Yale SCHOOL *of* MANAGEMENT
New Haven, Connecticut

MAF Bancorp, Inc.

Solid Earnings and Credit Quality Support Higher Stock Price

Stock Information	
Company	MAF Bancorp, Inc.
Ticker	MAFB (NASDAQ)
Price	$30.50
Recommendation	STRONG BUY

Ratings Definitions	
Strong Buy	At least 20% under valued
Buy	Likely to out perform market
Hold	Fairly valued, likely to perform in line with overall market
Sell	Likely to under perform market by at least 10%

*Ratings assume a 12-18 month time horizon

Operating History		
Year	Revenue (millions)	EPS
1997	$261	$1.59
1998	$272	$1.70
1999	$319	$2.13
2000	$380	$2.43
2001	$392	$2.59
2002E	$467	$3.06
2003E	$498	$3.22

Fundamentals	
Market Capitalization	$702.8 mil.
Price to Book Value	1.61
Price to 2001 Earnings	11.9
Dividend Yield	1.96%

February 13, 2002

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S&P 500 – 1,130.20

S&P Small Cap 600 – 227.92

NASDAQ Bank Stock Index (CBNK) – 2,055.87

10-Year Treasury Yield – 5.03%

Please see the disclaimer at back of this report for important information.
Co-author John Dusza owns shares of MAFB in his personal account.

Investment Rating

We are initiating coverage of MAF Bancorp with a Strong Buy rating. Despite its very impressive earnings and revenue growth track record, the stock still trades at a 58.6% P/E discount to the overall market and a 20.3% P/E discount to its peer group (thrifts with market capitalizations between 500 million and 1.5 billion). Largely due to a robust residential real estate market in the Chicago area where the bank is based, (excluding one time gains) MAFB generated 12% earnings growth last year, and its stock price responded, rising 11%. We believe the fundamentals are still in place to support further earnings growth over the next 12-18 months. In addition, we believe the stock is under-valued, suggesting P/E multiple expansion is likely. This combination of rising earnings and rising valuation, in our opinion, will drive this stock at least 20% higher over the next 12 – 18 months.

A Snapshot of Our Universe

Fundamental Statistics of Stocks In Our Thrift Coverage Universe

Name	Ticker	Current Price	2001 EPS	P/E	Est 2002 EPS	Est P/E 2002	Price / Book	1-yr Return	Dividend Yield	Market Cap ($ millions)
Waypoint Financial	WYPT	15.93	1.04	15.3	1.21	13.2	1.28	50.5%	2.5%	$625
Harbor Florida Bancshares	HARB	18.91	1.05	18.0	1.25	15.1	2.02	26.7%	2.4%	$457
Washington Federal	WFSL	25.70	2.14	12.0	2.44	10.5	1.86	11.6%	3.4%	$1,629
Webster Financial	WBST	33.47	2.77	12.1	3.24	10.3	1.61	14.4%	2.0%	$1,643
Downey Financial	DSL	47.62	4.25	11.2	4.37	10.9	1.77	1.6%	0.8%	$1,343
Commercial Federal	CFB	24.47	1.93	12.7	2.17	11.3	1.58	9.9%	1.3%	$1,135
MAF Bancorp	MAFB	30.58	2.56	11.9	3.00	10.2	1.60	16.0%	2.0%	$703
Capitol Federal Financial	CFFN	23.01	1.02	22.6	1.15	20.0	1.58	46.6%	3.1%	$1,714
Independence Community	ICBC	26.84	1.58	17.0	2.07	13.0	1.72	62.0%	1.6%	$1,567
Staten Island Bancorp	SIB	18.85	1.15	16.4	1.37	13.8	2.13	61.3%	2.1%	$1,178
Universe Averages				**14.9**		**12.8**	**1.72**	**30.1%**	**2.1%**	

Source: Yahoo!Finance, Bloomberg, Yale School of Management.

Industry Overview

Savings and loans (S&L's), thrifts, and community banks are in the business of taking deposits and making loans, traditionally home mortgages. Recently, many have diversified into other financial services areas including corporate and consumer lending, credit cards, asset management, brokerage, and insurance, but residential lending remains the "bread and butter" business for most thrifts. The Office of Thrift Supervision is the primary regulator of these institutions, which are also governed by the FDIC. While they have flexibility in product and service offerings, there are restrictions on loan concentrations. A federal savings and loan may not make loans to one borrower or related entities greater than 15% of its unimpaired capital and surplus. Many are more conservative. These companies profit from both fee income and the spread between their cost of funds and their lending rate. During the past year, the Federal Reserve has cut short-term interest rates from 6.50% to 1.75%, and consumer deposit interest rates have fallen accordingly. Meanwhile, the residential real estate market has remained exceptionally strong, as new home starts and resale prices enjoyed healthy gains last year despite the recession. As a result, stocks under our coverage significantly outperformed the market over the past 12 months.

