authorisation.

The Supervisory Board carries out all checks and controls it deems appropriate at any time of year, and may request any documents it considers necessary to the successful completion of its assignment.

It may confer one or more special appointments on its members for one or more specific projects.

**Activity during financial year 2007/2008**

Since 25 September 2007, the members of the Supervisory Board have been able to attend Board meetings using both video conferencing and telecommunication methods, and be deemed to be present. Between 1 April 2007 and 31 March 2008, the Supervisory Board met four times, with an average attendance of 84%.

In preparation for these meetings, each member is provided at least forty-eight hours in advance with detailed papers including at a minimum the following:

- the draft minutes of the previous meeting,
- a detailed analysis of the company's net asset value at the most recent date and all changes,
- a description of the company's activities (changes since the last meeting, and changes and new investments since the beginning of the financial year),
- accounting data, with comments,
- proposed budgets (if any), with comments,
- draft press releases.

**Meeting of 23 April 2007**

During this meeting, the Supervisory Board reviewed all the financial documents and business-related documents, which are prepared for each meeting of the Supervisory Board.

The attendance rate at this meeting was 81.82%.

**Meeting of 29 June 2007** This meeting was mainly devoted to preparing for the Combined Ordinary and Extraordinary General Meeting of 25 September 2007.

In accordance with the provisions of the law and the bylaws, in order to issue the report required of it by law, the Supervisory Board principally:

- reviewed the individual and consolidated financial statements for the company, closed by the Executive Board on 31 March 2007;
- reviewed the Management Report of the Executive Board on these financial statements and reviewed the draft resolutions proposed by the Executive Board to the Combined Ordinary and Extraordinary General Meeting of 25 September 2007.

During this meeting, the Supervisory Board also reviewed the plan to reorganise from a legal standpoint and simplify the structures of the Rothschild Group, through Paris Orléans taking

control of Concordia BV and strengthening the role of Paris Orléans as the Group's ultimate holding company.

The attendance rate at this meeting was 81.82%.

**Meeting of 25 September**

During this meeting, in addition to the usual documents reviewed, the Supervisory Board principally reviewed and approved all the operations related and/or prior to Paris Orléans taking control of Concordia BV, namely:

- the "Framework Agreement" concluded between the French and English branches of the Rothschild family. In particular, this Agreement was to be given prior approval by the Supervisory Board pursuant to the provisions of Article L. 225-86 of the French Commercial Code;
- the draft contribution agreement between Paris Orléans and the various entities of the English branch concerning the contribution of Concordia BV securities by said entities to Paris Orléans;
- the draft contribution agreement between Paris Orléans and its subsidiary SFIR, concerning the contribution by Paris Orléans, to SFIR, the dedicated holding company for Group shareholdings in the banking business line.

Moreover, in accordance with the provisions of Article L. 225-86 of the French Commercial Code, the Supervisory Board was called on to grant prior authorisation to the implementation of a carried interest programme to associate employees with the profits and risks of the investment portfolio set up by the company.

The attendance rate at this meeting was 90.91%.

**Meeting of 7 December 2007**

The agenda for this meeting covered, in addition to the financial documents or usual business reports reviewed, the development of the operation to reorganise the banking group and the composition of the Supervisory Board and of the Audit Committee.

As regards taking control of Concordia BV, the Board was, in particular, required to approve the draft resolutions submitted to the General Meeting of Paris Orléans shareholders that was to vote on these operations and, in accordance with the provisions of Article L. 225-86 of the French Commercial Code, the Supervisory Board was required to grant prior authorisation to three agreements:

- a first agreement concerning the advisory engagement requested by Paris Orléans from Rothschild & Cie Banque concerning the operation to take control of Concordia BV;
- a second agreement concerning the repurchase by Paris Orléans from Rothschild & Cie Banque of a block of Paris Orléans securities to eliminate the treasury shares, in accordance with the requests by the Autorité des Marchés Financiers;
- a third agreement, as an extension of the second, to conclude a liquidity contract with Rothschild & Cie Banque.

