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

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2019

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 Its Charter)

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

60 North Frontage Road, Burr Ridge, Illinois 60527
(Address of Principal Executive Offices)
Registrant's telephone number, including area code: (800) 894-6900

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the issuer is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ☐ No x.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No x.

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No ☐

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

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

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

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

The aggregate market value of the registrant's outstanding common stock held by non-affiliates on June 30, 2019, determined using a per share closing price on that date of $13.99, as quoted on The Nasdaq Global Select Market, was $200.6 million.

At March 3, 2020, there were 15,206,787 shares of common stock, $0.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for the 2020 Annual Meeting of Stockholders (Part III)

BANKFINANCIAL CORPORATION

Form 10-K Annual Report

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PART I

ITEM 1. BUSINESS

Forward Looking Statements

This Annual Report on Form 10-K 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, which 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, expenses, earnings, losses, financial performance, financial condition, asset quality metrics and future prospects. Forward looking statements are generally identifiable by use of the words “believe,” “may,” “will,” “should,” “could,” “continue,” “expect,” “estimate,” “intend,” “anticipate,” “project,” “plan,” or similar expressions. Forward looking statements are frequently based on assumptions that may or may not materialize, and are subject to numerous uncertainties that could cause actual results to differ materially from those anticipated in the forward looking statements. We intend all forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for the purpose of invoking these safe harbor provisions.

Factors that could cause actual results to differ materially from the results anticipated or projected and which could materially and adversely affect our operating results, financial condition or future prospects include, but are not limited to: (i) less than anticipated loan growth due to intense competition for loans and leases, particularly in terms of pricing and credit underwriting; (ii) the impact of re-pricing and competitors’ pricing initiatives on loan and deposit products; (iii) interest rate movements and their impact on the economy, customer behavior and our net interest margin; (iv) adverse economic conditions in general or specific events such as a pandemic or terrorism, and in the markets in which we lend that could result in increased delinquencies in our loan portfolio or a decline in the value of our investment securities and the collateral for our loans; (v) declines in real estate values that adversely impact the value of our loan collateral, 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 for loan losses; (x) monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board; (xi) factors affecting our ability to access deposits or cost-effective funding, and the impact of competitors' pricing initiatives on our deposit products; (xii) legislative or regulatory changes that have an adverse impact on our products, services, operations and operating expenses; (xiii) higher federal deposit insurance premiums; (xiv) higher than expected overhead, infrastructure and compliance costs; (xv) changes in accounting principles, policies or guidelines; (xvi) the effects of any federal government shutdown; and (xvii) privacy and cybersecurity risks, including the risks of business interruption and the compromise of confidential customer information resulting from intrusions.

These risks and uncertainties, as well as the Risk Factors set forth in Item 1A below, should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Forward looking statements speak only as of the date they are made. We do not undertake any obligation to update any forward-looking statement in the future, or to reflect circumstances and events that occur after the date on which the forward-looking statement was made.

BankFinancial Corporation

BankFinancial Corporation, a Maryland corporation headquartered in Burr Ridge, Illinois (the “Company”), became the owner of all of the issued and outstanding capital stock of BankFinancial, F.S.B. (the “Bank”) in 2005, when we consummated a plan of conversion and reorganization that the Bank and its predecessor holding companies, BankFinancial MHC, Inc. and BankFinancial Corporation, a federal corporation, adopted on August 25, 2004. BankFinancial Corporation, the Maryland corporation, was organized in 2004 to facilitate the mutual-to-stock conversion and to become the holding company for the Bank upon its completion.

Following the approval of applications that the Company filed with the Board of Governors of the Federal Reserve System and the Bank filed with the Office of the Comptroller of the Currency (“OCC”), the Company became a bank holding company and the Bank became a national bank on November 30, 2016. As a result of the Bank’s conversion from a federal savings bank charter to a national bank charter, the Bank changed its name from BankFinancial, F.S.B. to BankFinancial, National Association.

We manage our operations as one unit, and thus do not have separate operating segments. Our chief operating decision-makers use consolidated results to make operating and strategic decisions.

BankFinancial, National Association

The Bank is a full-service, national bank principally engaged in the business of commercial, family and personal banking. The Bank offers our customers a broad range of loan, deposit, trust and other financial products and services through 19 full-service Illinois based banking offices located in Cook, DuPage, Lake and Will Counties, and through our Internet Branch, www.bankfinancial.com.

The Bank's primary business is making loans and accepting deposits. The Bank also offers our customers a variety of financial products and services that are related or ancillary to loans and deposits, including cash management, funds transfers, bill payment and other online and mobile banking transactions, automated teller machines, safe deposit boxes, trust services, wealth management, and general insurance agency services.

The Bank's primary lending area consists of the counties where our branch offices are located, and contiguous counties in the State of Illinois. In 2019, we derived the most significant portion of our revenues from these geographic areas. However, we also engage in multi-family lending activities in selected Metropolitan Statistical Areas outside our primary lending area and engage in healthcare lending and commercial equipment finance activities on a nationwide basis.

We originate deposits predominantly from the areas where our branch offices are located. We rely on our favorable locations, customer service, competitive pricing, our Internet Branch and related deposit services such as cash management to attract and retain these deposits. While we accept certificates of deposit in excess of the Federal Deposit Insurance Corporation ("FDIC") deposit insurance limits, we generally do not solicit such deposits because they are more difficult to retain than core deposits and at times are more costly than wholesale deposits.

Lending Activities

Our loan portfolio consists primarily of multi-family real estate, nonresidential real estate, construction and land loans, commercial loans and commercial leases, which represented $1.117 billion, or 95.1%, of our gross loan portfolio of $1.175 billion at December 31, 2019. At December 31, 2019, $563.8 million, or 48.0%, of our loan portfolio consisted of multi-family mortgage loans; $134.7 million, or 11.5%, of our loan portfolio consisted of nonresidential real estate loans; $145.7 million, or 12.4%, of our loan portfolio consisted of commercial loans; and $272.6 million, or 23.2%, of our loan portfolio consisted of commercial leases. $55.8 million, or 4.7%, of our loan portfolio consisted of one-to-four family residential mortgage loans, of which $10.8 million, or 0.9%, were loans to investors secured by non-owner occupied residential properties, including home equity loans and lines of credit.

Deposit Activities

Our deposit accounts consist principally of savings accounts, NOW accounts, checking accounts, money market accounts, certificates of deposit, and IRAs and other retirement accounts. We provide commercial checking accounts and related services such as cash management. We also provide low-cost checking account services. We rely on our favorable locations, customer service, competitive pricing, our Internet Branch and related deposit services such as cash management to attract and retain deposit accounts.

At December 31, 2019, our deposits totaled $1.285 billion. Interest-bearing deposits totaled $1.074 billion, or 83.6% of total deposits, and noninterest-bearing demand deposits totaled $210.8 million, or 16.4% of total deposits. Savings, money market and NOW account deposits totaled $672.0 million, or 52.3% of total deposits, and certificates of deposit totaled $402.0 million, or 31.3% of total deposits, of which $335.9 million had maturities of one year or less.

Related Products and Services

The Bank provides trust and financial planning services through our Trust Department. The Bank's wholly-owned subsidiary, Financial Assurance Services, Inc. ("Financial Assurance"), sells property and casualty insurance and other insurance products on an agency basis. For the year ended December 31, 2019, Financial Assurance recorded a net loss of $89,000. At December 31, 2019, Financial Assurance had two full-time employees. The Bank's other wholly-owned subsidiary, BFIN Asset Recovery Company, LLC (formerly BF Asset Recovery Corporation), holds title to and sells certain Bank-owned real estate acquired through foreclosure and collection actions, and recorded a net loss of $120,000 for the year ended December 31, 2019.

Website and Stockholder Information

The website for the Company and the Bank is www.bankfinancial.com. Information on this website does not constitute part of this Annual Report on Form 10-K.

The Company makes available, free of charge, its Annual Report on Form 10-K, its Quarterly Reports on Form 10-Q, its Current Reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), as soon as reasonably practicable after such forms are filed with or furnished to the Securities and Exchange Commission ("SEC"). Copies of these documents are available to stockholders at the website for the Company and the Bank, www.bankfinancial.com, under "Investor Relations," and through the EDGAR database on the SEC's website, www.sec.gov.

Competition

We face significant competition in originating loans and attracting deposits. The Chicago Metropolitan Statistical Area and the other markets in which we operate generally have a high concentration of financial institutions, many of which are significantly larger institutions that have greater financial resources than we have, and many of which are our competitors to varying degrees. Our competition for loans and leases comes principally from commercial banks, savings banks, mortgage banking companies, the U.S. Government, credit unions, leasing companies, insurance companies, real estate conduits and other companies that provide financial services to businesses and individuals. Our most direct competition for deposits has historically come from commercial banks, savings banks and credit unions. We face additional competition for deposits from online financial institutions and non-depository competitors such as the mutual fund industry, securities and brokerage firms and insurance companies.

We seek to meet this competition by emphasizing personalized service and efficient decision-making tailored to individual needs. We do not rely on any individual, group or entity for a material portion of our loans or our deposits.

Employees

At December 31, 2019, the Bank had 198 full-time employees and 44 part-time employees. The employees are not represented by a collective bargaining unit and we consider our working relationship with our employees to be good.

Supervision and Regulation

General

In 2016, the Bank converted from a federal savings bank charter to a national bank charter. As a national bank, the Bank is regulated and supervised primarily by the OCC. The Bank is also subject to regulation by the FDIC in more limited circumstances because the Bank's deposits are insured by the FDIC. This regulatory and supervisory structure establishes a comprehensive framework of the activities in which a depository institution may engage, and is intended primarily for the protection of the FDIC's deposit insurance fund, depositors and the banking system. Under this system of federal regulation, depository institutions are periodically examined to ensure that they satisfy applicable standards with respect to their capital adequacy, assets, management, earnings, liquidity and sensitivity to market interest rates. The OCC examines the Bank and prepares reports for the consideration of its Board of Directors on any identified deficiencies, if any. After completing an examination, the OCC issues a report of examination and assigns a rating (known as an institution's CAMELS rating). Under federal law and regulations, an institution may not disclose the contents of its reports of examination or its CAMELS ratings to the public.

The Bank is a member of, and owns stock in, the Federal Home Loan Bank of Chicago ("FHLB") and the Federal Reserve Bank of Chicago. The Board of Governors of the Federal Reserve System ("FRB") has limited regulatory jurisdiction over the Bank with regard to reserves it must maintain against deposits, check processing and certain other matters. The Bank's relationship with its depositors and borrowers also is regulated in some respects by both federal and state laws, especially in matters concerning the ownership of deposit accounts, and the form and content of the Bank's consumer loan documents.

The Company is a bank holding company within the meaning of federal law. As such, it is subject to supervision and examination by the FRB. The Company was previously a savings and loan holding company but became a bank holding company in connection with the Bank's conversion to a national bank charter in 2016.

There can be no assurance that laws, rules and regulations, and regulatory policies will not change in the future. Such changes could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition, results of operations or prospects. Any change in the laws or regulations, or in regulatory policy, whether by the OCC, the FDIC, the FRB, the Consumer Financial Protection Bureau ("CFPB") or the United States ("U.S.") Congress could have a material adverse impact on the Company, the Bank and their respective operations.

The following summary of laws and regulations applicable to the Bank and Company is not intended to be exhaustive and is qualified in its entirety by reference to the actual laws and regulations involved.

Federal Banking Regulation

Business Activities. As a national bank, the Bank derives its lending and investment powers from the National Bank Act, as amended, and the regulations of the OCC. Under these laws and regulations, the Bank may invest in mortgage loans secured by residential and nonresidential real estate, commercial business and consumer loans and leases, certain types of securities and certain other loans and assets. Unlike federal savings banks, national banks are not generally subject to specified percentage of assets on various types of lending. The Bank may also establish subsidiaries that engage in activities permitted for the Bank as well as certain other activities.

Capital Requirements. Federal regulations require FDIC-insured depository institutions, including national banks, to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8% and a 4% Tier 1 capital to total assets leverage ratio. The existing capital requirements were effective January 1, 2015 and are the result of a final rule implementing regulatory amendments based on recommendations of the Basel Committee on Banking Supervision and certain requirements of the Dodd Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act").

For purposes of the regulatory capital requirements, common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and Additional Tier 1 capital. Additional Tier 1 capital generally includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus Additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income ("AOCI"), up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Institutions that have not exercised the AOCI opt-out have AOCI incorporated into common equity Tier 1 capital (including unrealized gains and losses on available-for-sale securities). Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

In determining the amount of risk-weighted assets a bank has for purposes of calculating risk-based capital ratios, assets, including certain off-balance-sheet assets (*e.g.*, recourse obligations, direct credit substitutes, residual interests) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien one-to-four family residential mortgages and certain qualifying multi-family mortgage loans, a risk weight of 100% is assigned to commercial, commercial real estate and consumer loans, a risk weight of 150% is assigned to certain past due loans and high volatility commercial real estate loans, and a risk weight of between 0% to 600% is assigned to permissible equity interests, depending on certain specified factors.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement was fully implemented at 2.5% on January 1, 2019.

At December 31, 2019, the Bank's capital exceeded all applicable regulatory requirements, the Bank was considered well-capitalized and it had an appropriate capital conservation buffer.

The Company and the Bank each have adopted Regulatory Capital Plans that provide that the Bank will maintain a Tier 1 leverage ratio of at least 7.5% and a total risk-based capital ratio of at least 10.5%. The capital ratios set forth in the Regulatory Capital Plans will be adjusted if and as necessary. 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 capital levels. In addition, in accordance with its Regulatory Capital Plan, the Company expects it 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.

Legislation enacted in May 2018 required the federal banking agencies, including the OCC, to establish a "community bank leverage ratio" of between 8 to 10% of average total consolidated assets for qualifying institutions with assets of less than $10 billion of assets. The OCC has adopted a final rule that established 9% as the community bank leverage ratio, effective March 31,

2020. Institutions with capital meeting the specified requirement and electing to follow the alternative framework would be deemed to comply with the applicable regulatory capital requirements, including the risk-based requirements.

Loans-to-One-Borrower. A national bank generally may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of December 31, 2019, the Bank was in compliance with the loans-to-one-borrower limitations.

Dividends. Federal law and OCC regulations govern cash dividends by a national bank. A national bank is authorized to pay such dividends from undivided profits but must receive prior OCC approval if the total amount of dividends (including the proposed dividend) exceeds its net income in that year and the prior two years less dividends previously paid. A national bank may not pay a dividend if it does not comply with applicable regulatory capital requirements and may be further limited in payment of cash dividends if it does not maintain the capital conservation buffer described previously.

Community Reinvestment Act and Fair Lending Laws. All national banks have a responsibility under the Community Reinvestment Act ("CRA") and related federal regulations to help meet the credit needs of their communities, including low- and moderate- income neighborhoods. In connection with its examination of a national bank, the OCC is required to evaluate and rate the bank's record of compliance with the CRA. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices based on the characteristics specified in those statutes. A national bank's failure to comply with the provisions of the CRA could, at a minimum, result in regulatory restrictions on certain of its activities such as branching or mergers. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the OCC, as well as other federal regulatory agencies and the Department of Justice. The Bank's CRA performance has been rated as "Outstanding" by its primary federal regulatory agency since 1998.

Transactions with Related Parties. A national bank's authority to engage in transactions with its "affiliates" is limited by OCC regulations and by Sections 23A and 23B of the Federal Reserve Act and its implementing regulation, Regulation W. The term "affiliates" for these purposes generally means any company that controls or is under common control with an insured depository institution, although operating subsidiaries of national banks are generally not considered affiliates for the purposes of Sections 23A and 23B of the Federal Reserve Act. The Company is an affiliate of the Bank. In general, transactions with affiliates must be on terms that are at least as favorable to the national bank as comparable transactions with non-affiliates. In addition, certain types of these transactions are restricted to an aggregate percentage of the bank's capital. Collateral in specified amounts must be provided by affiliates in order to receive loans or other forms of credit from the bank.

The Bank's authority to extend credit to its directors, executive officers and 10% stockholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the FRB. These provisions require that extensions of credit to insiders generally be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and not involve more than the normal risk of repayment or present other unfavorable features (subject to an exception for lending programs open to employees generally). In addition, there are limitations on the amount of credit extended to such persons, individually and in the aggregate based on a percentage of the Bank's capital. Extensions of credit in excess of specified limits must receive the prior approval of the Bank's Board of Directors. Extensions of credit to executive officers are subject to additional restrictions. The Bank does not extend new credit to executive officers or members of the Board of Directors.

Enforcement. The OCC has primary enforcement responsibility over national banks. This includes authority to bring enforcement actions against the Bank, its directors, officers and employees and all "institution-affiliated parties," including stockholders, attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to the removal of officers and/or directors, receivership, conservatorship or the termination of deposit insurance. Civil monetary penalties cover a wide range of violations and actions, and range up to $25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as $1 million per day. The FDIC has authority to recommend to the OCC that an enforcement action be taken with respect to a particular insured bank. If action is not taken by the OCC, the FDIC has authority to take action under specified circumstances.

Standards for Safety and Soundness. Federal law requires each federal banking agency to prescribe certain standards for insured depository institutions under its jurisdiction. The federal banking agencies adopted Interagency Guidelines Prescribing Standards for Safety and Soundness to implement the safety and soundness standards required under federal law. The guidelines set forth the standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The guidelines address matters such as internal controls and information systems, internal audit systems, credit underwriting, loan documentation, interest rate risk exposure, asset growth, compensation, fees and benefits. A subsequent set of guidelines was issued for information security. If the OCC determines that a national bank fails to meet any standard prescribed by the guidelines, it may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard and take other appropriate action.

Prompt Corrective Action Regulations. Federal law requires that federal bank regulators take “prompt corrective action” with respect to institutions that do not meet minimum capital requirements. For this purpose, the law establishes five capital categories: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. The applicable OCC regulations were amended to incorporate the previously mentioned increased regulatory capital standards that were effective January 1, 2015. Under the amended regulations, an institution is deemed to be “well-capitalized” if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater. An institution is “adequately capitalized” if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a common equity Tier 1 ratio of 4.5% or greater. An institution is “undercapitalized” if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%. An institution is deemed to be “significantly undercapitalized” if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0% or a common equity Tier 1 ratio of less than 3.0%. An institution is considered to be “critically undercapitalized” if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

The regulations provide that a capital restoration plan must be filed with the OCC within 45 days of the date a national bank receives notice that it is “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized.” Any holding company for the bank required to submit a capital restoration plan must guarantee the lesser of an amount equal to 5.0% of the bank’s assets at the time it was notified or deemed to be undercapitalized by the OCC, or the amount necessary to restore the bank to adequately capitalized status. This guarantee remains in place until the OCC notifies the bank that it has maintained adequately capitalized status for each of four consecutive calendar quarters, and the OCC has the authority to require payment and collect payment under the guarantee. Various restrictions, including as to growth and capital distributions, also apply to “undercapitalized” institutions. If an “undercapitalized” institution fails to submit an acceptable capital plan, it is treated as “significantly undercapitalized.” “Significantly undercapitalized” institutions must comply with one or more additional restrictions including, but not limited to, an order by the OCC to sell sufficient voting stock to become adequately capitalized, a requirement to reduce total assets, cease receipt of deposits from correspondent banks or dismiss officers or directors and restrictions on interest rates paid on deposits, compensation of executive officers and capital distributions by the parent holding company. Critically undercapitalized institutions are subject to the appointment of a receiver or conservator. The OCC may also take any one of a number of discretionary supervisory actions against undercapitalized institutions, including the issuance of a capital directive.

At December 31, 2019, the Bank met the criteria for being considered “well-capitalized.” The previously referenced final rule establishing an elective “community bank leverage ratio” regulatory capital requirement provides that a qualifying institution whose capital exceeds the community bank leverage ratio and opts to use that framework will be considered “well-capitalized” for purposes of prompt corrective action.

Insurance of Deposit Accounts. The Bank’s deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. Deposit accounts in the Bank are insured up to $250,000 for each separately insured depositor.

The FDIC charges insured depository institutions premiums to maintain the Deposit Insurance Fund. Until July 1, 2016, insured depository institutions were assigned a risk category based on supervisory evaluations, regulatory capital levels and certain other factors. An institution’s rate depended upon the risk category to which it is assigned and certain adjustments specified by FDIC regulations. Institutions deemed less risky pay lower FDIC assessments. The Dodd-Frank Act required the FDIC to revise its procedures to base its assessments upon each insured institution’s total assets less tangible equity instead of deposits. The FDIC finalized a rule, effective April 1, 2011, that set the assessment range at 2.5 to 45 basis points of total assets less tangible equity.

Effective July 1, 2016, the FDIC adopted changes that eliminated the risk categories. Assessments for most institutions are now based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of failure within three years. In conjunction with the Deposit Insurance Fund's reserve ratio achieving 1.15%, the assessment range (inclusive of possible adjustments) was reduced for insured institutions of less than $10 billion in total assets to a range of 1.5 basis points to 30 basis points.

The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC was required to seek to achieve the 1.35% ratio by September 30, 2020. The FDIC indicated that the 1.35% ratio was exceeded in November 2018. Insured institutions of less than $10 billion of assets are receiving credits for the portion of their assessments that contributed to the reserve ratio between 1.15% and 1.35%. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the FDIC, and the FDIC has exercised that discretion by establishing a long-range fund ratio of 2%.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. The Bank cannot predict what its insurance assessment rates will be in the future.

An insured institution’s deposit insurance may be terminated by the FDIC upon an administrative finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or regulatory condition imposed in writing. The management of the Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Prohibitions Against Tying Arrangements. National banks are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Federal Reserve System. The Bank is a member of the Federal Reserve System, which consists of 12 regional Federal Reserve Banks. As a member of the Federal Reserve System, the Bank is required to acquire and hold shares of capital stock in its regional Federal Reserve Bank, the Federal Reserve Bank of Chicago, in specified amounts. The Bank is also required to maintain noninterest-earning reserves against its transaction accounts, such as negotiable order of withdrawal and regular checking accounts. The balances maintained to meet the reserve requirements may be used to satisfy liquidity requirements imposed by the OCC’s regulations. As of December 31, 2019, the Bank was in compliance with all of these requirements. The FRB also provides a backup source of funding to depository institutions through the regional Federal Reserve Banks pursuant to section 10B of the Federal Reserve Act and Regulation A. In general, eligible depository institutions have access to three types of discount window credit-primary credit, secondary credit, and seasonal credit. All discount window loans must be collateralized to the satisfaction of the lending regional Federal Reserve Bank.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank System, which consists of 11 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions. As a member of the FHLB, the Bank is required to acquire and hold shares of capital stock in the FHLB in specified amounts. As of December 31, 2019, the Bank was in compliance with this requirement.

The USA PATRIOT Act and the Bank Secrecy Act

The USA PATRIOT Act and the Bank Secrecy Act require financial institutions to develop programs to detect and report money-laundering and terrorist activities, as well as suspicious activities. The USA PATRIOT Act also gives the federal government powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. The federal banking agencies are required to take into consideration the effectiveness of controls designed to combat money-laundering activities in determining whether to approve a merger or other acquisition application of a member institution. Accordingly, if we engage in a merger or other acquisition, our controls designed to combat money laundering would be considered as part of the application process. In addition, non-compliance with these laws and regulations could result in fines, penalties and other enforcement measures. We have developed policies, procedures and systems designed to comply with these laws and regulations.

Holding Company Regulation

The Company, as a company controlling a national bank, is a bank holding company subject to regulation and supervision by, and reporting to, the FRB. The FRB has enforcement authority over the Company and any nonbank subsidiaries. Among other things, this authority permits the FRB to restrict or prohibit activities that are determined to be a risk to the Bank.

The Company's activities are limited to the activities permissible for bank holding companies, which generally include activities deemed by the FRB to be closely related or a proper incident to banking or managing or controlling banks. A bank holding company that meets certain criteria may elect to be regulated as a financial holding company and thereby engage in a broader array of financial activities, such as underwriting equity securities and insurance. The Company has not, up to now, elected to be regulated as a financial holding company.

Federal law prohibits a bank holding company from acquiring, directly or indirectly, more than 5% of a class of voting securities of, or all or substantially all of the assets of, another bank or bank holding company, without prior written approval of the FRB. In evaluating applications by bank holding companies to acquire banks, the FRB considers, among other things, the financial and managerial resources and future prospects of the parties, the effect of the acquisition on the risk to the Deposit Insurance Fund, the convenience and needs of the community, competitive factors and compliance with anti-money laundering laws.

Capital. Bank holding companies with greater than $3 billion in total consolidated assets are subject to consolidated regulatory capital requirements. The asset threshold was previously $1 billion, which applied to the Company, but federal legislation required the FRB to raise the threshold to $3 billion. That change became effective on August 30, 2018. As a result, holding companies of less than $3 billion of assets are not subject to consolidated capital requirements unless otherwise advised by the FRB.

Source of Strength Doctrine. The “source of strength doctrine” requires bank holding companies to provide assistance to their subsidiary depository institutions in the event the subsidiary depository institution experiences financial difficulty. The FRB has issued regulations requiring that all bank holding companies serve as a source of financial and managerial strength to their subsidiary depository institutions. In that regard, the Company has made certain commitments in a Regulatory Capital Plan, as described earlier under "Federal Bank Regulation: *Capital Requirements*".

Capital Distributions. The FRB has issued a policy statement regarding the payment of dividends by bank holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization’s capital needs, asset quality and overall supervisory financial condition. Separate regulatory guidance provides for prior consultation with Federal Reserve Bank supervisory staff concerning dividends in certain circumstances, such as where the company’s net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company’s overall rate or earnings retention is inconsistent with the company’s capital needs and overall financial condition. The ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. FRB regulatory guidance also indicates that a bank holding company should inform Federal Reserve Bank staff prior to redeeming or repurchasing common stock or perpetual preferred stock if the bank holding company is experiencing financial weaknesses or the repurchase or redemption would result in a net reduction, at the end of a quarter, in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. FRB regulations require prior approval for a bank holding company to redeem equity securities if the gross consideration, when combined with net consideration paid for all such redemptions during the preceding 12 months, will equal 10% or more of the holding company’s consolidated net worth. There is an exception for bank holding companies that meet specified qualitative criteria. These regulatory policies may affect the ability of the Company to pay dividends, repurchase shares of its common stock or otherwise engage in capital distributions.

