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

**FORM 10-Q**

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

**For the Quarterly Period ended March 31, 2022**
**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**<br>**(State or Other Jurisdiction of Incorporation)** | **75-3199276**<br>**(I.R.S. Employer Identification No.)** |

**60 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, former address and former fiscal year, if changed since last report)**

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, par value $0.01 per share | BFIN | The NASDAQ Stock Market LLC |

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☒ | Smaller reporting company | ☒ |
| | | Emerging growth company | ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date. At April 29, 2022 there were 13,178,485 shares of Common Stock, $0.01 par value, outstanding.

**BANKFINANCIAL CORPORATION**
**Form 10-Q**
**March 31, 2022**
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**BANKFINANCIAL CORPORATION**
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**
(In thousands, except share and per share data) - Unaudited

| | March 31, 2022 | December 31, 2021 |
|---|---|---|
| **Assets** | | |
| Cash and due from other financial institutions | $ 9,722 | $ 9,095 |
| Interest-bearing deposits in other financial institutions | 391,280 | 493,067 |
| Cash and cash equivalents | 401,002 | 502,162 |
| Securities, at fair value | 132,634 | 85,694 |
| Loans receivable, net of allowance for loan losses: March 31, 2022, $6,786 and December 31, 2021, $6,715 | 1,055,069 | 1,044,207 |
| Foreclosed assets, net | 968 | 725 |
| Stock in Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB"), at cost | 7,490 | 7,490 |
| Premises and equipment, net | 24,939 | 25,043 |
| Accrued interest receivable | 5,890 | 4,648 |
| Bank-owned life insurance | 19,157 | 19,129 |
| Deferred taxes | 3,750 | 2,762 |
| Other assets | 9,253 | 8,822 |
| Total assets | $ 1,660,152 | $ 1,700,682 |
| | | |
| **Liabilities** | | |
| Deposits | | |
| Noninterest-bearing | $ 339,504 | $ 342,185 |
| Interest-bearing | 1,122,101 | 1,146,246 |
| Total deposits | 1,461,605 | 1,488,431 |
| Borrowings | 5,000 | 5,000 |
| Subordinated notes, net of unamortized issuance costs | 19,601 | 19,590 |
| Advance payments by borrowers for taxes and insurance | 6,069 | 7,993 |
| Accrued interest payable and other liabilities | 13,982 | 22,202 |
| Total liabilities | 1,506,257 | 1,543,216 |
| | | |
| **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; 13,178,485 shares issued at March 31, 2022 and 13,228,485 shares issued at December 31, 2021 | 132 | 132 |
| Additional paid-in capital | 90,170 | 90,709 |
| Retained earnings | 66,490 | 66,545 |
| Accumulated other comprehensive (loss) income | (2,897) | 80 |
| Total stockholders’ equity | 153,895 | 157,466 |
| Total liabilities and stockholders’ equity | $ 1,660,152 | $ 1,700,682 |

See accompanying notes to the consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2022 | 2021 |
| **Interest and dividend income** | | |
| Loans, including fees | $ 10,813 | $ 10,929 |
| Securities | 299 | 54 |
| Other | 306 | 265 |
| Total interest income | 11,418 | 11,248 |
| **Interest expense** | | |
| Deposits | 445 | 668 |
| Subordinated notes | 198 | — |
| Total interest expense | 643 | 668 |
| **Net interest income** | 10,775 | 10,580 |
| Provision for (recovery of) loan losses | 276 | (335) |
| **Net interest income after provision for (recovery of) loan losses** | 10,499 | 10,915 |
| Noninterest income | | |
| Deposit service charges and fees | 781 | 738 |
| Loan servicing fees | 101 | 55 |
| Mortgage brokerage and banking fees | 8 | 12 |
| Trust and insurance commissions and annuities income | 338 | 334 |
| Earnings on bank-owned life insurance | 28 | 21 |
| Other | 188 | 98 |
| Total noninterest income | 1,444 | 1,258 |
| Noninterest expense | | |
| Compensation and benefits | 5,480 | 5,471 |
| Office occupancy and equipment | 2,134 | 2,097 |
| Advertising and public relations | 142 | 203 |
| Information technology | 851 | 710 |
| Professional fees | 373 | 370 |
| Supplies, telephone, and postage | 347 | 400 |
| Nonperforming asset management | 17 | 41 |
| FDIC insurance premiums | 116 | 106 |
| Other | 829 | 789 |
| Total noninterest expense | 10,289 | 10,187 |
| **Income before income taxes** | 1,654 | 1,986 |
| Income tax expense | 386 | 517 |
| **Net income** | $ 1,268 | $ 1,469 |
| Basic and diluted earnings per common share | $ 0.10 | $ 0.10 |
| Basic and diluted weighted average common shares outstanding | 13,204,041 | 14,723,769 |

See accompanying notes to the consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2022** | **2021** |
| **Net income** | $ 1,268 | $ 1,469 |
| Unrealized holding loss on securities arising during the period | (4,065) | (7) |
| Tax effect | 1,088 | 2 |
| Comprehensive loss, net of tax | (2,977) | (5) |
| **Comprehensive (loss) income** | $ (1,709) | $ 1,464 |

See accompanying notes to the consolidated financial statements.

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

| | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|
| **For the three months ended** | | | | | |
| | | | | | |
| **Balance at January, 1 2021** | $ 148 | $ 107,815 | $ 64,754 | $ 213 | $ 172,930 |
| Net income | — | — | 1,469 | — | 1,469 |
| Other comprehensive loss, net of tax effect | — | — | — | (5) | (5) |
| Repurchase and retirement of common stock (146,106 shares) | (2) | (1,486) | — | — | (1,488) |
| Cash dividends declared on common stock ($0.10 per share) | — | — | (1,473) | — | (1,473) |
| **Balance at March 31, 2021** | $ 146 | $ 106,329 | $ 64,750 | $ 208 | $ 171,433 |
| | | | | | |
| **Balance at January, 1 2022** | $ 132 | $ 90,709 | $ 66,545 | $ 80 | $ 157,466 |
| Net income | — | — | 1,268 | — | 1,268 |
| Other comprehensive loss, net of tax effect | — | — | — | (2,977) | (2,977) |
| Repurchase and retirement of common stock (50,000 shares) | — | (539) | — | — | (539) |
| Cash dividends declared on common stock ($0.10 per share) | — | — | (1,323) | — | (1,323) |
| **Balance at March 31, 2022** | $ 132 | $ 90,170 | $ 66,490 | $ (2,897) | $ 153,895 |

See accompanying notes to the consolidated financial statements.

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

| | Three Months Ended March 31, 2022 | Three Months Ended March 31, 2021 |
|---|---|---|
| **Cash flows used in operating activities** | | |
| Net income | $ 1,268 | $ 1,469 |
| Adjustments to reconcile net income to net cash from operating activities | | |
| Provision for (recovery of) loan losses | 276 | (335) |
| Depreciation and amortization | 489 | 475 |
| Net change in net deferred loan origination costs | (194) | 311 |
| Gain on sale of foreclosed assets | (6) | — |
| Foreclosed assets valuation adjustments | (8) | — |
| Earnings on bank-owned life insurance | (28) | (21) |
| Net change in: | | |
| Accrued interest receivable | (1,242) | (754) |
| Other assets | (334) | (20) |
| Accrued interest payable and other liabilities | (8,220) | (1,296) |
| Net cash used in operating activities | (7,999) | (171) |
| **Cash flows used in investing activities** | | |
| Securities: | | |
| Proceeds from maturities | 1,488 | 7,440 |
| Proceeds from principal repayments | 325 | 343 |
| Purchases of securities | (52,778) | (4,712) |
| Net change in loans receivable | (11,227) | (25,690) |
| Loan participation purchased | — | (5,000) |
| Proceeds from sale of foreclosed assets | 45 | — |
| Purchase of premises and equipment, net | (402) | (498) |
| Net cash used in investing activities | (62,549) | (28,117) |
| **Cash flows (used in) from financing activities** | | |
| Net change in: | | |
| Deposits | (26,826) | 28,493 |
| Advance payments by borrowers for taxes and insurance | (1,924) | (2,157) |
| Repurchase and retirement of common stock | (539) | (1,488) |
| Cash dividends paid on common stock | (1,323) | (1,473) |
| Net cash (used in) from financing activities | (30,612) | 23,375 |
| Net change in cash and cash equivalents | (101,160) | (4,913) |
| Beginning cash and cash equivalents | 502,162 | 503,496 |
| **Ending cash and cash equivalents** | $ 401,002 | $ 498,583 |
| | | |
| **Supplemental disclosures of cash flow information:** | | |
| Interest paid | $ 456 | $ 670 |
| Income taxes paid | 16 | 17 |
| Income taxes refunded | 3 | — |
| Loans transferred to foreclosed assets | 274 | 4,473 |

See accompanying notes to the consolidated financial statements.

**BANKFINANCIAL CORPORATION**
**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, National Association (the "Bank"). The interim unaudited consolidated financial statements include the accounts and transactions of BankFinancial Corporation, the Bank, and the Bank's wholly-owned subsidiaries, Financial Assurance Services, Inc. and BFIN Asset Recovery Company, LLC (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. Such adjustments are the only adjustments reflected in the accompanying financial statements. All significant intercompany accounts and transactions have been eliminated. The results of operations for the three month period ended March 31, 2022 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2022 or for any other period.

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

***Use of Estimates***: The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Although these estimates and assumptions are based on the best available information, actual information and actual results could differ from those estimates.

***Factored Receivables:*** The Company purchases invoices from its factoring customers in schedules or batches. The face value of the invoices purchased or amount advanced is recorded by the Company as factored receivables, and the unadvanced portions of the invoices purchased, less fees, are considered customer reserves. The customer reserves are held to settle any payment disputes or collection shortfalls, may be used to pay customers' obligations to various third parties as directed by the customer, are periodically released to or withdrawn by customers, and are reported as noninterest-bearing deposits in the Consolidated Statements of Financial Condition. The unpaid principal balances of these receivables were $5.4 million and $187,000 at March 31, 2022 and December 31, 2021, respectively, and are included in commercial loans and leases. The customer reserves associated with the factored receivables were $1.3 million and $122,000 at March 31, 2022 and December 31, 2021, respectively.

