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 March 31, 2011

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 of Incorporation)	**(I.R.S. Employer 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.

21,072,966 shares of Common Stock, par value $0.01 per share, were issued and outstanding as of May 9, 2011.

Table of Contents

BANKFINANCIAL CORPORATION

Form 10-Q Quarterly Report

Table of Contents

PART I

Table of Contents

PART I

ITEM 1. FINANCIAL STATEMENTS

BANKFINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

March 31, 2011 and December 31, 2010

(In thousands, except share and per share data)

	March 31, 2011 (Unaudited)	December 31, 2010
ASSETS		
Cash and due from other financial institutions	$ 14,479	$ 18,097
Interest-bearing deposits in other financial institutions	109,776	202,713
Cash and cash equivalents	124,255	220,810
Securities, at fair value	121,154	120,747
Loans held-for-sale	-	2,716
Loans receivable, net of allowance for loan losses:		
March 31, 2011, $22,504 and December 31, 2010, $22,180	1,302,313	1,050,766
Other real estate owned and other real estate owned in process	22,713	14,622
Stock in Federal Home Loan Bank, at cost	16,346	15,598
Premises and equipment, net	37,650	32,495
Accrued interest receivable	6,142	5,390
Goodwill	22,566	22,566
Core deposit intangible	4,978	2,700
Bank owned life insurance	20,739	20,581
FDIC prepaid expense	5,158	4,845
Income tax receivable	2,523	1,749
Deferred taxes, net	13,112	9,333
Other assets	5,582	5,737
Total assets	$ 1,705,231	$ 1,530,655
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits	1,421,564	1,235,377
Borrowings	15,488	23,749
Advance payments by borrowers taxes and insurance	5,891	7,325
Accrued interest payable and other liabilities	11,576	10,919
Total liabilities	1,454,519	1,277,370
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; 21,072,966 shares issued at March 31, 2011 and December 31, 2010	211	211
Additional paid-in capital	194,185	194,186
Retained earnings	69,026	71,278
Unearned Employee Stock Ownership Plan shares	(13,949)	(14,190)
Accumulated other comprehensive income	1,239	1,800
Total stockholders equity	250,712	253,285
Total liabilities and stockholders equity	$ 1,705,231	$ 1,530,655

See accompanying notes to consolidated financial statements.

Table of Contents

BANKFINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

Three months ended March 31, 2011 and 2010

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

	2011	2010
Interest and dividend income		
Loans, including fees	$ 14,410	$ 16,057
Securities	822	1,008
Other	116	80
Total interest income	15,348	17,145
Interest expense		
Deposits	1,900	3,629
Borrowings	96	300
Total interest expense	1,996	3,929
Net interest income	13,352	13,216
Provision for loan losses	2,424	851
Net interest income after provision for loan losses	10,928	12,365
Noninterest income		
Deposit service charges and fees	612	773
Other fee income	382	434
Insurance commissions and annuities income	169	135
Gain on sale of loans, net	19	47
Loss on disposition of premises and equipment	(10)	-
Loan servicing fees	132	170
Amortization and impairment of servicing assets	(54)	(243)
Earnings on bank owned life insurance	158	79
Other	163	60
Total noninterest income	1,571	1,455
Noninterest expense		
Compensation and benefits	6,600	7,211
Office occupancy and equipment	1,868	1,801
Advertising and public relations	237	216
Information technology	948	921
Supplies, telephone, and postage	375	361
Amortization of intangibles	382	405
Nonperforming asset management	455	268
Gain on sale of other real estate owned	(52)	-
Operations of other real estate owned	505	134
FDIC insurance premiums	567	555

Acquisition expenses	1,531	-
Other	839	806
Total noninterest expense	14,255	12,678
Income (loss) before income taxes	(1,756)	1,142
Income tax expense (benefit)	(979)	426
Net Income (loss)	$ (777)	$ 716
Basic income (loss) per common share	$ (0.04)	$ 0.04
Diluted income (loss) per common share	$ (0.04)	$ 0.04
Weighted average common shares outstanding	19,689,723	19,819,709
Diluted weighted average common shares outstanding	19,689,723	19,819,709

See accompanying notes to consolidated financial statements.

