

BankFinancial CORP  
Form 10-Q  
May 04, 2015

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

FORM 10-Q

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

For the Quarterly Period ended March 31, 2015

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  
(State or Other Jurisdiction  
of Incorporation)

75-3199276  
(I.R.S. Employer  
Identification No.)

15W060 North Frontage Road, Burr Ridge, Illinois 60527

(Address of Principal Executive Offices)

Registrant's telephone number, including area code: (800) 894-6900

Not Applicable

(Former name or former address, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

Indicate the number of shares outstanding of each of the Issuer's classes of common stock as of the latest practicable date. At April 30, 2015, there were 21,101,966 shares of Common Stock, \$0.01 par value, outstanding.



BANKFINANCIAL CORPORATION

Form 10-Q

March 31, 2015

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

	March 31, 2015	December 31, 2014
<b>Assets</b>		
Cash and due from other financial institutions	\$10,211	\$9,693
Interest-bearing deposits in other financial institutions	56,043	49,888
Cash and cash equivalents	66,254	59,581
Securities, at fair value	114,039	121,174
Loans receivable, net of allowance for loan losses: March 31, 2015, \$11,576 and December 31, 2014, \$11,990	1,153,638	1,172,356
Other real estate owned, net	6,316	6,358
Stock in Federal Home Loan Bank, at cost	6,257	6,257
Premises and equipment, net	33,943	34,286
Accrued interest receivable	3,829	3,926
Core deposit intangible	1,713	1,855
Bank owned life insurance	22,242	22,193
Deferred Taxes	30,437	31,643
Other assets	4,701	5,781
<b>Total assets</b>	<b>\$1,443,369</b>	<b>\$1,465,410</b>
<b>Liabilities</b>		
<b>Deposits</b>		
Noninterest-bearing	\$131,072	\$134,129
Interest-bearing	1,071,692	1,077,584
<b>Total deposits</b>	<b>1,202,764</b>	<b>1,211,713</b>
<b>Borrowings</b>	<b>3,217</b>	<b>12,921</b>
Advance payments by borrowers for taxes and insurance	8,411	11,489
Accrued interest payable and other liabilities	11,431	13,166
<b>Total liabilities</b>	<b>1,225,823</b>	<b>1,249,289</b>
<b>Stockholders' equity</b>		
Preferred Stock, \$0.01 par value, 25,000,000 shares authorized, none issued or outstanding	—	—
Common Stock, \$0.01 par value, 100,000,000 shares authorized; 21,101,966 shares issued at March 31, 2015 and December 31, 2014	211	211
Additional paid-in capital	193,939	193,845
Retained earnings	32,726	31,584
Unearned Employee Stock Ownership Plan shares	(10,035	) (10,276 )
Accumulated other comprehensive income	705	757
<b>Total stockholders' equity</b>	<b>217,546</b>	<b>216,121</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$1,443,369</b>	<b>\$1,465,410</b>

See accompanying notes to the consolidated financial statements.



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

	Three Months Ended March 31,		
	2015	2014	
Interest and dividend income			
Loans, including fees	\$ 11,823	\$ 11,699	
Securities	327	296	
Other	61	91	
Total interest income	12,211	12,086	
Interest expense			
Deposits	684	810	
Borrowings	2	2	
Total interest expense	686	812	
Net interest income	11,525	11,274	
Provision for (recovery of) loan losses	(724	) 476	
Net interest income after provision for (recovery of) loan losses	12,249	10,798	
Noninterest income			
Deposit service charges and fees	455	439	
Other fee income	535	521	
Insurance commissions and annuities income	63	87	
Gain on sale of loans, net	27	24	
Loss on sale of securities (includes \$7 accumulated other comprehensive income reclassifications for unrealized net losses on available for sale securities for the three months ended March 31, 2014)	—	(7	)
Gain on disposition of premises and equipment, net	—	2	
Loan servicing fees	90	104	
Amortization and impairment of servicing assets	(25	) (36	)
Earnings on bank owned life insurance	49	64	
Trust	174	164	
Other	168	170	
	1,536	1,532	
Noninterest expense			
Compensation and benefits	5,581	5,958	
Office occupancy and equipment	1,695	1,914	
Advertising and public relations	341	162	
Information technology	639	639	
Supplies, telephone, and postage	411	391	
Amortization of intangibles	142	149	
Nonperforming asset management	91	104	
Operations of other real estate owned	354	257	
FDIC insurance premiums	235	479	
Other	1,024	1,318	
	10,513	11,371	
Income before income taxes	3,272	959	
Income tax expense	1,286	17	
Net income	\$ 1,986	\$ 942	

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Basic earnings per common share	\$0.10	\$0.05
Diluted earnings per common share	\$0.10	\$0.05
Weighted average common shares outstanding	20,259,796	20,098,655
Diluted weighted average common shares outstanding	20,265,684	20,110,700

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended March 31,	
	2015	2014
Net income	\$ 1,986	\$ 942
Unrealized holding gain (loss) arising during the period	(82	) 30
Tax effect	30	—
Unrealized holding gain (loss) arising during the period, net of tax	(52	) 30
Reclassification adjustment for losses included in net income	—	7
Other comprehensive income (loss)	(52	) 37
Comprehensive income	\$ 1,934	\$ 979

See accompanying notes to the consolidated financial statements.



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## BANKFINANCIAL CORPORATION

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands, except per share data) - Unaudited

	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Unearned Employee Stock Ownership Plan Shares	Accumulated Other Comprehen-sive Income	Total
Balance at January 1, 2014	\$211	\$193,594	\$(7,342 )	\$(11,255 )	\$ 419	\$175,627
Net income	—	—	942	—	—	942
Other comprehensive income, net of tax	—	—	—	—	37	37
Nonvested stock awards-stock-based compensation expense	—	17	—	—	—	17
ESOP shares earned	—	(1 )	—	242	—	241
Balance at March 31, 2014	\$211	\$193,610	\$(6,400 )	\$(11,013 )	\$ 456	\$176,864
Balance at January 1, 2015	\$211	\$193,845	\$31,584	\$(10,276 )	\$ 757	\$216,121
Net income	—	—	1,986	—	—	1,986
Other comprehensive loss, net of tax	—	—	—	—	(52 )	(52 )
Nonvested stock awards-stock-based compensation expense	—	17	—	—	—	17
Cash dividends declared on common stock (\$0.04 per share)	—	—	(844 )	—	—	(844 )
ESOP shares earned	—	77	—	241	—	318
Balance at March 31, 2015	\$211	\$193,939	\$32,726	\$(10,035 )	\$ 705	\$217,546

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended March 31,		
	2015	2014	
Cash flows from operating activities			
Net income	\$1,986	\$942	
Adjustments to reconcile to net income to net cash from operating activities			
Provision for (recovery of) loan losses	(724	) 476	
ESOP shares earned	318	241	
Stock-based compensation expense	17	17	
Depreciation and amortization	926	972	
Amortization of premiums and discounts on securities and loans	(48	) (110	)
Amortization of core deposit intangible	142	149	
Amortization and impairment of servicing assets	25	36	
Net change in net deferred loan origination costs	(120	) (32	)
Net loss (gain) on sale of other real estate owned	(58	) 6	
Net gain on sale of loans	(27	) (24	)
Net loss on sale of securities	—	7	
Net gain on disposition of premises and equipment	—	(2	)
Loans originated for sale	(909	) (519	)
Proceeds from sale of loans	936	543	
Other real estate owned valuation adjustments	213	44	
Net change in:			
Accrued interest receivable	97	205	
Earnings on bank owned life insurance	(49	) (64	)
Other assets	2,444	2,202	
Accrued interest payable and other liabilities	(1,735	) (3,637	)
Net cash from operating activities	3,434	1,452	
Cash flows from investing activities			
Securities			
Proceeds from maturities	14,903	5,402	
Proceeds from principal repayments	1,748	1,898	
Proceeds from sales of securities	—	3,663	
Purchases of securities	(9,615	) (16,013	)
Loans receivable			
Loan participations sold	3,350	—	
Principal payments on loans receivable	109,745	103,592	
Originated for investment	(94,602	) (106,604	)
Proceeds from sale of other real estate owned	476	154	
Purchase of premises and equipment, net	(191	) (125	)
Net cash from (used in) investing activities	25,814	(8,033	)

Continued

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

	Three Months Ended March 31,	
	2015	2014
Cash flows from financing activities		
Net change in deposits	\$(8,949	) \$111
Net change in borrowings	(9,704	) (387
Net change in advance payments by borrowers for taxes and insurance	(3,078	) (2,376
Cash dividends paid on common stock	(844	) —
Net cash used in financing activities	(22,575	) (2,652
Net change in cash and cash equivalents	6,673	(9,233
Beginning cash and cash equivalents	59,581	160,957
Ending cash and cash equivalents	\$66,254	\$151,724
Supplemental disclosures of cash flow information:		
Interest paid	\$695	\$824
Income taxes paid	26	11
Loans transferred to other real estate owned	589	2,568

See accompanying notes to the consolidated financial statements.

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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, F.S.B. (the “Bank”).

**Principles of Consolidation:** The interim unaudited consolidated financial statements include the accounts of and transactions of BankFinancial Corporation, the Bank, and the Bank’s wholly-owned subsidiaries, Financial Assurance Services, Inc. and BF Asset Recovery Corporation (collectively, “the Company”), and reflect all normal and recurring adjustments that are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. All significant intercompany accounts and transactions have been eliminated. The results of operations for the three- month period ended March 31, 2015 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2015.

