29th Annual
Board of Directors Study
2002

Financial Services
Executive Summary

It has been an extraordinarily turbulent year for American companies and their boards, marked by near-unprecedented volatility in investment markets, sharp erosion of investor confidence, heightened focus on the validity and credibility of financial reporting practices, and high-profile corporate failures such as Enron and Worldcom. In this environment, the board’s critical role in overseeing fundamental corporate practices — how effectively that role is being executed and how it can be strengthened — has come under scrutiny as never before.

This publication, a supplement to Korn/Ferry International’s 29th Annual Board of Directors Study, presents responses and findings from survey participants on the boards of Financial Services companies. The study indicates that these organizations are making long-term progress in efforts to implement board practices for stronger corporate governance — but that some significant gaps still remain.

The findings are based on responses from over 300 directors of Financial Services companies.

This year:

- 67 percent of Financial Service boards have written guidelines on corporate governance;
- only 26 percent of boards formally evaluate the entire board’s performance on a regular basis; and
- 50 percent of boards have a formal committee that reviews corporate governance processes and board operations.

While progress is being made regarding corporate governance processes and board evaluation, boards will have to do more — especially in light of new regulatory mandates designed to formalize these processes in the wake of the past year’s notable failures of board oversight.

For example, corporate governance rule proposals adopted by the New York Stock Exchange Board of Directors in August state that listed companies must adopt and disclose corporate governance guidelines on management succession and other key processes. Yet our survey of Financial Service directors reveals that:

- only 50 percent of boards have a management succession committee process.

Mandates such as those of the NYSE, with prescriptions for formal governance guidelines, could create issues for the significant percentage of companies that, according to our survey, do not have such guidelines or processes at this time.

The Korn/Ferry Financial Services survey also shows that evaluation of individual directors clearly has not yet taken hold as a board practice.

- 73 percent of respondents say that individual directors should be evaluated regularly regarding performance. However:
  - only 12 percent of boards currently conduct such evaluations, and
  - only 23 percent of directors on those boards think that the evaluations are effective.
Boards going forward can anticipate closer examination of how they measure the performance and, ultimately, the effectiveness of directors on behalf of shareholders, as part of the heightened concern over how well boards execute their oversight role.

Other key survey findings include:

- Independence is an essential concern of directors:
  - 73 percent of directors say the former CEO shouldn’t sit on the board.
  - 70 percent of directors say the board should hold regular executive sessions without the CEO during board meetings, yet only 42 percent of boards hold such sessions.
- Directors are spending 50 percent more time on board matters than last year — an average of 14 hours per month, or approximately 168 hours annually.
- 47 percent of directors say their company’s CEO compensation program is effective.
- 51 percent of directors think the majority of a director’s compensation should be in stock.
- 50 percent of boards have a requirement that directors own shares of company stock.
- 58 percent of directors would like to see their board become more diverse by increasing its minority representation.

Korn/Ferry’s 29th Annual Board of Directors Study — Financial Services highlights provides a comprehensive and illuminating look into the state of board practices at the nation’s leading companies — charting progress made, as well as progress still to be achieved. The publication represents Korn/Ferry’s ongoing commitment to generating and sharing timely, practical information from the nation’s corporate leaders regarding their efforts to maintain and extend “best practices” for corporate governance.

We hope that you find the study informative and useful, and that it provides you with insight into the key steps that governance programs must take to address today’s pressing concerns about the credibility and responsibility of corporate America.
Survey Responses

The following responses are a supplement to Korn/Ferry International’s 29th Annual Board of Director’s Study. The findings are based on responses from over 300 directors of Financial Service companies.

Board Composition

The average board in our survey consists of two inside directors and ten outside directors. According to respondents, the optimal board size is two inside directors and nine outside.

Survey Responses

- 58% of respondents said they would like to see their board become more diverse by increasing its minority representation.

Survey Responses

- 34% of respondents said yes to the question of whether the former CEO should sit on the board.
- 66% of respondents said no to the question of whether the former CEO should sit on the board.

