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NetB@nk, Inc. (NASDAQ: NTBK)

Rating: BUY

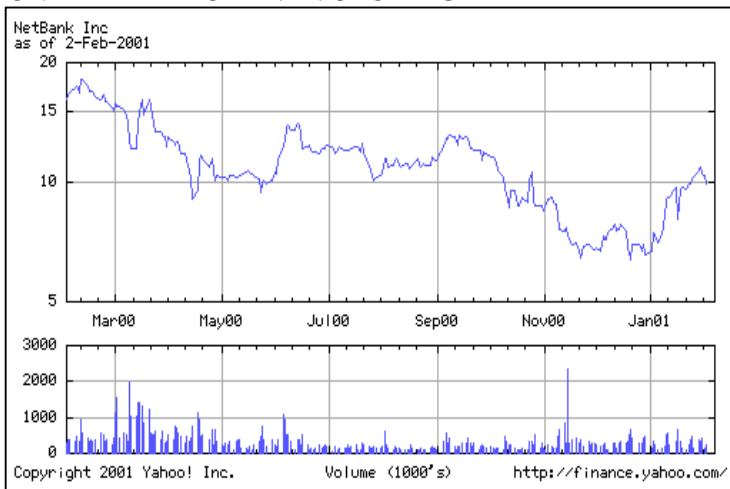
February 2, 2001

KEY CONSIDERATIONS

- NetBank is currently the largest internet-only bank, have reached \$1.8 Billion in assets at the end of 4Q00 compared to \$1.3 Billion at December 31. 1999.
- Since January 1, 2000, NetBank has added \$909.3 million in deposits, this more than doubling its deposit accounts from 66,000 to 162,000.
- The increase in assets of \$443.2 million was primarily the result of investment of funds received from new customer deposits.
- NetBank will benefit from the Fed interest-rate cut due to larger profit margin and lower cost of funding.
- On-line banking segment is becoming highly competitive industry due to significantly increased competition. E*Trade bank appears to be the most serious competitor to NetBank. E*Trade bank has many advantages compared to NetBank in this segment. One such advantage is that their pre-existing customers are already making transactions on-line. However, NetBank is still the fastest-growing company, which can also afford to have the most competitive interest rate in its industry.

Recent Price	\$9.88
52WK Low	\$6.00
52WK High	\$18.93
P/E	65.90
P/Book	1.22
P/Sales	2.97
Market Capitalization	\$305.6 M
Shares Outstanding	29.63 M
Float	24 M
Daily Volume (3-month Average)	0.33 M
EPS	
1998A	\$0.24
1999A	\$0.11
2000E	\$0.19
Current Ratio	1.00
Total Debt to Equity	10.4
LT Debt	0.23

ONE-YEAR PRICE AND VOLUME GRAPH



COMPANY PROFILE

Headquartered in Atlanta, Georgia, NetBank is a financial service company whose sole subsidiary – NetBank (www.netbank.com) - is the largest FDIC-insured bank operating exclusively on the Internet with no physical locations for customers. The company provides customer with convenience, higher interest income and lower fees. Since opening in 1996, NetBank's account base has grown to 162,000.

This report was prepared by Jerry Kuei-Chieh Yang, and David R. Rivas Ph.D.

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New Services and Partnerships

As part of its growth strategy, NetBank not only provides the highest rates in the nation, but also constantly adds new services in order to retain and gain new customers. For example, whereas in the past customers had to mail-in checks for deposit, currently there are approximately 18,000 deposit-taking ATMs within NetBank's network. Through the help of MAC ATM network, customers can now make deposits locally.

Mortgage Program. The partnership with HomeSide Lending, Inc., one of the country's top mortgage originators and servicers, allows NetBank to offer industry-leading features to its customers. These include: loan approvals in as little as 10 minutes; an application that requires 50% less information than most; the ability for consumers to choose their own closing date; and approvals on home loans before or after the applicant selects a home to purchase.

ATM. As mentioned briefly above, the alliance with MAC allows NetBank to make quantum leap in customer service without assuming a large financial and operational responsibility. Moreover, there is no charge to customers for the deposit-taking service. We feel this would increase NetBank's number of deposit accounts due to providing secure-feeling and conveniences to customers.

Account Access. NetBank signed an agreement with Yahoo, a leading Internet protocol. Customers can now access and view accounts on Yahoo's website. NetBank customers can download account information and make transactions within Microsoft Money and Quicken without opening an Internet browser.

