RISK GOVERNANCE:

A BENCHMARKING SURVEY

2010

CAPITAL MARKET RISK ADVISORS

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ABOUT CMRA

Capital Market Risk Advisors (www.cmra.com) is the pre-eminent financial advisory firm providing risk management advisory and litigation support services to investment and commercial banks, insurance companies, institutional investors, mutual funds, hedge funds, funds of funds, and other market participants. Founded in 1991, we offer clients a unique perspective based on founder Leslie Rahl, partner Peter Niculescu, and managing director Dave Tyson's collective 100+ years of hands-on experience in risk management, trading, portfolio management, and knowledge of industry best practice.

Our advisory services include assessing risk exposures and advising on risk management and strategy, the valuation of complex or illiquid instruments, and benchmarking risk management and risk governance practices against best practice. We also advise senior managers and Boards with respect to all types of risk management and risk governance issues, developing risk appetite statements, advising on risk reporting and communication, and reviewing and drafting risk management and compliance policies and procedures.

As pioneers in the derivatives and mortgage businesses and seasoned veterans with front-line as well as Board, governance and regulatory experience, we at CMRA have played a leadership role in establishing best practices in financial services. Our ability to understand the quantitative details while simultaneously understanding Directors' needs uniquely qualifies us to "translate" and "demystify" complex issues for Boards.

The synergy between our advisory and financial forensic/litigation practices helps us provide clients with unique insight about what can and does go wrong in managing risk and informs our perspective in an unparalleled way. Additionally, our work with both the buy- and sell-sides of firms on six continents provides us with an unmatched point of view in solving seemingly intractable problems.

LESLIE RAHL

Leslie Rahl founded CMRA 20 years ago. She is a derivatives pioneer and was Co-Head of Citibank's Derivatives Group in the 80's and on the Board of ISDA for 5 years. She is an experienced Board and Risk Committee Member. She is the author of Hedge Fund Risk Transparency: Unravelling the Complex and Controversial Debate and the editor of Risk Budgeting: A New Approach to Investing. She has an SB from MIT and an SM/MBA from the Sloan School at MIT.

PETER NICULESCU

Mr. Niculescu is a Partner at CMRA and heads Fixed Income Advisory. Peter was an Executive Vice President at Fannie Mae, where he ran the Capital Markets division, responsible for acquisition of securities and loans on balance sheet and for their hedging and funding. During the 1990's, Peter was a Managing Director at Goldman Sachs, where he was responsible for Mortgage and Fixed Income Research. He has a Ph.D from Yale in Economics and is a Chartered Financial Analyst charter-holder.

DAVID TYSON

Mr. Tyson is a Managing Director at CMRA. Prior to joining CMRA, David was the Chief Investment Officer of Citigroup's proprietary insurance companies and head of Travelers' registered investment advisor. His areas of expertise include detailed experience in all fixed income asset classes, derivatives, alternative investments, and equities. David Tyson has a Ph.D in Economics from the Stern School of Business of New York University.

RISK GOVERNANCE SURVEY

EXECUTIVE SUMMARY

In the wake of the financial crisis, risk governance has emerged as a key topic. What role should a Board play in risk oversight? Should it have a risk committee? Who should the Chief Risk Officer report to? How should compensation be properly risk adjusted? These and other questions are increasingly being debated in boardrooms around the world, as well as by politicians and regulators.

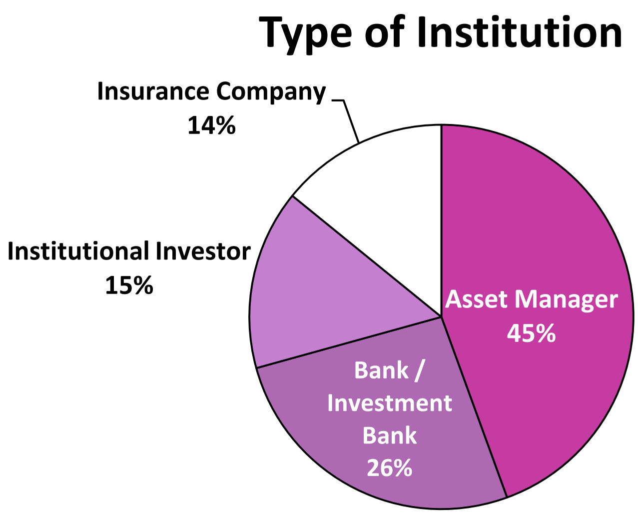
In the midst of this debate, it is important to understand the approach financial institutions are currently taking to Risk Governance and the plans they have for the future. The attached survey represents what we believe is the most comprehensive Risk Governance benchmarking exercise to date. Conducted over a two week period in July 2010, it reflects input from 66 financial institutions, including commercial and investment banks, insurance companies, asset managers, plan sponsors, sovereign wealth funds, endowments, and hedge funds with respect to their current risk practices, including the degree to which their Boards are involved in risk governance, whether they have Chief Risk Officers in place, to whom CROs report, what their key functions are, fears and concerns, how and how often they interact with the Board, risk adjusted compensation, and other important information regarding their risk management functions.