Table of Contents

BANKFINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY AND

COMPREHENSIVE INCOME (LOSS)

Three months ended March 31, 2011 and 2010

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

	000000000	000000000	000000000	000000000	000000000	000000000	000000000
	Common Stock	**Additional Paid-in Capital**	**Retained Earnings**	**Unearned Employee Stock Ownership Plan Shares**	**Accumulated Other Comprehen-sive Income**	**Total**	**Compre-hensive Income (Loss)**
Balance at January 1, 2010	$ 214	$ 195,177	$ 81,531	$ (15,169)	$ 1,850	$ 263,603	
Comprehensive income:							
Net income	-	-	716	-	-	716	$ 716
Change in other comprehensive income, net of tax effects	-	-	-	-	115	115	115
Total comprehensive income							$ 831
Nonvested stock awards-							
Stock-based compensation expense	-	552	-	-	-	552	
Cash dividends declared on common stock ($0.07 per share)	-	-	(1,498)	-	-	(1,498)	
ESOP shares earned	-	(20)	-	241	-	221	
Balance at March 31, 2010	$ 214	$ 195,709	$ 80,749	$ (14,928)	$ 1,965	$ 263,709	
Balance at January 1, 2011	$ 211	$ 194,186	$ 71,278	$ (14,190)	$ 1,800	$ 253,285	
Comprehensive income:							
Net loss	-	-	(777)	-	-	(777)	$ (777)
Change in other comprehensive income, net of tax effects	-	-	-	-	(561)	(561)	(561)
Total comprehensive income							$ (1,338)
Nonvested stock awards-							
Stock-based compensation expense	-	18	-	-	-	18	
Cash dividends declared on common stock ($0.07 per share)	-	-	(1,475)	-	-	(1,475)	
ESOP shares earned	-	(19)	-	241	-	222	
Balance at March 31, 2011	$ 211	$ 194,185	$ 69,026	$ (13,949)	$ 1,239	$ 250,712	

See accompanying notes to consolidated financial statements.

3

Table of Contents

BANKFINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOW

Three months ended March 31, 2011 and 2010

(In thousands) - (Unaudited)

	0000000000	0000000000
	Three months ended March 31,	
	2011	2010
Cash flows from operating activities		
Net income (loss)	$ (777)	$ 716
Adjustments to reconcile to net loss to net cash from operating activities		
Provision for loan losses	2,424	851
ESOP shares earned	222	221
Stock-based compensation expense	18	552
Depreciation and amortization	1,087	1,093
Amortization of premiums and discounts on securities and loans	170	(3)
Amortization of core deposit and other intangible assets	381	403
Amortization and impairment of servicing assets	54	243
Net change in net deferred loan origination costs	186	73
Net gain on sale of other real estate owned	(52)	-
Net gain on sale of loans	(19)	(47)
Net loss disposition of premises and equipment	10	-
Loans originated for sale	(3,154)	(2,311)
Proceeds from sale of loans	5,889	2,358
Net change in:		
Deferred income tax	(980)	329
Accrued interest receivable	(397)	554
Earnings on bank owned life insurance	(158)	(79)
Other assets	448	1,620
Accrued interest payable and other liabilities	(186)	(2,148)
Net cash from operating activities	5,166	4,425
Cash flows from investing activities		
Securities		
Proceeds from maturities	8,140	13
Proceeds from principal repayments	7,892	7,857
Purchases of securities	(7,113)	-
Loans receivable		
Principal payments on loans receivable	172,229	191,938
Purchases of loans	(149,409)	(798)
Originated for investment	(158,149)	(128,115)
Proceeds of redemption of Federal Reserve Bank Stock	155	-
Proceeds from sale of other real estate owned	1,023	525
Purchase of premises and equipment, net	(152)	(447)
Cash acquired in acquisition	61,619	-
Net cash from investing activities	(125,539)	70,973

(Continued)

4

Table of Contents

BANKFINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOW

Three months ended March 31, 2011 and 2010

(In thousands) - (Unaudited)