Company Overview

Based in Chicago, MAF Bancorp has $5.6 billion in assets and 27 branches in western Cook, DuPage and Kane counties. DuPage County is the second richest county in Illinois. MAF is the largest thrift in Illinois. It also develops subdivisions of single-family homes in northeastern Illinois through MAF Developments. Real estate sales currently contribute about 25% of the bank's non-interest income. Through other subsidiaries it offers insurance, investment and brokerage services. It currently serves over 150,000 households.

MAF Bancorp was founded in 1922 and developed into a federally chartered bank in 1934. In the 1970's it began making acquisitions and opened its real estate development subsidiary. In 1990 the bank went public. Two brothers, Allen and Kenneth Koranda, run MAF. After graduating from Northwestern Law School, they took over leadership of the bank from their father, who had been running it since the 1940s. Kenneth Koranda is a member of the Fannie Mae advisory board.[1]

Competitive Advantage: Location, Location, Location

MAF's primary competitive advantage is its location. DuPage County continues to experience rising population as well as rising per capita incomes. Approximately 27% of MAF's assets are in DuPage County. Major corporations including McDonald's and Motorola are located there.

Naperville, Illinois, for example, is a fast growing, affluent suburb 30 miles west of Chicago in the middle of DuPage County. Naperville's population has risen from 85,000 in 1990 to over 130,000 last year. Median family income is approximately $90,000 and the average house value is over $200,000. The city is well known for its strong public schools and library system, making it very attractive to young families. The average age of Naperville residents is 34.5.[2]

MAF is currently completing its 951 lot Tallgrass of Naperville project, which has been its main real estate development focus for the past few years. Traditionally, the bank has purchased as many as 200 acres of farmland and then completed all of the planning, zoning, permitting and basic improvements including roads. It then sells lots to developers, serving as construction lender and possibly mortgage lender. The average cost of a lot in Tallgrass is $125,000 and the average home price is between $450,000 and $600,000.

Real estate income during the most recent quarter of $6.1 million was from 78 lot sales in Tallgrass. Management projects $11 million in real estate earnings this year from additional lot sales. Another 78 lots are under contract and expected to close in the first half of this year in Tallgrass. In addition, it is also developing 365 lots in Plainfield, Illinois, as well as 183 lots in Sugar Grove, Illinois, which are expected to be offered for sale later this year.[3]

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[1] Raymond James & Associates, "MAF Bancorp," October 3, 2001. MAFB 2001 Annual Report. Yahoo! Finance.
[2] www.naperville.com.
[3] Lehman Brothers: Recommendation Change, January 29, 2002. Chicago Tribune: MAF Bancorp Reports Record Results, February 9, 2002. March 23, 2001 10-K filed with SEC.

Shareholder Oriented Management Team

Based on disclosures in their public filings, we believe that management's incentives are extremely well aligned with shareholders' interests at MAF. Returns on shareholders equity have been consistently in a range between 12.6% and 15.3%.

Together, Kenneth and Allen Koranda directly own more than 2 million common shares of the bank (approximately 9% of shares outstanding) and have options to buy over 900,000 additional shares. (Most of these options are not yet in the money.) Executive vice president David Burba directly owns more than 300,000 shares of the bank (approximately 1.35%).

Last year, the base salaries for Kenneth and Allen Koranda were $333,000, and the rest of their compensation was tied to (1) the financial performance of the bank, primarily net income, and (2) the stock's performance relative to the S&P 500.

As a result, it is not surprising that management has consistently focused on shareholder value creation. In March 2000, the bank completed a 1 million-share repurchase program at an average cost per share of $19.94. In January 2001, the bank completed a 600,000-share repurchase program at an average cost per share of $17.14. In November 2001, the bank announced that the board had authorized another 500,000-share repurchase program.[4]

