BankFinancial CORP
Form 10-K
March 11, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012
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)
Registrant's telephone number, including area code: (800) 894-6900

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:	Name of Each Exchange on Which Registered:
Common Stock, par value $0.01 per share	NASDAQ Global Select Stock Market

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark whether the issuer is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ¨ No x.
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x.
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 x No ¨
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 by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x.

The aggregate market value of the registrant’s outstanding voting common stock held by non-affiliates on June 30, 2012, determined using a per share closing price on that date of $7.53, as quoted on The Nasdaq Stock Market, was $149.6 million.

At March 8, 2013, there were 21,072,966 shares of common stock, $0.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

BANKFINANCIAL CORPORATION
Form 10-K Annual Report
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PART I

ITEM 1. BUSINESS

Forward Looking Statements

This Annual Report on Form 10-K contains, and other periodic and current reports, press releases and other public stockholder communications of BankFinancial Corporation may contain, forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, that involve significant risks and uncertainties. Forward-looking statements may include statements relating to our future plans, strategies and expectations, as well as our future revenues, earnings, losses, financial performance, financial condition, asset quality metrics and future prospects. Forward looking statements are generally identifiable by use of the words “believe,” “may,” “will,” “should,” “could,” “expect,” “estimate,” “intend,” “anticipate,” “project,” “plan,” or similar expressions. Forward looki statements speak only as of the date made. They are frequently based on assumptions that may or may not materialize, and are subject to numerous uncertainties that could cause actual results to differ materially from those anticipated in the forward looking statements. We intend all forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for the purpose of invoking these safe harbor provisions.

Factors that could cause actual results to differ materially from the results anticipated or projected and which could materially and adversely affect our operating results, financial condition or future prospects include, but are not limited to: (i) the failure of the real estate market to recover or further declines in real estate values that adversely impact the value of our loan collateral and other real estate owned ("OREO"), asset dispositions and the level of borrower equity in their investments; (ii) the persistence or worsening of adverse economic conditions in general and in the Chicago metropolitan area in particular, including high or increasing unemployment levels, that could result in increased delinquencies in our loan portfolio or a decline in the value of our investment securities and the collateral for our loans; (iii) results of supervisory monitoring or examinations by regulatory authorities, including the possibility that a regulatory authority could, among other things, require us to increase our allowance for loan losses or adversely change our loan classifications, write-down assets, reduce credit concentrations or maintain specific capital levels; (iv) interest rate movements and their impact on customer behavior and our net interest margin; (v) less than anticipated loan growth due to a lack of demand for specific loan products, competitive pressures or a dearth of borrowers who meet our underwriting standards; (vi) changes, disruptions or illiquidity in national or global financial markets; (vii) the credit risks of lending activities, including risks that could cause changes in the level and direction of loan delinquencies and charge-offs or changes in estimates relating to the computation of our allowance for loan losses; (viii) monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and Federal Reserve Board; (ix) factors affecting our ability to access deposits or cost-effective funding, and the impact of competitors’ pricing initiatives on our deposit products; (x) the impact of new legislation or regulatory changes, including the Dodd-Frank Act, on our products, services, operations and operating expenses; (xi) higher federal deposit insurance premiums; (xii) higher than expected overhead, infrastructure and compliance costs; (xiii) changes in accounting principles, policies or guidelines; and (xiv) and our failure to achieve expected synergies and cost savings from acquisitions.

These risks and uncertainties, as well as the Risk Factors set forth in Item 1A below, should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. We do not undertake any obligation to update any forward-looking statement in the future, or to reflect circumstances and events that occur after the date on which the forward-looking statement was made.

BankFinancial Corporation

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 we consummated a plan of conversion and reorganization that the Bank and its predecessor holding companies, BankFinancial MHC, Inc. 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 ("SEC") pursuant to Rule 424(b)(3) of the Rules and Regulations of the Securities Act of 1933 (File Number 333-119217).

We manage our operations as one unit, and thus do not have separate operating segments. Our chief operating decision-makers use consolidated results to make operating and strategic decisions.

BankFinancial, F.S.B.

The Bank is a full-service, community-oriented federal savings bank principally engaged in the business of commercial, family and personal banking, and it offers our customers a broad range of loan, deposit, and other financial products and services through 20 full-service Illinois based banking offices located in Cook, DuPage, Lake and Will Counties, and through our Internet Branch, www.bankfinancial.com.

The Bank's primary business is making loans and accepting deposits. The Bank also offers our customers a variety of financial products and services that are related or ancillary to loans and deposits, including cash management, funds transfers, bill payment and other online banking transactions, automated teller machines, safe deposit boxes, trust services, wealth management, and general insurance agency services.

The Bank's primary lending area consists of the counties where our branch offices are located, and contiguous counties in the State of Illinois. We derive the most significant portion of our revenues from these geographic areas. Through our Wholesale Commercial Lending and National Commercial Leasing Departments, we also engage in multi-family lending activities in selected metropolitan areas outside our primary lending area and in commercial leasing activities on a nationwide basis.

We originate deposits predominantly from the areas where our branch offices are located. We rely on our favorable locations, customer service, competitive pricing, our Internet Branch and related deposit services such as cash management to attract and retain these deposits. While we accept certificates of deposit in excess of the Federal Deposit Insurance Corporation ("FDIC") deposit insurance limits, we generally do not solicit such deposits because they are more difficult to retain than core deposits and at times are more costly than wholesale deposits.

Lending Activities

Our loan portfolio consists primarily of investment and business loans (multi-family, nonresidential real estate, commercial, construction and land loans, and commercial leases), which represented 78.9% of our total loan portfolio of $1.030 billion at December 31, 2012. At December 31, 2012, $352.0 million, or 33.6%, of our total loan portfolio consisted of multi-family mortgage loans; $264.7 million, or 25.3%, of our total loan portfolio consisted of nonresidential real estate loans; $61.4 million, or 5.9%, of our total loan portfolio consisted of commercial loans; $139.8 million, or 13.3%, of our total loan portfolio consisted of commercial leases; and $8.6 million or 0.8%, of our total loan portfolio consisted of construction and land loans. $218.6 million, or 20.9%, of our total loan portfolio consisted of one-to-four family residential mortgage loans (of which $58.3 million, or 5.6% were loans to investors in non-owner occupied single-family homes), including home equity loans and lines of credit.

Deposit Activities

Our deposit accounts consist principally of savings accounts, NOW accounts, checking accounts, money market accounts, certificates of deposit, and IRAs and other retirement accounts. We provide commercial checking accounts and related services such as cash management. We also provide low-cost checking account services. We rely on our favorable locations, customer service, competitive pricing, our Internet Branch and related deposit services such as cash management to attract and retain deposit accounts.

At December 31, 2012, our deposits totaled $1.282 billion. Interest-bearing deposits totaled $1.148 billion and noninterest-bearing demand deposits totaled $134.6 million, which included $5.8 million in internal checking accounts such as bank cashier's checks and money orders. Savings, money market and NOW account deposits totaled $842.5 million, and certificates of deposit totaled $305.3 million, of which $212.9 million had maturities of one year or less.

Related Products and Services

The Bank's Wealth Management Group provides investment, financial planning and other wealth management services to our customers through arrangements with a third-party broker-dealer. The Bank also provides trust and financial planning services through the Trust Department that we acquired in the Downers Grove National Bank transaction. The Bank's wholly-owned subsidiary, Financial Assurance Services, Inc. ("Financial Assurance"), sells property and casualty insurance and other insurance products on an agency basis. During the year ended December 31, 2012, Financial Assurance reported net income of $69,000. At December 31, 2012, Financial Assurance had three full-time employees. The Bank's other wholly-owned subsidiary, BF Asset Recovery Corporation, is in the business of

holding title to and selling certain Bank-owned real estate acquired through collection action, and reported a loss of $5.3 million for the year ended December 31, 2012.

Website and Stockholder Information

The website for the Company and the Bank is www.bankfinancial.com. Information on this website does not constitute part of this Annual Report on Form 10-K.

The Company makes available, free of charge, its Annual Report on Form 10-K, its Quarterly Reports on Form 10-Q, its Current Reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities

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Exchange Act of 1934, as amended ("Exchange Act"), as soon as reasonably practicable after such forms are filed with or furnished to the SEC. Copies of these documents are available to stockholders at BankFinancial's web site, www.bankfinancial.com, under Stockholder Information, and at the SEC's web site, www.sec.gov.

Competition

We face significant competition in originating loans and attracting deposits. The Chicago Metropolitan Area and some other areas in which we operate have a high concentration of financial institutions, many of which are significantly larger institutions that have greater financial resources than we have, and many of which are our competitors to varying degrees. Our competition for loans and leases comes principally from commercial banks, savings banks, mortgage banking companies, the U.S. Government, credit unions, leasing companies, insurance companies, real estate conduits and other companies that provide financial services to businesses and individuals. Our most direct competition for deposits has historically come from commercial banks, savings banks and credit unions. We face additional competition for deposits from online financial institutions and non-depository competitors such as the mutual fund industry, securities and brokerage firms and insurance companies.

We seek to meet this competition by emphasizing personalized service and efficient decision-making tailored to individual needs. In addition, we reward long-standing relationships with preferred rates and terms on deposit products based on existing and prospective lending business. We do not rely on any individual, group or entity for a material portion of our loans or our deposits.

Employees

At December 31, 2012, we had 332 full-time employees and 34 part-time employees. The employees are not represented by a collective bargaining unit and we consider our working relationship with our employees to be good.

Supervision and Regulation

General

As a federally chartered savings bank, the Bank is regulated and supervised primarily by the Office of the Comptroller of the Currency ("OCC"). The Bank is also subject to regulation by the FDIC in more limited circumstances because the Bank's deposits are insured by the FDIC. This regulatory and supervisory structure establishes a comprehensive framework of activities in which a financial institution may engage, and is intended primarily for the protection of the FDIC's deposit insurance fund, depositors and the banking system. Under this system of federal regulation, financial institutions are periodically examined to ensure that they satisfy applicable standards with respect to their capital adequacy, assets, management, earnings, liquidity and sensitivity to market interest rates. The OCC examines the Bank and prepares reports for the consideration of its Board of Directors on any identified deficiencies. After completing an examination, the OCC issues a report of examination and assigns a rating (known as an institution's CAMELS rating). Under federal law and regulations, an institution may not disclose the contents of its reports of examination or its CAMELS ratings to the public.

The Bank is a member of, and owns stock in, the Federal Home Loan Bank of Chicago ("FHLBC"), which is one of the 12 regional banks in the Federal Home Loan Bank System. The Bank also is regulated by the Board of Governors of the Federal Reserve System ("FRB") with regard to reserves it must maintain against deposits, dividends and other matters. The Bank's relationship with its depositors and borrowers also is regulated in some respects by both federal and state laws, especially in matters concerning the ownership of deposit accounts, and the form and content of the Bank's consumer loan documents.

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), which was signed by the President on July 21, 2010, provided for the transfer of the authority for regulating and supervising federal savings banks from the Office of Thrift Supervision ("OTS"), the Bank's previous regulator, to the OCC. The Dodd-Frank Act also provided for the transfer of authority for regulating and supervising savings and loan holding companies and their non-depository subsidiaries from the OTS to the FRB. The transfers occurred on July 21, 2011. The Dodd-Frank Act also created a new federal agency, the Consumer Financial Protection Bureau ("CFPB"), as an independent bureau within the FRB system, to conduct rule-making, supervision, and enforcement of federal consumer financial protection and fair lending laws and regulations. The CFPB has examination and primary enforcement authority in connection with these laws and regulations for depository institutions with total assets of more than $10 billion.

Depository institutions with $10 billion or less in total assets, such as the Bank, continue to be examined for compliance with these laws and regulations by their primary federal regulators, and remain subject to their enforcement authority.

The Dodd-Frank Act also broadened the base for FDIC assessments for deposit insurance, permanently increased the maximum amount of deposit insurance to $250,000 per depositor and provided non-interest bearing transaction accounts with unlimited deposit insurance through December 31, 2012. The Dodd-Frank Act increased shareholder influence over boards of directors by requiring companies to give shareholders a non-binding vote on executive compensation and so-called “golden parachute” payments. The legislation directed the FRB to promulgate rules prohibiting excessive compensation paid to company executives, regardless of whether the company is publicly traded. The Dodd-Frank Act also provided for originators of certain securitized loans to retain a percentage of the risk for transferred credits, directed the FRB to regulate pricing of certain debit card interchange

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fees, repealed restrictions on paying interest on checking accounts and contained a number of reforms related to mortgage origination.

There can be no assurance that laws, rules and regulations, and regulatory policies will not change in the future, which could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition, results of operations or prospects. Any change in these laws or regulations, or in regulatory policy, whether by the OCC, the FDIC, the FRB, the CFPB or Congress, could have a material adverse impact on the Company, the Bank and their respective operations. The following summary of laws and regulations applicable to the Bank and Company is not intended to be exhaustive and is qualified in its entirety by reference to the actual laws and regulations involved.

