BankFinancial CORP
Form 10-Q
July 30, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period ended June 30, 2014
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
Not Applicable
(Former name or former address, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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 the number of shares outstanding of each of the Issuer's classes of common stock as of the latest practicable date. At July 28, 2014, there were 21,101,966 shares of Common Stock, $0.01 par value, outstanding.

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BANKFINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands, except share and per share data) - Unaudited

	June 30, 2014	December 31, 2013
Assets		
Cash and due from other financial institutions	$13,715	$15,781
Interest-bearing deposits in other financial institutions	119,790	145,176
Cash and cash equivalents	133,505	160,957
Securities, at fair value	108,979	110,907
Loans receivable, net of allowance for loan losses: June 30, 2014, $14,452 and December 31, 2013, $14,154	1,117,593	1,098,077
Other real estate owned, net	7,704	6,306
Stock in Federal Home Loan Bank, at cost	6,257	6,068
Premises and equipment, net	34,432	35,328
Accrued interest receivable	3,743	3,933
Core deposit intangible	2,141	2,433
Bank owned life insurance	22,083	21,958
Other assets	5,869	7,627
Total assets	$1,442,306	$1,453,594
Liabilities		
Deposits		
Noninterest-bearing	$131,775	$126,680
Interest-bearing	1,105,565	1,126,028
Total deposits	1,237,340	1,252,708
Borrowings	3,068	3,055
Advance payments by borrowers for taxes and insurance	11,034	10,432
Accrued interest payable and other liabilities	12,545	11,772
Total liabilities	1,263,987	1,277,967
Stockholders' equity		
Preferred Stock, $0.01 par value, 25,000,000 shares authorized, none issued or outstanding	—	—
Common Stock, $0.01 par value, 100,000,000 shares authorized; 21,101,966 shares issued at June 30, 2014 and December 31, 2013	211	211
Additional paid-in capital	193,684	193,594
Retained earnings (deficit)	(5,207)	(7,342)
Unearned Employee Stock Ownership Plan shares	(10,769)	(11,255)
Accumulated other comprehensive income	400	419
Total stockholders' equity	178,319	175,627
Total liabilities and stockholders' equity	$1,442,306	$1,453,594

See accompanying notes to the consolidated financial statements.

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BANKFINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data) - Unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest and dividend income				
Loans, including fees	$ 12,085	$ 11,854	$ 23,784	$ 24,132
Securities	287	219	583	469
Other	110	203	201	388
Total interest income	12,482	12,276	24,568	24,989
Interest expense				
Deposits	773	933	1,583	1,919
Borrowings	1	2	3	10
Total interest expense	774	935	1,586	1,929
Net interest income	11,708	11,341	22,982	23,060
Provision for loan losses	957	206	1,433	928
Net interest income after provision for loan losses	10,751	11,135	21,549	22,132
Noninterest income				
Deposit service charges and fees	465	509	898	1,008
Other fee income	600	604	1,127	1,142
Insurance commissions and annuities income	86	86	173	195
Gain (loss) on sale of loans, net	44	(4)	68	1,413
Loss on sale of securities (includes $7 accumulated other compre-hensive income reclassifications for unrealized net losses on available for sale securities for the six months ended June 30, 2014)	—	—	(7)	—
Gain on disposition of premises and equipment, net	3	—	5	—
Loan servicing fees	104	114	208	237
Amortization and impairment of servicing assets	(44)	(76)	(80)	(109)
Earnings on bank owned life insurance	61	82	125	152
Trust	170	183	334	364
Other	171	205	341	330
	1,660	1,703	3,192	4,732
Noninterest expense				
Compensation and benefits	5,596	6,686	11,554	13,438
Office occupancy and equipment	1,626	1,805	3,540	3,753
Advertising and public relations	304	268	466	414
Information technology	691	819	1,330	1,577
Supplies, telephone, and postage	384	400	775	852
Amortization of intangibles	143	150	292	306
Nonperforming asset management	97	655	201	1,349
Operations of other real estate owned	409	422	666	933
FDIC insurance premiums	470	477	949	969
Other	1,262	1,080	2,580	2,519
	10,982	12,762	22,353	26,110
Income before income taxes	1,429	76	2,388	754
Income tax expense	25	—	42	—

Net income	$ 1,404	$ 76	$ 2,346	$ 754
Basic earnings per common share	$ 0.07	$ —	$ 0.12	$ 0.04
Diluted earnings per common share	$ 0.07	$ —	$ 0.12	$ 0.04
Weighted average common shares outstanding	20,145,809	19,989,757	20,122,362	19,976,964
Diluted weighted average common shares outstanding	20,160,050	19,990,313	20,136,405	19,977,171

See accompanying notes to the consolidated financial statements.

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BANKFINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands) - Unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$ 1,404	$ 76	$ 2,346	$ 754
Unrealized holding loss arising during the period, net of tax	(56)	(320)	(26)	(444)
Reclassification adjustment for losses included in net income	—	—	7	—
Net current period other comprehensive loss	(56)	(320)	(19)	(444)
Comprehensive income (loss)	$ 1,348	$ (244)	$ 2,327	$ 310

See accompanying notes to the consolidated financial statements.

