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 September 30, 2024
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 October 31, 2024, there were 12,460,678 shares of Common Stock, $0.01 par value, outstanding.

BANKFINANCIAL CORPORATION
Form 10-Q
September 30, 2024
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BANKFINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands, except share and per share data) - Unaudited

	September 30, 2024	December 31, 2023
Assets		
Cash and due from other financial institutions	$ 19,412	$ 19,781
Interest-bearing deposits in other financial institutions	118,866	158,703
Cash and cash equivalents	138,278	178,484
Interest-bearing time deposits in other financial institutions	22,005	29,513
Securities, at fair value	264,905	153,203
Loans receivable, net of allowance for credit losses: September 30, 2024, $7,899 and December 31, 2023, $8,345	923,939	1,050,761
Foreclosed assets, net	1,966	2,777
Stock in Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB"), at cost	7,490	7,490
Premises held-for-sale	—	523
Premises and equipment, net	22,674	22,950
Accrued interest receivable	6,929	7,542
Bank-owned life insurance	18,277	18,469
Deferred taxes	3,590	4,512
Other assets	7,607	11,160
Total assets	$ 1,417,660	$ 1,487,384
Liabilities		
Deposits		
Noninterest-bearing	$ 226,882	$ 260,851
Interest-bearing	972,530	1,000,772
Total deposits	1,199,412	1,261,623
Borrowings	20,000	25,000
Subordinated notes, net of unamortized issuance costs	18,726	19,678
Advance payments by borrowers for taxes and insurance	8,213	9,003
Accrued interest payable and other liabilities	12,201	16,697
Total liabilities	1,258,552	1,332,001
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; 12,460,678 shares issued at September 30, 2024 and 12,475,881 shares issued at December 31, 2023	125	125
Additional paid-in capital	83,301	83,457
Retained earnings	76,524	74,426
Accumulated other comprehensive loss	(842)	(2,625)
Total stockholders' equity	159,108	155,383
Total liabilities and stockholders' equity	$ 1,417,660	$ 1,487,384

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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Interest and dividend income				
Loans, including fees	$ 12,300	$ 14,276	$ 39,002	$ 43,014
Securities:				
Taxable	47	48	148	147
Tax exempt	2,572	716	6,024	2,522
Other	1,967	1,854	6,712	3,549
Total interest income	16,886	16,894	51,886	49,232
Interest expense				
Deposits	4,775	3,470	13,735	8,531
Borrowings and Subordinated notes	450	470	1,387	1,304
Total interest expense	5,225	3,940	15,122	9,835
Net interest income	11,661	12,954	36,764	39,397
Provision for credit losses - loans	472	180	435	85
Provision for (recovery of) credit losses - unfunded commitments	13	(44)	(60)	(89)
Provision for (recovery of) credit losses	485	136	375	(4)
Net interest income after provision for (recovery of) credit losses	11,176	12,818	36,389	39,401
Noninterest income				
Deposit service charges and fees	915	836	2,558	2,482
Loan servicing fees	97	98	350	368
Trust and insurance commissions and annuities income	405	290	1,204	933
Losses on sales of securities	—	—	—	(454)
(Loss) gain on sale of premises and equipment	(20)	—	(104)	9
Valuation adjustment on bank premises held-for-sale	—	—	—	(585)
Loss on bank-owned life insurance	(14)	(88)	(192)	(259)
Gain on repurchase of Subordinated notes	—	—	107	—
Other	99	104	296	298
Total noninterest income	1,482	1,240	4,219	2,792
Noninterest expense				
Compensation and benefits	5,441	5,369	17,436	16,553
Office occupancy and equipment	1,532	2,046	5,634	6,115
Advertising and public relations	117	171	319	623
Information technology	971	944	3,022	2,758
Professional fees	299	366	1,135	1,038
Supplies, telephone, and postage	281	311	859	965
FDIC insurance premiums	156	222	461	658
Other	1,287	1,361	4,119	3,592
Total noninterest expense	10,084	10,790	32,985	32,302
Income before income taxes	2,574	3,268	7,623	9,891
Income tax expense	581	899	1,786	2,577
Net income	$ 1,993	$ 2,369	$ 5,837	$ 7,314
Basic and diluted earnings per common share	$ 0.16	$ 0.19	$ 0.47	$ 0.58
Basic and diluted weighted average common shares outstanding	12,460,678	12,578,494	12,463,127	12,655,305

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net income	$ 1,993	$ 2,369	$ 5,837	$ 7,314
Unrealized holding gain on securities arising during the period	1,193	1,099	2,409	2,260
Tax effect	(310)	(286)	(626)	(588)
Unrealized holding gain on securities, net of tax	883	813	1,783	1,672
Reclassification adjustment for loss included in net income	—	—	—	454
Tax effect, included in income tax expense	—	—	—	(119)
Reclassification adjustment for loss included in net income, net of tax	—	—	—	335
Other comprehensive gain, net of tax	883	813	1,783	2,007
Comprehensive income	$ 2,876	$ 3,182	$ 7,620	$ 9,321

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 Loss	Total
For the three months ended					
Balance at July 1, 2023	$ 126	$ 84,603	$ 72,492	$ (4,918)	$ 152,303
Net income	—	—	2,369	—	2,369
Other comprehensive income, net of tax effect	—	—	—	813	813
Repurchase and retirement of common stock (53,088 shares)	(1)	(470)	—	—	(471)
Cash dividends declared on common stock ($0.10 per share)	—	—	(1,259)	—	(1,259)
Balance at September 30, 2023	$ 125	$ 84,133	$ 73,602	$ (4,105)	$ 153,755
Balance at July 1, 2024	$ 125	$ 83,301	$ 75,777	$ (1,725)	$ 157,478
Net income	—	—	1,993	—	1,993
Other comprehensive income, net of tax effect	—	—	—	883	883
Cash dividends declared on common stock ($0.10 per share)	—	—	(1,246)	—	(1,246)
Balance at September 30, 2024	$ 125	$ 83,301	$ 76,524	$ (842)	$ 159,108
For the nine months ended					
Balance at December 31, 2022	$ 127	$ 85,848	$ 71,808	$ (6,112)	$ 151,671
Cumulative effect of change in accounting principle	—	—	(1,719)	—	(1,719)
Net income	—	—	7,314	—	7,314
Other comprehensive income, net of tax effect	—	—	—	2,007	2,007
Repurchase and retirement of common stock (195,207 shares)	(2)	(1,715)	—	—	(1,717)
Cash dividends declared on common stock ($0.30 per share)	—	—	(3,801)	—	(3,801)
Balance at September 30, 2023	$ 125	$ 84,133	$ 73,602	$ (4,105)	$ 153,755
Balance at December 31, 2023	$ 125	$ 83,457	$ 74,426	$ (2,625)	$ 155,383
Net income	—	—	5,837	—	5,837
Other comprehensive income, net of tax effect	—	—	—	1,783	1,783
Repurchase and retirement of common stock (15,203 shares)	—	(156)	—	—	(156)
Cash dividends declared on common stock ($0.30 per share)	—	—	(3,739)	—	(3,739)
Balance at September 30, 2024	$ 125	$ 83,301	$ 76,524	$ (842)	$ 159,108

See accompanying notes to the consolidated financial statements.

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

	Nine Months Ended September 30,	
	2024	**2023**
Cash flows from operating activities		
Net income	$ 5,837	$ 7,314
Adjustments to reconcile net income to net cash from operating activities		
Provision for credit losses - loans	435	85
Recovery of credit losses - unfunded commitments	(60)	(89)
Depreciation and amortization	786	1,093
Net change in net deferred loan origination costs	303	(123)
Losses on sales of securities	—	454
Valuation adjustment on bank premises held-for-sale	—	585
Loss (gain) on disposal of premises and equipment	104	(9)
Loss on sale of foreclosed assets	227	15
Foreclosed assets write-down	—	70
Foreclosed assets valuation adjustments	—	48
Loss on bank-owned life insurance	192	259
Gain on redemption of Subordinated notes	(107)	—
Net change in:		
Accrued interest receivable	613	(1,005)
Other assets	(17)	1,362
Accrued interest payable and other liabilities	(5,015)	(4,841)
Net cash from operating activities	3,298	5,218
Cash flows from investing activities		
Net change in interest-bearing time deposits in other financial institutions	7,508	(492)
Securities:		
Proceeds from maturities	169,455	12,000
Proceeds from principal repayments	543	540
Proceeds from sale of securities	—	42,631
Purchases of securities	(274,015)	—
Net change in loans receivable	125,912	118,262
Proceeds from sale of foreclosed assets	701	362
Proceeds from sale of premises and equipment	537	690
Purchase of premises and equipment, net	(1,343)	(1,311)
Net cash from investing activities	29,298	172,682
Cash flows used in financing activities		
Net change in:		
Deposits	(62,211)	(99,106)
Advance payments by borrowers for taxes and insurance	(790)	6,514
Proceeds from Federal Home Loan Bank advances	—	35,000
Repayments of Federal Home Loan Bank advances	(5,000)	(10,000)
Proceeds from repurchase of Subordinated notes	(906)	—
Repurchase and retirement of common stock	(156)	(1,717)
Cash dividends paid on common stock	(3,739)	(3,801)
Net cash used in financing activities	(72,802)	(73,110)
Net change in cash and cash equivalents	(40,206)	104,790
Beginning cash and cash equivalents	178,484	66,771
Ending cash and cash equivalents	$ 138,278	$ 171,561
Supplemental disclosures of cash flow information:		
Interest paid	$ 14,968	$ 9,405
Income taxes paid	1,719	2,760
Income taxes refunded	—	20
Assets transferred to premises held-for-sale	—	1,799
Loans transferred to foreclosed assets	117	921
Recording of right of use asset in exchange for lease obligations in other assets and other liabilities	592	—

See accompanying notes to the consolidated financial statements.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: BankFinancial Corporation, a Maryland corporation headquartered in Burr Ridge, Illinois, is the owner of all of the issued and outstanding capital stock of BankFinancial, National Association (the "Bank"). The interim unaudited consolidated financial statements include the accounts and transactions of BankFinancial Corporation, the Bank, and the Bank's wholly-owned subsidiaries, Financial Assurance Services, Inc. and BFIN Asset Recovery Company, LLC (collectively, the "Company"), and reflect all normal and recurring adjustments that are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. Such adjustments are the only adjustments reflected in the accompanying financial statements. All significant intercompany accounts and transactions have been eliminated. The results of operations for the three and nine-month periods ended September 30, 2024 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2024 or for any other period.