Wireless Banking. NetBank announced the addition of wireless banking service. Customers can receive account information from any digital cell phone, Web-enabled phone (WAP), or Palm computer without having to log onto the Web.

Strategic Alliance. NetBank announced strategic alliance with Ameritrade Holding Corporation (Nasdaq: AMTD). Together they will offer services to the customers of both organizations. Under this agreement, NetBank will be able to offer banking services to Ameritrade's more than 1 million brokerage customers.

Company Strengths

To improve its already strong reputation and recognition, the company launched a new referral promotion program that rewards customers who refer others to open a NetBank account. NetBank also provides superior customer service compared to any other competitor.

As its CEO, D.R. Grimes, stated, "Our service is far superior than customers usually receiving from the traditional banks, for example, if customer wish to call NetBank to talk about their account, customers can do that 24 hours a day 356 days a year and we even answer the phone in 10 seconds or less." As mentioned before, the alliance with MAC allows its customers to withdraw and deposit from the their local ATM. The high value and convenience NetBank offers are the reasons it is the fastest growing bank in its industry.

The On-line banking industry has potentially a large advantage over traditional brick-and-mortar banks. On-line banks have lower or even no fixed overhead expenses and low transaction costs. According to statistics, the average cost of a transaction on the Internet is about \$ 0.04 compared to \$ 1.44 for traditional bank branches.

Company Weaknesses

Traditional banks are now starting to provide on-line banking option to their customers. This will increase the difficulty to increase customer base for NetBank. This difficulty may be exacerbated because many consumers are not completely convinced of the security of on-line banking and of its merits, such as

convenience and timesaving. Although NetBank is the largest FDIC-insured bank operating exclusively on the Internet, many people still prefer to visit a branch and see a human face.

Industry Analysis

Internet banking segment is becoming a high growth industry that is attracting traditional banks and pure internet-based banks. The following table shows the trend of the forecast of new entries in the industry.

Net-Oriented Bank Brands Launched by Year

Year	Launched	Merged / Closed	Cumulated
1995	1	0	1
1996	2	0	3
1997	1	0	4
1998	3	0	7
1999	17	0	24
2000	22	2	44
2001	25	5	64
2002	18	7	75
2003	14	8	81
2004	12	9	84
2005	10	10	84

Source: Online Banking Report, 10/00; actual number from 1995 through 1999; estimated from 2000 to 2005, plus or minus 33%. A Net-oriented bank can be independent or owned by a traditional bank, as long as they operate under a separate brand; physical branches are possible as long as the Internet remains the primary sales and service channel.

*Through 10/11/00, 12 banks have launched and one is closing entirely (Citi f/i) and one is refocusing away from banking (X.com).

On-line banking customers can have access to their accounts 24 hours a day from any computer with Internet access. They are the banks without bankers' hours. Study also shows that the conveniences of Internet banking are attracting more and more value orientated households.

Account Aggregation Forecast

Year-end	OBR		Celent Communications	
	Number	% Of Online Banking Households	Number	% Of Banking Households
1999	10,000	0.1%	50,000	0.6%
2000	150,000	1%	800,000	5%
2001	600,000	3%	2.5 million	13%
2002	1.5 million	6%	4 million	16%
2003	3.5 million	12%	7.5 million	26%

Source: OBR estimates plus or minus 50%, 8/00; Celent Communications

Investment Opinion

Despite intense competition from existing larger banks and new Internet banks, Net Bank provides the most competitive rates and comprehensive services in its industry. More than any other bank of this size, NetBank's account base has increased dramatically from 66,000 to 162,000. Its assets have also grown from \$1.3 Billion to \$1.8 Billion. Based on its strengths and the series of new partnerships and alliances, which point toward a growth-oriented philosophy of management, we believe that NetBank has a strong potential to benefit from the dramatic increase of Internet banking. Our belief is reflected in our forecasts of future revenues and costs. We also think that this strong potential is not fully reflected in the current stock price. Therefore, we predict an increase in the company's stock price, especially around future earnings announcements.

