

Value: The Community Bank Wall Street Report



ACBQ • CAPITAL MARKETS • ACB INVESTOR CONFERENCES

Vol. II, No. 6
September 2006

Bootcamp Opens 2-Day Conference

Get ready for a crash course in investor relations. ACB's next two-day Investor Relations Conference at the New York Westin hotel opens on Nov. 1 with the IR Bootcamp.

The event begins at the NASDAQ Marketsite, where ACB will close the market. Then, it's a fast-paced session on the fundamentals of effective IR programs led by investor relations and securities industry experts.

Added feature: a complimentary one-on-one, 30-minute IR strategy session and consultation tailored to your bank's needs. Contact June Janny at jjanny@acbankers.org or (202) 857-3183.

For information on presenting on Nov. 2 to an audience of securities analysts, mutual fund managers and other investment professionals, contact Helen Sullivan at hsullivan@acbankers.org or (202) 857-3157.



F. Morgan Gasior, CEO of BankFinancial Corp. (BFIN), presides over the opening ceremony to celebrate the bank's one-year listing anniversary on the NASDAQ. The company is also a member of the ACB NASDAQ Index.

ACB Index Continues To Beat Other Indexes

The America's Community Bankers NASDAQ Index continued to beat broader market indexes for the year. Through the end of August, the ACB index turned in a better performance than the NASDAQ Composite, the S&P 500 and the Russell 3000. For comparisons, see page 2.

The ACB index's good performance came despite the volatility in the markets that char-

acterized late spring and summer. Between the end of April and the end of August, the index showed an increase of 1.8 percent. At the same time, the NASDAQ Composite showed a decline of 5.73 percent, the S&P 500 eked out an increase of 0.18 percent and the Russell 3000 registered a decline of 0.75 percent. «

Staying on the Right Side of Regulation FD

By John Koegel

Complying with Regulation FD, the Securities and Exchange Commission's six-year-old rule designed to promote the "fair disclosure" of financial information to all investors, does not have to be difficult. In fact, community banks, which have successfully complied with scores of regulations for decades, may have an advantage over public companies in other, less-regulated industries.

The SEC adopted Regulation FD in October 2000 to prevent the "selective disclosure" of information that could influence a "reasonable person" to buy or sell a com-

pany's stock. The regulation states that when a public company, or person acting on its behalf, discloses even by accident "material nonpublic information" to securities market professionals, shareholders and others who may well trade on the basis of the information, it must make public disclosure of that information.

Penalties for violating Regulation FD can be severe. The SEC has the power to bring enforcement actions with civil fines for the issuers and executives involved in the disclosures. While there have been only a hand-

REG FD Continued on page 2

A Look Back at 2Q '06 and Ahead at 3Q

Laurie Hunsicker, senior analyst, Friedman, Billings, Ramsey, Arlington, Va.



Now that the dust of the second quarter has settled, we dug through reams of data from 218 companies to summarize the trends of the community banking industry. Based on this analysis, coupled with comments from various management teams "in the trenches," we believe that third-quarter results stand a reasonable chance at improving from second quarter re-

sults.

Second-quarter results produced some "same-ole, same-ole" themes, including net interest margin pressure, tepid deposit growth, mounting pressure on the reserve-to-deposit ratio, loan loss reserve reduction and securities runoff.

Newer trends include acceleration of deposit costs, reacceleration of loan growth and the rebound in core EPS growth.

Although deposit costs accelerated in the second quarter, we note that the outlook for

ANALYSIS Continued on page 2

Comparison of ACB NASDAQ with Selected Indexes

Index	YTD '06	2005	2004	Cumulative*
ACB NASDAQ	7.66%	0.53%	18.44%	29.19%
NASDAQ Composite	-0.51	3.27	8.99	14.75
S&P 500	5.80	4.91	10.88	NA
Russell 3000	5.66	5.98	11.94	31.17

As of August 31, 2006. Total return basis. *Since inception of ACB NASDAQ Index, 12/5/2003.

