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, 2021
or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For transition period from to
Commission File Number 0-51331

BANKFINANCIAL CORPORATION

(Exact Name of Registrant as Specified in Charter)

Maryland	**75-3199276**
(State or Other Jurisdiction of Incorporation)	**(I.R.S. Employer Identification No.)**

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 28, 2021 there were 14,583,284 shares of Common Stock, $0.01 par value, outstanding.

BANKFINANCIAL CORPORATION
Form 10-Q
March 31, 2021
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BANKFINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands, except share and per share data) - Unaudited

	March 31, 2021	December 31, 2020
Assets		
Cash and due from other financial institutions	$ 9,567	$ 14,115
Interest-bearing deposits in other financial institutions	489,016	489,381
Cash and cash equivalents	498,583	503,496
Securities, at fair value	20,751	23,829
Loans receivable, net of allowance for loan losses: March 31, 2021, $7,395 and December 31, 2020, $7,751	1,028,840	1,002,578
Foreclosed assets, net	4,630	157
Stock in Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB"), at cost	7,490	7,490
Premises and equipment, net	24,726	24,675
Accrued interest receivable	4,695	3,941
Bank-owned life insurance	19,036	19,015
Deferred taxes	2,473	2,741
Other assets	9,161	8,920
Total assets	$ 1,620,385	$ 1,596,842
Liabilities		
Deposits		
Noninterest-bearing	$ 334,463	$ 326,188
Interest-bearing	1,087,574	1,067,356
Total deposits	1,422,037	1,393,544
Borrowings	4,000	4,000
Advance payments by borrowers for taxes and insurance	6,513	8,670
Accrued interest payable and other liabilities	16,402	17,698
Total liabilities	1,448,952	1,423,912
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; 14,623,659 shares issued at March 31, 2021 and 14,769,765 shares issued at December 31, 2020	146	148
Additional paid-in capital	106,329	107,815
Retained earnings	64,750	64,754
Accumulated other comprehensive income	208	213
Total stockholders’ equity	171,433	172,930
Total liabilities and stockholders’ equity	$ 1,620,385	$ 1,596,842

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,	
	2021	**2020**
Interest and dividend income		
Loans, including fees	$ 10,929	$ 13,611
Securities	54	304
Other	265	738
Total interest income	11,248	14,653
Interest expense		
Deposits	668	2,684
Borrowings	—	—
Total interest expense	668	2,684
Net interest income	10,580	11,969
Provision for (recovery of) loan losses	(335)	471
Net interest income after provision for (recovery of) loan losses	10,915	11,498
Noninterest income		
Deposit service charges and fees	738	887
Loan servicing fees	55	63
Mortgage brokerage and banking fees	12	29
Loss on disposal of other assets	—	(2)
Trust and insurance commissions and annuities income	334	282
Earnings on bank-owned life insurance	21	32
Other	98	107
Total noninterest income	1,258	1,398
Noninterest expense		
Compensation and benefits	5,471	5,518
Office occupancy and equipment	2,138	1,800
Advertising and public relations	196	152
Information technology	658	864
Professional fees	370	314
Supplies, telephone, and postage	400	303
Amortization of intangibles	7	14
Nonperforming asset management	41	40
Operations of foreclosed assets, net	53	(17)
FDIC insurance premiums	106	34
Other	747	606
Total noninterest expense	10,187	9,628
Income before income taxes	1,986	3,268
Income tax expense	517	850
Net income	$ 1,469	$ 2,418
Basic and diluted earnings per common share	$ 0.10	$ 0.16
Basic and diluted weighted average common shares outstanding	14,723,769	15,205,731

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended March 31,	
	2021	**2020**
Net income	$ 1,469	$ 2,418
Unrealized holding loss arising during the period	(7)	(97)
Tax effect	2	26
Net of tax	(5)	(71)
Comprehensive income	$ 1,464	$ 2,347

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	Total
For the three months ended					
Balance at January, 1 2020	$ 153	$ 112,420	$ 61,573	$ 226	$ 174,372
Net income	—	—	2,418	—	2,418
Other comprehensive loss, net of tax	—	—	—	(71)	(71)
Repurchase and retirement of common stock (206,196 shares)	(2)	(2,200)	—	—	(2,202)
Cash dividends declared on common stock ($0.10 per share)	—	—	(1,522)	—	(1,522)
Balance at March 31, 2020	$ 151	$ 110,220	$ 62,469	$ 155	$ 172,995
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	—	—	—	(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

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended March 31,	
	2021	2020
Cash flows from operating activities		
Net income	$ 1,469	$ 2,418
Adjustments to reconcile to net income to net cash (used in) from operating activities		
Provision for (recovery of) loan losses	(335)	471
Depreciation	447	403
Amortization of premiums and discounts on securities	—	1
Amortization of intangibles	7	14
Amortization of servicing assets	21	15
Net change in net deferred loan origination costs	311	64
Gain on sale of other real estate owned	—	(30)
Loss on disposal of other assets	—	2
Earnings on bank-owned life insurance	(21)	(32)
Net change in:		
Accrued interest receivable	(754)	(135)
Other assets	(20)	708
Accrued interest payable and other liabilities	(1,296)	(3,336)
Net cash (used in) from operating activities	(171)	563
Cash flows from investing activities		
Securities		
Proceeds from maturities	7,440	23,188
Proceeds from principal repayments	343	810
Purchases of securities	(4,712)	(27,756)
Net (increase) decrease in loans receivable	(25,690)	19,818
Loan participation purchased	(5,000)	—
Proceeds from sale of other real estate owned	—	95
Purchase of premises and equipment, net	(498)	(261)
Net cash (used in) from investing activities	(28,117)	15,894
Cash flows from financing activities		
Net change in:		
Deposits	28,493	(31,006)
Borrowings	—	(61)
Advance payments by borrowers for taxes and insurance	(2,157)	(2,053)
Repurchase and retirement of common stock	(1,488)	(2,202)
Cash dividends paid on common stock	(1,473)	(1,522)
Net cash from (used in) financing activities	23,375	(36,844)
Net change in cash and cash equivalents	(4,913)	(20,387)
Beginning cash and cash equivalents	503,496	190,325
Ending cash and cash equivalents	$ 498,583	$ 169,938
Supplemental disclosures of cash flow information:		
Interest paid	$ 670	$ 2,683
Income taxes paid	17	65
Loans transferred to foreclosed assets	4,473	—
Recording of right of use asset in exchange for lease obligations in other assets and other liabilities	—	111

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, NA (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, 2021 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2021 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, actual results could differ from those estimates.