Change in Control Regulations

Under the Change in Bank Control Act, no person may acquire control of a bank holding company such as the Company unless the FRB has been given 60 days’ prior written notice and has not issued a notice disapproving the proposed acquisition, taking into consideration certain factors, including the financial and managerial resources of the acquiror and the competitive effects of the acquisition. Control, as defined under federal law, means ownership, control of or holding irrevocable proxies representing more than 25% of any class of voting stock, control in any manner of the election of a majority of the company’s directors, or a determination by the regulator that the acquiror has the power to direct, or directly or indirectly to exercise a controlling influence over, the management or policies of the institution. Acquisition of more than 10% of any class of a bank holding company’s voting stock constitutes a rebuttable presumption of control under the regulations under certain circumstances including where, as is the case with the Company, the issuer has securities registered under Section 12 of the Exchange Act.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 was enacted in response to public concerns regarding corporate accountability in connection with certain accounting scandals. The stated goals of the Sarbanes-Oxley Act are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Sarbanes-Oxley Act generally applies to all companies that file or are required to file periodic reports with the SEC, under the Exchange Act.

The Sarbanes-Oxley Act includes specific additional disclosure requirements, requires the SEC and national securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules, and mandates further studies of certain issues by the SEC.

Federal Securities Laws

The Company’s common stock is registered with the SEC under the Exchange Act. The Company is subject to the information, proxy solicitation, insider trading restrictions and other requirements of the Exchange Act.

ITEM 1A. RISK FACTORS

An investment in our securities is subject to risks inherent in our business and the industry in which we operate. Before making an investment decision, you should carefully consider the risks and uncertainties described below and all other information included in this report. The risks described below may adversely affect our business, financial condition and operating results. In addition to these risks and the other risks and uncertainties described in Item 1, “Business–Forward Looking Statements,” and Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations,” there may be additional risks and uncertainties that are not currently known to us or that we currently deem to be immaterial that could materially and adversely affect our business, financial condition or operating results. The value or market price of our securities could decline due to any of these identified or other risks. Past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods.

Our future growth and success will depend on our ability to compete effectively in a highly competitive environment

We face substantial competition in all phases of our operations from a variety of different competitors. Our future growth and success will depend on our ability to compete effectively in this highly competitive environment. To date, our competitive strategies have focused on attracting deposits in our local markets, and growing our loan and lease portfolio by emphasizing specific loan products in which we have significant experience and expertise, identifying and targeting markets in which we believe we can effectively compete with larger institutions and other competitors, and offering competitive pricing to commercial borrowers with appropriate risk profiles. We compete for loans, leases, deposits and other financial services with other commercial banks, thrifts, credit unions, brokerage houses, mutual funds, insurance companies, real estate conduits, mortgage brokers and specialized finance companies. Many of our competitors offer products and services that we do not offer, and some offer loan structures and have underwriting standards that are not as restrictive as our required loan structures and underwriting standards. Some larger competitors have substantially greater resources and lending limits, name recognition and market presence that benefits them in attracting business. In addition, larger competitors may be able to price loans, leases and deposits more aggressively than we do, and because of their larger capital bases, their underwriting practices for smaller loans may be subject to less regulatory scrutiny than they would be for smaller banks. Newer competitors may be more aggressive in pricing loans, leases and deposits in order to increase their market share. Some of the financial institutions and financial services organizations with which we compete are not subject to the extensive regulations imposed on national banks and their holding companies. As a result, these nonbank competitors have certain advantages over us in accessing funding and in providing various financial services.

Changes in market interest rates could adversely affect our financial condition and results of operations

Our financial condition and results of operations are significantly affected by changes in market interest rates because our assets, primarily loans and leases, and our liabilities, primarily deposits, are monetary in nature. Our results of operations depend substantially on our net interest income, which is the difference between the interest income that we earn on our interest-earning assets and the interest expense that we pay on our interest-bearing liabilities. Market interest rates are affected by many factors beyond our control, including inflation, recession, unemployment, money supply, domestic and international events, and changes in the U.S. and other financial markets. Our net interest income is affected not only by the level and direction of interest rates, but also by the shape of the yield curve and relationships between interest sensitive instruments and key driver rates, including credit risk spreads, and by balance sheet growth, customer loan and deposit preferences and the timing of changes in these variables which themselves are impacted by changes in market interest rates. As a result, changes in market interest rates can significantly affect our net interest income as well as the fair market valuation of our assets and liabilities, particularly if they occur more quickly or to a greater extent than anticipated.

While we take measures intended to manage the risks from changes in market interest rates, we cannot control or accurately predict changes in market rates of interest or deposit attrition due to those changes, or be sure that our protective measures are adequate. If the interest rates paid on deposits and other interest-bearing liabilities increase at a faster rate than the interest rates received on loans and other interest-earning assets, our net interest income, and therefore earnings, could be adversely affected. We would also incur a higher cost of funds to retain our deposits in a rising interest rate environment. While the higher payment amounts we would receive on adjustable-rate or variable-rate loans in a rising interest rate environment may increase our interest income, some borrowers may be unable to afford the higher payment amounts, and this could result in a higher rate of default. Rising interest rates also may reduce the demand for loans and the value of fixed-rate investment securities.

We are required to transition from the use of the LIBOR interest rate index.

We have certain loans indexed to LIBOR to calculate the loan interest rate. The LIBOR index will be discontinued December 31, 2021. At this time, no consensus exists as to what rate or rates may become acceptable alternatives to LIBOR. The implementation of a substitute index or indices for the calculation of interest rates under our loan agreements with our borrowers may incur significant expenses in effecting the transition, may result in reduced loan balances if borrowers do not accept the substitute index or indices, and may result in disputes or litigation with customers over the appropriateness or comparability to LIBOR of the substitute index or indices, which could have an adverse effect on our results of operations. Additionally, since alternative rates are calculated differently, the transition may change our market risk profile, requiring changes to risk and pricing models.

Our commercial real estate loans constitute a concentration of credit and thus are subject to enhanced regulatory scrutiny and require us to utilize enhanced risk management techniques

A substantial portion of our loan portfolio is secured by real estate. Our commercial real estate loan portfolio generally consists of multi-family mortgage loans originated in selected geographic markets and nonresidential real estate loans originated in the Chicago market. At December 31, 2019, our loan portfolio included $563.8 million in multi-family mortgage loans, or 48.0% of total loans, and $105.1 million in non-owner occupied nonresidential real estate loans, or 8.9% of total loans. These commercial real estate loans represented 393.3% of the Bank’s $170.2 million total risk-based capital at December 31, 2019, and thus are considered a concentration of credit for regulatory purposes. Concentrations of credit are pools of loans whose collective performance has the potential to affect a bank negatively even if each individual transaction within the pool is soundly underwritten. When loans in a pool are sensitive to the same economic, financial, or business development, that sensitivity, if triggered, could cause the sum of the transactions to perform as if it were a single, large exposure. As such, concentrations of credit add a dimension of risk that compounds the risk inherent in individual loans.

The OCC expects banks to implement board-approved policies and procedures to identify, measure, monitor, and control concentration risks, taking into account the potential impact on earnings and capital under stressed market conditions, economic downturns, and periods of general market illiquidity as well as normal market conditions. Enhanced risk management is required for commercial real estate concentrations exceeding 300% of total risk-based capital. The Bank has established board-approved policies and procedures to identify, measure, monitor, control and stress test its concentrations of credit. The Bank has taken other specific steps to mitigate concentrations of credit risk, including the establishment of concentrations of credit limits based on loan type and geography, the maintenance of capital in excess of the minimum regulatory requirements, the establishment of appropriate underwriting standards for specific loan types and geographic markets, active portfolio management and an emphasis on originating multi-family loans that qualify for 50% risk-weighting under the regulatory capital rules. At December 31, 2019, $336.3 million of the Bank’s multi-family loans, or 59.7% of the Bank’s total multi-family loan portfolio, qualified for 50% risk-weighting under the regulatory capital rules. The Bank’s earnings and capital could be materially and adversely impacted if economic, financial, or business developments were to occur that materially and adversely impacted all or a material portion of the Bank’s commercial real estate loans and caused them to perform as a single, large exposure.

Adverse changes in local economic conditions and adverse conditions in an industry on which a local market in which we do business depends could negatively affect our financial condition or results of operations

Except for our commercial equipment leasing and healthcare lending activities, which we conduct on a nationwide basis, and our multi-family lending activities, which we conduct in selected Metropolitan Statistical Areas, including, but not limited to, the Metropolitan Statistical Areas for Chicago, Illinois, Dallas and San Antonio, Texas, Denver, Colorado, Tampa, Florida, Greenville-Spartanburg, South Carolina and Minneapolis, Minnesota, our loan and deposit activities are generally conducted in the Metropolitan Statistical Area for Chicago, Illinois. Our loan and deposit activities are directly affected by, and our financial success depends on, economic conditions within the local markets in which we do business, as well as conditions in the industries on which those markets are economically dependent. A deterioration in local economic conditions or in the condition of an industry on which a local market depends could adversely affect such factors as unemployment rates, business formations and expansions, housing demand, apartment vacancy rates and real estate values in the local market, and this could result in, among other things, a decline in loan and lease demand, a reduction in the number of creditworthy borrowers seeking loans, an increase in loan delinquencies, defaults and foreclosures, an increase in classified and nonaccrual loans, a decrease in the value of the collateral for our loans, and a decline in the net worth and liquidity of our borrowers and guarantors. Any of these factors could negatively affect our financial condition or results of operations.

In addition, our loan portfolio includes fixed- and adjustable-rate first mortgage loans, home equity loans and home equity lines of credit secured by one-to-four family residential properties primarily located in the Chicago metropolitan area. Residential real estate lending is sensitive to regional and local economic conditions that may significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. Residential loans with high combined loan-to-value ratios generally are more sensitive to declining property values than those with lower combined loan-to-value ratios and therefore may experience a higher incidence of default and severity of losses. In addition, if the borrowers sell their homes, the borrowers may be unable to repay their loans in full from the sale proceeds. As a result, these loans may experience higher rates of delinquencies, defaults and losses, which could in turn adversely affect our financial condition and results of operations.

The City of Chicago and the State of Illinois have experienced significant financial difficulties, and this could adversely impact certain borrowers and the economic vitality of the City and State

The City of Chicago and the State of Illinois are experiencing significant financial difficulties, including material pension funding shortfalls. These issues could impact the economic vitality of the City of Chicago and the State of Illinois and the businesses operating there, encourage businesses to leave the City of Chicago or the State of Illinois, and discourage new employers from starting or moving businesses to there. These issues could also result in delays in the payment of accounts receivable owed to borrowers that conduct business with the State of Illinois and Medicaid payments to nursing homes and other healthcare providers in Illinois, and impair their ability to repay their loans when due.

Repayment of our commercial and commercial real estate loans typically depends on the cash flows of the borrower. If a borrower's cash flows weaken or become uncertain, the loan may need to be classified, the collateral securing the loan may decline in value and we may need to increase our loan loss reserves or record a charge-off

We underwrite our commercial and commercial real estate loans primarily based on the historical and expected cash flows of the borrower. Although we consider collateral in the underwriting process, it is a secondary consideration that generally relates to the risk of loss in the event of a borrower default. We follow the OCC's published guidance for assigning risk-ratings to loans, which emphasizes the strength of the borrower's cash flow. The OCC's loan risk-rating guidance provides that the primary consideration in assigning risk-ratings to commercial and commercial real estate loans is the strength of the primary source of repayment, which is defined as a sustainable source of cash under the borrower's control that is reserved, explicitly or implicitly, to cover the debt obligation. The OCC's loan risk-rating guidance typically does not consider secondary repayment sources until the strength of the primary repayment source weakens, and collateral values typically do not have a significant impact on a loan's risk rating until a loan is classified. Consequently, if a borrower's cash flows weaken or become uncertain, the loan may need to be classified, whether or not the loan is performing or fully secured. In addition, real estate appraisers typically place significant weight on the cash flows generated by income-producing real estate and the reliability of the cash flows in performing valuations. Thus, economic or borrower-specific conditions that cause a decline in a borrower's cash flows could cause our loan classifications to increase and the appraised value of the collateral securing our loans to decline, and require us to increase our loan loss reserves, record charge-offs, or increase our capital levels.

Repayment of our lease loans is typically dependent on the cash flows of the lessee, which may be unpredictable, and the collateral securing these loans may fluctuate in value

We lend money to small and mid-sized independent leasing companies to finance the debt portion of leases. A lease loan results when a leasing company discounts the equipment rental revenue stream owed to the leasing company by a lessee. Our lease loans entail many of the same types of risks as our commercial loans. Lease loans generally are non-recourse to the leasing company, and, consequently, our recourse is limited to the lessee and the leased equipment. As with commercial loans secured by equipment, the equipment securing our lease loans may depreciate over time, may be difficult to appraise and may fluctuate in value. We rely on the lessee’s continuing financial stability, rather than the value of the leased equipment, for the repayment of all required amounts under lease loans. In the event of a default on a lease loan, the proceeds from the sale of the leased equipment may not be sufficient to satisfy the outstanding unpaid amounts under the terms of the loan. At December 31, 2019, our lease loans totaled $272.6 million, or 23.2% of our total loan portfolio.

Our loan portfolio includes loans to healthcare providers, and the repayment of these loans is largely dependent upon the receipt of direct or indirect governmental reimbursements

At December 31, 2019, we had $145.1 million of loans and unused commitments to a variety of healthcare providers, including lines of credit secured by healthcare receivables. The repayment of these lines of credit is largely dependent on the borrower's receipt of payments and reimbursements under Medicaid, Medicare and in some cases private insurance contracts for the services they have provided. The ability of the borrowers to service loans we have made to them may be adversely impacted by the financial ability of the federal government or individual state governments to make direct reimbursement payments, or, via managed care organizations operating under agreements with the federal government or individual states, to make indirect reimbursements for the services provided. The failure of a direct or indirect payor to make reimbursements owed to the operators of these facilities, or a significant delay in the making of such reimbursements, could adversely affect the ability of the operators of these facilities to repay their obligations to us. In addition, changes to national health care policy involving private health insurance policies may also affect the business prospects and financial condition or operations of commercial loan customers and commercial lessees involved in health care-related businesses.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings would be adversely impacted

In the event that our loan customers do not repay their loans according to their terms, and the collateral securing the repayment of these loans is insufficient to cover any remaining loan balance, including expenses of collecting the loan and managing and liquidating the collateral, we could experience significant loan losses or increase our provision for loan losses or both, which could have a material adverse effect on our operating results. At December 31, 2019, our allowance for loan losses was $7.6 million, which represented 0.65% of total loans and 901.06% of nonperforming loans as of that date. In determining the amount of our allowance for loan losses, we rely on internal and external loan reviews, our historical experience and our evaluation of economic conditions, among other factors. In addition, we make various estimates and assumptions about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets, if any, serving as collateral for the repayment of our loans. We also make judgments concerning our legal positions and the priority of our liens and interests in contested legal or bankruptcy proceedings, and at times, we may lack sufficient information to establish adequate specific reserves for loans involved in such proceedings. We base these estimates, assumptions and judgments on information that we consider reliable, but if an estimate, assumption or judgment that we make ultimately proves to be incorrect, additional provisions to our allowance for loan losses may become necessary. In addition, as an integral part of their supervisory and/or examination process, the OCC periodically reviews the methodology for and the sufficiency of the allowance for loan losses. The OCC has the authority to require us to recognize additions to the allowance based on their inclusion, exclusion or modification of risk factors or differences in judgments of information available to them at the time of their examination.

A new accounting standard may require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations

The Financial Accounting Standards Board has adopted a new accounting standard that will be effective for the Company and the Bank for our first fiscal year after December 15, 2022. This standard, referred to as Current Expected Credit Loss, or CECL, will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for loan losses. This will change the current method of providing allowances for loan losses that are probable, which may require us to increase our allowance for loan losses, and to greatly increase the types of data we will need to collect and review to determine the appropriate level of the allowance for loan losses. Accordingly, regardless of any actual changes to the composition or performance of our loan portfolio, the new accounting standard may require an increase in our allowance for loan losses or expenses incurred to determine the appropriate level of the allowance for loan losses, and may therefore have a material adverse effect on our financial condition and results of operations.

We could become subject to more stringent capital requirements, which could adversely impact our return on equity, require us to raise additional capital, or constrain us from paying dividends or repurchasing shares

Minimum risk-based capital and leverage ratios, which became effective for us in 2015, are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4%. The final rule also required unrealized gains and losses on certain “available-for-sale” securities holdings to be included for purposes of calculating regulatory capital requirements unless a one-time opt-out was exercised. The Bank exercised this one-time opt-out option. The final rule also established a “capital conservation buffer” of 2.5%, and resulted in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7%, (ii) a Tier 1 to risk-based assets capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The phase in of the new capital conservation buffer requirement began in January 2016 at 0.625% of risk-weighted assets and increased each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such actions.

At December 31, 2019, the Bank has met all of these requirements, including the full 2.5% capital conservation buffer.

The application of these more stringent capital requirements could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions if we were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in our having to lengthen the term of our funding, restructure our business models, and/or increase our holdings of liquid assets. Implementation of changes to asset risk weightings for risk-based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy, and could limit our ability to make distributions, including paying out dividends or buying back shares. Specifically, the Bank’s ability to pay dividends will be limited if it does not have the capital conservation buffer required by the capital rules, which may limit our ability to pay dividends to stockholders. See “Supervision and Regulation-Federal Banking Regulation-Capital Requirements.”

We are subject to security and operational risks relating to our use of technology and our communications and information systems, including the risk of cyber-attack or cyber-theft

Communications and information systems are essential to the conduct of our business, as we use such systems to manage our customer relationships, general ledger and virtually all other aspects of our business. We depend on the secure processing, storage and transmission of confidential and other information in our data processing systems, computers, networks and communications systems. Although we take numerous protective measures and otherwise endeavor to protect and maintain the privacy and security of confidential data, these systems may be vulnerable to unauthorized access, computer viruses, other malicious code, cyber-attacks, cyber-theft and other events that could have a security impact. If one or more of such events were to occur, this potentially could jeopardize confidential and other information processed and stored in, and transmitted through, our systems or otherwise cause interruptions or malfunctions in our or our customers' operations. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are not fully covered by our insurance. Security breaches involving our network or Internet banking systems could expose us to possible liability and deter customers from using our systems. We rely on specific software and hardware systems to provide the security and authentication necessary to protect our network and Internet banking systems from compromises or breaches of our security measures. These precautions may not fully protect our systems from compromises or breaches of our security measures that could result in damage to our reputation and our business. Although we perform most data processing functions internally, we outsource certain services to third parties. If our third-party providers encounter operational difficulties or security breaches, it could affect our ability to adequately process and account for customer transactions, which could significantly affect our business operations.

Our operations rely on numerous external vendors

We rely on numerous external vendors to provide us with products and services necessary to maintain our day-to-day operations. Accordingly, our operations are exposed to risk that these vendors will not perform in accordance with the contracted arrangements under service level agreements. The failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements because of changes in the vendor's organizational structure, financial condition, support for existing products and services or strategic focus or for any other reason, could be disruptive to our operations, which in turn could have a material negative impact on our financial condition and results of operations. We also could be adversely affected to the extent such an agreement is not renewed by the third-party vendor or is renewed on terms less favorable to us.

Our business and operations could be significantly impacted if we or our third-party vendors suffer failure or disruptions of information processing systems, systems failures or security breaches

We have become increasingly dependent on communications, data processing and other information technology systems to manage and conduct our business and support our day-to-day banking, investment, and trust activities, some of which are provided through third-parties. If we or our third-party vendors encounter difficulties or become the subject of a cyber-attack on or other breach of their operational systems, data or infrastructure, or if we have difficulty communicating with any such third-party system, our business and operations could suffer. Any failure or disruption to our systems, or those of a third-party vendor, could impede our transaction processing, service delivery, customer relationship management, data processing, financial reporting or risk management. Although we take ongoing monitoring, detection, and prevention measures and perform penetration testing and periodic risk assessments, our computer systems, software and networks and those of our third-party vendors may be or become vulnerable to unauthorized access, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses, denial of service attacks, malicious social engineering or other malicious code, or cyber-attacks beyond what we can reasonably anticipate and such events could result in material loss. If any of our financial, accounting or other data processing systems fail or have other significant shortcomings, we could be materially adversely affected. Security breaches in our online banking systems could also have an adverse effect on our reputation and could subject us to possible liability. Additionally, we could suffer disruptions to our systems or damage to our network infrastructure from events that are wholly or partially beyond our control, such as electrical or telecommunications outages, natural disasters, widespread health emergencies or pandemics, or events arising from local or larger scale political events, including terrorist acts. There can be no assurance that our policies, procedures and protective measures designed to prevent or limit the effect of a failure, interruption or security breach, or the policies, procedures and protective measures of our third-party vendors, will be effective. If significant failure, interruption or security breaches do occur in our processing systems or those of our third-party providers, we could suffer damage to our reputation, a loss of customer business, additional regulatory scrutiny, or exposure to civil litigation, additional costs and possible financial liability. In addition, our business is highly dependent on our ability to process, record and monitor, on a continuous basis, a large number of transactions. To do so, we are dependent on our employees and therefore, the potential for operational risk exposure exists throughout our organization, including losses resulting from human error. We could be materially adversely affected if one or more of our employees cause a significant operational breakdown or failure. If we fail to maintain adequate infrastructure, systems, controls and personnel relative to our size and products and services, our ability to effectively operate our business may be impaired and our business could be adversely affected.

Customer or employee fraud subjects us to additional operational risks

Employee errors and employee and customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Our loans to businesses and individuals and our deposit relationships and related transactions are also subject to exposure to the risk of loss due to fraud and other financial crimes. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence. We have not experienced any material financial losses from employee errors, misconduct or fraud. However, if our internal controls fail to prevent or promptly detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our financial condition and results of operations.

If our enterprise risk management framework is not effective at mitigating risk and loss to us, we could suffer unexpected losses and our results of operations could be materially adversely affected.

Our enterprise risk management framework seeks to achieve an appropriate balance between risk and return, which is critical to optimizing stockholder value. We have established processes and procedures intended to identify, measure, monitor, report and analyze the types of risk to which we are subject, including credit, liquidity, operational, regulatory compliance and reputational. However, as with any risk management framework, there are inherent limitations to our risk management strategies as there may exist, or develop in the future, risks that we have not appropriately anticipated or identified. If our risk management framework proves ineffective, we could suffer unexpected losses and our business and results of operations could be materially adversely affected.

We continually encounter technological change, and may have fewer resources than many of our larger competitors to continue to invest in technological improvements

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We also may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

Consumers and businesses are increasingly using non-banks to complete their financial transactions, which could adversely affect our business and results of operations

Technology and other changes are allowing consumers and businesses to complete financial transactions that historically have involved banks through alternative methods. For example, the wide acceptance of Internet-based commerce has resulted in a number of alternative payment processing systems and lending platforms in which banks play only minor roles. Customers can now maintain funds in prepaid debit cards or digital currencies, and pay bills and transfer funds directly without the direct assistance of banks. The diminishing role of banks as financial intermediaries has resulted and could continue to result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the potential loss of lower cost deposits as a source of funds could have a material adverse effect on our business, financial condition and results of operations.

New lines of business or new products and services may subject us to additional risks

From time to time, we may seek to implement new lines of business or offer new products and services within existing lines of business in our current markets or new markets. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible, which could in turn have a material negative effect on our operating results.

Our sources of funds are limited because of our holding company structure

The Company is a separate legal entity from its subsidiaries and does not have significant operations of its own. Dividends from the Bank provide a significant source of cash for the Company. The availability of dividends from the Bank is limited by various statutes and regulations. Under these statutes and regulations, the Bank is not permitted to pay dividends on its capital stock to the Company, its sole stockholder, if the dividend would reduce the stockholders' equity of the Bank below the amount of the liquidation account established in connection with the mutual-to-stock conversion. National banks may pay dividends without the approval of its primary federal regulator only if they meet applicable regulatory capital requirements before and after the payment of the dividends and total dividends do not exceed net income to date over the calendar year plus its retained net income over the preceding two years. The Company has also reserved $5.0 million of its available cash to maintain its ability to serve as a source of financial strength to the Bank. If in the future, the Company utilizes its available cash for other purposes and the Bank is unable to pay dividends to the Company, the Company may not have sufficient funds to pay dividends.

Trading activity in the Company's common stock could result in material price fluctuations

It is possible that trading activity in the Company's common stock, including short-selling or significant sales by our larger stockholders, could result in material price fluctuations of the price per share of the Company's common stock. In addition, such trading activity and the resultant volatility could make it more difficult for the Company to sell equity or equity-related securities in the future at a time and price it deems appropriate, or to use its stock as consideration for an acquisition.

Various factors may make takeover attempts that you might want to succeed more difficult to achieve, which may affect the value of shares of our common stock

Provisions of our articles of incorporation and bylaws, federal regulations, Maryland law and various other factors may make it more difficult for companies or persons to acquire control of the Company without the consent of our board of directors. You may want a takeover attempt to succeed because, for example, a potential acquirer could offer a premium over the then prevailing price of our shares of common stock. Provisions of our articles of incorporation and bylaws also may make it difficult to remove our current board of directors or management if our board of directors opposes the removal. We have elected to be subject to the Maryland Business Combination Act, which places restrictions on mergers and other business combinations with large stockholders. In addition, our articles of incorporation provide that certain mergers and other similar transactions, as well as amendments to our articles of incorporation, must be approved by stockholders owning at least two-thirds of our shares of common stock entitled to vote on the matter unless first approved by at least two-thirds of the number of our authorized directors, assuming no vacancies. If approved by at least two-thirds of the number of our authorized directors, assuming no vacancies, the action must still be approved by a majority of our shares entitled to vote on the matter. In addition, a director can be removed from office, but only for cause, if such removal is approved by stockholders owning at least two-thirds of our shares of common stock entitled to vote on the matter. However, if at least two-thirds of the number of our authorized directors, assuming no vacancies, approves the removal of a director, the removal may be with or without cause, but must still be approved by a majority of our voting shares entitled to vote on the matter. Additional provisions include limitations on the voting rights of any beneficial owners of more than 10% of our common stock. Our bylaws, which can only be amended by the board of directors, also contain provisions regarding the timing, content and procedural requirements for stockholder proposals and nominations.

New or changing tax, accounting, and regulatory rules and interpretations could have a significant impact on our strategic initiatives, results of operations, cash flows, and financial condition

The banking services industry is extensively regulated. In addition to regulation by our banking regulators, we also are directly subject to the requirements of entities that set and interpret the accounting standards such as the Financial Accounting Standards Board, and indirectly subject to the actions and interpretations of the Public Company Accounting Oversight Board, which establishes auditing and related professional practice standards for registered public accounting firms and inspects registered firms to assess their compliance with certain laws, rules, and professional standards in public company audits. These regulations, along with the currently existing tax, accounting, securities, insurance, and monetary laws, regulations, rules, standards, policies and interpretations, control the methods by which financial institutions and their holding companies conduct business, engage in strategic and tax planning and implement strategic initiatives, and govern financial reporting and disclosures. These laws, regulations, rules, standards, policies and interpretations are constantly evolving and may change significantly over time, particularly during periods in which the composition of the U.S. Congress and the leadership of regulatory agencies and public sector boards change due to the outcomes of national elections.

