

Value: The Community Bank Wall Street Report

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An Outstanding Maiden Year for the ACBQ

The community bank stocks that make up the America's Community Bankers NASDAQ Index outshone other market segments in 2004.

In its first complete calendar year, the Index climbed to 295.6 to produce a total return of 18.23%. That is more than double the 8.98% total return of the NASDAQ Composite. The Index also trounced the S&P 500, the benchmark for large-capitalization stocks, which posted a total return of 10.88% in 2004.

The 514 banks that make up the Index boasted a market capitalization of \$200 billion at yearend.

Total return calculations assume that dividends have been reinvested. This approach recognizes the "cash in hand" value that is imbedded in most bank stocks.

In the quarter that ended Dec. 31, the Index posted a total return of 10.03%, beating the S&P 500, which produced a 9.23% total return, but lagging the NASDAQ Composite, which rose 14.86%.

On a price basis, the Index ended the fourth quarter at 288.56, up 9.4% from the prior quarter. Because this measure of the

Index was just launched in August, year-to-year comparisons will not be available until the third quarter of 2005.

As of Dec. 31, the market capitalization of the banks in the Index ranged from \$7.4 million (University Bancorp Inc., Ann Arbor, Mich., Ticker: UNIB) to \$7.7 billion (Popular Inc., Ticker: BPOP). The average was \$388 million. The total number of shares outstanding ranged from 735,000 (Great American Bancorp, Ticker: GTPS) to 266.6 million (BPOP). The average number of shares outstanding was 13.6 million.

The Index was launched in December 2003 by America's Community Bankers and the NASDAQ Stock Market Inc. There are several ways to access quotes:

For real time price quotes, go to <http://finance.yahoo.com>, click on "Symbol Lookup," and search for "ACBQ." Be sure to set search "Type" to "Indices." Or go to www.bloomberg.com. Enter ACBQ:IND into the box that says "Enter Symbol."

For total return values go to www.AmericasCommunityBankers.com or www.nasdaq.com/asp/TotalReturn/asp «

Total returns of NASDAQ-traded banks vs. benchmark



Source: NASDAQ

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John Bond, president and CEO of Columbia Bancorp, described his bank's unique proposition to analysts and investors at the America's Community Bankers Community Bank Investor Conference on Nov. 19.

How the American Job Creation Act Affects Companies' Compensation

By Glenn James

Tax provisions in the recently passed American Jobs Creation Act of 2004 (AJCA) will impact the way that companies compensate their employees. Among other things, the act imposes new requirements on non-qualified deferred compensation arrangements and codifies the payroll tax treatment of ISO stock options.

The new rules apply to a broad range of compensation arrangements. While the Act specifically exempts qualified plans, section 457(b) plans and other specifically delineated plans, any other arrangement that provides for the deferral of compensation is likely to be subject to the new rules.

Affected arrangements include section 457(f) plans and any other agreements or arrangements that have a deferred compensation component. Equity-based plans, such as discounted stock option plans, stock appreciation rights and phantom stock plans are also likely covered.

Elections

Previously, many taxpayers took the position that an individual could elect to defer compensation as late as the day before the compensation was due to be paid.

Under the AJCA, when an individual first becomes eligible for a non-qualified plan, the election must be made within 30 days after the date that the employee is initially eligible. In the case of performance-based compensation that is earned over a period of at least 12 months, the election to defer can be made no later than six months before the end of the service period. Otherwise, the election must be made before the start of the tax year to which it applies.

Subsequent Deferrals

The new rules place strict limits on individuals making elections to extend the deferral period beyond the date originally elected. Such elections must generally

be made at least a year in advance of the otherwise due date for payment of the deferred compensation under the first election and cannot take effect until at least 12 months after the date on which the new election is made.

Rabbi Trusts

Rabbi trusts can still be used to achieve limited security with respect to deferred amounts without triggering immediate taxation.

However, the use of an offshore trust, or provisions that trigger a conversion of a rabbi trust in the event of employer financial difficulty, will result in immediate taxation and the imposition of penalties.

Distributions

Under the Act, distributions can occur only upon: death; separation from service; disability, a date certain or a series of dates established when the compensation was initially deferred; a change in ownership of the employer; or the occurrence of an unforeseen emergency that results in severe financial hardship. The new rules eliminate the ability to allow early distributions in exchange for the partial forfeiture ("haircut") of deferred amounts.

Old Plans

All deferred compensation arrangements need to be reviewed to determine compliance with the new rules. Taxation of existing vested deferrals under pre-2005 arrangements is grandfathered, but future deferrals and prior non-vested deferrals under existing plans fall under the new rules.