	000000000000	000000000000
	Three months ended March 31,	
	2011	**2010**
Cash flows from financing activities		
Net change in deposits	(26,752)	(1,424)
Net change in borrowings	(1,468)	(2,692)
Net change in advance payments by borrowers for taxes and insurance	(8,261)	(2,151)
Cash dividends paid on common stock	(1,475)	(1,498)
Net cash from financing activities	(37,956)	(7,765)
Net change in cash and cash equivalents	96,555	67,633
Beginning cash and cash equivalents	220,810	108,198
Ending cash and cash equivalents	$ 124,255	$ 175,831
Supplemental disclosures of cash flow information:		
Interest paid	$ 1,801	$ 3,968
Income taxes paid		
Loans transferred to real estate owned	1,699	3,378
Supplemental disclosures of noncash investing activities-Acquisition		
Noncash assets acquired:		
Securities	10,254	-
Loans receivable	120,677	-
Other real estate owned	7,542	-
Stock in Federal Home Loan Bank and Federal Reserve Bank	903	-
Premises and equipment, net	5,764	-
Accrued interest receivable	355	-
Core deposit intangible	2,660	-
FDIC prepaid expense	774	-
Income tax receivable	774	-
Deferred taxes, net	2,455	-
Other assets	42	-
Total noncash items acquired	152,197	-
Liabilities assumed:		
Deposits	$ 212,939	-

Advance payments by borrowers taxes and insurance		34		-
Accrued interest payable and other liabilities		768		-
Total liabilities assumed	$	213,816	$	-
Cash and cash equivalents acquired	$	61,619	$	-

See accompanying notes to consolidated financial statements.

BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 three-month period ended March 31, 2011 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 three-month period ended March 31, 2011, are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2011.

Certain information and note disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America (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 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. To prepare financial statements in conformity with 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, other real estate owned, mortgage servicing rights, deferred tax assets, goodwill, other intangible assets, stock-based compensation, impairment of securities, fair value of financial instruments and the fair value of asset and liabilities associated with the acquisition of Downers Grove National Bank 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, 2010, and all amendments thereto, as filed with the Securities and Exchange Commission.

Table of Contents

BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 2 Earnings (loss) per share

Amounts reported in earnings (loss) 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.

	Three months ended March 31,	
	2011	**2010**
Net income (loss) available to common shareholders	$ (777)	$ 716
Average common shares outstanding	21,072,966	21,416,377
Less:		
Unearned ESOP shares	(1,374,576)	(1,488,018)
Unvested restricted stock shares	(8,667)	(108,650)
Weighted average common shares outstanding	19,689,723	19,819,709
Basic earnings (loss) per common share	$ (0.04)	$ 0.04
Weighted average common shares outstanding	19,689,723	19,819,709
Net effect of dilutive stock options and unvested restricted stock		
Weighted average diluted common shares outstanding	19,689,723	19,819,709
Diluted earnings (loss) per common share	$ (0.04)	$ 0.04
Number of anti-dilutive stock options excluded from the diluted earnings (loss) per share calculation	2,287,553	2,322,603
Weighted average exercise price of anti-dilutive stock option	$ 16.52	$ 16.51

BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 3 Securities

The amortized cost and 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
March 31, 2011				
Certificates of deposit	$ 23,197	$ -	$ -	$ 23,197
U.S. Treasury	2,610	-	-	2,610
Corporate securities	1,423	5	-	1,428
Municipal securities	6,396	35	(147)	6,284
Equity mutual fund	500	7	-	507
Mortgage-backed securities - residential	39,059	1,272	(281)	40,050
Collateralized mortgage obligations - residential	45,916	1,152	(43)	47,025
SBA-guaranteed loan participation certificates	52	1	-	53
	$ 119,153	$ 2,472	$ (471)	$ 121,154
December 31, 2010				
Certificates of deposit	$ 27,766	$ -	$ -	$ 27,766
Municipal securities	675	34	-	709
Mortgage-backed securities - residential	41,034	1,427	(26)	42,435
Collateralized mortgage obligations - residential	48,262	1,477	(7)	49,732
SBA-guaranteed loan participation certificates	103	2	-	105
	$ 117,840	$ 2,940	$ (33)	$ 120,747

Mortgage-backed securities and collateralized mortgage obligations reflected in the preceding table were issued by U.S. government-sponsored entities and agencies, Freddie Mac, Fannie Mae and Ginnie Mae, and are obligations which the government has affirmed its commitment to support. All securities reflected in the preceding table were classified as available-for-sale at March 31, 2011 and December 31, 2010.

The amortized cost and fair values of securities at March 31, 2011 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.