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>1Q2000</u>	<u>2Q2000</u>	<u>3Q2000</u>	<u>4Q2000E</u>	<u>2000E</u>	<u>2001E</u>
INTNREST INCOME:									
Short-term investments	945	634	2,274	203	164	176	214	757	1,097
Investment securities	183	2,905	13,237	7,475	7,726	8,304	9,242	32,747	47,491
Loans	1,095	14,549	39,262	16,036	19,056	22,268	22,554	79,914	115,894
Total interest income	2,223	18,088	54,773	23,714	26,946	30,748	32,010	113,418	164,483
INTEREST EXPENSE:									
Deposits	1,260	10,250	22,585	9,490	11,014	13,428	15,198	49,130	67,193
Short-term borrowings	0	0	8,280	0	0	0	0	0	0
Other borrowed funds	0	1,175	536	5,276	7,104	8,211	9,222	29,813	40,775
Total interest expense	1,260	11,424	31,401	14,766	18,118	21,639	24,420	78,943	107,968
NET INTEREST INCOME (LOSS)	963	6,663	23,372	8,948	8,828	9,109	7,590	34,475	56,515
PROVISION FOR LOAN LOSSES	471	20	107	182	96	-11	89	356	500
NET INTEREST INCOME (LOSS) (after provision)	492	6,643	23,266	8,766	8,732	9,120	7,501	34,119	56,015
NON-INTEREST INCOME (service charges & fees)	63	683	1,659	341	531	1,044	990	2,906	4,218
NON-INTEREST EXPENSES:									
Salaries and Benefits	2,396	1,403	3,524	1,677	1,330	1,588	1,815	6,410	9,279
Marketing	524	695	7,358	2,837	4,017	3,187	3,960	14,001	11,809
Depreciation and amortization	217	272	1,085	515	573	695	726	2,509	3,374
Customer services	310	1,378	4,796	2,026	2,399	3,088	4,000	11,513	12,597
Other	355	686	1,402	912	337	624	1,000	2,873	3,333
Data processing	539	317	1,395	586	596	868	1,000	3,050	3,539
Occupancy	107	147	281	186	172	172	200	730	847
Office expenses	177	175	431	104	225	255	350	934	1,084
Travel and entertainment	65	88	288	111	234	249	320	914	1,060
Amortization of service contract with affiliate	1,440	0	0	0	0	0	0	0	0
Total non-interest expenses	6,132	5,187	20,560	8,954	9,883	10,726	13,371	42,934	46,921
INCOME (LOSS) BEFORE INCOME TAXES	-5,577	2,139	4,364	153	-620	-562	-4,880	-5,909	9,093
INCOME TAX BENEFIT (EXPENSE)	0	2,325	-1,316	-52	210	192	1,660	2,010	-3,093
NET INCOME	-5,577	4,464	3,048	4,622	2,210	721	-1,920	5,633	6,000
Other comprehensive income, net of tax	-83	82	0						
COMPREHENSIVE INCOME (LOSS)	-5,660	4,546	3,048	4,622	2,210	721	-1,920	5,633	6,000
NET INCOME (LOSS) PER SHARE:									
Basic	-0.55	0.24	0.11	0.16	0.07	0.02	-0.06	0.19	0.20
Diluted	-0.55	0.23	0.11	0.15	0.07	0.02	-0.06	0.18	0.19
WEIGHTED AVERAGE SHARES OUTSTANDING:									
Basic	10,062	18,447	27,052	29,569	29,878	29,672	29,672	29,672	30,000
Diluted	10,062	19,152	28,045	30,568	30,731	30,526	30,526	30,526	31,000
Revenue (Int.+ Non-Int. Income)	2,286	18,771	56,432	24,055	27,477	31,792	33,000	116,324	168,700
Margin Analysis (% of revenue)									
Interest Income Margin	97.26	96.36	97.06	98.58	98.07	96.72	97.00	97.50	97.50
Non-interest Income Margin	2.74	3.64	2.94	1.42	1.93	3.28	3.00	2.50	2.50
Interest expense Margin	55.11	60.86	55.64	61.38	65.94	68.06	74.00	67.86	64.00
Non-interest expense Margin	268.26	27.63	36.43	37.22	35.97	33.74	26.00	36.91	36.00
Salaries and Benefits Margin	104.84	7.62	6.25	6.97	4.84	4.99	5.50	5.51	5.50
Marketing Margin	22.95	3.70	13.04	11.79	14.62	10.02	12.00	12.04	7.00
Depreciation and amortization Margin	9.51	1.45	1.92	2.14	2.09	2.19	2.20	2.16	2.00
Net Income Margin	-234.98	23.78	5.40	19.21	8.04	2.27	-5.82	4.84	3.56
Revenue Growth Rate (%)	3,276	721	201	--	--	--	--	106	45