

NetBank, Inc.

NASDAQ: NTBK

INVESTMENT CLIMATE

Oct 21, 2004



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The purpose of the **Investment Climate Report** is to provide a unique snapshot of the investment climate across a company's peer groups and the degree to which the company's performance is influenced by the situation in each peer group. The left section of the **front page** shows the company's peer groups in four dimensions, the investment climate in each peer group and company relative performance. The right section of the front page contains information on correlations of company returns with the market and the peer group returns.

The back page shows the distribution of the KRS coverage list across peer groups and their definitions.

NTBK PEER GROUPS:

by SECTOR:	Financial (NTBK Industry = S&Ls/Savings Banks)
by MARKET SIZE:	Small Cap Stocks
by IO:	Stocks with Low IO (NTBK IO = 3.4%)
by VOLATILITY:	Low Volatility Stocks (NTBK Volatility = 32.9%)

Acronyms: **IO** - INSIDER OWNERSHIP; **CAP** - CAPITALIZATION

Peer Group Criteria: See Back Page

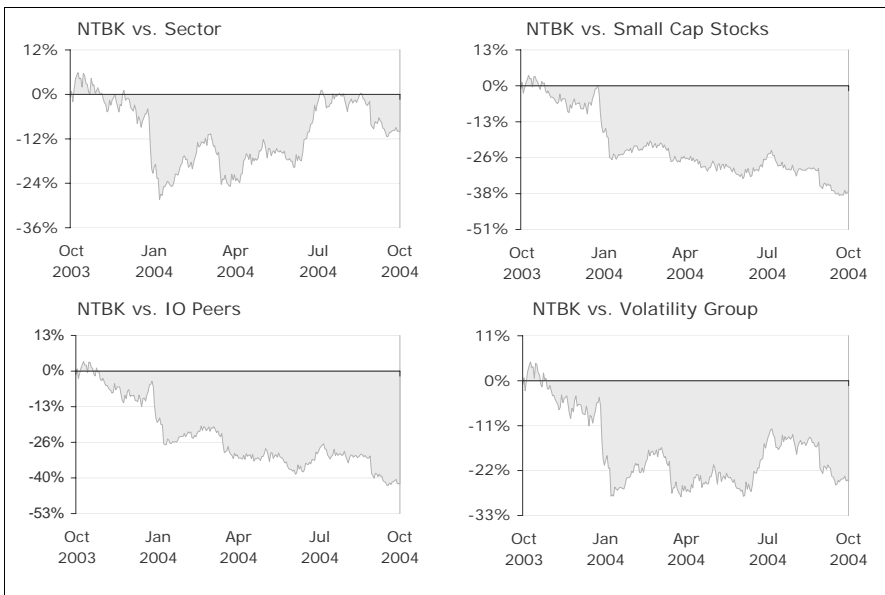
INVESTMENT CLIMATE BAROMETERS (ICB-s)

Q&A on ICB-s: See Back Page

NTBK or Peer Group	Absolute Terms			Relative to Market		
	P	A	V	P	A	V
Financial Sector	☒	☑	☑	☒	☑	☑
Small Cap Stocks	☒	☒	☒	☒	☒	☒
Stocks with Low IO	☒	☒	☒	☒	☒	☒
Low Volatility Stocks	☑	☑	☒	☑	☑	☑
Overall Market	☒	☒	☒	☐	☐	☐
NetBank, Inc.	☒	☒	☒	☒	☒	☒

Legend: **P** - PRICE TREND; **A** - ACTIVITY TREND; **V** - VOLATILITY TREND

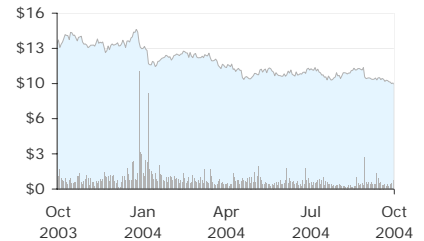
1-YEAR RELATIVE STOCK PERFORMANCE VERSUS PEER GROUPS



BASIC MARKET DATA

Price	\$9.59
52-Week High	\$14.67
52-Week Low	\$9.59
Average Daily Volume	388K

[NASDAQ: NTBK] 1-Year Price Chart



Market Value \$450M

Shares Outstanding	46.9M
Float	45.3M
Insider Ownership	3.4%
Institutional Ownership	80.1%

NTBK RETURN CORRELATIONS

NTBK and Market 53%

NTBK correlation compared to the norm for the sector: **High**

NTBK correlation compared to the norm for this market cap: **Very High**

Evolution of Correlation between NTBK and Market Returns over Time



NTBK and Sector (Financial)	61%
NTBK and Mkt Cap Group (Small Cap Stocks)	50%
NTBK and IO Group (Low IO)	53%
NTBK and Volatility Group (Low Volatility)	55%

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Q&A: INVESTMENT CLIMATE BAROMETERS**Q: How to read combinations of Activity (A) and Volatility (V) trends?**

Activity (A)	Volatility (V)	How to Read Combination
☑	☑	Trend establishment or reversal
☑	☒	Trend is well established and is in early stage
☒	☒	Trend is well established and is in advanced stage
☒	☑	Active news flow unlikely to alter trend

Q: What if ICB-s are different across peer groups?

