BankFinancial CORP
Form 10-Q
October 26, 2018

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period ended September 30, 2018
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For transition period from to
Commission File Number 0-51331

BANKFINANCIAL CORPORATION
(Exact Name of Registrant as Specified in Charter)

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

15W060 North Frontage Road, Burr Ridge, Illinois 60527
(Address of Principal Executive Offices)
Registrant's telephone number, including area code: (800) 894-6900
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	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.

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date. At October 24, 2018, there were 16,996,173 shares of Common Stock, $0.01 par value, outstanding.

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

	September 30, 2018	December 31, 2017
Assets		
Cash and due from other financial institutions	$ 12,473	$ 13,572
Interest-bearing deposits in other financial institutions	74,461	114,020
Cash and cash equivalents	86,934	127,592
Securities, at fair value	103,921	93,383
Loans receivable, net of allowance for loan losses: September 30, 2018, $8,103 and December 31, 2017, $8,366	1,267,787	1,314,651
Other real estate owned, net	985	2,351
Stock in Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB"), at cost	8,026	8,290
Premises held-for-sale	—	5,667
Premises and equipment, net	24,473	24,856
Accrued interest receivable	4,974	4,619
Core deposit intangible	123	286
Bank owned life insurance	18,781	22,859
Deferred taxes	8,911	12,563
Other assets	7,569	8,441
Total assets	$ 1,532,484	$ 1,625,558
Liabilities		
Deposits		
Noninterest-bearing	$ 225,446	$ 234,354
Interest-bearing	1,070,324	1,105,697
Total deposits	1,295,770	1,340,051
Borrowings	21,232	60,768
Advance payments by borrowers for taxes and insurance	11,015	11,645
Accrued interest payable and other liabilities	12,384	15,460
Total liabilities	1,340,401	1,427,924
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; 17,206,303 shares issued at September 30, 2018 and 17,958,723 issued at December 31, 2017	172	179
Additional paid-in capital	141,230	153,811
Retained earnings	50,437	43,274
Accumulated other comprehensive income	244	370
Total stockholders' equity	192,083	197,634
Total liabilities and stockholders' equity	$ 1,532,484	$ 1,625,558

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest and dividend income				
Loans, including fees	$14,248	$ 13,345	$42,045	$ 39,061
Securities	627	389	1,637	1,095
Other	498	387	1,459	976
Total interest income	15,373	14,121	45,141	41,132
Interest expense				
Deposits	2,278	1,419	5,632	3,903
Borrowings	130	196	542	444
Total interest expense	2,408	1,615	6,174	4,347
Net interest income	12,965	12,506	38,967	36,785
Recovery of loan losses	(23)	(225)	(258)	(15)
Net interest income after recovery of loan losses	12,988	12,731	39,225	36,800
Noninterest income				
Deposit service charges and fees	1,003	1,018	2,970	2,964
Loan fee income	71	89	231	212
Commercial mortgage brokerage fees	12	—	138	—
Residential mortgage banking fees	34	41	88	172
Loss on sales of equity securities	—	—	(14)	—
Gain on sale of premises held-for-sale	—	—	93	—
Trust and insurance commissions and annuities income	207	210	670	704
Earnings on bank-owned life insurance	35	67	146	196
Bank-owned life insurance death benefit	—	—	1,389	—
Other	208	198	492	526
Total noninterest income	1,570	1,623	6,203	4,774
Noninterest expense				
Compensation and benefits	5,120	5,330	16,232	16,792
Office occupancy and equipment	1,629	1,693	5,022	4,914
Advertising and public relations	194	167	611	807
Information technology	717	638	2,066	2,070
Supplies, telephone, and postage	341	337	1,070	1,027
Amortization of intangibles	20	123	163	374
Nonperforming asset management	60	84	313	215
Operations of other real estate owned	59	403	355	861
FDIC insurance premiums	115	150	338	462
Other	1,170	1,275	3,429	3,551
Total noninterest expense	9,425	10,200	29,599	31,073
Income before income taxes	5,133	4,154	15,829	10,501
Income tax expense	1,396	594	3,903	2,488
Net income	$3,737	$ 3,560	$11,926	$ 8,013
Basic earnings per common share	$0.22	$ 0.20	$0.68	$ 0.44
Diluted earnings per common share	$0.22	$ 0.20	$0.68	$ 0.44
Weighted average common shares outstanding	17,365,679	18,139,659	17,641,308	18,368,742