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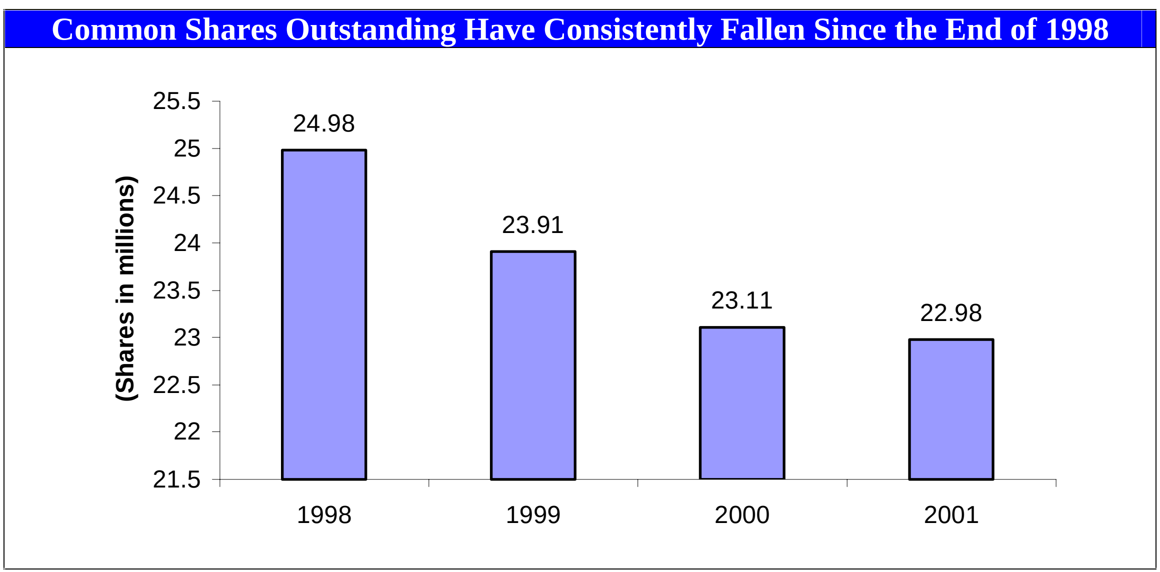
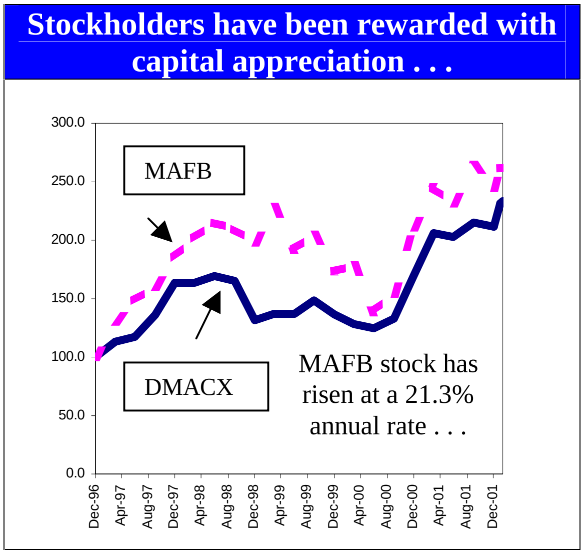
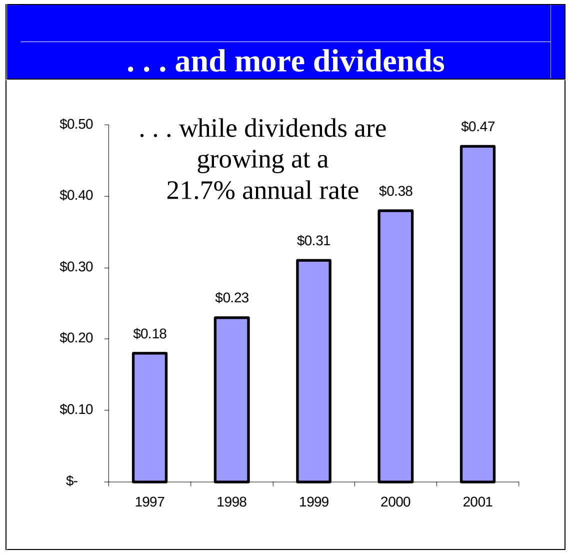


Source: 2001 10-K filed with SEC, Yale School of Management.

In addition, the bank has consistently raised its dividend (see table below). In announcing the most recent increase from 12 cents per share to 15 cents, Allen Koranda stated: "Based on our strong earnings performance in 2001 and expected continued growth in EPS this year, we felt it was an appropriate time to pass along a portion of these improvements in the form of a higher dividend to shareholders."[5]

[4] 2001 10-K filed with SEC.
[5] MAF Bancorp press release, January 30, 2002.

