

# Paris Orléans SCA

Pillar 3 disclosures for the financial year ended  
31 March 2012



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# 1. Scope

## 1.1 Introduction

This document is published to provide information about Paris Orléans SCA's ("PO") compliance with the public disclosure rules set out in the Order of 20 February 2007 relating to minimum capital requirements (known as "Pillar 3" requirements as set out in the Basel II Accord and its European transposition by the Capital Requirement Directive ("CRD")). PO is registered within the list of Financial Companies supervised by the Autorité de Contrôle Prudentiel ("ACP").

The Pillar 3 disclosure requirements complement the minimum capital requirements ("Pillar 1") and the supervisory review process ("Pillar 2") and aim to encourage market discipline by allowing market participants to assess key pieces of information on the risk exposures and the risk assessment processes of PO.

## 1.2 Basis of disclosure

These risk disclosures are made in respect of PO and its subsidiary undertakings (together "the Group" or "the PO Group"). Since 31 March 2011, the PO Group has been regulated by the ACP.

The following regulated banking entities are fully consolidated in PO's accounts:

1. NM Rothschild and Sons Limited ("NMR"), incorporated in the United Kingdom and supervised by the Financial Services Authority ("FSA");
2. Rothschild Bank AG ("RBZ"), incorporated in Switzerland and supervised by the Swiss Financial Market Supervisory Authority ("FINMA");
3. Rothschild & Cie Banque ("RCB"), incorporated in France and supervised by the ACP; and
4. Rothschild Bank International ("RBI") and Rothschild Bank C.I. Limited ("RBCI"), incorporated in Guernsey and supervised by the Guernsey Financial Services Commission ("GFSC").

As at 31 March 2012, the regulatory consolidation scope is identical to the statutory consolidation scope.

Unless otherwise indicated, financial information presented in this document is as at 31 March 2012 (PO's financial year-end). As there is a significant overlap between the information disclosure requirements for Pillar 3 and information already disclosed in the PO 2012 Annual Report, this document should be read in conjunction with that report. The PO Group organisation presented in this document is consistent with the governance arrangements described within the PO 2012 Annual Report following the reorganisation that was approved at the Extraordinary General Meeting of PO shareholders on 8 June 2012.

## 1.3 Corporate reorganisation

On 4 April 2012, the Group announced an important step in its continued development. The aim of this reorganisation was to simplify the Group structure and improve day-to-day management, and involved two phases:

- the first being the acquisition of certain shares previously held by third parties in certain subsidiaries (RCB, Financière Rabelais and Rothschilds Continuation Holdings) of PO, in exchange for 38.4 million new ordinary shares in PO,
- the second involving the conversion of PO into a French partnership limited by shares (*société en commandite par actions*).

This reorganisation was approved at the Extraordinary General Meeting of shareholders on 8 June 2012. PO Gestion SAS ("PO Gestion"), the managing partner of PO, is chaired by the Group's longstanding Chairman, David de Rothschild, alongside Chief Executive Officers, Nigel Higgins and Olivier Pécoux.

## 1.4 Media

This document is available on PO's corporate website ([www.paris-orleans.com](http://www.paris-orleans.com)) along with the PO 2012 Annual Report.

## 1.5 Verification

These disclosures have been circulated and presented to the Audit Committee, the Supervisory Board and the Group Risk Committee of PO in November/December 2012. Unless otherwise indicated, information contained within this document has not been subject to external audit. The Pillar 3 disclosures have been prepared purely for the purpose of explaining the basis on which the PO Group has prepared and disclosed certain capital requirements and information about the management of certain risks, and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any judgement on the PO Group.

# 2 Risk Management

## 2.1 Overview

The guiding philosophy of risk management in the Group is for the management to adopt a prudent and conservative approach to the taking and management of risk. The maintenance of reputation is a fundamental driver of risk appetite and of risk management. The protection of reputation guides the type of clients and businesses with which the Group will involve itself.