Federal Banking Regulation

Business Activities. As a federal savings bank, the Bank derives its lending and investment powers from the Home Owners' Loan Act, as amended, and the regulations, pronouncements or guidance of the OCC. Under these laws and regulations, the Bank may invest in mortgage loans secured by residential and nonresidential real estate, commercial business and consumer loans, certain types of securities and certain other loans and assets. Specifically, the Bank may originate, invest in, sell, or purchase unlimited loans on the security of residential real estate, while loans on nonresidential real estate generally may not, on a combined basis, exceed 400% of the Bank's total capital. In addition, secured and unsecured commercial loans and certain types of commercial personal property leases may not exceed 20% of the Bank's assets; however, amounts in excess of 10% of assets may only be used for small business loans. Further, the Bank may generally invest up to 35% of its assets in consumer loans, corporate debt securities and commercial paper on a combined basis, and up to the greater of its capital or 5% of its assets in unsecured construction loans. The Bank may invest up to 10% of its assets in tangible personal property, for rental or sale. Certain leases on tangible personal property are not aggregated with commercial or consumer loans for the purposes of determining compliance with the limitations set forth for those investment categories. The Bank also may establish subsidiaries that may engage in activities not otherwise permissible for the Bank directly, including real estate investment and insurance agency activities. A violation of the lending and investment limitations may be subject to the same enforcement mechanisms of the primary federal regulator as other violations of a law or regulation.

Capital Requirements. Federal regulations require federal savings banks to meet three minimum capital standards: a ratio of tangible capital to adjusted total assets of 1.5%; a ratio of Tier 1 (core) capital to adjusted total assets of 4.0% (3% for institutions receiving the highest rating on the CAMELS rating system); and a ratio of total capital to total risk-adjusted assets of 8.0%. The prompt corrective action standards discussed below, in effect, establish a minimum 2% tangible capital standard. The OCC is also authorized to establish individual minimum capital requirements for federal savings banks in excess of the above minimum capital standards.

The risk-based capital standard for federal savings banks requires the maintenance of Tier 1, or core capital, and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100%, assigned by the capital regulations based on the risks inherent in the type of asset. Core capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative perpetual preferred stock, long-term preferred stock, mandatory convertible securities, subordinated debt and intermediate-term preferred stock, allowance for loan and lease losses up to a maximum of 1.25% of risk-weighted assets and up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital. Additionally, a savings bank that retains credit risk in connection with an asset sale may be required to maintain additional regulatory capital because of the recourse back to the savings bank.

At December 31, 2012, the Bank's capital exceeded all applicable regulatory requirements and was well capitalized.

Proposed Capital Regulations The federal banking agencies have proposed regulations that would substantially amend the capital regulations currently applicable to us. The proposed regulations would implement the "Basel III" regulatory

capital reforms and changes required by the Dodd-Frank Act. “Basel III” refers to various documents released by the Basel Committee on Banking Supervision. As published, the proposed regulations contemplated a general effective date of January 1, 2013, and, for certain provisions, various phase-in periods and later effective dates. However, the federal banking agencies have announced that the proposed regulations will not be effective on January 1, 2013. The agencies have not adopted final rules or published any modifications to the proposed regulations. The proposed regulations as published are summarized below. It is not possible to predict when or in what form final regulations may be adopted.

The proposed regulations include new minimum capital ratios, to be phased in until fully effective on January 1, 2015, and would refine the definitions of what constitutes “capital” for purposes of calculating those ratios. The proposed new minimum capital

ratios would be: (1) a new common equity Tier 1 capital ratio of 4.5%; (2) a Tier 1 capital ratio of 6% (increased from 4%); (3) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4%. The proposed regulations would also establish a "capital conservation buffer" requirement of 2.5% above each of the new regulatory minimum capital ratios to be phased in starting on January 1, 2016 and fully effective on January 1, 2019. An institution would be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if any of its capital levels fell below the buffer amount.

The proposed regulations also implement other revisions to the current capital rules, such as recognition of all unrealized gains and losses on available for sale debt and equity securities, and provide that instruments that will no longer qualify as capital would be phased out over time.

The federal banking agencies also proposed revisions, effective January 1, 2015, to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions if their capital levels show signs of weakness. Under the prompt corrective action requirements, insured depository institutions would be required to meet the following in order to qualify as "well capitalized:" (1) a common equity Tier 1 risk-based capital ratio of 6.5%; (2) a Tier 1 risk-based capital ratio of 8% (increased from 6%); (3) a total risk-based capital ratio of 10% (unchanged from current rules); and (4) a Tier 1 leverage ratio of 5% (unchanged from the current rules).

The proposed regulations set forth certain changes for the calculation of risk-weighted assets, effective January 1, 2015. In particular, the proposed regulations would establish risk-weighting categories generally ranging from 0% for U.S. government and agency securities to 600% for certain equity exposures. Specifics include, among others:

- For residential mortgage exposures, changing the current 50% risk weight for high-quality seasoned mortgages and 100% risk-weight for all other mortgages to risk weights between 35% and 200% depending upon the LTV ratio and other factors (but VA and FHA guaranteed loans would have 0% risk weight).
- Applying a 150% risk weight instead of a 100% risk weight for certain high volatility commercial real estate acquisition, development and construction loans.
- Assigning a 150% risk weight to exposures (other than residential mortgage exposures) that are 90 days past due.
- Providing for a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (currently set at 0%).
- Certain increased capital requirements for counterparty credit risk relating to over-the-counter derivatives, repos and securities financing transactions.

The Company and the Bank have adopted Capital Plans that require the Bank to maintain a Tier 1 leverage ratio of at least 8% and a total risk-based capital ratio of at least 12%. The minimum capital ratios set forth in the Capital Plans will be increased and other minimum capital requirements will be established if and as necessary to comply with the Basel III requirements as such requirements become applicable to the Company and the Bank. In accordance with the Capital Plans, neither the Company nor the Bank will pursue any acquisition or growth opportunity, declare any dividend or conduct any stock repurchase that would cause the Bank's total risk-based capital ratio and/or its Tier 1 leverage ratio to fall below the established minimum capital levels. In addition, the Company will continue to maintain its ability to serve as a source of financial strength to the Bank by holding at least $5.0 million of cash or liquid assets for that purpose.

Loans-to-One-Borrower. A federal savings bank generally may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of December 31, 2012, the Bank was in compliance with the loans-to-one-borrower limitations.

Qualified Thrift Lender Test. As a federal savings bank, the Bank is subject to a qualified thrift lender ("QTL") test. Under the QTL test, the Bank must maintain at least 65% of its "portfolio assets" in "qualified thrift investments" in at least nine months of the most recent 12-month period. "Portfolio assets" generally means the total assets of a savings institution, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used in the conduct of the federal savings bank's business.

“Qualified thrift investments” include various types of loans made for residential and housing purposes, investments related to those purposes, including certain mortgage-backed and related securities, and loans for personal, family, household and certain other purposes up to a limit of 20% of portfolio assets. “Qualified thrift investments” also include 100% of an institution’s credit

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card loans, education loans and small business loans. The Bank also may satisfy the QTL test by qualifying as a "domestic building and loan association" as defined in the Internal Revenue Code of 1986. At December 31, 2012, the Bank satisfied the QTL test. A federal savings bank that fails the QTL test must operate under specified restrictions, including limits on growth, branching, new investment and dividends. As a result of the Dodd-Frank Act, noncompliance with the QTL test is subject to regulatory enforcement action as a violation of law.

Capital Distributions. The regulations of the OCC govern capital distributions by a federal savings bank, which include cash dividends, stock repurchases and other transactions charged to the institution's capital account. A federal savings bank must file an application for approval of a capital distribution if:

- the total capital distributions for the applicable calendar year exceed the sum of the institution's net income for that year to date plus the federal savings bank's retained net income for the preceding two years;
- the institution would not be at least adequately capitalized following the distribution;
- the distribution would violate any applicable statute, regulation, agreement or OCC-imposed condition; or
- the institution is not eligible for expedited treatment of its filings.

Even if an application is not otherwise required, every federal savings bank that is a subsidiary of a holding company must still file a notice with the FRB at least 30 days before the board of directors declares a dividend or approves a capital distribution. At December 31, 2012, the Bank would be required to file an application for approval of a capital distribution to the Company.

The FRB may disapprove a notice or application if:

- the federal savings bank would be undercapitalized following the distribution;
- the proposed capital distribution raises safety and soundness concerns; or
- the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

Liquidity. A federal savings bank is required to maintain a sufficient amount of liquid assets to ensure its safe and sound operation.

Community Reinvestment Act and Fair Lending Laws. All federal savings banks have a responsibility under the Community Reinvestment Act ("CRA") and related federal regulations to help meet the credit needs of their communities, including low- and moderate- income neighborhoods. In connection with its examination of a federal savings bank, the OCC is required to evaluate and rate the federal savings bank's record of compliance with the CRA. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices based on the characteristics specified in those statutes. A federal savings bank's failure to comply with the provisions of the CRA could, at a minimum, result in regulatory restrictions on its activities. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the OCC, as well as other federal regulatory agencies and the Department of Justice. The Bank's CRA performance has been rated as "Outstanding," the highest possible rating, in the CRA Performance Evaluations of the Bank that have been conducted since 1999.

Privacy Standards. Financial institutions are subject to regulations implementing the privacy protection provisions of the Gramm-Leach-Bliley Act. These regulations require the Bank to disclose its privacy policy, including identifying with whom it shares "nonpublic personal information" to customers at the time of establishing the customer relationship and annually thereafter. In addition, the Bank is required to provide its customers with the ability to "opt-out" of or consent to having the Bank share their nonpublic personal information with unaffiliated third parties before it can disclose such information, subject to certain exceptions. The implementation of these regulations did not have a material adverse effect on the Bank. The Gramm-Leach-Bliley Act also allows each state to enact legislation that is more protective of consumers' personal information.

The OCC and other federal banking agencies have adopted guidelines establishing standards for safeguarding customer information to implement certain provisions of the Gramm-Leach-Bliley Act. The guidelines describe the agencies' expectations for the creation, implementation and maintenance of an information security program, which would include administrative, technical and physical safeguards appropriate to the size and complexity of a financial institution and the nature and scope of its activities. The standards set forth in the guidelines are intended to ensure the security and confidentiality of customer records and information, to protect against any anticipated threats or hazards

to the security or integrity of such records, and to protect against unauthorized access to or use of such records or other information that could result in substantial harm or inconvenience to any customer. The Bank has implemented these guidelines, and such implementation has not had a material adverse effect on our operations.

Transactions with Related Parties. A federal savings bank's authority to engage in transactions with its "affiliates" is limited by OCC regulations and by Sections 23A and 23B of the Federal Reserve Act and its implementing regulation, Regulation W. The term "affiliates" for these purposes generally means any company that controls or is under common control with an insured depository institution, although subsidiaries of federal savings banks are generally not considered affiliates for the purposes of Sections 23A and 23B of the Federal Reserve Act. The Company is an affiliate of the Bank. In general, transactions with affiliates

must be on terms that are as favorable to the federal savings bank as comparable transactions with non-affiliates. In addition, certain types of these transactions are restricted to an aggregate percentage of the federal savings bank's capital. Collateral in specified amounts must usually be provided by affiliates in order to receive loans from the federal savings bank. Federal regulations also prohibit a federal savings bank from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies, and from purchasing the securities of any affiliate, other than a subsidiary.

The Bank's authority to extend credit to its directors, executive officers and 10% stockholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, these provisions require that extensions of credit to insiders be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features, and not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank's capital. In addition, extensions of credit in excess of certain limits must receive the prior approval of the Bank's Board of Directors.

Enforcement. The OCC has primary enforcement responsibility over federal savings banks, and this includes the authority to bring enforcement action against the Bank and all "institution-affiliated parties," including stockholders, attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to the removal of officers and/or directors, receivership, conservatorship or the termination of deposit insurance. Civil monetary penalties cover a wide range of violations and actions, and range up to $25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as $1 million per day. The FDIC also has the authority to recommend to the OCC that an enforcement action be taken with respect to a particular savings institution. If action is not taken by the OCC, the FDIC has authority to take action under specified circumstances.

Standards for Safety and Soundness. Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation and other operational and managerial standards as the agency deems appropriate. The federal banking agencies adopted Interagency Guidelines Prescribing Standards for Safety and Soundness to implement the safety and soundness standards required under federal law. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The guidelines address internal controls and information systems, internal audit systems, credit underwriting, loan documentation, interest rate risk exposure, asset growth, compensation, fees and benefits. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard.

Prompt Corrective Action Regulations. Under the prompt corrective action regulations, the OCC is required and authorized to take supervisory actions against undercapitalized federal savings banks. For this purpose, a federal savings bank is placed in one of the following five categories based on the federal savings bank's capital:

- well-capitalized (at least 5% leverage capital, 6% tier 1 risk-based capital and 10% total risk-based capital);
- adequately capitalized (at least 4% leverage capital, 4% tier 1 risk-based capital and 8% total risk-based capital);
- undercapitalized (less than 3% leverage capital, 4% tier 1 risk-based capital or 8% total risk-based capital);
- significantly undercapitalized (less than 3% leverage capital, 3% tier 1 risk-based capital or 6% total risk-based capital); and
- critically undercapitalized (less than 2% tangible capital).

Generally, the banking regulator is required to appoint a receiver or conservator for a federal savings bank that is "critically undercapitalized." The regulations also provide that a capital restoration plan must be filed with the OCC

within 45 days of the date a bank receives notice that it is “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized.” A parent holding company for the institution involved must guarantee performance under the capital restoration plan up to the lesser of the institution’s capital deficiency when deemed undercapitalized or 5% of the institution’s assets. In addition, numerous mandatory supervisory actions become immediately applicable to the federal savings bank, including, but not limited to, restrictions on growth, investment activities, capital distributions and affiliate transactions. The OCC may also take any one of a number of discretionary supervisory actions against undercapitalized federal savings banks, including the issuance of a capital directive and individual minimum capital requirements and the replacement of senior executive officers and directors.

The recently proposed rules that would increase regulatory capital requirements would adjust the prompt corrective action categories accordingly.

At December 31, 2012, the Bank met the criteria for being considered "well-capitalized" as defined in the prompt corrective action regulations.