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BANKFINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands, except per share data) - Unaudited

	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Unearned Employee Stock Ownership Plan Shares	Accumulated Other Comprehen-sive Income	Total
Balance at January 1, 2013	$211	$193,590	$(9,796)	$(12,233)	$ 1,118	$172,890
Net income	—	—	754	—	—	754
Other comprehensive loss, net of tax effects	—	—	—	—	(444)	(444)
Nonvested stock awards-stock-based compensation expense	—	38	—	—	—	38
Cash dividends declared on common stock ($0.02 per share)	—	—	(422)	—	—	(422)
ESOP shares earned	—	(72)	—	485	—	413
Balance at June 30, 2013	$211	$193,556	$(9,464)	$(11,748)	$ 674	$173,229
Balance at January 1, 2014	$211	$193,594	$(7,342)	$(11,255)	$ 419	$175,627
Net income	—	—	2,346	—	—	2,346
Other comprehensive loss, net of tax effects	—	—	—	—	(19)	(19)
Nonvested stock awards-stock-based compensation expense	—	34	—	—	—	34
Cash dividends declared on common stock ($0.01 per share)	—	—	(211)	—	—	(211)
ESOP shares earned	—	56	—	486	—	542
Balance at June 30, 2014	$211	$193,684	$(5,207)	$(10,769)	$ 400	$178,319

See accompanying notes to the consolidated financial statements.

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BANKFINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) - Unaudited

	Six Months Ended June 30, 2014	2013
Cash flows from operating activities		
Net income	$2,346	$754
Adjustments to reconcile to net income to net cash from operating activities		
Provision for loan losses	1,433	928
ESOP shares earned	542	413
Stock–based compensation expense	34	38
Depreciation and amortization	1,932	2,221
Amortization of premiums and discounts on securities and loans	(257)	(414)
Amortization of core deposit intangible	292	306
Amortization and impairment of servicing assets	80	109
Net change in net deferred loan origination costs	(86)	(53)
Net loss (gain) on sale of other real estate owned	(92)	118
Net gain on sale of loans	(68)	(1,413)
Net loss on sale of securities	7	—
Net gain on disposition of premises and equipment	(5)	—
Loans originated for sale	(1,986)	(7,601)
Proceeds from sale of loans	2,054	8,182
Other real estate owned valuation adjustments	77	230
Net change in:		
Accrued interest receivable	190	396
Earnings on bank owned life insurance	(125)	(152)
Other assets	1,564	2,237
Accrued interest payable and other liabilities	773	34
Net cash from operating activities	8,705	6,333
Cash flows from investing activities		
Securities		
Proceeds from maturities	29,194	21,268
Proceeds from principal repayments	3,346	8,724
Proceeds from sales of securities	3,663	—
Purchases of securities	(34,317)	(3,175)
Loans receivable		
Principal payments on loans receivable	221,233	228,608
Originated for investment	(245,967)	(213,704)
Proceeds from sale of loans	—	2,868
Proceeds of redemption of Federal Home Loan Bank of Chicago stock	—	2,344
Purchase of Federal Home Loan Bank of Chicago stock	(189)	—
Proceeds from sale of other real estate owned	2,067	6,478
Purchase of premises and equipment, net	(223)	(25)
Net cash from (used in) investing activities	(21,193)	53,386

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BANKFINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) - Unaudited

	Six Months Ended June 30,	
Cash flows from financing activities		
Net change in deposits	$(15,368)	$(20,255)
Net change in borrowings	13	(2,627)
Net change in advance payments by borrowers for taxes and insurance	602	(86)
Cash dividends paid on common stock	(211)	(422)
Net cash used in financing activities	(14,964)	(23,390)
Net change in cash and cash equivalents	(27,452)	36,329
Beginning cash and cash equivalents	160,957	275,764
Ending cash and cash equivalents	$133,505	$312,093
Supplemental disclosures of cash flow information:		
Interest paid	$1,592	$1,951
Income taxes paid	114	—
Income taxes refunded	—	461
Loans transferred to other real estate owned	3,460	2,756
Due to broker for purchase of securities not settled	—	2,535

See accompanying notes to the consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands, except share and per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: BankFinancial Corporation, a Maryland corporation headquartered in Burr Ridge, Illinois, is the owner of all of the issued and outstanding capital stock of BankFinancial, F.S.B. (the "Bank").
Principles of Consolidation: The interim unaudited consolidated financial statements include the accounts of and transactions of BankFinancial Corporation, the Bank, and the Bank's wholly-owned subsidiaries, Financial Assurance Services, Inc. and BF Asset Recovery Corporation (collectively, "the Company"), and reflect all normal and recurring adjustments that are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. All significant intercompany accounts and transactions have been eliminated. The results of operations for the three- and six-month periods ended June 30, 2014 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2014. Certain information and note disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission.
Use of Estimates: To prepare financial statements in conformity with GAAP, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, mortgage servicing rights, deferred tax assets, other intangible assets, stock-based compensation, impairment of securities and fair value of financial instruments are particularly subject to change and the effect of such change could be material to the financial statements.
Reclassifications: Certain reclassifications have been made in the prior period's financial statements to conform them to the current period's presentation.
These unaudited consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission.
Recent Accounting Pronouncements
FASB ASC 606 - In May 2014, the FASB issued an update (ASU No. 2014-09, Revenue from Contracts with Customers) creating FASB Topic 606, Revenue from Contracts with Customers. The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Qualitative and quantitative information is required about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements.

