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

**PRE-EFFECTIVE AMENDMENT NO. 1
TO THE
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

BANKFINANCIAL CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State or Other Jurisdiction of
Incorporation or Organization)

6035
(Primary Standard Industrial
Classification Code Number)

Being applied for
(I.R.S. Employer
Identification Number)

**15W060 North Frontage Road
Burr Ridge, Illinois 60527
(800) 894-6900**

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

**F. Morgan Gasior
15W060 North Frontage Road
Burr Ridge, Illinois 60527
(800) 894-6900**

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box:

If this Form is filed to register additional shares for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If the delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box:

CALCULATION OF REGISTRATION FEE

| Title of each class of securities to be registered | Amount to be registered | Proposed maximum offering price per share | Proposed maximum aggregate offering price | Amount of registration fee |
|--|-------------------------|---|---|----------------------------|
| Common Stock, \$0.01 par value per share | 19,837,500 shares | \$10.00 | \$198,375,000(1) | \$25,135(2) |
| Participation Interests | 985,982 interests | — | — | (3) |

- (1) Estimated solely for the purpose of calculating the registration fee.
- (2) Previously submitted.
- (3) The securities of BankFinancial Corporation to be purchased by the BankFinancial and Subsidiaries Associate Investment Plan are included in the amount shown for common stock. However, pursuant to Rule 457(h) of the Securities Act of 1933, as amended, no separate fee is required for the participation interests. Pursuant to such rule, the amount being registered has been calculated on the basis of the number of shares of common stock that may be purchased with the current assets of such plan.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

PROSPECTUS

BANKFINANCIAL CORPORATION
(Proposed Holding Company for BankFinancial, F.S.B.)
Up to 19,837,500 Shares of Common Stock

BankFinancial Corporation, a Maryland corporation, is offering shares of common stock for sale in connection with the conversion of BankFinancial MHC, Inc. from the mutual to the stock form of organization. All shares of common stock are being offered for sale at a price of \$10.00 per share. We expect our shares of common stock will trade on the Nasdaq National Market under the symbol "BFIN."

We are offering up to 17,250,000 shares of common stock for sale on a best efforts basis. We may sell up to 19,837,500 shares of common stock because of demand for the shares or changes in market conditions, without resoliciting subscribers. We must sell a minimum of 12,750,000 shares in order to complete the offering.

We are offering the shares of common stock in a "subscription offering" in the following descending order of priority:

- First, to depositors of BankFinancial, F.S.B. with aggregate account balances of at least \$50 on March 31, 2003.
- Second, to BankFinancial, F.S.B.'s tax-qualified employee benefit plans.
- Third, to depositors of BankFinancial, F.S.B. with aggregate account balances of at least \$50 on September 30, 2004.
- Fourth, to depositors of BankFinancial, F.S.B. as of [voting record date] and to borrowers of BankFinancial, F.S.B. as of January 1, 1999 whose borrowings remained outstanding as of [voting record date].

Shares of common stock not purchased in the subscription offering may be offered for sale to the general public in a "community offering." We also may offer for sale shares of common stock not purchased in the subscription offering or community offering through a "syndicated community offering" managed by Sandler O'Neill & Partners, L.P.

The minimum number of shares you may order is 25 shares. The offering is expected to expire at 12:00 noon, Central time, on [expiration date]. We may extend this expiration date without notice to you until [extension date], unless the Office of Thrift Supervision approves a later date, which may not be beyond January 6, 2007. Once submitted, orders are irrevocable unless the offering is terminated or is extended beyond [extension date], or the number of shares of common stock to be sold is increased to more than 19,837,500 shares or decreased to less than 12,750,000 shares. If the offering is extended beyond [extension date], or if the number of shares of common stock to be sold is increased to more than 19,837,500 shares or decreased to less than 12,750,000 shares, we will promptly return, with interest, all funds previously delivered to us to purchase shares of common stock in the offering, and subscribers may be resolicited with the approval of the Office of Thrift Supervision. Funds received during the offering will be held in a segregated account at BankFinancial, F.S.B. or another insured depository institution and will earn interest at our passbook savings rate.

Sandler O'Neill & Partners, L.P. will assist us in selling our shares of common stock on a best efforts basis. Sandler O'Neill & Partners, L.P. is not required to purchase any shares of the common stock that are being offered for sale. Purchasers will not pay a commission to purchase shares of common stock in the offering.

This investment involves a degree of risk, including the possible loss of your investment.

Please read "[Risk Factors](#)" beginning on page 17.

TERMS OF THE OFFERING

Price: \$10.00 per Share

| | <u>Minimum</u> | <u>Maximum</u> | <u>Adjusted Maximum</u> |
|-----------------------------------|----------------|----------------|-----------------------------|
| Number of shares: | 12,750,000 | 17,250,000 | 19,837,500 |
| Gross offering proceeds: | \$ 127,500,000 | \$ 172,500,000 | \$ 198,375,000 |
| Estimated offering expenses: | \$ 2,233,000 | \$ 2,606,000 | \$ 2,820,000 |
| Estimated net proceeds: | \$ 125,267,000 | \$ 169,894,000 | \$ 195,555,000 |
| Estimated net proceeds per share: | \$ 9.82 | \$ 9.85 | \$ 9.86 |

These securities are not deposits or accounts and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Neither the Securities and Exchange Commission, the Office of Thrift Supervision, nor any state securities regulator has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Sandler O'Neill & Partners, L.P.

The date of this prospectus is _____, 2004.

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[MAP SHOWING BANKFINANCIAL, F.S.B.'S MARKET AREA APPEARS HERE]

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ABOUT THIS PROSPECTUS

The words “we,” “our” and other similar references are intended to refer to BankFinancial MHC, Inc. and its subsidiaries (including BankFinancial Corporation, a federal corporation, and BankFinancial, F.S.B.) when relating to matters and time periods prior to the completion of the conversion and the offering, and to refer to BankFinancial Corporation, a Maryland corporation, and its subsidiaries (including BankFinancial, F.S.B.) when referring to matters and time periods after completion of the conversion and the offering. In addition, unless otherwise indicated, references to BankFinancial Corporation mean BankFinancial Corporation, the Maryland corporation.

SUMMARY

The following summary highlights selected information in this prospectus. It may not contain all the information that is important to you. For additional information, you should read this entire prospectus carefully, including the consolidated financial statements and the notes to the consolidated financial statements.

BankFinancial, F.S.B.

BankFinancial, F.S.B. is a full-service, community-oriented savings bank with total assets of \$1.469 billion, total net loans of \$1.068 billion and total deposits of \$1.105 billion at June 30, 2004. We provide financial services to individuals, families and businesses through our 16 full-service banking offices, located in Cook, DuPage, Lake and Will Counties, Illinois. Originally organized in 1924, BankFinancial, F.S.B. reorganized into the mutual holding company structure in January 1999. BankFinancial, F.S.B. is currently the wholly owned subsidiary of BankFinancial Corporation, a federal corporation, which is the wholly owned subsidiary of BankFinancial MHC, Inc., a federal mutual holding company.

BankFinancial, F.S.B.'s business consists primarily of accepting deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in multi-family mortgage loans, nonresidential real estate loans, commercial and construction loans and commercial leases, as well as one- to four-family residential mortgage loans and in agency securities and mortgage-backed securities. In addition, we sell annuities and securities through our Wealth Management Group, and we sell title insurance, property and casualty insurance and other insurance products through Financial Assurance Services, one of our two wholly-owned subsidiaries. We design our service delivery channels to suit the needs of our customers, with an emphasis on delivering services electronically and on-demand at our customers' convenience.

BankFinancial, F.S.B.'s executive offices are located at 15W060 North Frontage Road, Burr Ridge, Illinois 60527. Our telephone number at this address is (_____) ____-_____. Our website address is www.bankfinancial.com.

BankFinancial Corporation

BankFinancial Corporation is a newly-formed Maryland corporation that will own all of the outstanding common stock of BankFinancial, F.S.B. upon completion of the mutual-to-stock conversion and the offering. BankFinancial Corporation has not engaged in any business to date.

Our executive offices are located at 15W060 North Frontage Road, Burr Ridge, Illinois 60527. Our telephone number at this address is (_____) ____-_____.

Our Organizational Structure

In January 1999, BankFinancial, F.S.B.'s mutual predecessor reorganized into the mutual holding company form of organization by forming BankFinancial MHC, Inc. BankFinancial MHC owns 100% of the outstanding shares of common stock of BankFinancial Corporation, a federal corporation. BankFinancial MHC is a mutual holding company that has no stockholders. BankFinancial Corporation, a federal corporation, owns 100% of the outstanding shares of common stock of BankFinancial, F.S.B. BankFinancial Corporation, a federal corporation, has not issued shares of stock to the public.

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Pursuant to the terms of BankFinancial MHC's plan of conversion and reorganization, BankFinancial MHC will convert from a mutual holding company to the public form of corporate structure. As part of the conversion, we are offering for sale in a subscription offering, and, if necessary, a community offering and a syndicated community offering, shares of common stock of BankFinancial Corporation, a Maryland corporation. Upon the completion of the conversion and offering, BankFinancial MHC and BankFinancial Corporation, the federal corporation, will cease to exist.

Business Strategy

Our primary business strategy for the past five years has been to transform BankFinancial, F.S.B. from a traditional savings bank to a multi-faceted financial institution with a diversified balance sheet and enhanced capabilities in commercial banking products and services, while expanding our geographic presence in the Chicago metropolitan area and developing managerial and technological resources and infrastructure capable of supporting future growth. In pursuing these objectives, we expanded our multi-family and commercial real estate lending and implemented additional commercial lending and leasing capabilities and product lines. We have also added expertise in information technology and expanded our mergers and acquisitions capabilities. In November 2001, we acquired Success Bancshares and its wholly owned subsidiary, Success National Bank. The following represent the major results of our business strategy as of June 30, 2004.

- We increased multi-family mortgage loans, other nonresidential real estate loans, construction and land loans and commercial loans and leases to \$710.3 million, or 66.2% of our total loan portfolio at June 30, 2004, compared to \$60.6 million, or 6.1% of our total loan portfolio at December 31, 1999. As a result, our allowance for loan losses increased to 1.00% of total loans, compared to 0.59% at December 31, 1999. Our ratio of nonperforming loans to total loans was 0.74% at June 30, 2004, and 0.66% at December 31, 1999.
- We increased our commercial demand deposits to \$85.7 million, or 7.8% of total deposits at June 30, 2004, compared to \$15.2 million, or 1.8% of total deposits at December 31, 1999, through targeted marketing programs and the acquisition of Success Bancshares.
- We increased our retail core deposits (savings, money market, noninterest bearing demand and NOW accounts) to \$568.2 million, or 51.4% of total deposits at June 30, 2004, compared to \$296.1 million, or 34.2% of total deposits at December 31, 1999 through new product development and marketing.
- We added nine branch offices in Chicago and its northern and western suburbs, as well as new capabilities in merchant processing and business cash management, through our acquisition of Success Bancshares, de novo branching and internal development.
- We reduced our total Federal Home Loan Bank funding by \$81.7 million since December 31, 1999, even though we assumed \$53.7 million of Federal Home Loan Bank advances from our acquisition of Success Bancshares in 2001.
- We reduced our future funding costs in 2003 by restructuring \$170.0 million in Federal Home Loan Bank borrowings and retiring \$15.0 million of subordinated debt underlying the 8.95% trust preferred securities that we assumed through our acquisition of Success Bancshares. Our net loss of \$1.9 million in 2003 was primarily due to \$12.4 million in prepayment penalties (\$8.3 million recorded as non-interest expense and \$4.1 million

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amortization recorded as interest expense) resulting from our restructuring of the Federal Home Loan Bank borrowings, and \$800,000 of purchase accounting expense recognition relating to the retirement of the trust preferred securities.

- We added title insurance capabilities to our existing property and casualty, life and disability insurance operations at our subsidiary, Financial Assurance Services.

We believe that these actions will facilitate our investment of the net proceeds of the offering. We intend to continue to pursue our business strategy after the conversion and the offering, subject to changes necessitated by future market conditions and other factors. We also intend to focus on the following:

- **Expanding our banking franchise through acquisitions and branching.** We will attempt to use the net proceeds from the offering, as well as our new stock holding company structure, to expand our market footprint through acquisitions of banks, savings institutions and other financial service providers in the Chicago metropolitan area and through limited *de novo* branching. We plan to explore acquisition opportunities involving other banks and thrifts, and possibly financial service companies, when and as they arise as a means of supplementing internal growth, filling gaps in our current geographic footprint and expanding our customer base, product lines and internal capabilities. We may also consider the establishment of *de novo* branches or the acquisition of financial institutions in other Midwestern states. We will attempt to identify institutions that we believe will fit well with our current franchise objectives and corporate culture.

We have no current arrangements or agreements to acquire other banks, thrifts and financial service companies or branch offices. However, we have had, and intend to continue to have, discussions with local financial institutions to determine whether they would be interested in exploring the possibility of our acquiring them after the offering is completed and we have sufficient capital resources to fund an acquisition. In addition, we have participated in, and intend to continue to participate in, sales processes initiated on behalf of local financial institutions that have made a decision to explore the possibility of a sale. We have also explored, and intend to continue to explore, the possibility of acquiring local financial service companies, insurance agencies and engaging in limited *de novo* branching. We are presently investigating the feasibility of establishing a small number of *de novo* branches in the Chicago metropolitan area, but have no current plans to engage in extensive *de novo* branching. There can be no assurance that we will be able to consummate any acquisition or establish new branches. See “Risk Factors—Our Ability to Successfully Conduct Acquisitions Will Affect Our Ability to Grow Our Franchise and Compete Effectively in Our Marketplace.”

- **Growing our loan portfolio and emphasis on business banking.** We intend to continue to emphasize the origination of higher interest margin multi-family mortgage loans, other nonresidential real estate loans, construction and land loans and commercial loans and leases as market conditions, federal regulations and other factors permit. We also intend to continue to expand our commercial banking capabilities by continuing to add experienced commercial bankers to our team, with a particular emphasis on commercial and industrial lending experience, and to enhance our direct marketing efforts to local businesses.

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- **Maintaining the quality of our loan portfolio.** Maintaining the quality of our loan and lease portfolio is a key factor in managing our growth. We will continue to use risk management techniques, such as independent internal and external loan reviews, risk-focused portfolio credit analysis and field inspections of collateral in overseeing the performance of our loan portfolio.
- **Achieving efficient growth by leveraging our existing operational and management resources.** We have invested significant resources in developing a management team and a technological infrastructure that are capable of managing a larger asset and deposit base than we currently have. As a result, we have residential, commercial and consumer loan departments staffed with experienced professionals who are capable of promoting the continued growth and oversight of our loan portfolio, and we intend to approach future growth opportunities with a view toward achieving improved economies of scale.
- **Increasing our noninterest income by diversifying products and services.** We have sought to supplement our interest income by increasing our fee income from new products and services. We intend to improve our noninterest income by continuing to offer wealth management services (annuities and securities), property, casualty, life and disability insurance products and title insurance products and services.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations —Overview of Financial Condition and Results of Operations—Significant Strategic Initiatives and Impact on Results of Operations” for a further discussion of our business strategy.

Impact on Our Results of Operations

We have taken a number of actions to implement our business strategy, including our acquisition of Success Bancshares and its wholly owned subsidiary, Success National Bank. Although these actions have produced benefits that have furthered the implementation of our business strategy, they have also resulted in additional expenses during the six months ended June 30, 2004 and 2003 and the years ended December 31, 2003, 2002 and 2001. We also experienced an adverse development in our investment securities portfolio. These actions and developments resulted in net losses in recent periods and reduced net income in 2002 and 2001.

For the six months ended June 30, 2004, our net loss was \$6.8 million, compared to net income of \$2.5 million for the same period in 2003. The net loss for the first six months of 2004 was primarily due to a \$15.0 million impairment loss, pre-tax, that we recognized as of June 30, 2004 on preferred securities issued by two federal government-sponsored entities, Fannie Mae and Freddie Mac. The after-tax impact on net income was \$9.2 million. Excluding this charge, we would have recorded net income of \$2.4 million for the six months ended June 30, 2004 (based on a combined effective federal and state tax rate of 38.74%). The impairment loss resulted from our application of new accounting guidance set forth in the Financial Accounting Standards Board’s Emerging Issues Task Force Issue No. 03-1, “The Meaning of Other-than-Temporary Impairment and Its Application to Certain Investments.” The impairment loss on these securities was a non-cash charge that did not impact our equity because the unrealized losses on these securities, net of taxes, were previously included in our accumulated other comprehensive losses and reflected in our equity. See “Business of BankFinancial, F.S.B.—Securities Activities—Equity Securities.”

For the year ended December 31, 2003, we incurred a net loss of \$1.9 million compared to net income of \$5.0 million for the year ended December 31, 2002. The net loss for the year ended December

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31, 2003 was primarily due to \$12.4 million in prepayment penalties resulting from our restructuring of the Federal Home Loan Bank borrowings, with \$8.3 million recorded as non-interest expense and \$4.1 million amortization recorded as interest expense. The after-tax impact on net income was \$7.6 million (based on a combined effective federal and state tax rate of 38.74%). Excluding this charge, we would have recorded net income of \$5.7 million for the year ended December 31, 2003.

For a more complete discussion of our financial condition and results of operations, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” including the subsection entitled “Overview of Financial Condition and Results of Operations.”

Reasons for the Conversion

Our primary reasons for converting and raising additional capital through the offering are:

- to provide additional financial resources to pursue future acquisition opportunities and limited *de novo* branching opportunities, as discussed above in “—Business Strategy—Expanding our banking franchise through acquisitions and branching;”
- to support our internal growth through lending in communities we serve or may serve in the future;
- to enhance our existing products and services and to support the development of new products and services;
- to improve our overall competitive position;
- to repay term debt we incurred in acquiring Success Bancshares and in funding the redemption of the trust preferred securities that we assumed from Success Bancshares in 2003;
- to provide better capital management tools, including the ability to pay dividends and to repurchase shares of our common stock; and
- to retain and attract qualified personnel by establishing stock benefit plans for management and employees, including a stock option plan, a recognition and retention plan and an employee stock ownership plan.

Terms of the Conversion and the Offering

Under BankFinancial MHC’s plan of conversion and reorganization, our organization will convert to a fully public form of holding company structure. In connection with the conversion, we are offering between 12,750,000 and 17,250,000 shares of common stock to eligible depositors of BankFinancial, F.S.B., to our employee benefit plans and, to the extent shares remain available, to the general public. The number of shares of common stock to be sold may be increased up to 19,837,500 as a result of demand for the shares or changes in the market for financial institution stocks. Unless the number of shares of common stock to be offered is increased to more than 19,837,500 or decreased to less than 12,750,000, or the offering is extended beyond [extension date], subscribers will not have the opportunity to change or cancel their stock orders.

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The purchase price of each share of common stock to be issued in the offering is \$10.00. All investors will pay the same purchase price per share. Investors will not be charged a commission to purchase shares of common stock. Sandler O'Neill & Partners, L.P., our marketing advisor in the offering, will use its best efforts to assist us in selling shares of our common stock. Sandler O'Neill is not obligated to purchase any shares of common stock in the offering.

Persons Who May Order Shares of Common Stock in the Offering

We are offering the shares of common stock in a "subscription offering" in the following descending order of priority:

- (1) First, to depositors of BankFinancial, F.S.B. with aggregate account balances of at least \$50 on March 31, 2003.
- (2) Second, to BankFinancial, F.S.B.'s tax-qualified employee benefit plans.
- (3) Third, to depositors of BankFinancial, F.S.B. with aggregate account balances of at least \$50 on September 30, 2004.
- (4) Fourth, to depositors of BankFinancial, F.S.B. as of [voting record date] and to borrowers of BankFinancial, F.S.B. as of January 1, 1999 whose borrowings remained outstanding as of [voting record date].

Shares of common stock not purchased in the subscription offering may be offered for sale to the general public in a "community offering," with a preference given to natural persons residing in the Illinois Counties of Cook, DuPage, Lake and Will. The community offering may begin concurrently with, during or promptly after the subscription offering as we may determine at any time. We also may offer for sale shares of common stock not purchased in the subscription offering or community offering through a "syndicated community offering" managed by Sandler O'Neill & Partners, L.P.

We have the right to accept or reject, in our sole discretion, orders received in the community offering or syndicated community offering. We have not established any set criteria for determining whether to accept or reject a purchase order in the community offering or the syndicated community offering, and, accordingly, any determination to accept or reject purchase orders in the community offering and the syndicated community offering will be based on the facts and circumstances known to us at the time.

If we receive orders for more shares than we are offering, we may not be able to fully or partially fill your order. Shares will be allocated first to categories in the subscription offering. A detailed description of share allocation procedures can be found in the section entitled "The Conversion; Plan of Distribution."

How We Determined the Offering Range and the \$10.00 Per Share Offering Price

The amount of common stock that we are offering is based on an independent appraisal of the estimated market value of BankFinancial Corporation, assuming the conversion and the offering are completed. RP Financial, LC., our independent appraiser, has estimated that, as of September 10, 2004, this market value ranged from \$127.5 million to \$172.5 million, with a midpoint of \$150.0 million. Based on this valuation and a \$10.00 per share price, the number of shares of common stock being offered for sale by us will range from 12,750,000 shares to 17,250,000 shares. The \$10.00 per share price was

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selected primarily because it is the price most commonly used in mutual-to-stock conversions of financial institutions. RP Financial's appraisal is based in part on our financial condition and results of operations, the effect of the additional capital raised by the sale of shares of common stock in the offering and an analysis of a peer group of ten publicly traded savings bank and thrift holding companies that RP Financial considered comparable to us.

The following table presents a summary of selected pricing ratios for BankFinancial Corporation and our peer group companies identified by RP Financial. Our pro forma price-to-core earnings multiple is annualized based on earnings for the twelve months ended June 30, 2004, while information for the peer group companies is based on earnings for the twelve months ended June 30, 2004 or the latest available trailing twelve-month period. All other information presented is as of June 30, 2004. Compared to the average pricing of the peer group, our pro forma pricing ratios at the maximum of the offering range indicated a premium of 154.5% on a price-to-core earnings basis, a discount of 45.6% on a price-to-book value basis and a discount of 46.4% on a price-to-tangible book value basis. The pricing ratios result from our generally having higher levels of equity but lower earnings than the companies in the peer group. Our board of directors, in reviewing and approving the valuation, considered the range of price-to-core earnings multiples and the range of price-to-book value ratios and price-to-tangible book value ratios at the different amounts of shares to be sold in the offering. The appraisal did not consider one valuation approach to be more important than the other. Instead, the appraisal concluded that these ranges represented the appropriate balance of the two approaches to valuing BankFinancial Corporation, and the number of shares to be sold, in comparison to the identified peer group institutions. Specifically, in approving the valuation, the board believed that BankFinancial Corporation would not be able to sell its shares at a price-to-book value that was in line with the peer group without unreasonably exceeding the peer group on a price-to-core earnings basis. The estimated appraised value and the resulting premium/discount took into consideration the potential financial impact of the conversion and offering.

| | <u>Pro forma price-to-core earnings multiple</u> | <u>Pro forma price-to-book value ratio</u> | <u>Pro forma price-to-tangible book value ratio</u> |
|---|--|--|---|
| BankFinancial Corporation | | | |
| Maximum | 55.91x | 70.57% | 77.40% |
| Minimum | 44.62 | 62.15 | 69.40 |
| Valuation of peer group companies as of September 10, 2004 | | | |
| Averages | 21.97x | 129.68% | 144.46% |
| Medians | 19.36 | 129.39 | 136.13 |

RP Financial did not consider our price-to-earnings multiple meaningful, as we reported a net loss for the period reviewed by RP Financial. Instead, RP Financial calculated an estimate of our core earnings by excluding the effects on our earnings of prepayment penalties resulting from our restructuring of the Federal Home Loan Bank borrowings, other-than-temporary losses we recognized as of June 30, 2004 on preferred securities issued by two federal government-sponsored entities, Fannie Mae and Freddie Mac, and gains on the sale of securities. RP Financial then calculated our price-to-core earnings multiples presented in the above table based upon its calculation of our estimated core earnings.

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RP Financial estimated our core earnings for the twelve months ended June 30, 2004 as follows:

| | <u>Amount</u> |
|--|-----------------------|
| | <u>(In thousands)</u> |
| Net income | \$ (11,185) |
| Add back: Federal Home Loan Bank prepayment penalty (1) | 5,029 |
| Add back: Loss on impairment of securities held for sale (1) | 9,018 |
| Subtract: Gain on sale of assets (1) | (633) |
| | <u> </u> |
| Estimated core earnings | <u>\$ 2,229</u> |

(1) Calculated after tax at an effective combined federal and state tax rate of 39.7%.

The independent appraisal does not indicate per share market value. Do not assume or expect that the valuation of BankFinancial Corporation as indicated above means that, after the conversion and the offering, the shares of common stock will trade at or above the \$10.00 offering price. Furthermore, the pricing ratios presented above were utilized by RP Financial to estimate our market value and not to compare the relative value of our shares of common stock with the value of the capital stock of the peer group. The value of the capital stock of a particular company may be affected by a number of factors such as financial performance, asset size and market location.

The independent appraisal will be updated prior to the completion of the conversion. If the appraised value decreases below \$127.5 million or increases above \$198.4 million, we will promptly return, with interest, all funds previously delivered to us to purchase shares of common stock in the offering, and subscribers may be resolicited with the approval of the Office of Thrift Supervision. For a more complete discussion of the amount of common stock we are offering for sale and the independent appraisal, see “The Conversion; Plan of Distribution—Determination of Share Price and Number of Shares to be Issued.”

After-Market Stock Price Performance Provided by Independent Appraiser

In recent years, the prices of shares of common stock of financial institutions or their standard holding companies have generally appreciated in the period immediately following the completion of standard mutual-to-stock conversions like ours. The appraisal report prepared by RP Financial included examples of this after-market stock price performance for the three-month period ended September 10, 2004. The following table presents stock price appreciation information for all mutual-to-stock conversions completed between January 1, 2004 and September 10, 2004.

Mutual-to-Stock Conversion Offerings with Completed Closing Dates between January 1, 2004 and September 10, 2004

| Transaction | Conversion Date | Appreciation from Initial Trading Date | | | |
|------------------------------------|-----------------|--|--------|---------|----------------------------|
| | | 1 day | 1 week | 1 month | Through September 10, 2004 |
| Third Century Bancorp, Inc. – IN | 06/30/04 | 13.2% | 10.5% | 12.5% | 10.5% |
| SE Financial Corp. – PA | 05/06/04 | (0.5) | (1.5) | (6.0) | (1.5) |
| New Alliance Bancshares, Inc. – CT | 04/02/04 | 51.7 | 45.3 | 36.5 | 38.9 |
| Average | | 21.5% | 18.1% | 14.3% | 16.0% |

The following table presents stock price performance information for all mutual-to-stock conversions completed between January 1, 2002 and September 10, 2004. The information shown in the following table was not included in the appraisal report.

Mutual-to-Stock Conversion Offerings with Completed Closing Dates between January 1, 2002 and September 10, 2004

| Transaction | Conversion Date | Appreciation from Initial Trading Date | | | |
|---------------------------------------|-----------------|--|--------|---------|----------------------------|
| | | 1 day | 1 week | 1 month | Through September 10, 2004 |
| Third Century Bancorp, Inc. – IN | 06/30/04 | 13.2% | 10.5% | 12.5% | 10.5% |
| SE Financial Corp. – PA | 05/06/04 | (0.5) | (1.5) | (6.0) | (1.5) |
| New Alliance Bancshares, Inc. – CT | 04/02/04 | 51.7 | 45.3 | 36.5 | 38.9 |
| KNBT Bancorp, Inc. – PA | 11/03/03 | 68.8 | 67.5 | 70.5 | 67.8 |
| Rainier Pacific Fin Group – WA | 10/21/03 | 69.9 | 66.0 | 61.9 | 79.1 |
| Community First Bancorp, Inc. – KY | 06/27/03 | 20.0 | 20.0 | 20.5 | 34.0 |
| Rantoul First Bank, s.b. – IL | 04/02/03 | 15.1 | 20.0 | 23.5 | 62.5 |
| Provident Fin. Services, Inc – NJ | 01/16/03 | 55.0 | 56.5 | 51.5 | 76.1 |
| CCSB Financial Corp. – MO | 01/09/03 | 20.0 | 23.1 | 25.0 | 37.5 |
| Atlantic Liberty Financial Corp. – NY | 10/23/02 | 30.2 | 31.0 | 33.3 | 85.8 |
| TierOne Corporation – NE | 10/02/02 | 40.0 | 35.0 | 37.0 | 116.5 |
| Monarch Comm. Bancorp, Inc. – MI | 08/30/02 | 16.8 | 13.8 | 2.8 | 40.2 |
| First PacTrust Bancorp, Inc. – CA | 08/23/02 | 18.6 | 22.9 | 17.3 | 101.3 |
| Reserve Bancorp, Inc. – PA | 04/08/02 | 25.0 | 28.0 | 28.5 | 79.5 |
| Heritage Bancshares, Inc. – TX (1) | 02/26/02 | 20.5 | 17.0 | 17.5 | N/A |
| Average | | 31.0% | 30.3% | 28.8% | 59.2% |

(1) The company was deregistered under the Securities Exchange Act of 1934, as amended, as of September 10, 2004.

Stock prices of some mutual-to-stock conversions have decreased, and not increased. For example, while the above table illustrates an average appreciation of 28.8% after one month of trading, the stock of one company was trading below its initial offering price. Both of the tables above present only short-term historical information on stock price performance, which may not be indicative of the longer-term performance of such stock prices. They are also not intended to predict how our shares of common stock may perform following the conversion and the offering. The historical information in the tables may not be meaningful to you because the data were calculated using a small sample and the transactions from which the data were derived occurred primarily during a low market interest rate environment, during which time the trading prices for financial institution stocks typically increase.

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The market price in any particular company's stock is subject to various factors, including the amount of proceeds a company raises and management's ability to deploy proceeds (such as through investments, the acquisition of other financial institutions or other businesses, the payment of dividends and common stock repurchases). In addition, stock prices may be affected by general market conditions, the interest rate environment, the market for financial institutions, merger or takeover transactions, the presence of professional and other investors who purchase stock on speculation, as well as other unforeseeable events not necessarily in the control of management or the board of directors.

RP Financial advised the board of directors that the appraisal was prepared in conformance with the regulatory appraisal methodology. That methodology requires a valuation based on an analysis of the trading prices of comparable public companies whose stocks have traded for at least one year prior to the valuation date. RP Financial also advised the board of directors that the aftermarket trading experience of recent transactions was considered in the appraisal as a general indicator of current market conditions, but was not relied upon as a primary valuation methodology.

Our board of directors carefully reviewed the information provided to it by RP Financial through the appraisal process, but did not make any determination regarding whether prior standard mutual-to-stock conversions have been undervalued, nor did the board draw any conclusions regarding how the historical data reflected above may affect BankFinancial Corporation's appraisal. Instead, the board of directors engaged RP Financial to help it understand the regulatory process as it applies to the appraisal and to advise the board of directors as to how much capital BankFinancial Corporation would be required to raise under the regulatory appraisal guidelines.

Under certain market and other conditions, many investors consider an investment in mutual-to-stock conversions to be an attractive one. We expect our directors and executive officers, together with their associates, to subscribe for 379,500 shares of common stock in the offering, or 2.5% of the shares to be sold at the midpoint of the offering range.

There can be no assurance that our stock price will not trade below \$10.00 per share, as has been the case for some mutual-to-stock conversions. Before you make an investment decision, we urge you to carefully read this prospectus, including, but not limited to, the section entitled "Risk Factors" beginning on page 17.

Limits on How Much Common Stock You May Purchase

The minimum number of shares of common stock that may be purchased is 25. Generally, no individual, or individual exercising subscription rights through a qualifying account held jointly, may purchase more than 50,000 shares of common stock. If any of the following persons purchases shares of common stock, their purchases, in all categories of the offering, when combined with your purchases, cannot exceed 75,000 shares:

- your spouse or relatives of you or your spouse living in your house;
- most companies, trusts or other entities in which you are a trustee, have a substantial beneficial interest or hold a senior management position; or
- other persons who may be your associates or persons acting in concert with you.

See the detailed description of "acting in concert" and "associate" in "The Conversion; Plan of Distribution—Limitations on Common Stock Purchases."

How You May Purchase Shares of Common Stock

In the subscription offering and community offering, you may pay for your shares only by:

- (1) personal check, bank check or money order, payable to BankFinancial Corporation; or
- (2) authorizing us to withdraw funds from the types of BankFinancial, F.S.B. deposit accounts designated on the stock order form.

BankFinancial, F.S.B. is not permitted to knowingly lend funds to anyone for the purpose of purchasing shares of common stock in the offering. Additionally, you may not use a check drawn on a BankFinancial, F.S.B. line of credit or a check from someone other than you to pay for shares of common stock.

You can subscribe for shares of common stock in the offering by delivering a signed and completed original stock order form, together with full payment or authorization to withdraw from one or more of your BankFinancial, F.S.B. deposit accounts, as long as we receive the stock order form before [expiration date], which is the end of the offering period. Checks will be deposited with BankFinancial, F.S.B. or another insured depository institution upon receipt. We will pay interest at BankFinancial, F.S.B.'s passbook savings rate from the date funds are received until completion or termination of the conversion and the offering. Withdrawals from certificates of deposit to purchase shares of common stock in the offering may be made without incurring an early withdrawal penalty. All funds authorized for withdrawal from deposit accounts with BankFinancial, F.S.B. must be in the accounts at the time the stock order is received. However, funds will not be withdrawn from the accounts until the completion of the offering and will earn interest at the applicable deposit account rate until that time. A hold will be placed on those funds when your stock order is received, making the designated funds unavailable to you. Please provide a check instead of designating a direct withdrawal from BankFinancial, F.S.B. accounts with check-writing privileges, because we cannot place holds on checking accounts. If you request that we do so, we reserve the right to interpret that as your authorization to treat those funds as if we had received a check for the designated amount, and we will immediately withdraw the amount from your checking account(s). After we receive your order, your order cannot be changed or cancelled unless the number of shares of common stock to be offered is increased to more than 19,837,500 or decreased to less than 12,750,000, or the offering is extended beyond [extension date].

By signing the stock order form, you are acknowledging receipt of a prospectus and that the shares of common stock are not deposits or savings accounts that are federally insured or otherwise guaranteed by BankFinancial, F.S.B., the Federal Deposit Insurance Corporation or any other government agency.

You may be able to subscribe for shares of common stock using funds in your individual retirement account, or IRA. However, shares of common stock must be purchased through and held in a self-directed retirement account, such as those offered by a brokerage firm. By regulation, BankFinancial, F.S.B.'s individual retirement accounts are not self-directed, so they cannot be used to purchase or hold our common stock. If you wish to use some or all of the funds in your BankFinancial, F.S.B. individual retirement account to purchase our common stock, the applicable funds must be transferred to a self-directed account maintained by an independent trustee, such as a brokerage firm, and the purchase must be made through that account. If you do not have such an account, you will need to establish one before placing your stock order. It may take several weeks to transfer your BankFinancial, F.S.B. individual retirement account to an independent trustee, so please allow yourself sufficient time to take this action. An annual administrative fee may be payable to the independent trustee. Because individual

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circumstances differ and processing of retirement fund orders takes additional time, we recommend that you contact our Stock Information Center promptly, preferably at least two weeks before the end of the offering period, for assistance with purchases using your individual retirement account or any other retirement account that you may have. Whether you may use such funds for the purchase of shares in the stock offering may depend on time constraints and, possibly, limitations imposed by the brokerage firm or institution where the funds are held.

Delivery of Stock Certificates

Certificates representing shares of common stock sold in the offering will be mailed to the persons entitled thereto at the certificate registration address noted on the order form, as soon as practicable following consummation of the offering and receipt of all necessary regulatory approvals. **It is possible that, until certificates for the common stock are delivered to purchasers, purchasers might not be able to sell the shares of common stock which they ordered, even though the common stock will have begun trading.**

How We Intend to Use the Proceeds From the Offering

We estimate net proceeds from the offering will be between \$125.3 million and \$169.9 million, or \$195.6 million if the offering range is increased by 15%. Approximately \$62.6 million to \$84.9 million of the net proceeds, or \$97.8 million if the offering range is increased by 15%, will be invested in BankFinancial, F.S.B. BankFinancial Corporation intends to retain between \$62.6 million and \$84.9 million of the net proceeds, or \$97.8 million if the offering range is increased by 15%, and we intend to utilize these funds as follows. First, a portion of the net proceeds retained by BankFinancial Corporation will be used to repay \$30.0 million of term debt acquired and incurred in our acquisition of Success Bancshares and our redemption of the trust preferred securities obtained in that acquisition. Second, a portion of the net proceeds retained by BankFinancial Corporation will be used for a loan to the employee stock ownership plan to fund its purchase of shares of common stock (between \$10.2 million and \$13.8 million, or \$15.9 million if the offering is increased by 15%). And third, BankFinancial Corporation intends to retain the remaining funds of between \$22.4 million and \$41.1 million of the net proceeds, or \$51.9 million if the offering range is increased by 15%. BankFinancial Corporation may use the remaining funds to pay cash dividends and repurchase shares of common stock.

Funds invested in BankFinancial, F.S.B. will be used to support increased lending and new products and services. The net proceeds retained by BankFinancial Corporation and BankFinancial, F.S.B. also may be used for future business expansion through acquisitions of banking or financial services companies or by establishing off-site ATMs and a limited number of *de novo* branches as discussed above in “—Business Strategy—Expanding our banking franchise through acquisitions and branching.” Initially, a substantial portion of the net proceeds will be invested in short-term investments, investment-grade debt obligations and mortgage-backed securities.

Please see the section of this Prospectus entitled “How We Intend to Use the Proceeds From the Offering” for more information on the proposed use of the proceeds from the offering.

You May Not Sell or Transfer Your Subscription Rights

Office of Thrift Supervision regulations prohibit you from transferring your subscription rights. If you order shares of common stock in the subscription offering, you will be required to state that you are purchasing the common stock for yourself and that you have no agreement or understanding to sell or transfer your subscription rights. We intend to take legal action, including reporting persons to federal or

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state regulatory agencies, against anyone who we believe has sold or given away his or her subscription rights. We will not accept your order if we have reason to believe that you have sold or transferred your subscription rights. You may not add the names of others for joint stock registration unless they were eligible to purchase shares of common stock in the subscription offering at your date of eligibility. In addition, the stock order form requires that you list all deposit accounts, giving all names on each account and the account number at the applicable eligibility date. Your failure to provide this information, or providing incomplete or incorrect information, may result in a loss of part or all of your share allocation, if there is an oversubscription.

Deadline for Orders of Common Stock

If you wish to purchase shares of common stock in the offering, we must receive a properly completed original stock order form, together with full payment for the shares of common stock, by the Stock Information Center no later than 12:00 noon, Central time, on [expiration date], unless we extend this deadline. A postmark prior to [expiration date] will not entitle you to purchase shares of common stock unless we receive the envelope by [expiration date]. You may submit your order form by mail using the return envelope provided, by overnight courier to the indicated address on the order form, or by delivery to our Stock Information Center. Once we receive it, your order is irrevocable unless the offering is terminated or extended beyond [extension date] or the number of shares of common stock to be sold is decreased to less than 12,750,000 shares or increased to more than 19,837,500 shares. If the offering is extended beyond [extension date], or if the number of shares of common stock to be sold is decreased to less than 12,750,000 shares or is increased to more than 19,837,500 shares, we will promptly return, with interest, all funds previously delivered to us to purchase shares of common stock in the offering, and subscribers may be resolicited with the approval of the Office of Thrift Supervision.

Although we will make reasonable attempts to provide a prospectus and offering materials to holders of subscription rights, the subscription offering and all subscription rights will expire at 12:00 noon, Central time, on [expiration date], whether or not we have been able to locate each person entitled to subscription rights.

Steps We May Take if We do Not Receive Orders for the Minimum Number of Shares

If we do not receive orders for at least 12,750,000 shares of common stock, we may take several steps in order to issue the minimum number of shares of common stock in the offering range. Specifically, we may:

- increase the purchase and ownership limitations; and
- seek the approval of the Office of Thrift Supervision to extend the offering beyond the [extension date] expiration date, so long as we resolicit subscriptions that we have previously received in the offering.

In addition, we may terminate the offering at any time prior to the special meeting of members of BankFinancial MHC that is being called to vote upon the conversion, and at any time after member approval with the approval of the Office of Thrift Supervision.

Purchases by Officers and Directors

We expect our directors and executive officers, together with their associates, to subscribe for 379,500 shares of common stock in the offering, or 2.5% of the shares to be sold at the midpoint of

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the offering range. The purchase price paid by them for their subscribed shares will be the same \$10.00 per share price paid by all other persons who purchase shares of common stock in the offering. Purchases by directors, executive officers and their associates will be included in determining whether the required minimum number of shares has been subscribed for in the offering.

Benefits to Management and Potential Dilution to Stockholders Following the Conversion

We expect our tax-qualified employee stock ownership plan to purchase up to 8% of the shares of common stock that we sell in the offering, or 1,380,000 shares of common stock, assuming we sell the maximum of the shares proposed to be sold. If we receive orders for more shares of common stock than the maximum of the offering range, the employee stock ownership plan will have first priority to purchase shares over this maximum, up to a total of 8% of the shares of common stock sold in the offering. We reserve the right to purchase shares of common stock in the open market following the offering in order to fund the employee stock ownership plan. This plan is a tax-qualified retirement plan for the benefit of all our employees. Purchases by the employee stock ownership plan will be included in determining whether the required minimum number of shares has been sold in the offering. Assuming the employee stock ownership plan purchases 1,380,000 shares in the offering, we will recognize additional compensation expense of \$13.8 million over a 20-year period, assuming the shares of common stock have a fair market value of \$10.00 per share for the full 20-year period. If, in the future, the shares of common stock have a fair market value greater or less than \$10.00, the compensation expense will increase or decrease accordingly.

We also intend to implement a stock-based recognition and retention plan and a stock option plan no earlier than six months after completion of the conversion. Stockholder approval of these plans will be required. If adopted within 12 months following the completion of the conversion, the stock recognition and retention plan will reserve a number of shares not more than 4% of the shares sold in the offering, or up to 690,000 shares of common stock at the maximum of the offering range, for awards to key employees and directors, at no cost to the recipients. If adopted within 12 months following the completion of the conversion, the stock option plan will reserve a number of shares not more than 10% of the shares of common stock sold in the offering, or up to 1,725,000 shares of common stock at the maximum of the offering range, for key employees and directors upon their exercise. If the recognition and retention plan and the stock option plan are adopted after one year from the date of the completion of the conversion, such plans would be permitted to and may grant or award shares of common stock and options greater than 4% and/or 10%, respectively, of the shares of common stock sold in the offering, although such plans, including the amounts awarded under such plans, may remain subject to supervisory restrictions. We have not yet determined whether we will present these plans for stockholder approval within 12 months following the completion of the conversion or whether we will present these plans for stockholder approval more than 12 months following the completion of the conversion.

If the shares of common stock awarded under the stock recognition and retention plan come from authorized but unissued shares of common stock, stockholders would experience dilution of up to approximately 3.8% in their ownership interest in BankFinancial Corporation. If the shares of common stock issued upon the exercise of options granted under the stock option plan come from authorized but unissued shares of common stock, stockholders would experience dilution of approximately 9.1% in their ownership interest in BankFinancial Corporation. Awards made under these plans would be subject to vesting over a period of years.

The following table summarizes the number of shares of common stock and aggregate dollar value of grants (valuing each share granted at the offering price of \$10.00) that are expected under the new stock recognition and retention plan and the new stock option plan if such plans are adopted within

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one year following the completion of the conversion and the offering. The table also shows the dilution to stockholders if all these shares are issued from authorized but unissued shares, instead of shares purchased in the open market. A portion of the stock grants shown in the table below may be made to non-management employees.

| | Number of Shares to be Granted or Purchased | | | Dilution Resulting From Issuance of Shares for Stock Benefit Plans (3) | Value of Grants (1) | |
|--------------------------------|---|------------------------------|--|--|------------------------------|------------------------------|
| | At Minimum of Offering Range | At Maximum of Offering Range | As a Percentage of Common Stock to be Issued in the Offering (2) | | At Minimum of Offering Range | At Maximum of Offering Range |
| | | | | | (Dollars in thousands) | |
| Employee stock ownership plan | 1,020,000 | 1,380,000 | 8.0% | 7.4 | \$ 10,200 | \$ 13,800 |
| Recognition and retention plan | 510,000 | 690,000 | 4.0 | 3.8 | 5,100 | 6,900 |
| Stock option plan | 1,275,000 | 1,725,000 | 10.0 | 9.1 | — | — |
| Total | 2,805,000 | 3,795,000 | 22.0% | 18.0% | \$ 15,300 | \$ 20,700 |

- (1) The actual value of restricted stock grants will be determined based on their fair value as of the date grants are made. For purposes of this table, fair value is assumed to be the same as the offering price of \$10.00 per share. No value is given for options because their exercise price will be equal to the fair market value of the common stock on the day the options are granted. Proposed changes in accounting standards may require us in the future to recognize expense when we grant stock options.
- (2) The stock option plan and recognition and retention plan may award a greater number of options and shares, respectively, if the plans are adopted more than one year after the completion of the conversion.
- (3) Calculated at the maximum of the offering range.

The actual value of restricted stock grants will be determined based on their fair value (the market price of shares of common stock of BankFinancial Corporation) as of the date grants are made. The recognition and retention plan, which is subject to stockholder approval, cannot be implemented until at least six months after the completion of the conversion. The following table presents the total value of all shares to be available for award and issuance under the recognition and retention plan, assuming the shares for the plan are purchased or issued in a range of market prices from \$8.00 per share to \$18.00 per share.

| Share Price | 510,000 Shares Awarded at Minimum of Offering Range | 600,000 Shares Awarded at Midpoint of Offering Range | 690,000 Shares Awarded at Maximum of Offering Range | 780,000 Shares Awarded at Maximum of Offering Range, As Adjusted |
|-------------|---|--|---|--|
| | (In thousands, except share price information) | | | |
| \$8.00 | \$ 4,080 | \$ 4,800 | \$ 5,520 | \$ 6,240 |
| \$10.00 | 5,100 | 6,000 | 6,900 | 7,800 |
| \$12.00 | 6,120 | 7,200 | 8,280 | 9,360 |
| \$14.00 | 7,140 | 8,400 | 9,660 | 10,920 |
| \$16.00 | 8,160 | 9,600 | 11,040 | 12,480 |
| \$18.00 | 9,180 | 10,800 | 12,420 | 14,040 |

The table presented above is provided for informational purposes only. There can be no assurance that our stock price will not trade below \$10.00 per share. Before you make an investment decision, we urge you to carefully read this prospectus, including, but not limited to, the section entitled “Risk Factors” beginning on page 17.

Market for Common Stock

We expect to receive approval for our shares of common stock to be listed on the Nasdaq National Market under the symbol “BFIN.” See “Market for the Common Stock.”

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Our Dividend Policy

We do not expect to declare a dividend for the first three full fiscal quarters following the completion of the conversion. It is our current expectation that we are reasonably likely to declare a dividend within 12 months following the completion of the conversion. However, we may not be able to, or may decide not to, pay dividends at such time or at any other time in the future, and persons who need or desire dividend income should not purchase our shares of common stock with the expectation that we will pay dividends on the shares of common stock.

Tax Consequences

As a general matter, the conversion will not be a taxable transaction for federal or state income tax purposes to BankFinancial MHC, BankFinancial Corporation, BankFinancial, F.S.B. or persons eligible to subscribe in the subscription offering.

Conditions to Completion of the Conversion and the Offering

We cannot complete the conversion and the offering unless:

- The plan of conversion and reorganization is approved by at least *a majority of votes eligible* to be cast by members of BankFinancial MHC (consisting of depositors and certain borrowers of BankFinancial, F.S.B.). A special meeting of members to consider and vote upon the plan of conversion and reorganization has been set for January 6, 2005;
- We have received orders to purchase at least the minimum number of shares of common stock offered; and
- We receive the final approval of the Office of Thrift Supervision to complete the conversion and the offering.

How You Can Obtain Additional Information

Our branch office personnel may not, by law, assist with investment-related questions about the offering. If you have any questions regarding the conversion or the offering, please call or visit our Stock Information Center, toll free, at 1-(_____) ____-_____, Monday through Friday between 10:00 a.m. and 4:00 p.m., Central time. The Stock Information Center is located at our main office, 15W060 North Frontage Road, Burr Ridge, Illinois. The Stock Information Center will be closed on weekends and bank holidays.

TO ENSURE THAT EACH PERSON RECEIVES A PROSPECTUS AT LEAST 48 HOURS PRIOR TO THE EXPIRATION DATE OF [EXPIRATION DATE] IN ACCORDANCE WITH FEDERAL LAW, NO PROSPECTUS WILL BE MAILED ANY LATER THAN FIVE DAYS PRIOR TO [EXPIRATION DATE] OR HAND-DELIVERED ANY LATER THAN TWO DAYS PRIOR TO [EXPIRATION DATE].

RISK FACTORS

You should consider carefully the following risk factors in evaluating an investment in the shares of common stock.

Our Nonresidential Real Estate Loans, Multi-family Mortgage Loans, Construction and Land Loans, Commercial Loans and Commercial Leases Expose Us to Increased Credit Risks.

At June 30, 2004, our portfolio of nonresidential real estate loans totaled \$254.6 million, or 23.7% of total loans, our portfolio of multi-family mortgage loans totaled \$234.7 million, or 21.9% of total loans, our portfolio of construction and land loans totaled \$56.6 million, or 5.3% of total loans, our portfolio of commercial loans totaled \$83.5 million, or 7.8% of total loans and our portfolio of commercial leases totaled \$80.9 million, or 7.5% of total loans. We plan to continue to originate these types of loans and retain them in our portfolio, although we may participate portions of some of these loans to other financial institutions. These types of loans generally have greater credit risk than one- to four-family residential mortgage loans because repayment of the loans often depends on the successful business operations of the borrowers. These loans typically have larger loan balances to single borrowers or groups of related borrowers compared to one- to four-family residential mortgage loans. Many of our borrowers also have more than one nonresidential real estate, multi-family mortgage, construction or commercial loan or lease outstanding with us. Consequently, an adverse development involving one or more loans or credit relationship can expose us to significantly greater risk of loss compared to an adverse development involving a one- to four-family residential mortgage loan. For a complete discussion of our loss history with respect to our nonresidential real estate, multi-family mortgage, construction and commercial loans, see “Business of BankFinancial, F.S.B.—Delinquent Loans, Other Real Estate Owned and Classified Assets—Allowance for Loan Losses.”

Our Concentration of Loans in the Healthcare Industry Exposes Us to Increased Credit Risk.

At June 30, 2004, we had \$37.8 million of loans to healthcare providers, including nursing homes. These loans represented 3.5% of our total loan portfolio as of that date. Of these loans, \$28.6 million, or 75.8%, was collateralized by real estate. The remainder consisted of working capital lines of credit secured by government accounts receivable, of which we are a joint payee. Loans to healthcare providers have unique credit risks. A healthcare provider’s income stream is subject to many factors beyond the control of the healthcare provider, including the risk that the provider will not be reimbursed for all services provided. The State of Illinois has experienced budget shortfalls in recent years, causing delays in state reimbursement for healthcare costs. Government reimbursement rates are also subject to change, including retroactive adjustments. For example, a significant overpayment to a healthcare provider can result in the provider owing significant repayments to the federal or state government. A healthcare provider’s profitability also depends on its ability to maintain certain levels of occupancy. Unexpected declines in occupancy rates can restrict a provider’s cash flow. Any of these factors can impair the ability of our healthcare provider borrowers to make loan repayments, which could result in significant loss to us.

At June 30, 2004, we had not recognized any losses on these types of loans, but we have established specific loan loss reserve allowances in the amount of \$436,000 for loans to two borrowers with an aggregate principal balance of \$5.2 million. In addition, based on deficiencies in debt service coverage requirements, we classified loans to one borrower, which had a principal balance of \$3.5 million, as substandard, even though we did not establish a specific loan loss reserve for these loans. All of these borrowers were current on their loan payments to us as of June 30, 2004.

If Our Allowance for Loan Losses is Not Sufficient to Cover Actual Loan Losses, Our Earnings Could Decrease.

In the event that our loan customers do not repay their loans according to the terms of the loans, and the collateral securing the repayment of these loans is insufficient to cover any remaining loan balance, we could experience significant loan losses, which could have a material adverse effect on our operating results. We make various assumptions and judgments about the collectibility 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. As of June 30, 2004, our allowance for loan losses was \$10.7 million, representing 1.00% of total loans and 135.26% of nonperforming loans as of that date. In determining the amount of our allowance for loan losses, we rely on our loan quality reviews, our experience and our evaluation of economic conditions, among other factors. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover probable losses inherent in our loan portfolio, which may require additions to our allowance. Any material additions to our allowance for loan losses would materially decrease our net income.