Interest on Deposits. Federal laws and regulations previously prohibited depository institutions from paying interest on commercial checking accounts. The Dodd-Frank Act authorized the payment of interest on commercial checking accounts, effective July 21, 2011.

Insurance of Deposit Accounts. The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. Under the FDIC's risk-based assessment system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors, with less risky institutions paying lower assessments. An institution's assessment rate depends upon the category to which it is assigned, subject to certain adjustments specified by the FDIC. The FDIC may adjust the scale uniformly, except that no adjustment may deviate by more than two basis points from the base scale without notice and comment. No institution may pay a dividend if it is in default of the federal deposit insurance assessment.

Assessment rates previously ranged from seven to 77.5 basis points of assessable deposits. The Dodd-Frank Act required the FDIC to revise its procedures to base its assessments upon total assets less tangible equity instead of on deposits. The FDIC issued a final rule, effective April 1, 2011, that implemented that change. The FDIC also revised the assessment schedule and certain of the possible adjustments so that the range of assessments is now 2.5 basis points to 45 basis points of total assets less tangible equity.

The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must seek to achieve the 1.35% ratio by September 30, 2020. Insured institutions with assets of $10 billion or more are supposed to fund the increase. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving the ratio to the discretion of the FDIC. The FDIC recently exercised that discretion by establishing a long-range fund ratio of 2%.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would be likely have an adverse effect on the operating expenses and results of operations of the Bank. The Bank cannot predict what its insurance assessment rates will be in the future.

An insured institution's deposit insurance may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or regulatory condition imposed in writing. The management of the Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

In addition to the FDIC assessments, the Financing Corporation ("FICO") is authorized to impose and collect, with the approval of the FDIC, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980's to recapitalize the former Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2017 through 2019.

Prohibitions Against Tying Arrangements. Federal savings banks are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions. As a member of the FHLBC, the Bank is required to acquire and hold shares of capital stock in the FHLBC in specified amounts. As of December 31, 2012, the Bank was in compliance with this requirement.

The USA PATRIOT Act and the Bank Secrecy Act

The USA PATRIOT Act and the Bank Secrecy Act require financial institutions to develop programs to detect and report money-laundering and terrorist activities, as well as suspicious activities. The USA PATRIOT Act also gives the federal government powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. The federal banking agencies are required to take into consideration the effectiveness of controls designed to combat

money-laundering activities in determining whether to approve a merger or other acquisition application of a member institution. Accordingly, if we engage in a merger or other acquisition, our controls designed to combat money laundering would be considered as part of the application process. In addition, non-compliance with these laws and regulations could result in fines, penalties and other enforcement measures. We have developed policies, procedures and systems designed to comply with these laws and regulations.

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Federal Reserve System

The FRB's regulations require federal savings banks to maintain noninterest-earning reserves against their transaction accounts, such as negotiable order of withdrawal and regular checking accounts. At December 31, 2012, the Bank was in compliance with these reserve requirements. The balances maintained to meet the reserve requirements imposed by the FRB may be used to satisfy liquidity requirements imposed by the federal regulation.

Holding Company Regulation

The Company is a unitary savings and loan holding company and is subject to regulation and supervision by the FRB. The FRB has enforcement authority over the Company and its non-savings institution subsidiaries. Among other things, this authority permits the FRB to restrict or prohibit activities that are determined to be a risk to the Bank. The Dodd-Frank Act provided for the transfer of the authority for supervising and regulating savings and loan holding companies and their non-depository subsidiaries from the OTS to the FRB. The transfer occurred on July 21, 2011. The Company's activities are limited to the activities permissible for financial holding companies or for multiple savings and loan holding companies. A financial holding company may engage in activities that are financial in nature, including underwriting equity securities and insurance, incidental to financial activities or complementary to a financial activity. The Dodd-Frank Act specifies that a savings and loan holding company may only engage in financial holding company activities if it meets the qualitative criteria necessary for a bank holding company to engage in such activities. A multiple savings and loan holding company is generally limited to activities permissible for bank holding companies under Section 4(c) (8) of the Bank Holding Company Act, subject to the prior approval of the FRB, and certain additional activities authorized by FRB regulations.

Federal law prohibits a savings and loan holding company, directly or indirectly, or through one or more subsidiaries, from acquiring control of another savings institution or holding company thereof, without prior written approval of the FRB. It also prohibits the acquisition or retention of, with specified exceptions, more than 5% of the equity securities of a company engaged in activities that are not closely related to banking or financial in nature or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the FRB must consider the financial and managerial resources and future prospects of the savings institution, the effect of the acquisition on the risk to the insurance fund, the convenience and needs of the community and competitive factors.

Capital. Savings and loan holding companies are not currently subject to specific regulatory capital requirements. The Dodd-Frank Act, however, requires the FRB to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to their subsidiary depository institutions. Instruments such as cumulative preferred stock and trust-preferred securities, which are currently includable within Tier 1 capital by bank holding company within certain limits, will no longer be includable as Tier 1 capital. However, instruments issued by May 19, 2010 will be grandfathered for holding companies with assets of $15 billion or less. There is a five-year transition period from the July 21, 2010 effective date of the Dodd-Frank Act before the capital requirements will apply to savings and loan holding companies. As noted above, the recently proposed capital rules would implement the consolidated capital requirements for savings and loan holding companies. However, notwithstanding the Dodd-Frank statutory language, the proposed rules did not incorporate the referenced grandfather for instruments issued before May 19, 2010 or the transition period, and it is uncertain whether any final rule will do so.

Source of Strength Doctrine. The "source of strength doctrine" requires bank holding companies to provide financial assistance to their subsidiary depository institutions in the event the subsidiary depository institution experiences financial distress. The Dodd-Frank Act extends the source of strength doctrine to savings and loan holding companies. The applicable regulatory agencies must issue regulations requiring that all bank holding companies and savings and loan holding companies serve as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial distress.

The FRB has issued a policy statement regarding the payment of dividends by bank holding companies that it has made applicable to savings and loan holding companies as well. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company

appears consistent with the organization's capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory review of capital distributions in certain circumstances such as where the company's net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate of earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of the Company to pay dividends or otherwise engage in capital distributions.

Change in Control Regulations

Under the Change in Bank Control Act, no person may acquire control of a savings and loan holding company such as the Company unless the FRB has been given 60 days' prior written notice and has not issued a notice disapproving the proposed acquisition,

taking into consideration certain factors, including the financial and managerial resources of the acquiror and the competitive effects of the acquisition. Control, as defined under federal law, means ownership, control of or holding irrevocable proxies representing more than 25% of any class of voting stock, control in any manner of the election of a majority of the company's directors, or a determination by the regulator that the acquiror has the power to direct, or directly or indirectly to exercise a controlling influence over, the management or policies of the institution. Acquisition of more than 10% of any class of a savings and loan holding company's voting stock constitutes a rebuttable presumption of control under the regulations under certain circumstances including where, as is the case with the Company, the issuer has registered securities under Section 12 of the Exchange Act.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 was enacted in response to public concerns regarding corporate accountability in connection with certain accounting scandals. The stated goals of the Sarbanes-Oxley Act are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Sarbanes-Oxley Act generally applies to all companies that file or are required to file periodic reports with the SEC, under the Exchange Act.

The Sarbanes-Oxley Act includes specific additional disclosure requirements, requires the SEC and national securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules, and mandates further studies of certain issues by the SEC.

Federal Securities Laws

The Company's common stock is registered with the SEC under the Exchange Act. The Company is subject to the information, proxy solicitation, insider trading restrictions and other requirements of the Exchange Act.

ITEM 1A. RISK FACTORS

An investment in our securities is subject to risks inherent in our business and the industry in which we operate. Before making an investment decision, you should carefully consider the risks and uncertainties described below and all other information included in this report. The risks described below may adversely affect our business, financial condition and operating results. In addition to these risks and the other risks and uncertainties described in Item 1, "Business-Forward Looking Statements," and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," there may be additional risks and uncertainties that are not currently known to us or that we currently deem to be immaterial that could materially and adversely affect our business, financial condition or operating results. The value or market price of our securities could decline due to any of these identified or other risks. Past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods.

Since our business is concentrated in the Chicago Metropolitan Area, local economic, market and competitive conditions can adversely affect our business

Although we make certain types of loans and leases to borrowers located in other states, our lending and deposit gathering activities are concentrated primarily in the Chicago Metropolitan Area. Our success can be affected by the general economic conditions of this area and surrounding areas. In addition, many of the loans in our loan portfolio are secured by real estate located in the Chicago Metropolitan Area. Negative conditions in the real estate markets where collateral for a mortgage loan is located could adversely affect the borrower's ability to repay the loan and the value of the collateral securing the loan. Real estate values are affected by many other factors beyond our control, including real estate supply and demand, the impact of mortgage foreclosures and short sales, changes in general or regional economic conditions and unemployment rates, interest rates, governmental rules or policies and natural disasters. The value of real estate located in many segments of the Chicago Metropolitan Area has been and continues to be adversely impacted by many of these factors, and this has had, and may continue to have, a negative impact on our loan growth, our ability to collect certain loans according to their terms and market other real estate loans at appraised values, and our results of operations.

The commercial, multi-family and residential real estate markets in the Chicago area continue to experience a variety of difficulties, including an oversupply of properties in some market segments due to economic conditions, high

unemployment rates and a high level of foreclosed properties and properties in the process of foreclosure. These adverse conditions have had a variety of adverse consequences for both lenders and borrowers, including a reduction in the value of real estate collateral and OREO, an increase in loan to value ratios, higher vacancy rates and lower rents, a reduction of the borrowing capacity of real estate borrowers and an increase in strategic defaults resulting from the reduction or elimination of the equity that borrowers once had in their real estate investments.

We face substantial competition in all phases of our operations from a variety of different competitors. Our future growth and success will depend on our ability to compete effectively in this highly competitive environment. To date, our competitive strategies

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have focused on attracting deposits in our local markets, and growing our loan and lease portfolio by emphasizing specific loan products in which we have significant experience and expertise, identifying and targeting markets in which we believe we can effectively compete with larger institutions and other competitors, and offering highly competitive pricing to commercial borrowers with low risk profiles. We compete for loans, deposits and other financial services with other commercial banks, thrifts, credit unions, brokerage houses, mutual funds, insurance companies, real estate conduits, mortgage brokers and specialized finance companies. Many of our competitors offer products and services that we do not offer, and many have substantially greater resources and lending limits, name recognition and market presence that benefit them in attracting business. In addition, larger competitors may be able to price loans and deposits more aggressively than we do, and because of their larger capital bases, their underwriting practices for smaller loans may be subject to less regulatory scrutiny than they would be for smaller banks. Newer competitors may be more aggressive in pricing loans and deposits in order to increase their market share. Some of the financial institutions and financial services organizations with which we compete are not subject to the extensive regulations imposed on federal savings banks and their holding companies. As a result, these nonbank competitors have certain advantages over us in accessing funding and in providing various financial services.

Repayment of our commercial and commercial real estate loans typically depends on the cash flows of the borrower. If a borrower's cash flows weaken or become uncertain, the loan may need to be classified and the collateral securing the loan may decline in value

We underwrite our commercial and commercial real estate loans primarily based on the historical and expected cash flow of the borrower. Although we consider collateral in the underwriting process, it is a secondary consideration that generally relates to the risk of loss in the event of a borrower default. We have also adopted the OCC's published guidance for assigning risk-ratings to loans, and it emphasizes the strength of the borrower's cash flow. Specifically, the OCC's loan risk-rating guidance provides that the primary consideration in assigning risk-ratings to commercial and commercial real estate loans is the strength of the primary source of repayment, which is defined as a sustainable source of cash under the borrower's control that is reserved, explicitly or implicitly, to cover the debt obligation. The OCC's loan risk-rating guidance typically does not consider secondary repayment sources until the strength of the primary repayment source weakens, and collateral values typically do not have a significant impact on a loan's risk ratings until a loan is classified. Consequently, if a borrower's cash flows weaken or become uncertain, the loan may need to be classified, whether or not the loan is performing or fully secured. In addition, real estate appraisers typically place significant weight on the cash flows generated by income-producing real estate and the reliability of the cash flows in performing valuations. Thus, economic or borrower-specific conditions that cause a decline in borrower cash flows could cause our loan classifications to increase and the appraised value of the collateral securing our loans to decline.

Historically low interest rates could continue to adversely affect our net interest income and profitability

Our consolidated operating results are largely dependent on our net interest income. Net interest income is the difference between interest earned on loans and investments and interest expense incurred on deposits and other borrowings. Our net interest income is impacted by changes in market rates of interest, changes in credit spreads, changes in the shape of the yield curve, the interest rate sensitivity of our assets and liabilities, prepayments on our loans and investments, and the mix of our funding sources and assets, among other things.

In recent years it has been the policy of the Board of Governors of the Federal Reserve System to maintain interest rates at historically low levels through its targeted federal funds rate and the purchase of securities. As a result, the interest rates on new loans we have originated, the interest rates on maturing loans that we have renewed and the yields on securities we have purchased during this period have been at historically low levels. Our ability to offset this by lowering the interest rates that we pay on deposits is severely limited because interest rates on deposits are already at historic lows. These factors contributed to a 23 basis points decline in our net interest spread in 2012. The Board of Governors of the Federal Reserve System has indicated its intention to maintain low interest rates for an additional period of time. Accordingly, our net interest income (the difference between interest income earned on assets and interest expense paid on liabilities) may continue to decrease, which may have an adverse effect on our profitability.