Factoring fees are recognized in interest income as incurred by the customer and deducted from the customer's reserve balances. Other factoring-related fees, which include wire transfer fees, broker fees, and other similar fees, are reported by the Company as loan servicing fees in noninterest income.

***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, 2021, as filed with the Securities and Exchange Commission.

***Newly Issued Not Yet Effective Accounting Standards***

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). These amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For SEC filers who are smaller reporting companies, such as the Company, ASU 2016-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022.

## 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.

| | Three Months Ended March 31, | |
|---|---|---|
| | **2022** | **2021** |
| Net income available to common stockholders | $ 1,268 | $ 1,469 |
| Basic and diluted weighted average common shares outstanding | 13,204,041 | 14,723,769 |
| **Basic and diluted earnings per common share** | $ 0.10 | $ 0.10 |

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

## NOTE 3 - SECURITIES

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

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Available-for-Sale Securities** | | | | |
| **March 31, 2022** | | | | |
| Certificates of deposit | $ 1,240 | $ — | $ — | $ 1,240 |
| Municipal securities | 400 | — | (10) | 390 |
| U.S. Treasury Notes | 129,039 | 1 | (4,035) | 125,005 |
| Mortgage-backed securities - residential | 4,448 | 101 | (11) | 4,538 |
| Collateralized mortgage obligations - residential | 1,463 | 1 | (3) | 1,461 |
| | $ 136,590 | $ 103 | $ (4,059) | $ 132,634 |
| **December 31, 2021** | | | | |
| Certificates of deposit | $ 2,728 | $ — | $ — | $ 2,728 |
| U.S. Treasury Notes | 76,621 | 8 | (76) | 76,553 |
| Mortgage-backed securities - residential | 4,660 | 173 | — | 4,833 |
| Collateralized mortgage obligations - residential | 1,576 | 4 | — | 1,580 |
| | $ 85,585 | $ 185 | $ (76) | $ 85,694 |

Mortgage-backed securities and collateralized mortgage obligations reflected in the preceding table were issued by U.S. government-sponsored entities and agencies, Freddie Mac, Fannie Mae and Ginnie Mae, and are obligations which the government has affirmed its commitment to support.

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

| | March 31, 2022 | |
|---|---|---|
| | Amortized Cost | Fair Value |
| Due in one year or less | $ 1,400 | $ 1,399 |
| Due after one year through five years | 129,279 | 125,236 |
| | 130,679 | 126,635 |
| Mortgage-backed securities - residential | 4,448 | 4,538 |
| Collateralized mortgage obligations - residential | 1,463 | 1,461 |
| | $ 136,590 | $ 132,634 |

Securities available-for-sale with unrealized losses not recognized in income are as follows:

| | Less than 12 Months | | | 12 Months or More | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | Count | Fair Value | Unrealized Loss | Count | Fair Value | Unrealized Loss | Count | Fair Value | Unrealized Loss |
| **March 31, 2022** | | | | | | | | | |
| Municipal securities | 2 | $ 390 | $ (10) | — | $ — | $ — | 2 | $ 390 | $ (10) |
| U.S. Treasury Notes | 184 | 123,053 | (4,035) | — | — | — | 184 | 123,053 | (4,035) |
| Mortgage-backed securities - residential | 4 | 679 | (11) | — | — | — | 4 | 679 | (11) |
| Collateralized mortgage obligations - residential | 3 | 916 | (3) | — | — | — | 3 | 916 | (3) |
| | 193 | $ 125,038 | $ (4,059) | — | $ — | $ — | 193 | $ 125,038 | $ (4,059) |
| **December 31, 2021** | | | | | | | | | |
| U.S. Treasury Notes | 53 | $ 62,246 | $ (76) | — | $ — | $ — | 53 | $ 62,246 | $ (76) |

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 available-for-sale securities that the Company holds in its investment portfolio were in an unrealized loss position at March 31, 2022, but the unrealized loss was not recognized into income because the issuers were high credit quality, the Company does not intend to sell these securities, and it is not likely that the Company will be required to sell these securities before their anticipated recovery and the decline in fair value was due to changes in interest rates and other market conditions. The fair values are expected to recover as maturities approach.

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

## NOTE 4 - LOANS RECEIVABLE

Loans receivable are as follows:

| | March 31, 2022 | December 31, 2021 |
|---|---|---|
| One-to-four family residential real estate | $ 28,221 | $ 30,133 |
| Multi-family mortgage | 435,522 | 426,136 |
| Nonresidential real estate | 99,817 | 103,172 |
| Commercial loans and leases | 496,245 | 489,512 |
| Consumer | 1,572 | 1,685 |
| | 1,061,377 | 1,050,638 |
| Net deferred loan origination costs | 478 | 284 |
| Allowance for loan losses | (6,786) | (6,715) |
| Loans, net | $ 1,055,069 | $ 1,044,207 |

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

| | Allowance for loan losses | | | Loan Balances | | |
|---|---|---|---|---|---|---|
| | Individually evaluated for impairment | Collectively evaluated for impairment | Total | Individually evaluated for impairment | Collectively evaluated for impairment | Total |
| **March 31, 2022** | | | | | | |
| One-to-four family residential real estate | $ — | $ 315 | $ 315 | $ 1,067 | $ 27,154 | $ 28,221 |
| Multi-family mortgage | — | 3,390 | 3,390 | 492 | 435,030 | 435,522 |
| Nonresidential real estate | — | 957 | 957 | — | 99,817 | 99,817 |
| Commercial loans and leases | — | 2,078 | 2,078 | 164 | 496,081 | 496,245 |
| Consumer | — | 46 | 46 | — | 1,572 | 1,572 |
| | $ — | $ 6,786 | $ 6,786 | $ 1,723 | $ 1,059,654 | 1,061,377 |
| Net deferred loan origination costs | | | | | | 478 |
| Allowance for loan losses | | | | | | (6,786) |
| Loans, net | | | | | | $ 1,055,069 |

| | Allowance for loan losses | | | Loan Balances | | |
|---|---|---|---|---|---|---|
| | Individually evaluated for impairment | Collectively evaluated for impairment | Total | Individually evaluated for impairment | Collectively evaluated for impairment | Total |
| **December 31, 2021** | | | | | | |
| One-to-four family residential real estate | $ — | $ 331 | $ 331 | $ 1,299 | $ 28,834 | $ 30,133 |
| Multi-family mortgage | — | 3,377 | 3,377 | 498 | 425,638 | 426,136 |
| Nonresidential real estate | 30 | 1,281 | 1,311 | 297 | 102,875 | 103,172 |
| Commercial loans and leases | — | 1,652 | 1,652 | 76 | 489,436 | 489,512 |
| Consumer | — | 44 | 44 | — | 1,685 | 1,685 |
| | $ 30 | $ 6,685 | $ 6,715 | $ 2,170 | $ 1,048,468 | 1,050,638 |
| Net deferred loan origination costs | | | | | | 284 |
| Allowance for loan losses | | | | | | (6,715) |
| Loans, net | | | | | | $ 1,044,207 |

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

**NOTE 4 - LOANS RECEIVABLE** (continued)

The following table represents the activity in the allowance for loan losses by portfolio segment:

| | Beginning balance | Provision for (recovery of) loan losses | Loans charged off | Recoveries | Ending balance |
|---|---|---|---|---|---|
| **For the three months ended** | | | | | |
| **March 31, 2022** | | | | | |
| One-to-four family residential real estate | $ 331 | $ (14) | $ (4) | $ 2 | $ 315 |
| Multi-family mortgage | 3,377 | 8 | — | 5 | 3,390 |
| Nonresidential real estate | 1,311 | (162) | (192) | — | 957 |
| Commercial loans and leases | 1,652 | 425 | — | 1 | 2,078 |
| Consumer | 44 | 19 | (18) | 1 | 46 |
| | $ 6,715 | $ 276 | $ (214) | $ 9 | $ 6,786 |
| **March 31, 2021** | | | | | |
| One-to-four family residential real estate | $ 518 | $ (113) | $ — | $ 60 | $ 465 |
| Multi-family mortgage | 4,062 | (171) | — | 11 | 3,902 |
| Nonresidential real estate | 1,569 | 23 | — | — | 1,592 |
| Construction and land | 12 | — | — | — | 12 |
| Commercial loans and leases | 1,536 | (74) | (86) | 1 | 1,377 |
| Consumer | 54 | — | (9) | 2 | 47 |
| | $ 7,751 | $ (335) | $ (95) | $ 74 | $ 7,395 |

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

**NOTE 4 - LOANS RECEIVABLE** (continued)

**Impaired loans**

The following tables present loans individually evaluated for impairment by class of loans:

| | Loan Balance | Recorded Investment | Partial Charge-off | Allowance for Loan Losses Allocated | Three Months Ended March 31, 2022 Average Investment in Impaired Loans | Three Months Ended March 31, 2022 Interest Income Recognized |
|---|---|---|---|---|---|---|
| **March 31, 2022** | | | | | | |
| With no related allowance recorded: | | | | | | |
| One-to-four family residential real estate | $ 1,066 | $ 1,067 | $ — | $ — | $ 1,190 | $ 6 |
| Multi-family mortgage - Illinois | 492 | 492 | — | — | 495 | 7 |
| Commercial loans and leases | 173 | 164 | 9 | — | 102 | — |
| | $ 1,731 | $ 1,723 | $ 9 | $ — | $ 1,787 | $ 13 |

| | Loan Balance | Recorded Investment | Partial Charge-off | Allowance for Loan Losses Allocated | Year ended December 31, 2021 Average Investment in Impaired Loans | Year ended December 31, 2021 Interest Income Recognized |
|---|---|---|---|---|---|---|
| **December 31, 2021** | | | | | | |
| With no related allowance recorded: | | | | | | |
| One-to-four family residential real estate | $ 1,299 | $ 1,299 | $ — | $ — | $ 1,473 | $ 29 |
| Multi-family mortgage - Illinois | 498 | 498 | — | — | 509 | 30 |
| Commercial loans and leases | 83 | 76 | 7 | — | 7 | — |
| | 1,880 | 1,873 | 7 | — | 1,989 | 59 |
| With an allowance recorded - nonresidential real estate | 280 | 297 | 7 | 30 | 296 | — |
| | $ 2,160 | $ 2,170 | $ 14 | $ 30 | $ 2,285 | $ 59 |