COVID-19: On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a global pandemic. The declaration of a global pandemic indicates that almost all public commerce and related business activities must be, to varying degrees, curtailed with the goal of decreasing the rate of new infections. The outbreak of COVID-19 has adversely impacted, and could further adversely impact, a broad range of industries in which the Company's customers operate and impair their ability to fulfill their financial obligations to the Company. On March 3, 2020, the Federal Open Market Committee reduced the target federal funds rate range by 50 basis points to 1.00% to 1.25%. This rate was further reduced to a target range of 0% to 0.25% on March 16, 2020. These reductions in interest rates and other effects of the COVID-19 outbreak may adversely affect the Company's financial condition and results of operations. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact net interest income and noninterest income. Other financial impacts could occur though such potential impact is unknown at this time.

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, 2020, 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,	
	2021	**2020**
Net income available to common stockholders	$ 1,469	$ 2,418
Basic and diluted weighted average common shares outstanding	14,723,769	15,205,731
Basic and diluted earnings per common share	$ 0.10	$ 0.16

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, 2021				
Certificates of deposit	$ 12,389	$ —	$ —	$ 12,389
Municipal securities	402	5	—	407
Mortgage-backed securities - residential	5,652	274	—	5,926
Collateralized mortgage obligations - residential	2,024	5	—	2,029
	$ 20,467	$ 284	$ —	$ 20,751
December 31, 2020				
Certificates of deposit	$ 15,117	$ —	$ —	$ 15,117
Municipal securities	402	7	—	409
Mortgage-backed securities - residential	5,826	282	—	6,108
Collateralized mortgage obligations - residential	2,193	3	(1)	2,195
	$ 23,538	$ 292	$ (1)	$ 23,829

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, 2021	
	Amortized Cost	Fair Value
Due in one year or less	$ 12,791	$ 12,796
Mortgage-backed securities - residential	5,652	5,926
Collateralized mortgage obligations - residential	2,024	2,029
	$ 20,467	$ 20,751

Investment securities available-for-sale with carrying value of $1.2 million at March 31, 2021 and December 31, 2020, were pledged as collateral on customer repurchase agreements and for other purposes as required or permitted by law.

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
December 31, 2020									
Collateralized mortgage obligations - residential	—	$ -	$ -	3	$ 1,588	$ (1)	3	$ 1,588	$ (1)

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.

There were no unrealized loss positions at March 31, 2021. Certain collateralized mortgage obligations that the Company holds in its investment portfolio were in an unrealized loss position at December 31, 2020, but the unrealized loss was not considered significant under the Company's impairment testing methodology. In addition, the Company does not intend to sell these securities, and it is likely that the Company will not be required to sell these securities before their anticipated recovery occurs.

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, 2021	December 31, 2020
One-to-four family residential real estate	$ 38,236	$ 41,691
Multi-family mortgage	440,824	452,241
Nonresidential real estate	112,154	108,658
Construction and land	499	499
Commercial loans and leases	442,706	405,057
Consumer	1,756	1,812
	1,036,175	1,009,958
Net deferred loan origination costs	60	371
Allowance for loan losses	(7,395)	(7,751)
Loans, net	$ 1,028,840	$ 1,002,578

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, 2021						
One-to-four family residential real estate	$ —	$ 465	$ 465	$ 1,568	$ 36,668	$ 38,236
Multi-family mortgage	—	3,902	3,902	515	440,309	440,824
Nonresidential real estate	28	1,564	1,592	296	111,858	112,154
Construction and land	—	12	12	—	499	499
Commercial loans and leases	—	1,377	1,377	—	442,706	442,706
Consumer	—	47	47	—	1,756	1,756
	$ 28	$ 7,367	$ 7,395	$ 2,379	$ 1,033,796	1,036,175
Net deferred loan origination costs						60
Allowance for loan losses						(7,395)
Loans, net						$ 1,028,840

	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, 2020						
One-to-four family residential real estate	$ —	$ 518	$ 518	$ 1,718	$ 39,973	$ 41,691
Multi-family mortgage	—	4,062	4,062	520	451,721	452,241
Nonresidential real estate	28	1,541	1,569	296	108,362	108,658
Construction and land	—	12	12	—	499	499
Commercial loans and leases	—	1,536	1,536	—	405,057	405,057
Consumer	—	54	54	—	1,812	1,812
	$ 28	$ 7,723	$ 7,751	$ 2,534	$ 1,007,424	1,009,958
Net deferred loan origination costs						371
Allowance for loan losses						(7,751)
Loans, net						$ 1,002,578

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, 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
March 31, 2020					
One-to-four family residential real estate	$ 675	$ (1)	$ (5)	$ 13	$ 682
Multi-family mortgage	3,676	181	—	12	3,869
Nonresidential real estate	1,176	284	—	—	1,460
Commercial loans and leases	2,065	(12)	—	2	2,055
Consumer	40	19	(13)	—	46
	$ 7,632	$ 471	$ (18)	$ 27	$ 8,112

(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:

					Three Months Ended March 31, 2021	
	Loan Balance	Recorded Investment	Partial Charge off	Allowance for Loan Losses Allocated	Average Investment in Impaired Loans	Interest Income Recognized
March 31, 2021						
With no related allowance recorded:						
One-to-four family residential real estate	$ 1,801	$ 1,568	$ 236	$ —	$ 1,634	$ 8
Multi-family mortgage - Illinois	515	515	—	—	518	7
	2,316	2,083	236	—	2,152	15
With an allowance recorded - nonresidential real estate	280	296	—	28	296	—
	$ 2,596	$ 2,379	$ 236	$ 28	$ 2,448	$ 15

					Year ended December 31, 2020	
	Loan Balance	Recorded Investment	Partial Charge-off	Allowance for Loan Losses Allocated	Average Investment in Impaired Loans	Interest Income Recognized
December 31, 2020						
With no related allowance recorded:						
One-to-four family residential real estate	$ 2,069	$ 1,718	$ 363	$ —	$ 1,782	$ 42
Multi-family mortgage - Illinois	520	520	—	—	594	31
	2,589	2,238	363	—	2,376	73
With an allowance recorded - nonresidential real estate	280	296	—	28	289	—
	$ 2,869	$ 2,534	$ 363	$ 28	$ 2,665	$ 73