Concerning the membership of the Supervisory Board, this Board recorded:

- the end of the duties of two of its members and co-opted two new members as replacements, including one independent director;
- the end of the duties of a non-voting member of the Board ("*Censeur*");
- and the appointment of a new standing representative of a member of the Board that is a corporate body.

Moreover, this Supervisory Board meeting was also required to approve an agreement to dispose of an apartment, pursuant to Articles L. 225-86 and L. 225-68 paragraph 2 of the French Commercial Code.

The attendance rate at this meeting was 81.82%.

The Board ensured that the market was kept properly informed, in particular through press releases.

### 1.1.2. Presentation of the Executive Board

#### **Composition**

Since 1 April 2006, the Executive Board of Paris Orléans has comprised four members appointed by the Supervisory Board. The Supervisory Board appointed a Chairman and a Managing Director from among its members.

- Mr Sylvain Hefes is the Chairman of the Executive Board, and Mr Georges Babinet is the Managing Director.
- Messrs Michele Mezzarobba and Emmanuel Roth are both members of the Executive Board.

In accordance with the appointments made and the provisions of the company's articles of incorporation, the Executive Board carry out its functions for a period of two years.

#### **Organisation and functioning**

The organisation and operating procedures of the Executive Board are established by the law and by the company's Articles of Association.

The Executive Board shall meet whenever required, upon verbal or written invitation to attend by the Chairman, or at least half of its members, either at the registered office, or any other location.

#### **Activity during financial year 2007/2008**

Since 25 September 2007, the members of the Executive Board have been able to attend meetings of the Executive Board using both video conferencing and telecommunication methods, and be deemed to be present. Between 1 April 2007 and 31 March 2008, the Executive Board met on several occasions to examine the interim and annual financial statements and to make decisions regarding new investments and disposals.

Documents containing the agenda and in particular a detailed list of each disposal and new investment under consideration or individual or consolidated financial statement to be examined are provided to each member at least forty-eight hours in advance of each Executive Board Meeting.

In addition to the meetings concerning the preparation of the quarterly report provided for by Article L. 225-68 of the French Commercial Code, the meeting covered the closing of the individual and consolidated financial statements for the financial year ended 31 March 2008 and the various meetings on decisions concerning investments (acquisitions and disposals), the Executive Board held four meetings bearing in particular on the major operation to restructure the banking Group by taking control of Concordia BV.

### 1.1.3. Presentation of the Audit Committee

#### **Composition**

The Audit Committee is composed of three members: Christian de Labriffe, André Levy-Lang et Philippe Sereys.

#### **Powers**

The Audit Committee is appointed by the Supervisory Board and counts among its members one or more members of the Supervisory Board with expertise in accounting and finance.

The Audit Committee's principal assignments are:

- examining the financial statements firstly submitted to the Executive Board, principally as concerns the accounting estimates and assumptions used, and their pertinence to the situations reflected by these financial statements;
- assessing the quality of internal controls;

- ensuring the independence and objectivity of the Independent Auditors belonging to groups providing both audit and advisory functions.

#### **Activity during financial year 2007/2008**

During the financial year, one of the members of the Supervisory Board who resigned, and who was also a member of the Audit Committee, was replaced by André Levy-Lang, a member of the Supervisory Board.

The Committee met on three occasions, on 5 December 2007 to review the half-yearly financial statements, on 4 June 2008 to review the results of the banking activity and on 27 June 2008 in order to review the individual and consolidated financial statements for the financial year ended 31 March 2008.

The Audit Committee reported to the Supervisory Board on its work and proposals.

#### **1.2. Limitations placed on the powers of the Chairman of the Executive Board by the Supervisory Board**

The Executive Board ensures the management of the company in all senses. It approves the yearly and interim individual and consolidated financial statements and determines the main operational and development strategies. The Executive Board shall specifically meet for any investment or disposal decisions. Decisions are made unanimously by its members.