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

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

Factored Receivables: The Company purchases invoices from its factoring customers in schedules or batches. These receivables are included in loans receivable on the Consolidated Statements of Financial Condition, and as commercial loans and leases in Note 4 - Loans Receivable. The face value of the invoices purchased or amount advanced is recorded by the Company as factored receivables, and the unadvanced portions of the invoices purchased, less fees, are considered customer reserves. The customer reserves are held to settle any payment disputes or collection shortfalls. Customer reserves may be used to pay customers' obligations to various third parties as directed by the customer. Customer reserves are periodically released to or withdrawn by customers, and are reported as noninterest-bearing deposits in the Consolidated Statements of Financial Condition. The unpaid principal balances of these receivables were $2.3 million and $5.9 million at September 30, 2024 and December 31, 2023, respectively, and are included in commercial loans and leases. The customer reserves associated with the factored receivables were $675,000 and $2.1 million at September 30, 2024 and December 31, 2023, respectively.

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

Interest-Bearing Time Deposits in other Financial Institutions: Interest-bearing time deposits in other financial institutions are carried at cost. Prior year financial statement disclosures reported interest-bearing time deposits in other financial institutions, maturing in 90 days or more, with Securities.

Reclassifications: Certain reclassifications have been made in the prior period's financial statements to conform them to the current period's presentation with no impact on previously reported net income or stockholders' equity.

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, 2023, as filed with the SEC.

Newly Issued Not Yet Effective Accounting Standards: In December 2023, the FASB issued Accounting Standards Update ("ASU") 2023-09, Income Tax (Topic 740): *Improvements to Income Tax Disclosures*. The amendments expand the disclosure requirements of income taxes, primarily related to the income tax rate reconciliation and income taxes paid. The guidance also eliminates certain existing disclosure requirements related to uncertain tax positions and unrecognized deferred income tax liabilities. The amendments are effective for fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2025. Earlier adoption is permitted. The adoption of the guidance is not expected to have a material impact on the Company's consolidated financial statements.

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

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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net income available to common stockholders	$ 1,993	$ 2,369	$ 5,837	$ 7,314
Basic and diluted weighted average common shares outstanding	12,460,678	12,578,494	12,463,127	12,655,305
Basic and diluted earnings per common share	$ 0.16	$ 0.19	$ 0.47	$ 0.58

NOTE 3 - SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Securities				
September 30, 2024				
Municipal securities	$ 928	$ 10	$ (1)	$ 937
U.S. Treasury Notes	123,307	24	(1,065)	122,266
U.S. government-sponsored agencies	137,898	56	(129)	137,825
Mortgage-backed securities - residential	3,011	30	(52)	2,989
Collateralized mortgage obligations - residential	899	—	(11)	888
	$ 266,043	$ 120	$ (1,258)	$ 264,905
December 31, 2023				
Municipal securities	$ 930	$ 12	$ (8)	$ 934
U.S. Treasury Notes	115,920	—	(3,412)	112,508
U.S. government-sponsored agencies	35,446	7	(62)	35,391
Mortgage-backed securities - residential	3,431	27	(91)	3,367
Collateralized mortgage obligations - residential	1,023	—	(20)	1,003
	$ 156,750	$ 46	$ (3,593)	$ 153,203

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.

	September 30, 2024	
	Amortized Cost	Fair Value
Due in one year or less	$ 135,578	$ 134,776
Due after one year through five years	126,555	126,252
	262,133	261,028
Mortgage-backed securities - residential	3,011	2,989
Collateralized mortgage obligations - residential	899	888
	$ 266,043	$ 264,905

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

NOTE 3 - SECURITIES (continued)

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
September 30, 2024									
Municipal securities	—	$ —	$ —	1	$ 224	$ (1)	1	$ 224	$ (1)
U.S. Treasury Notes	—	—	—	84	62,656	(1,065)	84	62,656	(1,065)
U.S. government-sponsored agencies	8	69,871	(129)	—	—	—	8	69,871	(129)
Mortgage-backed securities - residential	—	—	—	7	1,398	(52)	7	1,398	(52)
Collateralized mortgage obligations - residential	—	—	—	5	888	(11)	5	888	(11)
	8	$ 69,871	$ (129)	97	$ 65,166	$ (1,129)	105	$ 135,037	$ (1,258)
December 31, 2023									
Municipal securities	—	$ —	$ —	1	$ 217	$ (8)	1	$ 217	$ (8)
U.S. Treasury Notes	—	—	—	170	112,508	(3,412)	170	112,508	(3,412)
U.S. government-sponsored agencies	2	8,987	(13)	4	17,951	(49)	6	26,938	(62)
Mortgage-backed securities - residential	—	—	—	17	2,627	(91)	17	2,627	(91)
Collateralized mortgage obligations - residential	—	—	—	6	1,003	(20)	6	1,003	(20)
	2	$ 8,987	$ (13)	198	$ 134,306	$ (3,580)	200	$ 143,293	$ (3,593)

U.S. Treasury Notes, U.S. government-sponsored agencies and the other available-for-sale securities reflected in the above table that the Company holds in its investment portfolio were in an unrealized loss position at September 30, 2024, but the unrealized loss was not recognized into income because the U.S. Treasury Notes are backed by the full faith and credit of the United States and the other issuers were high credit quality, it is not likely that the Company will be required to sell these securities before their anticipated recovery occurs and the decline in fair value was due to changes in interest rates and other market conditions. The fair values of these securities are expected to recover as maturity dates of these securities approach.

We reviewed the available-for-sale securities in an unrealized loss position within the guidelines of Accounting Standards Codification (“ASC”) 326 and determined that no credit loss is required to be recognized.

The proceeds from sales of securities and the associated losses were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Proceeds	$ —	$ —	$ —	$ 42,631
Gross gains	—	—	—	—
Gross losses	—	—	—	(454)

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

NOTE 4 - LOANS RECEIVABLE

The summary of loans receivable by class of loans is as follows:

	September 30, 2024	December 31, 2023
One-to-four family residential real estate	$ 15,634	$ 18,945
Multi-family residential real estate	524,340	527,460
Nonresidential real estate	109,799	118,016
Commercial loans and leases	280,218	393,321
Consumer	1,847	1,364
	931,838	1,059,106
Allowance for credit losses	(7,899)	(8,345)
Loans, net	$ 923,939	$ 1,050,761

Net deferred loan origination costs included in the table above were $1.4 million and $1.7 million as of September 30, 2024 and December 31, 2023, respectively.

Allowance for Credit Losses - Loans

The following table represents the activity in the Allowance for Credit Losses ("ACL") by class of loans:

	One-to-four family residential real estate	Multi-family residential real estate	Nonresidential real estate	Commercial loans and leases	Consumer	Total
For the three months ended						
September 30, 2024						
Beginning balance	$ 324	$ 4,843	$ 1,397	$ 1,524	$ 54	$ 8,142
Provision for (recovery of) credit losses	(52)	(44)	18	536	14	472
Loans charged off	—	—	—	(731)	(12)	(743)
Recoveries	22	6	—	—	—	28
	$ 294	$ 4,805	$ 1,415	$ 1,329	$ 56	$ 7,899
September 30, 2023						
Beginning balance	$ 326	$ 4,679	$ 1,245	$ 2,943	$ 33	$ 9,226
Provision for (recovery of) credit losses	(62)	(136)	(95)	461	12	180
Loans charged off	—	—	—	(889)	(14)	(903)
Recoveries	32	4	—	20	—	56
	$ 296	$ 4,547	$ 1,150	$ 2,535	$ 31	$ 8,559

	One-to-four family residential real estate	Multi-family residential real estate	Nonresidential real estate	Commercial loans and leases	Consumer	Total
For the nine months ended						
September 30, 2024						
Beginning balance	$ 295	$ 4,549	$ 1,166	$ 2,303	$ 32	$ 8,345
Provision for (recovery of) credit losses	(28)	240	249	(87)	61	435
Loans charged off	—	—	—	(899)	(37)	(936)
Recoveries	27	16	—	12	—	55
	$ 294	$ 4,805	$ 1,415	$ 1,329	$ 56	$ 7,899
September 30, 2023						
Beginning balance, prior to adoption of ASC 326	$ 281	$ 4,017	$ 1,234	$ 2,548	$ 49	$ 8,129
Impact of adopting ASC 326	99	630	66	1,122	(10)	1,907
Beginning balance, after adoption of ASC 326	380	4,647	1,300	3,670	39	10,036
Provision for (recovery of) credit losses	(128)	(115)	(150)	444	34	85
Loans charged off	—	—	—	(1,606)	(43)	(1,649)
Recoveries	44	15	—	27	1	87
	$ 296	$ 4,547	$ 1,150	$ 2,535	$ 31	$ 8,559

As of September 30, 2024 and December 31, 2023 we had $274,000 and $335,000, respectively, recorded as an unfunded commitment reserve, included in other liabilities on the Consolidated Statements of Financial Condition.

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

NOTE 4 - LOANS RECEIVABLE (continued)

The following tables present the balance in the ACL and loans receivable by class of loans based on evaluation method. Allocation of a portion of the ACL to one category does not preclude its availability to absorb losses in other categories:

	One-to-four family residential real estate	Multi-family residential real estate	Nonresidential real estate	Commercial loans and leases	Consumer	Total
September 30, 2024						
Loans:						
Loans individually evaluated	$ 57	$ 1,458	$ 393	$ 20,565	$ —	$ 22,473
Loans collectively evaluated	15,577	522,882	109,406	259,653	1,847	909,365
	$ 15,634	$ 524,340	$ 109,799	$ 280,218	$ 1,847	$ 931,838
ACL:						
Loans individually evaluated	$ —	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated	294	4,805	1,415	1,329	56	7,899
	$ 294	$ 4,805	$ 1,415	$ 1,329	$ 56	$ 7,899

	One-to-four family residential real estate	Multi-family residential real estate	Nonresidential real estate	Commercial loans and leases	Consumer	Total
December 31, 2023						
Loans:						
Loans individually evaluated	$ 67	$ —	$ —	$ 21,982	$ —	$ 22,049
Loans collectively evaluated	18,878	527,460	118,016	371,339	1,364	1,037,057
	$ 18,945	$ 527,460	$ 118,016	$ 393,321	$ 1,364	$ 1,059,106
ACL:						
Loans individually evaluated	$ —	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated	295	4,549	1,166	2,303	32	8,345
	$ 295	$ 4,549	$ 1,166	$ 2,303	$ 32	$ 8,345

Collateral Dependent Loans

Management's evaluation as to the ultimate collectability of loans includes estimates regarding future cash flows from operations and the value of property, real and personal, pledged as collateral. These estimates are affected by changing economic conditions and the economic prospects of borrowers. Collateral dependent loans are loans in which repayment is expected to be provided solely by the underlying collateral and there are no other available and reliable sources of repayment. Loans are written down to the lower of cost or fair value of the underlying collateral, less estimated costs to sell. The Company had $3.2 million of collateral dependent loans secured by real estate or business assets as of September 30, 2024 and December 31, 2023.