**Nonaccrual Loans**

The following tables present the recorded investment in nonaccrual and loans 90 days or more past due still on accrual by class of loans:

| | Nonaccrual Recorded Investment | Loans Past Due Over 90 Days, Still Accruing |
|---|---|---|
| **March 31, 2022** | | |
| One-to-four family residential real estate | $ 330 | $ — |
| Equipment finance | 101 | 1,531 |
| | $ 431 | $ 1,531 |
| **December 31, 2021** | | |
| One-to-four family residential real estate | $ 367 | $ — |
| Nonresidential real estate | 297 | — |
| Commercial loans | — | 10 |
| Equipment finance | 76 | — |
| | $ 740 | $ 10 |

Nonaccrual loans and impaired loans are defined differently. Some loans may be included in both categories, and some loans 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 $47,000 and $140,000 at March 31, 2022 and December 31, 2021, respectively. When a loan is on nonaccrual 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 nonaccrual 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.

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

**NOTE 4 - LOANS RECEIVABLE** (continued)

**Past Due Loans**

The following tables present the aging of the recorded investment of loans 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 |
|---|---|---|---|---|---|---|
| **March 31, 2022** | | | | | | |
| One-to-four family residential real estate loans: | | | | | | |
| Owner occupied | $ 497 | $ 17 | $ 330 | $ 844 | $ 21,871 | $ 22,715 |
| Non-owner occupied | 87 | — | — | 87 | 5,419 | 5,506 |
| Multi-family mortgage: | | | | | | |
| Illinois | 188 | — | — | 188 | 251,134 | 251,322 |
| Other | 1,040 | — | — | 1,040 | 183,160 | 184,200 |
| Nonresidential real estate | — | — | — | — | 99,817 | 99,817 |
| Commercial loans and leases: | | | | | | |
| Commercial | 2,953 | — | — | 2,953 | 67,972 | 70,925 |
| Asset based & factored receivables | 804 | 13 | — | 817 | 30,071 | 30,888 |
| Equipment finance: | | | | | | |
| Government | 8,181 | — | 1,566 | 9,747 | 163,952 | 173,699 |
| Corporate - Investment-grade | 6,097 | — | — | 6,097 | 68,189 | 74,286 |
| Corporate - Other | 1,358 | — | — | 1,358 | 80,451 | 81,809 |
| Middle market | 437 | — | — | 437 | 46,621 | 47,058 |
| Small ticket | — | — | 66 | 66 | 17,514 | 17,580 |
| Consumer | 7 | 6 | — | 13 | 1,559 | 1,572 |
| | $ 21,649 | $ 36 | $ 1,962 | $ 23,647 | $ 1,037,730 | $ 1,061,377 |

| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or Greater Past Due | Total Past Due | Loans Not Past Due | Total |
|---|---|---|---|---|---|---|
| **December 31, 2021** | | | | | | |
| One-to-four family residential real estate loans: | | | | | | |
| Owner occupied | $ 181 | $ 250 | $ 367 | $ 798 | $ 23,333 | $ 24,131 |
| Non-owner occupied | 2 | 9 | — | 11 | 5,991 | 6,002 |
| Multi-family mortgage: | | | | | | |
| Illinois | 189 | — | — | 189 | 235,681 | 235,870 |
| Other | — | — | — | — | 190,266 | 190,266 |
| Nonresidential real estate | — | — | 297 | 297 | 102,875 | 103,172 |
| Commercial loans and leases: | | | | | | |
| Commercial | — | — | — | — | 67,995 | 67,995 |
| Asset based & factored receivables | 26 | 6 | 10 | 42 | 19,358 | 19,400 |
| Equipment finance: | | | | | | |
| Government | 3,160 | 4,718 | — | 7,878 | 170,584 | 178,462 |
| Corporate - Investment-grade | 290 | 1,201 | — | 1,491 | 81,135 | 82,626 |
| Corporate - Other | 3,015 | — | 76 | 3,091 | 85,760 | 88,851 |
| Middle market | — | — | — | — | 40,582 | 40,582 |
| Small ticket | — | — | — | — | 11,596 | 11,596 |
| Consumer | 13 | 4 | — | 17 | 1,668 | 1,685 |
| | $ 6,876 | $ 6,188 | $ 750 | $ 13,814 | $ 1,036,824 | $ 1,050,638 |

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

**NOTE 4 - LOANS RECEIVABLE** (continued)

**U.S. Small Business Administration Paycheck Protection Program ("PPP")**

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was passed by Congress and signed into law on March 27, 2020. The CARES Act established the PPP, designed to provide a direct incentive for small businesses to keep their workers on the payroll. Under the most recently published guidance, the U.S. Small Business Administration ("SBA") will forgive PPP loans if all employee retention criteria are met, and the funds are used for eligible expenses.

The following table presents the PPP activity:

| | Three Months Ended March 31, | |
|---|---|---|
| | **2022** | **2021** |
| Paycheck Protection Program: | | |
| Number of loans originated | — | 193 |
| Loan balance originations | $ — | $ 8,624 |
| Loan balance forgiven | $ 2,359 | $ 7,902 |

| | March 31, 2022 | December 31, 2021 |
|---|---|---|
| Paycheck Protection Program loans | | |
| Number of loans | 40 | 76 |
| Loan balance | $ 1,684 | $ 4,043 |

**Troubled Debt Restructurings**

The Company evaluates loan extensions or modifications in accordance with FASB ASC 340-10 with respect to the classification of the loan as a TDR.

Under ASC 340-10, if the Company grants a loan extension or modification to a borrower experiencing financial difficulties 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 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 no TDRs at March 31, 2022 and December 31, 2021. During the three months ended March 31, 2022 and 2021, there were no loans modified and classified as TDRs. During the three months ended March 31, 2022 and 2021, there were no TDR loans that subsequently defaulted within twelve months of their modification.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

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.

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

**NOTE 4 - LOANS RECEIVABLE** (continued)

**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:

**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 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.

**Pass.** Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered "Pass" rated loans.

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 |
|---|---|---|---|---|---|
| **March 31, 2022** | | | | | |
| One-to-four family residential real estate loans: | | | | | |
| Owner occupied | $ 22,028 | $ — | $ 357 | $ 330 | $ 22,715 |
| Non-owner occupied | 5,430 | — | 76 | — | 5,506 |
| Multi-family mortgage: | | | | | |
| Illinois | 250,999 | 323 | — | — | 251,322 |
| Other | 184,200 | — | — | — | 184,200 |
| Nonresidential real estate | 99,817 | — | — | — | 99,817 |
| Commercial loans and leases: | | | | | |
| Commercial | 70,925 | — | — | — | 70,925 |
| Asset based & factored receivables | 26,672 | 4,216 | — | — | 30,888 |
| Equipment finance: | | | | | |
| Government | 173,664 | — | — | 35 | 173,699 |
| Corporate - Investment-grade | 74,286 | — | — | — | 74,286 |
| Corporate - Other | 80,757 | 989 | 63 | — | 81,809 |
| Middle market | 47,058 | — | — | — | 47,058 |
| Small ticket | 17,514 | — | — | 66 | 17,580 |
| Consumer | 1,563 | 6 | 3 | — | 1,572 |
| | $ 1,054,913 | $ 5,534 | $ 499 | $ 431 | $ 1,061,377 |

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

**NOTE 4 - LOANS RECEIVABLE** (continued)

| | Pass | Special Mention | Substandard | Nonaccrual | Total |
|---|---|---|---|---|---|
| **December 31, 2021** | | | | | |
| One-to-four family residential real estate loans: | | | | | |
| Owner occupied | $ 23,396 | $ — | $ 368 | $ 367 | $ 24,131 |
| Non-owner occupied | 5,894 | — | 108 | — | 6,002 |
| Multi-family mortgage: | | | | | |
| Illinois | 235,545 | 325 | — | — | 235,870 |
| Other | 190,266 | — | — | — | 190,266 |
| Nonresidential real estate | 102,875 | — | — | 297 | 103,172 |
| Commercial loans and leases: | | | | | |
| Commercial | 67,995 | — | — | — | 67,995 |
| Asset based & factored receivables | 19,400 | — | — | — | 19,400 |
| Equipment finance: | | | | | |
| Government | 178,427 | 35 | — | — | 178,462 |
| Corporate - Investment-grade | 82,626 | — | — | — | 82,626 |
| Corporate - Other | 87,685 | 1,090 | — | 76 | 88,851 |
| Middle market | 40,582 | — | — | — | 40,582 |
| Small ticket | 11,596 | — | — | — | 11,596 |
| Consumer | 1,675 | 4 | 6 | — | 1,685 |
| | $ 1,047,962 | $ 1,454 | $ 482 | $ 740 | $ 1,050,638 |

**NOTE 5 - FORECLOSED ASSETS**

Real estate that is acquired through foreclosure or a deed in lieu of foreclosure is classified as other real estate owned ("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.

