# II. Report of the Chairman of the Supervisory Board
on corporate governance and on the internal control and risk management procedures implemented by the Company

This report, established pursuant to paragraphs 7 to 9 of Article L. 225-68 of the French Commercial Code with reference to Article L. 226-10-1 of that code, sets forth the principles of corporate governance and the internal control and risk management procedures implemented by Paris Orléans.

The other Group companies do not fall within the scope of this report. They are nonetheless under an obligation to apply the procedures defined by the Group, particularly with regards to the Group's internal control policies and procedures.

This report, drawn up under the responsibility of the Chairman of the Supervisory Board, has been prepared with the assistance of the Secretary of the Supervisory Board. The second part of the report relating to internal control and risk management was reviewed by the Risk Committee and the Audit Committee at their meetings respectively on 12 June 2015 and 17 June 2015.

All of the work that went into the preparation of this report was presented to the Supervisory Board, which approved its terms at its meeting on 24 June 2015.

## A. Corporate governance

A presentation of the Company's management and control bodies is provided in the section on corporate governance on pages 67 onwards.

This report describes the Supervisory Board's powers and duties, the duties of its members, and the status, powers and duties of the Supervisory Board's specialised committees. These arise from the provisions of the Company's Articles of Association and the Supervisory Board's Internal Rules of Procedure and the terms of reference of the specialised committees.

### 1. Composition and powers of the Supervisory Board, status and duties of the Supervisory Board members

#### 1.1. Composition of the Supervisory Board

In accordance with the Articles of Association, the Supervisory Board is composed of a maximum of eighteen members, all of whom are shareholders in the Company. The Supervisory Board members are appointed by the Ordinary General Meeting of shareholders, which, in accordance with the Articles of Association, sets the duration of their term of office. The number of members of the Supervisory Board over the age of seventy-five years may not exceed one third of the members in office; if this proportion is exceeded, the members who are required to leave the Supervisory Board in order to restore compliance with this proportion will be considered to have resigned, starting with the oldest.

At the date of this report, the Supervisory Board is composed of sixteen members: Éric de Rothschild (Chairman), François Henrot (Vice-Chairman), André Lévy-Lang (Vice-Chairman), Martin Bouygues, Dr. Daniel Daeniker, Angelika Gifford, Sylvain Héfès, Lord Leach, Arielle Malard de Rothschild, Lucie Maurel-Aubert, Carole Piwnica, Jacques Richier, Anthony de Rothschild, Sipko Schat, Peter Smith and Luisa Todini.

Among the sixteen members of the Supervisory Board, ten members are independent members: Martin Bouygues, Dr. Daniel Daeniker (also member of the Strategy Committee and Risk Committee), Angelika Gifford, André Lévy-Lang (also member of the Audit Committee, Strategy Committee and Remuneration and Nomination Committee), Lord Leach (also member of the Strategy Committee), Carole Piwnica (also member of the Strategy Committee and Audit Committee), Jacques Richier, Sipko Schat (also Chairman of the Risk Committee), Peter Smith (also Chairman of the Audit Committee, and member of the Strategy Committee and Remuneration and Nomination Committee) and Luisa Todini (also member of the Remuneration and Nomination Committee).

Five new members were appointed during the 2014/2015 financial year at the Combined General Meeting of shareholders held on 25 September 2014, as follows: Dr. Daniel Daeniker, Angelika Gifford, Arielle Malard de Rothschild, Carole Piwnica and Luisa Todini. During its meeting on 25 June 2014, the Supervisory Board, upon recommendation of the Remuneration and Nomination Committee, deliberated on the selected candidates and was satisfied that they bring both the necessary skills and diversity which add value to the Supervisory Board's composition, in line with the Group's organisation and its international dimension.

In connection with those new appointments, a training session aiming among other things at presenting the Paris Orléans Group businesses was organised for the new members before taking up their appointed role.

One member resigned from his function as a member of the Supervisory board during the 2014/2015 financial year. Alexandre de Rothschild resigned on 25 September 2014; since then, he participates to the meetings of the Management Board of PO Gestion SAS, Managing Partner of Paris Orléans.

More detailed information on each Supervisory Board member, in particular each member's nationality, age, positions and functions held within and outside of the Paris Orléans Group, date of first appointment, term of office and the number of Paris Orléans shares held, is provided on pages 70 onwards. This information is deemed to form an integral part of this report.

Stéphane Moal, Group Company Secretary and *Directeur Juridique* of the Company, acts as Secretary to the Supervisory Board under the supervision of the Chairman of the Supervisory Board.

#### 1.2. Powers of the Supervisory Board

The Supervisory Board continually monitors the way in which the Company is managed by the Managing Partner, including in particular the Company's financial and accounting reporting system and its internal control mechanisms applicable to risk, compliance and internal audit, in accordance with the laws and regulations applicable to the Company.

The Supervisory Board may call a General Meeting of shareholders.

In order to exercise its authority in the area of permanent oversight:

- the Supervisory Board conducts such checks and controls that it considers appropriate at any time of the year, and may ask to be provided with such documents it considers useful to perform its duties;
- every three months (or more frequently if requested by the Supervisory Board), the Managing Partner presents a report to the Supervisory Board on the status and conduct of corporate affairs, such report to be drawn up as directed by the Board;
- within three months of the end of each financial year, the Managing Partner presents the annual and consolidated financial statements to the Supervisory Board for verification and control purposes;
- the Managing Partner submits its annual operating objectives to the Supervisory Board and, at least once a year, its long-term strategic projects;
- the Supervisory Board presents a report to shareholders at the annual General Meeting of shareholders in which it reports any discrepancies and/or inaccuracies in the annual and consolidated financial statements and comments on the way in which the Company is managed;
- the Supervisory Board approves the Chairman's report on the composition of the Board and the application of the principle of equal representation of men and women on the Board, the terms and conditions according to which the Board prepares and organises its work, and the internal control and risk management procedures implemented by the Company;
- it decides each year on the Company's policy in terms of professional equality and equal pay;
- the agreements and commitments relating to the combined provisions of Article L. 226-10 and L. 225-38 to L. 225-43 of the French Commercial Code are submitted to the Supervisory Board for prior authorisation;
- it checks the quality of information issued by the Paris Orléans group to shareholders and the financial markets, through the Company and Group financial statements prepared by Managing Partner and the annual report drawn up by Managing Partner, or at the time of major transactions.

In addition to the powers granted to it by law, using the methods set forth in Article 10.2.3 of the Company's Articles of Association, the Supervisory Board issues:

- an advisory opinion to Management in respect of:
  - the strategic policies, annual budget and three-year business plan of the Paris Orléans group,
  - any significant acquisition or disposal of a business or part of a business, and
  - any strategic initiative or major refocusing of the business of the Paris Orléans group, and
- a recommendation to shareholders regarding the Company's dividend policy.

Moreover, the Supervisory Board presents a report to the shareholders and a reasoned opinion on any resolution submitted to the shareholders at their General Meeting and on any matter that is the subject of a report by the Company's Statutory Auditors.

The Supervisory Board may be assisted by experts of its choosing, whose expenses shall be paid by the Company. It has the broadest powers of investigation and may submit written questions to, or seek the opinion of the Managing Partner at any time.

## 1.3. Duties of the Supervisory Board members

Before assuming a seat on the Supervisory Board, each member must be aware of the general and special obligations incumbent on them. In particular, they must familiarise themselves with the laws and regulations governing the duties of Supervisory Board members.