Changes in market interest rates could adversely affect our financial condition and results of operations

Our financial condition and results of operations are significantly affected by changes in market interest rates because our assets, primarily loans, and our liabilities, primarily deposits, are monetary in nature. Our results of operations depend substantially on our net interest income, which is the difference between the interest income that we earn on our interest-earning assets and the interest expense that we pay on our interest-bearing liabilities. Market interest rates are affected by many factors beyond our control, including inflation, recession, unemployment, money supply, domestic and international events, and changes in the United States and other financial markets. Our net interest income is affected not only by the level and direction of interest rates, but also by the shape of the yield curve and relationships between interest sensitive instruments and key driver rates, including credit risk spreads, and by balance sheet growth, customer loan and deposit preferences and the timing of changes in these variables which

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themselves are impacted by changes in market interest rates. As a result, changes in market interest rates can significantly affect our net interest income as well as the fair market valuation of our assets and liabilities.
While we take measures intended to manage the risks from changes in market interest rates, we cannot control or accurately predict changes in market rates of interest or be sure our protective measures are adequate. If the interest rates paid on deposits and other interest bearing liabilities increase at a faster rate than the interest rates received on loans and other interest earning assets, our net interest income, and therefore earnings, could be adversely affected. We would also incur a higher cost of funds to retain our deposits in a rising interest rate environment. While the higher payment amounts we would receive on adjustable rate loans in a rising interest rate environment may increase our interest income, some borrowers may be unable to afford the higher payment amounts, and this could result in a higher rate of default. Rising interest rates also may reduce the demand for loans and the value of fixed-rate investment securities.

Our business may be adversely affected by the new regulatory environment in which we operate

The Dodd-Frank Act, which was signed by the President on July 21, 2010, provided for the transfer of the authority for regulating and supervising federal savings banks from the OTS to the OCC, and the authority for regulating and supervising savings and loan holding companies and their non-depository subsidiaries from the OTS to the FRB. The transfer occurred on July 21, 2011, and on that date, the OCC became the primary federal regulator of the Bank and the FRB became the primary federal regulator of the Company. The transition of the Company and the Bank to this new supervisory and regulatory structure presents risks, potential limitations and adjustments that were not present when the Company and the Bank were supervised and regulated exclusively by the OTS. For example, the OCC's published guidance and practices for assigning risk ratings to commercial loans focuses more heavily on cash flows than the loan risk rating guidance and practices of the OTS, and requires that a performing loan be classified if it exhibits well-defined weaknesses, even if the loan does not present a probability of default or loss. The OCC's more stringent loan risk-rating practices have contributed to the increase in the Bank's classified loans and have increased the Bank's risk of being subjected to supervisory measures. In addition, the Federal Reserve Board takes a more comprehensive approach than the OTS did to holding company supervision and regulation. For example, the Company is now subject to Federal Reserve Board Supervisory Letter SR 09-4, which has the effect of imposing restrictions on dividends and stock repurchases in certain circumstances. The Company does not have sufficient net income for the past four quarters net of dividends previously paid to declare a dividend without first consulting with and seeking the approval of the Federal Reserve Bank of Chicago. The Company's ability to pay dividends on its common stock could be further limited by the application of the Federal Reserve Board's source of strength doctrine, which requires holding companies to provide financial support to their subsidiary depository institutions if the subsidiary is in financial distress, or by regulatory order. These regulatory changes have affected, and will continue to affect, the regulatory environment in which we operate.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings would be adversely impacted

In the event that our loan customers do not repay their loans according to their terms, and the collateral securing the repayment of these loans is insufficient to cover any remaining loan balance, we could experience significant loan losses or increase our provision for loan losses or both, which could have a material adverse effect on our operating results. At December 31, 2012, our allowance for loan losses was $18.0 million, representing 1.72% of total loans and 64.39% of nonperforming loans as of that date. In determining the amount of our allowance for loan losses, we rely on our loan quality reviews, our experience and our evaluation of economic conditions, among other factors. In addition, we make various estimates and assumptions about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets, if any, serving as collateral for the repayment of our loans. We also make judgments concerning our legal positions and the priority of our interests in contested legal or bankruptcy proceedings, and at times, we may lack sufficient information to establish adequate specific reserves for loans involved in such proceedings. We base these estimates, assumptions and judgments on information that we consider reliable, but if an estimate, assumption or judgment that we make ultimately proves to be incorrect, additional provisions to our allowance for loan losses may become necessary. In addition, as an integral part of their supervisory and/or examination process, our regulatory agencies periodically review the methodology and

sufficiency of the allowance for loan losses. These agencies may require us to recognize additions to the allowance based on their inclusion, exclusion or modification of risk factors or differences in judgments of information available to them at the time of their examination.

A substantial portion of our loan portfolio is secured by real estate. Deterioration in the real estate markets could lead to additional losses, which could have a material negative effect on our financial condition and results of operations.

A substantial portion of our loan portfolio is secured by real estate. At December 31, 2012, our loan portfolio included $352.0 million in multi-family mortgage loans, or 33.6% of total loans, $264.7 million in nonresidential real estate loans, or 25.3% of total loans, $218.6 million in one-to four family residential real estate loans, or 20.9% of total loans (which includes $80.6 million in non-owner occupied one-to four family residential real estate loans, or 6.4% of total loans) and $8.6 million in construction and land loans, or 0.8% of total loans. Adverse conditions in the real estate markets, particularly in the Chicago area, have been a significant factor behind the higher than normal charge-offs and provisions for loan losses we have experienced in recent years.

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As a result of these and other factors, we have experienced higher levels of charge-offs, loan classifications and provisions for loan losses on our real estate loans and write-downs on our other real estate owned. The persistence of these adverse conditions could result in additional defaults, charge-offs, provisions for loan losses and loan classifications.

Our sources of funds are limited because of our holding company structure

The Company is a separate legal entity from its subsidiaries and does not have significant operations of its own. Dividends from the Bank provide a significant source of cash for the Company. The availability of dividends from the Bank is limited by various statutes and regulations. Under these statutes and regulations, the Bank is not permitted to pay dividends on its capital stock to the Company, its sole stockholder, if the dividend would reduce the stockholders' equity of the Bank below the amount of the liquidation account established in connection with the mutual-to-stock conversion. Federal savings banks may pay dividends without the approval of its primary federal regulator only if they meet applicable regulatory capital requirements before and after the payment of the dividends and total dividends do not exceed net income to date over the calendar year plus its retained net income over the preceding two years. Although the Bank's capital exceeded applicable regulatory requirements at December 31, 2012, the Bank did not have sufficient net income over the preceding two years to pay a dividend to the Company without receiving prior regulatory approval. If in the future, the Company utilizes its available cash for other purposes and the Bank is unable to pay dividends to the Company, the Company may not have sufficient funds to pay dividends.

New or changing tax, accounting, and regulatory rules and interpretations could have a significant impact on our strategic initiatives, results of operations, cash flows, and financial condition

The banking services industry is extensively regulated and the degree of regulation is increasing due to the Dodd-Frank Act and regulatory initiatives precipitated by the Dodd-Frank Act and the economic downturn and the resulting disruptions that certain financial markets experienced. These regulations, along with the currently existing tax, accounting, securities, insurance, and monetary laws, regulations, rules, standards, policies and interpretations, control the methods by which financial institutions and their holding companies conduct business, engage in strategic and tax planning and implement strategic initiatives, and govern financial reporting and disclosures. These laws, regulations, rules, standards, policies and interpretations are constantly evolving and may change significantly over time.

Trading activity in the Company's common stock could result in material price fluctuations

It is possible that trading activity in the Company's common stock, including short-selling or significant sales by our larger stockholders, could result in material price fluctuations of the price per share of the Company's common stock. In addition, such trading activity and the resultant volatility could make it more difficult for the Company to sell equity or equity-related securities in the future at a time and price it deems appropriate, or to use its stock as consideration for an acquisition.

Various factors may make takeover attempts that you might want to succeed more difficult to achieve, which may affect the value of shares of our common stock

Provisions of our articles of incorporation and bylaws, federal regulations, Maryland law and various other factors may make it more difficult for companies or persons to acquire control of the Company without the consent of our board of directors. You may want a takeover attempt to succeed because, for example, a potential acquirer could offer a premium over the then prevailing price of our shares of common stock. Provisions of our articles of incorporation and bylaws also may make it difficult to remove our current board of directors or management if our board of directors opposes the removal. We have elected to be subject to the Maryland Business Combination Act, which places restrictions on mergers and other business combinations with large stockholders. In addition, our articles of incorporation provide that certain mergers and other similar transactions, as well as amendments to our articles of incorporation, must be approved by stockholders owning at least two-thirds of our shares of common stock entitled to vote on the matter unless first approved by at least two-thirds of the number of our authorized directors, assuming no vacancies. If approved by at least two-thirds of the number of our authorized directors, assuming no vacancies, the action must still be approved by a majority of our shares entitled to vote on the matter. In addition, a director can be removed from office, but only for cause, if such removal is approved by stockholders owning at least two-thirds of our

shares of common stock entitled to vote on the matter. However, if at least two-thirds of the number of our authorized directors, assuming no vacancies, approves the removal of a director, the removal may be with or without cause, but must still be approved by a majority of our voting shares entitled to vote on the matter. Additional provisions include limitations on the voting rights of any beneficial owners of more than 10% of our common stock. Our bylaws, which can only be amended by the board of directors, also contain provisions regarding the timing, content and procedural requirements for stockholder proposals and nominations.

FDIC deposit insurance costs have increased and may increase further in the future

FDIC insurance rates have increased significantly, and we may pay higher FDIC deposit premiums in the future. The Dodd-Frank Act established 1.35% as the minimum Designated Reserve Ratio ("DRR") for the deposit insurance fund. The FDIC has determined that the DRR should be 2.0% and has adopted a plan under which it will meet the statutory minimum DRR of 1.35% by the statutory

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deadline of September 30, 2020. The Dodd-Frank Act requires the FDIC to offset the effect on institutions with assets less than $10 billion of the increase in the statutory minimum DRR to 1.35% from the former statutory minimum of 1.15%. The FDIC has not announced how it will implement this offset. The Dodd-Frank Act also requires the FDIC to base deposit insurance premium on an institution's total assets minus its tangible equity instead of its deposits. The FDIC has adopted regulations that base assessments for banks and thrifts with total assets of less than $10 billion on a combination of financial ratios and regulatory ratings. This new method has caused our FDIC deposit insurance premiums to increase and presents a risk that they will increase in the future. If circumstances require the FDIC to impose additional special assessments or further increase its quarterly assessment rates, this could also have an adverse impact on our results of operations.

The Bank is required to maintain a significant percentage of its total assets in residential mortgage loans and investments secured by residential mortgage loans, which restricts our ability to diversify our loan portfolio

A federal savings bank or thrift differs from a commercial bank in that it is required to maintain at least 65% of its total assets in “qualified thrift investments” which generally include loans and investments, for the purchase, refinance, construction, improvement, or repair of residential real estate, as well as home equity loans, education loans and small business loans. To maintain our federal savings bank charter we have to be a “qualified thrift lender” or “QTL” in nine out of each 12 immediately preceding months. The QTL requirement limits the extent to which we can grow our commercial loan portfolio, and as a result of the Dodd-Frank Act, failing the QTL test can result in an enforcement action. However, multi-family mortgage loans as well as certain loans not exceeding $2 million (including a group of loans to one borrower) that are for commercial, corporate, business, or agricultural purposes are included in our qualified thrift investments. Because of the QTL requirement, we may be limited in our ability to change our asset mix and increase the yield on our earning assets by growing our commercial loan portfolio.

We continually encounter technological change, and may have fewer resources than many of our competitors to continue to invest in technological improvements

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We also may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

We are subject to security and operational risks relating to our use of technology

We depend on the secure processing, storage and transmission of confidential and other information in our data processing systems, computers, networks and communications systems. Although we take numerous protective measures and otherwise endeavor to protect and maintain the privacy and security of confidential data, these systems may be vulnerable to unauthorized access, computer viruses or other malicious code, and other events that could have a security impact. If one or more of such events were to occur, this potentially could jeopardize confidential and other information processed and stored in, and transmitted through, our systems or otherwise cause interruptions or malfunctions in our or our customers' operations. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are not fully covered by our insurance. Security breaches in our internet banking activities could expose us to possible liability and deter customers from using our systems. We rely on standard internet security systems to provide the security and authentication necessary to effect secure transmission of data. These precautions may not fully protect our systems from compromises or breaches of our security measures that could result in damage to our reputation and our business. Although we perform most data processing functions internally, we outsource certain services to third parties. If our third party providers encounter operational difficulties or security breaches, it could affect our ability to adequately process and account for customer transactions, which could significantly affect our business operations.

Our operations rely on numerous external vendors.

We rely on numerous external vendors to provide us with products and services necessary to maintain our day-to-day operations. Accordingly, our operations are exposed to risk that these vendors will not perform in accordance with the contracted arrangements under service level agreements. The failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements, because of changes in the vendor's organizational structure, financial condition, support for existing products and services or strategic focus or for any other reason, could be disruptive to our operations, which in turn could have a material negative impact on our financial condition and results of operations. We also could be adversely affected to the extent such an agreement is not renewed by the third party vendor or is renewed on terms less favorable to us.

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New lines of business or new products and services may subject us to additional risks.

From time to time, we may seek to implement new lines of business or offer new products and services within existing lines of business in our current markets or new markets. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible, which could in turn have a material negative effect on our operating results.