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:

	Loan Balance	Recorded Investment	Loans Past Due Over 90 Days, Still Accruing
March 31, 2021			
One-to-four family residential real estate	$ 412	$ 384	$ —
Nonresidential real estate	280	296	—
	$ 692	$ 680	$ —
December 31, 2020			
One-to-four family residential real estate	$ 946	$ 925	$ —
Nonresidential real estate	280	296	—
	$ 1,226	$ 1,221	$ —

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 $113,000 and $133,000 at March 31, 2021 and December 31, 2020, 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, 2021						
One-to-four family residential real estate loans:						
Owner occupied	$ 477	$ —	$ 384	$ 861	$ 29,893	$ 30,754
Non-owner occupied	264	221	—	$ 485	6,997	7,482
Multi-family mortgage:						
Illinois	497	—	—	497	224,901	225,398
Other	425	—	—	425	215,001	215,426
Nonresidential real estate	—	—	296	296	111,858	112,154
Construction and land					499	499
Commercial loans and leases:						
Commercial	—	—	—	—	79,096	79,096
Asset-based	—	—	—	—	1,889	1,889
Equipment finance:						
Government	—	6	—	6	147,566	147,572
Investment-rated	1,572	—	—	1,572	78,579	80,151
Other	862	—	—	862	133,136	133,998
Consumer	21	2	—	23	1,733	1,756
	$ 4,118	$ 229	$ 680	$ 5,027	$ 1,031,148	$ 1,036,175

	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, 2020						
One-to-four family residential real estate loans:						
Owner occupied	$ 252	$ 211	$ 834	$ 1,297	$ 32,078	$ 33,375
Non-owner occupied	3	132	91	226	8,090	8,316
Multi-family mortgage:						
Illinois	86	—	—	86	221,943	222,029
Other	—	—	—	—	230,212	230,212
Nonresidential real estate	—	—	296	296	108,362	108,658
Construction and land	—	—	—	—	499	499
Commercial loans and leases:						
Commercial	4,886	—	—	4,886	72,809	77,695
Asset-based	—	—	—	—	1,740	1,740
Equipment finance:						
Government	2,468	—	—	2,468	100,272	102,740
Investment-rated	618	225	—	843	86,417	87,260
Other	853	2,487	—	3,340	132,282	135,622
Consumer	6	5	—	11	1,801	1,812
	$ 9,172	$ 3,060	$ 1,221	$ 13,453	$ 996,505	$ 1,009,958

(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 Paycheck Protection Program loan, 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:

	For the Three Months Ended March 31, 2021	For the Three Months Ended March 31, 2020
Paycheck protection program:		
Number of loans originated	193	—
Loan balance originations	$ 8,624	$ —
Loan balance forgiven	$ 7,902	$ —

	March 31, 2021	December 31, 2020
Paycheck protection program loans		
Number of loans	256	290
Loan balance	$ 10,902	$ 10,180

COVID-19 Loan Forbearance Programs

Section 4013 of the CARES Act provides that a qualified loan modification is exempt by law from classification as a Troubled Debt Restructuring ("TDR") pursuant to US GAAP. In addition, the Revised Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working With Customers Affected by the Coronavirus (“OCC Bulletin 2020-50”) provides more limited circumstances in which a loan modification is not subject to classification as a TDR and also defined the circumstances where the borrower’s loan is reported as current on loan payments. Pursuant to these new capabilities, we developed several loan forbearance programs to assist borrowers with managing cash flows disrupted due to COVID-19.

Our Apartment and Commercial Real Estate COVID-19 Qualified Limited Forbearance Agreement permitted borrowers who qualified under Section 4013 of the CARES Act to make an election to pay only scheduled interest and escrow payments (if applicable) for a four-month period beginning in April 2020, and pay all deferred principal payments by December 2020.

Our Small Investment Property COVID-19 Qualified Limited Forbearance Agreement permitted borrowers with loan balances under $750,000 who qualified under Section 4013 of the CARES Act to make an election to pay only scheduled interest and escrow payments (if applicable) for a four-month period beginning in April 2020, and pay all deferred principal payments by December 2020. In addition, the borrower could elect to defer the May 2020 loan payment entirely, with all deferred interest amounts due by December 2020 and all deferred principal amounts due by June 30, 2021.

CARES Act Section 4013 and OCC Bulletin 2020-35 forbearance agreements are available to qualified commercial loan and commercial finance borrowers, and to commercial equipment lessees.

For residential mortgage and consumer loans, relief under CARES Act Section 4013 or OCC Bulletin 2020-35 forbearance agreements are available to qualified borrowers with terms consistent with secondary residential mortgage market standards established by Fannie Mae.

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 summarizes the remaining loan forbearance modifications:

	Number of loans	Principal Balance	Remaining Amounts Deferred
March 31, 2021			
Small Investment Property COVID-19 Qualified Limited Forbearance Agreement			
Multi-family mortgage	1	$ 564	$ 2
Nonresidential real estate	4	1,155	4
Apartment and Commercial Real Estate COVID-19 Qualified Limited Forbearance Agreement			
Nonresidential real estate	1	1,981	6
One-to-four family residential real estate	5	781	2
	11	$ 4,481	$ 14

	Number of loans	Principal Balance	Remaining Amounts Deferred
December 31, 2020			
Small Investment Property COVID-19 Qualified Limited Forbearance Agreement			
Multi-family mortgage	8	$ 3,092	$ 17
Nonresidential real estate	10	3,363	22
Apartment and Commercial Real Estate COVID-19 Qualified Limited Forbearance Agreement			
Nonresidential real estate	2	2,480	6
One-to-four family residential real estate	10	1,402	8
	30	$ 10,337	$ 53

Troubled Debt Restructurings

The Company evaluates loan extensions or modifications not qualified under Section 4013 of the CARES Act or under OCC Bulletin 2020-35 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, 2021 and December 31, 2020. During the three months ended March 31, 2021 and 2020, there were no loans modified and classified as TDRs. During the three months ended March 31, 2021 and 2020, 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.

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(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.