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

NOTE 4 - LOANS RECEIVABLE (continued)

Individually Evaluated Loans

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

	Loan Balance	Recorded Investment	Partial Charge-off	Allowance for Credit Losses Allocated	Three Months Ended September 30, 2024 Average Investment	Three Months Ended September 30, 2024 Interest Income Recognized	Nine Months Ended September 30, 2024 Average Investment	Nine Months Ended September 30, 2024 Interest Income Recognized
September 30, 2024								
With no related allowance recorded:								
One-to-four family residential real estate	$ 51	$ 57	$ —	$ —	$ 58	$ 1	$ 60	$ 2
Multi-family residential real estate	1,416	1,458	—	—	972	—	324	27
Nonresidential real estate	366	393	—	—	393	—	173	3
Commercial loans and leases	21,758	20,565	1,193	—	20,629	2	20,763	11
	$ 23,591	$ 22,473	$ 1,193	$ —	$ 22,052	$ 3	$ 21,320	$ 43

	Loan Balance	Recorded Investment	Partial Charge-off	Allowance for Credit Losses Allocated	Year ended December 31, 2023 Average Investment	Year ended December 31, 2023 Interest Income Recognized
December 31, 2023						
With no related allowance recorded:						
One-to-four family residential real estate	$ 66	$ 67	$ —	$ —	$ 76	$ 4
Commercial loans and leases	23,954	21,982	450	—	16,542	35
	$ 24,020	$ 22,049	$ 450	$ —	$ 16,618	$ 39

Nonaccrual Loans

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

	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
September 30, 2024		
One-to-four family residential real estate	$ 34	$ —
Multi-family residential real estate	1,458	—
Nonresidential real estate	393	—
Commercial loans and leases	20,446	—
	$ 22,331	$ —
December 31, 2023		
One-to-four family residential real estate	$ 37	$ —
Commercial loans and leases	21,294	1,007
	$ 21,331	$ 1,007

Nonaccrual loans and individually evaluated 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 and loans individually evaluated.

The Company’s reserve for uncollected loan interest was $2.2 million and $1.4 million at September 30, 2024 and December 31, 2023, respectively. When a loan is on nonaccrual status and the ultimate collectability of the total principal of a 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. In all cases, the average balances are calculated based on the month–end balances of the financing receivables within the period reported.

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 portfolio segment:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Nonaccrual	Current	Total
September 30, 2024							
One-to-four family residential real estate loans	$ —	$ 93	$ —	$ 93	$ 34	$ 15,507	$ 15,634
Multi-family residential real estate:							
Senior notes	—	—	—	—	1,242	483,349	484,591
Junior notes	—	—	—	—	216	39,533	39,749
Nonresidential real estate:							
Owner occupied	—	—	—	—	—	17,154	17,154
Non-owner occupied	—	—	—	—	393	92,252	92,645
Commercial loans and leases:							
Commercial	204	52	—	256	1,221	156,184	157,661
Equipment finance - Government	802	—	—	802	19,225	64,781	84,808
Equipment finance - Corporate Investment-grade	—	—	—	—	—	37,749	37,749
Consumer	4	3	—	7	—	1,840	1,847
	$ 1,010	$ 148	$ —	$ 1,158	$ 22,331	$ 908,349	$ 931,838

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Nonaccrual	Current	Total
December 31, 2023							
One-to-four family residential real estate loans	$ 12	$ 18	$ —	$ 30	$ 37	$ 18,878	$ 18,945
Multi-family residential real estate:							
Senior notes	—	—	—	—	—	485,281	485,281
Junior notes	—	—	—	—	—	42,179	42,179
Nonresidential real estate:							
Owner occupied	—	—	—	—	—	20,901	20,901
Non-owner occupied	—	—	—	—	—	97,115	97,115
Commercial loans and leases:							
Commercial	234	26	666	926	2,285	208,770	211,981
Equipment finance - Government	3,147	5,028	—	8,175	18,956	105,134	132,265
Equipment finance - Corporate Investment-grade	7	—	341	348	53	48,674	49,075
Consumer	8	5	—	13	—	1,351	1,364
	$ 3,408	$ 5,077	$ 1,007	$ 9,492	$ 21,331	$ 1,028,283	$ 1,059,106

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

NOTE 4 - LOANS RECEIVABLE (continued)

At September 30, 2024 and December 31, 2023, the Company had no loan modifications that meet the definition described in ASU 2022-02 *"Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures"* for additional reporting.

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 as to credit risk. Risk ratings are updated any time the situation warrants. The Company uses the following definitions for risk ratings:

Pass. This category includes loans that are all considered acceptable credits, ranging from investment or near investment grade, to loans made to borrowers who exhibit credit fundamentals that meet or exceed industry standards.

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.

Based on the most recent analysis performed, the risk categories of loans by class of loans are as follows:

	Pass	Special Mention	Substandard	Substandard Nonaccrual	Total
September 30, 2024					
One-to-four family residential real estate	$ 15,436	$ —	$ 164	$ 34	$ 15,634
Multi-family residential real estate	522,196	—	686	1,458	524,340
Nonresidential real estate	108,527	430	449	393	109,799
Commercial loans and leases	249,774	5,298	4,700	20,446	280,218
Consumer	1,841	3	3	—	1,847
	$ 897,774	$ 5,731	$ 6,002	$ 22,331	$ 931,838

	Pass	Special Mention	Substandard	Substandard Nonaccrual	Total
December 31, 2023					
One-to-four family residential real estate	$ 18,636	$ —	$ 272	$ 37	$ 18,945
Multi-family residential real estate	526,127	1,333	—	—	527,460
Nonresidential real estate	118,016	—	—	—	118,016
Commercial loans and leases	357,384	10,587	4,056	21,294	393,321
Consumer	1,356	5	3	—	1,364
	$ 1,021,519	$ 11,925	$ 4,331	$ 21,331	$ 1,059,106

BANKFINANCIAL CORPORATION
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NOTE 4 - LOANS RECEIVABLE (continued)

	Term Loans Amortized Cost Basis by Origination Year							
	2024	2023	2022	2021	2020	Prior	Revolving loans	Total
September 30, 2024								
One-to-four family residential real estate loans:								
Risk-rating								
Pass	$ —	$ 486	$ —	$ —	$ 58	$ 11,790	$ 3,102	$ 15,436
Substandard	—	—	—	—	—	25	139	164
Nonaccrual	—	—	—	—	—	19	15	34
	$ —	$ 486	$ —	$ —	$ 58	$ 11,834	$ 3,256	$ 15,634
One-to-four family residential real estate loans:								
Current period recoveries	$ —	$ —	$ —	$ —	$ —	$ 27	$ —	$ 27
Multi-family residential real estate:								
Risk rating								
Pass	$ 24,789	$ 38,045	$ 205,905	$ 109,415	$ 55,552	$ 82,380	$ 6,110	$ 522,196
Substandard	—	—	—	—	—	686	—	686
Nonaccrual	—	216	1,242	—	—	—	—	1,458
	$ 24,789	$ 38,261	$ 207,147	$ 109,415	$ 55,552	$ 83,066	$ 6,110	$ 524,340
Multi-family residential real estate:								
Current period recoveries	$ —	$ —	$ —	$ —	$ —	$ 16	$ —	$ 16
Nonresidential real estate:								
Risk rating								
Pass	$ 15,299	$ 14,994	$ 47,565	$ 14,994	$ 7,449	$ 7,412	$ 814	$ 108,527
Special mention	—	—	430	—	—	—	—	430
Substandard	449	—	—	—	—	—	—	449
Nonaccrual	—	—	393	—	—	—	—	393
	$ 15,748	$ 14,994	$ 48,388	$ 14,994	$ 7,449	$ 7,412	$ 814	$ 109,799
Commercial loans and leases:								
Risk rating								
Pass	$ 20,069	$ 35,761	$ 85,127	$ 39,359	$ 14,519	$ 1,133	$ 53,806	$ 249,774
Special mention	—	—	—	—	—	—	5,298	5,298
Substandard	—	—	119	—	13	—	4,568	4,700
Nonaccrual	—	139	19,619	—	688	—	—	20,446
	$ 20,069	$ 35,900	$ 104,865	$ 39,359	$ 15,220	$ 1,133	$ 63,672	$ 280,218
Commercial loans and leases:								
Current period gross charge-offs	$ —	$ (292)	$ (127)	$ (43)	$ (437)	$ —	$ —	$ (899)
Current period recoveries	—	—	—	5	7	—	—	12
	$ —	$ (292)	$ (127)	$ (38)	$ (430)	$ —	$ —	$ (887)
Consumer:								
Risk rating								
Pass	$ 791	$ 200	$ 3	$ 53	$ 49	$ 38	$ 707	$ 1,841
Special mention	—	—	—	—	—	—	3	3
Substandard	—	—	—	—	—	—	3	3
	$ 791	$ 200	$ 3	$ 53	$ 49	$ 38	$ 713	$ 1,847
Consumer:								
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ (37)	$ (37)

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

NOTE 4 - LOANS RECEIVABLE (continued)

