BankFinancial CORP
Form 10-Q
July 26, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period ended June 30, 2010

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For transition period from to

Commission File Number 0-51331

BANKFINANCIAL CORPORATION

(Exact Name of Registrant as Specified in Charter)

Maryland	**75-3199276**
(State or Other Jurisdiction	**(I.R.S. Employer**
of Incorporation)	**Identification No.)**
15W060 North Frontage Road, Burr Ridge, Illinois	**60527**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s telephone number, including area code: (800) 894-6900

Not Applicable

(Former name or former address, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate the number of shares outstanding of each of the Issuer s classes of common stock as of the latest practicable date.

21,059,966 shares of Common Stock, par value $0.01 per share, were issued and outstanding as of July 23, 2010.

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BANKFINANCIAL CORPORATION

Form 10-Q Quarterly Report

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PART I

FINANCIAL STATEMENTS

BANKFINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share and per share data) - (Unaudited)

	June 30, 2010	December 31, 2009
ASSETS		
Cash and due from other financial institutions	$ 13,618	$ 20,355
Interest-bearing deposits in other financial institutions	205,666	87,843
Cash and cash equivalents	219,284	108,198
Securities, at fair value	84,688	102,126
Loans held-for-sale	212	
Loans receivable, net of allowance for loan losses: June 30, 2010, $18,969; and December 31, 2009, $18,622	1,123,949	1,218,540
Real estate owned	7,509	4,084
Stock in Federal Home Loan Bank, at cost	15,598	15,598
Premises and equipment, net	33,575	34,614
Accrued interest receivable	5,848	6,111
Goodwill	22,566	22,566
Core deposit intangible	3,491	4,295
Bank owned life insurance	20,322	20,151
FDIC prepaid expense	5,785	6,777
Income tax receivable	9,057	11,729
Other assets	13,755	12,174
Total assets	$ 1,565,639	$ 1,566,963
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits	1,253,259	1,233,395
Borrowings	35,566	50,784
Advance payments by borrowers taxes and insurance	7,694	8,052
Accrued interest payable and other liabilities	9,723	11,129
Total liabilities	1,306,242	1,303,360
Commitments and contingent liabilities		
Stockholders equity:		
Preferred Stock, $0.01 par value, 25,000,000 shares authorized, none issued or outstanding		
Common Stock, $0.01 par value, 100,000,000 shares authorized; shares issued at June 30, 2010, 21,059,966 and December 31, 2009, 21,416,377	211	214
Additional paid-in capital	193,045	195,177
Retained earnings	78,961	81,531
Unearned Employee Stock Ownership Plan shares	(14,684)	(15,169)
Accumulated other comprehensive income	1,864	1,850

Total stockholders equity	259,397	263,603
Total liabilities and stockholders equity	$ 1,565,639	$ 1,566,963

See accompanying notes to consolidated financial statements.

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BANKFINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data) - (Unaudited)

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Interest income:				
Loans, including fees	$ 15,419	$ 17,448	$ 31,476	$ 35,011
Securities	910	1,237	1,918	2,580
Other	122	28	202	28
Total interest income	16,451	18,713	33,596	37,619
Interest expense:				
Deposits	3,434	4,936	7,063	10,067
Borrowings	243	564	543	1,169
Total interest expense	3,677	5,500	7,606	11,236
Net interest income	12,774	13,213	25,990	26,383
Provision for loan losses	2,665	2,847	3,516	4,191
Net interest income after provision for loan losses	10,109	10,366	22,474	22,192
Noninterest income:				
Deposit service charges and fees	792	796	1,565	1,590
Other fee income	500	496	934	924
Insurance commissions and annuities income	179	111	314	288
Gain on sale of loans, net	68	180	115	436
Gain on sale of securities	31		31	
Loss on disposition of premises and equipment	(17)		(17)	(4)
Loan servicing fees	154	161	324	336
Amortization and impairment of servicing assets	(78)	(25)	(321)	(247)
Earnings (loss) on bank owned life insurance	92	(33)	171	(92)
Other	91	116	151	213
Total noninterest income	1,812	1,802	3,267	3,444
Noninterest expense:				
Compensation and benefits	6,552	6,948	13,763	14,813
Office occupancy and equipment	1,609	1,666	3,410	3,433
Advertising and public relations	303	317	519	683
Information technology	961	866	1,882	1,874
Supplies, telephone, and postage	406	459	767	883
Amortization of intangibles	399	422	804	851
Operations of real estate owned	500	83	634	336
FDIC insurance premiums	532	1,216	1,087	1,265
Other	1,108	1,070	2,182	1,951
Total noninterest expense	12,370	13,047	25,048	26,089