Survey Responses

- 27% of respondents said yes to the question of whether the former CEO should sit on the board.
- 73% of respondents said no to the question of whether the former CEO should sit on the board.
Do you have any of the following minorities currently represented on your board?

- Women: 92%
- African American: 51%
- Hispanic: 15%
- Asian: 8%
- Other: 8%

If your chairman is also the CEO, do you have an elected or appointed lead director?

- Yes: 32%
- No: 68%

Should a board that has an inside director as chairman elect or appoint an outside director as the lead director?

- Yes: 64%
- No: 36%

Does the board typically hold regular executive sessions without the CEO during board meetings?

- Yes: 42%
- No: 58%

Should the board typically hold regular executive sessions without the CEO during board meetings?

- Yes: 70%
- No: 30%

Is there a limit to the number of other boards on which the CEO and board members may serve as outside directors?

- Yes: 28%
- No: 72%

Should there be a limit to the number of other boards on which the CEO and board members may serve as outside directors?

- Yes: 76%
- No: 24%
Managing Corporate Governance

Contrary to the established trend, the percentage of directors reporting a formal committee that reviews corporate governance processes and board operations is split 50/50 for Financial Services companies.

However, 67% of these Boards have written governance guidelines and 90% of directors find them helpful to the Board.

Does your board have a formal committee that reviews corporate governance processes and board operations?

![Pie chart showing 50% No and 50% Yes]

Does the board have written guidelines on corporate governance?

![Pie chart showing 33% No and 67% Yes]

14 average hours per month spent on board matters. A 51% increase over last year.
Do you believe written governance guidelines are helpful to a board?

- Yes: 90%
- No: 10%

Do you believe corporate governance affects any of the following?

- How much your CEO is paid: 51%
- How well you are paid to be a director: 67%
- How likely your company is to attract investors: 78%
- The odds that if named in litigation you will be exonerated: 49%
- The likelihood of being named in securities litigation: 24%
- Rate of premium/depth of coverage of your D&O insurance policy: 41%
Management Succession

Data reveals that only 47 percent of Financial Services companies have undergone a management succession process in the past three years. It is an even split for these companies to have a succession committee or process, despite strong public and regulatory support for creation and disclosure of such.

Does the board have a management succession committee or process?

In the last three years, has your company undergone a management succession process?

31% of respondents feel there is a director on their board that should be replaced.
Evaluating Performance

Only 26 percentage of boards conduct full-board performance evaluations. The percentage of Financial Service boards regularly evaluating individual director performance is only 12 percent. However, 73 percent of respondents felt that individual directors should be evaluated.

Is the entire board’s performance formally evaluated on a regular basis?

- Yes: 26%
- No: 74%

Does your board evaluate individual directors on a regular basis?

- Yes: 12%
- No: 88%

73% of respondents felt that individual directors should be evaluated regularly as to their performance.
Board Experience

How difficult has it been for your board to add directors with the following skill sets?

<table>
<thead>
<tr>
<th>Skill Set</th>
<th>Not At All Difficult</th>
<th>Somewhat Difficult</th>
<th>Very Difficult</th>
</tr>
</thead>
<tbody>
<tr>
<td>International</td>
<td>12%</td>
<td>19%</td>
<td>44%</td>
</tr>
<tr>
<td>Technical</td>
<td>18%</td>
<td>20%</td>
<td>51%</td>
</tr>
<tr>
<td>Financial</td>
<td>5%</td>
<td>12%</td>
<td>34%</td>
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<td>Marketing</td>
<td>2%</td>
<td>13%</td>
<td>47%</td>
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<tr>
<td>Legal</td>
<td>3%</td>
<td>18%</td>
<td>36%</td>
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</tbody>
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Compensation

Uncertainty about stock as executive compensation seems to have affected trends in stock as director compensation. Financial Service boards are split 50/50 on the requirement of directors to own shares of company stock. Directors are divided as to the form of stock, with stock options preferred by 44 percent and stock grants cited by 38 percent.