	Term Loans Amortized Cost Basis by Origination Year							
	2023	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving loans**	**Total**
December 31, 2023								
One-to-four family residential real estate loans:								
Risk-rating								
Pass	$ 489	$ —	$ —	$ 130	$ —	$ 14,213	$ 3,804	$ 18,636
Substandard	—	—	—	—	—	127	145	272
Nonaccrual	—	—	—	—	—	16	21	37
	$ 489	$ —	$ —	$ 130	$ —	$ 14,356	$ 3,970	$ 18,945
One-to-four family residential real estate loans:								
Current-period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ (1)	$ —	$ (1)
Current period recoveries	—	—	—	—	—	45	—	45
	$ —	$ —	$ —	$ —	$ —	$ 44	$ —	$ 44
Multi-family residential real estate:								
Risk rating								
Pass	$ 43,386	$ 211,525	$ 112,667	$ 57,743	$ 22,064	$ 70,007	$ 8,735	$ 526,127
Special mention	118	1,215	—	—	—	—	—	1,333
	$ 43,504	$ 212,740	$ 112,667	$ 57,743	$ 22,064	$ 70,007	$ 8,735	$ 527,460
Multi-family residential real estate:								
Current period recoveries	$ —	$ —	$ —	$ —	$ —	$ 20	$ —	$ 20
Nonresidential real estate:								
Risk rating								
Pass	$ 17,618	$ 53,256	$ 21,939	$ 7,787	$ 9,024	$ 8,288	$ 104	$ 118,016
Commercial loans and leases:								
Risk rating								
Pass	$ 50,015	$ 137,615	$ 63,028	$ 33,004	$ 3,028	$ 1,379	$ 69,315	$ 357,384
Special mention	—	—	—	—	—	—	10,587	10,587
Substandard	—	666	—	22	—	—	3,368	4,056
Nonaccrual	11	20,204	524	555	—	—	—	21,294
	$ 50,026	$ 158,485	$ 63,552	$ 33,581	$ 3,028	$ 1,379	$ 83,270	$ 393,321
Commercial loans and leases:								
Current period gross charge-offs	$ (20)	$ (1,850)	$ —	$ (306)	$ —	$ —	$ —	$ (2,176)
Current period recoveries	—	—	37	40	—	—	—	77
	$ (20)	$ (1,850)	$ 37	$ (266)	$ —	$ —	$ —	$ (2,099)
Consumer:								
Risk rating								
Pass	$ 336	$ 8	$ 140	$ 80	$ 247	$ —	$ 545	$ 1,356
Special mention	—	—	—	—	—	—	5	5
Substandard	—	—	—	—	—	—	3	3
	$ 336	$ 8	$ 140	$ 80	$ 247	$ —	$ 553	$ 1,364
Consumer:								
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ (52)	$ (52)
Current period recoveries	—	—	—	—	—	—	1	1
	$ —	$ —	$ —	$ —	$ —	$ —	$ (51)	$ (51)

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

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 credit 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’ debts are initially recorded at fair value of the asset less estimated costs to sell.

	September 30, 2024			December 31, 2023		
	Balance	Valuation Allowance	Net Balance	Balance	Valuation Allowance	Net Balance
Other real estate owned	$ —	$ —	$ —	$ 472	$ (67)	$ 405
Other foreclosed assets	1,966	—	1,966	2,416	(44)	2,372
	$ 1,966	$ —	$ 1,966	$ 2,888	$ (111)	$ 2,777

The following represents the roll forward of foreclosed assets:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Beginning balance	$ 1,898	$ 950	$ 2,777	$ 476
New foreclosed assets	68	—	117	921
Valuation adjustments	—	(48)	—	(48)
Valuation reductions from sales	—	—	111	—
Direct write-downs	—	—	—	(70)
Sales	—	—	(1,039)	(377)
Ending balance	$ 1,966	$ 902	$ 1,966	$ 902

Activity in the valuation allowance is as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Beginning balance	$ —	$ —	$ 111	$ —
Additions charged to expense	—	48	—	48
Reductions from sales	—	—	(111)	—
Ending balance	$ —	$ 48	$ —	$ 48

The were no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process at September 30, 2024 and December 31, 2023. At September 30, 2024, other foreclosed assets consisted of machinery repossessed in connection with equipment finance leases.

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

NOTE 6 - BORROWINGS AND SUBORDINATED NOTES

Borrowings and subordinated notes were as follows:

	September 30, 2024		December 31, 2023	
	Contractual Rate	Amount	Contractual Rate	Amount
Fixed-rate advance from FHLB, due September 16, 2024	—%	$ —	4.55%	$ 5,000
Fixed-rate advance from FHLB, due March 17, 2025	4.27%	5,000	4.27%	5,000
Fixed-rate advance from FHLB, due September 17, 2025	4.20%	5,000	4.20%	5,000
Fixed-rate advance from FHLB, due March 17, 2026	4.15%	5,000	4.15%	5,000
Fixed-rate advance from FHLB, due September 17, 2026	4.06%	5,000	4.06%	5,000
Subordinated notes, due May 15, 2031	3.75%	18,726	3.75%	19,678
Line of credit, due March 28, 2025	7.50%	—	8.00%	—

In 2021, the Company entered into Subordinated Note Purchase Agreements with certain qualified institutional buyers and accredited investors pursuant to which the Company sold and issued $20.0 million in aggregate principal amount of its 3.75% Fixed-to-Floating Rate Subordinated Notes due May 15, 2031 (the "Notes"). The Company incurred $441,000 of issuance costs associated with the Notes. These issuance costs are being amortized over the 10-year life of the Notes. At September 30, 2024 and December 31, 2023, there were $274,000 and $322,000, respectively, in remaining unamortized issuance costs and they are presented in the Company's financial statements as a reduction of the principal amount of the Notes.

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

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

In March 2024, we repurchased $1.0 million of the Notes and recorded a $107,000 gain on repurchase.

In 2020, the Company established a $5.0 million unsecured line of credit with a correspondent bank. Interest is payable at a rate of Prime Rate as published in the Wall Street Journal minus 0.50%, with a minimum rate of 2.40%. The line of credit has been extended since its original maturity date and the current maturity date is March 28, 2025. The line of credit had no outstanding balance at September 30, 2024 and December 31, 2023.

NOTE 7 - FAIR VALUE

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

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

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

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

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NOTE 7 - FAIR VALUE (continued)

Loans Evaluated Individually: The Company does not record portfolio loans at fair value on a recurring basis. However, periodically, a loan is evaluated individually and is reported at the fair value of the underlying collateral, less estimated costs to sell, if repayment is expected solely from the collateral. If the collateral value is not sufficient, a specific reserve is recorded. Collateral values are estimated using a combination of observable inputs, including recent appraisals, and unobservable inputs based on customized discounting criteria. Due to the significance of unobservable inputs, fair values of individually evaluated collateral dependent loans have
been classified as Level 3.

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 the 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.

Premises held-for-sale: At the time of transfer to held-for sale, these assets are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at the lower of cost or fair value less estimated costs to sell. These assets are evaluated on a quarterly basis for additional impairment and adjusted as necessary. During 2023, we recorded a valuation adjustment of $553,000 at the time of transfer of two of our retail branches to premises held-for-sale. During the second quarter of 2023, we recorded an additional valuation adjustment of $32,000 on our Hazel Crest office based on the purchase price of the then pending sale agreement for the facility.

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
September 30, 2024				
Securities:				
Municipal securities	$ —	$ 937	$ —	$ 937
U.S. Treasury Notes	122,266	—	—	122,266
U.S. government-sponsored agencies	—	137,825	—	137,825
Mortgage-backed securities – residential	—	2,989	—	2,989
Collateralized mortgage obligations – residential	—	888	—	888
	$ 122,266	$ 142,639	$ —	$ 264,905
December 31, 2023				
Securities:				
Municipal securities	$ —	$ 934	$ —	$ 934
U.S. Treasury Notes	112,508	—	—	112,508
U.S. government-sponsored agencies	—	35,391	—	35,391
Mortgage-backed securities – residential	—	3,367	—	3,367
Collateralized mortgage obligations – residential	—	1,003	—	1,003
	$ 112,508	$ 40,695	$ —	$ 153,203

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
December 31, 2023				
Other real estate owned	$ —	$ —	$ 405	$ 405
Other foreclosed assets	—	—	387	387

At September 30, 2024 and December 31, 2023, there were no individually evaluated loans that were measured using the fair value of the collateral for collateral–dependent loans and which had specific valuation allowances.

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

NOTE 7 - FAIR VALUE (continued)

Foreclosed assets are carried at the lower of cost or fair value less costs to sell. At September 30, 2024, there were no foreclosed assets with valuation allowances. At December 31, 2023, other real estate owned had a carrying value of $472,000 less a valuation allowance of $67,000, or $405,000, and other foreclosed assets had a carrying value of $431,000 less a valuation allowance of $44,000, or $387,000. There were no valuation adjustments of foreclosed assets recorded for the three and nine months ended September 30, 2024 and there was a $48,000 valuation adjustment of other foreclosed assets recorded in the three and nine months ended September 30, 2023.

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)
December 31, 2023				
Other real estate owned	$ 405	Sales comparison	Discount applied to valuation	10.0%
Other foreclosed assets	387	Sales comparison	Discount applied to valuation	6.2%

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

	Carrying Amount	Fair Value Measurements at September 30, 2024 Using: Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents and time deposits in other financial institutions	$ 160,283	$ 114,464	$ 45,819	$ —	$ 160,283
Securities	264,905	122,266	142,639	—	264,905
Loans receivable, net of allowance for credit losses	923,939	—	—	881,875	881,875
FHLB and FRB stock	7,490	—	—	—	N /A
Accrued interest receivable	6,929	258	1,274	5,397	6,929
Financial liabilities					
Certificates of deposit	228,485	—	227,782	—	227,782
Borrowings	20,000	—	20,085	—	20,085
Subordinated notes	18,726	—	17,290	—	17,290

	Carrying Amount	Fair Value Measurements at December 31, 2023 Using: Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents and time deposits in other financial institutions	$ 207,997	$ 177,169	$ 30,828	$ —	$ 207,997
Securities	153,203	112,508	40,695	—	153,203
Loans receivable, net of allowance for credit losses	1,050,761	—	—	997,897	997,897
FHLB and FRB stock	7,490	—	—	—	N /A
Accrued interest receivable	7,542	475	500	6,567	7,542
Financial liabilities					
Certificates of deposit	222,391	—	220,222	—	220,222
Borrowings	25,000	—	24,960	—	24,960
Subordinated notes	19,678	—	17,698	.	17,698

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.

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

NOTE 8 – REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	**2023**	**2024**	**2023**
Deposit service charges and fees	$ 915	$ 836	$ 2,558	$ 2,482
Loan servicing fees (1)	97	98	350	368
Trust and insurance commissions and annuities income	405	290	1,204	933
Losses on sales of securities (1)	—	—	—	(454)
(Loss) gain on sale of premises and equipment	(20)	—	(104)	9
Valuation adjustment on bank premises held-for-sale (1)	—	—	—	(585)
Loss on bank-owned life insurance (1)	(14)	(88)	(192)	(259)
Gain on repurchase of Subordinated notes (1)	—	—	107	—
Other (1)	99	104	296	298
Total noninterest income	$ 1,482	$ 1,240	$ 4,219	$ 2,792

(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 $308,000 and $332,000 for the three months ended September 30, 2024 and 2023, respectively. Interchange income was $934,000 and $1.0 million for the nine months ended September 30, 2024 and 2023, 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 and are recognized when the services are rendered.