Income (loss) before income taxes	(449)	(879)	693	(453)
Income tax expense (benefit)	(161)	(214)	265	40
Net income (loss)	$ (288)	$ (665)	$ 428	$ (493)
Basic earnings (loss) per common share	$ (0.01)	$ (0.03)	$ 0.02	$ (0.03)
Diluted earnings (loss) per common share	$ (0.01)	$ (0.03)	$ 0.02	$ (0.03)
Weighted average common shares outstanding	19,737,315	19,643,050	19,778,294	19,710,928
Diluted weighted average common shares outstanding	19,737,315	19,643,050	19,791,890	19,710,928

See accompanying notes to consolidated financial statements.

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BANKFINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY AND

COMPREHENSIVE INCOME

(In thousands, except share and per share data) - (Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Unearned Employee Stock Ownership Plan Shares	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Income
Balance at December 31, 2008	$ 217	$ 195,119	$ 88,279	$ (16,148)	$ (676)	$ 266,791	
Comprehensive income:							
Net loss			(493)			(493)	$ (493)
Change in other comprehensive income, net of tax effects					1,573	1,573	1,573
Total comprehensive income							$ 1,080
Purchase and retirement of common stock (277,800 shares)	(3)	(2,488)				(2,491)	
Nonvested stock awards-Stock-based compensation expense		1,478				1,478	
Cash dividends declared on common stock ($0.14 per share)			(3,012)			(3,012)	
ESOP shares earned		(56)		486		430	
Balance at June 30, 2009	$ 214	$ 194,053	$ 84,774	$ (15,662)	$ 897	$ 264,276	
Balance at December 31, 2009	$ 214	$ 195,177	$ 81,531	$ (15,169)	$ 1,850	$ 263,603	
Comprehensive income:							
Net income			428			428	$ 428
Change in other comprehensive income, net of tax effects					14	14	14
Total comprehensive income							$ 442
Purchase and retirement of common stock (356,411 shares)	(3)	(3,121)				(3,124)	
Nonvested stock awards-Stock-based compensation expense		1,071				1,071	
Cash dividends declared on common stock ($0.14 per share)			(2,998)			(2,998)	
ESOP shares earned		(82)		485		403	
Balance at June 30, 2010	$ 211	$ 193,045	$ 78,961	$ (14,684)	$ 1,864	$ 259,397	

See accompanying notes to consolidated financial statements.

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BANKFINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOW

(In thousands) - (Unaudited)

	Six months ended June 30, 2010	Six months ended June 30, 2009
Cash flows from operating activities:		
Net income (loss)	$ 428	$ (493)
Adjustments to reconcile net income to net cash from operating activities		
Provision for loan losses	3,516	4,191
ESOP shares earned	403	430
Stock-based compensation expense	1,071	1,478
Depreciation and amortization	2,237	2,086
Amortization of premiums and discounts on securities and loans	(1)	(68)
Amortization of core deposit and other intangible assets	800	851
Amortization and impairment of servicing assets	321	247
Net change in net deferred loan origination costs	181	14
Net loss on sale of real estate owned	108	52
Net gain on sale of loans	(115)	(436)
Gain on sale of securities	(31)	
Net loss on disposition of premises and equipment	17	4
Loans originated for sale	(5,854)	(25,991)
Proceeds from sale of loans	5,757	25,105
Net change in:		
Deferred income tax	(183)	(1,429)
Accrued interest receivable	263	428
Loss (earnings) on bank owned life insurance	(171)	92
Other assets	(581)	731
Accrued interest payable and other liabilities	(1,406)	(566)
Net cash from operating activities	6,760	6,726
Cash flows from investing activities:		
Securities		
Proceeds from sales	31	
Proceeds from maturities	680	905
Proceeds from principal repayments	16,785	14,148
Loans receivable		
Principal payments on loans receivable	356,273	452,305
Purchase of loans	(798)	(14,800)
Originated for investment	(267,744)	(442,807)
Proceeds from sale of real estate owned	1,496	302
Purchases of premises and equipment, net	(563)	(1,865)
Net cash from investing activities	106,160	8,188