The nature and method of monitoring and reporting varies according to the risk type. Most risks are monitored daily with management information being provided to relevant committees on a weekly, monthly or quarterly basis. Where appropriate to the risk type, the level of risk faced by the Group is also managed through a series of sensitivity and stress tests.

The identification, measurement and control of risk are integral to the management of PO's businesses. Risk policies and procedures are regularly updated to meet changing business requirements and to comply with best practice.

## 2.2 Structure and risk governance

PO Gestion is responsible for setting and reviewing PO's governance arrangements and for establishing adequate, sound and appropriate risk management processes in line with all legal and regulatory requirements.

Internal control governance within the Group is effected through PO and onwards to the senior executive management committees for each of the Group's businesses and the Boards of the principal operating entities. PO Gestion, in conjunction with the Group Management Committee, has direct oversight of all Group entities in respect of internal control matters and considers all major strategic and other risk matters affecting all parts of the Group.

The main roles of the committees with responsibility for key risk management areas are as follows:

The **Group Management Committee** ("GMC"): its purposes are to formulate strategy for the Group's businesses, to assess the delivery of that strategy, to ensure the proper and effective functioning of Group governance structures, operating policies and procedures, to define the Group's risk appetite and to be responsible for the management of risk.

The **PO Audit Committee**: this committee of the Supervisory Board of PO supervises and reviews the Group's internal audit arrangements, liaises with the Group's external auditors and monitors the overall system and standards of internal control.

The **Group Risk Committee** ("GRC") formulates policies and procedures which promote the proper identification, measurement, monitoring, and control of risk, and which reflect the Group's risk appetite. These policies and procedures define the Group Risk Framework.

The **Group Assets and Liabilities Committee** ("Group ALCO") is responsible for ensuring that the Group has prudent funding and liquidity strategies, for the efficient management and deployment of capital resources within regulatory constraints and for the oversight of the management of the Group's other financial strategies and policies, including credit decisions.

The **Group Compliance Committee** ("GCC") reviews the existence, effectiveness and scope of compliance procedures and monitoring in the Group with a view to ensuring that they comply with the relevant regulatory requirements.

The **Group Remuneration Committees** set the principles and parameters of the remuneration policies for the Group and determine the nature and scale of short and long term incentive performance arrangements that encourage enhanced performance and reward individuals in a "risk based" manner for their contribution to the success of the Group in light of an assessment of the Group's financial situation and future prospects.

## 2.3 Risk management framework

The objectives of the Group Risk Framework are to mitigate and control risks by means of policies, processes, systems and procedures, to create a culture of risk awareness and ownership through communication and education at every level of the Group, to communicate the Group's risk appetite and to preserve the Group's reputation.

The table hereafter summarises the three "lines of defence" adopted for risk management within the Group. Primary responsibility rests with executive management, with second and third lines of defence provided by Group support functions and assurance from internal audit processes.

The Group Chief Risk Officer co-ordinates risk policy and promotes the development and maintenance of effective procedures throughout the PO Group. The Group Internal Audit team reviews the internal control framework and reports its findings to the Audit Committee and to PO Gestion.

## Group Risk Framework

The Three Lines of Defence for identifying, evaluating and managing risks

### First Line of Defence

Comprises the Boards and Committees of the PO Group:

- set the Group's risk appetite;
- approve the strategy for managing risk; and
- are responsible for the Group's system of internal control

It is the responsibility of senior management to support risk management best practice and to oversee the establishment and implementation of effective risk management systems.

### Second Line of Defence

Comprises specialist Group support functions including:

- Risk;
- Finance;
- Legal & Compliance;
- IT; and
- Human Resources.

These functions provide:

- operational and technical guidance;
- advice to management at Group level and operating entity level; and
- assistance in the identification, assessment, management, measurement, monitoring and reporting of financial and non-financial risks.

### Third Line of Defence

Provides independent objective assurance on the effectiveness of the management of risks across the entire Group.

This is provided by Group's Audit Committee and the Group's Internal Audit function.