The Company provides new members with its Articles of Association and the Supervisory Board's Internal Rules of Procedure before they take office. By accepting a seat on the Supervisory Board, members agree to abide by its Internal Rules of Procedure.

When taking part in Supervisory Board meetings and casting a vote, Supervisory Board members are representing all of the Company's shareholders and acting in the interests of the Company.

Supervisory Board members must allocate the necessary time to preparing for Board meetings and meetings of any Committees on which they sit (as the case may be) by carefully reading the documentation provided to them. They may ask the Chairman for any further information that they require.

The Supervisory Board members must attend all Supervisory Board meetings and meetings of any Committees of which they are members (as the case may be), as well as General Meetings of shareholders, unless subject to an impediment and provided that they notify the Chairman and/or the Secretary accordingly beforehand.

Documentation for Supervisory Board meetings as well as information collected before or during Supervisory Board meetings are confidential. In accordance with applicable regulations, Supervisory Board members and all other persons invited to attend the meetings may not pass on such information to a third person other than within the ordinary scope of their work or occupation, or use for any purpose or activity other than those for which the information was provided to them. They take appropriate measures to protect the confidentiality of such information. Such information ceases to be personal and confidential when published externally by the Company, particularly in the form of a press release.

The Supervisory Board members are not permitted to use their position and/or duties to procure any kind of benefit, whether financial or otherwise, either for themselves or for a third party.

The Members must notify the Supervisory Board of any actual or potential conflicts of interest with the Group. They must abstain from voting on the corresponding decision and from taking part in the discussion held prior to the vote.

The direct or indirect involvement of any Supervisory Board member in an operation or a transaction in which the Group has a direct interest, or of which he or she is aware as a result of his or her membership of the Board, must be disclosed to the Supervisory Board prior to the conclusion of such operation or transaction.

The Supervisory Board members are not permitted to assume personal responsibilities in undertakings or affairs that compete directly or indirectly with those of the Group without notifying the Board in advance.

The Supervisory Board members and all other persons who are invited to attend Board meetings must not engage (either in person or via an intermediary) in transactions involving financial instruments of the Company and/or any other issuer for as long as they possess (as a result of their duties or presence at a Board meeting) confidential information that might have a material effect on the price of the said financial instruments or on the price of related financial instruments. This duty applies without the Company being required to stipulate that the relevant information is confidential or privileged. Similarly, the Supervisory Board members must refrain from disclosing such information to any other person outside the ordinary scope of their functions or for any purpose other than those for which the information was provided to them. Lastly, the Supervisory Board members must refrain from advising any other person to purchase or sell the financial instruments to which such information relates.

To this end, the following measures in particular must be taken:

- the Company's shares held by a Board member personally or by a member's cohabiting spouse, minor child (not of full age) or any other intermediary must be registered, either in a registered account managed by the holder of the Company's register or in the books of a French custodian account keeper whose details shall be provided to the Board's Secretary;
- members are not permitted to engage in any short or deferred transaction involving derivatives or financial instruments relating to securities issued by the Company (financial futures, warrants, exchangeable bonds, etc.);
- transactions involving Paris Orléans shares, including hedge transactions, effected during the 30 calendar days prior to publication of the annual parent company and consolidated financial statements, half-yearly financial statements and (where applicable) the full quarterly financial statements (such period being reduced to 15 days with regard to the publication of quarterly financial information) and on the publication date, may not be effected by Supervisory Board members or any other person who attended the Board meeting at which the results were reviewed. The same rule applies with respect to the announcement of projected annual and half-yearly results.

## 2. Organisation and operation of the Supervisory Board

### 2.1. Notice of meeting

On a proposal by its Chairman, the Supervisory Board prepares a schedule of meetings each year, for the following year.

The Supervisory Board meets as often as required in the interests of the Company and at least four times a year, further to a notice of meeting issued by any means by the Chairman, at least one half of Supervisory Board members, the Managing Partner, PO Gestion SAS, or a General Partner, subject to reasonable notice unless circumstances require a meeting to be called at very short notice.

The person(s) who call(s) a Supervisory Board meeting prepares the agenda of the meeting and informs the Supervisory Board members in a timely manner and by any appropriate means.

All Supervisory Board members may consult the Secretary and benefit from the latter's services. The Secretary is responsible for all procedures relating to the Supervisory Board practices and for the organisation of the meetings.

Documents provided to Supervisory Board members to enable them to express an opinion in full knowledge of the facts on items included on the agenda are provided to Supervisory Board members at least 48 hours prior to Supervisory Board meetings, except in an emergency or if there is a requirement to keep such documents strictly confidential.

The Managing Partner and Senior management are informed of Supervisory Board meetings, and may attend such meetings in an advisory capacity. Any other person outside the Supervisory Board may be invited to attend the whole or part of a Supervisory Board meeting by the Chairman of the Supervisory Board.

### 2.2. Organisation of meetings

Under any circumstances, at any of its meetings, in the event of an emergency and on a proposal by the chairman of the meeting, the Supervisory Board may discuss matters referred to its members that are not included on the agenda.

At each Supervisory Board meeting, the Chairman informs Supervisory Board members of the main facts and significant events concerning the Group's operations that have occurred since the date of the previous Supervisory Board meeting.

Supervisory Board meetings may be held at the registered office or at any other location indicated in the notice of meeting, as well as by videoconferencing or teleconferencing facilities that identify members of the Supervisory Board and guarantee their effective involvement through the use of technical resources that continually and simultaneously transmit discussions. Meetings shall be chaired by the Chairman or, in the latter's absence, by the longest-standing Vice-Chairman present or, in the absence of a Vice-Chairman, by the member appointed for that purpose by the Supervisory Board.

## 2.3. Attendance and majority

The Supervisory Board members are entitled to be represented at any meeting by another member, pursuant to specific authorisation set out in a letter, a fax, an email or any other method of communication deemed reasonable and acceptable by both parties.

The Supervisory Board members who take part in a Supervisory Board meeting via the technical resource methods referred to above are deemed present, except where the Supervisory Board is meeting to verify and check the annual report and the statutory and consolidated financial statements.

Decisions are taken by an ordinary majority of members who are present or represented and authorised to vote. In the event of a tie, the chairman of the meeting shall have a casting vote.

## 2.4. Review of the Supervisory Board's activity

The Supervisory Board meets at least four times a year in March, June, September and November. The Supervisory Board met four times during the 2014/2015 financial year, with an average attendance rate of 83.82% for all meetings. Before each meeting, every member receives a file containing all the documentation, notes and reports relating to each item on the agenda.

Each meeting of the Supervisory Board is preceded by a meeting of the Audit and Risk Committees.

At its meeting on 25 June 2014, the Supervisory Board, in particular:

- reviewed the annual and consolidated financial statements for the 2013/2014 financial year and the draft results announcement;
- reviewed the overall situation of the Group's activities and prospects;
- considered the reports from the Audit Committee and the Remuneration and Nomination Committee;
- considered the agenda and the draft resolutions submitted by the Managing Partner to the Combined General Meeting of shareholders;
- approved the report of the Chairman of the Supervisory Board , the terms of its report to shareholders, and a regulated agreement;
- and upon recommendations from the Remuneration and Nomination Committee, deliberated on the five proposed candidates appointed by the Combined General Meeting on 25 September 2014.

