

Paris Orléans

Annual report on compensation policy and practice for
executives and persons whose professional activities have
a significant impact on the risk profile of the business
(article 43-2 of regulation 97-02)

October 2013

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1. Introduction

The following disclosures have been prepared in compliance with Article 43-2 of Regulation 97-02.

During 2012 the Group operated with two Remuneration Committees, one at a RCH sub-group level and the other, as a result of the operation of a different fiscal year, at a RCB sub-group level. It was the RCH and RCB Remuneration Committees ("the Group's RemCos") that approved all compensation policy decisions during 2012 and therefore the remainder of this document focuses on their decision making processes, composition and mandates as appropriate.

The Group has established a PO Remuneration and Nominations Committee in early 2013 as one of the many organisational and administrative changes following on from the Group reorganisation in summer 2012. This Committee, composed of members of the Supervisory Board, reports to the Supervisory Board for determining the broad policy framework for the remuneration of the PO Group from 2013 onwards.

2. Decision-making process for remuneration policy

The Group's RemCos met regularly during 2012 to set the principles and parameters of their remuneration policies and to periodically review their adequacy and effectiveness.

Within the authority delegated to them, the Group's RemCos were responsible for:

- i. reviewing the proposals submitted by business divisions regarding fixed and variable compensation with absolute discretion to adjust fixed compensation proposals and both the bonus pool and individual payments; and
- ii. reviewing and agreeing the broad policy framework for the remuneration of senior employees, including Code Staff within NMR Group and Rothschild Wealth Management (UK) Limited ("RWM") and the Regulated Population within RCB.

There were three meetings of the RCH Remuneration Committee and one meeting of the RCB Remuneration Committee in relation to the financial year ended 31 March 2012 and 31 December 2012 respectively. The Group's RemCos reported to their respective Management Boards on their activities.

The members of the RCH Remuneration Committee in the financial year ended 31 March 2012 were Baron David de Rothschild, Baron Eric de Rothschild, Sylvain Hefes, Mark Evans and Peter Smith.

The members of the RCB Remuneration Committee in the financial year ended 31 December 2012 were Baron David de Rothschild, Sylvain Hefes, Paul Barry, Agnès Chenard, Alain Cornu-Thenard, Jean-Louis Laurens and Olivier Pécoux.

Sylvain Hefes was the chairman of both Committees.

No Group employee was permitted to participate in discussions or decisions of either Committee relating to his or her remuneration.

a. External consultants

The Group's RemCos work during the year was supported by independent professional advice on remuneration issues from external consultants, PwC and McLagan with whom the Group Human Resources Director, Paul Barry, collaborated in providing advice on the implications of remuneration policy on risk and risk management.

b. Role of the relevant stakeholders

The Group's RemCos took full account of the strategic objectives of the Group in setting remuneration policy and were mindful of their duties to shareholders and other stakeholders. The Committees sought to preserve shareholder value by supporting the effective retention and motivation of employees.

c. Regulated Population criteria

The following groups of employees were identified in 2011 as meeting the FSA's criteria for the Regulated Population (Code Staff) in NMR Group and RWM:

- i. Employees registered with the FSA in a Significant Influence Function where appropriate in accordance with their role;
- ii. Members of the RCH Group Management Committee and other individuals who had responsibility for the management and supervision of a significant business unit of NMR Group or of RWM;
- iii. Risk takers – individuals who were in a position to have a material impact on the risk profile of NMR Group or RWM;
- iv. Heads of control functions; and
- v. Anyone whose professional activities are deemed to have a potential material impact on NMR Group or RWM's risk profile and who was in the same remuneration bracket as individuals in (i) to (iv).

The following groups of employees were identified in 2012 as meeting the ACP's criteria for Regulated Population in RCB:

- i. Members of the executive body including "*dirigeants responsables*", - in a commandite structure these are the *gérants* and *associés gérants* of RCB and subsidiaries incorporated as general partnerships;
- ii. Risk Takers – individuals who are responsible for controlling the risks in each of the businesses or who are able to commit/sign on behalf of RCB and subsidiaries incorporated as general partnerships;
- iii. Heads of Control functions; and
- iv. Anyone whose professional activities are deemed to have a potential material impact on RCB's risk profile and who was in the same remuneration bracket as individuals in (i) to (iii).

d. Control Functions

Employees engaged in control functions are independent from the business units they oversee and have appropriate authority.

Where control staff were embedded in the business, oversight of remuneration was provided by the head of the control function and, as for independent control functions, remuneration proposals were reviewed by the HR Director.

The remuneration of the most senior officers in the Risk and Legal & Compliance functions as well as the Group Finance Director and HR Director was directly overseen by the Group's RemCos.

3. The link between pay and performance

Remuneration is made up of fixed pay (ie salary and cash allowances) and incentive pay (annual bonus awards).