Non-Compliance with USA PATRIOT Act, Bank Secrecy Act, Real Estate Settlement Procedures Act, Truth-in-Lending Act or other laws and regulations could result in fines or sanctions

Financial institutions are required under the USA PATRIOT and Bank Secrecy Acts to develop programs to prevent financial institutions from being used for money-laundering and terrorist activities. Financial institutions are also obligated to file suspicious activity reports with the U.S. Treasury Department's Office of Financial Crimes Enforcement Network if such activities are detected. These rules also require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure or the inability to comply with these regulations could result in fines or penalties, curtailment of expansion opportunities, intervention or sanctions by regulators and costly litigation or expensive additional controls and systems. During the last few years, several banking institutions have received large fines for non-compliance with these laws and regulations. In addition, the U.S. Government imposed and will continue to expand laws and regulations relating to residential and consumer lending activities that create significant new compliance burdens and financial risks. We have developed policies and continue to augment procedures and systems designed to assist in compliance with these laws and regulations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We conduct our business at 20 banking offices located in the Chicago metropolitan area. We own a majority of our banking center facilities, except for our Chicago-Lincoln Park, Northbrook, and Chicago-Hyde Park East offices, which are leased. We also operate two satellite national commercial leasing offices and two remote ATMs on sites where we do not have a full-service banking office. We believe that all of our properties and equipment are well maintained, in good operating condition and adequate for all of our present and anticipated needs.

We believe our facilities in the aggregate are suitable and adequate to operate our banking and related business. Additional information with respect to premises and equipment is presented in Note 6 of "Notes to Consolidated Financial Statements" in Item 8 of the Form 10-K.

ITEM 3. LEGAL PROCEEDINGS

The Company and its subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of management, based on currently available information, the resolution of these legal actions is not expected to have a material adverse effect on the Company’s results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our shares of common stock are traded on the NASDAQ Global Select Market under the symbol “BFIN.” The approximate number of holders of record of the Company’s common stock as of December 31, 2012 was 1,638. Certain shares of the Company’s common stock are held in “nominee” or “street” name, and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number.

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The following table presents quarterly market information provided by the NASDAQ Stock Market for the Company's common stock and cash dividends paid for the periods ended December 31, 2012 and 2011.

2011 and 2012 Quarterly Periods	High	Low	Close	Cash Dividends Paid
Quarter ended December 31, 2012	$8.85	$6.62	$7.42	$—
Quarter ended September 30, 2012	9.24	7.31	8.79	0.01
Quarter ended June 30, 2012	7.56	5.66	7.53	0.01
Quarter ended March 31, 2012	7.05	5.25	6.62	0.01
Quarter ended December 31, 2011	$8.89	$5.26	$5.52	$0.01
Quarter ended September 30, 2011	8.62	6.51	6.64	0.07
Quarter ended June 30, 2011	9.55	8.10	8.47	0.07
Quarter ended March 31, 2011	10.10	8.42	9.19	0.07

As a result of the regulatory restructuring occasioned by the Dodd-Frank Act, the Company is subject to Federal Reserve Board Supervisory Letter SR 09-4, which provides that a holding company should, among other things, notify and make a submission to the Federal Reserve Bank prior to declaring a dividend if its net income for the current quarter is not sufficient to fully fund the dividend, and consider eliminating, deferring or significantly reducing its dividends if its net income for the current quarter is not sufficient to fully fund the dividends, or if its net income for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends. The Company will continue to consult with, and seek the prior approval of, the Federal Reserve Bank prior to declaring any dividends.

The Company is also subject to state law limitations on the payment of dividends. Maryland law generally limits dividends to an amount equal to the excess of our capital surplus over payments that would be owed upon dissolution to stockholders whose preferential rights upon dissolution are superior to those receiving the dividend, and to an amount that would not make us insolvent provided, however, that even if the Company's assets are less than the amount necessary to satisfy the requirement set forth above, the Company may make a distribution from: (1) the Company's net earnings for the fiscal year in which the distribution is made; (2) the Company's net earnings for the preceding fiscal year; or (3) the sum of the Company's net earnings for the preceding eight fiscal quarters. Dividends from the Bank provide a significant source of cash for the Company. The availability of dividends from the Bank is limited by various statutes and regulations. For a discussion of the Bank's ability to pay dividends, see Part I, Item 1, "Business — Supervision and Regulation — Federal Banking Regulation — Capital Distributions."

Recent Sales of Unregistered Securities

The Company had no sales of unregistered stock during the quarter ended December 31, 2012.

Repurchases of Equity Securities

Our Board of Directors had authorized the repurchase of up to 5,047,423 shares of our common stock. The repurchase authorization expired on November 15, 2012. The authorization permitted shares to be repurchased in open market or negotiated transactions, and pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities and Exchange Commission. The authorization was utilized at management's discretion, subject to the limitations set forth in Rule 10b-18 of the Securities and Exchange Commission and other applicable legal requirements, and to price and other internal limitations established by the Board of Directors. As of December 31, 2012, the Company had repurchased 4,239,134 shares of its common stock out of the 5,047,423 shares that had been authorized for repurchase. Federal Reserve Board Supervisory Letter SR 09-4 provides that holding companies experiencing financial weaknesses such as operating losses should notify and make a submission to the Federal Reserve Bank before redeeming or repurchasing common stock. The Company has no plans to conduct such discussions with the Federal Reserve supervisory staff or engage in stock repurchases at this time.

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Stock Performance Graph

The following line graph shows a comparison of the cumulative returns for the Company, the Russell 2000 Index, the NASDAQ Bank Index and the America's Community Bankers NASDAQ Index for the period beginning December 31, 2007 and ending December 31, 2012. The information assumes that $100 was invested at the closing price on December 31, 2007 in the Common Stock and each index, and that all dividends were reinvested.

	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
BankFinancial Corporation	100.00	65.68	65.57	66.37	38.47	51.91
Russell 2000 Index	100.00	66.21	84.20	106.82	102.36	119.09
NASDAQ Bank Index	100.00	76.08	62.00	69.37	60.75	70.34
America's Community Bankers NASDAQ Index	100.00	80.43	63.24	69.08	63.21	72.90

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ITEM 6. SELECTED FINANCIAL DATA

The following information is derived from the audited consolidated financial statements of the Company. For additional information, reference is made to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements of the Company and related notes included elsewhere in this Annual Report.

	At and For the Years Ended December 31,				
	2012	2011	2010	2009	2008
	(Dollars in thousands, except per share data)				
Selected Financial Condition Data:					
Total assets	$1,481,192	$1,563,575	$1,530,655	$1,566,963	$1,554,855
Loans, net	1,030,465	1,227,391	1,050,766	1,218,540	1,268,122
Loans held-for-sale	2,166	1,918	2,716	—	872
Securities, at fair value	77,832	92,832	120,747	102,126	124,919
Goodwill	—	—	22,566	22,566	22,566
Core deposit intangible	3,038	3,671	2,700	4,295	5,985
Deposits	1,282,351	1,332,552	1,235,377	1,233,395	1,069,855
Borrowings	5,567	9,322	23,749	50,784	200,350
Equity	172,890	199,857	253,285	263,603	266,791
Selected Operating Data:					
Interest and dividend income	$60,727	$69,708	$64,936	$74,109	$77,960
Interest expense	4,447	6,915	13,186	20,557	25,667
Net interest income	56,280	62,793	51,750	53,552	52,293
Provision for loan losses	31,522	22,723	12,083	8,811	5,092
Net interest income after provision for loan losses	24,758	40,070	39,667	44,741	47,201
Noninterest income	6,852	7,317	7,128	7,239	10,418
Noninterest expense (1)	58,719	83,708	53,849	52,731	89,056
Loss before income tax expense	(27,109)	(36,321)	(7,054)	(751)	(31,437)
Income tax expense (benefit) (2)	—	12,375	(2,747)	(13)	(12,048)
Net loss	$(27,109)	$(48,696)	$(4,307)	$(738)	$(19,389)
Basic loss per common share	$(1.36)	$(2.46)	$(0.22)	$(0.04)	$(0.98)
Diluted loss per common share	$(1.36)	$(2.46)	$(0.22)	$(0.04)	$(0.98)

(footnotes on following page)

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	At and For the Years Ended December 31,				
	2012	2011	2010	2009	2008
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Return on assets (ratio of net loss to average total assets)	(1.78)%	(3.00)%	(0.28)%	(0.05)%	(1.33)%
Return on equity (ratio of net loss to average equity)	(13.36)	(19.47)	(1.64)	(0.28)	(6.84)
Net interest rate spread [3]	3.86	4.09	3.36	3.36	3.35
Net interest margin [4]	3.93	4.20	3.57	3.69	3.88
Efficiency ratio [5]	93.01	85.36	91.46	86.74	142.01
Noninterest expense to average total assets [6]	3.87	3.69	3.45	3.36	6.09
Average interest-earning assets to average interest-bearing liabilities	123.17	122.68	122.56	123.43	127.85
Dividends declared per share	$0.03	$0.22	$0.28	$0.28	$0.28
Dividend payout ratio	N.M.	N.M.	N.M.	N.M.	N.M.
Asset Quality Ratios:					
Nonperforming assets to total assets [7]	2.59%	6.31%	3.94%	3.42%	0.94%
Nonperforming loans to total loans	2.67	6.05	4.26	4.01	1.07
Allowance for loan losses to nonperforming loans	64.39	41.66	48.54	37.63	107.97
Allowance for loan losses to total loans	1.72	2.52	2.07	1.51	1.15
Net charge-offs to average loans outstanding	3.91	1.04	0.75	0.39	0.11
Capital Ratios:					
Equity to total assets at end of period	11.67%	12.78%	16.55%	16.82%	17.16%
Average equity to average assets	13.36	15.42	16.77	17.02	19.39
Tier 1 leverage ratio (Bank only)	9.60	10.48	12.48	12.44	12.08
Other Data:					
Number of full-service offices	20	20	18	18	18
Employees (full-time equivalents)	352	357	328	372	393

(1) Noninterest expense for the year ended December 31, 2011 includes a full goodwill impairment of $23.9 million. Noninterest expense for the years ended December 31, 2009 and 2008 includes $401,000 and $35.9 million, respectively, of impairment loss on securities.

(2) Income tax expense for the year ended December 31, 2011 includes a full valuation of the deferred tax asset of $22.6 million.

(3) The net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities for the period.

(4) The net interest margin represents net interest income divided by average total interest-earning assets for the period.

(5) The efficiency ratio represents noninterest expense, less goodwill impairment, divided by the sum of net interest income and noninterest income.

(6) The noninterest expense to average total assets ratio represents noninterest expense less goodwill impairment, divided by average total assets.

(7) Nonperforming assets include nonperforming loans and other real estate owned.

N.M. Not Meaningful

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ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion and analysis that follows focuses on the factors affecting our consolidated financial condition at December 31, 2012 and 2011, and our consolidated results of operations for the three years ended December 31, 2012. Our consolidated financial statements, the related notes and the discussion of our critical accounting policies appearing elsewhere in this Annual Report should be read in conjunction with this discussion and analysis.

Overview of 2012

Core Operating Earnings and Franchise Growth

Total loans declined in 2012 due to several factors. Consistent with our practices in previous years, we actively managed our loan portfolio to exit certain multifamily, commercial real estate and commercial loan relationships based on our overall assessment of the borrowers, the industries in which they operate and future collateral valuations. Given the growth we experienced in our multifamily and commercial real estate loan portfolios from the acquisitions that we conducted in 2011, we did not emphasize the aggressive origination of multifamily and commercial real estate loans in 2012; however, principally due to intensified competitive forces from larger institutions, the declines in our multifamily loan portfolio and healthcare commercial loan portfolio were greater than planned. Lack of demand for adjustable rate residential mortgage loans, coupled with accelerating fixed-rate refinance activity as 2012 progressed, resulted in a decline in our residential mortgage loan portfolio. Our commercial lease origination volumes were 19% higher in 2012 than 2011 and contributed to an increase in the commercial lease portfolio balances at the end of 2012.

We managed our deposit portfolio, including the deposits acquired in the Downers Grove National Bank transaction, to retain the highest value core deposit relationships and reduce our cost of funds to the lowest practicable levels. We ended 2012 with our highest-ever core deposit ratio at 76.2% of total deposits and our lowest-ever cost of funds of 0.38% for the year.

Our noninterest income decreased in 2012 as the revenues from the new Trust Department and mortgage banking operations were offset by the declines in deposit-related fee income resulting from provisions of the Dodd-Frank Act that became effective during 2011.

Our core noninterest expense remained well-contained in 2012, even with the addition of the Downers Grove National Bank operating expenses. We continue to implement new processes and technologies to reduce staffing needs where feasible while still investing in business development, customer service and marketing resources to foster future growth with existing and new customers.

Asset Quality & Credit-Related Expenses

We consider the total balances of nonperforming loans and repossessed assets to be an important asset quality metric. Our credit-related expenses include any required provisions for loan losses, write-downs of repossessed assets to current market value, and expenses related to the collection, management and sale of nonperforming loans and repossessed assets. Although we track the nonperforming loans and repossessed assets we acquired from Downers Grove National Bank separately for management and certain accounting purposes, these nonperforming assets are included in our total balances for financial reporting and OCC regulatory purposes. At December 31, 2012, nonperforming assets related to Downers Grove National Bank were 31% of our total nonperforming assets.

We executed our plan to achieve a material reduction in nonperforming assets and future nonperforming asset expenses during 2012. Consistent with our previous disclosures, we utilized multiple asset disposition techniques to implement this plan, including two “bulk liquidations” and the designation of certain loans as “held-for-sale” pending a third bulk sale. These actions, combined with the accelerated disposition of certain OREO properties, write-downs that were taken on other OREO properties to facilitate their disposition and loan restructurings conducted in accordance with applicable regulatory and accounting guidance, reduced our nonperforming loans by $49.9 million, or 66%, and our nonperforming assets by $60.3 million, or 61%. Our ratio of nonperforming assets to total assets was 2.59% at December 31, 2012, the lowest metric we have reported since June 2009.