The Board is vested with the most extensive powers to act on behalf of the company, subject to the powers expressly granted by law to the Supervisory Board and General Meetings of shareholders.

The Executive Board may delegate those of its powers that it deems necessary.

#### **1.3. Compensation of members**

##### **1.3.1. Compensation of the Supervisory Board**

During the financial year just ended, the total compensation received by members of the Supervisory Board amounted to €102 thousand.

The General Meeting is authorised to allocate fixed annual directors' fees to the members of the Supervisory Board. These fees are recorded among the general administrative costs of the company.

The Supervisory Board distributes this compensation among its members as it sees fit. It also determines the compensation of the Chairman and Vice-Chairman.

The Board can also authorize one-time payments to certain of its members for any special assignments or appointments requested of them.

As at 31 March 2008, the members of the Supervisory Board and officers of the company, directly and personally, held 0.79% of the capital and 2.60% of the voting rights.

##### **1.3.2. Compensation of the Executive Board**

The compensation of the members of the Executive Board includes both a fixed and a variable component. The variable component of compensation is calculated each year by the Chairman of the Executive Board based on the performances of the Group and each of the members.

In the light of the fact that the Chairman of the Executive Board holds many positions within the Rothschilds Continuation Holdings AG (RCH) sub-group and its subsidiaries, all of his compensation is paid by the RCH group.

##### **1.3.3. Compensation of the Directors and Officers**

In compliance with the law, the total compensation and benefits in kind paid during the financial year just ended are presented in the Executive Board's management report.

## 2. Internal control

### 2.1. Scope of application

This report concerns all controlled companies that fall within the consolidation scope of the Paris Orléans Group.

The Paris Orléans Group has two main activities:

- private equity activities, placed under Paris Orléans;
- banking activities, placed under the holding company of the Group, Concordia BV. The operational management of the Concordia BV Group is performed by Rothschilds Continuation Holdings AG (RCH), for which the main Group entities are NM Rothschild & Sons (NMR), Rothschild & Cie Banque (RCB), Rothschild Bank International Limited (RBI) and Rothschild Bank AG (RBZ).

### 2.2. Internal control objectives and references

The internal control framework is defined and implemented by the Supervisory Board, the Executive Board and all Group employees. It aims to prevent and manage risks that result from the company's activity and participating interests, as well as risks of error or fraud.

The framework implemented at Paris Orléans, pursuant to the standards referred to below, is deployed in a way that is adapted to the various business lines and risks, at each of Paris Orléans Group's level. The standards and internal procedures are characterised by the following tasks assigned to them:

- the effectiveness and efficiency of how company operations are run;
- fraud prevention and detection;
- compliance with laws and regulations, internal standards and rules;
- reliability of accounting and financial information;
- protection of the organisation's assets.

Moreover, the Group's internal control and risk management environment is specified below:

- financial reporting framework at consolidated level - Paris Orléans;
- regulatory provisions that govern the activity, in particular laws, decrees and orders applicable to Paris Orléans' activity - the French Commercial Code - the French Monetary and Financial Code - the General Regulations of the "Autorité des Marchés Financiers" and the principles

and standards of the "Conseil National de la Comptabilité";

- internal standards and procedures: company bylaws, Supervisory Board internal regulations, the Audit Committee's charter, framework of powers of attorney, definition of the divisions' assignments and functions in the form of an organisation chart, and consolidated Group's accounting standards and principles.

### Frameworks for the Group's banking activities

#### External frameworks

- European directives;
- French laws and regulations that apply to RCB bank in France, particularly in with regard to internal control (CRBF 97-02 and 2001-01), regulatory and reporting obligations (regulatory ratios, annual report to the French Banking Commission on internal control, etc.);
- rules and regulations issued by local regulatory authorities, particularly principles and regulations laid down by the Financial Services Authority (FSA) for Concordia BV and NMR, Guernsey Financial Services Commission (GFSC) for RBI and Federal Banking Commission (CFB) for RBZ.