At its meeting on 25 September 2014, the Supervisory Board, in particular:

- following the re-election at the Combined General Meeting on the same day of Éric de Rothschild, François Henrot and André Lévy-Lang as members of the Supervisory Board, re-appointed them respectively as Chairman and Vice-Chairmen of the Supervisory Board;
- considered the Group Performance review (results for 4 months ended 31 July 2014);
- considered a report from the Audit Committee; and
- considered the Group Strategic Risk Assessments.

At its meeting on 25 November 2014, the Supervisory Board, in particular:

- considered the Group Performance review (results to 30 September 2014 and forecast for the year to 31 March 2015);
- reviewed the half-yearly financial statements for the 2014/2015 financial year and the draft results announcement; and
- considered a report from the Audit Committee.

During its November meeting, the Supervisory Board took note in particular of the implementation of the CRD IV directive on governance and internal control by means of a Ministerial Decree *(arrêté)* dated 3 November 2014, which repeals the CRBF regulation 97-02 on internal control. Based on a review of these new regulatory provisions and in particular, its provisions relating to risk committees applicable as from 1 January 2015. It was noted in particular that under the Ministerial Decree, the risk committee provisions include some tasks assigned to the Audit Committee, for example on risk monitoring, notwithstanding the fact that under legal provisions, audit committees of listed companies are required to review the effectiveness of the internal control and risk management systems.

In response to those new regulatory provisions in order to achieve a fully operational structure and to ensure that the Group develops the appropriate responses, the Supervisory Board set up a Risk Committee.

At its meeting on 26 March 2015 the Supervisory Board, in particular:

- considered the Group Performance review (results for 10 months ended 31 January 2015), outlook for the 12 months to 31 March 2015 and overall Group budget to 31 March 2016, and the Group business budget for the year to 31 March 2016, a report from the Audit Committee, a report from the Remuneration and Nomination Committee, the remuneration and regulatory developments and an amended Group Remuneration Policy; and
- received information on the disposal project of a business operated by a Group entity;
- examined the Group internal control reports to be submitted to the ACPR in respect of 2014;
- decided upon the remuneration allocated to the members of the Supervisory Board for 2014/2015.

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

In accordance with the AFEP-MEDEF Corporate Governance Code for listed corporations to which Paris Orléans refers, the Group Company Secretary, in liaison with the Remuneration and Nomination Committee, conducted an assessment of the Supervisory Board's organisation and working methods as regards the 2014/2015 financial year.

The method used was based on the following objectives:

- reviewing the operations of the Supervisory Board and its Committees;

- checking that important issues are properly prepared and discussed;
- thinking about the corporate governance structure and best practices of the Group.

The Supervisory Board's self-assessment was based on a questionnaire with a grading system with scores ranging from 1 (excellent) to 4 (poor), with possibility to provide further comments. Six general topics were covered in the questionnaire: membership, organisation and functioning, work of the Supervisory Board and its committees, internal control and risk management supervision, communication with shareholders and general assessment of the governance.

The results of the self assessment questionnaire were collected by the Group Company Secretary and the summary thereof was communicated to the Remuneration and Nomination Committee and the Supervisory Board.

The overall results of the self-assessment by grade show a satisfactory average rating of 1.56.

Generally speaking, members are particularly satisfied about the Supervisory Board's composition, in particular as regards the gender, nationalities and competence criteria and as regards the new members' selection process.

As regards the organisation and functioning of the Supervisory Board and its Committees, members expressed their satisfaction about the quality of the documentation provided to them and the information concerning the Group's business activities and the accounts which allow them to discuss the important issues properly. Members are satisfied by the good quality of discussions and the freedom of expression.

## 4. Specialised committees of the Supervisory Board

In accordance with legal and regulatory provisions, the Supervisory Board set up an Audit Committee, a Remuneration and Nomination Committee and a Risk Committee, and defined the composition of those committees as well as their tasks and practices.

In addition, according to the Articles of Association which provide the creation of any additional committee to assist the Supervisory Board, the Supervisory Board decided to set up a Strategy Committee.

Only members of the Supervisory Board may sit on these committees and only for their term of office on the Supervisory Board. The composition of each committee is determined by the Supervisory Board.

### 4.1. The Audit Committee

#### *4.1.1. Composition*

At the date of this report, the Audit Committee is comprised of four members: Peter Smith (Chairman and independent member), Carole Piwnica (independent member appointed on 25 September 2014), Sylvain Héfès and André Lévy-Lang (independent member).

#### *4.1.2. Responsibilities*

The terms of reference of the Audit Committee were amended by the Supervisory Board during its meeting on 26 March 2015, to reflect the analysis conducted by the Group following the implementation of the CRD IV directive on governance and internal control by means of a Ministerial Decree (*arrêté*) dated 3 November 2014 and the response of the Group by creating a Risk Committee.

Specifically the Audit Committee is responsible for:

- reviewing the process of drawing up financial information, the statutory audit of the annual accounts and consolidated accounts by the Statutory Auditors and the independence and objectivity of theStatutory Auditors;
- checking that the information provided is clear and providing an appraisal of the relevance of the accounting methods used to draw up the individual and consolidated accounts;
- reviewing the effectiveness of the internal control and risk management systems both at the Group and Paris Orléans levels;
- providing an appraisal both of the internal control systems, in particular, examining whether the measurement, monitoring and risk control systems are consistent and, where necessary, suggesting further actions in this respect.

The Audit Committee can draw on the help of Company employees as necessary. It is empowered to obtain any information it considers necessary to fulfil its task from the Company's executive body, its staff, and the Company's or its subsidiaries' Statutory Auditors. Audit Committee members have the opportunity, if necessary, to seek the opinion of the senior executives of the Group as well as that of the Statutory Auditors.

#### *4.1.3. Activity*

The Audit Committee meets at least four times a year in March, June, September and November, or more frequently if so required. The Audit Committee met five times during the 2014/2015 financial year, with an average attendance rate of 95% for all meetings. Before each meeting, every member receives a file containing all the documentation, notes and reports relating to each item on the agenda.

The Group Finance Director, the Group External Reporting Director, the Group Head of Internal Audit, the Group Head of Legal and Compliance, the Group Chief Risk Officer, the Group Company Secretary and the Statutory Auditors are permanent attendees to the meetings of the Audit Committee.

The Chief Executive Officers of PO Gestion SAS may be invited to participate for part of the meeting, if so required by the Chairman of the Audit Committee.

The June and November meetings are mainly focused respectively on the review of annual and half-year accounts and the presentation by the Statutory Auditors of their report after review of these accounts. In addition, at the June meeting, the Audit Committee reviews the section of the chairman's report issued in accordance with the provisions of Article L. 225-37 of the French Commercial Code, on risk management procedures implemented by the Company on pages 95 onwards of this report. The June meeting includes in addition a focus on the Banking book and the November meeting includes a review of the Merchant Banking Division.

The March and September meetings mainly focus on internal control matters. In March, the Audit Committee receives for consideration, the Group internal control report to be submitted to the *Autorité de contrôle prudentiel et de resolution* (the "ACPR"). In advance of each meeting, the Audit Committee members receive the Internal Audit status report and the status of Statutory Auditors recommendations. The activities of the Group subsidiary audit committees are also presented to the Audit Committee during those two meetings.

At the end of each meeting, the Audit Committee usually meets with the Group Head of Internal Audit and the Statutory Auditors without the presence of any representative of Senior management.

After each meeting of the Audit Committee, the Chairman of the Audit Committee submits a report on the work of the Audit Committee to the Supervisory Board members.

