1. Executive Summary

As financial firms continue to value and recognize the need for sophisticated risk management expertise, total compensation for risk professionals grew 9% overall in 2004, as compared to 2003, with double digit increases at the Vice President, Senior Vice President and Director levels.

Risk Talent Associates, an executive search firm focused on risk management, routinely fields questions from clients and candidates about trends in compensation for risk professionals. Following its first compensation survey in 2002, the firm conducted the **2004 Risk Talent Associates Professional Compensation Survey – Capital Markets**, the first in a series of four surveys. The survey covered firms operating in capital markets including commercial banks, investment banks, foreign-owned banks and federally chartered financial institutions. The three remaining surveys, to be released in 2005, will cover asset management, compliance and other risk fields (software, consulting, energy and corporate). Although hedge funds were not a part of the present survey (they will be covered in the upcoming asset management survey), the rise of these funds has had a significant impact on capital markets risk compensation. As hedge funds mature and require both leading-edge risk management tools and supervision, they recruit from the top risk talent pool in capital markets, thereby increasing overall compensation.

Investment banks and other banks that operate in the capital markets understand the value of seasoned risk management talent and systems in operating their businesses. The survey yielded an average total compensation of $374,006 in 2004 for risk professionals in capital markets. Survey respondents were primarily mid- to senior-level risk professionals (78% were Vice Presidents or above). The survey demonstrated that sizeable bonuses made up almost half of total compensation: 30% of total compensation in cash bonus, and 25% in non-cash bonus (such as stock, options and other non-cash compensation). The survey also revealed that cash bonuses increased 15% between 2003 and 2004, with non-cash bonuses reported less frequently and with an increase of only 4% between 2003 and 2004. All figures reported herein are in US dollars.

Additional key findings from the survey include:

- **Tenure:** An individual's title accounted for a higher variation in compensation than years of experience. A Chief Risk Officer made nine times the total compensation of an Analyst. However, an individual with over 16 years of experience made just over twice the compensation of someone with less than 6 years of experience in the risk profession.
- **Size of Company:** Although salaries were relatively consistent across different sized companies, bonuses were significantly higher in those with the largest risk organizations (over 50 risk professionals).
- **Geography:** Risk professionals in the US Northeast and New York City demonstrated an average total compensation that was 16 to 18% higher for 2004 as compared to other US and international regions.
- **Segment:** The highest salaries and bonuses were reported by commercial banks, investment banks and foreign-owned banks, over federally chartered financial institutions and other smaller segments of capital markets.
- **Type of Risk:** The majority of respondents focused on market risk, followed by credit risk, risk technology and operational risk, in that order.

The survey was completed in December 2004 using email-based survey technology and was completed by more than 300 risk professionals at firms operating in the capital markets.

2. Overall Compensation Levels Increased For All Tenures

Total financial compensation in the risk industry increased 9% in 2004 over 2003, with variations according to title. The greatest increases in compensation on a percentage basis were seen for Associates/Senior Associates (14%), Vice Presidents (13%) and Senior Vice President/Directors (12%). Total compensation for Chief Risk Officers was closer to the average at 9.5%. The lowest increases were seen for Analysts (6%), Managers (3%) and Managing Directors (3%).

Title also dictated major differences in bonus structure. While the overall average bonus structure was 30% of total compensation in cash bonus, and 25% in non-cash bonus (such as stock, options and other non-cash compensation), differences were found. Cash bonuses exceeded 30% of total compensation for Senior Vice Presidents, Directors, Managing Directors and Chief Risk Officers. Managing Directors reported the highest cash bonuses at 41% in 2004. Non-cash bonuses only exceeded the average of 25% of total compensation for Chief Risk Officers at 41% for both 2003 and 2004. This supports the notion Chief Risk Officers are increasingly becoming core members of the executive office, and compensated more like other chief executives rather than senior traders.