Non-compliance with USA PATRIOT Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions

Financial institutions are required under the USA PATRIOT and Bank Secrecy Acts to develop programs to prevent financial institutions from being used for money-laundering and terrorist activities. Financial institutions are also obligated to file suspicious activity reports with the U.S. Treasury Department's Office of Financial Crimes Enforcement Network if such activities are detected. These rules also require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure or the inability to comply with these regulations could result in fines or penalties, curtailment of expansion opportunities, intervention or sanctions by regulators and costly litigation or expensive additional controls and systems. During the last few years, several banking institutions have received large fines for non-compliance with these laws and regulations. In addition, the U.S. Government has previously imposed laws and regulations relating to residential and consumer lending activities that create significant new compliance burdens and financial risks. We have developed policies and continue to augment procedures and systems designed to assist in compliance with these laws and regulations, but these policies may not be effective to provide such compliance.

We are subject to environmental liability risk associated with lending activities

A significant portion of our loan portfolio is secured by real estate, and we could become subject to environmental liabilities with respect to one or more of these properties. During the ordinary course of business, we may foreclose on and take title to properties securing defaulted loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If so, we may be liable for remediation costs, as well as for personal injury and property damage, civil fines and criminal penalties regardless of when the hazardous conditions or toxic substances first affected any particular property. Environmental laws may require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property’s value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review before initiating any foreclosure action on nonresidential real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on us.

FDIC deposit insurance could increase in the future

The Dodd-Frank Act established 1.35% as the minimum Designated Reserve Ratio (“DRR”) for the deposit insurance fund. The FDIC has determined that the DRR should be 2.0% and has adopted a plan under which it will meet the statutory minimum DRR of 1.35% by the statutory deadline of September 30, 2020. The Dodd-Frank Act also required the FDIC to base deposit insurance premiums on an institution's total assets minus its tangible equity instead of its deposits. The FDIC has adopted final regulations that base assessments on a combination of financial ratios and regulatory ratings. The FDIC also revised the assessment schedule and established adjustments that increase assessments so that the range of assessments is now 1.5 basis points to 30 basis points of total assets less tangible equity. If there are any changes in the Bank’s financial ratios and regulatory ratings that require adjustments that increase its assessment, or, if circumstances require the FDIC to impose additional special assessments or further increase its quarterly assessment rates, our results of operations could be adversely impacted.

A protracted government shutdown may result in reduced loan originations or recognition of noninterest income, and could negatively affect our financial condition and results of operations

Some of our loan originations depend on approvals of certain government departments or agencies. During any protracted federal government shutdown, we may not be able to close certain loans or we may not be able to recognize noninterest income on commercial mortgage banking transactions. A federal government shutdown could also result in greater loan delinquencies, increases in our nonperforming, criticized or classified loans due to delayed payments on commercial equipment leases to the federal government, or delayed payments on other loans where the direct or indirect source of repayment relies on government funding.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We conduct our business at 19 banking offices located in the Chicago metropolitan area, and from a corporate office. We own our banking offices other than our corporate office, and our Chicago-Lincoln Park and Northbrook offices, which are leased. We also operate four satellite loan and lease production offices, all of which are leased. We believe that all of our properties and equipment are well maintained, in good operating condition and adequate for all of our present and anticipated needs.

In 2018, the Bank sold its office building located at 60 North Frontage Road, Burr Ridge, Illinois. A net gain of $93,000 was recorded in connection with the sale. In 2018, we signed a five-year lease, expiring November 2023, for a portion of the office space in the same Burr Ridge building.

We believe our facilities in the aggregate are suitable and adequate to operate our banking and related business. Additional information with respect to premises and equipment is presented in Note 6 of "Notes to Consolidated Financial Statements" in Item 8 of this Annual Report on Form 10-K.

ITEM 3. 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 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our shares of common stock are traded on the NASDAQ Global Select Market under the symbol "BFIN." The approximate number of holders of record of the Company's common stock as of January 31, 2020 was 1,084. Certain shares of the Company's common stock are held in "nominee" or "street" name, and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number.

Recent Sales of Unregistered Securities

The Company had no sales of unregistered stock during the year ended December 31, 2019.

Repurchases of Equity Securities

On February 25, 2019, the Board extended the expiration date of the Company's share repurchase authorization from July 31, 2019 to March 31, 2020, and increased the total number of shares authorized for repurchase by 500,000 shares. On April 25, 2019, the Board increased the total number of shares authorized for repurchase by 750,000 shares. On January 30, 2020, the Board extended the expiration date of the Company's share repurchase authorization from March 31, 2020 to October 31, 2020. As of December 31, 2019, the Company had repurchased 5,267,792 shares of its common stock out of the 5,810,755 shares of common stock authorized under the current share repurchase authorization approved on March 30, 2015. Pursuant to the share repurchase authorization, as of December 31, 2019, there are 542,963 shares of common stock remaining authorized for repurchase through October 31, 2020.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased under the Plans or Programs
October 1, 2019 through October 31, 2019	—	$ —	—	638,463
November 1, 2019 through November 30, 2019	45,000	13.49	45,000	593,463
December 1, 2019 through December 31, 2019	50,500	13.62	50,500	542,963
	95,500		95,500	

ITEM 6. SELECTED FINANCIAL DATA

The following information is derived from the audited consolidated financial statements of the Company. For additional information, please refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the Consolidated Financial Statements of the Company and related notes included elsewhere in this Annual Report.

	At and For the Years Ended December 31,				
	2019	2018	2017	2016	2015
	(Dollars in thousands, except per share data)				
Selected Financial Condition Data:					
Total assets	$ 1,488,015	$ 1,585,325	$ 1,625,558	$ 1,620,037	$ 1,512,443
Loans, net	1,168,008	1,323,793	1,314,651	1,312,952	1,232,257
Securities, at fair value	60,193	88,179	93,383	107,212	114,753
Deposits	1,284,757	1,352,484	1,340,051	1,339,390	1,212,919
Borrowings	61	21,049	60,768	51,069	64,318
Equity	174,372	187,150	197,634	204,780	212,364
Selected Operating Data:					
Interest income	$ 65,408	$ 61,287	$ 56,179	$ 50,928	$ 48,962
Interest expense	13,217	9,217	6,089	3,970	2,814
Net interest income	52,191	52,070	50,090	46,958	46,148
Provision for (recovery of) loan losses	3,825	145	(87)	(239)	(3,206)
Net interest income after provision for (recovery of) loan losses	48,366	51,925	50,177	47,197	49,354
Noninterest income	6,172	14,877	6,408	6,545	6,691
Noninterest expense	38,641	40,754	40,391	41,542	41,945
Income before income taxes	15,897	26,048	16,194	12,200	14,100
Income tax expense [(1)]	4,225	6,706	7,190	4,698	5,425
Net income	$ 11,672	$ 19,342	$ 9,004	$ 7,502	$ 8,675
Basic earnings per common share	$ 0.75	$ 1.11	$ 0.49	$ 0.40	$ 0.44
Diluted earnings per common share	$ 0.75	$ 1.11	$ 0.49	$ 0.39	$ 0.44

(footnotes on following page)

	At and For the Years Ended December 31,				
	2019	2018	2017	2016	2015
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Return on assets (ratio of net income to average total assets)	0.77 %	1.24 %	0.56%	0.49 %	0.60%
Return on equity (ratio of net income to average equity)	6.58	9.92	4.44	3.60	4.03
Net interest rate spread (2)	3.31	3.30	3.15	3.19	3.36
Net interest margin (3)	3.60	3.51	3.28	3.28	3.43
Efficiency ratio (4)	66.21	60.88	71.49	77.64	79.38
Noninterest expense to average total assets	2.54	2.61	2.50	2.72	2.90
Average interest-earning assets to average interest-bearing liabilities	131.78	133.34	131.70	135.09	132.32
Dividends declared per share	$ 0.40	$ 0.37	$ 0.28	$ 0.21	$ 0.20
Dividend payout ratio	53.69 %	33.34 %	57.23%	55.07 %	47.80%
Asset Quality Ratios:					
Nonperforming assets to total assets (5)	0.07 %	0.17 %	0.29%	0.44 %	0.70%
Nonperforming loans to total loans	0.07	0.11	0.18	0.25	0.29
Allowance for loan losses to nonperforming loans	901.06	558.34	349.31	246.12	270.62
Allowance for loan losses to total loans	0.65	0.64	0.63	0.62	0.78
Net (charge-offs) recoveries to average loans outstanding	(0.37)	—	0.03	(0.11)	0.08
Capital Ratios:					
Equity to total assets at end of period	11.72 %	11.81 %	12.16%	12.64 %	14.04%
Average equity to average assets	11.68	12.51	12.53	13.62	14.88
Tier 1 leverage ratio (Bank only)	10.89	11.03	11.08	10.27	11.33
Other Data:					
Number of full-service offices	19	19	19	19	19
Employees (full-time equivalents)	222	236	236	246	251

(1) Income tax expense (benefit) for the year ended December 31, 2017 includes a $2.5 million increase to expense related to the Tax Cuts and Job Act of 2017.
(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.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion and analysis that follows focuses on certain factors affecting our consolidated financial condition at December 31, 2019 and 2018, and our consolidated results of operations for the two years ended December 31, 2019. Our consolidated financial statements, the related notes and the discussion of our critical accounting policies appearing elsewhere in this Annual Report should be read in conjunction with this discussion and analysis.

Overview

The Company recorded net income of $11.7 million for the year ended December 31, 2019 and basic and diluted earnings per common share for the year ended December 31, 2019 were $0.75.

For the year December 31, 2019, multi-family and nonresidential real estate loans declined by $73.9 million (9.6%) due to lower originations volume in 2019. Commercial loans and commercial leases declined by $68.5 million (14.1%) due primarily to planned reductions in investment-rated leases and of certain Regional Commercial Banking and National Healthcare Lending commercial loan relationships, offset by modest net growth in other commercial leases. Total commercial-related loan balances were $1.117 billion at the end of 2019, and now comprise 95.1% of the Company's total loans, compared to 94.6% at the end of 2018.

The Company's asset quality improved in 2019. The ratio of nonperforming loans to total loans was 0.07% and the ratio of nonperforming assets to total assets was 0.07% at December 31, 2019. Nonperforming commercial-related loans represented 0.03% of total commercial-related loans.

Total retail and commercial deposits declined slightly in 2019. Retail depositors continue to seek higher interest rates, and the Company moderated its competitive position to better manage its cost of funds given its strong liquidity position. Commercial depositors continue to use deposits to repay commercial lines of credit whenever possible. The Company's liquid assets were 12.8% of total assets at December 31, 2019.

The Company's capital position remained strong with the Bank's Tier 1 leverage ratio of 11.48%. During 2019, the Company maintained its quarterly dividend rate at $0.10 per share. The Company repurchased 1,203,050 common shares during the year ended December 31, 2019, which represented 7.3% of the Company's common shares that were outstanding on December 31, 2018. The Company's book value per share increased in 2019 by 0.4% to $11.41 per share.

Results of Operations

Net Income

Comparison of Year 2019 to 2018. We recorded net income of $11.7 million for the year ended December 31, 2019, compared to net income of $19.3 million for 2018. The decrease in net income was primarily due to the $3.8 million provision for loss recorded in 2019 combined with the 2018 recording of several gains, including $7.0 million of realized and unrealized gains on sale of the Company's Class B Visa common shares and $1.4 million of income from a death benefit on a bank-owned life insurance policy as a result of the death of a retired Bank executive. Our basic earnings per share of common stock was $0.75 for the year ended December 31, 2019, compared to $1.11 per share of common stock for the year ended December 31, 2018.

Net Interest Income

Net interest income is our primary source of revenue. Net interest income equals the excess of interest income plus fees earned on interest-earning assets over interest expense incurred on interest-bearing liabilities. The level of interest rates and the volume and mix of interest-earning assets and interest-bearing liabilities impact net interest income. Interest rate spread and net interest margin are utilized to measure and explain changes in net interest income. Interest rate spread is the difference between the yield on interest-earning assets and the rate paid for interest-bearing liabilities that fund those assets. The net interest margin is expressed as the percentage of net interest income to average interest-earning assets. The net interest margin exceeds the interest rate spread because noninterest-bearing sources of funds, principally noninterest-bearing demand deposits and stockholders' equity, also support interest-earning assets.

The accounting policies underlying the recognition of interest income on loans, securities, and other interest-earning assets are included in Note 1 of "Notes to Consolidated Financial Statements" in Item 8 of this Annual Report on Form 10-K.

Average Balance Sheets

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

	Years Ended December 31,								
	2019			2018			2017		
	Average Outstanding Balance	Interest	Yield/Rate	Average Outstanding Balance	Interest	Yield/Rate	Average Outstanding Balance	Interest	Yield/Rate
	(Dollars in thousands)								
Interest-earning Assets:									
Loans	$ 1,257,506	$ 60,568	4.82%	$ 1,289,121	$ 57,052	4.43%	$ 1,323,376	$ 53,227	4.02%
Securities	79,984	2,082	2.60	105,831	2,229	2.11	106,534	1,474	1.38
Stock in FHLB and FRB	7,657	364	4.75	8,212	428	5.21	8,494	409	4.82
Other	103,664	2,394	2.31	81,941	1,578	1.93	88,548	1,069	1.21
Total interest-earning assets	1,448,811	65,408	4.51	1,485,105	61,287	4.13	1,526,952	56,179	3.68
Noninterest-earning assets	70,808			73,930			90,464		
Total assets	$ 1,519,619			$ 1,559,035			$ 1,617,416		
Interest-bearing Liabilities:									
Savings deposits	$ 152,567	424	0.28	$ 157,350	286	0.18	$ 160,266	186	0.12
Money market accounts	245,730	2,230	0.91	278,366	1,985	0.71	304,868	1,204	0.39
NOW accounts	269,856	1,150	0.43	279,422	856	0.31	274,585	537	0.20
Certificates of deposit	427,044	9,324	2.18	352,731	5,434	1.54	364,792	3,511	0.96
Total deposits	1,095,197	13,128	1.20	1,067,869	8,561	0.80	1,104,511	5,438	0.49
Borrowings	4,216	89	2.11	45,870	656	1.43	54,899	651	1.19
Total interest-bearing liabilities	1,099,413	13,217	1.20	1,113,739	9,217	0.83	1,159,410	6,089	0.53
Noninterest-bearing deposits	213,946			226,605			233,200		
Noninterest-bearing liabilities	28,774			23,630			22,127		
Total liabilities	1,342,133			1,363,974			1,414,737		
Equity	177,486			195,061			202,679		
Total liabilities and equity	$ 1,519,619			$ 1,559,035			$ 1,617,416		
Net interest income		$ 52,191			$ 52,070			$ 50,090	
Net interest rate spread (1)			3.31%			3.30%			3.15%
Net interest-earning assets (2)	$ 349,398			$ 371,366			$ 367,542		
Net interest margin (3)			3.60%			3.51%			3.28%
Ratio of interest-earning assets to interest-bearing liabilities	131.78%			133.34%			131.70%		

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

Comparison of Year 2019 to 2018. Net interest income increased by $121,000, or 0.2%, to $52.2 million for the year ended December 31, 2019, from $52.1 million for the year ended December 31, 2018. Our net interest rate spread increased one basis point to 3.31% for the year ended December 31, 2019, from 3.30% for 2018. Our net interest margin increased nine basis points to 3.60% for the year ended December 31, 2019, from 3.51% for 2018. The increase in net interest income was primarily attributable to an increase in the average yield on interest-earning assets, which was partially offset by an increase in the cost of interest-bearing liabilities and a decrease in total average interest-earning assets. The yield on interest-earning assets increased 38 basis points, or 9.2%, to 4.51% for the year ended December 31, 2019, from 4.13% for 2018. The cost of interest-bearing liabilities increased 37 basis points, or 44.6%, to 1.20% for the year ended December 31, 2019, from 0.83% for 2018. Total average interest-earning assets decreased $36.3 million to $1.449 billion for the year ended December 31, 2019, from $1.485 billion for 2018. Our average interest-bearing liabilities decreased $14.3 million to $1.099 billion for the year ended December 31, 2019, from $1.114 billion for 2018.

Rate/Volume Analysis

The following table presents the dollar amount of changes in interest income and interest expense for the major categories of our interest-earning assets and interest-bearing liabilities. Information is provided for each category of interest-earning assets and interest-bearing liabilities with respect to changes attributable to changes in volume (*i.e.*, changes in average balances multiplied by the prior-period average rate), and changes attributable to rate (*i.e.*, changes in average rate multiplied by prior-period average balances). For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

	Years Ended December 31,					
	2019 vs. 2018			2018 vs. 2017		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Total Increase	Volume	Rate	Total Increase
	(Dollars in thousands)					
Interest-earning assets:						
Loans	$ (1,425)	$ 4,941	$ 3,516	$ (1,422)	$ 5,247	$ 3,825
Securities	(607)	460	(147)	(10)	765	755
Stock in FHLB and FRB	(28)	(36)	(64)	(14)	33	19
Other	468	348	816	(85)	594	509
Total interest-earning assets	(1,592)	5,713	4,121	(1,531)	6,639	5,108
Interest-bearing liabilities:						
Savings deposits	(9)	147	138	(3)	103	100
Money market accounts	(255)	500	245	(112)	893	781
NOW accounts	(31)	325	294	10	309	319
Certificates of deposit	1,309	2,581	3,890	(120)	2,043	1,923
Borrowings	(782)	215	(567)	(116)	121	5
Total interest-bearing liabilities	232	3,768	4,000	(341)	3,469	3,128
Change in net interest income	$ (1,824)	$ 1,945	$ 121	$ (1,190)	$ 3,170	$ 1,980

Provision for Loan Losses

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

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

We recorded a provision for loan losses of $3.8 million for the year ended December 31, 2019, compared to $145,000 for the year ended December 31, 2018. The provision or recovery for loan losses is a function of the allowance for loan loss methodology 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 $811,000, or 9.6%, to $7.6 million at December 31, 2019 from $8.4 million at December 31, 2018. The primary cause of this decrease in the allowance for loan losses attributable to loans collectively evaluated for impairment is the $156.1 million decrease in the balance of loans collectively evaluated for impairment. Net charge-offs were $4.7 million for the year ended December 31, 2019, compared to net charge-offs of $41,000 for the year ended December 31, 2018. For further analysis and information on how we determine the appropriate level for the allowance for loan losses and analysis of credit quality, see "Critical Accounting Policies," "Risk Classification of Loans" and "Allowance for Loan Losses." There were no reserves established for loans individually evaluated for impairment at December 31, 2019 compared to $27,000 at December 31, 2018.

The increase in net charge-offs and a related $4.0 million provision for loan losses were primarily due to a $4.4 million loss recorded on the sale of a Chicago commercial credit exposure that experienced an unexpected deterioration in the second quarter of 2019. The sold loans were originated in 2016 to two affiliated wholesale fuel distributors. The loans were secured by accounts receivable and supplemental real estate collateral and were personally guaranteed by the borrowers' principals. In the second quarter of 2019, we learned that one of the borrowers failed to make excise tax payments in violation of its agreements with the State of Illinois, that a tax performance bond that was a condition to the borrower's continued ability to operate as a wholesale fuel distributor in the State of Illinois would not be renewed by the borrower's insurer, and that the borrower had apparently altered its collection procedures and cash management practices in ways that appeared to make it necessary for us to institute litigation to gain control of and collect the proceeds of the accounts receivable collateral. We evaluated these and other factors, including the risks to the borrower's ability to continue to operate as a going concern, and concluded that a sale of the loans at a discount was a superior alternative to initiating potentially costly and protracted litigation, the outcome of which could not be predicted with reasonable certainty.

Noninterest Income

	Years Ended December 31,				
	2019		2018		Change
			(Dollars in thousands)		
Deposit service charges and fees	$	3,844	$	3,968	$ (124)
Loan servicing fees		451		439	12
Mortgage brokerage and banking fees		149		257	(108)
Gain on sale of equity securities		295		3,558	(3,263)
Unrealized gains on equity securities		—		3,427	(3,427)
Gain on sale of premises held-for-sale		—		93	(93)
Loss on disposal of other assets		(44)		—	(44)
Trust and insurance commissions and annuities income		844		937	(93)
Earnings on bank-owned life insurance		136		174	(38)
Bank-owned life insurance death benefit		—		1,389	(1,389)
Other		497		635	(138)
Total noninterest income	$	6,172	$	14,877	$ (8,705)

Comparison of Year 2019 to 2018. Our noninterest income decreased by $8.7 million to $6.2 million for the year ended December 31, 2019, from $14.9 million in 2018. In 2018 we recorded $7.0 million of realized and unrealized gains on sale of the Company's Class B Visa common shares and a $1.4 million death benefit on a bank-owned life insurance policy as a result of the death of a retired Bank executive. Deposit service charges and fees decreased $124,000, or 3.1% We recorded $66,000 in commercial mortgage brokerage fees for the year ended December 31, 2019 as compensation for commercial loans that we placed with other institutions, compared to $138,000 for the same period in 2018. In 2018, the Bank sold its office building in Burr Ridge, Illinois and recorded a net gain of $93,000 in connection with the sale. Trust and insurance commissions and annuities income declined by $93,000, or 9.9%, to $844,000 for the year ended December 31, 2019, due to lower sales of annuity products and property and casualty insurance.

Noninterest Expense

	Years Ended December 31,				
	2019		2018		Change
			(Dollars in thousands)		
Compensation and benefits	$	21,266	$	22,987	$ (1,721)
Office occupancy and equipment		7,069		6,817	252
Advertising and public relations		657		848	(191)
Information technology		2,999		2,792	207
Professional fees		1,027		1,018	9
Supplies, telephone and postage		1,316		1,433	(117)
Amortization of intangibles		61		184	(123)
Nonperforming asset management		105		353	(248)
Operations of other real estate owned		52		432	(380)
FDIC insurance premiums		127		437	(310)
Other		3,962		3,453	509
Total noninterest expense	$	38,641	$	40,754	$ (2,113)

Comparison of Year 2019 to 2018. Noninterest expense decreased by $2.1 million, or 5.2%, to $38.6 million, for the year ended December 31, 2019, from $40.8 million, for the year ended December 31, 2018. Compensation and benefits expense decreased $1.7 million, or 7.5%, to $21.3 million for the year ended December 31, 2019, from $23.0 million in 2018. In 2018 we recorded an accrual of $1.1 million related to a certain employment contract termination and severance payments. Also, contributing to the decrease in compensation was a decrease in full-time employee equivalents; at December 31, 2019, we had 222 full-time employee equivalents, compared to 236 at 2018. Office occupancy expense increased by $252,000, or 3.7%, to $7.1 million for the year ended December 31, 2019 from $6.8 million in 2018, due in substantial part to an $80,000 increase in real estate taxes for Bank properties and an increase of $137,000 of snow removal expenses in 2019, as well as cybersecurity prevention expenses. Nonperforming asset management expenses decreased $248,000, or 70.3%, to $105,000 for the year ended December 31, 2019, compared to $353,000 in 2018, due to fewer nonperforming properties and the recovery of previously expensed charges. OREO expenses for the year ended December 31, 2019 totaled $52,000, compared to $432,000 in 2018. We recorded $111,000 of net gains on sales of OREO properties for the year ended December 31, 2019, compared to $56,000 of net losses in 2018. In addition, legal, real estate tax expense, receiver fees and repairs and maintenance decreased a combined $336,000; this was partially offset by a $112,000 decrease in rental income. FDIC insurance expense decreased by $310,000, or 70.9%, to $127,000 for the year ended December 31, 2019, due to the receipt of the FDIC's small bank assessment credit in 2019. Other noninterest expense increased $509,000, or 14.7%, to $4.0 million for the year ended December 31, 2019, from $3.5 million for the year ended December 31, 2018, due in substantial part to increased recruiting expenses and cybersecurity prevention consulting expenses.

Income Taxes

Comparison of Year 2019 to 2018. For the year ended December 31, 2019 we recorded income tax expense of $4.2 million, compared to $6.7 million recorded in 2018. The effective tax rate for the year ended December 31, 2019 was 26.57%, compared to 25.74% for the same period in 2018.

Comparison of Financial Condition at December 31, 2019 and December 31, 2018

Total assets decreased $97.3 million, or 6.1%, to $1.488 billion at December 31, 2019, from $1.585 billion at December 31, 2018. The decrease in total assets was primarily due to decreases in loans receivable and securities, which were partially offset by an increase in cash and cash equivalents. Net loans decreased $155.8 million, or 11.8%, to $1.168 billion at December 31, 2019, from $1.324 billion at December 31, 2018. Securities decreased by $28.0 million, or 31.7%, to $60.2 million at December 31, 2019, from $88.2 million at December 31, 2018. Cash and cash equivalents increased $92.1 million, or 93.8%, to $190.3 million at December 31, 2019, from $98.2 million at December 31, 2018.

Our loan portfolio consists primarily of multi-family real estate, nonresidential real estate, construction and land loans, commercial loans and commercial leases, which together totaled 95.1% of gross loans at December 31, 2019. Net loans receivable decreased $155.8 million, or 11.8%, to $1.168 billion at December 31, 2019. Multi-family mortgage loans decreased by $56.1 million, or 9.1%; commercial loans decreased $41.7 million, or 22.2%; commercial leases decreased by $26.8 million, or 8.9%; nonresidential real estate loans decreased $17.8 million, or 11.7%; and one-to-four family residential mortgage loans decreased by $14.6 million, or 20.8%. The decrease in multi-family loans was primarily due to a significant amount of loan prepayments. The loan prepayments generated $568,000 of prepayment penalty income for the year ended December 31, 2019, compared to $392,000 of prepayment income for 2018.

Our allowance for loan losses decreased by $838,000, or 9.9%, to $7.6 million at December 31, 2019, from $8.5 million at December 31, 2018. The decrease reflected net charge-offs of $4.7 million in 2019, partially offset by a $3.8 million provision for loan losses.

Securities decreased $28.0 million, or 31.7%, to $60.2 million at December 31, 2019, from $88.2 million at December 31, 2018, due primarily to proceeds from maturities of $107.9 million and repayments of $3.1 million on residential mortgage-backed securities and collateralized mortgage obligations. These repayments were partially offset by investments in FDIC-insured certificates of deposit issued by other insured depository institutions of $83.1 million.

