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 September 30, 2006

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 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. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

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

24,433,950 shares of Common Stock, par value $0.01 per share, were issued and outstanding as of November 10, 2006.

Table of Contents

BANKFINANCIAL CORPORATION

Form 10-Q Quarterly Report

Table of Contents

Table of Contents

PART I

ITEM 1. FINANCIAL STATEMENTS

BANKFINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

September 30, 2006 (Unaudited) and December 31, 2005

(In thousands, except share and per share data)

	September 30, 2006	December 31, 2005
ASSETS		
Cash and due from other financial institutions	$ 34,515	$ 34,437
Interest-bearing deposits in other financial institutions	2,964	3,589
Cash and cash equivalents	37,479	38,026
Securities available-for-sale, at fair value	157,396	248,238
Loans held-for-sale	605	375
Loans receivable, net of allowance for loan losses:		
September 30, 2006, $11,924; and December 31, 2005, $11,514	1,312,114	1,231,891
Stock in Federal Home Loan Bank, at cost	18,911	25,434
Premises and equipment, net	35,069	32,819
Accrued interest receivable	7,484	6,598
Goodwill	22,591	10,865
Core deposit intangible	10,136	8,248
Other assets	8,192	11,942
Total assets	$ 1,609,977	$ 1,614,436
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Deposits	1,106,249	1,067,874
Borrowings	165,082	191,388
Advance payments by borrowers taxes and insurance	3,498	7,969
Accrued interest payable and other liabilities	9,265	18,428
Total liabilities	1,284,094	1,285,659
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, shares authorized: 100,000,000; shares issued at September 30, 2006, 24,462,550 and at December 31, 2005, 24,466,250	245	245
Additional paid-in capital	228,240	240,235
Retained earnings, substantially restricted	113,387	107,528
Unearned Employee Stock Ownership Plan shares	(18,352)	(19,084)
Accumulated other comprehensive income (loss)	2,363	(147)
Total stockholders equity	325,883	328,777

Total liabilities and stockholders equity	$ 1,609,977	$ 1,614,436

See accompanying notes to consolidated financial statements.

Table of Contents

BANKFINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

Three months and nine months ended September 30, 2006 and 2005

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

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Interest and dividend income:				
Loans, including fees	$ 21,625	$ 17,020	$ 61,679	$ 48,440
Securities	2,250	3,229	7,677	8,981
Other	369	536	863	1,600
Total interest income	24,244	20,785	70,219	59,021
Interest expense:				
Deposits	7,987	5,082	21,713	14,746
Borrowings	1,805	1,755	5,922	6,502
Total interest expense	9,792	6,837	27,635	21,248
Net interest income	14,452	13,948	42,584	37,773
Provision (credit) for loan losses	49	334	401	(6)
Net interest income after provision (credit) for loan losses	14,403	13,614	42,183	37,779
Noninterest income:				
Deposit service charges and fees	1,142	1,090	3,176	2,902
Other fee income	466	463	1,409	1,282
Insurance commissions and annuities income	363	265	943	606
Gain on sale of loans, net	95	50	185	179
Gain on sale of securities available for sale, net	89		144	
Gain on disposition of premises and equipment			394	
Loan servicing fees	230	257	711	782
Amortization and impairment of servicing assets	(120)	(73)	(327)	(526)
Operations of real estate owned	(15)	(1)	(46)	4
Other	408	413	1,387	983
Total noninterest income	2,658	2,464	7,976	6,212
Noninterest expense:				
Compensation and benefits	8,237	7,335	23,780	20,829
Office occupancy and equipment	1,530	1,275	4,186	3,681
Advertising and public relations	396	177	950	625
Data processing	873	777	2,486	2,153
Supplies, telephone, and postage	583	490	1,540	1,433
Amortization of intangibles	496	410	1,384	1,229
Other	780	927	2,654	2,746
Total noninterest expense	12,895	11,391	36,980	32,696
Income before income taxes	4,166	4,687	13,179	11,295

Income tax expense		1,371		990		4,340		3,141
Net income	$	2,795	$	3,697	$	8,839	$	8,154
Basic earnings per common share	$	0.12	$	0.16	$	0.39	$	0.16
Diluted earnings per common share	$	0.12	$	0.16	$	0.39	$	0.16
Weighted average common shares outstanding		22,494,808		22,530,598		22,550,208		22,530,598
Diluted weighted average common shares outstanding		22,507,102		22,530,598		22,554,351		22,530,598

See accompanying notes to consolidated financial statements.