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, 2021					
One-to-four family residential real estate loans:					
Owner occupied	$ 29,864	$ —	$ 506	$ 384	$ 30,754
Non-owner occupied	7,334	26	122	—	7,482
Multi-family mortgage:					
Illinois	225,398	—	—	—	225,398
Other	215,426	—	—	—	215,426
Nonresidential real estate	109,753	2,023	82	296	112,154
Construction and land	499	—	—	—	499
Commercial loans and leases:					
Commercial	79,096	—	—	—	79,096
Asset-based	1,889	—	—	—	1,889
Equipment finance:					
Government	147,572	—	—	—	147,572
Investment-rated	80,151	—	—	—	80,151
Other	133,136	851	11	—	133,998
Consumer	1,749	3	4	—	1,756
	$ 1,031,867	$ 2,903	$ 725	$ 680	$ 1,036,175

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

NOTE 4 - LOANS RECEIVABLE (continued)

	Pass	Special Mention	Substandard	Nonaccrual	Total
December 31, 2020					
One-to-four family residential real estate loans:					
Owner occupied	$ 32,089	$ —	$ 452	$ 834	$ 33,375
Non-owner occupied	8,164	27	34	91	8,316
Multi-family mortgage:					
Illinois	222,029	—	—	—	222,029
Other	230,212	—	—	—	230,212
Nonresidential real estate	106,280	1,998	84	296	108,658
Construction and land	499	—	—	—	499
Commercial loans and leases:					
Commercial	72,809	—	4,886	—	77,695
Asset-based	1,740	—	—	—	1,740
Equipment finance:					
Government	102,740	—	—	—	102,740
Investment-rated	87,260	—	—	—	87,260
Other	134,617	—	1,005	—	135,622
Consumer	1,802	5	5	—	1,812
	$ 1,000,241	$ 2,030	$ 6,466	$ 1,221	$ 1,009,958

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, 2021			December 31, 2020		
	Balance	Valuation Allowance	Net Balance	Balance	Valuation Allowance	Net Balance
Other real estate owned:						
One–to–four family residential	$ 695	$ —	$ 695	$ 157	$ —	$ 157
Nonresidential real estate	170	—	170	—	—	—
	865	—	865	157	—	157
Other foreclosed assets	3,765	—	3,765	—	—	—
	$ 4,630	$ —	$ 4,630	$ 157	$ —	$ 157

The following represents the roll forward of foreclosed assets:

	For the Three Months Ended March 31,	
	2021	2020
Beginning balance	$ 157	$ 186
New foreclosed assets	4,473	—
Sales	—	(76)
Ending balance	$ 4,630	$ 110

There were no valuation allowances at March 31, 2021 and December 31, 2020.

At March 31, 2021 and December 31, 2020, the balance of OREO includes no foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property without title. At March 31, 2021 and December 31, 2020, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process was $158,000 and $187,000, respectively. The other foreclosed assets consist of non real estate collateral repossessed related to a previously classified Chicago area commercial loan.

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

NOTE 6 - LEASES

The following table represents the classification of the Company's right of use and lease liabilities:

	Statement of Financial Condition Location	March 31, 2021	December 31, 2020
Operating Lease Right of Use Asset:			
Gross carrying amount		$ 6,805	$ 6,694
New lease obligation		—	111
Accumulated amortization		(1,951)	(1,730)
Net recorded value	Other assets	$ 4,854	$ 5,075
Operating Lease Liabilities:			
Right of use lease obligations	Other liabilities	$ 4,854	$ 5,075

Amortization expense was $221,000 and $219,000 for the three months ended March 31, 2021 and 2020, respectively. At March 31, 2021, the weighted-average remaining lease term for the operating leases was 8.1 years and the weighted-average discount rate used in the measurement of operating lease liabilities was 3.13%. The Company utilized the FHLB fixed rate advance rate for the term most closely aligning with the remaining lease term at inception.

	For the Three Months Ended March 31,	
Lease cost:	**2021**	**2020**
Operating lease cost	$ 221	$ 219
Short-term lease cost	49	30
Sublease income	(15)	(18)
Total lease cost	$ 255	$ 231
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 241	$ 234

Future minimum payments under non-cancellable operating leases with terms longer than 12 months, are as follows. Future minimum payments on shorter term leases are excluded as the amounts are insignificant.

Twelve months ended March 31,	
2022	$ 967
2023	1,011
2024	828
2025	502
2026	508
Thereafter	2,089
Total future minimum operating lease payments	5,905
Amounts representing interest	(1,051)
Present value of net future minimum operating lease payments	$ 4,854

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

NOTE 7 - BORROWINGS

Advances from the FHLB were as follows:

	March 31, 2021		December 31, 2020	
	Contractual Rate	Amount	Contractual Rate	Amount
Fixed-rate advance from FHLB, due within 1 year	—%	$ 4,000	—%	$ 4,000

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 rate minus 0.75%, with a minimum rate of 2.40%. The line of credit was extended and will mature on March 31, 2022. The line of credit had no outstanding balance at March 31, 2021.

NOTE 8 – FAIR VALUE

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

- Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

- Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3 – Significant unobservable inputs that reflect a company’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

Securities: The fair values of 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).

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.

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

NOTE 8 - FAIR VALUE (continued)

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

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
March 31, 2021				
Securities:				
Certificates of deposit	$ —	$ 12,389	$ —	$ 12,389
Municipal securities	—	407	—	407
Mortgage-backed securities – residential	—	5,926	—	5,926
Collateralized mortgage obligations – residential	—	2,029	—	2,029
	$ —	$ 20,751	$ —	$ 20,751
December 31, 2020				
Securities:				
Certificates of deposit	$ —	$ 15,117	$ —	$ 15,117
Municipal securities	—	409	—	409
Mortgage-backed securities - residential	—	6,108	—	6,108
Collateralized mortgage obligations – residential	—	2,195	—	2,195
	$ —	$ 23,829	$ —	$ 23,829

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, 2021				
Impaired loans - nonresidential real estate	$ —	$ —	$ 268	$ 268
December 31, 2020				
Impaired loans - nonresidential real estate	$ —	$ —	$ 268	$ 268

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral–dependent loans, had a carrying amount of $296,000, with a valuation allowance of $28,000 at March 31, 2021 and December 31, 2020. There was no change in the provision for loan losses of $28,000 for the three months ended March 31, 2021, compared to no specific provision for loan losses for the three months ended March 31, 2020.

At March 31, 2021 and December 31, 2020, there were no foreclosed assets with valuation allowances.