	March 31, 2011
	Fair Value

	Amortized Cost	
Within one year	$ 21,218	$ 21,220
One to five years	6,652	6,679
Five to ten years	1,662	1,632
Beyond ten years	4,094	3,988
	33,626	33,519
Equity mutual fund	500	507
Mortgage-backed securities - residential	39,059	40,050
Collateralized mortgage obligations - residential	45,916	47,025
SBA-guaranteed loan participation certificates	52	53
Total	$ 119,153	$ 121,154

Table of Contents

BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 3 Securities *(continued)*

Securities with unrealized losses at March 31, 2011 and December 31, 2010 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
March 31, 2011						
Municipal securities	$ 5,198	$ 147	$ -	$ -	$ 5,198	$ 147
Mortgage-backed securities - residential	14,778	$ 281	-	-	14,778	$ 281
Collateralized mortgage obligations - residential	8,268	43	-	-	8,268	43
Total	$ 28,244	$ 471	$ -	$ -	$ 28,244	$ 471
December 31, 2010						
Mortgage-backed securities residential	$ 7,546	$ 26	$ -	$ -	$ 7,546	$ 26
Collateralized mortgage obligations - residential	5,102	7	-	-	5,102	7
Total	$ 12,648	$ 33	$ -	$ -	$ 12,648	$ 33

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.

The municipal securities, residential mortgage-backed securities and residential collateralized mortgage obligations that the Company holds in its investment portfolio remained in an unrealized loss position at March 31, 2011, but the unrealized losses were not considered impaired under the Company s impairment testing methodology.

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 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 right. 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 past due or when we do not expect to receive full payment of interest or principal. Past due status is based on the contractual terms of the loan.

Table of Contents

BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 4 Loans Receivable *(continued)*

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. Once a loan is placed on non-accrual status, the borrower must generally demonstrate at least six months of payment performance before the loan is eligible to return to accrual status. The Company may have loans classified as 90 days or more past due and still accruing. Generally, the Company does not utilize this category of loan classification unless: (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 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 loan payments actually received or the renewal of the loan has not occurred for administrative reasons.

Loans receivable are as follows:

	March 31, 2011	**December 31, 2010**
One-to-four family residential real estate loans	$ 300,349	$ 256,300
Multi-family mortgage loans	443,802	296,916
Nonresidential real estate loans	326,389	281,987
Construction and land loans	29,643	18,398
Commercial loans	75,137	64,679
Commercial leases	144,923	151,107
Consumer loans	3,383	2,182
Total loans	1,323,626	1,071,569
Net deferred loan origination costs	1,191	1,377
Allowance for loan losses	(22,504)	(22,180)
Loans, net	$ 1,302,313	$ 1,050,766

Loan Origination/Risk Management. The Company has lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. The Company reviews and approves these policies and procedures on a periodic basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and nonperforming and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

The majority of the loans the Company originates are investment and business loans (multi-family, nonresidential real estate, commercial, construction and land loans, and commercial leases). In addition, the Company originates one-to-four family residential mortgage loans and consumer loans, and purchases and sells loan participations from time-to-time. The following briefly describes our principal loan products.

Multi-family mortgage loans generally are secured by multi-family rental properties such as apartment buildings, including subsidized apartment units. In general, loan amounts range between $250,000 and $5.0 million. Approximately 25% of the collateral is located outside of our primary market area; however, the Company does not have a concentration in any single market outside of our primary market territory. In underwriting multi-family mortgage loans, the Company considers a number of factors, including the ratio of projected net cash flow to the loan s debt service requirement (generally requiring a minimum ratio of 115% for loans below $400,000 and 120% for loans above $400,000), the age and condition of the collateral, the financial resources and income level of the borrower, and the borrower s experience in owning or managing similar properties. Multi-family mortgage loans are originated in amounts up to 80% of the appraised value of the property securing the loan. Personal guarantees or a co-borrower structure are typically used for multi-family mortgage loans. The Company s multi-family mortgage loans are generally written as three- or five-year adjustable-rate mortgages or mortgages with balloon maturities of three or five years. Amortization on these loans is typically based on 20- to 25-year schedules, though the Company

BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 4 - Loans Receivable (continued)

will occasionally utilize a 30-year amortization schedule in exchange for a higher stated interest rate.

Loans secured by multi-family mortgages generally involve a greater degree of credit risk than one- to four-family residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family mortgages typically depends upon the successful operation of the related real estate property. If the cash flow from the project is reduced, the borrower s ability to repay the loan may be impaired.

The Company also originates real estate loans principally secured by first liens on nonresidential real estate. The nonresidential real estate properties are predominantly office buildings, light industrial buildings, shopping centers and mixed-use developments and, to a lesser extent, more specialized properties such as nursing homes and other healthcare facilities. The Company may, from time to time, purchase commercial real estate loan participations.