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NOTE 2 - EARNINGS PER SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income available to common stockholders	$1,404	$76	$2,346	$754
Average common shares outstanding	21,101,966	21,088,263	21,101,966	21,080,657
Less:				
Unearned ESOP shares	(937,585)	(1,084,709)	(957,463)	(1,096,757)
Unvested restricted stock shares	(18,572)	(13,797)	(22,141)	(6,936)
Weighted average common shares outstanding	20,145,809	19,989,757	20,122,362	19,976,964
Add - Net effect of dilutive stock options and unvested restricted stock	14,241	556	14,043	207
Diluted weighted average common shares outstanding	20,160,050	19,990,313	20,136,405	19,977,171
Basic earnings per common share	$0.07	$—	$0.12	$0.04
Diluted earnings per common share	$0.07	$—	$0.12	$0.04

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NOTE 3 - SECURITIES

The fair value of securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income are shown below.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2014				
Certificates of deposit	$70,133	$—	$—	$70,133
Municipal securities	180	3	—	183
Equity mutual fund	500	7	—	507
Mortgage-backed securities - residential	25,284	1,159	(70)	26,373
Collateralized mortgage obligations - residential	11,767	42	(58)	11,751
SBA-guaranteed loan participation certificates	32	—	—	32
	$107,896	$1,211	$(128)	$108,979
December 31, 2013				
Certificates of deposit	$65,010	$—	$—	$65,010
Municipal securities	180	7	—	187
Equity mutual fund	500	—	(3)	497
Mortgage-backed securities - residential	27,229	1,295	(160)	28,364
Collateralized mortgage obligations - residential	16,851	35	(72)	16,814
SBA-guaranteed loan participation certificates	35	—	—	35
	$109,805	$1,337	$(235)	$110,907

Mortgage-backed securities and collateralized mortgage obligations reflected in the preceding table were issued by U.S. government-sponsored entities or agencies, Freddie Mac, Fannie Mae and Ginnie Mae, and are obligations which the government has affirmed its commitment to support. All securities reflected in the preceding table were classified as available-for-sale at June 30, 2014 and December 31, 2013.

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

	June 30, 2014	
	Amortized Cost	Fair Value
Due in one year or less	$70,313	$70,316
Equity mutual fund	500	507
Mortgage-backed securities - residential	25,284	26,373
Collateralized mortgage obligations - residential	11,767	11,751
SBA-guaranteed loan participation certificates	32	32
	$107,896	$108,979

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NOTE 3 - SECURITIES (continued)

Sales of securities were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Proceeds	$—	$—	$3,663	$—
Gross gains	—	—	—	—
Gross losses	—	—	7	—

Securities with unrealized losses not recognized in income are as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
June 30, 2014						
Mortgage-backed securities - residential	$—	$—	$2,473	$(70)	$2,473	$(70)
Collateralized mortgage obligations - residential	9,660	(58)	—	—	9,660	(58)
	$9,660	$(58)	$2,473	$(70)	$12,133	$(128)
December 31, 2013						
Equity mutual fund	$497	$(3)	$—	$—	$497	$(3)
Mortgage-backed securities - residential	2,806	(160)	—	—	2,806	(160)
Collateralized mortgage obligations - residential	11,233	(72)	—	—	11,233	(72)
	$14,536	$(235)	$—	$—	$14,536	$(235)

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

Certain residential mortgage-backed securities and certain collateralized mortgage obligations that the Company holds in its investment portfolio were in an unrealized loss position at June 30, 2014, but the unrealized losses were not considered significant under the Company's impairment testing methodology. In addition, the Company does not intend to sell these securities, and it is likely that the Company will not be required to sell these securities before their anticipated recovery occurs.

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NOTE 4 - LOANS RECEIVABLE

Loans receivable are as follows:

	June 30, 2014	December 31, 2013
One-to-four family residential real estate	$193,826	$201,382
Multi-family mortgage	439,318	396,058
Nonresidential real estate	246,962	263,567
Construction and land	2,882	6,570
Commercial loans	45,803	54,255
Commercial leases	199,908	187,112
Consumer	2,290	2,317
	1,130,989	1,111,261
Net deferred loan origination costs	1,056	970
Allowance for loan losses	(14,452)	(14,154)
Loans, net	$1,117,593	$1,098,077

The following tables present the balance in the allowance for loan losses and the loans receivable by portfolio segment and based on impairment method:

	Allowance for loan losses				Loan Balances			
	Individually evaluated for impairment	Purchased impaired loans	Collectively evaluated for impairment	Total	Individually evaluated for impairment	Purchased impaired loans	Collectively evaluated for impairment	Total
June 30, 2014								
One-to-four family residential real estate	$9	$5	$ 3,174	$3,188	$3,516	$102	$190,208	$193,826
Multi-family mortgage	387	—	5,176	5,563	4,829	—	434,489	439,318
Nonresidential real estate	243	—	3,507	3,750	6,733	157	240,072	246,962
Construction and land	11	—	239	250	119	—	2,763	2,882
Commercial loans	—	—	523	523	76	—	45,727	45,803
Commercial leases	—	—	1,075	1,075	8	—	199,900	199,908
Consumer	—	—	103	103	—	—	2,290	2,290
	$650	$5	$ 13,797	$14,452	$15,281	$259	$1,115,449	1,130,989
Net deferred loan origination costs								1,056
Allowance for loan losses								(14,452)
Loans, net								$1,117,593