4

Table of Contents

BANKFINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY AND

COMPREHENSIVE INCOME

Nine months ended September 30, 2006 and 2005

(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 Comprehen-sive Income (Loss)	Total	Compre-hensive Income
Balance at December 31, 2004	$	$	$ 96,455	$	$ (1,567)	$ 94,888	
Comprehensive income:							
Net income			8,154			8,154	$ 8,154
Change in other comprehensive loss, net of tax effects					1,235	1,235	1,235
Total comprehensive income							$ 9,389
Net proceeds from common stock issued	245	240,007		(19,573)		220,679	
ESOP shares earned		116		254		370	
Balance at September 30, 2005	$ 245	$ 240,123	$ 104,609	$ (19,319)	$ (332)	$ 325,326	
Balance at December 31, 2005	$ 245	$ 240,235	$ 107,528	$ (19,084)	$ (147)	$ 328,777	
Comprehensive income:							
Net income			8,839			8,839	$ 8,839
Change in other comprehensive Income (loss), net of tax effects					2,510	2,510	2,510
Total comprehensive income							$ 11,349
Purchase and retirement of common stock (750,700 shares)	(7)	(13,323)				(13,330)	
Nonvested stock awards:							
Issuance of shares of restricted stock	7	(7)					
Stock-based compensation expense		786				786	
Cash dividends declared on common stock ($0.12 per share)			(2,980)			(2,980)	
ESOP shares earned		549		732		1,281	
Balance at September 30, 2006	$ 245	$ 228,240	$ 113,387	$ (18,352)	$ 2,363	$ 325,883	

See accompanying notes to consolidated financial statements.

Table of Contents

BANKFINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine months ended September 30, 2006 and 2005

(In thousands) - (Unaudited)

	Nine months ended September 30, 2006	2005
Cash flows from operating activities		
Net income	$ 8,839	$ 8,154
Adjustments to reconcile to net income to net cash from operating activities		
Provision (credit) for loan losses	401	(6)
ESOP shares earned	1,281	370
Stock-based compensation expense	786	
Depreciation and amortization	2,757	2,658
Amortization of premiums and discounts	112	277
Amortization of premium on early extinguishment of debt		388
Amortization of core deposit and other intangible assets	1,404	1,385
Amortization and impairment of servicing assets	327	526
Net change in net deferred loan origination costs	64	(259)
Net gain on sale of real estate owned	18	
Net gain on sale of loans	(185)	(179)
Net gain on sale of securities	(144)	
Gain on disposition of premises and equipment	(394)	
Loans originated for sale	(19,021)	(13,569)
Proceeds from sale of loans	19,476	18,756
Federal Home Loan Bank of Chicago stock dividends		(971)
Net change in:		
Deferred income tax	2,356	189
Accrued interest receivable	(336)	(750)
Other assets	(1,365)	426
Accrued interest payable and other liabilities	(9,897)	1,034
Net cash from operating activities	6,479	18,429
Cash flows from investing activities		
Securities available-for-sale		
Proceeds from sales	145,154	
Proceeds from maturities	51,604	9,946,874
Proceeds from principal repayments	26,640	34,974
Purchase of securities	(47,301)	(9,946,609)
Loans receivable		
Principal payments on loans receivable	460,593	327,997
Purchases	(34,237)	(76,529)
Originated for investment	(489,571)	(319,472)
Proceeds from redemption of stock in Federal Home Loan Bank	6,523	
Proceeds from sale of real estate owned	114	
Purchase of premises and equipment, net	(868)	(1,690)
Cash paid, net of cash and cash equivalents, in acquisition	(13,380)	
Net cash from investing activities	105,271	(34,455)

(Continued)

Table of Contents

BANKFINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOW

Nine months ended September 30, 2006 and 2005

(In thousands) - (Unaudited)

