

## E-MEMO

**TO:** INVESTOR/MEMBERS AND FRIENDS  
**FROM:** Jon Bruss  
**DATE:** February 12, 2004  
**SUBJECT:** **A Friday Fish Fry and the Future of Small Banks**  
*Anecdotal evidence and remarks on our performance*

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Friday night fish fries in Wisconsin have a great and long history. It is a good excuse to meet with friends and neighbors, enjoy a barley pop or two, some great conversation and consume some walleye, cod or deep-fried *lake* perch (I emphasize "lake" so that you non-Wisconsinites will know we are not talking about ocean perch) as well as coleslaw, German potato salad, potato pancakes (with applesauce) and French fries. The history is for another time and place. Recently, over one of these great repasts, a friend and I dined with our wives at one of these events in Old Ashippun. The temperature outside was near zero with below zero wind chills. It didn't take long for the subject to turn to banking. He said that he was really concerned about the survival of small banks. (How many of you running small banks have heard that before?)

The following Monday, I was heading for Atlanta for the Southeast Super-Community Bank Conference. As you know, the Southeast has been a hotbed of big bank mergers. Unlike other regions, those mergers have taken place for so many years that a cottage industry has developed in that region to assist displaced bankers from big banks to start new ones. Moreover, this conference included a panel discussion focused on *de novo* banks. Including the publicly-traded banks participating on the panel, I reckon that nearly 1/3 of the banks presenting were started within the past 15 years. In addition, there were several organizations presenting that started with the acquisition of a small existing bank charter and have expanded to \$500 million to \$1.5 billion in assets. At the end of this month, the Midwest conference will be held in Chicago. I note that at least five of the 26 presenting banks were formed in the past 15 years. Can small banks survive? You bet, and there are hundreds who have tried their hands at starting new banks successfully including some that are publicly traded and owned by us.

I shared the foregoing with my friend. As you know, the Milwaukee area has not been immune to big bank consolidations. And there are victims (customers), rich and poor, large and small. Victims of poor or non-existent service, lack of responsiveness to loan requests, lack of knowledge by poorly trained staff, lack of interest in solving a "victim's" problem, lack of attention, lack of. . . and the list goes on.

The following story grows out of this. Big Bank of Milwaukee merged with Big Bank Out-of-State and became Bigger Bank Out-of-State (BBOS). Now the victim in this instance is a 90+ year-old who has a younger person assisting with personal financial activities. The assistant placed several large checks in the mail at the post office on January 14 fully expecting the checks to get to the Milwaukee bank (located less than 10 miles away) by Friday, January 16. They didn't. In fact, due to the federal holiday on January 19, the deposit did not hit the bank until the 20<sup>th</sup>—but checks drawn on the account (in the same zip-code or adjacent codes) did and overdrew the account on the 16<sup>th</sup>, 19<sup>th</sup> and 20<sup>th</sup>. At \$29 per day, that totals \$87. A sizeable amount whether affordable or not. But the principle at issue here is not ability to pay. Its ability to charge (*and BBOS should have the right to do so but MUST also empower its employees to reverse such charges if appropriate*) is not in question. What is in question is BBOS's ability to deal appropriately with a customer whose account has been at this bank and its predecessors for over 50 years. I know this account has an impeccable track record of avoiding overdrafts (this is the first known incident according to the account holder and financial caregiver). This account has also maintained average collected balances over the years in the high four figure to low five figure area. Which of you running banks wouldn't jump for this account? I know I would. This story is repeated time and time again at BBOS. Victims range from this dear 90+ year-old to the recently-retired executive with a highly visible name and over \$500,000 collected balances in his accounts who was charged for a once-in-a-lifetime wire transfer.

Telephone lobbies replacing teller lobbies. Long waits in lobbies where no bank official is visible and where one must sign in, yes, sign in, to see someone about a problem. Waiting 20 minutes on the phone to speak to a so-called "customer service

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representative" who neither cares about you nor cares about providing service—someone who is so poorly trained by BBOS and lacks empowerment from BBOS that all he or she can do is insist that the charges must be paid. That not only is an insult to the customer, but it speaks volumes about how BBOS treats its employees, doesn't it.

Is it any wonder then that guys like me used to bound out of bed in the morning at the very thought of parlaying a small bank into something larger yet community focused that treated customer, client, employee and community (not to mention shareholders) with dignity and integrity? As long as the BBOSes of this world (and their executives) along with the B of As, JP Morgan Chases and the Bank Ones (to name a few recent merger participants) continue to believe that bigger is always better, as long as they fail to realize that the quintessential career move may not be the top job at one of the five largest banks in the world (or 25 largest in the nation), there will be start-up banks and successful micro- and small-cap banks picking up the table scraps—and choice ones at that. Serving one's fellowmen through providing low cost financial services in a manner that causes a smile and not a frown to their customers, which rewards them for loyalty and recognizes the profitability of the mutual relationship is where these big banks and their execs fail. As long as BBOS and others fail to recognize these key factors, fail to provide service to their fellowmen, there will be displaced bank execs that understand the opportunity and will continue to add new small banks to the landscape or buy sleepy small banks, which will focus on the client. The foundation of a strong and free economy is its diverse and competitive banking system. Our free economy with the option to obtain charters from either state or federal regulators actually promotes competitive banking which, in turn, fosters continued freedom of choice in banking.

We at Fortress Partners and Foundation Financial Partners exist because we believe that interested and proactive shareholders promote efficiency and good performance and foster a healthy banking and economic system . . . the foundation of a free economy.

Below is our January 2004 Performance History. We thought you'd be interested in knowing how we ranked against our competitors. SNL Financial, a well known bank and thrift statistical source, surveys private investment funds with more than 25% invested in financial companies. Foundation Financial Partners is 100% invested in financials. Of the 24 funds in the survey for the last quarter of 2003, Foundation ranked #4 overall for the last three years, #15 for 2003 and #10 for the quarter. Focusing only on those with at least 75% invested in banks and thrifts, we ranked #2 in the three-year category, #5 in the last year and #2 for the last quarter. For all 24 funds, the median three-year return was 21.76% while the average was 22.02%. The median for 2003 was 34.03% and the average, 35.54%. For the quarter, the results were 10.51% and 9.61% respectively. I hope this was informative.

**JANUARY 2004**  
**PERFORMANCE HISTORY(1)(2)**

	Inception to date (46 Months) <u>3/29/00-1/31/04</u>	Three Year Return Annualized 1/31/01- 1/31/04	Twelve Months Ending 1/31/04	Month Ending 1/31/04
<b>FOUNDATION</b>	<b>+137.87%</b>	<b>+29.32%</b>	<b>+37.46%</b>	<b>+2.64%</b>
Dow Jones Industrial Average	-3.97%	<b>-1.24%</b>	+30.22%	+0.33%
NASDAQ	-54.82%	<b>-9.34%</b>	+56.42%	+3.13%
S & P 500	-24.52%	<b>-6.10%</b>	+32.19%	+1.73%
S & P 600 (Small Cap Index)	+33.07%	<b>+6.70%</b>	+46.53%	+2.82%
NASDAQ Bank Index	+91.61%	<b>+14.45%</b>	+32.09%	+1.50%

- (1) **After** management and other expenses but **before** charges for Performance Allocation.  
(2) The performance information has been prepared and presented in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS®), the U.S. and Canadian version of the Global Investment Performance Standards (GIPS®). AIMR has not been involved in the preparation or review of this information.

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