In addition, the Audit Committee receives, in advance of each meeting, the Group Risk and Compliance quarterly report presented to the Group Risk Committee.

## 4.2. The Remuneration and Nomination Committee

### *4.2.1. Composition*

At the date of this report, the Remuneration and Nomination Committee is composed of four members: Sylvain Héfès (Chairman), André Lévy-Lang (independent member), Peter Smith (independent member) and Luisa Todini (independent member appointed on 25 September 2014).

### *4.2.2. Responsibilities*

The role of the Remuneration and Nomination Committee is to assist the Supervisory Board with its remuneration related duties and in particular with the preparation of its decisions in correction with the Group's remuneration policy principles. It also makes recommendations to the Supervisory Board on all matters relating to the composition of the Supervisory Board, such as appointments or renewals of terms of office, or the compliance with AFEP-MEDEF recommendations.

Specifically the Remuneration and Nomination Committee is responsible for:

- setting the principles and parameters of remuneration policy for the Group as a whole and periodically reviewing the policy's adequacy and effectiveness taking into account all factors which it deems necessary including the Group's strategy from time to time;
- supervising and reviewing the broad policy framework for the remuneration of the Group Management Committee and the principles of the remuneration policy applicable to Regulated Persons;
- supervising the remuneration paid/awarded to members of the Compliance and Risk divisions and, where appropriate, the employment and remuneration arrangements of the Group Management Committee;
- identifying Regulated Persons as we define them in each of Paris Orléans, Rothschild & Cie Banque SCS and its subsidiaries, NM Rothschild & Sons Limited and its subsidiaries Rothschild Wealth Management for the purposes of the ACPR, FCA and PRA as appropriate;
- participating in the selection and nomination process of members of the Supervisory Board, as provided by the AFEP MEDEF Corporate code of Governance;
- reviewing the nature and scale of the Group's short and long-term incentive performance arrangements to ensure that they encourage enhanced performance and reward individuals in a fair and responsible manner for their contribution to the success of the Group in light of an assessment of the Group's financial situation and future prospects;
- discussing and reviewing with PO Gestion SAS the determination and quantum of the total bonus pool; and
- undertaking any other remuneration related obligations placed upon the Remuneration and Nomination Committee by either the lead regulator or a local regulator.

### *4.2.3. Activity*

The Remuneration and Nomination Committee met six times during the 2014/2015 financial year, with an average attendance rate of 95.83% for all meetings. Before each meeting, every member receives a file containing all the documentation, notes and reports relating to each item on the agenda.

The meetings of the Remuneration and Nomination Committee were mainly convened to set and to periodically review the principles and parameters of its remuneration policies and their adequacy and effectiveness, review developments in remuneration regulations and ensure that PO Gestion SAS and business divisions are in compliance.

In addition, the Remuneration and Nomination Committee reviews the proposals submitted by business divisions regarding fixed and variable compensation with absolute discretion to adjust fixed compensation proposals, bonus pools and individual payments, and supervise and review the broad policy framework for the remuneration of senior employees, including the Regulated Population across the Paris Orléans Group.

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

The Chairman of the Supervisory Board, the Chairman and the Chief Executive Officers of PO Gestion SAS, the Human Resources Director and the Group Finance Director are permanent attendees to the meetings of the Remuneration and Nomination Committee.

In addition, as regards the meetings of the Remuneration and Nomination Committee to review the proposals submitted by business divisions regarding fixed and variable compensation, the Heads of Group business divisions attend the meetings for part of the meeting to present their own business division.

## 4.3. The Risk Committee

### 4.3.1. *Composition*

At the date of this report, the Risk Committee is composed of two members: Sipko Schat (Chairman and independent member) and Dr. Daniel Daeniker (independent member appointed on 25 September 2014).

### 4.3.2. *Responsibilities*

Specifically the Risk Committee is responsible for:

- advising the Supervisory Board on the overall current and future risk appetite and strategy, both at the Group and Paris Orléans levels;
- assisting the Supervisory Board in overseeing the implementation of that strategy;
- reviewing on a consolidated basis the material risks of the Group, and the total exposures of the Group's activities to such risks;
- reviewing the results of the Group's risk assessment that identifies and evaluates exposures to risk in the light of internal and external factors;
- reviewing the Group's broad guidelines relating to risk management and examining the effectiveness of the risk management policies put in place;
- reviewing all material new products and new classes of products and funds that have been approved pursuant to the Group's New Products Policy; and
- examining incentives provided by remuneration policies and practices to ensure they are consistent in the light of the risk, capital, liquidity and the likelihood and timing of expected earnings for entities.

### 4.3.3. *Activity*

The Risk Committee meets at least four times a year in March, June, September and November, or more frequently if so required. Since the Risk Committee was established in November 2014, it met only once during the 2014/2015 financial year, with an average attendance rate of 100%. Before each meeting, every member receives a file containing all the documentation, notes and reports relating to each item on the agenda.

The Chairman of the Audit Committee, the Group Heads of Risk, Legal and Compliance and Internal Audit, the Group Finance Director, the Group External Reporting Director and the Group Company Secretary are permanent attendees to the meetings of the Risk Committee.

The Chief Executive Officer of the Managing Partner to who the Group Chief Risk Officer reports, and the Statutory Auditors may be invited to participate for part of the meeting, if so required by the Risk Committee.

### 4.3.4. *Cooperation with the Audit Committee*

The Chairmen of the Audit Committee and the Risk Committee consult each other, whenever they deem it necessary and at least once a year, on various subjects, including but not limited to, subjects of common interest and/or cross-cutting topics falling within the missions assigned to them, related to the internal control and risk management system.

## 4.4. The Strategy Committee

### 4.4.1. *Composition*

At the date of this report, the Strategy Committee is comprises eight members: Éric de Rothschild, Dr. Daniel Daeniker (independent member appointed on 25 September 2014), François Henrot, André Lévy-Lang (independent member), Lord Leach (independent member), Lucie Maurel-Aubert, Peter Smith (independent member) and Carole Piwnica (independent member appointed on 25 September 2014).

### 4.4.2. *Responsibilities*

The main role of this committee is to support the Supervisory Board in advising PO Gestion SAS, on strategy matters.

Meetings of the Strategy Committee are prepared beforehand by PO Gestion SAS assisted by the Group Management Committee.

### 4.4.3. *Activity*

The Strategy Committee meets at least once a year, or more frequently if so required. The Strategy Committee met once during the 2014/2015 financial year, with an attendance rate of 66.67%. Before each meeting, every member receives a file containing all the documentation, notes and reports relating to each item on the agenda.

The Chairman and the members of the Management Board of PO Gestion SAS, the Group Finance Director, the Group Head of Strategy and Corporate Developments, Senior Group advisors and the Group Company Secretary are permanent attendees to the meetings of the Strategy Committee.

In addition, the Group Heads of Business Divisions may be invited to participate for part of the meeting, if so required by the Strategy Committee.

# 5. Corporate governance code

The Company has decided voluntarily to adhere to the Corporate Governance code for listed Corporations published by the AFEP and the MEDEF, last amended on 16 June 2013 and available at http://www.medef.com/ (the "AFEP-MEDEF code").