## 2.4 Risk types

### Credit risk

Credit risk is the risk of loss resulting from exposure to customer or counterparty default.

PO has adopted the Standardised Approach for calculating Pillar I capital requirements for credit risk.

### Operational risk

Operational risk, which is inherent in all business activities, is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

PO currently adopts the Basic Indicator Approach for calculating Pillar I capital requirements for operational risk (except for RCB which uses the Advanced Methodology Approach).

### Liquidity and funding risk

Liquidity risk is the risk that the Group does not have sufficient financial resources available to meet its obligations as they fall due, or that the Group is unable to meet regulatory prudential liquidity ratios.

The Group performs liquidity stress testing based on a range of adverse scenarios, and has contingency funding plans which are maintained with the objective of ensuring that the Group has access to sufficient resources to meet obligations as they fall due if these scenarios occur. Stressed liquidity profiles are reviewed by the Group ALCO.

### Market risk

Market risk positions arise mainly as a result of the PO Group's activities in interest rate, currency, equity and debt markets and comprise interest rate, foreign exchange, equity and debt position risk. Market risk exposures are presented in the PO 2012 Annual Report (page 138).

### Other material risks

Other risks which are, or may be, material arise in the normal conduct of our business. Such risks, which include reputational risk, concentration risk, securitisation risk, business risk, pension obligation risk and residual risk, are identified and managed as part of the overall risk controls and are taken into account in the Supervisory Board's periodic assessment of capital adequacy.

There is additional information regarding credit risks in the PO 2012 Annual Report (pages 133-137); other information regarding liquidity and funding risks and market risks is also included (pages 138-141).

### 3. Regulatory Ratios

During the year ended 31 March 2012, PO and the individual entities within PO Group complied with all of the externally imposed capital requirements to which they were subject.

The following table provides a breakdown of consolidated capital requirements as at 31 March 2012 by risk type and the ratio at which it is covered by regulatory capital:

| €m                                | 31 March 2012 |
|-----------------------------------|---------------|
| Tier 1 capital                    | 804           |
| Tier 2 capital                    | 608           |
| <b>Regulatory capital base</b>    | <b>1,412</b>  |
| Credit Risk                       | 3,627         |
| Market Risk                       | 91            |
| Operational Risk                  | 1,970         |
| <b>Total Risk Weighted Assets</b> | <b>5,688</b>  |
| <b>Tier 1 ratio</b>               | <b>14.1%</b>  |
| <b>Global ratio</b>               | <b>24.8%</b>  |

Under ACP rules, the Tier 1 ratio must exceed 4% and the Global ratio 8%.

#### Impact of the reorganisation announced in April 2012:

In May 2012, the ACP registered PO as a "Financial Company" following the announcement of the reorganisation of the PO Group which eliminated many of the minority interests within the PO Group.

The PO reorganisation objectives were to:

- streamline its organisation;
- optimise its regulatory capital; and
- ensure Rothschild family control.

The main consequence of this reorganisation on regulatory capital is an increase of Tier 1 ratio from 14.1% to 18.1% because of the elimination of certain minority interests within the Group.



## 4. Regulatory Capital

The table below summarises the composition of regulatory capital for the PO Group as at 31 March 2012.

| Regulatory Capital in €m                            | Notes | 31 March 2012 |
|---|-------|---------------|
| Share Capital and Reserves                          |       | 721           |
| Minority interest                                   |       | 402           |
| Deduction – Goodwill & Intangible assets            | 1     | (296)         |
| Adjustment to Tier 1                                | 2     | 3             |
| Deduction – Participation in financial institutions | 3     | (10)          |
| Deduction – Securitisations                         | 4     | (16)          |
| <b>Tier 1</b>                                       |       | <b>804</b>    |
| Minority Interests eligible as Tier 2               |       | 270           |
| Subordinated debts                                  |       | 335           |
| Adjustment to Tier 2                                | 5     | 29            |
| Deduction – Participation in financial institutions | 3     | (10)          |
| Deduction – Securitisations                         | 4     | (16)          |
| <b>Tier 2</b>                                       |       | <b>608</b>    |
| <b>Total Regulatory Capital</b>                     |       | <b>1,412</b>  |