At no time in history has there been a greater need for companies to evaluate and strengthen risk governance. We are proud to have led this initiative and pleased to share the results.

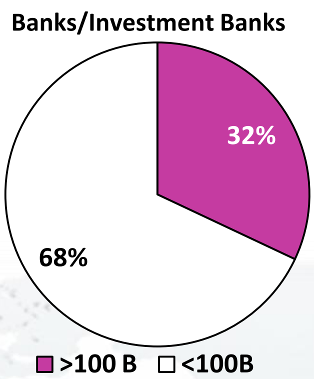
Participants will receive detailed, customized results comparing their practices to those of their peer group.

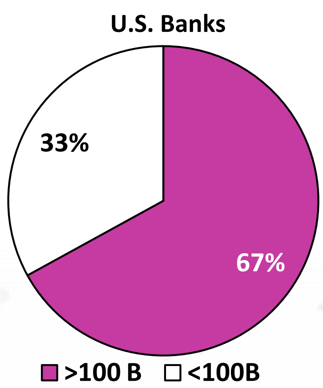
RESPONDENT PROFILES

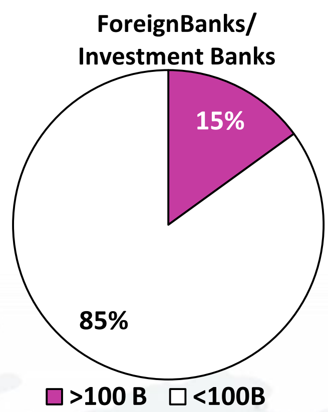
66 Firms responded to the survey. Banks/Investment Banks and Asset Managers were the categories with the largest number of responses.



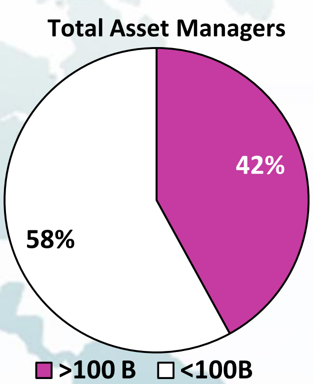
32% of the Banks/Investment Banks who provided their asset size have assets ≥$100B.

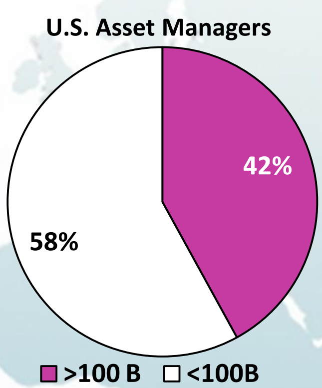


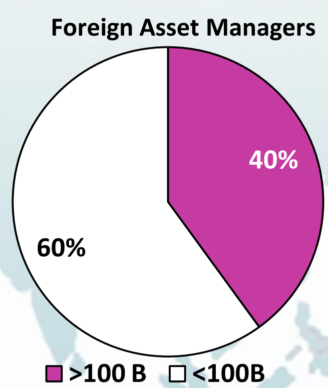




42% of the Asset Managers who provided their asset size have assets ≥$100B.







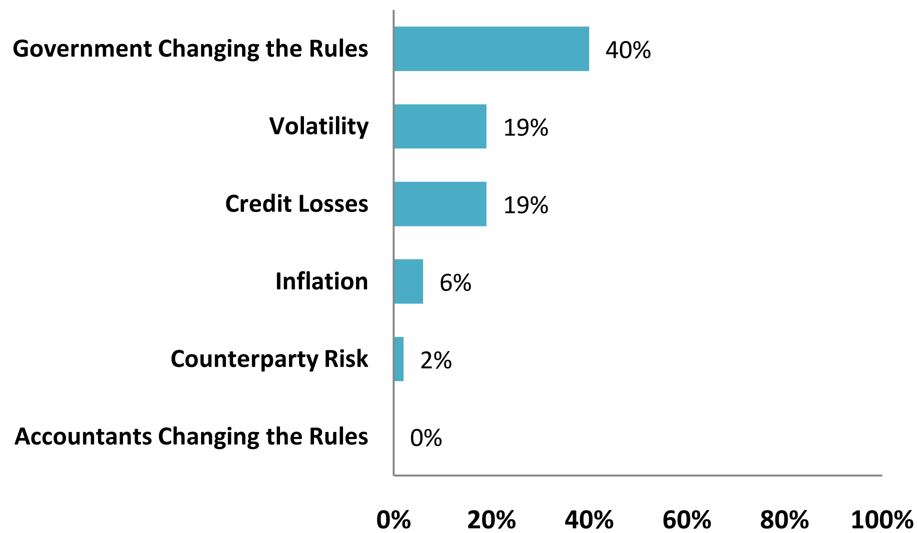
THE TOP CONCERNS OF RISK MANAGERS FOR THE 2nd HALF OF 2010