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BANKFINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOW

(In thousands) - (Unaudited)

	Six months ended June 30, 2010	Six months ended June 30, 2009
Cash flows from financing activities:		
Net change in deposits	19,864	141,901
Net change in borrowings	(15,218)	(121,531)
Net change in advance payments by borrowers for taxes and insurance	(358)	807
Repurchase and retirement of common stock	(3,124)	(2,491)
Cash dividends paid on common stock	(2,998)	(3,012)
Net cash from financing activities	(1,834)	15,674
Net change in cash and cash equivalents	111,086	30,588
Beginning cash and cash equivalents	108,198	29,329
Ending cash and cash equivalents	$ 219,284	$ 59,917
Supplemental disclosures of cash flow information:		
Interest paid	$ 7,848	$ 11,458
Income taxes paid	300	500
Income taxes refunded	2,529	
Loans transferred to real estate owned	5,218	377

See accompanying notes to consolidated financial statements.

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BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands, except share and per share data) - (Unaudited)

Note 1 Basis of Presentation

BankFinancial Corporation, a Maryland corporation headquartered in Burr Ridge, Illinois (the Company), is the owner of all of the issued and outstanding capital stock of BankFinancial, F.S.B. (the Bank). As used in this Quarterly Report on Form 10-Q, the words Company, we and our are intended to refer to the Company, the Bank, and the Bank s subsidiaries, with respect to information presented for the six-month period ended June 30, 2010 and other periods referenced herein.

The interim unaudited consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. All significant intercompany accounts and transactions have been eliminated. The results of operations for the six-month period ended June 30, 2010, are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2010.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission.

To prepare financial statements in conformity with US GAAP, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, mortgage servicing rights, goodwill, stock-based compensation, impairment of securities and fair value of financial instruments are particularly subject to change.

Certain reclassifications have been made in the prior period s financial statements to conform them to the current period s presentation.

These unaudited consolidated financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2009, and all amendments thereto, as filed with the Securities and Exchange Commission.

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BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands, except share and per share data) - (Unaudited)

Note 2 Earnings per Share

Amounts reported in earnings per share reflect earnings available to common stockholders for the period divided by the weighted average number of shares of common stock outstanding during the period, exclusive of unearned ESOP shares and unvested restricted stock shares. Stock options and restricted stock are regarded as potential common stock and are considered in the diluted earnings per share calculations to the extent that they would have a dilutive effect if converted to common stock computed using the treasury stock method.

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Net income (loss) available to common shareholders	$ (288)	$ (665)	$ 428	$ (493)
Average common shares outstanding	21,301,212	21,437,970	21,358,476	21,527,069
Less:				
Unearned ESOP shares	(1,457,047)	(1,574,268)	(1,472,447)	(1,586,316)
Unvested restricted stock shares	(106,850)	(220,652)	(107,735)	(229,825)
Weighted average common shares outstanding	19,737,315	19,643,050	19,778,294	19,710,928
Basic earnings (loss) per common share	$ (0.01)	$ (0.03)	$ 0.02	$ (0.03)
Weighted average common shares outstanding	19,737,315	19,643,050	19,778,294	19,710,928
Net effect of dilutive stock options and unvested restricted stock			13,596	
Weighted average diluted common shares outstanding	19,737,315	19,643,050	19,791,890	19,710,928
Diluted earnings (loss) per common share	$ (0.01)	$ (0.03)	$ 0.02	$ (0.03)
Number of anti-dilutive stock options excluded from the diluted earnings per share calculation	2,320,803	2,322,603	2,320,803	2,322,603
Weighted average exercise price of anti-dilutive stock option	$ 16.51	$ 16.51	$ 16.51	$ 16.51

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BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands, except share and per share data) - (Unaudited)

Note 3 Securities

The fair value of securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2010				
Municipal securities	$ 830	$ 42	$	$ 872
Mortgage-backed securities - residential	28,197	1,324		29,521
Collateralized mortgage obligations	52,541	1,644		54,185
SBA-guaranteed loan participation certificates	109	1		110
	$ 81,677	$ 3,011	$	$ 84,688
December 31, 2009				
Municipal securities	$ 1,225	$ 78	$	$ 1,303
Mortgage-backed securities - residential	33,008	1,049		34,057
Collateralized mortgage obligations	64,791	1,873	(13)	66,651
SBA-guaranteed loan participation certificates	114	1		115
	$ 99,138	$ 3,001	$ (13)	$ 102,126