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands, except share and per share data)

NOTE 4 - LOANS RECEIVABLE (continued)

	Allowance for loan losses				Loan Balances			
	Individually evaluated for impairment	Purchased impaired loans	Collectively evaluated for impairment	Total	Individually evaluated for impairment	Purchased impaired loans	Collectively evaluated for impairment	Total
December 31, 2013								
One-to-four family residential real estate	$26	$5	$ 3,817	$3,848	$3,692	$100	$197,590	$201,382
Multi-family mortgage	255	—	4,189	4,444	7,031	—	389,027	396,058
Nonresidential real estate	77	—	3,658	3,735	4,381	1,633	257,553	263,567
Construction and land	12	—	381	393	383	—	6,187	6,570
Commercial loans	—	—	731	731	—	23	54,232	54,255
Commercial leases	—	—	946	946	—	—	187,112	187,112
Consumer	—	—	57	57	77	—	2,240	2,317
	$370	$5	$ 13,779	$14,154	$15,564	$1,756	$1,093,941	1,111,261
Net deferred loan origination costs								970
Allowance for loan losses								(14,154)
Loans, net								$1,098,077

Activity in the allowance for loan losses is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Beginning balance	$14,181	$17,453	$14,154	$18,035
Loans charged offs:				
One-to-four family residential real estate	(290)	(176)	(346)	(545)
Multi-family mortgage	(594)	(374)	(684)	(610)
Nonresidential real estate	(186)	(153)	(766)	(232)
Construction and land	(1)	—	(1)	(927)
Commercial loans	—	(213)	(22)	(232)
Consumer	(4)	(12)	(10)	(12)
	(1,075)	(928)	(1,829)	(2,558)
Recoveries:				
One-to-four family residential real estate	97	85	108	327
Multi-family mortgage	6	159	20	216
Nonresidential real estate	264	103	284	122
Construction and land	8	1	258	3
Commercial loans	14	16	22	21
Consumer	—	2	2	3
	389	366	694	692
Net charge-off	(686)	(562)	(1,135)	(1,866)

Provision for loan losses	957	206	1,433	928
Ending balance	$14,452	$17,097	$14,452	$17,097

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

NOTE 4 - LOANS RECEIVABLE (continued)

Impaired loans
Several of the following disclosures are presented by "recorded investment," which the FASB defines as "the amount of the investment in a loan, which is not net of a valuation allowance, but which does reflect any direct write-down of the investment." The following represents the components of recorded investment:
Loan principal balance
Less unapplied payments
Plus negative unapplied balance
Less escrow balance
Plus negative escrow balance
Plus unamortized net deferred loan costs
Less unamortized net deferred loan fees
Plus unamortized premium
Less unamortized discount
Less previous charge-offs
Plus recorded accrued interest
Less reserve for uncollected interest
= Recorded investment
The following tables present loans individually evaluated for impairment by class of loans, excluding purchased impaired loans:

					Three months ended June 30, 2014		Six months ended June 30, 2014	
	Loan Balance	Recorded Investment	Partial Charge-off	Allowance for Loan Losses Allocated	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
June 30, 2014								
With no related allowance recorded:								
One-to-four family residential real estate	$4,178	$ 2,750	$ 1,405	$ —	$2,808	$ 3	$2,680	$ 7
One-to-four family residential real estate - non-owner occupied	641	619	45	—	836	—	817	7
Multi-family mortgage	2,197	2,130	23	—	3,902	10	4,062	17
Wholesale commercial lending	523	525	—	—	524	9	300	17
Nonresidential real estate	7,164	5,045	264	—	5,905	51	4,744	86
Land	—	—	—	—	113	—	145	—
Commercial loans - secured	77	77	—	—	79	1	78	2
Non-rated commercial leases	8	8	—	—	8	—	5	—
	14,788	11,154	1,737	—	14,175	74	12,831	136
With an allowance recorded:								
One-to-four family residential real estate - non-owner	186	130	56	9	235	—	292	—

occupied								
Multi-family mortgage	3,122	2,144	957	387	1,821	6	2,030	25
Nonresidential real estate	2,216	1,651	562	243	1,716	11	1,306	27
Land	180	118	61	11	119	—	119	—
	5,704	4,043	1,636	650	3,891	17	3,747	52
Total	$20,492	$ 15,197	$ 3,373	$ 650	$18,066	$ 91	$16,578	$ 188

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NOTE 4 - LOANS RECEIVABLE (continued)

	Loan Balance	Recorded Investment	Partial Charge-off	Allowance for Loan Losses Allocated	Average Investment in Impaired Loans	Interest Income Recognized
December 31, 2013						
With no related allowance recorded:						
One-to-four family residential real estate	$3,656	$ 2,540	$ 1,102	$ —	$ 3,693	$ 20
One-to-four family residential real estate - non-owner occupied	875	706	137	—	591	—
Multi-family mortgage	5,466	4,449	4	—	6,098	27
Wholesale commercial lending	—	—	—	—	306	—
Nonresidential real estate	4,062	3,313	253	—	4,054	33
Land	274	263	8	—	169	—
Commercial loans - secured	77	77	—	—	83	—
	14,410	11,348	1,504	—	14,994	80
With an allowance recorded:						
One-to-four family residential real estate - non-owner occupied	490	438	38	26	393	2
Multi-family mortgage	3,144	2,541	573	255	2,998	125
Nonresidential real estate	1,343	1,048	255	77	2,148	15
Land	180	119	60	12	1,265	—
	5,157	4,146	926	370	6,804	142
Total	$19,567	$ 15,494	$ 2,430	$ 370	$ 21,798	$ 222