Diluted weighted average common shares outstanding	17,365,679	18,140,109	17,641,308	18,369,170

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$3,737	$3,560	$11,926	$8,013
Unrealized holding gain (loss) arising during the period	(49)	16	(173)	(67)
Tax effect	13	(9)	47	22
Net of tax	(36)	7	(126)	(45)
Comprehensive income	$3,701	$3,567	$11,800	$7,968

See accompanying notes to the consolidated financial statements.

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

	Common Stock	Additional Paid-in Capital	Retained Earnings	Unearned Employee Stock Ownership Plan Shares	Accumulated Other Comprehen-sive Income	Total
Balance at January 1, 2017	$ 192	$ 173,047	$ 39,483	$ (8,318)	$ 376	$ 204,780
Net income	—	—	8,013	—	—	8,013
Other comprehensive loss, net of tax	—	—	—	—	(45)	(45)
Net exercise of stock options (198,026 shares)	2	(1,239)	—	—	—	(1,237)
Prepayment of ESOP Share Acquisition Loan	(8)	(7,185)		8,318	—	1,125
Repurchase and retirement of common stock (614,673 shares)	(6)	(9,142)	—	—	—	(9,148)
Cash dividends declared on common stock ($0.20 per share)	—	—	(3,710)	—	—	(3,710)
Balance at September 30, 2017	$ 180	$ 155,481	$ 43,786	$ —	$ 331	$ 199,778
Balance at January 1, 2018	$ 179	$ 153,811	$ 43,274	$ —	$ 370	$ 197,634
Net income	—	—	11,926	—	—	11,926
Other comprehensive loss, net of tax	—	—	—	—	(126)	(126)
Nonvested stock awards-stock-based compensation expense	—	6	—	—	—	6
Repurchase and retirement of common stock (752,174 shares)	(7)	(12,587)	—	—	—	(12,594)
Cash dividends declared on common stock ($0.27 per share)	—	—	(4,763)	—	—	(4,763)
Balance at September 30, 2018	$ 172	$ 141,230	$ 50,437	$ —	$ 244	$ 192,083

See accompanying notes to the consolidated financial statements.

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

	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities		
Net income	$11,926	$8,013
Adjustments to reconcile to net income to net cash from operating activities		
Recovery of loan losses	(258)	(15)
Prepayment of ESOP Share Acquisition Loan	—	1,125
Stock–based compensation expense	6	—
Depreciation and amortization	2,513	2,846
Amortization of premiums and discounts on securities and loans	9	(72)
Amortization of core deposit intangible	163	374
Amortization of servicing assets	79	86
Net change in net deferred loan origination costs	53	343
Loss on sale of other real estate owned	56	100
Net gain on sale of loans	—	(70)
Loss on sale of equity securities	14	—
Gain on sale of premises held-for-sale	(93)	—
Loans originated for sale	—	(1,291)
Proceeds from sale of loans	—	1,361
Other real estate owned valuation adjustments	27	301
Net change in:		
Accrued interest receivable	(355)	(188)
Earnings on bank owned life insurance	(146)	(196)
Other assets	3,540	4,027
Accrued interest payable and other liabilities	(3,076)	(1,966)
Net cash from operating activities	14,458	14,778
Cash flows from investing activities		
Securities		
Proceeds from maturities	76,164	49,695
Proceeds from principal repayments	2,970	2,461
Proceeds from sale of equity securities	487	—
Purchases of securities	(90,355)	(43,808)
Loans receivable		
Loan participations sold	—	3,615
Principal payments on loans receivable	729,474	459,706
Purchase of loans	—	(23,451)
Originated for investment	(683,685)	(465,562)
Purchase of FHLB and FRB stock	(21)	(154)
Redemption of FHLB and FRB stock	285	3,514
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	2,172	1,966
Purchase of premises and equipment, net	(512)	(906)