	Nine months ended September 30, 2006	2005
Cash flows from financing activities		
Net change in deposits	$ (65,138)	$ (71,454)
Net change in advance payments by borrowers for taxes and insurance	(4,543)	3,770
Net change in borrowings	(26,306)	(83,878)
Net proceeds from sale of common stock		220,679
Repurchase and retirement of common stock	(13,330)	
Cash dividends paid on common stock	(2,980)	
Net cash from financing activities	(112,297)	69,117
Net change in cash and cash equivalents	(547)	53,091
Beginning cash and cash equivalents	38,026	29,298
Ending cash and cash equivalents	$ 37,479	$ 82,389
Supplemental Disclosures of Cashflow Information:		
Interest paid	$ 27,486	$ 20,783
Income taxes paid	3,670	2,710
Loans transferred to real estate owned		
Loans securitized		24,213
Supplemental Disclosures of Noncash Investing Activities - Acquisition		
Noncash assets acquired:		
Investment securities available for sale	$ 81,014	$
Loans, net	17,782	
Premises and equipment, net	2,878	
Goodwill, net	11,726	
Other intangible assets, net	3,272	
Other assets	999	
Total noncash assets acquired	117,671	
Liabilities assumed:		
Deposits	$ 103,485	$
Accrued expenses and other liabilities	806	
Total liabilities assumed	104,291	
Cash paid, net of cash and cash equivalents, in acquisition	$ 13,380	$

Cash and cash equivalents acquired	$	10,728	$	

See accompanying notes to consolidated financial statements.

Table of Contents

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) became the owner of all of the issued and outstanding capital stock of BankFinancial, F.S.B. (the Bank) on June 23, 2005, when the Company consummated a plan of conversion and reorganization that the Bank and its predecessor holding companies, BankFinancial MHC, Inc. (BankFinancial MHC) and BankFinancial Corporation, a federal corporation, adopted on August 25, 2004. BankFinancial Corporation, the Maryland corporation, was organized in 2004 to facilitate the mutual-to-stock conversion and to become the holding company for the Bank upon its completion.

As part of the mutual-to-stock conversion, BankFinancial Corporation, the Maryland corporation, sold 24,466,250 shares of common stock in a subscription offering for $10.00 per share. The separate corporate existences of BankFinancial MHC and BankFinancial Corporation, the federal corporation, ceased upon the completion of the mutual-to-stock conversion. For a further discussion of the mutual-to-stock conversion, see our Prospectus as filed on April 29, 2005 with the Securities and Exchange Commission pursuant to Rule 424(b)(3) of the Rules and Regulations of the Securities Act of 1933 (File Number 333-119217).

BankFinancial Corporation, the Maryland corporation, did not engage in any business prior to the completion of the mutual-to-stock conversion on June 23, 2005. Consequently, the accompanying 2005 and 2006 unaudited consolidated financial statements reflect the financial condition and operating results of BankFinancial MHC and BankFinancial Corporation, the federal corporation, and their direct and indirect subsidiaries, the Bank, Financial Assurance Services, Inc. and BF Asset Recovery Corporation, until June 23, 2005, and of BankFinancial Corporation, the Maryland corporation, and the above subsidiaries thereafter.

As used in this Quarterly Report on Form 10-Q, the words Company, we and our are intended to refer to BankFinancial MHC, BankFinancial Corporation, the federal corporation, and the above subsidiaries, with respect to matters and time periods occurring on or before June 23, 2005, including the information presented for the three-month and nine-month periods ended September 30, 2005, and to BankFinancial Corporation, the Maryland corporation, and the above subsidiaries, with respect to matters and time periods occurring thereafter, including the information presented for the three-month and nine-month periods ended September 30, 2006.

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 and nine-month periods ended September 30, 2006, are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2006.

Certain information and note disclosures normally included in financial statements and prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission.

To prepare financial statements in conformity with U.S. generally accepted accounting principles, 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 loan servicing rights, impairment of securities and the fair value of investment securities and financial instruments are particularly subject to change.

Certain reclassifications have been made in the prior period s financial statements to conform with 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, 2005, 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)

(unaudited)

Note 2 Acquisitions

On April 5, 2006, the Company completed its previously announced acquisition of University National Bank, a privately held community bank with approximately $112 million in assets and $103 million in deposits, and two banking offices in the Hyde Park community in Chicago, Illinois, for approximately $24 million in cash pursuant to the terms of a Stock Purchase Agreement with University Bancorporation dated November 29, 2005. Immediately upon the completion of the stock purchase, University National Bank was merged into the Bank. The acquisition, which was accounted for under the purchase method of accounting, resulted in goodwill of $11.7 million and a core deposit intangible of $3.3 million. The transaction was treated, for federal and state income tax purposes, as a purchase of University National Bank s assets pursuant to applicable provisions of the Internal Revenue Code, making the goodwill and core deposit intangible arising from the transaction tax-deductible over a period of 15 years. University National Bank s results of operations have been included in the Company s results of operations only since the effective date of the acquisition. The acquisition was deemed to be an immaterial acquisition under U.S. generally accepted accounting principles.