Total liabilities decreased $84.5 million, or 6.0%, to $1.314 billion at December 31, 2019, from $1.398 billion at December 31, 2018, primarily due to decreases in total deposits and borrowings. Total deposits decreased $67.7 million, or 5.0%, to $1.285 billion at December 31, 2019, from $1.352 billion at December 31, 2018. Retail certificates of deposit increased $4.8 million, or 1.5%, to $336.9 million at December 31, 2019, from $332.1 million at December 31, 2018. Wholesale certificates of deposit decreased $41.2 million, or 38.8%, to $65.1 million at December 31, 2019, from $106.3 million at December 31, 2018. Money market accounts decreased $10.3 million, or 4.0% to $245.6 million at December 31, 2019, from $256.0 million at December 31, 2018. Interest-bearing NOW accounts decreased $2.7 million, or 1.0%, to $273.2 million at December 31, 2019, from $275.8 million at December 31, 2018. Savings accounts increased $849,000, or 0.6%, to $153.2 million at December 31, 2019, from $152.3 million at December 31, 2018. Noninterest-bearing demand deposits decreased $19.3 million, or 8.4%, to $210.8 million at December 31, 2019, from $230.0 million at December 31, 2018. Core deposits (which consist of savings, money market, noninterest-bearing demand and NOW accounts) were 68.7% and 67.6% of total deposits at December 31, 2019 and 2018, respectively.

Total stockholders' equity was $174.4 million at December 31, 2019, compared to $187.2 million at December 31, 2018. The decrease in total stockholders' equity was primarily due to the combined impact of our repurchase of 1,203,050 shares of our common stock at a total cost of $18.1 million, and our declaration and payment of cash dividends totaling $6.3 million, during the year ended December 31, 2019. These items were partially offset by net income of $11.7 million that we recorded for the year ended December 31, 2019.

Securities

Our investment policy is established by our Board of Directors. The policy emphasizes safety of the investment, liquidity requirements, potential returns, cash flow targets, and consistency with our interest rate risk management strategy.

At December 31, 2019, our mortgage-backed securities and collateralized mortgage obligations ("CMOs") reflected in the following table were issued by U.S. government-sponsored enterprises and agencies, Freddie Mac, Fannie Mae and Ginnie Mae, and are obligations which the federal government has affirmed its commitment to support. All securities reflected in the table were classified as available-for-sale at December 31, 2019, 2018 and 2017.

The following table sets forth the composition, amortized cost and fair value of our securities.

	At December 31,					
	2019		2018		2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
Available-for-sale securities:						
Securities:						
Certificates of deposits	$ 48,666	$ 48,666	$ 73,507	$ 73,507	$ 75,916	$ 75,916
Municipal securities	505	513	509	509	—	—
Equity mutual funds	—	—	—	—	500	499
SBA - guaranteed loan participation certificates	—	—	—	—	10	10
Total	49,171	49,179	74,016	74,016	76,426	76,425
Mortgage-backed Securities:						
Mortgage-backed securities - residential	7,727	8,037	10,116	10,478	11,969	12,472
CMOs and REMICs - residential	2,986	2,977	3,676	3,685	4,481	4,486
Total mortgage-backed securities	10,713	11,014	13,792	14,163	16,450	16,958
	$ 59,884	$ 60,193	$ 87,808	$ 88,179	$ 92,876	$ 93,383

	At December 31,					
	2019		2018		2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
Equity Investments (1)						
Visa Class B Shares	$ —	$ —	$ —	$ 3,427	$ —	$ —

(1) Equity investments are included in Other Assets in the Consolidated Statements of Financial Condition.

The fair values of marketable equity securities are generally determined by quoted prices, in active markets, for each specific security. If quoted market prices 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. 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. The fair value of a security is used to determine the amount of any unrealized gains or losses that must be reflected in our other comprehensive income and the net book value of our securities.

We evaluate 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 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.

Portfolio Maturities and Yields

The composition and maturities of the securities portfolio and the mortgage-backed securities portfolio at December 31, 2019 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. Municipal securities yields have not been adjusted to a tax-equivalent basis, as the amount is immaterial.

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
	(Dollars in thousands)							
Securities:								
Certificates of deposit	$ 48,666	2.10%	$ —	—%	$ —	—%	$ —	—%
Municipal securities	101	4.00	404	4.00	—	—	—	—
	48,767	2.10	404	4.00	—	—	—	—
Mortgage-backed Securities:								
Pass-through securities:								
Fannie Mae	—	—	1	4.73	1,221	3.48	3,095	4.98
Freddie Mac	—	—	—	—	11	4.09	360	4.10
Ginnie Mae	—	—	19	3.25	—	—	3,020	3.94
CMOs and REMICs	—	—	268	3.45	—	—	2,718	2.05
	—	—	288	3.44	1,232	3.48	9,193	3.74
Total securities	$ 48,767	2.10%	$ 692	3.77%	$ 1,232	3.48%	$ 9,193	3.74%

The Bank is a member of the Federal Reserve System as a result of its conversion to a national bank charter in 2016. The aggregate cost of our FRB common stock as of December 31, 2019 was $4.7 million based on its par value. The Bank is also a member of the FHLB System. Members of the FHLB System are required to hold a certain amount of common stock to qualify for membership in the FHLB System and to be eligible to borrow funds under the FHLB's advance program. The aggregate cost of our FHLB common stock as of December 31, 2019 was $2.8 million based on its par value. There is no market for FRB and FHLB common stock. We purchased 4,100 and 1.0 million shares of FHLB capital stock during 2019 and 2018, respectively. We redeemed no shares of FHLB capital stock in 2019 and 1.0 million shares of FHLB capital stock during 2018. We purchased no shares of FRB common stock in 2019 and 2018. We redeemed 540,000 shares and 284,800 shares of FRB common stock in 2019 and 2018, respectively. As a member of the FHLB, we are required to own a certain amount of stock based on the level of borrowings and other factors, at December 31, 2019, we did not own any excess shares of FHLB common stock.

The Bank, as a member of Visa USA, received 51,404 unrestricted shares of Visa, Inc. Class B common stock in connection with Visa, Inc.'s initial public offering in 2007 and a related retroactive responsibility plan. The retroactive responsibility plan obligates all former Visa USA members to indemnify Visa USA, in proportion to their equity interests in Visa USA, for certain litigation losses and expenses, including settlement expenses, for the lawsuits covered by the retrospective responsibility plan. Due to the restrictions that the retrospective responsibility plan imposes on the Company's Visa, Inc. Class B shares, the Company had not recorded the Class B shares as an asset.

The Bank sold 25,702 shares of Visa Class B common stock in the fourth quarter of 2018 and recorded a gain of $3.6 million. For equity investments without readily determinable fair values, when an orderly transaction for the identical or similar investment of the same issuer is identified, we use the valuation techniques permitted under ASC 820 Fair Value to evaluate the observed transaction(s) and adjust the fair value of the equity investment. Based on the existing transfer restriction and the uncertainty of the outcome of the Visa litigation mentioned above, the 25,702 Visa Class B shares that the Company owned as of December 31, 2018 were recorded at $3.4 million in other assets with a corresponding gain. The Bank sold the remaining 25,702 shares of Visa Class B common stock in the first quarter of 2019 and recorded a gain of $295,000.

Loan Portfolio

We originate multi-family mortgage loans, nonresidential real estate loans, commercial loans, commercial leases and construction and land loans. In addition, we originate one-to-four family residential mortgage loans and consumer loans, and purchase and sell loan participations from time-to-time. Our principal loan products are discussed in Note 4 of the "Notes to Consolidated Financial Statements" in Item 8 of this Annual Report on Form 10-K.

The following table sets forth the composition of our loan portfolio by type of loan.

	At December 31,									
	2019		2018		2017		2016		2015	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
One-to-four family residential	$ 55,750	4.75%	$ 70,371	5.29%	$ 97,814	7.40%	$ 135,218	10.25%	$ 159,501	12.86%
Multi-family mortgage	563,750	47.99	619,870	46.56	588,383	44.52	542,887	41.15	506,026	40.80
Nonresidential real estate	134,674	11.46	152,442	11.45	169,971	12.86	182,152	13.81	226,735	18.28
Construction and land	—	—	172	0.01	1,358	0.10	1,302	0.09	1,313	0.10
Commercial loans	145,714	12.40	187,406	14.08	152,552	11.54	99,088	7.51	79,516	6.41
Commercial leases	272,629	23.21	299,394	22.49	310,076	23.46	356,514	27.02	265,405	21.40
Consumer	2,211	0.19	1,539	0.12	1,597	0.12	2,255	0.17	1,831	0.15
	1,174,728	100.00%	1,331,194	100.00%	1,321,751	100.00%	1,319,416	100.00%	1,240,327	100.00%
Net deferred loan origination costs	912		1,069		1,266		1,663		1,621	
Allowance for loan losses	(7,632)		(8,470)		(8,366)		(8,127)		(9,691)	
Total loans, net	$ 1,168,008		$ 1,323,793		$ 1,314,651		$ 1,312,952		$ 1,232,257	

We engage in multi-family lending activities in the Chicago Metropolitan Statistical Areas and in other carefully selected Metropolitan Statistical Areas outside of our primary lending area and engage in healthcare lending and commercial leasing activities on a nationwide basis. At December 31, 2019, $242.2 million, or 43.0%, of our multi-family loans were in the Metropolitan Statistical Area for Chicago, Illinois, while $61.5 million, or 10.9%, were in the Metropolitan Statistical Area for Dallas, Texas, $56.7 million, or 10.0%, were in the Metropolitan Statistical Area for Denver, Colorado, $32.8 million, or 5.8%, were in the Metropolitan Statistical Area for Tampa, Florida, $29.0 million, or 5.1%, were in the Metropolitan Statistical Area for Greenville-Spartanburg, South Carolina; $22.2 million, or 4.0%, were in the Metropolitan Statistical Area for San Antonio, Texas, and $19.5 million, or 3.5%, were in the Metropolitan Statistical Area for Minneapolis, Minnesota.

Loan Portfolio Maturities

The following table summarizes the scheduled repayments of our loan portfolio at December 31, 2019. Demand loans, loans having no stated repayment schedule or maturity and overdraft loans are reported as being due in one year or less.

	Within One Year	One Year Through Five Years	Beyond Five Years	Total
	(In thousands)			
Scheduled Repayments of Loans:				
One-to-four family residential	$ 5,329	$ 11,888	$ 38,533	$ 55,750
Multi-family mortgage	33,909	73,732	456,109	563,750
Nonresidential real estate	40,527	85,012	9,135	134,674
Commercial loans and leases	212,269	205,042	1,032	418,343
Consumer	411	1,072	728	2,211
	$ 292,445	$ 376,746	$ 505,537	$ 1,174,728

	Total
Loans Maturing After One Year:	
Predetermined (fixed) interest rates	$ 304,361
Adjustable interest rates	577,922
	$ 882,283

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 December 31, 2019, we had one loan in this category.

We typically obtain new third-party appraisals or collateral valuations when we place a loan on nonaccrual status, conduct impairment testing or complete a troubled debt restructuring ("TDR") unless the existing valuation information for the collateral is sufficiently current to comply with the requirements of our Appraisal and Collateral Valuation Policy ("ACV Policy"). We also obtain new third-party appraisals or collateral valuations when the judicial foreclosure process concludes with respect to real estate collateral, and when we otherwise acquire actual or constructive title to real estate collateral. In addition to third-party appraisals, we use updated valuation information based on Multiple Listing Service data, broker opinions of value, actual sales prices of similar assets sold by us and approved sales prices in response to offers to purchase similar assets owned by us to provide interim valuation information for consolidated financial statement and management purposes. Our ACV Policy establishes the maximum useful life of a real estate appraisal at 18 months. Because appraisals and updated valuations utilize historical or "ask-side" data in reaching valuation conclusions, the appraised or updated valuation may or may not reflect the actual sales price that we will receive at the time of sale.

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

As part of the asset classification process, we develop an exit strategy for real estate collateral 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-improved” basis is most likely to produce the highest net realizable value. If we determine that the “as-stabilized” or “as-improved” 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 December 31, 2019, 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 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 apply a 7.0% deduction to determine the expected costs to sell, as expenses for real estate taxes and repairs are expensed when incurred.

Nonperforming Assets Summary

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

	At December 31,				
	2019	2018	2017	2016	2015
	(Dollars in thousands)				
Nonaccrual loans					
One-to-four family residential	$ 512	$ 1,247	$ 2,024	$ 2,855	$ 2,458
Multi-family mortgage	—	—	371	187	828
Nonresidential real estate	288	270	—	260	295
	800	1,517	2,395	3,302	3,581
Loans past due over 90 days, still accruing - commercial leases	47	—	—	—	—
Other real estate owned					
One-to-four family residential	186	875	827	1,565	2,621
Multi-family mortgage	—	276	—	370	951
Nonresidential real estate	—	74	1,520	1,066	1,747
Land	—	1	4	894	1,692
	186	1,226	2,351	3,895	7,011
Total nonperforming assets	$ 1,033	$ 2,743	$ 4,746	$ 7,197	$ 10,592
Ratios					
Nonperforming loans to total loans	0.07%	0.11%	0.18%	0.25%	0.29%
Nonperforming assets to total assets	0.07	0.17	0.29	0.44	0.70

Nonperforming Assets

Nonperforming assets decreased by $1.7 million in 2019, nonperforming assets totaled $1.0 million at December 31, 2019, and $2.7 million at December 31, 2018. The decrease in nonperforming assets for the year ended December 31, 2019 reflected the disposition of $1.2 million of OREO and other nonperforming asset resolutions.

Approximately $186,000 of nonaccrual residential mortgage loans were transferred to OREO during the year ended December 31, 2019. We continue to experience modest quantities of defaults on residential loans principally due either to the borrower's personal financial condition or death, and/or deteriorated collateral value.

Loan Extensions and Modifications

Maturing loans are subject to our standard loan underwriting policies and practices. Due to the need to obtain updated borrower and guarantor financial information, collateral information or to prepare revised loan documentation, loans in the process of renewal may appear as past due because the information needed to underwrite a renewal of the loan is not available to us prior to the maturity date of the loan. At times, short-term administrative extensions, which are typically 90 days in duration, are granted to facilitate proper underwriting. In general, loan modifications are subject to a risk-adjusted pricing analysis.

When appropriate, we evaluate loan extensions or modifications in accordance with ASC 310-40 and related federal regulatory guidance concerning TDRs and the FFIEC workout guidance to determine the required treatment for nonaccrual status and risk classification purposes. In general, if we grant a loan modification or extension that involves either the absence of principal amortization (other than for revolving lines of credit which are customarily granted on interest-only terms), or if we grant a material extension of an existing loan amortization period in excess of our underwriting standards, the loan will be placed on nonaccrual status and impairment testing conducted to determine whether a specific valuation allowance or loss classification / charge-off is required. If the loan is well secured by an abundance of collateral and the collectability of both interest and principal is probable, the loan may remain on accrual status, but it will be classified as a TDR due to the concession made in the loan principal amortization payment component. A loan in full compliance with the payment requirements specified in a loan modification will not be considered as past due, but may nonetheless be placed on nonaccrual status or be classified as a TDR, as appropriate under the circumstances.

In accordance with the FFIEC workout guidance, the Company will restructure a note into two separate notes (A/B structure), charging off the entire B portion of the note. The A note is structured with appropriate loan-to-value and cash flow coverage ratios that provide for a high likelihood of repayment. The A note is classified as a nonperforming note until the borrower has displayed a historical payment performance for a reasonable time prior to and subsequent to the restructuring. A period of sustained repayment for at least six months generally is required to return the note to accrual status provided that management has determined that the performance is reasonably expected to continue. The A note will be classified as a restructured note (either performing or nonperforming) through the calendar year of the restructuring that the historical payment performance has been established.

Troubled Debt Restructurings

The Company had no TDRs at December 31, 2019 and $17,000 at December 31, 2018, with no specific valuation allowances allocated to those loans at December 31, 2018. At December 31, 2018, the Company had no outstanding commitments to borrowers whose loans are classified as TDRs.

Risk Classification of Loans

Our policies, consistent with regulatory guidelines, provide for the classification of loans and other assets that are considered to be of lesser quality as substandard, doubtful, or loss assets, or designated as special mention.

A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. The risk-rating guidance published by the OCC 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. An asset classified as doubtful has all the weaknesses inherent in one classified as 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. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted; such balances are promptly charged-off as required by applicable federal regulations. 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.

Based on a review of our loans at December 31, 2019, classified loans consisted of $1.1 million of performing substandard loans and $800,000 of nonperforming loans. As of December 31, 2019, we had $9.8 million of loans designated as special mention.

Allowance 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, trends in nonaccrual loans, 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 the estimates as more information becomes available or events change.

We provide for loan losses based on the allowance method. Accordingly, all loan losses are charged to the related allowance and all recoveries are credited to it. Additions to the allowance for loan losses are provided by charges to income based on various factors that, in our judgment, deserve current recognition in estimating probable incurred credit losses. We review the loan portfolio on an ongoing basis and make provisions for loan losses on a quarterly basis to maintain the allowance for loan losses in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The allowance for loan losses consists of two components:

- specific allowances established for any impaired residential non-owner occupied mortgage, multi-family mortgage, nonresidential real estate, construction and land, commercial, and commercial lease loans for which the recorded investment in the loan exceeds the measured value of the loan; and

- general allowances for loan losses for each loan class based on historical loan loss experience; and adjustments to historical loss experience (general allowances), maintained to cover uncertainties that affect our estimate of probable incurred credit losses for each loan class.

The adjustments to historical loss experience are based on our evaluation of several factors, including levels of, and trends in, past due and classified loans; levels of, and trends in, charge-offs and recoveries; trends in volume and terms of loans, including any credit concentrations in the loan portfolio; experience, and ability of lending management and other relevant staff; and national and local economic trends and conditions.

We evaluate the allowance for loan losses based upon the combined total of the specific and general components. Generally, when the loan portfolio increases, absent other factors, the allowance for loan loss methodology results in a higher dollar amount of estimated probable incurred credit losses than would be the case without the increase. Conversely, when the loan portfolio decreases, absent other factors, the allowance for loan loss methodology generally results in a lower dollar amount of estimated probable losses than would be the case without the decrease.

We review our loan portfolio on an ongoing basis to determine whether any loans require classification and impairment testing in accordance with applicable regulations and accounting principles. When we classify loans as either substandard or doubtful and in certain other cases, we review the collateral and future cash flow projections to determine if a specific reserve is necessary. The allowance for loan losses represents amounts that have been established to recognize incurred credit losses in the loan portfolio that are both probable and reasonably estimable at the date of the consolidated financial statements. When we classify problem loans as loss, we charge-off such amounts.

Our calculation of the general component of the allowance for loan losses includes the FASB disclosure requirement that each loan portfolio category must be segmented into specific loan classes (FASB Standards Update 2010-20 (ASU 210-20), “Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses”). Loan class segmentation tables are presented in Note 4 of the "Notes to Consolidated Financial Statements" in Item 8 of this Annual Report on Form 10-K. To maintain consistency, the loan class segmentation was also applied within the 12-quarter loss history that we use to calculate the general component of the allowance for loan losses, inherent risk factor weightings were adjusted based on our evaluation of their relevance to the new loan classes, and duplicative historical loss factors were eliminated from the loan class segmentation.

While we use the best information available to make evaluations, future adjustments to the allowance may become necessary if conditions differ substantially from the information that we used in making the evaluations. Our determinations as to the risk classification of our loans and the amount of our allowance for loan losses are subject to review by our regulatory agencies, which can require that we establish additional loss allowances.

Net Charge-offs and Recoveries

The following table sets forth activity in our allowance for loan losses.

	At or For the Years Ended December 31,				
	2019	2018	2017	2016	2015
	(Dollars in thousands)				
Balance at beginning of year	$ 8,470	$ 8,366	$ 8,127	$ 9,691	$ 11,990
Charge-offs					
One-to-four family residential real estate	(222)	(231)	(318)	(539)	(386)
Multi-family mortgage	—	(35)	(10)	(79)	(198)
Nonresidential real estate	(83)	(93)	(165)	(1,718)	(391)
Commercial loans	(4,443)	(140)	—	—	(152)
Consumer	(31)	(19)	(10)	(25)	(16)
	(4,779)	(518)	(503)	(2,361)	(1,143)
Recoveries					
One-to-four family residential real estate	75	206	145	321	702
Multi-family mortgage	31	34	70	162	182
Nonresidential real estate	—	—	17	200	509
Construction and land	—	2	—	35	44
Commercial loans	10	229	594	309	611
Commercial leases	—	5	2	7	1
Consumer	—	1	1	2	1
	116	477	829	1,036	2,050
Net (charge-offs) recoveries	(4,663)	(41)	326	(1,325)	907
Provision for (recovery of) loan losses	3,825	145	(87)	(239)	(3,206)
Balance at end of year	$ 7,632	$ 8,470	$ 8,366	$ 8,127	$ 9,691
Ratios					
Net (charge-offs) recoveries to average loans outstanding	(0.37)%	— %	0.03%	(0.11)%	0.08%
Allowance for loan losses to nonperforming loans	901.06	558.34	349.31	246.12	270.62
Allowance for loan losses to total loans	0.65	0.64	0.63	0.62	0.78

We recorded a provision for loan losses of $3.8 million in 2019, compared to $145,000 in 2018. The increase in net charge-offs and a related $4.0 million provision for loan losses were primarily due to a $4.4 million loss recorded on the sale of a Chicago commercial credit exposure that experienced an unexpected deterioration in the second quarter of 2019. 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 $811,000, or 9.6%, to $7.6 million at December 31, 2019 from $8.4 million at December 31, 2018. The reserve established for loans individually evaluated for impairment decreased $27,000, to none at December 31, 2019, from $27,000 reserve at December 31, 2018. Net charge-offs were $4.7 million and $41,000 for the years ended December 31, 2019 and December 31, 2018, respectively, and we had $326,000 of net recoveries for the year ended December 31, 2017.

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.

Allocation of Allowance for Loan Losses

The following table sets forth our allowance for loan losses allocated by loan category. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	At December 31,								
	2019			2018			2017		
	Allowance for Loan Losses	Loan Balances by Category	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Loan Balances by Category	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Loan Balances by Category	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)								
One-to-four family residential	$ 675	$ 55,750	4.75%	$ 699	$ 70,371	5.29%	$ 850	$ 97,814	7.40%
Multi-family mortgage	3,676	563,750	47.99	3,991	619,870	46.56	3,849	588,383	44.52
Nonresidential real estate	1,176	134,674	11.46	1,476	152,442	11.45	1,605	169,971	12.86
Construction and land	—	—	—	4	172	0.01	32	1,358	0.10
Commercial loans	1,308	145,714	12.40	1,517	187,406	14.08	1,357	152,552	11.54
Commercial leases	757	272,629	23.21	755	299,394	22.49	655	310,076	23.46
Consumer	40	2,211	0.19	28	1,539	0.12	18	1,597	0.12
	$ 7,632	$ 1,174,728	100.00%	$ 8,470	$ 1,331,194	100.00%	$ 8,366	$ 1,321,751	100.00%

	At December 31,					
	2016			2015		
	Allowance for Loan Losses	Loan Balances by Category	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Loan Balances by Category	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)					
One-to-four family residential	$ 1,168	$ 135,218	10.25%	$ 1,704	$ 159,501	12.86%
Multi-family mortgage	3,647	542,887	41.15	3,610	506,026	40.80
Nonresidential real estate	1,794	182,152	13.81	2,582	226,735	18.28
Construction and land	32	1,302	0.09	43	1,313	0.10
Commercial loans	733	99,088	7.51	654	79,516	6.41
Commercial leases	714	356,514	27.02	1,073	265,405	21.40
Consumer	39	2,255	0.17	25	1,831	0.15
	$ 8,127	$ 1,319,416	100.00%	$ 9,691	$ 1,240,327	100.00%

Sources of Funds

Deposits. At December 31, 2019, our deposits totaled $1.285 billion. Interest-bearing deposits totaled $1.074 billion and noninterest-bearing demand deposits totaled $210.8 million. NOW, savings and money market accounts totaled $672.0 million. At December 31, 2019, we had $402.0 million of certificates of deposit outstanding, of which $335.9 million had maturities of one year or less and $21.9 million were brokered deposits. Although a significant portion of our certificates of deposit are shorter-term certificates of deposit, we believe, based on historical experience and our current pricing strategy, that we will retain a significant portion of the non-brokered accounts upon maturity.

The following table sets forth the distribution of total deposit accounts, by account type.

	Years Ended December 31,								
	2019			2018			2017		
	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate
	(Dollars in thousands)								
Noninterest-bearing demand:									
Retail	$ 123,496	9.43%	—%	$ 132,053	10.20%	—%	$ 136,214	10.18%	—%
Commercial	90,450	6.91	—	94,552	7.30	—	96,986	7.25	—
Total noninterest-bearing demand	213,946	16.34	—	226,605	17.50	—	233,200	17.43	—
Savings deposits	152,567	11.66	0.28	157,350	12.16	0.18	160,266	11.98	0.12
Money market accounts	245,730	18.77	0.91	278,366	21.50	0.71	304,868	22.79	0.39
Interest-bearing NOW accounts	269,856	20.61	0.43	279,422	21.59	0.31	274,585	20.53	0.20
Certificates of deposit	427,044	32.62	2.18	352,731	27.25	1.54	364,792	27.27	0.96
	$ 1,309,143	100.00%		$ 1,294,474	100.00%		$ 1,337,711	100.00%	

The following table sets forth certificates of deposit by time remaining until maturity at December 31, 2019:

	Maturity				
	3 Months or Less	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 Months	Total
	(In thousands)				
Certificates of deposit less than $100,000	$ 51,427	$ 31,067	$ 72,074	$ 36,024	$ 190,592
Certificates of deposit of $100,000 or more	60,941	40,263	80,165	30,073	211,442
Total certificates of deposit	$ 112,368	$ 71,330	$ 152,239	$ 66,097	$ 402,034

Borrowings. Our borrowings consist primarily of Federal Home Loan Bank advances and repurchase agreements. The following table sets forth information concerning balances and interest rates on our borrowings.

	At or For the Years Ended December 31,		
	2019	2018	2017
	(Dollars in thousands)		
Balance at end of year	$ 61	$ 21,049	$ 60,768
Average balance during year	4,216	45,870	54,899
Maximum outstanding at any month end	20,574	60,983	61,162
Weighted average interest rate at end of year	0.25%	2.51%	1.33%
Average interest rate during year	2.11	1.43	1.19

At December 31, 2019, we had the capacity to borrow an additional $367.7 million under our credit facilities with the FHLB. Furthermore, we had unpledged securities that could be used to support in excess of $9.6 million of additional FHLB borrowings.

At December 31, 2019, we had a line of credit with the FRB. At December 31, 2019, there were no outstanding federal funds borrowings and there was no outstanding balance on the line of credit.

Impact of Inflation and Changing Prices

The Company's consolidated financial statements and the related notes have been prepared in conformity with US GAAP, which generally requires the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The impact of inflation, if any, is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

Management of Interest Rate 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 our entire investment portfolio as available-for-sale so as to provide flexibility in liquidity management.