#### Internal frameworks at local level

- instructions and recommendations by sessions of the internal control and risk management committees, that exist at local level;
- body of the internal policies and procedures that govern the Bank's activities, in particular loan commitment procedures, powers of attorney, limitations on management powers, etc.

### 2.3. Organisation principles for internal control framework

Within the Paris Orléans Group, internal control framework is centralised at the level of the parent company and relies on the local frameworks implemented in its main subsidiaries. In this context, Paris Orléans is involved in all the strategic, operational and financial decisions taken by the Group's associates.

#### 2.3.1. Organisation of internal control at consolidated level

At consolidated level, the Paris Orléans Supervisory Board exercises continual control over the management of the company, through the Executive Board. In this way, the Supervisory Board monitors



the management of the main risks incurred by the Group, and ensures the quality of the internal control framework, in particular that regarding the reliability of the accounting and financial information disclosed to outside parties.

The Audit Committee assists the Board, in order to ensure monitoring of the parent company and consolidated financial statements. Using the observations of the Statutory Auditors as a basis, the Audit Committee also assesses the quality of the Group internal control.

The principles that govern the control and risk management system were defined by the Supervisory Board and laid down in the Board internal regulations, which also include the charter for the Audit Committee. This document was adopted during the meeting of the Supervisory Board on 5 July 2006, and was amended during the General Meeting of 25 September 2007.

In order to ensure compliance with the risk monitoring requirements on a consolidated basis, the global framework is divided into two accounting control sub-processes that are dedicated to each business line:

- For private equity activities, placed under the auspices of Paris Orléans:  
The responsibility for the control framework directly falls to Paris Orléans, insofar as the private equity activity is the company's core business. The accounting control functions have been assigned to the Central Finance Division, which is responsible for drawing up the parent company and consolidated financial statements.
- For banking activities in France and worldwide, placed under the auspices of the holding company at the head of the Group, Concordia BV:  
The framework is based on a strict separation of responsibilities between the parent company, Paris Orléans, and the entities affiliated to Concordia BV. In this regard, they retain responsibility for all operational decisions, activities and the management of the risks that fall within their scope, which also includes the task of performing accounting control on their financial statements and the consolidation package provided to Paris Orléans.

Group monitoring is performed through a control framework that oversees the accounting consolidation process. The means of verification are based on controls of the integrity of the accounting

and financial information by the Central Finance Division and the accounting review by the Statutory Auditors as part of their certification work.

As a complement, the Group Management is regularly provided with monitoring and activity reports that enable it to follow changes in the risks for all the activities.

### 2.3.2. Organisation of the internal control for Group's banking activities

Concordia BV's activities cover two business divisions:

- activities in the "World – excluding France", region represented through Rothschilds Continuation Holdings ("RCH"), which is regulated by the FSA;
- activities in the "France" region, represented through Rothschild & Cie Banque ("RCB"), which is regulated by the French Banking Commission.

As regards the "World - excluding France" region, the internal control activities are organised around three structures:

- the RCH Board of Directors is responsible for implementing and reviewing the corporate governance and risk management framework for the Concordia BV Group, as part of the Group Risk Framework, in accordance with the statutory and regulatory requirements that apply to the Group's activities.
- the Audit Committee, which assists the Supervisory Board, is responsible for providing and independent assessment of the effectiveness of the risk management framework (financial and non-financial risks) and of the internal control.
- the Group Management Committee, in its capacity as the main executive structure of the RCH Group, is responsible for the proper operation of the Group corporate governance structures and the implementation of the principles and procedures.

The Group Risk Framework defines the global risk management policy for the "World" region. The approach to implementation is based on three levels of control: the first is performed within the operational framework, the second is part of the functions dedicated to risk management and operational compliance and the third is performed by the Internal Audit department. Lastly, the process for drawing up accounting and financial information is overseen by a specific framework at the level of RCH.

