

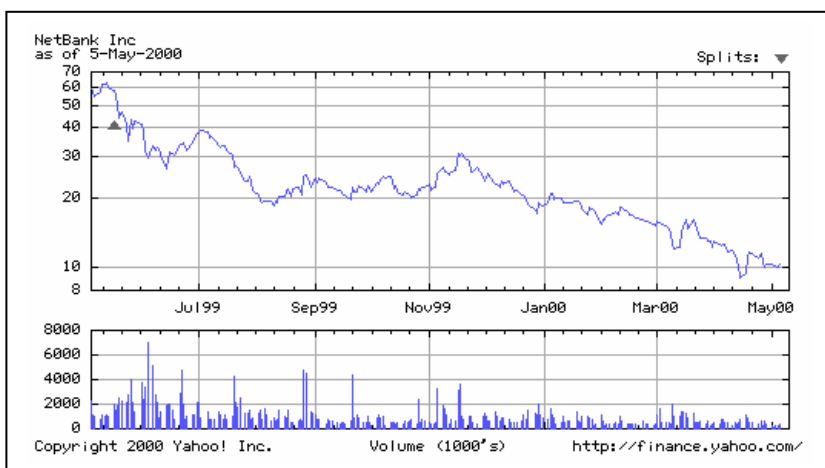
244 Fifth Ave., 2nd Fl., Ste. 2801 • New York, NY 10001 • Tel: (212) 726 1408 • Fax: (413) 215 0880**Net.B@nk (NASDAQ: NTBK)****Financial Supermarkets**
Rating: Maintain Hold

May 9, 2000

KEY CONSIDERATIONS

- Net.Bank continues to be a leading Internet bank, having reached \$1.4 Billion in assets at the end of 1Q2000.
- Net.Bank more than tripled its account base during 1999, having increased customer accounts from 17,000 to 66,000. (As of March 2000, accounts were over 77,000). In addition, deposits grew from \$283.6 million to \$653.9 million in 1999.
- The remarkable account growth was mostly attributed to an expanded marketing program during 1999. Recently, the company announced it would triple its marketing budget for year 2000, compared to 1999 expenditures.
- The online banking segment, however, is experiencing an explosion of increased competition. There is a growing trend to become "financial supermarkets" by offering one-stop shopping on the web. We see major competition coming from traditional banks that want to offer many online services such as Citigroup (NYSE: C) and Wells Fargo (NYSE: WFC); and also online brokers such as E*Trade (NASDAQ: EGRP), which recently acquired online bank Telebank.
- This intense competition, as well as recent technology-stock pullbacks, causes us to reiterate a HOLD rating. We recommend that investors use caution as a result of the stock's 84% decline from its 52 week high.

| | |
|-----------------------------------|------------------|
| Recent Price | \$10.38 |
| 52WK Low | \$8.56 |
| 52WK High | \$64.96 |
| P/E | 131.33 |
| P/Book | 1.28 |
| P/Sales | 3.22 |
| Market Capitalization | \$311.30 million |
| Shares Outstanding | 30.00 million |
| Float | 24.60 million |
| Daily Volume (3-month Average) | 0.58 million |
| Year | EPS |
| 1996 | (1.44) |
| 1997 | (0.55) |
| 1998 | 0.24 |
| 1999 | 0.11 |
| 2000E | 0.12 |

ONE-YEAR PRICE AND VOLUME GRAPH**COMPANY PROFILE**

Based in Atlanta, Georgia, Net.Bank, Inc., is a financial services company whose only subsidiary - Net.Bank - is a leading FDIC-insured bank that operates exclusively over the Internet. It has customers in all 50 states and 20 foreign countries. The company's mission is to profitably provide a broad range of banking and financial services to the growing number of Internet users. Net.Bank went public in July 1997. Currently, Net.Bank has more than \$1.4 billion in total assets and over 77,000 customer accounts. Net.Bank's Web site can be reached at www.netbank.com

This report was prepared by Eric Cappelmann and David R. Rivas, Ph.D.

