PROXY Governance, INC.

Contact: Alesandra Monaco
Published: 08/18/2005

PROVIDIAN FINANCIAL CORP (NYSE : PVN)

Special Meeting	Record Date: 08/01/2005	Meeting Date: 08/31/2005

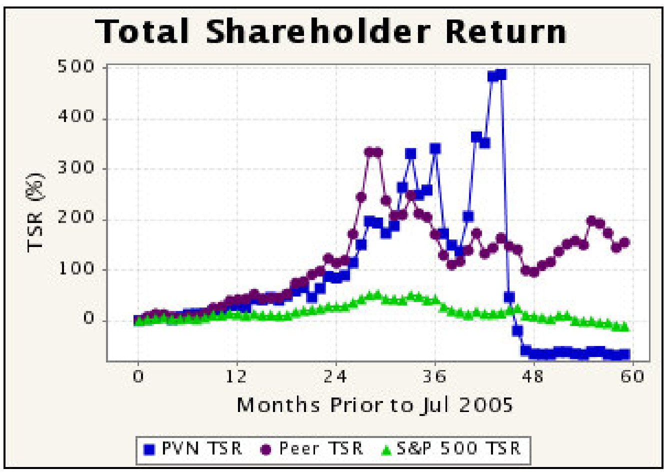
Company Description:
Providian Financial Corp., through its subsidiaries, provides credit card and deposit products to customers throughout the U.S. Based on managed credit card loans outstanding as of Dec. 31, 2004, Providian was among the top ten bankcard issuers in the country. Total assets were $14.3 billion as of Dec. 31, 2004. Providian's primary line of business is its credit card business, which generates consumer loans primarily through Visa credit cards and also through MasterCard credit cards. The company targets creditworthy customers across the broad middle to prime market segments, with a particular focus on middle market customers who are underserved by many large, prime-oriented card issuers. In originating new loans, Providian focuses on the parts of the middle and prime market segments that it expects to be the most profitable and creditworthy. The company expects to generate profitable customer relationships through its proprietary marketing program, which emphasizes the portion of the market Providian refers to as "mainstream America," and through its partnership and co-branding marketing programs, which use targeted criteria to market the company's credit card products to creditworthy individuals associated with various groups and organizations with which it enters into arrangements to serve their members. "Mainstream America" refers to a target market composed of creditworthy people throughout the United States generally defined by the company's credit, income, demographic, and psychographic criteria. The company's "New Providian" marketing strategy, which it introduced in February 2004, emphasizes delivery of products, services, and rewards specifically designed for "mainstream American" consumers, both through proprietary marketing programs and marketing arrangements with co-branding and affinity partners. In addition to credit cards, Providian markets a variety of cardholder service products to its customer base. These products, which the company may originate itself or jointly market with others, include debt suspension, auto- and health-related services, credit-related services, and selected insurance products. In 2005, the company expects to expand the number and types of products that it offers to customers.
Source: Company Description — Compustat

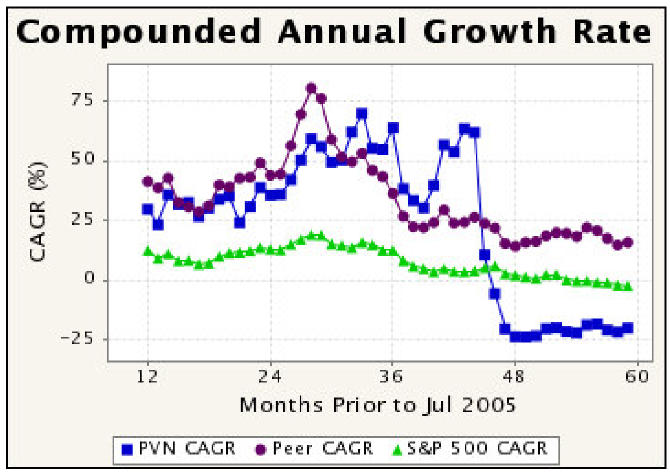
Classification:
Russell 3000, S&P 500

Solicitor:
Georgeson Shareholder Communications

Fiscal Year End:
12/31/2004

Market Capitalization:
$5.2B





Source: FAME North American Pricing [NAP]

The graphs above depict total shareholder return and compounded annual growth rate at specific points in time over the past five years based on average monthly stock prices. The graphs should be read from left (present time) to right (60 months before present time). The graphs allow the user to determine either the company's total shareholder return or compounded annual growth rate to date based on an investment made at a specific point in time over the last five years. Assumes payment, but not reinvestment, of dividends.

Meeting Agenda

Proposals				Recommendations: Management	Recommendations: PROXY *Governance*	
MGT	1	Approve Merger/Acquisition		FOR	FOR	Analysis
MGT	2	Approve Adjournment of Meeting		FOR	FOR	Analysis

MGT = Management, SH=Shareholder, SHB=Shareholder— binding proposal

Table of Contents

- Composite Performance Summary
- Performance Summary

Governance Analysis

- State law/Charter/Bylaw Provisions
- Vote Results
- Executive Compensation
- Stock Ownership/Voting Structure

Proposal Analysis

Comparative Performance Analysis

The Composite Performance Summary contains calculations and graphs that reflect a company's historical performance and that of its industry peers (defined below) against the S&P 1500 index. The performance is measured over a five-year period, if available, with emphasis on more recent years. Specifically, the most recent year is weighted at 30%, followed by 25%, 20%, 15% and 10% for the prior years. Performance is measured using four criteria:

- Quarterly shareholder returns (weighted at 50%)
- Cash flow from operations/equity (weighted at 25%)
- Return on equity (weighted at 12.5%)
- Revenues/expenses (weighted at 12.5%)

A composite measure is calculated using these performance criteria and weightings. This is represented in the graph entitled Relative Performance. The change in these relative percentile rankings from year to year is measured as a performance "trend" reflecting whether a company is improving or declining in relation to its peers. This is shown in the Performance Trend graph below.