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

**Use of Estimates:** To prepare financial statements in conformity with GAAP, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ.

**Reclassifications:** Certain reclassifications have been made in the prior period’s financial statements to conform them to the current period’s presentation.

These unaudited consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission.

**Recent Accounting Pronouncements**

In January 2014, the FASB amended existing guidance to clarify when a creditor should derecognize a loan receivable and recognized collateral asset. An in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendment requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. This amendment is effective for interim and annual reporting periods beginning after December 15, 2014. The adoption of this standard did not have a material impact on the Company’s results of operation or financial position.

**FASB ASC 606 -** In May 2014, the FASB issued an update (ASU No. 2014-09, Revenue from Contracts with Customers) creating FASB Topic 606, Revenue from Contracts with Customers. The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Qualitative and quantitative information is required about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The amendments in this update will become effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. We are currently evaluating the impact of adopting the new guidance on the consolidated

financial statements.

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## 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, exclusive of unearned ESOP shares and unvested restricted stock shares. Stock options and restricted stock are regarded as potential common stock and are considered in the diluted earnings per share calculations to the extent that they would have a dilutive effect if converted to common stock.

	Three Months Ended	
	March 31,	
	2015	2014
Net income available to common stockholders	\$1,986	\$942
Average common shares outstanding	21,101,966	21,101,966
Less:		
Unearned ESOP shares	(825,348 )	(977,561 )
Unvested restricted stock shares	(16,822 )	(25,750 )
Weighted average common shares outstanding	20,259,796	20,098,655
Add - Net effect of dilutive stock options and unvested restricted stock	5,888	12,045
Diluted weighted average common shares outstanding	20,265,684	20,110,700
Basic earnings per common share	\$0.10	\$0.05
Diluted earnings per common share	\$0.10	\$0.05

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## BANKFINANCIAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 3 - SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2015				
Certificates of deposit	\$81,640	\$—	\$—	\$81,640
Equity mutual fund	500	14	—	514
Mortgage-backed securities - residential	21,377	1,125	(29	) 22,473
Collateralized mortgage obligations - residential	9,349	46	(11	) 9,384
SBA-guaranteed loan participation certificates	28	—	—	28
	\$112,894	\$1,185	\$(40	) \$114,039
December 31, 2014				
Certificates of deposit	\$86,049	\$—	\$—	\$86,049
Equity mutual fund	500	9	—	509
Mortgage-backed securities - residential	23,433	1,218	(40	) 24,611
Collateralized mortgage obligations - residential	9,936	53	(13	) 9,976
SBA-guaranteed loan participation certificates	29	—	—	29
	\$119,947	\$1,280	\$(53	) \$121,174

Mortgage-backed securities and collateralized mortgage obligations reflected in the preceding table were issued by U.S. government-sponsored entities or agencies, Freddie Mac, Fannie Mae and Ginnie Mae, and are obligations which the government has affirmed its commitment to support. All securities reflected in the preceding table were classified as available-for-sale at March 31, 2015 and December 31, 2014.

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

	March 31, 2015	
	Amortized Cost	Fair Value
Due in one year or less	\$81,640	\$81,640
Equity mutual fund	500	514
Mortgage-backed securities - residential	21,377	22,473
Collateralized mortgage obligations - residential	9,349	9,384
SBA-guaranteed loan participation certificates	28	28
	\$112,894	\$114,039

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## BANKFINANCIAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 3 - SECURITIES (continued)

Sales of securities were as follows:

	Three Months Ended March 31,	
	2015	2014
Proceeds	\$—	\$3,663
Gross gains	—	—
Gross losses	—	7

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

	Less than 12 Months		12 Months or More		Total Fair Value	Unrealized Loss
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss		
March 31, 2015						
Mortgage-backed securities - residential	\$—	\$—	\$1,941	\$(29)	\$1,941	\$(29)
Collateralized mortgage obligations - residential	2,251	(1)	1,712	(10)	3,963	(11)
	\$2,251	\$(1)	\$3,653	\$(39)	\$5,904	\$(40)
December 31, 2014						
Mortgage-backed securities - residential	—	—	2,126	(40)	2,126	(40)
Collateralized mortgage obligations - residential	—	—	1,847	(13)	1,847	(13)
	\$—	\$—	\$3,973	\$(53)	\$3,973	\$(53)

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

Certain residential mortgage-backed securities and certain collateralized mortgage obligations that the Company holds in its investment portfolio were in an unrealized loss position at March 31, 2015, but the unrealized losses were not considered significant under the Company's impairment testing methodology. In addition, the Company does not intend to sell these securities, and it is likely that the Company will not be required to sell these securities before their anticipated recovery occurs.



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## BANKFINANCIAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 4 - LOANS RECEIVABLE

Loans receivable are as follows:

	March 31, 2015	December 31, 2014
One-to-four family residential real estate	\$176,910	\$180,337
Multi-family mortgage	472,432	480,349
Nonresidential real estate	226,461	234,500
Construction and land	1,404	1,885
Commercial loans	64,953	66,882
Commercial leases	219,988	217,143
Consumer	1,747	2,051
	1,163,895	1,183,147
Net deferred loan origination costs	1,319	1,199
Allowance for loan losses	(11,576	) (11,990
Loans, net	\$1,153,638	\$1,172,356

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

	Allowance for loan losses			Loan Balances		
	Individually evaluated for impairment	Collectively evaluated for impairment	Total	Individually evaluated for impairment	Collectively evaluated for impairment	Total
March 31, 2015						
One-to-four family residential real estate	\$8	\$2,127	\$2,135	\$4,142	\$172,768	\$176,910
Multi-family mortgage	214	4,808	5,022	4,217	468,215	472,432
Nonresidential real estate	229	2,513	2,742	7,374	219,087	226,461
Construction and land	—	46	46	—	1,404	1,404
Commercial loans	—	552	552	75	64,878	64,953
Commercial leases	—	1,047	1,047	—	219,988	219,988
Consumer	—	32	32	—	1,747	1,747
	\$451	\$11,125	\$11,576	\$15,808	\$1,148,087	1,163,895
Net deferred loan origination costs						1,319
Allowance for loan losses						(11,576
Loans, net						) \$1,153,638

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## BANKFINANCIAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 4 - LOANS RECEIVABLE (continued)

	Individually evaluated for impairment	Collectively evaluated for impairment	Total	Loan Balances Individually evaluated for impairment	Collectively evaluated for impairment	Total
December 31, 2014						
One-to-four family residential real estate	\$8	\$2,140	\$2,148	\$4,174	\$176,163	\$180,337
Multi-family mortgage	226	4,979	5,205	5,282	475,067	480,349
Nonresidential real estate	236	2,704	2,940	4,690	229,810	234,500
Construction and land	—	80	80	—	1,885	1,885
Commercial loans	—	554	554	76	66,806	66,882
Commercial leases	—	1,009	1,009	—	217,143	217,143
Consumer	—	54	54	—	2,051	2,051
	\$470	\$11,520	\$11,990	\$14,222	\$1,168,925	1,183,147
Net deferred loan origination costs						1,199
Allowance for loan losses						(11,990 )
Loans, net						\$1,172,356

Activity in the allowance for loan losses is as follows:

	Three Months Ended March 31,	
	2015	2014
Beginning balance	\$11,990	\$14,154
Loans charged off:		
One-to-four family residential real estate	(103 )	(56 )
Multi-family mortgage	(19 )	(90 )
Nonresidential real estate	(11 )	(580 )
Commercial loans	(98 )	(22 )
Consumer	(4 )	(6 )
	(235 )	(754 )
Recoveries:		
One-to-four family residential real estate	60	11
Multi-family mortgage	4	14
Nonresidential real estate	16	20
Construction and land	6	250
Commercial loans	457	8
Commercial leases	1	—
Consumer	1	2
	545	305
Net recoveries (charge-offs)	310	(449 )
Provision for (recovery of) loan losses	(724 )	476
Ending balance	\$11,576	\$14,181



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## BANKFINANCIAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 4 - LOANS RECEIVABLE (continued)

## Purchased Impaired Loans

As a result of its acquisition of Downers Grove National Bank, the Company holds purchased loans for which there was evidence of deterioration of credit quality since origination and for which it was probable that all contractually required payments would not be collected as of the date of the acquisition. One loan remains at March 31, 2015 and December 31, 2014, with a recorded investment value of \$52,000.