Assets are classified as foreclosed when physical possession of the collateral is taken regardless of whether foreclosure proceedings have taken place. Other foreclosed assets received in satisfaction of borrowers debt are initially recorded at fair value of the asset less estimated costs to sell.

| | March 31, 2022 | | | December 31, 2021 | | |
|---|---|---|---|---|---|---|
| | Balance | Valuation Allowance | Net Balance | Balance | Valuation Allowance | Net Balance |
| Foreclosed assets - Nonresidential real estate OREO | $ 274 | $ — | $ 274 | $ — | $ — | $ — |
| Other foreclosed assets | 913 | (219) | 694 | 952 | (227) | 725 |
| | $ 1,187 | $ (219) | $ 968 | $ 952 | $ (227) | $ 725 |

The following represents the roll forward of foreclosed assets:

| | For the Three Months Ended March 31, 2022 | 2021 |
|---|---|---|
| Beginning balance | $ 725 | $ 157 |
| New foreclosed assets | 274 | 4,473 |
| Valuation reductions from sales | 8 | — |
| Sales | (39) | — |
| Ending balance | $ 968 | $ 4,630 |

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

**NOTE 5 - FORECLOSED ASSETS** (continued)

Activity in the valuation allowance is as follows:

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2022 | 2021 |
| Beginning balance | $ 227 | $ — |
| Reductions from sales | (8) | — |
| Ending balance | $ 219 | $ — |

The recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process was $73,000 at March 31, 2022 and December 31, 2021. At March 31, 2022, other foreclosed assets consisted of non real estate collateral repossessed related to a previously classified Chicago area commercial loan. At March 31, 2022, the balance of OREO includes no foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property without title.

**NOTE 6 - BORROWINGS AND SUBORDINATED NOTES**

Borrowings and Subordinated notes were as follows:

| | March 31, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | Contractual Rate | Amount | Contractual Rate | Amount |
| Fixed-rate advance from FHLB, due May 9, 2022 | —% | $ 5,000 | —% | $ 5,000 |
| Subordinated notes, due May 15, 2031 | 3.75% | 19,601 | 3.75% | 19,590 |
| Line of credit, due March 31, 2022 | 2.75% | — | 2.50% | — |

In 2021, the Company entered into Subordinated Note Purchase Agreements with certain qualified institutional buyers and accredited investors pursuant to which the Company sold and issued $20.0 million in aggregate principal amount of its 3.75% Fixed-to-Floating Rate Subordinated Notes due May 15, 2031 (the "Notes"). The Company incurred $441,000 of issuance costs associated with the Notes. These issuance costs are being amortized over the 10-year life of the Notes. At March 31, 2022 and December 31, 2021, there were $399,000 and $410,000, respectively, in remaining unamortized issuance costs and they are presented in the Company's financial statements as a reduction of the principal amount of the Notes.

The Notes bear interest at a fixed annual rate of 3.75%, from and including the date of issuance to May 14, 2026, payable semi-annually in arrears. From and including May 15, 2026 but excluding the maturity date or early redemption date, as applicable, the interest rate will reset quarterly to an interest rate per annum equal to Three-Month Term SOFR (as defined in the Notes) plus 299 basis points, payable quarterly in arrears. Under the conditions specified in the Notes, the interest rate accruing during the applicable floating rate period may be determined based on a rate other than Three-Month Term SOFR. The Notes have a stated maturity date of May 15, 2031 and are redeemable, in whole or in part, on May 15, 2026, on any interest payment date thereafter, and at any time upon the occurrence of certain events.

Principal and interest payments due on the Notes are subject to acceleration only in limited circumstances in the case of certain bankruptcy and insolvency-related events with respect to the Company. The Notes are unsecured, subordinated obligations of the Company and generally rank junior in right of payment to the Company's current and future senior indebtedness. The Notes qualify as Tier 2 capital for regulatory capital purposes.

In 2020, the Company established a $5.0 million unsecured line of credit with a correspondent bank. Interest is payable at a rate of Prime Rate as published in the Wall Street Journal minus 0.75%, with a minimum rate of 2.40%. The line of credit has been extended since its original maturity date and is currently in the process of renewal. The line of credit had no outstanding balance at March 31, 2022 and December 31, 2021.

**NOTE 7– 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 value for investment securities is determined by quoted market prices, if available (Level 1). The fair values of debt securities are generally determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2).

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

**NOTE 7 - FAIR VALUE** (continued)

***Impaired loans:*** The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income 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 for similar loans and collateral underlying such loans. 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 in accordance with the allowance policy.

***Foreclosed assets:*** Assets acquired through or instead of loan 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 which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach with data from comparable properties. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Foreclosed assets are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

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 |
| **March 31, 2022** | | | | |
| Securities: | | | | |
| Certificates of deposit | $ — | $ 1,240 | $ — | $ 1,240 |
| Municipal securities | — | 390 | — | 390 |
| U.S. Treasury Notes | 125,005 | — | — | 125,005 |
| Mortgage-backed securities – residential | — | 4,538 | — | 4,538 |
| Collateralized mortgage obligations – residential | — | 1,461 | — | 1,461 |
| | $ 125,005 | $ 7,629 | $ — | $ 132,634 |
| **December 31, 2021** | | | | |
| Securities: | | | | |
| Certificates of deposit | $ — | $ 2,728 | $ — | $ 2,728 |
| U.S. Treasury Notes | 76,553 | — | — | 76,553 |
| Mortgage-backed securities - residential | — | 4,833 | — | 4,833 |
| Collateralized mortgage obligations – residential | — | 1,580 | — | 1,580 |
| | $ 76,553 | $ 9,141 | $ — | $ 85,694 |

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 |
| **March 31, 2022** | | | | |
| Foreclosed assets | $ — | $ — | $ 694 | $ 694 |
| | | | | |
| **December 31, 2021** | | | | |
| Impaired loans | $ — | $ — | $ 267 | $ 267 |
| Foreclosed assets | $ — | $ — | $ 725 | $ 725 |

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

**NOTE 7 - FAIR VALUE** (continued)

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral-dependent loans, had a carrying amount of $297,000, with a valuation allowance of $30,000 at December 31, 2021. There was a recovery of $30,000 of the provision for loan losses for the three months ended March 31, 2022, compared to no change in the provision for loan losses of $28,000 for the three months ended March 31, 2021.

Foreclosed assets are carried at the lower of cost or fair value less costs to sell. At March 31, 2022 foreclosed assets had a carrying value of $913,000 less a valuation allowance of $219,000, or $694,000. At December 31, 2021, foreclosed assets had a carrying value of $952,000 less a valuation allowance of $227,000, or $725,000. There was no valuation adjustment of foreclosed assets recorded in the three months ended March 31, 2022 and 2021.

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:

| | Fair Value | Valuation Technique(s) | Significant Unobservable Input(s) | Range (Weighted Average) |
|---|---|---|---|---|
| **March 31, 2022** | | | | |
| Foreclosed assets | $ 694 | Redemption value | Discount applied to valuation | 7.6% |
| **December 31, 2021** | | | | |
| Impaired loans | $ 267 | Sales comparison | Discount applied to valuation | 22.0% |
| Foreclosed assets | $ 725 | Redemption value | Discount applied to valuation | 15.6% |

The carrying amount and estimated fair value of financial instruments are as follows:

| | Carrying Amount | Fair Value Measurements at March 31, 2022 Using: Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| Financial assets | | | | | |
| Cash and cash equivalents | $ 401,002 | $ 356,112 | $ 44,890 | $ — | $ 401,002 |
| Securities | 132,634 | 125,005 | 7,629 | — | 132,634 |
| Loans receivable, net of allowance for loan losses | 1,055,069 | — | — | 1,051,511 | 1,051,511 |
| FHLB and FRB stock | 7,490 | — | — | — | N /A |
| Accrued interest receivable | 5,890 | 251 | 83 | 5,556 | 5,890 |
| Financial liabilities | | | | | |
| Certificates of deposit | 200,141 | — | 198,123 | — | 198,123 |
| Borrowings | 5,000 | — | 4,999 | — | 4,999 |
| Subordinated notes | 19,601 | — | 19,408 | — | 19,408 |

| | Carrying Amount | Fair Value Measurements at December 31, 2021 Using: Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| Financial assets | | | | | |
| Cash and cash equivalents | $ 502,162 | $ 448,552 | $ 53,610 | $ — | $ 502,162 |
| Securities | 85,694 | 76,553 | 9,141 | — | 85,694 |
| Loans receivable, net of allowance for loan losses | 1,044,207 | — | — | 1,039,298 | 1,039,298 |
| FHLB and FRB stock | 7,490 | — | — | — | N /A |
| Accrued interest receivable | 4,648 | 79 | 13 | 4,556 | 4,648 |
| Financial liabilities | | | | | |
| Certificates of deposit | 206,918 | — | 206,530 | — | 206,530 |
| Borrowings | 5,000 | — | 4,999 | — | 4,999 |
| Subordinated notes | 19,590 | — | 20,240 | — | 20,240 |

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

**NOTE 7 - FAIR VALUE** (continued)

***Loans***: The exit price observations are obtained from an independent third-party using its proprietary valuation model and methodology and may not reflect actual or prospective market valuations. The valuation is based on the probability of default, loss given default, recovery delay, prepayment, and discount rate assumptions.

While the above estimates are based on management's judgment of the most appropriate factors, as of the balance sheet date, there is no assurance that the estimated fair values would have been realized if the assets were disposed of or the liabilities settled at that date, since market values may differ depending on the various circumstances. The estimated fair values would also not apply to subsequent dates.

In addition, other assets and liabilities that are not financial instruments, such as premises and equipment, are not included in the above disclosures.

**NOTE 8 – REVENUE FROM CONTRACTS WITH CUSTOMERS**

All of the Company's revenue from contracts with customers within the scope of ASC 606 is recognized within noninterest income. The following table presents the Company's sources of noninterest income. Items outside of the scope of the ASC 606 are noted as such.

| | Three Months Ended March 31, 2022 | Three Months Ended March 31, 2021 |
|---|---|---|
| Deposit service charges and fees | $ 781 | $ 738 |
| Loan servicing fees [1] | 101 | 55 |
| Mortgage brokerage and banking fees [1] | 8 | 12 |
| Trust and insurance commissions and annuities income | 338 | 334 |
| Earnings on bank-owned life insurance [1] | 28 | 21 |
| Other [1] | 188 | 98 |
| **Total noninterest income** | $ 1,444 | $ 1,258 |

(1) Not within the scope of ASC 606

A description of the Company's revenue streams accounted for under ASC 606 follows:

***Deposit service charges and fees:*** The Company earns fees from its deposit customers based on specific types of transactions, account maintenance and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

***Interchange income:*** The Company earns interchange fees from debit cardholder transactions conducted through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. Interchange income is included in deposit service charges and fees. Interchange income was $360,000 and $381,000 for the three months ended March 31, 2022 and 2021, respectively.