For the "France" region, the Internal Control framework implemented by RCB and its subsidiaries

is based on an organisation that separates the various types of control within separate departments:

- Periodic Control is placed under the authority of the Internal Audit Committee. Controls by the Internal Audit Management are performed as part of a multi-year control programme that is first validated by the Committee. In parallel, the Audit Committee performs the periodic control that ensures the effectiveness and relevance of the internal models used for operational risk.
- The coordination of risk surveillance and measurement is provided by the RCB Compliance and Operational Risks Committee. To provide assistance, four ad hoc committees were set up: the Internal Control Committee that is common to RCB and Rothschild & Cie Gestion, the Corrective Actions Committee, the Operational Risks Committee and the RCB & RCG Internal Model Design Committee for operational risks. The continual control and compliance department has dedicated, independent personnel, who prepare the work for each of the committees.

### 2.3.3. Development prospects for the framework

Taking control of 100% of Concordia BV by Paris Orléans in January 2008 gave Paris Orléans the role of Group control structure. Under the remit of the Paris Orléans Executive Board and Audit Committee, work was started at the level of the company in order to adapt the organisation of the internal control and risk management framework to the new Group consolidation scope.

At the level of Paris Orléans, the reorganisation will be implemented with a twofold objective:

- the implementation of an organisation based on the best risk management practices for the entities that make up the Group;
- compliance with regulatory requirements in terms of internal control, risk management and reporting packages, defined by its regulatory authority.

The project started in mid-April 2008 with the identification of the Group's best practices. The work is divided among the various Group activities on the consolidated scope: the "Private Equity" activities at the level of Paris Orléans, the banking activities in France, represented by RCB, and the banking activities throughout the world (excluding France) represented by RCH.

## 2.4. Summary description of the internal control systems

### 2.4.1. Periodic control framework

The periodic control implemented aims to ensure compliance with external and internal rules, risk management, reliability and completeness of information and existence of risk measurement systems. This framework is based on a decentralised responsibilities system within each entity, inside their delegation scope.

At the level of Paris Orléans, Group periodic control is performed through the supervision activities of the Supervisory Board, in particular within the Audit Committee. The control scope essentially covers the accounting and financial area of the parent company and consolidated financial statements.

As regards the main companies in the banking division (from all regions), each of them is responsible for implementing, running and keeping its system of internal control up-to-date. In all these entities, the function is organised around the specific internal audit business lines, which are independent of operational activities. Audits are organised on the basis of formalised methodology and IT tools that allow control requests to be made. The work performed is organised by an annual control programme approved by the local internal Audit Committee. Joint assignments between the various internal audit teams can also be performed, in particular by the dedicated teams from RCH and RCB for the periodic control of their jointly-held subsidiary: Rothschild Europe BV. Lastly, the result of the controls and the recommendations are presented to the Internal Audit Committee. This records the controls performed, validates the corrective actions and monitors the implementation of these actions.

### 2.4.2. Internal control framework for financial and accounting matters

#### 2.4.2.1. Process for drawing up the consolidated financial statements

The Central Finance Division reports directly to the Executive Board and is responsible for preparing and controlling the financial and accounting information. It is divided into two departments: Parent Company Accounting and Consolidated Accounting.

As regards the accounting consolidation, the consolidation unit manages the chart of accounts

and associated frameworks, centralises the Group consolidation work, controls the consistence and completeness of the data, and draws up the associated consolidated financial statements and financial statements. In this regard, it implements two procedures on a half-yearly basis:

- a procedure for transmitting individual accounting data from all the Group entities. This process is managed semi-automatically using the Group worldwide consolidation tool “Magnitude” that was implemented at the end of 2007 by all the Group’s subsidiaries. A mixed data supply solution has been implemented:
  - for banking subsidiaries that are sub-consolidated at the level of Concordia BV: an initial level of sub-consolidation is performed at the level of Concordia BV. The transmission of accounting data is automated and is performed directly under IFRS;
  - for Paris Orléans: an initial sub-consolidation is performed at this level in order to reconcile the accounting data between the various French and foreign subsidiaries;
  - for the private equity subsidiaries in France: the accounts and individual consolidation packages are drawn up under French GAAP in the CEGID accounting application. The principle of consolidation is based on the entry of retreatments. Data is supplied through an interface between the two accounting information systems.
  - for the private equity subsidiaries outside France, the individual accounts are re-entered in the consolidation software by the accounting department;
- a procedure for drawing up and controlling the consolidated financial statements. Once the data has been fed into the Magnitude application, “blocking” controls - defined by the Group - are applied in order to validate the consistency of the accounting data, the validity of the flows and the integrity of the analyses. As a complement to these controls, drawing up the consolidated financial statements includes a four-part review:
  - understanding the move from parent company financial statements to consolidated financial statements;
  - control of the matching of inter-company transactions and the analysis of capital of companies within the Group;
  - the reconciliation of shareholders’ equity;
  - ensuring consistency by the analysis of the changes in the consolidated balances between two financial years.

#### **2.4.2.2. Accounting control process**

The accounting control process is based on a combination of the control systems implemented at each level of the Group organisation: i.e. at the level of each business line (private equity and banking) for the preparation of individual financial statements and at the level of the Central Finance Division for preparation the consolidated financial statements.

##### ***Accounting control framework for the private equity business line***

Insofar as these activities are directly performed by Paris Orléans, the Central Finance Division is responsible for validating the financial statements. The framework includes the following levels of control:

- a first level – a type of self-control – that is performed as part of the accounting process. These controls are performed daily by the Paris Orléans accounting department on the scope of the subsidiaries located in France, and by accounting firms for the foreign subsidiaries located in Luxembourg and the United States.
- at an intermediary level, by the accounting department, where the controls that are intended to ensure the reliability and completeness of the accounting and financial information are performed;
- at another level, which involves the Statutory Auditors within the scope of the accounting certification, performed on half-yearly and annual bases.
- a final level of control is ensured by the Audit Committee work. The remit of the Audit Committee is to review the Paris Orléans sub-consolidated and consolidated financial statements.

##### ***Accounting control framework for the banking business line***

For the banking activities that are sub-consolidated at the level of Concordia BV, the Central Finance Division relies on a de-centralised framework in which the control functions are assigned to the managers with local responsibility for preparing the financial statements.

The accounts are sub-consolidated at the level of Concordia BV using the Magnitude consolidation software. Accounting information is transmitted automatically from the local entities. Once the data has been fed into the application, “blocking” controls are applied in order to validate the consistency of the balance sheet, the validity of the flows and the integrity of the analyses. In the event of a block,



the accounting department makes the necessary corrections to the consolidation packages. Moreover, drawing up the consolidated financial statements includes a review of the move from parent company financial statements to consolidated financial statements, in particular a review of inter-company matching and reconciliation of the shareholders' equity. At parent company and consolidated level, the accounting control framework is completed by the certification of the financial statements by the Statutory Auditors and the review of the parent company and consolidated financial statements by the Audit Committee, prior to approval by the Supervisory Board.

For the purposes of consolidation at the level of Paris Orléans, the main banking subsidiaries in the Concordia BV subgroup draw up a standardised certification at the end of the financial year, the "representation letter". This document specifies the qualitative conditions under which the accounts were produced and therefore allows the Chairman of the Paris Orléans Executive Board and the Central Finance Division to sign the representation letter that is intended for the Paris Orléans Statutory Auditors. The structures called on by this procedure are as follows:

- Rothschilds Continuation Holdings AG (Zug);
- NM Rothschild & Sons Limited (London);
- Rothschild Bank International Limited (Guernsey);
- Rothschild Holding AG (Zurich);
- Rothschild North America Inc. (New York);
- Rothschild Australia Limited (Sydney);
- NM Rothschild & Sons (Hong Kong) Limited;
- NM Rothschild & Sons (Singapore) Limited.