## Impaired loans

Several of the following disclosures are presented by “recorded investment,” which the FASB defines as “the amount of the investment in a loan, which is not net of a valuation allowance, but which does reflect any direct write-down of the investment.” The following represents the components of recorded investment:

Loan principal balance  
 Less unapplied payments  
 Plus negative unapplied balance  
 Less escrow balance  
 Plus negative escrow balance  
 Plus unamortized net deferred loan costs  
 Less unamortized net deferred loan fees  
 Plus unamortized premium  
 Less unamortized discount  
 Less previous charge-offs  
 Plus recorded accrued interest  
 Less reserve for uncollected interest  
 = Recorded investment

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

					Three months ended March 31, 2015	
	Loan Balance	Recorded Investment	Partial Charge-off	Allowance for Loan Losses Allocated	Average Investment in Impaired Loans	Interest Income Recognized
March 31, 2015						
With no related allowance recorded:						
One-to-four family residential real estate	\$3,222	\$ 2,623	\$ 663	\$ —	\$2,637	\$ 5
One-to-four family residential real estate - non-owner occupied	1,479	1,423	57	—	1,429	13
Multi-family mortgage	1,483	1,395	36	—	1,900	10
Wholesale commercial lending	517	516	—	—	518	9
Nonresidential real estate	3,705	3,618	5	—	2,419	19
Commercial loans - secured	76	75	—	—	75	—
	10,482	9,650	761	—	8,978	56
With an allowance recorded:						
One-to-four family residential real estate - non-owner occupied	115	78	38	8	78	—
Multi-family mortgage	2,881	2,292	641	214	2,212	7
Nonresidential real estate	4,118	3,723	330	229	3,030	14

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Total	7,114	6,093	1,009	451	5,320	21
	\$17,596	\$ 15,743	\$ 1,770	\$ 451	\$14,298	\$ 77

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## BANKFINANCIAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 4 - LOANS RECEIVABLE (continued)

	Loan Balance	Recorded Investment	Partial Charge-off	Allowance for Loan Losses Allocated	Average Investment in Impaired Loans	Interest Income Recognized
December 31, 2014						
With no related allowance recorded:						
One-to-four family residential real estate	\$3,246	\$ 2,656	\$ 649	\$ —	\$ 2,777	\$ 44
One-to-four family residential real estate - non-owner occupied	1,481	1,425	57	—	745	76
Multi-family mortgage	3,174	2,593	481	—	3,419	120
Wholesale commercial lending	519	513	—	—	401	—
Nonresidential real estate	2,118	2,068	6	—	4,175	72
Commercial loans - secured	76	76	—	—	93	3
	10,614	9,331	1,193	—	11,610	315
With an allowance recorded:						
One-to-four family residential real estate - non-owner occupied	115	78	37	8	202	—
Multi-family mortgage	2,713	2,131	624	226	2,343	48
Nonresidential real estate	2,950	2,605	326	236	1,718	67
	5,778	4,814	987	470	4,263	115
Total	\$16,392	\$ 14,145	\$ 2,180	\$ 470	\$ 15,873	\$ 430

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## BANKFINANCIAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 4 - LOANS RECEIVABLE (continued)

## Nonaccrual Loans

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

	Loan Balance	Recorded Investment	Loans Past Due Over 90 Days, Still Accruing
March 31, 2015			
One-to-four family residential real estate	\$3,732	\$3,130	\$—
One-to-four family residential real estate – non owner occupied	783	686	—
Multi-family mortgage	4,117	3,441	—
Nonresidential real estate	6,388	5,931	—
Commercial loans – secured	76	75	—
Commercial loans – unsecured	114	108	—
	\$15,210	\$13,371	\$—
December 31, 2014			
One-to-four family residential real estate	\$4,793	\$4,210	\$—
One-to-four family residential real estate – non owner occupied	291	198	—
Multi-family mortgage	5,638	4,481	—
Nonresidential real estate	4,023	3,245	—
Commercial loans – secured	76	76	—
Consumer	3	3	—
	\$14,824	\$12,213	\$—

Nonaccrual loans and impaired loans are defined differently. Some loans may be included in both categories, and some may only be included in one category. Nonaccrual loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The Company's reserve for uncollected loan interest was \$404,000 and \$464,000 at March 31, 2015 and December 31, 2014, respectively. When a loan is on non-accrual status and the ultimate collectability of the total principal of an impaired loan is in doubt, all payments are applied to principal under the cost recovery method. Alternatively, when a loan is on non-accrual status but there is doubt concerning only the ultimate collectability of interest, contractual interest is credited to interest income only when received, under the cash basis method pursuant to the provisions of FASB ASC 310-10, as applicable. In all cases, the average balances are calculated based on the month-end balances of the financing receivables within the period reported pursuant to the provisions of FASB ASC 310-10, as applicable.

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## 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 at March 31, 2015 by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans Not Past Due	Total
One-to-four family residential real estate	\$1,408	\$257	\$2,708	\$4,373	\$123,934	\$128,307
One-to-four family residential real estate - non-owner occupied	779	—	686	1,465	46,562	48,027
Multi-family mortgage	1,135	18	2,882	4,035	324,244	328,279
Wholesale commercial lending	861	—	—	861	141,071	141,932
Nonresidential real estate	1,895	1,822	2,973	6,690	217,768	224,458
Construction	—	—	—	—	52	52
Land	—	—	—	—	1,328	1,328
Commercial loans:						
Secured	—	—	75	75	13,579	13,654
Unsecured	—	69	39	108	1,425	1,533
Municipal	—	—	—	—	1,921	1,921
Warehouse lines	—	—	—	—	11,184	11,184
Health care	—	—	—	—	25,313	25,313
Aviation	—	—	—	—	1,098	1,098
Other	—	—	—	—	10,420	10,420
Commercial leases:						
Investment rated commercial leases	3,000	—	—	3,000	162,409	165,409
Below investment grade	164	—	—	164	9,385	9,549
Non-rated	464	—	—	464	33,071	33,535
Lease pools	—	—	—	—	12,757	12,757
Consumer	4	10	—	14	1,741	1,755
	\$9,710	\$2,176	\$9,363	\$21,249	\$1,139,262	\$1,160,511



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## BANKFINANCIAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 4 - LOANS RECEIVABLE (continued)

The following tables present the aging of the recorded investment of loans at December 31, 2014 by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans Not Past Due	Total
One-to-four family residential real estate	\$1,415	\$276	\$3,844	\$5,535	\$126,054	\$131,589
One-to-four family residential real estate - non-owner occupied	320	165	198	683	47,350	48,033
Multi-family mortgage	2,314	1,187	3,363	6,864	334,173	341,037
Wholesale commercial lending	—	—	—	—	135,395	135,395
Nonresidential real estate	376	444	3,245	4,065	227,078	231,143
Construction	—	—	—	—	63	63
Land	—	—	—	—	1,814	1,814
Commercial loans:						
Secured	—	—	76	76	11,863	11,939
Unsecured	—	1	—	1	1,884	1,885
Municipal	—	—	—	—	2,243	2,243
Warehouse lines	—	—	—	—	14,362	14,362
Health care	—	—	—	—	24,154	24,154
Aviation	—	—	—	—	1,111	1,111
Other	—	—	—	—	11,339	11,339
Commercial leases:						
Investment rated commercial leases	426	—	—	426	160,830	161,256
Below investment grade	136	—	—	136	11,246	11,382
Non-rated	8	—	—	8	35,672	35,680
Lease pools	—	—	—	—	10,180	10,180
Consumer	18	1	3	22	2,038	2,060
	\$5,013	\$2,074	\$10,729	\$17,816	\$1,158,849	\$1,176,665

## Troubled Debt Restructurings

The Company evaluates loan extensions or modifications in accordance with FASB ASC 310-40 with respect to the classification of the loan as a TDR. In general, if the Company grants a loan extension or modification to a borrower for other than an insignificant period of time that includes a below-market interest rate, principal forgiveness, payment forbearance or other concession intended to minimize the economic loss to the Company, the loan extension or loan modification is classified as a TDR. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal then due and payable, management measures any impairment on the restructured loan in the same manner as for impaired loans as noted above.

The Company had \$3.0 million of TDRs at March 31, 2015 and December 31, 2014, with \$26,000 and \$38,000 in specific valuation reserves allocated to those loans at March 31, 2015 and December 31, 2014, respectively. The Company had no outstanding commitments to borrowers whose loans were classified as TDRs at either date.



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## BANKFINANCIAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 4 - LOANS RECEIVABLE (continued)

The following table presents loans classified as TDRs:

	March 31, 2015	December 31, 2014
One-to-four family residential real estate	\$1,860	\$1,917
Multi-family mortgage	513	510
Troubled debt restructured loans – accrual loans	2,373	2,427
One-to-four family residential real estate	290	230
Multi-family mortgage	340	346
Troubled debt restructured loans – nonaccrual loans	630	576
Total troubled debt restructured loans	\$3,003	\$3,003

During the three months ending March 31, 2015 and 2014, the terms of certain loans were modified and classified as TDRs. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

The following tables present TDR activity:

	Three Months Ended March 31, 2015		2014			
	Number of loans	Pre- Modification outstanding recorded investment	Post- Modification outstanding recorded investment	Number of loans	Pre- Modification outstanding recorded investment	Post- Modification outstanding recorded investment
One-to-four family residential real estate	1	\$ 63	\$ 63	2	\$ 121	\$ 80
		Due to reduction in interest rate	Due to extension of maturity date	Due to permanent reduction in recorded investment	Total	
For the Three Months Ended March 31, 2015						
One-to-four family residential real estate		\$—	\$ 63	\$—	\$ 63	
For the Three Months Ended March 31, 2014						
One-to-four family residential real estate		\$—	\$ 28	\$ 52	\$ 80	

The TDRs described above had no material impact on interest income, resulted in no change to the allowance for loan losses allocated and resulted in no charge-offs for the three months ended March 31, 2015. The TDRs had no material impact on interest income, resulted in no change to the allowance for loan losses allocated and resulted in charge-offs of \$41,000 for the three months ended March 31, 2014.

The following table presents TDRs for which there was a payment default during the three months ending March 31, 2015 and 2014 within twelve months following the modification.