### Notes:

1. Intangible assets largely comprise the Rothschild brand.
2. Adjustments to Tier 1 relate to AFS reserves and cash flow hedge adjustments.
3. Capital deductions result from the share of investment in financial institutions which represent more than 10% of PO regulatory capital or that are above 10% of financial institution capital ("Banque Privée Edmond de Rothschild" and "Sélection 1818"). These elements are deducted equally from Tier 1 capital and from Tier 2 capital.
4. Securitisation positions that are not rated or rated below BB- are deducted from regulatory capital. These elements are deducted equally from Tier 1 capital and from Tier 2 capital.
5. Adjustments to Tier 2 comprise AFS equity reserves that are deducted from Tier 1 and partly included in Tier 2.

## 5. Capital Adequacy

The ACP sets out the minimum capital requirement for French regulated financial institutions. An institution's minimum regulatory capital is a combination of the requirement derived from Pillar 1 and Pillar 2 rules. Pillar 1 sets out the minimum regulatory capital to meet credit, market and operational risk. At 31 March 2012, the Group capital requirements by risk type were as follows:

| Pillar 1 requirement – €m | Risk Weighted Assets | Capital requirement |
|---------------------------|----------------------|---------------------|
| Credit Risk               | 3,627                | 290                 |
| Market Risk               | 91                   | 7                   |
| Operational Risk          | 1,970                | 158                 |
| <b>Total</b>              | <b>5,688</b>         | <b>455</b>          |

Credit risk capital requirements split by asset class were as follows:

| Credit risk – €m     | Risk Weighted Assets | Capital requirement |
|----------------------|----------------------|---------------------|
| Corporates           | 1,459                | 117                 |
| Equity               | 1,099                | 88                  |
| Other assets         | 605                  | 48                  |
| Institutions - Banks | 215                  | 17                  |
| Securitisation       | 168                  | 13                  |
| Retail               | 77                   | 6                   |
| Institutions - Other | 4                    | 1                   |
| Sovereign            | –                    | –                   |
| <b>Total</b>         | <b>3,627</b>         | <b>290</b>          |

The Other assets category comprises mainly of 'Non credit obligation assets'.

All credit risk capital requirements are calculated using the standardised approach.

Market risk capital requirements split by risk type were as follows:

| Market risk – €m               | Risk Weighted Assets | Capital requirement |
|--------------------------------|----------------------|---------------------|
| FX risk                        | 68                   | 5                   |
| Interest Rate risk             | 16                   | 1                   |
| Equity risk and Commodity risk | 7                    | 1                   |
| <b>Total</b>                   | <b>91</b>            | <b>7</b>            |

All market risk requirements are calculated using the standardised approach.

Operational risk capital requirements are partly calculated using the Basic Indicator Approach and partly using the Advanced Measurement Approach: only RCB currently has supervisory approval to use the latter.

| Operational risk – €m         | Risk Weighted Assets | Capital requirement |
|-------------------------------|----------------------|---------------------|
| Basic Indicator Approach      | 1,627                | 130                 |
| Advanced Measurement Approach | 343                  | 28                  |
| <b>Total</b>                  | <b>1,970</b>         | <b>158</b>          |

## 6. Credit Risk

### 6.1 Credit risk exposures

The table below presents a summary of the Credit Risk Weighted Assets ("RWA") calculation.

The net exposure is the exposure after provisions, regulatory adjustments related to assets that are treated under market and counterparty risks rules and after regulatory deduction of intangible fixed assets and goodwill.

The Exposure At Default ("EAD") is calculated after netting effects, collateral and credit conversion factors but before applying risk weightings.

The RWA consists of the EAD multiplied by a weighting factor, which varies depending on the credit quality of the counterparty.