#### **Accounting control framework at consolidated level**

In addition to the control procedures described above, the consolidation process is accompanied by integrity checks on the consolidated accounting information. These are performed by:

- the Paris Orléans Central Finance Division, and in particular the accounting and consolidation unit. In addition to the controls on the integrity of the accounting information, this unit manages the aspects related to the controls performed by the Statutory Auditors and the other external control structures;

- the Statutory Auditors as part of the certification of the financial statements. The work is performed in accordance with professional standards: audit of the individual and consolidated financial statements for the Paris Orléans Group, limited review of the half-yearly consolidated financial statements and reading of all the media that presents financial information.

The accounting control framework is completed by a review of the financial statements performed by the Audit Committee prior to approval by the Supervisory Board.

#### **2.4.3. Other internal control facilities implemented at the Group**

The other internal control frameworks are for the most part organisations implemented within the banking business lines for the regions "France" and "World - outside France" on all aspects: information systems security, business continuity plans "BCPs" and the prevention and control of non-compliance risks.

##### **2.4.3.1. IT system security and the BCPs**

Security rules for the information systems are applied locally by each Group entity, such as data management (backup and archiving) and employee authorisations, the physical security of hardware and software, IT operations and the development and management of applications.

As a result, business continuity frameworks - which include the definition of the BCPs and the IT emergency plans - have been deployed by each subsidiary in order to deal with the various crisis scenarios selected at local level. The BCP policies are documented and contain all the information concerning the classification of activities by level of importance, the risk exposure scenarios, the crisis framework and the processes to be implemented on the backup site. These processes are generally accompanied by emergency plan tests in order to ensure the effectiveness of the framework.

Lastly, the framework is reinforced by the IT audit work performed by a team of auditors who are experts in this field. This team is part of the RCH Internal Audit department. The investigation scope covers all the IT systems implemented in banking subsidiaries in the "France" and "World" regions.

The controls mainly concern assessments of security, in order to ensure the compliance of the processes and methods implemented in these systems, and identifying the dysfunctions that require corrective actions. The IT audit programme and the observations triggered by these controls are reviewed and reported to the RCH Internal Audit Committee

#### **2.4.3.2. Prevention and control of non-compliance risks in the banking activities**

In the Concordia BV sub-group, a specific framework has been implemented in order to deal with non-compliance risks that could arise in banking subsidiaries in the “France” and “World” regions.

The organisation of the framework is based on co-ordinating responsibilities between:

- the Group Compliance Director, in the banking activity scope. His remit is to ensure the direction, coordination and functioning of Group compliance, in conjunction with local correspondents, who constitute a first point of contact in each operational entity;
- local compliance correspondents, who monitor and regularly review - with complete independence - the security and compliance of the operations by business line, within their scope of intervention and responsibility.

The non-compliance risk framework is consolidated by a system of existing procedures and awareness-raising initiatives among the staff of the banking subsidiaries, in all regions. Moreover, the permanent monitoring of these risks is based on regular reporting, which contributes to the information provided to each level of the organisation (from the subsidiary to its direct parent company).

## **2.5. Summary description of risk management facilities**

### **2.5.1. Organisational principles**

As stated previously, the framework is based on a decentralised organisation of risk functions at the level of each establishment, with regard to their scope of activity. The Group implements processes and frameworks to measure, monitor and manage

its risks. The main frameworks are built around the Group's two principal business lines:

- the Risk department, which is dedicated to the private equity activities and placed under the responsibility of the Paris Orléans Executive Board, performs the global monitoring and management of risks. It contributes to the drafting and implementation of the investment policy, as well as the risk control policy, in particular through the Investment and Monitoring Committee.

- the Risk department that is dedicated to banking activities, which is evidenced by the existence of Risk functions at local level, in most cases placed under the auspices of the Risk Division at Banking Group level.