While overall respondents' top 3 concerns for the 2nd half of 2010 were "Government Changing the Rules", "Volatility" and "Credit Losses," a trend that was exactly mirrored by U.S. respondents, foreign respondents ranked "Credit Losses" and "Volatility" as their #1 concern, followed by "Government Changing the Rules."

Greatest Concern

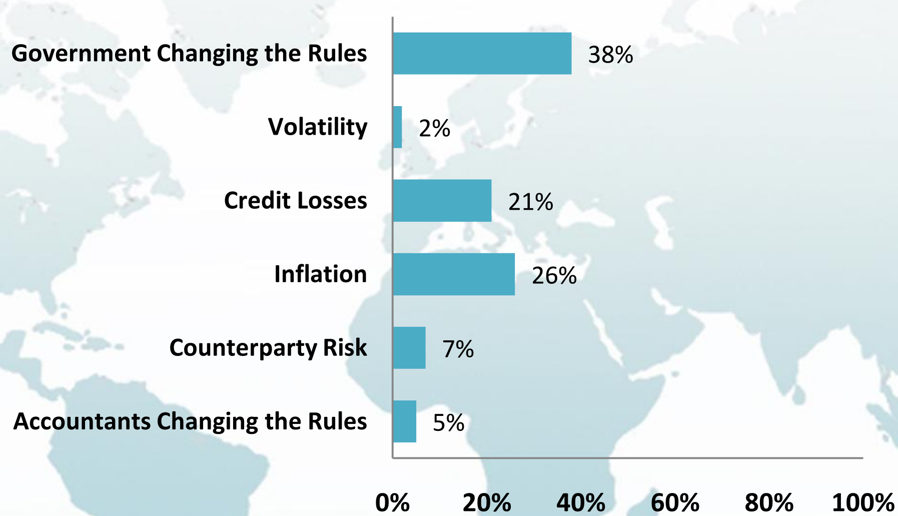
2010

#1 concern
#2 concern
#3 concern
#4 concern
#5 concern
#6 concern



2009

#1 concern
#2 concern
#3 concern
#4 concern
#5 concern
#6 concern



CHIEF RISK OFFICER (CRO)

Across all respondent types, there is wide agreement on the need for a Chief Risk Officer, but opinion varies as to whether the CRO should have both a strategic/consultative role or just a control role.

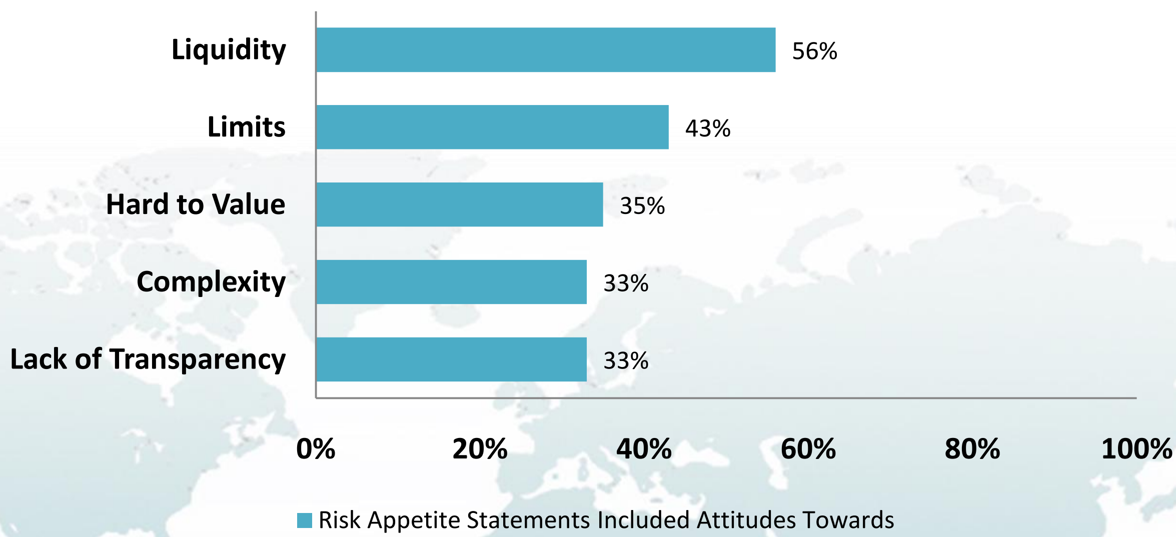
- 89% of overall respondents have a CRO compared to last year's 70%
- 66% of CROs have both strategic and a control role, up from 47% last year
- 84% of respondents with a Board and a CRO have executive/in-camera sessions at most meetings up from last year's 44%, who had such meetings

