Chairman of the Supervisory Board's report on the conditions under which the Board's work is prepared and organised and on internal control and risk management procedures

In accordance with the provisions of Article L. 225-68 of the French Commercial Code (*Code de Commerce*), this report presents the composition of the Board and the conditions under which its work is prepared and organised and describes the internal control and risk management procedures implemented by the Group.

This report has been prepared based on interviews and meeting with members of Paris Orléans' Executive Board, managers of the various operating and functional departments and with the different parties involved in the Group's internal control.

After careful analysis by Paris Orléans' Audit Committee, the report was presented to and approved by the Supervisory Board, meeting on 30 June 2009.

Section 1 – Composition of the Supervisory Board and conditions under which its work is prepared and organised, corporate governance, terms and conditions of attendance at General Meetings and information required pursuant to Article L. 225-3 of the French Commercial Code

1.1. Composition of the Supervisory Board and conditions under which its work is prepared and organised

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

1. Presentation of the Supervisory Board

Composition

Paris Orléans' Supervisory Board is composed of ten members: Éric de Rothschild (Chairman), André Lévy-Lang (Vice-Chairman), Martin Bouygues, Claude Chouraqui, Russell Edey, Christian de Labriffe, Philippe de Nicolay, Robert de Rothschild, and Rothschild & Cie Banque represented par Marc-Olivier Laurent and Philippe Sereys.

Under the company's Articles of Association, the term of office of Supervisory Board members is three years. Each Board member must own at least ten shares in the company.

At 31 March 2009, three of the ten members of the Board qualified as independent members: André Lévy-Lang, Martin Bouygues and Philippe Sereys.

The General Meeting of Shareholders may appoint one or more non-voting members (*censeurs*) from among the shareholders or externally. The Supervisory Board may also appoint non-voting members subject to ratification by the next General Meeting of Shareholders. Non-voting members are appointed for a term of three years. They are responsible for ensuring strict application of the company's Articles of Association and attend Board meetings and participate in deliberations in a consultative capacity.

Michel Cicurel and Jean-Philippe Thierry attend Supervisory Board meetings as non-voting members.

Powers of the Supervisory Board

The Supervisory Board exercises permanent control over the company's management through the Executive Board. It is responsible for authorising the Executive Board to carry out transactions that it may not, in accordance with the law and the company's Articles of Association, carry out without the Supervisory Board's authorisation.

The Supervisory Board carries out all the checks and controls it considers appropriate and may request any documents it considers necessary for completing its duties. It may give specific assignments to one or more of its members in one or more specific areas.

The Executive Board reports to the Supervisory Board's Chairman on a monthly basis on the company's equity interests, cash, transactions carried out and its level of debt, if any.

As required by the Articles of Association and by the law, at least once a quarter the Executive Board reports to the Supervisory Board on the company's activities.

Once the company and consolidated financial statements have been approved by the Executive Board, the Supervisory Board carries out the checks and controls it considers necessary, reviews the Report of the Executive Board and draws up the observations it will present to the Annual General Meeting of Shareholders.

Organisation and operation

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

The Supervisory Board may create committees within its organisation and determine their composition and duties.

The Supervisory Board's internal rules were adopted on 5 July 2006 and amended in 2007 to allow the use of new telecommunication methods – such as video conferencing – for holding Board meetings. The internal rules were further amended on 21 January 2008 in the framework of changes to the Articles of Association following the takeover of the Concordia BV group. On 30 June 2009, they were again amended to take into account the new requirements pursuant to Order n° 2008-1278 of 8 December 2008 relating to the statutory audit of financial statements and the legal framework for audit committees.

At least forty-eight hours before each Board meeting, each member receives a file containing a detailed description of the items on the agenda, and containing at least the following:

- the draft minutes of the previous meeting;
- detailed analysis of the company's asset valuation;
- as required by law, the Executive Board's quarterly report on the company's activities (both banking and private equity activities);
- commented accounting financial statements;
- proposed budgets (if any) accompanied by comments; and
- depending on events, any draft press releases.

2. Review of the Supervisory Board's activity in 2008/2009

The Supervisory Board met five times in 2008/2009. In addition to reviewing the usual documents listed above, these meetings dealt with the following specific subjects:

Meeting of 14 April 2008 (attendance rate: 81.82%)

Review of the 2008/2009 budget.