The Company is very committed to the principles of good governance and to the recommendations of the AFEP-MEDEF code. It should however be stressed that the very principle of partnerships limited by shares, the Company's form of incorporation, gives a unique structure to governance providing a clear separation of powers between the Managing Partner, PO Gestion SAS, and the Supervisory Board, which cannot comply with the AFEP-MEDEF recommendations without adaptation. In this situation, the Board takes into account the specific characteristics of this form of incorporation, and the Board is organised in a way that is adapted to the nature of the functions conferred upon it by law and the Articles of Association as well as by the recommendations of the AFEP-MEDEF code.

Pursuant to the AMF recommendations, the recommendations of the AFEP-MEDEF code not applied by the Company are described in the table below, with an explanation for each of them:

| AFEP-MEDEF recommendations | Explanations by the Company |
|---|---|
| **Independence criterion for members of the Supervisory Board related to the length of office (§ 9.4 of the AFEP-MEDEF code):**<br>Criterion providing that in order to be considered as independent a Director must not *"have been a Director for more than twelve years"*. | Given the Company's ownership structure, which is controlled by an enlarged Rothschild family concert acting in concert, by companies owned by members of the Rothschild family and by other shareholders with long-standing ties to the Rothschild family, and given the legal and statutory characteristics of a French partnership limited by, shares the Supervisory Board has expressly decided to waive the criterion relating to the duration of Supervisory Board members' terms of office.<br>This particular criterion was therefore expressly waived in the Supervisory Board's Internal rules of procedure as follow:<br>*"The independence criteria that apply are those referred to in Article 9.4 of the AFEP/MEDEF Corporate Governance code of December 2008, amended in June 2013, excluding the criteria relating to terms of office, which is expressly set aside."*<br>The Supervisory Board considers that the length of service is a key element for assessing and understanding the Paris Orléans Group's activities and that the effectiveness of the Supervisory Board is ensured by a wide-ranging composition in terms of diversity, professional experience and expertise of its members. |
| **Independence criterion for members of the Supervisory Board related to directorship in a company the corporation consolidates (§ 9.4 of the AFEP-MEDEF code):**<br>Criterion providing that in order to be considered as independent a Director must not *"be an employee or executive director of the corporation, or an employee or director of its parent or a company that the latter consolidates, and not having been in such a position for the previous five years"*. | Peter Smith is non executive Chairman of the Board of Directors of NM Rothschild & Sons Ltd (NMR) and non-executive Director of the Board of Directors of Rothschild Bank AG, two Group's entities. However the Supervisory Board considered that bearing in mind that Peter Smith performed duties in important international groups, this gives him a good perspective and a strong vision which contributes to the effectiveness of the Supervisory Board. Moreover, his experience and Group knowledge give him a freedom of speech and opinion which is, a guarantee of independence. He is therefore able to challenge the Supervisory Board and make an extremely valuable contribution to the discussions of the Supervisory Board.<br>Sipko Schat is a senior advisor at NMR. However he performed management duties in an important banking group and it gives him expertise and capacity of judgement which contributes to the effectiveness of the Supervisory Board.<br>Accordingly, the Supervisory Board considers their situations do not affect their independence and they can be deemed as independent members. |
| **Assessment of the actual contribution of each director of the Supervisory Board (§ 10.2 of the AFEP-MEDEF code):**<br>The evaluation should measure *"the actual contribution of each director to the Board's work through his or her competence and involvement in discussions."* | The self-assessment questionnaire of the Supervisory Board does not expressly measure the actual contribution of each.<br>All members of the Supervisory Board expressed a positive assessment on the collective functioning of the Supervisory Board which implies that the individual contribution is also positive. Measuring the actual contribution of each director creates a risk to the general climate of confidence within the Supervisory Board. However, the current evaluation process allows the directors to express their personal opinion on the individual contribution as general remark. |
| **Status of the Chairman of the Remuneration and Nomination Committee (§ 18.1 of the AFEP-MEDEF code):**<br>*"The committee (in charge of compensation) should not include any executive directors, and should have a majority of independent directors. It should be chaired by an independent director. It is advised that an employee director be a member of this committee."* | Mr Sylvain Héfès, non-independent member of the Supervisory Board, is the Chairman of the Remuneration and Nomination Committee despite his status of non independent member.<br>Mr Héfès' experience and expertise in the banking area make him fully aware of the governance practices to be followed in a group such as Paris Orléans, in particular concerning remuneration and nomination matters.<br>Therefore, the Supervisory Board considers his situation as not jeopardising his ability to be the Chairman of the Remuneration and Nomination Committee and the act in the best interest of the Paris Orléans Group. |

## 6. Equal representation of men and women on the Supervisory Board

The Supervisory Board has set objectives for changing its composition to meet the deadlines set by Law No. 2011-103 of 27 January 2011, which imposed the representation of both genders on the Supervisory Board as follows:

- at least one woman from the publication of the aforementioned law;
- at least 20% of female representation as from the Annual General Meeting to be held in 2014;
- at least 40% of female representation as from the Annual General Meeting to be held in 2017.

The appointment of Mrs Lucie Maurel-Aubert on 8 June 2012 introduced the presence of a woman on the Supervisory Board, per a total of fourteen members at the time (7.14%), complying with the first representation.

The General Meeting of shareholders of 25 September 2014 appointed five new Supervisory Board members, including four women, increasing the presence of women to five members, for a total of sixteen members (31.25%), complying with the second representation imposed by the aforementioned law.

It is also hereby specified that this representation is also respected in the Audit Committee (25%), the Remuneration and Nomination Committee (25%) and the Strategy Committee (25%).

## 7. Terms and conditions of shareholders' attendance of General Meetings

General Meetings are convened by the Managing Partner or by the Supervisory Board and decisions are made, in the conditions provided for by law, by a simple majority of the votes of shareholders attending or represented at the meeting in the case of Ordinary General Meetings and by a two-thirds majority of the votes of shareholders attending or represented at the meeting in the case of Extraordinary General Meetings.

General Meetings are held at the registered office or any other place indicated in the notice of meeting. General Meetings are chaired by one of the statutory Managing Partners or, with the agreement of the Managing Partner, by the Chairman of the Supervisory Board; failing this, the General Meeting elects its chairman.

In application of Article 11 of the Company's Articles of Association, any shareholder or holder of voting rights certificates is entitled to attend General Meetings in accordance with the conditions provided for by law and by the Articles of Association. These persons may send their proxy forms or mail voting forms concerning any general meeting in paper format or electronically. The Managing Partner has the power to accept any proxy form, voting form or shareholding certificate received or presented up to the General Meeting. By decision of the Managing Partner to use such telecommunication methods, indicated as such in the notice of meeting or invitation to attend, shareholders and holders of voting rights certificates who attend and vote at General Meetings of shareholders by videoconference or any other telecommunication enables that their identity to be verified are deemed to be present at the meeting for the purposes of quorum and majority.

In case of separation of ownership of shares or voting rights certificates, the voting rights attached to the shares or the voting rights certificates belong to the bare owner (*nus-propriétaires*), except for decisions on the allocation of income, which belongs to the beneficial owners (*usufruitiers*).

More details on the terms and conditions of shareholders' attendance of Paris Orléans' General Meetings are provided to shareholders in the notice of meeting to be published on the Company's website prior to the General Meeting in accordance with law.

# B. Internal control and risk management

The information below concerning the Group's internal control system was provided by Executive Management. This section of the report was prepared using information provided by the following Group functions: Legal, Compliance and Risk, Finance, and Internal Audit and based on the Paris Orléans Report on internal control in accordance with Articles 258, 259, 261, 262, 264 and 266 of the 3 November 2014 Ministerial Decree applicable to financial holding companies supervised on a consolidated basis by the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and addressed for the attention of the Supervisory Board.