Our business strategy calls for continued growth of nonresidential real estate loans, commercial loans and leases, construction and land loans and multi-family mortgage loans. These loans typically expose us to greater risk than one- to four-family residential real estate loans. As we further increase the amount of these loans in our loan portfolio, we may increase our provisions for loan losses, which could adversely affect our consolidated results of operations.

In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our provisions for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by regulatory authorities could have a material adverse effect on our consolidated results of operations and financial condition.

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 are primarily loans and our liabilities are primarily deposits. 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.

Changes in interest rates affect the value of our interest-earning assets, and in particular, our securities portfolio. Generally, the value of our debt securities fluctuates inversely with changes in interest rates. At June 30, 2004, our net securities available-for-sale totaled \$246.6 million. Unrealized losses on securities available-for-sale, net of tax, amounted to \$564,000 and are reported as a separate component of equity. Further decreases in the fair value of securities available-for-sale, therefore, could have an adverse effect on stockholders' equity.

We also are subject to reinvestment risk associated with changes in interest rates. Changes in interest rates may affect the average life of loans and mortgage-related securities. Decreases in interest rates often result in increased prepayments of loans and mortgage-related securities, as borrowers refinance their loans to reduce borrowing costs. Under these circumstances, we are subject to risk that we are unable to reinvest the cash received from such prepayments in loans or other investments that have interest rates that are comparable to the interest rates on the prepaid loans and securities. Increases in interest rates may decrease loan demand and may make it more difficult for borrowers to repay adjustable rate loans.

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We evaluate interest rate sensitivity using a model that estimates the change in BankFinancial, F.S.B.'s net portfolio value over a range of interest rate scenarios. Net portfolio value is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts. At June 30, 2004, in the event of an immediate 100 basis point decrease in interest rates, we would be expected to experience a 6.0% decrease in net portfolio value. In the event of an immediate 200 basis point increase in interest rates, we would be expected to experience a 5.3% increase in net portfolio value.

The Net Realizable Value of Our Investment Securities Could Be Lower than the Fair Values Assigned to Them Under Accounting Principles Generally Accepted in the United States of America.

We determine the fair value of our investment securities in accordance with the guidance set forth in Statement of Financial Accounting Standards 115, "Accounting for Certain Investments in Debt and Equity Securities," and Statement of Financial Accounting Standards 107, "Disclosures about Fair Value of Financial Instruments." Pursuant to this guidance, we determine fair value based on the most recent quoted market prices as of the balance sheet date. If, due to a lack of trading activity, a quoted market price for a specific security is not available as of or at a time close to the balance sheet date (generally no less recent than the date of the previous quarter-end), we estimate its fair value based on the quoted market price of another security with similar characteristics, adjusted to reflect objectively measurable differences such as coupon rates and reset dates. In the absence of quoted market prices for the same or a similar security, we use other valuation techniques to determine fair value, such as obtaining broker-dealer valuations or estimating fair value based on valuation modeling.

The fair value assigned to a security under Statement of Financial Accounting Standards 115 and Statement of Financial Accounting Standards 107 may differ from the price for which the security could be sold in a market transaction. Among other things, when fair value is based on a quoted market price for a security, adjustments to reflect discounts that could arise in the context of an actual sale, including blockage, illiquidity and other discounts resulting from the inability of the market to absorb the number of shares of the security offered for sale, are not considered. Consequently, the price at which the security could be sold in a market transaction could be significantly lower than the quoted market price for the security, particularly if the quoted market price is based on trades involving a small number of shares, the security has an infrequent or sporadic trading history, the market for the security is illiquid, or a large number of shares must be sold in a short period of time.

If we were to sell a security for a price that is lower than the quoted market price upon which its fair value has been based, the sale would result in a charge against our income in an amount equal to the difference between the fair value that we recorded for the security on our balance sheet and the actual proceeds of the sale. Similarly, a decision to sell such a security, and possibly even a pattern of selling other securities that have declined in fair value, would require the recording of an impairment charge due to the requirement of the Financial Accounting Standards Board's Emerging Issues Task Force Issue 03-1, "The Meaning of Other-than-Temporary Impairment and Its Application to Certain Instruments" ("EITF 03-1") that an investor must recognize an impairment charge if it ceases to have the ability and intent to hold the security through the forecasted recovery period. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Other-Than-Temporary Impairment of Securities."

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The risk that there will be a material difference between the fair value of a security and its net realizable value is particularly significant with respect to the Fannie Mae and Freddie Mac floating rate preferred stocks that we own. Based on impairment testing that we conducted in connection with our application of Securities and Exchange Commission Staff Accounting Bulletin No. 59, "Noncurrent Marketable Equity Securities" ("SAB No. 59") and EITF 03-1, we determined that the aggregate fair value of the Fannie Mae and Freddie Mac floating rate preferred stocks was \$85.6 million as of June 30, 2004, or \$15.0 million lower than our combined initial cost basis of \$100.6 million, and recorded a non-cash impairment charge, net of tax effect, in the amount of \$9.2 million against our income for the quarter ended June 30, 2004. See "Business of BankFinancial, F.S.B.—Securities Activities—Equity Securities." We determined the fair value of each Fannie Mae and Freddie Mac floating rate preferred stock based on the quoted market price for the last trade that occurred for the security during June of 2004. In the case of all of the issuances, the trades upon which the quoted market prices were based involved a small number of shares and thus did not reflect blockage discounts.

Our portfolio of Fannie Mae and Freddie Mac floating rate preferred stocks constituted 34.7% of the combined fair value of the securities held in our investment portfolio at June 30, 2004 and 5.8% of our total assets at that date. Our securities portfolio constituted 16.8% of our total assets at June 30, 2004. Based on the size of our holdings, it is possible that blockage discounts could substantially reduce the net realizable value of one or more of the Fannie Mae and Freddie Mac floating rate preferred stocks in the event that we were to sell a large number of shares over a short period of time in a market transaction. In addition, most of the Fannie Mae and Freddie Mac floating rate preferred stock issuances that we own have traded infrequently or sporadically, which further increases the risk that the quoted market prices for these securities may be higher than the prices for which we could sell a large number of shares over a short period of time in a market transaction.

Future Adverse Developments Concerning Fannie Mae or Freddie Mac Could Result in Further Impairment Charges

We own shares of Fannie Mae and Freddie Mac floating rate preferred stocks with an adjusted cost basis of \$85.6 million at June 30, 2004. See "—The Net Realizable Value of Our Investment Securities Could Be Lower than the Fair Values Assigned to Them Under Accounting Principles Generally Accepted in the United States of America" and "Business of BankFinancial, F.S.B.—Securities Activities—Equity Securities." Since June 30, 2004, Fannie Mae's regulator, the Office of Federal Housing Enterprise Oversight, has issued a supervisory report alleging accounting irregularities at Fannie Mae, and the Securities and Exchange Commission has initiated a formal investigation of Fannie Mae's accounting practices. Moody's Investors Services and Standard and Poors also placed Fannie Mae's subordinated debt and preferred stock on negative credit watch, but did not change the ratings previously assigned to those securities. At September 30, 2004, the combined fair value of the Fannie Mae and Freddie Mac floating rate preferred stocks was \$77.6 million, or \$8.0 million lower than their combined adjusted cost basis. We determined that these additional declines in fair value did not constitute other than temporary impairments that would warrant our taking a further impairment charge at that time based on the criteria we used to test for impairment at June 30, 2004. See "Business of BankFinancial, F.S.B.—Securities Activities—Equity Securities." We will test the Fannie Mae and Freddie Mac floating rate preferred stocks for impairment in future reporting periods pursuant to SAB No. 59 and EITF 03-1, as implemented in final form. If we determine in any future reporting period that any difference between the fair value of a Fannie Mae and Freddie Mac floating rate preferred stock that we own and its adjusted cost basis is an other than temporary impairment under the standards of SAB No. 59 and EITF 03-1, we would be required to record a charge against our income in an amount equal to such difference. Any future adverse developments that may occur with respect to Fannie Mae or Freddie Mac will increase the risk that a future impairment charge will be required in connection with the floating rate preferred stocks.

The Future Price of the Shares of Common Stock May be Less Than the Purchase Price in the Offering.

The \$10.00 per share price for the common stock in the offering was not determined through a market mechanism. Instead, we selected this price primarily because it is the price most commonly used in mutual-to-stock conversions of financial institutions. We cannot assure you that if you purchase shares of common stock in the offering you will be able to sell them later at or above the \$10.00 purchase price in the offering at any future time. In many cases, shares of common stock issued by newly converted savings institutions or mutual holding companies have traded below the price at which such shares were sold in the offering conducted by those companies. The aggregate purchase price of the shares of common stock sold in our offering will be based on an independent appraisal we have received from RP Financial. The appraisal is not intended, and should not be construed, as a recommendation of any kind as to the advisability of purchasing shares of common stock. The valuation is an appraisal of the value of our equity as a whole and not a determination of the value of an individual share of our common stock. The valuation is based on estimates and projections of a number of matters, all of which are subject to change from time to time. After our shares begin trading, the trading price of our common stock will be determined by the marketplace, and may be influenced by many factors, including prevailing interest rates, the overall performance of the economy, external factors such as geopolitical events, investor perceptions of BankFinancial Corporation, our performance and the outlook for the financial institutions industry in general.

Our Return on Stockholders' Equity Will Continue to Be Low Following the Offering.

Net income divided by average stockholders' equity, known as return on equity, is a ratio many investors use to compare the performance of a financial institution to its peers. We expect our return on equity to continue to be low until we are able to use the additional capital raised in the offering to increase our interest-earning assets. Until we can increase our net interest income and noninterest income, we expect our return on equity to be below the industry average, which may negatively affect the value of our common stock.

Our return on equity (ratio of net income (loss) to average equity) for the year ended December 31, 2003 was negative 2.03%. The average return on equity for the twelve months ended June 30, 2004 for a peer group determined by RP Financial was 7.06%. On a pro forma basis, assuming we sold 12,750,000 shares of common stock in the offering and we invested the net proceeds we generated in the offering for additional earnings during the period, our return on pro forma equity for the twelve months ended June 30, 2004 would have been negative 5.14%.

Our Ability to Successfully Conduct Acquisitions Will Affect Our Ability to Grow Our Franchise and Compete Effectively in Our Marketplace.

We completed our acquisition of Success Bancshares and its wholly owned subsidiary, Success National Bank, in November 2001. We will consider the possible acquisition of other banks, thrifts and other financial services companies to supplement internal growth. Our efforts to acquire other institutions may not be successful. Numerous potential acquirors exist for most acquisition candidates, creating intense competition, particularly affecting price. In many cases, our competitors have significantly greater resources than we have, and greater flexibility to structure the consideration for the transaction. We may not participate in specific acquisition opportunities if we consider the proposed transaction

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unacceptable. We also may not be the successful bidder in acquisition opportunities that we pursue due to the willingness or ability of other potential acquirors to propose a higher purchase price or more attractive terms and conditions than we are willing or able to propose. If we are unable to or do not conduct acquisitions, our ability to deploy effectively the capital we raise in the offering, expand our geographic presence and improve our results of operations could be adversely affected.

The Risks Presented By the Acquisition of Other Institutions Could Adversely Affect Our Financial Condition and Results of Operations

If we are successful in conducting acquisitions, we will be presented with many risks that could have a materially negative impact on our financial condition and results of operations. An institution that we acquire may have unknown asset quality issues or unknown or contingent liabilities that we did not discover or fully recognize in the due diligence process, thereby resulting in unanticipated losses. The acquisition of other institutions typically requires the integration of different corporate cultures, loan and deposit products, pricing strategies, data processing systems and other technologies, accounting, internal audit and financial reporting systems, operational processes, policies, procedures and internal controls, marketing programs and personnel of the acquired institution in order to make the transaction economically advantageous. The integration process is complicated and time consuming, and could divert our attention from other business concerns and be disruptive to our customers and the customers of the acquired institution. Our failure to successfully integrate an acquired institution could result in the loss of key customers and employees, and prevent us from achieving expected synergies and cost savings. Acquisitions also result in professional fees, purchase price adjustments, the amortization of core deposit intangibles and other expenses that could adversely affect our earnings, and in goodwill that could become impaired, requiring us to recognize further charges. We may finance acquisitions with borrowed funds, thereby increasing our leverage and reducing our liquidity, or with potentially dilutive issuances of equity securities.

Since Our Business is Concentrated in the Chicago Metropolitan Area, a Downturn in the Economy of This Area May Adversely Affect Our Business.

Our lending and deposit gathering activities are concentrated primarily in the Chicago metropolitan area. Our success depends on the general economic conditions of this area and surrounding areas. In addition, many of the loans in our loan portfolio are secured by real estate located in the Chicago metropolitan area. Negative conditions in the real estate markets where collateral for a mortgage loan is located could adversely affect the borrower's ability to repay the loan and the value of the collateral securing the loan. Real estate values are affected by various other factors, including supply and demand, changes in general or regional economic conditions, interest rates, governmental rules or policies and natural disasters.

Adverse changes in the regional and general economy could reduce our growth rate, impair our ability to collect loans and generally have a negative effect on our financial condition and results of operations.

Our Ability to Originate Commercial and Other Nonresidential Loans is Restricted by Federal Regulation.

As a federal savings bank, BankFinancial, F.S.B. is subject to a qualified thrift lender, or "QTL," test, which generally requires a savings bank to maintain a minimum percentage of its portfolio assets (65% for at least nine months of the most recent 12-month period) in loans made for residential and housing purposes, investments related to such purposes, including certain mortgage-backed and related

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securities, and loans for personal, family, household and certain other purposes. A savings bank that fails the QTL test must either convert to a bank charter or operate under specified restrictions. If BankFinancial, F.S.B. were required to convert to a bank charter, it would incur expenses to complete such a conversion and to revise its operations, policies and procedures to comply with the regulations of its new regulator. Additionally, we would not be as familiar with the new regulator as we are with the Office of Thrift Supervision, our current primary banking regulator. Conversion to a bank charter could also subject BankFinancial, F.S.B. to the recapture into taxable income of certain bad debt reserves, but we do not believe that such recapture would have a materially adverse impact on our financial condition. See “Taxation—Federal Taxation—Taxable Distributions and Recapture.” The QTL test limits a savings bank’s ability to invest in higher-yielding loans, such as commercial loans and leases, and also limits a savings bank’s ability to diversify its loan portfolio, which leaves a savings bank exposed to greater risk of loss in the event of a downturn in the residential real estate market, or in residential real estate lending in general. At June 30, 2004, BankFinancial, F.S.B. maintained approximately 77.8% of its portfolio assets in qualified thrift investments, and, as of that date, satisfied the QTL test. See “Supervision and Regulation—Federal Banking Regulation—Qualified Thrift Lender Test.”

Our Future Success Is Dependent On Our Ability To Compete Effectively In The Highly Competitive Banking Industry.

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, we have grown our business successfully by focusing on our geographic markets and emphasizing the high level of service and responsiveness desired by our customers. We compete for loans, deposits and other financial services with other commercial banks, thrifts, credit unions, brokerage houses, mutual funds, insurance companies and specialized finance companies. Many of our competitors offer products and services that we do not offer, and many have substantially greater resources and lending limits, name recognition and market presence that benefit them in attracting business. In addition, larger competitors may be able to price loans and deposits more aggressively than we do, and smaller newer competitors may also be more aggressive in pricing loans 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 savings 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.

Our Stock-Based Benefit Plans Will Increase Our Costs, Which Will Reduce Our Profitability and Stockholders’ Equity.

We intend to implement a recognition and retention plan after the offering, subject to receipt of stockholder approval. Under this plan, our officers and directors may be awarded, at no cost to them, shares of common stock in an aggregate amount equal to 4% of the shares of common stock sold in the offering if the plan is adopted within 12 months after completion of the conversion, and exceeding 4% of the shares sold in the offering if adopted more than 12 months after the completion of the conversion. We have not yet determined whether we will present these plans for stockholder approval within 12 months following the completion of the conversion or whether we will present these plans for stockholder approval more than 12 months following the completion of the conversion. We will incur an expense for the shares of common stock awarded under the recognition plan over their vesting period equal to the fair market value of the shares on the date they are awarded. The recognition and retention plan cannot be implemented until at least six months after the completion of the offering. If the plan is adopted within 12 months after the completion of the conversion, it is subject to Office of Thrift Supervision regulations. Such plans, including the amounts awarded under such plans, may remain subject to supervisory restrictions if adopted more than 12 months following the completion of the conversion.

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If the fair market value of shares of common stock to be granted is the same as the purchase price in the offering, the aggregate expense resulting from the grant would be between \$5.1 million, pre-tax at the minimum of the offering range and \$7.9 million, pre-tax at the adjusted maximum of the offering range (assuming the recognition and retention plan is adopted within one year following the completion of the conversion and the offering). To the extent the fair market value of the shares of common stock at the time of grant exceeds the offering price of \$10.00 per share, the expense would exceed the range described above. Conversely, to the extent the fair market value of such shares is below the offering price of \$10.00 per share, the expense would be less than the range described above.

We also intend to implement a stock option plan after the offering, subject to receipt of stockholder approval. On March 31, 2004, the Financial Accounting Standard Board issued an Exposure Draft entitled "Share-Based Payment - an amendment of Statements No. 123 and 95," which would require companies to incur, as an expense, the fair value of stock options and other stock-based compensation to employees beginning in 2005. If we elect or are required to record an expense for our stock-based compensation plans using the fair value method as describe in the Exposure Draft, we could have significant compensation and benefits expense.

The Implementation of Stock-Based Benefit Plans Following the Offering May Dilute Your Ownership Interest.

Our stock-based benefit plans will be funded either through shares purchased in open market transactions, if permitted, or from the issuance of authorized but unissued shares of common stock of BankFinancial Corporation. While our intention is to fund these plans through open market purchases, stockholders will experience a reduction or dilution in ownership interest of approximately 12.3% in the event newly issued shares are used to fund stock options and stock awards equal to 10% and 4%, respectively, of the shares sold in the offering.

Our Failure to Effectively Utilize the Net Proceeds of the Offering Could Reduce Our Profitability.

We intend to contribute between \$62.6 million and \$97.8 million of the net proceeds of the offering to BankFinancial, F.S.B. We may use the remaining net proceeds to repay debt and for other general corporate purposes, including to repay the debt that we acquired and incurred in our acquisition of Success Bancshares and its wholly owned subsidiary, Success National Bank, and possibly to finance the acquisition of other financial institutions or financial services companies or to fund the payment of dividends, repurchases of shares of our common stock or the purchase of securities. We also expect to use a portion of the net proceeds to fund the purchase of shares of common stock in the offering by the employee stock ownership plan. BankFinancial, F.S.B. may use the proceeds it receives to establish or acquire new branches, acquire financial institutions or financial services companies, fund new loans, purchase investment securities or for general corporate purposes. We have not allocated specific amounts of proceeds for any of these purposes, and we will have significant flexibility in determining how much of the net proceeds we apply to different uses and the timing of such applications. Our failure to utilize these funds effectively could have an adverse effect on our results of operations.

Various Factors May Make Takeover Attempts That You Want to Succeed More Difficult to Achieve, Which May Effect the Value of Our Shares of 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 BankFinancial Corporation without the consent of our board of directors. You may want a takeover attempt to succeed because, for example, a potential acquiror could offer a premium over the then prevailing price of our common stock. The factors that may discourage takeover attempts or make them more difficult include:

- **Office of Thrift Supervision Regulations.** Office of Thrift Supervision regulations prohibit, for three years following the completion of a mutual-to-stock conversion, the direct or indirect acquisition of more than 10% of any class of equity security of a converted savings institution without the prior approval of the Office of Thrift Supervision.
- **Articles of Incorporation, Bylaws and Statutory Provisions.** Provisions of the articles of incorporation and bylaws of BankFinancial Corporation and Maryland law may make it difficult and expensive to pursue a takeover attempt that our board of directors opposes, even if the takeover is favored by a majority of our stockholders. 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 shareholders. 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 our entire board of directors. If approved by at least two-thirds of our board of directors, 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 for 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, unless first approved by at least two-thirds of our board of directors (excluding the director whose removal is sought). If approved by at least two-thirds of our board of directors, 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.
- **Required change-in-control payments and issuance of stock options.** We intend to enter into employment agreements with certain executive officers, which will require payments to be made to them in the event their employment is terminated following a change in control of BankFinancial Corporation or BankFinancial, F.S.B. We also intend to issue stock options to key employees and directors that will require payments to them in connection with a change in control of BankFinancial Corporation. These payments may have the effect of increasing the costs of acquiring BankFinancial Corporation, thereby discouraging future takeover attempts.

We Continually Encounter Technological Change, and May Have Fewer Resources Than Many of Our 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 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.

Our Business May Be Adversely Affected By The Highly Regulated Environment In Which We Operate.

We are subject to extensive federal and state legislation, regulation, examination and supervision. Recently enacted, proposed and future legislation and regulations have had, and will continue to have a material adverse effect on our business and operations. Our success depends on our continued ability to comply with these laws and regulations. Some of these regulations may increase our costs. While we cannot predict what effect any future changes in these laws or regulations or their interpretations would have on us, these changes or interpretations may adversely affect our future operations.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following tables set forth selected consolidated historical financial and other data of BankFinancial MHC, Inc. for the periods and at the dates indicated. The information at December 31, 2003 and 2002 and for the years ended December 31, 2003, 2002 and 2001 is derived in part from, and should be read together with, the audited consolidated financial statements and notes thereto of BankFinancial MHC, Inc. beginning at page F-2 of this prospectus. The information at December 31, 2001, 2000 and 1999 and for the years ended December 31, 2000 and 1999 is derived in part from audited consolidated financial statements that are not included in this prospectus. The information at June 30, 2004 and for the six months ended June 30, 2004 and 2003 is derived from unaudited financial statements beginning at page F-2 of this prospectus. However, in the opinion of management of BankFinancial MHC, Inc., all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results of operations for the unaudited periods have been made. The selected operating data presented below for the six months ended June 30, 2004, are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

| | At June 30, 2004 | At December 31, | | | | | |
|---|------------------------------|-----------------|--------------------------|--------------|--------------|--------------|-----------|
| | | 2003 | 2002 | 2001 | 2000 | 1999 | |
| (In thousands) | | | | | | | |
| Selected Financial Condition Data: | | | | | | | |
| Total assets | \$ 1,468,967 | \$ 1,458,131 | \$ 1,490,726 | \$ 1,635,645 | \$ 1,203,653 | \$ 1,270,969 | |
| Loans, net | 1,068,153 | 1,067,248 | 1,077,932 | 1,187,080 | 949,316 | 991,918 | |
| Loans held for sale | 10,816 | 5,280 | 11,166 | 16,087 | 1,312 | 795 | |
| Securities available-for-sale | 246,558 | 257,520 | 233,572 | 306,009 | 183,578 | 193,227 | |
| Goodwill | 10,865 | 10,865 | 10,865 | 10,817 | — | — | |
| Core deposit intangible | 10,730 | 11,583 | 13,352 | 15,187 | — | — | |
| Deposits | 1,104,512 | 1,073,897 | 1,054,762 | 1,172,311 | 837,923 | 866,672 | |
| Borrowings | 249,151 | 268,225 | 307,180 | 331,974 | 250,000 | 296,000 | |
| Equity | 95,303 | 96,907 | 103,498 | 102,472 | 98,833 | 94,009 | |
| (In thousands) | | | | | | | |
| | Six Months Ended June 30, | | Years Ended December 31, | | | | |
| | 2004 | 2003 | 2003 | 2002 | 2001 | 2000 | 1999 |
| (In thousands) | | | | | | | |
| Selected Operating Data: | | | | | | | |
| Interest and dividend income | \$ 31,980 | \$ 35,591 | \$ 68,042 | \$ 82,196 | \$ 78,451 | \$ 81,974 | \$ 78,513 |
| Interest expense | 11,550 | 14,971 | 30,552 | 38,765 | 48,746 | 53,294 | 51,673 |
| Net interest income | 20,430 | 20,620 | 37,490 | 43,431 | 29,705 | 28,680 | 26,840 |
| Provision (credit) for loan losses | — | (275) | (579) | (422) | 2,000 | 2,868 | 2,472 |
| Net interest income after provision for loan losses | 20,430 | 20,895 | 38,069 | 43,853 | 27,705 | 25,812 | 24,368 |
| Noninterest income | 4,312 | 4,155 | 8,999 | 6,861 | 5,041 | 2,357 | 4,093 |
| Noninterest expense (1) | 36,339 | 21,794 | 51,604 | 44,920 | 29,011 | 24,999 | 23,483 |
| Income (loss) before income tax expense | (11,597) | 3,256 | (4,536) | 5,794 | 3,735 | 3,170 | 4,978 |
| Income tax expense (benefit) | (4,835) | 780 | (2,589) | 748 | 599 | 799 | 1,800 |
| Income (loss) from continuing operations | (6,762) | 2,476 | (1,947) | 5,046 | 3,136 | 2,371 | 3,178 |
| Loss from discontinued operations, net of tax | — | — | — | — | — | (959) | (152) |
| Cumulative effect of change in accounting principle, net of tax | — | — | — | — | — | 74 | — |
| Net income (loss) | \$ (6,762) | \$ 2,476 | \$ (1,947) | \$ 5,046 | \$ 3,136 | \$ 1,486 | \$ 3,026 |

(footnotes on following page)

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| | At or For the Six Months Ended June 30, | | At or For the Years Ended December 31, | | | | |
|---|---|--------|--|--------|--------|--------|--------|
| | 2004 | 2003 | 2003 | 2002 | 2001 | 2000 | 1999 |
| Selected Financial Ratios and Other Data: | | | | | | | |
| Performance Ratios: | | | | | | | |
| Return on assets (ratio of net income (loss) to average total assets) (2) | (0.93)% | 0.34% | (0.13)% | 0.33% | 0.25% | 0.12% | 0.24% |
| Return on equity (ratio of net income (loss) to average equity) (2) | (14.46) | 4.96 | (2.03) | 4.98 | 3.10 | 1.54 | 3.21 |
| Net interest rate spread (2) (3) | 2.76 | 2.69 | 2.43 | 2.68 | 2.07 | 1.98 | 2.00 |
| Net interest margin (2)(4) | 2.95 | 2.95 | 2.71 | 2.96 | 2.46 | 2.44 | 2.22 |
| Efficiency ratio (5) | 146.87 | 87.97 | 111.00 | 89.32 | 83.49 | 80.55 | 75.92 |
| Noninterest expense to average total assets (2) | 4.99 | 2.96 | 3.54 | 2.89 | 2.30 | 2.06 | 1.86 |
| Average interest-earning assets to average interest-bearing liabilities | 111.31 | 112.20 | 112.25 | 110.76 | 109.59 | 110.22 | 104.93 |
| Asset Quality Ratios: | | | | | | | |
| Nonperforming assets to total assets | 0.63% | 0.52% | 0.60% | 0.99% | 0.73% | 0.62% | 0.65% |
| Nonperforming loans to total loans | 0.74 | 0.68 | 0.66 | 1.27 | 0.92 | 0.72 | 0.66 |
| Allowance for loan losses to nonperforming loans | 135.26 | 176.54 | 169.02 | 90.51 | 122.61 | 108.61 | 88.75 |
| Allowance for loan losses to total loans | 1.00 | 1.20 | 1.12 | 1.15 | 1.12 | 0.78 | 0.59 |
| Capital Ratios: | | | | | | | |
| Equity to total assets at end of period | 6.49% | 6.93% | 6.65% | 6.94% | 6.26% | 8.21% | 7.40% |
| Average equity to average assets | 6.42 | 6.79 | 6.58 | 6.53 | 8.04 | 7.96 | 7.44 |
| Tier 1 leverage ratio (bank only) | 7.20 | 7.81 | 7.65 | 7.59 | 6.50 | 7.93 | 6.60 |
| Other Data: | | | | | | | |
| Number of full service offices | 16 | 16 | 16 | 16 | 16 | 8 | 7 |

- (1) Noninterest expense for the six months ended June 30, 2004 includes \$15.0 million of impairment loss on securities available-for-sale. Noninterest expense for the year ended December 31, 2003 includes \$8.3 million of prepayment penalties related to the restructuring of Federal Home Loan Bank advances.
- (2) Ratios for the six months ended June 30, 2004 and 2003 are annualized.
- (3) 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.
- (4) The net interest margin represents net interest income divided by average total interest-earning assets for the period.
- (5) The efficiency ratio represents noninterest expense divided by the sum of net interest income and noninterest income.

RECENT DEVELOPMENTS

The following tables set forth selected consolidated historical financial and other data of BankFinancial MHC, Inc. for the periods and at the dates indicated. The information at December 31, 2003 is derived in part from, and should be read together with, the audited consolidated financial statements and notes thereto of BankFinancial MHC, Inc. beginning at page F-2 of this prospectus. The information at September 30, 2004 and for the three and nine months ended September 30, 2004 and 2003 is unaudited. However, in the opinion of management of BankFinancial MHC, Inc., all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results of operations for the unaudited periods have been made. The selected operating data presented below for the three and nine months ended September 30, 2004, are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

| | At September 30, 2004 | At December 31, 2003 |
|---|--------------------------|-------------------------|
| (In thousands) | | |
| Selected Financial Condition Data: | | |
| Total assets | \$ 1,471,698 | \$ 1,458,131 |
| Loans, net | 1,077,780 | 1,067,248 |
| Loans held for sale | 5,416 | 5,280 |
| Securities available-for-sale | 259,256 | 257,520 |
| Goodwill | 10,865 | 10,865 |
| Core deposit intangible | 10,304 | 11,583 |
| Deposits | 1,124,791 | 1,073,897 |
| Borrowings | 229,446 | 268,225 |
| Equity | 93,393 | 96,907 |

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---------------------------------|-------------------------------------|------|------------------------------------|------|
| | 2004 | 2003 | 2004 | 2003 |
| (In thousands) | | | | |
| Selected Operating Data: | | | | |

| | | | | |
|---|-----------|------------|------------|------------|
| Interest and dividend income | \$ 16,719 | \$ 16,293 | \$ 48,699 | \$ 51,581 |
| Interest expense | 5,693 | 7,383 | 17,243 | 22,355 |
| Net interest income | 11,026 | 8,910 | 31,456 | 29,226 |
| Provision (credit) for loan losses | (212) | — | (212) | (275) |
| Net interest income after provision for loan losses | 11,238 | 8,910 | 31,668 | 29,501 |
| Noninterest income | 2,353 | 2,566 | 6,664 | 7,015 |
| Noninterest expense (1) | 10,107 | 19,370 | 46,444 | 41,156 |
| Income (loss) before income tax expense | 3,484 | (7,894) | (8,112) | (4,640) |
| Income tax expense (benefit) | 1,065 | (3,182) | (3,770) | (2,402) |
| Net income (loss) | \$ 2,419 | \$ (4,712) | \$ (4,342) | \$ (2,238) |

(footnotes on following page)

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| | At or For the Three Months Ended September 30, | | At or For the Nine Months Ended September 30, | |
|---|--|---------|---|---------|
| | 2004 | 2003 | 2004 | 2003 |
| Selected Financial Ratios and Other Data: | | | | |
| Performance Ratios: | | | | |
| Return on assets (ratio of net income (loss) to average total assets) (2) | 0.66% | (1.31)% | (0.40)% | (0.20)% |
| Return on equity (ratio of net income (loss) to average equity) (2) | 10.04 | (20.59) | (6.13) | (3.08) |
| Net interest rate spread (2) (3) | 3.01 | 2.32 | 2.84 | 2.53 |
| Net interest margin (2)(4) | 3.19 | 2.62 | 3.03 | 2.81 |
| Efficiency ratio (5) | 75.54 | 168.79 | 121.84 | 113.56 |
| Noninterest expense to average total assets (2) | 2.75 | 5.39 | 4.24 | 3.76 |
| Average interest-earning assets to average interest-bearing liabilities | 110.50 | 113.47 | 111.04 | 112.79 |
| Asset Quality Ratios: | | | | |
| Nonperforming assets to total assets | 0.46% | 0.49% | 0.46% | 0.49% |
| Nonperforming loans to total loans | 0.63 | 0.67 | 0.63 | 0.67 |
| Allowance for loan losses to nonperforming loans | 158.95 | 169.42 | 158.95 | 169.42 |
| Allowance for loan losses to total loans | 1.01 | 1.15 | 1.01 | 1.15 |
| Capital Ratios: | | | | |
| Equity to total assets at end of period | 6.35% | 6.76% | 6.35% | 6.76% |
| Average equity to average assets | 6.55 | 6.36 | 6.46 | 6.63 |
| Tier 1 leverage ratio (bank only) | 7.36 | 7.59 | 7.36 | 7.59 |
| Other Data: | | | | |
| Number of full service offices | 16 | 16 | 16 | 16 |

- (1) Noninterest expense for the nine months ended September 30, 2004 includes \$15.0 million of impairment loss on securities available-for-sale. Noninterest expense for the three and nine months ended September 30, 2003 includes \$8.3 million of prepayment penalties related to the restructuring of Federal Home Loan Bank advances.
- (2) Ratios for the three and nine months ended September 30, 2004 and 2003 are annualized.
- (3) 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.
- (4) The net interest margin represents net interest income divided by average total interest-earning assets for the period.
- (5) The efficiency ratio represents noninterest expense divided by the sum of net interest income and noninterest income.

Comparison of Financial Condition at September 30, 2004 and December 31, 2003

Total assets increased \$13.6 million, or 0.9%, to \$1.472 billion at September 30, 2004, from \$1.458 billion at December 31, 2003. The increase was the result of increases in loans receivable, cash and cash equivalents and securities available-for-sale.

Net loans receivable increased by \$10.5 million, or 1.0%, to \$1.078 billion at September 30, 2004 from \$1.067 billion at December 31, 2003. One- to four-family residential loans, which includes home equity and other second mortgage loans, increased \$16.0 million, or 4.5%, despite our securitizing \$60.4 million of adjustable rate one- to four-family residential loans into mortgage-backed securities classified as available-for-sale and our selling \$39.5 million of fixed-rate one- to four-family residential loans during the nine-month period. Growth in one- to four-family residential real estate loans of \$16.0 million and commercial loans and leases of \$22.1 million were partially offset by net paydowns on multi-family mortgages, non-residential real estate loans and construction loans of \$27.2 million. The increased commercial loan and commercial lease balances reflected our continued emphasis on originating these loans and increasing line of credit usage by commercial borrowers.

Net securities available-for-sale increased \$1.7 million to \$259.3 million at September 30, 2004 from \$257.5 million at December 31, 2003. The increase was the result of the securitization of \$60.4 million of adjustable-rate, one- to four-family residential real estate loans, discussed above, which was partially offset by \$35.8 million of principal repayments and \$10.6 million in sales of investment securities available for sale. The fair value of our portfolio of Fannie Mae and Freddie Mac floating rate preferred stock decreased \$12.2 million, or 13.6%, to \$77.6 million at September 30, 2004, from \$89.9 million at December 31, 2003. See “Risk Factors—The Net Realizable Value of Our Investment Securities Could Be Lower than the Fair Values Assigned to Them Under Accounting Principles Generally Accepted in the United States of America” and “Risk Factors—Future Adverse Developments Concerning Fannie Mae or Freddie Mac Could Result in Further Impairment Charges.”

Cash and cash equivalents increased by \$3.0 million to \$31.7 million at September 30, 2004 from \$28.6 million at December 31, 2003, primarily due to a significant increase in deposits, discussed below.

Other assets decreased by \$1.4 million, or 8.5%, to \$14.6 million at September 30, 2004 from \$16.0 million at December 31, 2003, the result of a decrease of \$1.6 million in real estate owned, due to our sale of foreclosed properties during the nine-month period.

Deposits increased \$50.9 million, or 4.7%, to \$1.125 billion at September 30, 2004 from \$1.074 billion at December 31, 2003. The increase was caused by a \$50.9 million, or 31.9%, increase in money market accounts to \$210.5 million at September 30, 2004 from \$159.6 at December 31, 2003. NOW accounts and savings accounts decreased a combined \$16.2 million, or 4.3%, over the first nine months of 2004, to \$356.9 million at September 30, 2004 from \$373.1 million at December 31, 2003. Core deposits increased \$35.6 million, or 5.7%. Core deposits were 59.3% of total deposits at September 30, 2004 compared to 58.7% of total deposits at December 31, 2003. Retail certificates of deposit increased \$8.7 million, or 2.1%, to \$436.2 million at September 30, 2004 from \$427.4 million at December 31, 2003, while brokered certificates of deposit increased \$3.7 million, or 19.7%, to \$22.2 million at September 30, 2004 from \$18.6 million at December 31, 2003. While brokered certificates of deposit can provide a financial institution with a large, short-term source of liquidity, the fees to acquire such deposits can be higher than the expenses associated with other sources of funds, and brokered certificates of deposit tend not to provide a stable, long-term source of liquidity.

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Borrowings decreased \$38.8 million, or 14.5%, to \$229.4 million at September 30, 2004 from \$268.2 million at December 31, 2003. The decrease was the result of our replacing maturing Federal Home Loan Bank advances with proceeds from deposit inflows.

Total equity decreased \$3.5 million, or 3.6%, to \$93.4 million at September 30, 2004 from \$96.9 million at December 31, 2003, primarily due to a net loss of \$4.3 million for the nine months ended September 30, 2004, which was partially offset by a decrease in unrealized loss on securities available for sale. Total equity at September 30, 2004 reflected a \$4.9 million unrealized loss on securities available for sale, net of tax.

Comparison of Operating Results for the Three Months Ended September 30, 2004 and September 30, 2003

Net Income. We had net income of \$2.4 million for the three months ended September 30, 2004 compared to a net loss of \$4.7 million for the three months ended September 30, 2003. The net loss for the three months ended September 30, 2003 was primarily due to \$10.2 million in prepayment penalties resulting from our restructuring of Federal Home Loan Bank borrowings. The after-tax impact on net income was \$6.2 million. Excluding this charge, we would have recorded net income of \$1.5 million for the three months ended September 30, 2003.

Interest Income. Interest income increased \$426,000 to \$16.7 million for the three months ended September 30, 2004 from \$16.3 million for the three months ended September 30, 2003. The increase in interest income resulted from a five basis points increase in the average yield on interest-earning assets to 4.83% from 4.78%, and a \$21.0 million, or 1.5%, increase in total interest-earning assets.

Interest income from loans, the most significant portion of interest income, increased \$371,000 to \$14.3 million for the three months ended September 30, 2004, from \$14.0 million for the same period in 2003. The increase resulted from an increase in the average balance of net loans receivable of \$27.1 million, or 2.5%, to \$1.095 billion for the three months ended September 30, 2004 from \$1.068 billion for the same period in 2003, and a slight increase in the average yield on loans to 5.23% for the three months ended September 30, 2004 from 5.22% for the three months ended September 30, 2003. Interest income from one- to four-family residential real estate and multi-family mortgage loans decreased \$798,000, or 9.0%, to \$8.1 million for the three months ended September 30, 2004 from \$8.9 million for the three months ended September 30, 2003. Interest income from commercial loans and leases increased \$557,000, or 33.6%, to \$2.2 million for the three months ended September 30, 2004 from \$1.7 million for the same period in 2003.

Interest income from securities available for sale increased \$80,000, totaling \$2.0 million for each of the three months ended September 30, 2004 and 2003. The average yield increased eight basis points to 3.18% from 3.10% and the portfolio's average outstanding balance increased \$4.2 million to \$256.1 million for the three months ended September 30, 2004 from \$251.9 million for the three months ended September 30, 2003.

Interest Expense. Interest expense decreased by \$1.7 million, or 22.9%, to \$5.7 million for the three months ended September 30, 2004 from \$7.4 million for the three months ended September 30, 2003. The decrease in interest expense resulted from a 64 basis points decrease in the rate paid on average interest-bearing liabilities to 1.82% for the three months ended September 30, 2004 from 2.46% for the three months ended September 30, 2003, which reflected a decrease in the average rates we paid on our borrowings. Interest expense on borrowings decreased by \$2.3 million, or 54.7%, to \$1.9 million for the three months ended September 30, 2004 from \$4.2 million for the same period in 2003. The 2004

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and 2003 period results included \$254,000 and \$1.8 million, respectively, of Federal Home Loan Bank advance prepayment penalty amortization. The decrease in interest expense on borrowings was the result of a 323 basis point decline in the average rates paid on borrowings, combined with a \$25.2 million decrease in average borrowings. The decrease in rates reflected our restructuring high-costing Federal Home Loan Bank advances in July 2003 as well as our redeeming the Success Bancshares trust preferred securities in December 2003 using lower-cost, adjustable rate term debt.

Interest expense on deposits increased \$625,000 to \$3.8 million for the three months ended September 30, 2004 from \$3.1 million for the same period in 2003. The increase was caused by a \$76.4 million, or 8.1%, increase in average interest-bearing deposits for the three months ended September 30, 2004 from the same period in 2003 and an increase in the average rate paid on deposits to 1.48% for the three months ended September 30, 2004 from 1.34% for the three months ended September 30, 2003. Interest expense increased for all categories of our deposits. Specifically, interest expense on money market accounts increased \$381,000, or 93.6%, reflecting an increase of \$32.2 million in the average balance of these deposits to \$190.5 million for the three months ended September 30, 2004 from \$158.3 million for the three months ended September 30, 2003 and a 62 basis point increase in the rate paid on these accounts to 1.65% from 1.03%. Rates paid on certain NOW accounts, savings accounts and money market accounts were increased in the third quarter of 2004 in response to the Federal Reserve raising short-term interest rates and in response to an anticipated increase in competitors' rates. In addition, interest expense on certificates of deposit increased \$109,000, or 4.7%, reflecting an increase of \$44.7 million in the average balance of these deposits to \$461.9 million for the three months ended September 30, 2004 from \$417.2 million for the three months ended September 30, 2003, which offset a 12 basis point decrease in the rate paid on these deposits to 2.10% from 2.22%. The decline in average rates paid on certificates of deposit resulted from replacing maturing certificates of deposit with lower-rate certificates.

Net Interest Income. Net interest income increased by \$2.1 million, or 23.8% to \$11.0 million for the three months ended September 30, 2004 from \$8.9 million for the three months ended September 30, 2003. The increase in net interest income reflected an improvement in our net interest rate spread to 3.01% for the three months ended September 30, 2004 from 2.32% for the three months ended September 30, 2003. Our net interest margin improved to 3.19% for the three months ended September 30, 2004 from 2.62% for the three months ended September 30, 2003.

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 credit losses incurred 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 later 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.

Based on our evaluation of the above factors, we recorded a recovery for loan losses of \$212,000 for the three months ended September 30, 2004, and no provision for loan losses for the three months ended September 30, 2003. Our decision regarding the provision in the 2004 period considered the decline in the ratio of nonperforming loans to total loans to 0.63% at September 30, 2004 compared to 0.74% at June 30, 2004 as well as net recoveries of previously charged-off loans of \$321,000 recorded during the quarter. The \$9.6 million growth in loans receivable during the quarter included \$15.1 million in one- to four-family residential real estate loans, which generally involve a lower degree of credit risk

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than other loans in our portfolio. The allowance for loan losses was 158.95% of our nonperforming loans at September 30, 2004 and 135.26% of our nonperforming loans at June 30, 2004. The allowance for loan losses was \$10.9 million, or 1.01%, of total loans at September 30, 2004 compared to \$10.7 million, or 1.00%, of total loans at June 30, 2004. We used the same general methodology in assessing the allowance at both dates.

To the best of our knowledge, we have recorded all losses that are both probable and reasonable to estimate for each reporting period.

Noninterest Income. Our noninterest income decreased to \$2.4 million for the three months ended September 30, 2004 from \$2.6 million for the same period in 2003. The decrease was caused primarily from a decrease in fee income of \$528,000, or 27.6%, to \$1.4 million for the three months ended September 30, 2004 from \$1.9 million for the three months ended September 30, 2003. The increase in long-term mortgage rates during the three months ended September 30, 2004, when compared to the same period in 2003, led to a decline in prepayments and thus a slower amortization of our mortgage servicing rights in the 2004 period as compared to the 2003 period. Amortization and impairment of mortgage servicing rights decreased to \$207,000 for the three months ended September 30, 2004 from \$317,000 for the same period in 2003. The decrease in fee income was caused by a \$356,000, or 81.5%, decrease in prepayment fees earned on mortgage loans to \$81,000 for the quarter ended September 30, 2004 from \$437,000 for the quarter ended September 30, 2003. Our gain on sales of loans decreased to \$59,000 from \$470,000, reflecting \$5.5 million of sales during the three months ended September 30, 2004 as compared to \$45.7 million of sales during the three months ended September 30, 2003. We recognized \$405,000 in income on our operations of real estate owned, resulting primarily from the sale of 12 foreclosed properties during the period. We recognized a gain of \$15,000 on our operations of real estate owned during the 2003 period.

Noninterest Expense. Our noninterest expense was \$10.1 million for the three months ended September 30, 2004 compared to \$19.4 million for the three months ended September 30, 2003. Noninterest expense for the three months ended September 30, 2003 included an \$8.3 million expense related to the early extinguishment of debt, as nearly all other items of noninterest expense decreased during the year. Beginning in 2002 and continuing throughout 2003, as a result of the historically low interest rate environment, we experienced unprecedented prepayments of loans and securities and a sharp increase in the interest rate sensitivity of our assets. Because of this increased interest rate sensitivity and its increasingly negative impact on net interest income, we restructured \$170.0 million of Federal Home Loan Bank advances. In connection with this action, we recorded a \$15.4 million prepayment penalty, recognizing an immediate expense of \$8.3 million on the early extinguishment of debt, and, in accordance with Emerging Issues Task Force 96-17, "Debtor's Accounting for a Modification or Exchange of Debt Instruments," amortized the remaining prepayment penalty as a yield adjustment over the life of the refinanced borrowings.

Income Tax Expense. We recorded income tax expense of \$1.1 million for the three months ended September 30, 2004 compared to an income tax benefit of \$3.2 million for the three months ended September 30, 2003. The income tax expense in 2004 was due to our \$3.5 million in income before income taxes for the three months ended September 30, 2004 compared to loss before income taxes of \$7.9 million for the three months ended September 30, 2003. The effective tax rate for the three-month period ended September 30, 2004 was 30.6%.

Comparison of Operating Results for the Nine Months Ended September 30, 2004 and September 30, 2003

Net Loss. We had a net loss of \$4.3 million for the nine months ended September 30, 2004 compared to a net loss of \$2.2 million for the nine months ended September 30, 2003. The net loss for the nine months ended September 30, 2004 was primarily due to a \$15.0 million loss, pre-tax, on impairment of securities available for sale due to our application of EITF 03-1. The after-tax impact on net income was \$9.2 million. Excluding this charge, we would have recorded net income of \$4.9 million for the nine months ended September 30, 2004. See “Business of BankFinancial Corporation—Securities Activities—Equity Securities.” The net loss for the nine months ended September 30, 2003 was primarily due to \$10.2 million in prepayment penalties resulting from our restructuring of Federal Home Loan Bank borrowings. The after-tax impact on net income was \$6.2 million. Excluding this charge, we would have recorded net income of \$3.9 million for the nine months ended September 30, 2003.

Interest Income. Interest income decreased \$2.9 million, or 5.6%, to \$48.7 million for the nine months ended September 30, 2004 from \$51.6 million for the nine months ended September 30, 2003. The decrease in interest income resulted from a 26 basis points decline in the average yield on interest-earning assets to 4.69% from 4.95%, reflecting the decline in market interest rates from 2003 to 2004. The decrease in interest income also resulted from a \$4.8 million, or 0.3% decrease, in total interest-earning assets.

Interest income from loans, the most significant portion of interest income, decreased \$1.2 million to \$41.7 million for the nine months ended September 30, 2004, from \$42.9 million for the same period in 2003. The decrease resulted from a 36 basis points decrease in the average yield on loans, which was partially offset by an increase in the average balance of net loans receivable of \$42.1 million, or 4.0%, to \$1.090 billion for the nine months ended September 30, 2004 from \$1.048 billion for the same period in 2003. Interest income from one- to four-family residential real estate loans decreased \$3.3 million, or 11.9%, to \$24.1 million for the nine months ended September 30, 2004 from \$27.4 million for the nine months ended September 30, 2003. Interest income from commercial loans and leases increased \$1.1 million, or 22.0%, to \$6.1 million for the nine months ended September 30, 2004 from \$5.0 million for the same period in 2003.

Interest income from securities available for sale decreased \$1.4 million, or 18.9%, to \$5.9 million for the nine months ended September 30, 2004 from \$7.3 million for the nine months ended September 30, 2003. The average yield decreased 71 basis points to 3.03% from 3.74% due to resetting coupon rates on floating rate securities, issuer prepayments of debt securities, and on reinvestment of proceeds from prepaid and maturing securities at lower rates. The portfolio's average outstanding balance was \$259.6 million for each of the nine months ended September 30, 2004 and 2003.

Interest Expense. Interest expense decreased by \$5.1 million, or 22.9%, to \$17.2 million for the nine months ended September 30, 2004 from \$22.4 million for the nine months ended September 30, 2003. The decrease in interest expense resulted from a 57 basis points decrease in the rate paid on average interest-bearing liabilities to 1.85% for the nine months ended September 30, 2004 from 2.42% for the nine months ended September 30, 2003, which primarily reflected a decrease in the average rates we paid on our borrowings. Interest expense on borrowings decreased by \$4.8 million, or 39.8%, to \$7.3 million for the nine months ended September 30, 2004 from \$12.1 million for the same period in 2003. The 2004 period results included \$2.4 million of Federal Home Loan Bank advance prepayment penalty amortization compared to \$1.8 million of such amortization during the 2003 period. The decrease in interest expense on borrowings was the result of a 197 basis point decline in the average rates paid on borrowings, combined with a \$24.2 million decrease in average borrowings. The decrease in rates

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reflected our restructuring of high-costing Federal Home Loan Bank advances in July 2003 as well as our redeeming the Success Bancshares trust preferred securities in December 2003 using lower-cost, adjustable rate term debt.

Interest expense on deposits decreased \$305,000 to \$10.0 million for the nine months ended September 30, 2004 from \$10.3 million for the same period in 2003. The decrease was caused by a 10 basis point decline in the average rates paid on deposits to 1.34% for the nine months ended September 30, 2004 from 1.44% for the nine months ended September 30, 2003, which was partially offset by a \$39.3 million, or 4.1%, increase in average interest-bearing deposits for the nine months ended September 30, 2004 from the same period in 2003. Interest expense on certificates of deposit decreased \$647,000, or 8.6%, reflecting a 27 basis point decline in the average rate paid on certificates to 2.04% for the nine months ended September 30, 2004 from 2.31% for the nine months ended September 30, 2003, which was partially offset by an increase of \$15.6 million in the average balance of these deposits to \$449.6 million for the nine months ended September 30, 2004 from \$434.0 million for the three months ended September 30, 2003.

Net Interest Income. Net interest income increased by \$2.2 million, or 7.6%, to \$31.5 million for the nine months ended September 30, 2004 from \$29.2 million for the nine months ended September 30, 2003. The increase in net interest income reflected an improvement in our net interest rate spread to 2.84% for the nine months ended September 30, 2004 from 2.53% for the nine months ended September 30, 2003. Our net interest margin improved to 3.03% for the nine months ended September 30, 2004 from 2.81% for the nine months ended September 30, 2003.

Provision for Loan Losses. We recorded credits for loan losses of \$212,000 and \$275,000 for the nine months ended September 30, 2004 and 2003, respectively. Our decision regarding the negative provision in the 2004 period reflected a \$565,000, or 5.7%, decrease in impaired loans at September 30, 2004 compared to December 31, 2003 and a reduction in the amount of the allowance for loan losses allocated to impaired loans as of September 30, 2004 compared to December 31, 2003. The amount of the allowance for loan losses allocated to impaired loans decreased \$1.1 million to \$1.7 million at September 30, 2004 compared to \$2.9 million at December 31, 2003. The \$10.5 million increase in our gross loan portfolio during the nine months ended September 30, 2004 reflects a \$16.0 million increase in one- to four-family residential loans, which generally involve a lower degree of credit risk than other loans in our portfolio. The allowance for loan losses was \$10.9 million, or 1.01% of total loans at September 30, 2004 compared to \$12.1 million, or 1.20% of total loans at June 30, 2004. We used the same general methodology in assessing the allowance for both periods.

To the best of our knowledge, we have recorded all losses that are both probable and reasonable to estimate for each reporting period.