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COMPANY SUMMARY

Net.Bank continues to grow its assets and customer base. With \$1.4 Billion in assets, and customers in all 50 states and 20 different foreign countries, Net.Bank is one of the largest FDIC-insured banks operating exclusively on the Internet. The Company continues to maintain profitability and passes savings along to its customers. It can offer attractive interest rates and low fees due to its low overhead costs of being a branch-less bank. In an effort to become a financial supermarket, Net.Bank offers the following products:

Deposit Products and Services. The Company offers a variety of deposit products at attractive interest rates. Customers are attracted by convenient products and services such as:

Deposit Products - Two types of interest-bearing checking accounts are offered. *NetValue Checking* earns the customer an interest rate of 3.00 % and 3.05 % APY (annual percentage yield) for no monthly service fee. The *SuperValue Checking* option offers a 3.93 % rate with a 4.00 % APY for a \$4.50 service charge per statement. (On May 1, 2000 the national averages according to bankrate.com were 0.82% and 0.83%, respectively.) Also available are money market accounts and 6-, 12-, and 30-month CD's offering rates that are also higher than the national averages.

Bill Payment Services - Through services provided by CheckFree, customers can pay their bills on-line through electronic funds transfer or a written draft prepared and sent to the creditor.

Overdraft Protection - Overdraft protection is available to all customers who qualify.

ATM Cards - Each customer automatically receives a free ATM card when opening an account, and is not charged a fee by Net.Bank for ATM usage.

Lending Programs. In order to generate fee income and provide convenient service to its customers, NetBank offers on-line loans and credit cards as described below:

Mortgage Loans - NetBank's web site enables customers to obtain interest rate quotes and apply for mortgage loans on-line. The company has agreements with mortgage.com and E-loan under which Net.Bank acts as a loan originator on their behalf.

Credit Cards - Net.Bank offers its customers Visa credit cards issued by First USA for no annual fee. Late last year the Company started to offer a new low-rate, e.card™ enabled VISA® credit card through a marketing agreement with First USA. Customers can apply online for the Net.Bank Platinum VISA credit card that refunds the cardholder 5% cash back on purchases made at popular online merchants such as Amazon.com, CDNOW.com, Wine.com, and Dean-Deluca.com.

Non-Banking Financial Services. To serve as a sole source for the financial services needs of Internet users and to generate additional non-interest income, Net.Bank offers several non-banking financial services including:

Securities Brokerage Services - The Company's online trading, through its association with UVEST Investment Services, compares to that of other online brokers. Their equity commissions are competitive at \$25 up to 2,000 shares. Customers may also purchase mutual funds, Treasury Bonds, municipal bonds, corporate bonds, zero-coupon bonds and even option contracts. Investment proceeds are automatically deposited into the high-yield, FDIC-insured deposit account.

Business Equipment Leasing - Net.Bank continues to serve its small-business customer base with its online equipment lease financing in conjunction with Republic Leasing Service.

Virtual Safe Deposit Box - Powered by safedepositbox.com, Net.Bank offers a virtual safe deposit box that provides Internet-based secure storage of important electronic files and documents.

INDUSTRY OUTLOOK AND COMPETITION

As mentioned briefly above, the online banking industry has come under some intense competition during the past year. We feel that the competition includes traditional brick and mortar banks as well as other Internet-only competitors. Net.Bank and other on-line banks have one distinct advantage over the traditional banks, in that it can offer more attractive rates on its checking accounts and CD's. On-line banks experience much lower overhead costs and can pass these savings along to their customers. However, many large institutions are offering their own online services that will directly affect smaller, on-line only companies. We see many banks offering a diverse array of services to increase their website's "stickiness."

Despite online banks offering attractive rates and posting good revenue and asset numbers, some in the industry appear to be ripe for consolidation. Earlier this year, Telebank announced 4Q99 revenues up 120% and annual revenues up 133% from the prior year. On January 12, 2000 however, an industry defining merger was closed between Telebank and E*TRADE® Group Inc. to create a leading pure-play e-commerce financial network to unite banking, brokerage services and related financial products and services. Through its recent merger with E*TRADE® Group, Inc., the combined Company is now set to compete head-on with the leading financial services companies worldwide.