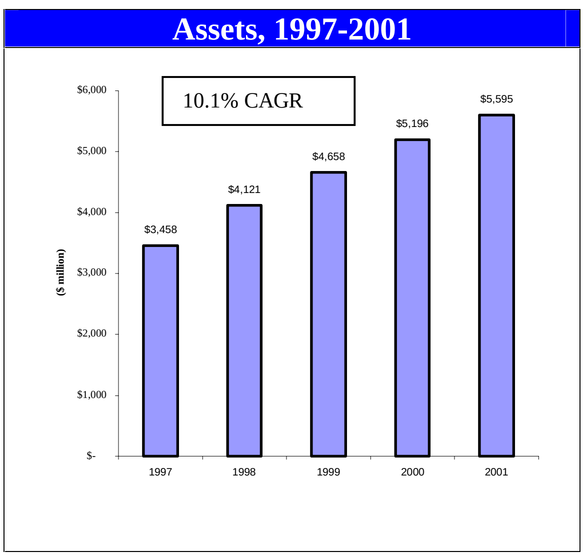


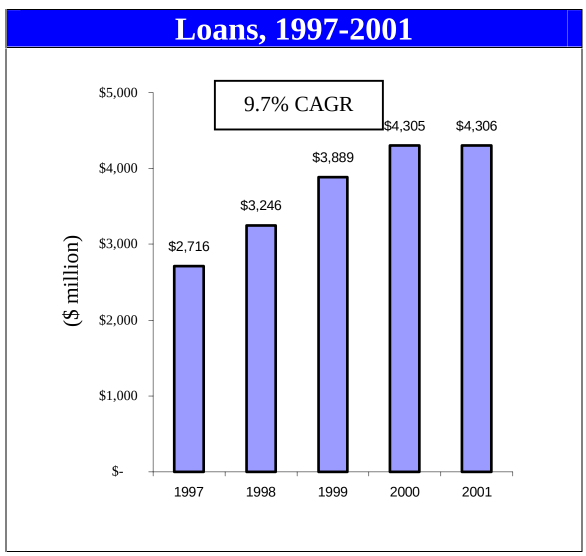


Source: Bloomberg, Yale School of Management.

Solid Growth History …

Over the past five years MAF Bancorp has recorded consistent growth. Assets have increased from $3.5 billion to $5.6 billion, a 10.1% compounded annual growth rate.



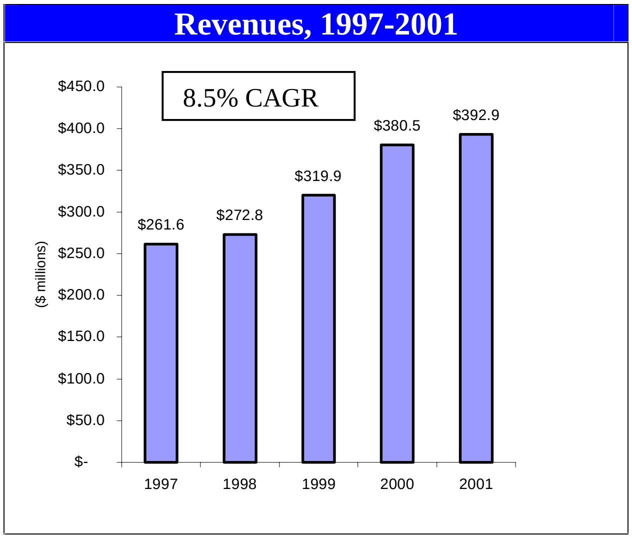


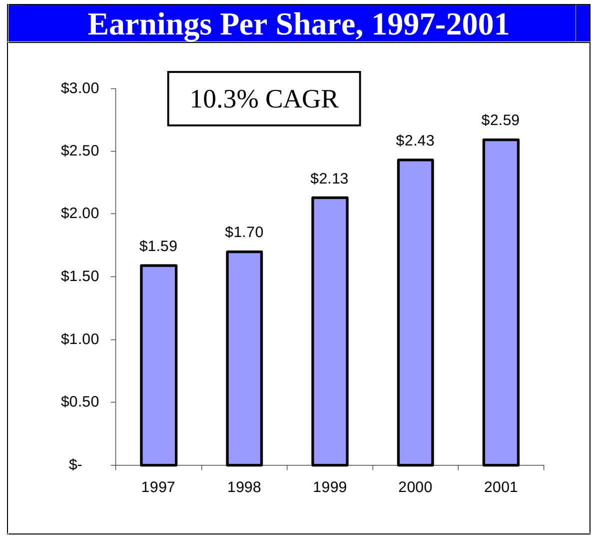
Source: Bloomberg, Yale School of Management.

Retail bank deposits have increased from $2.7 billion in 1997 to $4.3 billion today, a 9.7% compounded annual growth rate. In the past twelve months checking accounts have grown 11%.[6]

[6] Lehman Brothers, Recommendation Change, January 29, 2002.