The percentage of directors believing the majority of a director’s compensation should be in stock is 51 percent last year.

Do you think the majority of a director’s compensation should be in stock?

If YES: What form of stock?

- Primarily Stock Options: 44%
- Primarily Stock Grants: 38%
- Other: 18%
How do you feel about your company’s CEO compensation program?

- Very Effective: 35%
- Effective: 48%
- Ineffective: 1%
- Fairly effective-needs changes: 16%

Should audit committee chairs be paid more than chairs of other committees?

- No: 41%
- Yes: 59%

Is there a requirement that directors own shares of company stock?

- No: 50%
- Yes: 50%

If YES: What is the requirement?

Average 6414 shares
Directors and Officers Coverage

Directors and Officers coverage is becoming a very important factor when considering a Board seat. Over half of the respondents (53 percent) say this is a very important factor in their decision to serve.

As to assessing personal risk, half (50 percent) of directors report they have declined a board invitation because the risk was too great. Twelve percent indicate they turned down an offer to serve in the past 12 months for this reason.

Have you ever turned down a board position because you felt your risk was too great?

- No: 50%
- Yes: 38%
- Not within the last 12 months: 12%
- Within the last 12 months: 5%

**Do you feel you adequately understood the D & O coverage of this board before you accepted the position?**

- No: 11%
- Yes: 89%

**How important was the D & O coverage in your decision to serve on this board?**

- Not at all important: 13%
- Somewhat important: 34%
- Very important: 53%
Risk & Crisis

Though the past year was characterized by devastating crises, these events were not a catalyst for greater board involvement in risk and crisis management. More than half (62 percent) of the directors indicated that their board and management team had developed or discussed a crisis management plan prior to September 11th.

Had your board and management team developed or discussed a crisis management plan prior to September 11th?

- Yes: 62%
- No: 38%

Has your board taken any action to address crisis management since the tragedy of September 11th?

- Yes: 56%
- No: 44%
Survey Demographics

What is your title or status with your primary company?

How long have you served on this board?

Your age:

Are you responding as an Inside or outside director?

Inside 23%
Outside 77%
Korn/Ferry International’s Financial Services Practice

Since its formation in 1976, Korn/Ferry International’s Global Financial Market has provided our clients around the world with quality, results-oriented executive search. Considered the largest financial services practice in the executive recruiting industry, our dedicated Korn/Ferry Partners have the industry expertise, market contacts, customer knowledge and credibility demanded by clients. This team of highly experienced professionals is based in each of the world’s major financial centers, including New York, London, Hong Kong, Tokyo and Singapore.

Korn/Ferry’s expertise in financial services is reflected in both the prestigious list of client relationships we’ve established, as well as the high-level assignments conducted on behalf of financial institutions around the globe. Our Financial team can conduct searches locally or leverage our global presence across geographic boundaries.

Areas of specialization include:

- Asset and Wealth Management
- Corporate and Investment Banking
- Insurance and Risk Management
- Operations, Technology and Consumer

As a testament to Korn/Ferry International’s dedication to our clients, more than 70 percent of our work in financial services is done through repeat business and client referrals. Clients choose our Financial practice for myriad reasons, among them our unrivaled client focus, extensive experience and ability, and our superior candidate base.

About Korn/Ferry International

Korn/Ferry International (NYSE: KFY), with over 70 offices in 36 countries, is the world’s leading provider of executive human capital solutions. Based in Los Angeles, the firm works closely with clients worldwide to deliver customized executive search, management assessment and mid-level search services, including the identification of CEOs, COOs, CFOs, board members and other senior-level executives; the formal evaluation of senior management teams; and the recruitment of middle managers through its Futurestep subsidiary.

For more information, visit the Korn/Ferry International web site at www.kornferry.com or the Futurestep web site at www.futurestep.com.

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