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

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

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

Quantitative Analysis. The following table sets forth, as of December 31, 2019, 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 Decrease in NPV		Increase (Decrease) in Estimated Net Interest Income	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
+400	$ (17,767)	(8.01)%	$ 2,930	6.19 %
+300	(9,010)	(4.06)	2,441	5.16
+200	(2,930)	(1.32)	1,786	3.77
+100	(61)	(0.03)	966	2.04
0				
-100	(3,153)	(1.42)	(1,646)	(3.48)

The table set forth above indicates that at December 31, 2019, in the event of an immediate 100 basis point decrease in interest rates, the Bank would be expected to experience a 1.42% decrease in NPV and a $1.6 million decrease in net interest income. In the event of an immediate 200 basis point increase in interest rates, the Bank would be expected to experience a 1.32% decrease in NPV and a $1.8 million increase in net interest income. This data does not reflect any actions that we may undertake in response to changes in interest rates, such as changes in rates paid on certain deposit accounts based on local competitive factors, which could reduce the actual impact on NPV and net interest income, if any.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in NPV and net interest income requires that we make certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. The NPV and net interest income table presented above assumes that the composition of our interest-rate-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and, accordingly, the data does not reflect any actions that we may undertake in response to changes in interest rates, such as changes in rates paid on certain deposit accounts based on local competitive factors. The table also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or the repricing characteristics of specific assets and liabilities. 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.

Liquidity Management

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

Our primary sources of funds are deposits, principal and interest payments on loans and securities, and, to a lesser extent, wholesale borrowings, the proceeds from maturing securities and short-term investments, and the proceeds from the sales of loans and securities. The scheduled amortizations 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.

Our cash flows are derived from operating activities, investing activities and financing activities as reported in the Consolidated Statements of Cash Flows in our Consolidated Financial Statements. Our primary investing activities are the origination for investment of multi-family mortgage loans, nonresidential real estate loans, commercial leases, and commercial loans and the purchase of investment securities and mortgage-backed securities. During the years ended December 31, 2019 and 2018, our loans originated or purchased for investment totaled $793.7 million and $995.3 million, respectively. Purchases of securities totaled $83.1 million and $113.6 million for the years ended December 31, 2019 and 2018, respectively. These activities were funded primarily by principal repayments on loans and securities, and the sale of securities.

During the years ended December 31, 2019 and 2018, principal repayments on loans totaled $942.7 million and $984.2 million, respectively. During the years ended December 31, 2019 and 2018, principal repayments on securities totaled $3.1 million and $3.6 million, respectively. During the years ended December 31, 2019 and 2018, proceeds from maturities and sales of securities totaled $111.6 million and $118.6 million, respectively. There were no sales of loans during the year ended December 31, 2019 or 2018.

Loan origination commitments totaled $19.7 million at December 31, 2019, and consisted of $11.9 million of fixed-rate loans and $7.8 million of adjustable-rate loans. Unused lines of credit and standby letters of credit granted to customers totaled $149.8 million and $6.1 million, respectively, at December 31, 2019. At December 31, 2019, there were no commitments to sell mortgages.

Deposit flows are generally affected by the level of market interest rates, the interest rates and other terms and conditions on deposit products offered by our banking competitors, and other factors. We had net deposit decreases of $67.7 million for the year ended December 31, 2019 and net deposit increases of $12.4 million for the year ended December 31, 2018. Certificates of deposit that are scheduled to mature in one year or less at December 31, 2019 totaled $335.9 million.

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 may utilize additional sources of funds through FHLB advances, of which nothing was outstanding at December 31, 2019. At December 31, 2019 we had the ability to borrow an additional $367.7 million under our credit facilities with the FHLB. Furthermore, we have unpledged securities that could be used to support borrowings in excess of $9.6 million. Finally, at December 31, 2019, we had a line of credit available with the FRB. At December 31, 2019, there was no outstanding balance on this credit line.

Liquidity Management - ***Company.*** The liquidity needs of the Company on an unconsolidated basis consist primarily of operating expenses, dividends to stockholders and stock repurchases. The primary sources of liquidity for the Company currently are $6.9 million of cash and cash equivalents and any cash dividends it may receive from the Bank.

During 2019, we paid $18.1 million to repurchase shares of our common stock and paid $6.3 million in cash dividends to stockholders, using the dividends received from the Bank.

As of December 31, 2019, 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 December 31, 2019, 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.

The Bank is subject to regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can trigger certain mandatory, and possibly additional discretionary, actions by the OCC that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by regulators about components, risk weightings, and other factors.

The prompt corrective action regulations provide five classifications, including well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. Adequately capitalized institutions require regulatory approval to accept brokered deposits. If undercapitalized, a financial institution's capital distributions, asset growth and expansion are limited, and the submission of a capital restoration is required.

The Company and the Bank have each adopted Regulatory Capital Plans that require the Bank to maintain a Tier 1 leverage ratio of at least 7.5% and a total risk-based capital ratio of at least 10.5%. The minimum capital ratios set forth in the Regulatory Capital Plans will be increased and other minimum capital requirements will be established if and as necessary. In accordance with the Regulatory Capital Plans, 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.

At December 31, 2019, actual and required capital ratios were:

	BankFinancial NA Actual Ratio	Required for Capital Adequacy Purposes	To be Well-Capitalized under Prompt Corrective Action Provisions
Total capital (to risk-weighted assets)	16.38%	8.00%	10.00%
Tier 1 (core) capital (to risk-weighted assets)	15.63	6.00	8.00
Common Tier 1 (CET1)	15.63	4.50	6.50
Tier 1 (core) capital (to adjusted total assets)	10.89	4.00	5.00

As of December 31, 2019 the Bank was well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events that management believes have changed the Bank's prompt corrective action capitalization category.

Capital Management - Company. Total stockholders' equity was $174.4 million at December 31, 2019, compared to $187.2 million at December 31, 2018. The decrease in total stockholders' equity was primarily due to the combined impact of our repurchase of 1,203,050 shares of our common stock at a total cost of $18.1 million, and our declaration and payment of cash dividends totaling $6.3 million, during the year ended December 31, 2019. These items were partially offset by net income of $11.7 million that we recorded for the year ended December 31, 2019.

Cash Dividends. Our Board of Directors declared four quarterly cash dividends totaling $6.3 million during 2019, consisting of a cash dividend of $0.10 per share for each quarter of 2019.

Stock Repurchase Program. On February 25, 2019, the Board extended the expiration date of the Company's share repurchase authorization from July 31, 2019 to March 31, 2020, and increased the total number of shares authorized for repurchase by 500,000 shares. On April 25, 2019, the Board increased the total number of shares authorized for repurchase by 750,000 shares. On January 30, 2020, the Board extended the expiration date of the Company's share repurchase authorization from March 31, 2020 to October 31, 2020. As of December 31, 2019, the Company had repurchased 5,267,792 shares of its common stock out of the 5,810,755 shares of common stock authorized under the above repurchase authorizations. Since its inception, the Company has repurchased 9,506,926 shares of its common stock.

Off-Balance-Sheet Arrangements and Aggregate Contractual Obligations

Commitments. As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit, standby letters of credit, unused lines of credit and commitments to sell loans. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process afforded to loans that we make. Although we consider commitments to extend credit in determining our allowance for loan losses, at December 31, 2019, we had made no provision for losses on commitments to extend credit, and had no specific or general allowance for losses on such commitments, as we have had no historical loss experience with commitments to extend credit and we believed that no probable and reasonably estimable losses were inherent in our portfolio as a result of our commitments to extend credit. At December 31, 2019 we recorded a $116,000 reserve on open commitments for two letters of credit, these were both undrawn at the time. For additional information, see Note 14 of the "Notes to Consolidated Financial Statements" in Item 8 of this Annual Report on Form 10-K.

Contractual Obligations. In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include operating leases for premises and equipment.

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 as follows:

Allowance for Loan Losses. Arriving at an appropriate level of allowance for loan losses involves a high degree of judgment. Our allowance for loan losses provides for probable incurred losses based upon evaluations of known and inherent risks in the loan portfolio. We review the level of the allowance on a quarterly basis and establish the provision for loan losses based upon historical loan loss experience, the nature and volume of the loan portfolio, information about specific borrower situations, estimated collateral values, economic conditions and other factors to assess the adequacy of the allowance for loan losses. Among the material estimates that we must make to establish the allowance are loss exposure at default; the amount and timing of future cash flows on affected loans; the value of collateral; and a determination of loss factors to be applied to the various elements of the loan portfolio. All of these estimates are susceptible to significant change. Although we believe that we use the best information available to us to establish the allowance for loan losses, future adjustments to the allowance may be necessary if borrower financial, collateral valuation or economic conditions differ substantially from the information and assumptions used in making the evaluation. In addition, as an integral part of their supervisory and/or examination process, our regulatory agencies periodically review the methodology and sufficiency of the allowance for loan losses. These agencies may require us to recognize additions to the allowance based on their inclusion, exclusion or modification of risk factors or differences in judgments of information available to them at the time of their examination. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would negatively affect earnings.

Income Taxes. We consider accounting for income taxes a critical accounting policy due to the subjective nature of certain estimates that are involved in the calculation. We use the asset/liability method of accounting for income taxes in which deferred tax assets and liabilities are established for the temporary differences between the financial reporting basis and the tax basis of our assets and liabilities. Under GAAP, a deferred tax asset valuation allowance is required to be recognized if it is “more likely than not” that the deferred tax asset will not be realized. The determination of the realizability of the deferred tax assets is dependent upon judgments made following management’s evaluation of all available positive and negative evidence, including prior pre-tax losses and the events or conditions that caused them, forecasts of future taxable income, and current and future economic and business conditions.

Although we determined a valuation allowance was not required for any deferred tax assets at December 31, 2019 and 2018, there is no guarantee that a valuation allowance will not be required in the future.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

For information regarding market risk see Item 7 - “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Management of Interest Rate Risk.”

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of BankFinancial Corporation is responsible for establishing and maintaining effective internal control over financial reporting.

Management evaluates the effectiveness of internal control over financial reporting and tests for reliability of recorded financial information through a program of ongoing internal audits. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

The Company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

Management assessed the Company’s internal control over financial reporting as of December 31, 2019, as required by Section 404 of the Sarbanes-Oxley Act of 2002, based on the criteria for effective internal control over financial reporting described in the “2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.” Based on this assessment, management concludes that, as of December 31, 2019, the Company’s internal control over financial reporting is effective.

The Company’s independent registered public accounting firm has issued their report on the effectiveness of the Company’s internal control over financial reporting. That report follows under the heading, Report of Independent Registered Public Accounting Firm.

/s/ F. Morgan Gasior	/s/ Paul A. Cloutier
F. Morgan Gasior	Paul A. Cloutier
Chairman of the Board, Chief Executive Officer and President	Executive Vice President and Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors BankFinancial Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statement of financial condition of BankFinancial Corporation and Subsidiary (the Company) as of December 31, 2019, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 5, 2020, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinions

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ RSM LLP

We have served as the Company's auditor since 2019

Chicago, Illinois
March 5, 2020

Report of Independent Registered Public Accounting Firm

Stockholders and the Board of Directors
BankFinancial Corporation
Burr Ridge, Illinois

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of BankFinancial Corporation (the "Company") as of December 31, 2018, and the related consolidated statements of operations, comprehensive income, changes in stockholders’ equity, and cash flows for the year ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows for the year ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Crowe LLP

We served as the Company's auditor from 1989 to 2019.

Oak Brook, Illinois
February 11, 2019

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

	December 31,	
	2019	2018
Assets		
Cash and due from other financial institutions	$ 9,785	$ 13,805
Interest-bearing deposits in other financial institutions	180,540	84,399
Cash and cash equivalents	190,325	98,204
Securities, at fair value	60,193	88,179
Loans receivable, net of allowance for loan losses: December 31, 2019, $7,632 and December 31, 2018, $8,470	1,168,008	1,323,793
Other real estate owned, net	186	1,226
Stock in Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB"), at cost	7,490	8,026
Premises and equipment, net	24,346	25,205
Accrued interest receivable	4,563	4,952
Bank-owned life insurance	18,945	18,809
Deferred taxes	3,873	6,235
Other assets	10,086	10,696
Total assets	$ 1,488,015	$ 1,585,325
Liabilities		
Deposits		
Noninterest-bearing	$ 210,762	$ 230,041
Interest-bearing	1,073,995	1,122,443
Total deposits	1,284,757	1,352,484
Borrowings	61	21,049
Advance payments by borrowers for taxes and insurance	10,222	10,531
Accrued interest payable and other liabilities	18,603	14,111
Total liabilities	1,313,643	1,398,175
Commitments and contingent liabilities		
Stockholders’ equity		
Preferred Stock, $0.01 par value, 25,000,000 shares authorized, none issued or outstanding	—	—
Common Stock, $0.01 par value, 100,000,000 shares authorized; 15,278,464 shares issued at December 31, 2019 and 16,481,514 shares issued at December 31, 2018	153	165
Additional paid-in capital	112,420	130,547
Retained earnings	61,573	56,167
Accumulated other comprehensive income	226	271
Total stockholders’ equity	174,372	187,150
Total liabilities and stockholders’ equity	$ 1,488,015	$ 1,585,325

See accompanying notes to the consolidated financial statements

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

	For the years ended December 31,	
	2019	**2018**
Interest and dividend income		
Loans, including fees	$ 60,568	$ 57,052
Securities	2,082	2,229
Other	2,758	2,006
Total interest income	65,408	61,287
Interest expense		
Deposits	13,128	8,561
Borrowings	89	656
Total interest expense	13,217	9,217
Net interest income	52,191	52,070
Provision for loan losses	3,825	145
Net interest income after provision for loan losses	48,366	51,925
Noninterest income		
Deposit service charges and fees	3,844	3,968
Loan servicing fees	451	439
Mortgage brokerage and banking fees	149	257
Gain on sale of equity securities	295	3,558
Unrealized gains on equity securities	—	3,427
Gain on sale of premises held-for-sale	—	93
Loss on disposal of other assets	(44)	—
Trust and insurance commissions and annuities income	844	937
Earnings on bank-owned life insurance	136	174
Bank-owned life insurance death benefit	—	1,389
Other	497	635
Total noninterest income	6,172	14,877
Noninterest expense		
Compensation and benefits	21,266	22,987
Office occupancy and equipment	7,069	6,817
Advertising and public relations	657	848
Information technology	2,999	2,792
Professional fees	1,027	1,018
Supplies, telephone, and postage	1,316	1,433
Amortization of intangibles	61	184
Nonperforming asset management	105	353
Operations of other real estate owned	52	432
FDIC insurance premiums	127	437
Other	3,962	3,453
Total noninterest expense	38,641	40,754
Income before income taxes	15,897	26,048
Income tax expense	4,225	6,706
Net income	$ 11,672	$ 19,342
Basic and diluted earnings per common share	$ 0.75	$ 1.11
Basic and diluted weighted average common shares outstanding	15,594,883	17,434,345

See accompanying notes to the consolidated financial statements

BANKFINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	For the years ended December 31,	
	2019	**2018**
Net income	$ 11,672	$ 19,342
Unrealized holding loss on securities arising during the period	(62)	(136)
Tax effect	17	37
Comprehensive loss, net of tax	(45)	(99)
Comprehensive income	$ 11,627	$ 19,243

See accompanying notes to the consolidated financial statements

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

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehen-sive Income	Total
Balance at January 1, 2018	$ 179	$ 153,811	$ 43,274	$ 370	$ 197,634
Net income	—	—	19,342	—	19,342
Other comprehensive loss, net of tax effect	—	—	—	(99)	(99)
Repurchase and retirement of common stock (1,476,963 shares)	(14)	(23,270)	—	—	(23,284)
Nonvested stock awards-stock-based compensation expense	—	6	—	—	6
Cash dividends declared on common stock ($0.37 per share)	—	—	(6,449)	—	(6,449)
Balance at December 31, 2018	165	130,547	56,167	271	187,150
Net income	—	—	11,672	—	11,672
Other comprehensive loss, net of tax effect	—	—	—	(45)	(45)
Repurchase and retirement of common stock (1,203,050 shares)	(12)	(18,127)	—	—	(18,139)
Cash dividends declared on common stock ($0.40 per share)	—	—	(6,266)	—	(6,266)
Balance at December 31, 2019	$ 153	$ 112,420	$ 61,573	$ 226	$ 174,372

See accompanying notes to the consolidated financial statements

BANKFINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the years ended December 31,	
	2019	**2018**
Cash flows from operating activities		
Net income	$ 11,672	$ 19,342
Adjustments to reconcile to net income to net cash from operating activities		
Provision for loan losses	3,825	145
Stock–based compensation expense	—	6
Depreciation and amortization	1,613	1,535
Amortization of premiums and discounts on securities and loans	8	11
Amortization of intangibles	61	184
Amortization of servicing assets	85	94
Net change in net deferred loan origination costs	157	197
(Gain) loss on sale of other real estate owned	(111)	56
Gain on sale of equity securities	(295)	(3,558)
Unrealized gain on equity securities	—	(3,427)
Loss on disposal of other assets	44	—
Gain on sale of premises held-for-sale	—	(93)
Other real estate owned valuation adjustments	38	27
Earnings on bank-owned life insurance	(136)	(174)
Net change in:		
Deferred income tax	2,362	6,328
Accrued interest receivable	389	(333)
Other assets	3,864	1,694
Accrued interest payable and other liabilities	(2,202)	(1,349)
Net cash from operating activities	21,374	20,685
Cash flows from investing activities		
Securities		
Proceeds from maturities	107,921	114,583
Proceeds from principal repayments	3,076	3,587
Proceeds from sale of equity securities	3,722	4,059
Purchases of securities	(83,081)	(113,614)
Net (increase) decrease in loans receivable	151,501	(11,091)
Redemption of FHLB and FRB stock	540	1,312
Purchase of FHLB and FRB stock	(4)	(1,048)
Bank-owned life insurance death benefit	—	4,224
Proceeds from sale of premises held-for-sale	—	5,485
Proceeds from sale of other real estate owned	1,299	2,172
Purchase of premises and equipment, net	(798)	(1,609)
Net cash from investing activities	184,176	8,060

(Continued)

BANKFINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(In thousands)

	For the years ended December 31,	
	2019	**2018**
Cash flows from financing activities		
Net change in:		
Deposits	$ (67,727)	$ 12,433
Borrowings	(20,988)	(39,719)
Advance payments by borrowers for taxes and insurance	(309)	(1,114)
Repurchase and retirement of common stock	(18,139)	(23,284)
Cash dividends paid on common stock	(6,266)	(6,449)
Net cash used in financing activities	(113,429)	(58,133)
Net change in cash and cash equivalents	92,121	(29,388)
Beginning cash and cash equivalents	98,204	127,592
Ending cash and cash equivalents	$ 190,325	$ 98,204
Supplemental disclosures of cash flow information:		
Interest paid	$ 13,446	$ 9,073
Income taxes paid	412	342
Income taxes refunded	18	—
Loans transferred to other real estate owned	186	1,482
Recording of right of use asset in exchange for lease obligations in other assets and other liabilities	6,694	—

See accompanying notes to the consolidated financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: BankFinancial Corporation, a Maryland corporation headquartered in Burr Ridge, Illinois, is the owner of all of the issued and outstanding capital stock of BankFinancial, National Association (the "Bank"). BankFinancial Corporation is a registered Bank Holding Company and its wholly-owned bank subsidiary is operating as BankFinancial, National Association.

Principles of Consolidation: The 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 BFIN Asset Recovery Company, LLC (formerly BF Asset Recovery Corporation) (collectively, "the Company") and have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). All significant intercompany accounts and transactions have been eliminated. The Company's revenues, operating income, and assets are primarily from the banking industry. Loan origination customers are mainly located in the greater Chicago metropolitan area. To supplement loan originations, the Company purchases loans. The loan portfolio is concentrated in loans that are primarily secured by real estate.

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

Interest-bearing Deposits in Other Financial Institutions*:* Interest-bearing deposits in other financial institutions maturing in less than 90 days are carried at cost.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions maturing in less than 90 days, and daily federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, borrowings, and advance payments by borrowers for taxes and insurance.

Securities: Debt securities are classified as available-for-sale when they might be sold before maturity. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss), net of tax. Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are based on the amortized cost of the security sold. Declines in the fair value of securities below their cost that are other-than-temporary are reflected as realized losses. In determining if losses are other-than-temporary, management considers: (1) the length of time and extent that fair value has been less than cost or adjusted cost, as applicable, (2) the financial condition and near term prospects of the issuer, and (3) whether the Company has the intent to sell the debt security or it is more likely than not that the Company will be required to sell the debt security before the anticipated recovery.

Securities also include investments in certificates of deposit with maturities of greater than 90 days. These certificates of deposit are placed with insured institutions for varying maturities and amounts that are fully insured by the Federal Deposit Insurance Corporation ("FDIC").

Equity Securities: Equity securities are accounted for in accordance with ASC 321-10 *Investments - Equity Securities.* Our equity securities may be classified into two categories and accounted for as follows:

- Equity securities with a readily determinable fair value are reported at fair value, with unrealized gains and losses included in earnings. Any dividends received are recorded in interest income.

- Equity securities without a readily determinable fair value are reported at their cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer and their impact on fair value. Any dividends received are recorded in interest income.

The fair value of equity investments with readily determinable fair values is primarily obtained from third-party pricing services. For equity investments without readily determinable fair values, when an orderly transaction for the identical or similar investment of the same issuer is identified, we use the valuation techniques permitted under ASC 820 *Fair Value* to evaluate the observed transaction(s) and adjust the fair value of the equity investment.

ASC 321-10 also provides guidance related to accounting for impairment of equity securities without readily determinable fair values. The qualitative assessment to determine whether impairment exists requires the use of our judgment in certain circumstances. If, after completing the qualitative assessment we conclude an equity investment without a readily determinable fair value is

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

impaired, a loss for the difference between the equity investment's carrying value and its fair value may be recognized as a reduction to noninterest income in the Consolidated Statements of Operations.

Federal Home Loan Bank ("FHLB") Stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Federal Reserve Bank ("FRB") Stock: The Bank is a member of its regional Federal Reserve Bank. FRB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans and Loan Income: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of the allowance for loan losses, premiums and discounts on loans purchased, and net deferred loan costs. Interest income on loans is recognized in income over the term of the loan based on the amount of principal outstanding.

Premiums and discounts associated with loans purchased are amortized over the contractual term of the loan using the level–yield method. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income is reported on the interest method. Interest income is generally discontinued at the earlier of a loan is 90 days past due or when we do not expect to receive full payment of interest or principal. Past due status is based on the contractual terms of the loan.

All interest accrued but not received for loans that have been placed on nonaccrual status is reversed against interest income. Interest received on such loans is accounted for on the cash–basis or cost–recovery method until qualifying for return to accrual status. 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. Generally, the Company utilizes the "90 days delinquent, still accruing" category of loan classification when: (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 payments actually received or the renewal of a loan has not occurred for administrative reasons.

Impaired Loans: Impaired loans principally consist of nonaccrual loans and troubled debt restructurings ("TDRs"). A loan is considered impaired when, based on current information and events, management believes that it is probable that we will be unable to collect all amounts due (both principal and interest) according to the original contractual terms of the loan agreement. Once a loan is determined to be impaired, the amount of impairment is measured based on the loan's observable fair value, the fair value of the underlying collateral less selling costs if the loan is collateral-dependent, or the present value of expected future cash flows discounted at the loan's effective interest rate. If the measurement of the impaired loan is less than the recorded investment in the loan, the bank's allowance for the impaired collateral dependent loan under ASC 310-10-35 is based on fair value (less costs to sell), but the charge-off (the confirmed "loss") is based on the appraised value. The remaining recorded investment in the loan after the charge-off will have a loan loss allowance for the amount by which the estimated fair value of the collateral (less costs to sell) is less than its appraised value.

Impaired loans with specific reserves are reviewed quarterly for any changes that would affect the specific reserve. Any impaired loan for which a determination has been made that the economic value is permanently reduced is charged-off against the allowance for loan losses to reflect its current economic value in the period in which the determination has been made.

At the time a collateral-dependent loan is initially determined to be impaired, we review the existing collateral appraisal. If the most recent appraisal is greater than a year old, a new appraisal is obtained on the underlying collateral. Appraisals are updated with a new independent appraisal at least annually and are formally reviewed by our internal appraisal department upon receipt of a new appraisal. All impaired loans and their related reserves are reviewed and updated each quarter.

Troubled Debt Restructurings: A loan is classified as a troubled debt restructuring when a borrower is experiencing financial difficulties that leads to a restructuring of the loan, and the Company grants concessions to the borrower in the restructuring that it would not otherwise consider. These concessions may include rate reductions, principal forgiveness, extension of maturity date and other actions intended to minimize potential losses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In determining whether a debtor is experiencing financial difficulties, the Company considers if the debtor is in payment default or would be in payment default in the foreseeable future without the modification, the debtor declared or is in the process of declaring bankruptcy, there is substantial doubt that the debtor will continue as a going concern, the debtor has securities that have been or are in the process of being delisted, the debtor's entity-specific projected cash flows will not be sufficient to service any of its debt, or the debtor cannot obtain funds from sources other than the existing creditors at a market rate for debt with similar risk characteristics.

In determining whether the Company has granted a concession, the Company assesses, if it does not expect to collect all amounts due, whether the current value of the collateral will satisfy the amounts owed, whether additional collateral or guarantees from the debtor will serve as adequate compensation for other terms of the restructuring, and whether the debtor otherwise has access to funds at a market rate for debt with similar risk characteristics.

Periodically, the Company will restructure a note into two separate notes (A/B structure), charging off the entire B portion of the note. The A note is structured with appropriate loan-to-value and cash flow coverage ratios that provide for a high likelihood of repayment. The A note is classified as a nonperforming note until the borrower has displayed a historical payment performance for a reasonable time prior to and subsequent to the restructuring. A period of sustained repayment for at least six months generally is required to return the note to accrual status provided that management has determined that the performance is reasonably expected to continue. The A note will be classified as a restructured note (either performing or nonperforming) through the calendar year of the restructuring that the historical payment performance has been established.

Allowance for Loan Losses: The Company establishes provisions for loan losses, which are charged to the Company's results of operations to maintain the allowance for loan losses to absorb probable incurred credit losses in the loan portfolio. In determining the level of the allowance for loan losses, the Company considers past and current loss experience, trends in classified loans, 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 the estimates as more information becomes available or events change.

The Company provides for loan losses based on the allowance method. Accordingly, all loan losses are charged to the related allowance and all recoveries are credited to it. Additions to the allowance for loan losses are provided by charges to income based on various factors that, in our judgment, deserve current recognition in estimating probable incurred credit losses. The Company reviews the loan portfolio on an ongoing basis and makes provisions for loan losses on a quarterly basis to maintain the allowance for loan losses in accordance with US GAAP. The allowance for loan losses consists of two components:

- specific allowances established for any impaired residential non-owner occupied mortgage, multi-family mortgage, nonresidential real estate, construction and land, commercial, and commercial lease loans for which the recorded investment in the loan exceeds the measured value of the loan; and

- general allowances for loan losses for each loan class based on historical loan loss experience; and adjustments to historical loss experience (general allowances), maintained to cover uncertainties that affect our estimate of probable incurred credit losses for each loan class.