Net cash from (used in) investing activities	46,688	(12,924)

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

	Nine Months Ended September 30, 2018	2017
Cash flows from financing activities		
Net change in deposits	$(44,281)	$31,699
Net change in borrowings	(39,536)	9,859
Net change in advance payments by borrowers for taxes and insurance	(630)	(358)
Repurchase and retirement of common stock	(12,594)	(9,148)
Cash dividends paid on common stock	(4,763)	(3,710)
Shares retired for tax liability	—	(1,219)
Net cash from (used in) financing activities	(101,804)	27,123
Net change in cash and cash equivalents	(40,658)	28,977
Beginning cash and cash equivalents	127,592	96,684
Ending cash and cash equivalents	$86,934	$125,661
Supplemental disclosures of cash flow information:		
Interest paid	$5,960	$4,269
Income taxes paid	250	198
Loans transferred to other real estate owned	1,241	2,041

See accompanying notes to the consolidated financial statements.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: BankFinancial Corporation, a Maryland corporation headquartered in Burr Ridge, Illinois, is the owner of all of the issued and outstanding capital stock of BankFinancial, NA (the “Bank”). The interim unaudited consolidated financial statements include the accounts and transactions of BankFinancial Corporation, the Bank, and the Bank’s wholly-owned subsidiaries, Financial Assurance Services, Inc. and BFIN Asset Recovery Company, LLC (collectively, “the Company”), and reflect all normal and recurring adjustments that are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. Such adjustments are the only adjustments reflected in the accompanying financial statements. All significant intercompany accounts and transactions have been eliminated. The results of operations for the three and nine month periods ended September 30, 2018 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2018 or for any other period.

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

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

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

These unaudited consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission.

Recent Accounting Pronouncements

In May 2014, the FASB issued an update (ASU No. 2014-09, Revenue from Contracts with Customers) creating FASB Topic 606, Revenue from Contracts with Customers. The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Qualitative and quantitative information is required about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The amendments in this update became effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. We have evaluated the impact of adopting the update and have concluded that it does not have a significant impact to our consolidated financial statements. The Company’s revenue streams that are in-scope from the update include: financed OREO sales; deposit fees, including ATM fees, overdraft fees, maintenance fees and dormancy fees; debit card fees, and trust fees. For the in-scope revenue streams, our current revenue recognition is not different than our prior revenue recognition under the update. The Company has infrequently financed an OREO sale. Our customer contracts generally do not have performance obligations and fees are assessed and collected as the transaction occurs. The Company’s fee income is not material for any individual income streams. The adoption of ASC 606 did not result in a change to the accounting for any of the in-scope revenue stream; as such, no cumulative effect adjustment was recorded. Refer to Note 8 - Revenue for Contracts with Customers for further discussion on the Company's accounting policies for revenue sources within the scope of ASC 606.

In January 2016, the FASB issued an update (ASU No. 2016-01, Financial Instruments - Recognition and Measurement of Financial Assets and Liabilities). The new guidance is intended to improve the recognition and measurement of financial instruments by requiring: equity investments (other than equity method or consolidation) to be measured at fair value with changes in fair value recognized in net income; public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; separate presentation of financial assets and financial liabilities by measurement category and form of financial assets (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities; eliminating the requirement for non-public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is to be required to be disclosed for financial instruments measured at amortized

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

cost on the balance sheet; and requiring a reporting organization to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from the change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The new guidance became effective for public business entities for fiscal years beginning after December 15, 2017. The new pronouncement does not have a significant impact on our Statement of Operations, as we had one equity security that was valued at $499,000 at December 31, 2017 and none at September 30, 2018.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). The standard requires a lessee to recognize assets and liabilities on the balance sheet for leases with lease terms greater than 12 months. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. We are currently evaluating the impact that the standard will have on our consolidated financial statements. Our preliminary finding is that the new pronouncement will not have a significant impact on our consolidated financial statements as the projected minimum lease payments under existing leases subject to the new pronouncement are less than one percent of our current total assets.