Purchased Impaired Loans

As a result of its acquisition of Downers Grove National Bank, the Company holds purchased loans for which there was evidence of deterioration of credit quality since origination and for which it was probable that all contractually required payments would not be collected as of the date of the acquisition. The carrying amounts of these purchased impaired loans are as follows:

	June 30, 2014	December 31, 2013
One-to-four family residential real estate	$102	$100
Nonresidential real estate	157	1,633
Commercial loans	—	23
Outstanding balance	$259	$1,756
Carrying amount, net of allowance ($5 at June 30, 2014 and December 31, 2013)	$254	$1,751

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NOTE 4 - LOANS RECEIVABLE (continued)

Accretable yield, or income expected to be collected, related to purchased impaired loans are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Beginning balance	$17	$146	$37	$196
Reclassifications from nonaccretable difference	1	3	(1)	3
Accretion of income	7	49	25	99
Ending balance	$11	$100	$11	$100

For the above purchased impaired loans, there was no change to the allowance for loan losses for the three and six months ended June 30, 2014. For the above purchased impaired loans, the allowance for loan losses was decreased by $49,000 and $58,000 for the three and six months ended June 30, 2013, respectively.
Purchased impaired loans for which it was probable at the date of acquisition that all contractually required payments would not be collected are as follows:

	June 30, 2014	December 31, 2013
Contractually required payments receivable of loans purchased:		
One-to-four family residential real estate	$832	$832
Nonresidential real estate	203	1,999
Commercial loans	—	222
	$1,035	$3,053

At acquisition, cash flows expected to be collected were $18.8 million, compared to the fair value of purchased impaired loans of $15.4 million.

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NOTE 4 - LOANS RECEIVABLE (continued)

Nonaccrual Loans
The following tables present the recorded investment in nonaccrual loans and loans past due over 90 days still on accrual by class of loans, excluding purchased impaired loans:

	Loan Balance	Recorded Investment	Loans Past Due Over 90 Days, Still Accruing
June 30, 2014			
One-to-four family residential real estate	$5,450	$4,407	$—
One-to-four family residential real estate – non owner occupied	827	749	—
Multi-family mortgage	5,319	4,274	—
Nonresidential real estate	7,613	4,959	—
Land	180	118	—
Commercial loans – secured	77	77	—
Commercial loans – unsecured	—	—	16
Non-rated commercial leases	8	8	—
	$19,474	$14,592	$16
December 31, 2013			
One-to-four family residential real estate	$3,516	$3,498	$—
One-to-four family residential real estate – non owner occupied	1,190	1,143	—
Multi-family mortgage	8,142	7,098	228
Nonresidential real estate	4,748	4,214	—
Land	387	382	—
Commercial loans – secured	77	77	—
Consumer loans	12	12	—
	$18,072	$16,424	$228

Nonaccrual loans and impaired loans are defined differently. Some loans may be included in both categories, and some may only be included in one category. Nonaccrual loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.
The Company’s reserve for uncollected loan interest was $1.2 million and $1.3 million at June 30, 2014 and December 31, 2013, respectively. Except for purchased impaired loans, when a loan is on non-accrual status and the ultimate collectability of the total principal of an impaired loan is in doubt, all payments are applied to principal under the cost recovery method. Alternatively, when a loan is on non-accrual status but there is doubt concerning only the ultimate collectability of interest, contractual interest is credited to interest income only when received, under the cash basis method pursuant to the provisions of FASB ASC 310–10, as applicable. In all cases, the average balances are calculated based on the month–end balances of the financing receivables within the period reported pursuant to the provisions of FASB ASC 310–10, as applicable.

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NOTE 4 - LOANS RECEIVABLE (continued)

Past Due Loans
The following tables present the aging of the recorded investment of loans at June 30, 2014 by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans Not Past Due	Total
One-to-four family residential real estate	$234	$1,324	$2,864	$4,422	$136,191	$140,613
One-to-four family residential real estate - non-owner occupied	124	441	710	1,275	51,161	52,436
Multi-family mortgage	353	1,299	3,327	4,979	324,532	329,511
Wholesale commercial lending	—	—	—	—	105,951	105,951
Nonresidential real estate	38	1,188	3,724	4,950	238,795	243,745
Construction	—	—	—	—	83	83
Land	111	—	118	229	2,565	2,794
Commercial loans:						
Secured	77	—	—	77	11,270	11,347
Unsecured	78	25	16	119	2,917	3,036
Municipal	—	—	—	—	2,213	2,213
Warehouse lines	—	—	—	—	3,544	3,544
Health care	—	—	—	—	17,352	17,352
Aviation	—	—	—	—	1,079	1,079
Other	—	—	—	—	7,305	7,305
Commercial leases:						
Investment rated commercial leases	—	—	—	—	157,182	157,182
Below investment grade	—	—	8	8	12,938	12,946
Non-rated	—	—	—	—	29,036	29,036
Lease pools	—	—	—	—	1,909	1,909
Consumer	1	—	—	1	2,299	2,300
	$1,016	$4,277	$10,767	$16,060	$1,108,322	$1,124,382