We feel that this might be an indication of what is to come in the industry. Many of the larger institutions will be looking to partner up with online companies to create synergies. Late last month, General Electric (NYSE: GE) announced it will team up with online bank CompuBank to offer online banking on the GE Financial Network. The overall goal of the industry appears to be the production of one-stop shopping centers in order to satisfy customer needs. Partnering may be the best and quickest way for these larger companies to bring a full range of products to the market.

GROWTH STRATEGY

Net.Bank's growth strategy remains in building its customer base. They have been doing this through marketing and advertising campaigns as well as customer referrals. Its advertising focuses on informing the public on the advantages and ease of on-line banking. We have seen a transformation of the banking and brokerage industry the past two years, and companies such as Net.Bank are looking to capitalize on this. The Company is going to be quite aggressive this year in marketing and advertising. In fact, Net.Bank is tripling its marketing budget for the year 2000. It recently launched an online advertising campaign that coincided with service enhancements the bank is making to its customer care program. This program is called Net.Bank eCare™ and provides customers with 24 x 7 telephone customer care. Combining the marketing/advertising with increased customer service will lead to growth. During 1999, Net.Bank ran a radio campaign in twelve U.S. cities and a national print media campaign in magazines such as PC WORLD and YAHOO! INTERNET LIFE. We feel that more radio or television commercials, or even a celebrity endorsement would help growth by reaching a new audience of people that are not as Internet-savvy.

RECENT PARTNERSHIPS AND STRATEGIC ALLIANCES

During the fourth quarter of 1999 and the beginning of first quarter 2000, Net.Bank has been busy partnering with widely known, popular establishments. Under a one year deal, which began on January 1 of this year, Net.Bank started to advertise and show off its content on MSN Money Central, which attracts a reported 5 million viewers each month. This was the first portal pact for the Company.

In 1Q2000, the Company announced an agreement with Yahoo! Inc., the leading global Internet company which serves more than 105 million users. This arrangement offers Net.Bank customers a new channel from which they can view their account information. Registered Yahoo!® users can view their Net.Bank account information on Yahoo! Finance. As Net.Bank's CEO D.R. Grimes stated, "Our goal is to offer our customers

a broad array of financial services conveniently through the Internet. This agreement with Yahoo! Allows us to expand the anytime, anywhere banking convenience our customers already enjoy by giving them the ability to view their account information on Yahoo!. Additionally, this relationship gives Net.Bank the opportunity to bring its full array of banking products and services to a tremendously broad service."

KEY RISK FACTORS

The biggest threat Net.Bank faces is increased competition. Both established and newer banks are beginning to offer one-stop shopping for their customers. The Company must make it a priority to both retain and increase its customer base through superior service. Many people are aware of what online banking has to offer, and the Company should focus its marketing on building these customer relationships. One year ago, companies mostly had to inform, educate and convince people of the benefits of their services. Net.Bank must now pursue potential customers who haven't experienced online banking and more importantly, retain their customers by increasing and improving existing services. One month ago the company took a step in this direction by introducing the aforementioned Net.Bank eCare™

Although the public is more accepting of online banking than it was a year ago, we feel people are not totally convinced of its merits. The April 2000 issue of Money highlighted some concerns and frustrations that customers seem to have with online banks. On the surface, online banking sounds great - escaping teller lines, earning better rates, and avoiding certain fees. However, the magazines' study led to some frustrations and the surfacing of other problems. Common complaints included the difficulty of opening up an account and marginal customer service. We feel that this is an important hurdle for the online banking industry, as a whole needs to clear. People need to be convinced that online banking is the wave of the future, and is easy to use. If the industry fails at this, online banks could be in for some choppy times. The study did choose Net.Bank, along with Security First Network Bank, as the top two Internet Banks out of the dozen researched.