Meeting of 30 June 2008 (attendance rate: 90.91%)

Preparation of the Ordinary General Meeting of 29 September 2008. In particular, the Supervisory Board:

- reviewed the company and consolidated financial statements approved by the Executive Board; and
- reviewed the Report of the Executive Board and the draft resolutions proposed to the General Meeting.

At this meeting, the Supervisory Board also took note of the agreements covered by Article L. 225-87 of the French Commercial Code ("ordinary agreements").

Meeting of 29 September 2008 (attendance rate: 100%)

At this meeting, the Supervisory Board decided on the renewal of the Executive Board members' terms of office and renewed the appointments of the Chairman of the Executive Board and of the Managing Director for a term of two years. It appointed André Lévy-Lang as Vice-Chairman of the Board to replace David de Rothschild who joined the Executive Board.

This meeting was held at the end of the Annual General Meeting of Shareholders, which was attended by all the members of the Board.

Meeting of 1 December 2008 (attendance rate: 100%)

The agenda for this meeting included:

- review of the work carried out within the Group with a view to putting in place an internal control and risk management system at consolidated level following the takeover of the banking group in January 2008;
- prior approval of the regulated agreements described in the Auditors' Special Report;
- review and approval, as required by the Articles of Association, of the development of the Group's merchant banking activity through Five Arrows Principal Investments; and
- AFEP-MEDEF recommendations of October 2008 relating to the compensation of corporate officers.

Meeting of 27 March 2009 (attendance rate: 100%)

Review of the budget and prior authorisation of a regulated agreement described in the Auditors' Special Report.

3. Assessment of the Board's organisation and working methods

On 30 June 2009, the Supervisory Board performed a self-assessment as recommended by the AFEP-MEDEF Code of Corporate Governance.

The three objectives of this self-assessment were to:

- review the Board's operating methods;
- check that important issues are properly prepared and discussed; and
- assess each member's and non-voting member's contribution to the Board's work in the light of his or her competencies and involvement.

With regard to the above, the Board's members and non-voting members had a universal positive view of the information provided to them, the way in which meeting was organised and the debates chaired by professionals of strong reputation, in particular in the financial and banking fields.

4. Specialised Committees – Audit Committee

The Audit Committee is the sole specialised committee. This committee as the Board members fulfil their functions on a collective basis.

Under the provisions of Order n° 2008-1278 of 8 December 2008 transposing 8th directive 2006/43/EC of 17 May 2006 relating to the statutory audits of accounts and setting the legal framework for audit committees, companies whose shares are listed on a regulated market must put in place an Audit Committee.

The Board had created an Audit Committee in 2004 when it decided to adopt the 23 October 2003 AFEP-MEDEF recommendations.

All the Audit Committee members, two of whom are independent members, have financial or accounting skills.

Composition

The Supervisory Board determines the Audit Committee's composition, bearing in mind that it may only be composed of Supervisory Board members and cannot include any member with management functions.

At 31 March 2009, the Audit Committee was composed of three members: Christian de Labriffe (Chairman), André Lévy-Lang (independent member) and Philippe Sereys (independent member).

Audit Committee – Responsibilities, resources and scope

The Audit Committee is responsible for monitoring all issues relating to the preparation and control of financial and accounting data. In particular, it is responsible for monitoring:

- the preparation of financial information;
- the efficiency of the internal control and risk management systems;
- the statutory audit of the company and consolidated accounts by the Statutory Auditors; and
- the independence and the objectiveness of the Statutory Auditors.

The Committee examines the annual and interim company and consolidated financial statements before these are presented to the Supervisory Board. Any event that could give rise to a significant risk for the company is referred to the Audit Committee by the Executive Board and the Statutory Auditors.

In accordance with the Supervisory Board's internal rules, the Audit Committee can draw on the help of company or Group employees as necessary. It is empowered to obtain any information it considers necessary to fulfil its task from Executive Board members, their staff and the company's, or its subsidiaries' Statutory Auditors.