The Performance Summary section provides a quarter-by-quarter break down of each of the four metrics and is displayed in three graphs. The first graph shows the quarterly values of a metric for the company, the peer median, and the S&P 1500 median. The second graph shows the difference between the company's percentile ranking against the S&P 1500 and the peer median's percentile ranking against the S&P 1500. The third graph shows the change in the company's percentile ranking as compared to its peers for each quarter.

Comparative Performance Analysis

Peer Companies

For the Comparative Company Performance Summary, 10 peer companies are selected from the narrowest industry group using the Global Industry Classification Standard (GICS), as developed by Standard & Poor's (S&P) and Morgan Stanley Capital International (MSCI) (defined as the "sub-industry"). If there are more than 10 companies, the closest based on market capitalization are selected; if there are fewer than 10, we include those companies as well as the next closest companies by market capitalization from the more broad industry group to bring the total peer companies to 10. In some instances, peer companies will be foreign based, but with ADRs listed on the U.S. markets which permits a comparison of performance results without any need to adjust for currency fluctuations. We provide an opportunity for corporations to review the peer group of companies prior to the filing of a proxy statement; adjustments to the peer group may be made assuming we agree with the reasons for the modification.

At present, the companies included in the peer group are evenly weighted. However, over time, PROXY *Governance* intends to use a continuously refined weighting system that would take into account a company's varied business activities versus those of its peer companies.

Peer Companies			
ADVANTA CORP	AMERICREDIT CORP	CAPITAL ONE FINANCIAL CORP	CASH AMERICA INTL INC
COMPUCREDIT CORP	CREDIT ACCEPTANCE CORP	MBNA CORP	METRIS COMPANIES INC
STUDENT LOAN CORP	WORLD ACCEPTANCE CP/DE		

Comparative Performance Analysis

Composite Performance Summary

Composite Performance:
Relative: Company at the 65th percentile vs. peers at the 68th percentile relative to the S&P 1500
Trend: Performing at same rate as peers

Shareholder Returns:

- **Relative:** Company at the 62nd percentile vs. peers at the 62nd percentile relative to the S&P 1500
- **Trend:** Improving relative to peers at an average of 1 percentile point per year

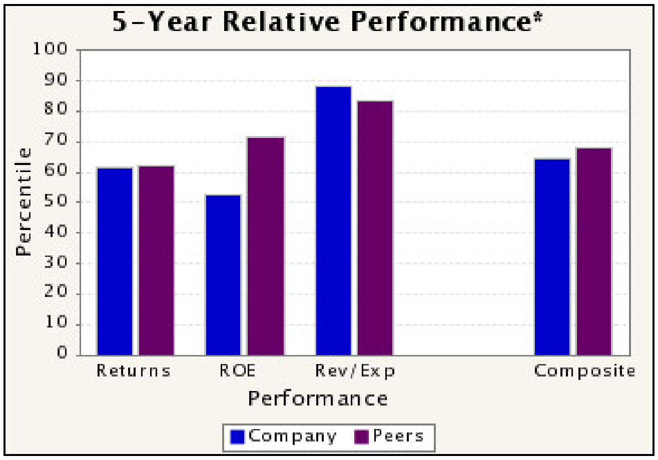
Return on Equity:

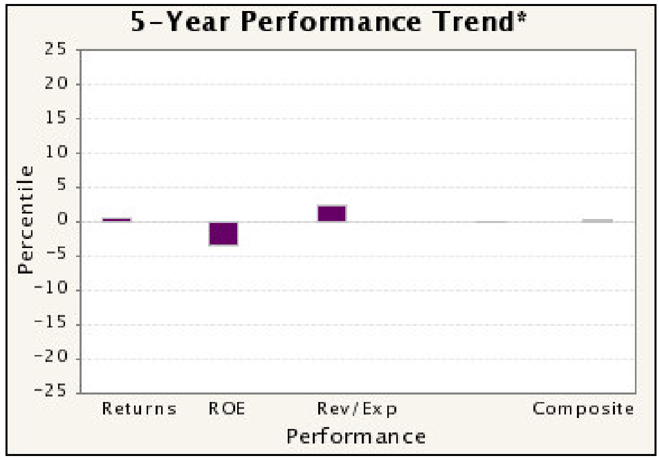
- **Relative:** Company at the 52nd percentile vs. peers at the 71st percentile relative to the S&P 1500
- **Trend:** Declining relative to peers at an average of 3 percentile points per year

Revenue/Expenses:

- **Relative:** Company at the 88th percentile vs. peers at the 84th percentile relative to the S&P 1500
- **Trend:** Improving relative to peers at an average of 2 percentile points per year

One of our standard performance metrics, cash flow from operation/equity, is not available for certain bank or utility companies. For these companies, we eliminate that metric from our performance calculations and proportionally re-weight the remaining three.