INVESTMENT OPINION

With larger and more established banks competing in the same arena, smaller online banks and brokerages are in danger of being swallowed up by traditional financial institutions or simply being left behind. Many of these online banks and trading companies appear very similar at face value. There is not much to distinguish between them, as they all have similar services and products. For example, in comparing P/Sales ratios of a few major players, the similarities are telling. Recently, Net.Bank (3.25), E*TRADE® Group Inc (4.88) and Ameritrade (5.13) are all within a few points of each other. All three stocks have taken a hit in the recent technology stock sell-off. They have all only slightly rebounded from their 52-week lows hit on April 17. Net.Bank (a low of 8.56 to a more recent 10.38), E*TRADE® Group Inc (a low of 16.06 to a more recent 19.81), and Ameritrade (a low of 12.31 to a more recent 15.06). In order to differentiate between them, the marketing and branding of the individual company names will be important in the game of survival. This intense competition should result in a continued downward pressure on many of the stock prices.

Net.Bank has experienced a downturn in the past few months. The company announced lower than expected earnings for 1999 of \$0.11 per share, and consensus forecasts estimate a small increase to only \$0.12 per share in 2000. With the stock price reduced to \$10.38, we are at this time, maintaining a Hold rating on Net.Bank. Net.Bank shares have been caught in the recent downward spiral of many Internet stocks. In addition, Internet banking stocks are affected more intensely than other Internet stock by fears of higher interest rates because they are banks and therefore interest rate sensitive. Depending on investors' perception and risk tolerance, Net.Bank's stock price could face further depreciation. Only a rebound in the entire sector could possibly cause the stock price to rise. However, with its growing customer base, the company could make an attractive acquisition target by a larger bank or brokerage firm.