Gains/losses on sales of foreclosed assets and other assets: The Company records a gain or loss from the sale of foreclosed assets and other assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of foreclosed assets to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present. Foreclosed assets sales for the nine months ended September 30, 2024 and 2023 were not financed by the Company.

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. Forward-looking statements may include statements relating to our future plans, strategies and expectations, as well as our future revenues, expenses, 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,” “continue,” “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) the impact of re-pricing and competitors’ pricing initiatives on loan and deposit products; (ii) interest rate movements and their impact on the economy, customer behavior, the market value of securities and our net interest margin; (iii) changes in U.S. Government or State government budgets, appropriations or funding allocation policies or practices affecting our credit exposures to U.S. Government or State governments, agencies or related entities, or borrowers' dependent on the receipt of Federal or State appropriations, including but not limited to, defense, healthcare, transportation, education and law enforcement programs; (iv) less than anticipated loan and lease growth; (v) for any significant credit exposure, borrower-specific adverse developments with respect to the adequacy of cash flows, liquidity or collateral; (vi) the inherent credit risks of lending activities, including risks that could cause changes in the level and direction of loan delinquencies and charge-offs; (vii) adverse economic conditions in general, or specific events such as a pandemic or national or international war, act of conflict 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; (viii) declines in real estate values that adversely impact the value of our loan collateral, other real estate owned ("OREO"), asset dispositions and the level of borrower equity in their investments; (ix) 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 credit losses or adversely change our loan classifications, write-down assets, reduce credit concentrations or maintain specific capital levels; (x) changes, disruptions or illiquidity in national or global financial markets; (xi) monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board; (xii) factors affecting our ability to retain or access deposits or cost-effective funding, including changes in public confidence, withdrawals of deposits not insured by the FDIC or the availability of other borrowing sources for any reason; (xiii) legislative or regulatory changes that have an adverse impact on our products, services, operations and operating expenses; (xiv) higher federal deposit insurance premiums; (xv) higher than expected overhead, infrastructure and compliance costs; (xvi) changes in accounting principles, policies or guidelines; (xvii) the effects of any federal government shutdown or failure to enact legislation related to the maximum permitted amount of U.S. Government debt obligations; and (xviii) 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, 2023, 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 operations 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, 2023, as filed with the SEC.

Overview

We reported net income of $2.0 million, or $0.16 per common share, for the three months ended September 30, 2024. At September 30, 2024, we had total assets of $1.418 billion, total loans of $923.9 million, total deposits of $1.199 billion and stockholders' equity of $159 million.

In the third quarter of 2024, interest income decreased by $769,000 primarily due to declines in commercial loans and lease balances. Interest expense increased by $146,000 due to retail depositors seeking higher-yielding account types. Our tax-equivalent net interest margin decreased to 3.47% from 3.67%.

Noninterest income increased by $206,000, primarily due to increased deposit service charges and fees and trust department income, as well as improved returns on bank-owned life insurance.

Noninterest expense decreased by $1.1 million. Compensation and benefits declined by $502,000 due to a 9% reduction in full time equivalent headcount since the end of the first quarter of 2024 and reduced incentive compensation expense. Office occupancy and information technology expense declined by $407,000 due to adjustments to estimated real estate tax accruals and reduced transaction processing software expense.

Cash & Cash-Equivalent Assets

For the quarter ended September 30, 2024, cash and cash equivalent assets represented 9.8% of total assets, compared to 10.3% of total assets at June 30, 2024.

Investment Securities Portfolio

For the quarter ended September 30, 2024, total investment securities increased by $42.0 million due to $139.0 million in purchases, offset by $98.5 million of maturities and redemptions of U.S. Treasury Notes and U.S. government-sponsored agency securities. The investment securities portfolio had a weighted-average term to maturity of 1.09 years as of September 30, 2024, with an after-tax unrealized loss of $842,000 or 0.5% of Tier 1 capital.

Loan Portfolio

Our loan portfolio declined by $63.8 million in the third quarter of 2024. Multi-family residential loans decreased by $3.2 million (0.6%) due to scheduled loan repayments. Commercial finance balances decreased by $21.8 million (23.5%) primarily due to a planned $18.8 million reduction in balances from principal repayments and line of credit payoffs within the healthcare finance portfolio and lessor finance portfolio for risk management purposes. Equipment finance balances declined by $37.2 million (15.1%) due to scheduled repayments, partially offset by modestly higher originations of corporate equipment finance transactions. The average yield on our loan portfolio decreased to 5.07%.

Loan demand for all commercial credit categories was muted for the first two months of the third quarter of 2024. Towards the end of the quarter, demand for multi-family residential loans and nonresidential real estate loans expected to fund in the fourth quarter of 2024 increased due to lower market interest rates and expanded marketing activities. Demand for new equipment finance transactions remained stagnant while the equipment finance pipeline duration extended further due to delays in delivery and installation for approved equipment finance transactions. Demand for commercial finance transactions and commercial line utilization remained sporadic, as borrowers utilized available liquidity instead of unused credit availability; however, increased marketing to small- and medium-businesses continued to produce modest improvements in new credit facility opportunities compared to previous quarters.

Asset Quality

The ratio of nonperforming assets to total assets increased to 1.71% at September 30, 2024, from 1.54% at June 30, 2024, inclusive of two U.S. Government equipment finance transactions totaling $18.9 million. Excluding these two U.S. Government transactions, our ratio of nonperforming assets to total assets would have been 0.38% at September 30, 2024. The Bank placed a $1.5 million multi-family residential borrower relationship in the Chicago MSA market on nonaccrual status until the pending receivership and sale of the collateral is consummated in the fourth quarter of 2024. Past due trends improved, and nonperforming asset resolution activity continued to accelerate during the third quarter of 2024.

Our allowance for credit losses increased to 0.85% of total loans at September 30, 2024, compared to 0.82% at June 30, 2024.

Deposit Portfolio

Total deposits decreased by $52.9 million (4.2%). Noninterest-bearing demand deposit balances declined by $35.7 million, primarily due to the withdrawal of $20.0 million deposited in connection with the acquisition of a commercial real estate property late in the second quarter of 2024, the liquidation of $4.8 million in cash collateral securing a commercial finance letter of credit drawn by the beneficiary, and typical balance volatility for certain other commercial depositors. Interest-bearing deposit balances (consisting of interest-bearing NOW accounts, money market accounts and savings deposits) declined by $22.1 million primarily due to seasonal expenses such as real estate taxes, college tuition and capital expenditures, with competition from equity markets and non-bank money market mutual funds also being a contributing factor. Certificates of deposits increased by $5.0 million due to retail depositors seeking higher long-term yields in anticipation of lower short-term market yields in the future. The cost of our total retail and commercial deposits increased to 1.94% during the third quarter of 2024 from 1.87% at June 30, 2024. Core deposits represented 81% of total deposits, with noninterest-bearing demand deposits representing 19% of total deposits at September 30, 2024. Total commercial deposits were 20% of total deposits at September 30, 2024 and 22% of total deposits at June 30, 2024. FDIC-insured deposits represented 84.42% of total deposits and collateralized public funds deposits represented 1.92% of total deposits as of September 30, 2024.

Capital Adequacy

The Company's capital position remained strong, with a Tier 1 leverage ratio of 11.11% at September 30, 2024. The book value of the Company's common shares increased to $12.77 at September 30, 2024 from $12.64 at June 30, 2024.

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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.

	September 30, 2024	December 31, 2023	Change
		(In thousands)	
Selected Financial Condition Data:			
Total assets	$ 1,417,660	$ 1,487,384	$ (69,724)
Loans, net	923,939	1,050,761	(126,822)
Securities, at fair value	264,905	153,203	111,702
Deposits	1,199,412	1,261,623	(62,211)
Borrowings	20,000	25,000	(5,000)
Subordinated notes, net of unamortized issuance costs	18,726	19,678	(952)
Equity	159,108	155,383	3,725

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2024	2023	$ Change	% Change	2024	2023	$ Change	% Change
		(In thousands)						
Selected Operating Data:								
Interest income	$ 16,886	$ 16,894	$ (8)	0.0%	$ 51,886	$ 49,232	$ 2,654	5.4%
Interest expense	5,225	3,940	1,285	32.6	15,122	9,835	5,287	53.8
Net interest income	11,661	12,954	(1,293)	(10.0)	36,764	39,397	(2,633)	(6.7)
Provision for (recovery of) credit losses	485	136	349	256.6	375	(4)	379	(9,475.0)
Net interest income after provision for (recovery of) credit losses	11,176	12,818	(1,642)	(12.8)	36,389	39,401	(3,012)	(7.6)
Noninterest income	1,482	1,240	242	19.5	4,219	2,792	1,427	51.1
Noninterest expense	10,084	10,790	(706)	(6.5)	32,985	32,302	683	2.1
Income before income taxes	2,574	3,268	(694)	(21.2)	7,623	9,891	(2,268)	(22.9)
Income tax expense	581	899	(318)	(35.4)	1,786	2,577	(791)	(30.7)
Net income	$ 1,993	$ 2,369	$ (376)	(15.9)%	$ 5,837	$ 7,314	$ (1,477)	(20.2)%

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Selected Financial Ratios and Other Data:				
Performance Ratios:				
Return on assets (ratio of net income to average total assets) (1)	0.56%	0.63%	0.53%	0.64%
Return on equity (ratio of net income to average equity) (1)	5.03	6.16	4.95	6.37
Average equity to average assets	11.08	10.18	10.75	10.00
Net interest rate spread (1) (2)	2.90	3.16	3.03	3.27
Net interest margin (TEB) (1) (3) (4)	3.47	3.57	3.58	3.61
Efficiency ratio (5)	76.73	76.02	80.48	76.56
Noninterest expense to average total assets (1)	2.82	2.86	3.01	2.81
Average interest-earning assets to average interest-bearing liabilities	133.26	136.78	134.53	136.49
Dividends declared per share	$ 0.10	$ 0.10	$ 0.30	$ 0.30
Dividend payout ratio	62.52%	53.16%	64.06%	51.98%

	At September 30, 2024	At December 31, 2023
Asset Quality Ratios:		
Nonperforming assets to total assets (6)	1.71%	1.69%
Nonperforming loans to total loans	2.40	2.11
Allowance for credit losses to nonperforming loans	35.37	37.36
Allowance for credit losses to total loans	0.85	0.79
Capital Ratios:		
Equity to total assets at end of period	11.22%	10.45%
Tier 1 leverage ratio (Bank only)	11.48%	10.85%
Other Data:		
Number of full-service offices	18	18
Employees (full-time equivalents)	198	205

(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) Calculated on a tax-equivalent basis assuming a federal income tax rate of 21% and an average state income tax rate of 9.5%.