Penalties

After the AJCA goes into effect, the penalties for non-compliance are quite severe. In addition to paying tax on the cumulative deferred amounts and investment earnings, an individual must pay a 20 percent penalty tax, as well as interest on the taxes, that otherwise

would have been paid had the amounts been taxed in prior years.

ISOs

In the case of ISO stock options, the AJCA changed the definition of "wages" for purposes of the social security, Medicare and federal unemployment taxes to make it clear that neither the exercise nor the disqualifying disposition of an ISO results in "wages" subject to those taxes. However, an employer must report the income from a disqualifying disposition as income subject to the federal income tax the individual's Form W-2.

In conclusion, the AJCA creates a lot of potential pitfalls in terms of non-deferred compensation plans, but provide good news with respect to payroll taxes for ISOs. It is essential to have a tax professional that is familiar with the Act to look over a company's current and future deferred compensation plans.

Mr. James is a tax partner with Grant Thornton. The firm is the world's leading accounting, tax and business advisory organization dedicated to mid-size companies, including community banks. For information, visit the companies Web site at: www.GrantThornton.com. «

Save the Date!

ACB's third Community Bank Investor Conference is already being organized. It will be held May 18-19 at the Westin New York at Times Square.

Invitations to presenters will be forthcoming. If you are interested in participating, please contact Helen Sullivan, senior vice president for capital markets, ACB Business Partners, at 202/857-3157 or hsullivan@acbankers.org.

ACB's Second Community Bank Investor Conference Packs a Crowd

The New York Palace was the place to be Nov. 19 as 200 investors, analysts, and bankers turned out for America's Community Bankers' second Community Bank Investor Conference of 2004.

Eighteen NASDAQ-traded banks told their stories directly to investors. Tandem sessions occurred in two rooms from 8:30 a.m. till 2:30 p.m., and were Webcast in real time. Executives from each presenting bank were allotted 20 minutes to talk about their companies, followed by 10 minutes to field audience questions. A breakout room, where bankers could confer one-on-one with interested analysts and investors, was humming throughout the day.

Preceding the conference on Nov. 18 was a well-attended crash course in investor relations tailored to community bankers. (See related article below.)

The participating banks were among the 514 members of the America's Community Bankers NASDAQ Index. The Index, launched Dec. 8, 2003, is the most broadly representative stock index for the community bank segment of the banking industry. Its launch underscored ACB's commitment to be the most innovative and progressive trade association serving banks that are active in the capital markets.

Among the presenters was Edward Lett, president and chief executive officer of \$765 million-asset TIB Financial Corp., Naples, Fla. Lett called the conference "well organized, publicized, and attended, resulting in an optimal experience for presenting banks. Thanks, ACB, for providing the stage so desperately needed by the small cap community banks."

The conference was organized by ACB with support from Grant Thornton, Morgan Keegan & Co., Legg Mason Inc., the NASDAQ Stock Market Inc., and Ryan Beck & Co. It built upon the phenomenal success of ACB's first such conference, conducted in New York in May.

In addition to TIB Financial (Ticker: TIBB), other presenting banks were: Independence Community Bank Corp. (ICBC); Columbia Bancorp (CBMD);

Umpqua Holdings (UMPQ); Smithtown Bancorp (SMTB); Fulton Financial Corp. (FULT); IBERIABANK Corp (IBKC); Sun Bancorp (SNBC) and Evans National Bank (EVBN).

Also, Sterling Financial Corp. (STSA); HF Financial Corp. (HFFC); People's Bank (PBCT); Franklin Bank Corp. (FBTX); First Place Financial Corp. (FPFC); Ocean First Financial Corp. (OCFC); Susquehanna Bancshares (SUSQ); Capital Federal Corp. (CFFN); and First BankTrust Corp. (FBTC).

Tips From the Pros

Keep channels of communications open. Disclose bad news quickly and honestly. Understand what makes investors tick, and what ticks them off.

That was the key advice that a trio of analysts and investors gave to bankers attending the investor relations boot camp that kicked off the conference on Nov. 18.

How often should publicly traded banks expect to speak with equity analysts? "At a minimum, once a quarter," said Collyn Gilbert, senior analyst at

developments, said Rick Weiss, senior analyst with Janney Montgomery Scott, Philadelphia. "Who knows the industry better?" he observed.

Buy-side analysts, who work for firms that actually take a stake in a company, expect excellent access. "If we're going to make a purchase in a company, we tend to go and visit. Once we own it, I might talk to their guys once a month, if not more," said Dan Goldfarb, analyst with David L. Babson, a Boston-based investment advisory firm. "We try to be a top 10 holder of everyone we own, so I want access to senior management: chief executive officer, chief financial officer, chief lending officer."

