

Value: The Community Bank Wall Street Report



ACBQ • CAPITAL MARKETS • ACB INVESTOR CONFERENCES

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ACB IR Conference To Close NASDAQ

A special treat is in store for participants in ACB's 7th Community Bank Investor Conference, Nov. 1-2, at the Westin Hotel in New York. The Investor Relations Boot Camp will begin at the NASDAQ Market Site by closing the NASDAQ Stock Market. Participants in the boot camp and presenting companies are invited to attend the ceremony.

The boot camp will feature presentations on IR strategies, the NASDAQ market and the popular company bank investor panel. The company presentations on the second day will feature no more than 20 member companies of the ACB NASDAQ Index. Companies will be considered for presenting by contacting Helen Sullivan at hsullivan@acbankers.org or (202) 857-3157.

Boot Camp Tips

The recent America's Community Bankers Community Bank Investor Conference in New York gave community bankers a chance to learn practical techniques for enhancing their investor relations efforts. See page 2.

ACBQ Outperforms Broad Market Indexes

The America's Community Bankers NASDAQ Index (ACBQ) outperformed the broader market indexes in the first six months of the year, spotlighting the strong investment performance of the community banking sector of the financial services industry.

The ACBQ posted an increase of 5.5

percent for the six months ended June 30, weathering the second quarter's roller-coaster market.

This performance contrasts with the 2.71 percent increase in the S&P 500 and the 1.2 percent decline in the NASDAQ Composite. See comparisons on page 2. «

ACB Supports NASDAQ Vacancies Proposal

America's Community Bankers is supporting a proposal by NASDAQ to give companies more time to fill vacancies when an independent member of the board or audit committee leaves the board or ceases to be independent.

Under the proposal, a company would have 180 days to fill a vacancy from the time the vacancy occurs. Currently, a vacancy must be filled by the earlier of the company's next annual shareholders' meeting or one year from the date of the vacancy.

When a vacancy occurs shortly before a company's annual meeting, there is usually

not enough time to conduct a search for a candidate who can meet NASDAQ independence requirements, ACB said in its comment letter. Failure to comply is a violation of NASDAQ rules and jeopardizes the NASDAQ listing.

"ACB believes that the existing rule creates a particular hardship for community banks and smaller companies that may have more challenges recruiting new independent directors," ACB said. "Community banks seek to nominate individuals from the community the bank serves, and this narrows the field of candidates." «

Approach Bank Stocks with 'Caution'

By Collyn Bement Gilbert, managing director – equity research, Ryan Beck & Co., Florham Park, N.J.



We continue to approach the banking industry with a high degree of caution, as many challenges continue to place considerable pressure on banks' 2006 earnings and beyond.

Industry headwinds include the inverted-to-flat yield curve, intense loan and deposit pricing competition, the rising costs of delivering customer convenience, and increased credit quality provisioning.

Perhaps the biggest drag on bank earnings is the inverted yield curve, since the spread between 5-year and 2-year Treasuries stands at -7 basis points, while it is at -4 bps between 10-year and 2-year Treasuries and +7 bps between the 3-month and the 10-year maturities. For almost the entire first quarter of 2006, the spread between the 5-year and 2-year was slightly negative, and it has remained flat to slightly negative during the second quarter of 2006. It appears that limited relief is in sight.

The highly competitive environment, both from a lending and deposit-gathering stand-

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Comparison of ACB NASDAQ with Selected Indexes

Index	YTD '06	2005	2004	Cumulative*
ACB NASDAQ	5.50%	0.53%	18.44%	26.61%
NASDAQ Composite	-1.20	3.27	8.99	14.00
S&P 500	2.71	4.91	10.88	NA
Russell 3000	3.23	5.98	11.94	29.16

As of June 30, 2006. Total return basis. *Since inception of ACB NASDAQ Index, 12/5/2003.

IR Conference Offers Practical Tips, Insights From Analysts

By John Koegel

ACB's Investor Relations Boot Camp combines an overview of IR fundamentals with pragmatic suggestions for leveraging communications with shareholders, prospective investors and securities analysts.

"The boot camp was very enlightening, very informative," said Cathy Hill-ebert, who heads investor relations for Appalachian Bancshares (NASDAQ: APAB), Ellijay, Ga. "We came away with some good ideas."

Van Negris, president and chief executive officer of Van Negris & Company, a New York-based private merchant bank and investor relations advisory firm, kicked off the boot camp with a presentation entitled "The Nuts & Bolts of Effective IR Programs."

Negris told the bankers that the major theme they need to convey to Wall Street is how their bank is going to grow.

Instead of relying on traditional, reactive investor relations – characterized by an annual report and quarterly earnings news releases – he suggested that community banks adopt a proactive strategic financial marketing program to reach out to securities analysts, institutional investors and shareholders.

"Every new branch office, every product introduction is something to communicate," he said. "Be proactive, but subtle. Leverage advertising, media exposure and the like. All of these activities give analysts and prospective investors insight into your bank."

Negris also stressed the need for community banks to communicate their growth story to customers, vendors and

employees. As a result of the Securities and Exchange Commission's Regulation FD, information about public companies is harder to come by, he noted. "Securities analysts are under tremendous pressure to conduct 'channel checks' by talking to bank customers and vendors," said Negris. "While you would want your employees to refer such inquiries to your authorized spokespersons, make sure that all of your stakeholders understand your business and its potential."

Negris encourages banks to "treat investors like partners" by sharing as much public information as possible. Some banks print small wallet cards for their employees that list reasons people may want to consider investing in the bank; others include their annual report or other investment information in information packages for new customers. «

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point, will likely continue to impact margins within the banking industry. While deposit inflows have been plentiful during the past 18-24 months, growth has shifted fairly dramatically from non-interest rate sensitive deposits to highly rate sensitive deposits, thus increasing banks' funding costs. This shift, coupled with a highly competitive lending environment, could make traditional margin business much more challenging during the next 12 months or more. Moreover, although credit quality measures are hovering at 15-year lows, we remain cautious about underwriting trends, primarily within the consumer sector.

Ryan Beck's earnings-per-share esti-

mates are generally a little more positive than mean estimates for the second quarter (+1.5 percent), modestly more positive (+0.8 percent) for the full year 2006 and in line with mean estimates for 2007. We expect linked-quarter median EPS growth of 2.3 percent and average growth of 4.1 percent for the Ryan Beck universe of banks, thrifts and MHCs.

Our near-term more positive bias is driven by what we expect will be a continuation of decent real estate activity, stable credit, aggressive share repurchases and enhanced cost-cutting initiatives. However, longer term we believe these drivers will no longer provide the momentum necessary to keep bank earnings' growth rates robust.

That being said, we do expect con-

tinued activity on the M&A front, evidenced recently by National City's acquisition of Harbor Florida Bancshares. Buyers appear to be driven more and more by desperation of expanding into markets where the growth prospects still appear somewhat favorable.

We believe 2006 will be a stock picker's market, and, in our view, those companies that could continue to outperform in this tough environment include companies with: a high percentage of revenues tied to fee-based businesses (greater than 35 percent); a discernible strategy in which favorable volumes will offset pricing pressures; and specific internal initiatives designed to drive future earnings growth (unique product set, cost-cutting opportunities). «

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