Noninterest Income. Our noninterest income decreased to \$6.7 million for the nine months ended September 30, 2004 from \$7.0 million for the same period in 2003. Our gain on sales of loans decreased to \$216,000 from \$2.0 million, reflecting \$39.5 million of sales during the nine months ended September 30, 2004 as compared to \$129.2 million of sales during the nine months ended September 30, 2003. Amortization and impairment of mortgage servicing rights decreased to \$515,000 for the nine months ended September 30, 2004 from \$1.6 million for the same period in 2003. The increase in long-term mortgage rates during the nine months ended September 30, 2004, when compared to the same period in 2003, led to a decline in prepayments and thus a slower amortization of our mortgage servicing rights in 2004 as compared to 2003. We recognized \$419,000 in gain on the sale of investment securities for the nine months ended September 30, 2004; there were no similar gains in the prior year's period. We periodically take advantage of market opportunities in our securities portfolio within the context of overall asset-liability management operations.

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Noninterest Expense. Our noninterest expense was \$46.4 million for the nine months ended September 30, 2004 compared to \$41.2 million for the nine months ended September 30, 2003. The \$5.3 million increase resulted from a \$15.0 million impairment loss, pre-tax, that we recognized as of June 30, 2004 on preferred securities issued by two federal government-sponsored entities, Fannie Mae and Freddie Mac. Excluding this charge, we would have recorded noninterest expense of \$31.5 million for the nine months ended September 30, 2004. The impairment loss resulted from our application of the provisions of EITF 03-1. Noninterest expense for the nine months ended September 30, 2003 included the \$8.3 million expense related to the early extinguishment of debt, discussed above in “—Comparison of Operating Results for the Three Months Ended September 30, 2004 and September 30, 2003—Noninterest Expense.”

Income Tax Expense. We recorded an income tax benefit of \$3.8 million for the nine months ended September 30, 2004 and an income tax benefit of \$2.4 million for the nine months ended September 30, 2003. The income tax benefits were due to our loss before income taxes for each of the periods.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements, which can be identified by the use of such words such as “estimate,” “project,” “believe,” “intend,” “anticipate,” “plan,” “seek,” “expect,” “will,” “may” and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the asset quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on our current beliefs and expectations and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of this prospectus.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions, either nationally or in our market areas, that are worse than expected;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;

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- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate acquired entities;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board;
- changes in our organization, compensation and benefit plans;
- changes in our financial condition or results of operations that reduce capital available to pay dividends;
- regulatory changes or actions; and
- changes in the financial condition or future prospects of issuers of securities that we own.

Because of these and a wide variety of other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. Please see “Risk Factors” beginning on page 17.

HOW WE INTEND TO USE THE PROCEEDS FROM THE OFFERING

Although we cannot determine what the actual net proceeds from the sale of the shares of common stock in the offering will be until the offering is completed, we anticipate that the net proceeds will be between \$125.3 million and \$169.9 million, or \$195.6 million if the offering range is increased by 15%. We estimate that we will contribute to BankFinancial, F.S.B. between \$62.6 million and \$84.9 million, or \$97.8 million if the offering range is increased by 15%. We intend to retain between \$62.6 million and \$84.9 million of the net proceeds, or \$97.8 million if the offering range is increased by 15%, and we intend to utilize these funds as follows. First, we will retire \$30.0 million of term debt incurred as part of our 2001 acquisition of Success Bancshares and its wholly owned subsidiary, Success National Bank, and our 2003 redemption of trust preferred securities acquired in that acquisition. The term debt matures on December 31, 2004, and carries an adjustable interest rate of 90-day LIBOR plus 200 basis points (3.11% at June 30, 2004). Second, between \$10.2 million and \$13.8 million (or \$15.9 million if the offering range is increased) will be used for the loan to the employee stock ownership plan to fund its purchase of shares of common stock. Third, we will retain the remainder of the net proceeds of between \$22.4 million and \$41.1 million, or \$51.9 million if the offering range is increased by 15%, and may use its for a variety of purposes, including those discussed below.

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A summary of the anticipated net proceeds at the minimum, midpoint, maximum and adjusted maximum of the offering range and the use of the net proceeds is as follows:

| | Based Upon the Sale at \$10.00 Per Share of | | | | | | | |
|---|---|-------------------------|-------------------|-------------------------|-------------------|-------------------------|-----------------------|-------------------------|
| | 12,750,000 Shares | | 15,000,000 Shares | | 17,250,000 Shares | | 19,837,500 Shares (1) | |
| | Amount | Percent of Net Proceeds | Amount | Percent of Net Proceeds | Amount | Percent of Net Proceeds | Amount | Percent of Net Proceeds |
| | (Dollars in thousands) | | | | | | | |
| Offering proceeds | \$ 127,500 | | \$ 150,000 | | \$ 172,500 | | \$ 198,375 | |
| Less offering expenses | 2,233 | | 2,420 | | 2,606 | | 2,820 | |
| Net offering proceeds | \$ 125,267 | 100.0% | \$ 147,580 | 100.0% | \$ 169,894 | 100.0% | \$ 195,555 | 100.0% |
| Use of net proceeds: | | | | | | | | |
| To BankFinancial, F.S.B. | \$ 62,634 | 50.0% | \$ 73,790 | 50.0% | \$ 84,947 | 50.0% | \$ 97,778 | 50.0% |
| To retire term debt | \$ 30,000 | 24.0% | \$ 30,000 | 20.3% | \$ 30,000 | 17.7% | \$ 30,000 | 15.3% |
| To fund loan to employee stock ownership plan | \$ 10,200 | 8.1% | \$ 12,000 | 8.1% | \$ 13,800 | 8.1% | \$ 15,870 | 8.1% |
| Retained by BankFinancial Corporation | \$ 22,433 | 17.9% | \$ 31,790 | 21.6% | \$ 41,147 | 24.2% | \$ 51,907 | 26.6% |

- (1) As adjusted to give effect to an increase in the number of shares which could occur due to a 15% increase in the offering range to reflect demand for the shares, changes in market or general financial conditions following the commencement of the offering, or regulatory considerations.

Payments for shares of common stock made through withdrawals from existing deposit accounts will not result in the receipt of new funds for investment but will result in a reduction of BankFinancial, F.S.B.'s deposits. The net proceeds may vary because total expenses relating to the offering may be more or less than our estimates. For example, our expenses would increase if a syndicated community offering were used to sell shares of common stock not purchased in the subscription and community offerings.

BankFinancial Corporation May Use the Proceeds it Retains From the Offering:

- to finance the acquisition of financial institutions or other financial service companies;
- to fund a loan to the employee stock ownership plan to purchase shares of common stock in the offering (between \$10.2 million and \$13.8 million, or \$15.9 million if the offering is increased by 15%);
- to repay term debt that we incurred and acquired as part of our acquisition of Success Bancshares and our redemption of trust preferred securities obtained in that acquisition;
- to pay cash dividends to stockholders;
- to repurchase shares of our common stock;
- to invest in securities; and
- for other general corporate purposes.

Initially, a substantial portion of the net proceeds will be invested in short-term investments, investment-grade debt obligations and mortgage-backed securities.

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Under current Office of Thrift Supervision regulations, we may not repurchase shares of our common stock during the first year following the conversion, except when extraordinary circumstances exist and with prior regulatory approval.

BankFinancial, F.S.B. May Use the Net Proceeds it Receives From the Offering:

- to expand its retail and commercial banking franchise by acquiring other financial institutions or other financial services companies, or by acquiring or establishing new branches;
- to fund new loans, including multi-family mortgage and nonresidential real estate and land loans, construction loans, commercial loans and leases and single-family residential mortgage loans;
- to enhance existing products and services and to support new products and services;
- to establish off-site ATMs;
- to invest in securities; and
- for other general corporate purposes.

Our short-term and long-term growth plans anticipate that, upon completion of the offering, we will experience measured growth through increased lending and investment activities, limited *de novo* branching and, possibly, acquisitions, with a particular emphasis on attempting to stimulate internal loan growth through the hiring of additional individuals experienced in the origination of commercial, commercial real estate and multifamily loans using targeted marketing efforts. We plan to explore acquisition opportunities involving other banks and thrifts, and possibly financial service companies, when and as they arise as a means of supplementing internal growth, filling gaps in our current geographic footprint and expanding our customer base, product lines and internal capabilities. We may also consider the establishment of *de novo* branches or the acquisition of financial institutions in other Midwestern states. We will attempt to identify institutions that we believe will fit well with our current franchise objectives and corporate culture.

We have no current arrangements or agreements to acquire other banks, thrifts and financial service companies or branch offices. However, we have had, and intend to continue to have, discussions with local financial institutions to determine whether they would be interested in exploring the possibility of our acquiring them after the offering is completed and we have sufficient capital resources to fund an acquisition. In addition, we have participated in, and intend to continue to participate in, sales processes initiated on behalf of local financial institutions that have made a decision to explore the possibility of a sale. We have also explored, and intend to continue to explore, the possibility of acquiring local financial service companies, insurance agencies and engaging in limited *de novo* branching. We are presently investigating the feasibility of establishing a small number of *de novo* branches in the Chicago metropolitan area, but have no current plans to engage in extensive *de novo* branching. There can be no assurance that we will be able to consummate any acquisition or establish any new branches. See “Risk Factors—Our Ability to Successfully Conduct Acquisitions Will Affect Our Ability to Grow Our Franchise and Compete Effectively in Our Marketplace.”

Initially, the net proceeds will be invested in short-term investments, investment-grade debt obligations and mortgage-backed securities.

OUR DIVIDEND POLICY

We do not expect to declare a dividend for the first three full fiscal quarters following the completion of the conversion. Although we will have a significant dividend paying capacity with the additional capital that is being raised in the offering, the exact extent of this capacity will not be known until the conclusion of the offering. Furthermore, our ability to pay dividends could be diminished by a variety of factors, including the funding requirements of any acquisitions that we are able to pursue. Following the completion of the conversion, our Board of Directors will periodically review and evaluate the advisability of paying cash dividends, taking into account our current and anticipated cash requirements, the financial condition, results of operations and capital needs of BankFinancial Corporation and BankFinancial, F.S.B., regulatory restrictions that affect the payment of dividends by BankFinancial, F.S.B. to BankFinancial Corporation, and any other factors deemed relevant at the time. It is our current expectation that we are reasonably likely to declare a dividend within 12 months following the completion of the conversion. However, we may not be able to, or may decide not to, pay dividends at such time or at any other time in the future, and persons who need or desire dividend income should not purchase our shares of common stock with the expectation that we will pay dividends on the shares of common stock.

The ability of BankFinancial Corporation to pay dividends in the future could depend on the ability of our subsidiary, BankFinancial, F.S.B., to pay dividends to us. Federal law and Office of Thrift Supervision regulations limit the ability of BankFinancial, F.S.B. to make such dividend payments. Under Office of Thrift Supervision regulations, BankFinancial, F.S.B. will not be permitted to pay any dividend that would reduce its stockholder's equity below the amount of the liquidation account to be established in connection with the conversion. In addition, BankFinancial, F.S.B. will not be permitted to make a capital distribution if, after making such distribution, it would be undercapitalized under federal law and regulations. BankFinancial, F.S.B. would need the prior approval of the Office of Thrift Supervision to pay a cash dividend or make another type of capital distribution if BankFinancial, F.S.B.'s total capital distributions for the applicable calendar year exceeded the sum of its net income for that year to date plus retained net income for the preceding two years. Because BankFinancial, F.S.B. has experienced net losses in recent periods, it would be required to file an application with the Office of Thrift Supervision if it wanted to pay a capital distribution to us in the near future. For information concerning additional federal and state law and regulations regarding the ability of BankFinancial, F.S.B. to make capital distributions, including the payment of dividends to BankFinancial Corporation, see "The Conversion; Plan of Distribution—Liquidation Rights," "Taxation—Federal Taxation" and "Supervision and Regulation—Federal Banking Regulation."

BankFinancial Corporation is subject to state law limitations on the payment of dividends. Maryland law generally limits dividends to an amount equal to the excess of our capital surplus over payments that would be owed upon dissolution to stockholders whose preferential rights upon dissolution are superior to those receiving the dividend, and to an amount that would not make us insolvent.

We have committed to the Office of Thrift Supervision that during the one-year period following the completion of the conversion, we will not, without prior approval of the Office of Thrift Supervision, take any action to declare an extraordinary dividend to our stockholders that would be treated as a tax-free return of capital for federal income tax purposes. In addition, as the holding company for a federal savings bank, we must act as a "source of strength" for BankFinancial, F.S.B., and this could limit our ability to pay dividends at times when BankFinancial, F.S.B. has capital needs.

MARKET FOR THE COMMON STOCK

BankFinancial Corporation has never issued capital stock and there is no established market for it. We anticipate that our common stock will be traded on the Nasdaq National Market under the symbol “BFIN” subject to completion of the offering, and in compliance with certain conditions including the presence of at least three registered and active market makers. Sandler O’Neill & Partners, L. P. has advised us that it intends to make a market in our common stock following the offering, but it is under no obligation to do so or to continue to do so once it begins. While we will attempt before completion of the offering to obtain commitments from at least two other broker-dealers to make a market in our common stock, there can be no assurance that we will be successful in obtaining such commitments.

The development and maintenance of a public market having the desirable characteristics of depth, liquidity and orderliness depends on the existence of willing buyers and sellers, the presence of which is not within our control or that of any market maker. The number of active buyers and sellers of our shares of common stock at any particular time may be limited, which may have an adverse effect on the price at which our common stock can be sold. There can be no assurance that persons purchasing the shares of common stock will be able to sell their shares at or above the \$10.00 offering purchase price per share. You should have a long-term investment intent if you purchase shares of our common stock and you should recognize that there may be a limited trading market in the common stock.

HISTORICAL AND PRO FORMA REGULATORY CAPITAL COMPLIANCE

At June 30, 2004, BankFinancial, F.S.B. exceeded all of the applicable regulatory capital requirements. The table below sets forth the historical equity capital and regulatory capital of BankFinancial, F.S.B. at June 30, 2004, and the pro forma regulatory capital of BankFinancial, F.S.B., after giving effect to the sale of shares of common stock at a \$10.00 per share purchase price. The table assumes the receipt by BankFinancial, F.S.B. of between \$62.6 million and \$97.8 million of the net offering proceeds.

| | BankFinancial, F.S.B. Historical at June 30, 2004 | | Pro Forma at June 30, 2004, Based Upon the Sale in the Offering of | | | | | | | |
|--|---|-----------------------------|--|-----------------------------|-------------------|-----------------------------|-------------------|-----------------------------|-----------------------|-----------------------------|
| | | | 12,750,000 Shares | | 15,000,000 Shares | | 17,250,000 Shares | | 19,837,500 Shares (1) | |
| | Amount | Percent of Assets (2) | Amount | Percent of Assets (2) | Amount | Percent of Assets (2) | Amount | Percent of Assets (2) | Amount | Percent of Assets (2) |
| (Dollars in thousands) | | | | | | | | | | |
| Equity capital | \$ 120,887 | 8.25% | \$ 168,221 | 11.12% | \$ 176,677 | 11.62% | \$ 185,134 | 12.11% | \$ 194,860 | 12.66% |
| Tangible capital | \$ 104,013 | 7.20% | \$ 151,347 | 10.15% | \$ 159,803 | 10.65% | \$ 168,160 | 11.15% | \$ 177,986 | 11.72% |
| Tangible requirement | 21,663 | 1.50 | 22,373 | 1.50 | 22,500 | 1.50 | 22,626 | 1.50 | 22,772 | 1.50 |
| Excess | \$ 82,350 | 5.70% | \$ 128,974 | 8.65% | \$ 137,303 | 9.15% | \$ 145,534 | 9.65% | \$ 155,214 | 10.22% |
| Core (leverage) capital | \$ 104,013 | 7.20% | \$ 151,347 | 10.15% | \$ 159,803 | 10.65% | \$ 168,260 | 11.15% | \$ 177,986 | 11.72% |
| Core (leverage) requirement (3) | 57,767 | 4.00 | 59,661 | 4.00 | 59,999 | 4.00 | 60,337 | 4.00 | 60,726 | 4.00 |
| Excess | \$ 46,246 | 3.20% | \$ 91,686 | 6.15% | \$ 99,804 | 6.65% | \$ 107,923 | 7.15% | \$ 117,260 | 7.72% |
| Total risk-based capital (4) | \$ 113,402 | 10.39% | \$ 160,736 | 14.42% | \$ 169,192 | 15.12% | \$ 177,649 | 15.82% | \$ 187,375 | 16.61% |
| Risk-based requirement | 87,284 | 8.00 | 89,178 | 8.00 | 89,516 | 8.00 | 89,854 | 8.00 | 90,243 | 8.00 |
| Excess | \$ 26,118 | 2.39% | \$ 71,558 | 6.42% | \$ 79,676 | 7.12% | \$ 87,795 | 7.82% | \$ 97,132 | 8.61% |
| Reconciliation of capital infused into BankFinancial, F.S.B.: | | | | | | | | | | |
| Net proceeds | | | \$ 62,634 | | \$ 73,790 | | \$ 84,947 | | \$ 97,778 | |
| Less: | | | | | | | | | | |
| Common stock acquired by employee stock ownership plan | | | 10,200 | | 12,000 | | 13,800 | | 15,870 | |
| Common stock acquired by recognition and retention plan | | | 5,100 | | 6,000 | | 6,900 | | 7,935 | |
| Pro forma increase in GAAP and regulatory capital | | | \$ 47,334 | | \$ 55,790 | | \$ 64,247 | | \$ 73,973 | |

- (1) As adjusted to give effect to an increase in the number of shares which could occur due to a 15% increase in the offering range to reflect demand for the shares, changes in market or general financial conditions following the commencement of the offering or regulatory considerations.
- (2) Tangible and core capital levels are shown as a percentage of total adjusted assets. Risk-based capital levels are shown as a percentage of risk-weighted assets.
- (3) The current Office of Thrift Supervision core capital requirement for financial institutions is 3% of total adjusted assets for financial institutions that receive the highest supervisory rating for safety and soundness and a 4% to 5% core capital ratio requirement for all other financial institutions.
- (4) Pro forma amounts and percentages assume net proceeds are invested in assets that carry a 50% risk weighting.

CAPITALIZATION

The following table presents the historical consolidated capitalization of BankFinancial MHC, at June 30, 2004 and the pro forma consolidated capitalization of BankFinancial Corporation, a Maryland corporation, after giving effect to the conversion and the offering, based upon the assumptions set forth in the “Pro Forma Data” section.

| | BankFinancial MHC Historical at June 30, 2004 | Pro Forma, Based Upon the Sale in the Offering of | | | |
|--|---|---|----------------------|----------------------|--------------------------|
| | | 12,750,000 Shares | 15,000,000 Shares | 17,250,000 Shares | 19,837,500 Shares (1) |
| | | (Dollars in thousands) | | | |
| Deposits (2) | \$ 1,104,512 | \$1,104,512 | \$1,104,512 | \$1,104,512 | \$1,104,512 |
| Borrowings | 249,151 | 249,151 | 249,151 | 249,151 | 249,151 |
| Total deposits and borrowed funds | \$ 1,353,663 | \$1,353,663 | \$1,353,663 | \$1,353,663 | \$1,353,663 |
| Stockholders' equity: | | | | | |
| Preferred stock, \$0.01 par value, 25,000,000 shares authorized; none to be issued | — | — | — | — | — |
| Common stock \$0.01 par value, 100,000,000 shares authorized; shares to be issued as reflected (3) | — | 128 | 150 | 173 | 198 |
| Additional paid-in capital | — | 125,139 | 147,430 | 169,721 | 195,357 |
| Retained earnings (4) | 95,867 | 95,867 | 95,867 | 95,867 | 95,867 |
| Accumulated other comprehensive loss | (564) | (564) | (564) | (564) | (564) |
| Less: | | | | | |
| Common stock to be acquired by the employee stock ownership plan (5) | — | (10,200) | (12,000) | (13,800) | (15,870) |
| Common stock to be acquired by the recognition and retention plan (6) | — | (5,100) | (6,000) | (6,900) | (7,935) |
| Total stockholders' equity | \$ 95,303 | \$ 205,270 | \$ 224,883 | \$ 244,497 | \$ 267,053 |
| Total stockholders' equity as a percentage of total assets | 6.49% | 13.00% | 14.07% | 15.11% | 16.28% |

- (1) As adjusted to give effect to an increase in the number of shares of common stock which could occur due to a 15% increase in the offering range to reflect demand for shares, changes in market or general financial conditions following the commencement of the subscription and community offerings or regulatory considerations.
- (2) Does not reflect withdrawals from deposit accounts for the purchase of shares of common stock in the conversion and offering. These withdrawals would reduce pro forma deposits by the amount of the withdrawals.
- (3) No effect has been given to the issuance of additional shares of BankFinancial Corporation common stock pursuant to an additional stock option plan. If this plan is implemented, an amount up to 10% of the shares of BankFinancial Corporation common stock sold in the offering will be reserved for issuance upon the exercise of options under the stock option plan. No effect has been given to the exercise of options currently outstanding. See “Management of BankFinancial Corporation.”
- (4) The retained earnings of BankFinancial, F.S.B. will be substantially restricted after the conversion. See “The Conversion; Plan of Distribution—Liquidation Rights” and “Supervision and Regulation—Federal Banking Regulation.”
- (5) Assumes that 8.0% of the shares sold in the offering will be acquired by the employee stock ownership plan financed by a loan from BankFinancial Corporation. The loan will be repaid principally from BankFinancial, F.S.B.’s contributions to the employee stock ownership plan. Since BankFinancial Corporation will finance the employee stock ownership plan debt, this debt will be eliminated through consolidation and no liability will be reflected on BankFinancial Corporation’s consolidated financial statements. Accordingly, the amount of shares of common stock acquired by the employee stock ownership plan is shown in this table as a reduction of total stockholders’ equity.
- (6) Assumes a number of shares of common stock equal to 4% of the shares of common stock to be sold in the offering will be purchased by the stock recognition and retention plan in open market purchases. The dollar amount of common stock to be purchased is based on the \$10.00 per share subscription price in the offering and represents unearned compensation. This amount does not reflect possible increases or decreases in the value of common stock relative to the subscription price in the offering. As BankFinancial Corporation accrues compensation expense to reflect the vesting of shares pursuant to the stock recognition and retention plan, the credit to equity will be offset by a charge to noninterest expense. Implementation of the stock recognition and retention plan will require stockholder approval. The funds to be used by the stock recognition and retention plan to purchase the shares will be provided by BankFinancial Corporation. If the shares to fund the plan are assumed to come from authorized but unissued shares of BankFinancial Corporation, the number of outstanding shares at the minimum, midpoint, maximum and the maximum, as adjusted, of the offering range would be 13,260,000, 15,600,000, 17,940,000 and 20,631,000, respectively, total stockholders’ equity would be \$210.4 million, \$230.9 million, \$251.4 million and \$275.0 million, respectively, and total stockholders’ ownership in BankFinancial Corporation would be diluted by approximately 3.8%.

PRO FORMA DATA

The following tables summarize historical data of BankFinancial MHC and pro forma data at and for the six months ended June 30, 2004 and the year ended December 31, 2003. This information is based on assumptions set forth below and in the table, and should not be used as a basis for projections of market value of the shares of common stock following the conversion and offering. No effect has been given in the table to the possible issuance of additional shares of common stock pursuant to any stock option plan that may be adopted by our stockholders no earlier than six months after the conversion. Moreover, pro forma stockholders' equity per share does not give effect to the liquidation account to be established in the conversion or, in the event of a liquidation of BankFinancial, F.S.B., to the recoverability of intangibles or the tax effect of the recapture of any bad debt reserve. See "The Conversion; Plan of Distribution—Liquidation Rights."

The net proceeds in the tables are based upon the following assumptions:

- all shares of common stock will be sold in the subscription and community offerings;
- 379,500 shares of common stock will be purchased by our executive officers and directors, and their associates;
- our employee stock ownership plan will purchase 8% of the shares of common stock sold in the offering with a loan from BankFinancial Corporation. The loan will be repaid in substantially equal payments of principal and interest over a period of 20 years;
- Sandler O'Neill & Partners, L.P. will receive a fee equal to 0.90% of the dollar amount of shares of common stock sold in the offering. Shares purchased by our employee benefit plans or by our officers, directors and employees, and their immediate families will not be included in calculating the shares of common stock sold, for this purpose; and
- total expenses of the offering, including the marketing fees to be paid to Sandler O'Neill & Partners, L.P., will be between \$2.2 million at the minimum of the offering range and \$2.8 million at the maximum of the offering range, as adjusted.

We calculated pro forma consolidated net loss for the six months ended June 30, 2004 and the year ended December 31, 2003 as if the estimated net proceeds we received had been invested at an assumed interest rate of 2.34% (1.41% on an after-tax basis) and 1.64% (0.99% on an after-tax basis), respectively. These figures represent a blended rate assuming retirement of \$30.0 million term debt bearing interest at 3.11% and investing the remaining funds to yield the rate on the one-year U.S. Treasury Bill as of June 30, 2004 and December 31, 2003, equal to 2.09% and 1.26%, respectively (which we consider to more accurately reflect the pro forma reinvestment rate than an arithmetic average method in light of current market interests rates).

The following pro forma information may not be representative of the financial effects of the foregoing transactions at the dates on which such transactions actually occur, and should not be taken as indicative of future results of operations. Pro forma consolidated stockholders' equity represents the difference between the stated amounts of our assets and liabilities. The pro forma stockholders' equity is not intended to represent the fair market value of the shares of common stock. The effect of withdrawals from deposit accounts for the purchase of shares of common stock has not been reflected. Historical and

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pro forma per share amounts have been calculated by dividing historical and pro forma amounts by the indicated number of shares of common stock. No effect has been given in the pro forma stockholders' equity calculations for the assumed earnings on the net proceeds. It is assumed that BankFinancial Corporation will retain between \$22.4 million and \$41.1 million of the estimated net proceeds in the offering, or \$51.9 million if the offering range is increased by 15%. The actual net proceeds from the sale of shares of common stock will not be determined until the offering is completed. However, we currently estimate the net proceeds to be between \$125.3 million and \$169.9 million, or \$195.6 million if the offering range is increased by 15%. It is assumed that all shares of common stock will be sold in the subscription and community offerings.

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At or For the Six Months Ended June 30, 2004
Based Upon the Sale at \$10.00 Per Share of

| | 12,750,000 Shares | 15,000,000 Shares | 17,250,000 Shares | 19,837,500 Shares (1) |
|---|--|----------------------|----------------------|--------------------------|
| | (Dollars in thousands, except per share amounts) | | | |
| Gross proceeds | \$ 127,500 | \$ 150,000 | \$ 172,500 | \$ 198,375 |
| Expenses | 2,233 | 2,420 | 2,606 | 2,820 |
| Estimated net proceeds | 125,267 | 147,580 | 169,894 | 195,555 |
| Common stock acquired by employee stock ownership plan (2) | (10,200) | (12,000) | (13,800) | (15,870) |
| Common stock acquired by recognition and retention plan (3) | (5,100) | (6,000) | (6,900) | (7,935) |
| Estimated net proceeds, as adjusted | \$ 109,967 | \$ 129,580 | \$ 149,194 | \$ 171,750 |

For the Six Months Ended June 30, 2004

| | | | | |
|------------------------------------|------------|------------|------------|------------|
| Consolidated net loss: | | | | |
| Historical | \$ (6,762) | \$ (6,762) | \$ (6,762) | \$ (6,762) |
| Pro forma adjustments: | | | | |
| Income on adjusted net proceeds | 775 | 913 | 1,052 | 1,211 |
| Employee stock ownership plan (2) | (154) | (181) | (208) | (239) |
| Recognition and retention plan (3) | (307) | (362) | (416) | (478) |
| Pro forma net loss | \$ (6,448) | \$ (6,392) | \$ (6,334) | \$ (6,268) |

| | | | | |
|------------------------------------|-----------|-----------|-----------|-----------|
| Loss per share (4): | | | | |
| Historical | \$ (0.58) | \$ (0.49) | \$ (0.43) | \$ (0.37) |
| Pro forma adjustments: | | | | |
| Income on adjusted net proceeds | 0.07 | 0.07 | 0.07 | 0.07 |
| Employee stock ownership plan (2) | (0.01) | (0.01) | (0.01) | (0.01) |
| Recognition and retention plan (3) | (0.03) | (0.03) | (0.03) | (0.03) |
| Pro forma loss per share (4) (5) | \$ (0.55) | \$ (0.46) | \$ (0.40) | \$ (0.34) |

| | | | | |
|--|------------|------------|------------|------------|
| Offering price to pro forma net loss per share | N/A | N/A | N/A | N/A |
| Number of shares used in loss per share calculations | 11,755,500 | 13,830,000 | 15,904,500 | 18,290,175 |

At June 30, 2004

| | | | | |
|---|------------|------------|------------|------------|
| Stockholders' equity: | | | | |
| Historical | \$ 95,303 | \$ 95,303 | \$ 95,303 | \$ 95,303 |
| Estimated net proceeds | 125,267 | 147,580 | 169,894 | 195,555 |
| Common stock acquired by employee stock ownership plan (2) | (10,200) | (12,000) | (13,800) | (15,870) |
| Common stock acquired by recognition and retention plan (3) | (5,100) | (6,000) | (6,900) | (7,935) |
| Pro forma stockholders' equity (6) | 205,270 | 224,883 | 244,497 | 267,053 |
| Intangible assets | 21,595 | 21,595 | 21,595 | 21,595 |
| Pro forma tangible stockholders' equity (6) | \$ 183,675 | \$ 203,288 | \$ 222,902 | \$ 245,458 |

| | | | | |
|---|----------|----------|----------|----------|
| Stockholders' equity per share: | | | | |
| Historical | \$ 7.47 | \$ 6.35 | \$ 5.52 | \$ 4.80 |
| Estimated net proceeds | 9.82 | 9.84 | 9.85 | 9.86 |
| Common stock acquired by employee stock ownership plan (2) | (0.80) | (0.80) | (0.80) | (0.80) |
| Common stock acquired by recognition and retention plan (3) | (0.40) | (0.40) | (0.40) | (0.40) |
| Pro forma stockholders' equity per share (6) | \$ 16.09 | \$ 14.99 | \$ 14.17 | \$ 13.46 |
| Pro forma tangible stockholders' equity per share (6) | \$ 14.41 | \$ 13.55 | \$ 12.92 | \$ 12.37 |

| | | | | |
|--|------------|------------|------------|------------|
| Offering price as percentage of pro forma consolidated stockholders' equity per share | 62.15% | 66.71% | 70.57% | 74.29% |
| Offering price as percentage of pro forma tangible consolidated stockholders' equity per share | 69.40% | 73.80% | 77.40% | 80.84% |
| Number of shares used in book value per share calculations | 12,750,000 | 15,000,000 | 17,250,000 | 19,837,500 |

(footnotes begin on following page)

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- (1) As adjusted to give effect to an increase in the number of shares which could occur due to a 15% increase in the offering range to reflect demand for the shares, changes in market and financial conditions following the commencement of the offering or regulatory considerations.
- (2) Assumes that 8% of shares of common stock sold in the offering will be purchased by the employee stock ownership plan. For purposes of this table, the funds used to acquire these shares are assumed to have been borrowed by the employee stock ownership plan from BankFinancial Corporation. BankFinancial, F.S.B. intends to make annual contributions to the employee stock ownership plan in an amount at least equal to the required principal and interest payments due on the debt. BankFinancial, F.S.B.'s total annual payments on the employee stock ownership plan debt are based upon 20 equal annual installments of principal and interest. Statement of Position 93-6, "Employers Accounting for Employee Stock Ownership Plans" ("SOP 93-6") requires that an employer record compensation expense in an amount equal to the fair value of the shares committed to be released to employees. The pro forma adjustments assume that the employee stock ownership plan shares are allocated in equal annual installments based on the number of loan repayment installments assumed to be paid by BankFinancial, F.S.B., the fair value of the common stock remains equal to the subscription price and the employee stock ownership plan expense reflects an effective combined federal and state tax rate of 39.75%. The unallocated employee stock ownership plan shares are reflected as a reduction of stockholders' equity. No reinvestment is assumed on proceeds contributed to fund the employee stock ownership plan. The pro forma net loss further assumes that 25,500, 30,000, 34,500 and 39,675 shares were committed to be released during the period at the minimum, midpoint, maximum, and adjusted maximum of the offering range, respectively, and in accordance with SOP 93-6, only the employee stock ownership plan shares committed to be released during the period were considered outstanding for purposes of loss per share calculations.
- (3) If approved by BankFinancial Corporation's stockholders, the stock recognition and retention plan may purchase an aggregate number of shares of common stock equal to 4% of the shares to be sold in the offering (or possibly a greater number of shares if the plan is implemented more than one year after completion of the conversion, although such plan, including the amount awarded under such plan, may remain subject to supervisory restrictions). Stockholder approval of the stock recognition and retention plan, and purchases by the plan may not occur earlier than six months after the completion of the conversion. The shares may be acquired directly from BankFinancial Corporation or through open market purchases. The funds to be used by the stock recognition and retention plan to purchase the shares will be provided by BankFinancial Corporation. The table assumes that (i) the stock recognition and retention plan acquires the shares through open market purchases at \$10.00 per share, (ii) 10% of the amount contributed to the stock recognition and retention plan is amortized as an expense during the six months ended June 30, 2004 and (iii) the stock recognition and retention plan expense reflects an effective combined federal and state tax rate of 39.75%. Assuming stockholder approval of the stock recognition and retention plan and that shares of common stock (equal to 4% of the shares sold in the offering) are awarded through the use of authorized but unissued shares of common stock, stockholders would have their ownership and voting interests diluted by approximately 3.8%.
- (4) Loss per share computations are determined by taking the number of shares assumed to be sold in the offering and, in accordance with SOP 93-6, subtracting the employee stock ownership plan shares which have not been committed for release during the respective periods. See note 2. The number of shares of common stock actually sold may be more or less than the assumed amounts.
- (5) No effect has been given to the issuance of additional shares of common stock pursuant to the stock option plan, which is expected to be adopted by BankFinancial Corporation following the offering and presented to stockholders for approval not earlier than six months after the completion of the conversion. If the stock option plan is approved by stockholders, a number of shares up to 10% of the shares sold in the offering (or possibly a greater number of shares if the plan is implemented more than one year after completion of the conversion, although such plan, including the amount awarded under such plan, may remain subject to supervisory restrictions) will be reserved for future issuance upon the exercise of options to be granted under the stock option plan. The issuance of authorized but previously unissued shares of common stock pursuant to the exercise of options under such plan would dilute existing stockholders' ownership and voting interests by approximately 9.1% at the maximum of the offering range.

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- (6) The retained earnings of BankFinancial, F.S.B. will be substantially restricted after the conversion. See “Our Dividend Policy,” “The Conversion; Plan of Distribution—Liquidation Rights” and “Supervision and Regulation—Federal Banking Regulation—Capital Distributions.”

| | At or For the Year Ended December 31, 2003 Based Upon the Sale at \$10.00 Per Share of | | | |
|--|---|----------------------|----------------------|--------------------------|
| | 12,750,000 Shares | 15,000,000 Shares | 17,250,000 Shares | 19,837,500 Shares (1) |
| | (Dollars in thousands, except per share amounts) | | | |
| Gross proceeds | \$ 127,500 | \$ 150,000 | \$ 172,500 | \$ 198,375 |
| Expenses | 2,233 | 2,420 | 2,606 | 2,820 |
| Estimated net proceeds | 125,267 | 147,580 | 169,894 | 195,555 |
| Common stock acquired by employee stock ownership plan (2) | (10,200) | (12,000) | (13,800) | (15,870) |
| Common stock acquired by recognition and retention plan (3) | (5,100) | (6,000) | (6,900) | (7,935) |
| Estimated net proceeds, as adjusted | \$ 109,967 | \$ 129,580 | \$ 149,194 | \$ 171,750 |
| For the Year Ended December 31, 2003 | | | | |
| Consolidated net loss: | | | | |
| Historical | \$ (1,947) | \$ (1,947) | \$ (1,947) | \$ (1,947) |
| Pro forma adjustments: | | | | |
| Income on adjusted net proceeds | 1,087 | 1,280 | 1,474 | 1,697 |
| Employee stock ownership plan (2) | (307) | (362) | (416) | (478) |
| Recognition and retention plan (3) | (615) | (723) | (831) | (956) |
| Pro forma net loss | \$ (1,782) | \$ (1,752) | \$ (1,720) | \$ (1,684) |
| Loss per share (4): | | | | |
| Historical | \$ (0.17) | \$ (0.14) | \$ (0.12) | \$ (0.11) |
| Pro forma adjustments: | | | | |
| Income on adjusted net proceeds | 0.09 | 0.09 | 0.09 | 0.09 |
| Employee stock ownership plan (2) | (0.03) | (0.03) | (0.03) | (0.03) |
| Recognition and retention plan (3) | (0.05) | (0.05) | (0.05) | (0.05) |
| Pro forma loss per share (4) (5) | \$ (0.16) | \$ (0.13) | \$ (0.11) | \$ (0.10) |
| Offering price to net loss per share | N/A | N/A | N/A | N/A |
| Number of shares used in loss per share calculations | 11,781,000 | 13,860,000 | 15,939,000 | 18,329,850 |
| At December 31, 2003 | | | | |
| Stockholders' equity: | | | | |
| Historical | \$ 96,907 | \$ 96,907 | \$ 96,907 | \$ 96,907 |
| Estimated net proceeds | 125,267 | 147,580 | 169,894 | 195,555 |
| Common stock acquired by employee stock ownership plan (2) | (10,200) | (12,000) | (13,800) | (15,870) |
| Common stock acquired by recognition and retention plan (3) | (5,100) | (6,000) | (6,900) | (7,935) |
| Pro forma stockholders' equity (6) | 206,874 | 226,487 | 246,101 | 268,657 |
| Intangible assets | 22,448 | 22,448 | 22,448 | 22,448 |
| Pro forma tangible stockholders' equity (6) | \$ 184,426 | \$ 204,039 | \$ 223,653 | \$ 246,209 |
| Stockholders' equity per share: | | | | |
| Historical | \$ 7.60 | \$ 6.46 | \$ 5.62 | \$ 4.89 |
| Estimated net proceeds | 9.82 | 9.84 | 9.85 | 9.86 |
| Common stock acquired by employee stock ownership plan (2) | (0.80) | (0.80) | (0.80) | (0.80) |
| Common stock acquired by recognition and retention plan (3) | (0.40) | (0.40) | (0.40) | (0.40) |
| Pro forma stockholders' equity per share (6) | \$ 16.22 | \$ 15.10 | \$ 14.27 | \$ 13.55 |
| Pro forma tangible stockholders' equity per share (6) | \$ 14.46 | \$ 13.60 | \$ 12.97 | \$ 12.41 |
| Offering price as percentage of pro forma consolidated stockholders' equity per share | 61.65% | 66.23% | 70.08% | 73.80% |
| Offering price as percentage of pro forma tangible consolidated stockholders' equity per share | 69.16% | 73.53% | 77.10% | 80.58% |
| Number of shares used in book value per share calculations | 12,750,000 | 15,000,000 | 17,250,000 | 19,837,500 |

(footnotes begin on following page)

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- (1) As adjusted to give effect to an increase in the number of shares which could occur due to a 15% increase in the offering range to reflect demand for the shares, changes in market and financial conditions following the commencement of the offering or regulatory considerations.
- (2) Assumes that 8% of shares of common stock sold in the offering will be purchased by the employee stock ownership plan. For purposes of this table, the funds used to acquire these shares are assumed to have been borrowed by the employee stock ownership plan from BankFinancial Corporation. BankFinancial, F.S.B. intends to make annual contributions to the employee stock ownership plan in an amount at least equal to the required principal and interest payments on the debt. BankFinancial, F.S.B.'s total annual payments on the employee stock ownership plan debt are based upon 20 equal annual installments of principal and interest. SOP 93-6 requires that an employer record compensation expense in an amount equal to the fair value of the shares committed to be released to employees. The pro forma adjustments assume that the employee stock ownership plan shares are allocated in equal annual installments based on the number of loan repayment installments assumed to be paid by BankFinancial, F.S.B., the fair value of the common stock remains equal to the subscription price and the employee stock ownership plan expense reflects an effective combined federal and state tax rate of 39.75%. The unallocated employee stock ownership plan shares are reflected as a reduction of stockholders' equity. No reinvestment is assumed on proceeds contributed to fund the employee stock ownership plan. The pro forma net loss further assumes that 51,000, 60,000, 69,000 and 79,350 shares were committed to be released during the period at the minimum, midpoint, maximum, and adjusted maximum of the offering range, respectively, and in accordance with SOP 93-6, only the employee stock ownership plan shares committed to be released during the period were considered outstanding for purposes of loss per share calculations.
- (3) If approved by BankFinancial Corporation's stockholders, the stock recognition and retention plan may purchase an aggregate number of shares of common stock equal to 4% of the shares to be sold in the offering (or possibly a greater number of shares if the plan is implemented more than one year after completion of the conversion, although such plan, including the amount awarded under such plan, may remain subject to supervisory restrictions). Stockholder approval of the stock recognition and retention plan, and purchases by the plan may not occur earlier than six months after the completion of the conversion. The shares may be acquired directly from BankFinancial Corporation or through open market purchases. The funds to be used by the stock recognition and retention plan to purchase the shares will be provided by BankFinancial Corporation. The table assumes that (i) the stock recognition and retention plan acquires the shares through open market purchases at \$10.00 per share, (ii) 20% of the amount contributed to the stock recognition and retention plan is amortized as an expense during the year ended December 31, 2003, and (iii) the stock recognition and retention plan expense reflects an effective combined federal and state tax rate of 39.75%. Assuming stockholder approval of the stock recognition and retention plan and that shares of common stock (equal to 4% of the shares sold in the offering) are awarded through the use of authorized but unissued shares of common stock, stockholders would have their ownership and voting interests diluted by approximately 3.8%.
- (4) Loss per share computations are determined by taking the number of shares assumed to be sold in the offering and, in accordance with SOP 93-6, subtracting the employee stock ownership plan shares which have not been committed for release during the respective periods. See note 2. The number of shares of common stock actually sold may be more or less than the assumed amounts.
- (5) No effect has been given to the issuance of additional shares of common stock pursuant to the stock option plan, which is expected to be adopted by BankFinancial Corporation following the offering and presented to stockholders for approval not earlier than six months after the completion of the conversion. If the stock option plan is approved by stockholders, a number of shares up to 10% of the shares sold in the offering (or possibly a greater number of shares if the plan is implemented more than one year after completion of the conversion, although such plan, including the amount awarded under such plan, may remain subject to supervisory restrictions) will be reserved for future issuance upon the exercise of options to be granted under the stock option plan. The issuance of authorized but previously unissued shares of common stock pursuant to the exercise of options under such plan would dilute existing stockholders' ownership and voting interests by approximately 9.1% at the maximum of the offering range.
- (6) The retained earnings of BankFinancial, F.S.B. will be substantially restricted after the conversion. See "Our Dividend Policy," "The Conversion; Plan of Distribution—Liquidation Rights" and "Supervision and Regulation—Federal Banking Regulation—Capital Distributions."

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion and analysis that follows focuses on the factors affecting our consolidated financial condition at June 30, 2004, December 31, 2003 and December 31, 2002, and our consolidated results of operations for the six months ended June 30, 2004 and 2003, and for the years ended December 31, 2003, 2002 and 2001. The consolidated financial statements and related notes appearing elsewhere in this prospectus should be read in conjunction with this discussion and analysis. The consolidated financial condition and consolidated results of operations reported at and for the six-month period ended June 30, 2004 are not necessarily indicative of the consolidated financial condition and consolidated results of operations that may be expected for the year ending December 31, 2004.

Overview of Financial Condition and Results of Operations

Our primary business strategy for the past five years has been to transform BankFinancial, F.S.B. from a traditional retail savings bank to a multi-faceted financial institution with enhanced capabilities in commercial banking and selected other financial services, an expanded geographic presence in the Chicago metropolitan area, and managerial and technological resources and infrastructure capable of supporting future growth.

We have taken a number of actions to implement this strategy, including our acquisition of Success Bancshares and its wholly owned subsidiary, Success National Bank. Although these actions have produced benefits that have furthered the implementation of our business strategy, they have also resulted in additional expenses during the six months ended June 30, 2004 and 2003 and the years ended December 31, 2003, 2002 and 2001. To provide additional context for our consolidated financial information, we review below what we view as the most significant of these strategic initiatives and the impact they have had on our consolidated financial condition and results of operations.

Significant Strategic Initiatives and Impact on Results of Operations

Loan Portfolio Diversification. At December 31, 1999, our loan portfolio was heavily concentrated in one- to four-family residential real estate loans, which then represented 93.6% of our total loans. Since that time, we have redeployed a significant portion of the cash flows from the repayments and sales of our one- to four-family residential loans into a more diversified mix of commercial, multi-family, nonresidential real estate and construction and land loans and leases. These loans and leases typically offer higher yields than traditional one- to four-family residential loans and generally are of shorter duration. Therefore, they improve our interest income and assist us in managing interest rate risk.

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The following table illustrates the major changes that have occurred in the composition of our loan portfolio between December 31, 1999 and June 30, 2004:

| | At June 30, 2004 | | At December 31, 1999 | | Increase/ (Decrease) |
|---------------------------------|------------------------|---------------|----------------------|---------------|-------------------------|
| | (Dollars in thousands) | | | | |
| One- to four-family residential | \$ 352,920 | 32.9% | \$ 932,304 | 93.6% | \$(579,384) |
| Multi-family mortgage | 234,654 | 21.9 | 30,553 | 3.1 | 204,101 |
| Nonresidential real estate | 254,633 | 23.7 | 11,143 | 1.1 | 243,490 |
| Construction and land | 56,590 | 5.3 | 2,734 | 0.3 | 53,856 |
| Commercial loans | 83,473 | 7.8 | 14,423 | 1.4 | 69,050 |
| Commercial leases | 80,907 | 7.5 | 1,754 | 0.2 | 79,153 |
| Consumer | 2,898 | 0.3 | 2,728 | 0.3 | 170 |
| Other | 6,334 | 0.6 | — | — | 6,334 |
| Total loans | \$1,072,409 | 100.0% | \$ 995,639 | 100.0% | \$ 76,770 |

In the aggregate, multi-family mortgage loans, nonresidential real estate loans, construction and land loans and commercial loans and leases comprised 66.2% of our loan portfolio at June 30, 2004, compared to 6.1% at December 31, 1999. We intend to continue to emphasize the origination of these higher interest margin loans following the offering, subject to the limitations imposed by our federal savings bank charter, general economic conditions, the demand for multi-family mortgage loans, nonresidential real estate loans, construction and land loans and commercial loans and leases in our market, competitive factors and risk management considerations. See “Business of BankFinancial, F.S.B.—Lending Activities” and “Risk Factors— Our Nonresidential Real Estate Loans, Multi-family Mortgage Loans, Construction and Land Loans, Commercial Loans and Commercial Leases Expose Us to Increased Credit Risks.”

Allowance for Loan Losses. We have increased our allowance for loan losses from \$5.9 million (0.59% of total loans) at December 31, 1999 to \$10.7 million (1.0% of total loans) at June 30, 2004. This increase was based primarily on the change in the composition of our loan portfolio that occurred between 1999 and 2004. Our ratio of non-performing loans to total loans was 0.74% at June 30, 2004, compared to 0.66% at December 31, 1999. Maintaining the quality of our loan and lease portfolio is a key factor in managing our growth. We will continue to use risk management techniques, such as independent internal and external loan reviews, risk-focused portfolio credit analysis and field inspections of collateral, in overseeing the performance of our loan portfolio.

Composition and Cost of Funding. We have changed the composition and the cost of our funding sources in a number of ways:

Core Deposits. We increased our emphasis on local deposits as a primary funding source for commercial real estate and commercial loans. This emphasis and our acquisition of Success Bancshares have increased our level of core deposits (savings, money market, noninterest bearing demand and NOW accounts). At June 30, 2004, our core deposits were 59.2% of our total deposits, compared to 35.9% of total deposits at December 31, 1999. This increase included an increase in business demand deposits to \$62.3 million (6% of total deposits) at June 30, 2004 from \$15.2 million (2% of total deposits) at December 31, 1999.

Federal Home Loan Bank Funding. We view Federal Home Loan Bank advances as a primary source for funding securities purchases, a secondary source for funding residential real estate loans, and an important means of managing our interest rate risk and liquidity. Because of our emphasis on local

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deposits as a primary funding source for commercial real estate and commercial loans, we have been able to reduce our utilization of Federal Home Loan Bank advances. At June 30, 2004, our borrowings from the Federal Home Loan Bank of Chicago totaled \$214.3 million, compared to \$296.0 million at December 31, 1999, even though we assumed \$53.7 million of Federal Home Loan Bank advances from our acquisition of Success Bancshares in 2001.

In recent years, our fixed-rate Federal Home Loan Bank advances prevented our average cost of funds from declining in proportion to the general decline in market interest rates. This limited our flexibility in pricing our deposits, placed pressure on our net interest margin, and made it increasingly difficult to maintain the interest rate risk position that we believed was desirable. To address this issue, we restructured \$170.0 million in Federal Home Loan Bank advances during 2003. The restructuring consisted of retiring \$25.0 million of Federal Home Loan Bank advances, using excess cash and cash equivalents, and replacing the remaining \$145.0 million of advances with new Federal Home Loan Bank advances with a weighted average interest rate of 1.38% and a weighted average maturity of approximately one year. The restructuring of the advances reduced the average contractual rate on our Federal Home Loan Bank borrowings from 5.85% at December 31, 2002, to 2.27% as of December 31, 2003, and to 2.50% as of June 30, 2004. The restructuring also reduced the average duration of our liabilities and permitted us to better match the duration of our liabilities with the duration of our assets, which has shortened due to the change in the composition of our loan portfolio.

To accomplish the restructuring, we recorded a \$15.4 million prepayment penalty pursuant to EITF 96-19, recognizing an \$8.3 million non-interest expense in 2003 and treating the remaining \$7.1 million as yield adjustments, which are being amortized as interest expense over approximately a two-year period. Of the \$7.1 million in prepayment penalties, \$4.1 million was amortized in 2003, \$2.1 million was amortized during the six months ended June 30, 2004, \$429,000 will be amortized during the remainder of 2004, and \$388,000 will be amortized in 2005. The \$12.4 million pre-tax expenses (\$7.6 million net of tax) that we recorded in 2003 relating to the restructuring of Federal Home Loan Bank advances substantially contributed to our net operating loss of \$1.9 million in 2003.

Geographic Expansion. We added nine branch offices in Chicago and its northern and western suburbs since the end of 1999 through our acquisition of Success Bancshares (seven offices) and *de novo* branching (two offices). We will attempt to further expand our geographic presence through acquisitions that complement our business plan and limited *de novo* branching. Our future efforts to expand will focus primarily on eliminating gaps in our market “footprint” with a preference for areas with demographics that may give us a competitive advantage in terms of product offerings and service capabilities. We may also consider the establishment of *de novo* branches or the acquisition of financial institutions in other Midwestern states. We have invested significant resources in building a management team and a technological infrastructure capable of supporting future growth.

We have no current arrangements or agreements to acquire other banks, thrifts and financial service companies or branch offices. However, we have had, and intend to continue to have, discussions with local financial institutions to determine whether they would be interested in exploring the possibility of our acquiring them after the offering is completed and we have sufficient capital resources to fund an acquisition. In addition, we have participated in, and intend to continue to participate in, sales processes initiated on behalf of local financial institutions that have made a decision to explore the possibility of a sale. We have also explored, and intend to continue to explore, the possibility of acquiring local financial service companies, insurance agencies and engaging in limited *de novo* branching. We are presently investigating the feasibility of establishing a small number of *de novo* branches in the Chicago metropolitan area, but have no current plans to engage in extensive *de novo* branching. There can be no assurance that we will be able to consummate any acquisition or establish any new branches. See “Risk Factors—Our Ability to Successfully Conduct Acquisitions Will Affect Our Ability to Grow Our Franchise and Compete Effectively in Our Marketplace.”

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Success Bancshares Acquisition. Our acquisition of Success Bancshares and its wholly owned subsidiary, Success National Bank, in 2001 produced a number of benefits, including a more diverse loan portfolio and deposit base, and the expansion of our geographic presence in the Chicago metropolitan area. The acquisition also produced certain expenses that have had, and will continue to have, an adverse impact on our results of operations, including the following:

Core Deposit Intangible Amortization. The acquisition of Success Bancshares created a \$15.3 million core deposit intangible that we are amortizing over a ten-year period. Of this amount, \$153,000 was amortized in 2001, \$1.8 million was amortized in 2002, \$1.8 million was amortized in 2003 and \$853,000 was amortized during the six-month period ended June 30, 2004. As of that date, the unamortized core deposit intangible totaled \$10.7 million, of which \$848,000 will be amortized during the remainder of 2004, \$1.6 million will be amortized in 2005, \$1.6 million will be amortized in 2006, \$1.5 million will be amortized in 2007, and a total of \$5.2 million will be amortized from 2008 to 2031. We must evaluate the core deposit intangible for impairment, at least annually. If impairment is determined to have occurred, we will record an impairment expense equal to that amount in the consolidated statement of income for that period. As of June 30, 2004, no such impairment had occurred.