We firmly believe the actions taken in 2012 were for the Company's long-term benefit, despite the substantial costs, given that distressed asset sales in the Chicago Metropolitan Area continue to dominate valuation assessments and the considerable excess inventory of potential dispositions remaining in the market. These actions will also allow us to

return our focus in 2013 to more normalized operations, with an emphasis on diversified and measured loan growth, improving noninterest income, implementing additional expense control measures and taking other steps that we believe should enhance shareholder value.

The year 2012 ended with a materially reduced level of past due loans compared to 2011, and with a resumption of the gradual improvement in asset quality trends resulting from our continuing resolutions of nonperforming assets on an orderly basis.

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Objectives for 2013

Preservation and Expansion of Core Operating Earnings

Subject to the execution of our loan portfolio growth objectives, historically low market interest rates and yields and ever-increasing competitive forces in the Chicago metropolitan area, we believe that some compression of our net interest margin is possible in 2013 as the interest rates on maturing loans, or loans not subject to a prepayment penalty, change to current market interest rates. In addition, we anticipate we may be able to offset some of the effects of yield compression with further loan portfolio diversification, some modest growth in noninterest income and, if necessary, further reductions of core operating expenses. As we expect the present economic environment to continue for a considerable period of time in the Chicago metropolitan area, we will continue to accelerate the evolution of our loan portfolio towards a configuration that permits better growth rates in multiple, independent segments with comparable risk-adjusted yields. Through these actions, we hope to improve our core operating earnings in 2013 to the extent feasible and to continue developing the capabilities to expand core operating earnings in future periods.

Results of Operation

Net Income

Comparison of Year 2012 to 2011. We recorded a net loss of $27.1 million for the year ended December 31, 2012, compared to a net loss of $48.7 million for 2011. The net loss for 2012 was primarily due to a $31.5 million provision for loan losses and $12.7 million of expense for nonperforming asset management and operations of other real estate owned. The $31.5 million provision for loan losses included a $11.5 million charge relating to the consummation of two bulk loan sales and a $5.9 million charge relating to the transfer of loans to the held for sale portfolio in preparation for a bulk sale. The net loss for 2011 was primarily due to the recording of a goodwill impairment expense of $23.9 million, a $22.6 million valuation allowance for deferred tax assets, a $22.7 million provision for loan losses and $10.8 million of expense for nonperforming asset management and operations of other real estate owned. Our loss per share of common stock for the year ended December 31, 2012 was $1.36 per share, compared to $2.46 per share for the year ended December 31, 2011.

Comparison of Year 2011 to 2010. We recorded a net loss of $48.7 million for the year ended December 31, 2011, compared to a net loss of $4.3 million for 2010. The net loss for 2011 was primarily due to the recording of a goodwill impairment expense of $23.9 million, a $22.6 million valuation allowance for deferred tax assets, a $22.7 million provision for loan losses and $10.8 million of expense for nonperforming asset management and operations of other real estate owned. The net loss in 2010 was due in substantial part to our recording a $12.1 million provision for loan losses, $7.3 million for nonperforming asset management and operations of other real estate owned. Our loss per share of common stock for the year ended December 31, 2011 was $2.46 per share, compared to $0.22 per share for the year ended December 31, 2010.

Net Interest Income

Net interest income is our primary source of revenue. Net interest income equals the excess of interest income (including discount accretion on purchased impaired loans) plus fees earned on interest earning assets over interest expense incurred on interest-bearing liabilities. The level of interest rates and the volume and mix of interest-earning assets and interest-bearing liabilities impact net interest income. Interest rate spread and net interest margin are utilized to measure and explain changes in net interest income. Interest rate spread is the difference between the yield on interest-earning assets and the rate paid for interest-bearing liabilities that fund those assets. The net interest margin is expressed as the percentage of net interest income to average interest-earning assets. The net interest margin exceeds the interest rate spread because noninterest-bearing sources of funds, principally noninterest-bearing demand deposits and stockholders' equity, also support interest-earning assets.

The accounting policies underlying the recognition of interest income on loans, securities, and other interest-earning assets are included in Note 1 of “Notes to Consolidated Financial Statements” in Item 8 of this Form 10-K.

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Average Balance Sheets

The following table sets forth average balance sheets, average yields and costs, and certain other information. No tax-equivalent yield adjustments were made, as the effect of these adjustments would not be material. Average balances are daily average balances. Nonaccrual loans are included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees and expenses, discounts and premiums, purchase accounting adjustments that are amortized or accreted to interest income or expense.

	Years Ended December 31,								
	2012			2011			2010		
	Average Outstanding Balance	Interest	Yield/Rate	Average Outstanding Balance	Interest	Yield/Rate	Average Outstanding Balance	Interest	Yield/Rate
	(Dollars in thousands)								
Interest-earning Assets:									
Loans	$1,155,820	$58,716	5.08 %	$1,261,704	$66,706	5.29 %	$1,140,865	$60,926	5.34 %
Securities	80,030	1,485	1.86	106,060	2,665	2.51	86,032	3,488	4.05
Stock in FHLBC	10,729	29	0.27	16,243	16	0.10	15,598	—	—
Other	185,963	497	0.27	112,063	321	0.29	208,742	522	0.25
Total interest-earning assets	1,432,542	60,727	4.24	1,496,070	69,708	4.66	1,451,237	64,936	4.47
Noninterest-earning assets	86,191			125,937			111,314		
Total assets	$1,518,733			$1,622,007			$1,562,551		
Interest-bearing Liabilities:									
Savings deposits	$144,684	148	0.10	$135,127	211	0.16	$98,338	421	0.43
Money market accounts	346,118	1,262	0.36	350,228	1,593	0.45	347,250	3,252	0.94
NOW accounts	335,552	416	0.12	323,295	500	0.15	295,720	1,441	0.49
Certificates of deposit	328,529	2,517	0.77	398,059	4,389	1.10	405,188	7,219	1.78
Total deposits	1,154,883	4,343	0.38	1,206,709	6,693	0.55	1,146,496	12,333	1.08
Borrowings	8,162	104	1.27	12,758	222	1.74	37,653	853	2.27
Total interest-bearing liabilities	1,163,045	4,447	0.38	1,219,467	6,915	0.57	1,184,149	13,186	1.11
Noninterest-bearing deposits	134,807			131,695			102,294		
Noninterest-bearing liabilities	18,036			20,695			14,003		
Total liabilities	1,315,888			1,371,857			1,300,446		
Equity	202,845			250,150			262,105		
Total liabilities and equity	$1,518,733			$1,622,007			$1,562,551		
Net interest income		$56,280			$62,793			$51,750	
			3.86 %			4.09 %			3.36 %

Net interest rate spread [1]								
Net interest-earning assets [2]	$269,497			$276,603			$267,088	
Net interest margin [3]			3.93 %			4.20 %		3.57 %
Ratio of interest-earning assets to interest-bearing liabilities	123.17	%		122.68	%		122.56 %	

(1) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
(2) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.
(3) Net interest margin represents net interest income divided by average total interest-earning assets.

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Comparison of Year 2012 to 2011. Net interest income decreased by $6.5 million, or 10.4%, to $56.3 million for the year ended December 31, 2012, from $62.8 million for the year ended December 31, 2011. Our net interest rate spread decreased 23 basis points to 3.86% for the year ended December 31, 2012, compared to 4.09% for 2011. Our net interest margin decreased by 27 basis points to 3.93% for the year ended December 31, 2012, from 4.20% for 2011. Our average interest-earning assets decreased $63.5 million to $1.433 billion for the year ended December 31, 2012, from $1.496 billion for 2011, and our average interest-bearing liabilities decreased $56.4 million to $1.163 billion in 2012, from $1.219 billion in 2011.

Comparison of Year 2011 to 2010. Net interest income increased by $11.0 million, or 21.3%, to $62.8 million for the year ended December 31, 2011, from $51.8 million for the year ended December 31, 2010. Our net interest rate spread increased 73 basis points to 4.09% for the year ended December 31, 2011, compared to 3.36% for the year ended December 31, 2010. Our net interest margin increased by 63 basis points to 4.20% for the year ended December 31, 2011, from 3.57% for the year ended December 31, 2010. Our average interest-earning assets increased $44.8 million to $1.496 billion for the year ended 2011, from $1.451 billion for the year ended December 31, 2010, and our average interest-bearing liabilities increased $35.3 million to $1.219 billion in 2011, from $1.184 billion in 2010. The increases in the average interest-earning assets and average interest-bearing liabilities were impacted by our acquisition in March 2011 of Downers Grove National Bank and a portfolio of performing Chicago area multi-family loans.

Rate/Volume Analysis

The following table presents the dollar amount of changes in interest income and interest expense for the major categories of our interest-earning assets and interest-bearing liabilities. Information is provided for each category of interest-earning assets and interest-bearing liabilities with respect to changes attributable to changes in volume (i.e., changes in average balances multiplied by the prior-period average rate), and changes attributable to rate (i.e., changes in average rate multiplied by prior-period average balances). For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

	Years Ended December 31,					
	2012 vs. 2011			2011 vs. 2010		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Total Increase (Decrease)	Volume	Rate	Total Increase (Decrease)
	(Dollars in thousands)					
Interest-earning assets:						
Loans	$(5,424)	$(2,566)	$(7,990)	$6,359	$(579)	$5,780
Securities	(574)	(606)	(1,180)	694	(1,517)	(823)
Stock in FHLBC	(7)	20	13	—	16	16
Other	200	(24)	176	(274)	73	(201)
Total interest-earning assets	(5,805)	(3,176)	(8,981)	6,779	(2,007)	4,772
Interest-bearing liabilities:						
Savings deposits	16	(79)	(63)	120	(330)	(210)
Money market accounts	(18)	(313)	(331)	28	(1,687)	(1,659)
NOW accounts	18	(102)	(84)	127	(1,068)	(941)
Certificates of deposit	(689)	(1,183)	(1,872)	(125)	(2,705)	(2,830)
Borrowings	(67)	(51)	(118)	(466)	(165)	(631)
Total interest-bearing liabilities	(740)	(1,728)	(2,468)	(316)	(5,955)	(6,271)
Change in net interest income	$(5,065)	$(1,448)	$(6,513)	$7,095	$3,948	$11,043

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Provision for Loan Losses

We establish provisions for loan losses, which are charged to operations in order to maintain the allowance for loan losses at a level we consider necessary to absorb probable incurred credit losses in the loan portfolio. In determining the level of the allowance for loan losses, we consider past and current loss experience, evaluations of real estate collateral, current economic conditions, volume and type of lending, adverse situations that may affect a borrower’s ability to repay a loan and the levels of nonperforming and other classified loans. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates as more information becomes available or events change. We assess the allowance for loan losses on a quarterly basis and make provisions for loan losses in order to maintain the allowance.

The provision for loan losses totaled $31.5 million for the year ended December 31, 2012, compared to $22.7 million in 2011 and $12.1 million in 2010. The provision for loan losses is a function of the allowance for loan loss methodology we use to determine the appropriate level of the allowance for inherent loan losses after net charge-offs have been deducted. Net charge-offs were $45.2 million in 2012, compared to $13.2 million in 2011 and $8.5 million in 2010. Net charge-offs for 2012 included a $10.8 million charge-off relating to compliance with the OCC's regulatory transition guidance concerning the elimination of special valuation allowances, as well as a $17.4 million charge relating to the consummation of two bulk loan sales and the transfer of loans to the held for sale portfolio in preparation for a bulk sale. For further analysis and information on how we determine the appropriate level for the allowance for loan losses and analysis of credit quality, see “Critical Accounting Policies” and “Risk Classification of Loans and Allowance for Loan Losses.”

Noninterest Income

	Years Ended December 31,			Change	
	2012	2011	2010	2012/2011	2011/2010
	(Dollars in thousands)				
Deposit service charges and fees	$2,176	$2,667	$3,020	$(491)	$(353)
Other fee income	1,522	1,598	1,868	(76)	(270)
Insurance commissions and annuities income	510	659	775	(149)	(116)
Gain on sale of loans, net	841	340	501	501	(161)
Gain on sales of securities	—	—	31	—	(31)
Loss on disposition of premises and equipment	(156)	(19)	(19)	(137)	—
Loan servicing fees	486	538	604	(52)	(66)
Amortization of servicing assets	(265)	(252)	(549)	(13)	297
Recovery (impairment) of servicing assets	(55)	(15)	74	(40)	(89)
Earnings on bank owned life insurance	438	626	430	(188)	196
Trust income	733	676	44	57	632
Other	622	499	349	123	150
Total noninterest income	$6,852	$7,317	$7,128	$(465)	$189

Comparison of Year 2012 to 2011. Our noninterest income decreased by $465,000 to $6.9 million for the year ended December 31, 2012, from $7.3 million for the year ended December 31, 2011. Deposit service charges and fees decreased $491,000, or 18.4%, to $2.2 million, from $2.7 million for 2011, primarily attributable to the impact that the Dodd-Frank Act had on certain deposit service charges and fees. Gains on the sale of loans increased by $501,000, to $841,000, compared to $340,000 for 2011. We recorded an impairment of servicing assets of $55,000 for the year ended December 31, 2012 compared to an impairment of $15,000 in 2011, due to increased delinquency rates in the serviced portfolio. Bank-owned life insurance produced earnings of $438,000 for 2012, a decrease of $188,000, or 30.0%, compared to a $626,000 for 2011 due to decreased annualized policy returns.