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans Not Past Due	Total
Purchased impaired loans						
One-to-four family residential real estate - non-owner occupied	$—	$—	$102	$102	$—	$102
Nonresidential real estate	—	—	157	157	—	157
Commercial – secured	—	—	—	—	—	—
	$—	$—	$259	$259	$—	$259

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NOTE 4 - LOANS RECEIVABLE (continued)

The following tables present the aging of the recorded investment of loans at December 31, 2013 by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans Not Past Due	Total
One-to-four family residential real estate	$751	$424	$2,876	$4,051	$142,058	$146,109
One-to-four family residential real estate - non-owner occupied	905	—	960	1,865	52,676	54,541
Multi-family mortgage	2,193	1,716	6,354	10,263	303,903	314,166
Wholesale commercial lending	—	—	—	—	78,531	78,531
Nonresidential real estate	4,432	1,363	3,969	9,764	249,194	258,958
Construction				—	2,486	2,486
Land	—	—	382	382	3,684	4,066
Commercial loans:						
Secured	9	—	—	9	15,971	15,980
Unsecured	25	—	—	25	4,117	4,142
Municipal	—	—	—	—	2,849	2,849
Warehouse lines	—	—	—	—	1,927	1,927
Health care	—	—	—	—	19,381	19,381
Aviation	—	—	—	—	1,102	1,102
Other	—	—	—	—	9,006	9,006
Commercial leases:						
Investment rated commercial leases	—	—	—	—	147,374	147,374
Below investment grade	8	—	—	8	14,739	14,747
Non-rated	—	—	—	—	23,175	23,175
Lease pools	—	—	—	—	3,011	3,011
Consumer	3	4	4	11	2,317	2,328
	$8,326	$3,507	$14,545	$26,378	$1,077,501	$1,103,879

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans Not Past Due	Total
Purchased impaired loans						
One-to-four family residential real estate - non-owner occupied	$—	$—	$100	$100	$—	$100
Nonresidential real estate	—	—	1,631	1,631	—	1,631
Commercial loans – secured	—	—	23	23	—	23
	$—	$—	$1,754	$1,754	$—	$1,754

Troubled Debt Restructurings
The Company evaluates loan extensions or modifications in accordance with FASB ASC 310–40 with respect to the classification of the loan as a TDR. In general, if the Company grants a loan extension or modification to a borrower for other than an insignificant period of time that includes a below–market interest rate, principal forgiveness, payment forbearance or other concession intended to minimize the economic loss to the Company, the loan extension or loan

modification is classified as a TDR. In cases where

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NOTE 4 - LOANS RECEIVABLE (continued)

borrowers are granted new terms that provide for a reduction of either interest or principal then due and payable, management measures any impairment on the restructured loan in the same manner as for impaired loans as noted above.
The Company had $3.4 million of TDRs at June 30, 2014, compared to $3.3 million at December 31, 2013, with $67,000 and $53,000 in specific valuation reserves allocated to those loans at June 30, 2014 and December 31, 2013, respectively. The Company had no outstanding commitments to borrowers whose loans were classified as TDRs at either date.
The following table presents loans classified as TDRs:

	June 30, 2014	December 31, 2013
One-to-four family residential real estate	$2,093	$2,093
Multi-family mortgage	522	518
Troubled debt restructured loans – accrual loans	2,615	2,611
One-to-four family residential real estate	406	342
Multi-family mortgage	361	384
Troubled debt restructured loans – nonaccrual loans	767	726
Total troubled debt restructured loans	$3,382	$3,337

Periodically, 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 A 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. These notes will be no longer included in the above tables as a TDR in the subsequent calendar year.
During the three and six months ending June 30, 2014 and 2013, the terms of certain loans were modified and classified as TDRs. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.
The following tables present TDR activity:

	Three Months Ended June 30,					
	2014			2013		
	Number of loans	Pre-Modification outstanding recorded investment	Post-Modification outstanding recorded investment	Number of loans	Pre-Modification outstanding recorded investment	Post-Modification outstanding recorded investment
One-to-four family residential real estate	1	$ 19	$ 19	2	$ 566	$ 566

	Due to reduction in interest rate	Due to extension of maturity date	Due to permanent reduction in recorded	Total

			investment	
For the Three Months Ended June 30, 2014				
One-to-four family residential real estate	$ 19	$ —	$ —	$ 19
For the Three Months Ended June 30, 2013				
One-to-four family residential real estate	$ —	$ 566	$ —	$ 566

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NOTE 4 - LOANS RECEIVABLE (continued)

The TDRs described above had no impact on interest income, resulted in no change to the allowance for loan losses allocated and resulted in no charge-offs for the three months ended June 30, 2014. The TDRs had no impact on interest income, resulted in no change to the allowance for loan losses allocated and resulted in no charge-offs for the three months ended June 30, 2013.

	Six Months Ended June 30, 2014			2013		
	Number of loans	Pre-Modification outstanding recorded investment	Post-Modification outstanding recorded investment	Number of loans	Pre-Modification outstanding recorded investment	Post-Modification outstanding recorded investment
One-to-four family residential real estate	3	$ 140	$ 99	3	$ 950	$ 950

	Due to reduction in interest rate	Due to extension of maturity date	Due to permanent reduction in recorded investment	Total
For the Six Months Ended June 30, 2014				
One-to-four family residential real estate	$19	$28	$52	$99
For the Six Months Ended June 30, 2013				
One-to-four family residential real estate	$—	$950	$—	$950

The TDRs described above decreased interest income by $1,000, resulted in no change to the allowance for loan losses allocated and resulted in charge-offs of $41,000 for the six months ended June 30, 2014. The TDRs had no impact on interest income, resulted in no change to the allowance for loan losses allocated and resulted in no charge-offs for the six months ended June 30, 2013.