The mortgage-backed securities and collateralized mortgage obligations reflected in the preceding table were issued by U.S. government-sponsored enterprises and agencies, Freddie Mac, Fannie Mae and Ginnie Mae, and are obligations that the U.S. government has affirmed its commitment to support. All securities reflected in the preceding table were classified as available-for-sale at June 30, 2010 and December 31, 2009.

The fair values of securities at June 30, 2010 by contractual maturity are shown below. Securities not due at a single maturity date are shown separately. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2010	
	Amortized Cost	Fair Value
Within one year	$ 155	$ 156
One to five years	675	716
	830	872

Mortgage-backed securities - residential	28,197	29,521
Collateralized mortgage obligations	52,541	54,185
SBA-guaranteed loan participation certificates	109	110
Total	$ 81,677	$ 84,688

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BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands, except share and per share data) - (Unaudited)

Note 3 Securities *(continued)*

Securities with unrealized losses at December 31, 2009 not recognized in income are as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2009						
Collateralized mortgage obligations	$ 1,358	$ 13	$	$	$ 1,358	$ 13

There were no securities with unrealized losses at June 30, 2010.

Interest income on securities is recognized under the interest method, and includes amortization of purchase premium and discount. Gains and losses on sales of securities are based on the amortized cost of the securities sold.

The Company evaluates marketable investment securities with significant declines in fair value on a quarterly basis to determine whether they should be considered other-than-temporarily impaired under current accounting guidance, which generally provides that if a marketable security is in an unrealized loss position, whether due to general market conditions or industry or issuer-specific factors, the holder of the securities must assess whether the impairment is other-than-temporary.

At June 30, 2010, there were no securities with significant declines in fair value in the Company s investment portfolio.

Note 4 Loans Receivable

Loans originated are identified as either held for sale or held for investment and are accounted for accordingly upon their origination. Loans that are classified as held for sale are recorded at the lower of aggregate cost or estimated fair market value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the fair value of the servicing rights. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Premiums and discounts associated with loans purchased are amortized over the contractual term of the loan using the level-yield method.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the contractual loan term, adjusted for prepayments. Interest income is discontinued at the time a loan is 90 days delinquent unless the loan is well-secured and there are no asserted or pending legal barriers to its collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual status is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method until qualifying for return to accrual status. Loans are returned to accrual status when the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands, except share and per share data) - (Unaudited)

Note 4 Loans Receivable *(continued)*

Loans receivable are as follows:

	June 30, 2010	December 31, 2009
One-to four- family residential real estate loans	$ 276,440	$ 289,623
Multi-family mortgage loans	305,519	329,227
Nonresidential real estate loans	306,993	316,607
Construction and land loans	18,477	32,577
Commercial loans	72,716	88,067
Commercial leases	158,990	176,821
Consumer loans	2,263	2,539
Total loans	1,141,398	1,235,461
Net deferred loan origination costs	1,520	1,701
Allowance for loan losses	(18,969)	(18,622)
Loans, net	$ 1,123,949	$ 1,218,540

Activity in the allowance for loan losses is as follows:

	Six months ended June 30, 2010	Six months ended June 30, 2009
Beginning balance	$ 18,622	$ 14,746
Provision for loan losses	3,516	4,191
Loans charged off	(3,215)	(1,832)
Recoveries	46	33
Ending balance	$ 18,969	$ 17,138

Individually impaired loans were as follows:

	June 30, 2010	December 31, 2009

Loans with allocated allowance for loan losses	$ 19,133	$ 22,583
Loans with no allocated allowance for loan losses	24,448	23,059
Total impaired loans	$ 43,581	$ 45,642
Amount of the allowance for loan losses allocated to impaired loans	$ 6,002	$ 5,060

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BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands, except share and per share data) - (Unaudited)

Note 4 Loans Receivable *(continued)*

	Six months ended June 30, 2010	2009
Average of impaired loans during the period	$ 43,349	$ 36,504
Interest income recognized during impairment	335	794
Cash basis interest income recognized	335	794