Comparison of Year 2011 to 2010. Our noninterest income increased by $189,000 to $7.3 million for the year ended December 31, 2011, from $7.1 million for the year ended December 31, 2010. Our noninterest income for 2011 included trust department income of $676,000 compared to $44,000 for 2010. The increase in trust department income was due to the operation of the Trust Department acquired in the Downers Grove National Bank transaction on

March 18, 2011.
Additional factors affecting the change in noninterest income included a $353,000, or 11.7%, decrease in deposit service charges and fees to $2.7 million, from $3.0 million for 2010, primarily attributable to the impact that the Dodd-Frank Act had on certain deposit service charges and fees. Bank-owned life insurance produced earnings of $626,000 for 2011, an increase of 45.6%, compared to a $430,000 for 2010.

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Noninterest Expense

	Years Ended December 31,			Change	
	2012	2011	2010	2012/2011	2011/2010
	(Dollars in thousands)				
Compensation and benefits	$25,751	$26,027	$26,339	$(276)	$(312)
Office occupancy and equipment	6,840	7,319	6,380	(479)	939
Advertising and public relations	689	890	1,277	(201)	(387)
Information technology	4,638	4,182	3,733	456	449
Supplies, telephone and postage	1,687	1,698	1,596	(11)	102
Amortization of intangibles	633	1,689	1,595	(1,056)	94
Nonperforming asset management	5,211	4,431	3,342	780	1,089
Loss on sale other real estate owned	253	15	415	238	(400)
Valuation adjustments of other real estate owned	5,560	3,970	2,392	1,590	1,578
Operations of other real estate owned	1,678	2,350	1,165	(672)	1,185
FDIC insurance premiums	1,779	1,441	2,126	338	(685)
Acquisition costs	—	1,761	81	(1,761)	1,680
Goodwill impairment	—	23,862	—	(23,862)	23,862
Other	4,000	4,073	3,408	(73)	665
Total noninterest expense	$58,719	$83,708	$53,849	$(24,989)	$29,859

Comparison of Year 2012 to 2011. For the year ended December 31, 2012, noninterest expense decreased by $25.0 million, or 29.9% to $58.7 million, from $83.7 million for 2011. Noninterest expense for 2011 included a $23.9 million goodwill impairment expense and expenses relating to the acquisitions of Downers Grove National Bank and a portfolio of multi-family loans from Citibank. Amortization of intangibles decreased $1.1 million, or 62.5%, to $633,000 from $1.7 million in 2011. Noninterest expense for 2011 included core deposit intangible amortization expenses relating to the acquisition of Success National Bank; the core deposit intangible for Success National Bank was fully amortized as of November 2011. Noninterest expense for 2012 included $7.5 million of nonperforming asset management and OREO expenses, compared to $6.3 million for 2011. Nonperforming asset management expenses increased $780,000 to $5.2 million for the year ended December 31, 2012, compared to $4.4 million in 2011. OREO expenses for the year ended December 31, 2012 included a $5.6 million of valuation adjustment to OREO properties compared to a $4.0 million valuation adjustment in 2011. The increase in valuation adjustments was due in part to a revision of our disposition strategy for certain income-producing OREO properties from an ordinary-liquidation pricing model to an aggressive pricing model designed to stimulate market demand.

Comparison of Year 2011 to 2010. For the year ended December 31, 2011, noninterest expense increased by $29.9 million, or 55.4%, to $83.7 million from $53.8 million for 2010. The increase was primarily due to the recording of a $23.9 million goodwill impairment expense in 2011, increased nonperforming asset management and OREO operations expenses, and expenses recorded in connection with acquisitions. Stock-based compensation expense decreased $2.1 million because the majority of stock awards fully vested in December 2010. The decrease in stock-based compensation expense was partially offset by residual transitional staffing expenses relating to the Downers Grove National Bank acquisition and the additional staffing that was required for the trust department and the two branch offices that were acquired in the transaction. Office occupancy and equipment expense increased $939,000, or 14.7%, to $7.3 million, compared to $6.4 million for 2010, due in substantial part to the Downers Grove National Bank acquisition. Noninterest expense for 2011 included $6.3 million of nonperforming asset management and OREO expenses, compared to $4.0 million for 2010. Nonperforming asset management expenses increased $1.1 million to $4.4 million for the year ended December 31, 2011, compared to $3.3 million in 2010. Acquisition expenses reflected a $1.4 million expense relating to the acquisition of Downers Grove National Bank, including $518,000 for data processing contracts and operational expenses and $675,000 contract and severance payments, and a $396,000 expense relating to our Chicago area multi-family loan purchase from Citibank.

Income Taxes

Comparison of Year 2012 to 2011. For the year ended December 31, 2012, we recorded no income tax expense or benefit due to the full valuation allowance we established for deferred tax assets, compared to an income tax expense of $12.4 million for the year ended December 31, 2011, which was recorded in connection with the establishment of a full deferred tax asset valuation allowance.

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Comparison of Year 2011 to 2010. For the year ended December 31, 2011, we recorded an income tax expense of $12.4 million, compared to an income tax benefit of $2.7 million for 2010. The recognition of the $12.4 million income tax expense for 2011 resulted from a non-cash charge of $22.6 million for the establishment of a full valuation allowance for our deferred tax assets. The effective tax rate was 38.94% for the year ended December 31, 2010. The effective tax rate for the year ended December 31, 2011 is not meaningful due to the size of our operating loss relative to the income expense resulting from the valuation allowance.

Comparison of Financial Condition at December 31, 2012 and December 31, 2011

Total assets decreased $82.4 million, or 5.3%, to $1.481 billion at December 31, 2012, from $1.564 billion at December 31, 2011. The decrease in total assets was primarily due to a decrease in loans receivable. The decrease was partially offset by an increase in cash and cash equivalents. Net loans decreased $196.9 million to $1.030 billion at December 31, 2012, from $1.227 billion at December 31, 2011. Net cash and cash equivalents increased by $155.1 million to $275.8 million at December 31, 2012, from $120.7 million at December 31, 2011.

Our loan portfolio consists primarily of investment and business loans (multi-family, nonresidential real estate, commercial, construction and land loans, and commercial leases), which together made up 78.9% of gross loans at December 31, 2012. Net loans receivable decreased $196.9 million, or 16.0%, to $1.030 billion at December 31, 2012, from $1.227 billion at December 31, 2011. Multi-family mortgage loans decreased by $71.6 million, or 16.9%; commercial loans decreased by $32.5 million, or 34.6%; nonresidential real estate loans decreased $47.0 million, or 15.1%;construction and land loans decreased $11.3 million, or 56.9%. One-to-four family residential mortgage loans decreased $53.4 million, or 19.6%. Commercial leases increased by $4.8 million, or 3.6%.

Our allowance for loan losses decreased by $13.7 million, or 43.2%, to $18.0 million at December 31, 2012, from $31.7 million at December 31, 2011. The decrease reflects the combined impact of a $31.5 million provision for loan losses offset by $45.2 million in net charge-offs. Net charge-offs for 2012 included a $10.8 million charge-off relating to compliance with the OCC's regulatory transition guidance concerning the elimination of special valuation allowances.

Securities decreased $15.0 million, or 16.2%, to $77.8 million at December 31, 2012, from $92.8 million at December 31, 2011, due primarily to the receipt of principal repayments of $19.7 million on residential mortgage-backed and collateralized mortgage obligations. During 2012 and 2011, we also invested in FDIC insured certificates of deposit issued by other insured depository institutions.

Deposits decreased $50.2 million, or 3.8%, to $1.282 billion at December 31, 2012, from $1.333 billion at December 31, 2011. Core deposits (savings, money market, noninterest-bearing demand and NOW accounts) increased by $9.0 million. Core deposits increased as a percentage of total deposits, representing 76.2% of total deposits at December 31, 2012, compared to 72.7% of total deposits at December 31, 2011.

Certificates of deposit decreased $59.2 million, or 16.2%, to $305.3 million at December 31, 2012 from $364.4 million at December 31, 2011. The decrease was primarily due to our lessening our competitive pricing position in anticipation of additional excess liquidity resulting from loan payments and bulk sales of loans.

Total stockholders' equity was $172.9 million at December 31, 2012, compared to $199.9 million at December 31, 2011. The decrease in total stockholders' equity was primarily due to the $27.1 million net loss that we recorded for the year ended December 31, 2012. The unallocated shares of common stock that our ESOP owns were reflected as a $12.2 million reduction to stockholders' equity at December 31, 2012, compared to $13.2 million at December 31, 2011.

Securities

Our investment policy is established by our Board of Directors. The policy emphasizes safety of the investment, liquidity requirements, potential returns, cash flow targets, and consistency with our interest rate risk management strategy.

At December 31, 2012 our mortgage-backed securities and collateralized mortgage obligations ("CMOs") reflected in the following table were issued by U.S. government-sponsored enterprises and agencies, Freddie Mac, Fannie Mae and Ginnie Mae, and are obligations which the federal government has affirmed its commitment to support. All securities reflected in the table were classified as available-for-sale at December 31, 2012, 2011 and 2010.

We hold FHLBC common stock to qualify for membership in the Federal Home Loan Bank System and to be eligible to borrow funds under the FHLBC's advance program. The aggregate cost of our FHLBC common stock as of December 31, 2012 was $8.4 million based on its par value. There is no market for FHLBC common stock. Due to our receipt of stock dividends in prior years and the amount of our outstanding FHLBC advances, we owned shares of FHLBC common stock at December 31, 2012 with a par value that was $1.1 million more than we were required to own to maintain our membership in the Federal Home Loan Bank

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System and to be eligible to obtain advances (“excess” or “voluntary” capital stock). During 2012, we redeemed $7.9 million of excess FHLBC stock.

The following table sets forth the composition, amortized cost and fair value of our securities.

	At December 31,					
	2012		2011		2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
Securities:						
Certificates of deposits	$33,456	$33,456	$30,448	$30,448	$27,766	$27,766
Municipal securities	350	369	515	551	675	709
Equity mutual fund	500	528	500	524	—	—
SBA - guaranteed loan participation certificates	42	42	47	47	103	105
Total	34,348	34,395	31,510	31,570	28,544	28,580
Mortgage-backed Securities:						
Mortgage-backed securities - residential	32,572	34,233	34,691	36,076	41,034	42,435
CMOs and REMICs - residential	9,111	9,204	24,837	25,186	48,262	49,732
Total mortgage-backed securities	41,683	43,437	59,528	61,262	89,296	92,167
Total	$76,031	$77,832	$91,038	$92,832	$117,840	$120,747

The fair values of marketable equity securities are generally determined by quoted prices, in active markets, for each specific security. If quoted market prices 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. 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. The fair value of a security is used to determine the amount of any unrealized losses that must be reflected in our other comprehensive income and the net book value of our securities.

We evaluate 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.

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Portfolio Maturities and Yields

The composition and maturities of the securities portfolio and the mortgage-backed securities portfolio at December 31, 2012 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. Municipal securities yields have not been adjusted to a tax-equivalent basis, as the amount is immaterial.

	One Year or Less			More than One Year through Five Years			More than Five Years through Ten Years			More than Ten Years		
	Amortized Cost	Weighted Average Yield		Amortized Cost	Weighted Average Yield		Amortized Cost	Weighted Average Yield		Amortized Cost	Weighted Average Yield	
	(Dollars in thousands)											
Securities:												
Certificates of deposit	$33,456	0.50	%	$—	—	%	$—	—	%	$—	—	%
Municipal securities	170	4.45		180	4.60		—	—		—	—	
Equity mutual fund	500	1.98		—	—		—	—		—	—	
SBA guaranteed loan participation certificates	—	—		—	—		42	1.75		—	—	
Total	34,126	0.55		180	4.60		42	1.75		—	—	
Mortgage-backed Securities:												
Pass-through securities:												
Fannie Mae	20	4.50		915	5.68		16	2.23		13,757	2.93	
Freddie Mac	—	—		46	1.93		308	1.92		2,124	3.54	
Ginnie Mae	—	—		—	—		121	1.75		15,266	2.54	
CMOs and REMICs	—	—		—	—		—	—		9,111	2.23	
Total	20	4.50		961	5.41		445	1.89		40,258	2.66	
Total securities	$34,146	0.55	%	$1,141	5.36	%	$487	1.87	%	$40,258	2.66	%

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Loan Portfolio

We originate multi-family mortgage loans, nonresidential real estate loans, commercial loans, commercial leases, and construction and land loans. In addition, we originate one-to-four family residential mortgage loans and consumer loans, and purchase and sell loan participations from time-to-time. Our principal loan products are discussed in Note 4 of the "Notes to Consolidated Financial Statements" in Item 8 of this Form 10-K.

The following table sets forth the composition of our loan portfolio, excluding loans held-for-sale, by type of loan.

	At December 31,									
	2012		2011		2010		2009		2008	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Per
	(Dollars in thousands)									
One-to-four family residential	$218,596	20.86 %	$272,032	21.62 %	$256,300	23.92 %	$289,623	23.44 %	$312,390	24.
Multi-family mortgage	352,019	33.60	423,615	33.67	296,916	27.71	329,227	26.65	305,318	23.
Nonresidential real estate	264,672	25.26	311,641	24.77	281,987	26.31	316,607	25.62	342,583	26.
Construction and land	8,552	0.82	19,852	1.58	18,398	1.72	32,577	2.64	50,687	3.9
Commercial loans	61,388	5.86	93,932	7.46	64,679	6.04	88,067	7.13	92,679	7.2
Commercial leases	139,783	13.34	134,990	10.73	151,107	14.10	176,821	14.31	174,644	13.
Consumer	2,745	0.26	2,147	0.17	2,182	0.20	2,539	0.21	2,655	0.2
Total loans	1,047,755	100.00 %	1,258,209	100.00 %	1,071,569	100.00 %	1,235,461	100.00 %	1,280,956	10(
Net deferred loan origination costs	745		908		1,377		1,701		1,912	
Allowance for loan losses	(18,035)		(31,726)		(22,180)		(18,622)		(14,746)	
Total loans, net	$1,030,465		$1,227,391		$1,050,766		$1,218,540		$1,268,122	

Loan Portfolio Maturities

The following table summarizes the scheduled repayments of our loan portfolio at December 31, 2012. Demand loans, loans having no stated repayment schedule or maturity and overdraft loans are reported as being due in one year or less.