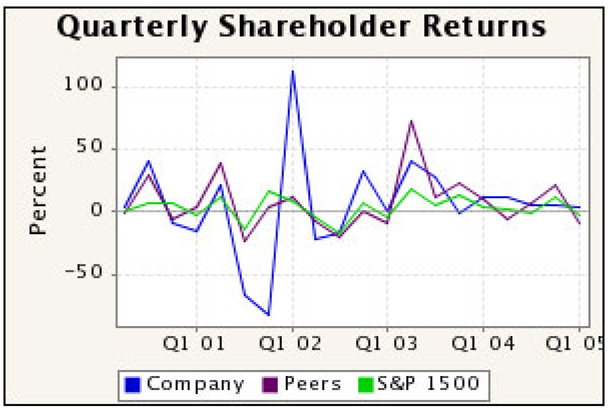


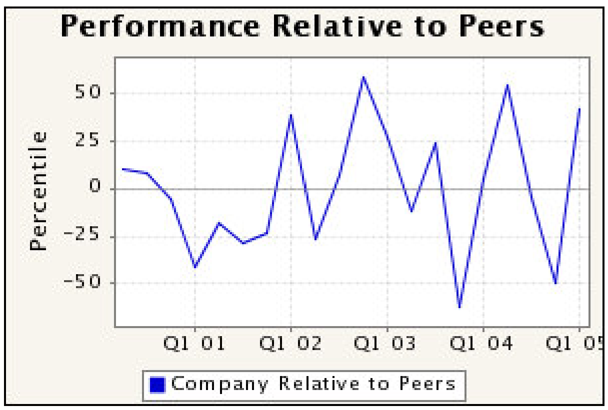


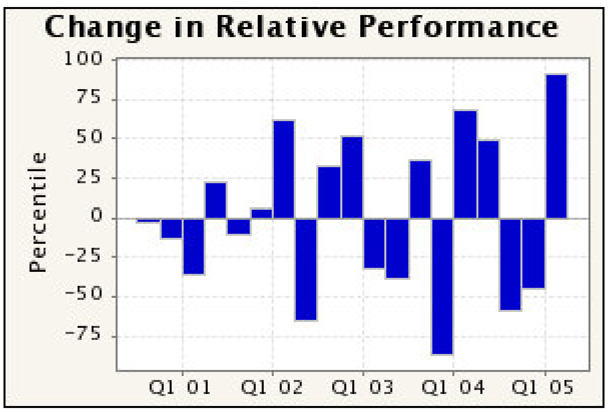
*Based on five-year data when available

Comparative Performance Analysis

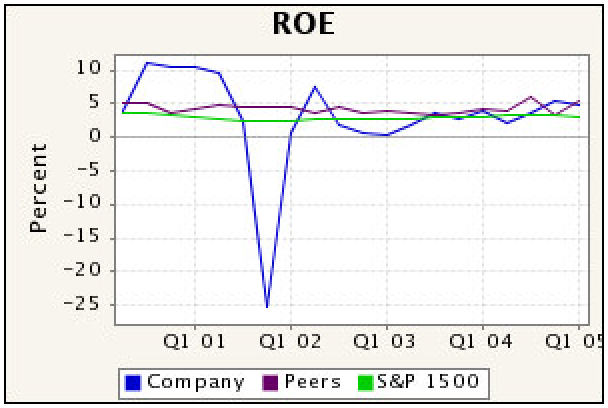
Performance Summary

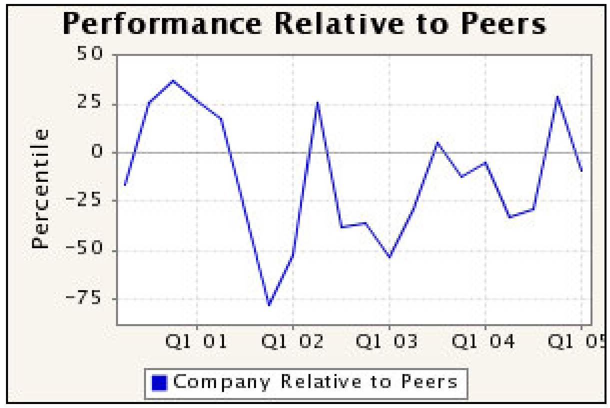


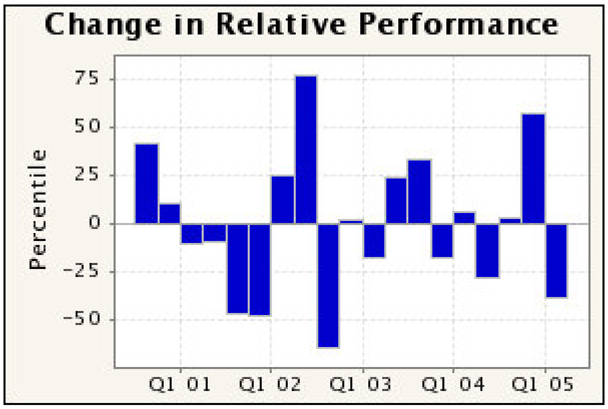




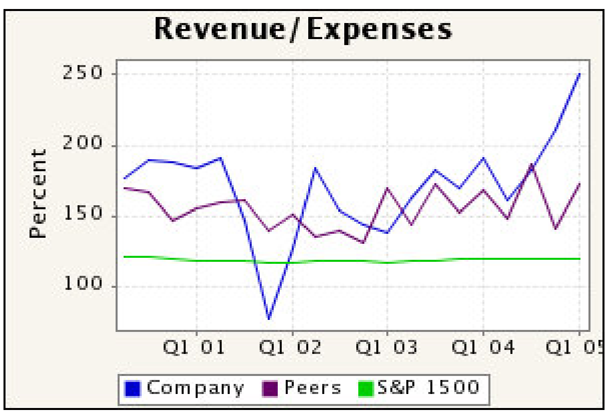
Source: Stock Price — North American Pricing [NAP]