Activity

The Audit Committee met three times in the 2008/2009 financial year (three times in 2007/2008) with an attendance rate of 100%: on 28 November 2008 to review the half-yearly financial statements, on 5 May 2009 for a preliminary review of the consolidated financial statements and on 29 June 2009 to examine the company and consolidated financial statements for the financial year ended 31 March 2009.

In addition, in the context of strengthening the Group's internal control and risk management system at consolidated level, all the Audit Committee members attended the meetings of the Rothschilds Continuation Holdings sub-group's audit committee held on 17 March 2009 and 2 June 2009.

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

1.2. Corporate governance

Companies can now refer to the AFEP-MEDEF Corporate Governance Code for Listed Corporations published in December 2008, which consolidates the recommendations issued in the October 2003 report and the recommendations relating to compensation of corporate officers issued in January 2007 and October 2008.

In accordance with the law of 3 July 2008, the Chairman of the Supervisory Board confirms that the company refers to this corporate governance code.

Furthermore, at the Board meeting of 30 June 2009, the Supervisory Board noted that the company had already implemented most of the recommendations contained in this code, and approved this report.

The Board nonetheless noted that there were no specialised committees other than the Audit Committee created in 2004, on the basis that the Supervisory Board members perform their duties on a collective basis.

At the 1 December 2008 Board meeting, the Supervisory Board, asked to give its view of the AFEP-MEDEF recommendations relating to the compensation of corporate and executive officers, noted that these recommendations were in line with the company's corporate governance approach and approved them. The Board also noted that the company has not issued stock options or bonus shares to its corporate officers, has not consented golden parachutes nor given any commitment that falls within the application scope of Article L. 225-90-1 of the French Commercial Code. This article applies and which corresponds to any element of compensation, indemnification or benefits due, or likely to become due, on termination of office or change in function of any Executive Board member or subsequently to such event.

The information relating to the compensation of corporate and executive officers is provided in the Report of the Executive Board in the section dealing with this subject (pages 64 and following).

The Board noted that one of the executive corporate officers was tied to the company by an employment contract. The work contract and his appointment as an executive officer were concluded before the October 2008 recommendations were published. The Board decided to examine the possibility of termination when his term comes up for renewal.

Lastly, the Code recommends that all members of the Supervisory Board perform an annual self-assessment of the Board's operation and that a formal assessment be carried out at least once every three years. The Board performed a self-assessment at its meeting on 30 June 2009 and has decided to set an appropriate schedule for performing this procedure in line with the frequency recommended by the Code.

1.3. Terms and conditions of shareholders' attendance at General Meetings

Under Articles 23 and 24 of the company's Articles of Association, all shareholders are entitled to attend General Meetings and vote, either in person or by proxy, regardless of the number of shares they hold, on condition they provide proof of identity and fulfil the formalities required by law.

Shareholders may, as provided for by the regulations, send a proxy or a mail voting form in paper format or, if so decided by the Executive Board and indicated in the notice convening the General Meeting, in electronic format.

All proxies or mail voting forms must be received at the company's registered offices, or any other place indicated in the notice convening the meeting, at least two days before the date of the General Meeting.

Electronically transmitted instructions granting proxy or power of attorney may be accepted by the company in the conditions and within the deadlines established in the applicable regulations.

If a proxy form is returned to the company without indicating the name of the proxy, the Chairman of the General Meeting will vote in the shareholder's name in favour of draft resolutions proposed or approved by the Executive Board and against any other proposed resolutions.

Subject to the reserves and conditions established by the regulations and under the terms and conditions predefined by the Executive Board, the shareholders may attend and vote at all General or Special Meetings of Shareholders by videoconference or any other telecommunication means that enables their identification to be verified. Such shareholders are deemed to be present at the meeting for the purposes of quorum and majority.

1.4. Information provided for in Article L. 225-103-3 of the French Commercial Code

The information required pursuant to Article L. 225-103-3 of the French Commercial Code is provided on page 56 of the Report of the Executive Board and forms an integral part of this report.