Interest and Other Expense on Acquisition Funding. We incurred \$15.0 million in term debt in November of 2001 to facilitate our acquisition of Success Bancshares and also acquired, as part of the acquisition, \$15.0 million in 8.95% fixed-rate subordinated debt underlying trust preferred securities that an affiliate of Success Bancshares had issued in 1998. In December of 2003, we refinanced the subordinated debt with lower cost, variable rate term debt and caused the trust-preferred securities to be redeemed, thereby reducing our interest expense. We intend to use a portion of the net proceeds of the offering to repay the acquisition-related term debt in full. The repayment of the term debt with a portion of the net proceeds of the offering will, in the absence of other factors, reduce our cost of funding by reducing our interest-bearing liabilities.

Goodwill. The acquisition of Success Bancshares created goodwill in the amount of \$10.9 million. Although this goodwill is not currently subject to amortization, it is subject to periodic analysis for impairment. If we determine in the future that the goodwill is impaired, we will take a charge to earnings equal to the impairment.

Summary of Results of Operations

Our results of operations depend primarily on our net interest income, which is the difference between the interest income on our interest-earning assets, such as loans and securities, and the interest expense paid on our deposits and borrowings. Results of operations are also affected by noninterest income and noninterest expense, the provision for loan losses and income tax expense. Noninterest income consists primarily of banking fees and service charges, loan servicing fees, gains (losses) on sales of loans and securities available-for-sale, and the amortization and impairment of mortgage servicing rights. Our noninterest income also includes income from wealth management services (with variable annuities and services sold by BankFinancial, F.S.B.), and from the sale of fixed annuities, property, casualty, life and disability insurance products and title insurance products and services through our wholly owned subsidiary, Financial Assurance Services. Our noninterest expense consists primarily of salaries and employee benefits, occupancy and office expenses, advertising and promotion expense, data processing expenses, and the amortization of certain intangible assets. Our results of operations are significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government policies and actions of regulatory authorities, and by economic conditions in the Chicago metropolitan area.

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For the six months ended June 30, 2004, our net loss was \$6.8 million, compared to net income of \$2.5 million for the same period in 2003. The net loss for the first six months of 2004 was primarily due to a \$15.0 million impairment loss, pre-tax, that we recognized as of June 30, 2004 on preferred securities issued by two federal government-sponsored entities, Fannie Mae and Freddie Mac. The after-tax impact on net income was \$9.2 million. Excluding this charge, we would have recorded net income of \$2.4 million for the six months ended June 30, 2004. The impairment loss resulted from our application of new accounting guidance set forth in the Financial Accounting Standards Board's Emerging Issues Task Force Issue No. 03-1, "The Meaning of Other-than-Temporary Impairment and Its Application to Certain Investments." The impairment loss on these securities was a non-cash charge that did not impact our equity because the unrealized losses on these securities, net of taxes, were previously included in our accumulated other comprehensive losses and reflected in our equity. See "Business of BankFinancial, F.S.B.—Securities Activities—Equity Securities."

Net interest income decreased \$190,000 for the six months ended June 30, 2004 to \$20.4 million for the six months ended June 30, 2004 from \$20.6 million for the six months ended June 30, 2003. The decrease resulted from a \$3.6 million, or 10.1%, decrease in total interest income to \$32.0 million for the six months ended June 30, 2004 from \$35.6 million for the six months ended June 30, 2003, which was partially offset by a \$3.4 million, or 22.9%, decrease in interest expense. A 62 basis point decrease in average yield on loans to 5.03% for the six months ended June 30, 2004, offset a \$52.9 million, or 5.1%, increase in average loans. Interest expense totaled \$11.6 million for the six months ended June 30, 2004, compared to \$15.0 million for the same period in 2003. Interest expense for the six months ended June 30, 2004 included \$2.1 million in amortization of prepayment penalties on Federal Home Loan Bank advances. Excluding the prepayment penalty amortization expense, our interest expense for the six months ended June 30, 2004 would have been \$9.5 million. The improvement in interest expense was a direct result of the Federal Home Loan Bank advance restructuring in July 2003. Noninterest income increased slightly to \$4.3 million for the six months ended June 30, 2004, compared to \$4.2 million for the same period in 2003. Gain on sale of loans declined \$1.8 million due to a lower volume of loan originations and sales as a result of rising market interest rates. This was offset by a decrease in the impairment of mortgage servicing assets. A \$1.2 million charge to income was recorded in the six months ended June 30, 2003, compared to a \$307,000 charge in the 2004 period. Noninterest expense for the six months ended June 30, 2004 was \$36.3 million compared to \$21.8 million in the 2003 period. The \$14.5 million increase in noninterest expense resulted primarily from the \$15.0 million impairment loss, pre-tax, on securities available-for-sale that we recorded for the six months ended June 30, 2004.

For the year ended December 31, 2003, we incurred a net loss of \$1.9 million compared to net income of \$5.0 million for the year ended December 31, 2002. The net loss for the year ended December 31, 2003 was primarily due to \$12.4 million in prepayment penalties resulting from our restructuring of the Federal Home Loan Bank borrowings. The after-tax impact on net income was \$7.6 million. Excluding this charge, we would have recorded net income of \$5.7 million for the year ended December 31, 2003. Net interest income decreased by \$5.9 million to \$37.5 million for the year ended December 31, 2003, compared to \$43.4 million for the year ended December 31, 2002. The \$5.9 million decrease resulted primarily from charges related to the Federal Home Loan Bank advance restructuring and the redemption of trust preferred securities. These changes resulted in a 26 basis points decrease in our net interest margin and a 25 basis points decrease in our net interest rate spread from year-to-year. In addition, noninterest expense increased by \$6.7 million, or 14.9%, primarily due to the \$8.3 million prepayment penalty we recognized in restructuring our Federal Home Loan Bank advances. The lower net

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interest income and higher noninterest expense was partially offset by the \$2.1 million, or 31.2%, increase in noninterest income. This noninterest income was earned largely from fees from residential mortgage loan refinancings, as historically low market interest rates caused a surge in residential mortgage loan originations and refinancings. Our gain on sales of loans increased \$1.1 million, or 78.9%, to \$2.4 million for the year ended December 31, 2003 from \$1.4 million for the year ended December 31, 2002, due to a higher volume of originations of fixed-rate residential mortgage loans, all of which were sold in the secondary mortgage market.

The credit quality of our loan portfolio improved in 2003 as we benefited from the strengthening Chicago metropolitan area economy during the latter part of the year and we resolved a number of problem loans that we assumed in our acquisition of Success Bancshares. At December 31, 2003, nonperforming loans were 0.66% of total loans, compared to 1.27% of total loans at December 31, 2002.

Our net income increased \$1.9 million, or 61.0%, to \$5.0 million for the year ended December 31, 2002 from \$3.1 million for the year ended December 31, 2001. We acquired Success Bancshares in November 2001. Our 2002 performance, which reflected a full-year of our combined operations, was significantly affected by the acquisition. Net interest income increased by \$13.7 million to \$43.4 million for the year ended December 31, 2002 compared to \$29.7 million for the year ended December 31, 2001. The improvement in net interest income reflected the increase in higher-yielding commercial and business loans due in part to our acquisition of Success Bancshares. In addition, noninterest income increased by \$1.8 million, or 36.1%, while noninterest expense increased by \$15.9 million, or 54.8%, to \$44.9 million for the year ended December 31, 2002 from \$29.0 million for the year ended December 31, 2001.

Expected Increase in Noninterest Expense as a Result of the Conversion

Following the completion of the conversion, our noninterest expense is expected to increase because of the increased compensation expenses associated with the purchases of shares of common stock by our employee stock ownership plan and our adoption of a recognition and retention plan, if approved by our stockholders.

Assuming that 19,837,500 shares (15% above the maximum of the offering range) are sold in the offering:

- (i) the employee stock ownership plan will acquire 1,587,000 shares of common stock with a \$15.9 million loan that is expected to be repaid over 20 years, resulting in an annual expense (pre-tax) of approximately \$794,000 (assuming that the shares of common stock maintain a value of \$10.00 per share); and
- (ii) the recognition and retention plan would authorize awards of a number of shares equal to 4% of the shares sold in the offering, or 793,500 shares, to eligible participants, and would be expensed as the awards vest. Assuming all shares are awarded under the recognition and retention plan at a price of \$10.00 per share, and that the awards vest over five years, the corresponding annual expense (pre-tax) associated with shares awarded under the recognition and retention plan would be approximately \$1.59 million.

The actual expense that will be recorded for the employee stock ownership plan will be determined by the market value of the shares of common stock as they are released to employees over the term of the loan, and whether the loan is repaid faster than its contractual term. Accordingly, increases in the stock price above \$10.00 per share will increase the total employee stock ownership plan expense, and

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accelerated repayment of the loan will increase the employee stock ownership plan expense for those periods in which accelerated or larger loan repayments are made. Further, the actual expense of the recognition and retention plan will be determined by the fair market value of the stock on the grant date, which might be greater than \$10.00 per share.

We also intend to implement a stock option plan after the offering, subject to receipt of stockholder approval. On March 31, 2004, the Financial Accounting Standard Board issued an Exposure Draft entitled "Share-Based Payment – an Amendment of Statements No. 123 and 95," which would require companies to recognize, as an expense, the fair value of stock options and other stock-based compensation to employees beginning in 2005. If we elect or are required to record an expense for our stock-based compensation plans using the fair value method as described in the Exposure Draft, we could have significant compensation and benefits expense.

Our noninterest expense is also expected to increase as a result of our complying with statutes, rules and regulations applicable to public companies. Among the expenses, we anticipate incurring additional accounting and legal fees paid in connection with required current, quarterly and annual reports, additional third-party fees paid for mandated corporate governance activities, as well as printing and mailing costs associated with holding meetings of stockholders.

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 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 impacted loans; value of collateral; and determination of loss factors to be applied to the various elements of the portfolio. All of these estimates are susceptible to significant change. Although we believe that we use the best information available 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 examination process, our regulatory agencies periodically review the allowance for loan losses. Such agencies may require us to recognize additions to the allowance based on their 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.

For a full discussion of the allowance for loan losses, see "Business Of BankFinancial, F.S.B.—Delinquent Loans, Other Real Estate Owned and Classified Assets—Allowance for Loan Losses."

Other-Than-Temporary Impairment of Securities. We have historically reviewed investment securities with significant declines in fair value for potential other-than-temporary impairment pursuant to

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the guidance set forth in Statement of Financial Accounting Standards 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115") and other related Financial Accounting Standards Board pronouncements. As part of this review, we have evaluated whether any declines in fair value are attributable to factors specific to the issuer of the securities, such as its financial condition and the ratings for its securities, or to market-related factors, such as interest rates, interest rate volatilities and spreads over relevant risk-free benchmarks, and for all factors identified, we have evaluated whether they were expected to reverse over time. We generally have not considered declines in value to be other than temporary if we determined that they were primarily attributable to interest rates and other market factors that are not specific to the issuer of the securities and are likely to revert over time to historical norms, with respect to equity securities and debt instruments that can be repaid for less than their initial cost.

The Financial Accounting Standards Board's Emerging Issues Task Force Issue 03-1, "The Meaning of Other-than-Temporary Impairment and Its Application to Certain Instruments" ("EITF 03-1") provides more stringent standards and specific guidance than SFAS 115 and related pronouncements concerning the testing of equity securities for impairment. EITF 03-1 establishes the following three-step test for evaluating whether a security is other-than-temporarily impaired:

- Consider any investment security with a fair value that is less than its initial cost to be impaired.
- Evaluate whether the impairment is other than temporary. For equity securities and debt securities that can contractually be prepaid for less than their initial cost, an impairment is considered to be other-than-temporary unless the investor has the ability and intent to hold the investment for a reasonable period of time sufficient for a forecasted market price recovery, and evidence indicating that the full initial cost of the investment is recoverable within a reasonable period of time outweighs evidence to the contrary. For debt securities generally, an impairment is considered other than temporary only if the investor does not have the ability and intent to hold the debt security until its maturity date or the date the forecasted recovery occurs, or it is probable that the investor will be unable to collect all amounts due according to the contractual terms of the debt security. The investor is required to make evidence-based judgments on these issues by giving appropriate and unbiased weighting to all reasonably available information in forecasting a recovery of fair value, taking into account the severity and duration of the loss in relation to the forecasted recovery period and other relevant evidence. Greater evidence is needed to conclude that impairment is not other than temporary as the severity and duration of a loss and the length of the forecasted recovery period increase.
- If the impairment is other-than-temporary, an impairment loss must be recognized against earnings in an amount equal to the difference between the investment's cost and its fair value. The fair value of the investment then becomes the new cost basis of the investment and it generally cannot be adjusted for subsequent recoveries in fair value.

We elected to apply EITF 03-1 to our June 30, 2004 consolidated financial statements because of our belief that SFAS 115 does not establish standards for impairment testing that are sufficiently stringent to meet the standards set forth in Securities and Exchange Commission Staff Accounting Bulletin No. 59 "Noncurrent Marketable Equity Securities," ("SAB No. 59"). The Financial Accounting Standards Board recently delayed the effective date of the impairment testing requirements of EITF 03-1. The delay does not affect the impairment testing requirements currently imposed by SAB No. 59.

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Intangible Assets. Acquisitions accounted for under purchase accounting must follow SFAS No. 141 “Business Combinations” and SFAS No. 142 “Goodwill and Other Intangible Assets.” SFAS No. 141 requires us to record as assets on our financial statements both goodwill, an intangible asset which is equal to the excess of the purchase price which we pay for another company over the estimated fair value of the net assets acquired, and identifiable intangible assets such as core deposit intangibles and non-compete agreements. Under SFAS No. 142, we regularly evaluate goodwill for impairment, and we will reduce its carrying value through a charge to earnings if impairment exists. Core deposit and other identifiable intangible assets are amortized to expense over their estimated useful lives and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The valuation techniques used by us to determine the carrying value of tangible and intangible assets acquired in acquisitions and the estimated lives of identifiable intangible assets involve estimates for discount rates, projected future cash flows and time period calculations, all of which are susceptible to change based on changes in economic conditions and other factors. Future events or changes in the estimates that we used to determine the carrying value of our goodwill and identifiable intangible assets or which otherwise adversely affect their value or estimated lives could have a material adverse impact on our results of operations. As of June 30, 2004, our intangible assets consisted of goodwill of \$10.9 million and core deposit intangible of \$10.7 million.

Mortgage Servicing Rights. Mortgage servicing rights represent the present value of the future servicing fees from the right to service loans in our loan servicing portfolio. Mortgage servicing rights are recognized as assets for both purchased rights and for the allocation value of retained servicing rights on loans sold. The most critical accounting policy associated with mortgage servicing is the methodology used to determine the fair value of capitalized mortgage servicing rights, which requires the development of a number of estimates, the most critical of which is the mortgage loan prepayment speed assumption. The mortgage loan prepayment speed assumption is significantly affected by interest rates. In general, during periods of falling interest rates, mortgage loans prepay faster and the value of our mortgage servicing assets declines. Conversely, during periods of rising rates, the value of mortgage servicing rights generally increases due to slower rates of prepayments. The amount and timing of mortgage servicing rights amortization is adjusted monthly based on actual results. In addition, on a quarterly basis, we perform a valuation review of mortgage servicing rights for potential declines in value. This quarterly valuation review entails applying current assumptions to the portfolio classified by interest rates and, secondarily, by geographic and prepayment characteristics. Based on the significance of any changes in assumptions since the preceding appraisal, this valuation may include an independent appraisal of the fair value of our servicing portfolio.

We estimate that an instantaneous increase in the current corresponding offering rate (interest rate) of the loans in our servicing portfolio of 100 basis points would, absent other factors, result in an increase of \$410,000 in the fair value of our mortgage servicing rights, while an instantaneous decrease in the current corresponding offering rate (interest rate) of the loans in our servicing portfolio of 100 basis points would, absent other factors, result in a decrease of \$678,000 in the fair value of our mortgage servicing rights.

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. We must assess the realization of the deferred tax asset and, to the extent that we believe that recovery is not likely, a valuation allowance is established. Adjustments to increase or decrease the valuation allowance are charged or credited, respectively, to income tax expense.

Management of Interest Rate Risk

Qualitative Analysis. We believe that our most 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 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 increased our focus on the origination and securitization for our portfolio of adjustable-rate residential mortgage loans, as well as the origination of nonresidential mortgage loans, adjustable rate construction loans and commercial loans. In addition, depending on market interest rates and our capital and liquidity position, we generally sell all or a portion of our longer-term, fixed-rate residential loans, usually on a servicing-retained basis. Further, we primarily invest in shorter-duration securities, which generally have lower yields compared to longer-term investments. Shortening the average maturity of our interest-earning assets by increasing our investments in shorter-term loans and securities, as well as loans with variable rates of interest, helps to better match the maturities and interest rates of our assets and liabilities, thereby reducing the exposure of our net interest income to changes in market interest rates. Finally, we have classified all of our investment portfolio as available-for-sale so as to provide flexibility in liquidity management.

We utilize a combination of analyses to monitor BankFinancial, F.S.B.’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 US 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.

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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 table below sets forth, as of June 30, 2004, the estimated changes in our NPV and net interest income that would result from the designated instantaneous changes 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. Given the historically low level of market interest rates, we did not estimate changes in NPV or net interest income for an interest rate decrease of greater than 100 basis points.

| Change in Interest Rates (basis points) | NPV | | | Net Interest Income | | |
|---|---------------|--------------------------------------|---------|-------------------------------|--|---------|
| | Estimated NPV | Estimated Increase (Decrease) in NPV | | Estimated Net Interest Income | Increase (Decrease) in Estimated Net Interest Income | |
| | | Amount | Percent | | Amount | Percent |
| | | (Dollars in thousands) | | | | |
| +300 | \$ 160,052 | \$ 9,066 | 6.00% | \$ 51,583 | \$ 5,714 | 12.46% |
| +200 | 158,932 | 7,946 | 5.26 | 50,160 | 4,291 | 9.35 |
| +100 | 156,010 | 5,024 | 3.33 | 48,233 | 2,364 | 5.15 |
| 0 | 150,986 | — | — | 45,869 | — | — |
| -100 | 141,865 | (9,121) | (6.04) | 42,954 | (2,915) | (6.36) |

The table set forth above indicates that at June 30, 2004, in the event of an immediate 100 basis point decrease in interest rates, we would be expected to experience a 6.04% decrease in NPV and a \$2.9 million decrease in net interest income. In the event of an immediate 200 basis point increase in interest rates, we would be expected to experience a 5.26% increase in NPV and a \$4.3 million increase in net interest income. These increases do 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 actual increases in 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.

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Analysis of Net Interest Income

Net interest income is the difference between our interest income on interest-earning assets and our interest expense on interest-bearing liabilities. Our net interest income depends on the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rates earned or paid on them, respectively.

The following tables set forth average balance sheets, average yields and costs, and certain other information at and for the periods indicated. No tax-equivalent yield adjustments were made, as the effect of these adjustments would not be material. Average balances for the six months ended June 30, 2004 and 2003 and the years ended December 31, 2003 and 2002 are daily average balances. Average balances for the year ended December 31, 2001 are month-end averages. Nonaccrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees and expenses, discounts and premiums, purchase accounting adjustments and Federal Home Loan Bank advance prepayment penalties that are amortized or accreted to interest income or expense.

| | At June 30, 2004 | Six Months Ended June 30, | | | | | |
|--|---------------------|---------------------------|-----------------------------|-------------|--------------------|-----------------------------|-------------|
| | | 2004 | | | 2003 | | |
| | | Yield/Rate | Average Outstanding Balance | Interest | Yield/Rate (1) | Average Outstanding Balance | Interest |
| (Dollars in thousands) | | | | | | | |
| Interest-earning assets: | | | | | | | |
| Loans | 5.10% | \$1,087,619 | \$27,342 | 5.03% | \$1,034,752 | \$29,223 | 5.65% |
| Securities available-for-sale | 2.94 | 261,321 | 3,872 | 2.96 | 263,462 | 5,330 | 4.05 |
| Stock in FHLB | 5.77 | 23,165 | 714 | 6.16 | 21,679 | 612 | 5.65 |
| Other | 0.90 | 11,171 | 52 | 0.93 | 78,047 | 426 | 1.09 |
| Total interest-earning assets | 4.69 | 1,383,276 | 31,980 | 4.62 | 1,397,940 | 35,591 | 5.09 |
| Noninterest-earning assets | | 74,379 | | | 72,353 | | |
| Total assets | | \$1,457,655 | | | \$1,470,293 | | |
| Interest-bearing liabilities: | | | | | | | |
| Savings deposits | 0.51 | \$ 135,786 | 345 | 0.51 | \$ 124,672 | 322 | 0.52 |
| Money market deposits | 1.21 | 162,813 | 900 | 1.11 | 149,879 | 907 | 1.21 |
| NOW deposits | 0.43 | 237,343 | 506 | 0.43 | 241,669 | 696 | 0.58 |
| Certificates of deposit | 2.04 | 443,330 | 4,443 | 2.00 | 442,586 | 5,222 | 2.36 |
| Total deposits | 1.30 | 979,272 | 6,194 | 1.27 | 958,806 | 7,147 | 1.49 |
| Borrowings | 3.48 | 263,493 | 5,356 | 4.07 | 287,110 | 7,824 | 5.45 |
| Total interest-bearing liabilities | 1.70 | 1,242,765 | 11,550 | 1.86 | 1,245,916 | 14,971 | 2.40 |
| Noninterest-bearing liabilities | | 121,366 | | | 124,533 | | |
| Total liabilities | | 1,364,131 | | | 1,370,449 | | |
| Equity | | 93,524 | | | 99,844 | | |
| Total liabilities and equity | | \$1,457,655 | | | \$1,470,293 | | |
| Net interest income | | | \$20,430 | | | \$20,620 | |
| Net interest rate spread (2) | 2.99% | | | 2.76% | | | 2.69% |
| Net interest-earning assets (3) | | \$ 140,511 | | | \$ 152,024 | | |
| Net interest margin (4) | | | | 2.95% | | | 2.95% |
| Ratio of interest-earning assets to interest-bearing liabilities | | | 111.31% | | | 112.20% | |

(footnotes on following page)

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Years Ended December 31,

| | 2003 | | | 2002 | | | 2001 | | |
|--|-----------------------------|---------------|-------------|-----------------------------|---------------|-------------|-----------------------------|---------------|-------------|
| | 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 | \$1,058,188 | \$56,912 | 5.38% | \$1,118,435 | \$68,230 | 6.10% | \$ 916,745 | \$62,234 | 6.79% |
| Securities available-for-sale | 259,869 | 9,288 | 3.57 | 276,087 | 12,016 | 4.35 | 250,949 | 14,273 | 5.69 |
| Stock in FHLB | 22,026 | 1,359 | 6.17 | 20,711 | 1,117 | 5.39 | 17,167 | 1,041 | 6.06 |
| Other | 44,386 | 483 | 1.09 | 53,046 | 833 | 1.57 | 24,415 | 903 | 3.70 |
| Total interest-earning assets | 1,384,469 | 68,042 | 4.91 | 1,468,279 | 82,196 | 5.60 | 1,209,276 | 78,451 | 6.49 |
| Noninterest-earning assets | 74,819 | | | 83,847 | | | 49,779 | | |
| Total assets | \$1,459,288 | | | \$1,552,126 | | | \$1,259,055 | | |
| Interest-bearing liabilities: | | | | | | | | | |
| Savings deposits | \$ 127,212 | 690 | 0.54 | \$ 117,922 | 901 | 0.76 | \$ 92,244 | 1,727 | 1.87 |
| Money market deposits | 154,604 | 1,735 | 1.12 | 157,268 | 2,572 | 1.64 | 80,668 | 2,112 | 2.62 |
| NOW deposits | 237,480 | 1,208 | 0.51 | 254,116 | 2,203 | 0.87 | 164,787 | 3,062 | 1.86 |
| Certificates of deposit | 431,556 | 9,684 | 2.24 | 465,683 | 13,832 | 2.97 | 502,439 | 25,812 | 5.14 |
| Total deposits | 950,852 | 13,317 | 1.40 | 994,989 | 19,508 | 1.96 | 840,138 | 32,713 | 3.88 |
| Borrowings | 282,485 | 17,235 | 6.10 | 330,601 | 19,257 | 5.82 | 263,345 | 16,033 | 6.09 |
| Total interest-bearing liabilities | 1,233,337 | 30,552 | 2.48 | 1,325,590 | 38,765 | 2.92 | 1,103,483 | 48,746 | 4.42 |
| Noninterest-bearing liabilities | 129,952 | | | 125,162 | | | 54,363 | | |
| Total liabilities | 1,363,289 | | | 1,450,752 | | | 1,157,846 | | |
| Equity | 95,999 | | | 101,374 | | | 101,209 | | |
| Total liabilities and equity | \$1,459,288 | | | \$1,552,126 | | | \$1,259,055 | | |
| Net interest income | | \$37,490 | | | \$43,431 | | | \$29,705 | |
| Net interest rate spread (2) | | | 2.43% | | | 2.68% | | | 2.07% |
| Net interest-earning assets (3) | \$ 151,132 | | | \$ 142,689 | | | \$ 105,793 | | |
| Net interest margin (4) | | | 2.71% | | | 2.96% | | | 2.46% |
| Ratio of interest-earning assets to interest-bearing liabilities | 112.25% | | | 110.76% | | | 109.59% | | |

- (1) Yields and rates for the six months ended June 30, 2004 and 2003 are annualized.
- (2) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
- (3) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.
- (4) Net interest margin represents net interest income divided by average total interest-earning assets.

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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 (i) changes attributable to changes in volume (i.e., changes in average balances multiplied by the prior-period average rate) and (ii) 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, which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate.

| | Six Months Ended June 30, 2004 vs. 2003 | | | Years Ended December 31, | | | | | |
|---|--|-------------------|---------------------------|----------------------------|-------------------|---------------------------|----------------------------|-----------------|---------------------------|
| | | | | 2003 vs. 2002 | | | 2002 vs. 2001 | | |
| | Increase (Decrease) Due to | | Total Increase (Decrease) | Increase (Decrease) Due to | | Total Increase (Decrease) | Increase (Decrease) Due to | | Total Increase (Decrease) |
| | Volume | Rate | | Volume | Rate | | Volume | Rate | |
| (In thousands) | | | | | | | | | |
| Interest-earning assets: | | | | | | | | | |
| Loans | \$ 3,479 | \$ (5,360) | \$ (1,881) | \$ (3,539) | \$ (7,779) | \$ (11,318) | \$ 12,742 | \$ (6,746) | \$ 5,996 |
| Securities available-for-sale | (43) | (1,415) | (1,458) | (675) | (2,053) | (2,728) | 1,329 | (3,586) | (2,257) |
| FHLB stock | 44 | 58 | 102 | 74 | 168 | 242 | 199 | (123) | 76 |
| Other | (319) | (55) | (374) | (121) | (229) | (350) | 650 | (720) | (70) |
| Total interest-earning assets | 3,161 | (6,772) | (3,611) | (4,261) | (9,893) | (14,154) | 14,920 | (11,175) | 3,745 |
| Interest-bearing liabilities: | | | | | | | | | |
| Savings deposits | 37 | (14) | 23 | 67 | (278) | (211) | 390 | (1,216) | (826) |
| Money market deposits | 153 | (160) | (7) | (43) | (794) | (837) | 1,466 | (1,006) | 460 |
| NOW deposits | (12) | (178) | (190) | (136) | (859) | (995) | 1,214 | (2,073) | (859) |
| Certificates of deposit | 26 | (805) | (779) | (957) | (3,191) | (4,148) | (1,771) | (10,209) | (11,980) |
| Borrowings | (604) | (1,864) | (2,468) | (2,903) | 881 | (2,022) | 3,943 | (719) | 3,224 |
| Total interest-bearing liabilities | (400) | (3,021) | (3,421) | (3,972) | (4,241) | (8,213) | 5,242 | (15,223) | (9,981) |
| Change in net interest income | \$ 3,561 | \$ (3,751) | \$ (190) | \$ (289) | \$ (5,652) | \$ (5,941) | \$ 9,678 | \$ 4,048 | \$ 13,726 |

Comparison of Financial Condition at June 30, 2004 and December 31, 2003

Total assets increased \$10.8 million, or 0.74%, to \$1.469 billion at June 30, 2004, from \$1.458 billion at December 31, 2003. The increase was primarily the result of an increase in cash and cash equivalents partially offset by a decrease in securities available-for-sale.

Net loans receivable increased by \$905,000, or 0.1%, to \$1.068 billion at June 30, 2004 from \$1.067 billion at December 31, 2003. One- to four-family residential loans, which includes home equity and other second mortgage loans, increased \$841,000, or 0.2%, despite our securitizing \$29.3 million of adjustable rate one- to four-family residential loans into mortgage-backed securities classified as available-for-sale and our selling \$34.1 million of fixed-rate one- to four-family residential loans during the six-month period. The gross loan portfolio decreased \$4.2 million during the six months ended June 30, 2004. Net paydowns on multi-family mortgages, non-residential real estate loans and construction loans of \$15.8 million were only partially offset by growth in commercial loans of \$3.7 million, or 4.7%, and commercial leases of \$7.9 million, or 10.9%. The increased commercial loan and commercial lease balances reflected our continued emphasis on originating these loans.

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Nonperforming assets, which include nonaccrual loans and real estate owned, increased \$441,000, or 5.0%, to \$9.2 million at June 30, 2004 from \$8.8 million at December 31, 2003. The increase was primarily due to increases of \$1.3 million in nonaccrual multi-family mortgage loans and \$337,000 in nonaccrual non-residential real estate loans. These increases were significantly offset by the combined \$1.2 million decrease in nonaccrual one- to four-family residential loans, construction and land loans, commercial loans and real estate owned.

Net securities available-for-sale decreased \$11.0 million, or 4.3%, to \$246.6 million at June 30, 2004 from \$257.5 million at December 31, 2003. The decrease was the result of \$23.0 million of principal repayments and \$10.1 million in sales of mortgage-backed securities, which were offset by the securitization of \$29.3 million of adjustable-rate, one- to four-family residential real estate loans, discussed above.

Cash and cash equivalents increased by \$17.1 million to \$45.7 million at June 30, 2004 from \$28.6 million at December 31, 2003, primarily due to a significant increase in deposits late in the quarter ended June 30, 2004. Certificates of deposit and money market deposits grew \$19.8 million in June 2004. Additional cash and cash equivalents were held at June 30, 2004 to pay advances maturing in July 2004.

Other assets decreased by \$1.0 million, or 6.5%, to \$14.9 million at June 30, 2004 from \$16.0 million at December 31, 2003, the result of a decrease of \$4.8 million in deferred taxes.

Deposits increased \$30.6 million, or 2.9%, to \$1.105 billion at June 30, 2004 from \$1.074 billion at December 31, 2003. Each category of deposits increased over the first six months of 2004, with the exception of NOW accounts, which remained stable. Non-interest bearing demand and money market accounts increased \$11.6 million, or 11.9%, and \$18.6 million, or 11.6%, respectively. Brokered certificates of deposit increased \$3.7 million, or 19.7%, to \$22.2 million at June 30, 2004 from \$18.6 million at December 31, 2003, while retail certificates of deposit increased \$3.9 million, or 0.9%, to \$428.4 million at June 30, 2004 from \$424.5 million at December 31, 2003. Core deposits increased \$23.1 million, or 3.7%. While brokered certificates of deposit can provide a financial institution with a large, short-term source of liquidity, the fees to acquire such deposits can be higher than the expenses associated with other sources of funds, and brokered certificates of deposit tend not to provide a stable, long-term source of liquidity. Core deposits were 59.2% of total deposits at June 30, 2004 compared to 58.7% of total deposits at December 31, 2003.

Borrowings decreased \$19.1 million, or 7.1%, to \$249.2 million at June 30, 2004 from \$268.2 million at December 31, 2003. The decrease was the result of increased deposit inflows. Other liabilities remained nearly unchanged at \$11.7 million at June 30, 2004, compared to \$11.6 million at December 31, 2003.

Total equity decreased \$1.6 million, or 1.7%, to \$95.3 million at June 30, 2004 from \$96.9 million at December 31, 2003, primarily due to a net loss of \$6.8 million for the six months ended June 30, 2004, which was partially offset by a decrease in unrealized loss on securities available-for-sale. Total equity at June 30, 2004 reflected a \$564,000 unrealized loss on securities available-for-sale, net of tax.

Comparison of Financial Condition at December 31, 2003 and December 31, 2002

Total assets decreased by \$32.6 million, or 2.2%, to \$1.458 billion at December 31, 2003 from \$1.491 billion at December 31, 2002. The decrease was primarily the result of a decrease in net loans receivable and cash and cash equivalents, which was partially offset by an increase in net securities available-for-sale and other assets.

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Net loans receivable decreased by \$10.7 million, or 1.0%, to \$1.067 billion at December 31, 2003 from \$1.078 billion at December 31, 2002. The decrease was primarily due to the low market interest rate environment and high levels of refinancing and repayment activity, and \$137.7 million in securitizations of one- to four-family residential mortgage loans, which decreased by \$101.8 million or 22.4%, to \$352.1 million at December 31, 2003 from \$453.9 million at December 31, 2002. The reduction in one- to four-family residential real estate loans was substantially offset by growth in our portfolio of multi-family mortgage loans, nonresidential real estate loans, construction and land loans, and commercial leases.

Nonperforming assets, which include nonaccrual loans and real estate owned, totaled \$8.8 million at December 31, 2003 compared to \$14.7 million at December 31, 2002, a decrease of \$6.0 million, or 40.5%. The decrease was due to a decrease of \$1.4 million, or 34.0%, in nonaccrual one- to four-family residential mortgage loans and a decrease of \$3.7 million, or 50.5%, in nonaccrual nonresidential real estate loans, and a decrease of \$1.1 million, or 75.4%, in nonaccrual commercial loans. The decreases in nonaccrual loans reflected improved economic conditions in our market area and the resolution of nonperforming loans.

Net securities available-for-sale increased by \$23.9 million, or 10.3%, to \$257.5 million at December 31, 2003 from \$233.6 million at December 31, 2002. The increase reflected the securitization of adjustable rate residential mortgage loans that we originated or purchased. We securitized such loans to increase the liquidity of these assets and also to enhance our regulatory capital position, since agency-backed securities such as these securities have a lower risk-weight than the loans that were securitized. These securitizations, along with \$25.7 million in purchases of securities available-for-sale, more than offset \$127.0 million in repayments due to refinancing activity during the year.

Premises and equipment increased by \$6.2 million, or 23.2%, to \$33.0 million at December 31, 2003 from \$26.8 million at December 31, 2002, reflecting the occupancy in 2003 of our new office facility in Burr Ridge, Illinois. The new office facility was completed in July 2003 at a final construction cost of \$8.2 million.

The increases in premises and equipment, net securities available-for-sale and in other assets were funded by a \$52.1 million, or 64.5%, decrease in cash and cash equivalents to \$28.6 million at December 31, 2003 from \$80.7 million at December 31, 2002.

Our core deposit intangible relating to the Success Bancshares acquisition decreased by \$1.8 million, or 13.2%, to \$11.6 million at December 31, 2003 from \$13.4 million at December 31, 2002. The change reflected aggregate amortization expense for the year ended December 31, 2003.

Other assets increased by \$6.6 million to \$16.0 million at December 31, 2003 from \$9.4 million at December 31, 2002, reflecting primarily a \$6.1 million increase in deferred tax assets.

Deposits increased \$19.1 million, or 1.8%, to \$1.074 billion at December 31, 2003 from \$1.055 billion at December 31, 2002. The deposit growth was concentrated in money market accounts, which increased 8.5%, savings accounts, which increased 11.3% and time deposits, which increased by 3.9%. The increases in these accounts reflected our customers' preference for the higher rates available on our time accounts and money market accounts as compared to our noninterest bearing demand accounts, which decreased by \$15.4 million, or 13.6%. Of this decrease, \$10.8 million was a decrease in internal checking accounts, such as bank cashiers' checks, money orders and Financial Title escrow funds.

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We reduced our borrowings by \$39.0 million, or 12.7%, to \$268.2 million at December 31, 2003 from \$307.2 million at December 31, 2002. In addition to repaying and refinancing certain Federal Home Loan Bank advances, we redeemed trust preferred securities in December 2003 which had been issued in May 1998 by Success Bancshares, which we acquired in 2001. The redemption reduced our balance of trust preferred securities to \$0 at December 31, 2003 from \$14.2 million at December 31, 2002. We funded the redemption by increasing to \$30.0 million from \$15.0 million our term debt under our loan facility with another financial institution.

Total equity decreased by \$6.6 million, or 6.4%, to \$96.9 million at December 31, 2003 from \$103.5 million at December 31, 2002. The decrease in total equity reflected our net loss of \$1.9 million for the year ended December 31, 2003, as well as a \$4.6 million increase in other comprehensive losses due to unrealized losses on securities available-for-sale, net of tax at December 31, 2003. The \$5.7 million in unrealized losses on securities available-for-sale, net of tax, reflected \$10.8 million in gross unrealized losses on our Fannie Mae and Freddie Mac preferred stock portfolio at December 31, 2003, as historically low market interest rates and other factors related to interest rates negatively affected the fair value of these floating rate securities. See “Business of BankFinancial, F.S.B.—Securities Activities—Equity Securities.”

Comparison of Operating Results for the Six Months Ended June 30, 2004 and June 30, 2003

Net Income. We had a net loss of \$6.8 million for the six months ended June 30, 2004 compared to net income of \$2.5 million for the six months ended June 30, 2003. The decrease was primarily due to a \$15.0 million loss, pre-tax, on impairment of securities available-for-sale due to our application of EITF 03-1. The after-tax impact on net income was \$9.2 million. Excluding this charge, we would have recorded net income of \$2.4 million for the six months ended June 30, 2004. See “Business of BankFinancial, F.S.B.—Securities Activities—Equity Securities.”

Interest Income. Interest income decreased \$3.6 million, or 10.2%, to \$32.0 million for the six months ended June 30, 2004 from \$35.6 million for the six months ended June 30, 2003. The decrease in interest income resulted from a 47 basis points decline in the average yield on interest-earning assets to 4.62% from 5.09%, reflecting the decline in market interest rates from 2003 to 2004. The decrease in interest income also resulted from a \$14.7 million, or 1.0%, decline in total interest-earning assets.

Interest income from loans, the most significant portion of interest income, decreased \$1.9 million to \$27.3 million for the six months ended June 30, 2004, from \$29.2 million for the same period in 2003. The decrease resulted from a 62 basis points decrease in the average yield on loans, which was partially offset by an increase in the average balance of net loans receivable of \$52.9 million, or 5.1%, to \$1.088 billion for the six months ended June 30, 2004 from \$1.035 billion for the same period in 2003. Interest income from one- to four-family residential real estate and consumer loans decreased \$2.0 million for the six months ended June 30, 2004 compared to the 2003 period, reflecting continued repayments and refinancing activity in a low interest rate environment.

Interest income from securities available-for-sale decreased \$1.5 million, or 27.4%, to \$3.9 million for the six months ended June 30, 2004 from \$5.3 million for the six months ended June 30, 2003. The average yield decreased 109 basis points to 2.96% from 4.05%, due to resetting coupon rates on floating rate securities, issuer prepayments of debt securities, the reinvestments of prepaid and maturing securities at lower rates. In addition, the portfolio’s average outstanding balance decreased \$2.1 million to \$261.3 million for the six months ended June 30, 2004 from \$263.5 million for the six months ended June 30, 2003.

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Interest Expense. Interest expense decreased by \$3.4 million, or 22.9%, to \$11.6 million for the six months ended June 30, 2004 from \$15.0 million for the six months ended June 30, 2003. The decrease in interest expense resulted from a 54 basis points decrease in the rate paid on average interest-bearing liabilities to 1.86% for the six months ended June 30, 2004 from 2.40% for the six months ended June 30, 2003, which reflected the decrease in market interest rates between the periods. Interest expense on deposits decreased \$953,000, or 13.3%, to \$6.2 million for the six months ended June 30, 2004 from \$7.1 million for the same period in 2003. The decrease was caused by a 22 basis point decline in the average rates paid on such deposits to 1.27% for the six months ended June 30, 2004, which more than offset a \$20.5 million, or 2.1%, increase in average interest-bearing deposits for the six months ended June 30, 2004 from the same period in 2003. The principal component of the decrease in interest expense was a decrease of \$779,000, or 14.9%, in the interest paid on certificates of deposit, reflecting a 36 basis point decline in the average rate paid on certificates to 2.00% for the six months ended June 30, 2004.

Interest expense on borrowings decreased by \$2.5 million, or 31.5%, to \$5.4 million for the six months ended June 30, 2004 from \$7.8 million for the same period in 2003. The 2004 period results include \$2.1 million of Federal Home Loan Bank prepayment penalty amortization. The decrease in interest expense on borrowings was the result of a 138 basis point decline in the average rates paid on borrowings, combined with a \$23.6 million decrease in average borrowings. The decrease in rates reflected a restructuring of high-costing Federal Home Loan Bank advances in July 2003 as well as our redeeming the Success Bancshares trust preferred securities in December 2003 using lower-cost, adjustable rate term debt.

Net Interest Income. Net interest income decreased by \$190,000, or 0.9% to \$20.4 million for the six months ended June 30, 2004 from \$20.6 million for the six months ended June 30, 2003. The modest decrease in net interest income occurred notwithstanding a slight improvement in our net interest rate spread to 2.76% for the six months ended June 30, 2004 from 2.69% for the six months ended June 30, 2003. The decrease in net interest income resulted from a reduction in our ratio of interest-earning assets to interest-bearing liabilities as our average interest-earning assets decreased by \$14.6 million while our average interest-bearing liabilities decreased by only \$3.2 million. Our net interest margin remained stable at 2.95% for the six months ended June 30, 2004 and 2003.

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 credit losses incurred 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 later 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. Based on our evaluation of the above factors, we recorded no provision for loan losses for the six months ended June 30, 2004. Our decision regarding the provision reflected the \$4.2 million decline in our gross loan portfolio and the reduction in the amount of the allowance for loan losses allocated to impaired loans as of June 30, 2004 compared to December 31, 2003. The amount of the allowance for loan losses allocated to impaired loans decreased \$1.5 million to \$1.4 million at June 30, 2004 compared to \$2.9 million at December 31, 2003, due to the charge-off of two nonresidential loans and two commercial loans. We used the same general methodology in assessing the allowance for both periods. The allowance for loan losses was \$10.7

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million, or 1.00% of total loans at June 30, 2004, as compared to \$12.1 million, or 1.20% of total loans at June 30, 2003. The allowance for loan losses was 135.26% of our nonperforming loans at June 30, 2004 and 176.54% of our nonperforming loans at June 30, 2004. To the best of our knowledge, we have recorded all losses that are both probable and reasonable to estimate for each reporting period.

Noninterest Income. Our noninterest income increased by \$156,000, or 3.8%, to \$4.3 million for the six months ended June 30, 2004 from \$4.2 million for the same period in 2003. We recognized \$419,000 in gain on the sale of investment securities for the six months ended June 30, 2004; there were no similar gains in the prior year's period. We periodically take advantage of market opportunities to decrease our securities portfolio if there would be a positive impact on our net interest margin and no material loss on the sale. Loan servicing fees increased by \$187,000, or 68.8%, to \$459,000 for the six months ended June 30, 2004, reflecting the increase in our total mortgage servicing portfolio. Amortization and impairment of mortgage servicing rights decreased to \$307,000 for the six months ended June 30, 2004 from \$1.2 million for the same period in 2003. The increase in long-term mortgage rates in the first half of 2004, when compared to the first half of 2003, led to a decline in prepayments and thus a slower amortization of our mortgage servicing rights in 2004 as compared to 2003. Our gain on sales of loans decreased to \$157,000 from \$1.9 million, reflecting \$39.6 million of sales during the six months ended June 30, 2004 as compared to \$83.5 million of sales during the six months ended June 30, 2003.

Noninterest Expense. Our noninterest expense was \$36.3 million for the six months ended June 30, 2004 compared to \$21.8 million in 2003. The \$14.5 million increase resulted from a \$15.0 million impairment loss, pre-tax, that we recognized as of June 30, 2004 on preferred securities issued by two federal government-sponsored entities, Fannie Mae and Freddie Mac. Excluding this charge, we would have recorded non-interest expense of \$21.3 million for the six months ended June 30, 2004. The impairment loss resulted from our application of the provisions of EITF 03-1. Compensation expense decreased by \$327,000, or 2.4%, to \$13.2 million, due to executive severance payments in the 2003 period that did not recur in the 2004 period.

Income Tax Expense. We recorded an income tax benefit of \$4.8 million for the six months ended June 30, 2004 compared to income tax expense of \$780,000 for the six months ended June 30, 2003. The income tax benefit in 2004 was due to our \$11.6 million loss before income taxes for the six months ended June 30, 2004 compared to income before income taxes of \$3.3 million for the six months ended June 30, 2003.

Comparison of Operating Results for the Years Ended December 31, 2003 and December 31, 2002

Net Income. We recorded a net loss of \$1.9 million for the year ended December 31, 2003 compared to net income of \$5.0 million for the year ended December 31, 2002. The net loss resulted primarily from a decrease in net interest income and higher noninterest expense resulting primarily from a \$12.4 million prepayment penalty on Federal Home Loan Bank advance restructuring, which was partially offset by increased noninterest income. The after-tax impact of the prepayment penalties was \$7.6 million. Excluding this charge, we would have recorded net income of \$5.7 million for the year ended December 31, 2003.

Interest Income. Interest income decreased by \$14.2 million, or 17.2%, to \$68.0 million for the year ended December 31, 2003 from \$82.2 million for the year ended December 31, 2002. The decrease in interest income resulted primarily from a 69 basis points decline in the average yield on interest earning assets to 4.91% for the year ended December 31, 2003 from 5.60% for the year ended December 31, 2002, reflecting declining market interest rates from year-to-year. The decrease in interest income also was due to a \$83.8 million, or 5.7%, decrease in total interest-earning assets to \$1.384 billion for the year ended December 31, 2003 from \$1.468 billion for the prior year.

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Interest income on loans decreased by \$11.3 million, or 16.6%, to \$56.9 million for the year ended December 31, 2003 from \$68.2 million for the same period in 2002. The decrease in interest income on loans was attributable to a 72 basis points decrease in the average yield on loans to 5.38% from 6.10%, reflecting lower market interest rates, and a \$60.2 million, or 5.4%, decrease in the average balance of loans. During 2003, \$137.7 million of adjustable rate residential mortgage loans were securitized; and there were no securitizations in 2002. In addition, in 2003, substantially all eligible fixed-rate residential mortgage loans we originated were sold in the secondary mortgage market with servicing rights retained.

Interest income on securities available-for-sale decreased \$2.7 million, or 22.7%, to \$9.3 million for the year ended December 31, 2003 from \$12.0 million for the year ended December 31, 2002. The decrease resulted from a 78 basis point decrease in the yield on such assets to 3.57% for the year ended December 31, 2003 from 4.35% for the year ended December 31, 2002, reflecting prepayments and repricing of the securities in a declining interest rate environment. The decrease was also due to a \$16.2 million, or 5.9%, decrease in the average balance of available-for-sale securities to \$260.0 million for the year ended December 31, 2003 from \$276.1 million for the year ended December 31, 2002. Interest income on Federal Home Loan Bank stock increased \$242,000 to \$1.4 million for the year ended December 31, 2003 from \$1.1 million for the year ended December 31, 2002. The increase reflected a 78 basis point increase in average yield on Federal Home Loan Bank stock to 6.17% for the year ended December 31, 2003 from 5.39% for the year ended December 31, 2002, as well as a \$1.3 million increase in the average balance of Federal Home Loan Bank stock.

Interest Expense. Interest expense decreased by \$8.2 million, or 21.1%, to \$30.6 million for the year ended December 31, 2003 from \$38.8 million for the year ended December 31, 2002. Interest expense on deposits decreased by \$6.2 million, or 31.7%, to \$13.3 million for the year ended December 31, 2003 from \$19.5 million for the same period in 2002. The decrease was due to a 56 basis point decline in average rates paid on such deposits to 1.40% for the year ended December 31, 2003, and a \$44.1 million, or 4.4%, decrease in the average balance of such deposits. A principal component of the decrease in interest expense was a \$4.1 million, or 30.0%, decrease in interest expense on certificates of deposit. This decrease resulted from a 73 basis point decrease in the cost of such deposits to 2.24% for the year ended December 31, 2003, and reflected a decrease in market interest rates generally.

Interest expense on borrowings decreased by \$2.0 million, or 10.5%, to \$17.2 million for the year ended December 31, 2003 from \$19.3 million for the same period in 2002. The decrease in interest expense on borrowings reflected a \$48.1 million, or 14.6%, decrease in the average balance of such borrowings, which more than offset a 28 basis point increase in the average cost of such borrowings to 6.10% from 5.82%. Interest expense for the year ended December 31, 2003 included \$4.1 million in amortization of prepayment penalties on our Federal Home Loan Bank advance restructuring. The decrease in average borrowings was largely due to our restructurings of \$170.0 million in Federal Home Loan Bank advances in July 2003.

Net Interest Income. Net interest income decreased by \$5.9 million, or 13.7%, to \$37.5 million for the year ended December 31, 2003 from \$43.4 million for the year ended December 31, 2002. The decrease was primarily due to a contraction of our net interest margin to 2.71% for the year ended December 31, 2003 from 2.96% for the same period in 2002 and a contraction of our net interest rate spread for the year ended December 31, 2003 to 2.43% for the year ended December 31, 2003 from 2.68% for the earlier year. The contraction in net interest margin and net interest rate spread were only

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partially offset by an improvement in our ratio of interest-earning assets to interest-bearing liabilities to 112.25% from 110.76%, as the difference between our total average interest-earning assets and average interest-bearing liabilities increased by \$8.4 million. The decrease in our interest rate spread was due in part to the \$4.1 million Federal Home Loan Bank advance prepayment amortization and to \$1.8 million of amortization attributable to the redemption of the trust preferred securities and prepayments in the loan portfolio acquired from Success Bancshares.

Provision for Loan Losses. We recorded a credit for loan losses of \$579,000 for the year ended December 31, 2003 compared to a credit for loan losses of \$422,000 for the year ended December 31, 2002. The credit in 2003 reflected recoveries of \$585,000 for the year ended December 31, 2003, which more than offset charge-offs of \$433,000 for the period, as well as a \$4.2 million reduction in the balance of our loan portfolio. The 2003 recoveries included \$278,000 for several commercial loans and \$275,000 for one non-residential loan that had been charged-off by Success Bancshares prior to the acquisition. Nonperforming loans decreased by \$6.6 million to \$7.1 million at December 31, 2003 from \$13.8 million at December 31, 2002. The allowance for loans losses was \$12.0 million, or 1.12% of total loans at December 31, 2003, compared to \$12.5 million, or 1.15% of total loans at December 31, 2002. The allowance for loan losses was 169.02% of our nonperforming loans at December 31, 2003 and 90.51% of our nonperforming loans at December 31, 2002. To the best of our knowledge, we have recorded all losses that are both probable and reasonable to estimate for each reporting period.

Noninterest Income. Our noninterest income increased by \$2.1 million, or 31.2%, to \$9.0 million for the year ended December 31, 2003 from \$6.9 million for the year ended December 31, 2002. The increase reflected a \$1.1 million, or 78.9%, increase in gain on sales of loans. This increase reflected the high volume of originations of fixed-rate residential mortgage loans, all of which were sold in the secondary mortgage market. Fees and service charges increased \$678,000, or 13.3%, and loan servicing fees increased \$58,000, or 9.6%, reflecting this origination and sales activity. Amortization and impairment of mortgage servicing rights decreased to \$1.5 million for the year ended December 31, 2003 from \$2.1 million for the year ended December 31, 2002. The somewhat higher long-term mortgage rates in late 2003 compared to 2002 led to lower expected prepayment rates, which resulted in reduced impairment of our mortgage servicing rights.