The Company emphasizes nonresidential real estate loans with initial principal balances between $250,000 and $5.0 million. Substantially all of the Company s nonresidential real estate loans are secured by properties located in its primary market area. The Company s nonresidential real estate loans are generally written as three- or five-year adjustable-rate mortgages or mortgages with balloon maturities of three or five years. Amortization on these loans is typically based on 20- to 25-year schedules, though the Company will occasionally utilize a 30-year amortization schedule in exchange for a higher stated interest rate. The Company also originates some 15-year fixed-rate, fully amortizing loans.

In the underwriting of nonresidential real estate loans, the Company generally lends up to 80% of the property s appraised value. Decisions to lend are based on the economic viability of the property and the creditworthiness and experience of the borrower. In evaluating a proposed commercial real estate loan, the Company emphasizes the ratio of the property s projected net cash flow to the loan s debt service requirement (generally requiring a minimum ratio of 120%), computed after deduction for a vacancy factor and property expenses we deem appropriate. Personal guarantees or a co-borrower structure are typically used for nonresidential real estate mortgage loans. The Company requires title insurance insuring the priority of the liens securing the loan, fire and extended coverage casualty insurance, and, if appropriate, flood insurance, in order to protect its security interest in the property.

Nonresidential real estate loans generally carry higher interest rates and have shorter terms than those on one- to four-family residential mortgage loans. Nonresidential real estate loans, however, entail significant additional credit risks compared to one- to four-family residential mortgage loans, as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment of loans secured by income-producing properties typically depends on the successful operation of the related real estate project and thus may be subject to a greater extent to adverse conditions in the real estate market and in the general economy.

The Company makes various types of secured and unsecured commercial loans to borrowers in its market area for the purpose of financing equipment acquisition, expansion, working capital and other general business purposes. The terms of these loans generally range from less than one year to five years. The loans are either negotiated on a fixed-rate basis or carry adjustable interest rates indexed to a lending rate that is determined internally, or a short-term market rate index.

Commercial credit decisions are based upon our credit assessment of the borrower(s). The Company determines the applicant s ability to repay in accordance with the proposed terms of the loans and assesses the risks involved. An evaluation of the borrower is made to determine character and capacity to manage. Personal guarantees or a co-borrower structure are typically used. In addition to evaluating the borrower s financial statements, the Company considers the adequacy of the primary and secondary sources of repayment for the loan. Credit agency reports of the applicant s credit history supplement the Company s analysis of the applicant s creditworthiness and at times are supplemented with inquiries to other banks and trade investigations. Collateral supporting a secured transaction also is analyzed to determine its marketability. Commercial business loans generally have higher interest rates than residential loans of like duration because they have a higher risk of default since their repayment generally depends

Table of Contents

BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 4 - Loans Receivable (continued)

on the successful operation of the borrower s business and the sufficiency of any collateral. Pricing of commercial loans is based primarily on the credit risk of the borrower, with due consideration given to borrowers with appropriate deposit relationships.

The Company also lends money to small and mid-sized leasing companies for equipment financing leases. Generally, commercial leases are secured by an assignment by the leasing company of the lease payments and by a secured interest in the equipment being leased. In general, the lessee acknowledges the Company s security interest in the leased equipment and agrees to send lease payments directly to the Company. Consequently, the Company underwrites lease loans by examining the creditworthiness of the lessee rather than the lessor. Lease loans generally are non-recourse to the leasing company.

The Company s commercial leases are secured primarily by technology assets, medical equipment, material handling equipment and other capital equipment. Lessees tend to be publicly-traded companies with investment-grade rated debt or companies that have not issued public debt and therefore do not have a public debt rating. The Company s loan policy requires that a minimum of 50% of our commercial lessees have an investment grade public debt rating by Moody s or Standard & Poors, or the equivalent at all times. Commercial leases to these entities have a maximum maturity of seven years and a maximum outstanding credit exposure of $10.0 million. Lessees without public debt ratings generally have net worth in excess of $25.0 million. If a lessee does not have a public debt rating, it is subject to the same internal credit analysis as any other borrower. Commercial leases to these lessees have a maximum maturity of five years and a maximum outstanding credit exposure of $3.0 million to any single entity. In addition, the Company will originate commercial leases to lessees with below-investment grade public debt ratings, but these leases are limited to 10% of the commercial lease portfolio and have a maximum outstanding credit exposure of $2.0 million to any single entity. Lease loans are almost always fully amortizing, with fixed interest rates.