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, 2021				
Impaired loans - nonresidential real estate	$ 268	Sales comparison	Discount applied to valuation	22.0%
December 31, 2020				
Impaired loans - nonresidential real estate	$ 268	Sales comparison	Discount applied to valuation	22.0%

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

NOTE 8 - FAIR VALUE (continued)

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

	Carrying Amount	Fair Value Measurements at March 31, 2021 Using: Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 498,583	$ 9,567	$ 489,016	$ —	$ 498,583
Securities	20,751	—	20,751	—	20,751
Loans receivable, net of allowance for loan losses	1,028,840	—	—	1,028,208	1,028,208
FHLB and FRB stock	7,490	—	—	—	N /A
Accrued interest receivable	4,695	—	108	4,587	4,695
Financial liabilities					
Certificates of deposit	236,590	—	237,119	—	237,119
Borrowings	4,000	—	4,000	—	4,000

	Carrying Amount	Fair Value Measurements at December 31, 2020 Using: Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 503,496	$ 14,115	$ 489,381	$ —	$ 503,496
Securities	23,829	—	23,829	—	23,829
Loans receivable, net of allowance for loan losses	1,002,578	—	—	1,004,854	1,004,854
FHLB and FRB stock	7,490	—	—	—	N /A
Accrued interest receivable	3,941	—	52	3,889	3,941
Financial liabilities					
Certificates of deposit	253,000	—	253,906	—	253,906
Borrowings	4,000	—	3,998	—	3,998

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.

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NOTE 9 – 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,	
	2021	2020
Deposit service charges and fees	$ 738	$ 887
Loan servicing fees (1)	55	63
Mortgage brokerage and banking fees (1)	12	29
Loss on disposal of other assets	—	(2)
Trust and insurance commissions and annuities income	334	282
Earnings on bank-owned life insurance (1)	21	32
Other (1)	98	107
Total noninterest income	$ 1,258	$ 1,398

(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 $381,000 and $351,000 for the three months ended March 31, 2021 and 2020, 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 OREO and other assets: The Company records a gain or loss from the sale of OREO 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 OREO 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 OREO 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. OREO sales for the three months ended March 31, 2020 were not financed by the Company. There were no sales of OREO for the three months ended March 31, 2021.

NOTE 10 – SUBSEQUENT EVENT

On April 14, 2021, the Company entered into Subordinated Note Purchase Agreements (collectively, the “Purchase Agreement”) with certain qualified institutional buyers and accredited investors (the “Purchasers”) 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 Notes were offered and sold by the Company to eligible purchasers in a private offering in reliance on the exemption from the registration requirements of Section 4(a)(2) of the Securities Act of 1933, as amended and the provisions of Regulation D promulgated thereunder.

The Notes will bear interest at a fixed annual rate of 3.75%, from and including the date of issuance to but excluding May 15, 2026, payable semi-annually in arrears. From and including May 15, 2026 to, but excluding the maturity date or early redemption date, the interest rate will reset quarterly to an interest rate per annum equal to Three-Month Term SOFR (as defined in the Note) plus 299 basis points, payable quarterly in arrears. As provided in the Notes, under specified conditions the interest rate on the Notes 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. The Purchase Agreement contains certain customary representations, warranties and covenants made by the Company, on the one hand, and the Purchasers, severally and not jointly, on the other hand. The Notes are not entitled to the benefit of any sinking fund and are not convertible into or exchangeable for any of the equity securities, other securities or assets of the Company or any of its subsidiaries.

Principal and interest 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 are intended to qualify as Tier 2 capital of the Company for regulatory capital purposes.

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 loan growth due to intense competition for loans and leases, particularly in terms of pricing and credit underwriting, or a dearth of borrowers who meet our underwriting standards, or the 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 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 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 real estate 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; (ix) the credit risks of lending activities, including risks that could cause changes in the level and direction of loan delinquencies and charge-offs or changes in estimates relating to the computation of our allowance for loan losses; (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 and operating expenses; (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.

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, 2020, 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, 2020, as filed with the SEC.

Overview

We reported net income for the three months ended March 31, 2021 of $1.5 million, or $0.10 per common share, compared to net income of $2.4 million, or $0.16 per common share, for the three months ended March 31, 2020. At March 31, 2021, the Company had total assets of $1.620 billion, total loans of $1.029 billion, total deposits of $1.422 billion and stockholders' equity of $171 million.

Total net loans increased by $26.3 million for the quarter ended March 31, 2021, primarily due to continued strong originations of commercial equipment finance transactions and increased utilization of commercial lessor finance lines of credit. Total commercial loans and leases increased by $37.6 million (9.3%) for the quarter ended March 31, 2021, compared to an increase of $25.4 million (6.7%) for the quarter ended December 31, 2020. The total balance of SBA Paycheck Protection Program (PPP) commercial loans was $10.9 million at March 31, 2021, as we originated $8.6 million in new PPP loans and we received $7.9 million in PPP forgiveness payments for the quarter. Multi-family and nonresidential real estate loans declined by $7.9 million (1.4%) as increased loan originations nearly offset substantially reduced loan payoffs.

Total deposits increased by $28.5 million, primarily due to a $44.9 million increase in core retail and business deposits, partially offset by a $15.4 million decrease in retail certificates of deposit.

Net interest income declined by $952,000 due to a decline in the average interest-earning assets yield from 3.27% to 2.98% resulting from a lower average yield on loans and significantly reduced loan prepayment income during the first quarter of 2021 compared to fourth quarter of 2020, partially offset by a $335,000 recovery in the allowance for loan losses. Noninterest income declined by $283,000, primarily due to seasonal reductions in commercial loan commitment fees and credit risk premiums compared to the fourth quarter of 2020. Noninterest expenses increased $413,000 due to a $232,000 increase in payroll taxes and benefit expense, and a $160,000 increase in office occupancy expenses during the first quarter of 2021 compared to fourth quarter of 2020.

The Company's ratio of nonperforming loans to total loans was 0.07%. Nonperforming commercial-related loans represented 0.03% of total commercial-related loans at March 31, 2021. The ratio of nonperforming assets to total assets increased to 0.33% at March 31, 2021, due to the inclusion of $4.3 million of collateral repossessed related to a previously classified Chicago commercial loan in the first quarter of 2021. Our allowance for loan losses decreased to 0.71% of total loans as of March 31, 2021, compared to 0.77% at December 31, 2020.

The Company's capital position remained strong, with a Tier 1 leverage ratio of 10.67% at March 31, 2021. The Company repurchased 146,106 of its common shares during the quarter ended March 31, 2021. The Company's book value per common share increased to $11.72 per share at March 31, 2021.