At its level, the Risk Department defines the policies implemented and monitors the risks. The role of Department employees is to assist the establishment in measuring, controlling and managing the risks, in order provide ongoing support to the Commercial Divisions in the development of their activities. Accordingly, they work on all activities that fall within their scope of operation.

The operating of these departments revolves around the Committees and frameworks that are specialised by type of risk. This organisation is also supported by measurement systems that are implemented locally, which provide regular information on the level of risks. On a consolidated basis, the measurement and direction of all the Group risks is key in the short-term, in order to reinforce the current framework following the new consolidation scope.

In accordance with the aforementioned organisation principles, the oversight of these risks gives rise to the implementation of risk limitation systems, which most Group entities have:

- global limits, most of which are evidenced by risk policies, risk division rules and commitment limits per risk factor;
- operational limits, which are stipulated as part of strict procedures, in particular the process for taking decisions on the basis of formalised analyses, levels of powers of attorney, including the conditions under which specialised committees intervene.

### 2.5.2. Risk measurement and monitoring

From a consolidated standpoint, the activities of the Paris Orléans Group are exposed to four major categories of risk:

- credit risk - which corresponds to the risk of loss due to the counterparty's inability to meet its financial obligations - is mainly linked to the banking activities in the World excluding France region.

Credit policies are based on a set of rules and procedures for identifying, monitoring and controlling risk. Susceptibility to credit risk is defined by a system based on the rules for granting credit, an internal rating system (for NMR and RCI), and limits (for the major risks and concentrations by segments and geographical locations). The information systems make it possible to set up reporting packages for monitoring and detecting individual and global portfolio risks.

- financial risks - which include global liquidity, payment, interest and exchange rate risks - are caused for the most part by banking activities, participating interests and cash flow operations performed in the Group.

As a complement to the various financial risk policies defined in each local structure, financial risks are assessed on the basis of a combination of indicators:

- regulatory ratios laid down by the banking supervisory bodies, such as the solvency ratio and the liquidity ratio for institutions that are subject to French regulatory standards;
- the monitoring of outstandings and portfolio positions;
- the system of limits, which aims to control risk exposure.

- operational risk (which also includes non-compliance risk) is the risk of loss that results from a lack of adaptation or default that is attributable to procedures, personnel and internal systems, or external events.

- As part of Basel 2 regulations, the Group banking subsidiaries implemented frameworks for managing operational risks. The systems for measurement and monitoring are based on frameworks and a group of methodologies and calculations for capital that needs to be assigned to these risks. Steps taken locally involved all employees.

- other risks involve, in particular, reputation and image risk, legal risk and the risk linked to pension commitments.

## 2.6. Work performed and assessment of the internal control framework

### 2.6.1. Work that contributed to the preparation of the report

Under the authority of the Chairman of the Supervisory Board, this report was drawn up on the basis of the work performed throughout the 2007-2008 financial year by the managers of the internal control and risk departments in the Paris Orléans Group. The Chairman of the Supervisory Board used the documentation on the risk management framework, the available reporting packages and financial statements, and the reports and minutes from the various Committees that exist within the organisation. Drawing up the report required regular exchanges between the various representatives of the risk and internal control departments in order to appreciate the full extent of the framework. Moreover, the report underwent an intermediary review stage at Paris Orléans, before being presented to the Audit Committee.

Lastly, this report was presented during the Audit Committee meeting of 27 June 2008, and was reviewed by the Supervisory Board during its meeting of 30 June 2008.

### 2.6.2. Assessment of the internal control framework

In accordance with the organisation terms and conditions described above, and the frameworks and procedures that exist at the Paris Orléans Group, the Supervisory Board, the Executive Board and the structures concerned benefit from information on the internal control procedures and the level of exposure to the risks of the various Group entities. As an additional measure, they are regularly made aware of internal reporting and control findings.

Furthermore, the internal control and risk management framework is constantly being adapted in order to ensure control of the risks that are associated with the activities of the Paris Orléans Group.