Note 3 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. Earnings per share for the nine-month period ended September 30, 2005 is calculated based on the period of time from the completion date of our mutual-to-stock conversion, June 23, 2005, through the period ended September 30, 2005.

	Three months ended September 30,		Nine months ended September 30,	
	2006	**2005**	**2006**	**2005**
Net income	$ 2,795	$ 3,697	$ 8,839	$ 8,154
Less net income before conversion				4,457
Net income available to common stockholders	$ 2,795	$ 3,697	$ 8,839	$ 3,697
Average common shares outstanding	24,556,236	24,466,250	24,496,575	24,466,250
Less: Unearned ESOP shares	(1,851,346)	(1,935,652)	(1,875,570)	(1,935,652)
Unvested restricted stock shares	(210,082)		(70,797)	
Weighted average common shares outstanding	22,494,808	22,530,598	22,550,208	22,530,598
Basic earnings per common share	$ 0.12	$ 0.16	$ 0.39	$ 0.16

Table of Contents

BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(unaudited)

Note 3 Earnings per share (continued)

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Net income	$ 2,795	$ 3,697	$ 8,839	$ 8,154
Less: net income before conversion				4,457
Net income available to common stockholders	$ 2,795	$ 3,697	$ 8,839	$ 3,697
Weighted average common shares outstanding	22,494,808	22,530,598	22,550,208	22,530,598
Net effect of dilutive stock options and unvested restricted stock	12,294		4,143	
Weighted average dilutive common shares outstanding	22,507,102	22,530,598	22,554,351	22,530,598
Dilutive earnings per common share	$ 0.12	$ 0.16	$ 0.39	$ 0.16
Number of anti-dilutive stock options excluded from the diluted earnings per share calculation	1,140,000	N.A.	1,140,000	N.A.
Weighted average exercise price of anti-dilutive option shares	$ 17.62	N.A.	$ 17.62	N.A.

N.A. not applicable

Note 4 Securities

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

	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
September 30, 2006			
Municipal securities	$ 2,856	$ 62	$ (1)
Mortgage-backed securities	68,175	205	(1,236)
Collateralized mortgage obligations	14,253	74	(2)
SBA-guaranteed loan participation certificates	920	1	(6)
Corporate bonds and other securities	782	16	
Equity securities	70,410	4,810	
	$ 157,396	$ 5,168	$ (1,245)

December 31, 2005			
Municipal securities	$ 3,145	$ 62	$ (2)
Mortgage-backed securities	154,428	228	(3,764)
Collateralized mortgage obligations	1,642	27	
SBA-guaranteed loan participation certificates	1,853	1	(7)
Equity securities	87,170	4,010	(800)
	$ 248,238	$ 4,328	$ (4,573)

Table of Contents

BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(unaudited)

Note 4 Securities *(Continued)*

At September 30, 2006, our debt securities consisted of mortgage-backed pass-through securities issued or sponsored by Fannie Mae, Freddie Mac or Ginnie Mae, collateralized mortgage obligations and real estate mortgage investment conduits guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae, SBA guaranteed loan participation certificates, corporate and municipal securities. Our equity securities consisted almost entirely of shares of four floating rate and one fixed rate preferred stocks issued by a government-sponsored entity, Freddie Mac. All of our investment securities reflected in the preceding table were classified as available-for-sale at September 30, 2006.

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.

Securities with significant declines in fair value are evaluated on a quarterly basis to determine whether they should be considered other-than-temporarily impaired under Securities and Exchange Commission Staff Accounting Bulletin No. 59, which 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 must assess whether the impairment is other-than-temporary. The Company evaluated the securities in our investment portfolio that had significant declines in fair value at September 30, 2006 and September 30, 2005, and concluded that the declines were primarily attributable to increases in interest rates rather than credit quality or other issuer-specific factors. Since the Company had the ability and intent at September 30, 2006, to hold these investments until a recovery occurred or the securities matured, and the carrying cost of these securities was projected to recover as market interest rates change, the Company did not consider the declines in fair value to be other-than-temporary impairments. No unrealized losses existed at September 30, 2006 with respect to our marketable equity securities, including our Freddie Mac floating rate preferred stocks.

Sale of securities available-for-sale were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Proceeds	$ 90,913	$	$ 145,154	$
Gross gains	2,725		2,780	
Gross losses	(2,636)		(2,636)	

Note 5 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 their aggregate cost or market value. The Company sells a portion of its mortgage loan production in the secondary market. The Company obtains sales commitments on certain of these loans immediately prior to making the origination commitment. Net unrealized losses are recognized by charges to income. Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the cost allocated to 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 loan sold.