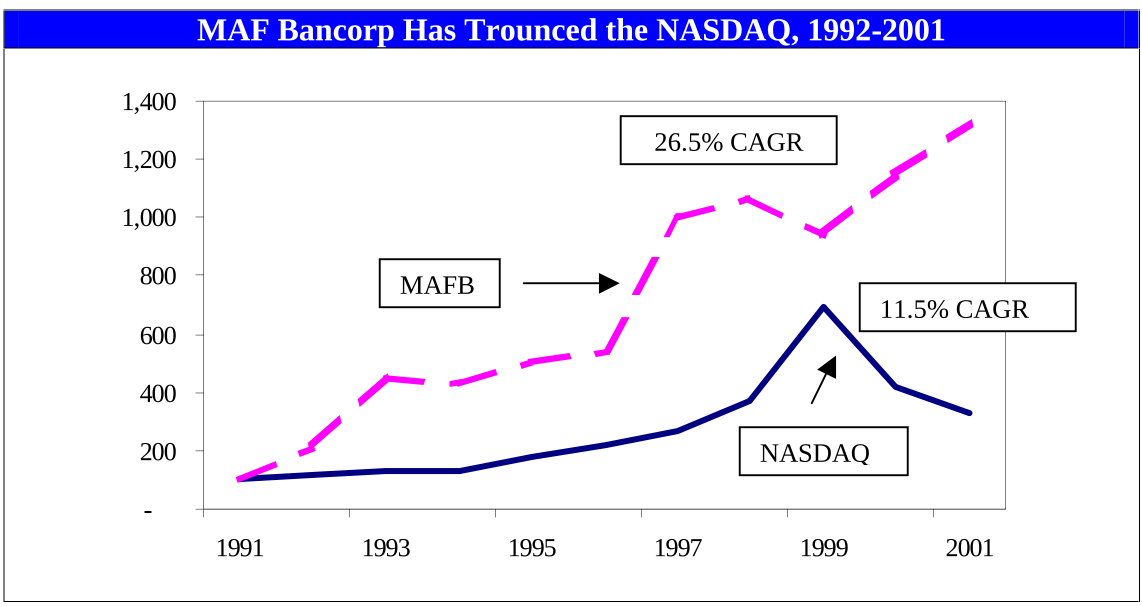
Revenues have increased from $261 million to $392 million, while earnings per share have risen from $1.59 to $2.59 over the same period.[7]





Source: MAFB SEC filings, Yale School of Management.

MAFB shares have risen over 1,200% since reaching their all time low in late 1991, more than three times as much as the NASDAQ over the same period. Since its IPO in 1990 at $2.29 (split adjusted), MAFB shares have risen 1,131%, excluding dividends.



Source: Bloomberg, Yale School of Management.

[7] MAFB 2001 Annual Report.

Great Performance Still Goes Unrecognized by the Market
• P/E ratio on 2002 expected earnings is only 10.0, and 9.5 times our preliminary 2003 estimate. • Price to book ratio is 1.61. This is a 7% discount to its peer group. • Consistently delivers return on equity exceeding 14%.

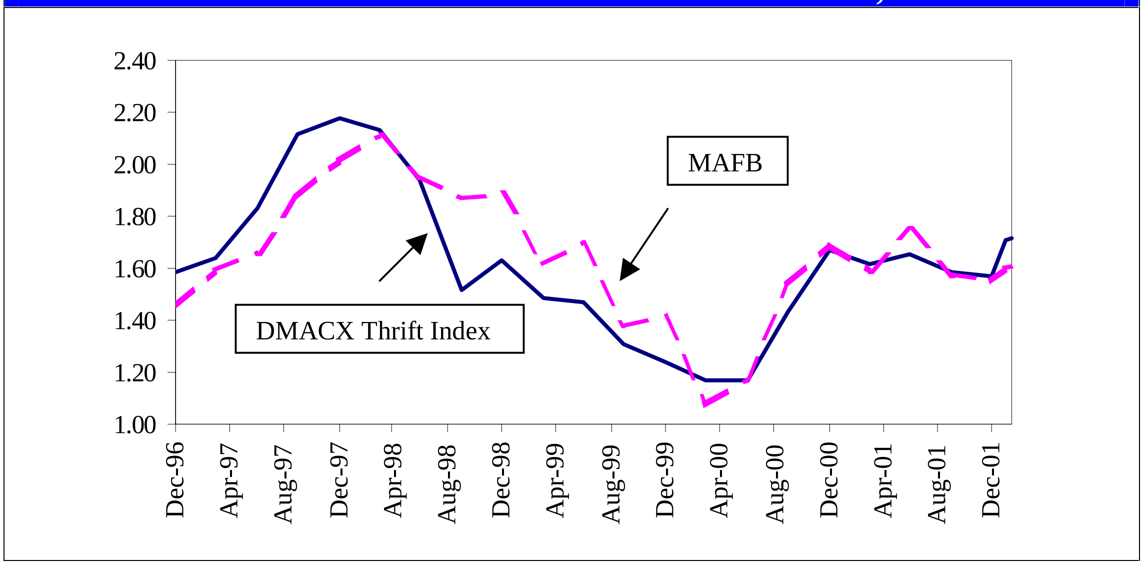
Possible Takeover Candidate

Right now there is little reason to believe management will sell or merge with a larger institution in the near term (12-18 months) but we believe it is a very real possibility over the longer term (3-5 years). Given its favorable market and strong balance sheet, there is no question that MAFB would be an attractive addition to a larger competitor. In addition, Kenneth and Allen Koranda are both in their mid 50's and could be interested in cashing out to diversify their wealth at some point in the future. (They now own approximately $70 million worth of the bank's stock). If MAFB were to be taken over, we believe it would only be at an attractive premium given its strong record of profitability and growth.