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, 2021	December 31, 2020	Change
		(In thousands)	
Selected Financial Condition Data:			
Total assets	$ 1,620,385	$ 1,596,842	$ 23,543
Loans, net	1,028,840	1,002,578	26,262
Securities, at fair value	20,751	23,829	(3,078)
Foreclosed assets, net	4,630	157	4,473
Deposits	1,422,037	1,393,544	28,493
Borrowings	4,000	4,000	—
Equity	171,433	172,930	(1,497)

	Three Months Ended March 31, 2021	2020	Change
		(In thousands)	
Selected Operating Data:			
Interest income	$ 11,248	$ 14,653	$ (3,405)
Interest expense	668	2,684	(2,016)
Net interest income	10,580	11,969	(1,389)
Provision for (recovery of) loan losses	(335)	471	(806)
Net interest income after provision for (recovery of) loan losses	10,915	11,498	(583)
Noninterest income	1,258	1,398	(140)
Noninterest expense	10,187	9,628	559
Income before income taxes	1,986	3,268	(1,282)
Income tax expense	517	850	(333)
Net income	$ 1,469	$ 2,418	$ (949)

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Selected Financial Ratios and Other Data:		
Performance Ratios:		
Return on assets (ratio of net income to average total assets) (1)	0.37%	0.66%
Return on equity (ratio of net income to average equity) (1)	3.40	5.52
Average equity to average assets	10.85	11.95
Net interest rate spread (1) (2)	2.73	3.19
Net interest margin (1) (3)	2.81	3.44
Efficiency ratio (4)	86.05	72.03
Noninterest expense to average total assets (1)	2.56	2.63
Average interest-earning assets to average interest-bearing liabilities	141.49	132.68
Dividends declared per share	$ 0.10	$ 0.10
Dividend payout ratio	100.29%	62.94%

	At March 31, 2021	At December 31, 2020
Asset Quality Ratios:		
Nonperforming assets to total assets (5)	0.33%	0.09%
Nonperforming loans to total loans	0.07	0.12
Allowance for loan losses to nonperforming loans	1,087.50	634.81
Allowance for loan losses to total loans	0.71	0.77
Capital Ratios:		
Equity to total assets at end of period	10.58%	10.83%
Tier 1 leverage ratio (Bank only)	10.19%	10.10%
Other Data:		
Number of full-service offices	19	19
Employees (full-time equivalents)	220	210

(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, 2021 and December 31, 2020

Total assets increased $23.5 million, or 1.5%, to $1.620 billion at March 31, 2021, from $1.597 billion at December 31, 2020. The increase in total assets was primarily due to an increase in loans. Loans increased $26.3 million, or 2.6%, to $1.029 billion at March 31, 2021, from $1.003 billion at December 31, 2020.

Our loan portfolio consists primarily of investment and business loans (multi-family, nonresidential real estate, and commercial loans and leases), which together totaled 96.1% of gross loans at March 31, 2021. During the three months ended March 31, 2021, commercial loans and leases increased by $37.6 million, or 9.3%. Nonresidential real estate loans increased $3.5 million, or 3.2%, while multi-family loans decreased by $11.4 million, or 2.5%. The increase in commercial loans and leases was primarily due to $43.5 million of government equipment finance originations as well as $8.6 million of Paycheck Protection Program loan originations.

Our primary lending area consists of the counties in the State of Illinois where our branch offices are located, and contiguous counties. We 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 engage in certain types of commercial lending and leasing activities on a nationwide basis. At March 31, 2021, $223.2 million, or 50.6%, of our multi-family mortgage loans were in the Metropolitan Statistical Area for Chicago, Illinois; $53.0 million, or 12.0%, were in the Metropolitan Statistical Area for Dallas, Texas; $42.5 million, or 9.7%, were in the Metropolitan Statistical Area for Denver, Colorado; $16.0 million, or 3.6%, were in the Metropolitan Statistical Area for Tampa, Florida; and $14.9 million, or 3.4%, were in the Metropolitan Statistical Area for Greenville-Spartanburg, South Carolina. This information reflects the location of the collateral for the loan and does not necessarily reflect the location of the borrowers.

Total liabilities increased $25.0 million, or 1.8%, to $1.449 billion at March 31, 2021, from $1.424 billion at December 31, 2020, due to an increase in total deposits. Total deposits increased $28.5 million, or 2.0%, to $1.422 billion at March 31, 2021, from $1.394 billion at December 31, 2020. Noninterest-bearing demand deposits increased $8.3 million, or 2.5%, to $334.5 million at March 31, 2021, from $326.2 million at December 31, 2020 and interest-bearing NOW accounts increased $4.5 million, or 1.3%, to $341.5 million at March 31, 2021, from $337.0 million at December 31, 2020. Money market accounts increased $20.6 million, or 6.9%, to $318.4 million at March 31, 2021, from $297.8 million at December 31, 2020. Savings accounts increased $11.5 million, or 6.4%, to $191.0 million at March 31, 2021, from $179.6 million at December 31, 2020. Retail certificates of deposit decreased $15.4 million, or 6.3%, to $230.4 million at March 31, 2021, from $245.8 million at December 31, 2020. Wholesale certificates of deposit decreased $994,000, or 13.8%, to $6.2 million at March 31, 2021, from $7.2 million at December 31, 2020. Core deposits (which consists of savings, money market, noninterest-bearing demand and NOW accounts) represented 83.4% of total deposits at March 31, 2021, compared to 81.8% at December 31, 2020. Borrowings remained at $4.0 million in March 31, 2021, as the Bank borrowed $4.0 million from the FHLB at zero percent interest rate for a one year term in May 2020.

Total stockholders' equity was $171.4 million at March 31, 2021, compared to $172.9 million at December 31, 2020. The decrease in total stockholders' equity was primarily due to our repurchase of 146,106 shares of our common stock during the three months ended March 31, 2021 at a total cost of $1.5 million, and our declaration and payment of cash dividends totaling $1.5 million during the same period. These reductions in total stockholders' equity were partially offset by the net income of $1.5 million that the Company recorded for the three months ended March 31, 2021.

Operating Results for the Three Months Ended March 31, 2021 and 2020

Net Income. Net income was $1.5 million for the three months ended March 31, 2021, compared to $2.4 million for the three months ended March 31, 2020. Earnings per basic and fully diluted share of common stock were $0.10 for the three months ended March 31, 2021, compared to $0.16 for the three months ended March 31, 2020.