RISK APPETITE STATEMENT

- 57% of respondents have a Risk Appetite Statement compared to 37% last year and further 27% are considering a Risk Appetite Statement

  -Including "Risk Attitude" in Risk Appetite Statements is a Best Practice but still evolving

Of the respondents including "Risk Attitude" in their Risk Appetite Statements the following categories are addressed:

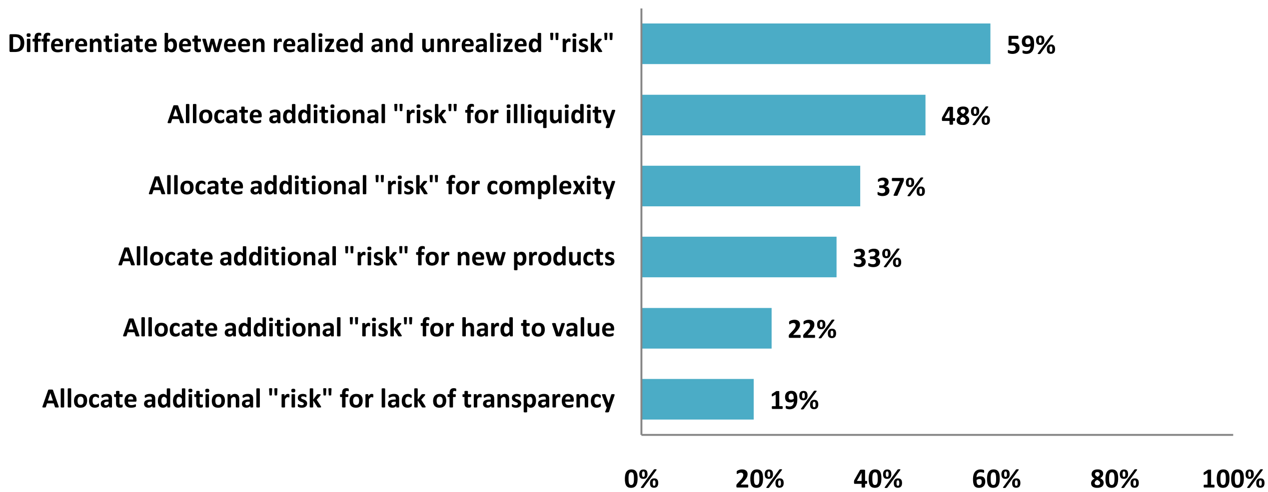


RISK MANAGEMENT POLICIES

- 74% of respondents have Risk Policies that are approved by the Board, up from 60% last year.