Valuation

Despite is strong growth record, MAFB trades at a discount to the market and to peer companies on both a P/E ratio and book value basis (see table below). While we are very enthusiastic about the overall sector, we are particularly enthusiastic about MAFB's potential. We think it will enjoy P/E multiple expansion as the market recognizes its solid operating results and the likelihood of further earnings growth.

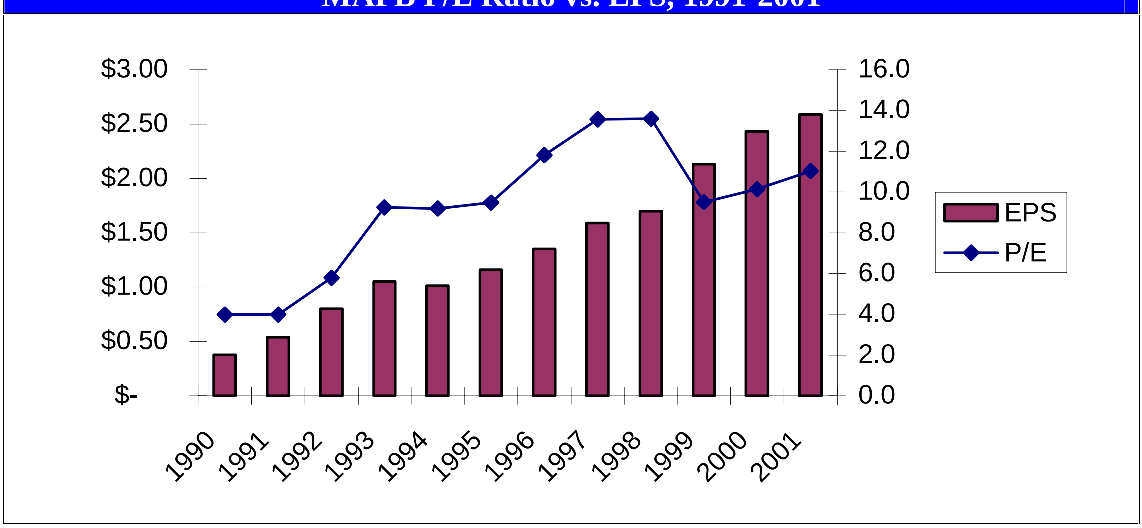
MAFB Price/Book vs. DMACX Thrift Index Price/Book, 1997-2001



Source: Bloomberg, Yale School of Management.

Even as it significantly outperformed the S&P 500 last year, the stock rose only 11%, which was slightly less than its annual earnings growth of 12%. As a result, *its trailing 12 month P/E ratio is actually lower now than it was a year ago*.

MAFB P/E Ratio vs. EPS, 1991-2001



Source: Bloomberg, Yale School of Management.

Below are the two financial valuations we performed. They are based on the earnings model at the back of this report.

Valuation Based on Projected Earnings Multiples

		2002 Earnings Surprise				
		-10%	**-5%**	**0%**	**5%**	**10%**
P/E Mutliples	**8**	22.00	23.22	24.44	25.67	26.89
	10	27.50	29.03	30.56	32.08	33.61
	12	33.00	34.83	**$36.67**	38.50	40.33
	14	38.50	40.64	42.78	44.92	47.05

Source: Yale School of Management.

First we used our 2002 earnings per share estimate of $3.06 and stressed it to get the table above. Based on the multiple expansion discussed earlier, we think a P/E ratio of 12 is very reasonable. When we multiply this year's earnings estimate by 12 we get a stock price of $36.67.

Valuation Based on Discounted Dividends

	2002	**2003**	**2004**	**2005**	**2006**	**Terminal**
Dividends	$11.2	$11.8	$12.5	$13.3	$14.2	
Discounted	$10.7	$10.7	$10.7	$10.8	$10.9	$778.0
NPV	$831.8					
Shares	22.98					
Stock Price	**$36.19**					

Discount Rate (Weighted Avg. Cost of Capital)	5.40%
Growth Rate	4.00%

*$'s in millions, except per share data.

Source: Bloomberg, Yale School of Management.

The table above gives our price valuation based on discounting the dividends MAFB pays out. We assumed that dividends would stay close to their historical rate of 16% of net income. Next, we discounted the next five years dividends by MAFB's weighted average cost of capital (5.4%). Then, we assumed dividends would grow by 4% in perpetuity to get a terminal value. This helped us arrive at a value of $36.19 per share, which is in line with our EPS valuation.