Figure 1: Total Compensation, Salary and Bonus by Title

	Total Compensation		Salary		Bonus-Cash		Bonus- Non-Cash	
	2003	2004	2003	2004	2003	2004	2003	2004
Overall	*$340,075*	*$374,006*	*$152,616*	*$165,779*	*$99,915*	*$116,863*	*$87,544*	*$91,365*
Analyst (3%)	$91,643	$97,143	$82,143	$82,143	$9,500	$15,000	$0	$0
Associate/SA (8%)	$110,057	$128,179	$87,500	$93,750	$14,891	$27,429	$7,667	$7,000
Manager (5%)	$164,000	$168,195	$116,667	$115,909	$25,833	$27,286	$21,500	$25,000
Vice Pres (33%)	$238,408	$273,300	$139,535	$161,585	$62,907	$75,521	$35,967	$36,194
SVP/Director (30%)	$336,217	$378,755	$163,462	$171,053	$108,076	$138,189	$64,679	$69,514
MD (11%)	$675,589	$697,353	$225,893	$233,333	$276,429	$284,250	$173,268	$179,769
CRO (4%)	$802,357	$886,413	$230,000	$255,556	$244,000	$262,429	$328,357	$368,429

Source: Risk Talent Associates Salary Survey (Percentage of overall respondents by title reported in brackets)
Notes: Six percent of respondents indicated "Other" title. Abbreviations by title are as follows: Senior Associate (SA), Senior Vice President (SVP), Managing Director (MD), and Chief Risk Officer (CRO).

Different trends emerged according to years of experience. While the average total compensation increased 9% in 2004 over 2003, it slightly more than doubled to 19% for those with 0-6 years of experience. This was driven by a 30% increase in bonuses, while salaries continued to rise at just under the 9% average. Firms in the capital markets recognized the need to hire more new professionals and compensated them with bigger bonuses to bring them into the organization.

Years of experience accounted for little variation in cash bonus structure, but great variation in non-cash bonus structure. For non-cash bonuses, those with 0-6 years of experience received less than 10% of total compensation, as compared to over 20% for those with 16 or more years of experience.

Figure 2: Total Compensation, Salary and Bonus by Years of Experience

	Total Comp		Salary		Bonus-Cash		Bonus- Non-Cash	
	2003	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**
Overall	*$326,191*	*$356,816*	*$152,510*	*$165,816*	*$93,458*	*$107,031*	*$80,224*	*$83,969*
0-6 years (24%)	$171,824	$212,282	$113,542	$124,612	$42,849	$63,971	$15,433	$23,700
7-15 years (39%)	$273,078	$298,146	$145,177	$158,991	$80,421	$90,148	$47,481	$49,006
16+ years (37%)	$445,738	$487,766	$180,155	$191,667	$131,821	$147,284	$133,762	$148,816

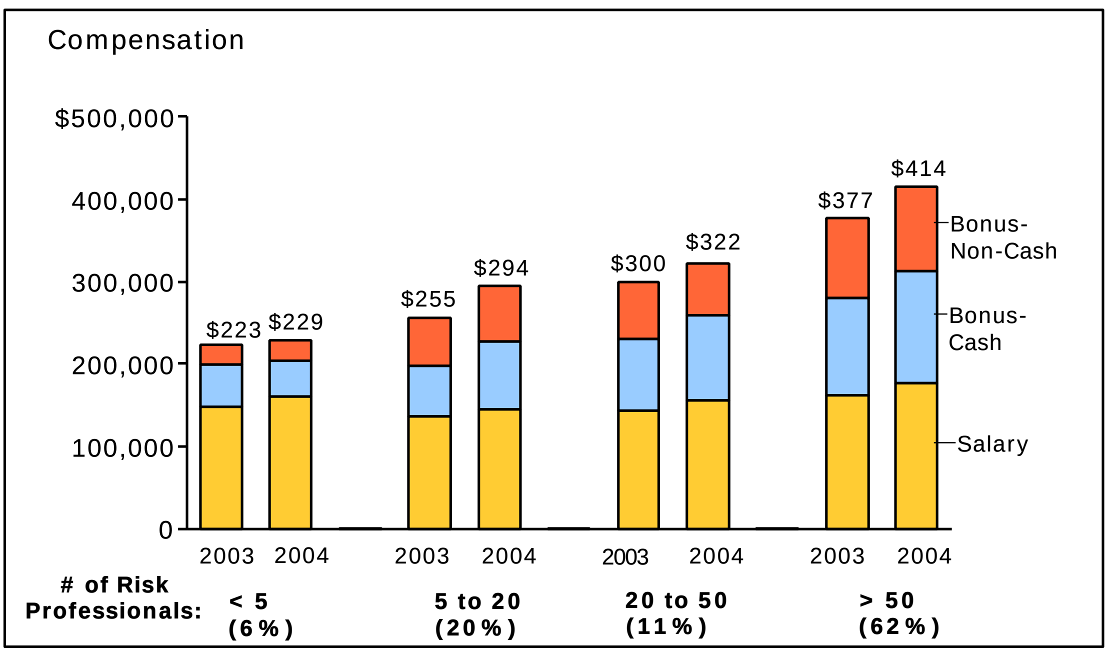
Source: Risk Talent Associates Salary Survey (Percentage of overall respondents reported in brackets).