Credit risk exposures as at 31 March 2012 were as follows:

| Credit Risk exposures – €m |              |
|----------------------------|--------------|
| Net exposure               | 8,801        |
| Financial collateral       | (1,122)      |
| Credit conversion factor   | (49)         |
| <b>EAD</b>                 | <b>7,630</b> |
| <b>RWA</b>                 | <b>3,627</b> |

### 6.2 Exposures by asset class

The table below shows the analysis of exposures by asset class. Sovereign exposures are zero weighted.

| Asset Class – €m     | EAD          | RWA          |
|----------------------|--------------|--------------|
| Corporates           | 1,472        | 1,459        |
| Equity               | 747          | 1,099        |
| Other assets         | 701          | 605          |
| Institutions – Banks | 1,068        | 215          |
| Securitisation       | 144          | 168          |
| Retail               | 155          | 77           |
| Institutions – Other | 20           | 4            |
| Sovereign            | 3,323        | –            |
| <b>Total</b>         | <b>7,630</b> | <b>3,627</b> |

## 6.3 EAD by geographical location and by industry sector

The Group is mainly exposed to the United Kingdom, France and Switzerland with more than 75% of its exposures to these three countries.

EAD by industry sector are as follows:

| Sector – €m        | Sovereigns   | Corporates   | Institutions –<br>Banks | Equity     | Retail     | Securitisation | Institutions –<br>Other | Total        |
|--------------------|--------------|--------------|-------------------------|------------|------------|----------------|-------------------------|--------------|
| Financial          | 2,237        | 255          | 1,068                   | 183        | –          | 88             | –                       | 3,831        |
| Governments        | 1,086        | –            | –                       | –          | –          | –              | 19                      | 1,105        |
| Real Estate        | –            | 469          | –                       | 17         | 82         | 34             | –                       | 602          |
| Private Persons    | –            | 192          | –                       | –          | 73         | –              | –                       | 265          |
| Manufactured goods | –            | 182          | –                       | 15         | –          | –              | –                       | 197          |
| Industrials        | –            | 136          | –                       | 38         | –          | –              | –                       | 174          |
| Services           | –            | 82           | –                       | 78         | –          | –              | –                       | 160          |
| Materials          | –            | 76           | –                       | 1          | –          | –              | –                       | 77           |
| IT and Telecoms    | –            | 47           | –                       | 22         | –          | –              | –                       | 69           |
| Health care        | –            | 19           | –                       | 10         | –          | –              | 1                       | 30           |
| Energy             | –            | 2            | –                       | 9          | –          | –              | –                       | 11           |
| Other              | –            | 12           | –                       | 374        | –          | 22             | –                       | 408          |
| <b>Total</b>       | <b>3,323</b> | <b>1,472</b> | <b>1,068</b>            | <b>747</b> | <b>155</b> | <b>144</b>     | <b>20</b>               | <b>6,929</b> |

More than 70% of the exposures are to the Financial and Governments sectors.

“Other assets” are not included in this table because it is not possible to split these exposures by industry. The high level of Financial sector exposure is related to the high level of liquid assets held in the balance sheet for liquidity management purposes.

## 6.4 EAD by maturity

The table below sets out an analysis of credit risk by maturity as at 31 March 2012. Residual maturity of exposures is based on contractual maturity dates and not expected or behaviourally adjusted dates.

| Maturity band – €m | Sovereigns   | Corporates   | Institutions –<br>Banks | Equity     | Other<br>assets | Retail     | Securitisation | Institutions –<br>Other | Total        |
|--------------------|--------------|--------------|-------------------------|------------|-----------------|------------|----------------|-------------------------|--------------|
| < 1 year           | 3,088        | 475          | 916                     | 20         | 322             | 43         | –              | 17                      | 4,881        |
| 1-5 years          | 235          | 905          | 118                     | 34         | –               | 25         | 26             | 3                       | 1,346        |
| >5 years           | –            | 92           | 34                      | 98         | –               | 87         | 118            | –                       | 429          |
| Undated            | –            | –            | –                       | 595        | 379             | –          | –              | –                       | 974          |
| <b>Total</b>       | <b>3,323</b> | <b>1,472</b> | <b>1,068</b>            | <b>747</b> | <b>701</b>      | <b>155</b> | <b>144</b>     | <b>20</b>               | <b>7,630</b> |

Group strategy is to reduce its corporate banking activities and to maintain a highly liquid short term position. This results in more than 60% of the exposures having a maturity below 1 year.