	2015 Number of loans	Recorded investment	2014 Number of loans	Recorded investment
One-to-four family residential real estate	2	\$ 78	—	\$—

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

The TDRs for which there was a payment default resulted in no change to the allowance for loan losses allocated and resulted in no charge-offs during the three months ending March 31, 2015.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - LOANS RECEIVABLE (continued)

There were certain other loan modifications during the three months ending March 31, 2015 and 2014 that did not meet the definition of a TDR. These loans had a total recorded investment of \$1.1 million and \$739,000 at March 31, 2015 and 2014, respectively. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

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

Credit Quality Indicators

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

**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. The loans were placed on nonaccrual status.

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

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## BANKFINANCIAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 4 - LOANS RECEIVABLE (continued)

As of March 31, 2015, based on the most recent analysis performed, the risk categories of loans by class of loans are as follows:

	Pass	Special Mention	Substandard	Nonaccrual	Total
One-to-four family residential real estate	\$ 124,993	\$ 180	\$ 455	\$ 3,031	\$ 128,659
One-to-four family residential real estate - non-owner occupied	46,326	811	423	691	48,251
Multi-family mortgage	320,850	590	5,380	3,454	330,274
Wholesale commercial lending	141,641	—	517	—	142,158
Nonresidential real estate	215,550	—	4,973	5,938	226,461
Construction	51	—	—	—	51
Land	695	—	658	—	1,353
Commercial loans:					
Secured	13,556	—	—	75	13,631
Unsecured	908	—	516	109	1,533
Municipal	1,908	—	—	—	1,908
Warehouse lines	10,385	—	—	—	10,385
Health care	25,277	—	—	—	25,277
Aviation	1,095	—	—	—	1,095
Other	11,124	—	—	—	11,124
Commercial leases:					
Investment rated commercial leases	164,417	—	—	—	164,417
Below investment grade	9,502	—	—	—	9,502
Non-rated	33,344	—	—	—	33,344
Lease pools	12,725	—	—	—	12,725
Consumer	1,746	1	—	—	1,747
Total	\$ 1,136,093	\$ 1,582	\$ 12,922	\$ 13,298	\$ 1,163,895

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## BANKFINANCIAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 4 - LOANS RECEIVABLE (continued)

As of December 31, 2014, based on the most recent analysis performed, the risk categories of loans by class of loans are as follows:

	Pass	Special Mention	Substandard	Nonaccrual	Total
One-to-four family residential real estate	\$126,102	\$615	\$1,046	\$4,228	\$131,991
One-to-four family residential real estate - non-owner occupied	46,253	931	964	198	48,346
Multi-family mortgage	336,557	609	3,430	4,515	345,111
Wholesale commercial lending	134,719	—	519	—	135,238
Nonresidential real estate	223,385	1,170	6,698	3,247	234,500
Construction	60	—	—	—	60
Land	1,212	—	613	—	1,825
Commercial loans:					
Secured	11,863	—	7	76	11,946
Unsecured	1,147	40	698	—	1,885
Municipal	2,213	—	—	—	2,213
Warehouse lines	11,296	—	—	—	11,296
Health care	24,127	—	—	—	24,127
Aviation	1,108	—	—	—	1,108
Other	14,307	—	—	—	14,307
Commercial leases:					
Investment rated commercial leases	160,208	—	—	—	160,208
Below investment grade	11,309	—	—	—	11,309
Non-rated	35,473	—	—	—	35,473
Lease pools	10,153	—	—	—	10,153
Consumer	2,048	—	—	3	2,051
Total	\$1,153,540	\$3,365	\$13,975	\$12,267	\$1,183,147

## NOTE 5 – FAIR VALUE

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

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

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

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

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

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

widely used in the industry to value debt securities 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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BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 5 - FAIR VALUE (continued)

**Loans Held for Sale:** Loans held for sale are carried at the lower of cost or fair value, which is evaluated on a pool-level basis. The fair value of loans held for sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan or other observable market data, such as outstanding commitments from third party investors (Level 2).

**Impaired Loans:** The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available for similar loans and collateral underlying such loans. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted in accordance with the allowance policy.

**Other Real Estate Owned:** Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach with data from comparable properties. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

**Mortgage Servicing Rights:** On a quarterly basis, loan servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. The fair values of mortgage servicing rights are based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income. The Company is able to compare the valuation model inputs and results to widely available published industry data for reasonableness (Level 2).

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## BANKFINANCIAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 5 - FAIR VALUE (continued)

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

	Fair Value Measurements Using			Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
March 31, 2015				
Securities:				
Certificates of deposit	\$—	\$81,640	\$—	\$81,640
Equity mutual fund	514	—	—	514
Mortgage-backed securities – residential	—	22,473	—	22,473
Collateralized mortgage obligations – residential	—	9,384	—	9,384
SBA-guaranteed loan participation certificates	—	28	—	28
	\$514	\$113,525	\$—	\$114,039
December 31, 2014				
Securities:				
Certificates of deposit	\$—	\$86,049	\$—	\$86,049
Equity mutual fund	509	—	—	509
Mortgage-backed securities - residential	—	24,611	—	24,611
Collateralized mortgage obligations – residential	—	9,976	—	9,976
SBA-guaranteed loan participation certificates	—	29	—	29
	\$509	\$120,665	\$—	\$121,174

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## BANKFINANCIAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 5 - FAIR VALUE (continued)

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

	Fair Value Measurement Using			Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
March 31, 2015				
Impaired loans:				
One-to-four family residential real estate	\$—	\$—	\$70	\$70
Multi-family mortgage	—	—	2,078	2,078
Nonresidential real estate	—	—	3,494	3,494
	\$—	\$—	\$5,642	\$5,642
Other real estate owned:				
One-to-four family residential real estate	\$—	\$—	\$325	\$325
Multi-family mortgage	—	—	349	349
Nonresidential real estate	—	—	107	107
	\$—	\$—	\$781	\$781
Mortgage servicing rights	\$—	\$158	\$—	\$158
December 31, 2014				
Impaired loans:				
One-to-four family residential real estate	\$—	\$—	\$70	\$70
Multi-family mortgage	—	—	1,905	1,905
Nonresidential real estate	—	—	2,369	2,369
	\$—	\$—	\$4,344	\$4,344
Other real estate owned:				
One-to-four family residential real estate	\$—	\$—	\$55	\$55
Multi-family mortgage	—	—	1,265	1,265
Nonresidential real estate	—	—	126	126
Land	—	—	753	753
	\$—	\$—	\$2,199	\$2,199
Mortgage servicing rights	\$—	\$160	\$—	\$160

Impaired loans which are measured for impairment using the fair value of the collateral for collateral-dependent loans, and have specific valuation allowances, had a carrying amount of \$6.1 million, with a valuation allowance of \$451,000 at March 31, 2015, compared to a carrying amount of \$4.8 million, and a valuation allowance of \$470,000 at December 31, 2014, resulting in an decrease in the provision for loan losses of \$19,000 for the three months ended March 31, 2015. There was an increase in the provision for loan losses of \$114,000 for the three months ended March 31, 2014.

Other real estate owned ("OREO"), which is carried at the lower of cost or fair value less costs to sell, had a carrying value of \$994,000 less a valuation allowance of \$213,000, or \$781,000 at March 31, 2015, compared to a carrying value of \$3.0 million less a valuation allowance of \$803,000, or \$2.2 million at December 31, 2014. There were \$213,000 of valuation adjustments of OREO recorded for the three months ended March 31, 2015. There were

\$44,000 of valuation adjustments of OREO recorded for the three months ended March 31, 2014.

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## BANKFINANCIAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 5 - FAIR VALUE (continued)

Mortgage servicing rights, which are carried at lower of cost or fair value, had a carrying amount of \$158,000 at March 31, 2015, and a carrying amount of \$160,000 at December 31, 2014. A pre-tax recovery of \$10,000 on our mortgage servicing rights portfolio was included in noninterest income for the three months ended March 31, 2015, compared to a provision of \$4,000 for the same period in 2014.

The following table presents quantitative information, based on certain empirical data with respect to Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at March 31, 2015:

	Fair Value	Valuation Technique(s)	Significant Unobservable Input(s)	Range (Weighted Average)
Impaired loans:				
One-to-four family residential real estate loans	\$70	Sales comparison	Discount applied to valuation	19.9%
Multi-family mortgage loans	2,078	Sales comparison	Comparison between sales and income approaches	-10.9% to 47.9% (26%)
		Income approach	Cap Rate	10.3%
Nonresidential real estate loans	3,494	Sales comparison	Comparison between sales and income approaches	-1.2% to 30.9% (22%)
		Income approach	Cap Rate	10.0% - 11.0% (10%)
Impaired loans	\$5,642			
Other real estate owned:				
One-to-four family residential real estate	\$325	Sales comparison	Discount applied to valuation	14.3%
Multi-family mortgage	349	Sales comparison	Comparison between sales and income approaches	57.7%
Nonresidential real estate loans	107	Sales comparison	Comparison between sales and income approaches	2.1% to 10.4% (5%)
Other real estate owned	\$781			

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## BANKFINANCIAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 5 - FAIR VALUE (continued)

The following table presents quantitative information, based on certain empirical data with respect to Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2014:

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Impaired loans				
One-to-four family residential real estate	\$ 70	Sales comparison	Discount applied to valuation	4.8%
Multi-family mortgage	1,905	Sales comparison	Comparison between sales and income approaches	-2.1%- 43.7% (41%)
		Income approach	Cap Rate	9.6%-13.8% (10%)
Nonresidential real estate	2,369	Sales comparison	Comparison between sales and income approaches	-2.1%-33.9% (24%)
		Income approach	Cap Rate	10%-11% (10%)
	\$ 4,344			
Other real estate owned				
One-to-four family residential real estate	\$ 55	Sales comparison	Discount applied to valuation	6.3%-7.7% (7%)
Multi-family mortgage	1,265	Sales comparison	Comparison between sales and income approaches	-6.6%-13.5% (0.4%)
Nonresidential real estate	126	Sales comparison	Comparison between sales and income approaches	32.3%
Land	753	Sales comparison	Discount applied to valuation	-21.9%-4.2% (-10%)
	\$ 2,199			

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## BANKFINANCIAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 5 - FAIR VALUE (continued)

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

	Carrying Amount	Fair Value Measurements at March 31, 2015 Using:			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash and cash equivalents	\$ 66,254	\$ 10,211	\$ 56,043	\$—	\$ 66,254
Securities	114,039	514	113,525	—	114,039
Loans receivable, net of allowance for loan losses	1,153,638	—	1,141,342	5,642	1,146,984
FHLBC stock	6,257	—	—	—	N/A
Accrued interest receivable	3,829	—	3,829	—	3,829
Financial liabilities					
Noninterest-bearing demand deposits	\$ 131,072	\$—	\$ 131,072	\$—	\$ 131,072
Savings deposits	157,892	—	157,892	—	157,892
NOW and money market accounts	683,278	—	683,278	—	683,278
Certificates of deposit	230,522	—	230,359	—	230,359
Borrowings	3,217	—	3,217	—	3,217
Accrued interest payable	78	—	78	—	78
	Carrying Amount	Fair Value Measurements at December 31, 2014 Using:			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash and cash equivalents	\$ 59,581	\$ 9,693	\$ 49,888	\$—	\$ 59,581
Securities	121,174	509	120,665	—	121,174
Loans receivable, net of allowance for loan losses	1,172,356	—	1,166,181	4,344	1,170,525
FHLBC stock	6,257	—	—	—	N/A
Accrued interest receivable	3,926	—	3,926	—	3,926
Financial liabilities					
Noninterest-bearing demand deposits	\$ 134,129	\$—	\$ 134,129	\$—	\$ 134,129
Savings deposits	154,532	—	154,532	—	154,532
NOW and money market accounts	690,193	—	690,193	—	690,193
Certificates of deposit	232,859	—	232,588	—	232,588
Borrowings	12,921	—	12,908	—	12,908
Accrued interest payable	89	—	89	—	89

For purposes of the above, the following assumptions were used:

Cash and Cash Equivalents: The estimated fair values for cash and cash equivalents are based on their carrying value due to the short-term nature of these assets.

Loans: The estimated fair value for loans has been determined by calculating the present value of future cash flows based on the current rate the Company would charge for similar loans with similar maturities, applied for an estimated time period until the loan is assumed to be repriced or repaid. The estimated fair values of loans held for sale are based on quoted market prices.

FHLBC Stock: It is not practicable to determine the fair value of FHLBC stock due to the restrictions placed on its transferability.



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BANKFINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 5 - FAIR VALUE (continued)

Deposit Liabilities: The estimated fair value for certificates of deposit has been determined by calculating the present value of future cash flows based on estimates of rates the Company would pay on such deposits, applied for the time period until maturity. The estimated fair values of noninterest-bearing demand, NOW, money market, and savings deposits are assumed to approximate their carrying values as management establishes rates on these deposits at a level that approximates the local market area. Additionally, these deposits can be withdrawn on demand.

Borrowings: The estimated fair values of advances from the FHLBC and notes payable are based on current market rates for similar financing. The estimated fair value of securities sold under agreements to repurchase is assumed to equal its carrying value due to the short-term nature of the liability.

Accrued Interest: The estimated fair values of accrued interest receivable and payable are assumed to equal their carrying value.

Off-Balance-Sheet Instruments: Off-balance-sheet items consist principally of unfunded loan commitments, standby letters of credit, and unused lines of credit. The estimated fair values of unfunded loan commitments, standby letters of credit, and unused lines of credit are not material.

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.

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

Cautionary Statement Regarding Forward-Looking Information

Forward Looking Statements

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

Factors that could cause actual results to differ materially from the results anticipated or projected and which could materially and adversely affect our operating results, financial condition or future prospects include, but are not limited to: (i) less than anticipated loan growth due to intense competition for high quality loans and leases, particularly in terms of pricing and credit underwriting, or a dearth of borrowers who meet our underwriting standards; (ii) the impact of re-pricing and competitors' pricing initiatives on loan and deposit products; (iii) interest rate movements and their impact on the economy, customer behavior and our net interest margin; (iv) adverse economic conditions in general and in the Chicago metropolitan area in particular that could result in increased delinquencies in our loan portfolio or a decline in the value of our investment securities and the collateral for our loans; (v) declines in real estate values that adversely impact the value of our loan collateral, Other Real Estate Owned

("OREO"), asset dispositions and the level of borrower equity in their investments; (vi) borrowers that experience legal or financial difficulties that we do not currently foresee; (vii) results of supervisory monitoring or examinations by regulatory authorities, including the possibility that a regulatory authority could, among other things, require us to increase our allowance for loan losses or adversely change our loan classifications, write-down assets, reduce credit concentrations or maintain specific capital levels; (viii) changes, disruptions or illiquidity in national or global financial markets; (ix) the credit risks of lending activities, including risks that could cause changes in the level and direction of loan delinquencies and charge-offs or changes in estimates relating to the computation of our allowance

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for loan losses; (x) monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board; (xi) factors affecting our ability to access deposits or cost-effective funding, and the impact of competitors' pricing initiatives on our deposit products; (xii) the impact of new legislation or regulatory changes, including the Dodd-Frank Act and Basel III, on our products, services, operations and operating expenses; (xiii) higher federal deposit insurance premiums; (xiv) higher than expected overhead, infrastructure and compliance costs; (xv) changes in accounting principles, policies or guidelines; and (xvi) our failure to achieve expected synergies and cost savings from acquisitions.

These risks and uncertainties, as well as the Risk Factors set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014, should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. We do not undertake any obligation to update any forward-looking statement in the future, or to reflect circumstances and events that occur after the date on which the forward-looking statement was made.

**Critical Accounting Policies**

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. We believe that the most critical accounting policies upon which our financial condition and results of operation depend, and which involve the most complex subjective decisions or assessments, are included in the discussion entitled "Critical Accounting Policies" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014, and all amendments thereto, as filed with the Securities and Exchange Commission.

**Overview**

In general, loan originations were consistent with seasonal expectations but business activity accelerated during the course of the first quarter of 2015.

Loan balances on multi-family and commercial real estate loans declined principally due to risk management decisions on existing credits and payoffs from borrowers who were able to obtain more generous cash-out refinancing terms than we were willing to offer. We also sold \$2.4 million of multi-family and \$980,000 of nonresidential real estate loan participations to manage borrower-level exposures. Commercial loan balances declined due to seasonal line of credit usage factors and the partial reduction of one healthcare exposure due to concentration of credit concerns. Commercial lease balances increased due to above-average lease origination volume, which was partially offset by certain accelerated lease prepayments.

We expect to increase loan portfolio balances for multifamily loans, commercial loans and commercial leases during the remainder of 2015 at a rate at least equal to the percentage growth experienced in the same time period in 2014. Deposit balances were stable, with expected seasonal declines in certain transaction accounts categories.

Core net interest income was essentially stable. Non-interest income declined due to lower customer transaction volumes on a seasonal basis. Core non-interest expense achieved targeted levels despite higher occupancy and employee benefits costs due to seasonal factors.

Our ratio of classified assets to total capital remained stable in the first quarter of 2015. Non-accrual loans increased slightly as further improvements in loan portfolio quality resulting from resolutions were offset by our decision to place two loans on non-accrual status in preparation for resolution later in 2015. Absent currently unforeseen events, we expect to achieve our targeted asset quality levels during 2015.

We completed the standard regulatory capital adequacy and related loan portfolio and interest rate stress analyses in the first quarter of 2015. Based on the results of these analyses, the Bank paid a dividend of \$16.9 million to the Company to be used for general corporate purposes. The resultant tangible and risk-based capital levels at the Bank are not expected to have any material impact on the Bank's loan portfolio growth capacity.



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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.