	Within One Year	One Year Through Five Years	Beyond Five Years	Total
	(Dollars in thousands)			
Scheduled Repayments of Loans:				
One-to-four family residential	$31,802	$73,418	$113,376	$218,596
Multi-family mortgage	45,436	137,227	169,356	352,019
Nonresidential real estate	135,476	117,380	11,816	264,672
Construction and land	7,784	768	—	8,552
Commercial loans and leases	119,551	81,262	358	201,171
Consumer	969	1,244	532	2,745

Total loans	$341,018	$411,299	$295,438	$1,047,755

	Total
Loans Maturing After One Year:	
Predetermined (fixed) interest rates	$452,125
Adjustable interest rates	254,612
Total loans	$706,737

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Nonperforming Loans and Assets

We review loans on a regular basis, and generally place loans on nonaccrual status when either principal or interest is 90 days or more past due. In addition, the Company places loans on nonaccrual status when we do not expect to receive full payment of interest or principal. Interest accrued and unpaid at the time a loan is placed on nonaccrual status is reversed from interest income. Interest payments received on nonaccrual loans are recognized in accordance with our significant accounting policies. Once a loan is placed on nonaccrual status, the borrower must generally demonstrate at least six months of payment performance before the loan is eligible to return to accrual status. We may have loans classified as 90 days or more delinquent and still accruing. Generally, we do 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 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 loan payments actually received or the renewal of the loan has not occurred for administrative reasons. At December 31, 2012, we had three loans totaling $332,000 in this category.

We typically obtain new third–party appraisals or collateral valuations when we place a loan on nonaccrual status, conduct impairment testing or conduct a TDR unless the existing valuation information for the collateral is sufficiently current to comply with the requirements of our Appraisal and Collateral Valuation Policy (“ACV Policy”). We also obtain new third–party appraisals or collateral valuations when the judicial foreclosure process concludes with respect to real estate collateral, and when we otherwise acquire actual or constructive title to real estate collateral. In addition to third–party appraisals, we use updated valuation information based on Multiple Listing Service data, broker opinions of value, actual sales prices of similar assets sold by us and approved sales prices in response to offers to purchase similar assets owned by us to provide interim valuation information for consolidated financial statement and management purposes. Our ACV Policy establishes the maximum useful life of a real estate appraisal at 18 months. Because appraisals and updated valuations utilize historical or “ask–side” data in reaching valuation conclusions, the appraised or updated valuation may or may not reflect the actual sales price that we will receive at the time of sale. Real estate appraisals may include up to three approaches to value: the sales comparison approach, the income approach (for income-producing property) and the cost approach. Not all appraisals utilize all three approaches. Depending on the nature of the collateral and market conditions, we may emphasize one approach over another in determining the fair value of real estate collateral. Appraisals may also contain different estimates of value based on the level of occupancy or planned future improvements. “As-is” valuations represent an estimate of value based on current market conditions with no changes to the use or condition of the real estate collateral. “As-stabilized” or “as-completed” valuations assume the real estate collateral will be improved to a stated standard or achieve its highest and best use in terms of occupancy. “As-stabilized” or “as-completed” valuations may be subject to a present value adjustment for market conditions or the schedule of improvements.

As part of the asset classification process, we develop an exit strategy for real estate collateral or OREO by assessing overall market conditions, the current use and condition of the asset, and its highest and best use. For most income–producing real estate, we believe that investors value most highly a stable income stream from the asset; consequently, we perform a comparative evaluation to determine whether conducting a sale on an “as–is”, “as–stabilized” or “as–improved” basis is most likely to produce the highest net realizable value. If we determine that the “as–stabilized” or “as–improved” basis is appropriate, we then complete the necessary improvements or tenant stabilization tasks, with the applicable time value discount and improvement expenses incorporated into our estimates of the expected costs to sell. As of December 31, 2012, substantially all impaired real estate loan collateral and OREO were valued on an “as–is basis.”

Estimates of the net realizable value of real estate collateral also include a deduction for the expected costs to sell the collateral or such other deductions from the cash flows resulting from the operation and liquidation of the asset as are appropriate. For most real estate collateral subject to the judicial foreclosure process, we apply a 10.0% deduction to the value of the asset to determine the expected costs to sell the asset. This estimate includes one year of real estate taxes, sales commissions and miscellaneous repair and closing costs. If we receive a purchase offer that requires unbudgeted repairs, or if the expected resolution period for the asset exceeds one year, we then include, on a

case-by-case basis, the costs of the additional real estate taxes and repairs and any other material holding costs in the expected costs to sell the collateral. For OREO, we only apply a 7.0% deduction to determine the expected costs to sell, as expenses for real estate taxes and repairs are expensed when incurred.

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Nonperforming Assets Summary

The following table below sets forth the amounts and categories of our nonperforming loans and nonperforming assets.

	At December 31,				
	2012	2011	2010	2009	2008
	(Dollars in thousands)				
Nonaccrual loans:					
One-to-four family residential	$7,299	$10,622	$10,059	$11,453	$2,205
Multi-family mortgage	3,517	14,807	13,228	13,961	2,101
Nonresidential real estate	8,985	29,927	12,428	11,074	2,961
Construction and land	2,210	3,246	6,139	8,841	5,145
Commercial	256	2,920	3,766	4,160	1,141
Commercial leases	—	22	72	—	105
Consumer	—	3	3	—	—
	22,267	61,547	45,695	49,489	13,658
Loans held-for-sale	1,752	—	—	—	—
Other real estate owned:					
One-to-four family residential	1,760	5,328	3,015	601	588
Multi-family mortgage	720	3,655	2,486	976	133
Nonresidential real estate	3,504	4,905	7,376	1,416	—
Land	1,323	2,237	1,745	1,091	234
	7,307	16,125	14,622	4,084	955
Nonperforming assets (excluding purchased impaired loans and purchased other real estate owned)	31,326	77,672	60,317	53,573	14,613
Purchased impaired loans:					
One-to-four family residential	380	3,941	—	—	—
Multi-family mortgage	—	1,418	—	—	—
Nonresidential real estate	2,568	3,375	—	—	—
Construction and land	1,021	4,788	—	—	—
Commercial	20	1,078	—	—	—
	3,989	14,600	—	—	—
Purchased other real estate owned:					
One-to-four family residential	320	327	—	—	—
Nonresidential real estate	462	2,546	—	—	—
Land	2,269	3,482	—	—	—
	3,051	6,355	—	—	—
Purchased impaired loans and other real estate owned	7,040	20,955	—	—	—
Total nonperforming assets	$38,366	$98,627	$60,317	$53,573	$14,613
Ratios:					
Nonperforming loans to total loans	2.67 %	6.05 %	4.26 %	4.01 %	1.07 %
Nonperforming loans to total loans [1]	2.29	4.89	—	—	—
Nonperforming assets to total assets	2.59	6.31	3.94	3.42	0.94
Nonperforming assets to total assets[1]	2.11	4.97	—	—	—

(1) These asset quality ratios exclude purchased impaired loans and purchased other real estate owned resulting from the Downers Grove National Bank acquisition.

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Nonperforming Assets

Nonperforming assets decreased by $60.3 million in 2012, due in substantial part to the execution of the Company's plan to materially reduce future nonperforming asset expenses and accelerate the return to the Company's historical asset quality levels. The actions that were taken in 2012 in furtherance of the plan included:

- We completed two bulk sales of certain nonperforming assets with a total carrying value of $22.7 million, consisting of $22.0 million of nonperforming loans and $710,000 of OREO. We recorded a pre-tax charges of approximately $11.5 million on the completion of these sales in the fourth quarter 2012.
- We designated certain owner-occupied and investor-owned one-to-four family residential loans with a carrying value of $7.5 million as “held for sale” in preparation for a bulk sale. The loans generally involved properties that exhibited significant declines in collateral valuations and/or presented limited resolution options. The designation resulted in a $5.9 million pre-tax charge to provision for loan losses in the Consolidated Statement of Operations. On February 28, 2013, we completed the sale of these loans. The completion of this sale is expected to result in pre-tax gain on sale of loans of approximately $1.3 million.
- We engaged in split-note restructurings with four separate borrowers pursuant to applicable published regulatory and accounting guidance. The loans had an aggregate carrying value of $7.1 million prior to the completion of the restructurings. At the conclusion of the restructurings, $5.2 million remained on accrual status due to these actions and are expected to be eligible for favorable risk-rating classification in 2013 after a period of sustained performance. The remaining $1.9 million was charged against the provision for loan losses for the quarter ended December 31, 2012.
- In 2012, we closed $13.4 million in OREO sales, or 59.6% of total OREO at December 31, 2011. We also changed our disposition strategy on certain income-producing OREO assets from an ordinary-liquidation pricing model to an aggressive pricing model designed to stimulate market demand, and recorded related valuation adjustments. Our evaluation methodology involved an assessment of the disposition strategy that was likely to provide the highest cash proceeds within a defined period of time.

Other Real Estate Owned

Real estate that is acquired through foreclosure or a deed in lieu of foreclosure is classified as OREO until it is sold. When real estate is acquired through foreclosure or by deed in lieu of foreclosure, it is recorded at its fair value, less the estimated costs of disposal. If the fair value of the property is less than the loan balance, the difference is charged against the allowance for loan losses.

The following represents the rollfoward of OREO and the composition of OREO properties.

	At and For the Years Ended December 31,	
	2012	2011
	(Dollars in thousands)	
Beginning balance	$22,480	$14,622
New foreclosed properties	7,035	14,132
Acquired other real estate owned	—	6,965
Valuation adjustments	(5,750)	(4,150)
Sales	(13,407)	(9,089)
Ending balance	$10,358	$22,480

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	December 31, 2012			December 31, 2011		
	Balance	Valuation Allowance	Net OREO Balance	Balance	Valuation Allowance	Net OREO Balance
	(Dollars in thousands)					
One–to–four family residential	$1,827	$(67)	$1,760	$5,328	$—	$5,328
Multi-family mortgage	720	—	720	3,655	—	3,655
Nonresidential real estate	3,883	(379)	3,504	4,905	—	4,905
Land	1,557	(234)	1,323	2,237	—	2,237
	7,987	(680)	7,307	16,125	—	16,125
Acquired other real estate owned:						
One–to–four family residential	320	—	320	327	—	327
Nonresidential real estate	565	(103)	462	2,546	—	2,546
Land	2,666	(397)	2,269	3,482	—	3,482
	3,551	(500)	3,051	6,355	—	6,355
Total other real estate owned	$11,538	$(1,180)	$10,358	$22,480	$—	$22,480

Activity in the valuation allowance:

	At and For the Years Ended December 31, 2012
Beginning of year	$—
Additions charged to expense	1,180
Recoveries credited to expense	—
Reductions from sales of other real estate owned	—
Direct write downs	—
End of year	$1,180

Loan Extensions and Modifications

Maturing loans are subject to our standard loan underwriting policies and practices. Due to the need to obtain updated borrower and guarantor financial information, collateral information or to prepare revised loan documentations, loans in the process of renewal may appear as past due because the information needed to underwrite a renewal of the loan is not available to us prior to the maturity date of the loan. At times, short-term administrative extensions, which are typically 90 days in duration, are granted to facilitate proper underwriting. In general, loan modifications are subject to a risk-adjusted pricing analysis.

When appropriate, we evaluate loan extensions or modifications in accordance with ASC 310-40 and related federal regulatory guidance concerning TDRs and the FFIEC workout guidance to determine the required treatment for nonaccrual status and risk classification purposes. In general, if we grant a loan modification or extension that involves either the absence of principal amortization (other than for revolving lines of credit which are customarily granted on interest-only terms), or if we grant a material extension of an existing loan amortization period in excess of our underwriting standards, the loan will be placed on nonaccrual status and impairment testing conducted to determine whether a specific valuation allowance or loss classification / charge-off is required. If the loan is well secured by an abundance of collateral and the collectability of both interest and principal is probable, the loan may remain on accrual status, but it will be classified as a TDR due to the concession made in the loan principal amortization payment component. A loan in full compliance with the payment requirements specified in a loan modification will not be considered as past due, but may nonetheless be placed on nonaccrual status or be classified as a TDR, as appropriate under the circumstances.

In accordance with the FFIEC workout guidance, the Company will restructure a note into two separate notes (A/B structure), charging off the entire B portion of the note. The A note is structured with appropriate loan-to-value and cash flow coverage ratios that provide for a high likelihood of repayment. The A note is classified as a non-performing note until the borrower has displayed a historical payment performance for a reasonable time prior to and subsequent to the restructuring. A period of sustained repayment for at least six months generally is required to

return the note to accrual status provided that management has determined that the performance is reasonably expected to continue. The A note will be classified as a restructured note (either performing or nonperforming) through the calendar year of the restructuring that the historical payment performance has been established.

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Troubled Debt Restructuring

The Company had $11.2 million of TDRs at December 31, 2012, compared to $18.1 million at December 31, 2011, with $318,000 and $1.2 million in specific valuation allowances allocated to those loans at December 31, 2012 and 2011, respectively. The Company had no outstanding commitments to borrowers whose loans are classified as TDRs. The following table presents TDRs by class.

	At December 31,	
	2012	2011
	(Dollars in thousands)	
One-to-four family residential real estate	$2,802	$5,619
Multi-family mortgage		