Risks

- Trading at only 10 times this year's expected earnings and around 1.6 times book value, we do not believe valuation is a major risk for MAFB, especially since earnings growth this year is expected to be above 15%.

- Earnings and cash levels are more than sufficient to allow further dividend increases and continued share repurchase activity. MAFB currently has a cash balance of $3.59 per share.

- Equity level is much higher than required (11% vs. federal requirement of 3%), and would act as "shock absorber" if loan losses increase modestly.[8]

- The major risk for MAFB is the residential housing market in the western Chicago suburbs where its assets are concentrated. Despite a 60% decline in the NASDAQ from its peak in March 2000 to its current level, there has been no significant spillover into real estate.

- If the Chicago area housing market were to decline, credit quality would fall and have a disproportionate impact on earnings. MAFB has been able to reduce its loan loss reserve from 0.59% of total loans to 0.41%. Management is confident this rate can continue declining, but our earnings model assumes it stays flat at 0.38% going forward.

- The main risks to the housing market at this point are (a) continued weakness in manufacturing, high technology, and services industries that drives unemployment higher than expected in the Chicago area, and (b) sharply higher interest rates that reduce loan demand.

[8] MAF Bancorp 2001 10-K SEC filing.

Recommendation

- Based on a modest P/E ratio expansion from 10 times forward earnings to 11.5 times, and EPS of $3.22 per share in 2003, our 12-18 month price target is $37.00. Including dividends, this represents more than a 20% total return. Our preliminary 2003 earnings estimate is conservative, in our opinion, and actually about 10% below consensus. This difference is attributable to our more conservative estimates of revenue growth and more aggressive projections of non-performing loans.

- At 11.5 times earnings, MAFB would be trading at a P/E ratio in line with its long-term earnings growth rate, and at the low end of its historical P/E ratio (between 8 and 18).

- Several stocks under our coverage in this sector have enjoyed explosive rallies over the past 12 months, suggesting that increased interest in a particular stock can have a big impact.

- The three best performing stocks in our index rose over 50% last year (Waypoint Financial, Independence Community, and Staten Island Bancorp). The best performing stock in our coverage last year was Staten Island Bancorp (SIB, $18.56, Rated Hold), which rose over 60%. 12 months ago SIB's market capitalization was $750 million, not very different from MFAB's. Staten Island currently trades at 13.7 times expected 2002 EPS and 2.13 times book value.

- While we do not believe MAFB will enjoy similar appreciation, we do think that the combination of rising earnings and a low P/E ratio offers a unique opportunity to both growth and value investors.

- We reiterate our Buy Recommendation on the Savings & Loan/Thrift group, and recommend MAFB Bancorp with a Strong Buy rating.

A Note About The Dusza/McNulty Proprietary Thrift Index (DMACX)

The DMACX is a value-weighted index that was started on January 1, 1990. It includes all thrifts, community banks, and savings & loans with a market capitalization of less that $1.05 billion in 1990 dollars. Once a member's market cap exceeds this value they are removed from the index. It is rebalanced annually.

Earnings Model

($'s millions)

Income Statement

	1998	1999	2000	2001	2002E	2003E	2004E	2005E	2006E
Interest Income									
Interest Income	$ 247.3	$ 285.1	$ 343.1	$ 345.7	$ 417.2	$ 446.4	$ 477.6	$ 511.1	$ 546.8
Interest Expense	150.6	168.4	217.2	214.5	255.9	273.8	293.0	313.5	335.4
Net Interest Income	96.7	116.7	125.9	131.2	161.3	172.6	184.6	197.6	211.4
Loan Loss Provisions	0.8	1.1	1.5	0.0	0.4	1.3	1.8	2.1	2.4
Non-Interest Income	25.6	34.8	37.4	47.1	49.5	51.9	54.5	57.3	60.1
Non-Interest Expense									
Compensation	34.5	37.8	41.2	48.2	56.0	59.8	63.9	68.2	72.8
Occupancy	6.6	7.3	8.1	9.0	10.5	11.2	12.0	12.8	13.7
Other	17.8	22.6	23.7	26.2	31.5	33.6	35.9	38.4	41.0
Total Non-Interest Expense	58.9	67.7	73.0	83.4	98.0	104.6	111.8	119.3	127.5
Operating Pretax Income	62.5	82.8	88.9	94.9	112.4	118.6	125.6	133.3	141.7
Taxes	23.8	31.2	32.3	35.5	42.1	44.5	47.1	50.0	53.1
Operating Income	38.7	51.5	56.6	59.5	70.2	74.1	78.5	83.3	88.6
Extraordinary Items	0.5	0.0	0.0	0.0	0.0				
Net Income to Common	$ 38.2	$ 51.5	$ 56.6	$ 59.5	$ 70.2	$ 74.1	$ 78.5	$ 83.3	$ 88.6
Shares Outstanding	22.5	24.2	23.3	23.0	23.0	23.0	23.0	23.0	23.0
EPS	$ 1.70	$ 2.13	$ 2.43	$ 2.59	**$ 3.06**	**$ 3.22**	**$ 3.42**	**$ 3.63**	**$ 3.85**
Dividends	$ 0.23	$ 0.31	$ 0.38	$ 0.47	$ 0.49	$ 0.52	$ 0.55	$ 0.58	$ 0.62