3. Salaries Relatively Even While Bonuses Higher at Larger Risk Organizations

While salaries were relatively even across different sized risk organizations, total compensation was much higher for the 62% of respondents who stated that they worked for the largest risk organizations (those with the largest number of professionals focused on risk management).

Companies with the smallest risk organizations (less than 5 risk professionals) offered salaries that were within 10% of companies with the largest risk organizations, but with much smaller bonus structures. Professionals in the smallest risk organizations were granted lower cash bonuses and significantly lower non-cash bonuses. Salaries on a stand-alone basis (without bonus) were lowest for medium-size risk organizations (5-20 and 20-50 risk professionals), but with only slightly lower bonuses as compared to larger risk organizations.

Figure 3: Total Compensation by Company Size (Number of Risk Professionals)



Source: Risk Talent Associates Salary Survey (Percentage of overall respondents reported in brackets)

4. Highest Compensation Awarded in New York City and the US Northeast

Reflecting its position as the dominant financial center of the United States, New York City was home to risk professionals reporting the highest salaries in the industry, at 14% higher than the average for 2004. When bonuses were taken into account, total compensation in the US Northeast exceeded the average by 18%, while New York City was 16% higher than the average for 2004. Europe and the US Midwest also exceeded the overall average by 11% and 4% respectively.

Over 75% of the salary survey respondents were headquartered in the United States with one-third based in New York City. Data from other regions including Asia, Australia and South America accounted for less than 7% of total respondents.

Figure 4: Total Compensation and Salary by Geography

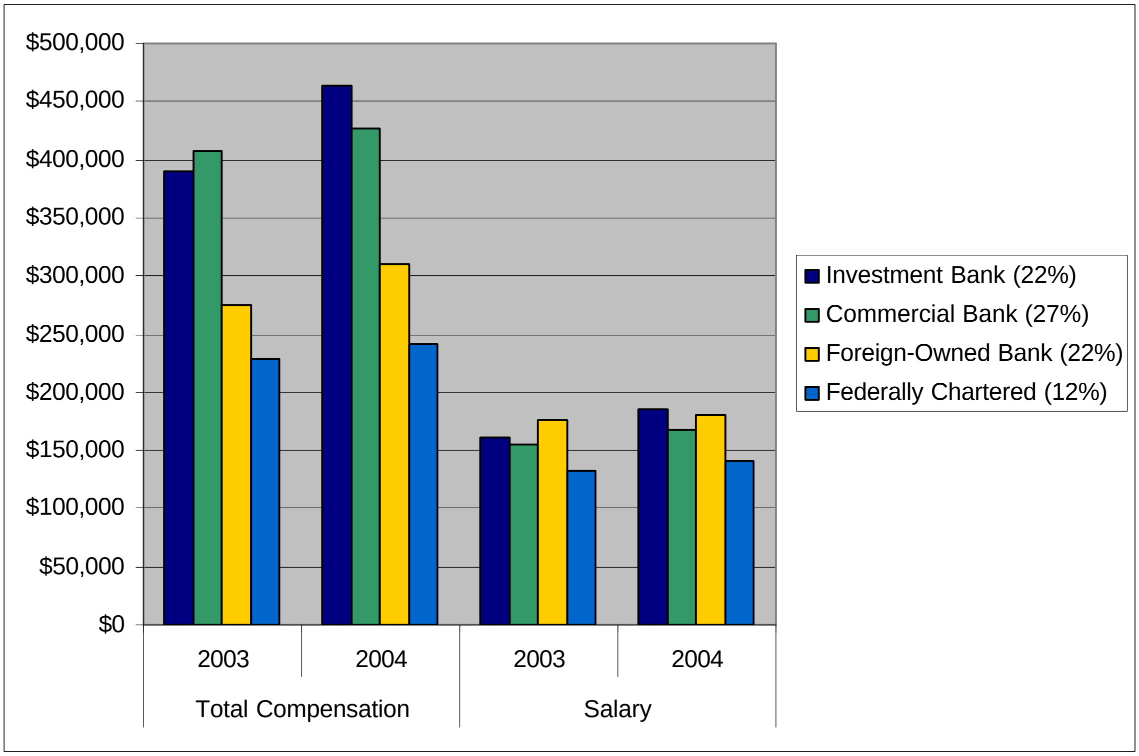
Source: Risk Talent Associates Salary Survey (Percentage of overall respondents reported in brackets)