The following table presents TDRs for which there was a payment default during the six months ending June 30, 2014 and 2013 within twelve months following the modification.

	2014		2013	
	Number of loans	Recorded investment	Number of loans	Recorded investment
One-to-four family residential real estate	1	$28	—	$—

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. The TDR that subsequently defaulted had no effect on the allowance for loan losses during the six months ending June 30, 2014.

The terms of certain other loans were modified during the three and six months ending June 30, 2014 and 2013 that did not meet the definition of a TDR. These loans had a total recorded investment of $1.9 million and $506,000 at June 30, 2014 and 2013, respectively. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company’s internal underwriting policy.

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, including current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans based on credit risk. This analysis includes non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on a monthly basis. The Company uses the following definitions for risk ratings:

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NOTE 4 - LOANS RECEIVABLE (continued)

Special Mention. A Special Mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.
Substandard. Loans categorized as Substandard continue to accrue interest, but exhibit a well-defined weakness or weaknesses that may jeopardize the liquidation of the debt. The loans continue to accrue interest because they are well secured and collection of principal and interest is expected within a reasonable time. The risk rating guidance published by the Office of the Comptroller of the Currency clarifies that a loan with a well-defined weakness does not have to present a probability of default for the loan to be rated Substandard, and that an individual loan's loss potential does not have to be distinct for the loan to be rated Substandard.
Nonaccrual. An asset classified Nonaccrual has all the weaknesses inherent in one classified Substandard/Performing with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The loans were placed on nonaccrual status.
Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered "Pass" rated loans.
As of June 30, 2014, based on the most recent analysis performed, the risk categories of loans by class of loans are as follows:

	Pass	Special Mention	Substandard	Nonaccrual	Total
One-to-four family residential real estate	$134,930	$401	$1,190	$4,431	$140,952
One-to-four family residential real estate - non-owner occupied	51,396	120	501	857	52,874
Multi-family mortgage	322,840	1,896	4,123	4,305	333,164
Wholesale commercial lending	104,984	—	1,170	—	106,154
Nonresidential real estate	232,926	3,546	5,360	5,130	246,962
Construction	79	—	—	—	79
Land	1,501	961	222	119	2,803
Commercial loans:					
Secured	11,208	—	69	77	11,354
Unsecured	2,029	53	951	—	3,033
Municipal	2,213	—	—	—	2,213
Warehouse lines	3,515	—	—	—	3,515
Health care	17,333	—	—	—	17,333
Aviation	1,078	—	—	—	1,078
Other	7,277	—	—	—	7,277
Commercial leases:					
Investment rated commercial leases	156,264	—	—	—	156,264
Below investment grade	12,855	—	—	8	12,863
Non-rated	28,880	—	—	—	28,880
Lease pools	1,901	—	—	—	1,901
Consumer	2,290	—	—	—	2,290
Total	$1,095,499	$6,977	$13,586	$14,927	$1,130,989

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NOTE 4 - LOANS RECEIVABLE (continued)

As of December 31, 2013, based on the most recent analysis performed, the risk categories of loans by class of loans are as follows:

	Pass	Special Mention	Substandard	Nonaccrual	Total
One-to-four family residential real estate	$140,716	$269	$1,941	$3,508	$146,434
One-to-four family residential real estate - non-owner occupied	53,010	—	693	1,245	54,948
Multi-family mortgage	300,230	6,471	3,890	7,031	317,622
Wholesale commercial lending	74,569	2,694	1,173	—	78,436
Nonresidential real estate	237,751	6,306	13,645	5,865	263,567
Construction	2,484	—	—	—	2,484
Land	2,871	—	832	383	4,086
Commercial loans:					
Secured	15,824	—	78	100	16,002
Unsecured	3,173	67	899	—	4,139
Municipal	2,812	—	—	—	2,812
Warehouse lines	1,904	—	—	—	1,904
Health care	19,330	—	—	—	19,330
Aviation	1,100	—	—	—	1,100
Other	8,968	—	—	—	8,968
Commercial leases:					
Investment rated commercial leases	146,471	—	—	—	146,471
Below investment grade	14,626	—	—	—	14,626
Non-rated	22,805	—	210	—	23,015
Lease pools	3,000	—	—	—	3,000
Consumer	2,316	—	1	—	2,317
Total	$1,053,960	$15,807	$23,362	$18,132	$1,111,261

NOTE 5 – FAIR VALUE

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

- Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Significant unobservable inputs that reflect a company’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

Securities: The fair values of marketable equity securities are generally determined by quoted prices, in active markets, for each specific security (Level 1). If Level 1 measurement inputs are not available for a marketable equity security, we determine its fair value based on the quoted price of a similar security traded in an active market (Level 2). 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