	March 31, 2015	December 31, 2014	Change
	(Dollars in thousands)		
Selected Financial Condition Data:			
Total assets	\$1,443,369	\$1,465,410	\$(22,041 )
Loans, net	1,153,638	1,172,356	(18,718 )
Securities, at fair value	114,039	121,174	(7,135 )
Core deposit intangible	1,713	1,855	(142 )
Deposits	1,202,764	1,211,713	(8,949 )
Borrowings	3,217	12,921	(9,704 )
Equity	217,546	216,121	1,425
	Three Months Ended		
	March 31,		
	2015	2014	Change
	(Dollars in thousands)		
Selected Operating Data:			
Interest and dividend income	\$12,211	\$12,086	\$125
Interest expense	686	812	(126 )
Net interest income	11,525	11,274	251
Provision for (recovery of) loan losses	(724 )	476	(1,200 )
Net interest income after provision for (recovery of) loan losses	12,249	10,798	1,451
Noninterest income	1,536	1,532	4
Noninterest expense	10,513	11,371	(858 )
Income before income tax expense	3,272	959	2,313
Income tax expense	1,286	17	1,269
Net income	\$1,986	\$942	\$1,044

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	Three Months Ended March 31,		
	2015	2014	
Selected Financial Ratios and Other Data:			
Performance Ratios:			
Return on assets (ratio of net income to average total assets) <sup>(1)</sup>	0.55	% 0.26	%
Return on equity (ratio of net income to average equity) <sup>(1)</sup>	3.64	2.12	
Average equity to average assets	15.08	12.29	
Net interest rate spread <sup>(1) (2)</sup>	3.42	3.30	
Net interest margin <sup>(1) (3)</sup>	3.48	3.34	
Efficiency ratio <sup>(4)</sup>	80.49	88.79	
Noninterest expense to average total assets <sup>(1)</sup>	2.90	3.15	
Average interest-earning assets to average interest-bearing liabilities	124.76	121.85	
Dividends declared per share	\$0.04	\$—	
Dividend payout ratio	42.50	% N.A.	
	At March 31, 2015	At December 31, 2014	
Asset Quality Ratios:			
Nonperforming assets to total assets <sup>(5)</sup>	1.36	% 1.27	%
Nonperforming loans to total loans	1.15	1.03	
Allowance for loan losses to nonperforming loans	86.58	98.17	
Allowance for loan losses to total loans	0.99	1.01	
Capital Ratios:			
Equity to total assets at end of period	15.07	% 14.75	%
Tier 1 leverage ratio (Bank only)	10.74	% 11.45	%
Other Data:			
Number of full-service offices	19	19	
Employees (full-time equivalents)	267	269	

(1) Ratios annualized.

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

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

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

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

N.A. Not Applicable

#### Comparison of Financial Condition at March 31, 2015 and December 31, 2014

Total assets decreased \$22.0 million, or 1.5%, to \$1.443 billion at March 31, 2015, from \$1.465 billion at December 31, 2014. The decrease in total assets was primarily due to a decrease in securities and loans. Cash and cash equivalents increased by \$6.7 million, or 11.2%, to \$66.3 million at March 31, 2015, from \$59.6 million at December 31, 2014.

At March 31, 2015, loans decreased \$18.7 million, or 1.6%, to \$1.154 billion from \$1.172 billion at December 31, 2014. At March 31, 2015, our loan portfolio consists of \$877.2 million, or 75.4%, real estate loans. The Bank's primary lending area consists of the counties where our branch offices are located, and contiguous counties in the State of Illinois. We derive the most significant portion of our revenues from these geographic areas. We also engage in multi-family lending activities in carefully selected metropolitan areas outside our primary lending area and engage in certain types of commercial lending and leasing activities on



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a nationwide basis. At March 31, 2015, \$701.9 million, or 80.0%, of our real estate loans were in Illinois, while \$64.1 million, or 7.3%, were located in Texas, \$47.1 million, or 5.4%, were in Colorado, and \$23.1 million, 2.6%, were in Minnesota. This information highlights the location of the collateral, but does not necessarily reflect the location of the borrower.

Total liabilities decreased by \$23.5 million, or 1.9%, to \$1.226 billion at March 31, 2015, from \$1.249 billion at December 31, 2014, primarily due to decreases in borrowings, non-interest and interest-bearing demand accounts, and certificates of deposits, which were partially offset by increases in savings and money market accounts. Total deposits decreased \$8.9 million, or 0.7%, to \$1.203 billion at March 31, 2015, from \$1.212 billion at December 31, 2014.

Certificates of deposit decreased \$2.3 million, or 1.0%, to \$230.5 million at March 31, 2015, from \$232.9 million at December 31, 2014. Noninterest-bearing demand deposits decreased \$3.1 million, or 2.3%, to \$131.1 million at March 31, 2015, from \$134.1 million at December 31, 2014. Savings accounts increased \$3.4 million, or 2.2%, to \$157.9 million at March 31, 2015, from \$154.5 million at December 31, 2014. Money market and interest-bearing NOW accounts decreased \$6.9 million, or 1.0%, to \$683.3 million at March 31, 2015, from \$690.2 million at December 31, 2014. Core deposits (savings, money market, noninterest-bearing demand and NOW accounts) were 80.8% of total deposits at March 31, 2015 and December 31, 2014.

Total stockholders' equity was \$217.5 million at March 31, 2015, compared to \$216.1 million at December 31, 2014. The increase in total stockholders' equity was primarily due to the \$2.0 million of net income that we recorded for the three months ended March 31, 2015. The unallocated shares of common stock that our ESOP owns were reflected as a \$10.0 million reduction to stockholders' equity at March 31, 2015, compared to an \$10.3 million reduction at December 31, 2014.

Operating results for the three months ended March 31, 2015 and 2014

**Net Income.** We had net income of \$2.0 million for the three months ended March 31, 2015, compared to \$942,000 for the three months ended March 31, 2014. Earnings per basic and fully diluted share of common stock were \$0.10 for the three months ended March 31, 2015, compared to \$0.05 for the three months ended March 31, 2014.

**Net Interest Income.** Net interest income was \$11.5 million for the three months ended March 31, 2015, compared to \$11.3 million for the same period in 2014. The increase reflected a \$125,000, or 1.0%, increase in interest income and a \$126,000, or 15.5%, decrease in interest expense.

The increase in net interest income was primarily attributable to increases in the yield on interest-earning assets, which were partially offset by a decrease in net average interest-earning assets. Total average interest-earning assets decreased \$22.6 million, or 1.66%, to \$1.345 billion for the three months ended March 31, 2015, from \$1.367 billion for the same period in 2014. Our net interest rate spread increased by 12 basis points to 3.42% for the three months ended March 31, 2015, from 3.30% for the same period in 2014. Our net interest margin increased by 14 basis points to 3.48% for the three months ended March 31, 2015, from 3.34% for the same period in 2014. The increase in the net interest rate spread and net interest margin resulted from higher yields on interest-earning assets and decreases in the average balance and costs of our interest-bearing liabilities. The yield on interest-earning assets increased nine basis points to 3.68% for the three months ended March 31, 2015, from 3.59% for the same period in 2014, and the cost of interest-bearing liabilities decreased three basis points to 0.26% for the three months ended March 31, 2015, from 0.29% for the same period in 2014.



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## Average Balance Sheets

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

	For the Three Months Ended March 31,							
	2015 Average Outstanding Balance (Dollars in thousands)	Interest	Yield/Rate <sup>(1)</sup>	2014 Average Outstanding Balance	Interest	Yield/Rate <sup>(1)</sup>		
Interest-earning assets:								
Loans	\$ 1,164,107	\$ 11,823	4.12	% \$ 1,114,433	\$ 11,699	4.26	%	
Securities	121,958	327	1.09	115,089	296	1.04		
Stock in FHLBC	6,257	8	0.52	6,068	5	0.33		
Other	52,270	53	0.41	131,635	86	0.26		
Total interest-earning assets	1,344,592	12,211	3.68	1,367,225	12,086	3.59		
Noninterest-earning assets	103,743			75,442				
Total assets	\$ 1,448,335			\$ 1,442,667				
Interest-bearing liabilities:								
Savings deposits	\$ 155,853	39	0.10	\$ 152,142	38	0.10		
Money market accounts	340,668	270	0.32	346,893	277	0.32		
NOW accounts	347,341	88	0.10	351,310	88	0.10		
Certificates of deposit	230,690	287	0.50	269,100	407	0.61		
Total deposits	1,074,552	684	0.26	1,119,445	810	0.29		
Borrowings	3,160	2	0.26	2,582	2	0.31		
Total interest-bearing liabilities	1,077,712	686	0.26	1,122,027	812	0.29		
Noninterest-bearing deposits	130,037			125,108				
Noninterest-bearing liabilities	22,127			18,201				
Total liabilities	1,229,876			1,265,336				
Equity	218,459			177,331				
Total liabilities and equity	\$ 1,448,335			\$ 1,442,667				
Net interest income		\$ 11,525			\$ 11,274			
Net interest rate spread <sup>(2)</sup>			3.42	%		3.30	%	
Net interest-earning assets <sup>(3)</sup>	\$ 266,880			\$ 245,198				
Net interest margin <sup>(4)</sup>			3.48	%		3.34	%	
Ratio of interest-earning assets to interest-bearing liabilities	124.76	%		121.85	%			

(1) Annualized

(2) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(3) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.

(4) Net interest margin represents net interest income divided by average total interest-earning assets.

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## Provision for Loan Losses

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

We had a recovery of loan losses of \$724,000 for the three months ended March 31, 2015, compared to a provision of \$476,000 for the same period in 2014. The provision for or recovery of loan losses is a function of the allowance for loan loss methodology that we use to determine the appropriate level of the allowance for inherent loan losses after net charge-offs have been deducted. The portion of the allowance for loan losses attributable to loans collectively evaluated for impairment decreased \$395,000, or 3.4%, to \$11.1 million at March 31, 2015, compared to \$11.5 million at December 31, 2014. The reserve established for loans individually evaluated for impairment decreased \$19,000, or 4.0%, for the three months ended March 31, 2015. Net recoveries were \$310,000 for the three months ended March 31, 2015. The allowance for loan losses as a percentage of nonperforming loans was 86.58% at March 31, 2015, compared to 98.17% at December 31, 2014.