It was submitted to the Audit Committee on 19 June 2014 for the matters falling within its scope, and approved by the Supervisory Board at its meeting on 25 June 2014.

## 1. Internal control references

Given the fact that Paris Orléans has been designated by the *Autorité de Contrôle Prudentiel et de Résolution* as the Group consolidating entity for the purposes of prudential oversight, the rules applicable to financial holding companies apply to Paris Orléans. The rules which impact upon the Group arrangements for group risk management systems and controls are set out in the French Monetary and Financial code ("*code monétaire et financier*" or "*COMOFI*") and the 3 November 2014 Ministerial Decree, which defines the conditions for implementing and monitoring internal control systems in banks and investment firms. The 3 November 2014 Ministerial Decree lays down the principles relating to control systems for transactions and internal procedures, accounting systems and information processing, risk and performance measurement systems, risk supervision and control systems, and internal control documentation and reporting systems.

As required by the 3 November 2014 Ministerial Decree, Paris Orléans has established a Group internal control system in which distinct organisations and managers are in charge of permanent controls (including Compliance and Risk Management) and periodic controls.

The internal control system of Paris Orléans must also take into account, as appropriate, the AMF's (French Securities Regulator) General Regulations, local regulations applicable to branches and subsidiaries outside France and to specialised operations such as portfolio management, the most widely accepted industry practices in this area and the recommendations of international bodies dealing with the capital adequacy framework issues of international banks, foremost among which are the Basel Committee, the Financial Stability Board and the European authorities (European Banking Authority, European Securities and Markets Authority).

## 2. Definition, objectives and scope of internal control

The internal control system refers to Paris Orléans' own internal control system and the Group's internal control system on a consolidated basis.

The internal control system seeks to provide directors, officers and shareholders with reasonable assurance that the following objectives are achieved:

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

It also fulfills the internal control objectives specific to financial companies supervised by the *Autorité de Contrôle Prudentiel et de Résolution* on a consolidated basis.

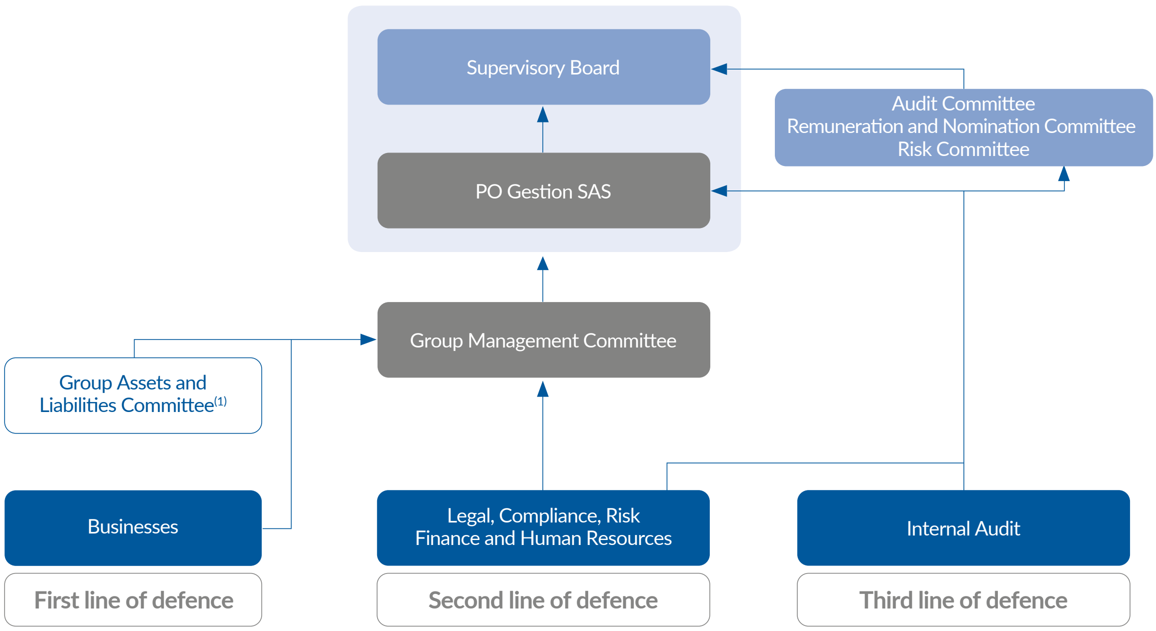
## 3. Organisation of internal control

Internal control at Paris Orléans consists of permanent and periodic controls. While they are complementary, they are distinct and independent of one another:

- permanent control is the overall process for monitoring the risks to which the Group is exposed as a result of its on-going activities and operations. It is carried out by operational staff, and their line managers, and by independent permanent control functions either within or independent of these operational entities;
- periodic control is the overall process for ex post verification of the operations of the Group, based on investigations that are conducted by the Group Internal Audit function, which performs periodic checks on an independent basis on the design and the effectiveness of the two first lines of defence.

Paris Orléans' internal control framework is based on the "three lines of defence" model. The first line comprises front-line management of the business itself. The second line includes independent Risk, Compliance and Legal functions and to a lesser extent Finance and Human Resources to monitor on a continuous basis the activity of the front-line management and the third line comprises Internal Audit as well as the Group's external auditors who both oversee Group's activities.

The chart below shows as at 31 March 2014 the internal control governance structure through which Paris Orléans seeks to comply with these obligations.




*(1) The Group Assets and Liabilities Committee is responsible for medium-term capital planning, having regard for the Group's business plans and regulatory constraints.*

## 4. The principal parties involved in internal control and their main duties

### 4.1. Executive Management

PO Gestion SAS exercises management through its Chairman, David de Rothschild, assisted by the Management Board and the Group Management Committee in performing its duties (PO Gestion SAS and the Group Management Committee are referred to as "Executive Management"). Executive Management, reporting to the Supervisory Board, is responsible for the Group's overall internal control system. PO Gestion SAS, assisted by the Group Management Committee defines the general guidelines of the internal control and risk management systems and monitors the actions implemented within the Group that are supervised by the internal audit functions of the Group and the local management committees of each business unit.