The adjustments to historical loss experience are based on our evaluation of several factors, including levels of, and trends in, past due and classified loans; levels of, and trends in, charge–offs and recoveries; trends in volume and terms of loans, including any credit concentrations in the loan portfolio; experience and ability of lending management and other relevant staff; and national and local economic trends and conditions.

The Company evaluates the allowance for loan losses based upon the combined total of the specific and general components. Generally, when the loan portfolio increases, absent other factors, the allowance for loan loss methodology results in a higher dollar amount of estimated probable incurred credit losses than would be the case without the increase. Conversely, when the loan portfolio decreases, absent other factors, the allowance for loan loss methodology generally results in a lower dollar amount of estimated probable losses than would be the case without the decrease.

The loss ratio used in computing the required general loan loss reserve allowance for a given class of loan consists of (i) the actual loss ratio (measured on a weighted, rolling twelve-quarter basis), (ii) the change in credit quality within the specific loan class during the period, (iii) the actual inherent risk factor assigned to the specific loan class and (iv) the actual concentration of risk factor assigned to the specific loan class (collectively, the "Specific Loan Class Risk Factors"). The Specific Loan Class Risk Factors are weighted equally in the calculation. In addition, two additional quantitative factors, the National Economic risk factor

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

and the Local Economic risk factor, are also components of the computation but are given different weightings in their computation due to their relative applicability to the specific loan class in the context of the effect of national and local economic conditions on their risk profile and performance.

Mortgage Servicing Rights: Mortgage servicing rights are recognized separately when they are acquired through sales of loans. When mortgage loans are sold, servicing rights are initially recorded at fair value and gains on sales of loans are recorded in the statement of operations. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the servicing cost per loan, the discount rate, the escrow float rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. The Company compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported with amortization and impairment of servicing assets on the statement of operations. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income that is reported on the statement of operations as loan servicing fees is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. Late fees and ancillary fees related to loan servicing are not material.

First mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of these loans were $63.4 million and $76.2 million at December 31, 2019 and 2018, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing activities were $2.2 million and $1.8 million at December 31, 2019 and 2018, respectively. Capitalized mortgage servicing rights are included in other assets in the accompanying consolidated statements of financial condition. Servicing rights were $335,000 and $420,000 at December 31, 2019 and 2018, respectively, with no valuation allowance at December 31, 2019 and 2018.

Other Real Estate Owned ("OREO"): Foreclosed assets are initially recorded at fair value less cost to sell when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when the legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at a lower of cost or fair value less estimated cost to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating expenses, gains and losses on disposition, and changes in the valuation allowance are reported in noninterest expense as operations of other real estate owned.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is included in noninterest expense and is computed on the straight-line method over the estimated useful lives of the assets. Useful lives are estimated to be 25 to 40 years for buildings and improvements that extend the life of the original building, ten to 20 years for routine building improvements, five to 15 years for furniture and equipment, two to five years for computer hardware and software and no greater than four years on automobiles. The cost of maintenance and repairs is charged to expense as incurred and significant repairs are capitalized.

On April 23, 2018, the Bank sold its office corporate office building in Burr Ridge, Illinois. A net gain of $93,000 was recorded in the second quarter of 2018 in connection with the sale.

Other Intangible Assets: Intangible assets acquired in a purchase business combination with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Core deposit intangible assets (“CDI”), are recognized at the time of acquisition based on valuations prepared by independent third parties or other estimates of fair value. In preparing such valuations, variables such as deposit servicing costs, attrition rates, and market discount rates are considered. CDI assets are

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

amortized to expense over their useful lives. CDI were $41,000 and $102,000 at December 31, 2019 and 2018, respectively, and are included in other assets in the accompanying consolidated statements of financial condition.

Bank-Owned Life Insurance: The Company has purchased life insurance policies on certain key executives. The Company owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Long-Term Assets: Premises and equipment, core deposit and other intangible assets, and other long-term assets are reviewed for impairment when events indicate that their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Under US GAAP, a deferred tax asset valuation allowance is required to be recognized if it is “more likely than not” that the deferred tax asset will not be realized. The determination of the realizability of the deferred tax assets is highly subjective and dependent upon judgment concerning management’s evaluation of both positive and negative evidence, the forecasts of future taxable income, applicable tax planning strategies, and assessments of current and future economic and business conditions. The Company considers both positive and negative evidence regarding the ultimate realizability of our deferred tax assets. Examples of positive evidence may include the existence, if any, of taxes paid in available carry-back years and the likelihood that taxable income will be generated in future periods. Examples of negative evidence may include a cumulative loss in the current year and prior two years and negative general business and economic trends. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period of the enactment date.

This analysis is updated quarterly and adjusted as necessary. At December 31, 2019, the Company had a net deferred tax asset of $3.9 million.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, presuming that a tax examination will occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely to be realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

Retirement Plans: Employee 401(k) and profit sharing plan expense is the amount of matching contributions and any annual discretionary contribution made at the discretion of the Company’s Board of Directors.

Earnings per Common Share: Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is net income divided by the weighted average number of common shares outstanding during the period plus the dilutive effect of restricted stock shares.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe that there are such matters that will have a material effect on the financial statements as of December 31, 2019.

Restrictions on Cash: The Bank is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank, based on a percentage of deposits. As December 31, 2019 and 2018, the Bank has met the requirements.

The nature of the Company’s business requires that it maintain amounts with banks and federal funds sold which, at times, may exceed federally insured limits. Management monitors these correspondent relationships and the Company has not experienced any losses in such accounts.

Fair Values of Financial Instruments: Fair values of financial instruments are estimated using relevant market value information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities, net of tax, which is also recognized as separate components of stockholders' equity.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Operating Segments: While management monitors the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Operating results are not reviewed by senior management to make resource allocation or performance decisions. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Reclassifications: Certain reclassifications have been made in the prior year's financial statements to conform to the current year's presentation. Reclassifications had no effect on prior year net income or stockholders' equity.

Lease Accounting: The Company adopted FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), including the adoption of the practical expedients, effective January 1, 2019. Lessees are required to recognize assets and liabilities on the balance sheet for leases with lease terms greater than 12 months. The Company recorded assets and liabilities of $6.7 million as a result of recording additional lease contracts where the Company is lessee. The Company did not restate comparative periods. The right of use assets are included in other assets and the lease obligations are included in other liabilities in the accompanying consolidated statements of financial condition.

Newly Issued Not Yet Effective Accounting Standards

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

NOTE 2 – EARNINGS PER SHARE

Amounts reported in earnings per share reflect earnings available to common stockholders for the period divided by the weighted average number of shares of common stock outstanding during the period, exclusive of 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.

	For the years ended December 31,	
	2019	**2018**
Net income available to common stockholders	$ 11,672	$ 19,342
Average common shares outstanding	15,594,883	17,434,780
Less - Unvested restricted stock shares	—	(435)
Basic and diluted weighted average common shares outstanding	15,594,883	17,434,345
Basic and diluted earnings per common share	$ 0.75	$ 1.11

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

NOTE 3 – SECURITIES

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

Available-for-Sale Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2019				
Certificates of deposit	$ 48,666	$ —	$ —	$ 48,666
Municipal securities	505	8	—	513
Mortgage-backed securities - residential	7,727	310	—	8,037
Collateralized mortgage obligations - residential	2,986	4	(13)	2,977
	$ 59,884	$ 322	$ (13)	$ 60,193
December 31, 2018				
Certificates of deposit	$ 73,507	$ —	$ —	$ 73,507
Municipal securities	509	—	—	509
Mortgage-backed securities - residential	10,116	400	(38)	10,478
Collateralized mortgage obligations - residential	3,676	11	(2)	3,685
	$ 87,808	$ 411	$ (40)	$ 88,179

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

Equity Investments (1) (2)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2018				
Visa Class B shares	$ —	$ 3,427	$ —	$ 3,427

(1) Equity investments are included in Other Assets in the Consolidated Statements of Financial Condition.
(2) There were no equity investments at December 31, 2019

The amortized cost and fair values of securities available-for-sale at December 31, 2019 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.

	December 31, 2019	
	Amortized Cost	Fair Value
Due in one year or less	$ 48,767	$ 48,768
Due after one year through five years	404	411
	49,171	49,179
Mortgage-backed securities - residential	7,727	8,037
Collateralized mortgage obligations - residential	2,986	2,977
	$ 59,884	$ 60,193

Investment securities available-for-sale with carrying amounts of $2.0 million and $2.7 million at December 31, 2019 and 2018, respectively, were pledged as collateral on customer repurchase agreements and for other purposes as required or permitted by law.

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

NOTE 3 – SECURITIES (continued)

Sales of equity securities were as follows:

	For the years ended December 31, 2019	2018
Proceeds	$ 3,722	$ 4,059
Gross gains	295	3,572
Gross losses	—	(14)

Securities available-for-sale with unrealized losses at December 31, 2019 and 2018 not recognized in income are as follows:

	Less than 12 Months			12 Months or More			Total		
	Count	Fair Value	Unrealized Loss	Count	Fair Value	Unrealized Loss	Count	Fair Value	Unrealized Loss
December 31, 2019									
Collateralized mortgage obligations - residential	3	$ 1,566	$ (10)	1	$ 937	$ (3)	4	$ 2,503	$ (13)
December 31, 2018									
Mortgage-backed securities - residential	—	—	—	2	904	(38)	2	904	(38)
Collateralized mortgage obligations - residential	—	—	—	2	1,729	(2)	2	1,729	(2)
	—	$ —	$ —	4	$ 2,633	$ (40)	4	$ 2,633	$ (40)

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 collateralized mortgage obligations that the Company holds in its investment portfolio were in an unrealized loss position at December 31, 2019, but the unrealized loss was not considered significant under the Company's impairment testing methodology. In addition, the Company does not intend to sell these securities, and it is not likely that the Company will be required to sell the securities before their anticipated recovery occurs.

The Bank, as a member of Visa USA, received 51,404 unrestricted shares of Visa, Inc. Class B common stock in connection with Visa, Inc.'s initial public offering in 2007 and a related retroactive responsibility plan. The retroactive responsibility plan obligates all former Visa USA members to indemnify Visa USA, in proportion to their equity interests in Visa USA, for certain litigation losses and expenses, including settlement expenses, for the lawsuits covered by the retrospective responsibility plan. Due to the restrictions that the retrospective responsibility plan imposes on the Company's Visa, Inc. Class B shares, the Company had not recorded the Class B shares as an asset.

The Bank sold 25,702 shares of Visa Class B common stock in the fourth quarter of 2018 and recorded a gain of $3.6 million. For equity investments without readily determinable fair values, when an orderly transaction for the identical or similar investment of the same issuer is identified, we use the valuation techniques permitted under ASC 820 Fair Value to evaluate the observed transaction(s) and adjust the fair value of the equity investment.

Based on the existing transfer restriction and the uncertainty of the outcome of the Visa litigation mentioned above, the remaining 25,702 Visa Class B shares that the Company owned as of December 31, 2018 were carried at $3.4 million in other assets with a corresponding gain.

The Bank sold the remaining 25,702 shares of Visa Class B common stock in the first quarter of 2019 and recorded a gain of $295,000.

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

NOTE 4 – LOANS RECEIVABLE

Loans receivable are as follows:

	December 31, 2019	December 31, 2018
One-to-four family residential real estate	$ 55,750	$ 70,371
Multi-family mortgage	563,750	619,870
Nonresidential real estate	134,674	152,442
Construction and land	—	172
Commercial loans	145,714	187,406
Commercial leases	272,629	299,394
Consumer	2,211	1,539
	1,174,728	1,331,194
Net deferred loan origination costs	912	1,069
Allowance for loan losses	(7,632)	(8,470)
Loans, net	$ 1,168,008	$ 1,323,793

Loan Origination/Risk Management. The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. The Company reviews and approves these policies and procedures on a periodic basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and nonperforming and potential problem loans via trend and risk rating migration. The Company requires title insurance insuring the priority of our lien on real estate collateral, fire and extended coverage casualty insurance, and, if appropriate, flood insurance, in order to protect our security interest in the underlying real property collateral.

The majority of the loans the Company originates are commercial-related loans, such as multi-family, nonresidential real estate, commercial, construction and land loans, and commercial leases. In addition, we originated one-to-four family residential mortgage loans and consumer loans until December 31, 2017. We also occasionally purchase and sell loan participations. The following briefly describes our principal loan products.

The Company originates real estate loans principally secured by first liens, both non-owner occupied and owner occupied commercial real estate. The non-owner occupied commercial real estate properties are predominantly multi-family apartment buildings, office buildings, light industrial buildings, shopping centers and mixed-use developments and, to a much lesser extent, more specialized properties such as nursing homes and other healthcare facilities.

Multi-family mortgage loans generally are secured by multi-family rental properties such as apartment buildings, including subsidized apartment units. In general, loan amounts range between $500,000 and $5.0 million at December 31, 2019. Approximately 57.0% of the collateral is located outside of our primary market area; however, we do not have a concentration in any single market in excess of 25% of our loan portfolio outside of our primary market area. In underwriting multi-family mortgage loans, the Company considers a number of factors, which include the projected net cash flow to the loan's debt service requirement (generally requiring a minimum ratio of 120%), the age and condition of the collateral, the financial resources and income level of the borrower, the borrower's experience in owning or managing similar properties and, proximity to diverse employment opportunities. Multi-family mortgage loans are generally originated in amounts up to 80% of the appraised value of the property securing the loan. Personal guarantees are usually obtained on multi-family mortgage loans if the borrower/property owner is a legal entity.

Loans secured by multi-family mortgages generally involve a greater degree of credit risk as a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family mortgages typically depends upon the successful operation of the related real estate property. If the cash flow from the project is reduced below acceptable thresholds, the borrower's ability to repay the loan may be impaired.

The Company emphasizes nonresidential real estate loans with initial principal balances between $500,000 and $5.0 million. Substantially all of our nonresidential real estate loans are secured by properties located in our primary market area. The Company's

NOTE 4 – LOANS RECEIVABLE (continued)

nonresidential real estate loans are generally written as three- or five-year adjustable-rate mortgages or mortgages with balloon maturities of three or five years. Amortization on these loans is typically based on 20- to 30-year schedules. The Company also originates some 15-year fixed-rate, fully amortizing loans.

In the underwriting of nonresidential real estate loans, the Company generally lends up to 80% of the property's appraised value. Decisions to lend are based on the economic viability of the property as the primary source of repayment and the creditworthiness of the borrower. In evaluating a proposed commercial real estate loan, we emphasize the ratio of the property's projected net cash flow to the loan's debt service requirement (generally requiring a minimum ratio of 120%), computed after deduction for a vacancy factor and property expenses we deem appropriate. Personal guarantees are usually pursued and obtained from nonresidential real estate borrowers.

Nonresidential real estate loans generally carry higher interest rates and have shorter terms and typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment of loans secured by income-producing properties typically depends on the successful operation of the related real estate project and thus may be subject to a greater extent to adverse conditions in the real estate market and in the general economy.

The Company makes various types of secured and unsecured commercial loans to customers in our market area for the purpose of financing equipment acquisition, expansion, working capital and other general business purposes. The terms of these loans generally range from less than one year to five years. The loans are either negotiated on a fixed-rate basis or carry adjustable interest rates indexed to (i) a lending rate that is determined internally, or (ii) a short-term market rate index.

Commercial credit decisions are based upon our assessment of the borrower's cash flow, proposed collateral, business and credit history and any additional positive or negative credit risk factors. The Company determines the borrower's ability to repay in accordance with the proposed terms of the loans and we assess the risks involved. An evaluation is made of the borrower to determine character and capacity to manage. Personal guarantees of the principals are pursued and usually obtained. In addition to evaluating the loan borrower's financial statements, we consider the adequacy of the primary and secondary sources of repayment for the loan. Independent reports of the borrower's credit history supplement our analysis of the borrower's creditworthiness and at times are supplemented with inquiries to other banks and trade investigations. Moreover, certain assets listed on personal financial statements are verified. Proposed collateral for a secured transaction also is analyzed to determine its marketability. Commercial business loans generally have higher interest rates because they have a higher risk of default since their repayment generally depends on the successful operation of the borrower's business and the sufficiency of any collateral. Pricing of commercial loans is based primarily on the credit risk of the borrower, with due consideration given to borrowers with appropriate deposit relationships.

The Company also lends money to small and mid-size leasing companies for equipment financing leases. Generally, commercial leases are secured by an assignment by the leasing company of the lease payments and by a secured interest in the equipment being leased. In most cases, the lessee acknowledges our security interest in the leased equipment and agrees to send lease payments directly to us. Consequently, the Company underwrites lease loans by examining the creditworthiness of the lessee rather than the lessor. Lease loans generally are non-recourse to the leasing company.

Generally, the Company's commercial leases are secured primarily by technology equipment, medical equipment, material handling equipment and other capital equipment. Lessees tend to be publicly-traded companies with investment-grade rated debt or companies that have not issued public debt and therefore do not have a public debt rating. Commercial leases to these entities have a maximum outstanding credit exposure of $20.0 million to any single entity. Typically, commercial leases to these lessees have a maximum maturity of five years and a maximum outstanding credit exposure of $10.0 million to any single entity. In addition, the Company will originate commercial leases to lessees with below investment-grade public debt ratings and have a maximum outstanding credit exposure of $10.0 million to any single entity. Lease loans are almost always fully amortizing, with fixed interest rates.

Although the Company does not actively originate construction and land loans presently, construction and land loans generally consist of land acquisition loans to help finance the purchase of land intended for further development, including single-family homes, multi-family housing and commercial income property, development loans to builders in our market area to finance improvements to real estate, consisting mostly of single-family subdivisions, typically to finance the cost of utilities, roads, sewers and other development costs.

Until December 31, 2017, the Company offered conforming and non-conforming, fixed-rate and adjustable-rate residential mortgage loans with maturities of up to 30 years and maximum loan amounts generally of up to $2.5 million. One-to-four family residential mortgage loans were generally underwritten according to Fannie Mae guidelines, and loans that conformed to such

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

NOTE 4 – LOANS RECEIVABLE (continued)

guidelines are referred to as "conforming loans." Private mortgage insurance is required for first mortgage loans with loan-to-value ratios in excess of 80%.

The ability of the Company's borrowers to repay their loans, and the value of the collateral securing such loans, could be adversely impacted by economic weakness in its local markets as a result of unemployment, declining real estate values, or increased residential, office, industrial and retail shopping vacancies due to changes in business conditions. This not only could result in the Company experiencing charge-offs and/or nonperforming assets, but also could necessitate an increase in the provision for loan losses. These events, if they were to recur, would have an adverse impact on the Company's results of operations and its capital.

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
December 31, 2019						
One-to-four family residential real estate	$ —	$ 675	$ 675	$ 1,835	$ 53,915	$ 55,750
Multi-family mortgage	—	3,676	3,676	620	563,130	563,750
Nonresidential real estate	—	1,176	1,176	288	134,386	134,674
Commercial loans	—	1,308	1,308	—	145,714	145,714
Commercial leases	—	757	757	—	272,629	272,629
Consumer	—	40	40	—	2,211	2,211
	$ —	$ 7,632	$ 7,632	$ 2,743	$ 1,171,985	1,174,728
Net deferred loan origination costs						912
Allowance for loan losses						(7,632)
Loans, net						$ 1,168,008

	Allowance for loan losses			Loan Balances		
	Individually evaluated for impairment	Collectively evaluated for impairment	Total	Individually evaluated for impairment	Collectively evaluated for impairment	Total
December 31, 2018						
One-to-four family residential real estate	$ —	$ 699	$ 699	$ 2,218	$ 68,153	$ 70,371
Multi-family mortgage	—	3,991	3,991	653	619,217	619,870
Nonresidential real estate	27	1,449	1,476	270	152,172	152,442
Construction and land	—	4	4	—	172	172
Commercial loans	—	1,517	1,517	—	187,406	187,406
Commercial leases	—	755	755	—	299,394	299,394
Consumer	—	28	28	—	1,539	1,539
	$ 27	$ 8,443	$ 8,470	$ 3,141	$ 1,328,053	1,331,194
Net deferred loan origination costs						1,069
Allowance for loan losses						(8,470)
Loans, net						$ 1,323,793

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

NOTE 4 – LOANS RECEIVABLE (continued)

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

	One-to-four family residential real estate	Multi-family mortgage	Non-residential real estate	Construc-tion and land	Commer-cial loans	Commer-cial leases	Consumer	Total
December 31, 2019								
Allowance for loan losses:								
Beginning balance	$ 699	$ 3,991	$ 1,476	$ 4	$ 1,517	$ 755	$ 28	$ 8,470
Provision for (recovery of) loan losses	123	(346)	(217)	(4)	4,224	2	43	3,825
Loans charged off	(222)	—	(83)	—	(4,443)	—	(31)	(4,779)
Recoveries	75	31	—	—	10	—	—	116
Total ending allowance balance	$ 675	$ 3,676	$ 1,176	$ —	$ 1,308	$ 757	$ 40	$ 7,632
December 31, 2018								
Allowance for loan losses:								
Beginning balance	850	3,849	1,605	32	1,357	655	18	$ 8,366
Provision for (recovery of) loan losses	(126)	143	(36)	(30)	71	95	28	145
Loans charged off	(231)	(35)	(93)	—	(140)	—	(19)	(518)
Recoveries	206	34	—	2	229	5	1	477
Total ending allowance balance	$ 699	$ 3,991	$ 1,476	$ 4	$ 1,517	$ 755	$ 28	$ 8,470

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

NOTE 4 – LOANS RECEIVABLE (continued)

Impaired loans

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

	Loan Balance	Recorded Investment	Partial Charge-off	Allowance for Loan Losses Allocated	Average Investment in Impaired Loans	Interest Income Recognized
December 31, 2019						
With no related allowance recorded						
One-to-four family residential real estate	$ 2,168	$ 1,835	$ 339	$ —	$ 2,208	$ 51
Multi-family mortgage - Illinois	620	620	—	—	637	37
Nonresidential real estate	280	288	—	—	589	2
	$ 3,068	$ 2,743	$ 339	$ —	$ 3,434	$ 90
December 31, 2018						
With no related allowance recorded						
One-to-four family residential real estate	$ 2,751	$ 2,172	$ 575	$ —	$ 3,274	$ 41
One-to-four family residential real estate - non-owner occupied	86	46	43	—	95	—
Multi-family mortgage - Illinois	654	653	—	—	795	39
	3,491	2,871	618	—	4,164	80
With an allowance recorded - nonresidential real estate	356	270	93	27	21	—
	$ 3,847	$ 3,141	$ 711	$ 27	$ 4,185	$ 80

Nonaccrual loans

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

	Loan Balance	Recorded Investment	Loans Past Due Over 90 Days, still accruing
December 31, 2019			
One-to-four family residential real estate	$ 598	$ 512	$ —
Nonresidential real estate	280	288	—
Investment-rated commercial leases	47	—	47
	$ 925	$ 800	$ 47
December 31, 2018			
One-to-four family residential real estate	$ 1,445	$ 1,168	$ —
One-to-four family residential real estate – non-owner occupied	119	79	—
Nonresidential real estate	356	270	—
	$ 1,920	$ 1,517	$ —

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.

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

NOTE 4 – LOANS RECEIVABLE (continued)

The Company's reserve for uncollected loan interest was $81,000 and $72,000 at December 31, 2019 and 2018, 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.

Past Due Loans

The following tables present the aging of the recorded investment in past due loans at December 31, 2019 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 loans:						
Owner occupied	$ 777	$ 340	$ 507	$ 1,624	$ 43,365	$ 44,989
Non-owner occupied	280	15	—	295	10,466	10,761
Multi-family mortgage:						
Illinois	981	302	—	1,283	246,680	247,963
Other	—	—	—	—	315,787	315,787
Nonresidential real estate	—	—	288	288	134,386	134,674
Commercial loans:						
Regional commercial banking	—	—	—	—	24,853	24,853
Health care	—	—	—	—	70,430	70,430
Direct commercial lessor	—	—	—	—	50,431	50,431
Commercial leases:						
Investment-rated commercial leases	826	—	47	873	132,966	133,839
Other commercial leases	543	136	—	679	138,111	138,790
Consumer	24	37	—	61	2,150	2,211
	$ 3,431	$ 830	$ 842	$ 5,103	$ 1,169,625	$ 1,174,728

(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 in past due loans at December 31, 2018 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 loans:						
Owner occupied	$ 1,383	$ 638	$ 1,168	$ 3,189	$ 54,155	$ 57,344
Non-owner occupied	393	8	79	480	12,547	13,027
Multi-family mortgage:						
Illinois	461	—	—	461	278,776	279,237
Other	—	—	—	—	340,633	340,633
Nonresidential real estate	—	270	—	270	152,172	152,442
Land	—	—	—	—	172	172
Commercial loans:						
Regional commercial banking	—	—	—	—	39,574	39,574
Health care	—	—	—	—	85,343	85,343
Direct commercial lessor	—	—	—	—	62,489	62,489
Commercial leases:						
Investment-rated commercial leases	498	—	—	498	165,711	166,209
Other commercial leases	—	—	—	—	133,185	133,185
Consumer	39	3	—	42	1,497	1,539
	$ 2,774	$ 919	$ 1,247	$ 4,940	$ 1,326,254	$ 1,331,194

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 no TDRs at December 31, 2019 and $17,000 of TDRs at 2018, with no specific valuation reserves allocated at December 31, 2018. The Company had no outstanding commitments to borrowers whose loans are classified as TDRs at December 31, 2018.

During the years ending December 31, 2019 and 2018, there were no loans modified and classified as TDRs. During the year ending December 31, 2018, there were no loans that subsequently defaulted within twelve months of their modification.

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

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

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.

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

NOTE 4 – LOANS RECEIVABLE (continued)

This analysis includes non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on a monthly basis. The Company uses the following definitions for risk ratings:

Special Mention. A Special Mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Substandard. Loans categorized as substandard continue to accrue interest, but exhibit a well-defined weakness or weaknesses that may jeopardize the liquidation of the debt. The loans continue to accrue interest because they are well secured and collection of principal and interest is expected within a reasonable time. The risk rating guidance published by the Office of the Comptroller of the Currency clarifies that a loan with a well-defined weakness does not have to present a probability of default for the loan to be rated Substandard, and that an individual loan's loss potential does not have to be distinct for the loan to be rated Substandard.