Balance Sheet

	1998	1999	2000	2001	2002E	2003E	2004E	2005E	2006E
ASSETS									
Loans Receivable	$ 2,863.0	$ 3,565.4	$ 4,164.4	$ 4,447.6	$ 4,758.9	$ 5,092.0	$ 5,448.5	$ 5,829.9	$ 6,238.0
Mortgage-backed securities	215.4	151.1	118.2	142.2	166.6	178.2	190.7	204.0	218.3
Investment Securities	217.8	265.0	274.0	487.5	475.9	509.2	544.8	583.0	623.8
Interest-Bearing Deposits	33.0	28.0	33.2	111.9	107.1	114.6	122.6	131.2	140.4
Federal Funds Sold	68.6	51.9	115.9	112.8	119.0	127.3	136.2	145.7	155.9
Total Earning Assets	3,397.8	4,061.3	4,705.7	5,301.9	5,627.4	6,021.3	6,442.8	6,893.8	7,376.4
Nonearning Assets	171.8	222.4	242.5	293.1	297.4	318.3	340.5	364.4	389.9
TOTAL ASSETS	$ 3,569.5	$ 4,283.7	$ 4,948.2	$ 5,595.0	$ 5,924.8	$ 6,339.6	$ 6,783.3	$ 7,258.2	$ 7,766.3
LIABILITIES									
Interest Bearing Deposits	$ 2,247.3	$ 2,553.7	$ 2,701.5	$ 3,443.5	$ 3,573.4	$ 3,823.5	$ 4,091.2	$ 4,377.6	$ 4,684.0
Borrowed Funds and Sub-Debt	880.9	1,187.3	1,651.9	1,470.5	1,463.1	1,565.5	1,675.1	1,792.4	1,917.9
Interest-Bearing Liabilities	3,128.2	3,741.0	4,353.3	4,914.0	5,036.5	5,389.1	5,766.3	6,170.0	6,601.9
Non-Interest Bearing Liabilities	92.8	112.8	131.8	114.5	121.0	129.5	138.5	148.2	158.6
Other Liabilities	72.7	85.8	99.9	130.7	126.6	135.5	145.0	155.1	166.0
TOTAL LIABILITIES	3,293.7	3,939.6	4,585.0	5,159.2	5,284.1	5,654.0	6,049.8	6,473.3	6,926.4
STOCKHOLDERS' EQUITY	275.8	344.1	363.2	435.9	640.7	685.6	733.5	784.9	839.8
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 3,569.5	$ 4,283.7	$ 4,948.2	$ 5,595.0	$ 5,924.8	$ 6,339.6	$ 6,783.3	$ 7,258.2	$ 7,766.3

Average Yields & Rates

	1998	1999	2000	2001	2002E	2003E	2004E	2005E	2006E
Loans Receivable	7.42%	7.11%	7.31%	7.08%	7.65%	7.65%	7.65%	7.65%	7.65%
Mortgage-backed securities	6.49%	6.24%	6.73%	5.76%	6.50%	6.50%	6.50%	6.50%	6.50%
Investment Securities	6.25%	6.25%	7.22%	6.24%	6.75%	6.75%	6.75%	6.75%	6.75%
Interest-Bearing Deposits	7.26%	7.01%	7.40%	3.76%	4.50%	4.50%	4.50%	4.50%	4.50%
Federal Funds Sold	7.30%	7.32%	7.51%	4.63%	4.50%	4.50%	4.50%	4.50%	4.50%
Weighted Avg Earning Assets	**7.28%**	**7.02%**	**7.29%**	**6.95%**	**7.41%**	**7.41%**	**7.41%**	**7.41%**	**7.41%**
Interest-Bearing Deposits	4.26%	3.90%	4.28%	3.79%	4.50%	4.50%	4.50%	4.50%	4.50%
Borrowed Funds and Sub-Debt	6.22%	5.79%	6.15%	6.03%	6.50%	6.50%	6.50%	6.50%	6.50%
Weighted Avg Interest-Bearing Liabilities	**4.81%**	**4.50%**	**4.99%**	**4.73%**	**5.08%**	**5.08%**	**5.08%**	**5.08%**	**5.08%**
Spread	**2.47%**	**2.52%**	**2.30%**	**2.22%**	**2.33%**	**2.33%**	**2.33%**	**2.33%**	**2.33%**

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