### 4.2. Independent permanent control functions ("second-level" controls)

- **Group Legal and Compliance** ensures that the Group conforms to legal and regulatory provisions, professional standards and codes of conduct, as well as the overall strategy of the Supervisory Board and Executive Management directives. The responsibilities of Group Legal & Compliance mainly include: development and maintenance of compliance policies and procedures (together with legal policies and procedures), operation of monitoring programmes, or the supervision of monitoring programmes, identification of any failure to follow compliance policies and procedures, monitoring and review of legislation and regulatory developments which might affect the Group's business and reporting results of monitoring programmes to Senior Management and agreeing any remedial action or changes to relevant procedures with Senior Management. This independent internal control function reports to the Group Head of Legal, Compliance and Risk, who is a member of the Group Management Committee. The Group Head of Legal, Compliance and Risk reports to Executive Management and boards around the Group.
- **Group Risk** is responsible for ensuring that suitable risk management processes are in place across the Group and for reporting a consolidated view of risk exposures across the Group. As part of its role, Group Risk assesses the risks run in each business and how they are managed, aims to establish a forward-looking view over emerging risks within the businesses or the external environment and delivers an independent and objective perspective on the risks in the business and whether they are consistent with approved strategy and risk appetite. The Group Chief Risk Officer reports to Olivier Pécoux, in his capacity as Chief Executive Officer, and to the Paris Orléans Risk Committee. Group Risk reports to Executive Management on significant incidents in accordance with the provisions of the Group Operational Risk Policy. This policy sets out the criteria and thresholds for identifying significant operational risk incidents and the process for escalating them and ensuring that any remedial actions are appropriately monitored.
- **Group Finance** is responsible for the preparation of statutory financial reports, in accordance with legal requirements and accounting standards; preparation of Group management accounts reports; maintenance and development of the Group reporting system; preparation and submission of regulatory reports; and monitoring of compliance with regulatory capital requirements, coordination of business planning and budget process; and planning and implementation of tax planning and Group structuring arrangements. Through the Regulatory Capital Monitoring Division, Group Finance is also responsible for the Group's capital monitoring and the follow-up of large exposures monitoring. Its head, the Group Finance Director, who is a member of the Group Management Committee, reports directly to Executive Management.
- **Other functions** are important and participate in the internal control system in their specific areas of responsibilities such as **Group Human Resources**.

### 4.3. Periodic controls ("third-level" control)

Periodic control is independently exercised by **Group Internal Audit**. The Group Head of Internal Audit meets formally every three to four months with the Group's two Co-Chief Executive Officers, and whenever necessary, to present the activity of the Internal Audit function and discuss any material findings raised during the period. The Group Head of Internal Audit presents the activity of Internal Audit to the Audit Committee which meets four times a year. In March, the Audit Committee approves the audit plan for the coming year and during its meetings in March and September it reviews in detail the activity of the internal audit function as described below. The Group Head of Internal Audit meets regularly, usually every quarter, with the heads of the main lines of business to discuss the evolution of the activity and the evolution of risks for their respective area of responsibility. This forms part of the regular information of the internal audit function on the evolution of the Group's risk profile.

Each of the Internal Audit Officers is responsible for the audit coverage of some specific lines of business: Global Financial Advisory, Wealth and Trust, Asset Management, Merchant Banking, Banking and Treasury and Information Technology, in parallel to their local geographical coverage. The other members of the Audit function are not specialised by business and are assigned to the different audits according to the scheduling of the annual audit plan.

### 4.4. The Supervisory Board

The Supervisory Board, through the workings of the Risk Committee and the Audit Committee, ensures the implementation by Executive Management of reliable procedures and processes for monitoring the internal control systems of the Group in order to identify, assess and manage risk.

Every quarter, a Group Legal, Compliance and Risk report is presented to the Paris Orléans Risk Committee and Audit Committee. The Supervisory Board receives the minutes of these committees and asks the chairmen to comment on any key issues for the Group covered in the report and highlight any material risks.

The Heads of the Compliance, Risk and Internal Audit functions report on the performance of their duties to Executive Management, and whenever Executive Management or the Supervisory Board considers it necessary, to the Supervisory Board. They also report to the competent Supervisory Board's committee and may be interviewed by the Supervisory Board or the competent Supervisory Board's committee.

## 4.5. Risk management

The Group's internal control framework is based on the "three lines of defence" model. The first line comprises front-line management of the business itself, which has overall responsibility for risk management. The second line includes independent Risk, Compliance and Legal functions and to a lesser extent Finance and Human Resources to monitor on a continuous basis the activity of the front line management, and the third line comprises Internal Audit as well as the Group's external auditors who both exercise periodic surveillance of the Group's activities

## 4.6. Risk appetite

The close involvement of the major shareholder in the active oversight of the Group's businesses is a defining characteristic of the culture and environment within which the Group manages its risks. The guiding philosophy is for management to adopt a prudent and conservative approach to the taking and management of risk.

The principal elements which underpin this approach are the following:

### *4.6.1. Primacy of reputation*

The Rothschild Group is a unique institution with a prestigious reputation which extends beyond normal banking circles and which belies the actual scale of business undertaken. The maintenance of reputation is a fundamental driver of risk management. Business is to be conducted according to the highest ethical standards. The protection of reputation guides the type of clients and businesses the Group will involve itself with.

### *4.6.2. Family ownership and control*

The continuation of family ownership and control shapes the Group's long-term strategy, time horizon for planning, and allocation of capital. Capital allocation is managed within the constraints of raising capital as a family-controlled company.

### *4.6.3. Management of capital*

Business strategy and risk appetite are predicated on the limited access to capital. Capital available to the Group is allocated by the Group Management Committee across the key business lines. Business activities are diversified in terms of the markets within which they operate and the geographical distribution of their activities to reduce the probability of risk concentrations. Responsibility and accountability for the day-to-day management of significant pools of capital is devolved to Group committees and local boards.

### *4.6.4. Advice and intellect*

Advice and intellect are the heart of the Group's business philosophy. The emphasis of the business is towards products which have a high value added intellectual and structured content.

The Group articulates risk appetite through:

- a system of limits (including limits on capital utilisation, credit risk and market risk) and stress tests; and
- a qualitative assessment of the Group's tolerance level for operational risk, including reputational and regulatory compliance risk.

## 4.7. Risk identification

The Group's activities expose it to several types of risk. Risk arises in Group entities in relation to the specific business activities conducted by them. Responsibility for identifying, communicating and managing risk lies with each business and its management.

The principal Group business activities are:

- Global Financial Advisory – independent financial advice.
- Wealth Management and Trust – private banking and wealth management, trust and fiduciary services.
- Asset Management – French and US institutional and corporate client asset and fund management services.
- Merchant Banking – private equity investment and private equity fund management.

In addition, the Banking and Asset Finance business offers services in private client banking, commercial lending and asset finance.

The following table summarises the material risk categories and the significant exposure to each category by group business activity.

| Risk Category | Risk by Business Activity | | | |
|---|---|---|---|---|
| | Global Financial Advisory | Wealth & Asset Management | Merchant Banking | Banking & Asset Finance |
| Group | ✓ | ✓ | ✓ | ✓ |
| Business | ✓ | ✓ | ✓ | ✓ |
| Capital planning | | ✓ | ✓ | ✓ |
| Credit | | ✓ | ✓ | ✓ |
| Operational (incl. reputational) | ✓ | ✓ | ✓ | ✓ |
| Market | | ✓ | ✓ | ✓ |
| Liquidity | | ✓ | ✓ | ✓ |

The material risk categories are defined as follows:

### *4.7.1. Group Risk*

Group risk is the risk of an occurrence in one part of the Group, such as a failure or a significant reputational event in a line of business, causing damage to another business line in the Group or to the Group as a whole.

### *4.7.2. Business risk*

The Group and each of its business lines are exposed to Business risk. Business risk covers the risk of loss (or opportunity cost) relating to each of the business strategy, economic cycle, competitive business environment, political landscape and strategy execution

### *4.7.3. Capital Planning risk*

This is the risk that the Group and/or entities engaged in banking activities do not hold sufficient capital to protect against expected and unexpected losses arising from the risks described above. For planning purposes, the Group considers credit risk capital requirements from both a regulatory and economic capital perspective.

This includes identification, management and monitoring of the risks of excessive leverage.

### *4.7.4. Credit and counterparty risk*

Credit risk is the risk of loss that may occur through (primarily) an exposure to customer default or counterparty default. This risk is particularly prevalent in individual, corporate and structured lending, corporate hedging, inter-bank lending and traded credit positions with which Banking & Asset Finance are involved (although other Group businesses also have limited exposure to credit risk).