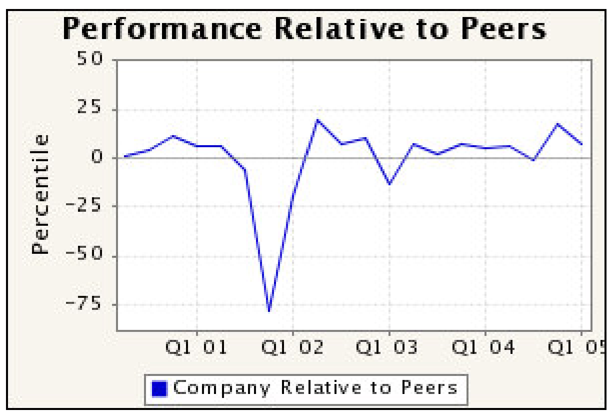


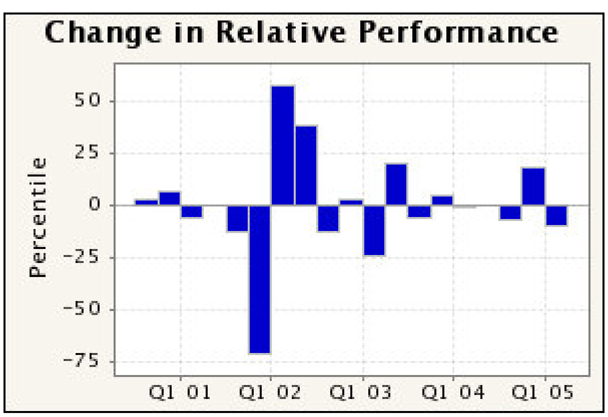




Source: ROE — Compustat







Source: Revenues/Expenses — Compustat

Governance Analysis

Governance Analysis

State Law/Charter/Bylaw Provisions

State Law Statutory Provisions	
State of incorporation	Delaware
Business combination	✓
Control share acquistion	
Fair price provision	
Constituency provision	
Poision pill endorsement	

Charter/Bylaws Provisions	
Classified board	✓
Cumulative voting	
Dual class/unequal voting rights	
Blank check preferred stock	✓
Poison pill	✓
Directors may be removed only for cause	✓
Only directors may fill board vacancies	✓
Only directors can change board size	✓
Supermajority vote to remove directors	✓
Prohibit shareholders to call special meetings	✓
Prohibit action by written consent	✓
Fair price provision	
Supermajority vote for mergers/business transactions	
Supermajority to amend charter/bylaw provisions	✓
Constituency provision	

Governance Analysis

Vote Results of Last Annual Meeting

Proposals		% FOR Votes[1]	For Votes	Against Votes	Abstentions	Broker Non-Votes
MGT	Elect directors[2]	95.9% - 98.0%				
MGT	Reapprove Incentive Plan/Performance Criteria for OBRA	96.5%	240,409,604	8,823,451	2,351,100	0
MGT	Ratify Appointment of Auditors Ernst & Young	95.9%	239,839,239	10,235,804	1,509,112	0

[1] As a % of votes cast for and against; may not reflect passage of proposal. [2] Low — High director votes.

Governance Analysis

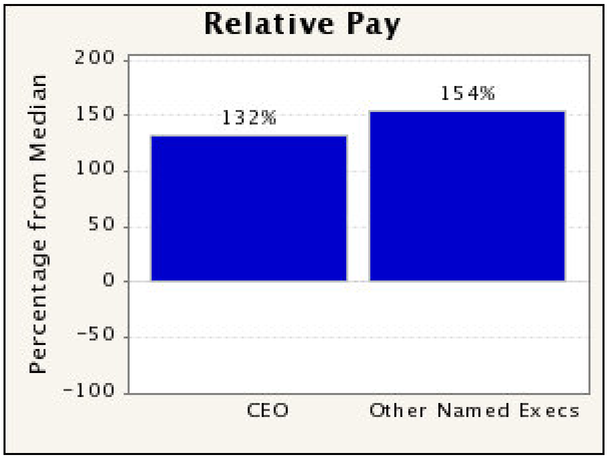
Executive Compensation

PROXY *Governance* evaluates a company's executive compensation over the last three years, as available, and compares that to the median compensation paid by its peers over the same time frame. For our compensation model, generally 20 peer companies are selected based on similarity of market capitalization and broad economic sector using the GICS. Only U.S. and certain U.S. reporting companies that are incorporated offshore are included in this peer group.

The graph that follows shows:

- The average three-year CEO compensation paid by the company expressed as a percentage from median peer compensation.
- The average three-year compensation paid to the company's other named executives (excluding the CEO) as a percentage from median peer compensation.