| | <u>1996</u> | <u>1997</u> | <u>1998</u> | <u>1Q1999</u> | <u>2Q1999</u> | <u>3Q1999</u> | <u>4Q1999</u> | <u>1999</u> | <u>2000E</u> |
|---|-------------|-------------|-------------|---------------|---------------|---------------|---------------|-------------|--------------|
| INTEREST INCOME: | | | | | | | | | |
| Short-term investments | 8 | 945 | 634 | 331 | 1,018 | 453 | 472 | 2,274 | 8,570 |
| Investment securities | 0 | 183 | 2,905 | 1,215 | 1,698 | 4,373 | 5,951 | 13,237 | 15,599 |
| Loans | 0 | 1,095 | 14,549 | 6,012 | 7,705 | 11,497 | 14,048 | 39,262 | 62,199 |
| Total interest income | 8 | 2,223 | 18,088 | 7,558 | 10,421 | 16,323 | 20,471 | 54,773 | 86,367 |
| INTEREST EXPENSE: | | | | | | | | | |
| Deposits | 0 | 1,260 | 10,250 | 4,024 | 4,846 | 6,115 | 7,601 | 22,585 | 33,426 |
| Short-term borrowings | 0 | 0 | 0 | 0 | 885 | 2,751 | 4,645 | 8,280 | 12,420 |
| Other borrowed funds | 0 | 0 | 1,175 | 536 | 0 | 0 | 0 | 536 | 0 |
| Total interest expense | 0 | 1,260 | 11,424 | 4,560 | 5,730 | 8,865 | 12,246 | 31,401 | 45,846 |
| NET INTEREST INCOME (LOSS) | 8 | 963 | 6,663 | 2,998 | 4,691 | 7,457 | 8,226 | 23,372 | 40,521 |
| PROVISION FOR LOAN LOSSES | 0 | 471 | 20 | 50 | 55 | 2 | 0 | 107 | 200 |
| NET INTEREST INCOME (LOSS) (after provision) | 8 | 492 | 6,643 | 2,948 | 4,636 | 7,455 | 8,226 | 23,266 | 40,321 |
| NON-INTEREST INCOME (service charges & fees) | 60 | 63 | 683 | 246 | 232 | 311 | 870 | 1,659 | 2,920 |
| NON-INTEREST EXPENSES: | | | | | | | | | |
| Salaries and Benefits | 836 | 2,396 | 1,430 | 507 | 748 | 876 | 1,393 | 3,524 | 4,141 |
| Marketing | 289 | 524 | 695 | 594 | 841 | 2,571 | 3,352 | 7,358 | 20,538 |
| Depreciation and amortization | 19 | 217 | 272 | 387 | 211 | 338 | 150 | 1,085 | 1,140 |
| Customer services | 5 | 310 | 1,378 | 229 | 950 | 1,321 | 2,296 | 4,796 | 5,994 |
| Other | 95 | 355 | 686 | 141 | 554 | 302 | 404 | 1,402 | 1,538 |
| Data processing | 148 | 539 | 317 | 84 | 233 | 369 | 708 | 1,395 | 1,535 |
| Occupancy | 19 | 107 | 147 | 39 | 35 | 98 | 108 | 281 | 295 |
| Office expenses | 57 | 177 | 175 | 22 | 102 | 122 | 185 | 431 | 474 |
| Travel and entertainment | 39 | 65 | 88 | 143 | 30 | 66 | 49 | 288 | 317 |
| Amortization of service contract with affiliate | 2,400 | 1,440 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total non-interest expenses | 3,907 | 6,132 | 5,187 | 2,148 | 3,704 | 6,064 | 8,645 | 20,560 | 35,972 |
| INCOME (LOSS) BEFORE INCOME TAXES | -3,839 | -5,577 | 2,139 | 1,047 | 1,164 | 1,703 | 451 | 4,364 | 7,269 |
| INCOME TAX BENEFIT (EXPENSE) | 0 | 0 | 2,325 | -355 | -396 | -579 | 14 | -1,316 | -2,970 |
| NET INCOME | -3,839 | -5,577 | 4,464 | 692 | 768 | 1,124 | 465 | 3,048 | 4,299 |
| Other comprehensive income, net of tax | 0 | -83 | 82 | 0 | 0 | 0 | 0 | 0 | 0 |
| COMPREHENSIVE INCOME (LOSS) | -3,839 | -5,660 | 4,546 | 692 | 768 | 1,124 | 465 | 3,048 | 4,299 |
| NET INCOME (LOSS) PER SHARE: | | | | | | | | | |
| Basic | -1.44 | -0.55 | 0.24 | 0.03 | 0.03 | 0.04 | 0.02 | 0.11 | 0.12 |
| Diluted | -1.44 | -0.55 | 0.23 | 0.03 | 0.03 | 0.04 | 0.02 | 0.11 | 0.12 |
| WEIGHTED AVERAGE SHARES OUTSTANDING: | | | | | | | | | |
| Basic | 2,658 | 10,062 | 18,447 | 22,536 | 26,917 | 29,346 | 27,052 | 27,052 | 36,000 |
| Diluted | 2,658 | 10,062 | 19,152 | 23,424 | 28,045 | 30,353 | 28,045 | 28,045 | 37,000 |
| Revenue (Int.+ Non-Int. Income) | 68 | 2,286 | 18,771 | 7,804 | 10,653 | 16,634 | 21,341 | 56,432 | 89,287 |
| Margin Analysis (% of revenue) | | | | | | | | | |
| Interest Income Margin | 11.39 | 97.26 | 96.36 | 96.85 | 97.83 | 98.13 | 95.92 | 97.06 | 96.73 |
| Non-interest Income Margin | 88.61 | 2.74 | 3.64 | 3.15 | 2.17 | 1.87 | 4.08 | 2.94 | 3.27 |
| Interest expense Margin | 0.00 | 55.11 | 60.86 | 58.43 | 53.79 | 53.30 | 57.38 | 55.64 | 51.35 |
| Non-interest expense Margin | 5770.12 | 268.26 | 27.63 | 27.52 | 34.77 | 36.46 | 40.51 | 36.43 | 40.29 |
| Salaries and Benefits Margin | 1235.33 | 104.84 | 7.62 | 6.50 | 7.03 | 5.27 | 6.53 | 6.25 | 4.64 |
| Marketing Margin | 426.21 | 22.95 | 3.70 | 7.61 | 7.89 | 15.46 | 15.71 | 13.04 | 23.00 |
| Depreciation and amortization Margin | 27.96 | 9.51 | 1.45 | 4.96 | 1.98 | 2.03 | 0.70 | 1.92 | 1.28 |
| Net Income Margin | -5670.12 | -243.98 | 23.78 | 8.86 | 7.21 | 6.76 | 2.18 | 5.40 | 4.81 |
| Revenue Growth Rate (%) | N/A | 3276 | 721 | | | | | 201 | 58 |