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

## Noninterest Income

	Three Months Ended		
	March 31,		Change
	2015	2014	
	(Dollars in thousands)		
Deposit service charges and fees	\$455	\$439	\$16
Other fee income	535	521	14
Insurance commissions and annuities income	63	87	(24)
Gain on sale of loans, net	27	24	3
Loss on sales of securities	—	(7)	) 7
Gain on disposition of premises and equipment	—	2	(2)
Loan servicing fees	90	104	(14)
Amortization of servicing assets	(35)	) (32)	) (3)
Recovery (impairment) of servicing assets	10	(4)	) 14
Earnings on bank owned life insurance	49	64	(15)
Trust income	174	164	10
Other	168	170	(2)
Total noninterest income	\$1,536	\$1,532	\$4

Noninterest income remained stable, totaling \$1.5 million for the three months ended March 31, 2015 and the three months ended March 31, 2014. Deposit service charges and fees and other fee income increased \$16,000 and \$14,000, respectively for the three months ended March 31, 2015. Noninterest income for the three months ended March 31, 2015 included a \$27,000 gain on sale of loans, compared to a \$24,000 gain on sale of loans that was recorded for the

same period in 2014. Earnings on bank owned life insurance decreased \$15,000 for the three months ended March 31, 2015 to \$49,000 from \$64,000 for the same period in 2014.

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## Noninterest Expense

	Three Months Ended		
	March 31,		
	2015	2014	Change
	(Dollars in thousands)		
Compensation and benefits	\$5,581	\$5,958	\$(377 )
Office occupancy and equipment	1,695	1,914	(219 )
Advertising and public relations	341	162	179
Information technology	639	639	—
Supplies, telephone and postage	411	391	20
Amortization of intangibles	142	149	(7 )
Nonperforming asset management	91	104	(13 )
Loss (gain) on sale other real estate owned	(58 )	6	(64 )
Valuation adjustments of other real estate owned	213	44	169
Operations of other real estate owned	199	207	(8 )
FDIC insurance premiums	235	479	(244 )
Other	1,024	1,318	(294 )
Total noninterest expense	\$10,513	\$11,371	\$(858 )

Noninterest expense decreased by \$858,000, or 7.5%, to \$10.5 million for the three months ended March 31, 2015, from \$11.4 million for the same period in 2014, due in substantial part to decreases in compensation and benefits expense, office occupancy and equipment expense and nonperforming asset management expense. Compensation and benefits expense decreased \$377,000, or 6.3%, primarily due to a reduction in full time equivalent employees to 267 at March 31, 2015 from 281 at March 31, 2014. Office occupancy and equipment expense for the three months ended March 31, 2014 included \$258,000 in snow removal costs, compared to \$169,000 for the three months ended March 31, 2015. Nonperforming asset management expenses decreased \$13,000, or 12.5%, to \$91,000 for the three months ended March 31, 2015, from \$104,000 for the same period in 2014. Valuation adjustments of OREO increased to \$213,000 for the three months ended March 31, 2015, from \$44,000 for the same period in 2014. The increase in OREO valuation adjustments was a result of updated appraisals. OREO expenses decreased \$8,000, or 3.9%, to \$199,000 for the three months ended March 31, 2015, from \$207,000 for the same period in 2014.

## Income Taxes

For the three months ended March 31, 2015, we recorded income tax expense of \$1.3 million, compared to \$17,000 for the three months ended March 31, 2014. Our effective tax rate for the three months ended March 31, 2015 was 39.3%. For the three months ended March 31, 2014, income tax expense consisted solely of expense for state taxes.

## Nonperforming Loans and Assets

We review loans on a regular basis, and generally place loans on nonaccrual status when either principal or interest is 90 days or more past due. In addition, the Company places loans on nonaccrual status when we do not expect to receive full payment of interest or principal. Interest accrued and unpaid at the time a loan is placed on nonaccrual status is reversed from interest income. Interest payments received on nonaccrual loans are recognized in accordance with our significant accounting policies. Once a loan is placed on nonaccrual status, the borrower must generally demonstrate at least six months of payment performance before the loan is eligible to return to accrual status. We may have loans classified as 90 days or more delinquent and still accruing. Generally, we do not utilize this category of loan classification unless: (1) the loan is repaid in full shortly after the period end date; (2) the loan is well secured and there are no asserted or pending legal barriers to its collection; or (3) the borrower has remitted all scheduled payments and is otherwise in substantial compliance with the terms of the loan, but the processing of loan payments actually received or the renewal of the loan has not occurred for administrative reasons. At March 31, 2015, we had no loans in this category.

We typically obtain new third-party appraisals or collateral valuations when we place a loan on nonaccrual status, conduct impairment testing or conduct a TDR analysis unless the existing valuation information for the collateral is

sufficiently current to comply with the requirements of our Appraisal and Collateral Valuation Policy (“ACV Policy”). We also obtain new third-party appraisals or collateral valuations when the judicial foreclosure process concludes with respect to real estate collateral, and when

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we otherwise acquire actual or constructive title to real estate collateral. In addition to third-party appraisals, we use updated valuation information based on Multiple Listing Service data, broker opinions of value, actual sales prices of similar assets sold by us and approved sales prices in response to offers to purchase similar assets owned by us to provide interim valuation information for consolidated financial statement and management purposes. Our ACV Policy establishes the maximum useful life of a real estate appraisal at 18 months. Because appraisals and updated valuations utilize historical or “ask-side” data in reaching valuation conclusions, the appraised or updated valuation may or may not reflect the actual sales price that we will receive at the time of sale.

Real estate appraisals may include up to three approaches to value: the sales comparison approach, the income approach (for income-producing property) and the cost approach. Not all appraisals utilize all three approaches. Depending on the nature of the collateral and market conditions, we may emphasize one approach over another in determining the fair value of real estate collateral. Appraisals may also contain different estimates of value based on the level of occupancy or planned future improvements. “As-is” valuations represent an estimate of value based on current market conditions with no changes to the use or condition of the real estate collateral. “As-stabilized” or “as-completed” valuations assume the real estate collateral will be improved to a stated standard or achieve its highest and best use in terms of occupancy. “As-stabilized” or “as-completed” valuations may be subject to a present value adjustment for market conditions or the schedule of improvements.

As part of the asset classification process, we develop an exit strategy for real estate collateral or OREO by assessing overall market conditions, the current use and condition of the asset, and its highest and best use. For most income-producing real estate, we believe that investors value most highly a stable income stream from the asset; consequently, we perform a comparative evaluation to determine whether conducting a sale on an “as-is”, “as-stabilized” or “as-completed” basis is most likely to produce the highest net realizable value. If we determine that the “as-stabilized” or “as-completed” basis is appropriate, we then complete the necessary improvements or tenant stabilization tasks, with the applicable time value discount and improvement expenses incorporated into our estimates of the expected costs to sell. As of March 31, 2015, substantially all impaired real estate loan collateral and OREO were valued on an “as-is basis.” Estimates of the net realizable value of real estate collateral also include a deduction for the expected costs to sell the collateral or such other deductions from the cash flows resulting from the operation and liquidation of the asset as are appropriate. For most real estate collateral subject to the judicial foreclosure process, we generally apply a 10.0% deduction to the value of the asset to determine the expected costs to sell the asset. This estimate includes one year of real estate taxes, sales commissions and miscellaneous repair and closing costs. If we receive a purchase offer that requires unbudgeted repairs, or if the expected resolution period for the asset exceeds one year, we then include, on a case-by-case basis, the costs of the additional real estate taxes and repairs and any other material holding costs in the expected costs to sell the collateral. For OREO, we generally apply a 7.0% deduction to determine the expected costs to sell, as expenses for real estate taxes and repairs are expensed when incurred.

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## Nonperforming Assets Summary

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

	March 31, 2015	December 31, 2014	Change
	(Dollars in thousands)		
Nonaccrual loans:			
One-to-four family residential	\$3,816	\$4,408	\$(592 )
Multi-family mortgage	3,441	4,481	(1,040 )
Nonresidential real estate	5,931	3,245	2,686
Commercial	183	76	107
Consumer	—	3	(3 )
	13,371	12,213	1,158
Other real estate owned:			
One-to-four family residential	677	806	(129 )
Multi-family mortgage	2,242	2,307	(65 )
Nonresidential real estate	1,169	885	284
Land	135	135	—
	4,223	4,133	90
Nonperforming assets (excluding purchased other real estate owned)	17,594	16,346	1,248
Purchased other real estate owned:			
One-to-four family residential	325	457	(132 )
Land	1,768	1,768	—
	2,093	2,225	(132 )
Total nonperforming assets	\$19,687	\$18,571	\$1,116
Ratios:			
Nonperforming loans to total loans	1.15	% 1.03	%
Nonperforming assets to total assets	1.36	1.27	
Nonperforming assets to total assets <sup>(1)</sup>	1.22	1.11	

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



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## Nonperforming Assets

Nonperforming assets totaled \$19.7 million at March 31, 2015 and \$18.6 million at December 31, 2014, an increase of \$1.1 million. The increase was primarily due to our placement of two unrelated nonresidential real estate loans totaling \$2.8 million on nonaccrual status upon their referral to outside counsel for foreclosure. One of the two loans was a matured loan that we declined to renew, and the other was a loan that we accelerated because of the borrower's failure to keep a required real estate tax escrow current. Although we experience occasional isolated instances of new non-accrual loans, we believe that continuing our aggressive resolution posture will maintain the trends favoring very strong asset quality.