Domestic Peer Companies			
ASSOCIATED BANC-CORP	AVALONBAY COMMUNITIES INC	COMMERCE BANCORP INC/NJ	DEVELOPERS DIVERSIFIED RLTY
DORAL FINANCIAL CORP	DUKE REALTY CORP	E TRADE FINANCIAL CORP	EVEREST RE GROUP LTD
FIRST HORIZON NATIONAL CORP	HIBERNIA CORP -CL A	ISTAR FINANCIAL INC	LEUCADIA NATIONAL CORP
MERCANTILE BANKSHARES CORP	NEW YORK CMNTY BANCORP INC	OLD REPUBLIC INTL CORP	RADIAN GROUP INC
SEI INVESTMENTS CO	ST JOE CO	TCF FINANCIAL CORP	UNUMPROVIDENT CORP



Executive Compensation	Salary	Bonus	Other Annual Comp.	Restricted Stock	Stock Options[1]	LTIP	All Other	1-yr Pay[2]	Avg. Pay[2]
Joseph W. Saunders Chairman, President and Chief Executive Officer	$858,462	$2,200,000	$0	$1,669,550	$3,832,641	$0	$119,263	$7,528,729	$8,770,167
Ellen Richey Vice Chairman, Enterprise Risk Management, Chief Legal Officer and Corporate Secretary	$416,923	$550,000	$9,797	$543,252	$1,077,520	$0	$45,708	$2,498,807	$2,550,363
Warren Wilcox Vice Chairman, Planning and Marketing	$363,462	$525,000	$0	$536,369	$1,077,520	$0	$40,833	$2,470,828	$2,735,910
Chaomei Chen Vice Chairman, Credit and Collections and Chief Credit Officer	$364,808	$525,000	$0	$526,117	$1,077,520	$0	$40,759	$2,530,595	$2,326,259
Anthony F. Vuoto Vice Chairman and Chief Financial Officer	$404,616	$575,000	$0	$536,369	$1,077,520	$0	$44,053	$2,517,702	$2,340,280

[1]Options valued using binomial formula.
[2]Restricted stock is annualized over the year of the award and following three years; LTIP is annualized over the year of the award and previous two years. Average pay is based on three-years of pay data, when available.

Source: Executive Pay: Data provided by Aon Consulting's eComp Database
As disclosed for fiscal year end 2004.

Governance Analysis

Stock Ownership/Voting Structure

Type of stock	Outstanding shares	Vote(s) per share
Common	294,798,091	1

Director & Officer Ownership
0.8%

Significant Shareholders	
Legg Mason Funds Management, Inc.	9.4%
Marsh & McLennan Companies	7.3%
Davis Selected Advisors, L.P.	5.2%

Proposal Analysis

Management

1 Approve Merger/Acquisition

PROXY *Governance* Vote Recommendation: FOR

Proposal:

The board of Providian Financial is requesting the approval of shareholders with regard to a strategic merger with Washington Mutual, Inc. (WaMu). Under the terms of the proposed merger agreement, Providian shareholders will receive consideration based on a fixed exchange ratio of 0.45 WaMu shares for each Providian share, and the merger consideration will be in the form of 89% stock and 11% cash. As such, shareholders will receive 0.4005 shares of WaMu stock and cash in an amount equal to 0.0495 shares of WaMu stock (based on the average closing price for the stock over 10 trading days prior to closing). Based on WaMu's closing price of $41.57 on June 3, 2005, the last trading day prior to the merger announcement, the implied per share purchase price is $18.71, representing a total of $6.452 billion. The total deal value includes about 50 million shares from contingent convertible debt. At closing, Providian shareholders will hold 13.5% of the combined company, based on fully diluted shares per treasury stock method. Through the transaction, Providian will become a business group under WaMu and will operate as a stand-alone unit with its top management intact.

The merger is contingent on the affirmative vote of a majority of the outstanding shares of Providian stock. As of the Aug. 1, 2005 record date, the company's directors and executive officers owned 0.8% of the company's outstanding shares, excluding options. If approved, the transaction is expected to close in the fourth quarter of 2005. We note that Providian shareholders have appraisal rights in connection with the merger.

Management View:

The board unanimously determined that the merger agreement is in the best interest of shareholders. The board based its decision on, among other factors, its knowledge of Providian's business, conditions and prospects, including its challenges related to relatively high funding costs, its non-investment grade debt rating, and the requirements of Providian's 2001 regulatory agreements and the related capital plan. The board notes the economic conditions faced by the financial services industry and the credit card industry in particular, as well as the trend toward industry consolidation as companies emphasize diversification. The board also notes the two companies' complementary strengths, especially WaMu's national multi-channel distribution network, marketing strengths and customer base, which would provide growth opportunities for Providian's credit card business. In addition, Providian's financial advisors indicated that the offer price was fair from a financial point of view.

Analysis:

Deal Terms / Market Reaction / Termination Fee

The board notes in its reasons for the merger that while the implied per share merger consideration represented only a 4% premium based on the last trading day prior to the June 6 announcement, the offer represented a 9.1% premium over the average closing price of Providian shares for the prior month and a 44.7% premium over Providian's 52-week low closing price. We note, however, that on the Monday, June 6 announcement day, Providian's stock price closed down nearly 2% from the prior trading day's close to $17.63 per share and that WaMu closed down nearly 2.5% to $40.54 per share. By the end of that week, Providian's stock had fallen an additional 2% to $17.26 per share and WaMu's stock had fallen an additional 1.5% to $39.93 per share. This decline is somewhat surprising given that the proposed transaction is expected to be accretive within a year on both a GAAP and cash basis, and that scale and diversification are widely accepted as being critical to success in the rapidly consolidating financial services industry, particularly with regard to the credit card business.

While both companies' share prices have generally recovered since then, we believe that the immediate market reactions suggest that not only was Providian fully priced, but that the market had anticipated a higher acquisition premium. During 2000-2001, Providian's share price had fallen from a five-year high of $66.72 to a five-year low of $2.01 following federal government efforts to strengthen the credit quality of key players in the sub-prime industry. While the company's prospects had steadily improved following the implementation of its turnaround process, we note that it was not until the speculation over takeover activity heightened in 2003 that Providian's share price broke through the $10.00 per share level. Since that period, as the number of players in the credit card industry continued to shrink, leaving Providian as one of the few remaining monoline credit card companies, and as the company continued to generate strong returns, its share price has continued to increase.