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NOTE 5 - FAIR VALUE (continued)

without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2).
Loans Held for Sale: Loans held for sale are carried at the lower of cost or fair value, which is evaluated on a pool-level basis. The fair value of loans held for sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan or other observable market data, such as outstanding commitments from third party investors (Level 2).
Impaired Loans: At the time a loan is considered impaired, management measures impairment in accordance with ASC Topic 310. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Impaired loans carried at fair value generally require a partial charge-off and a specific valuation allowance for loan losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These 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. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available, if applicable. Such adjustments may be significant and typically result in a Level 3 classification of the inputs for determining fair value. In addition, a discount is typically applied to account for sales and holding expenses. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly. The method utilized to estimate the fair value of loans does not necessarily represent an exit price.
Other Real Estate Owned: Assets acquired through foreclosure or transfers in lieu of foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. Although the fair value of the property normally will be based on an appraisal (or other evaluation), the valuation should be consistent with the price that a market participant will pay to purchase the property at the measurement date. Circumstances may exist that indicate that the appraised value is not an accurate measurement of the property's current fair value. Examples of such circumstances include changed economic conditions since the last appraisal, stale appraisals, or imprecision and subjectivity in the appraisal process (i.e., actual sales for less than the appraised amount). Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.
Mortgage Servicing Rights: On a quarterly basis, loan servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. The fair values of mortgage servicing rights are based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income. The Company is able to compare the valuation model inputs and results to widely available published industry data for reasonableness (Level 3).

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NOTE 5 - FAIR VALUE (continued)

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

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
June 30, 2014				
Securities:				
Certificates of deposit	$—	$70,133	$—	$70,133
Municipal securities	—	183	—	183
Equity mutual fund	507	—	—	507
Mortgage-backed securities – residential	—	26,373	—	26,373
Collateralized mortgage obligations – residential	—	11,751	—	11,751
SBA-guaranteed loan participation certificates	—	32	—	32
	$507	$108,472	$—	$108,979
December 31, 2013				
Securities:				
Certificates of deposit	$—	$65,010	$—	$65,010
Municipal securities	—	187	—	187
Equity mutual fund	497	—	—	497
Mortgage-backed securities - residential	—	28,364	—	28,364
Collateralized mortgage obligations – residential	—	16,814	—	16,814
SBA-guaranteed loan participation certificates	—	35	—	35
	$497	$110,410	$—	$110,907

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NOTE 5 - FAIR VALUE (continued)

The following table sets forth the Company's assets that were measured at fair value on a non-recurring basis:

	Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
June 30, 2014				
Impaired loans:				
One-to-four family residential real estate	$—	$—	$170	$170
Multi-family mortgage	—	—	1,757	1,757
Nonresidential real estate	—	—	1,408	1,408
Construction and land	—	—	107	107
	$—	$—	$3,442	$3,442
Other real estate owned:				
One-to-four family residential real estate	$—	$—	$137	$137
Multi-family mortgage	—	—	167	167
Land	—	—	171	171
	$—	$—	$475	$475
Mortgage servicing rights	$—	$—	$173	$173
December 31, 2013				
Impaired loans:				
One-to-four family residential real estate	$—	$—	$460	$460
Multi-family mortgage	—	—	2,286	2,286
Nonresidential real estate	—	—	971	971
Construction and land	—	—	107	107
	$—	$—	$3,824	$3,824
Other real estate owned:				
One-to-four family residential real estate	$—	$—	$297	$297
Nonresidential real estate	—	—	460	460
Land	—	—	1,019	1,019
	$—	$—	$1,776	$1,776
Mortgage servicing rights	$—	$—	$198	$198

Impaired loans, including purchased impaired loans, which are measured for impairment using the fair value of the collateral for collateral–dependent loans, with specific valuation allowances, had a carrying amount of $4.1 million, with a valuation allowance of $655,000 at June 30, 2014, compared to a carrying amount of $4.2 million, with a valuation allowance of $375,000 at December 31, 2013, resulting in an increase in the provision for loan losses of $280,000 for the six months ended June 30, 2014.

Other real estate owned ("OREO"), which is carried at the lower of cost or fair value less costs to sell, had a carrying value of $1.4 million less a valuation allowance of $915,000, or $475,000 at June 30, 2014, compared to $2.7 million less a valuation allowance of $902,000, or $1.8 million at December 31, 2013. There were $33,000 of valuation adjustments of OREO recorded for the six months ended June 30, 2014.

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NOTE 5 - FAIR VALUE (continued)

Mortgage servicing rights, which are carried at lower of cost or fair value, had a carrying amount of $173,000 at June 30, 2014, and $198,000 at December 31, 2013. A pre-tax provision of $6,000 on our mortgage servicing rights portfolio was included in noninterest income for the three months ended June 30, 2014, compared to a recovery of $9,000 for the same period in 2013.
The following table presents quantitative information, based on certain empirical data with respect to Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at June 30, 2014:

	Fair Value	Valuation Technique(s)	Significant Unobservable Input(s)	Range (Weighted Average)
Impaired loans:				
One-to-four family residential real estate loans	$ 170	Sales comparison	Discount applied to valuation	4.8% (5%)
Multi-family mortgage loans	1,757	Sales comparison	Comparison between sales and income approaches	9.5% to 51.1% (40%)
		Income approach	Cap Rate	11% to 13.8% (12%)
Nonresidential real estate loans	1,408	Sales comparison	Comparison between sales and income approaches	-2.1% to 33.9% (21%)
		Income approach	Cap Rate	10%
Construction and land loans	107	Sales comparison	Discount applied to valuation	21.8% (22%)
Impaired loans	$ 3,442			