Although the Company does not actively originate construction and land loans at present, construction and land loans generally consist of land acquisition loans to help finance the purchase of land intended for further development, including single-family homes, multi-family housing and commercial income property, development loans to builders in our market area to finance improvements to real estate, consisting mostly of single-family subdivisions, typically to finance the cost of utilities, roads, sewers and other development costs. These builders generally rely on the sale of single-family homes to repay development loans, although in some cases the improved building lots may be sold to another builder, often in conjunction with development loans. Construction and land loans typically involve a higher degree of credit risk than financing on improved, owner-occupied real estate. The risk of loss on construction and land loans is largely dependent upon the accuracy of the initial appraisal of the property s value upon completion of construction or development; the estimated cost of construction, including interest; and the estimated time to complete and/or sell or lease such property. The Company seeks to minimize these risks by maintaining consistent lending policies and rigorous underwriting standards. However, if the estimate of value proves to be inaccurate, the cost of completion is greater than expected, the length of time to complete and/or sell or lease the collateral property is greater than anticipated, or if there is a downturn in the local economy or real estate market, the property could have a value upon completion that is insufficient to assure full repayment of the loan. This could have a material adverse effect on the quality of the construction and land loan portfolio, and could result in significant losses or delinquencies.

The Company offers conforming and non-conforming, fixed-rate and adjustable-rate residential mortgage loans with maturities of up to 30 years and maximum loan amounts generally of up to $2.5 million. The Company currently offers fixed-rate conventional mortgage loans with terms of 10 to 30 years that are fully amortizing with monthly payments, and adjustable-rate conventional mortgage loans with initial terms of between three and five years that amortize up to 30 years. One- to four-family residential mortgage loans are generally underwritten according to Fannie Mae guidelines, and loans that conform to such guidelines are referred to as conforming loans. The Company generally originates both fixed- and adjustable-rate loans in amounts up to the maximum conforming loan limits as established by Fannie Mae, which is currently $417,000 for single-family homes. Private mortgage insurance is required for first mortgage loans with loan-to-value ratios in excess of 80%.

The Company also originates loans above conforming limits, sometimes referred to as jumbo loans, that have been underwritten to the credit standards of Fannie Mae. These loans are generally eligible for sale to various firms that

Table of Contents

BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 4 - Loans Receivable (continued)

specialize in the purchase of such non-conforming loans. In the Chicago metropolitan area, jumbo loans are not uncommon. The Company may infrequently originate loans at higher rates that do not fully meet the credit standards of Fannie Mae but are deemed to be acceptable risks.

The markets served by the Company have been impacted by widespread economic weakness and high unemployment, which have contributed to a rise in charge-offs and nonperforming assets. The ability of the Company s borrowers to repay their loans, and the value of the collateral securing such loans, could be further adversely impacted by continued or more significant economic weakness in the Company s local markets as a result of increased unemployment, declining real estate values, or increased residential and office vacancies. This not only could result in the Company experiencing a further increase in charge-offs and/or nonperforming assets, but also could necessitate an increase in the provision for loan losses. These events, if they were to occur, would have an adverse impact on the Company s results of operations and its capital.

Table of Contents

BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - LOANS RECEIVABLE (continued)

Allowance for Losses on Loans and Leases

The following tables present the balance in the allowance for loan losses and the loans receivable by portfolio segment and based on impairment method as of March 31, 2011 and December 31, 2010:

	Allowance for loan losses			Loan Balances			
March 31, 2011	Individually evaluated for impairment	Collectively evaluated for impairment	Total	Individually evaluated for impairment	Purchased impaired loans	Collectively evaluated for impairment	Total
One-to-four family residential real estate loans	$ 975	$ 3,294	$ 4,269	$ 5,334	$ 732	$ 294,283	$ 300,349
Multi-family mortgage loans	2,973	3,829	6,802	13,726	1,387	428,689	443,802
Nonresidential real estate loans	1,701	4,016	5,717	13,310	882	312,197	326,389
Construction and land loans	1,709	410	2,119	5,331	7,739	16,573	29,643
Commercial loans	1,928	1,046	2,974	3,765	1,287		