With regard to the initial reaction to the deal by WaMu shareholders, we note that, according to Moors & Cabot Capital Markets, which viewed the deal pricing as "very favorable" to WaMu, WaMu's stock price decline was driven by: (i) the market's perception of WaMu as a seller not a buyer, and (ii) concerns over integration risks given WaMu's challenges with respect to the Dime Bancorp, Inc. acquisition and WaMu's poor integration of four acquired mortgage originators through the re-finance boom (June 7, 2005 research report). We agree with a number of industry analysts that the decision to allow Providian to continue to run as a separate unit and on a stand-alone basis significantly reduces integration risk.

Similarly, research analysts appear to be somewhat mixed in their reactions to the offer price. Piper Jaffray Co., which covers WaMu, assessed that a "full price" was paid (based on a 17.6% premium to receivables and 10.7x forecasted earnings per share), thereby suggesting that the transaction was a good deal for Providian shareholders. Piper Jaffray also described Providian as a company "not long removed from almost terminal difficulties" whose current high returns are unlikely to be sustainable. One Providian analyst who viewed the deal terms favorably was Bear, Stearns & Co. analyst David Hochstim, who assessed in his June 6 research report that the offer price was at the high end based on recent acquisitions; the total purchase price represented about a 20% premium to receivables while MBNA and Capital One were trading at about a 12% premium (PROXY *Governance* notes that the 20% premium does not take into account dilution from convertibles; otherwise, the figure would be about 17%). According to First Call/Thomson Financial, at the 30-, 60- and 90-day benchmarks prior to Aug. 6, 2005, the consensus among 20 - 24 different brokers was "hold." Also, 13 analysts' price targets estimated Providian's per share value in the range of $16.00 - $20.00, with the mean target price at $18.29 per share. As of Aug. 11, 2005, the company's stock price closed at $18.84 per share.

Other analysts gave more of a lukewarm response. Keefe, Bruyette & Woods analysts stated in their June 6 research report that WaMu "does not appear to have paid up" for Providian and that "we are surprised that [Providian] was willing to sell for $18.71, or slightly less than our $19 target price." In its June 6 research report, Prudential Equity Group LLC described the premium to receivables as being "not bad for [Providian] but below the average of 17% for card transactions over the last few years." Legg Mason Wood Walker, Inc. analyst Chris Brendler assessed in his June 6 research report that the deal terms were "somewhat disappointing" given his $21.00 price target. Also, the deal metrics represented 11.0x and 9.7x his 2005 and 2006 earnings per share estimates, about 1.9x book value, and the premium to receivables appeared to be in line with the industry average for credit card acquisitions. During the June 6 conference call, Brendler noted that there was "a lot of unlocked value" in the transaction. In assessing why Providian may have accepted the offer, Brendler recognized in the research report that there was intense price competition and challenging conditions in the U.S. credit market. He also raised the issue that while the company's asset quality has been "outstanding," management may have been concerned about the health of the U.S. economy with the flat yield curve suggesting weaker conditions ahead. In terms of evaluating Providian on a stand-alone basis, we note that, according to PROXY *Governance*'s performance analysis, the company generally tracked peers over the past five years. Overall, Providian ranks at the 65th percentile relative to the S&P 1500 compared to peers at the 68th percentile. Similarly, with regard to shareholder returns, Providian and its peers rank at the 62nd percentile relative to the S&P 1500.

Providian has agreed to pay to WaMu a termination fee of up to $225 million (which represents 3.5% of the estimated total deal value) if the merger agreement is terminated under certain circumstances, including if the merger agreement is terminated because the company plans to accept a competing proposal or withdraws/changes its recommendation to shareholders in a manner that is adverse to WaMu.

Decision Process

According to the proxy statement, Providian's management has "from time to time explored and assessed, and has discussed with the Providian board of directors, various strategic options potentially available to Providian," including business combinations with other financial institutions. We note that the company did not disclose further detail, however. Instead, Providian goes on to highlight key drivers for these discussions as including the increasing competition and ongoing consolidation in the financial services industry, as well as the requirements of Providian's 2001 regulatory agreements and the related capital plan.

We recognize that, based on the background notes, management has worked with the board and its financial advisors since a fairly early stage of the process. However, we note the brevity of the background notes to the merger and we believe that shareholders would appreciate more specific disclosure. For example, it is unclear how the offer price was negotiated. We are also somewhat concerned over the lack of information with regard to the extent to which Providian solicited further bids, given: (i) the premium as determined based on Providian's closing stock price on the last trading day prior to the announcement; (ii) the rapid trend toward industry consolidation, especially with regard to monoline credit card businesses – which raises the question of what drivers, strategic or otherwise, made this deal more compelling than any other possible combination; (iii) fairly intense industry speculation over the future of the monoline credit card businesses; and (iv) deal terms which allow Providian to retain all of its top management. While we recognize that the background notes may not offer a complete picture on how the board and management reached the decision to support the proposed deal, we have some concern that management does not appear to have been completely forthcoming in its disclosure on the extent to which it did solicit bids in an effort to secure the best value for its shareholders.