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

(6) Nonperforming assets include nonperforming loans and foreclosed assets.

Comparison of Financial Condition at September 30, 2024 and December 31, 2023

Total assets decreased $69.7 million, or 4.7%, to $1.418 billion at September 30, 2024, from $1.487 billion at December 31, 2023. The decrease in total assets was primarily due to decreases in cash and cash equivalents and loans receivable, partially offset by an increase in securities. Cash and cash equivalents decreased $40.2 million to $138.3 million at September 30, 2024, from $178.5 million at December 31, 2023, while loans receivable decreased $126.8 million to $923.9 million. Securities increased $111.7 million to $264.9 million at September 30, 2024.

Our loan portfolio consists primarily of investment and business loans (multi-family, nonresidential real estate, and commercial loans and leases), which together totaled 98.1% of gross loans at September 30, 2024. During the nine months ended September 30, 2024, commercial loans and leases decreased by $113.1 million, or 28.8%, and nonresidential real estate loans decreased by $8.2 million, or 7.0%. The decrease in commercial loans and leases was primarily due to decreases in government and corporate leases of $47.5 million and $28.5 million, respectively, due to scheduled payments and payoffs. The decrease in nonresidential real estate loans was due to $11.0 million of payments and payoffs in the first nine months of 2024.

Our primary lending area for regulatory purposes consists of the counties in the State of Illinois where our branch offices are located, and contiguous counties. We currently derive the most significant portion of our revenues from these geographic areas. We also engage in multi-family residential real estate lending activities in carefully selected metropolitan areas outside our primary lending area, and we engage in certain types of commercial lending and commercial equipment finance activities on a nationwide basis. At September 30, 2024, $316.2 million, or 60.4%, of our multi-family residential real estate loans were in the Metropolitan Statistical Area for Chicago, Illinois; $70.7 million, or 13.5%, were in Florida; $68.0 million, or 13.0%, were in Texas; and $26.3 million, or 5.0%, were in North Carolina. This information reflects the location of the collateral for the loan and does not necessarily reflect the location of the borrowers. At September 30, 2024, our concentrations within the nonresidential real estate portfolio were retail shopping malls of $46.5 million, or 42.4%; office buildings of $17.2 million, or 15.6%; mixed use buildings of $13.4 million, or 12.2%; and industrial buildings of $10.4 million, or 9.4%. We experienced no material adverse developments in the portfolio related to hurricane activity affecting these geographic markets.

Total liabilities decreased $73.4 million, or 5.5%, to $1.259 billion at September 30, 2024, from $1.332 billion at December 31, 2023, due to a decrease in total deposits, a $1.0 million repurchase of our Notes, and decreases in accrued interest payable and other liabilities. Total deposits decreased $62.2 million, or 4.9%, to $1.199 billion at September 30, 2024, from $1.262 billion at December 31, 2023. Money market accounts increased $9.6 million, or 3.2%, to $306.7 million at September 30, 2024, from $297.1 million at December 31, 2023. Retail certificates of deposit also increased $6.1 million, or 2.7%, to $228.5 million at September 30, 2024, from $222.4 million at December 31, 2023. These increases were offset by decreases in noninterest-bearing demand deposits of $34.0 million, or 13.0%, to $226.9 million at September 30, 2024, from $260.9 million at December 31, 2023 and interest-bearing NOW accounts of $30.0 million, or 9.8%, to $276.6 million at September 30, 2024, from $306.5 million at December 31, 2023. Savings accounts decreased $13.9 million, or 8.0%, to $160.8 million at September 30, 2024, from $174.8 million at December 31, 2023. Core deposits (which consists of savings, money market, noninterest-bearing demand and NOW accounts) represented 81.0% of total deposits at September 30, 2024 and 82.4% of total deposits at December 31, 2023.

Total stockholders' equity was $159.1 million at September 30, 2024, compared to $155.4 million at December 31, 2023. The increase in total stockholders' equity was primarily due to net income of $5.8 million for the nine months ended September 30, 2024 and a $1.8 million decrease, net of tax, of accumulated other comprehensive loss on our securities portfolio, partially offset by our repurchase of 15,203 shares of our common stock during the nine months ended September 30, 2024 at a total cost of $156,000, and our declaration and payment of cash dividends totaling $3.7 million during the same period.

Operating Results for the Three Months Ended September 30, 2024 and 2023

Net Income. Net income was $2.0 million for the three months ended September 30, 2024, compared to $2.4 million for the three months ended September 30, 2023. Earnings per basic and fully diluted share of common stock were $0.16 for the three months ended September 30, 2024, compared to $0.19 for the three months ended September 30, 2023.

Net Interest Income. Net interest income was $11.7 million for the three months ended September 30, 2024, compared to $13.0 million for the three months ended September 30, 2023. The $1.3 million decrease in net interest income was primarily due to a $1.3 million increase in interest expense.

The increase in interest expense was due in substantial part to an increase in the weighted average cost of interest-bearing liabilities. The weighted average cost of interest-bearing liabilities increased 56 basis points to 2.04% for the three months ended September 30, 2024, from 1.48% for the three months ended September 30, 2023. The yield on interest-earning assets increased 30 basis points to 4.94% for the three months ended September 30, 2024, from 4.64% for the three months ended September 30, 2023. Total average interest-earning assets decreased $84.4 million, or 5.8%, to $1.360 billion for the three months ended September 30, 2024, from $1.444 billion for the same period in 2023. Total average interest-bearing liabilities decreased $35.4 million, or 3.4%, to $1.020 billion for the three months ended September 30, 2024, from $1.056 billion for the same period in 2023. The decrease in interest-bearing liabilities is partially attributable to a $33.7 million decrease in average deposits. Our net interest rate spread decreased by 26 basis points to 2.90% for the three months ended September 30, 2024, from 3.16% for the same period in 2023, primarily due to an increase in the cost of deposits. Our net interest margin, on a tax equivalent basis, decreased ten basis points to 3.47% for the three months ended September 30, 2024, from 3.57% for the same period in 2023.

Average Balance Sheets

The following table sets forth average balance sheets, average yields and costs, and certain other information. Average balances are daily average balances. Nonaccrual loans are included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees and expenses and discounts and premiums that are amortized or accreted to interest income or expense; however, the Company believes that the effect of these inclusions is not material. The net interest margin is reported on a tax equivalent basis ("TEB"). A tax equivalent adjustment is added to reflect interest earned on certain securities that are exempt from federal and state income tax.

	For the Three Months Ended September 30,					
	2024			2023		
	Average Outstanding Balance	Interest	Yield/Rate (1)	Average Outstanding Balance	Interest	Yield/Rate (1)
	(Dollars in thousands)					
Interest-earning Assets:						
Loans	$ 964,827	$ 12,300	5.07%	$ 1,141,788	$ 14,276	4.96%
Securities	252,735	2,619	4.12	167,046	764	1.81
Stock in FHLB and FRB	7,490	118	6.27	7,490	114	6.04
Other	134,781	1,849	5.46	127,935	1,740	5.40
Total interest-earning assets	1,359,833	16,886	4.94	1,444,259	16,894	4.64
Noninterest-earning assets	71,098			67,163		
Total assets	$ 1,430,931			$ 1,511,422		
Interest-bearing Liabilities:						
Savings deposits	$ 164,233	74	0.18	$ 183,632	82	0.18
Money market accounts	311,228	2,119	2.71	277,087	1,272	1.82
NOW accounts	277,728	556	0.80	333,275	582	0.69
Certificates of deposit	224,340	2,026	3.59	217,218	1,534	2.80
Total deposits	977,529	4,775	1.94	1,011,212	3,470	1.36
Borrowings and Subordinated notes	42,905	450	4.17	44,662	470	4.18
Total interest-bearing liabilities	1,020,434	5,225	2.04	1,055,874	3,940	1.48
Noninterest-bearing deposits	230,492			272,266		
Noninterest-bearing liabilities	21,465			29,486		
Total liabilities	1,272,391			1,357,626		
Equity	158,540			153,796		
Total liabilities and equity	$ 1,430,931			$ 1,511,422		
Net interest income/Net interest margin (2)		$ 11,661	3.41%		$ 12,954	3.56%
Tax equivalent adjustment (3)		210	0.06		58	0.01
Net interest income (TEB) / Net interest margin (TEB) (2) (3)		$ 11,871	3.47%		$ 13,012	3.57%
Net interest rate spread (4)			2.90%			3.16%
Net interest-earning assets (5)	$ 339,399			$ 388,385		
Ratio of interest-earning assets to interest-bearing liabilities	133.26%			136.78%		

(1) Annualized.
(2) Net interest margin represents net interest income divided by average total interest-earning assets.
(3) Calculated on a tax-equivalent basis ("TEB") assuming a federal income tax rate of 21% and an average state income tax rate of 9.5%.
(4) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
(5) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.

Allowance and Provision for Credit Losses

The ACL is a significant estimate in our unaudited consolidated financial statements, affecting both earnings and capital. The methodology adopted influences, and is influenced by, the Bank's overall credit risk management processes. The ACL is recorded in accordance with US GAAP to provide an adequate reserve for expected credit losses that is reflective of management's best estimate of what is expected to be collected. All estimates of credit losses should be based on careful consideration of all significant factors affecting the collectability as of the evaluation date. The ACL is established through the provision for credit loss expense charged to income.

The provision for credit losses – loans for the three months ended September 30, 2024 and 2023 was $472,000 and $180,000, respectively. The provision for, or recovery of, credit losses – loans varies based on, among other things, forecasted unemployment rates, loan growth, net charge-offs, collateral values associated with collateral dependent loans and qualitative factors.

There were no reserves established for loans individually evaluated at September 30, 2024 or December 31, 2023. Net charge-offs were $715,000 for the three months ended September 30, 2024, compared to $847,000 for the three months ended September 30, 2023.