Table of Contents

BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(unaudited)

Note 5 Loans Receivable *(Continued)*

Premiums and discounts associated with loans purchased are amortized over the expected life 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 the loan is 90 days delinquent unless the loan is well-secured and in process of 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 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. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loans receivable are as follows:

	September 30, 2006	December 31, 2005
One- to four-family residential real estate loans	$ 409,288	$ 404,196
Multi-family mortgage loans	292,100	280,238
Nonresidential real estate loans	307,619	275,418
Construction and land loans	83,526	80,705
Commercial loans	84,947	68,988
Commercial leases	135,019	121,898
Consumer loans	3,989	2,022
Other loans (including municipal)	4,959	5,219
Total loans	1,321,447	1,238,684
Loans in process	113	2,180
Net deferred loan origination costs	2,478	2,541
Allowance for loan losses	(11,924)	(11,514)
Loans, net	$ 1,312,114	$ 1,231,891

Activity in the allowance for loan losses is as follows:

	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Beginning balance	$ 11,514	$ 11,019
Allowance of acquired bank	212	
Provision (credit) for loan losses	401	(6)
Loans charged off	(205)	(86)
Recoveries	2	4

Ending balance	$ 11,924	$ 10,931

Table of Contents

BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(unaudited)

Note 5 Loans Receivable *(Continued)*

Impaired loans are as follows:

	September 30, 2006	December 31, 2005
Loans with allocated allowance for loan losses	$ 5,448	$ 7,793
Loans with no allocated allowance for loan losses	10,292	6,881
Total impaired loans	$ 15,740	$ 14,674
Amount of the allowance for loan losses allocated	$ 1,385	$ 1,813
Average of impaired loans during the period	$ 14,981	$ 15,215

Interest income received on impaired loans was approximately $768,000 for each of the nine-month periods ended September 30, 2006 and 2005, respectively. Interest income received on impaired loans was approximately $273,000 and $220,000 for the three-month periods ended September 30, 2006 and 2005, respectively.

Nonperforming loans are as follows:

	September 30, 2006	December 31, 2005
Nonaccrual loans	$ 8,469	$ 5,723
90 days delinquent, still accruing		
Nonperforming loans	$ 8,469	$ 5,723

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

The allowance for loan losses is a valuation allowance for probable incurred credit losses inherent in the loan portfolio. In determining the level of the allowance for loan losses, management considers past and current loss experience, evaluations of collateral, current economic conditions, volume and type of lending, adverse situations that may affect a borrower s ability to repay a loan, the levels of nonperforming and other classified loans, and other relevant 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. Commercial and commercial real estate loans 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 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.

Table of Contents

BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(unaudited)

Note 6 Deposits

Deposits are as follows:

	September 30, 2006	December 31, 2005
Non-interest-bearing demand	$ 130,491	$ 117,443
Interest-bearing NOW	251,938	227,893
Money market accounts	250,767	248,871
Savings	118,898	123,260
Certificates of deposit	354,155	350,407
	$ 1,106,249	$ 1,067,874

Included in certificates of deposit are $7.3 million and $9.8 million of brokered deposits at September 30, 2006 and December 31, 2005, respectively. All brokered deposits have balances over $100,000.

Interest expense on deposit accounts is summarized as follows for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Interest-bearing NOW	$ 1,127	$ 583	$ 2,795	$ 1,645
Money market accounts	2,661	1,578	7,315	4,218
Savings	251	249	781	767
Certificates of deposit	3,948	2,672	10,822	8,116
	$ 7,987	$ 5,082	$ 21,713	$ 14,746

Note 7 Employee Stock Ownership Plan

The Bank established an Employee Stock Ownership Plan (ESOP) for its employees effective January 1, 2004. The ESOP covers all eligible employees of the Bank and its subsidiaries. Employees are eligible to participate in the ESOP after attainment of age 21 and completion of one year of service. In connection with our mutual-to-stock conversion, the ESOP borrowed $19.6 million from the Company, and used the proceeds of the loan to purchase 1,957,300 shares of common stock issued in the subscription offering at $10.00 per share. The loan is secured by the shares that were purchased with the loan proceeds and will be repaid by the ESOP with funds from the Bank s discretionary contributions to the ESOP and earnings on ESOP assets. The Bank has committed to make discretionary contributions to the ESOP in amounts sufficient to service the loan over a period not to exceed 20 years. Expense related to the ESOP was $210,000 and $345,000 for the three months ended September 30, 2006 and 2005, respectively, and $1.0 million and $370,000 for the nine months ended September 30, 2006 and 2005, respectively.