One residential and two nonresidential real estate loans totaling approximately \$589,000 were transferred from nonaccrual loans to OREO during the three months ended March 31, 2015. We continue to experience modest quantities of defaults on residential real estate loans principally due either to the borrower's personal financial condition or deteriorated collateral value.

## Other Real Estate Owned

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

The following tables represent the roll-forward of OREO and the composition of OREO properties:

	For the Three Months Ended March 31,	
	2015	2014
	(Dollars in thousands)	
Beginning balance	\$6,358	\$6,306
New foreclosed properties	589	2,568
Valuation adjustments	(213	) (44
Gain (loss) on sale of other real estate owned	58	(6
Proceeds from sales of other real estate owned	(476	) (154
Ending balance	\$6,316	\$8,670
	March 31,	December 31,
	2015	2014
	(Dollars in thousands)	
One-to-four family residential	\$677	\$806
Multi-family mortgage	2,242	2,307
Nonresidential real estate	1,169	885
Land	135	135
	4,223	4,133
Acquired other real estate owned:		
One-to-four family residential	325	457
Land	1,768	1,768
	2,093	2,225
Total other real estate owned	\$6,316	\$6,358

## 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.



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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, and the proceeds from 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 additional sources of funds through FHLBC advances. We had no outstanding FHLBC advances at March 31, 2015.

As of March 31, 2015, we were not aware of any known trends, events or uncertainties that had or were reasonably likely to have a material impact on our liquidity. As of March 31, 2015, we had no other material commitments for capital expenditures.

#### Capital Management

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 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.

We are subject to minimum risk-based capital limitations as set forth by federal banking regulations at both the consolidated Company level and the Bank level. Under the risk-based capital guidelines, different categories of assets, including certain off-balance sheet items, such as loan commitments and letters of credit, are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a "risk-weighted" asset base. For purposes of the risk-based capital guidelines, total capital is defined as the sum of "Common Equity Tier 1", "Additional Tier 1" and "Tier 2" capital elements. Common Equity Tier 1 is comprised of common stock, related surplus and retained earnings. Additional Tier 1 capital includes, with certain restrictions, noncumulative perpetual preferred stock, certain grandfathered regulatory capital instruments and minority interests in consolidated subsidiaries. Tier 2 capital includes, with certain limitations, perpetual preferred stock not included in Tier 1 capital, subordinate debt, certain maturing capital instruments, and the allowance for loan and credit losses.

In March 2015, the Company implemented the Basel III capital rules that reformed the regulatory capital framework for banking institutions. The U.S. banking regulatory agencies have implemented the reforms which are designed to ensure that banks maintain strong capital positions even in the event of severe economic downturns or unforeseen losses.

Changes that affected the Company include the additional constraints on the inclusion of deferred tax assets in capital, increased risk weightings for nonperforming loans and acquisition/development loans in regulatory capital. Under the new regulations the Company elected a one-time opt-out to exclude Accumulated Other Comprehensive Income (AOCI) from regulatory capital in the first quarter of 2015.

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



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The following table shows the Company's and the Bank's capital amounts and ratios and regulatory thresholds under Basel III at March 31, 2015:

	Risk-based Common Tier		Leverage		
	1	Tier 1	Total Capital	Tier 1	
<b>Company</b>					
Regulatory capital	\$ 190,970	\$ 190,970	\$ 202,552	\$ 190,970	
Well-capitalized requirement	71,546	88,056	110,070	71,123	
Regulatory capital - excess	\$ 119,424	\$ 102,914	\$ 92,482	\$ 119,847	
Capital	17.35	% 17.35	% 18.40	% 13.43	%
Minimum capital requirement	4.50	% 6.00	% 8.00	% 4.00	%
Well capitalized requirement <sup>(1)</sup>	6.50	% 8.00	% 10.00	% 5.00	%
<b>Bank</b>					
Regulatory capital	152,777	152,777	164,359	152,777	
Well-capitalized requirement	71,484	87,980	109,976	71,112	
Regulatory capital -excess	\$81,293	\$64,797	\$54,383	\$81,665	
Capital	13.89	% 13.89	% 14.95	% 10.74	%
Minimum capital requirement	4.50	% 6.00	% 8.00	% 4.00	%
Well capitalized requirement <sup>(1)</sup>	6.50	% 8.00	% 10.00	% 5.00	%

The ratios for the well-capitalized requirement are only applicable to the Bank. However, the Company manages (1) its capital position as if the requirement applies to the consolidated entity and has presented the ratios as if they also applied to the Company.

	Consolidated Actual Ratio	BankFinancial F.S.B. Actual Ratio	Required for Capital Adequacy Purposes Pre-Basel III	To be Well-Capitalized Under Pre-Basel III Regulatory Requirements	
<b>December 31, 2014</b>					
Total capital (to risk-weighted assets)	18.31	16.21	8.00	% 10.00	%
Tier 1 (core) capital (to risk-weighted assets)	17.21	15.11	4.00	6.00	
Tier 1 (core) capital (to adjusted total assets)	13.04	11.45	4.00	5.00	

As of March 31, 2015, the Bank and the Company were well-capitalized with all capital ratios exceeding the well-capitalized requirement. There are no conditions or events that management believes have changed the Bank's prompt corrective action capitalization category.

Capital Management - Company Total stockholders' equity was \$217.5 million at March 31, 2015, compared to \$216.1 million at December 31, 2014. The increase in total stockholders' equity was primarily due to the \$2.0 million net income that we recorded for the three months ended March 31, 2015. The unallocated shares of common stock that our ESOP owns were reflected as a \$10.0 million reduction to stockholders' equity at March 31, 2015, compared to a \$10.3 million reduction at December 31, 2014.

Quarterly Cash Dividends. We declared \$0.04 of dividends per share for the three months ended March 31, 2015, compared to no dividends per share for the three months ended March 31, 2014.

Stock Repurchase Program. On March 30, 2015, the Company announced that the Board has authorized the repurchase of up to 1,055,098 shares of the Company's common stock, which represents approximately 5% of the Company's issued and outstanding shares of common stock. In accordance with the Company's internal restrictions on trading in the Company's shares, no shares may be repurchased pursuant to the authorization until, at the earliest, the third business day after the Company files its Quarterly Report on Form 10-Q for the first quarter of 2015 with the Securities and Exchange Commission. The authorization will expire on December 31, 2015 unless extended by the

Company's Board of Directors. As of March 31, 2015, the Company had repurchased 4,239,134 shares of its common stock out of the 5,047,423 that had been authorized for repurchase under previous share repurchase authorizations that expired in 2012.

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## 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’ Asset/Liability Management Committee then reviews the ALCO’s activities and strategies, the effect of those strategies on our net interest margin, and the effect that changes in market interest rates would have on the economic value of our loan and securities portfolios as well as the intrinsic value of our deposits and borrowings, and reports to the full Board of Directors. We actively evaluate interest rate risk in connection with our lending, investing and deposit activities. In an effort to better manage interest-rate risk, we have de-emphasized the origination of residential mortgage loans, and have increased our emphasis on the origination of nonresidential real estate loans, multi-family mortgage loans, 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, 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.





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Quantitative Analysis. The following table sets forth, as of March 31, 2015, 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.

Change in Interest Rates (basis points)	Estimated Increase (Decrease) in NPV		Decrease in Estimated Net Interest Income	
	Amount (dollars in thousands)	Percent	Amount	Percent
+400	\$(37,698 )	(18.22 )%	\$(705 )	(1.55 )%
+300	(26,804 )	(12.96 )	(483 )	(1.07 )
+200	(17,140 )	(8.29 )	(166 )	(0.37 )
+100	(10,286 )	(4.97 )	(90 )	(0.20 )
0	—	—	—	—

The Company has opted not to include an estimate for a decrease in rates at March 31, 2015 as the results are not relevant given the current targeted fed funds rate of the Federal Open Market Committee. The table set forth above indicates that at March 31, 2015, in the event of an immediate 200 basis point increase in interest rates, the Bank would be expected to experience an 8.29% decrease in NPV and a \$166,000 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 March 31, 2015. Based on that evaluation, the Company's management, including the Chairman, President, and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

During the quarter ended March 31, 2015, 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 results of operations.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in the Company's Annual Report in Form 10-K for the year ended December 31, 2014.

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

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

(b) Use of Proceeds. Not applicable

(c) Repurchases of Equity Securities.

On March 30, 2015, the Company announced that the Board has authorized the repurchase of up to 1,055,098 shares of the Company's common stock, which represents approximately 5% of the Company's issued and outstanding shares of common stock. In accordance with the Company's internal restrictions on trading in the Company's shares, no shares may be repurchased pursuant to the authorization until, at the earliest, the third business day after the Company files its Quarterly Report on Form 10-Q for the first quarter of 2015 with the Securities and Exchange Commission. The authorization will expire on December 31, 2015 unless extended by the Company's Board of Directors. As of March 31, 2015, the Company had repurchased 4,239,134 shares of its common stock out of the 5,047,423 that had been authorized for repurchase under previous share repurchase plans that expired in 2012.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number Description

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101	The following financial statements from the BankFinancial Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, formatted in Extensive Business Reporting Language (XBRL): (i) consolidated statement of conditions, (ii) consolidated statements of operations, (iii) consolidated statements of cash flows and (iv) the notes to consolidated financial statements.

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

SIGNATURES

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

BANKFINANCIAL CORPORATION

Dated: May 4, 2015

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