Noninterest Expense. Noninterest expense increased by \$6.7 million, or 14.9%, to \$51.6 million for the year ended December 31, 2003 from \$44.9 million for the year ended December 31, 2002. The primary cause for the increase in noninterest expense was the \$8.3 million expense related to the early extinguishment of debt, as nearly all other items of noninterest expense decreased during the year. In July 2003, as a result of the historically low interest rate environment, we experienced unprecedented prepayments of loans and securities and a sharp increase in the interest rate sensitivity of our assets. Because of this increased interest rate sensitivity and our expectations of future higher market interest rates, we restructured \$170.0 million of Federal Home Loan Bank advances. In connection with this action, we recorded a \$15.4 million prepayment penalty, recognizing an immediate expense of \$8.3 million on the early extinguishment of debt, and, in accordance with Emerging Issues Task Force 96-17, "Debtor's Accounting for a Modification or Exchange of Debt Instruments," amortized the remaining prepayment penalty as a yield adjustment over the life of the refinanced borrowings. Partly offsetting the noninterest expense related to the restructuring of the Federal Home Loan Bank advances were decreases in office occupancy expense of \$1.3 million, or 21.4% (reflecting the occupancy of our new office facility in July 2003 and the reduction in rent expense related to the closing in 2002 of Success Bancshares' former headquarters) and data processing expense of \$879,000, or 25.9%, as Success Bancshares' data processing platform was integrated during the year. Our other general and administrative expenses increased \$782,000, or 22.1%.

Income Tax Expense. We recorded an income tax benefit of \$2.6 million for the year ended December 31, 2003 compared to an income tax expense of \$748,000 for the year ended December 31, 2002. The income tax benefit in 2003 was due in part to a \$4.5 million loss before income taxes for the year ended December 31, 2003 compared to our \$5.8 million in income before income tax for the prior year. Our effective tax rate was 12.91% in 2002. The effective tax rate differed from the statutory tax rate of 34%, primarily due to the dividend-received deduction on our Fannie Mae and Freddie Mac preferred stock.

Comparison of Operating Results for the Years Ended December 31, 2002 and December 31, 2001

Net Income. Net income was \$5.0 million for the year ended December 31, 2002, the first full year following our acquisition of Success Bancshares and its wholly owned subsidiary, Success National Bank, compared to \$3.1 million for the year ended December 31, 2001. The increase in net income reflected increased net interest income and noninterest income, which was partially offset by increased noninterest expense.

Interest Income. Interest income increased by \$3.7 million, or 4.8%, to \$82.2 million for the year ended December 31, 2002 from \$78.5 million for the year ended December 31, 2001. The increase in interest income resulted primarily from a \$259.0 million, or 21.4%, increase in total interest-earning assets, which more than offset an 89 basis point decrease in average yield on these assets to 5.60% for the year ended December 31, 2002 from 6.49% for the prior year, reflecting a decline in market interest rates, including the prime rate, through 2002 as compared to the previous year.

Interest income on loans increased \$6.0 million, or 9.6%, reflecting a \$201.7 million, or 22.0%, increase in the average balance of loans, due principally to our acquisition of Success Bancshares. While this increase was partially offset by a decrease of 69 basis points in the average yield on loans in the lower market interest rate environment, the decline in average yields was moderated by the change in our balance sheet resulting from the assumption of higher yielding multi-family mortgage loans, nonresidential real estate loans and commercial leases acquired in the Success Bancshares acquisition.

Interest income on securities available-for-sale decreased \$2.3 million, or 15.8%, to \$12.0 million for the year ended December 31, 2002 from \$14.3 million for the year ended December 31, 2001. The decrease was due primarily to a 134 basis point decline in the average yield of the securities available for sale portfolio reflecting a decline in market interest rates generally, which was only partially offset by a \$25.1 million, or 10.0%, increase in the average balance of the securities in our portfolio, principally because of the Success Bancshares acquisition. Interest income on Federal Home Loan Bank stock increased slightly by \$76,000 to \$1.1 million for the year ended December 31, 2002 from \$1.0 million for the year ended December 31, 2001. This increase resulted from a \$3.5 million, or 20.6%, increase in the average balance of Federal Home Loan Bank stock to \$20.7 million from \$17.2 million, which was almost entirely offset by a 67 basis points decrease in the average yield on such stock to 5.39% for the year ended December 31, 2002 from 6.06% for the year ended December 31, 2001.

Interest Expense. Interest expense decreased by \$10.0 million, or 2.05%, to \$38.8 million for the year ended December 31, 2002 from \$48.7 million for the year ended December 31, 2001. The decrease in interest expense resulted from a 150 basis points decrease in the cost of average interest-bearing liabilities to 2.92% for the year ended December 31, 2002 from 4.42% for the year ended December 31, 2001, which was only partially offset by a \$222.1 million, or 20.1%, increase in average interest-bearing liabilities to \$1.326 billion for the year ended December 31, 2002 from \$1.103 billion for the year ended December 31, 2001. The significant decrease in the average cost of interest-bearing liabilities reflected the decline in market interest rates generally from year to year. Interest expense on deposits decreased by

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\$13.2 million, or 40.4%, to \$19.5 million for the year ended December 31, 2002 from \$32.7 million for the year ended December 31, 2001. The decrease was due to a 192 basis point decrease in the rates paid on deposits in the lower market interest rate environment in 2002 as compared to 2001. The decrease in rates paid more than offset the effects of a \$154.9 million, or 18.4%, increase in the average balance of interest-bearing deposits due to the acquisition of Success Bancshares. The principal component of the decrease in interest expense was a decrease of \$12.0 million, or 46.4%, in the interest expense on certificates of deposit, as the average rates paid on these liabilities decreased 217 basis points to 2.97% for the year ended December 31, 2002 from 5.14% for the year ended December 31, 2001 and the average balance of these liabilities decreased by \$36.8 million, or 7.3%, to \$465.7 million for the year ended December 31, 2002 from \$502.4 million for the year ended December 31, 2001. The decrease in the average balance of certificates of deposit reflected, in part, deposit attrition following the Success Bancshares acquisition.

Interest expense on borrowings increased \$3.2 million, or 20.1%, to \$19.3 million for the year ended December 31, 2002 from \$16.0 million for the prior year. The increase was due to a \$67.3 million, or 25.5%, increase in the average balance of such borrowings, which more than offset the 27 basis point decrease in the average rate paid on such borrowings. The increase in the average balance of such borrowings reflected the acquisition of Success Bancshares, which funded its assets in part through Federal Home Loan Bank advances and had outstanding \$15.0 million of trust preferred securities. In addition, we borrowed \$15.0 million from another financial institution to fund a portion of the acquisition of Success Bancshares.

Net Interest Income. Net interest income increased by \$13.7 million, or 46.2%, to \$43.4 million for the year ended December 31, 2002 from \$29.7 million for the year ended December 31, 2001. The increase was due primarily to an improvement in our net interest rate spread to 2.68% for the year ended December 31, 2002 from 2.07% for the same period in 2001, as the average rates paid on interest-bearing liabilities decreased 150 basis points to 2.92% from 4.42% while the average yield on our interest-earning assets decreased by only 89 basis points, reflecting lower market interest rates during 2002 as compared to 2001. In addition to the effect of improvement in our net interest rate spread, the improvement in our net interest income was attributable to an increase in our ratio of interest-earning assets to interest-bearing liabilities as average interest-earning assets increased by \$259.0 million, or 21.4%, to \$1.468 billion for the year ended December 31, 2002, while our average interest-bearing liabilities increased by \$222.1 million, or 20.1%. The growth in our average interest-earning assets was principally due to our acquisition of Success Bancshares in November 2001. The higher-yielding multi-family mortgage loans, nonresidential real estate loans and commercial leases acquired in this transaction helped moderate the decline in market interest rates for the period.

Provision for Loan Losses. We recorded a credit for loan losses of \$422,000 for the year ended December 31, 2002 as compared to a provision of \$2.0 million for the prior year. The credit was based in part on recoveries during 2002 of \$710,000, which partially offset total charge-offs during the year of \$1.3 million. The \$2.0 million provision for the year ended December 31, 2001 was primarily attributable to the ongoing shift of our loan portfolio from lower risk one- to four-family residential mortgage lending to higher risk commercial lending. At December 31, 2002, the ratio of our allowance for loan losses to total loans was 1.15% and the ratio of our allowance for loan losses to nonperforming loans was 90.51%. At December 31, 2001, the ratio of our allowance for loan losses to total loans was 1.12% and the ratio of our allowance for loan losses to nonperforming loans was 122.61%. Nonperforming loans increased by \$2.8 million to \$13.8 million at December 31, 2002 from \$11.0 million at December 31, 2001. To the best of our knowledge, we have recorded all losses that are both probable and reasonable to estimate for each reporting period.

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Noninterest Income. Noninterest income increased by \$1.8 million, or 36.1%, to \$6.9 million for the year ended December 31, 2002 from \$5.0 million for the year ended December 31, 2001. The increase reflected a \$2.0 million, or 63.8%, increase in fees and service charges related to the significant increase in loan and deposit relationships attributable to the Success Bancshares acquisition. Also contributing to the increase in noninterest income was a \$354,000, or 140.5%, increase in loan servicing fees related to our mortgage banking operations. Noninterest income for the year ended December 31, 2001 was negatively impacted when we recorded a \$982,000 decrease in the fair value of derivatives due to the termination of all remaining interest rate swap contracts. The increases in noninterest income were partially offset by higher amortization and impairment of mortgage servicing assets, which increased to \$2.1 million for the year ended December 31, 2002 from \$439,000 for the year ended December 31, 2001. The higher amortization and impairment in 2002 reflected higher prepayment activity in 2002 compared to 2001, the growth in our mortgage servicing rights portfolio and the continued decrease in long-term mortgage rates in 2002, which led to higher expected prepayment rates and the resulting impairment of our mortgage servicing rights.

Noninterest Expense. Our noninterest expense increased by \$15.9 million, or 54.8%, to \$44.9 million for the year ended December 31, 2002 from \$29.0 million for the year ended December 31, 2001. The primary reason for the increased noninterest expense was an \$8.6 million, or 45.3%, increase in compensation reflecting increased personnel and associated expenses resulting from the Success Bancshares acquisition in late 2001. Similarly, data processing expenses increased by \$1.1 million, or 46.2%, resulting from our using multiple data processing platforms prior to the systems conversion of Success Bancshares. Supplies, telephone and postage expenses increased \$882,000, or 66.1%, and office occupancy expenses increased by \$2.9 million, or 83.5%, both resulting from the seven branch offices added in the Success Bancshares acquisition. Amortization of intangibles acquired in the Success Bancshares transaction was \$1.8 million for the year ended December 31, 2002, and there was no similar noninterest expense incurred for the year ended December 31, 2001.

Income Tax Expense. Income taxes increased by \$149,000, or 24.9%, to \$748,000 for the year ended December 31, 2002 compared to \$599,000 for the prior year. The increase reflected higher pre-tax income in 2002 compared to 2001. The effective tax rate was 12.9% in 2002 compared to 16.0% in 2001. The effective tax rates were lower than the statutory rate of 34.0% for these periods primarily due to the dividends-received deduction with respect to our Freddie Mac and Fannie Mae preferred stock portfolio.

Impact of Inflation and Changing Prices

The financial statements and related notes of BankFinancial Corporation have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The impact of inflation 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.

Liquidity and Capital Resources

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

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Our primary sources of funds are deposits, principal and interest payments on loans and securities, and, to a lesser extent, wholesale borrowings, the proceeds from maturing securities and short-term investments, and the proceeds from the sales of loans and securities. The scheduled amortization of loans and securities, as well as proceeds from borrowings, are predictable sources of funds. Other funding sources, however, such as deposit inflows, mortgage prepayments and mortgage loan sales are greatly influenced by market interest rates, economic conditions and competition.

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 beginning on page F-6 of this prospectus. Our primary investing activities are the origination for investment or sale of one- to four-family residential mortgage loans, the origination for investment of multi-family mortgage, nonresidential real estate and other loans, and the purchase of investment securities and mortgage-backed securities. During the six months ended June 30, 2004 and 2003 and the years ended December 31, 2003, 2002 and 2001, our loans originated for sale totaled \$39.6 million, \$83.5 million, \$158.1 million, \$117.2 million and \$77.0 million, respectively. During the six months ended June 30, 2004 and 2003 and the years ended December 31, 2003, 2002 and 2001, our loans originated for investment totaled \$217.5 million, \$263.9 million, \$534.3 million, \$605.9 million and \$187.7 million, respectively. Purchases of loans totaled \$43.1 million, \$11.3 million, \$115.7 million, \$13.8 million and \$1.8 million for the six months ended June 30, 2004 and 2003 and the years ended December 31, 2003, 2002 and 2001, respectively. Purchases of securities available-for-sale totaled \$0, \$24.7 million, \$25.7 million, \$70.4 million and \$210.4 million for the six months ended June 30, 2004 and 2003 and the years ended December 31, 2003, 2002 and 2001, respectively.

These activities were funded primarily by principal repayments on loans and securities, and the sale of loans. During the six months ended June 30, 2004 and 2003 and the years ended December 31, 2003, 2002 and 2001, principal repayments on loans totaled \$234.2 million, \$279.6 million, \$515.9 million, \$723.1 million and \$324.4 million, respectively. During the six months ended June 30, 2004 and 2003 and the years ended December 31, 2003, 2002 and 2001, principal repayments on securities available-for-sale totaled \$23.0 million, \$72.0 million, \$127.0 million, \$66.5 million and \$22.4 million, respectively. During the six months ended June 30, 2004 and 2003 and the years ended December 31, 2003, 2002 and 2001, the proceeds from the sale of loans totaled \$34.2 million, \$85.4 million, \$160.5 million, \$123.5 million and \$63.6 million, respectively. In addition, during the six months ended June 30, 2004 and 2003 and the year ended December 31, 2003, we securitized \$29.3 million, \$70.6 million and \$137.7 million in conforming adjustable rate residential mortgage loans.

Loan origination commitments totaled \$64.1 million at June 30, 2004, and consisted of \$8.7 million of fixed-rate loans and \$55.4 million of adjustable-rate loans. Unused lines of credit and standby letters of credit granted to customers were \$217.5 million and \$1.3 million, respectively, at June 30, 2004. At June 30, 2004, commitments to sell mortgages totaled \$3.3 million.

Deposit flows are generally affected by the level of market interest rates, the interest rates and other conditions on deposit products offered by our banking competitors, and other factors. Our deposit flows were also affected by our acquisition of Success Bancshares in 2001 and depositor attrition partially due to our repricing of some of the higher cost deposits that we acquired in the acquisition. The net change in total deposits was \$30.8 million, \$12.6 million, \$19.7 million, \$(116.0) million and \$(97.3) million for the six months ended June 30, 2004 and 2003 and the years ended December 31, 2003, 2002 and 2001, respectively. At times during recent periods, we have not actively competed for higher cost money-market accounts and certificates of deposit, choosing instead to fund loan growth from the repayment of one- to four-family residential mortgage loans. Certificates of deposit that are scheduled to mature in one year or less from June 30, 2004 totaled \$317.2 million. Based upon prior experience and our current pricing strategy, we believe that a significant portion of these deposits will remain with us.

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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 reinvested with us. We generally remain fully invested and utilize additional sources of funds through Federal Home Loan Bank advances, of which \$214.3 million were outstanding at June 30, 2004. At June 30, 2004 we had the ability to borrow an additional \$167.1 million under our credit facilities with the Federal Home Loan Bank of Chicago. We also maintain a \$5.0 million revolving line of credit with another financial institution at the 90-day LIBOR plus 200 basis points. The interest rate of this line of credit resets quarterly. At June 30, 2004, we had not drawn on this line of credit. Finally, at June 30, 2004 we had available pre-approved overnight federal funds borrowing and repurchase agreement lines of credit of \$101.8 million. At June 30, 2004, there was no outstanding balance on these credit lines.

We minimize the funds required to originate one- to four-family residential mortgage loans in two ways. We sell in the secondary market virtually all of our eligible fixed-rate one- to four-family residential mortgage loans. We also securitize the conforming adjustable-rate one- to four-family residential mortgage loans that we originate and hold the securities we receive in exchange. During 2003, we securitized \$137.7 million of such loans. The resulting mortgage-backed securities that we retain on our balance sheet can be sold more readily to meet our liquidity or interest rate management needs. Because the securities carry a lower risk-weight than the underlying loans, the securitizations also lower our regulatory capital requirements.

Under the rules of the Office of Thrift Supervision, BankFinancial, F.S.B. will not be permitted to pay dividends on its capital stock to BankFinancial Corporation, its sole stockholder, if BankFinancial, F.S.B.'s stockholder's equity would be reduced below the amount of the liquidation account to be established in connection with the conversion. See "The Conversion; Plan of Distribution—Liquidation Rights."

As of December 31, 2003, we were not aware of any known trends, events or uncertainties that have or are reasonably likely to have a material impact on our liquidity. As of December 31, 2003, we had no material commitments for capital expenditures.

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 accorded to loans made by us. Although we consider commitments to extend credit in determining our allowance for loan losses, at June 30, 2004, 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. For additional information, see Note 14, "Loan Commitments and Other Related Activities," to our Consolidated Financial Statements beginning on page F-2 of this prospectus.

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

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net proceeds to make a loan to the employee stock ownership plan. At a later date, we may use the net proceeds to pay dividends to stockholders and may repurchase shares of common stock, subject to regulatory limitations. We will invest our initial capital as discussed in “How We Intend to Use the Proceeds from the Offering.”

In the future, BankFinancial Corporation, as the holding company of BankFinancial, F.S.B., will be authorized to pursue other business activities permitted by applicable laws and regulations for bank holding companies, which may include the acquisition of banking and financial services companies. See “Supervision and Regulation—Holding Company Regulation—Permitted Activities” for a discussion of the activities that are permitted for bank holding companies. We currently have no specific arrangements or understandings regarding any specific acquisition transaction. We may also borrow funds for reinvestment in BankFinancial, F.S.B.

Following the offering, our cash flow will depend on earnings from the investment of the net proceeds from the offering that we retain, and any dividends received from BankFinancial, F.S.B. Initially, BankFinancial Corporation will neither own nor lease any property, but will instead pay a fee to BankFinancial, F.S.B. for the use of its premises, equipment and furniture of BankFinancial, F.S.B. At the present time, we intend to employ only persons who are officers of BankFinancial, F.S.B. to serve as officers of BankFinancial Corporation. We will, however, use the support staff of BankFinancial, F.S.B. from time to time. We will pay a fee to BankFinancial, F.S.B. for the time devoted to BankFinancial Corporation by employees of BankFinancial, F.S.B. However, these persons will not be separately compensated by BankFinancial Corporation. BankFinancial Corporation may hire additional employees, as appropriate, to the extent it expands its business in the future.

BUSINESS OF BANKFINANCIAL, F.S.B.

General

BankFinancial, F.S.B. is a full-service, community-oriented savings bank with total assets of \$1.469 billion, total net loans of \$1.068 billion and total deposits of \$1.105 billion at June 30, 2004. We provide financial services to individuals, families and businesses through our 16 full-service banking offices, located in Cook, DuPage, Lake and Will Counties, Illinois. Originally organized in 1924, BankFinancial, F.S.B. reorganized into the mutual holding company structure in January 1999.

BankFinancial, F.S.B.’s business consists primarily of accepting deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in multi-family mortgage loans, nonresidential real estate loans, commercial and construction loans and commercial leases, as well as, one- to four-family residential mortgage loans and in agency securities and mortgage-backed securities. In addition, we sell annuities and securities through our Wealth Management Group, and we sell title insurance, property and casualty insurance and other insurance products through Financial Assurance Services Corporation, one of our two wholly-owned subsidiaries. We design our service delivery channels to suit the needs of our customers, with an emphasis on delivering services electronically and on-demand at our customers’ convenience.

We seek to distinguish ourselves through proactive customer service. We identify and meet customer needs in a professional manner through market research, continuing education of our employees, systems-based internal coordination and performance-tracking; consequently, we earn new business opportunities and customers through referrals from satisfied customers. We also promote relationships within local communities and seek to capitalize on our decentralized regional management to build brand awareness and new relationships.

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Market Area

At June 30, 2004, our 16 full-service banking offices consisted of 10 offices in Cook County, Illinois, one office in DuPage County, Illinois, four offices in Lake County, Illinois and one office in Will County, Illinois. We acquired three of the Cook County offices and all of our Lake County offices as part of our acquisition of Success Bancshares, which was completed in November 2001. Our primary market for deposits is currently concentrated around the areas where our full-service banking offices are located. Our primary lending area consists of the counties where our branch offices are located, as well as contiguous counties in the states of Illinois and Indiana.

The Chicago metropolitan area is one of the largest in the United States. In addition, the Chicago metropolitan statistical area has a diversified economy, employment base and population base. However, as of June 2004, unemployment rates in Cook County (6.6%), and Will County (6.7%) exceeded the national average (5.8%). The unemployment rates for DuPage and Lake Counties were 4.7% and 5.3%, respectively, as of June 2004. The population of the Chicago metropolitan statistical area increased at an annual growth rate of approximately 0.8% between 2000 and 2004, compared to an annual growth rate of 1.0% for the United States as a whole during the same period.

Lending Activities

General. We originate multi-family mortgage loans, nonresidential real estate loans, commercial loans and commercial leases, and construction and land loans. In addition, we originate one- to four-family residential mortgage loans and consumer loans.

As of June 30, 2004, \$234.7 million, or 21.9%, of our total loan portfolio consisted of multi-family mortgage loans, \$254.6 million, or 23.8%, of our total loan portfolio consisted of nonresidential real estate loans, \$83.5 million, or 7.8%, of our total loan portfolio, consisted of commercial loans, \$80.9 million, or 7.5%, of our total loan portfolio, consisted of commercial leases, \$56.6 million, or 5.3%, of our total loan portfolio, consisted of construction and land loans and \$352.9 million, or 32.9%, of our total loan portfolio, consisted of one- to four-family residential mortgage loans, including home equity and other second mortgage loans.

Multi-Family Mortgage Lending. Loans secured by multi-family mortgages totaled approximately \$234.7 million, or 21.9% of our total loan portfolio, at June 30, 2004. Multi-family mortgage loans generally are secured by multi-family rental properties, such as apartment buildings, including subsidized apartment units. At June 30, 2004, we had 588 multi-family mortgage loans with an average loan balance of approximately \$399,100. The majority of our multi-family mortgage loans have adjustable interest rates.

In underwriting multi-family mortgage loans, we consider a number of factors, which include the projected net cash flow to the loan's debt service requirement (generally requiring a minimum ratio of 115% for loans below \$400,000 and 120% for loans above \$400,000), the age and condition of the collateral, the financial resources and income level of the borrower and the borrower's experience in owning or managing similar properties. Multi-family mortgage loans are originated in amounts up to 80% of the appraised value of the property securing the loan. Personal guarantees are usually obtained from multi-family mortgage borrowers.

Loans secured by multi-family mortgages generally involve a greater degree of credit risk than one- to four-family residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and

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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, the borrower's ability to repay the loan may be impaired.

Nonresidential Real Estate Lending. We also originate real estate loans secured by first liens on nonresidential real estate. The nonresidential real estate properties are predominantly office buildings, light industrial buildings, shopping centers and mixed-use developments and, to a lesser extent, more specialized properties such as nursing homes and other healthcare facilities. We may, from time to time, purchase commercial real estate loan participations. We emphasize nonresidential real estate loans with initial principal balances between \$1.0 million and \$5.0 million. Loans secured by nonresidential real estate totaled \$254.6 million, or 23.7%, of our total loan portfolio at June 30, 2004, and consisted of 372 loans outstanding with an average loan balance of approximately \$684,500, although there are a large number of loans with balances substantially greater than this average. Substantially all of our nonresidential real estate loans are secured by properties located in our primary market area.

Our nonresidential real estate loans are 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 25-year payout schedules. We also originate some 15-year fixed-rate, fully amortizing loans. Margins generally range from 200 basis points to 300 basis points above the applicable Federal Home Loan Bank advance rate.

In the underwriting of nonresidential real estate loans, we generally lend up to 80% of the property's appraised value. We base our decisions to lend on the economic viability of the property 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 obtained from nonresidential real estate borrowers. We require title insurance insuring the priority of our lien, fire and extended coverage casualty insurance, and, if appropriate, flood insurance, in order to protect our security interest in the underlying property.

Nonresidential real estate loans generally carry higher interest rates and have shorter terms than those on one- to four-family residential mortgage loans. Nonresidential real estate loans, however, entail significant additional credit risks compared to one- to four-family residential mortgage loans, as they 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.

Commercial Loans. We make 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. At June 30, 2004, we had 392 commercial loans outstanding with an aggregate balance of \$83.5 million, or 7.8% of the total loan portfolio. These totals include 84 unsecured commercial loans with an aggregate outstanding balance of \$11.8 million. As of June 30, 2004, the average commercial loan balance was approximately \$212,900, although there are a large number of loans with balances substantially greater than this average.

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Commercial credit decisions are based upon our credit assessment of the loan applicant. We determine the applicant'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 applicant to determine character and capacity to manage. Personal guarantees of the principals are usually obtained. In addition to evaluating the loan applicant's financial statements, we consider the adequacy of the primary and secondary sources of repayment for the loan. Credit agency reports of the applicant's credit history supplement our analysis of the applicant's creditworthiness. We may also check with other banks and conduct trade investigations. Collateral supporting a secured transaction also is analyzed to determine its marketability. Commercial business loans generally have higher interest rates than residential loans of like duration 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. Our pricing of commercial loans is based primarily on the credit risk of the borrower, with due consideration given to borrowers with appropriate deposit relationships.

Commercial Leases. We lend money to small and mid-size leasing companies for equipment financing leases. As of June 30, 2004, commercial leases totaled \$80.9 million, or 7.5% of our total loan portfolio. As of that date, we had 511 commercial leases outstanding. 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. The lessee acknowledges our security interest in the leased equipment and agrees to send lease payments directly to us. Consequently, we underwrite lease loans by examining the creditworthiness of the lessee rather than the lessor. Lease loans generally are non-recourse to the leasing company.

Our commercial leases are secured primarily by technology 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. We require that a minimum of 50% of our commercial lessees have an investment grade public debt rating by Moody's or Standard & Poors, or the equivalent. Commercial leases to these entities have a maximum maturity of seven years and a maximum outstanding credit exposure of \$7.0 million to any single entity. At June 30, 2004, the weighted life of our commercial leases was 32.5 months. Lessees without public debt ratings generally have net worth in excess of \$25.0 million. If the lessee does not have a public debt rating, they are subject to the same internal credit analysis as any other customer. Commercial leases to these lessees have a maximum maturity of five years and a maximum outstanding credit exposure of \$5.0 million. In addition, we will originate commercial leases to lessees with below-investment grade public debt ratings, but these leases are limited to 10% of our commercial lease portfolio and have a maximum outstanding credit exposure of \$1.0 million. Lease loans are almost always fully amortizing, with fixed interest rates.

Construction and Land Loans. We originate land acquisition, development and construction loans to builders in our market area. These loans totaled \$56.6 million, or 5.3% of our total loan portfolio at June 30, 2004.

Acquisition loans help finance the purchase of land intended for further development, including single-family houses, multi-family housing and commercial income property. In some cases, we may make an acquisition loan before the borrower has received approval to develop the land as planned. In general, the maximum loan-to-value ratio for a land acquisition loan is 65% of the appraised value of the property, and the maximum term of these loans is two years. We also make development loans to builders in our market area to finance improvements to real estate, consisting mostly of single-family

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subdivisions, typically to finance the cost of utilities, roads, sewers and other development costs. Builders generally rely on the sale of single-family homes to repay development loans, although in some cases the improved building lots may be sold to another builder. The maximum amount loaned is generally limited to the cost of the improvements. Advances are made in accordance with a schedule reflecting the cost of the improvements.

We also grant construction loans to area builders, often in conjunction with development loans. In the case of residential subdivisions, these loans finance the cost of completing homes on the improved property. Advances on construction loans are made in accordance with a schedule reflecting the cost of construction, but are generally limited to 90% of actual construction costs and, as required by applicable regulations, a 75% loan to completed appraised value ratio. Repayment of construction loans on residential subdivisions is normally expected from the sale of units to individual purchasers. In the case of income-producing property, repayment is usually expected from permanent financing upon completion of construction. We commit to provide the permanent mortgage financing on most of our construction loans on income-producing property.

Land acquisition, development and construction lending exposes us to greater credit risk than permanent mortgage financing. The repayment of land acquisition, development and construction loans depends upon the sale of the property to third parties or the availability of permanent financing upon completion of all improvements. In the event we make an acquisition loan on property that is not yet approved for the planned development, there is the risk that approvals will not be granted or will be delayed. These events may adversely affect the borrower and the collateral value of the property. Development and construction loans also expose us to the risk that improvements will not be completed on time in accordance with specifications and projected costs. In addition, the ultimate sale or rental of the property may not occur as anticipated.

One- to Four-Family Residential Mortgage Lending. We offer 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 \$1.0 million. This portfolio totaled \$352.9 million, or 32.9% of our total loan portfolio at June 30, 2004. At June 30, 2004, we had 4,799 one- to four-family residential mortgage loans with an average balance of \$73,500.

We currently offer fixed-rate conventional mortgage loans with terms of 10 to 30 years that are fully amortizing with monthly or bi-weekly loan payments, and adjustable-rate conventional mortgage loans with initial terms of one, three or five years that amortize up to 30 years. We also offer government guaranteed Federal Housing Administration mortgage loans. One- to four-family residential mortgage loans are generally underwritten according to Fannie Mae guidelines, and loans that conform to such guidelines are referred to as “conforming loans.” We generally originate both fixed- and adjustable-rate loans in amounts up to the maximum conforming loan limits as established by Fannie Mae, which is currently \$333,700 for single-family homes. Private mortgage insurance is required for first mortgage loans with loan-to-value ratios in excess of 80%.

We also originate loans above conforming limits, referred to as “jumbo loans,” that have been underwritten to the credit standards of Fannie Mae. These loans are generally eligible for sale to various firms that specialize in the purchase of such non-conforming loans. In our market, the Chicago metropolitan area, larger residential loans are not uncommon. We also originate loans at higher rates that do not fully meet the credit standards of Fannie Mae but are deemed to be acceptable risks. The amount of such loans originated for the first six months of 2004 was \$26.4 million, all of which were retained in our loan portfolio.

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We actively monitor our interest rate risk position to determine the desirable level of investment in fixed-rate mortgages. Depending on market interest rates and our capital and liquidity position, we may retain all of our newly originated longer term fixed-rate, fixed-term residential mortgage loans or we may sell all or a portion of such loans in the secondary mortgage market to government sponsored entities such as Fannie Mae or other purchasers. During periods of low market interest rates, we generally sell in the secondary market all of our newly originated fixed-rate residential real estate loans. Our bi-weekly one- to four-family residential mortgage loans that are retained in our portfolio result in shorter repayment schedules than conventional monthly mortgage loans, and are repaid through an automatic deduction from the borrower's savings or checking account. As of June 30, 2004, bi-weekly mortgage loans totaled \$35.6 million, or 10.1% of our residential loan portfolio. We retain the servicing rights on loans sold to generate fee income and reinforce our commitment to customer service, although we may also sell non-conforming loans to mortgage banking companies, on a servicing-released basis. As of June 30, 2004, loans serviced for others totaled \$367.7 million.

We currently offer several adjustable-rate loan products secured by residential properties with rates that are fixed for an initial period ranging from one year to five years. After the initial fixed period, the interest rate on these loans is generally reset every year based upon a contractual spread or margin above the average yield on U.S. Treasury securities, adjusted to a constant maturity of one year, as published weekly by the Federal Reserve Board, subject to certain periodic and lifetime limitations on interest rate changes. Many of the borrowers who select these loans have shorter-term credit needs than those who select long-term, fixed-rate loans. Adjustable-rate mortgage loans generally pose different credit risks than fixed-rate loans primarily because the underlying debt service payments of the borrowers rise as interest rates rise, thereby increasing the potential for default. At June 30, 2004, our adjustable-rate mortgage portfolio included \$8.0 million in loans that re-price once a year and \$138.7 million in loans that reprice periodically after an initial fixed-rate period of three years or more. We currently securitize our conforming adjustable-rate residential mortgage loans. We retain servicing rights on these loans and receive servicing fees of approximately 0.25% of the outstanding balance of these loans.

We require title insurance on all of our one- to four-family residential mortgage loans, and we also require that borrowers maintain fire and extended coverage casualty insurance (and, if appropriate, flood insurance) in an amount at least equal to the lesser of the loan balance or the replacement cost of the improvements. Nearly all residential loans must have a mortgage escrow account from which disbursements are made for real estate taxes and for hazard and flood insurance. We do not conduct environmental testing on residential mortgage loans unless specific concerns for hazards are determined by the appraiser utilized in connection with the loan.

In addition to traditional one- to four-family residential mortgage loans, we offer home equity loans and home equity lines of credit that are secured by the borrower's primary residence. The borrower is permitted to draw on a home equity line of credit during the first five to 10 years after it is originated and may repay the outstanding balance over a term not to exceed 10 years from the date the home equity line of credit is originated. Our home equity loans are originated with fixed rates of interest. Home equity loans and lines of credit are generally underwritten with the same criteria that we use to underwrite fixed-rate, one- to four-family residential mortgage loans. Home equity loans and lines of credit may be underwritten with a loan-to-value ratio of 90% when combined with the principal balance of the existing mortgage loan. We appraise the property securing the loan at the time of the loan application in order to determine the value of the property securing the home equity loan or line of credit. At the time we close a home equity loan or line of credit, we file a mortgage to perfect our security interest in the underlying collateral. At June 30, 2004, the outstanding balances of home equity loans totaled \$7.2 million, or 0.7% of our total loan portfolio, and the outstanding balance of home equity lines of credit totaled \$100.3 million, or 9.4% of our total loan portfolio.

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Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio, excluding loans held for sale, by type of loan at the dates indicated.

| | At December 31, | | | | | | | | | | | |
|-------------------------------------|--------------------|----------------|--------------------|----------------|--------------------|----------------|--------------------|----------------|------------------|----------------|------------------|----------------|
| | At June 30, 2004 | | 2003 | | 2002 | | 2001 | | 2000 | | 1999 | |
| | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent |
| (Dollars in thousands) | | | | | | | | | | | | |
| One- to four-family residential | \$ 352,920 | 32.92% | \$ 352,079 | 32.70% | \$ 453,884 | 42.00% | \$ 650,486 | 54.33% | \$ 826,816 | 86.63% | \$ 932,304 | 93.64% |
| Multi-family mortgage | 234,654 | 21.88 | 239,758 | 22.27 | 212,441 | 19.65 | 137,472 | 11.48 | 67,185 | 7.04 | 30,553 | 3.07 |
| Nonresidential real estate(1) | 254,633 | 23.74 | 256,871 | 23.86 | 251,459 | 23.27 | 239,857 | 20.03 | 13,465 | 1.41 | 11,143 | 1.12 |
| Construction and land | 56,590 | 5.28 | 65,052 | 6.04 | 36,879 | 3.41 | 50,245 | 4.20 | 994 | 0.10 | 2,734 | 0.27 |
| Commercial loans(2) | 83,473 | 7.78 | 79,729 | 7.41 | 79,459 | 7.35 | 87,829 | 7.34 | 39,713 | 4.16 | 14,423 | 1.45 |
| Commercial leases | 80,907 | 7.54 | 72,962 | 6.78 | 37,166 | 3.44 | 16,671 | 1.39 | 3,587 | 0.38 | 1,754 | 0.18 |
| Consumer | 2,898 | 0.27 | 3,502 | 0.32 | 3,909 | 0.36 | 8,117 | 0.68 | 2,634 | 0.28 | 2,728 | 0.27 |
| Other(3) | 6,334 | 0.59 | 6,621 | 0.62 | 5,572 | 0.52 | 6,667 | 0.55 | — | — | — | — |
| Total loans | 1,072,409 | 100.00% | 1,076,574 | 100.00% | 1,080,769 | 100.00% | 1,197,344 | 100.00% | 954,394 | 100.00% | 995,639 | 100.00% |
| Loans in process | 4,679 | | 993 | | 8,466 | | 2,205 | | 337 | | — | |
| Net deferred loan origination costs | 1,806 | | 1,715 | | 1,158 | | 996 | | 2,049 | | 2,140 | |
| Allowance for loan losses | (10,741) | | (12,034) | | (12,461) | | (13,465) | | (7,464) | | (5,861) | |
| Total loans, net | \$1,068,153 | | \$1,067,248 | | \$1,077,932 | | \$1,187,080 | | \$949,316 | | \$991,918 | |

- (1) Includes loans to healthcare providers, including nursing homes, of \$28.6 million, \$34.1 million, \$21.1 million and \$14.7 million at June 30, 2004 and December 31, 2003, 2002 and 2001, respectively.
- (2) Includes loans to healthcare providers, including nursing homes, of \$9.2 million, \$14.0 million, \$7.3 million and \$13.8 million at June 30, 2004 and December 31, 2003, 2002 and 2001, respectively.
- (3) Includes municipal loans.

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Loan Portfolio Maturities and Yields. The following table summarizes the scheduled repayments of our loan portfolio at December 31, 2003. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less.

| One- to Four-Family | | Multi-Family | | Nonresidential | | Construction and land loans | | Commercial loans, leases and other loans | | Consumer | | Total | |
|---------------------|-----------------------|--------------|-----------------------|----------------|-----------------------|-----------------------------|-----------------------|--|-----------------------|----------|-----------------------|--------|-----------------------|
| Amount | Weighted Average Rate | Amount | Weighted Average Rate | Amount | Weighted Average Rate | Amount | Weighted Average Rate | Amount | Weighted Average Rate | Amount | Weighted Average Rate | Amount | Weighted Average Rate |

(Dollars in thousands)

| Due During the Years Ending December 31, | Amount | Weighted Average Rate | Amount | Weighted Average Rate | Amount | Weighted Average Rate | Amount | Weighted Average Rate | Amount | Weighted Average Rate | Amount | Weighted Average Rate | Amount | Weighted Average Rate |
|--|------------------|-----------------------|------------------|-----------------------|------------------|-----------------------|-----------------|-----------------------|------------------|-----------------------|----------------|-----------------------|--------------------|-----------------------|
| 2004 (1) | \$147,378 | 4.33% | \$17,043 | 5.71% | \$35,377 | 6.04% | \$54,239 | 4.41% | \$53,711 | 4.53% | \$1,568 | 6.81% | \$309,316 | 4.66% |
| 2005 to 2008 | 118,327 | 5.18 | 174,280 | 6.07 | 195,429 | 5.66 | 8,781 | 4.34 | 97,515 | 5.02 | 1,899 | 4.75 | 596,231 | 5.56 |
| 2009 and beyond | 86,374 | 6.46 | 48,435 | 6.41 | 26,065 | 6.14 | 2,032 | 4.00 | 8,086 | 4.92 | 35 | 8.49 | 171,027 | 6.12 |
| Total | \$352,079 | 5.14% | \$239,758 | 6.11% | \$256,871 | 5.76% | \$65,052 | 4.39% | \$159,312 | 4.85% | \$3,502 | 5.71% | \$1,076,574 | 5.42% |

(1) Includes demand loans, loans having no stated repayment schedule or maturity, and overdraft loans.

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at December 31, 2003 that are contractually due after December 31, 2004.

| | Due After December 31, 2004 | | |
|------------------------------------|-----------------------------|------------------|------------------|
| | Fixed | Adjustable | Total |
| | (In thousands) | | |
| One- to four-family residential | \$111,053 | \$93,648 | \$204,701 |
| Multi-family mortgage | 52,323 | 170,392 | 222,715 |
| Nonresidential real estate | 133,861 | 87,633 | 221,494 |
| Construction and land | — | 10,813 | 10,813 |
| Commercial loans, leases and other | 93,182 | 12,419 | 105,601 |
| Consumer | 1,934 | — | 1,934 |
| Total loans | \$392,353 | \$374,905 | \$767,258 |

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Loan Originations, Purchases, Sales and Servicing. While we originate both fixed-rate and adjustable-rate loans, our ability to generate each type of loan depends upon borrower demand, market interest rates, borrower preference for fixed- versus adjustable-rate loans, and the interest rates offered on each type of loan by other lenders competing in our market area. Loan originations are derived from a number of sources, including branch office personnel, existing customers, borrowers, builders, attorneys, accountants and other professionals, real estate broker referrals and walk-in customers.

Our loan origination and sales activity may be adversely affected by a rising interest rate environment that typically results in decreased loan demand, while declining interest rates may stimulate increased loan demand. Accordingly, the volume of loan originations, the mix of fixed and adjustable-rate loans, and the profitability of this activity can vary from period to period. One- to four-family residential mortgage loans are generally underwritten to current Fannie Mae seller/servicer guidelines, and closed on standard Fannie Mae documents. If such loans are sold, the sales are conducted using standard Fannie Mae purchase contracts and master commitments as applicable. One- to four-family mortgage loans may be sold to Fannie Mae on a non-recourse basis whereby foreclosure losses are generally the responsibility of the purchaser and not BankFinancial. Our recent practice has been to sell all qualifying fixed-rate, one- to four-family residential mortgage loans that we originate. In addition, we securitize all adjustable-rate, one- to four-family residential mortgage loans, and we retain the servicing rights on these loans.

We are a qualified loan servicer for both Fannie Mae and Freddie Mac. Our policy has been to retain the servicing rights for substantially all conforming loans sold, and to continue to collect payments on the loans, maintain tax escrows and applicable fire and flood insurance coverage, and supervise foreclosure proceedings if necessary. We retain a portion of the interest paid by the borrower on the loans as consideration for our servicing activities.

Loan Approval Authority and Underwriting. Our Board of Directors grants lending authority to the Asset Quality Committee (the members of which are Directors), our Management Credit Committee, and individual executive officers and loan officers. Our lending activities are subject to written policies established by the Board. These policies are reviewed periodically.

The Asset Quality Committee may approve loans in accordance with applicable loan policies, including our policy governing loans to one borrower. This policy places limits on the aggregate dollar amount of credit that may be extended to any one borrower and related entities. The Management Credit Committee may approve loans up to an aggregate of \$3.0 million to a new borrower and related borrowers for a secured loan, and up to an aggregate of \$5.0 million for an existing customer and related borrowers for a secured loan. The Asset Quality Committee also may approve unsecured loans in amounts up to \$2.0 million and the Management Loan Committee may approve unsecured loans in amounts up to \$1.0 million. Our practices generally provide for a maximum loan-to-one-borrower limit of \$10.0 million.

In connection with our residential and commercial real estate loans, we generally require property appraisals to be performed by independent appraisers who are approved by the Board. Appraisals are then reviewed by the appropriate loan underwriting areas. Under certain conditions, we may not require appraisals for loans under \$250,000, but we obtain appraisals in many of these cases. We also require title insurance, hazard insurance and, if indicated, flood insurance on property securing mortgage loans.

Loan Origination Fees and Costs. In addition to interest earned on loans, we also receive loan origination fees. Such fees vary with the volume and type of loans and commitments made, and competitive conditions in the mortgage markets, which in turn respond to the demand and availability of money. We defer loan origination fees and costs and amortize such amounts as an adjustment to yield over the term of the loan by use of the level-yield method. Deferred loan origination costs (net of deferred fees) were \$1.8 million at June 30, 2004.

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To the extent that originated loans are sold with servicing retained, we capitalize a mortgage servicing asset at the time of the sale in accordance with applicable accounting standards (Statement of Financial Accounting Standards (“SFAS”) No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities”). The capitalized amount is amortized thereafter (over the period of estimated net servicing income) as a reduction of noninterest income. The unamortized amount is fully charged to income when loans are prepaid. Originated mortgage servicing rights with an amortized cost of \$2.6 million are included in other assets at June 30, 2004. See also Notes 1 and 4 of the Notes to Consolidated Financial Statements beginning on page F-2 of this prospectus.

Loans to One Borrower. At June 30, 2004, our five largest aggregate amounts loaned to any one borrower and certain related interests (including any unused lines of credit) consisted of secured and unsecured financing of \$11.7 million, \$10.6 million, \$9.4 million, \$9.3 million and \$9.3 million. Under federal banking regulations, at June 30, 2004 our maximum loan-to-one-borrower limit was \$17.0 million, although our practices generally provide for a maximum loan-to-one-borrower limit of \$10.0 million. See “Supervision and Regulation—Federal Banking Regulation—Loans to One Borrower” for a discussion of applicable regulatory limitations.

Delinquent Loans, Other Real Estate Owned and Classified Assets

Collection Procedures. We send a computer-generated late notice by the 16th day after the payment due date on a loan requesting the payment due plus any late charge that is assessed. Accounts are distributed to a collector or account officer to contact borrowers, determine the reason for delinquency and arrange for payment, and accounts are monitored electronically for receipt of payments. If payments are not received within 30 days of the original due date, a letter demanding payment of all arrearages is sent and contact efforts are continued. If payment is not received within 60 days of the due date, we generally accelerate loans and demand payment in full. In addition, failure to pay within 60 days of the original due date generally results in legal action, notwithstanding ongoing collection efforts. Unsecured consumer loans are charged-off after 120 days. For commercial loans, procedures may vary depending upon individual circumstances.

Loans Past Due and Nonperforming Assets. Loans are reviewed on a regular basis, and are placed on nonaccrual status when either principal or interest is 90 days or more past due. In addition, we place loans on nonaccrual status when we believe that there is sufficient reason to question the borrower’s ability to continue to meet contractual principal or interest payment obligations. 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 not recognized as income unless warranted based on the borrower’s financial condition and payment record. At June 30, 2004, we had nonaccrual loans of \$7.9 million.

Real estate acquired as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned (“REO”) until such time as 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 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.

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The following table sets forth certain information with respect to our loan portfolio delinquencies at the dates indicated. Loans delinquent for 90 days or more are also classified as nonaccrual loans

| | Loans Delinquent For | | | | | |
|---------------------------------|----------------------|-----------------|-----------------|------------------|-----------|------------------|
| | 60-89 Days | | 90 Days or More | | Total | |
| | Number | Amount | Number | Amount | Number | Amount |
| (Dollars in thousands) | | | | | | |
| At June 30, 2004 | | | | | | |
| One- to four-family residential | 5 | \$ 270 | 24 | \$ 2,404 | 29 | \$ 2,674 |
| Multi-family mortgage | 5 | 46 | 5 | 1,288 | 10 | 1,334 |
| Nonresidential real estate | 2 | 4 | 5 | 3,953 | 7 | 3,957 |
| Construction and land | — | — | — | — | — | — |
| Commercial loans | 1 | 27 | 6 | 296 | 7 | 323 |
| Commercial leases | — | — | — | — | — | — |
| Consumer | — | — | — | — | — | — |
| Total | 13 | \$ 347 | 40 | \$ 7,941 | 53 | \$ 8,288 |
| At December 31, 2003 | | | | | | |
| One- to four-family residential | 6 | \$ 679 | 29 | \$ 2,793 | 35 | \$ 3,472 |
| Multi-family mortgage | — | — | — | — | — | — |
| Nonresidential real estate | — | — | 5 | 3,616 | 5 | 3,616 |
| Construction and land | — | — | 2 | 345 | 2 | 345 |
| Commercial loans | 1 | 102 | 5 | 366 | 6 | 468 |
| Commercial leases | — | — | — | — | — | — |
| Consumer | — | — | — | — | — | — |
| Total | 7 | \$ 781 | 41 | \$ 7,120 | 48 | \$ 7,901 |
| At December 31, 2002 | | | | | | |
| One- to four-family residential | 12 | \$ 1,076 | 47 | \$ 4,233 | 59 | \$ 5,309 |
| Multi-family mortgage | 5 | 962 | 3 | 751 | 8 | 1,713 |
| Nonresidential real estate | 2 | 703 | 7 | 7,298 | 9 | 8,001 |
| Construction and land | — | — | — | — | — | — |
| Commercial loans | — | — | 17 | 1,486 | 17 | 1,486 |
| Commercial leases | — | — | — | — | — | — |
| Consumer | 1 | 1 | — | — | 1 | 1 |
| Total | 20 | \$ 2,742 | 74 | \$ 13,768 | 94 | \$ 16,510 |
| At December 31, 2001 | | | | | | |
| One- to four-family residential | 8 | \$ 664 | 54 | \$ 5,203 | 62 | \$ 5,867 |
| Multi-family mortgage | — | — | 4 | 826 | 4 | 826 |
| Nonresidential real estate | 2 | 2,428 | 2 | 2,741 | 4 | 5,169 |
| Construction and land | — | — | 1 | 169 | 1 | 169 |
| Commercial loans | 2 | 1,254 | 19 | 2,043 | 21 | 3,297 |
| Commercial leases | — | — | — | — | — | — |
| Consumer | — | — | — | — | — | — |
| Total | 12 | \$ 4,346 | 80 | \$ 10,982 | 92 | \$ 15,328 |

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Nonperforming Assets. The table below sets forth the amounts and categories of our nonperforming assets at the dates indicated. At each date presented, we had no troubled debt restructurings (loans for which a portion of interest or principal has been forgiven and loans modified at interest rates materially less than current market rates).

| | At June 30, 2004 | At December 31, | | | | |
|--------------------------------------|---------------------|-----------------|-----------------|------------------|----------------|----------------|
| | | 2003 | 2002 | 2001 | 2000 | 1999 |
| (Dollars in thousands) | | | | | | |
| Nonaccrual loans: | | | | | | |
| One- to four-family residential | \$ 2,404 | \$2,793 | \$ 4,233 | \$ 5,203 | \$6,268 | \$4,428 |
| Multi-family mortgage | 1,288 | — | 751 | 826 | 116 | — |
| Nonresidential real estate | 3,953 | 3,616 | 7,298 | 2,741 | — | — |
| Construction and land | — | 345 | — | 169 | — | 1,996 |
| Commercial loans | 296 | 366 | 1,486 | 2,043 | 486 | 174 |
| Commercial leases | — | — | — | — | — | — |
| Consumer | — | — | — | — | 2 | 6 |
| Total nonperforming loans | 7,941 | 7,120 | 13,768 | 10,982 | 6,872 | 6,604 |
| Real estate owned: | | | | | | |
| One- to four-family residential | — | 749 | 723 | 980 | 603 | 1,666 |
| Nonresidential real estate | 369 | — | 230 | — | — | — |
| Land | 885 | 885 | — | — | — | — |
| Total real estate owned | 1,254 | 1,634 | 953 | 980 | 603 | 1,666 |
| Total nonperforming assets | \$ 9,195 | \$8,754 | \$14,721 | \$ 11,962 | \$7,475 | \$8,270 |
| Ratios: | | | | | | |
| Nonperforming loans to total loans | 0.74% | 0.66% | 1.27% | 0.92% | 0.72% | 0.66% |
| Nonperforming assets to total assets | 0.63 | 0.60 | 0.99 | 0.73 | 0.62 | 0.65 |

For the six months ended June 30, 2004 and the year ended December 31, 2003, gross interest income that would have been recorded had the nonaccrual loans at the end of the period remained on accrual status throughout the period amounted to \$460,200 and \$689,000, respectively. No interest income was recognized on these loans.

The amount of the allowance for loan losses allocated to the \$7.9 million of non-performing loans at June 30, 2004, noted above, was \$1.4 million. We have calculated this amount by applying our allowance for loan losses methodology to each of the respective loan categories. This amount includes both specific and general allowances.

Classification of Assets. 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. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present 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. Assets that do not expose us to risk sufficient to warrant classification in one of the aforementioned categories, but which possess potential weaknesses that deserve our close attention, are required to be designated as special mention. As of June 30, 2004, we had \$4.8 million of assets designated as special mention.

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When we classify assets as either substandard or doubtful, we allocate a portion of the related general loss allowances to such assets as we deem prudent. The allowance for loan losses represents amounts that have been established to recognize losses inherent in the loan portfolio that are both probable and reasonably estimable at the date of the financial statements. When we classify problem assets as loss, we charge-off such amount. Our determination as to the classification of our assets and the amount of our loss allowances are subject to review by our regulatory agencies, which can require that we establish additional loss allowances. We regularly review our asset portfolio to determine whether any assets require classification in accordance with applicable regulations. On the basis of our review of our assets at June 30, 2004, classified assets consisted of substandard assets of \$16.6 million, doubtful assets of \$586,000 and no loans classified as loss assets. The classified assets total includes \$1.3 million of real estate acquired through foreclosure and \$7.9 million of nonperforming loans. Included in the substandard total are \$8.6 million of loans to healthcare providers. As discussed in “Risk Factors - Our Concentrations of Loans in the Healthcare Industry Exposes Us to Increased Credit Risks,” the primary source of income is subject to many factors beyond the control of the healthcare provider. As of June 30, 2004, we had not recognized any losses on these types of loans, but we have established specific loan loss reserve allowances in the amount of \$436,000 for loans to two borrowers with a principal balance of \$5.2 million. In addition, based on deficiencies in debt service coverage requirements, we classified loans to one borrower, which had a principal balance of \$3.5 million, as substandard, even though we did not establish a specific loan loss reserve for these loans. All of these borrowers were current on their loan payments to us at June 30, 2004.

Allowance for Loan Losses. 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 which, in our judgment, deserve current recognition in estimating probable losses. We regularly review the loan portfolio and make provisions for loan losses in order to maintain the allowance for loan losses in accordance with accounting principles generally accepted in the United States of America. The allowance for loan losses consists of three components:

- (1) specific reserves established for any impaired 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;
- (2) allowances for loan losses for each loan type based on historical loan loss experience; and
- (3) adjustments to historical loss experience (general reserves), maintained to cover uncertainties that affect our estimate of probable losses for each loan type.