## 6.5 Value adjustment on impaired assets by asset class

Value adjustments, whether through individual or collective provisions or through equity reserves, shown below relate to impaired assets only.

The net exposure takes into account value adjustments but does not include any collateral.

| Negative value adjustments and provisions by Asset Class – €m | Impaired on-balance sheet gross exposure | Value Adjustments | Net Exposure |
|---|--|-------------------|--------------|
| Corporates  | 186                                      | (137)             | 49           |
| Equity  | 117                                      | (70)              | 47           |
| Securitisation  | 48                                       | (35)              | 13           |
| Other assets  | 8  | (8)               | –            |
| Retail  | –  | –                 | –            |
| <b>Total</b>  | <b>359</b>                               | <b>(250)</b>      | <b>109</b>   |

## 6.6 EAD by credit quality

PO uses external credit assessments provided by Standard & Poor, Moody's and Fitch for all exposure classes. These are used, where available, to assign exposures a credit quality step and calculate credit risk capital requirements under the standardised approach. Credit quality steps are provided by the Regulator and are used to weight asset classes based on the external rating.

The following tables provide, by asset class, an analysis of exposures by credit quality steps as at 31 March 2012:

| EAD by quality – €m   | Sovereigns   | Corporates   | Institutions – Banks | Equity     | Other assets | Retail     | Securitisation | Institutions – Other | Total        |
|-----------------------|--------------|--------------|----------------------|------------|--------------|------------|----------------|----------------------|--------------|
| Credit Quality Step 1 | 3,323        | 11           | 1,065                | –          | –            | –          | 33             | 20                   | 4,452        |
| Credit Quality Step 2 | –            | 49           | –                    | –          | –            | –          | 20             | –                    | 69           |
| Credit Quality Step 3 | –            | 7            | –                    | –          | 98           | –          | 29             | –                    | 134          |
| Credit Quality Step 4 | –            | 1            | –                    | –          | –            | –          | 30             | –                    | 31           |
| Credit Quality Step 5 | –            | 27           | –                    | –          | –            | –          | 23             | –                    | 50           |
| Credit Quality Step 6 | –            | 2            | –                    | –          | –            | –          | 1              | –                    | 3            |
| Unrated               | –            | 1,375        | 3                    | 747        | 603          | 155        | 8              | –                    | 2,891        |
| <b>Total</b>          | <b>3,323</b> | <b>1,472</b> | <b>1,068</b>         | <b>747</b> | <b>701</b>   | <b>155</b> | <b>144</b>     | <b>20</b>            | <b>7,630</b> |

Credit quality steps correspond to the following external ratings:

| Counterparty quality step | Fitch        | Moody's      | S&P          |
|---------------------------|--------------|--------------|--------------|
| 1                         | AAA to AA    | Aaa to Aa3   | AAA to AA-   |
| 2                         | A+ to A-     | A1 to A3     | A+ to A-     |
| 3                         | BBB+ to BBB- | Baa1 to Baa3 | BBB+ to BBB- |
| 4                         | BB+ to BB-   | Ba1 to Ba3   | BB+ to BB-   |
| 5                         | B+ to B-     | B1 to B3     | B+ to B-     |
| 6                         | <CCC+        | <Caa1        | <CCC         |

## 6.7 Counterparty credit risk

Counterparty credit risk ("CCR") is deemed to be the risk that a counterparty to a derivative transaction defaults. The duration of the derivative and the credit quality of the counterparty are both factored into the internal capital and credit limits for counterparty credit exposures.