Nonaccrual. An asset classified Nonaccrual has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

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

As of December 31, 2019, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Nonaccrual	Total
One-to-four family residential real estate loans:					
Owner occupied	$ 43,908	$ 36	$ 533	$ 512	$ 44,989
Non-owner occupied	10,696	30	35	—	10,761
Multi-family mortgage:					
Illinois	247,757	—	206	—	247,963
Other	315,787	—	—	—	315,787
Nonresidential real estate	134,134	162	90	288	134,674
Commercial loans:					
Regional commercial banking	24,853	—	—	—	24,853
Health care	62,084	8,346	—	—	70,430
Direct commercial lessor	50,431	—	—	—	50,431
Commercial leases:					
Investment-rated commercial leases	133,332	507	—	—	133,839
Other commercial leases	137,893	761	136	—	138,790
Consumer	2,153	5	53	—	2,211
	$ 1,163,028	$ 9,847	$ 1,053	$ 800	$ 1,174,728

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

NOTE 4 – LOANS RECEIVABLE (continued)

As of December 31, 2018, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Nonaccrual	Total
One-to-four family residential real estate loans:					
Owner occupied	$ 55,353	$ 495	$ 328	$ 1,168	$ 57,344
Non-owner occupied	12,911	—	37	79	13,027
Multi-family mortgage:					
Illinois	279,021	—	216	—	279,237
Other	340,633	—	—	—	340,633
Nonresidential real estate	151,793	281	98	270	152,442
Land	172	—	—	—	172
Commercial loans:					
Regional commercial banking	34,764	4,810	—	—	39,574
Health care	85,001	—	342	—	85,343
Direct commercial lessor	62,489	—	—	—	62,489
Commercial leases:					
Investment-rated commercial leases	165,508	701	—	—	166,209
Other commercial leases	133,185	—	—	—	133,185
Consumer	1,529	3	7	—	1,539
	$ 1,322,359	$ 6,290	$ 1,028	$ 1,517	$ 1,331,194

NOTE 5 - 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 represents the roll forward of OREO and the composition of OREO properties.

	At and For the Years Ended December 31,	
	2019	2018
Beginning balance	$ 1,226	$ 2,351
New foreclosed properties	186	1,482
Valuation adjustments	(38)	(27)
Sales	(1,188)	(2,580)
Ending balance	$ 186	$ 1,226

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

NOTE 5 - OTHER REAL ESTATE OWNED (continued)

	December 31, 2019			December 31, 2018		
	Balance	Valuation Allowance	Net OREO Balance	Balance	Valuation Allowance	Net OREO Balance
One–to–four family residential	$ 186	$ —	$ 186	$ 875	$ —	$ 875
Multi-family mortgage	—	—	—	276	—	276
Nonresidential real estate	—	—	—	74	—	74
Land	—	—	—	24	(23)	1
	$ 186	$ —	$ 186	$ 1,249	$ (23)	$ 1,226

Activity in the valuation allowance is as follows:

	At and For the Years Ended December 31,	
	2019	2018
Beginning of year	$ 23	$ 305
Additions charged to expense	38	27
Reductions from sales of other real estate owned	(61)	(309)
End of year	$ —	$ 23

At December 31, 2019 and 2018, the balance of OREO includes no foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property without title. At December 31, 2019 and 2018, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process was $237,000 and $349,000, respectively.

NOTE 6 – PREMISES AND EQUIPMENT

Year-end premises and equipment are as follows:

	December 31,	
	2019	2018
Land and land improvements	$ 11,918	$ 12,359
Buildings and improvements	30,585	30,602
Furniture and equipment	9,454	10,039
Computer equipment	4,326	4,232
	56,283	57,232
Accumulated depreciation	(31,937)	(32,027)
	$ 24,346	$ 25,205

Depreciation of premises and equipment was $1.6 million and $1.5 million for the years ended December 31, 2019 and 2018, respectively.

In December 2017, we agreed to a letter of intent to sell our corporate office building located at 60 North Frontage Road, Burr Ridge, Illinois. The asset was recorded in our financial statements at December 31, 2017 as premises held-for-sale at a net cost of $5.7 million. On April 23, 2018, the Bank sold its office building. A net gain of $93,000 was recorded in the second quarter of 2018 in connection with the sale.

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

NOTE 7 - LEASES

Effective January 1, 2019, the Company adopted FASB issued ASU No. 2016-02, "Leases (Topic 842)." Leases (Topic 842) establishes a right of use model that requires a lessee to record a right of use ("ROU") asset and a lease liability for all leases with terms longer than 12 months. The Company is obligated under three non-cancellable operating lease agreements for two branch properties and its corporate office. The leases have varying terms, the longest of which will end in 2032. The Company's lease agreements include options to renew at the Company's discretion. The extensions are not reasonably certain to be exercised; therefore, they were not considered in the calculation of the ROU asset and lease liability.

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

	Statement of Financial Condition Location	December 31, 2019
Operating Lease Right of Use Asset:		
Gross carrying amount		$ 6,694
Accumulated amortization		(848)
Net book value	Other assets	$ 5,846
Operating Lease Liabilities:		
Right of use lease obligations	Other liabilities	$ 5,846

The right of use assets are included in other assets and the lease obligations are included in other liabilities in the accompanying consolidated statements of financial condition.

At December 31, 2019, the weighted-average remaining lease term for the operating leases was 9.0 years and the weighted-average discount rate used in the measurement of operating lease liabilities was 3.16%. The Company utilized the FHLB fixed rate advance rate as of January 1, 2019 for the term most closely aligning with the remaining lease term.

	For the year ended December 31, 2019
Lease cost:	
Operating lease cost	$ 848
Short-term lease cost	112
Sublease income	(51)
Total lease cost	$ 909
Other information:	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 901

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

NOTE 7 - LEASES (continued)

Future minimum payments under non-cancellable operating leases with terms longer than 12 months, are disclosed below at December 31, 2019. Future minimum payments on shorter term lease are excluded as the amounts are insignificant.

Twelve months ended December 31,	
2020	$ 906
2021	925
2022	965
2023	950
2024	500
Thereafter	2,724
Total future minimum operating lease payments	6,970
Amounts representing interest	(1,124)
Present value of net future minimum operating lease payments	$ 5,846

NOTE 8 - DEPOSITS

Composition of deposits is as follows:

	December 31,	
	2019	**2018**
Noninterest-bearing demand deposits	$ 210,762	$ 230,041
Interest-bearing NOW accounts	273,168	275,830
Money market accounts	245,610	255,951
Savings deposits	153,183	152,334
Certificates of deposit	402,034	438,328
	$ 1,284,757	$ 1,352,484

Time deposits that meet or exceed the FDIC Insurance limit of $250,000 were $89.3 million and $81.5 million at December 31, 2019 and 2018, respectively. Certificates of deposits include wholesale certificates totaling $65.1 million and $106.3 million at December 31, 2019 and 2018, respectively. Of those certificates, $21.9 million and $69.9 million are brokered at December 31, 2019 and 2018, respectively.

Scheduled maturities of certificates of deposit for the next five years are as follows:

2020	$ 335,937
2021	48,930
2022	13,335
2023	1,645
2024	2,187
	$ 402,034

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

NOTE 9 — BORROWNGS

At year-end, advances from the FHLB were as follows:

	December 31,			
	2019		2018	
	Contractual Rate	Amount	Contractual Rate	Amount
Fixed-rate advance from FHLB, due within 1 year	—%	$ —	2.51%	$ 20,000

The Company maintains a collateral pledge agreement covering secured advances whereby the Company has agreed to keep on hand, free of all other pledges, liens, and encumbrances, specifically identified whole first mortgages on improved residential property not more than 90-days delinquent to secure advances from the FHLB. All of the Bank's FHLB common stock is pledged as additional collateral for these advances. At December 31, 2019, $32.5 million and $406.0 million of first mortgage and multi-family mortgage loans, respectively, collateralized potential advances. At December 31, 2019, we had the ability to borrow an additional $367.7 million under our credit facilities with the FHLB. The Company also had available pre-approved overnight federal funds borrowing. At December 31, 2019 and 2018, there was no outstanding balance on these lines.

Securities sold under agreements to repurchase are shown below.

	Overnight and Continuous	Up to 30 days	30 - 90 days	Greater Than 90 days	Total
December 31, 2019					
Repurchase agreements and repurchase-to-maturity transactions	$ 61	$ —	$ —	$ —	$ 61
Gross amount of recognized liabilities for repurchase agreements in Statement of Financial Condition					$ 61
December 31, 2018					
Repurchase agreements and repurchase-to-maturity transactions	$ 1,049	$ —	$ —	$ —	$ 1,049
Gross amount of recognized liabilities for repurchase agreements in Statement of Financial Condition					$ 1,049

Securities sold under agreements to repurchase were secured by mortgage-backed securities with a carrying amount of $2.0 million and $2.7 million at December 31, 2019 and 2018, respectively.

As the securities' values fluctuate due to market conditions, the Company has no control over the market value. The Company is obligated to promptly transfer additional securities if the market value of the securities falls below the repurchase price, per the agreement.

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

NOTE 10 – INCOME TAXES

The income tax expense is as follows:

	For the years ended December 31,	
	2019	2018
Current expense	$ 1,863	$ 378
Deferred expense	2,362	6,328
Total income tax expense	$ 4,225	$ 6,706

A reconciliation of the provision for income taxes computed at the statutory federal corporate tax rate of 21% for 2019 and 2018, to the income tax expense in the consolidated statements of operations follows:

	For the years ended December 31,	
	2019	2018
Expense computed at the statutory federal tax rate	$ 3,339	$ 5,470
State taxes and other, net	915	1,564
Bank-owned life insurance	(29)	(328)
	$ 4,225	$ 6,706
Effective income tax rate	26.57%	25.74%

Retained earnings at December 31, 2019 and 2018 include $14.9 million for which no deferred federal income tax liability has been recorded. This amount represents an allocation of income to bad debt deductions for tax purposes alone.

The net deferred tax asset is as follows:

	December 31,	
	2019	2018
Gross deferred tax assets		
Allowance for loan losses	$ 2,043	$ 2,279
Alternative minimum tax, general business credit and net operating loss carryforwards	4,452	6,669
Lease liability	1,565	—
Tax deductible goodwill and core deposit intangible	314	561
Other	741	1,256
	9,115	10,765
Gross deferred tax liabilities		
Net deferred loan origination costs	(1,013)	(1,186)
Purchase accounting adjustments	(1,623)	(1,673)
Right of use asset	(1,565)	—
Other	(958)	(649)
Unrealized gain on securities	(83)	(1,022)
	(5,242)	(4,530)
	$ 3,873	$ 6,235

As of December 31, 2019 and 2018, the Company’s net deferred tax asset (“DTA”) was $3.9 million and $6.2 million, respectively.

A DTA valuation allowance is required under ASC 740 when the realization of a DTA is assessed and the assessment indicates that it is “more likely than not” (*i.e.*, more than 50% likely) that all or a portion of the DTA will not be realized. All available evidence, both positive and negative must be considered to determine whether, based on the weight of that evidence, a valuation

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

NOTE 10 – INCOME TAXES (continued)

allowance against the net DTA is required. Objectively verifiable evidence is assigned greater weight than evidence that is not objectively verifiable. The valuation allowance is analyzed quarterly for changes affecting the DTA.

The Company's ability to realize the DTA is dependent upon the generation of future taxable income during the periods in which the tax attributes underlying the DTA become deductible. The amount of the DTA that will ultimately be realized will be impacted by the Company's future taxable income, any changes to the many variables that could impact future taxable income and the then applicable corporate tax rate. As of December 31, 2019 and 2018, management determined that it is more likely than not that the Company will be able to utilize the entire DTA.

At December 31, 2019, the Company had a federal net operating loss carryforward of $7.3 million relating to its acquisition of Downers Grove National Bank, which is subject to utilization limitations under Section 382 of the Internal Revenue Code, and will begin to expire in 2030, and $225,000 of alternative minimum tax credit carryforward that does not expire and is subject to utilization limitations under Section 382 of the Internal Revenue Code. At December 31, 2019, the Company had a state net operating loss carryforward for the State of Illinois of $50.1 million, which will begin to expire in 2023.

Unrecognized Tax Benefits

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	December 31,	
	2019	**2018**
Beginning of year	$ 198	$ 129
Additions based on tax positions related to the current year	62	85
Additions for tax positions of prior years	—	4
Reductions due to the statute of limitations and reductions for tax positions of prior years	(16)	(20)
End of year	$ 244	$ 198

The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months. The Company recognizes interest and/or penalties related to income tax matters in income tax expense. At December 31, 2019 and 2018, the Company has immaterial amounts accrued for potential interest and penalties.

The Company and its subsidiary are subject to U.S. federal income tax as well as income tax of the various states where the Company does business. The Company is no longer subject to examination by the federal taxing authorities for years before 2016 and the Illinois taxing authorities for years before 2016.

NOTE 11– REGULATORY MATTERS

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

In addition, as a result of the legislation, the federal banking agencies developed a "Community Bank Leverage Ratio" (the ratio of a bank's tangible equity capital to average total consolidated assets) for financial institutions with assets of less than $10 billion. A "qualifying community bank" that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered "well capitalized" under Prompt Corrective Action statutes. The federal banking agencies may consider a financial institution's risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement. The federal banking agencies must set the minimum capital for the new Community Bank Leverage Ratio at not less than 8% and not more than 10%, and have established 9% as the minimum capital level, effective March 31, 2020. A financial institution can elect to be subject to this new definition.

Prompt corrective action regulations provide five classifications: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial

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

NOTE 11 – REGULATORY MATTERS (continued)

condition. If only adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

The minimum capital ratios set forth in the Regulatory Capital Plans will be increased and other minimum capital requirements will be established if and as necessary. In accordance with the Regulatory Capital Plans, the Bank will not pursue any acquisition or growth opportunity, declare any dividend or conduct any stock repurchase that would cause the Bank's total risk-based capital ratio and/or its Tier 1 leverage ratio to fall below the established minimum capital levels or the capital levels required for capital adequacy plus the CCB. The minimum CCB is 2.5%.

As of December 31, 2019, the Bank was well-capitalized, with all capital ratios exceeding the well-capitalized requirement. There are no conditions or events that management believes have changed the Bank's prompt corrective action capitalization category.

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

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

	Actual		Required for Capital Adequacy Purposes		To be Well-Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2019						
Total capital (to risk-weighted assets)	$ 170,203	16.38%	$ 83,130	8.00%	$ 103,913	10.00%
Tier 1 (core) capital (to risk-weighted assets)	162,455	15.63	62,348	6.00	83,130	8.00
Common Tier 1 (CET1)	162,455	15.63	46,761	4.50	67,543	6.50
Tier 1 (core) capital (to adjusted average total assets)	162,455	10.89	59,666	4.00	74,583	5.00
December 31, 2018						
Total capital (to risk-weighted assets)	178,664	15.30	93,430	8.00	$ 116,787	10.00%
Tier 1 (core) capital (to risk-weighted assets)	170,194	14.57	70,072	6.00	93,430	8.00
Common Tier 1 (CET1)	170,194	14.57	52,554	4.50	75,912	6.50
Tier 1 (core) capital (to adjusted average total assets)	170,194	11.03	61,721	4.00	77,151	5.00

NOTE 12 – EMPLOYEE BENEFIT PLANS

Employee Stock Ownership Plan ("ESOP"). On March 29, 2017, the ESOP was terminated and the ESOP repaid all amounts owing under the ESOP's Term Loan Agreement with the Company (the "Share Acquisition Loan"). The ESOP repaid the Share Acquisition Loan by transferring 753,490 unallocated shares of the Company's common stock to the Company in exchange for the full satisfaction of the Share Acquisition Loan, using the valuation method provided for in the ESOP. A total of 78,362 unallocated shares remained in the ESOP after the Share Acquisition Loan was repaid, and these shares were released and were allocated to the accounts of eligible ESOP participants who were actively employed by the Bank as of March 29, 2017, based on their account balances. These transactions resulted in the recording of one-time, non-cash, non-tax deductible equity compensation expense of $1.1 million in the first quarter of 2017. The Share Acquisition Loan had no outstanding principal balance at December 31, 2019 and 2018.

The Company made the Share Acquisition Loan to the ESOP in the original principal amount of $19.6 million in connection with the Company's mutual to stock conversion in 2005. The proceeds of the Share Acquisition Loan were used by the ESOP to purchase 1,957,300 shares of the Company's common stock issued in the subscription offering at a price of $10.00 per share. The Share Acquisition Loan was secured by a pledge of the acquired shares and the ESOP made annual loan payments with funds it received

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

NOTE 12 – EMPLOYEE BENEFIT PLANS (continued)

from the Bank's discretionary contributions to the ESOP in subsequent years and dividends it received on unallocated shares. As loan payments were made, the Company recorded compensation expense based on the allocation of shares released.

Contributions to the ESOP were zero for the years ended December 31, 2019 and 2018. Expense related to the ESOP was zero for the years ended December 31, 2019 and 2018.

Shares held by the ESOP were as follows:

	December 31, 2018
Allocated to participants	885,896
Distributed to participants	(885,896)
Total ESOP shares	—

Profit Sharing Plan/401(k) Plan. The Company has a defined contribution plan ("profit sharing plan") covering all of its eligible employees. Employees are eligible to participate in the profit sharing plan after attainment of age 21 and completion of one year of service. The Company provides a match of $0.50 on each $1.00 of contribution up to 6% of eligible compensation beginning April 1, 2007. The Company may also contribute an additional amount annually at the discretion of the Board of Directors. Contributions totaling $320,000 and $506,000 were made for the years ended December 31, 2019 and 2018, respectively.

NOTE 13 – EQUITY INCENTIVE PLANS

On June 27, 2006, the Company's stockholders approved the BankFinancial Corporation 2006 Equity Incentive Plan, which authorized the Human Resources Committee of the Board of Directors of the Company to grant a variety of cash- and equity-based incentive awards, including stock options, stock appreciation rights, restricted stock, performance shares and other incentive awards, to employees and directors aggregating up to 3,425,275 shares of the Company's common stock. The Plan provided that no awards may be granted under the Plan after the ten-year anniversary of the Effective Date. Consequently, no further awards will be granted under this Plan.

Restricted stock awards generally vested annually over varying periods from three to five years and vesting was subject to acceleration in certain circumstances. All remaining restricted stock awards vested or were forfeited during 2018. The Company recognized zero expense relating to the grant of shares of restricted stock during the years ended December 31, 2019 and 2018. No further shares of restricted stock will be granted.

Restricted Stock	Number of Shares	Weighted Average Fair Value at Grant Date	Weighted Average Term to Vest (in years)	Aggregate Intrinsic Value (1)
Shares outstanding at January 1, 2018	940	$ 8.14	0.00	$ 14
Shares granted	—	—		
Shares vested	(694)	8.14		
Shares forfeited	(246)	8.14		
Shares outstanding at December 31, 2018	—	$ —	0.00	$ —

(1) Restricted stock aggregate intrinsic value represents the number of shares of restricted stock multiplied by the market price of the common stock underlying the outstanding shares on the date shown.

NOTE 14 – LOAN COMMITMENTS AND OTHER OFF-BALANCE-SHEET ACTIVITIES

The Company is party to various financial instruments with off-balance-sheet risk. The Company uses these financial instruments in the normal course of business to meet the financing needs of customers and to effectively manage exposure to interest rate risk. These financial instruments include commitments to extend credit, standby letters of credit, unused lines of credit, and commitments to sell loans. When viewed in terms of the maximum exposure, those instruments may involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. Credit risk is the possibility that a counterparty to a financial instrument will be unable to perform its contractual obligations. Interest rate risk is the possibility that, due to changes in economic conditions, the Company's net interest income will be adversely affected.

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

NOTE 14 – LOAN COMMITMENTS AND OTHER OFF-BALANCE-SHEET ACTIVITIES (continued)

The following is a summary of the contractual or notional amount of each significant class of off-balance-sheet financial instruments outstanding. The Company's exposure to credit loss in the event of nonperformance by the counterparty for commitments to extend credit, standby letters of credit, and unused lines of credit is represented by the contractual notional amount of these instruments.

The contractual or notional amounts are as follows:

	December 31,	
	2019	**2018**
Financial instruments wherein contractual amounts represent credit risk		
Commitments to extend credit	$ 19,737	$ 75,180
Standby letters of credit	6,119	5,965
Unused lines of credit	149,771	152,554

Commitments to extend credit are generally made for periods of 60 days or less. The fixed-rate loans commitment totaled $11.9 million with interest rates ranging from 3.15% to 5.25% and maturities ranging from 1 to 30 years.

Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customers.

NOTE 15 – FAIR VALUE

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

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

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

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

Other investments: Other investments includes our investments in equity securities without readily determinable fair values. Equity investments without readily determinable fair values, includes our Visa Class B shares, which are categorized as Level 3. Our Visa Class B ownership includes shares acquired at no cost from our prior participation in Visa's network while Visa operated as a cooperative.

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

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

NOTE 15 – FAIR VALUE (continued)

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.

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

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
December 31, 2019				
Securities:				
Certificates of deposit	$ —	$ 48,666	$ —	$ 48,666
Municipal securities	—	513	—	513
Mortgage-backed securities – residential	—	8,037	—	8,037
Collateralized mortgage obligations – residential	—	2,977	—	2,977
	$ —	$ 60,193	$ —	$ 60,193
December 31, 2018				
Securities:				
Certificates of deposit	$ —	$ 73,507	$ —	$ 73,507
Municipal securities	—	509	—	509
Mortgage-backed securities - residential	—	10,478	—	10,478
Collateralized mortgage obligations – residential	—	3,685	—	3,685
	$ —	$ 88,179	$ —	$ 88,179

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

	Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
December 31, 2018				
Impaired loans - Nonresidential real estate	$ —	$ —	$ 243	$ 243
Other real estate owned - Land	$ —	$ —	$ 1	$ 1
Other investments (1)	$ —	$ —	$ 3,427	$ 3,427

(1) See Note 1 for additional disclosures resulting from the Company's adoption of ASU 2016-01.

At December 31, 2019 there were no impaired loans that were measured for impairment using the fair value of the collateral for collateral–dependent loans and which had specific valuation allowances. At December 31, 2018 there was one nonresidential impaired loan with a carrying value of $270,000 and a valuation allowance of $27,000 that was measured for impairment using the fair value of the collateral for collateral–dependent loans and which had a specific valuation allowance.

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

NOTE 15 – FAIR VALUE (continued)

At December 31, 2019 there were no OREO properties with valuation allowances, compared to OREO land carried at the lower of cost or fair value less costs to sell, with a carrying value of $24,000 less a valuation allowance of $23,000, or $1,000, at December 31, 2018.

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, 2018:

	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Other real estate owned - Land	$ 1	Sales comparison	Discount applied to valuation	12.3%

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

	Carrying Amount	Fair Value Measurements at December 31, 2019 Using: Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 190,325	$ 9,785	$ 180,540	$ —	$ 190,325
Securities	60,193	—	60,193	—	60,193
Loans receivable, net of allowance for loan losses	1,168,008	—	—	1,177,459	1,177,459
FHLB and FRB stock	7,490	—	—	—	N/A
Accrued interest receivable	4,563	—	252	4,311	4,563
Financial liabilities					
Certificates of deposit	402,034	—	402,914	—	402,914
Borrowings	61	—	61	—	61

	Carrying Amount	Fair Value Measurements at December 31, 2018 Using: Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 98,204	$ 13,805	$ 84,399	$ —	$ 98,204
Securities available-for-sale	88,179	—	88,179	—	88,179
Loans receivable, net of allowance for loan losses	1,323,793	—	—	1,315,855	1,315,855
FHLB and FRB stock	8,026	—	—	—	N/A
Accrued interest receivable	4,952	—	249	4,703	4,952
Financial liabilities					
Certificates of deposit	438,328	—	436,598	—	436,598
Borrowings	21,049	—	21,050	—	21,050

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

While the above estimates are based on management's judgment of the most appropriate factors, as of the balance sheet date, there is no assurance that the estimated fair values would have been realized if the assets were disposed of or the liabilities settled at

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

NOTE 15 – FAIR VALUE (continued)

that date, since market values may differ depending on the various circumstances. The estimated fair values would also not apply to subsequent dates.

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

NOTE 16 — REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	For the years ended December 31,	
	2019	**2018**
Deposit service charges and fees	$ 3,844	$ 3,968
Loan servicing fees[(1)]	451	439
Mortgage brokerage and banking fees [(1)]	149	257
Gain on sale of equity securities [(1)]	295	3,558
Unrealized gain on equity securities [(1)]	—	3,427
Gain on sale of premises held-for-sale	—	93
Loss on disposal of other assets	(44)	—
Trust and insurance commissions and annuities income	844	937
Earnings on bank-owned life insurance [(1)]	136	174
Bank-owned life insurance death benefit [(1)]	—	1,389
Other [(1)]	497	635
Total noninterest income	$ 6,172	$ 14,877

(1) Not within the scope of ASC 606

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

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

Interchange income: The Company earns interchange fees from debit cardholder transactions conducted through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. Interchange income is included in deposit service charges and fees. Interchange income for the years ended December 31, 2019 and 2018 was $1.5 million.

Gain on sale of premises held-for-sale: On April 23, 2018, the Bank sold its office building in Burr Ridge, Illinois. The sale was to an unrelated party and title was transferred at closing. As such, the transaction constituted a sale and a net gain was recorded in the second quarter of 2018.

Trust and insurance commissions and annuities income: The Company earns trust, insurance commissions and annuities income from its contracts with trust customers to manage assets for investment, and/or to transact on their accounts. These fees are primarily earned over time as the Company provides the contracted monthly or quarterly services and are generally assessed based on a

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

NOTE 16 — REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

tiered scale of the market value of assets under management (AUM) at month-end. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed, *i.e.*, the trade date. Other related services provided include fees the Company earns, which are based on a fixed fee schedule, are recognized when the services are rendered.

Gains/losses on sales of OREO and other assets: The Company records a gain or loss from the sale of OREO and other assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present. OREO sales for the years ended December 31, 2019 and 2018 were not financed by the Company.