We further note that during management's June 6 analyst conference call, when Morgan Stanley Dean Witter analyst Ken Posner asked whether the transaction was only negotiated between WaMu and Providian or whether there were other bidders, management did not take the opportunity to further elaborate on this point. Instead, WaMu's Chairman/CEO Kerry Killinger simply responded that it would be inappropriate for him to comment if there were other parties or on what Providian did, and said that it was a thoroughly thought out, negotiated transaction, while Providian Chairman/CEO Joe Saunders only stated: "I would just reiterate that we've done our homework and this is a terrific transaction." We also note that Raymond James & Assoc. analyst Mike Vinciquerra asked to what extent Providian favored WaMu over other potential partners, given that top management would be retained and that WaMu has little exposure to the credit card industry. Saunders only replied that it was one of many factors and that not only was the deal very attractive, but that "we've done our homework over the last couple of years. I don't see anything out there that is anything close to as good a strategic fit as this is." Based on available information, we believe that no other interested buyers stepped forward, and we have no way of knowing from the information provided whether other potential buyers were contacted before the merger agreement was signed.

Fairness Opinion / Financial Advisory Fees

Providian's financial advisors, Citigroup Global Markets Inc. and Goldman, Sachs & Co. collaborated in performing the financial analysis that was used to determine the fairness of the offer price. In doing so, they applied a variety of analytical approaches, for example, based on selected precedent credit card portfolio sales analysis, the premium to managed receivables ranged from 6.5% - 22.0% with the median figure being 13.3% and the implied valuation per Providian share ranged from $12.90 - $21.06 with the median being $16.45. In comparison, the implied value for the merger consideration was $18.71 and the estimated premium to managed receivables based on March 31, 2005 data was 18.4%. Also, based on dividend discount analysis, the range of implied values per Providian share ranged from $15.96 - $21.29 and $10.75 -$16.56 based on various stand-alone scenarios, and $22.67 - $28.56 based on the pro forma for the merger.

We note that in connection with rendering their opinions, the advisers notified the board that they were not experts in the evaluation of loan and lease portfolios for the purposes of assessing the adequacy of allowances for losses, and accordingly assumed, with the consent of the Providian board, that such allowances for losses are in the aggregate adequate to cover such losses. They further advised the board that they are not experts in the evaluation of the fair value of mortgage servicing rights and related risk management strategies for purposes of assessing the adequacy of provisions for impairment, and as such, did not make an independent evaluation of such risk management strategies or the adequacy of such provisions. Accordingly, they assumed, with the consent of the Providian board, that WaMu's valuation allowances for mortgage servicing rights impairment will be in the aggregate adequate to cover all such impairment.

For financial advisory services, Providian has agreed to pay each of Citigroup and Goldman Sachs a transaction fee equal to 0.4% of the aggregate consideration paid by Washington Mutual, payable on the completion of the merger. Based on the estimated deal value of $6.452 billion, each transaction fee would be approximately $25.8 million.

Special Interests

Although Providian's management will be retained following the merger, they will receive significant payouts, which apparently will be made in connection with the cancellation of their existing employment agreements with Providian. On June 5, 2005, WaMu entered into employment agreements with CEO Saunders and other Providian executives, which provided for each officer, lump sum cash payments equal to three times the sum of base salary plus bonus. We believe that such payments are quite significant given these executives will be retained. We would feel much more comfortable if there were further detail contained in the proxy statement that would give us any reason to conclude that other alternatives were actively pursued and that this was in fact the best transaction that could be negotiated for Providian shareholders. We note, in particular, that for other named executives, severance payments are more typically closer to the two times multiple. Separately, upon completion of the merger, all Providian stock-based awards will vest and be converted into WaMu awards. We generally view such awards as sunk costs and believe that they should be treated as being unrelated to the merger.

Under Saunders' agreement, he will serve as president/CEO of the Credit Card Division of WaMu and report to WaMu's COO. Upon completion of the merger, Saunders will receive:

- A lump sum payment equal to three times the sum of base salary plus bonus, which we estimate to be about $9.2 million based on the annual proxy statement.
- Shares of WaMu restricted stock with the value of $2 million plus options to purchase a number of shares equal to three times the number of restricted shares granted. The stock options will have an exercise price equal to fair market value and both the restricted shares and stock options will vest in two equal installments on each of the first and second anniversaries of the merger. While this sum appears to be significant, we generally view retention bonuses as being helpful in facilitating post-merger integration.
- An annual base salary of $800,000 (which is about 7% less than his annual salary based on the company's annual proxy statement), a target bonus of 200% of his annual base salary, and participation in various WaMu incentive award programs.

Under the terms of Saunders' employment agreement, in the event of termination without cause or by him for good reason prior to the second anniversary of the merger, Saunders will receive: a cash payment equal to the sum of his annual base salary plus target bonus for the remainder of the term; continued ability to exercise his above-mentioned stock options until the earlier of the remainder of their original 10-year term or one year after the date of his termination of employment, and tax gross-ups, if applicable. While Saunders' overall payouts appear to be quite significant, we recognize his contribution to the company's successful turnaround effort.