Given the profile of the Group, this type of risk is not material. The table below details CCR exposures. Derivatives positions are not netted.

| €m           | Gross exposure | Financial collateral | EAD        |
|--------------|----------------|----------------------|------------|
| Banking Book | 60             | –                    | 60         |
| Trading Book | 82             | (27)                 | 55         |
| <b>Total</b> | <b>142</b>     | <b>(27)</b>          | <b>115</b> |

## 6.8 Credit risk mitigation techniques

The value of financial collateral used as credit risk mitigation is €1,122m as of 31 March 2012. The main types of collateral consist of netting agreements for market related transactions and of financial collateral related to Lombard Lending to private clients. Note that exposures to private clients that are above €1m are classified as corporate, as defined by French regulations.

Net exposure is calculated after value adjustment due a provision or value changes on Available For Sale ("AFS") securities. Fully adjusted exposure is calculated after collateral mitigation on net exposures. EAD includes off balance sheet exposures based on credit conversion factors provided by French regulations.

| €m                   | Net exposure | Financial collateral | Fully adjusted exposure | EAD          | RWA          |
|----------------------|--------------|----------------------|-------------------------|--------------|--------------|
| Sovereign            | 3,323        | -                    | 3,323                   | 3,323        | -            |
| Institutions - Banks | 1,777        | (694)                | 1,083                   | 1,068        | 215          |
| Corporates           | 1,797        | (297)                | 1,500                   | 1,472        | 1,459        |
| Equity               | 748          | (1)                  | 747                     | 747          | 1,099        |
| Other assets         | 701          | –                    | 701                     | 701          | 605          |
| Retail               | 291          | (130)                | 161                     | 155          | 77           |
| Securitisation       | 144          | –                    | 144                     | 144          | 168          |
| Institutions - Other | 20           | –                    | 20                      | 20           | 4            |
| <b>Total</b>         | <b>8,801</b> | <b>(1,122)</b>       | <b>7,679</b>            | <b>7,630</b> | <b>3,627</b> |

## 6.9 Securitisations

The Group's primary securitisation focus is on managing securitisation vehicles on behalf of third party investors. This may involve the transfer of some assets from the Group, but these are immaterial in both the context of the Group's and the securitisation vehicles' balance sheets. The Group does not underwrite or provide liquidity support to these vehicles.

The Group may invest in both its managed vehicles and third party securitisations.

The table below sets out investments in securitisations by credit quality step as at 31 March 2012:

| €m               | Credit quality step | Cash       | Synthetic | Total      | RWA before deduction from regulatory capital |            |
|------------------|---------------------|------------|-----------|------------|--|------------|
|                  |                     |            |           |            | RWA  |            |
| Resecuritisation | 2                   | 1          | –         | 1          | –  | 1          |
|                  | 3                   | 14         | –         | 14         | 31   | 31         |
|                  | 6                   | –          | –         | –          | –  | 3          |
|                  | Unrated             | 5          | –         | 5          | –  | 62         |
| Securitisation   | 1                   | 33         | –         | 33         | 7  | 7          |
|                  | 2                   | 19         | –         | 19         | 10   | 10         |
|                  | 3                   | 15         | –         | 15         | 15   | 15         |
|                  | 4                   | 21         | 9         | 30         | 105  | 106        |
|                  | 5                   | 23         | –         | 23         | –  | 292        |
|                  | 6                   | 1          | –         | 1          | –  | 4          |
|                  | Unrated             | 3          | –         | 3          | –  | 41         |
| <b>Total</b>     |                     | <b>135</b> | <b>9</b>  | <b>144</b> | <b>168</b>                                   | <b>572</b> |

## 7. Market Risk

Market risk arises mainly from FX risk in the Group Merchant Banking activities, which do not systematically hedge foreign exchange exposures from gains that are not realised. Market risk capital requirements split by risk type were as follows at 31 March 2012:

| <b>Market risk – €m</b>        | <b>Risk Weighted Assets</b> | <b>Capital requirement</b> |
|--------------------------------|-----------------------------|----------------------------|
| FX risk                        | 68                          | 5                          |
| Interest Rate risk             | 16                          | 1                          |
| Equity risk and Commodity risk | 7                           | 1                          |
| <b>Total</b>                   | <b>91</b>                   | <b>7</b>                   |

All market risk requirements are calculated using the standardised approach.