Suppose that spreads on loans are tightening, volume is off, and the next quarter's earnings will suffer. How do analysts want bankers to handle the bad news?

"The obvious answer is, quickly," said Gilbert. "I don't think people get penalized for bad news as much as how they handle it."

The only way to do it is just come out



Making the most of investor relations Web sites was the topic of a panel discussion featuring consultant Daniel G. Finney, SNL Securities' Tim Gould, and Sterling Financial Corp.'s Heidi Stanley.

New Jersey-based Ryan Beck & Co. But she, like many analysts, makes a point of keeping in touch once a month, if not more often.

Regular conversations with chief executives help analysts to keep tabs on industry trends as well as company

with it," Weiss added. "Most of the bad news lately seems to be spread-related. The question is, how are you going to fix it?"

Analysts and investors are intensely busy during the trading day, so bankers

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shouldn't be offended if they are sometimes abrupt. When analysts wind up phone conversations with a brisk "gotta hop," they really mean it.

They are also curious, and hungry for insights. "I have no problems talking to the street," Goldfarb said. "My constraint is the number of people I can talk to in a day." Analysts do talk to one another, and "one of our largest holdings, we own because Rick [Weiss] called and

said, 'I like this bank.' On another bank, I'm just waiting till it has enough liquidity than I can buy them."

Analysts and investors pay attention to what banks do, not just what they say.

For instance, share buybacks "speak volumes about where you think your stock is headed," Gilbert said. "If you're not willing to buy back shares at this time, why should we?" Banks should never cite reduced liquidity as a reason

for not buying back shares, she said.

They're skeptical, because they hear the same stories again and again. "The average price-to-earnings ratio in the industry is around 15 times earnings," Weiss said. "I don't think I've ever talked to a bank that did not think it was above that average."

"You have to know who you are. Make sure your peer group is accurate," Goldfarb said. And don't give short shrift to banking fundamentals—"Talk about deposit franchise value," he advised.

A widespread concern in the analyst community is that some bank executives have clammed up because they are unsure how much they can say in the wake of Regulation FD, which mandates full and fair disclosure of financial information. Gilbert said strategic questions are fair game, so bankers should not shy away from inquiries such as, "Why is this [strategy] better than what your peers are doing?" "To me, that is a basic question," Gilbert said. "For example, if a bank opens a branch, I want to know what's happening, how's traffic." «



Smithtown Bancorp CEO Bradley Rock huddled with Ryan Beck senior analyst Collyn Gilbert at the opening reception.

Index Welcomes 17 Additional Banks

Twice a year, the America's Community Bankers NASDAQ Index gets recalibrated.

The latest tune-up occurred Dec. 1,

when 17 community banks were added to the Index. With these additions, the Index consists of 514 community banks, thrifts and holding companies with market capitalization of more than \$200 billion. Banks are also dropped from the list on an ongoing basis to reflect mergers and de-listings.

The 17 added companies were:

- Access National Corp., Reston, Va. (ANCX)
- Atlantic Coast Federal Corp., Waycross, Ga. (ACFC)
- Bank of Commerce Holdings, Redding, Calif. (BOCH)
- Cardinal State Bank, Durham, N.C. (CSNC)
- Epic Bancorp, San Rafael, Calif. (EPIK)
- EuroBancshares Inc., Hato Rey, Puerto Rico. (EUBK)
- First Federal Financial Services Inc., Edwardsville, Ill. (FFFS)
- Greenville First Bancshares Inc., Greenville, S.C. (GVBK)
- Heritage Oaks Bancorp, Paso Robles, Calif. (HEOP)
- LSB Corp., North Andover, Mass. (LSBX)
- Naugatuck Valley Financial Corp., Naugatuck, Conn. (NVSL)
- Placer Sierra Bancshares, Sacramento, Calif. (PLSB)
- PSB Holdings Inc., Putnam, Conn. (PSBH)
- SI Financial Group Inc., Willimantic, Conn. (SIFI)
- SNB Bancshares, Sugar Land, Texas. (SNBT)
- SuffolkFirst Bank, Suffolk, Va. (SUFB)
- Valley Bancorp, Las Vegas, Nev. (VLLY) «

About America's Community Bankers

America's Community Bankers is the member-driven trade association that represents the nation's community banks. ACB members, whose combined assets exceed \$1 trillion, pursue progressive, entrepreneurial, and service-oriented strategies to benefit their customers and communities.

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