Section 2 – Internal control and risk management procedures

2.1. Definition and objectives of internal control

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

Within the general framework and standards described below, the system implemented within the Paris Orléans group is adapted to the various different business lines and risks at each level of the Group. The internal standards and procedures are designed to ensure the following:

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

The framework for internal control and risk management within the Group is as follows:

- Paris Orléans group guidelines at consolidated level;
- the regulations governing 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" (French financial markets regulator, known as the AMF) and the principles and standards established by the French Accounting Council (Conseil National de la Comptabilité);

- internal standards and procedures: the company's Articles of Association, the Supervisory Board's internal rules, the Audit Committee's charter, the guidelines for delegation of powers, the definition of each department's responsibilities and functions in the form of an organisation chart, and the accounting standards and principles for Group consolidation; and
- the AFEP-MEDEF recommendations contained in the code published in 2008.

Framework for the Group's banking activities

External framework

- European directives;
- French laws and regulations that apply to Rothschild & Cie Banque (RCB) in Paris, particularly with regard to internal control (CRBF 97-02 and 2001-01), and reporting obligations to the French Banking Commission;
- laws and regulations applying to Rothschild Concordia SAS, in its capacity as a financial holding company, in particular with regard to the banking group's internal control and risk management at consolidated level; and
- rules and regulations issued by local regulatory authorities, particularly the principles and regulations laid down by the Financial Services Authority (FSA) in London for the Rothschilds Continuation Holdings group (RCH) and NM Rothschild & Sons Ltd (NMR), by the Guernsey Financial Services Commission (GFSC) for Rothschild Bank International Ltd (RBI) and by Swiss Financial Market Supervisory Authority (FINMA) for Rothschild Bank AG in Zurich (RBZ).

Internal framework at local level

- The instructions and recommendations of the existing local internal control and risk management committees; and
- the collection of internal policies and procedures governing the Bank's activities, in particular loan commitment procedures, guidelines for delegation of powers, limitations on management powers, etc.

Internal framework at consolidated level

- The recommendations issued by Group committees.

2.2. Scope of internal control and Chairman's work

1. Scope of internal control

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

The Paris Orléans group has two main activities:

- the banking activities grouped within the operational holding company Rothschilds Continuation Holdings AG which is majority owned by Paris Orléans through Concordia BV. The main entities in the RCH group are NMR, RCB, RBI and RBZ;
- the private equity activities carried out directly by Paris Orléans and indirectly through its subsidiaries outside the banking group.

The internal control system described in this report covers all the operations carried out within the Paris Orléans group.

The Paris Orléans group nonetheless continues to be a decentralised group, including in terms of choice of organisation rules and internal control mechanisms, which vary by company to meet differing requirements due to variations in size, activity and location. This means that the scope and characteristics of each entity's internal control system may be different. It should be noted that each company establishes and implements its own internal control mechanism under the responsibility of its management, in keeping with the Group's philosophy and organisation.

2. Work providing the basis for this report

Under the supervision of the Chairman of the Supervisory Board, this report was prepared based on work carried out throughout the 2008/2009 financial year by the Paris Orléans group's internal control and risk management staff. The Supervisory Board Chairman used the documentation relating to the risk management system, the available management charts and financial statements, and the minutes and reports of the Group's various committees. The preparation of this report required regular contact with all the various parties involved in internal control and risk management so as to acquire a comprehensive view of the system. The report was reviewed by the Audit Committee and approved by the Supervisory Board meeting of 30 June 2009.

2.3. Principles of organisation of the internal control system

1. At consolidated level and at the Paris Orléans level

The principles governing the internal control and risk management system at consolidated level have been defined by the Supervisory Board in its internal rules, which also include the Audit Committee's Charter.

Paris Orléans' Supervisory Board exercises permanent control of the Executive Board's management of the Group. It supervises the management of the main risks incurred by the Group and ensures the quality of internal control, in particular in relation to the reliability of the disclosed accounting and financial information.

The Audit Committee assists the Supervisory Board in overseeing the company and consolidated financial statements. The Audit Committee also assesses the quality of the Group's internal control based on the observations formulated by the Statutory Auditors.

In the case of the private equity activities, the internal control system is centralised at the parent company level and is based on:

- the Supervisory Board, which exercises permanent control of the Executive Board's management of the company;
- the Executive Board, which must unanimously approve each new investment;
- the Audit Committee, which oversees the company and consolidated financial statements; and
- the Investment and Monitoring Committee to which investment proposals are submitted and which monitors all the assets held in the portfolio.