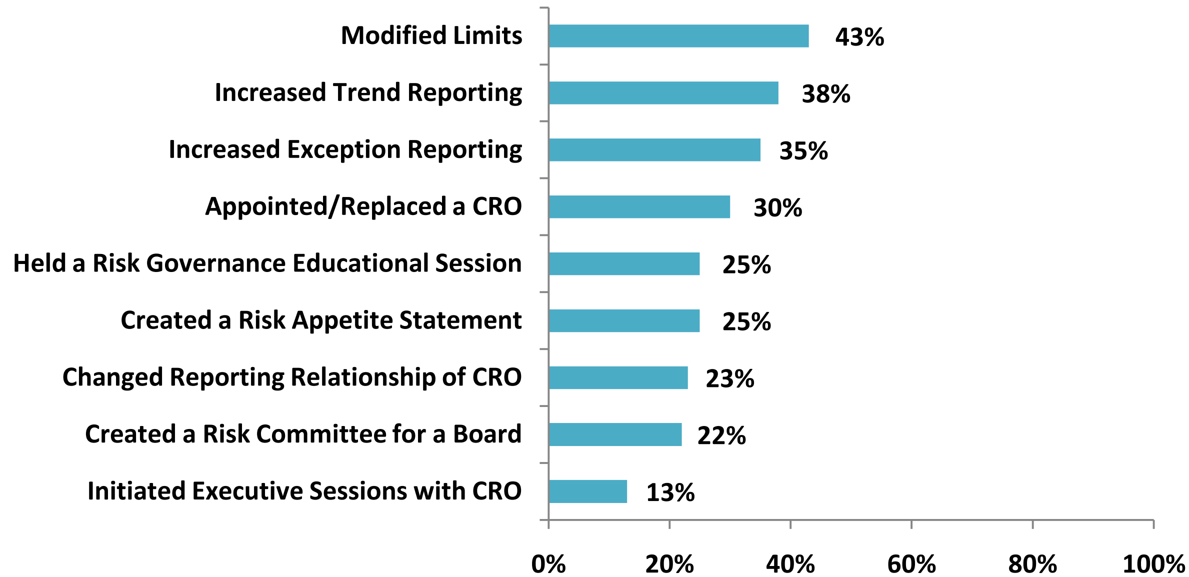
RISK ADJUSTED COMPENSATION

- Risk adjustments for the following are made:



-Only 23% of respondents indicated that the focus on Risk in Compensation increased

CHANGES TO RISK GOVERNANCE IN THE LAST 12 MONTHS



STRESS TESTING

- 73% of respondent’s stress test sensitivity to volatility, only 27% to haircut/margin requirements, and 47% to liquidity/Bid-Ask spreads

COUNTERPARTY RISK

- Only 55% of respondents calculate Potential Future Exposure (PFE)
- In addition to derivatives, only 61% include repos and 52% include Securities Lending; and 30% include both

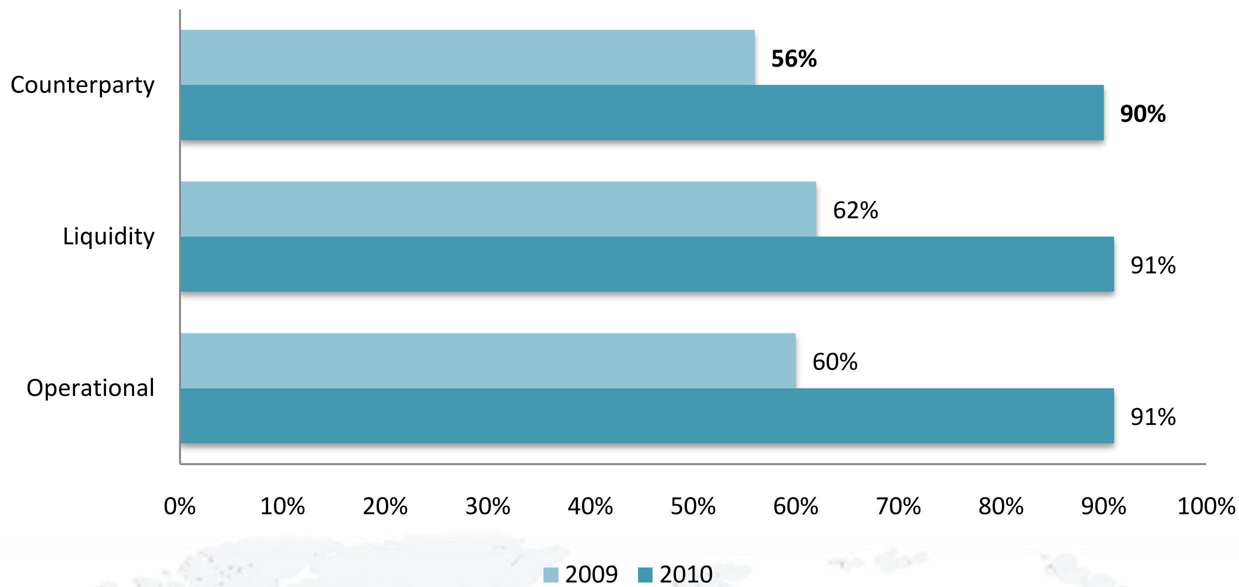
RESPONDENT PROFILES

BOARD RISK EDUCATION SESSIONS

- 61% of respondents held at least 1 Risk Education session for their Board and 31% held 2 or more sessions
- Only 46% of Asset Managers held such a session

COUNTERPARTY, LIQUIDITY, AND OPERATIONAL RISK

Boards are increasingly reviewing counterparty, liquidity, and operational risk information:



But many are not doing so at every meeting:

- Counterparty 36%
- Liquidity 33%
- Operational 45%

NEW PRODUCT REVIEW PROCESS

- 79% of respondents have a new product review process, but 23% do not report on new products to the Board