***Trust and insurance commissions and annuities income:*** The Company earns trust, insurance commissions and annuities income from its contracts with trust customers to manage assets for investment, and/or to transact on their accounts. These fees are primarily earned over time as the Company provides the contracted monthly or quarterly services and are generally assessed based on a tiered scale of the market value of assets under management (AUM) at month-end. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed, *i.e.*, the trade date. Other related services provided include fees the Company earns, which are based on a fixed fee schedule, are recognized when the services are rendered.

***Gains/losses on sales of foreclosed assets and other assets:*** The Company records a gain or loss from the sale of foreclosed assets and other assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of foreclosed assets to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed assets asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present. Foreclosed assets sales for the three months ended March 31, 2022 were not financed by the Company; there were no sales of foreclosed assets during the three months ended March 31, 2021.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Cautionary Statement Regarding Forward-Looking Information

### Forward Looking Statements

This Quarterly Report on Form 10-Q 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," "preliminary," "project," "plan," or similar expressions. Forward looking 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) less than anticipated net loan and lease growth due to intense competition for loans and leases, particularly in terms of pricing, credit underwriting, or a dearth of borrowers who meet our underwriting standards, or the coronavirus disease 2019 ("COVID-19") pandemic and the related adverse local and national economic consequences; (ii) the impact of re-pricing and competitors' pricing initiatives on loan and deposit products; (iii) interest rate movements, inflation and their impact on the economy, customer behavior and our net interest margin; (iv) adverse economic conditions in general, or specific events such as the COVID-19 pandemic, Russia's invasion of Ukraine or terrorism, and in the markets in which we lend 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; (v) declines in asset values that adversely impact the value of our loan collateral, OREO, asset dispositions and the level of borrower equity in their investments; (vi) borrowers that experience legal or financial difficulties that we do not currently foresee; (vii) 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; (viii) changes, disruptions or illiquidity in national or global financial markets, including global economic uncertainties resulting from Russia's invasion of Ukraine, governmental sanctions and supply chain disruptions; (ix) the credit risks of lending, leasing and other financing 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; (x) monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board; (xi) factors affecting our ability to access deposits or cost-effective funding, and the impact of competitors' pricing initiatives on our deposit products; (xii) legislative or regulatory changes, that have an adverse impact on our products, services, operations, operating expenses and tax rates; (xiii) higher federal deposit insurance premiums; (xiv) higher than expected overhead, infrastructure and compliance costs; (xv) changes in accounting or tax principles, policies or guidelines; (xvi) the effects of any federal government shutdown; and (xvii) privacy and cybersecurity risks, including the risks of business interruption and the compromise of confidential customer information resulting from intrusions; (xviii) the effects of any global or national war, conflict or act of terrorism.

These risks and uncertainties, together with the Risk Factors and other information set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021, as well as Part II, Items 1A of our subsequent Quarterly Reports on Form 10-Q, and other filings we make with the SEC, should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Forward looking statements speak only as of the date they are made. 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.

### Critical Accounting Policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. We believe that the most critical accounting policies upon which our financial condition and results of operation depend, and which involve the most complex subjective decisions or assessments, are included in the discussion entitled "Critical Accounting Policies" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021, as filed with the SEC.

### Overview

We reported net income of $1.3 million, or $0.10, per common share for the quarter ended March 31, 2022. At March 31, 2022, the Company had total assets of $1.660 billion, total loans of $1.055 billion, total deposits of $1.462 billion and stockholders' equity of $154 million.

Total net loans increased by $10.9 million during the quarter ended March 31, 2022. Total commercial loans and leases increased by $6.7 million (1.4%), net of $2.4 million in SBA Paycheck Protection Program payments, due to stronger originations of commercial finance transactions and higher utilization of healthcare lines of credit. Total commercial equipment finance portfolio balances decreased by $7.7 million (1.9%) as supply-chain and labor availability delayed new equipment finance transactions expected to close in the first quarter of 2022.

Yields on loan originations increased to 4.56% in the first quarter of 2022 compared to 4.07% in the fourth quarter of 2021, reflecting the growth in commercial finance balances and higher yields on variable-rate commercial lines of credit due to the increase in the Wall Street Journal Prime Rate late in the first quarter of 2022.

Total deposits decreased by $26.8 million during the three months ended March 31, 2022, due in substantial part to a $15.0 million decrease in public-fund deposit accounts and seasonal activity for retail and small business depositors.

Net interest income decreased by $612,000, as increased income from higher loan and investment securities balances partially offset a $745,000 decline in loan prepayment income compared to the fourth quarter of 2021. We recorded a $276,000 provision for loan losses due primarily to a $425,000 increase in the general loan loss allowance due to growth in commercial loan and lease portfolio balances in the first quarter of 2022.

Noninterest income decreased by $187,000 primarily due to lower non-usage fees on commercial lines of credit and seasonally-lower ATM/debit card usage, partially offset by higher insurance revenues related to annual insurance policy renewals. Noninterest expenses decreased $60,000 due to decreased compensation expenses, offset by higher seasonal occupancy expenses and professional fees.

The Company's ratio of nonperforming loans to total loans was 0.18% at March 31, 2022, compared to 0.07% as of December 31, 2021 due to a more than 90 day past due annual payment on a United States government equipment finance transaction which we did not receive from the paying agent until the first day of the second quarter of 2022. Our allowance for loan losses was 0.64% of total loans as of March 31, 2022.

The Company's capital position remained strong, with a Tier 1 leverage ratio of 9.32% at March 31, 2022. The Company repurchased 50,000 of its common shares during the quarter ended March 31, 2022. The Company's tangible book value per common share decreased to $11.68 per share (1.8%) at March 31, 2022 primarily due to the impact of higher interest rates on the Company's U.S. Treasury Note portfolio value.

## SELECTED FINANCIAL DATA

The following summary information is derived from the consolidated financial statements of the Company. For additional information, reference is made to the Consolidated Financial Statements of the Company and related notes included elsewhere in this Quarterly Report.

| | March 31, 2022 | December 31, 2021 | Change |
|---|---|---|---|
| | | (In thousands) | |
| **Selected Financial Condition Data:** | | | |
| Total assets | $ 1,660,152 | $ 1,700,682 | $ (40,530) |
| Loans, net | 1,055,069 | 1,044,207 | 10,862 |
| Securities, at fair value | 132,634 | 85,694 | 46,940 |
| Deposits | 1,461,605 | 1,488,431 | (26,826) |
| Borrowings | 5,000 | 5,000 | — |
| Subordinated notes, net of unamortized issuance costs | 19,601 | 19,590 | 11 |
| Equity | 153,895 | 157,466 | (3,571) |

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2022 | 2021 | Change |
| | | (In thousands) | |
| **Selected Operating Data:** | | | |
| Interest income | $ 11,418 | $ 11,248 | $ 170 |
| Interest expense | 643 | 668 | (25) |
| Net interest income | 10,775 | 10,580 | 195 |
| Provision for (recovery of) loan losses | 276 | (335) | 611 |
| Net interest income after provision for (recovery of) loan losses | 10,499 | 10,915 | (416) |
| Noninterest income | 1,444 | 1,258 | 186 |
| Noninterest expense | 10,289 | 10,187 | 102 |
| Income before income taxes | 1,654 | 1,986 | (332) |
| Income tax expense | 386 | 517 | (131) |
| Net income | $ 1,268 | $ 1,469 | $ (201) |

| | Three Months Ended March 31, 2022 | Three Months Ended March 31, 2021 |
|---|---|---|
| **Selected Financial Ratios and Other Data:** | | |
| **Performance Ratios:** | | |
| Return on assets (ratio of net income to average total assets) (1) | 0.30% | 0.37% |
| Return on equity (ratio of net income to average equity) (1) | 3.24 | 3.40 |
| Average equity to average assets | 9.39 | 10.85 |
| Net interest rate spread (1) (2) | 2.66 | 2.73 |
| Net interest margin (1) (3) | 2.73 | 2.81 |
| Efficiency ratio (4) | 84.20 | 86.05 |
| Noninterest expense to average total assets (1) | 2.47 | 2.56 |
| Average interest-earning assets to average interest-bearing liabilities | 139.03 | 141.49 |
| Dividends declared per share | $ 0.10 | $ 0.10 |
| Dividend payout ratio | 104.33% | 100.29% |

| | At March 31, 2022 | At December 31, 2021 |
|---|---|---|
| **Asset Quality Ratios:** | | |
| Nonperforming assets to total assets (5) | 0.18% | 0.09% |
| Nonperforming loans to total loans | 0.18 | 0.07 |
| Allowance for loan losses to nonperforming loans | 345.87 | 895.33 |
| Allowance for loan losses to total loans | 0.64 | 0.64 |
| **Capital Ratios:** | | |
| Equity to total assets at end of period | 9.27% | 9.26% |
| Tier 1 leverage ratio (Bank only) | 10.05% | 9.91% |
| **Other Data:** | | |
| Number of full-service offices | 19 | 19 |
| Employees (full-time equivalents) | 206 | 221 |

(1) Ratios annualized.
(2) 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.
(3) The net interest margin represents net interest income divided by average total interest-earning assets for the period.
(4) The efficiency ratio represents noninterest expense, divided by the sum of net interest income and noninterest income.
(5) Nonperforming assets include nonperforming loans and foreclosed assets.