Net Interest Income. Net interest income was $10.6 million for the three months ended March 31, 2021, compared to $12.0 million for the three months ended March 31, 2020. The decrease in net interest income reflected a $3.4 million, or 23.2%, decrease in interest income, partially offset by a $2.0 million decrease in interest expense.

The decrease in net interest income was due in substantial part to a decrease in the average yield on interest-earning assets, which was partially 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, 2021 includes amortized fees of $240,000 from the SBA Paycheck Protection Program loans. The yield on interest-earning assets decreased 123 basis points to 2.98% for the three months ended March 31, 2021, from 4.21% for the three months ended March 31, 2020. The cost of interest-bearing liabilities decreased 77 basis points to 0.25% for the three months ended March 31, 2021, from 1.02% for the same period in 2020. Total average interest-earning assets increased $127.9 million, or 9.1%, to $1.528 billion for the three months ended March 31, 2021, from $1.401 billion for the same period in 2020. Total average interest-bearing liabilities increased $24.7 million, or 2.3%, to $1.080 billion for the three months ended March 31, 2021, from $1.056 billion for the same period in 2020. Our net interest rate spread decreased by 46 basis points to 2.73% for the three months ended March 31, 2021, from 3.19% for the same period in 2020. Our net interest margin decreased by 63 basis points to 2.81% for the three months ended March 31, 2021, from 3.44% for the same period in 2020.

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.

	For the Three Months Ended March 31,					
	2021			2020		
	Average Outstanding Balance	Interest	Yield/Rate (1)	Average Outstanding Balance	Interest	Yield/Rate (1)
	(Dollars in thousands)					
Interest-earning assets:						
Loans	$ 1,010,682	$ 10,929	4.39%	$ 1,160,197	$ 13,611	4.72%
Securities	21,207	54	1.03	62,919	304	1.94
Stock in FHLB and FRB	7,490	85	4.60	7,490	86	4.62
Other	489,093	180	0.15	169,933	652	1.54
Total interest-earning assets	1,528,472	11,248	2.98	1,400,539	14,653	4.21
Noninterest-earning assets	63,947			64,714		
Total assets	$ 1,592,419			$ 1,465,253		
Interest-bearing liabilities:						
Savings deposits	$ 184,724	28	0.06	$ 154,102	64	0.17
Money market accounts	312,843	109	0.14	248,501	464	0.75
NOW accounts	334,147	112	0.14	266,087	222	0.34
Certificates of deposit	244,557	419	0.69	386,845	1,934	2.01
Total deposits	1,076,271	668	0.25	1,055,535	2,684	1.02
Borrowings	4,000	—	—	15	—	—
Total interest-bearing liabilities	1,080,271	668	0.25	1,055,550	2,684	1.02
Noninterest-bearing deposits	313,623			208,119		
Noninterest-bearing liabilities	25,684			26,515		
Total liabilities	1,419,578			1,290,184		
Equity	172,841			175,069		
Total liabilities and equity	$ 1,592,419			$ 1,465,253		
Net interest income		$ 10,580			$ 11,969	
Net interest rate spread (2)			2.73%			3.19%
Net interest-earning assets (3)	$ 448,201			$ 344,989		
Net interest margin (4)			2.81%			3.44%
Ratio of interest-earning assets to interest-bearing liabilities	141.49%			132.68%		

(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 recovery of loan losses of $335,000 for the three months ended March 31, 2021, compared to a provision for loan losses of $471,000 for the same period in 2020. 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 decreased $356,000, or 4.6%, to $7.4 million at March 31, 2021, from $7.7 million at December 31, 2020. There were $28,000 of reserves established for loans individually evaluated for impairment at March 31, 2021, compared to no reserves established for loans individually evaluated for impairment at March 31, 2020. Net charge-offs were $21,000 for the three months ended March 31, 2021, compared to net recoveries of $9,000 for the three months ended March 31, 2020.

The allowance for loan losses as a percentage of nonperforming loans was 1,087.50% at March 31, 2021, compared to 634.81% at December 31, 2020.

Noninterest Income

	Three Months Ended March 31,		
	2021	**2020**	**Change**
	(Dollars in thousands)		
Deposit service charges and fees	$ 738	$ 887	$ (149)
Loan servicing fees	55	63	(8)
Mortgage brokerage and banking fees	12	29	(17)
Loss on disposal of other assets	—	(2)	2
Trust and insurance commissions and annuities income	334	282	52
Earnings on bank-owned life insurance	21	32	(11)
Other	98	107	(9)
Total noninterest income	$ 1,258	$ 1,398	$ (140)

Noninterest income decreased $140,000, or 10.0%, for the three months ended March 31, 2021 to $1.3 million, compared to $1.4 million for the same period in 2020. Deposit service charges decreased $149,000, or 16.8%, due to reduced non-sufficient funds returns charges and negative balance fees. Mortgage brokerage and banking fees decreased $17,000 for the three months ended March 31, 2021, compared to the three months ended March 31, 2020 due to payoffs and paydowns on serviced mortgages loans. Trust and insurance commissions and annuities income increased $52,000, or 18.4%, to $334,000 for the three months ended March 31, 2021, from $282,000 for the three months ended March 31, 2020 due to increased assets under management. Earnings on bank-owned life insurance decreased by $11,000 to $21,000 for the three months ended March 31, 2021, due to lower interest rates. Other income decreased $9,000, or 8.4%, to $98,000 for the three months ended March 31, 2021, compared to $107,000 for the three months ended March 31, 2020.

