

Value: The Community Bank Wall Street Report



ACBQ • CAPITAL MARKETS • ACB INVESTOR CONFERENCES

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Now...More 'Value'

Value, America's Community Bankers' quarterly capital markets newsletter, goes monthly.

Designed to bring you information about issues, trends and conditions affecting publicly traded community banks, *Value* will now be published 12 times a year, both in hard copy and electronically.

"Increasing the publishing frequency of *Value* is consistent with our role as the leading trade group that understands the capital market needs of community banks," said Helen Sullivan, senior vice president for capital markets with ACB Business Partners, Inc.

If you have any questions or comments about *Value*, please contact Jim Eberle, editor, at (202) 857-3145 or jeberle@acbankers.org.



Elizabeth E. Hance, president and chief executive officer of Magyar Bank, New Brunswick, N.J., signs in to close the NASDAQ Market on April 12. Read about a community bank in the spotlight, page 2.

ACB NASDAQ Index Stacks Up Well

The ACB NASDAQ Index performed well in the first quarter of 2006, outperforming or holding its own against representative indexes.

The total return for the ACB NASDAQ Index was 5.13 percent in the first quarter, outperforming the S&P 500 and slightly trailing the NASDAQ Composite and Russell 3000 indexes. (See page 2)

The performance of the ACB NASDAQ Index was quite a turnaround from the first quarter of 2005, when it posted a 6.99 percent decline. Its performance was a little

better than the NASDAQ Composite in that quarter and worse than the declines of the S&P 500 and the Russell 3000.

Since its inception on Dec. 2, 2003, the Index has posted a 24.99 percent increase comparable to the Russell 3000 on a total return, cumulative basis.

Clearly, the community bank sector is a great performer over time, and continues to deserve more attention from Wall Street. That has been the goal of ACB in devising and promoting the ACB NASDAQ Index. «



Outlook for Bank, Thrift Stocks; 1Q Snapshot

By Richard D. Weiss, senior analyst,
Janney Montgomery Scott, Philadelphia

The outlook for the sector is clouded because of weak earnings prospects and historically rich valuations for commercial bank and thrift stocks. The year-over-year earning per share growth of 5 percent to 7 percent is respectable, given the flat yield curve, lower mortgage banking revenue, less

securities gains and competition for loans and deposits. The median estimate for mid-cap and small-cap banks projects 6 percent year-over-year earnings per share growth, and 4 percent for thrifts. Net interest margin for many commercial banks and thrifts will be under pressure due to the flat yield curve and rapidly rising funding costs.

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Comparison of ACB NASDAQ with Selected Indexes

Index	1Q '06	2005	2004	Cumulative*
ACB NASDAQ	5.13	0.53	18.44	24.99
NASDAQ Composite	6.10	3.27	8.99	NA
S&P 500	4.21	4.91	NA	NA
Russell 3000	5.31	5.98	11.94	24.54

As of March 31, 2006. Total return basis. *Since inception of ACB NASDAQ Index, 12/2/2003.

Magyar Bank Goes Public To Continue Growth

By John Koegel

When Hungarian immigrants in New Brunswick, N.J., formed a building and loan society in 1922 and named it after their homeland, they probably didn't imagine that their small financial institution would one day be honored by one of the world's largest financial marketplaces.

But that's just what happened on April 12, when Elizabeth E. Hance, president and chief executive officer of Magyar Bank, and a number of her fellow officers and directors rang the ceremonial

closing bell at NASDAQ's famous MarketSite in the heart of New York City's Times Square.

The ceremony commemorated the January 24 debut on the NASDAQ National Market of Magyar Bancorp, Inc. (MGYR), parent company of Magyar Bank. Gross proceeds from the initial public offering, which was oversubscribed, totaled \$26.2 million. Ryan Beck & Co. acted as deal manager. Magyar Bancorp will join the ACB NASDAQ Index on June 1.

"With the completion of our conversion to a mutual holding company, Mag-

yar Bank is well positioned to continue on its existing growth plan," said Hance. "Since launching our commercial lending division in 2001, we have been striving for a 'balanced' balance sheet. Our lending portfolio had been predominately residential mortgages, but this infusion of capital will help Magyar Bank expand its commercial and construction lending activity."

With \$350 million in assets, Magyar Bank's growth plans include an aggressive branching strategy to support the increased lending. «

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As of March 31, 2006, mid-cap banks, small-cap banks and thrifts traded at 14.6 times, 15.7 times, and 15.6 times estimated 2006 earnings, respectively. For the first quarter of 2006, mid-cap banks, small-cap banks, and thrifts recorded price performances of 4.5 percent, 6.7 percent and 2.9 percent.

The industry is valued expensively based on fundamentals, especially small-cap banks. At year-end 2000, which was a time when banks and thrifts were out of favor, the same banks and thrifts traded at 9.8 times, 13.3 times, and 12.8 times estimated 2001 earnings. As of March 31, 2006, mid-cap banks, small-cap banks, and thrifts traded at 92 percent, 97 percent and 98 percent of the S&P 500 Index, which is very high given the historical range of approximately 55 percent to 80 percent.

This implies that merger and acquisition speculation, higher dividend yields and the lower volatility of earnings boosted bank and thrift stock prices.

Outlook

Commercial banks, rather than thrifts, are generally better suited to meet the challenge of the flatter yield curve due to their higher proportion of prime and LIBOR-based commercial loans and non-interest bearing deposits, as well as better sources of fee income. However, enthusiasm is restrained by the significant stock price appreciation and rich valuations.

Net interest margin for many banks and thrifts will be under pressure because of the flat yield curve and rapidly rising funding costs, which should mitigate the benefit from improving earning asset mixes.

Generally, loan growth for the first

quarter of 2006 will be respectable because the healthy economy and asset quality should remain strong. However, asset quality at some banks may begin to slip after an extended period of higher interest rates. Current stock price valuations do not appear to factor in potential credit losses.

Continuing with previous quarterly trends, loan loss reserve ratios will decline, albeit at a slower pace as reserve releases end, and regulators begin to exert pressure to increase reserves. Non-interest income will continue to be weak, as mortgage banking slows and the growth in deposit service charges declines.

Asset quality should remain strong for the first quarter of 2006, but earnings per share growth will slow, as loan loss provisions increase and marginal borrowers begin to exhibit difficulties meeting payments due to higher interest rates. «

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