Continued from page 1 **REG FD**

ful of such cases so far, individual fines have reached \$1 million for issuers and \$50,000 for executives. Even enforcement actions that result in cease-and-desist orders with no fines attached can generate substantial legal fees and the kind of negative publicity that's hard to forget.

Formal Process

So what steps can community banks take to help ensure that they stay on the right side of Regulation FD?

Experts agree that it's important to begin by establishing a formal process for issuing financial information, handling inquiries from investment professionals and promptly responding to any potential breaches of Regulation FD.

Charlotte M. Bahin, a partner with the law firm Lord, Bissell & Brook LLP, Washington, D.C., stresses the need to have a comprehensive policy and procedures. "Start by evaluating your current policy," she said. "If you're a newly public company, develop written policy and procedures, just as you would for any other regulation."

One key step is to limit the number of people who are authorized to speak to analysts and investors on behalf of the company. In community banks, this group typically includes the chief executive officer, chief financial officer and legal counsel, as well as others involved in corporate communications, such as the head of marketing, public relations or investor relations.

These authorized spokespersons should work from a written script based

upon past disclosures, so that everyone provides information that is consistent and complies with Securities Exchange Act of 1934 disclosures. Better yet, when banks prepare their written disclosures, they should try to anticipate other ways the information may be disseminated, such as through conference calls, webcasts and press releases, and tailor their filings accordingly.

"Make sure you've got something in there for each of the points you want to cover in your presentations and analyst meetings," said Peter L. Rossiter, a partner with the law firm Schiff Hardin LLP, Chicago. "Use that as your platform and stick to it when you talk to the analysts. You want to look back at what's been disclosed, look forward to your conversations with the analysts, and make sure that the two sync up." ◀

Continued from page 1 **ANALYSIS**

incremental deposit costs looks to be stabilizing. Margins should still compress as an industry for the next two or three quarters, but investors should be looking through that to accelerating revenue growth once the net interest margin stabilizes.

The quality of the balance sheets continues to improve, with less securities to weigh on valuations. The result should be accelerating earnings per share growth in the second half of 2007 and fiscal year 2008, assuming credit costs do not spiral out of control (we expect deterioration, but the magnitude of the deterioration is likely to be contained).

It is safe to say that everyone is watching credit closely and some deterioration of credit may already be priced into

stocks (perhaps 5-10 bps of nonperforming asset increases). The good news is that non-performing assets levels did not increase in the second quarter (they actually declined 1 bp), and net charge-offs were also stable. However, we note that the number of companies reporting asset quality deterioration has increased for two quarters in a row, yet the magnitude of increase is insignificant. At this stage, we believe that any weakness will be modest – sufficient to slow EPS growth by a percentage or two in FY '07, perhaps, but not severe enough to cause EPS growth to retreat to a crawl.

Growth and Profitability

Core earnings per share growth resumed in the second quarter, equaling 3.2 percent sequentially after a flat fourth quarter of 2005 and negative first

quarter of 2006. Returns on tangible equity increased to 16.7 percent from 16.4 percent as banks continue to increase balance sheet leverage; the number of companies reporting an increase in return on total tangible equity exceeded those reporting a decline by a factor of 2.4 to 1. The median return on average assets was stable at 1.1 percent.

The loan growth rate more than doubled deposit growth, driving the loan-to-deposit ratio up 149 basis points to 95.0 percent and up 209 bps versus the prior year. Deposit growth decelerated from the prior quarter's 1.9 percent rate to 1.3 percent, while loan growth accelerated considerably; loans increased 2.8 percent from the prior quarter. About half of the companies in the population grew deposits, while the other half lost ground. ◀

Value: The Community Bank Wall Street Report is a monthly publication of America's Community Bankers, 900 19th St., N.W., Washington, D.C. 20006. Diane Casey-Landry, president and CEO; Jim Eberle, editor; Debra Cope, Helen Sullivan, contributing editors; John Koegel, contributing writer. Copyright 2006, America's Community Bankers. To contact ACB, call (202) 857-3100 or e-mail info@acbankers.org.