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, ability, and depth of lending management and other relevant staff; and
- national and local economic trends and conditions.

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We evaluate the allowance for loan losses based upon the combined total of the specific, historical loss 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 losses than would be the case without the increase. Generally when the loan portfolio decreases, absent other factors, the allowance for loan loss methodology results in a lower dollar amount of estimated probable losses than would be the case without the decrease.

We consider commercial business loans, nonresidential real estate loans construction and land loans and commercial leases to be riskier than one-to four-family residential mortgage loans. Commercial loans and commercial leases involve a higher risk of default than residential loans of like duration since their repayment generally depends on the successful operation of the borrower's business and the sufficiency of collateral, if any. Nonresidential real estate loans also have greater credit risks compared to one- to four-family residential mortgage loans, as they typically involve large loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment experience on 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. Construction and land loans have greater credit risk than permanent mortgage financing. The repayment of these loans depends upon the sale of the property to third parties or the availability of permanent financing upon completion of all improvements. In the event we make an acquisition loan on property that is not yet approved for the planned development, there is the risk that approvals will not be granted or will be delayed. These events may adversely affect the borrower and the collateral value of the property. Construction and land loans also expose us to the risk that improvements will not be completed on time in accordance with specifications and projected costs. In addition, the ultimate sale or rental of the property may not occur as anticipated.

We periodically evaluate the carrying value of loans and the allowance is adjusted accordingly. While we use the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the information used in making the evaluations. In addition, as an integral part of their examination process, our regulatory agencies periodically review the allowance for loan losses. Such agencies may require us to recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

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

| | At or For the Six Months Ended June 30, | | At or For the Years Ended December 31, | | | | |
|---|--|-----------|--|----------|----------|----------|---------|
| | 2004 | 2003 | 2003 | 2002 | 2001 | 2000 | 1999 |
| | (Dollars in thousands) | | | | | | |
| Balance at beginning of year | \$ 12,034 | \$ 12,461 | \$12,461 | \$13,465 | \$ 7,464 | \$ 5,861 | \$3,870 |
| Charge-offs: | | | | | | | |
| One- to four-family residential | — | (49) | (29) | (100) | (112) | (190) | (209) |
| Multi-family mortgage | — | — | — | (31) | — | — | — |
| Nonresidential real estate | (1,088) | — | — | (70) | — | — | — |
| Construction and land | — | — | — | — | — | — | — |
| Commercial loans | (212) | (353) | (368) | (1,046) | — | (1,081) | (255) |
| Commercial leases | — | — | — | — | — | — | — |
| Consumer | (21) | (7) | (36) | (45) | (30) | (45) | (17) |
| Total charge-offs | (1,321) | (409) | (433) | (1,292) | (142) | (1,316) | (481) |
| Recoveries: | | | | | | | |
| One- to four-family residential | — | — | 26 | 286 | — | 51 | — |
| Multi-family mortgage | — | — | — | — | — | — | — |
| Nonresidential real estate | — | 275(1) | 275(1) | 275(1) | — | — | — |
| Construction and land | — | — | — | — | — | — | — |
| Commercial loans | 10 | — | 278 | — | — | — | — |
| Commercial leases | — | — | — | 149 | — | — | — |
| Consumer | 18 | 6 | 6 | — | 2 | — | — |
| Total recoveries | 28 | 281 | 585 | 710 | 2 | 51 | — |
| Net (charge-offs) recoveries | (1,293) | (128) | 152 | (582) | (140) | (1,265) | (481) |
| Acquisition of Success Bancshares | — | — | — | — | 4,141 | — | — |
| Provision for loan losses | — | (275) | (579) | (422) | 2,000 | 2,868 | 2,472 |
| Balance at end of period | \$ 10,741 | \$ 12,058 | \$12,034 | \$12,461 | \$13,465 | \$ 7,464 | \$5,861 |
| Ratios: | | | | | | | |
| Net charge-offs to average loans outstanding (annualized) | 0.24% | 0.02% | (0.01)% | 0.05% | 0.02% | 0.13% | 0.05% |
| Allowance for loan losses to nonperforming loans | 135.26 | 176.54 | 169.02 | 90.51 | 122.61 | 108.61 | 88.75 |
| Allowance for loan losses to total loans | 1.00 | 1.20 | 1.12 | 1.15 | 1.12 | 0.78 | 0.59 |

(1) Recoveries relate to loans previously charged off by Success Bancshares.

Allocation of Allowance for Loan Losses. The following tables set forth the allowance for loan losses allocated by loan category, the total loan balances by category (excluding loans held for sale) and the percent of loans in each category to total loans at the dates indicated. 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.

During 2001, we expanded our methodology in calculating our allowance for loan losses to fully allocate the general reserve component of our allowance for loan losses to specific types of loans, thereby better linking our assessment of the underlying risks attributed to each loan category. This action was taken, in part, as a result of the FFIEC's issuance in 2001 of "Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions." This Policy Statement is consistent with the Securities and Exchange Commission's Staff Accounting Bulletin 102, "Selected Loan Loss Methodology and Documentation Issues."

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| | At December 31, | | | | | | | | |
|----------------------------|---------------------------|---------------------------|--|---------------------------|---------------------------|--|---------------------------|---------------------------|--|
| | At June 30, 2004 | | | 2003 | | | 2002 | | |
| | 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 | \$ 1,275 | \$ 352,920 | 32.92% | \$ 1,322 | \$ 352,079 | 32.70% | \$ 1,643 | \$ 453,884 | 42.00% |
| Multi-family | 1,760 | 234,654 | 21.88 | 1,797 | 239,758 | 22.27 | 1,592 | 212,441 | 19.65 |
| Nonresidential real estate | 3,840 | 254,633 | 23.74 | 4,313 | 256,871 | 23.86 | 5,410 | 251,459 | 23.27 |
| Construction and land | 848 | 56,590 | 5.28 | 976 | 65,052 | 6.04 | 553 | 36,879 | 3.41 |
| Commercial loans | 2,076 | 83,473 | 7.78 | 2,908 | 79,729 | 7.41 | 2,727 | 79,459 | 7.35 |
| Commercial leases | 414 | 80,907 | 7.54 | 365 | 72,962 | 6.78 | 186 | 37,166 | 3.44 |
| Consumer | 19 | 2,898 | 0.27 | 26 | 3,502 | 0.32 | 51 | 3,909 | 0.36 |
| Other(1) | 158 | 6,334 | 0.59 | 166 | 6,621 | 0.62 | 139 | 5,572 | 0.52 |
| Unallocated | 351 | — | — | 161 | — | — | 160 | — | — |
| Total | \$ 10,741 | \$ 1,072,409 | 100.00% | \$ 12,034 | \$ 1,076,574 | 100.00% | \$ 12,461 | \$ 1,080,769 | 100.00% |

| | At December 31, | | | | | | | | |
|----------------------------|---------------------------|---------------------------|--|---------------------------|---------------------------|--|---------------------------|---------------------------|--|
| | 2001 | | | 2000 | | | 1999 | | |
| | 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 | \$ 2,351 | \$ 650,486 | 54.33% | \$ 5,397 | \$ 826,816 | 86.63% | \$ 4,677 | \$ 932,304 | 93.64% |
| Multi-family | 1,043 | 137,472 | 11.48 | 504 | 67,185 | 7.04 | 229 | 30,553 | 3.07 |
| Nonresidential real estate | 3,156 | 239,857 | 20.03 | 135 | 13,465 | 1.41 | 111 | 11,143 | 1.12 |
| Construction and land | 1,225 | 50,245 | 4.20 | 15 | 994 | 0.10 | 41 | 2,734 | 0.27 |
| Commercial loans | 5,212 | 87,829 | 7.34 | 993 | 39,713 | 4.16 | 361 | 14,423 | 1.45 |
| Commercial leases | 83 | 16,671 | 1.39 | 18 | 3,587 | 0.38 | 9 | 1,754 | 0.18 |
| Consumer | 222 | 8,117 | 0.68 | 26 | 2,634 | 0.28 | 26 | 2,728 | 0.27 |
| Other(1) | 167 | 6,667 | 0.55 | — | — | — | — | — | — |
| Unallocated | 6 | — | — | 376 | — | — | 407 | — | — |
| Total | \$ 13,465 | \$ 1,197,344 | 100.00% | \$ 7,464 | \$ 954,394 | 100.00% | \$ 5,861 | \$ 995,639 | 100.00% |

(6) Includes municipal loans.

Securities Activities

Our securities investment policy is established by our Board of Directors. This policy dictates that investment decisions be made based on the safety of the investment, liquidity requirements, potential returns, cash flow targets, and consistency with our interest rate risk management strategy. Our asset/liability management committee (“ALCO”), which consists of senior management, oversees our investing strategies. The asset/liability management committee of the Board of Directors then reviews ALCO’s activities and strategies, and reports to the full Board of Directors, which evaluates on an ongoing basis our investment policy and objectives. Our chief financial officer is responsible for making securities portfolio decisions in accordance with established policies. Our chief financial officer has the authority to purchase and sell securities within specific guidelines established by the investment policy. In addition, all transactions are reviewed by ALCO at least monthly.

Our current investment policy generally permits securities investments in debt securities issued by the U.S. government and U.S. agencies, municipal bonds, and corporate debt obligations, as well as investments in preferred and common stock of government agencies and government sponsored enterprises such as Fannie Mae, Freddie Mac and the Federal Home Loan Bank of Chicago (federal agency securities) and, to a much lesser extent, other equity securities. Securities in these categories are classified as “investment securities” for financial reporting purposes. The policy also permits investments in mortgage-backed securities, including pass-through securities issued and guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae as well as collateralized mortgage obligations (“CMOs”) issued or backed by securities issued by these government agencies. Also permitted are investments in securities issued or backed by the Small Business Administration, privately issued mortgage-backed securities and asset-backed securities collateralized by auto loans, credit card receivables, and home equity and home improvement loans. As of June 30, 2004, we held no asset-backed securities, and other equity securities consisted almost exclusively of securities issued by Fannie Mae, Freddie Mac and Ginnie Mae. Our current investment strategy uses a risk management approach of diversified investing in fixed-rate securities with short- to intermediate-term maturities, as well as adjustable-rate securities, which may have a longer term to maturity. The emphasis of this approach is to increase overall investment securities yields while managing interest rate risk.

SFAS No. 115 requires that, at the time of purchase, we designate a security as held to maturity, available-for-sale, or trading, depending on our ability and intent. Securities available-for-sale are reported at fair value, while securities held to maturity are reported at amortized cost. We do not have a trading portfolio and do not have any securities held to maturity.

Mortgage-Backed Securities. We purchase mortgage-backed securities in order to generate positive interest rate spreads with minimal administrative expense, lower credit risk as a result of the guarantees provided by Freddie Mac, Fannie Mae and Ginnie Mae, and increased liquidity. We invest primarily in mortgage-backed securities issued or sponsored by Fannie Mae, Freddie Mac, and Ginnie Mae. To a lesser extent, we also invest in securities backed by U.S. government agencies. At June 30, 2004, our mortgage-backed securities portfolio had a fair value of \$151.4 million, consisting of \$149.6 million of pass-through securities and \$1.8 million of collateralized mortgage obligations (“CMOs”) and Real Estate Mortgage Investment Conduits (“REMICs”).

Mortgage-backed securities are created by pooling mortgages and issuing a security collateralized by the pool of mortgages with an interest rate that is less than the interest rate on the underlying mortgages. Mortgage-backed securities typically represent a participation interest in a pool of single-family or multi-family mortgages, although most of our mortgage-backed securities are collateralized by single-family mortgages. The issuers of such securities (generally U.S. government agencies and

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government sponsored enterprises, including Fannie Mae, Freddie Mac and Ginnie Mae) pool and resell the participation interests in the form of securities to investors, such as BankFinancial, F.S.B., and guarantee the payment of principal and interest to these investors. Investments in mortgage-backed securities involve a risk that actual prepayments will be greater or less than the prepayment rate estimated at the time of purchase, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments, thereby affecting the net yield on such securities. We review prepayment estimates for our mortgage-backed securities at the time of purchase to ensure that prepayment assumptions are reasonable considering the underlying collateral for the securities at issue and current interest rates, and to determine the yield and estimated maturity of the mortgage-backed securities portfolio. Periodic reviews of current prepayment speeds are performed in order to ascertain whether prepayment estimates require modification that would cause amortization or accretion adjustments.

A portion of our mortgage-backed securities portfolio is invested in CMOs and REMICs backed by Fannie Mae and Freddie Mac. CMOs and REMICs are types of debt securities issued by a special-purpose entity that aggregates pools of mortgages and mortgage-backed securities and creates different classes of securities with varying maturities and amortization schedules, as well as a residual interest, with each class possessing different risk characteristics. The cash flows from the underlying collateral are generally divided into “tranches” or classes that have descending priorities with respect to the distribution of principal and interest cash flows, while cash flows on pass-through mortgage-backed securities are distributed pro rata to all security holders. Our practice is to limit fixed-rate CMO investments primarily to the early-to-intermediate tranches, which have the greatest cash flow stability. Floating rate CMOs are purchased with emphasis on the relative trade-offs between lifetime interest rate caps, prepayment risk and interest rates.

Equity Securities. At June 30, 2004, our equity securities consisted almost exclusively of shares of five floating rate preferred stocks issued by two government-sponsored entities, Freddie Mac and Fannie Mae, one Freddie Mac fixed rate preferred stock, and common stock issued by the Federal Home Loan Bank of Chicago. The Fannie Mae and Freddie Mac preferred stocks are classified as available-for-sale.

We hold the Federal Home Loan Bank of Chicago common stock to qualify for membership in the Federal Home Loan Bank System and to be eligible to borrow funds under the Federal Home Loan Bank of Chicago’s advance program. There is no market for the common stock, but it is the current practice of the Federal Home Loan Bank of Chicago to redeem tendered shares at par value on the same day the redemption request is made.

The aggregate fair value of our Federal Home Loan Bank of Chicago common stock as of June 30, 2004 was \$23.5 million based on its par value. No unrealized gains or losses have been recorded because the par value of the common stock represents its fair value. Due to our receipt of stock dividends and reduction of our outstanding advances, we owned shares of Federal Home Loan Bank of Chicago common stock at June 30, 2004 with a par value that was \$12.8 million more than we were required to own to maintain our membership in the Federal Home Loan Bank System and to be eligible to obtain advances.

We acquired the Freddie Mac and Fannie Mae preferred stocks between August 2000 and June 2001 to offset the impact of the rapid prepayments that were then occurring in our mortgage loan portfolio, and to improve our ability to manage interest rate risk due to the short repricing intervals on the securities and the tax advantages afforded by the dividends received deduction. The Fannie Mae and Freddie Mac preferred stocks are listed on the New York Stock Exchange. The fair value of the fixed rate

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preferred stock at June 30, 2004, was \$5.0 million, which was \$375,000 in excess of our cost basis for the securities. The aggregate fair value of the floating rate preferred stocks at June 30, 2004 was \$85.6 million, which was \$15.0 million less than our cost basis for the securities.

We review equity securities with significant declines in fair value on a quarterly basis to determine whether they should be considered temporarily or other than temporarily impaired. If a decline in the fair value of a security is determined to be an other than temporary, we are required to reduce the carrying value of the security to its fair value and record a non-cash impairment charge in the amount of the decline, net of tax effect, against our current income.

We have historically conducted impairment reviews in accordance with the limited guidance set forth in SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities." In May of 2004, the Financial Accounting Standards Board adopted new and more stringent guidance for testing securities for impairment. The new guidance is set forth in EITF 03-1, "The Meaning of Other-than-Temporary Impairment and Its Application to Certain Investments." See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies." The new standards that EITF 03-1 establishes for testing equity securities for impairment are more stringent than those previously established by SFAS 115.

We elected to apply EITF 03-1 to our June 30, 2004 financial statements because of our belief that SFAS 115 does not establish standards for impairment testing that are sufficiently stringent to meet the standards that are set forth in Securities and Exchange Commission Staff Accounting Bulletin No. 59 "Noncurrent Marketable Equity Securities," ("SAB No. 59"). The Financial Accounting Standards Board recently delayed the effective date of the impairment testing requirements of EITF 03-1. The delay does not affect the impairment testing requirements currently imposed by SAB No. 59.

Under EITF 03-1, an unrealized loss on an equity security is presumed to be an other than temporary impairment (and thus a charge against current income) unless we are able to develop an evidence-based forecast showing whether, when and under what circumstances the security will recover in value, and are able to conclude from that forecast and all other relevant evidence that it is more likely than not that the security will recover in value up to or beyond its cost basis within a reasonable period of time. A determination that an impairment is only temporary becomes increasingly more difficult to make as the severity and duration of the unrealized loss become greater, and as the length and uncertainty of the forecasted recovery increase. The guidance does not define a reasonable period of time for a forecasted recovery.

We tested the Fannie Mae and Freddie Mac floating rate preferred stocks for impairment at June 30, 2004 because their fair value was significantly below the cost basis of the securities. We conducted an analysis to identify the causes of the unrealized losses and concluded that they were primarily attributable to the historic declines in market interest rates and interest rate volatilities that have occurred since we acquired the floating rate preferred stocks. We further concluded that the floating rate dividends (which are based on interest rate indices) and the other bond-like features of the floating rate preferred stocks cause the market prices for the preferred stocks to change as market interest rates and volatilities and the forward yield curve change, but that the price changes typically lag changes in market interest rates and volatilities and the forward yield curve because the dividend rates reset at periodic intervals.

We also considered whether any factors specific to Fannie Mae and Freddie Mac have had a material role in the unrealized losses, and concluded that they have not. The floating rate preferred stocks have maintained the same investment grade rating (AA- for S&P and Aa3 for Moody's) since the time of

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issuance. The financial conditions of Fannie Mae and Freddie Mac remain strong and no events have occurred that call into question their ability to pay the stated dividends on the preferred stocks. In addition, the common stocks of Fannie Mae and Freddie Mac are trading at or near the market prices at which they traded when the preferred stocks were issued and have outperformed the S&P 500 index over that period, which further indicates that issuer-specific factors have not had a material role in the declines in value.

To meet the forecasted recovery requirements of EITF 03-1, we performed valuation modeling in consultation with an independent expert. The model results showed a strong causal relationship between the unrealized losses on the floating rate preferred stocks and the abnormally low interest rates and abnormally high volatility rates that have prevailed since shortly after we acquired them. The model also confirmed that each of the floating rate preferred stocks should increase in value as interest rates, volatility rates and the spreads to the relevant risk-free benchmarks return to historical norms.

We evaluated this evidence and concluded that the unrealized losses on the Fannie Mae and Freddie Mac floating rate preferred stocks constituted other than temporary impairments at June 30, 2004, notwithstanding our belief that the securities will ultimately recover all or substantially all of their cost basis as interest rates, volatility rates and the spreads to the relevant risk-free benchmarks return to historical norms. We based this determination on our inability to conclude that the weight of the evidence favors a full recovery of our cost basis in these securities within a reasonable period of time. Our inability to reach such a conclusion was due primarily to our inability to forecast a full recovery for any of the floating rate preferred stocks over a five-year period under various projected interest rate scenarios, the more stringent evidentiary standards that must be met under EITF 03-1 when the severity and duration of losses are significant and the forecasted recovery period is lengthy, and the uncertainties that are inherent in forecasting when interest rates, interest rate volatilities and spreads to risk-free benchmarks will return to historical norms.

Based on these determinations, we reduced the combined carrying value of the Fannie Mae and Freddie Mac floating rate preferred stocks by \$15.0 million, and recorded a non-cash impairment charge, net of tax effect, in the amount of \$9.2 million against our income for the quarter ended June 30, 2004. Although our application of EITF 03-1 resulted in the recognition of these losses, it did not impact our members' equity because the unrealized loss on the floating rate preferred stocks was previously reflected in accumulated other comprehensive loss and subtracted from members' equity.

RP Financial has advised us that the appraisal considered both the impairment loss charged to expense and that the members' equity was not impacted by the recognition of previously unrecognized losses.

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The following table sets forth the composition of our securities portfolio at the dates indicated. Other than Federal Home Loan Bank of Chicago common stock, we did not have any securities classified as held-to-maturity as of June 30, 2004, December 31, 2003, 2002 or 2001.

| | At December 31, | | | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | At June 30, 2004 | | 2003 | | 2002 | | 2001 | |
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| (In thousands) | | | | | | | | |
| Investment Securities: | | | | | | | | |
| Federal agency debt securities | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 14,523 | \$ 14,615 |
| State and municipal securities | 2,140 | 2,135 | 2,385 | 2,385 | 6,482 | 6,510 | 9,863 | 9,839 |
| SBA guaranteed loan participation certificates | 2,352 | 2,334 | 2,613 | 2,601 | 4,300 | 4,290 | 5,419 | 5,399 |
| Equity securities | 90,269 | 90,644 | 105,689 | 95,335 | 105,689 | 101,590 | 110,872 | 110,438 |
| Other debt securities | — | — | 100 | 100 | 200 | 200 | 400 | 400 |
| Total investment securities available-for-sale | 94,761 | 95,113 | 110,787 | 100,421 | 116,671 | 112,590 | 141,077 | 140,691 |
| Mortgage-Backed Securities: | | | | | | | | |
| Pass-through securities: | | | | | | | | |
| Fannie Mae | 130,068 | 129,085 | 127,236 | 128,116 | 51,293 | 52,953 | 31,238 | 31,588 |
| Freddie Mac | 19,247 | 18,989 | 24,645 | 24,424 | 6,541 | 6,667 | 23,208 | 23,411 |
| Ginnie Mac | 1,602 | 1,544 | 1,747 | 1,727 | 1,144 | 1,165 | 1,719 | 1,747 |
| Other | — | — | — | — | 11,504 | 11,570 | 36,160 | 36,194 |
| CMOs and REMICs | 1,800 | 1,827 | 2,803 | 2,832 | 48,334 | 48,627 | 67,707 | 72,328 |
| Total mortgage-backed securities available-for-sale | 152,717 | 151,445 | 156,431 | 157,099 | 118,816 | 120,982 | 160,032 | 165,268 |
| Total securities available-for-sale | \$ 247,478 | \$ 246,558 | \$ 267,218 | \$ 257,520 | \$ 235,487 | \$ 233,572 | \$ 301,109 | \$ 305,959 |

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Portfolio Maturities and Yields. The composition and maturities of the investment debt securities portfolio and the mortgage-backed securities portfolio at June 30, 2004 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. State and municipal securities yields have not been adjusted to a tax-equivalent basis.

| | One Year or Less | | More than One Year through Five Years | | More than Five Years through Ten Years | | More than Ten Years | | Total Securities | | |
|---|------------------|------------------------|---------------------------------------|------------------------|--|------------------------|---------------------|------------------------|------------------|------------------------|------------------|
| | Amortized Cost | Weighted Average Yield | Amortized Cost | Weighted Average Yield | Amortized Cost | Weighted Average Yield | Amortized Cost | Weighted Average Yield | Amortized Cost | Weighted Average Yield | Fair Value |
| (Dollars in thousands) | | | | | | | | | | | |
| Mortgage-Backed Securities: | | | | | | | | | | | |
| Pass-through securities: | | | | | | | | | | | |
| Fannie Mae | \$ — | — % | \$ 34 | 10.00% | \$ — | — % | \$130,034 | 4.03% | \$130,068 | 4.03% | \$129,085 |
| Freddie Mac | — | — | 183 | 6.46 | — | — | 19,064 | 3.50 | 19,247 | 3.53 | 18,989 |
| Ginnie Mae | — | — | — | — | — | — | 1,602 | 4.74 | 1,602 | 4.74 | 1,544 |
| CMOs and REMICs | — | — | 104 | 1.81 | — | — | 1,696 | 2.59 | 1,800 | 2.55 | 1,827 |
| Total | — | — | 321 | 5.33 | — | — | 152,396 | 3.96 | 152,717 | 3.96 | 151,445 |
| Investment Securities: | | | | | | | | | | | |
| State and municipal securities | 445 | 4.71 | 1,300 | 4.53 | 395 | 4.70 | — | — | 2,140 | 4.60 | 2,135 |
| Equity securities | — | — | — | — | — | — | 90,269 | 1.71 | 90,269 | 1.71 | 90,644 |
| SBA guaranteed loan participation certificates | — | — | — | — | — | — | 2,352 | 1.80 | 2,352 | 1.80 | 2,334 |
| Total | 445 | 4.71 | 1,300 | 4.53 | 395 | 4.70 | 92,621 | 1.71 | 94,761 | 1.77 | 95,113 |
| Total debt securities available-for-sale | \$ 445 | 4.71% | \$ 1,621 | 4.69% | \$ 395 | 4.70% | \$245,017 | 3.11% | \$247,478 | 3.12% | \$246,558 |

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Sources of Funds

General. Deposits, borrowings, repayments and prepayments of loans and securities, proceeds from sales of loans and securities, proceeds from maturing securities and cash flows from operations are the primary sources of our funds for use in lending, investing and for other general purposes.

Deposits. We offer a variety of deposit accounts with a range of interest rates and terms. Our deposit accounts consist of savings accounts, NOW accounts, checking accounts, money market accounts, club accounts, certificates of deposit and IRAs and other qualified plan accounts. We provide commercial checking accounts for businesses. In addition, we provide low-cost checking account services for low-income customers.

At June 30, 2004, our deposits totaled \$1.105 billion. Interest-bearing deposits totaled \$994.8 million, and noninterest-bearing demand deposits totaled \$109.7 million. NOW, savings and money market deposits totaled \$544.2 million at June 30, 2004. Demand deposits at June 30, 2004 included \$12.2 million in internal checking accounts, such as bank cashier checks, money orders and Financial Title escrow funds. At June 30, 2004, we had a total of \$450.6 million in certificates of deposit, of which \$317.2 million had maturities of one year or less. Although we have a significant portion of our deposits in shorter-term certificates of deposit, we monitor activity on these accounts and, based on historical experience and our current pricing strategy, we believe we will retain a large portion of these accounts upon maturity.

Our deposits are obtained predominantly from the areas in which our branch offices are located. We rely on our favorable locations, customer service and competitive pricing to attract and retain these deposits. While we accept certificates of deposit in excess of \$100,000 for which we may provide preferential rates, we generally do not solicit such deposits as they are more difficult to retain than core deposits. At June 30, 2004, we had a total of \$22.2 million of brokered certificates of deposits.

The following tables set forth the distribution of total deposit accounts, by account type, for the periods indicated.

| | Six Months Ended June 30, | | | | | |
|-------------------------|---------------------------|---------|-----------------------|-----------------|---------|-----------------------|
| | 2004 | | | 2003 | | |
| | Average Balance | Percent | Weighted Average Rate | Average Balance | Percent | Weighted Average Rate |
| (Dollars in thousands) | | | | | | |
| Demand deposits: | | | | | | |
| Retail | \$ 24,843 | 2.30% | — % | \$ 25,134 | 2.37% | — % |
| Commercial | 78,203 | 7.22 | — | 77,698 | 7.32 | — |
| Total demand deposits | 103,046 | 9.52 | — | 102,832 | 9.69 | — |
| NOW deposits | 237,343 | 21.93 | 0.43 | 241,669 | 22.76 | 0.58 |
| Savings deposits | 135,786 | 12.55 | 0.51 | 124,672 | 11.74 | 0.52 |
| Money market deposits | 162,813 | 15.04 | 1.11 | 149,879 | 14.12 | 1.21 |
| | 535,942 | 49.52 | 0.66 | 516,220 | 48.62 | 0.75 |
| Certificates of deposit | 443,330 | 40.96 | 2.00 | 442,586 | 41.69 | 2.36 |
| Total deposits | \$1,082,318 | 100.00% | | \$1,061,638 | 100.00% | |

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| | Years Ended December 31, | | | | | |
|-------------------------|--------------------------|---------|-----------------------|-----------------|---------|-----------------------|
| | 2003 | | | 2002 | | |
| | Average Balance | Percent | Weighted Average Rate | Average Balance | Percent | Weighted Average Rate |
| Demand deposits: | | | | | | |
| Retail | \$ 24,058 | 2.27% | — % | \$ 19,612 | 1.80% | — % |
| Commercial | 83,881 | 7.92 | — | 75,649 | 6.94 | — |
| Total demand deposits | 107,939 | 10.19 | — | 95,261 | 8.74 | — |
| NOW deposits | 237,480 | 22.44 | 0.51 | 254,116 | 23.31 | 0.87 |
| Savings deposits | 127,212 | 12.01 | 0.54 | 117,922 | 10.82 | 0.76 |
| Money market deposits | 154,604 | 14.60 | 1.12 | 157,268 | 14.42 | 1.64 |
| | 519,296 | 49.05 | 0.70 | 529,306 | 48.55 | 1.07 |
| Certificates of deposit | 431,556 | 40.76 | 2.24 | 465,683 | 42.71 | 2.97 |
| Total deposits | \$1,058,791 | 100.00% | | \$1,090,250 | 100.00% | |

| | Year Ended December 31, 2001 | | |
|-------------------------|------------------------------|---------|-----------------------|
| | Average Balance | Percent | Weighted Average Rate |
| Demand deposits: | | | |
| Retail | \$ 4,598 | 0.53% | — % |
| Commercial | 28,262 | 3.24 | — |
| Total demand deposits | 32,860 | 3.77 | — |
| NOW deposits | 164,787 | 18.88 | 1.86 |
| Savings deposits | 92,244 | 10.56 | 1.87 |
| Money market deposits | 80,668 | 9.24 | 2.62 |
| | 337,699 | 38.68 | 2.04 |
| Certificates of deposit | 502,439 | 57.55 | 5.14 |
| Total deposits | \$872,998 | 100.00% | |

The following tables sets forth, by interest rate ranges, information concerning certificates of deposit.

| Interest Rate Range: | At June 30, 2004 | | | | | |
|----------------------|--------------------------------|----------------------------|------------------------------|-----------------------|-----------|------------------|
| | Period to Maturity | | | | | |
| | Less Than or Equal to One Year | More Than One to Two Years | More Than Two to Three Years | More Than Three Years | Total | Percent of Total |
| | (Dollars in thousands) | | | | | |
| 2.00% and below | \$245,741 | \$ 18,152 | \$ 618 | \$ 119 | \$264,630 | 58.73% |
| 2.01% to 3.00% | 44,468 | 67,058 | 14,453 | 809 | 126,788 | 28.14 |
| 3.01% to 4.00% | 14,114 | 17,730 | 3,022 | 8,819 | 43,685 | 9.69 |
| 4.01% to 5.00% | 3,375 | 587 | 27 | 605 | 4,594 | 1.02 |
| 5.01% to 6.00% | 130 | 60 | — | 36 | 226 | 0.05 |
| 6.01% and above | 9,352 | 1,310 | — | 28 | 10,690 | 2.37 |
| Total | \$317,180 | \$104,897 | \$ 18,120 | \$ 10,416 | \$450,613 | 100.00% |

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The following table sets forth time deposits classified by interest rate at the dates indicated.

| Interest Rate | At June 30, 2004 | At December 31, | | |
|-----------------|---------------------|-------------------|-------------------|-------------------|
| | | 2003 | 2002 | 2001 |
| (In thousands) | | | | |
| 2.00% and below | \$ 264,630 | \$ 279,036 | \$ 174,838 | \$ 24,395 |
| 2.01% to 3.00% | 126,788 | 93,556 | 133,886 | 113,208 |
| 3.01% to 4.00% | 43,685 | 40,132 | 47,254 | 107,950 |
| 4.01% to 5.00% | 4,594 | 11,456 | 14,999 | 91,927 |
| 5.01% to 6.00% | 226 | 6,726 | 15,601 | 58,893 |
| 6.01% and above | 10,690 | 12,192 | 39,778 | 27,884 |
| Total | \$ 450,613 | \$ 443,098 | \$ 426,356 | \$ 424,257 |

The following table sets forth certificates of deposit by time remaining until maturity at June 30, 2004.

| | Maturity | | | | Total |
|--|---------------------|-----------------------|------------------------|-------------------|-------------------|
| | 3 Months or Less | Over 3 to 6 Months | Over 6 to 12 Months | Over 12 Months | |
| (In thousands) | | | | | |
| Certificates of deposit less than \$100,000 | \$ 81,520 | \$ 62,613 | \$ 74,464 | \$ 94,034 | \$ 312,631 |
| Certificates of deposit of \$100,000 or more (1) | 28,192 | 32,635 | 37,756 | 39,399 | 137,982 |
| Total of certificates of deposit | \$ 109,712 | \$ 95,248 | \$ 112,220 | \$ 133,433 | \$ 450,613 |

- (1) The weighted average interest rates for these accounts, by maturity period, are: 1.48% for 3 months or less; 1.67% for 3 to 6 months; 2.37% for 6 to 12 months; and 2.74% for over 12 months. The overall weighted average interest rate for accounts of \$100,000 or more was 2.36%.

Borrowings. Our borrowings consist of Federal Home Loan Bank advances and repurchase agreements, as well as a \$30.0 million loan from another financial institution. The following table sets forth information concerning balances and interest rates on our borrowings at the dates and for the periods indicated.

| | At or For the Six Months Ended June 30, | | At or For the Years Ended December 31, | | |
|---|--|------------|--|------------|------------|
| | 2004 | 2003 | 2003 | 2002 | 2001 |
| (Dollars in thousands) | | | | | |
| Balance at end of period | \$ 249,151 | \$ 281,307 | \$ 268,225 | \$ 307,180 | \$ 331,974 |
| Average balance during period | 263,493 | 287,110 | 282,485 | 330,601 | 263,345 |
| Maximum outstanding at any month end | 273,790 | 307,883 | 307,883 | 333,573 | 345,647 |
| Weighted average interest rate at end of period | 2.54% | 5.29% | 2.36% | 5.42% | 6.11% |
| Average interest rate during period | 4.07% | 5.45% | 6.10% | 5.82% | 6.09% |

At June 30, 2004, we had access to additional Federal Home Loan Bank advances of up to \$164.9 million, and an unused \$5.0 million line of credit from another financial institution.

At June 30, 2004 and December 31, 2003, we had available pre-approved overnight federal funds borrowing of \$65.0 million and \$45.0 million, respectively. At June 30, 2004 and December 31, 2003, we also had a line of credit available with the Federal Reserve Bank of Chicago for \$36.8 million and \$14.9 million, respectively. At June 30, 2004 and December 31, 2003, there was no outstanding balance on these lines.

Competition

We face significant competition in both originating loans and attracting deposits. The Chicago metropolitan area and the counties in which we operate have a high concentration of financial institutions, many of which are significantly larger institutions and have greater financial resources than we, and many of which are our competitors to varying degrees. Our competition for loans comes principally from commercial banks, savings banks, mortgage banking companies, credit unions, leasing companies, insurance companies and other financial service companies. Our most direct competition for deposits has historically come from commercial banks, savings banks and credit unions. We face additional competition for deposits from nondepository competitors such as the mutual fund industry, securities and brokerage firms and insurance companies.

We seek to meet this competition by emphasizing personalized banking and the advantage of local decision-making in our banking business. Specifically, we promote and maintain relationships and build customer loyalty within local communities by emphasizing decentralized regional management and by focusing our marketing and community involvement on the specific needs of individual neighborhoods. In addition, we seek to meet competition for loans by offering our current and prospective borrowers preferred rates and terms on deposit products for new lending business. This strategy appears to have been well received in our market area. We do not rely on any individual, group, or entity for a material portion of our deposits.

Employees

As of June 30, 2004, we had 454 full-time employees and 41 part-time employees. The employees are not represented by a collective bargaining unit and we consider our relationship with our employees to be good.

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Properties

As of June 30, 2004, the net book value of our properties was \$29.1 million. The following is a list of our offices:

Burr Ridge (Headquarters)
15W060 North Frontage Road
Burr Ridge, IL 60527

Chicago-Lincoln Park
2424 N. Clark Street
Chicago-Lincoln Park, IL 60614

Olympia Fields
21110 S. Western Avenue
Olympia Fields, IL 60461

Naperville
1200 East Ogden Avenue
Naperville, IL 60563

North Libertyville
1409 W. Peterson Road
Libertyville, IL 60048

Chicago Ridge
6415 W. 95th Street
Chicago Ridge, IL 60415

South Libertyville
1123 S. Milwaukee Avenue
Libertyville, IL 60048

Calumet Park
1333 W. 127th Street
Calumet Park, IL 60827

Lincolnshire
One Marriott Drive
Lincolnshire, IL 60069

Calumet City
1901 Sibley Boulevard
Calumet City, IL 60409

Deerfield
630 N. Waukegan Road
Deerfield, IL 60015

Orland Park
48 Orland Square Drive
Orland Park, IL 60462

Northbrook
1368 Shermer Road
Northbrook, IL 60062

Hazel Crest
3700 W. 183rd Street
Hazel Crest, IL 60429

Lincolnwood
3443 W. Touhy
Lincolnwood, IL 60712

Joliet
1401 N. Larkin
Joliet, IL 60435

Schaumburg
1005 Wise Road
Schaumburg, IL 60193

Except for our Chicago-Lincoln Park and Northbrook offices (which are leased), all of our offices are owned. The lease expiration dates are April 30, 2008, for our Chicago-Lincoln Park office and November 30, 2007, for our Northbrook office.

Subsidiary Activities

BankFinancial, F.S.B. has two wholly-owned subsidiaries, Financial Assurance Services and BF Asset Recovery Corporation. Financial Assurance Services sells title insurance, property and casualty insurance and other insurance products. Financial Assurance Services also offers title services through its

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Financial Title Services division. During the six months ended June 30, 2004 and the year ended December 31, 2003, Financial Assurance Services reported net income (loss) of (\$18,000) and \$93,000, respectively. Of those consolidated results, Financial Title Services contributed net income of \$18,000 and \$110,000 for the six months ended June 30, 2004 and the year ended December 31, 2003, respectively. As of June 30, 2004, Financial Assurance Services Corporation had 12 employees. BF Asset Recovery Corporation holds title to foreclosed real estate. For the six months ended June 30, 2004 and the year ended December 31, 2003, BankFinancial Asset Recovery Corporation reported a net loss of \$6,000 and \$11,000, respectively.

Legal Proceedings

We are not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business, which, in the aggregate, involve amounts which we believe are immaterial to our consolidated financial condition and results of operations.

SUPERVISION AND REGULATION

General

As a federally chartered savings bank, BankFinancial, F.S.B. is regulated and supervised by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation. This regulation and supervision establishes a comprehensive framework of activities in which a financial institution may engage and is intended primarily for the protection of the Federal Deposit Insurance Corporation's deposit insurance funds and depositors. Under this system of federal regulation, financial 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. After completing an examination, the federal agency critiques the financial institution's operations and assigns its rating (known as an institution's CAMELS rating). Under federal law, an institution may not disclose its CAMELS rating to the public. BankFinancial, F.S.B. also is a member of, and owns stock in, the Federal Home Loan Bank of Chicago, which is one of the 12 regional banks in the Federal Home Loan Bank System. BankFinancial, F.S.B. also is regulated to a lesser extent by the Board of Governors of the Federal Reserve System, with regard to reserves to be maintained against deposits and other matters. The Office of Thrift Supervision examines BankFinancial, F.S.B. and prepares reports for the consideration of its Board of Directors on any operating deficiencies. BankFinancial, F.S.B.'s relationship with its depositors and borrowers also is regulated to a great extent by both federal and state laws, especially in matters concerning the ownership of deposit accounts and the form and content of BankFinancial, F.S.B.'s loan documents.

There can be no assurance that changes to existing laws, rules and regulations or any other new laws, rules or regulations, will not be adopted in the future, which could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition, results of operations or prospects. Any change in these laws or regulations, or in regulatory policy, whether by the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the Board of Governors of the Federal Reserve System, or Congress, could have a material adverse impact on BankFinancial Corporation, BankFinancial, F.S.B. and their respective operations.

Federal Banking Regulation

Business Activities. A federal savings bank derives its lending and investment powers from the Home Owners' Loan Act, as amended, and the regulations of the Office of Thrift Supervision. Under

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these laws and regulations, BankFinancial, F.S.B. may invest in mortgage loans secured by residential and nonresidential real estate, commercial business and consumer loans, certain types of debt securities and certain other loans and assets. BankFinancial, F.S.B. also may establish subsidiaries that may engage in activities not otherwise permissible for BankFinancial, F.S.B. directly, including real estate investment, securities brokerage and insurance agency.

Capital Requirements. Office of Thrift Supervision regulations require savings banks to meet three minimum capital standards: a ratio of tangible capital to adjusted total assets of 1.5%, a ratio of Tier 1 (core) capital to adjusted total assets of 4.0% (3% for institutions receiving the highest rating on the CAMELS rating system) and a ratio of total capital to total risk-adjusted assets of 8.0%. The prompt corrective action standards discussed below, in effect, establish a minimum 2% tangible capital standard.

The risk-based capital standard for savings banks requires the maintenance of Tier 1, or core, and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100%, assigned by the Office of Thrift Supervision capital regulation based on the risks inherent in the type of asset. Core capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative perpetual preferred stock, long-term preferred stock, mandatory convertible securities, subordinated debt and intermediate-term preferred stock, allowance for loan and lease losses up to a maximum of 1.25% of risk-weighted assets and up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

At June 30, 2004, BankFinancial, F.S.B.'s capital exceeded all applicable requirements.

Loans to One Borrower. A federal savings 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 on an unsecured basis. 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 June 30, 2004, BankFinancial, F.S.B. was in compliance with the loans-to-one-borrower limitations.

Qualified Thrift Lender Test. As a federal savings bank, BankFinancial, F.S.B. is subject to a qualified thrift lender, or "QTL," test. Under the QTL test, BankFinancial, F.S.B. must maintain at least 65% of its "portfolio assets" in "qualified thrift investments" in at least nine months of the most recent 12-month period. "Portfolio assets" generally means total assets of a savings institution, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used in the conduct of the savings bank's business.

"Qualified thrift investments" include various types of loans made for residential and housing purposes, investments related to those purposes, including certain mortgage-backed and related securities, and loans for personal, family, household and certain other purposes up to a limit of 20% of portfolio assets. "Qualified thrift investments" also include 100% of an institution's credit card loans, education loans and small business loans. BankFinancial, F.S.B. also may satisfy the QTL test by qualifying as a "domestic building and loan association" as defined in the Internal Revenue Code of 1986.

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A savings bank that fails the QTL test must either convert to a bank charter or operate under specified restrictions. At June 30, 2004, BankFinancial, F.S.B. maintained approximately 77.8% of its portfolio assets in qualified thrift investments, and, as of that date, satisfied the QTL test.

Capital Distributions. Office of Thrift Supervision regulations govern capital distributions by a federal savings bank, which include cash dividends, stock repurchases and other transactions charged to the institution's capital account. A savings bank must file an application for approval of a capital distribution if:

- the total capital distributions for the applicable calendar year exceed the sum of the savings bank's net income for that year to date plus the savings bank's retained net income for the preceding two years;
- the savings bank would not be at least adequately capitalized following the distribution;
- the distribution would violate any applicable statute, regulation, agreement or Office of Thrift Supervision-imposed condition; or
- the savings bank is not eligible for expedited treatment of its filings.

Even if an application is not otherwise required, every savings bank that is a subsidiary of a holding company must still file a notice with the Office of Thrift Supervision at least 30 days before the board of directors declares a dividend or approves a capital distribution.

The Office of Thrift Supervision may disapprove a notice or application if:

- the savings bank would be undercapitalized following the distribution;
- the proposed capital distribution raises safety and soundness concerns; or
- the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

Liquidity. A federal savings bank is required to maintain a sufficient amount of liquid assets to ensure its safe and sound operation.

Community Reinvestment Act and Fair Lending Laws. All savings banks have a responsibility under the Community Reinvestment Act and related regulations of the Office of Thrift Supervision to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In connection with its examination of a federal savings bank, the Office of Thrift Supervision is required to assess the savings bank's record of compliance with the Community Reinvestment Act. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. A savings bank's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in regulatory restrictions on its activities. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the Office of Thrift Supervision, as well as other federal regulatory agencies and the Department of Justice. BankFinancial, F.S.B. received an "outstanding" Community Reinvestment Act rating in its most recent federal examination.

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Privacy Standards. Effective July 2001, financial institutions, including BankFinancial, F.S.B., became subject to regulations implementing the privacy protection provisions of the Gramm-Leach-Bliley Act. These regulations require BankFinancial, F.S.B. to disclose its privacy policy, including identifying with whom it shares “nonpublic personnel information,” to customers at the time of establishing the customer relationship and annually thereafter. In addition, BankFinancial, F.S.B. is required to provide its customers with the ability to “opt-out” of having BankFinancial, F.S.B. share their nonpublic personal information with unaffiliated third parties before it can disclose such information, subject to certain exceptions. The implementation of these regulations did not have a material adverse effect on BankFinancial, F.S.B. The Gramm-Leach-Bliley Act also allows each state to enact legislation that is more protective of consumers’ personal information.

Also effective July 1, 2001, the Office of Thrift Supervision and other federal banking agencies adopted guidelines establishing standards for safeguarding customer information to implement certain provisions of the Gramm-Leach-Bliley Act. The guidelines describe the agencies’ expectations for the creation, implementation and maintenance of an information security program, which would include administrative, technical and physical safeguards appropriate to the size and complexity of a financial institution and the nature and scope of its activities. The standards set forth in the guidelines are intended to insure the security and confidentiality of customer records and information, to protect against any anticipated threats or hazards to the security or integrity of such records and to protect against unauthorized access to or use of such records, or information that could result in substantial harm or inconvenience to any customer. BankFinancial, F.S.B. has implemented these guidelines, and such implementation did not have a material adverse effect on our operations.

Transactions with Related Parties. A federal savings bank’s authority to engage in transactions with its “affiliates” is limited by Office of Thrift Supervision regulations and by Sections 23A and 23B of the Federal Reserve Act. The term “affiliates” for these purposes generally means any company that controls or is under common control with an institution. BankFinancial Corporation and its non-savings institution subsidiaries will be affiliates of BankFinancial, F.S.B. In general, transactions with affiliates must be on terms that are as favorable to the savings bank as comparable transactions with non-affiliates. In addition, certain types of these transactions are restricted to an aggregate percentage of the savings bank’s capital. Collateral in specified amounts must usually be provided by affiliates in order to receive loans from the savings bank. In addition, Office of Thrift Supervision regulations prohibit a savings bank from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary.

BankFinancial, F.S.B.’s authority to extend credit to its directors, executive officers and 10% shareholders, 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 Federal Reserve Board. Among other things, these provisions require that extensions of credit to insiders (i) 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 that do not involve more than the normal risk of repayment or present other unfavorable features, and (ii) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of BankFinancial, F.S.B.’s capital. In addition, extensions of credit in excess of certain limits must be approved by BankFinancial, F.S.B.’s Board of Directors.

Enforcement. The Office of Thrift Supervision has primary enforcement responsibility over federal savings institutions and has the authority to bring enforcement action against 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

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enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors of the institution, receivership, conservatorship or the termination of deposit insurance. Civil 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 Federal Deposit Insurance Corporation also has the authority to recommend to the Director of the Office of Thrift Supervision that enforcement action be taken with respect to a particular savings institution. If action is not taken by the Director, the Federal Deposit Insurance Corporation 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 all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation and other operational and managerial standards as the agency deems appropriate. 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 safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The guidelines address internal controls and information systems, internal audit systems, credit underwriting, loan documentation, interest rate risk exposure, asset growth, compensation, fees and benefits. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to submit a compliance plan.

Prompt Corrective Action Regulations. Under the prompt corrective action regulations, the Office of Thrift Supervision is required and authorized to take supervisory actions against undercapitalized savings banks. For this purpose, a savings bank is placed in one of the following five categories based on the savings bank's capital:

- well-capitalized (at least 5% leverage capital, 6% tier 1 risk-based capital and 10% total risk-based capital);
- adequately capitalized (at least 4% leverage capital, 4% tier 1 risk-based capital and 8% total risk-based capital);
- undercapitalized (less than 3% leverage capital, 4% tier 1 risk-based capital or 8% total risk-based capital);
- significantly undercapitalized (less than 3% leverage capital, 3% tier 1 risk-based capital or 6% total risk-based capital); and
- critically undercapitalized (less than 2% tangible capital).

Generally, the banking regulator is required to appoint a receiver or conservator for a savings bank that is "critically undercapitalized." The regulation also provides that a capital restoration plan must be filed with the Office of Thrift Supervision within 45 days of the date a bank receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." In addition, numerous mandatory supervisory actions become immediately applicable to the savings bank, including, but not limited to, restrictions on growth, investment activities, capital distributions and affiliate

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transactions. The Office of Thrift Supervision may also take any one of a number of discretionary supervisory actions against undercapitalized savings banks, including the issuance of a capital directive and the replacement of senior executive officers and directors.

At June 30, 2004, BankFinancial, F.S.B. met the criteria for being considered “well-capitalized.”

Insurance of Deposit Accounts. Deposit accounts in BankFinancial, F.S.B. are insured by the Savings Association Insurance Fund and, to a limited extent, the Bank Insurance Fund of the Federal Deposit Insurance Corporation, generally up to a maximum of \$100,000 per separately insured depositor. BankFinancial, F.S.B.’s deposits, therefore, are subject to Federal Deposit Insurance Corporation deposit insurance assessments. The Federal Deposit Insurance Corporation has adopted a risk-based system for determining deposit insurance assessments. The Federal Deposit Insurance Corporation is authorized to raise the assessment rates as necessary to maintain the required ratio of reserves to insured deposits of 1.25%. In addition, all Federal Deposit Insurance Corporation-insured institutions must pay assessments to the Federal Deposit Insurance Corporation at an annual rate of approximately 0.0212% of insured deposits to fund interest payments on bonds maturing in 2017 that were issued by a federal agency to recapitalize the predecessor to the Savings Association Insurance Fund.

Prohibitions Against Tying Arrangements. Federal savings 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 Home Loan Bank System. BankFinancial, F.S.B. is a member of the Federal Home Loan Bank System, which consists of 12 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 Federal Home Loan Bank of Chicago, BankFinancial, F.S.B. is required to acquire and hold shares of capital stock in the Federal Home Loan Bank in an amount at least equal to 1% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year, or 1/20 of its borrowings from the Federal Home Loan Bank, whichever is greater. As of June 30, 2004, BankFinancial, F.S.B. was in compliance with this requirement.

Federal Reserve System

Federal Reserve Board regulations require savings banks to maintain noninterest-earning reserves against their transaction accounts, such as negotiable order of withdrawal and regular checking accounts. At June 30, 2004, BankFinancial, F.S.B. was in compliance with these reserve requirements. The balances maintained to meet the reserve requirements imposed by the Federal Reserve Board may be used to satisfy liquidity requirements imposed by the Office of Thrift Supervision.

The USA PATRIOT Act

The USA PATRIOT Act 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. Certain provisions of the act impose affirmative obligations on a broad range of financial institutions, including federal savings banks like BankFinancial, F.S.B. These obligations include enhanced anti-money laundering programs, customer identification programs and regulations relating to private banking accounts or correspondent accounts in the United States for non-United States persons or their representatives (including foreign individuals visiting the United States).

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The federal banking agencies have begun to propose and implement regulations pursuant to the USA PATRIOT Act. These regulations would require financial institutions to adopt the policies and procedures contemplated by the USA PATRIOT Act.

Holding Company Regulation

Upon completion of the conversion, BankFinancial Corporation will be a unitary savings and loan holding company, subject to regulation and supervision by the Office of Thrift Supervision. The Office of Thrift Supervision will have enforcement authority over BankFinancial Corporation and its non-savings institution subsidiaries. Among other things, this authority permits the Office of Thrift Supervision to restrict or prohibit activities that are determined to be a risk to BankFinancial, F.S.B.

Under prior law, a unitary savings and loan holding company generally had no regulatory restrictions on the types of business activities in which it could engage, provided that its subsidiary savings bank was a qualified thrift lender. The Gramm-Leach-Bliley Act of 1999, however, restricts unitary savings and loan holding companies not existing on, or applied for before, May 4, 1999 to those activities permissible for financial holding companies or for multiple savings and loan holding companies. BankFinancial Corporation will not be a grandfathered unitary savings and loan holding company and, therefore, will be limited to the activities permissible for financial holding companies or for multiple savings and loan holding companies. A financial holding company may engage in activities that are financial in nature, including underwriting equity securities and insurance, incidental to financial activities or complementary to a financial activity. A multiple savings and loan holding company is generally limited to activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to the prior approval of the Office of Thrift Supervision, and certain additional activities authorized by Office of Thrift Supervision regulations.