Noninterest Expense

	Three Months Ended March 31,		
	2021	2020	Change
	(Dollars in thousands)		
Compensation and benefits	$ 5,471	$ 5,518	$ (47)
Office occupancy and equipment	2,138	1,800	338
Advertising and public relations	196	152	44
Information technology	658	864	(206)
Professional fees	370	314	56
Supplies, telephone and postage	400	303	97
Amortization of intangibles	7	14	(7)
Nonperforming asset management	41	40	1
Operations of other real estate owned, net	53	(17)	70
FDIC insurance premiums	106	34	72
Other	747	606	141
Total noninterest expense	$ 10,187	$ 9,628	$ 559

Noninterest expense increased by $559,000, or 5.8%, to $10.2 million for the three months ended March 31, 2021, from $9.6 million for the same period in 2020. The increase in noninterest expense was due in substantial part to increases in office occupancy and equipment expense, professional fees, supplies, telephone and postage expense and FDIC insurance expense, partially offset by a decrease in information technology expense. Office occupancy and equipment increased $338,000, or 18.8%, primarily due to increased snow removal expense of $150,000 and expense related to COVID-19 cleaning and sanitation. Information technology expense decreased $206,000, or 23.8%, to $658,000 for the three months ended March 31, 2021, from $864,000 for the same period in 2020, primarily due to the renegotiation of technology contracts as we continue to upgrade our system and implement cybersecurity prevention. Telephone expense increased $115,000 with the upgrade and conversion of our phone and data systems. Professional fees increased $56,000, or 17.8%, for the three months ended March 31, 2021, primarily due to increases in consulting and placement fees. FDIC insurance premiums increased $72,000, to $106,000 for the three months ended March 31, 2021, compared to $34,000 for the same period in 2020, due to the receipt of the FDIC's small bank assessment credit in the third quarter of 2019. Other noninterest expense increased $141,000, or 23.3%, to $747,000 for the three months ended March 31, 2021, from $606,000 for the three months ended March 31, 2020, primarily due to the reversal of a $116,000 reserve on open commitments for two undrawn letters of credit in the first quarter of 2020.

Income Taxes

We recorded income tax expense of $517,000 for the three months ended March 31, 2021, compared to $850,000 for the three months ended March 31, 2020. Our combined state and federal effective tax rate for the three months ended March 31, 2021 and March 31, 2020 was 26.0%.

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, 2021, we had no loans 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, 2021, 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 below sets forth the amounts and categories of our nonperforming loans and nonperforming assets.

	March 31, 2021	December 31, 2020	Quarter Change
		(Dollars in thousands)	
Nonaccrual loans:			
One-to-four family residential real estate	$ 384	$ 925	$ (541)
Nonresidential real estate	296	296	—
Other commercial leases	—	—	—
Nonperforming loans	680	1,221	(541)
Other real estate owned:			
One-to-four family residential real estate	695	157	538
Nonresidential real estate	170	—	170
Other real estate owned	865	157	708
Other foreclosed assets	3,765	—	3,765
Total nonperforming assets	$ 5,310	$ 1,378	$ 3,932
Ratios:			
Nonperforming loans to total loans	0.07%	0.12%	
Nonperforming assets to total assets	0.33	0.09	

Nonperforming Assets

Nonperforming assets increased $3.9 million to $5.3 million at March 31, 2021, from $1.4 million at December 31, 2020, due to the inclusion of $4.3 million of collateral repossessed related to a previously classified Chicago commercial loan in the first quarter of 2021. Two residential loans with a total book balance of $128,000 were transferred from nonaccrual loans to OREO during the three months ended March 31, 2021. 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 $4.0 million of FHLB advances outstanding at March 31, 2021 and December 31, 2020.

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. At March 31, 2021, the Company (on an unconsolidated, stand-alone basis) had liquid assets of $8.2 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 will mature on March 31, 2022. The line of credit had no outstanding balance at March 31, 2021.

As of March 31, 2021, 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, 2021, 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%. Beginning in the second quarter 2020 and until the end of the year, a banking organization that has a leverage ratio of 8% or greater and meets certain other criteria may elect to use the Community Bank Leverage Ratio framework; and qualified community banks will have until January 1, 2022, before the Community Bank Leverage Ratio requirement is re-established at greater than 9%. Pursuant to Section 4012 of the CARES Act and related interim final rules, the Community Bank Leverage Ratio will be 8.5% for calendar year 2021, and 9% thereafter. A financial institution can elect to be subject to this new definition, and opt-out of this new definition, at any time. As a qualified community bank, we elected to be subject to this definition beginning the second quarter of 2020. As of March 31, 2021, the Bank's Community Bank Leverage Ratio was 10.19%.

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 Plans that require the Bank to maintain a Tier 1 leverage ratio of at least 7.5% and a total risk-based capital ratio of at least 10.5%. The minimum capital ratios set forth in the Regulatory Capital Plans will be increased and other minimum capital requirements will be established if and as necessary. In accordance with the Regulatory Capital Plans, 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 established 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, 2021, the Bank was well-capitalized, with all capital ratios exceeding the well-capitalized requirement. 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, 2021				
Community Bank Leverage Ratio	$ 162,059	10.19%	$ 135,215	8.50%
December 31, 2020				
Community Bank Leverage Ratio	$ 160,236	10.10%	$ 126,964	8.00%

Quarterly Cash Dividends. The Company declared cash dividends of $0.10 per share for both of the three months ended March 31, 2021 and March 31, 2020.

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, 2021, 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	$ 8,590	4.37%	$ 11,978	28.84%
+300	9,805	4.99	9,227	22.21
+200	7,058	3.59	6,164	14.84
+100	1,804	0.92	2,962	7.13
0				
-25	(6,329)	(3.22)	(598)	(1.44)

The table set forth above indicates that at March 31, 2021, in the event of an immediate 25 basis point decrease in interest rates, the Bank would be expected to experience a 3.22% decrease in NPV and a $598,000 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 3.59% increase in NPV and a $6.2 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, 2021. 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, 2021, 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 2021.

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, 2021 through January 31, 2021	33,000	$ 8.98	33,000	401,264
February 1, 2021 through February 28, 2021	4,000	8.63	4,000	397,264
March 1, 2021 through March 31, 2021	109,106	10.56	109,106	288,158
	146,106		146,106	

As of March 31, 2021, the Company had repurchased 5,922,597 shares of its common stock out of the 6,210,755 shares of common stock authorized under the current share repurchase authorization approved on March 30, 2015. Pursuant to the share repurchase authorization, as of March 31, 2021, there were 288,158 shares of common stock authorized for repurchase. On April 19, 2021, the Board extended the expiration of the Company's share repurchase authorization from April 30, 2021 to November 15, 2021, and increased the total number of shares currently authorized for repurchase under the Share Repurchase Program from 6,210,755 shares to 6,460,755 shares, an increase of 250,000 shares.

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, 2021, 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.

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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:	April 30, 2021	By:	/s/ F. Morgan Gasior
			F. Morgan Gasior Chairman of the Board, Chief Executive Officer and President
			/s/ Paul A. Cloutier
			Paul A. Cloutier 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: April 30, 2021

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: April 30, 2021

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, 2021 (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: April 30, 2021

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.