We note that Providian did not provide a detailed breakdown and estimates of the individual and aggregated change in control-related payouts and we believe that it should. Especially in view of the potential payouts and implications from a conflict of interest standpoint, we feel shareholders are entitled to much more specific disclosure. We are particularly concerned by the lump sum severance payouts, which appear to represent a conflict of interest given that the executive officers will continue to retain their positions, and that the premium being paid to Providian shareholders is relatively paltry. Also, while tax gross-ups are an increasingly common practice, in our view they are difficult to justify in these circumstances, since essentially the Providian shareholders are paying the excise taxes which the executives would otherwise owe on what we believe is a "windfall" to them given their continued employment status

Shareholder Rights

At closing, the rights of Providian stockholders who become WaMu stockholders will be governed by WaMu's charter and bylaws. WaMu is incorporated in Washington State while Providian is incorporated in Delaware. We note that WaMu has a slightly more shareholder-friendly governance structure than Providian. For example:

- Both companies have classified boards but under WaMu's charter, directors may only be removed for "good cause" (which is not defined) by majority vote while under Providian's charter, directors may only be removed for cause by the vote of 80% of total voting power.
- WaMu's charter may generally be amended by a majority vote of shareholders with the exception being an amendment to the provision related to business combinations with interested investors. Providian requires the vote of 80% of total voting power to modify provisions related to the process of shareholder action, the size and composition of the board, removal of directors, and the process and votes required for amending bylaws.
- While WaMu's bylaws allow holders of at least 25% of all the votes entitled to be cast to call a special meeting, Providian's governance documents only permit a special meeting of shareholders to be called by the chairman of the board or by the board pursuant to a resolution adopted by a majority of directors.
- With regards to control share acquisitions and business combinations, an interested investor is defined as a person or group that beneficially owns 10% of the voting securities and is subject to a five-year freeze-out in WaMu's case. For Providian, an interested investor is defined as holding 15% of the voting stock and is subject to a three-year freeze-out.
- Both companies have shareholder rights plans.

Litigation / Other Disputes

On Aug. 1, Putnam Investments LLC, one of the country's largest money managers and one of Providian's largest stakeholders with about 7.5% holdings, stated that it will oppose the merger based on the offer price being "well below fair market value". Putnam regards the offer price as inadequate because the competition for credit card companies has recently intensified and because Providian is one of few monoline card companies. Industry observers in various press reports note that the move is unusual for Putnam, which is not generally viewed as a shareholder activist. The announcement does not appear to have impacted the company's share price.

Summary

We note with some concern, the market's reaction to the merger announcement as Providian shares declined that week, the somewhat mixed analyst reactions to the offer price, and Putnam's opposition to the deal on the grounds that the offer price is insufficient. We are also concerned that – based on the background notes to the merger and the June 6 conference call – the level of transparency with regard to management and the board's decision-making process is unacceptably low. While we recognize that such documentation does not necessarily offer comprehensive insight into the decision-making and negotiation process, its absence, especially when combined with the above developments, does raise legitimate questions over the extent to which Providian's board in fact "did its homework" with regard to potential opportunities and whether shareholders are being offered an appropriate premium. Similarly, while Providian engaged two very well-known financial advisors for the transaction, we note that these advisors collaborated in performing each of their financial analyses, and we are always somewhat uncomfortable when the "fairness" opinions are rendered by entities which have a significant financial stake in the completion of the transaction.

On balance, however, we believe that the offer price probably does represent a minimally acceptable acquisition premium. We recognize that there has been longstanding speculation over Providian as a potential takeover target and that to some extent, an acquisition premium was already built into the company's stock price. We also note that since a significant portion of Providian's business stems from the sub-prime market, it would be inappropriate to compare premiums with other credit card companies that have stronger credit and customer portfolios; despite the strength of Providian's turnaround story, it remains a higher risk prospect. As such, we believe that WaMu's stronger credit quality will help to improve Providian's funding costs and enable the company to grow, given the broader marketing platform and other resources. The move into the credit card industry, in turn, will help WaMu to diversify its revenue and customer base. As noted above, Providian shareholders will own approximately 13.5% of the combined company and will have (should they choose to remain shareholders) a continuing stake in its financial success. However, as indicated by Providian's financial advisors, we note that it is unclear the extent to which WaMu's provisions for the losses stemming from loan and lease portfolios and for impairment of mortgage servicing rights and related risk management strategies are sufficient. Based on various press reports, we believe that it is possible that one reason for WaMu's being perceived as a possible acquisition target up until the proposed merger with Providian, was likely because, given the rapidly consolidating industry trend, the markets perceived that WaMu did not have sufficient market presence to play as competitive a role in its existing businesses in the future as it has in the past. It is not clear that WaMu with Providian will continue to be an attractive takeover target, which could affect its share price in the longer term.

Rationale/Conclusion:

On balance, PROXY *Governance* supports this merger proposal because we believe that Providian shareholders will in the long run and in view of the competitive landscape, be better off as shareholders of a financially stronger and more diversified company. The complementary nature of the two companies' businesses and customer bases – and more importantly, WaMu's stronger credit position – will provide Providian with a stronger platform for competing in the U.S. credit card industry. However, as previously discussed, we have some substantial reservations with regard to the decision-making process, as well as lingering questions which we feel have been inadequately addressed regarding whether shareholders may have been able to receive a better deal.

[back to top]

Management

2	**Approve Adjournment of Meeting**

PROXY *Governance* Vote Recommendation: FOR

Proposal:

To approve adjournment or postponement of the meeting to allow management to solicit additional proxies in favor of the merger agreement.

Management View:

The special meeting may be adjourned or postponed for the purpose of soliciting additional proxies in the event that there are not sufficient votes at the time of the meeting to adopt the merger agreement.

Analysis:

PROXY *Governance* will consider “adjourn meeting” proposals on a case-by-case basis depending on whether management’s reasons for the extension are beneficial to shareholders. If the proposals being voted on are, in our view, advantageous to shareholders, there may be justification for additional solicitation time. The merger agreement requires the approval of a majority of the company's outstanding shares.

Rationale/Conclusion:

We believe that the merger is beneficial to shareholders and therefore believe that management should, if necessary, have additional time to solicit proxies.

[back to top]