The Investment Committee meets once a fortnight and is composed of members of the Executive Board, members of the investment team, the Middle Office manager and the Deputy Finance Director. The Committee's main functions are to analyse the new deals examined by the investment team, monitor existing shareholdings, discuss the possible development of the shareholdings and propose the disposal of part or all of the investments in the portfolio.

For each sales or acquisition project, the Executive Board sets up a specific team according to the skills required.

Monitoring of the existing portfolio is based on:

- a monthly operating report; and
- contacts and meetings with the managers of portfolio companies whenever necessary.

A summary of investments and divestments is presented to the Supervisory Board at each meeting.

The central finance department responsible for preparing the company and consolidated financial statements is responsible for accounting supervision of the private equity business.

2. At the level of the banking activities

The banking activities comprise two business divisions:

- the "World – excluding France" division grouped under RCH ;
- the "France" division grouped under Rothschild & Cie Banque (RCB).

Executive Board member David de Rothschild coordinates and oversees the Group's banking activities given his general management and operational functions at the levels of RCH, NMR and RCB.

The control system for the banking activities is based on a strict division of responsibilities between Paris Orléans and its subsidiaries. Each subsidiary retains the responsibility for all operating, business and risk management decisions within its scope and for audits of the financial statements and consolidation package transmitted to Paris Orléans. At each entity, the internal control function is organised around specific internal audit units and risk management and compliance departments that are independent from operating activities.

At the "World – excluding France" division, internal control is organised around three bodies:

- RCH's Board of Directors, which is responsible for implementing and overseeing the RCH group's corporate governance and risk management within the Group Risk Framework and in accordance with the legal and regulatory requirements that apply to the Group's activities;
- the Audit Committee;
- the Group Management Committee, which in its capacity as RCH's main management body oversees the proper operation of governance structures at RCH and its subsidiaries and the implementation of principles and procedures.

The Group Risk Framework defines the global risk management policy. This is based on three levels of control: the first at operating level, the second at the risk management and compliance department levels and the third at the level of the Internal Audit units. In addition there is a specific control system at the level of RCH, required by the Swiss Code of Obligations, covering the preparation of accounting and financial information. In the case of the "France" division, the internal control system implemented by RCB and its subsidiaries is organised around two main bodies based on separation of the different types of control within distinct structures:

- the Audit Committee confirms the recommendations arising from periodic reviews;
- the Compliance and Operational Risk Committee co-ordinates the supervision and measurement of risk;
- four special committees have been created to enhance communication and information exchange with operating managers: the Internal Control Committee, the Corrective Action Committee, the Operational Risk Committee and the Capital Requirements Internal Models Committee (dedicated to preparing internal models for calculating capital requirements); and
- the Members Committee is the body that confirms and approves the allocation of capital, approves the financial statements, the budget for the year, the business situation and the reports on internal control and risk measurement and supervision submitted to the French Banking Commission each year (pursuant to Articles 42 and 43 of CRBF Regulation 97-02).

2.4. Summary description of the internal control systems

1. Preparation of Paris Orléans' accounting and financial information

a) Procedure for the preparation of the consolidated financial statements

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

The consolidated accounting unit manages the chart of accounts and associated frameworks, centralises the Group consolidation work, verifies the consistency and completeness of the data, and draws up the related consolidated accounts and financial statements. In this context, it implements two half-yearly procedures:

- a process for gathering individual accounting data from all Group entities. This process is semi-automatic using the Group's worldwide consolidation software at all Group subsidiaries. A mixed data supply solution has been implemented:
  - for banking subsidiaries that are sub-consolidated at the level of Concordia BV, an initial consolidation is performed at the Concordia BV level. The accounting data is transmitted automatically and is prepared according to International Financial Reporting Standards (IFRS);
  - for Paris Orléans: an initial sub-consolidation is performed at this level 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 prepared according to French GAAP. The consolidation principle is based on restated accounts. The data input is provided through an interface between the two accounting information systems; and

- for the private equity subsidiaries located outside France, the individual accounts are re-entered in the consolidation software by the accounting department;