The allowance for credit losses as a percentage of nonperforming loans was 35.37% at September 30, 2024, compared to 39.12% at June 30, 2024. Excluding the effect of the two U.S. Government financing transactions, totaling $18.9 million, on nonaccrual status as of September 30, 2024, the allowance for credit losses as a percentage of nonperforming loans would have been 229.49% at September 30, 2024.

Noninterest Income

	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Change
	(Dollars in thousands)		
Deposit service charges and fees	$ 915	$ 836	$ 79
Loan servicing fees	97	98	(1)
Trust and insurance commissions and annuities income	405	290	115
Loss on sale of premises and equipment	(20)	—	(20)
Loss on bank-owned life insurance	(14)	(88)	74
Other	99	104	(5)
Total noninterest income	$ 1,482	$ 1,240	$ 242

Noninterest income increased $242,000, or 19.5%, to $1.5 million, for the three months ended September 30, 2024, compared to $1.2 million for the same period in 2023. Trust and insurance commissions increased $115,000, or 39.7%, to $405,000 for the three months ended September 30, 2024,compared to $290,000 for the three months ended September 30, 2023. Loss on bank-owned life insurance decreased $74,000 to $14,000 for the three months ended September 30, 2024,compared to $88,000 for the three months ended September 30, 2023.

Noninterest Expense

	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Change
	(Dollars in thousands)		
Compensation and benefits	$ 5,441	$ 5,369	$ 72
Office occupancy and equipment	1,532	2,046	(514)
Advertising and public relations	117	171	(54)
Information technology	971	944	27
Professional fees	299	366	(67)
Supplies, telephone and postage	281	311	(30)
FDIC insurance premiums	156	222	(66)
Other	1,287	1,361	(74)
Total noninterest expense	$ 10,084	$ 10,790	$ (706)

Noninterest expense decreased $706,000, or 6.5%, to $10.1 million, for the three months ended September 30, 2024, compared to $10.8 million for the same period in 2023, primarily due to decreases in expenses for office occupancy and equipment, advertising, professional fees, FDIC insurance premiums, and other expenses. These decreases were partially offset by increases in compensation and benefits expense and information technology expense. Office occupancy and equipment decreased $514,000, or 25.1%, for the three months ended September 30, 2024, primarily due to decreases in real estate taxes and rent expense. Advertising expenses decreased $54,000, or 31.6%, to $117,000 for the three months ended September 30, 2024. FDIC insurance premiums decreased $66,000, or 29.7%, to $156,000 for the three months ended September 30, 2024 due to a decrease in the assessment rate as well as a decrease in the assessment base.

Income Taxes

We recorded income tax expense of $581,000 for the three months ended September 30, 2024, compared to $899,000 for the three months ended September 30, 2023. Our combined state and federal effective tax rate for the three months ended September 30, 2024 was 22.6%, compared to 27.5% for the three months ended September 30, 2023. The tax rate for 2024 was favorably impacted by the tax benefit of interest earned on U.S. Treasury Notes and U.S. government-sponsored agency securities.

Operating Results for the Nine Months Ended September 30, 2024 and 2023

Net Income. Net income was $5.8 million for the nine months ended September 30, 2024, compared to $7.3 million for the nine months ended September 30, 2023. Earnings per basic and fully diluted share of common stock were $0.47 for the nine months ended September 30, 2024, compared to $0.58 for the nine months ended September 30, 2023.

Net Interest Income. Net interest income was $36.8 million for the nine months ended September 30, 2024, compared to $39.4 million for the nine months ended September 30, 2023. The $2.6 million decrease in net interest income was primarily due to a $5.3 million increase in interest expense, offset partially by the $2.7 million increase in interest income.

The increase in interest expense was due in substantial part to an increase in the weighted average cost of interest-bearing liabilities. The weighted average cost of interest-bearing liabilities increased 73 basis points to 1.95% for the nine months ended September 30, 2024, from 1.22% for the nine months ended September 30, 2023. The yield on interest-earning assets increased 49 basis points to 4.98% for the nine months ended September 30, 2024, from 4.49% for the nine months ended September 30, 2023. Total average interest-earning assets decreased $74.5 million, or 5.1%, to $1.391 billion for the nine months ended September 30, 2024, from $1.466 billion for the same period in 2023. Total average interest-bearing liabilities decreased $39.7 million, or 3.7%, to $1.034 billion for the nine months ended September 30, 2024, from $1.074 billion for the same period in 2023. The decrease in interest-bearing liabilities is attributable to a $42.3 million decrease in average deposits, partially offset by the increase in FHLB advances in 2023. Our net interest rate spread decreased by 24 basis points to 3.03% for the nine months ended September 30, 2024, from 3.27% for the same period in 2023, primarily due to an increase in the cost of deposits. Our net interest margin, on a tax equivalent basis, decreased three basis points to 3.58% for the nine months ended September 30, 2024 from 3.61% for the nine months ended September 30, 2023.

Average Balance Sheets

The following table sets forth average balance sheets, average yields and costs, and certain other information. Average balances are daily average balances. Nonaccrual loans are included in the computation of average balances but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees and expenses and discounts and premiums that are amortized or accreted to interest income or expense; however, the Company believes that the effect of these inclusions is not material. The net interest margin is reported on a tax equivalent basis. A tax equivalent adjustment is added to reflect interest earned on certain securities that are exempt from federal and state income tax.

	For the Nine Months Ended September 30,					
	2024			2023		
	Average Outstanding Balance	Interest	Yield/Rate (1)	Average Outstanding Balance	Interest	Yield/Rate (1)
	(Dollars in thousands)					
Interest-earning Assets:						
Loans	$ 1,001,825	$ 39,002	5.20%	$ 1,190,893	$ 43,014	4.83%
Securities	227,465	6,172	3.62	183,266	2,669	1.95
Stock in FHLB and FRB	7,490	352	6.28	7,490	306	5.46
Other	154,447	6,360	5.50	84,127	3,243	5.15
Total interest-earning assets	1,391,227	51,886	4.98	1,465,776	49,232	4.49
Noninterest-earning assets	70,363			64,456		
Total assets	$ 1,461,590			$ 1,530,232		
Interest-bearing Liabilities:						
Savings deposits	$ 169,002	226	0.18	$ 194,123	259	0.18
Money market accounts	310,124	6,023	2.59	278,898	3,016	1.45
NOW accounts	288,247	1,707	0.79	357,035	1,881	0.70
Certificates of deposit	223,024	5,779	3.46	202,594	3,375	2.23
Total deposits	990,397	13,735	1.85	1,032,650	8,531	1.10
Borrowings and Subordinated notes	43,745	1,387	4.24	41,241	1,304	4.23
Total interest-bearing liabilities	1,034,142	15,122	1.95	1,073,891	9,835	1.22
Noninterest-bearing deposits	245,820			276,080		
Noninterest-bearing liabilities	24,473			27,279		
Total liabilities	1,304,435			1,377,250		
Equity	157,155			152,982		
Total liabilities and equity	$ 1,461,590			$ 1,530,232		
Net interest income/Net interest margin (2)		$ 36,764	3.53%		$ 39,397	3.59%
Tax equivalent adjustment (3)		494	0.05		205	0.02
Net interest income (TEB) / Net interest margin (TEB) (2) (3)		$ 37,258	3.58%		$ 39,602	3.61%
Net interest rate spread (4)			3.03%			3.27%
Net interest-earning assets (5)	$ 357,085			$ 391,885		
Ratio of interest-earning assets to interest-bearing liabilities	134.53%			136.49%		

(1) Annualized.
(2) Net interest margin represents net interest income divided by average total interest-earning assets.
(3) Calculated on a tax-equivalent basis ("TEB") assuming a federal income tax rate of 21% and an average state income tax rate of 9.5%.
(4) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
(5) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.

Allowance and Provision for Credit Losses

The provision for credit losses – loans for the nine months ended September 30, 2024 and 2023 was $435,000 and $85,000, respectively. The provision for, or recovery of, credit losses – loans varies based on, among other things, forecasted unemployment rates, loan growth, net charge-offs, collateral values associated with collateral dependent loans and qualitative factors.

There were no reserves established for loans individually evaluated at September 30, 2024 or December 31, 2023. Net charge-offs were $881,000 for the nine months ended September 30, 2024, compared to $1.6 million for the nine months ended September 30, 2023.

The allowance for credit losses as a percentage of nonperforming loans was 35.37% at September 30, 2024, compared to 37.36% at December 31, 2023.

Noninterest Income

	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023	Change
	(Dollars in thousands)		
Deposit service charges and fees	$ 2,558	$ 2,482	$ 76
Loan servicing fees	350	368	(18)
Trust and insurance commissions and annuities income	1,204	933	271
Losses on sales of securities	—	(454)	454
(Loss) gain on sale of premises and equipment	(104)	9	(113)
Valuation adjustment on bank premises held-for-sale	—	(585)	585
Loss on bank-owned life insurance	(192)	(259)	67
Gain on repurchase of Subordinated notes	107	—	107
Other	296	298	(2)
Total noninterest income	$ 4,219	$ 2,792	$ 1,427

Noninterest income increased $1.4 million to $4.2 million, for the nine months ended September 30, 2024, compared to $2.8 million for the same period in 2023. Trust and insurance commissions increased $271,000, or 29.0%, to $1.2 million for the nine months ended September 30, 2024, compared to $933,000 for the nine months ended September 30, 2023. 2023 results include the sales of investment securities at a loss of $454,000 and a $585,000 valuation adjustment on two of our retail branches transferred to premises held-for sale. In March 2024, we repurchased $1.0 million of our Notes and recorded a $107,000 gain on repurchase.