**Comparison of Financial Condition at March 31, 2022 and December 31, 2021**

Total assets decreased $40.5 million, or 2.4%, to $1.660 billion at March 31, 2022, from $1.701 billion at December 31, 2021. The decrease in total assets was primarily due to a decrease in cash and cash equivalents, offset by increases in securities and loans receivable. Cash and cash equivalents decreased $101.2 million to $401.0 million at March 31, 2022, from $502.2 million at December 31, 2021, while securities and loans receivable increased $46.9 million and $10.9 million, respectively.

Securities increased $46.9 million, to $132.6 million at March 31, 2022, from $85.7 million at December 31, 2021, due to the purchase of $52.4 million of US Treasury Notes during the three months ended March 31, 2022.

Our loan portfolio consists primarily of investment and business loans (multi-family, nonresidential real estate, and commercial loans and leases), which together totaled 97.2% of gross loans at March 31, 2022. During the three months ended March 31, 2022, multi-family loans increased by $9.4 million, or 2.2%, and commercial loans and leases increased by $6.7 million, or 1.4%. The increase in multi-family loans was due to $35.7 million of originations, partially offset by payments and payoffs of $25.6 million, primarily from loans in the Illinois market. The increase in commercial loans and leases was primarily due to an $11.5 million increase in asset based lending products and line usage for both healthcare borrowers and lessors. Nonresidential real estate loans decreased $3.4 million, or 3.3%.

Our primary lending area for regulatory purposes consists of the counties in the State of Illinois where our branch offices are located, and contiguous counties. We currently derive the most significant portion of our revenues from these geographic areas. We also engage in multi-family mortgage lending activities in carefully selected metropolitan areas outside our primary lending area, and we engage in certain types of commercial lending and commercial equipment finance activities on a nationwide basis. At March 31, 2022, $249.6 million, or 57.3%, of our multi-family mortgage loans were in the Chicago, Illinois Metropolitan Statistical Area; $80.0 million, or 18.4%, were in Texas; $26.0 million, or 6.0%, were in Colorado; and $47.1 million, or 10.8%, were in Florida. This information reflects the location of the collateral for the loan and does not necessarily reflect the location of the borrowers.

Total liabilities decreased $37.0 million, or 2.4%, to $1.506 billion at March 31, 2022, from $1.543 billion at December 31, 2021, due to a decrease in total deposits and other liabilities. Total deposits decreased $26.8 million, or 1.8%, to $1.462 billion at March 31, 2022, from $1.488 billion at December 31, 2021. Interest-bearing NOW accounts decreased $19.7 million, or 4.9%, to $384.7 million at March 31, 2022, from $404.3 million at December 31, 2021. Money market accounts decreased $3.3 million, or 1.0%, to $330.1 million at March 31, 2022, from $333.4 million at December 31, 2021. Savings accounts increased $5.6 million, or 2.8%, to $207.2 million at March 31, 2022, from $201.6 million at December 31, 2021. Noninterest-bearing demand deposits decreased $2.7 million, or 0.8%, to $339.5 million at March 31, 2022, from $342.2 million at December 31, 2021. Retail certificates of deposit decreased $4.6 million, or 2.2%, to $198.9 million at March 31, 2022, from $203.5 million at December 31, 2021. Core deposits (which consists of savings, money market, noninterest-bearing demand and NOW accounts) represented 86.3% of total deposits at March 31, 2022, compared to 86.1% at December 31, 2021.

Total stockholders' equity was $153.9 million at March 31, 2022, compared to $157.5 million at December 31, 2021. The decrease in total stockholders' equity was primarily due to the $3.0 million, net of tax, of accumulated other comprehensive loss on our U.S. Treasury Note portfolio, our repurchase of 50,000 shares of our common stock during the three months ended March 31, 2022 at a total cost of $539,000, and our declaration and payment of cash dividends totaling $1.3 million during the same period. These reductions in total stockholders' equity were partially offset by the net income of $1.3 million that the Company recorded for the three months ended March 31, 2022.

**Operating Results for the Three Months Ended March 31, 2022 and 2021**

***Net Income.*** Net income was $1.3 million for the three months ended March 31, 2022, compared to $1.5 million for the three months ended March 31, 2021. Earnings per basic and fully diluted share of common stock were $0.10 for the three months ended March 31, 2022 and 2021.

***Net Interest Income***. Net interest income was $10.8 million for the three months ended March 31, 2022, and $10.6 million for the three months ended March 31, 2021. Net interest income increased $195,000, primarily due to a $170,000 increase in interest income.

The decrease in the average yield on interest-earning assets was offset by a decrease in the cost of interest-bearing liabilities and an increase in total average interest-earning assets. Loan interest income for the three months ended March 31, 2022 includes amortized fees of $122,000 from SBA Paycheck Protection Program loans, compared to $240,000 for the same period in 2021. The yield on interest-earning assets decreased nine basis points to 2.89% for the three months ended March 31, 2022, from 2.98% for the three months ended March 31, 2021. The cost of interest-bearing liabilities decreased two basis points to 0.23% for the three months ended March 31, 2022, from 0.25% for the same period in 2021. Total average interest-earning assets increased $72.6 million, or 4.7%, to $1.601 billion for the three months ended March 31, 2022, from $1.528 billion for the same period in 2021. Total average interest-bearing liabilities increased $71.3 million, or 6.6%, to $1.152 billion for the three months ended March 31, 2022, from $1.080 billion for the same period in 2021. The increase in interest-bearing liabilities is partly attributable to a $50.7 million increase in average deposits and the Company's issuance of $20.0 million of Subordinated notes in April 2021. Our net interest rate spread decreased by seven basis points to 2.66% for the three months ended March 31, 2022, from 2.73% for the same period in 2021, due to a decline in the yield on loans. Our net interest margin decreased by eight basis points to 2.73% for the three months ended March 31, 2022, from 2.81% for the same period in 2021, due to a decline in the yield on loans.

**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 and discounts and premiums that are amortized or accreted to interest income or expense, however, the Company believes that the effect of these inclusions is not material.

| | For the Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | |
| | Average Outstanding Balance | Interest | Yield/Rate (1) | Average Outstanding Balance | Interest | Yield/Rate (1) |
| | (Dollars in thousands) | | | | | |
| **Interest-earning Assets:** | | | | | | |
| Loans | $ 1,050,668 | $ 10,813 | 4.17% | $ 1,010,682 | $ 10,929 | 4.39% |
| Securities | 116,360 | 299 | 1.04 | 21,207 | 54 | 1.03 |
| Stock in FHLB and FRB | 7,490 | 85 | 4.60 | 7,490 | 85 | 4.60 |
| Other | 426,522 | 221 | 0.21 | 489,093 | 180 | 0.15 |
| Total interest-earning assets | 1,601,040 | 11,418 | 2.89 | 1,528,472 | 11,248 | 2.98 |
| Noninterest-earning assets | 65,046 | | | 63,947 | | |
| Total assets | $ 1,666,086 | | | $ 1,592,419 | | |
| **Interest-bearing Liabilities:** | | | | | | |
| Savings deposits | $ 204,080 | 31 | 0.06 | $ 184,724 | 28 | 0.06 |
| Money market accounts | 328,546 | 115 | 0.14 | 312,843 | 109 | 0.14 |
| NOW accounts | 390,313 | 132 | 0.14 | 334,147 | 112 | 0.14 |
| Certificates of deposit | 204,030 | 167 | 0.33 | 244,557 | 419 | 0.69 |
| Total deposits | 1,126,969 | 445 | 0.16 | 1,076,271 | 668 | 0.25 |
| Borrowings and Subordinated notes | 24,595 | 198 | 3.26 | 4,000 | — | — |
| Total interest-bearing liabilities | 1,151,564 | 643 | 0.23 | 1,080,271 | 668 | 0.25 |
| Noninterest-bearing deposits | 335,385 | | | 313,623 | | |
| Noninterest-bearing liabilities | 22,645 | | | 25,684 | | |
| Total liabilities | 1,509,594 | | | 1,419,578 | | |
| Equity | 156,492 | | | 172,841 | | |
| Total liabilities and equity | $ 1,666,086 | | | $ 1,592,419 | | |
| Net interest income | | $ 10,775 | | | $ 10,580 | |
| Net interest rate spread (2) | | | 2.66% | | | 2.73% |
| Net interest-earning assets (3) | $ 449,476 | | | $ 448,201 | | |
| Net interest margin (4) | | | 2.73% | | | 2.81% |
| Ratio of interest-earning assets to interest-bearing liabilities | 139.03% | | | 141.49% | | |

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

**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.

A loan balance is classified as a loss and charged-off when it is confirmed that there is no readily apparent source of repayment for the portion of the loan that is classified as loss. Confirmation can occur upon the receipt of updated third-party appraisal valuation information indicating that there is a low probability of repayment upon sale of the collateral, the final disposition of collateral where the net proceeds are insufficient to pay the loan balance in full, our failure to obtain possession of certain consumer-loan collateral within certain time limits specified by applicable federal regulations, the conclusion of legal proceedings where the borrower's obligation to repay is legally discharged (such as a Chapter 7 bankruptcy proceeding), or when it appears that further formal collection procedures are not likely to result in net proceeds in excess of the costs to collect.

We recorded a provision for loan losses of $276,000 for the three months ended March 31, 2022, compared to a $335,000 recovery of loan losses for the same period in 2021. The provision for, or recovery of, loan losses is a function of the allowance for loan loss methodology that we use to determine the appropriate level of the allowance for inherent loan losses after net charge-offs have been deducted. The portion of the allowance for loan losses that is attributable to loans collectively evaluated for impairment increased $101,000, or 1.5%, to $6.8 million at March 31, 2022, from $6.7 million at December 31, 2021. There were no reserves established for loans individually evaluated for impairment at March 31, 2022 compared to $30,000 of reserves established for loans individually evaluated for impairment at December 31, 2021. Net charge-offs were $205,000 for the three months ended March 31, 2022, compared to net charge-offs of $21,000 for the three months ended March 31, 2021.

The allowance for loan losses as a percentage of nonperforming loans was 345.87% at March 31, 2022, compared to 895.33% at December 31, 2021.