5. Commercial Bankers and Investment Bankers Highest Paid in Capital Markets

Respondents from twelve different sub-segments of the capital markets participated in the salary survey. Within the four sub-segments most highly represented in the survey, investment bankers commanded the highest total compensation in 2004 compared to commercial bankers in 2003. Professionals in foreign-owned banks were granted equivalent salaries in 2003 and higher salaries in 2004 compared to those in commercial and investment banks, but with smaller bonuses.

The eight other segments, including credit card, financial exchange, energy, insurance, mortgage, technology, trading operations (non-bank) and other, each represented less than 3% of the total respondents. Respondents who reported their segment as asset management will be included in the upcoming survey by Risk Talent Associates focused on asset management.

Figure 5: Total Compensation and Salary by Segment



Source: Risk Talent Associates Salary Survey (Percentage of overall respondents reported in brackets)

6. Majority of Risk Professionals Focused on Market Risk and Credit Risk

Almost half (47%) of survey respondents reported they were focused on market risk, with almost as many (44%) focused on credit risk. Since the survey allowed respondents to choose multiple areas of focus in terms of risk management, smaller percentages of professionals also claimed focus on operational risk (15%), risk technology (10%) and financial compliance (10%). Slightly less than 20% of respondents reported their focus to be other than the above including such areas as asset-liability management (ALM), enterprise risk management (ERM), regulatory supervision, Basel II compliance, asset securitization, fraud risk, country and political risk, as well as interest rate risk.

Total compensation was approximately 5% higher than average for those respondents who reported a focus on either market risk or risk technology, and just over 3% higher than average for those who stated a focus on credit risk.

7. Survey Methodology

The **2004 Risk Talent Associates Professional Compensation Survey – Capital Markets** was conducted between November 8 and December 10, 2004 using Survey Monkey Internet survey software. E-mail invitations to complete the survey were sent to risk professionals in the capital markets from the Risk Talent Associates corporate database. Responses were returned from 319 professionals. The analysis of the survey data was completed in January 2005.

The survey collected information on 2004 and 2003 salary, cash and non-cash compensation (such as stock, options, and other non-cash compensation). Survey respondents also identified their years of experience, title, type of risk focus (market, credit, operational, risk technology and financial compliance), geographic location, size of company (based on the number of risk professionals in their organization) and segment (type of company such as investment bank, commercial bank, and other types of organizations). All figures reported herein are in US dollars.

About Risk Talent Associates
Risk Talent Associates (www.risktalent.com) is the leading international executive search firm focused exclusively on positions in the fields of market, credit and operational risk, as well as financial compliance and risk technology. Risk Talent's expertise, industry knowledge, proprietary network and dedicated focus shorten the recruiting process to deliver senior and mid-level risk managers in the capital markets, asset management, energy, consulting and software industries. Risk Talent has offices in New York, Chicago and London.

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