Federal law prohibits a savings and loan holding company, directly or indirectly, or through one or more subsidiaries, from acquiring control of another savings institution or holding company thereof, without prior written approval of the Office of Thrift Supervision. It also prohibits the acquisition or retention of, with specified exceptions, more than 5% of the equity securities of a company engaged in activities that are not closely related to banking or financial in nature or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the Office of Thrift Supervision must consider the financial and managerial resources and future prospects of the savings institution involved, the effect of the acquisition on the risk to the insurance fund, the convenience and needs of the community and competitive factors.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”) provides for corporate governance, disclosure and accounting reforms intended to address corporate and accounting fraud. Sarbanes-Oxley established an accounting oversight board that enforces auditing, quality control and independence standards, and is funded by fees from all publicly-traded companies. Sarbanes-Oxley also places certain restrictions on the scope of services that may be provided by accounting firms to their public company audit clients. Any non-audit services being provided to a public company audit client will require preapproval by the company’s audit committee. In addition, Sarbanes-Oxley makes certain changes to the requirements for audit partner rotation after a period of time. Sarbanes-Oxley also requires chief executive officers and chief financial officers, or their equivalent, to certify to the accuracy of periodic

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reports filed with the Securities and Exchange Commission, subject to civil and criminal penalties if they knowingly or willingly violate this certification requirement. In addition, under Sarbanes-Oxley, counsel will be required to report to the chief executive officer or chief legal officer of the company, evidence of a material violation of the securities laws or a breach of fiduciary duty by a company and, if such officer does not appropriately respond, to report such evidence to the audit committee or other similar committee of the board of directors or the board itself.

Under Sarbanes-Oxley, longer prison terms will apply to corporate executives who violate federal securities laws; the period during which certain types of suits can be brought against a company or its officers is extended; and bonuses issued to top executives prior to restating a company's financial statements are now subject to disgorgement if such restatement was due to corporate misconduct. Executives are also prohibited from insider trading during retirement plan "blackout" periods, and loans to company executives (other than loans by financial institutions permitted by federal rules and regulations) are restricted. The Federal Accounts for Investor Restitution provision also requires the Securities and Exchange Commission to develop methods of improving collection rates. The legislation accelerates the time frame for disclosures by public companies, as they must immediately disclose any material changes in their financial condition or operations. Directors and executive officers must also provide information for most changes in beneficial ownership in a company's securities within two business days of the change.

Sarbanes-Oxley also increases the oversight of, and codifies certain requirements relating to, audit committees of public companies and how they interact with the company's "registered public accounting firm." Audit committee members must be independent and are absolutely barred from accepting consulting, advisory or other compensatory fees from the public company. In addition, companies must disclose whether at least one member of the committee is an "audit committee financial expert" (as defined by Securities and Exchange Commission regulations) and if not, why the company does not have one. Under Sarbanes-Oxley, a company's registered public accounting firm will be prohibited from performing statutorily mandated audit services for a company if such company's chief executive officer, chief financial officer, comptroller, chief accounting officer or any person serving in equivalent positions had been employed by such firm and participated in the audit of such company during the one-year period preceding the audit initiation date. Sarbanes-Oxley prohibits any officer or director of a company or any other person acting under their direction from taking any action to fraudulently influence, coerce, manipulate or mislead any independent accountant engaged in the audit of the company's financial statements for the purpose of rendering the financial statements materially misleading. Sarbanes-Oxley also requires the Securities and Exchange Commission to prescribe rules requiring inclusion of any internal control report and assessment by management in the annual report to shareholders. Sarbanes-Oxley requires the company's registered public accounting firm that issues the audit report to attest to and report on management's assessment of the company's internal controls.

Although we will incur additional expense in complying with the provisions of Sarbanes-Oxley and the resulting regulations, we do not expect that such compliance will have a material impact on our consolidated results of operations or consolidated financial condition.

Federal Securities Laws

BankFinancial Corporation has filed with the Securities and Exchange Commission a registration statement under the Securities Act of 1933, as amended, for the registration of the shares of common stock to be issued pursuant to the conversion and the offering. Upon completion of the conversion and the offering, shares of BankFinancial Corporation common stock will be registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. BankFinancial Corporation will be subject to the information, proxy solicitation, insider trading restrictions and other requirements of the Securities Exchange Act of 1934.

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The registration under the Securities Act of 1933 of shares of common stock to be issued in the offering does not cover the resale of those shares. Shares of common stock purchased by persons who are not affiliates of BankFinancial Corporation may be resold without registration. Shares purchased by an affiliate of BankFinancial Corporation will be subject to the resale restrictions of Rule 144 under the Securities Act of 1933. If BankFinancial Corporation meets the current public information reporting requirements of Rule 144 under the Securities Act of 1933, each affiliate of BankFinancial Corporation that complies with the other conditions of Rule 144, including those that require the affiliate's sale to be aggregated with those of other persons, would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of 1% of the outstanding shares of BankFinancial Corporation or the average weekly volume of trading in the shares during the preceding four calendar weeks. In the future, BankFinancial Corporation may permit affiliates to have their shares registered for sale under the Securities Act of 1933.

TAXATION

Federal Taxation

General. BankFinancial Corporation and BankFinancial, F.S.B. are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize material federal income tax matters and is not a comprehensive description of the tax rules applicable to BankFinancial Corporation and BankFinancial, F.S.B.

Method of Accounting. For federal income tax purposes, BankFinancial MHC currently reports its income and expenses on the accrual method of accounting and uses a tax year ending December 31 for filing its consolidated federal income tax returns. The Small Business Protection Act of 1996 eliminated the use of the reserve method of accounting for bad debt reserves by savings institutions, effective for taxable years beginning after 1995.

Bad Debt Reserves. Prior to the Small Business Protection Act of 1996, BankFinancial, F.S.B. was permitted to establish a reserve for bad debts for tax purposes and to make annual additions to the reserve. These additions could, within specified formula limits, be deducted in arriving at BankFinancial, F.S.B.'s taxable income. As a result of the Small Business Protection Act of 1996, BankFinancial, F.S.B. must use the specific charge off method in computing its bad debt deduction for tax purposes.

Taxable Distributions and Recapture. Prior to the Small Business Protection Act of 1996, bad debt reserves created prior to 1988 were subject to recapture into taxable income if BankFinancial, F.S.B. failed to meet certain thrift asset and definition tests. The Small Business Protection Act of 1996 eliminated these thrift-related recapture rules. However, under current law, pre-1988 reserves remain subject to tax recapture should BankFinancial, F.S.B. make certain distributions from its tax bad debt reserve or cease to maintain a savings bank charter. At June 30, 2004, BankFinancial, F.S.B.'s total federal pre-1988 reserve was approximately \$14.9 million. This reserve reflects the cumulative effects of federal tax deductions by BankFinancial, F.S.B. for which no federal income tax provision has been made.

Minimum Tax. The Internal Revenue Code of 1986, as amended, imposes an alternative minimum tax ("AMT") at a rate of 20% on a base of regular taxable income plus certain tax preferences ("alternative minimum taxable income" or "AMTI"). The AMT is payable to the extent AMTI is in

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excess of an exemption amount. Net operating losses can, in general, offset no more than 90% of AMTI. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. At December 31, 2003, BankFinancial MHC had an AMT credit carry forward of approximately \$669,000. In addition, BankFinancial MHC had an AMT net operating loss carry forward of \$3.6 million at December 31, 2003.

Net Operating Loss Carryovers. A financial institution may carry back net operating losses to the preceding two taxable years (five years for losses incurred in 2001 and 2002) and forward to the succeeding 20 taxable years. At December 31, 2003, BankFinancial MHC had a net operating loss carry forward for federal income tax purposes of \$13.0 million.

Corporate Dividends. We may exclude from our income 100% of dividends received from BankFinancial, F.S.B. as a member of the same affiliated group of corporations.

Audit of Tax Returns. BankFinancial MHC's federal income tax return for the 2002 tax year was recently audited by the Internal Revenue Service. Completion of the audit is expected in the fourth quarter of 2004.

State and Local Taxation

Maryland State Taxation. As a Maryland business corporation, BankFinancial Corporation will be required to file annual returns and pay annual fees to the State of Maryland.

Illinois State Taxation. BankFinancial, F.S.B. is required to file an Illinois income tax return on a stand-alone basis and pay tax at an effective tax rate of 7.30% of Illinois taxable income. For these purposes, Illinois taxable income generally means federal taxable income subject to certain modifications, the primary one of which is the exclusion of interest income on United States obligations. At December 31, 2003, BankFinancial, F.S.B. had a net operating loss carry forward for Illinois state income tax purposes of approximately \$8.9 million. BankFinancial MHC files a combined Illinois state income tax return with all companies of the controlled group except for BankFinancial, F.S.B. At December 31, 2003, BankFinancial MHC had a net operating loss carryforward for Illinois income tax purposes of approximately \$8.2 million.

MANAGEMENT OF BANKFINANCIAL CORPORATION

Shared Management Structure

The Board of Directors of BankFinancial Corporation, a Maryland corporation, will consist of the same seven individuals who are directors of BankFinancial MHC and BankFinancial Corporation, a federal corporation. These individuals, together with Mr. Glen R. Wherfel, will continue to constitute the Board of Directors of BankFinancial, F.S.B. In addition, each of the executive officers of BankFinancial Corporation, a Maryland corporation, will continue to serve as an executive officer of BankFinancial, F.S.B.

BankFinancial MHC and BankFinancial Corporation, a federal corporation, do not separately compensate their executive officers, nor do they pay director's fees to individuals who serve on the Board of Directors of BankFinancial, F.S.B. BankFinancial MHC and BankFinancial Corporation, a federal corporation, reimburse BankFinancial, F.S.B. on a quarterly basis for the percentage of time that executive officers spend on holding company matters. BankFinancial Corporation, a Maryland corporation, intends to continue these practices.

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Our Directors

The directors of BankFinancial Corporation, a Maryland corporation, serve staggered terms so that only a portion of the directors will be elected at each annual meeting of stockholders. The Board of Directors is divided into three classes. The initial term of the first class of directors will expire at the annual meeting of stockholders to be held in 2005, and the initial term of each of the remaining classes will expire at its respective annual meeting of stockholders to be held in the year identified in the table below. The directors of BankFinancial, F.S.B. will be elected annually by BankFinancial Corporation, a Maryland corporation, as its sole stockholder.

The table below sets forth certain information, as of June 30, 2004, regarding the current members of the Boards of Directors, including the initial term of office for each board member.

| <u>Name</u> | <u>Position(s) Held With BankFinancial Corporation</u> | <u>Age</u> | <u>Director Since (1)</u> | <u>Current Term Expires</u> |
|-----------------------------|---|------------|---------------------------|-----------------------------|
| Patrick I. Hartnett | Director | 52 | 1989 | 2005 |
| Sherwin R. Koopmans | Director | 62 | 2003 | 2005 |
| Terry R. Wells | Director | 45 | 1994 | 2005 |
| Dr. Kenneth Cmiel (2) | Director | 49 | 1989 | 2006 |
| John M. Hausman, C.P.A. | Director | 49 | 1990 | 2006 |
| F. Morgan Gasior (2) | Chairman of the Board, Chief Executive Officer and President | 40 | 1983 | 2007 |
| Joseph A. Schudt | Director | 66 | 1992 | 2007 |
| Glen R. Wherfel, C.P.A. (3) | Director | 54 | 2001 | N/A |

- (1) Includes service with BankFinancial, F.S.B. in mutual form, BankFinancial MHC and BankFinancial Corporation, a federal corporation.
- (2) Mr. Gasior and Dr. Cmiel are cousins.
- (3) Mr. Wherfel is a director only of BankFinancial, F.S.B.

The Business Background of Our Directors

The business experience for the past five years for each of our directors is as follows:

F. Morgan Gasior has served as Chairman of the Board, Chief Executive Officer and President of BankFinancial, F.S.B. since 1989. Mr. Gasior has held the same offices at BankFinancial MHC and BankFinancial Corporation, a federal corporation, since their formation in 1999. Mr. Gasior has been employed by BankFinancial, F.S.B. in a variety of positions since 1984, and became a full-time employee in 1988 when he was appointed as Executive Vice President and Chief Operating Officer. Mr. Gasior serves as the Chairman of the Executive Committee and is a member of the Asset Quality Committee. He was also a director and officer of Financial Assurance Services, a subsidiary of BankFinancial, F.S.B., from 1989 through 2003. Mr. Gasior is licensed as an attorney in the States of Illinois and Michigan, but he does not actively practice law.

Dr. Kenneth Cmiel is a Professor of American History in the Department of History at the University of Iowa, a position he has held since 1995. Dr. Cmiel joined the faculty of the University of Iowa in 1987 as an Assistant Professor, and became an Associate Professor in 1990. He has published numerous books and articles on a variety of topics relevant to his field. Dr. Cmiel has been a director of BankFinancial, F.S.B. since 1989, and of BankFinancial MHC and BankFinancial Corporation, a federal corporation, since their formation in 1999. He is a member of the Asset Liability Management Committee.

Patrick I. Hartnett has been an attorney in private practice since 1977. Mr. Hartnett is currently a partner in the law firm of Hartnett & Hartnett. Mr. Hartnett concentrates his law practice on

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commercial real estate and creditors' rights litigation, employment law and the representation of the Illinois Staffing Association. He has been a director of BankFinancial, F.S.B. since 1989, and of BankFinancial MHC and BankFinancial Corporation, a federal corporation, since their formation in 1999. Mr. Hartnett is a member of the Compensation Committee and the Executive Committee. Mr. Hartnett is also a visiting lecturer at DePaul University's MBA programs.

John M. Hausmann, C.P.A. has been a self-employed certified public accountant since 1980. Prior to that time, he was an accountant with Arthur Andersen. Mr. Hausmann is a member of the American Institute of Certified Public Accountants and the Illinois Certified Public Accountant Society. He has been a director of BankFinancial, F.S.B. since 1990, and of BankFinancial MHC and BankFinancial Corporation, a federal corporation, since their formation in 1999. Mr. Hausmann is the Chairman of the Audit Committee, and is a member of the Executive Committee and the Compensation Committee.

Sherwin R. Koopmans has been actively involved in the banking industry since 1964, including service in senior management positions with the Federal Deposit Insurance Corporation and the Resolution Trust Corporation. Since retiring from government service in December 1995, Mr. Koopmans has performed short-term consulting engagements on banking and deposit insurance issues for private clients, including several European, Asian and South American countries. Mr. Koopmans was a director of Success Bancshares and its wholly owned subsidiary, Success National Bank, from 1997 until 2001, and was the Chairman of Success Bancshares' Executive Committee and Asset/Liability Management Committee and a member of its Audit Committee and Compensation Committee. Mr. Koopmans became a director of BankFinancial MHC and BankFinancial Corporation, a federal corporation, in 2002, and a director of BankFinancial, F.S.B. in 2004. He served as a director of Financial Assurance Services from 2001 to 2003. Mr. Koopmans is the Chairman of the Asset Liability Management Committee and is a member of the Audit Committee of BankFinancial Corporation, a Maryland corporation.

Joseph A. Schudt has served as the Principal Partner and President of Joseph A. Schudt & Associates, a professional engineering firm based in Frankfort, Illinois, specializing in engineering design, environmental analyses and land surveying, since 1972. Mr. Schudt is licensed as a professional engineer in seven states, including Illinois. He has been a director of BankFinancial, F.S.B. since 1992, and of BankFinancial MHC and BankFinancial, a federal corporation, since their formation in 1999. Mr. Schudt is the Chairman of the Asset Quality Committee and the Compensation Committee, and is a member of the Executive Committee.

Terry R. Wells has served as the Mayor of the Village of Phoenix, Illinois since 1993. Mr. Wells has also taught history and social studies since 1981 at the elementary and high school levels, and presently teaches U.S. History at Thornton Township High School in Harvey, Illinois. Mr. Wells has been a director of BankFinancial, F.S.B. since 1994, and of BankFinancial MHC and BankFinancial Corporation, a federal corporation, since their formation in 1999. Mr. Wells is a member of the Audit Committee and the Compensation Committee.

Glen R. Wherfel, C.P.A. has been a principal in the accounting firm of Wherfel & Associates since 1984. Mr. Wherfel was a director of Success National Bank from 1993 to 2001, and of Success Bancshares from 1998 to 2001. He was the Chairman of Success National Bank's Loan Committee and a member of its Asset Liability Management Committee. Mr. Wherfel became a director of BankFinancial, F.S.B. in 2001, and is a member of the Asset Quality Committee.

Meetings and Committees of the Board of Directors

Regular meetings of the Board of Directors of BankFinancial, F.S.B. are held monthly. Following the completion of the conversion, regular meetings of the Board of Directors of BankFinancial Corporation, a Maryland corporation, are expected to be held monthly. Regular meetings of the Boards of Directors of BankFinancial MHC and BankFinancial Corporation, a federal corporation, are generally held quarterly. Special meetings of these Boards are held as needed. There were 12 regular meetings and no special meetings of the Board of Directors of BankFinancial, F.S.B. during 2003. There were four regular meetings and five special meetings of the Boards of Directors of BankFinancial MHC and BankFinancial Corporation, a federal corporation, during 2003. BankFinancial Corporation, a Maryland corporation, was not incorporated until September 2004.

The Board of Directors of BankFinancial, F.S.B. has established various committees, including Executive, Audit, Asset Quality, Asset Liability Management, Compensation, Proxy and Nominating Committees. The Boards of Directors of BankFinancial MHC and BankFinancial Corporation, a federal corporation have established Executive, Audit, Compensation, Proxy and Nominating Committees. Except for the Nominating Committee and the Proxy Committee of the Board of Directors of BankFinancial MHC, the functions of these holding company committees overlap with the functions of their corresponding bank-level committees, and consequently these committees took no separate actions. BankFinancial Corporation was incorporated in September 2004, and its Board of Directors established Executive, Audit, Asset Quality, Asset Liability Management and Compensation, Proxy and Nominating Committees.

The Executive Committee of the Board of Directors of BankFinancial Corporation is authorized to act with the same authority as its Board of Directors between meetings of the Board, subject to limitations contained in its Bylaws. Messrs. Gasior (Chairman), Hausmann, Hartnett and Schudt serve as members of the Executive Committee of BankFinancial Corporation. The Executive Committees of BankFinancial, F.S.B., BankFinancial Corporation, a federal corporation and BankFinancial MHC have the same members and authorities. The Executive Committee of BankFinancial, F.S.B. met 12 times during 2003.

The Audit Committee of the Board of Directors of BankFinancial Corporation reviews the records and affairs of BankFinancial Corporation to determine its financial condition, reviews with management and the independent auditors the systems of internal control and monitors adherence in accounting and financial reporting to accounting principles generally accepted in the United States of America. Messrs. Hausmann (Chairman), Wells and Koopmans serve as members of the Audit Committee of BankFinancial Corporation. Each member of the Audit Committee is “independent” of BankFinancial Corporation, as that term is defined by Nasdaq listing standards. The Board of Directors of BankFinancial Corporation has determined that Messrs. Hausmann and Koopmans each qualifies as an “audit committee financial expert” and will serve as such for the Audit Committee. Except for Director Koopmans, who is not a member of the Audit Committee of BankFinancial, F.S.B., the Audit Committees of BankFinancial, F.S.B., BankFinancial Corporation, a federal corporation and BankFinancial MHC have the same members and authorities. The Audit Committee of BankFinancial, F.S.B. met four times during 2003.

The Asset Quality Committee of the Board of Directors of BankFinancial, F.S.B. is responsible for the oversight of risks regarding loan originations, loan portfolio management and nonperforming assets, and compliance with all policies relating to credit risk, the Community Reinvestment Act and the fair lending laws. The Asset Quality Committee meets periodically to approve loans within the limits of its authority and to review reports, activity and proposed significant actions relating to loans and asset

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quality. The Asset Quality Committee also coordinates with the Audit Committee certain oversight responsibilities relating to internal controls for credit operations. Mr. Schudt chairs the Asset Quality Committee and Messrs. Wherfel and Gasior serve as members. The Asset Quality Committee met 12 times during 2003.

The Compensation Committee of the Board of Directors of BankFinancial Corporation reviews and approves executive compensation, benefit plans, incentive compensation plans and employment agreements, and makes recommendations with respect thereto to the Board of Directors. Messrs. Schudt (Chairman), Hausmann, Hartnett and Wells serve as members of the Compensation Committee. The Compensation Committees of BankFinancial, F.S.B., BankFinancial Corporation, a federal corporation, and BankFinancial MHC have the same members and authorities. The Compensation Committee of BankFinancial, F.S.B. met once during 2003.

The Asset Liability Management Committee of the Board of Directors of BankFinancial, F.S.B. is responsible for the oversight of BankFinancial, F.S.B.'s liquidity, interest rate movements, secondary market operations (including originated mortgage servicing rights valuations), investment portfolio management and compliance with policies relating to asset and liability management. The Asset Liability Management Committee meets periodically to approve transactions within the limits of its authority and to review reports, activity and proposed significant actions relating to asset and liability management. The Asset Liability Management Committee also coordinates with the Audit Committee certain oversight responsibilities relating to internal controls for asset and liability management operations. Mr. Koopmans chairs the Asset-Liability Management Committee and Mr. Cmiel serves as a member. The Asset Liability Management Committee was established in November of 2003 and met twice during 2003.

The Nominating Committee nominates individuals for election as directors. The independent directors who are not standing for election will serve as the members of this committee for BankFinancial Corporation, a Maryland corporation.

Corporate Governance Policies and Procedures

In addition to establishing committees of the board of directors, BankFinancial Corporation will adopt a corporate governance policy and a code of business conduct and ethics. The corporate governance policy is expected to cover such matters as the following:

- the duties and responsibilities of each director;
- the composition, responsibilities and operation of the board of directors;
- the establishment and operation of board committees, including audit, nominating and compensation committees;
- succession planning;
- convening executive sessions of independent directors;
- the board of directors' interaction with management and third parties; and
- the evaluation of the performance of the board of directors and the chief executive officer.

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The code of business conduct and ethics, which is expected to apply to all employees and directors, will address conflicts of interest, the treatment of confidential information, general employee conduct and compliance with applicable laws, rules and regulations. In addition, the code of business conduct and ethics will be designed to deter wrongdoing and to promote honest and ethical conduct, the avoidance of conflicts of interest, full and accurate disclosure and compliance with all applicable laws, rules and regulations.

Directors' Compensation

Directors' Fees. Except for Mr. Gasior, who receives no fees for serving as a director, committee chairman or committee member, directors receive an annual fee of \$24,000 for preparing for and attending meetings of the Board of Directors. Members of the Executive Committee receive an additional fee of \$800 per month for performing Executive Committee functions. The Chairmen of the Audit Committee, the Asset Quality Committee and the Asset Liability Management Committee receive an additional fee of \$1,000 per quarter, and the other members of each of these committees receive an additional fee of \$800 per quarter, for performing committee functions. In addition, Directors Koopmans and Cmiel are partially reimbursed for their travel expenses for attending Board meetings. All directors' fees and reimbursements are paid by BankFinancial, F.S.B.

Deferred Compensation Plan. BankFinancial, F.S.B. maintains a deferred compensation plan for the benefit of directors and certain senior executives designated to participate in the plan. Participation under the plan is voluntary. Under the plan, a participant may defer (i) any whole percentage up to 100% of his salary, bonus and/or incentive compensation, (ii) a stated dollar amount of his bonus and/or incentive compensation, or (iii) all of his bonus and/or incentive compensation in excess of a stated dollar amount. A director may elect to defer (i) any whole percentage up to 100% of his director fees, (ii) a stated dollar amount of his director fees, or (iii) all of his director fees in excess of a stated dollar amount. Deferrals under the plan will be credited to a deferral account for the participant. Deferral elections must be made during the 90-day period preceding the first day of the plan year in which the salary, bonus, incentive compensation and/or director fees would otherwise be paid in cash. Individuals who become participants during a plan year may make deferral elections with respect to future salary, director fees, bonus and incentive compensation within 30 days of becoming a participant. Participants may elect to increase, decrease or cease deferral elections with respect to future salary, director fees, bonus and incentive compensation at any time during the plan year. Deferrals will be suspended in the event a participant receives a hardship distribution or a distribution on account of an unforeseeable emergency. For purposes of determining income (or loss) on a participant's account, a participant's account will be deemed invested through a self-directed brokerage account in publicly traded mutual funds or cash as the participant may direct. A participant will be fully vested in his deferral account at all times. At the participant's election, benefits under the plan may be paid in a lump sum or in annual installments. In the event the balance of a participant's account is less than \$10,000, then notwithstanding a participant's election to the contrary, the participant's account will be distributed in a lump sum. In the event the amount of any annual installment payable to a participant or beneficiary is less than \$5,000, each annual installment amount will be \$5,000 until the account is exhausted or the rule governing account balances of less than \$10,000 takes effect.

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Our Executive Officers

The table below sets forth certain information, as of June 30, 2004, regarding executive officers of BankFinancial Corporation and BankFinancial, F.S.B. other than Mr. Gasior.

| <u>Name</u> | <u>Title</u> | <u>Age</u> |
|----------------------|---|------------|
| James J. Brennan | Executive Vice President, Corporate Secretary and General Counsel | 53 |
| Paul A. Cloutier | Executive Vice President and Chief Financial Officer | 40 |
| Robert O'Shaughnessy | Executive Vice President and Chief Credit Officer | 65 |
| Thad F. Stewart | Executive Vice President and Chief Internal Auditor | 42 |

The table below sets forth certain information, as of June 30, 2004, regarding executive officers of BankFinancial, F.S.B. who are not executive officers of BankFinancial Corporation.

| <u>Name</u> | <u>Title</u> | <u>Age</u> |
|----------------------|--|------------|
| Christa N. Calabrese | Regional President, Northern Region | 55 |
| Gregg T. Adams | Executive Vice President, Marketing Division | 45 |
| Mark W. Collins | Executive Vice President, Information Systems Division | 53 |
| Patricia Smith | Executive Vice President, Human Resources Division | 41 |
| Donald F. Stelter | Executive Vice President, General Services Division | 51 |

The Business Background of Our Executive Officers

The business experience for the past five years for each of our executive officers, other than Mr. Gasior, is as follows:

Gregg T. Adams has served as the Executive Vice President of the Marketing and Sales Division of BankFinancial, F.S.B. since 2001, and was the Senior Vice President of the Marketing and Sales Division from 2000 to 2001. Mr. Adams joined BankFinancial, F.S.B. in 1986 and has served in various positions with BankFinancial, F.S.B. and its former real estate subsidiary, Financial Properties, Inc., including as Vice President of Marketing Development.

James J. Brennan has served as the Secretary and General Counsel of BankFinancial, F.S.B., BankFinancial Corporation, a federal corporation, and BankFinancial MHC since 2000. Mr. Brennan also serves as the Executive Vice President of the Corporate Affairs Division. Mr. Brennan was a practicing attorney from 1975 until 2000. Prior to joining BankFinancial, F.S.B. and its parent companies, he was a partner in the law firm of Barack Ferrazzano Kirschbaum Perlman & Nagelberg, Chicago, Illinois, and was the Co-Chairman of the firm's Financial Institutions Group. Mr. Brennan is also a director of Financial Assurance Services.

Christa N. Calabrese has served as the President of BankFinancial, F.S.B.'s Northern Region since 2001. She served as the Chief Lending Officer of Success National Bank from 1992 to 2001 and during that time held the offices of Executive Vice President and Senior Vice President. Ms. Calabrese was an Asset Specialist with the Resolution Trust Corporation from 1990 to 1992, and held commercial lending positions with several Chicago area community banks from 1969 to 1990.

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Paul A. Cloutier, C.P.A. has served as the Chief Financial Officer and Treasurer of BankFinancial, F.S.B. since 1991, and of BankFinancial MHC and BankFinancial Corporation, a federal corporation, since they were formed in 1999. Mr. Cloutier also serves as the Executive Vice President of the Finance Division. He is a registered certified public accountant in the State of Michigan and is a member of the American Institute of Certified Public Accountants. Prior to joining BankFinancial, F.S.B. and its parent companies, he was a Senior Tax Associate with Coopers & Lybrand.

Mark W. Collins has served as the Executive Vice President of the Information Systems Division of BankFinancial, F.S.B. since 2004. Mr. Collins joined BankFinancial, F.S.B. on a full-time basis in 2002 and became a Vice President in the Information Systems Division in 2003. Prior to joining BankFinancial, F.S.B., Mr. Collins was employed in the Information Systems Division of Standard Federal Bank, Chicago, Illinois, and its successor, TCF Bank, from 1972 to 1998, and served as the Director of Information Systems of Standard Federal Bank from 1994 to 1997.

Robert J. O'Shaughnessy has served as the Chief Credit Officer of BankFinancial, F.S.B., BankFinancial MHC and BankFinancial Corporation, a federal corporation, since 1999. Mr. O'Shaughnessy also serves as the Executive Vice President of the Operations Division. Mr. O'Shaughnessy has been actively involved in the banking industry since 1964, including service as chief lending officer and other senior positions with several Chicago area commercial banks, and as the principal in R.J. O'Shaughnessy & Company, a consulting firm that specialized in loan review, the evaluation of credit standards and processes and general bank consulting.

Patricia Smith has served as the Executive Vice President of the Human Resources Division of BankFinancial, F.S.B. since 2002, and was the Senior Vice President of the Human Resources Division from 2001 to 2002. Before joining BankFinancial, F.S.B., Ms. Smith held various human resources positions with Old Kent Bank and with Heritage Bank and its successor, First Midwest Bank.

Donald F. Stelter has served as the Executive Vice President of the General Services Division of BankFinancial, F.S.B. since 2001, and was the Senior Vice President of the General Services Division from 2000 to 2001. Mr. Stelter held various positions with Financial Properties, Inc., a former subsidiary of BankFinancial, F.S.B., between 1987 and 2000, and served as its Senior Vice President from 1996 to 2001. Mr. Stelter is also the President of BF Asset Recovery Corporation, a special asset holding subsidiary of BankFinancial, F.S.B.

Thad F. Stewart has served as the Executive Vice President of the Internal Audit Division of BankFinancial, F.S.B., BankFinancial MHC and BankFinancial Corporation, a federal corporation, since 2001, and as the Senior Vice President of their Internal Audit Division from 1997 to 2001. Prior to joining BankFinancial, F.S.B., Mr. Stewart was an internal audit officer with several Chicago area financial institutions.

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Executive Compensation

Summary Compensation Table. The following table sets forth certain information as to the total remuneration paid by BankFinancial, F.S.B. to its Chief Executive Officer, as well as to the four most highly compensated executive officers of BankFinancial, F.S.B. (other than the Chief Executive Officer) who received salary and accrued bonus in excess of \$100,000 for the year ending December 31, 2003. Each of the individuals listed in the table below are referred to as Named Executive Officers.

| Name and Principal Position | Annual Compensation | | | Long-Term Compensation | | | | |
|---|---------------------------------|-----------|----------|-------------------------------|-------------------------|------------------|--------------|---------------------------|
| | Year Ended 12/31 ⁽¹⁾ | Salary | Bonus | Other Annual Compensation (2) | Awards | | Payouts | |
| | | | | | Restricted Stock Awards | Options/SARS (#) | LTIP Payouts | All Other Compensation(3) |
| F. Morgan Gasior Chairman of the Board, President and Chief Executive Officer | 2003 | \$365,619 | \$48,900 | \$ — | \$ — | — | \$ — | \$ 10,000 |
| James J. Brennan Executive Vice President, Corporate Secretary and General Counsel | 2003 | \$273,498 | \$41,250 | \$ — | \$ — | — | \$ — | \$ 10,000 |
| Paul A. Cloutier Executive Vice President and Chief Financial Officer | 2003 | \$228,849 | \$11,500 | \$ — | \$ — | — | \$ — | \$ 10,000 |
| Robert O'Shaughnessy Executive Vice President and Chief Credit Officer | 2003 | \$217,342 | \$32,775 | \$ — | \$ — | — | \$ — | \$ 10,000 |
| Christa Calabrese Regional President | 2003 | \$191,467 | \$25,000 | \$ — | \$ — | — | \$ — | \$ 10,000 |

- (1) Summary compensation information is excluded for the years ended December 31, 2002 and 2001, as BankFinancial Corporation was not a public company during those periods.
- (2) BankFinancial, F.S.B. also provides certain members of senior management with club membership dues, a car allowance and certain other personal benefits. The aggregate value of such personal benefits did not exceed the lesser of \$50,000 or 10% of the total annual salary and bonus reported for each officer.
- (3) Represents BankFinancial, F.S.B.'s contributions pursuant to the BankFinancial and Subsidiaries Associate Investment Plan.

Employment Agreements. BankFinancial, F.S.B. has previously entered into, and BankFinancial Corporation plans to enter into, employment agreements with each of Messrs. Gasior, Brennan, Cloutier and O'Shaughnessy. In addition, in August 2004, following the expiration of her existing employment agreement, BankFinancial, F.S.B. entered into a new employment agreement with Ms. Calabrese which is substantially similar to the employment agreements for its other named executive officers. The employment agreements each have, or will have, a term of 36 months. On the first anniversary date of the employment agreements and each anniversary date thereafter, each employment agreement may be extended for an additional year at the discretion of the Board of Directors, so that the remaining term will be 36 months. Under the employment agreements, BankFinancial, F.S.B. will pay the executives the base salary reflected in the payroll records, subject to discretionary increases by the Board of Directors. The 2004 base salary for Messrs. Gasior, Brennan, Cloutier and O'Shaughnessy is \$375,000, \$280,000, \$234,000 and \$240,000, respectively, and for Ms. Calabrese the 2004 base salary is \$204,500. The employment agreements provide that the base salary may be increased but not decreased. The employment agreements also provide that the executive officer is entitled to an automobile or an automobile allowance, the payment of designated club dues and to participate with other executive officers in incentive compensation and discretionary bonuses declared by the Board. In addition to base

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salary and bonus, the employment agreements provide for, among other things, participation in a Section 125 cafeteria plan, group medical, dental, vision, disability and life insurance plans, referred to as the core plans, 401(k) plan and other employee and fringe benefits applicable to executive personnel. During the employment period, we have provided each executive officer with a supplemental disability insurance policy that pays 60% of the executive officer's base salary for the remaining term of the agreement in the event the executive officer is terminated due to disability. If an executive officer becomes disabled, our obligation to pay his or her base salary shall be reduced proportionately by the disability payments made to the executive officer under the disability policy and under the federal social security system. Each executive officer is responsible for paying the premiums and we will provide him or her with an annual allowance sufficient, on an after-tax basis, to equal the premium payments. Also, in addition to the life insurance benefits provided to regular full-time employees, a supplemental life insurance policy has been or will be provided to each insurable executive officer under the agreements which would pay not less than three times an executive officer's base salary in the event of the executive officer's death. The executive officer is the owner of the policy and will receive an annual allowance sufficient to cover the cost of such insurance. In the event of an executive officer's death during the term of the employment agreement, any base salary payments required of BankFinancial, F.S.B. upon the death of the employee will, assuming a supplemental life insurance policy has been obtained, be discharged by the payments to the executive officer's designated beneficiary under the supplemental insurance policies. If a supplemental life insurance policy on the executive's life has not been obtained, such payments will be made by BankFinancial, F.S.B. in accordance with the employment agreement. The agreements provide for termination for cause at any time. In the event of termination for cause, the executive officer will receive the unpaid balance of his or her base salary, referred to as earned salary, through the effective date of termination of employment.

In the event of termination of employment due to disability, the executive officer will be entitled to his or her earned salary, the prorated annual average of any cash incentive compensation and bonus that the executive officer received during the preceding two fiscal years, referred to as prorated incentive compensation, the prorated employer matching 401(k) plan contribution that the executive officer would be entitled to receive for the current year, referred to as accrued plan contribution, the base salary he would have received from the effective date of termination through the date the employment period would have expired if his employment had not sooner terminated due to disability which will be offset by the disability insurance and federal social security disability payments referenced above, and continued coverage under the core plans through the date the employment period would have expired, subject to the executive officer's continued payment of the costs and contributions for which he is responsible.

In the event the executive officer's employment is terminated due to death, his surviving spouse and minor children, if any, will be entitled to the same coverage under the core plans that the executive officer would have been provided if his employment had terminated due to disability. In addition, the executive officer's estate or trust, as applicable, will be entitled to the base salary the executive officer would have been paid through the date the employment period would have expired if the executive officer's employment had not been sooner terminated due to death. If a supplemental life insurance policy has been obtained on the life of the executive, BankFinancial, F.S.B.'s and/or BankFinancial Corporation's obligation to make such payments will be fully discharged by the death benefits payments under the supplemental life insurance policy purchased for each executive officer. Except with respect to coverage under the core plans, BankFinancial, F.S.B. will generally have no obligation to pay or provide executive officer's estate, surviving spouse, or minor children with any other compensation or benefits on account of executive officer's death.

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In the event the executive officer's employment is terminated without cause by BankFinancial, F.S.B. or BankFinancial Corporation, BankFinancial, F.S.B. and/or BankFinancial Corporation will pay the executive officer his or her earned salary, prorated incentive compensation, accrued plan contribution, continued coverage under the core plans for 36 months, subject to the executive officer's payment of costs and contributions for which he or she is responsible, and an amount equal to three times his or her average annual compensation. Payment of benefits will be made in installments over 36 months, however, BankFinancial, F.S.B. has the right to elect to make a discounted lump sum payment.

Under the employment agreements, the executive officer may terminate his or her employment for good reason by giving notice within 60 days after the event giving rise to the right to terminate employment. "Good reason" generally includes our (i) decision not to re-elect or failure to re-elect the executive officer to his present position; (ii) failure to extend the executive officer's employment period on the anniversary date for an additional year so that the remaining term of the employment agreement will be 36 months; (iii) relocation of the executive officer's principal place of employment by more than a specified distance; (iv) reduction in the executive officer's base salary or a material reduction in the benefits the executive officer is entitled to; (v) liquidation or dissolution of BankFinancial, F.S.B. or BankFinancial Corporation; (vi) material uncured breach of the employment agreement; and (vii) with respect to the BankFinancial Corporation employment agreement, the occurrence of a change in control of BankFinancial Corporation. With respect to Mr. Gasior's employment agreement, "good reason" also includes the failure to elect or re-elect him as chairman of the board of BankFinancial, F.S.B., a change in the composition of the board of directors of the Bank such that the current directors no longer constitute a majority of the board other than in certain circumstances where the new board is nominated or appointed by the existing board, or a significant reduction in the scope of his duties, powers, privileges, authority or responsibilities. In the event an executive officer's employment is terminated for good reason, he will receive the same amounts and the same coverage under the core plans that he would have received if his employment had been terminated without cause. In the event the executive officer terminates his employment by resignation other than due to good reason, he will be entitled to his earned salary through the date of termination.

The executive officer is required under the employment agreement to execute a general release in consideration for any severance amounts. The executive officer also agrees not to compete with us for six months after termination or during the period that severance amounts are paid, if longer. In addition, the executive officer agrees not to solicit our customers, their business or our employees for 18 months, which may be reduced in certain circumstances. Payment of benefits under the employment agreement may be made in installments or in a lump sum discounted to present value in the case of future cash payments, as determined by BankFinancial, F.S.B. Benefits under the BankFinancial, F.S.B. agreement may be reduced to avoid constituting an "excess parachute payment" under Section 280G of the Internal Revenue Code of 1986, as amended. The employment agreements between Messrs. Gasior, Brennan, Cloutier and O'Shaughnessy and BankFinancial, F.S.B. and between such executives and BankFinancial Corporation are substantially similar, provided, however, the BankFinancial Corporation agreements do not include a cutback provision for Section 280G purposes. Any severance payment or benefit payment made under the BankFinancial, F.S.B. employment agreement will reduce, to the extent of the payment, any similar payment under the BankFinancial Corporation employment agreement.

BankFinancial, F.S.B. has also entered into employment agreements with eight other officers and our subsidiary Financial Assurance Services has entered into an employment agreement with one of its officers. BankFinancial, F.S.B. also intends to enter into employment agreements with two other officers, and Financial Assurance Services intends to enter into an employment agreement with one other officer. Each such agreement has a term of 24 months and on the anniversary date thereof can be

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extended for an additional 12 months so that the remaining term will be 24 months. Each such agreement contains substantially similar terms to the employment agreements described above except for the term of coverage. In addition, the failure to extend the executive officer's employment period on the anniversary date for an additional year will not constitute good reason for an executive to terminate and receive payment under the employment agreement. If executive officer is terminated due to disability, BankFinancial, F.S.B. will pay the executive officer his or her earned salary, accrued plan contribution, base salary through the remainder of the employment period, subject to reduction for payments under the supplemental disability insurance policy acquired pursuant to the employment agreement and for federal social security disability payments, and coverage under the core plans through the remainder of the employment period. Similarly, if the executive officer's termination is due to the executive officer's death, BankFinancial, F.S.B. will make the same payments to his surviving spouse and minor children, if any, including coverage under the core plans, as described above, for the remainder of the two year employment period, however, our obligation to make continuing base salary payments will be wholly offset by the death benefit payments made under any supplemental life insurance policy that was acquired or caused to be acquired by BankFinancial, F.S.B., or its subsidiary Financial Assurance Services, as applicable. If the executive officer is terminated without cause or in the event the executive officer voluntarily terminates for good reason, BankFinancial, F.S.B. will pay the executive officer the same compensation that would be provided in the event of termination due to disability, including continued coverage under the core plans for the remainder of the employment period. Under these employment agreements, in the event of termination for cause, BankFinancial, F.S.B. will pay the executive officer his or her earned salary through the effective date of termination of employment. We may enter into additional employment agreements in the future, depending on our growth, any acquisitions that we may complete and promotions of our employees, among other factors.

The BankFinancial, F.S.B. employment agreements provide the covered executives with indemnification to the maximum extent permitted under federal law, and the BankFinancial Corporation employment agreements provide the four covered executive officers with indemnification to the maximum extent permitted under the Maryland General Corporation Law, provided, that in the case of the latter employment agreements, BankFinancial Corporation will not be obligated to pay or advance any amounts otherwise indemnifiable or payable to the extent the executive officer has actually received payment under any insurance policy or other contract or agreement to which he or she is a party.

Employee Stock Ownership Plan and Trust. We intend to implement an employee stock ownership plan in connection with the offering. The Board of Directors of BankFinancial, F.S.B. has adopted the employee stock ownership plan effective as of January 1, 2005. Employees with at least one year of employment with BankFinancial, F.S.B. are eligible to participate. As part of the offering, the employee stock ownership plan trust intends to borrow funds from BankFinancial Corporation and use those funds to purchase a number of shares equal to 8% of the common stock sold in the offering. Collateral for the loan will be the common stock purchased by the employee stock ownership plan. The loan will be repaid principally from BankFinancial, F.S.B. through discretionary contributions to the employee stock ownership plan over a period of up to twenty years. The loan documents will provide that the loan may be repaid over a shorter period, without penalty for prepayments. It is anticipated that the interest rate for the loan will be equal to the prime rate plus 100 basis points, adjustable every five years. Shares purchased by the employee stock ownership plan will be held in a suspense account for allocation among participants as the loan is repaid.

Contributions to the employee stock ownership plan and shares released from the suspense account in an amount proportional to the repayment of the employee stock ownership plan loan will be allocated among employee stock ownership plan participants on the basis of compensation in the year of

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allocation. Benefits under the plan will become fully vested upon completion of five years of credited service, with credit given to participants for years of credited service with BankFinancial, F.S.B. prior to the adoption of the plan. A participant's interest in his account under the plan will also fully vest in the event of termination of service due to a participant's early or normal retirement, death, disability, or upon a change in control (as defined in the plan). Vested benefits will be payable in the form of common stock and/or cash. BankFinancial, F.S.B.'s contributions to the employee stock ownership plan are discretionary, subject to the loan terms and tax law limits. Therefore, benefits payable under the employee stock ownership plan cannot be estimated. Pursuant to SOP 93-6, we will be required to record compensation expense each year in an amount equal to the fair market value of the shares released from the suspense account. The employee stock ownership plan will terminate in the event of a change in control.

Transactions with Certain Related Persons

BankFinancial, F.S.B. does not currently extend credit to its executive officers and directors or any organization considered a related interest or affiliate under federal law, and no such loans were outstanding as of June 30, 2004.

Patrick J. Hartnett, in addition to his duties as a Director of BankFinancial, F.S.B., BankFinancial Corporation and BankFinancial MHC, is a partner of the law firm of Hartnett & Hartnett, which provides legal services to BankFinancial, F.S.B. During the year ended December 31, 2003, BankFinancial, F.S.B. paid Hartnett & Hartnett legal fees of \$28,700.

Benefits to be Considered Following Completion of the Conversion

Stock Option Plan. We intend to request stockholder approval of a stock option plan no earlier than six months after the completion of the conversion. If approved by the stockholders, the new stock option plan would, if adopted within one year of the conversion, reserve an amount equal to 10% of the shares of common stock sold in the offering for issuance upon exercise of stock options. 10% of the shares of common stock issued in the offering would amount to 1,275,000 shares, 1,500,000 shares, 1,725,000 shares and 1,983,750 shares at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively. If we adopt the stock option plan after one year following the completion of the conversion, we may grant options in an amount greater than 10% of the shares of common stock sold in the offering, although such plan, including the amount reserved under such plan, may remain subject to supervisory restrictions. We have not yet determined whether we will present this plan for stockholder approval within 12 months following the completion of the conversion or whether we will present this plan for stockholder approval more than 12 months following the completion of the conversion. No options would be granted under the new stock option plan until stockholder approval of the plan is received. In the event that shares underlying options come from authorized but unissued shares of common stock, stockholders would experience dilution of approximately 9.1% of their ownership interest in BankFinancial Corporation at the midpoint of the offering range.

The exercise price of the options granted under the new stock option plan will be equal to the fair market value of BankFinancial Corporation common stock on the date of grant of the stock options. If the stock option plan is adopted within one year following the conversion, options may vest no faster than 20% per year beginning 12 months after the date of grant. Options granted under the stock option plan would be adjusted for capital changes such as stock splits and stock dividends. Awards will be 100% vested upon termination of employment due to death, disability or following a change in control, and if the stock option plan is adopted more than one year after the conversion, awards would be 100% vested upon normal retirement. Under Office of Thrift Supervision regulations, if the stock option plan is

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adopted within one year of the conversion, no individual officer may receive more than 25% of the awards under the plan, no non-employee director may receive more than 5% of the awards under the plan and all non-employee directors as a group may receive in the aggregate no more than 30% of the awards under the plan.

The stock option plan would be administered by a committee of non-employee members of BankFinancial Corporation's Board of Directors. Options granted under the stock option plan to employees may be "incentive" stock options, which are designed to result in a beneficial tax treatment to the employee but no tax deduction to BankFinancial Corporation. Non-qualified stock options may also be granted to employees under the stock option plan, and will be granted to the non-employee directors who receive stock options. In the event an option recipient terminated his or her employment or service as an employee or director, the options would terminate after certain specified periods following termination.

Stock Recognition and Retention Plan. We intend to request stockholder approval of a new stock recognition and retention plan, no earlier than six months after the completion of the conversion. If approved by stockholders, the new stock recognition and retention plan would, if adopted within one year of the conversion, reserve an amount equal to 4% of the shares of common stock sold in the offering, or 510,000 shares, 600,000 shares, 690,000 shares and 793,500 shares at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively. If we adopt the recognition and retention plan after one year following the completion of the conversion, we may grant shares in an amount greater than 4% of the shares of common stock sold in the offering, although such plan, including the amount granted under such plan, may remain subject to supervisory restrictions. We have not yet determined whether we will present this plan for stockholder approval within 12 months following the completion of the conversion or whether we will present this plan for stockholder approval more than 12 months following the completion of the conversion. We must recognize an expense for shares of common stock awarded over their vesting period at the fair market value of the shares on the date they are awarded. The recipients will be awarded shares of common stock under the stock recognition and retention plan at no cost to them. No awards would be made under the stock recognition and retention plan until the plan is approved by stockholders. If the shares awarded under the stock recognition and retention plan come from authorized but unissued shares of the common stock totaling 4% of the shares sold in the offering, stockholders would experience dilution of approximately 3.8% in their ownership interest in BankFinancial Corporation at the midpoint of the offering range.

Awards granted under the stock recognition and retention plan would be nontransferable and nonassignable. Under Office of Thrift Supervision regulations, if the stock recognition and retention plan is adopted within one year following the conversion, the shares of common stock which are subject to an award may vest no faster than 20% per year beginning 12 months after the date of grant of the award. Awards would be adjusted for capital changes such as stock dividends and stock splits. Awards would be 100% vested upon termination of employment or service due to death, disability or following a change in control, and if the stock recognition and retention plan is adopted more than one year after the conversion, awards also would be 100% vested upon normal retirement. If employment or service were to terminate for other reasons, the award recipient would forfeit any nonvested award. If employment or service were to terminate for cause, which term would be defined in the plan, unvested shares would be forfeited. Under Office of Thrift Supervision rules, if the stock recognition and retention plan is adopted within one year of the conversion, no individual officer may receive more than 25% of the awards under the plan, no non-employee director may receive more than 5% of the awards under the plan, and all non-employee directors as a group may receive no more than 30% of the awards under the plan in the aggregate.

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The recipient of an award will recognize income equal to the fair market value of the stock earned, determined as of the date of vesting, unless the recipient makes an election under Section 83(b) of the Internal Revenue Code of 1986, as amended, to be taxed earlier. The amount of income recognized by the recipient would be a deductible expense of BankFinancial Corporation for tax purposes.

SUBSCRIPTIONS BY DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth information regarding intended common stock purchases by each of the directors and executive officers of BankFinancial, F.S.B. and their associates, and by all directors and executive officers as a group. In the event the individual maximum purchase limitation is increased, persons subscribing for the maximum amount may increase their purchase order. Directors and executive officers will purchase shares of common stock at the same \$10.00 purchase price per share and on the same terms as other purchasers in the offering. This table excludes shares of common stock to be purchased by the employee stock ownership plan, as well as any recognition and retention plan awards or stock option grants that may be made no earlier than six months after the completion of the offering. The directors and officers have indicated their intention to purchase in the offering an aggregate of \$3.8 million of common stock, equal to 3.0%, 2.5%, 2.2% and 1.9% of the number of shares of common stock to be sold in the offering at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively. Purchases by directors, executive officers and their associates will be included in determining whether the required minimum number of shares has been subscribed for in the offering.

| Name | Number of Shares (1) | Aggregate Purchase Price (1) | Percent at Midpoint |
|---|-------------------------|------------------------------------|------------------------|
| F. Morgan Gasior | 50,000 | \$ 500,000 | *0% |
| Dr. Kenneth Cmiel | 1,000 | 10,000 | * |
| Patrick I. Hartnett | 5,000 | 50,000 | * |
| John M. Hausmann, C.P.A. | 50,000 | 500,000 | * |
| Sherwin R. Koopmans | 20,000 | 200,000 | * |
| Joseph A. Schudt | 50,000 | 500,000 | * |
| Terry R. Wells | 12,000 | 120,000 | * |
| Glen R. Wherfel, C.P.A. | 10,000 | 100,000 | * |
| Gregg T. Adams | 10,000 | 100,000 | * |
| James J. Brennan | 50,000 | 500,000 | * |
| Christa N. Calabrese | 3,000 | 30,000 | * |
| Paul A. Cloutier | 25,000 | 250,000 | * |
| Mark W. Collins | 25,000 | 250,000 | * |
| Robert O'Shaughnessy | 50,000 | 500,000 | * |
| Patricia Smith | 5,000 | 50,000 | * |
| Donald F. Stelter | 12,500 | 125,000 | * |
| Thad F. Stewart | 1,000 | 10,000 | * |
| All directors and executive officers as a group | 379,500 | \$ 3,795,000 | 2.5% |

* Less than 1%.

(1) Includes purchases by the individual's spouse and other relatives of the named individual living in the same household. The above named individuals are not aware of any other purchases by a person who, or entity which, would be considered an associate of the named individuals under the Plan of Conversion.

THE CONVERSION; PLAN OF DISTRIBUTION

The Boards of Directors of BankFinancial Corporation and BankFinancial MHC have approved the plan of conversion and reorganization. The plan of conversion and reorganization must also be approved by the members of BankFinancial MHC (depositors and certain borrowers of BankFinancial, F.S.B.). A special meeting of members has been called for this purpose. The Office of Thrift Supervision has conditionally approved the plan of conversion and reorganization; however, such approval does not constitute a recommendation or endorsement of the plan of conversion and reorganization by that agency.

General

The respective Boards of Directors of BankFinancial MHC and BankFinancial Corporation adopted the plan of conversion and reorganization on August 25, 2004. Pursuant to the plan of conversion and reorganization, our organization will convert from the mutual holding company form of organization to the fully stock form and we will sell shares of common stock to the public in our offering. BankFinancial MHC, the mutual holding company parent of BankFinancial Corporation, will be merged into BankFinancial, F.S.B., and BankFinancial MHC will no longer exist. BankFinancial Corporation, which owns 100% of BankFinancial, F.S.B., will be succeeded by a new Maryland corporation with the same name. When the conversion is completed, all of the capital stock of BankFinancial, F.S.B. will be owned by BankFinancial Corporation, our newly formed Maryland holding company, and all of the common stock of BankFinancial Corporation will be owned by public stockholders.