**Noninterest Income**

| | Three Months Ended March 31, 2022 | Three Months Ended March 31, 2021 | Change |
|---|---|---|---|
| | | (Dollars in thousands) | |
| Deposit service charges and fees | $ 781 | $ 738 | $ 43 |
| Loan servicing fees | 101 | 55 | 46 |
| Mortgage brokerage and banking fees | 8 | 12 | (4) |
| Trust and insurance commissions and annuities income | 338 | 334 | 4 |
| Earnings on bank-owned life insurance | 28 | 21 | 7 |
| Other | 188 | 98 | 90 |
| Total noninterest income | $ 1,444 | $ 1,258 | $ 186 |

Noninterest income increased $186,000 to $1.4 million, or 14.8%, for the three months ended March 31, 2022, compared to $1.3 million for the same period in 2021. Deposit service charges increased $43,000, or 5.8%, primarily due to increased non-sufficient funds returns charges and service charges. Other noninterest income increased $90,000, due to the receipt of a $97,000 final distribution from an investment in a real estate partnership during the three months ended March 31, 2022.

**Noninterest Expense**

| | Three Months Ended March 31, 2022 | Three Months Ended March 31, 2021 | Change |
|---|---|---|---|
| | (Dollars in thousands) | | |
| Compensation and benefits | $ 5,480 | $ 5,471 | $ 9 |
| Office occupancy and equipment | 2,134 | 2,097 | 37 |
| Advertising and public relations | 142 | 203 | (61) |
| Information technology | 851 | 710 | 141 |
| Professional fees | 373 | 370 | 3 |
| Supplies, telephone and postage | 347 | 400 | (53) |
| Nonperforming asset management | 17 | 41 | (24) |
| FDIC insurance premiums | 116 | 106 | 10 |
| Other | 829 | 789 | 40 |
| Total noninterest expense | $ 10,289 | $ 10,187 | $ 102 |

Noninterest expense increased by $102,000, or 1.0%, to $10.3 million for the three months ended March 31, 2022, compared to $10.2 million for the same period in 2021. The increase in noninterest expense was due in substantial part to an increase in information and technology expenses, partially offset by decreases in advertising and public relations, supplies, telephone and postage and nonperforming asset management. Information technology expense increased $141,000, or 19.9%, to $851,000 for the three months ended March 31, 2022, from $710,000 for the same period in 2021, primarily due to the purchase and implementation of software to support the expansion of our commercial credit origination capabilities and data communication conversion expense. Other noninterest expense increased $40,000, or 5.1%, to $829,000 for the three months ended March 31, 2022, from $789,000 for the three months ended March 31, 2021, primarily due to increases in loan expenses and ATM service charges for the three months ended March 31, 2022.

**Income Taxes**

We recorded income tax expense of $386,000 for the three months ended March 31, 2022, compared to $517,000 for the three months ended March 31, 2021. Our combined state and federal effective tax rate for the three months ended March 31, 2022 was 23.3%, compared to 26.0% for the three months ended March 31, 2021.

**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, we place 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 consecutive months of contractual 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 March 31, 2022, we had one loan 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 analysis 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 and foreclosed assets 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–completed” basis is most likely to produce the highest net realizable value. If we determine that the “as–stabilized” or “as–completed” 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 March 31, 2022, 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 generally 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 generally apply a 7.0% deduction to determine the expected costs to sell, as expenses for real estate taxes and repairs are expensed when incurred.

**Nonperforming Assets Summary**

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

| | March 31, 2022 | December 31, 2021 | Quarter Change |
|---|---|---|---|
| | | (Dollars in thousands) | |
| **Nonaccrual loans:** | | | |
| One-to-four family residential real estate | $ 330 | $ 367 | $ (37) |
| Nonresidential real estate | — | 297 | (297) |
| Commercial loans and leases | 101 | 76 | 25 |
| | 431 | 740 | (309) |
| Loans past due over 90 days, still accruing | 1,531 | 10 | 1,521 |
| | | | |
| **Foreclosed assets:** | | | |
| Foreclosed assets - Nonresidential real estate OREO | 274 | — | 274 |
| Other foreclosed assets | 694 | 725 | (31) |
| | 968 | 725 | 243 |
| | | | |
| Total nonperforming assets | $ 2,930 | $ 1,475 | $ 1,455 |
| | | | |
| **Ratios:** | | | |
| Allowance for loan losses to total loans | 0.64% | 0.64% | |
| Allowance for loan losses to nonperforming loans | 345.87 | 895.33 | |
| Nonperforming loans to total loans | 0.18 | 0.07 | |
| Nonperforming assets to total assets | 0.18 | 0.09 | |
| Nonaccrual loans to total loans | 0.04 | 0.07 | |
| Nonaccrual loans to total assets | 0.03 | 0.04 | |

**Nonperforming Assets**

Nonperforming assets increased $1.5 million to $2.9 million at March 31, 2022. The increase was due to a United States government lease that was past due over 90 days, still accruing. The payment was received on the first day of April 2022. One nonresidential real estate loan with a total book balance of $274,000 was transferred from nonaccrual loans to OREO during the three months ended March 31, 2022. We continue to experience modest quantities of defaults on residential real estate loans principally due either to the borrower’s personal financial condition or deteriorated collateral value.

**Liquidity and Capital Resources**

***Liquidity.*** The overall objective of our liquidity management is to ensure the availability of sufficient cash funds to meet all financial commitments and to take advantage of investment opportunities. We manage liquidity in order to meet deposit withdrawals on demand or at contractual maturity, to repay borrowings as they mature, and to fund new loans and investments as opportunities arise.

Our primary sources of funds are deposits, principal and interest payments on loans and securities, and, to a lesser extent, wholesale borrowings, the proceeds from maturing securities and short-term investments, the sales of loans and securities and lease payments. The scheduled amortization of loans and securities, as well as proceeds from borrowings, are predictable sources of funds. Other funding sources, however, such as deposit inflows, mortgage prepayments and mortgage loan sales are greatly influenced by market interest rates, economic conditions and competition. We anticipate that we will have sufficient funds available to meet current loan commitments and lines of credit and maturing certificates of deposit that are not renewed or extended. We generally remain fully invested and utilize FHLB advances as an additional source of funds. We had $5.0 million of FHLB advances outstanding at March 31, 2022 and December 31, 2021.

The Company is a separate legal entity from BankFinancial, NA. The Company must provide for its own liquidity to pay any dividends to its stockholders and to repurchase shares of its common stock, and for other corporate purposes. The Company's primary source of liquidity is dividend payments it receives from the Bank. The Bank's ability to pay dividends to the Company is subject to regulatory limitations. The Company completed the issuance of $20.0 million of Subordinated notes in 2021, at a rate of 3.75%. maturing on May 15, 2031. At March 31, 2022, the Company (on an unconsolidated, stand-alone basis) had liquid assets of $7.0 million. In 2020, the Company obtained a $5.0 million unsecured line of credit with a correspondent bank to provide a secondary source of liquidity. Interest is payable at a rate of Prime rate minus 0.75%. The line of credit has been extended since its original maturity date and is currently in the process of renewal. The line of credit had no outstanding balance at March 31, 2022.

As of March 31, 2022, we were not aware of any known trends, events or uncertainties that had or were reasonably likely to have a material adverse impact on our liquidity. As of March 31, 2022, we had no other material commitments for capital expenditures.

***Capital Management - Bank.*** The overall objectives of our capital management are to ensure the availability of sufficient capital to support loan, deposit and other asset and liability growth opportunities and to maintain sufficient capital to absorb unforeseen losses or write-downs that are inherent in the business risks associated with the banking industry. We seek to balance the need for higher capital levels to address such unforeseen risks and the goal to achieve an adequate return on the capital invested by our stockholders.

The Bank is subject to regulatory capital requirements administered by the federal banking agencies. The capital adequacy guidelines and prompt corrective action regulations, involve the quantitative measurement of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. The failure to meet minimum capital requirements can result in regulatory actions. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective in 2015. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

In addition, as a result of the legislation, the federal banking agencies developed a “Community Bank Leverage Ratio” (the ratio of a bank’s tangible equity capital to average total consolidated assets) for financial institutions with assets of less than $10 billion. A “qualifying community bank” that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered “well capitalized” under Prompt Corrective Action statutes. The federal banking agencies may consider a financial institution’s risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement. The federal banking agencies must set the minimum capital for the new Community Bank Leverage Ratio at not less than 8% and not more than 10%. A banking organization that had a leverage ratio of 9% or greater and met certain other criteria could elect to use the Community Bank Leverage Ratio framework. A financial institution can elect to be subject to this new definition, and opt-out of this new definition, at any time. As a qualifying community bank, we elected to be subject to this definition beginning in the second quarter of 2020. As of March 31, 2022, the Bank's Community Bank Leverage Ratio was 10.05%.

Prompt corrective action regulations provide five classifications: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If only adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

The Company and the Bank have each adopted Regulatory Capital Policies that target a Tier 1 leverage ratio of at least 7.5% and a total risk-based capital ratio of at least 10.5% at the Bank. The minimum capital ratios set forth in the Regulatory Capital Policies will be increased and other minimum capital requirements will be established if and as necessary. In accordance with the Regulatory Capital Policies, the Bank will not 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 targeted minimum capital levels or the capital levels required for capital adequacy plus the capital conservation buffer (" CCB"). The minimum CCB is 2.5%. As of March 31, 2022 the Bank was well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events that management believes have changed the Bank's prompt corrective action capitalization category.

The Bank is subject to regulatory restrictions on the amount of dividends it may declare and pay to the Company without prior regulatory approval, and to regulatory notification requirements for dividends that do not require prior regulatory approval.