- a process for preparing and verifying the consolidated financial statements. Once the data has been input to the application, "blocking" checks – defined by the Group – are performed to verify the consistency of the accounting data, the validity of the flows and the integrity of allocations. In addition to these checks, the preparation of the consolidated financial statements includes a review of the following four elements:
  - consistency of the translation from parent company financial statements to consolidated financial statements;
  - reconciliation of inter-company transactions and analysis of capital holdings of companies within the Group;
  - the balance of shareholders' equity; and
  - consistency check by an analysis of changes in the consolidated balances between the two financial years.

b) Accounting control

Accounting control is based on a combination of the control systems implemented at each level of the Group: i.e. at the level of each business line (private equity and banking) for the preparation of company financial statements and at the level of the Central Finance Department for the preparation of the consolidated financial statements.

Accounting control framework for the private equity business line

To the extent that these activities are directly or indirectly carried out by Paris Orléans, essentially through the fully-owned subsidiary K Développement SAS, the Central Finance Department is responsible for validating the financial statements. The control system includes the following levels of control:

- a first level of auto-control that is performed as part of the accounting process. These checks are performed daily by the Paris Orléans accounting department for the subsidiaries located in France, and by accounting firms for the foreign subsidiaries located in Luxembourg and the United States;
- a second level of consistency checks performed by the accounting department to ensure the reliability and completeness of the accounting and financial information;
- a third level, involving the Statutory Auditors in the context of the half-yearly and annual audits of the financial statements; and
- a final level of control is ensured by the Audit Committee, whose task is to review the Paris Orléans sub-consolidated and consolidated financial statements.

Accounting control framework for the banking business line

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

The accounts are sub-consolidated at the level of Concordia BV using the consolidation software. Accounting information is transmitted automatically from the local entities. Once the data has been fed into the application, "blocking" controls are applied.

For consolidation at the Paris Orléans level, the main banking subsidiaries in the Concordia BV subgroup draw up a standardised "representation letter" at the end of each financial year. This document describes the qualitative conditions governing accounts preparation and enables the Chairman of the Paris Orléans Executive Board and the Central Finance Department to sign the representation letter that is presented to Paris Orléans' Statutory Auditors. The following structures are covered by this procedure:

- RCH (Switzerland);
- NMR (London);
- RBI (Guernsey);
- Rothschild Holding AG (Switzerland);
- Rothschild North America Inc. (New York);
- Rothschild Australia Limited (Sydney);
- NM Rothschild & Sons (Hong Kong) Limited; and
- NM Rothschild & Sons (Singapore) Limited.

Accounting control at consolidation level

In addition to the control procedures described above, the consolidation process includes checks of the integrity of consolidated accounting data. These are performed by:

- the Paris Orléans Central Finance Department, and in particular by the Consolidated Accounting unit, which manages the aspects related to controls performed by the Statutory Auditors;
- the Statutory Auditors as part of their audit of the financial statements. The work is performed in accordance with professional standards.

Financial communication

The Executive Board is responsible for preparing financial communications. It applies the general principles and good financial communications practices set out in the "Financial Communication: Framework and Practices" guide published by the Observatoire de la Communication Financière under the guidance of the French financial markets authority (AMF).

The Executive Board defines the financial communication strategy. All press releases are approved by the Executive Board prior to release. In addition, releases relating to the interim and annual results are submitted to the Supervisory Board. The Supervisory Board may also be consulted on specific subjects before information is published.

2. Other internal control mechanisms implemented by the Group

Information system security and Business Continuity Plans (BCP)

Information systems security rules 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 operating systems and the development and management of applications.

At the same time, business continuity procedures – including definition of the BCP and IT back-up plans – have been implemented by each subsidiary to deal with the crisis scenarios applicable at local level.

These procedures are reinforced by the IT audit work performed by a team of IT experts from RCH's Internal Audit department. The audit scope covers all the subsidiaries' information systems.

Prevention and control of non-compliance risks

For the banking activities, a specific framework has been put in place to control the risk of non-compliance that could arise at the "France" and "World" banking divisions.