Nonaccrual loans and loans past due 90 days still on accrual are as follows:

	June 30, 2010	December 31, 2009
Nonaccrual loans	$ 48,163	$ 49,489
90 days delinquent, still accruing	741	148
Reserve for uncollected loan interest	2,962	2,317

Nonaccrual loans and impaired loans are defined differently. Some loans may be included in both categories, and some may only be included in one category. Nonaccrual loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

Generally, the Bank only utilizes the 90 days delinquent, still accruing category of loan classification when: (1) the loan is repaid in full shortly after the period end date; (2) the loan is well secured and there are no asserted or pending legal barriers to its collection; or (3) the borrower has remitted all scheduled payments and is otherwise in substantial compliance with the terms of the loan, but the processing of payments actually received or the renewal of a loan has not occurred for administrative reasons.

The Bank had $10.1 million of loans classified as troubled debt restructurings at June 30, 2010, and $396,000 of special reserves were allocated to those loans. The Company has no outstanding commitments to borrowers whose loans are classified as troubled debt restructurings.

The allowance for loan losses is a valuation allowance for probable incurred credit losses inherent in the loan portfolio. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience; the nature and volume of the portfolio; information about specific borrower situations; and estimated collateral values, economic conditions, and other factors. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates as more information becomes available, or as later events occur or circumstances change. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management s judgment, should be charged-off. The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers nonclassified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when full payment under the loan terms is not expected. Multifamily, nonresidential real estate, construction, land, and commercial loans and leases are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan s existing rate or at the fair value of the collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

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BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands, except share and per share data) - (Unaudited)

Note 5 Deposits

Deposits are as follows:

	June 30, 2010	December 31, 2009
Noninterest-bearing demand deposits	$ 103,602	$ 108,308
Savings deposits	97,907	96,107
Money market accounts	357,078	322,126
Interest-bearing NOW accounts	294,157	303,219
Certificates of deposit	400,515	403,635
	$ 1,253,259	$ 1,233,395

Interest expense on deposit accounts is summarized as follows:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Savings deposits	$ 123	$ 126	$ 244	$ 247
Money market accounts	977	1,186	1,953	2,476
Interest-bearing NOW accounts	446	562	910	1,225
Certificates of deposit	1,888	3,062	3,956	6,119
	$ 3,434	$ 4,936	$ 7,063	$ 10,067

Note 6 Fair Values of Financial Instruments

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Significant unobservable inputs that reflect a company s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

The fair values of marketable equity securities are generally determined by quoted prices, in active markets, for each specific security (Level 1 measurement inputs). If Level 1 measurement inputs are not available for a marketable equity security, we determine its fair value based on the quoted price of a similar security traded in an active market (Level 2 measurement inputs). The fair values of debt securities are generally determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities relationship to other benchmark quoted securities (Level 2 measurement inputs).

The fair values of loans held for sale are generally determined by quoted prices in active markets that are accessible at the measurement date for similar, unrestricted assets (Level 2 measurement inputs).

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BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Table amounts in thousands, except share and per share data) - (Unaudited)

Note 6 Fair Values of Financial Instruments (*continued*)

Impaired loans and real estate owned (REO) properties are evaluated and valued at the time the loan is identified as impaired or placed into REO, at the lower of cost or fair value less costs to sell. Fair value is generally based on third party appraisals and internal estimates and is therefore considered a Level 2 valuation. Collateral may be real estate and/or business assets, including equipment, inventory and/or accounts receivable. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Expenses, gains and losses on disposition, and changes in the valuation allowance are reported in noninterest income as operations of REO.

The fair values of mortgage servicing rights are based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income. The Company is able to compare the valuation model inputs and results to widely available published industry data for reasonableness (Level 2 measurement inputs).

The following table sets forth the Company s financial assets that were accounted for at fair value and are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

			Fair Value Measurements Using		
	Amortized Cost	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2010					
Securities:					
Municipal securities	$ 830	$ 872	$	$ 872	$
Mortgage-backed securities residential	28,197	29,521		29,521	
Collateralized mortgage obligations	52,541	54,185		54,185	
SBA-guaranteed loan participation certificates	109	110		110	
	$ 81,677	$ 84,688	$	$ 84,688	$
December 31, 2009					
Securities:					