NOTE 17 – COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed financial information of BankFinancial Corporation as of December 31, 2019 and 2018 and for the two years then ended are as follows:

Condensed Statements of Financial Condition

	December 31,	
	2019	2018
Assets		
Cash in subsidiary	$ 6,864	$ 11,227
Investment in subsidiary	164,847	173,253
Deferred tax asset	558	1,999
Other assets	2,115	3,317
	$ 174,384	$ 189,796
Liabilities and Stockholders' Equity		
Accrued expenses and other liabilities	$ 12	$ 2,646
Total stockholders’ equity	174,372	187,150
	$ 174,384	$ 189,796

Condensed Statements of Operations

	For the years ended December 31,	
	2019	2018
Dividends from subsidiary	$ 21,200	$ 36,044
Other expense	1,600	1,573
Income before income tax and undistributed subsidiary excess distributions	19,600	34,471
Income tax benefit	(433)	(398)
Income before equity in undistributed subsidiary excess distributions	20,033	34,869
Equity in undistributed subsidiary excess distributions	(8,361)	(15,527)
Net income	$ 11,672	$ 19,342

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

NOTE 17 – COMPANY ONLY CONDENSED FINANCIAL INFORMATION (continued)

Condensed Statements of Cash Flows

	For the years ended December 31,	
	2019	**2018**
Cash flows from operating activities		
Net income	$ 11,672	$ 19,342
Adjustments:		
Equity in undistributed subsidiary excess distributions	8,361	15,527
Change in other assets	2,643	67
Change in accrued expenses and other liabilities	(2,634)	(369)
Net cash from operating activities	20,042	34,567
Cash flows from financing activities		
Repurchase and retirement of common stock	(18,139)	(23,284)
Cash dividends paid on common stock	(6,266)	(6,449)
Net cash used in financing activities	(24,405)	(29,733)
Net change in cash in subsidiary	(4,363)	4,834
Beginning cash in subsidiary	11,227	6,393
Ending cash in subsidiary	$ 6,864	$ 11,227

NOTE 18 – SELECTED QUARTERLY FINANCIAL DATA (unaudited)

	For the year ended December 31, 2019			
	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Interest income	$ 16,526	$ 16,522	$ 16,628	$ 15,732
Interest expense	3,307	3,419	3,386	3,105
Net interest income	13,219	13,103	13,242	12,627
Provision for (recovery of) loan losses	(87)	3,957	(134)	89
Net interest income	13,306	9,146	13,376	12,538
Noninterest income	1,624	1,426	1,474	1,648
Noninterest expense	10,098	9,472	9,509	9,562
Income before income taxes	4,832	1,100	5,341	4,624
Income tax expense	1,281	293	1,417	1,234
Net income	$ 3,551	$ 807	$ 3,924	$ 3,390
Basic and diluted earnings per common share	$ 0.22	$ 0.05	$ 0.26	$ 0.22

The Company recorded net income of $3.4 million, or $0.22 per common share, for the fourth quarter of 2019. The Company's net interest income before provision for loan losses was $12.6 million due to the decline in the loan portfolio and lower market yields. The Company's fourth quarter 2019 noninterest expense includes a $24,000 net recovery of non-performing loans expenses due to collections of previous recognized expenses.

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

NOTE 18 – SELECTED QUARTERLY FINANCIAL DATA (unaudited) (continued)

	For the year ended December 31, 2018			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest income	$ 14,748	$ 15,020	$ 15,373	$ 16,146
Interest expense	1,727	2,039	2,408	3,043
Net interest income	13,021	12,981	12,965	13,103
Provision for (recovery of) loan losses	(258)	23	(23)	403
Net interest income	13,279	12,958	12,988	12,700
Noninterest income	1,539	3,094	1,570	8,674
Noninterest expense	9,959	10,215	9,425	11,155
Income before income taxes	4,859	5,837	5,133	10,219
Income tax expense	1,300	1,207	1,396	2,803
Net income	$ 3,559	$ 4,630	$ 3,737	$ 7,416
Basic and diluted earnings per common share	$ 0.20	$ 0.26	$ 0.22	$ 0.44

The Company recorded net income of $7.4 million, or $0.44 per common share, for the fourth quarter of 2018. The Company’s net interest income before provision for loan losses was $13.1 million due to stronger loan originations and improved asset quality. which was offset by increased interest-bearing liabilities at higher cost of funds. The Company’s fourth quarter 2018 operating results include $3.6 million of gain on sale of Visa B stock common shares as well as $3.4 million in unrealized gain on Visa B common shares. Compensation expense includes $1.0 million in accrued expense, related to certain contract termination and severance payments.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report ("Evaluation Date"). Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective.

(b) Management's Annual Report on Internal Control over Financial Reporting.

The annual report of management on the effectiveness of our internal control over financial reporting and the attestation report thereon issued by our independent registered public accounting firm are set forth under "Report of Management on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting" under Item 8 "Financial Statements and Supplementary Data."

(c) Changes in internal controls.

There were no changes made in our internal controls during the fourth quarter of 2019 or, to our knowledge, in other factors that have materially affected, or are reasonably likely to materially affect, these controls.

See the Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 included as Exhibits 31.1 and 31.2 to this Annual Report.

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of BankFinancial Corporation

Opinion on the Internal Control Over Financial Reporting

We have audited BankFinancial Corporation and Subsidiary's (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements of the Company and our report dated March 5, 2020 expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ RSM US LLP

Chicago, Illinois

March 5, 2020

ITEM 9B. OTHER INFORMATION

Not Applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and Executive Officers

Information concerning directors and executive officers of the Company is incorporated herein by reference from our definitive Proxy Statement related to our 2020 Annual Meeting of Stockholders (the "Proxy Statement"), specifically the sections captioned "Election of Directors; Information with Respect to Directors and Executive Officers."

Section 16(a) Beneficial Ownership Reporting Compliance

Information concerning Section 16(a) compliance is incorporated herein by reference from our Proxy Statement, specifically the sections captioned "Beneficial Ownership of Common Stock by Certain Beneficial Owners and Management - Delinquent Section 16(a) Reports."

Code of Ethics

We have adopted a Code of Ethics for Senior Financial Officers that applies to our principal executive officer, principal financial officer, principal accounting officer, and persons performing similar functions. A copy of our Code of Ethics was attached as Exhibit 14 to our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 27, 2006. We have also adopted a Code of Business Conduct, pursuant to NASDAQ requirements, that applies generally to our directors, officers, and employees.

ITEM 11. EXECUTIVE COMPENSATION

Information concerning executive compensation is incorporated herein by reference from our Proxy Statement, specifically the section captioned "Executive Compensation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information concerning securities ownership of certain owners and management is incorporated herein by reference from our Proxy Statement, specifically the section captioned "Beneficial Ownership of Common Stock by Certain Beneficial Owners and Management."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information concerning relationships and transactions is incorporated herein by reference from our Proxy Statement, specifically the section captioned "Transactions with Certain Related Persons."

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning principal accountant fees and services is incorporated herein by reference from our Proxy Statement, specifically the section captioned "Ratification of the Appointment of the Independent Registered Public Accounting Firm."

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

The following consolidated financial statement of the registrant and its subsidiaries are filed as part of this document under Item 8 - "Financial Statements and Supplementary Data."

(A) Reports of Independent Registered Accounting Firms

(B) Consolidated Statements of Financial Condition at December 31, 2019 and 2018

(C) Consolidated Statements of Operations for the years ended December 31, 2019 and 2018

(D) Consolidated Statements of Comprehensive Income for the years ended December 31, 2019 and 2018

(E) Consolidated Statements of Changes in Stockholders’ Equity for the years ended December 31, 2019 and 2018

(F) Consolidated Statements of Cash Flows for the years ended December 31, 2019 and 2018

(G) Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules

None.

(a)(3) Exhibits

The documents set forth below are filed herewith or incorporated herein by reference to the location indicated.

	Exhibit	Location
3.1	Articles of Incorporation of BankFinancial Corporation	Exhibit 3.1 to the Registration Statement on Form S-1 of the Company, originally filed with the Securities and Exchange Commission on September 23, 2004
3.2	Bylaws of BankFinancial Corporation	Exhibit 3.2 to the Registration Statement on Form S-1 of the Company, originally filed with the Securities and Exchange Commission on September 23, 2004
3.3	Articles of Amendment to Charter of BankFinancial Corporation	Exhibit 3.3 to the Registration Statement on Form S-1 of the Company, originally filed with the Securities and Exchange Commission on September 23, 2004
3.4	Restated Bylaws of BankFinancial Corporation	Exhibit 3.1 to the Report on Form 8-K of the Company, originally filed with the Securities and Exchange Commission on November 4, 2014
4.1	Form of Common Stock Certificate of BankFinancial Corporation	Exhibit 4 to the Registration Statement on Form S-1 of the Company, originally filed with the Securities and Exchange Commission on September 23, 2004
4.2	Description of Registrant's Securities	Filed herewith
10.1	BankFinancial FSB Employment Agreement with F. Morgan Gasior	Exhibit 10.1 to the Current Report on Form 8-K of the Company, originally filed with the Securities and Exchange Commission on May 5, 2008
10.2	BankFinancial FSB Employment Agreement with Paul A. Cloutier	Exhibit 10.2 to the Current Report on Form 8-K of the Company, originally filed with the Securities and Exchange Commission on May 5, 2008
10.3	Form of Stock Appreciation Rights Agreement	Exhibit 10.8 to the Report on Form 8-K of the Company, originally filed with the Securities and Exchange Commission on September 5, 2006
10.4	BankFinancial Corporation Employment Agreement with F. Morgan Gasior	Exhibit 10.1 to the Report on Form 8-K of the Company, originally filed with the Securities and Exchange Commission on October 20, 2008
10.5	BankFinancial Corporation Employment Agreement with Paul A. Cloutier	Exhibit 10.2 to the Report on Form 8-K of the Company, originally filed with the Securities and Exchange Commission on October 20, 2008
10.6	BankFinancial Corporation Employment Agreement with Elizabeth A. Doolan	Exhibit 10.28 to the Annual Report on Form 10-K of the Company, originally filed with the Securities and Exchange Commission on February 23, 2009.
10.7	BankFinancial FSB Employment Agreement with Elizabeth A. Doolan	Exhibit 10.29 to the Annual Report on Form 10-K of the Company, originally filed with the Securities and Exchange Commission on February 23, 2009.
10.8	BankFinancial FSB Employment Agreement with Gregg T. Adams	Exhibit 10.30 to the Annual Report on Form 10-K/A of the Company originally filed with the Securities and Exchange Commission on April 30, 2010.
10.9	BankFinancial FSB Employment Agreement with John G. Manos	Exhibit 10.31 to the Annual Report on Form 10-K/A of the Company originally filed with the Securities and Exchange Commission on April 30, 2010.

	Exhibit	Location
10.10	Form of Extension of Term of Employment Period, for Named Executive Officers of BankFinancial FSB (pursuant to terms of existing agreements)	Exhibit 10.2 to the Report on Form 8-K of the Company, originally filed with the Securities and Exchange Commission on April 29, 2016
10.11	Amendment No. 2 to the Amended and Restated Employment Agreement between BankFinancial, National Association and F. Morgan Gasior	Exhibit 10.1 to the Quarterly Report on Form 10-Q of the Company, originally filed with the Securities and Exchange Commission on July 26, 2017
10.12	Amendment No. 2 to the Amended and Restated Employment Agreement between BankFinancial, National Association and Paul A. Cloutier	Exhibit 10.2 to the Quarterly Report on Form 10-Q of the Company, originally filed with the Securities and Exchange Commission on July 26, 2017
10.13	Amendment No. 2 to the Amended and Restated Employment Agreement between BankFinancial, National Association and John G. Manos	Exhibit 10.4 to the Quarterly Report on Form 10-Q of the Company, originally filed with the Securities and Exchange Commission on July 26, 2017
10.14	Amendment No. 2 to the Amended and Restated Employment Agreement between BankFinancial Corporation and F. Morgan Gasior	Exhibit 10.1 to the Report on Form 8-K of the Company, originally filed with the Securities and Exchange Commission on August 1, 2017
10.15	Amendment No. 2 to the Amended and Restated Employment Agreement between BankFinancial Corporation and Paul A. Cloutier	Exhibit 10.2 to the Report on Form 8-K of the Company, originally filed with the Securities and Exchange Commission on August 1, 2017
10.16	Form of Extension of Term of Employment Period, for Named Executive Officers of BankFinancial, National Association (pursuant to terms of existing agreements)	Exhibit 10.2 to the Report on Form 8-K of the Company, originally filed with the Securities and Exchange Commission on June 19, 2018
14	Code of Ethics for Senior Financial Officers	Exhibit 14 to the Annual Report on Form 10-K of the Company, originally filed with the Securities and Exchange Commission on March 27, 2006
21	Subsidiaries of Registrant	Exhibit 21 to the Registration Statement on Form S-1 of the Company, originally filed with the Securities and Exchange Commission on September 23, 2004
23.1	Consent of RSM US LLP	Filed herewith
23.2	Consent of Crowe LLP	Filed herewith
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*	Furnished herewith
101	The following financial statements from the BankFinancial Corporation Annual Report on Form 10-K for the year ended December 31, 2019, formatted in Extensive Business Reporting Language (XBRL): (i) consolidated statements of financial condition, (ii) consolidated statements of operations, (iii) consolidated statements of comprehensive income, (iv)consolidated statements of changes in stockholders' equity, (v)consolidated statements of cash flows and (vi) the notes to consolidated financial statements.	Filed herewith

* 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.

ITEM 16. FORM 10-K SUMMARY

Not Applicable.

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	
Date:	March 5, 2020	By:	/s/ F. Morgan Gasior
			F. Morgan Gasior
			Chairman of the Board, Chief Executive Officer and President
			(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ F. Morgan Gasior	Chairman of the Board, Chief Executive Officer and President	March 5, 2020
F. Morgan Gasior	(Principal Executive Officer)	
/s/ Paul A. Cloutier	Executive Vice President and Chief Financial Officer	March 5, 2020
Paul A. Cloutier	(Principal Financial Officer)	
/s/ Elizabeth A. Doolan	Senior Vice President and Controller	March 5, 2020
Elizabeth A. Doolan	(Principal Accounting Officer)	
/s/ Cassandra J. Francis	Director	March 5, 2020
Cassandra J. Francis		
/s/ John M. Hausmann	Director	March 5, 2020
John M. Hausmann		
/s/ Thomas F. O'Neill	Director	March 5, 2020
Thomas F. O'Neill		
/s/ Terry R. Wells	Director	March 5, 2020
Terry R. Wells		
/s/ Glen R. Wherfel	Director	March 5, 2020
Glen R. Wherfel		

Exhibit 4.2

Description of Registrant's Securities

General

BankFinancial Corporation is authorized to issue 100,000,000 shares of common stock, par value $0.01 per share, and 25,000,000 shares of preferred stock, par value $0.01 per share. Each share of BankFinancial Corporation's common stock has the same relative rights as, and is identical in all respects to, each other share of common stock. All outstanding shares of our common stock are duly authorized, fully paid and nonassessable.

Common Stock

Distributions. BankFinancial Corporation may pay dividends on its common stock out of statutory surplus or from net earnings if, as and when declared by its Board of Directors. The payment of dividends by BankFinancial Corporation is subject to limitations that are imposed by law and applicable regulation. The holders of common stock of BankFinancial Corporation are entitled to receive and share equally in dividends as may be declared by the Board of Directors of BankFinancial Corporation out of funds legally available therefor. If BankFinancial Corporation issues shares of preferred stock, the holders thereof may have a priority over the holders of the common stock with respect to dividends.

Voting Rights. The holders of common stock of BankFinancial Corporation have exclusive voting rights in BankFinancial Corporation. They elect BankFinancial Corporation's Board of Directors and act on other matters as are required to be presented to them under Maryland law or as are otherwise presented to them by the Board of Directors. Generally, each holder of common stock is entitled to one vote per share and does not have any right to cumulate votes in the election of directors. Any person who beneficially owns more than 10% of the then-outstanding shares of BankFinancial Corporation's common stock, however, is not entitled or permitted to vote any shares of common stock held in excess of the 10% limit. If BankFinancial Corporation issues shares of preferred stock, holders of the preferred stock may also possess voting rights. Certain matters require the approval of two-thirds of our outstanding common stock.

Liquidation. In the event of any liquidation, dissolution or winding up of BankFinancial, NA, BankFinancial Corporation, as the holder of 100% of BankFinancial, NA's capital stock, would be entitled to receive all assets of BankFinancial, NA available for distribution, after payment or provision for payment of all debts and liabilities of BankFinancial, NA, including all deposit accounts and accrued interest thereon. In the event of liquidation, dissolution or winding up of BankFinancial Corporation, the holders of its common stock would be entitled to receive, after payment or provision for payment of all its debts and liabilities, all of the assets of BankFinancial Corporation available for distribution. If preferred stock is issued, the holders thereof may have a priority over the holders of the common stock in the event of liquidation or dissolution.

Preemptive Rights. Holders of the common stock of BankFinancial Corporation are not entitled to preemptive rights with respect to any shares that may be issued. The common stock is not subject to redemption.

Preferred Stock

Preferred stock may be issued with such preferences and designations as our Board of Directors may from time to time determine. Our Board of Directors can, without stockholder approval, issue preferred stock with voting, dividend, liquidation and conversion rights which could dilute the voting strength of the holders of the common stock and may assist management in impeding an unfriendly takeover or attempted change in control.

Federal Law and Regulations

Under the Change in Bank Control Act, no person, or group of persons acting in concert, may acquire control of a bank holding company unless the Federal Reserve Board has been given 60 days' prior written notice and not disapproved the proposed acquisition. The Federal Reserve Board considers several factors in evaluating a notice, including the financial and managerial resources of the acquirer and competitive effects. Control, as defined under the applicable regulations, means the power, directly or indirectly, to direct the management or policies of the company or to vote 25% or more of any class of voting securities of the company. Effective April 1, 2020, acquisition of more than 5% of any class of a bank holding company's voting securities can constitute a rebuttable presumption of control under certain circumstances.

In addition, federal regulations provide that no company may acquire control (as defined in the Bank Holding Company Act) of a bank holding company without the prior approval of the Federal Reserve Board. Any company that acquires such control becomes a "bank holding company" subject to registration, examination and regulation by the Federal Reserve Board.

Maryland Law and Articles of Incorporation and Bylaws of BankFinancial Corporation

Maryland law, as well as BankFinancial Corporation's articles of incorporation and bylaws, contain a number of provisions relating to corporate governance and rights of stockholders that may discourage future takeover attempts. As a result, stockholders who might desire to participate in such transactions may not have an opportunity to do so. In addition, these provisions will also render the removal of the board of directors or management of BankFinancial Corporation more difficult.

Directors. The Board of Directors is divided into three classes. The members of each class are elected for a term of three years and only one class of directors will be elected annually. Thus, it would take at least two annual elections to replace a majority of the BankFinancial Corporation's board of directors. Further, the bylaws authorize the Board of Directors to establish additional classes of directors and fill any vacancies so created, and impose notice, informational and other requirements and conditions in connection with the nomination by stockholders of candidates for election to the Board of Directors or the proposal by stockholders of business to be acted upon at an annual meetings of stockholders.

Restrictions on Calling Special Meetings. The bylaws provide that special meetings of stockholders can be called by the Chief Executive Officer, the President or the Board of Directors pursuant to a resolution adopted by a majority of the total number of directors authorized by our articles of incorporation and bylaws or upon the written request of stockholders entitled to cast a majority of the votes entitles to be cast at the special meeting, subject to compliance with certain rules and procedures set forth in the bylaws.

Prohibition of Cumulative Voting. The articles of incorporation prohibit cumulative voting for the election of directors.

Limitation of Voting Rights. The articles of incorporation provide that in no event will any person who beneficially owns more than 10% of the then-outstanding shares of common stock, be entitled or permitted to vote any of the shares of common stock held in excess of the 10% limit.

Restrictions on Removing Directors from Office. The articles of incorporation provide that directors may be removed from office for cause if the removal is approved is approved by the vote stockholders owning at least two-thirds of the shares entitled to vote in the election of directors (after giving effect to the limitation on voting rights discussed above in"-Limitation of Voting Rights"). However, if removal of a director is recommended by at least two-thirds of the total number of directors authorized by our articles of incorporation and bylaws (excluding the director whose removal is sought). a director may be removed with or without cause and the removal need only be approved by stockholders owning a majority of the shares entitled to vote on the matter (after giving effect to the limitation on voting rights discussed above in"-Limitation of Voting Rights."

Authorized but Unissued Shares. BankFinancial Corporation has authorized but unissued shares of common and preferred stock. The articles of incorporation authorize 100,000,000 shares of common stock and 25,000,000 shares of serial preferred stock. The board of directors may amend the articles of incorporation, without action by the stockholders, to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that BankFinancial Corporation has authority to issue. In additional, the Board of Directors is authorized , without further approval of the stockholders, to issue additional shares of common or preferred stock and to classify any unissued shares of stock (including common stock and preferred stock) from time to time into one or more classed or series subject to applicable provision of laws, and the Board of Directors is authorized to fix by setting or changing the designations, and the relative preferences, conversion or other rights (including offering rights) voting powers, restrictions, limitation as to dividends or other distributions, qualifications and terms and condition of redemption for each class or series, voting rights, if any, including without limitation, offering rights of such shares (which could be multiple or as a separate class). In the event of a proposed merger, tender offer or other attempt to gain control of BankFinancial Corporation that the Board of Directors to authorize the issuance of common stock or series of preferred stock with rights and preferences that would impede the completion of the transition. An effect of the possible issuance of common or preferred stock therefore may be to deter of future attempt to gain control of BankFinancial Corporation.

Amendments to Articles of Incorporation and Bylaws. Maryland laws provides that, subject to limited exceptions, the amendment or repeal of any provision of our articles of incorporation requires the approval of a least two-thirds of common stock entitled to vote on the matter (after giving effect to the limitation on voting rights discussed about in "-Limitation of Voting Rights." Our articles of incorporation, however, provide that if a proposed amendment or repeal is approved by at least two-thirds of the total number of authorized directors, assuming no vacancies, of BankFinancial Corporation, the proposed amendment or repeal need only be approved by a majority of the shares entitled to vote on the matter (after giving effect to the limitation on voting rights discussed about in "-Limitation of Voting Rights"). Maryland law and our articles of incorporation also provide that, in any event, the proposed amendment or repeal of any provision of our articles of incorporation must be approved and deemed advisable by our Board of Directors before it can be submitted for consideration at an annual or special meeting.

The bylaws may be amended exclusively by the affirmative vote of two-thirds of the total number of authorized directors, assuming no vacancies.

Approval of Consolidations, Mergers, and Other Similar Transactions. Maryland law provides that, subject to limited exceptions, consolidations, mergers and other similar transactions require the approval of stockholders owning at least two-thirds of the shares of common stock entitled to vote on the matter (after giving effect to the limitation on voting rights discussed above in "-Limitation of Voting Rights"). However, our articles of incorporation provide that if the transaction is approved by at least two-thirds of the total number of authorized directors, assuming no vacancies, of BankFinancial Corporation, the transaction need only be approved by stockholders owning a majority of the shares entitled to vote on the matter (after giving effect to the limitation on voting rights discussed above in "-Limitation of Voting Rights").

In addition, BankFinancial Corporation is subject to the Maryland Business Combination Act, which prohibits a business combination between a corporation and an interested stockholder (one who beneficially owns 10% or more of the voting power of the corporation's shares or an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation) or an affiliate of an interested stockholder for a period of five years after the most recent date on which the interested stockholder becomes an interested stockholder, unless the board of directors approved in advance the transaction by which the interested stockholder otherwise would have become an interested stockholder or the corporation has exempted itself from the statute pursuant to a charter provision or by a resolution of its board of directors. After the five-year period has elapsed, a corporation subject to the statute may not consummate a business combination with an interested stockholder unless (1) the transaction has been recommended by the board of directors and (2) the transaction has been approved by the affirmative vote of at least (a) 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation and (b) two-thirds of the votes entitled to be cast by holders of voting stock other than shares owned by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder. These approval requirements do not have to be met if certain fair price and terms criteria have been satisfied.

Forum Selection for Certain Stockholder Lawsuits. BankFinancial Corporation's bylaws provide that, unless BankFinancial Corporation consents in writing to the selection of an alternative forum, the Circuit Court for Baltimore City, Maryland, or, if that court does not have jurisdiction, the United States District Court for the District of Maryland, Baltimore Division, shall be the sole and exclusive forum for (a) any derivative action or proceeding brought on behalf of BankFinancial Corporation, (b) any action asserting a claim of breach of any duty owed by any director or officer or other employee of BankFinancial Corporation to BankFinancial Corporation or to the stockholders of BankFinancial Corporation, (c) any action asserting a claim against BankFinancial Corporation or any director or officer or other employee of BankFinancial Corporation arising pursuant to any provision of the Maryland General Corporation Law, the charter of BankFinancial Corporation or the bylaws, or (d) any action asserting a claim against BankFinancial Corporation or any director or officer or other employee of BankFinancial Corporation that is governed by the internal affairs doctrine.

The choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors and officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees.

Because this provision permits claims to be brought in federal courts located in the state of Maryland, this provision would apply to a claim made under the U.S. federal securities laws where there is exclusive federal jurisdiction for such a claim. However, a court may find the choice of forum provision contained in the bylaws to be inapplicable or unenforceable in an action. As a result, BankFinancial Corporation may incur additional costs associated with resolving such action in other jurisdictions, which could adversely affect BankFinancial Corporation's business and financial condition.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements (No. 333-127737 and 333-137082) on Form S-8 of BankFinancial Corporation of our report dated March 5, 2020, relating to the consolidated financial statements and the effectiveness of internal control over financial reporting of BankFinancial Corporation appearing in this Annual Report on Form 10-K of BankFinancial Corporation for the year ended December 31, 2019.

/s/ RSM US LLP

Chicago, Illinois
March 5, 2020

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements No. 333-127737 and No. 333-137082 on Form S-8 of BankFinancial Corporation of our report dated February 11, 2019, relating to the 2018 consolidated financial statements, appearing in this Annual Report on Form 10-K of BankFinancial Corporation as of and for the year ended December 31, 2019.

/s/ Crowe LLP

Oak Brook, Illinois
March 5, 2020

Exhibit 31.1

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

I, F. Morgan Gasior, certify that:

1. I have reviewed this Annual Report on Form 10-K of BankFinancial Corporation, a Maryland corporation;

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

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

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

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

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

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

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

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

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

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

Date: March 5, 2020

/s/ F. Morgan Gasior

F. Morgan Gasior
Chairman of the Board,
Chief Executive Officer and President

Exhibit 31.2

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

I, Paul A. Cloutier, certify that:

1. I have reviewed this Annual Report on Form 10-K of BankFinancial Corporation, a Maryland corporation;

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

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

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

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

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

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

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

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

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

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

Date: March 5, 2020

/s/ Paul A. Cloutier

Paul A. Cloutier
Executive Vice President and
Chief Financial Officer

Exhibit 32

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

F. Morgan Gasior, Chairman of the Board, Chief Executive Officer and President of BankFinancial Corporation, a Maryland corporation (the "Company") and Paul A. Cloutier, Executive Vice President and Chief Financial Officer of the Company, each certify in his capacity as an officer of the Company that he has reviewed the Annual Report on Form 10-K for the year ended December 31, 2019 (the "Report") and that to the best of his knowledge:

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

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

Date: March 5, 2020	/s/ F. Morgan Gasior
	F. Morgan Gasior
	Chairman of the Board, Chief Executive Officer and President
Date: March 5, 2020	/s/ Paul A. Cloutier
	Paul A. Cloutier Executive Vice President and Chief Financial Officer

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