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. ASU 2016-13 is effective for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 (i.e., January 1, 2020, for calendar year entities). Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. We are currently evaluating the impact that the standard will have on our consolidated financial statements. Our initial review indicates that we have maintained sufficient historical loan data to support the requirements of this pronouncement. In addition, we have begun tracking the average life of the various segments of our loan portfolio. We are currently evaluating various loss methodologies to determine their correlation to our various loan categories' historical performance. In August 2018, we contracted with a third-party vendor to provide a model and assist with assessing processes, portfolio segmentation, and model development.

In March 2017, the FASB issued ASU No. 2017-08, "Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities" ("ASU 2017-08"). This guidance shortens the amortization period for premiums on certain callable debt securities to the earliest call date (with an explicit, noncontingent call feature that is callable at a fixed price and on a preset dates), rather than contractual maturity date as currently required under GAAP. The ASU does not impact instruments without preset call dates such as mortgage-backed securities. For instruments with contingent call features, once the contingency is resolved and the security is callable at a fixed price and preset date, the security is within the scope of the ASU. ASU 2017-08 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, and early adoption is permitted. Effective January 2017, we early adopted the pronouncement. Adoption of the new pronouncement was immaterial to the consolidated financial statements.

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

NOTE 2 - EARNINGS PER SHARE

Amounts reported in earnings per share reflect earnings available to common stockholders for the period divided by the weighted average number of shares of common stock outstanding during the period, exclusive of unearned BankFinancial, NA Employee Stock Ownership Plan (the "ESOP") shares in 2017 and unvested restricted stock shares. Stock options and restricted stock are regarded as potential common stock and are considered in the diluted earnings per share calculations to the extent that they would have a dilutive effect if converted to common stock.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income available to common stockholders	$3,737	$ 3,560	$11,926	$ 8,013
Average common shares outstanding	17,365,678	18,140,599	17,641,743	18,567,796
Less:				
Unearned ESOP shares	—	—	—	(198,114)
Unvested restricted stock shares	—	(940)	(435)	(940)
Weighted average common shares outstanding	17,365,678	18,139,659	17,641,308	18,368,742
Add - Net effect of dilutive unvested restricted stock	—	450	—	428
Diluted weighted average common shares outstanding	17,365,678	18,140,109	17,641,308	18,369,170
Basic earnings per common share	$0.22	$ 0.20	$0.68	$ 0.44
Diluted earnings per common share	$0.22	$ 0.20	$0.68	$ 0.44

NOTE 3 - SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2018				
Certificates of deposit	$ 89,175	$ —	$ —	$ 89,175
Mortgage-backed securities - residential	10,593	393	(61)	10,925
Collateralized mortgage obligations - residential	3,819	13	(11)	3,821
	$ 103,587	$ 406	$ (72)	$ 103,921
December 31, 2017				
Certificates of deposit	$ 75,916	$ —	$ —	$ 75,916
Equity mutual fund	500	—	(1)	499
Mortgage-backed securities - residential	11,969	520	(17)	12,472
Collateralized mortgage obligations - residential	4,481	16	(11)	4,486
SBA-guaranteed loan participation certificates	10	—	—	10
	$ 92,876	$ 536	$ (29)	$ 93,383

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

NOTE 3 - SECURITIES (continued)

The mortgage-backed securities and collateralized mortgage obligations reflected in the preceding table were issued by U.S. government-sponsored entities or agencies, Freddie Mac, Fannie Mae and Ginnie Mae, and are obligations which the government has affirmed its commitment to support. All securities reflected in the preceding table were classified as available-for-sale at September 30, 2018 and December 31, 2017.
The amortized cost and fair values of securities by contractual maturity are shown below. Securities not due at a single maturity date are shown separately. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2018	
	Amortized Cost	Fair Value
Due in one year or less	$89,175	$89,175
Mortgage-backed securities - residential	10,593	10,925
Collateralized mortgage obligations - residential	3,819	3,821
	$103,587	$103,921

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Proceeds	$ —	$ —	$ 487	$ —
Gross gains	—	—	—	—
Gross losses	—	—	(14)	—

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

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 30, 2018						
Mortgage-backed securities - residential	$924	$ (6)	$1,004	$ (55)	$1,928	$ (61)
Collateralized mortgage obligations - residential						