Interest rate risk from the non-Trading Book is described within the PO 2012 Annual Report (pages 139-140).



## 8. Operational risk

The capital requirement for operational risk is calculated using the Basic Indicator Approach for the PO Group except for RCB where the use of the Advanced Measurement Approach has been authorised.

The Group Operational Risk Policy defines roles, responsibilities and accountabilities across the Group for the identification, measurement, monitoring and reporting of operational risks. Risk maps are developed by each business and support unit.

The nature of PO's businesses means that operational risks are most effectively mitigated through the application of rigorous internal procedures and processes, with a particular emphasis on client take-on, identification of conflicts of interest, project-specific appointment letters, formal approval of new products and quality controls in transaction implementation. This is supported by a programme of training on PO Group's procedures and regulatory and compliance issues. The PO Group manages its operational risks through a variety of techniques, including monitoring of incidents, internal controls, training and various risk mitigation techniques, such as insurance and business continuity planning.

One of the objectives of the Group Operational Risk Policy is to ensure that operational risk is managed and reported consistently across the Group. Senior management of each business and support unit are required to:

- identify the operational risks which are material in their business;
- describe the controls in place to mitigate these risks; and
- assess the potential impact of each risk, and the likelihood of an event occurring (after taking account of mitigants in place).

Senior management of operating entities are required to identify, escalate and report operational risk incidents and control weaknesses which give rise to or potentially give rise to financial loss or reputation damage.

The ACP authorised RCB to use the Advanced Measurement Approach in December 2007. The RCB framework is composed of both qualitative and quantitative elements. The qualitative elements follow the requirements for the PO Group as set out in the Group Operational Risk Policy. The quantitative elements comprise an internal model that quantifies material operational risks. The RCB internal model inputs are internal data, external data, scenario analysis and Key Risk Indicators that reflect the business and internal control environment. Internal losses are collected without threshold at RCB. Scenario analyses are defined with business experts for material risks. The RCB model is composed of ten risk classes based on the combination of Basel business lines and Basel risk categories:

- Internal fraud;
- External fraud;
- Employment practices and workplace safety;
- Clients, products, and business practices;
- Damage to physical assets;
- Business disruption and system failures; and
- Execution, delivery, and process management.

The RCB insurance programme has been revised during the deployment of the Operational Risk Advanced Measurement Approach framework to allow the recognition of the effect of insurance techniques as a factor in reducing capital.

| Operational risk – €m         | Risk Weighted Assets | Capital requirement |
|-------------------------------|----------------------|---------------------|
| Basic Indicator Approach      | 1,627                | 130                 |
| Advanced Measurement Approach | 343                  | 28                  |
| <b>Total</b>                  | <b>1,970</b>         | <b>158</b>          |

## About Paris Orléans, the parent company of the Rothschild group

Paris Orléans operates in three main areas:

- Global Financial Advisory provides advisory services for mergers and acquisitions, debt financing and restructuring, and equity capital markets;
- Wealth Management and Asset Management, including institutional asset management;
- Merchant Banking which comprises third party private equity business and proprietary investments.

Paris Orléans SCA is a French partnership limited by shares (société en commandite par actions) with a share capital of €141,806,058. Paris trade and companies registry 302 519 228. Registered office: 23 bis avenue de Messine, 75008 Paris, France. Paris Orléans is listed on NYSE Euronext in Paris, Compartment B - ISIN Code: FR0000031684 – MNEMO: PAOR

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