Concentration risk is the risk arising from exposures to each counterparty, including central counterparties, groups of connected counterparties, and counterparties in the same economic sector, geographic region or from the same activity or commodity, and is treated as a subset of credit risk.

Settlement risk is the risk incurred during the period between the time when the payment or delivery order for a financial instrument that has been sold can no longer be unilaterally cancelled and the final receipt of the purchased instrument or corresponding cash, and is considered as part of credit risk.

The Group considers securitisation risk, that is the risks arising from securitisation transactions in relation to which the credit institutions are investor, originator or sponsor, as part of credit risk.

### *4.7.5. Operational risk*

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems as well as external events.

Operational risk arises in all of the Group's business activities. The Basel Committee on Banking Supervision has identified the following broad areas of operational risk:

- Business Disruption and Systems Failures;
- Clients Products and Business Practices;
- Damage to Physical Assets;
- Employment Practices and Workplace Safety;
- Execution, Delivery and Process Management;
- External Fraud;
- Internal Fraud.

The Group takes the view that the failure to control operational risk can in varying degrees give rise to reputational risk (i.e. the potential that negative publicity regarding the business practices of a member of the group, whether true or not, will cause a decline in the customer base of that entity, costly litigation or revenue reductions) as reputational risk is inherent in most aspects of the business and features as a consideration in all decision-making.

Operational risk also includes regulatory compliance risk, that is the risk that a line of business and/or its employees breach any of the numerous laws, regulations and internal policies and procedures, which apply to the line of business and its employees. It is also the risk that any such breaches are not promptly identified and reported to the relevant Senior Management and regulator(s).

Operational risk includes residual risks which arise due to lack of clarity of the documentation of the product, the actions of the counterparty or legislative changes and court interpretations/proceedings. Legal risk includes risk of non-enforceability of contract or incorrect documentation. Broadly, legal risks may result in (i) claims against the firm, (ii) fines, penalties, punitive damages, (iii) unenforceable contracts resulting from defective documentation, and (iv) loss of institutional reputation.

#### *4.7.6. Market risk*

Traded market risk is the risk of loss that may occur through a trading exposure to market factors such as interest rates, exchange rates, implied volatilities, spreads and equities. This risk is particularly prevalent in Banking & Asset Finance through the trading book activities.

Non-traded market risk is the risk of loss due to market factors that may occur through non-trading activities. This risk arises primarily in relation to:

- a liquidity portfolio (traded debt securities);
- balance sheet re-pricing mismatch (asset and liability position);
- equity underwritings; and
- equity investments.

Market risk includes interest rate risk in the banking book, that is risk arising from potential changes in interest rates that affect an entity non-trading activities

#### *4.7.7. Liquidity risk*

Liquidity risk is the risk that a subsidiary cannot meet its payment obligations as and when they fall due. This risk arises mainly through a mismatch in maturity of balance sheet assets and liabilities relating to a subsidiary's lending activities and treasury funding activities.

## 5. Organisation of the Group accounting arrangements

Group Finance has the necessary people to produce the financial, accounting and regulatory information of the Group on a consolidated and regulatory basis. The Finance Department consists of three sections: management accounting, financial accounting (including consolidations) and regulatory reporting.

### 5.1. Overview of statutory accounting arrangements

The local accounting departments are responsible for local statutory accounts. Group Finance produces the consolidated Paris Orléans accounts only.

### 5.2. Process for establishing consolidated accounts

The consolidation department of Paris Orléans manages the chart of accounts and the associated databases, performs the Group consolidation, controls the consistency and completeness of data and draws up the consolidated accounts and related notes.

In BFC, the consolidation tool of Group Finance, all subsidiaries report their individual accounting information using a chart of accounts and a format that are common across the whole Group.

Accounting data is reported directly under IFRS in BFC. The Group defines in its data dictionary how to record specific transactions and defines how the notes to the accounts should be prepared. The data dictionary, as well as other accounting guidance, is available for all offices on Paris Orléans' Intranet. There are also quarterly reporting instructions and a quarterly finance newsletter.

Once data has been input into BFC, "blocking" controls defined by the Group are applied in order to validate the consistency of the accounting data, the correctness of the flows and the completeness of the analyses. In addition to these controls, the procedure for preparing the consolidated accounts includes:

- the reconciliation of inter-company transactions and the distribution of shareholdings in the Group's companies;
- checks on the application of consolidation adjustments;
- analysis and justification of shareholders' equity;
- analysis of changes in balances and ratios on a quarterly and year-to-date basis; and
- review at consolidated level of the provisioning policy.

These controls are subsequently repeated at the global Paris Orléans consolidation level.

### 5.3. Accounting control process

The accounting control process at Group level complements the control systems implemented at each level of the Group's organisation.

### 5.4. Accounting control mechanisms in the Group

Group Finance relies on a decentralised system where the primary control functions are assigned to the persons responsible locally for producing the financial statements.

Accounting data is collected using BFC, the Group's consolidation tool. The local finance departments are responsible for validating the accounting data entered in BFC through three levels of control:

- a first level – of the self-control type – which is embedded in the local accounting processes. These controls are operated daily;
- a second level, which is operated by accounting managers, for example involving controls on securities positions and consistency controls designed to ensure the reliability and completeness of the accounting and financial information; and
- a third level, which involves the statutory auditors who certify the accounts, carried out on an annual and half-yearly basis. Note that not all entities are audited (but most are) and that only the large entities and the significant balances are reviewed for the half year accounts. The Internal Audit department could also be involved in the control process as a third level control.

Local entities' accounting information is input on an IFRS basis into BFC templates. Once data has been input, "blocking" system controls are applied.

## 5.5. Accounting control mechanisms at consolidation level

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

- Group Finance; in addition to the controls on the integrity of the accounting information, Group Finance checks the consistency of the data reported with:
  - its knowledge of the major transactions;
  - the Group management accounts;
  - category-by-category instrument-by-instrument analysis of key balances;
  - papers produced by other relevant Committees (for example, the Remuneration and Nomination Committee, the Assets and Liabilities Committee, the Group Management Committee, etc.);
- PO Gestion SAS, the Managing Partner of Paris Orléans, which approves the consolidated accounts before they are sent to the Paris Orléans Audit Committee;
- the statutory auditors, in the context of the certification of the accounts. Their work is carried out in accordance with professional standards; and
- a final level of control takes place through the work of the Paris Orléans Audit Committee, which is responsible for examining the Paris Orléans consolidated accounts.

For September 2014 reporting, Group Finance recorded the areas of potential improvement of local teams. A presentation which summarised these was presented to the senior local accountants responsible for the key reporting entities. The local team agreed actions with Group Finance to address the observed shortcomings, for follow up at the next quarters' reporting.

## 5.6. Control framework for regulatory reports

The Group Regulatory Reporting Division draws up the relevant Group procedures and ensures the quality and reliability of calculations of the solvency ratio, credit risk, market risk, operational risk and regulatory capital. At Group level, the regulatory reports prepared for the Autorité de Contrôle Prudentiel et de Résolution are those related to:

- the solvency ratio (COREP);
- IFRS reports on a regulatory scope (FINREP);
- large exposures (SURFI);
- unrealised gains and losses (SURFI);
- list of subsidiaries (SURFI);
- commitments abroad (SURFI); and
- banking deposit guarantee system (SURFI).