Actual and required capital amounts and ratios for the Bank were:

| | Actual | | Required for Capital Adequacy Purposes | |
|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio |
| | (Dollars in thousands) | | | |
| **March 31, 2022** | | | | |
| Community Bank Leverage Ratio | $ 167,268 | 10.05% | $ 149,774 | 9.00% |
| | | | | |
| **December 31, 2021** | | | | |
| Community Bank Leverage Ratio | $ 165,599 | 9.91% | $ 142,091 | 8.50% |

***Quarterly Cash Dividends.*** The Company declared cash dividends of $0.10 per share for both of the three months ended March 31, 2022 and March 31, 2021.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

***Qualitative Analysis.*** A significant form of market risk is interest rate risk. Interest rate risk results from timing differences in the maturity or repricing of our assets, liabilities and off balance sheet contracts (*i.e.*, forward loan commitments), the effect of loan prepayments and deposit withdrawals, the difference in the behavior of lending and funding rates arising from the use of different indices and "yield curve risk" arising from changing rate relationships across the spectrum of maturities for constant or variable credit risk investments. In addition to directly affecting net interest income, changes in market interest rates can also affect the amount of new loan originations, the ability of borrowers to repay variable rate loans, the volume of loan prepayments and refinancings, the carrying value of investment securities classified as available-for-sale and the flow and mix of deposits.

The general objective of our interest rate risk management is to determine the appropriate level of risk given our business strategy and then manage that risk in a manner that is consistent with our policy to reduce, to the extent possible, the exposure of our net interest income to changes in market interest rates. Our Asset/Liability Management Committee ("ALCO"), which consists of certain members of senior management, evaluates the interest rate risk inherent in certain assets and liabilities, our operating environment and capital and liquidity requirements, and modifies our lending, investing and deposit gathering strategies accordingly. The Board of Directors then reviews the ALCO's activities and strategies, the effect of those strategies on our net interest margin, and the effect that changes in market interest rates would have on the economic value of our loan and securities portfolios as well as the intrinsic value of our deposits and borrowings, and reports to the full Board of Directors.

We actively evaluate interest rate risk in connection with our lending, investing and deposit activities. In an effort to better manage interest rate risk, we have de-emphasized the origination of residential mortgage loans, and have increased our emphasis on the origination of nonresidential real estate loans, multi-family mortgage loans, and commercial loans and commercial leases. In addition, depending on market interest rates and our capital and liquidity position, we generally sell all or a portion of our longer-term, fixed-rate residential loans, and usually on a servicing-retained basis. Further, we primarily invest in shorter-duration securities, which generally have lower yields compared to longer-term investments. Shortening the average maturity of our interest-earning assets by increasing our investments in shorter-term loans and securities, as well as loans with variable rates of interest, helps to better match the maturities and interest rates of our assets and liabilities, thereby reducing the exposure of our net interest income to changes in market interest rates. Finally, we have classified all of our investment portfolio as available-for-sale so as to provide flexibility in liquidity management.

We utilize a combination of analyses to monitor the Bank's exposure to changes in interest rates. The economic value of equity analysis is a model that estimates the change in net portfolio value ("NPV") over a range of interest rate scenarios. NPV is the discounted present value of expected cash flows from assets, liabilities and off-balance-sheet contracts. In calculating changes in NPV, we assume estimated loan prepayment rates, reinvestment rates and deposit decay rates that seem most likely based on historical experience during prior interest rate changes.

Our net interest income analysis utilizes the data derived from the dynamic GAP analysis, described below, and applies several additional elements, including actual interest rate indices and margins, contractual limitations such as interest rate floors and caps and the U.S. Treasury yield curve as of the balance sheet date. In addition, we apply consistent parallel yield curve shifts (in both directions) to determine possible changes in net interest income if the theoretical yield curve shifts occurred instantaneously. Net interest income analysis also adjusts the dynamic GAP repricing analysis based on changes in prepayment rates resulting from the parallel yield curve shifts.

Our dynamic GAP analysis determines the relative balance between the repricing of assets and liabilities over multiple periods of time (ranging from overnight to five years). Dynamic GAP analysis includes expected cash flows from loans and mortgage-backed securities, applying prepayment rates based on the differential between the current interest rate and the market interest rate for each loan and security type. This analysis identifies mismatches in the timing of asset and liability repricing but does not necessarily provide an accurate indicator of interest rate risk because it omits the factors incorporated into the net interest income analysis.

***Quantitative Analysis.*** The following table sets forth, as of March 31, 2022, the estimated changes in the Bank's NPV and net interest income that would result from the designated instantaneous parallel shift in the U.S. Treasury yield curve. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results.

| | Estimated Increase (Decrease) in NPV | | Increase (Decrease) in Estimated Net Interest Income | |
|---|---|---|---|---|
| **Change in Interest Rates (basis points)** | **Amount** | **Percent** | **Amount** | **Percent** |
| | (Dollars in thousands) | | | |
| +400 | $ 21,007 | 8.27% | $ 15,782 | 34.93% |
| +300 | 22,736 | 8.95 | 11,990 | 26.54 |
| +200 | 20,215 | 7.96 | 8,100 | 17.93 |
| +100 | 12,903 | 5.08 | 4,130 | 9.14 |
| 0 | | | | |
| -25 | (6,056) | (2.38) | (1,282) | (2.84) |

The table set forth above indicates that at March 31, 2022, in the event of an immediate 25 basis point decrease in interest rates, the Bank would be expected to experience a 2.38% decrease in NPV and a $1.3 million decrease in net interest income. In the event of an immediate 200 basis point increase in interest rates, the Bank would be expected to experience a 7.96% increase in NPV and a $8.1 million increase in net interest income. This data does not reflect any actions that we may undertake in response to changes in interest rates, such as changes in rates paid on certain deposit accounts based on local competitive factors, which could reduce the actual impact on NPV and net interest income, if any.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in NPV and net interest income requires that we make certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. The NPV and net interest income table presented above assumes that the composition of our interest-rate-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and, accordingly, the data does not reflect any actions that we may undertake in response to changes in interest rates, such as changes in rates paid on certain deposit accounts based on local competitive factors. The table also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or the repricing characteristics of specific assets and liabilities. Because of the shortcomings mentioned above, management considers many additional factors such as projected changes in loan and deposit balances and various projected forward interest rate scenarios when evaluating strategies for managing interest rate risk. Accordingly, although the NPV and net interest income table provides an indication of our sensitivity to interest rate changes at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income and will differ from actual results.

## ITEM 4. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chairman, Chief Executive Officer and President and the Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of March 31, 2022. Based on that evaluation, the Company's management, including the Chairman, Chief Executive Officer, and President and the Executive Vice President and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

During the quarter ended March 31, 2022, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

# PART II

## ITEM 1. 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 financial condition or results of operations

## ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed in the Company's filings with the Securities and Exchange Commission.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) **Unregistered Sale of Equity Securities.** Not applicable.

(b) **Use of Proceeds**. Not applicable.

(c) **Repurchases of Equity Securities**.

The following table sets forth information in connection with purchases of our common stock made by, or, on behalf of us, during the first quarter of 2022.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet be Purchased under the Plans or Programs |
|---|---|---|---|---|
| January 1, 2022 through January 31, 2022 | — | $ — | — | 242,984 |
| February 1, 2022 through February 28, 2022 | 50,000 | 10.75 | 50,000 | 192,984 |
| March 1, 2022 through March 31, 2022 | — | — | — | 192,984 |
| | 50,000 | | 50,000 | |

As of March 31, 2022, the Company had repurchased 7,367,771 shares of its common stock out of the 7,560,755 shares of common stock authorized under the current share repurchase authorization approved on March 30, 2015, as amended and extended from time to time. Pursuant to the amended share repurchase authorization, as of March 31, 2022, there were 192,984 shares of common stock authorized for repurchase. On April 28, 2022, the Board extended the expiration of the Company's share repurchase authorization from May 15, 2022 to November 15, 2022.

## ITEM 3. DEFAULT UPON SENIOR SECURITIES

None.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## ITEM 5. OTHER INFORMATION

None.

**ITEM 6. EXHIBITS**

| Exhibit Number | Description |
|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002* |
| 101 | The following financial statements from the BankFinancial Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 2022, formatted in Inline Extensive Business Reporting Language (iXBRL): (i) consolidated statements of financial condition, (ii) consolidated statements of operations, (iii) consolidated statements of comprehensive income, (iv) consolidated statements of changes in stockholders' equity, (v) consolidated statements of cash flows and (vi) the notes to consolidated financial statements. |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) |

* A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**BANKFINANCIAL CORPORATION**

| | | | |
|---|---|---|---|
| Dated: | May 3, 2022 | By: | /s/ F. Morgan Gasior |
| | | | F. Morgan Gasior<br>Chairman of the Board, Chief Executive Officer and President |
| | | | /s/ Paul A. Cloutier |
| | | | Paul A. Cloutier<br>Executive Vice President and Chief Financial Officer |

**Exhibit 31.1**

**Certification of Chief Executive Officer**
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, F. Morgan Gasior, certify that:

1) I have reviewed this quarterly report on Form 10-Q of BankFinancial Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: May 3, 2022

By: /s/ F. Morgan Gasior
F. Morgan Gasior
Chairman of the Board, Chief Executive Officer and President

**Exhibit 31.2**

**Certification of Chief Financial Officer**
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Paul A. Cloutier, certify that:

1) I have reviewed this quarterly report on Form 10-Q of BankFinancial Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: May 3, 2022

By: /s/ Paul A. Cloutier
Paul A. Cloutier
Executive Vice President and Chief Financial Officer

**Exhibit 32**

**Certification of Chief Executive Officer and Chief Financial Officer**
**Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002**

F. Morgan Gasior, Chairman of the Board, Chief Executive Officer and President of BankFinancial Corporation, a Maryland corporation (the "Company") and Paul A. Cloutier, Executive Vice President and Chief Financial Officer of the Company, each certify in his capacity as an officer of the Company that he has reviewed the Quarterly Report on Form 10-Q for the quarter ended March 31, 2022 (the "Report") and that to the best of his knowledge:

1. the Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

**BANKFINANCIAL CORPORATION**

Dated: May 3, 2022

By: /s/ F. Morgan Gasior
F. Morgan Gasior
Chairman of the Board and Chief Executive Officer

/s/ Paul A. Cloutier
Paul A. Cloutier
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.