This system is based on a division of responsibilities between:

- the Group Compliance Director, at the level of the banking activity. He is responsible for overseeing, supervising and co-ordinating Group compliance in collaboration with local compliance officers, who constitute the first level of control at each operational entity; and
- local compliance officers, who monitor and regularly review – with complete independence – security and compliance of operations by business line, within their scope of action and responsibility.

The non-compliance risk framework is consolidated by a system of existing procedures and actions taken to heighten staff awareness at banking subsidiaries, in all regions. Moreover, the permanent monitoring of these risks is based on regular reports, which contribute to the gathering of information at each level of the organisation (from the subsidiary to its direct parent company).

2.5. Summary description of risk management system

1. Organisation

As stated previously, the risk management system is based on a decentralised organisation of risk functions at each entity according to their business scope. The Group implements procedures for measuring, monitoring and managing risks.

Risk management is organised around the Group's two principal business lines, as follows:

- the Private Equity division's Risk department, under the responsibility of the Paris Orléans Executive Board, is responsible for global risk monitoring and management. It helps draft and implement the investment policy, and the risk management policy, in particular through the Investment and Monitoring Committee; and
- the Banking Activity's Risk function comprises the Risk functions at the level of the local entities, which are in most cases supervised by the Banking Group Risk Department.

The Risk Departments operate based on a system of committees and mechanisms specialised by type of risk. This organisation is enhanced by risk measurement systems implemented locally that provide regular information on the level of risks.

At consolidated level, the Group Risk Committee, created in 2009, is responsible for measuring and supervising risk at Group level.

In accordance with the organisation principles described above, managing these risks involves a system of risk limits at most Group entities, comprising:

- global limits, mainly in the form of risk policies, risk spreading rules and commitment limits per risk factor; and
- operational limits, established as part of strict procedures, in particular decision procedures based on documented analysis, delegation levels, including the conditions governing the role of specialised committees.

2. Risk measurement and monitoring

At consolidated level, Paris Orléans' activities expose it to four major categories of risk:

- Credit risk – which is the risk of loss due to a counterparty's inability to meet its financial obligations, arises mainly on the "World excluding France" banking activities. Credit policies are based on a set of rules and procedures for identifying, monitoring and managing risk. Exposure to credit risk is managed by a system of credit approval procedures, internal ratings and limits (for major risks and concentrations by sector and geographical location). The information systems allow the production of management charts for detecting and monitoring individual and global portfolio risks.
- Financial risks – which include global liquidity, payment, interest and exchange rate risks, arise mainly on the banking activities, equity interests and cash management transactions carried out within the Group. In addition to the financial risk policies defined at the level of each local entity, financial risk is measured using a number of indicators:
  - the ratios required by banking regulators, such as the solvency and liquidity ratios required for entities governed by French banking regulations;
  - the monitoring of portfolio positions and outstandings; and
  - the system of limits, designed to control risk exposure.
- Operational risk (which also includes non-compliance and legal risk) is the risk of loss resulting from inadequate or deficient procedures, personnel and internal systems, or from external events.

- As part of Basel 2 regulations, the Group's banking subsidiaries implemented operational risk management systems. Operational risk is measured and supervised based on a series of guidelines and methodologies for calculating capital requirements in respect of these risks. The systems implemented locally have involved all the staff.
- Other risks relate, in particular, to reputation and image risk, legal risk and the risk linked to pension commitments.

2.6. Action plan

Paris Orléans' takeover of Concordia BV in January 2008 puts it as the Group's controlling body. Tasked by the Executive Board and Audit Committee, work is underway at the Paris Orléans company level and at the level of the RCH sub-group to adapt the organisation of internal control and risk management to the Group's new scope.

The reorganisation at Paris Orléans is being carried out in accordance with the regulatory requirements in terms of internal control, risk management and reporting.

The structure of the report in respect of the 2008/2009 financial year is based on the AMF's Reference Framework and the accompanying Application Guide. In 2009/2010, a review of the internal control system relating to the production of accounting and financial information will be performed. It is intended to base this review on the AMF's Application Guide.

At the same time, work begun in 2008 to update Paris Orléans' manual of procedures will continue throughout 2009 to take into account the changes in the Group's organisation and practices.

Lastly, further efforts will be made in terms of risk management methodology, in particular enhancing the documentation of the structure and processing of major risks.