Noninterest Expense

	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023	Change
	(Dollars in thousands)		
Compensation and benefits	$ 17,436	$ 16,553	$ 883
Office occupancy and equipment	5,634	6,115	(481)
Advertising and public relations	319	623	(304)
Information technology	3,022	2,758	264
Professional fees	1,135	1,038	97
Supplies, telephone and postage	859	965	(106)
FDIC insurance premiums	461	658	(197)
Other	4,119	3,592	527
Total noninterest expense	$ 32,985	$ 32,302	$ 683

Noninterest expense increased $683,000, or 2.1%, to $33.0 million, for the nine months ended September 30, 2024, compared to $32.3 million for the same period in 2023, primarily due to increases in expenses for compensation and benefits, information technology, and other expenses. Compensation and benefits expense increased $883,000, or 5.3% to $17.4 million, for the nine months ended September 30, 2024, compared to $16.6 million for the same period in 2023, due in part to increased payroll costs and benefit costs, in addition to decreased loan originations resulting in lower compensation costs being recorded as deferred loan origination costs for the nine months ended September 30, 2024. Information technology expenses increased $264,000, or 9.6%, for the nine months ended September 30, 2024, primarily due to increased core banking contract renewal costs, the implementation of new Treasury Services software, and hardware upgrade consulting costs. FDIC insurance premiums decreased $197,000, or 29.9%, to $461,000 for the nine months ended September 30, 2024 due to a decrease in the assessment rate as well as a decrease in the assessment base. Other expense increased $527,000, or 14.7%, to $4.1 million for the nine months ended September 30, 2024, compared to $3.6 million for the same period in 2023. Year to date 2024, we recorded $407,000 of increased legal fees and other expenses related to nonperforming loans and $225,000 for the final resolution of pending litigation and inter-creditor tax liability related to a middle market equipment finance transaction, as well as recording losses totaling $227,000 on sales of foreclosed assets.

Income Taxes

We recorded income tax expense of $1.8 million for the nine months ended September 30, 2024, compared to $2.6 million for the nine months ended September 30, 2023. Our combined state and federal effective tax rate for the nine months ended September 30, 2024 was 23.4%, compared to 26.1% for the nine months ended September 30, 2023. The tax rate for 2024 was favorably impacted by the tax benefit of interest earned on U.S. Treasury Notes and U.S. government-sponsored agency securities.

Criticized and Classified Assets

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 as to credit risk. Risk ratings are updated any time the situation warrants. The following table sets forth the criticized and classified loans:

	September 30, 2024	June 30, 2024	December 31, 2023	Quarter Change	Nine-Month Change
			(Dollars in thousands)		
Criticized - Special Mention:					
Multi-family residential real estate	$ —	$ —	$ 1,333	$ —	$ (1,333)
Nonresidential real estate	430	433	—	(3)	430
Commercial loans and leases:					
Asset-based and factored receivables	5,298	11,360	10,587	(6,062)	(5,289)
Consumer	3	3	5	—	(2)
	$ 5,731	$ 11,796	$ 11,925	$ (6,065)	$ (6,194)
Classified - Performing Substandard:					
One-to-four family residential real estate	$ 164	$ 167	$ 272	$ (3)	$ (108)
Multi-family residential real estate	686	1,421	—	(735)	686
Nonresidential real estate	449	457	—	(8)	449
Commercial loans and leases:					
Asset-based and factored receivables	4,568	2,933	3,368	1,635	1,200
Equipment finance:					
Government	34	34	—	—	34
Corporate - Other	85	112	688	(27)	(603)
Small ticket	13	75	—	(62)	13
Consumer	3	3	3	—	—
	$ 6,002	$ 5,202	$ 4,331	$ 800	$ 1,671

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 September 30, 2024, we have no loans in this category.

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

	September 30, 2024	June 30, 2024	December 31, 2023	Quarter Change	Nine-Month Change
			(Dollars in thousands)		
Nonaccrual loans:					
One-to-four family residential real estate	$ 34	$ 39	$ 37	$ (5)	$ (3)
Multi-family residential real estate	1,458	—	—	1,458	1,458
Nonresidential real estate	393	380	—	13	393
Commercial loans and leases - Equipment finance:					
Government	19,225	18,889	18,956	336	269
Corporate - Investment-rated	—	—	52	—	(52)
Corporate - Other	882	947	1,579	(65)	(697)
Middle market	—	—	472	—	(472)
Small ticket	339	559	235	(220)	104
	22,331	20,814	21,331	1,517	1,000
Loans past due over 90 days, still accruing	—	—	1,007	—	(1,007)
Other real estate owned	—	—	405	—	(405)
Other foreclosed assets	1,966	1,898	2,372	68	(406)
Total nonperforming assets	$ 24,297	$ 22,712	$ 25,115	$ 1,585	$ (818)
Ratios:					
Allowance for credit losses to total loans	0.85%	0.82%	0.79%		
Allowance for credit losses to nonperforming loans	35.37	39.12	37.36		
Nonperforming loans to total loans	2.40	2.09	2.11		
Nonperforming assets to total assets	1.71	1.54	1.69		
Nonaccrual loans to total loans	2.40	2.09	2.01		
Nonaccrual loans to total assets	1.58	1.41	1.43		

Nonperforming Assets

Nonperforming assets increased $1.6 million during the third quarter, to $24.3 million at September 30, 2024, compared to $22.7 million at June 30, 2024, and $25.1 million at December 31, 2023. The increase was primarily due to a $1.5 million multi-family residential borrower relationship in the Chicago MSA market that we placed on nonaccrual status pending the expected sale of the collateral in the fourth quarter 2024. The Company's ratio of nonperforming assets to total assets was 1.71% as of September 30, 2024 compared to 1.69% as of December 31, 2023.

In 2023, we classified two U.S. Government equipment finance exposures totaling $18.9 million as nonperforming assets. Given the unexpected conduct by the U.S. Government in these two transactions and information we learned about similar activity encountered by other participants in the market, we discontinued originations of U.S. Government equipment finance transactions in early 2023 pending the outcome of our claims. With respect to these two U.S. Government equipment finance transactions, we submitted Contract Disputes Act claims to the U.S. Government in March 2024 for the $10.5 million transaction and in August 2024 for the $8.4 million transaction. As of September 30, 2024, both claims remain under review by the respective government entities.

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 $20.0 million of FHLB advances outstanding at September 30, 2024 and $25.0 million at December 31, 2023.

The Company is a separate legal entity from BankFinancial, NA. The Company must provide for its own liquidity to pay any dividends to its stockholders and to repurchase shares of its common stock, and for other corporate purposes. The Company's primary source of liquidity is dividend payments it receives from the Bank. The Bank's ability to pay dividends to the Company is subject to regulatory limitations. The Company completed the issuance of $20.0 million of subordinated notes in 2021, at a rate of 3.75% maturing on May 15, 2031. In March 2024, the Company repurchased $1.0 million of these subordinated notes and recorded a gain of $107,000. At September 30, 2024, the Company (on an unconsolidated, stand-alone basis) had liquid assets of $12.8 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 0.50%. The line of credit has been extended since its original maturity date and the current maturity date is March 28, 2025. The line of credit had no outstanding balance at September 30, 2024.

As of September 30, 2024, 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 September 30, 2024, 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 regulation, 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 net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

The federal banking agencies have 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 January 1, 2022, banking organizations that had a leverage ratio of 9% or greater and met certain other criteria could elect to use the Community Bank Leverage Ratio framework. A financial institution can elect to be subject to this new definition, and opt-out of this new definition, at any time. As a qualifying community bank, we elected to be subject to this definition beginning in the second quarter of 2020. As of September 30, 2024, the Bank's Community Bank Leverage Ratio was 11.48%.

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

The Company and the Bank have each adopted Regulatory Capital Policies that target a Tier 1 leverage ratio of at least 7.5% and a total risk-based capital ratio of at least 10.5% at the Bank. The minimum capital ratios set forth in the Regulatory Capital Policies will be increased and other minimum capital requirements will be established if and as necessary. In accordance with the Regulatory Capital Policies, the Bank will not pursue any acquisition or growth opportunity, declare any dividend or conduct any stock repurchase that would cause the Bank's total risk-based capital ratio and/or its Tier 1 leverage ratio to fall below the targeted minimum capital levels or the capital levels required for capital adequacy plus the capital conservation buffer (“CCB”). The minimum CCB is 2.5%. As of September 30, 2024 the Bank was well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events that management believes have changed the Bank’s prompt corrective action capitalization category.

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

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

	Actual		Required for Capital Adequacy Purposes	
	Amount	**Ratio**	**Amount**	**Ratio**
	(Dollars in thousands)			
September 30, 2024				
Community Bank Leverage Ratio	$ 163,355	11.48%	$ 128,084	9.00%
December 31, 2023				
Community Bank Leverage Ratio	$ 161,037	10.85%	$ 133,577	9.00%

Quarterly Cash Dividends. The Company declared cash dividends of $0.30 per share for each of the nine months ended September 30, 2024 and September 30, 2023.

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 residential real estate 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 September 30, 2024, 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	$ (27,241)	(14.27)%	$ (1,366)	(2.85)%
+300	(11,232)	(5.88)	(804)	(1.68)
+200	(3,020)	(1.58)	(386)	(0.80)
+100	772	0.40	(101)	(0.21)
-100	(7,605)	(3.98)	639	1.33
-200	(16,637)	(8.72)	727	1.51
-300	(25,651)	(13.44)	160	0.33
-400	(24,579)	(12.88)	(580)	(1.21)

The table set forth above indicates that at September 30, 2024, in the event of an immediate 200 basis point decrease in interest rates, the Bank would be expected to experience a 8.72% decrease in NPV and a $727,000 increase 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 1.58% decrease in NPV and a $386,000 decrease 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 September 30, 2024. 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 September 30, 2024, 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, USE OF PROCEEDS, AND ISSUER PURCHASES OF EQUITY SECURITIES

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

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

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

There we no purchases of our common stock made by, or on behalf of us, during the third quarter of 2024.

As of September 30, 2024, the Company had repurchased 8,085,578 shares of its common stock out of the 8,267,771 shares of common stock authorized under the current share repurchase authorization, which will expire on December 15, 2024. Pursuant to the current share repurchase authorization, there were 182,193 shares of common stock authorized for repurchase as of September 30, 2024.

ITEM 3. DEFAULT UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

During the three months ended September 30, 2024, no directors or executive officers of the Company adopted or terminated any contract, instruction or written plan for the purchase or sale of the Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) and/or any “Rule 10b5-1 trading arrangement.”

ITEM 6. EXHIBITS

Exhibit Number	Exhibit 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 September 30, 2024, formatted in Inline Extensive Business Reporting Language (iXBRL): (i) consolidated statements of financial condition, (ii) consolidated statements of operations, (iii) consolidated statements of comprehensive income, (iv) consolidated statements of changes in stockholders' equity, (v) consolidated statements of cash flows and (vi) the notes to consolidated financial statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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

SIGNATURES

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

BANKFINANCIAL CORPORATION

Dated: November 5, 2024

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

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: November 5, 2024

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: November 5, 2024

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 September 30, 2024 (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: November 5, 2024

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.