Annual bonus awards are designed to reward performance in line with the business strategy, objectives, values and long term interests of the Group while taking account of their risk appetite.

Individual bonus awards reflect individual performance which is assessed through the Group's annual performance processes.

There was strong central oversight of bonus pools and individual awards. Overall annual compensation expense is reviewed every year by the Group's RemCos. There was clear individual differentiation to ensure that the best performers were rewarded appropriately and in the financial years ended 31 March 2012 and 31 December 2012 a number of staff received nil bonus awards.

4. Design and structure of remuneration

a. Fixed compensation

All staff receive fixed remuneration (executives/staff) or fees (non-executives) to reflect their role, market value and level of responsibility. The structure of the remuneration package is such that the fixed element is sufficiently large to enable the Group to operate truly flexible bonus policies.

b. Annual Incentives

Rationale and eligibility criteria

All staff, with the exception of non-executive directors, were eligible to participate in the Group's discretionary annual bonus schemes.

Performance Measurement

Performance was central to the determination of annual incentive pools and individual awards. Incentive pools were set having regard to a number of performance measures including revenues, pre-compensation profit and appropriate levels of shareholder return and bearing in mind market conditions, general economic conditions, market remuneration trends and staff retention.

Where appropriate the measurement of performance used to set bonus pools took account of the return to shareholders (and for 2013 will be improved to take account of return on capital as well) and liquidity requirements and included adjustment for current and potential risks as follows:

- i. Financial performance measures are after the deduction of the full impairment of financial instruments and other assets where under the business units control;
- ii. Management accounts include full provision for all compensation costs whether deferred or current;
- iii. Any significant contingencies are drawn to the attention of the RemCo;
- iv. With respect to receivable advisory fees, the collectability of the fee is highlighted if the fees are material in the determination of the bonus pool; and
- v. Where necessary, the Group's Finance Director, Risk Director, and Legal and Compliance Director highlight any risk positions which the Group RemCos should take into account when setting bonus pools.

Fees are included in a financial period's results when they have been earned.

Individual performance assessment took into account financial measures and non-financial measures such as contribution measured against pre-set personal and technical competencies, effective risk management, and compliance with the regulatory system and behaviours that supported the Group's values.

Deferral, vesting and non-cash awards

In the years ended 31 March 2012 and 31 December 2012, the Group Remuneration Policy provided that a proportion of the variable remuneration awards made to executive staff in the Group were deferred over three years subject to seniority and a threshold being exceeded.

A proportion of variable remuneration was awarded to “non-de minimis” NMR Group Code Staff in the form of non-cash awards.

Guaranteed bonuses

In exceptional circumstances guaranteed bonuses are awarded either

- i. in the context of hiring new employees and limited to the first year of service; or
- ii. to current employees when needed to reduce business risks where a business is being reorganised, restructured or closed and the services of an individual are required for defined periods while the risks of the business are being managed

Carried Interest

Selected employees subscribe for carried interest shares in the private equity funds established by PO as part of its Merchant Banking business.

These arrangements are designed to align employees who work in the Merchant Banking business to the risks of the investments which they manage.

5. Remuneration expenditure for the Group's Regulated Population

a. Breakdown of Remuneration awarded in 2012*

	Number of People	Total Remuneration	Fixed Remuneration	Variable Remuneration
Total	59	€ 32,139,413	€ 13,770,325	€ 18,369,089

b. Breakdown of Variable Remuneration awarded in 2012*

	Non Deferred Variable Remuneration		Deferred Variable Remuneration	
	Cash	Non Cash Awards	Cash	Non Cash Awards
Total	€ 8,306,770	€ 2,314,573	€ 4,514,874	€ 3,232,871

c. Outstanding Deferred Remuneration from prior years that was not paid in 2012*

	Vested	Non Vested
Total	€ 448,500	€ 16,309,317

d. Deferred Remuneration from prior years paid in 2012*

	Paid out	Reduced by Performance Adjustments
Total	€ 5,526,210	€ 0

e. Sign on and Severance payments awarded during 2012*

Number of	Sign on payments made	Severance payments

	People		made
Total	2	€ 0	€ 410,000

f. Severance payments guaranteed during 2012*

	Number of People	Severance payments awarded	Highest amount awarded
Total	0	€ 0	€ 0

* This reflects the remuneration for Regulated Population in RCB for the calendar year 2012 and in RCH for the financial year ended 31 March 2012

6. Transparency and control of compensation policies

The input of the Group's Risk and Legal and Compliance function was sought in setting the respective remuneration policies as well as in relation to the setting of individual remuneration awards where appropriate.

The Group Chief Risk Officer and the Group Chief Compliance Officer sit with the Remuneration Committee chairman and HR Director to consider and discuss any individuals where there were concerns about the behaviour of the individual or the riskiness of the business undertaken.