Note 8 Equity Incentive Plans

On June 27, 2006, the Company s stockholders approved the BankFinancial Corporation 2006 Equity Incentive Plan, which authorized the Human Resources Committee of the Board of Directors of the Company to grant a variety of cash- and equity-based incentive awards, including stock options, stock appreciation rights, restricted stock, performance shares and other incentive awards, to employees and directors aggregating up to 3,425,275 shares of the Company s common stock.

Table of Contents

BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(unaudited)

Note 8 Equity Incentive Plans *(Continued)*

In September 2006, the Human Resources Committee granted stock options to purchase 1,140,000 shares of the Company s common stock to certain employees and directors of the Company. The exercise price for the stock options is the fair market value of the common stock on the dates of the grants. The stock options generally vest annually over three-, four- or five-year periods commencing in the fourth quarter of 2006, and vesting is subject to acceleration in certain circumstances. The stock options will expire if not exercised within five years from the date of grant.

The Company has adopted the requirements of SFAS No. 123R, *Share-Based Payment*. The Company estimated the grant date fair value of each stock option awarded in 2006 using the Black-Scholes Option-Pricing model with the following assumptions:

	Assumptions
Risk-free interest rate	4.78%
Expected option life (years)	3.58
Expected stock price volatility	11.36%
Expected forfeiture	0.00%
Dividend yield	1.36%
Weighted average fair value of options granted during year	$ 1.497

The Company recognized $81,000 of expenses relating to the granting of stock options during the three and nine months ended September 30, 2006. As of September 30, 2006, the Company had $1.6 million of total unrecognized compensation cost related to unvested stock options. That cost is expected to be recognized over a weighted average period of 2.0 years as follows:

2006	$ 300
2007	395
2008	395
2009	277
2010	246

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (1)
Stock options outstanding at December 31, 2005		$		
Stock options granted	1,140,000	17.62		
Stock options exercised				
Stock options forfeited				
Stock options outstanding at September 30, 2006	1,140,000	$ 17.62	2.2	$

Stock options exercisable at September 30, 2006	$

(1) Stock option aggregate intrinsic value represents the number of shares subject to options multiplied by the difference (if positive) in the closing market price of the common stock underlying the options on the date shown and the weighted average exercise price.

Table of Contents

BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(unaudited)

Note 8 Equity Incentive Plans *(Continued)*

In September 2006, the Company granted 747,000 shares of restricted stock to certain employees and directors of the Company. The awards generally vest annually over varying periods from three to five years commencing in the fourth quarter of 2006, and vesting is subject to acceleration in certain circumstances. The cost of such awards will be accrued ratably as compensation expense over such respective periods based on expected vesting dates. The Company recognized $705,000 of expenses relating to the grant of shares of restricted stock during the three and nine months ended September 30, 2006. As of September 30, 2006, the total unrecognized compensation cost related to unvested shares of restricted stock was $12.5 million. The cost expected to be recognized over a weighted average period of 1.8 years is as follows:

2006	$ 2,654
2007	3,235
2008	3,235
2009	1,855
2010	1,480

	Number of Shares (2)	Weighted Average Fair Value at Grant Date	Weighted Average Term to Vest (in years)	Aggregate Intrinsic Value (3)
Shares outstanding at December 31, 2005		$		
Shares granted	747,000	17.62		
Shares vested				
Shares forfeited				
Shares outstanding at September 30, 2006	747,000	$ 17.62	1.9	$ 13,065

(2) The end of period balances consist only of unvested shares.
(3) Restricted stock aggregate intrinsic value represents the number of shares of restricted stock multiplied by the market price of the common stock underlying the outstanding shares on the date shown.

Note 9 Other Comprehensive Income

Other comprehensive income components were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Net income	$ 2,795	$ 3,697	$ 8,839	$ 8,154
Other comprehensive income:				
Unrealized holding gains on securities available for-sale	952	(1,529)	4,312	2,049
Tax effect	(378)	608	(1,715)	(814)

Unrealized holding gains on securities available for-sale, net of tax effect	574	(921)	2,597	1,235
Less reclassification adjustment for gains recognized in income	(89)		(144)	
Tax effect	35		57	

Less reclassification adjustment for gains recognized in income, net of tax