A: Market rotations happen between sector and market cap groups. Insider ownership and risk (volatility) criteria usually are pre-established in the investment policy. During rotations between economic sectors and market cap groups, stocks within the new favored peer groups are purchased if they meet the investment policy criteria. Therefore, ICB-s for the sector and market cap group are the more relevant indicators for the near term.

Q: Do return correlations have an impact on the relevance of ICB-s?

A: Yes. Higher return correlations between a company's stock and a peer group suggest that the environment in the peer group tends to impact the stock performance of the company more directly. Accordingly, the ICB-s for the company and that peer group should be the same at each point in time.

Q: Which is more relevant for the peer groups - absolute or relative ICB-s?

A: Relative ICB-s are more relevant. Groups of stocks compete with each other for investor money (for example, cyclical vs. non-cyclical sectors or large caps vs. small caps). Sometimes investors choose the lesser of two evils - if a peer group's investment outlook is not too bright, it still may be chosen over other groups because their outlook is actually worse. In other cases, the peer group's outlook may be good but still better alternatives may exist. Relative ICB-s reflect more closely the decisions that informed investors are making. Absolute-terms ICB-s are shown here mostly for reference purposes. Investors should always keep in mind the absolute-terms ICB-s for the overall market.

Q&A: KRS COVERAGE AND BREADTH**Q: How many companies are covered by the KRS?**

The KRS covers over 2,500 stocks. The covered list includes almost every stock traded on the NYSE, NASDAQ or AMEX that has average daily volume of 100,000 shares or more. The companies in the list have been classified under 17 economic sectors and 136 different industries

The following tables show the distributions of companies covered by the KRS based on market size, IO, volatility and return correlation with the market

KRS Coverage by Volatility and IO

Volatility	IO					Total
	Very Low IO	Low IO	Moderate IO	High IO	Very High IO	
Very Low	263	159	128	55	25	630
Low	196	156	141	99	42	634
High	156	179	143	102	51	631
Very High	109	147	152	151	71	630
Total	724	641	564	407	189	2525

KRS Coverage by Volatility and Market Size

Volatility	Market Size					Total
	Large Cap	Big Cap	Mid Cap	Small Cap	Micro Cap	
Very Low	299	290	31	10	0	630
Low	149	297	141	44	3	634
High	49	193	183	180	26	631
Very High	11	43	82	319	175	630
Total	508	823	437	553	204	2525

KRS Coverage by IO and Market Size

IO	Market Size					Total
	Large Cap	Big Cap	Mid Cap	Small Cap	Micro Cap	
Very Low	232	252	85	113	42	724
Low	96	223	124	151	47	641
Moderate	92	190	98	136	48	564
High	61	97	92	112	45	407
Very High	27	61	38	41	22	189
Total	508	823	437	553	204	2525

KRS Coverage by Return Correlation with Market and Market Size

Return Correlation with Market	Market Size					Total
	Large Cap	Big Cap	Mid Cap	Small Cap	Micro Cap	
Very Low	109	131	51	184	154	629
Low	119	213	111	152	34	629
High	127	246	134	113	14	634
Very High	153	233	141	104	2	633
Total	508	823	437	553	204	2525

DEFINITIONS OF PEER GROUPS

Market Caps: Large Cap: Market Value of \$1B or Greater; Big Cap: \$1B to \$5B; Mid Cap: \$500M to \$1B; Small Cap: \$100M to \$500M; Micro Cap: Less than \$100M. Market caps are updated daily.

IO Groups: Very Low: Insider Ownership Less than 2.5%; Low: 2.5% to 10%; Moderate: 10% to 25%; High: 25% to 50%; Very High: Higher than 50%. IO data is updated monthly.

Volatility Groups: Stocks in the KRS coverage list are split into four equal quartiles in terms of the volatility of their daily log returns over the most recent 12-month period. The quartiles are updated daily.

DATA SOURCE: The source of market data and analyses for this report is [KRIS, the Kintisheff Research Information System](#)