We intend to retain between \$62.4 million and \$84.9 million of the net proceeds of the offering, or \$97.8 million if the offering range is increased by 15%, and to contribute the balance of the net proceeds to BankFinancial, F.S.B. The conversion will be consummated only upon the issuance of at least 12,750,000 shares of our common stock offered pursuant to the plan of conversion and reorganization.

The plan of conversion and reorganization provides that we will offer shares of common stock for sale in the subscription offering to eligible account holders, our tax-qualified employee benefit plans, including the employee stock ownership plan and Associate Investment Plan (401(k) plan), supplemental eligible account holders and other members (depositors and certain borrowers of BankFinancial, F.S.B.). If all shares are not subscribed for in the subscription offering, we may, at our discretion, offer common stock for sale in a community offering to members of the general public, with a preference given to natural persons residing in the Illinois counties of Cook, DuPage, Lake and Will.

We have the right to accept or reject, in whole or in part, any orders to purchase shares of the common stock received in the community offering. The community offering, if any, may begin at the same time as, during, or after the subscription offering, and must be completed within 45 days after the completion of the subscription offering unless otherwise extended by us with the approval of the Office of Thrift Supervision. See “—Community Offering.”

We determined the number of shares of common stock to be offered in the offering based upon an independent valuation appraisal of the estimated consolidated pro forma market value of BankFinancial Corporation. All shares of common stock to be sold in the offering will be sold at \$10.00 per share. Investors will not be charged a commission to purchase shares of common stock. The independent valuation will be updated and the final number of the shares of common stock to be issued in the offering will be determined at the completion of the offering. See “—Determination of Share Price and Number of Shares to be Issued” for more information as to the determination of the estimated pro forma market value of the common stock.

The following is a brief summary of the conversion and is qualified in its entirety by reference to the provisions of the plan of conversion and reorganization. A copy of the plan of conversion and reorganization is available for inspection at each branch office of BankFinancial, F.S.B. and at the Southeast Regional and the Washington, D.C. offices of the Office of Thrift Supervision. The plan of conversion and reorganization is also filed as an exhibit to BankFinancial MHC’s application to convert from mutual to stock form of which this prospectus is a part, copies of which may be obtained from the Office of Thrift Supervision. See “Where You Can Find Additional Information.”

Reasons for the Conversion

The primary reasons for the conversion and related stock offering are:

- to provide additional financial resources to pursue future acquisition opportunities and limited *de novo* branching opportunities;
- to support our internal growth through lending in communities we serve or may serve in the future;
- to enhance our existing products and services and to support the development of new products and services;
- to improve our overall competitive position;
- to repay term debt we incurred to acquire Success Bancshares and to fund the redemption of the trust preferred securities that we assumed from Success Bancshares in 2003;
- to provide better capital management tools, including the ability to pay dividends and to repurchase shares of our common stock; and
- to retain and attract qualified personnel by establishing stock benefit plans for management and employees, including a stock option plan, a recognition and retention plan and an employee stock ownership plan.

As a fully converted stock holding company, we will have greater flexibility in structuring mergers and acquisitions. Our current mutual holding company structure limits our ability to offer shares of our common stock as consideration for a merger or acquisition since BankFinancial MHC is required to own a majority of our shares of common stock. Potential sellers often want stock for at least part of the acquisition consideration. Our new stock holding company structure will enable us to offer stock or cash consideration, or a combination thereof, and will therefore enhance our ability to compete with other bidders when acquisition opportunities arise.

We have no current arrangements or agreements to acquire other banks, thrifts and financial service companies or branch offices. However, we have had, and intend to continue to have, discussions with local financial institutions to determine whether they would be interested in exploring the possibility of our acquiring them after the offering is completed and we have sufficient capital resources to fund an acquisition. In addition, we have participated in, and intend to continue to participate in, sales processes initiated on behalf of local financial institutions that have made a decision to explore the possibility of a sale. We have also explored, and intend to continue to explore, the possibility of acquiring local financial service companies, insurance agencies and engaging in limited *de novo* branching. We are presently investigating the feasibility of establishing a small number of *de novo* branches in the Chicago metropolitan area, but have no current plans to engage in extensive *de novo* branching. On a long-term basis, we may consider the establishment of *de novo* branches or the acquisition of financial institutions in other Midwestern states. There can be no assurance that we will be able to consummate any acquisition or establish any new branches. See “Risk Factors—Our Ability to Successfully Conduct Acquisitions Will Affect Our Ability to Grow Our Franchise and Compete Effectively in Our Marketplace.”

Approvals Required

The affirmative vote of a majority of the total eligible votes of the members of BankFinancial MHC at the special meeting of members is required to approve the plan of conversion and reorganization. By their approval of the plan of conversion and reorganization, the members of BankFinancial MHC will also be approving the merger of BankFinancial MHC into BankFinancial, F.S.B. The plan of conversion and reorganization also must be approved by the Office of Thrift Supervision, which has given its conditional approval.

A special meeting of members to consider and vote upon the plan of conversion and reorganization has been set for January 6, 2005.

Effects of Conversion on Depositors, Borrowers and Members

Continuity. While the conversion is being accomplished, the normal business of BankFinancial, F.S.B. of accepting deposits and making loans will continue without interruption. BankFinancial, F.S.B. will continue to be a federally chartered savings bank and will continue to be regulated by the Office of Thrift Supervision. After the conversion, BankFinancial, F.S.B. will continue to offer existing services to depositors, borrowers and other customers. The directors serving BankFinancial Corporation, a federal corporation, at the time of the conversion will be the directors of BankFinancial Corporation, a Maryland corporation, after the conversion.

Effect on Deposit Accounts. Pursuant to the plan of conversion and reorganization, each depositor of BankFinancial, F.S.B. at the time of the conversion will automatically continue as a depositor after the conversion, and the deposit balance, interest rate and other terms of such deposit accounts will not change as a result of the conversion. Each such account will be insured by the Federal Deposit Insurance Corporation to the same extent as before the conversion. Depositors will continue to hold their existing certificates, passbooks and other evidences of their accounts.

Effect on Loans. No loan outstanding from BankFinancial, F.S.B. will be affected by the conversion, and the amount, interest rate, maturity and security for each loan will remain as it was contractually fixed prior to the conversion.

Effect on Voting Rights of Members. At present, all depositors and certain borrowers of BankFinancial, F.S.B. are members of, and have voting rights in, BankFinancial MHC as to all matters requiring membership action. Upon completion of the conversion, depositors and borrowers will cease to be members of BankFinancial MHC and will no longer have voting rights. Upon completion of the conversion, all voting rights in BankFinancial, F.S.B. will be vested in BankFinancial Corporation as the sole stockholder of BankFinancial, F.S.B. The stockholders of BankFinancial Corporation will possess exclusive voting rights with respect to BankFinancial Corporation common stock.

Tax Effects. We will receive an opinion of counsel or tax advisor with regard to federal and state income tax consequences of the conversion to the effect that the conversion will not be taxable for federal or state income tax purposes to BankFinancial MHC, BankFinancial Corporation, members of BankFinancial MHC, eligible account holders, supplemental eligible account holders, or BankFinancial, F.S.B. See “—Material Income Tax Consequences.”

Effect on Liquidation Rights. Each depositor in BankFinancial, F.S.B. has both a deposit account in BankFinancial, F.S.B. and a pro rata ownership interest in the net worth of BankFinancial MHC based upon the deposit balance in his or her account. This ownership interest is tied to the

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depositor's account and has no tangible market value separate from the deposit account. This interest may only be realized in the event of a complete liquidation of BankFinancial MHC and BankFinancial, F.S.B. Any depositor who opens a deposit account obtains a pro rata ownership interest in BankFinancial MHC without any additional payment beyond the amount of the deposit. A depositor who reduces or closes his or her account receives a portion or all, respectively, of the balance in the deposit account but nothing for his or her ownership interest in the net worth of BankFinancial MHC, which is lost to the extent that the balance in the account is reduced or closed.

Consequently, depositors in a stock subsidiary of a mutual holding company normally have no way of realizing the value of their ownership interest, which has realizable value only in the unlikely event that BankFinancial MHC and BankFinancial, F.S.B. are completely liquidated. If this occurs, the depositors of record at that time, as owners, would share pro rata in any residual surplus and reserves of BankFinancial MHC after other claims, including claims of depositors to the amounts of their deposits, are paid.

In the unlikely event that BankFinancial, F.S.B. were to liquidate after the conversion, all claims of creditors, including those of depositors, also would be paid first, followed by distribution of the "liquidation account" to depositors as of March 31, 2003 and September 30, 2004 who continue to maintain their deposit accounts as of the date of liquidation, with any assets remaining thereafter distributed to BankFinancial Corporation as the holder of BankFinancial, F.S.B.'s capital stock. Pursuant to the rules and regulations of the Office of Thrift Supervision, a post-conversion merger, consolidation, sale of bulk assets or similar combination or transaction with another insured savings institution would not be considered a liquidation and, in such a transaction, the liquidation account would be assumed by the surviving institution. See "—Liquidation Rights."

Determination of Share Price and Number of Shares to be Issued

The plan of conversion and reorganization and federal regulations require that the aggregate purchase price of the common stock sold in the offering be based on the appraised pro forma market value of the common stock, as determined by an independent valuation. BankFinancial, F.S.B. and BankFinancial Corporation have retained RP Financial, LC. to prepare an independent valuation appraisal. For its services in preparing the initial valuation, RP Financial will receive a fee of \$90,000, and will be reimbursed for its expenses. RP Financial will receive an additional fee of \$10,000 for each update to the valuation appraisal. BankFinancial, F.S.B. and BankFinancial Corporation have agreed to indemnify RP Financial and its employees and affiliates against specified losses, including any losses in connection with claims under the federal securities laws, arising out of its services as independent appraiser, except where such liability results from its negligence or bad faith.

The independent valuation appraisal considered the pro forma impact of the offering. Consistent with the Office of Thrift Supervision appraisal guidelines, the appraisal applied three primary methodologies: the pro forma price-to-book value approach applied to both reported book value and tangible book value; the pro forma price-to-earnings approach applied to reported and core earnings; and the pro forma price-to-assets approach. The market value ratios applied in the three methodologies were based upon the current market valuations of the peer group companies identified by RP Financial, subject to valuation adjustments applied by RP Financial to account for differences between BankFinancial Corporation and the peer group. RP Financial placed the greatest emphasis on the price-to-core earnings and price-to-book value approaches in estimating pro forma market value.

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The independent valuation was prepared by RP Financial in reliance upon the information contained in this prospectus, including the consolidated financial statements of BankFinancial Corporation, a federal corporation. RP Financial also considered the following factors, among others:

- the present results and financial condition of BankFinancial MHC, and the projected results and financial condition of BankFinancial Corporation, a Maryland corporation;
- the economic and demographic conditions in BankFinancial, F.S.B.'s existing market area;
- certain historical, financial and other information relating to BankFinancial, F.S.B.;
- a comparative evaluation of the operating and financial characteristics of BankFinancial, F.S.B. with those of other similarly situated publicly traded savings institutions located in the State of Illinois, and other states in the Midwest United States;
- the aggregate size of the offering of the shares of common stock;
- the impact of the conversion and the offering on BankFinancial Corporation's stockholders' equity and earnings potential;
- the proposed dividend policy of BankFinancial Corporation; and
- the trading market for securities of comparable institutions and general conditions in the market for such securities.

Included in RP Financial's independent valuation were certain assumptions as to the pro forma earnings of BankFinancial Corporation after the conversion that were utilized in determining the appraised value. These assumptions included estimated expenses, an assumed after-tax rate of return on the net offering proceeds and purchases in the open market of 4% of the common stock issued in the offering by the recognition and retention plan at the \$10.00 purchase price. See "Pro Forma Data" for additional information concerning these assumptions. The use of different assumptions may yield different results.

The independent valuation states that as of September 10, 2004, the estimated pro forma market value of BankFinancial Corporation ranged from \$127.5 million to \$172.5 million, with a midpoint of \$150.0 million. The Board of Directors of BankFinancial Corporation decided to offer the shares of common stock for a price of \$10.00 per share primarily because it is the price most commonly used in mutual-to-stock conversions of financial institutions. The number of shares offered will be equal to the aggregate offering price of the shares divided by the price per share. Based on the valuation range and the \$10.00 price per share, the minimum of the offering range will be 12,750,000 shares, the midpoint of the offering range will be 15,000,000 shares and the maximum of the offering range will be 17,250,000 shares, or 19,837,500 if the maximum amount is adjusted because of demand for shares or changes in market conditions.

The following table presents a summary of selected pricing ratios for BankFinancial Corporation and our peer group companies identified by RP Financial. Our pro forma price-to-core earnings multiple is annualized based on earnings for the twelve months ended June 30, 2004, while information for the peer group companies is based on earnings for the twelve months ended June 30, 2004 or the latest

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available trailing twelve-month period. All other information presented is as of June 30, 2004. Compared to the average pricing of the peer group, our pro forma pricing ratios at the maximum of the offering range indicated a premium of 154.5% on a price-to-core earnings basis, a discount of 45.6% on a price-to-book basis and a discount of 46.4% on a price-to-tangible book basis. The pricing ratios result from our generally having higher levels of equity but lower earnings than the companies in the peer group. Our board of directors, in reviewing and approving the valuation, considered the range of price-to-core earnings multiples and the range of price-to-book value ratios and price-to-tangible book value ratios at the different amounts of shares to be sold in the offering. The appraisal did not consider one valuation approach to be more important than the other. Instead, the appraisal concluded that these ranges represented the appropriate balance of the two approaches to valuing BankFinancial Corporation, and the number of shares to be sold, in comparison to the peer group institutions. Specifically, in approving the valuation, the board believed that BankFinancial Corporation would not be able to sell its shares at a price-to-book value that was in line with the peer group without unreasonably exceeding the identified peer group on a price-to-core earnings basis. The estimated appraised value and the resulting premium/discount took into consideration the potential financial impact of the conversion and offering.

| | <u>Pro forma price-to-core earnings multiple</u> | <u>Pro forma price-to-book value ratio</u> | <u>Pro forma price-to-tangible book value ratio</u> |
|---|--|--|---|
| BankFinancial Corporation | | | |
| Maximum | 55.91x | 70.57% | 77.40% |
| Minimum | 44.62 | 62.15 | 69.40 |
| Valuation of peer group companies as of September 10, 2004 | | | |
| Averages | 21.97x | 129.68% | 144.46% |
| Medians | 19.36 | 129.39 | 136.13 |

RP Financial did not consider our price-to-earnings multiple meaningful, as we reported a net loss for the period reviewed by RP Financial. Instead, RP Financial calculated an estimate of our core earnings by excluding the effects on our earnings of prepayment penalties resulting from our restructuring of the Federal Home Loan Bank borrowings, losses we recognized as of June 30, 2004 on preferred securities issued by two federal government-sponsored entities, Fannie Mae and Freddie Mac, and gains on the sale of securities. RP Financial then calculated our price-to-core earnings multiples presented in the above table based upon its calculation of our estimated core earnings.

RP Financial estimated our core earnings for the twelve months ended June 30, 2004 as follows:

| | <u>Amount</u> |
|--|-----------------------|
| | <u>(In thousands)</u> |
| Net income | \$ (11,185) |
| Add back: Federal Home Loan Bank prepayment penalty (1) | 5,029 |
| Add back: Loss on impairment of securities held for sale (1) | 9,018 |
| Less: Gain on sale of assets (1) | (633) |
| Estimated core earnings | <u>\$ 2,229</u> |

(1) Calculated after tax at an effective combined federal and state tax rate of 39.7%.

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The Board of Directors of BankFinancial Corporation reviewed the independent valuation and, in particular, considered the following:

- BankFinancial MHC's financial condition and results of operations;
- comparison of financial performance ratios of BankFinancial MHC to those of other financial institutions of similar size; and
- market conditions generally and, in particular, for financial institutions.

All of these factors are set forth in the independent valuation. The Board of Directors also reviewed the methodology and the assumptions used by RP Financial, LC. in preparing the independent valuation and believes that such assumptions were reasonable. The offering range may be amended with the approval of the Office of Thrift Supervision, if required, as a result of subsequent developments in the financial condition of BankFinancial MHC or BankFinancial, F.S.B. or market conditions generally. In the event the independent valuation is updated to amend the pro forma market value of BankFinancial Corporation to less than \$127.5 million or more than \$198.4 million, the appraisal will be filed with the Securities and Exchange Commission by a post-effective amendment to BankFinancial Corporation's registration statement.

The independent valuation is not intended, and must not be construed, as a recommendation of any kind as to the advisability of purchasing our shares of common stock. RP Financial, LC. did not independently verify our consolidated financial statements and other information that we provided to them, nor did RP Financial, LC. independently value our assets or liabilities. The independent valuation considers BankFinancial, F.S.B. as a going concern and should not be considered as an indication of the liquidation value of BankFinancial, F.S.B. Moreover, because the valuation is necessarily based upon estimates and projections of a number of matters, all of which may change from time to time, no assurance can be given that persons purchasing our common stock in the offering will thereafter be able to sell their shares at prices at or above the \$10.00 offering price per share.

Following commencement of the subscription offering, the maximum of the valuation range may be increased by up to 15%, or up to \$198.4 million, without resoliciting subscribers, which will result in a corresponding increase of up to 15% in the maximum of the offering range to up to 19,837,500 shares, to reflect changes in the market and financial conditions or demand for the shares. We will not decrease the minimum of the valuation range and the minimum of the offering range without a resolicitation of subscribers. The subscription price of \$10.00 per share will remain fixed. See "—Limitations on Common Stock Purchases" as to the method of distribution and allocation of additional shares that may be issued in the event of an increase in the offering range to fill unfilled orders in the offering.

If the update to the independent valuation at the conclusion of the offering results in an increase in the maximum of the valuation range to more than \$198.4 million and a corresponding increase in the offering range to more than 19,837,500 shares, or a decrease in the minimum of the valuation range to less than \$127.5 million and a corresponding decrease in the offering range to fewer than 12,750,000 shares, then we will promptly return with interest at BankFinancial, F.S.B.'s passbook savings rate of interest all funds previously delivered to us to purchase shares of common stock and and cancel deposit account withdrawal authorizations, and, after consulting with the Office of Thrift Supervision, we may terminate the plan of conversion and reorganization. Alternatively, we may hold a new offering, establish a new offering range, extend the offering period and commence a resolicitation of subscribers or

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take other actions as permitted by the Office of Thrift Supervision in order to complete the conversion and the offering. In the event that a resolicitation is commenced, we will promptly cancel deposit account withdrawal authorizations and return all funds received to subscribers as described above. We will notify subscribers of the extension of time and of the rights of subscribers to place a new stock order for a specified period of time. Any resolicitation following the conclusion of the subscription and community offerings would not exceed 45 days unless further extended by the Office of Thrift Supervision for periods of up to 90 days.

An increase in the number of shares to be issued in the offering would decrease both a subscriber's ownership interest and BankFinancial Corporation's pro forma earnings and stockholders' equity on a per share basis while increasing pro forma earnings and stockholders' equity on an aggregate basis. A decrease in the number of shares to be issued in the offering would increase both a subscriber's ownership interest and BankFinancial Corporation's pro forma earnings and stockholders' equity on a per share basis, while decreasing pro forma earnings and stockholders' equity on an aggregate basis. For a presentation of the effects of these changes, see "Pro Forma Data."

Copies of the independent valuation appraisal report of RP Financial, L.C. and the detailed memorandum setting forth the method and assumptions used in the appraisal report are available for inspection at the main office of BankFinancial, F.S.B. and as specified under "Where You Can Find Additional Information."

Subscription Offering and Subscription Rights

In accordance with the plan of conversion and reorganization, rights to subscribe for shares of common stock in the subscription offering have been granted in the following descending order of priority. The filling of all subscriptions that we receive will depend on the availability of common stock after satisfaction of all subscriptions of all persons having prior rights in the subscription offering and to the maximum, minimum and overall purchase limitations set forth in the plan of conversion and reorganization and as described below under "—Limitations on Common Stock Purchases."

Priority 1: Eligible Account Holders. Each BankFinancial, F.S.B. depositor with aggregate deposit account balances of \$50.00 or more (a "Qualifying Deposit") on March 31, 2003 (an "Eligible Account Holder") will receive, without payment therefor, nontransferable subscription rights to purchase, subject to the overall purchase limitations, up to 50,000 shares of our common stock or, if greater, 15 times the number of subscription shares offered multiplied by the aggregate Qualifying Deposit account balances of the Eligible Account Holder divided by the aggregate Qualifying Deposit account balances of all Eligible Account Holders. See "—Limitations on Common Stock Purchases." If there are not sufficient shares available to satisfy all subscriptions, shares will first be allocated so as to permit each Eligible Account Holder to purchase a number of shares sufficient to make his or her total allocation equal to the lesser of 100 shares or the number of shares for which he or she subscribed. Thereafter, unallocated shares will be allocated to each Eligible Account Holder whose subscription remains unfilled in the proportion that the amount of his or her Qualifying Deposit bears to the total amount of Qualifying Deposits of all subscribing Eligible Account Holders whose subscriptions remain unfilled. If an amount so allocated exceeds the amount subscribed for by any one or more Eligible Account Holders, the excess shall be reallocated among those Eligible Account Holders whose subscriptions are not fully satisfied until all available shares have been allocated.

To ensure proper allocation of our shares of common stock, each Eligible Account Holder must list on his or her stock order form all deposit accounts in which he or she has an ownership interest on March 31, 2003. In the event of oversubscription, failure to list an account could result in fewer shares

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being allocated than if all accounts had been disclosed. In the event of an oversubscription, the subscription rights of Eligible Account Holders who are also directors or executive officers of BankFinancial Corporation or their associates will be subordinated to the subscription rights of other Eligible Account Holders to the extent attributable to increased deposits in the twelve months preceding March 31, 2003.

Priority 2: Tax-Qualified Plans. Our tax-qualified employee benefit plans, including our employee stock ownership plan and Associate Investment Plan (401(k) plan), will receive, without payment therefor, nontransferable subscription rights to purchase in the aggregate up to 10% of the shares of common stock sold in the offering

Priority 3: Supplemental Eligible Account Holders. To the extent that there are sufficient shares of common stock remaining after satisfaction of subscriptions by Eligible Account Holders and our tax-qualified employee benefit plans, each BankFinancial, F.S.B. depositor with a Qualifying Deposit on September 30, 2004 who is not an Eligible Account Holder (“Supplemental Eligible Account Holder”) will receive, without payment therefor, nontransferable subscription rights to purchase up to 50,000 shares of common stock or, if greater, 15 times the number of subscription shares offered multiplied by the aggregate Qualifying Deposit account balances of the Supplemental Eligible Account Holder divided by the aggregate Qualifying Deposit account balances of all Supplemental Eligible Account Holders, subject to the overall purchase limitations. See “—Limitations on Common Stock Purchases.” If there are not sufficient shares available to satisfy all subscriptions, shares will be allocated so as to permit each Supplemental Eligible Account Holder to purchase a number of shares sufficient to make his or her total allocation equal to the lesser of 100 shares of common stock or the number of shares for which he or she subscribed. Thereafter, unallocated shares will be allocated to each Supplemental Eligible Account Holder whose subscription remains unfilled in the proportion that the amount of his or her Qualifying Deposit bears to the total amount of Qualifying Deposits of all Supplemental Eligible Account Holders whose subscriptions remain unfilled. If an amount so allocated exceeds the amount subscribed for by any one or more Supplemental Eligible Account Holders, the excess shall be reallocated among those Supplemental Eligible Account Holders whose subscriptions are not fully satisfied until all available shares have been allocated.

To ensure proper allocation of common stock, each Supplemental Eligible Account Holder must list on the stock order form all deposit accounts in which he or she has an ownership interest at September 30, 2004. In the event of oversubscription, failure to list an account could result in fewer shares being allocated than if all accounts had been disclosed.

Priority 4: Other Members. To the extent that there are shares of common stock remaining after satisfaction of subscriptions by Eligible Account Holders, our tax-qualified employee benefit plans and Supplemental Eligible Account Holders, each depositor of BankFinancial, F.S.B. on the voting record date of [voting record date] and each borrower as of January 1, 1999 whose borrowings remain outstanding as of [voting record date] who is not an Eligible Account Holder or Supplemental Eligible Account Holder (“Other Members”) will receive, without payment therefor, nontransferable subscription rights to purchase up to 50,000 shares of common stock, subject to the overall purchase limitations. See “—Limitations on Common Stock Purchases.” If there are not sufficient shares available to satisfy all subscriptions, available shares will be allocated on a pro rata basis based on the size of the order of each Other Member whose order remains unfilled.

Expiration Date. The Subscription Offering will expire at 12:00 noon, Central time, on [expiration date], unless extended by us for up to 45 days or such additional periods with the approval of the Office of Thrift Supervision, if necessary. Subscription rights will expire whether or not each eligible

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depositor or borrower can be located. We may decide to extend the expiration date of the subscription offering for any reason, whether or not subscriptions have been received for shares at the minimum, midpoint or maximum of the offering range. Subscription rights which have not been exercised prior to the expiration date will become void.

We will not execute orders until we received orders to purchase at least the minimum number of shares of common stock. If we have not received orders to purchase at least 12,750,000 shares within 45 days after the expiration date and the Office of Thrift Supervision has not consented to an extension, all funds delivered to us to purchase shares of common stock in the offering will be returned promptly to the subscribers with interest at BankFinancial, F.S.B.'s passbook savings rate and all deposit account withdrawal authorizations will be canceled. If an extension beyond the 45-day period following the expiration date is granted by the Office of Thrift Supervision, all funds delivered to us to purchase shares of common stock in the offering will be returned promptly to the subscribers with interest at BankFinancial, F.S.B.'s passbook savings rate and all deposit account withdrawal authorizations will be canceled. We will notify subscribers of the extension of time and of the rights of subscribers to place a new stock order for a specified period of time. Extensions may not go beyond January 6, 2007, which is two years after the special meeting of members of BankFinancial MHC to vote on the conversion.

Community Offering

To the extent that shares of common stock remain available for purchase after satisfaction of all subscriptions of the Eligible Account Holders, our tax-qualified employee benefit plans, Supplemental Eligible Account Holders and Other Members, we may offer shares pursuant to the plan of conversion and reorganization to members of the general public in a community offering. Shares may be offered with a preference to natural persons residing in the Illinois counties of Cook, DuPage, Lake and Will.

Subscribers in the community offering may purchase up to 50,000 shares of common stock, subject to the overall purchase limitations. See “—Limitations on Common Stock Purchases.” **The opportunity to purchase shares of common stock in the community offering category is subject to our right, in our sole discretion, to accept or reject any such orders in whole or in part either at the time of receipt of an order or as soon as practicable following the expiration date of the offering.**

If we do not have sufficient shares of common stock available to fill the orders of natural persons residing in the Illinois counties of Cook, DuPage, Lake and Will, we will allocate the available shares among those persons in a manner that permits each of them, to the extent possible, to purchase the lesser of 100 shares, or the number of shares subscribed for by such person. Thereafter, unallocated shares will be allocated among natural persons residing in the Illinois counties of Cook, DuPage, Lake and Will whose orders remain unsatisfied based on the size of the unfilled order of each such person relative to the size of the aggregate unfilled orders of other natural persons residing in the Illinois counties of Cook, DuPage, Lake and Will. In addition, orders received for shares of common stock in the community offering will first be filled up to a maximum of two percent of the shares sold in the offering, and thereafter any remaining shares will be allocated on an equal number of shares basis per order.

The term “residing” or “resident” as used in this prospectus means any person who occupies a dwelling within the Illinois counties of Cook, DuPage, Lake and Will, has a present intent to remain within this community for a period of time and manifests the genuineness of that intent by establishing an ongoing physical presence within the community, together with an indication that this presence within the community is something other than merely transitory in nature. We may utilize deposit or loan records or other evidence provided to us to decide whether a person is a resident. In all cases, however, the determination shall be in our sole discretion.

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Expiration Date. The community offering may begin during or after the subscription offering, and is currently expected to terminate at the same time as the subscription offering, and must terminate no more than 45 days following the subscription offering. BankFinancial Corporation may decide to extend the community offering for any reason and is not required to give purchasers notice of any such extension unless such period extends beyond [extension date]. If we have not received orders to purchase 12,750,000 shares by [extension date], all funds delivered to us will be returned promptly to the subscribers with interest at BankFinancial, F.S.B.'s passbook savings rate and all withdrawal authorizations will be canceled. If an extension is granted by the Office of Thrift Supervision, we will notify purchasers of the extension of time and of the rights of purchasers to place a new stock order for a specified period of time. These extensions may not go beyond January 6, 2007, which is two years after the special meeting of members of BankFinancial MHC to vote on the conversion.

Syndicated Community Offering

The plan of conversion provides that, if necessary, all shares of common stock not purchased in the subscription offering and community offering may be offered for sale to the general public in a syndicated community offering to be managed by Sandler O'Neill, acting as our agent. In such capacity, Sandler O'Neill may form a syndicate of other broker-dealers. Neither Sandler O'Neill nor any registered broker-dealer will have any obligation to take or purchase any shares of the common stock in the syndicated community offering; however, Sandler O'Neill has agreed to use its best efforts in the sale of shares in any syndicated community offering. The syndicated community offering would terminate no later than 45 days after the expiration of the subscription offering, unless extended by us, with approval of the Office of Thrift Supervision. See "—Community Offering" above for a discussion of rights of subscribers in the event an extension is granted.

The opportunity to subscribe for shares of common stock in the syndicated community offering is subject to our right to reject orders, in whole or in part, either at the time of receipt of an order or as soon as practicable following the expiration date of the offering. If your order is rejected in part, you will not have the right to cancel the remainder of your order.

Purchasers in the syndicated community offering are eligible to purchase up to 50,000 shares of common stock, subject to the overall purchase limitations. See "—Limitations on Common Stock Purchases." We may begin the syndicated community offering at any time following the commencement of the subscription offering.

If we are unable to find purchasers from the general public for all unsubscribed shares, we will make other purchase arrangements, if feasible. Other purchase arrangements must be approved by the Office of Thrift Supervision and may provide for purchases by directors, officers, their associates and other persons in excess of the limitations provided in the plan of conversion and in excess of the proposed director purchases discussed earlier, although no purchases are currently intended. If other purchase arrangements cannot be made, we may do any of the following: terminate the offering and promptly return all funds; set a new offering range, notify all subscribers and give them the opportunity to confirm, cancel or change their orders; or take such other actions as may be permitted by the Office of Thrift Supervision.

Limitations on Common Stock Purchases

The plan of conversion and reorganization includes the following limitations on the number of shares of common stock that may be purchased in the offering:

- No person may purchase fewer than 25 shares of common stock or generally more than 50,000 shares;
- Our tax-qualified stock benefit plans, including our employee stock ownership plan and Associate Investment Plan (401(k) plan) may purchase in the aggregate up to 10% of the shares of common stock issued in the offering, including shares issued in the event of an increase in the offering range of up to 15%;
- Except for the tax-qualified employee benefit plans, as described above, no person or entity, together with associates or persons acting in concert with such person or entity, may purchase more than 75,000 shares in all categories of the offering combined; and
- The maximum number of shares of common stock that may be purchased in all categories of the offering by our executive officers and directors and their associates, in the aggregate may not exceed 25% of the shares issued in the offering.

Depending upon market or financial conditions, our Board of Directors, with the approval of the Office of Thrift Supervision and without further approval of members of BankFinancial MHC, may decrease or increase the purchase limitations. If a purchase limitation is increased, subscribers in the subscription offering who ordered the maximum amount will be, and, in our sole discretion, some other large subscribers may be, given the opportunity to increase their subscriptions up to the then applicable limit. The effect of this type of resolicitation will be an increase in the number of shares of common stock owned by subscribers who choose to increase their subscriptions.

In the event of an increase in the offering range of up to 15% of the total number of shares of common stock offered in the offering, shares will be allocated in the following order of priority in accordance with the plan of conversion:

- (1) to fill our tax-qualified employee benefit plans' subscriptions for up to 10% of the total number of shares of common stock issued in the offering;
- (2) in the event that there is an oversubscription at the Eligible Account Holder, Supplemental Eligible Account Holder or Other Member levels, to fill unfulfilled subscriptions of these subscribers according to their respective priorities; and
- (3) to fill unfulfilled subscriptions in the community offering, with preference given first to natural persons residing in the Illinois counties of Cook, DuPage, Lake and Will.

The term "associate" of a person means:

- (1) any corporation or organization, other than BankFinancial Corporation, BankFinancial, F.S.B. or a majority-owned subsidiary of BankFinancial, F.S.B., of which the person is a senior officer, partner or 10% beneficial stockholder;

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- (2) any trust or other estate in which the person has a substantial beneficial interest or serves as a trustee or in a fiduciary capacity, excluding any employee stock benefit plan in which the person has a substantial beneficial interest or serves as trustee or in a fiduciary capacity; and
- (3) any blood or marriage relative of the person, who either lives in the same home as the person or who is a director or officer of BankFinancial Corporation or BankFinancial, F.S.B.

The term “acting in concert” means:

- (1) knowing participation in a joint activity or interdependent conscious parallel action towards a common goal whether or not pursuant to an express agreement; or
- (2) a combination or pooling of voting or other interests in the securities of an issuer for a common purpose pursuant to any contract, understanding, relationship, agreement or other arrangement, whether written or otherwise.

A person or company which acts in concert with another person or company (“other party”) shall also be deemed to be acting in concert with any person or company who is also acting in concert with that other party, except that any tax-qualified employee stock benefit plan will not be deemed to be acting in concert with its trustee or a person who serves in a similar capacity solely for the purpose of determining whether common stock held by the trustee and common stock held by the employee stock benefit plan will be aggregated.

Our directors are not treated as associates of each other solely because of their membership on the Board of Directors. We have the right to determine whether prospective purchasers are associates or acting in concert. Common stock purchased in the offering will be freely transferable except for shares purchased by executive officers and directors of BankFinancial Corporation or BankFinancial, F.S.B. and except as described below. Any purchases made by any associate of BankFinancial Corporation or BankFinancial, F.S.B. for the explicit purpose of meeting the minimum number of shares of common stock required to be sold in order to complete the offering shall be made for investment purposes only and not with a view toward redistribution. In addition, under the guidelines of the National Association of Securities Dealers, Inc., members of the National Association of Securities Dealers and their associates are subject to certain restrictions on transfer of securities purchased in accordance with subscription rights and to certain reporting requirements upon purchase of these securities. For a further discussion of limitations on purchases of our shares of common stock at the time of conversion and thereafter, see “—Certain Restrictions on Purchase or Transfer of Our Shares after Conversion” and “Restrictions on Acquisition of BankFinancial Corporation.”

Marketing and Distribution; Compensation

Offering materials have been initially distributed to certain persons by mail, with additional copies made available through our Stock Information Center.

We have engaged Sandler O’Neill, a broker-dealer registered with the National Association of Securities Dealers, as a financial and marketing advisor in connection with the offering of our common stock. In its role as financial and marketing advisor, Sandler O’Neill will assist us in the offering as follows:

- consulting as to the securities marketing implications of any aspect of the plan of conversion or any related corporate documents;

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- reviewing with our Board of Directors the securities marketing implications of the independent appraiser's appraisal of the common stock;
- reviewing all offering documents, including this prospectus, stock order forms and related offering materials (we are responsible for the preparation and filing of such documents);
- assisting in the design and implementation of a marketing strategy for the offering;
- assisting us in scheduling and preparing for meetings with potential investors and broker-dealers; and
- providing such other general advice and assistance we may request to promote the successful completion of the offering.

For these services, Sandler O'Neill will receive a fee of 0.90% of the aggregate dollar amount of the common stock sold in the subscription and community offerings if the conversion is consummated, excluding in each case shares purchased by our tax qualified employee benefit plans and shares purchased by our directors, officers and employees and their immediate families. For these services, we have made an advance payment of \$25,000 to Sandler O'Neill and will make another advance payment of \$25,000 when the subscription offering commences.

The plan of conversion provides that, if necessary, all shares of common stock not purchased in the subscription offering and community offering may be offered for sale to the general public in a syndicated community offering to be managed by Sandler O'Neill. In such capacity, Sandler O'Neill may form a syndicate of other broker-dealers. Neither Sandler O'Neill nor any registered broker-dealer will have any obligation to take or purchase any shares of the common stock in the syndicated community offering; however, Sandler O'Neill has agreed to use its best efforts in the sale of shares in any syndicated community offering. If there is a syndicated community offering, Sandler O'Neill will receive a management fee of 1.0% of the aggregate dollar amount of the common stock sold in the syndicated community offering. The total fees payable to Sandler O'Neill and other NASD member firms in the syndicated community offering will not exceed 6.0% of the aggregate dollar amount of the common stock sold in the syndicated community offering.

We also will reimburse Sandler O'Neill for its reasonable out-of-pocket expenses (including legal fees and expenses) associated with its marketing effort, up to a maximum of \$50,000 unless otherwise agreed by us. If the plan of conversion is terminated or if Sandler O'Neill's engagement is terminated in accordance with the provisions of the agreement, Sandler O'Neill will only receive reimbursement of its reasonable out-of-pocket expenses and will return any amounts paid or advanced by us in excess of these expenses. We will indemnify Sandler O'Neill against liabilities and expenses (including legal fees) incurred in connection with certain claims or litigation arising out of or based upon untrue statements or omissions contained in the offering material for the common stock, including liabilities under the Securities Act of 1933.

In addition, we have engaged Sandler O'Neill to act as conversion agent in connection with the offering. In its role as conversion agent, Sandler O'Neill will assist us in the offering as follows:

- (i) consolidation of accounts and development of a central file;

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- (ii) preparation of order and/or request forms;
- (iii) organization and supervision of our Stock Information Center; and
- (iv) subscription services.

For these services, Sandler O'Neill will receive a fee of \$35,000 and reimbursement for its reasonable out-of-pocket expenses.

Our directors and executive officers may participate in the solicitation of offers to purchase common stock. These persons will be reimbursed for their reasonable out-of-pocket expenses incurred in connection with the solicitation. Other trained employees of BankFinancial, F.S.B. may assist in the offering in ministerial capacities, providing clerical work in effecting a sales transaction or answering questions of a ministerial nature. No offers or sales may be made by tellers or at the teller counters. All sales activity will be conducted in a segregated or separately identifiable area of BankFinancial, F.S.B.'s Burr Ridge office facility apart from the area accessible to the general public. Other questions of prospective purchasers will be directed to executive officers or registered representatives of Sandler O'Neill. Our other employees have been instructed not to solicit offers to purchase shares of common stock or provide advice regarding the purchase of common stock. We will rely on Rule 3a4-1 under the Securities Exchange Act of 1934, as amended, and sales of common stock will be conducted within the requirements of Rule 3a4-1, so as to permit officers, directors and employees to participate in the sale of common stock. None of our officers, directors or employees will be compensated in connection with their participation in the offering by the payment of commissions or other remuneration based either directly or indirectly on the transactions in the shares of common stock.

The offering will comply with the requirements of Rule 10b-9 under the Securities Exchange Act of 1934.

Procedure for Purchasing Shares

Expiration Date. The offering will expire at 12:00 noon, Central time, on [expiration date], unless we extend it for up to 45 days, with the approval of the Office of Thrift Supervision, if required. This extension may be approved by us, in our sole discretion, without further approval or additional notice to purchasers in the offering. Any extension of the subscription and/or community offering beyond [extension date] would require the Office of Thrift Supervision's approval. All funds delivered to us to purchase shares of common stock in the offering would be returned promptly to the subscribers with interest at BankFinancial, F.S.B.'s passbook savings rate and all deposit account withdrawal authorizations would be canceled. Potential purchasers would be given the right to place new orders for common stock. If we have not received orders to purchase the minimum number of shares offered in the offering by the expiration date or any extension thereof, we may terminate the offering and promptly refund all funds received for shares of common stock. If the number of shares offered is reduced below the minimum of the offering range, or increased above the adjusted maximum of the offering range, we will promptly return all funds previously delivered to us to purchase shares of common stock with interest at BankFinancial, F.S.B.'s passbook savings rate and all deposit account withdrawal authorizations will be canceled. Subscribers may be resolicited with the approval of the Office of Thrift Supervision.

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To ensure that each purchaser receives a prospectus at least 48 hours before the expiration date of the offering in accordance with Rule 15c2-8 of the Securities Exchange Act, no prospectus will be mailed any later than five days prior to the expiration date or hand delivered any later than two days prior to the expiration date. Execution of an order form will confirm receipt of delivery in accordance with Rule 15c2-8. Order forms will be distributed only with a prospectus. Subscription funds will be maintained in a segregated account at BankFinancial, F.S.B. or at another insured depository institution and will earn interest at our passbook savings rate from the date of receipt.

We reserve the right in our sole discretion to terminate the offering at any time and for any reason, in which case we will cancel any deposit account withdrawal orders and promptly return all funds delivered to us, with interest at BankFinancial, F.S.B.'s passbook savings rate from the date of receipt.

We have the right to reject any order submitted in the offering by a person who we believe is making false representations or who we otherwise believe, either alone or acting in concert with others, is violating, evading, circumventing, or intends to violate, evade or circumvent the terms and conditions of the plan of conversion.

Use of Order Forms. In order to purchase shares of common stock in the subscription offering and community offering, you must complete an order form and remit full payment. We will not be required to accept incomplete order forms, unsigned order forms, orders submitted on photocopied or facsimiled order forms. We must receive all order forms prior to 12:00 noon, Illinois time, on [expiration date]. We are not required to accept order forms that are not received by that time, are executed defectively or are received without full payment or without appropriate withdrawal instructions. A postmark prior to [expiration date] will not entitle you to purchase shares of common stock unless we receive the envelope by [expiration date]. We are not required to notify subscribers of incomplete or improperly executed order forms, and we have the right to permit the correction of incomplete or improperly executed order forms or waive immaterial irregularities. We do not represent, however, that we will do so and we have no affirmative duty to notify any prospective subscriber of any such defects. You may submit your order form and payment by mail using the return envelope provided, by bringing your order form to our Stock Information Center or by overnight delivery to the indicated address on the order form. Once tendered, an order form cannot be modified or revoked without our consent. We reserve the absolute right, in our sole discretion, to reject orders received in the community offering, in whole or in part, at the time of receipt or at any time prior to completion of the offering. If you are ordering shares, you must represent that you are purchasing shares for your own account and that you have no agreement or understanding with any person for the sale or transfer of the shares. Our interpretation of the terms and conditions of the plan of conversion and reorganization and of the acceptability of the order forms will be final, subject to the authority of the Office of Thrift Supervision.

By signing the order form, you will be acknowledging that the common stock is not a deposit or savings account and is not federally insured or otherwise guaranteed by BankFinancial, F.S.B. or the federal government, and that you received a copy of this prospectus. However, signing the order form will not result in you waiving your rights under the Securities Act of 1933 or the Securities Exchange Act of 1934.

Payment for Shares. Payment for all shares of common stock will be required to accompany all completed order forms for the purchase to be valid. Payment for shares may be made by:

- (1) personal check, bank check or money order, payable to BankFinancial Corporation; or
- (2) authorization of withdrawal from BankFinancial, F.S.B. deposit accounts designated on the order form.

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Appropriate means for designating withdrawals from deposit accounts at BankFinancial, F.S.B. are provided in the order forms. The funds designated must be available in the account(s) at the time the order form is received. A hold will be placed on these funds, making them unavailable to the depositor. Funds authorized for withdrawal will continue to earn interest within the account at the contract rate until the offering is completed, at which time the designated withdrawal will be made. Interest penalties for early withdrawal applicable to certificate accounts will not apply to withdrawals authorized for the purchase of shares of common stock; however, if a withdrawal results in a certificate account with a balance less than the applicable minimum balance requirement, the certificate will be canceled at the time of withdrawal without penalty and the remaining balance will earn interest at the current passbook rate subsequent to the withdrawal. In the case of payments made by check or money order, these funds must be available in the account(s) and will be immediately cashed and placed in a segregated account at BankFinancial, F.S.B. and/or another insured depository institution and will earn interest at BankFinancial, F.S.B.'s passbook savings rate from the date payment is received until the offering is completed or terminated.

You may not use a check drawn on a BankFinancial, F.S.B. line of credit, and we will not accept third-party checks (a check written by someone other than you) payable to you and endorsed over to BankFinancial Corporation. Please provide a check instead of designating a direct withdrawal from BankFinancial, F.S.B. accounts with check-writing privileges, because we cannot place holds on checking accounts. If you request that we do so, we reserve the right to interpret that as your authorization to treat those funds as if we had received a check for the designated amount, and we will immediately withdraw the amount from your checking account. Once we receive your executed order form, it may not be modified, amended or rescinded without our consent, unless the offering is not completed by the expiration date, in which event purchasers may be given the opportunity to increase, decrease or rescind their orders for a specified period of time.

If you are interested in using your individual retirement account funds to purchase shares of common stock, you must do so through a self-directed individual retirement account such as a brokerage firm individual retirement account. By regulation, BankFinancial, F.S.B.'s individual retirement accounts are not self-directed, so they cannot be invested in our shares of common stock. Therefore, if you wish to use your funds that are currently in a BankFinancial, F.S.B. individual retirement account, you may not designate on the order form that you wish funds to be withdrawn from the account for the purchase of common stock. The funds you wish to use for the purchase of common stock will have to be transferred to a brokerage account. It may take several weeks to transfer your BankFinancial, F.S.B. individual retirement account to an independent trustee, so please allow yourself sufficient time to take this action. There will be no early withdrawal or Internal Revenue Service interest penalties for these transfers. Depositors interested in using funds in an individual retirement account or any other retirement account to purchase shares of common stock should contact our Stock Information Center as soon as possible, preferably at least two weeks prior to the end of the offering period, because processing such transactions takes additional time, and whether such funds can be used may depend on limitations imposed by the institutions where such funds are currently held. We cannot guarantee that you will be able to use such funds.

We will have the right, in our sole discretion, to permit institutional investors to submit irrevocable orders together with the legally binding commitment for payment and to thereafter pay for the shares of common stock for which they subscribe in the community offering at any time prior to 48 hours before the completion of the offering. This payment may be made by wire transfer.

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Our employee stock ownership plan will not be required to pay for any shares purchased in the offering until consummation of the offering, provided there is a loan commitment from an unrelated financial institution or BankFinancial Corporation to lend to the employee stock ownership plan the necessary amount to fund the purchase.

Regulations prohibit BankFinancial, F.S.B. from knowingly lending funds or extending credit to any persons to purchase shares of common stock in the offering.

Delivery of Stock Certificates. Certificates representing shares of common stock issued in the offering and BankFinancial, F.S.B. checks representing any applicable refund and/or interest paid on subscriptions made by check or money order will be mailed to the persons entitled thereto at the certificate registration address noted on the order form, as soon as practicable following consummation of the offering and receipt of all necessary regulatory approvals. Any certificates returned as undeliverable will be held by the transfer agent until claimed by persons legally entitled thereto or otherwise disposed of in accordance with applicable law. **Until certificates for the shares of common stock are available and delivered to purchasers, purchasers may not be able to sell the shares of common stock which they ordered, even though the common stock will have begun trading.**

Other Restrictions. Notwithstanding any other provision of the plan of conversion and reorganization, no person is entitled to purchase any shares of common stock to the extent the purchase would be illegal under any federal or state law or regulation, including state “blue sky” regulations, or would violate regulations or policies of the National Association of Securities Dealers, Inc., particularly those regarding free riding and withholding. We may ask for an acceptable legal opinion from any purchaser as to the legality of his or her purchase and we may refuse to honor any purchase order if an opinion is not timely furnished. In addition, we are not required to offer shares of common stock to any person who resides in a foreign country.

Restrictions on Transfer of Subscription Rights and Shares

Office of Thrift Supervision regulations prohibit any person with subscription rights, including the Eligible Account Holders, Supplemental Eligible Account Holders and Other Members, from transferring or entering into any agreement or understanding to transfer the legal or beneficial ownership of the subscription rights issued under the plan of conversion and reorganization or the shares of common stock to be issued upon their exercise. These rights may be exercised only by the person to whom they are granted and only for his or her account. Each person exercising subscription rights will be required to certify that he or she is purchasing shares solely for his or her own account and that he or she has no agreement or understanding regarding the sale or transfer of such shares. The regulations also prohibit any person from offering or making an announcement of an offer or intent to make an offer to purchase subscription rights or shares of common stock to be issued upon their exercise prior to completion of the offering.

We intend to pursue any and all legal and equitable remedies in the event we become aware of the transfer of subscription rights, and we will not honor orders that we believe involve the transfer of subscription rights.

Stock Information Center

If you have any questions regarding the offering, please call or visit our Stock Information Center, toll free, at 1-(_____) ____-_____, from 10:00 a.m. to 4:00 p.m., Central time, Monday through Friday. The Stock Information Center is located at our main office, 15W060 North Frontage Road, Burr Ridge, Illinois. The Stock Information Center will be closed weekends and bank holidays.

Liquidation Rights

In the unlikely event of a complete liquidation of BankFinancial Corporation prior to the conversion, all claims of creditors of BankFinancial Corporation, including those of depositors of BankFinancial, F.S.B. (to the extent of their deposit balances), would be paid first. Thereafter, if there were any assets of BankFinancial Corporation remaining, these assets would be distributed to stockholders, including BankFinancial MHC. In the unlikely event that BankFinancial MHC and BankFinancial Corporation liquidated prior to the conversion, all claims of their creditors would be paid first. Then, if there were any assets of BankFinancial MHC remaining, members of BankFinancial MHC would receive those remaining assets, pro rata, based upon the deposit balances in their deposit account in BankFinancial, F.S.B. immediately prior to liquidation. In the unlikely event that BankFinancial, F.S.B. were to liquidate after the conversion, all claims of creditors, including those of depositors, would be paid first, followed by distribution of the "liquidation account" to certain depositors, with any assets remaining thereafter distributed to BankFinancial Corporation as the holder of BankFinancial, F.S.B. capital stock. Pursuant to the rules and regulations of the Office of Thrift Supervision, a post-conversion merger, consolidation, sale of bulk assets or similar combination or transaction with another insured savings institution would not be considered a liquidation and, in these types of transactions, the liquidation account would be assumed by the surviving institution.

The plan of conversion and reorganization provides for the establishment, upon the completion of the conversion, of a special "liquidation account" for the benefit of Eligible Account Holders and Supplemental Eligible Account Holders in an amount equal to the total equity of BankFinancial MHC as of the date of its latest balance sheet contained in this prospectus.

The purpose of the liquidation account is to provide Eligible Account Holders and Supplemental Eligible Account Holders who maintain their deposit accounts with BankFinancial, F.S.B. after the conversion with a liquidation interest in the unlikely event of the complete liquidation of BankFinancial, F.S.B. after the conversion. Each Eligible Account Holder and Supplemental Eligible Account Holder that continues to maintain his or her deposit account at BankFinancial, F.S.B., would be entitled, on a complete liquidation of BankFinancial, F.S.B. after the conversion, to an interest in the liquidation account prior to any payment to the stockholders of BankFinancial Corporation. Each Eligible Account Holder and Supplemental Eligible Account Holder would have an initial interest in the liquidation account for each deposit account, including savings accounts, transaction accounts such as negotiable order of withdrawal accounts, money market deposit accounts, and certificates of deposit, with a balance of \$50 or more held in BankFinancial, F.S.B. on March 31, 2003 and September 30, 2004, respectively. Each Eligible Account Holder and Supplemental Eligible Account Holder would have a pro rata interest in the total liquidation account for each such deposit account, based on the proportion that the balance of each such deposit account on March 31, 2003 or September 30, 2004, respectively, bears to the balance of all deposit accounts in BankFinancial, F.S.B. on such dates.

If, however, on any December 31 annual closing date commencing on or after the effective date of the conversion, the amount in any such deposit account is less than the amount in the deposit account on March 31, 2003 or September 30, 2004, as applicable, or any other annual closing date, then the interest in the liquidation account relating to such deposit account would be reduced from time to time by the proportion of any such reduction, and such interest will cease to exist if such deposit account is closed. In addition, no interest in the liquidation account would ever be increased despite any subsequent increase in the related deposit account. Payment pursuant to liquidation rights of Eligible Account

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Holder and Supplemental Eligible Account Holders would be separate and apart from the payment of any insured deposit accounts to such depositor. Any assets remaining after the above liquidation rights of Eligible Account Holders and Supplemental Eligible Account Holders are satisfied would be distributed to BankFinancial Corporation as the sole stockholder of BankFinancial, F.S.B.

Material Income Tax Consequences

Consummation of the conversion is subject to the prior receipt of an opinion of counsel or tax advisor with respect to federal and state income taxation that the conversion will not be a taxable transaction to BankFinancial MHC, BankFinancial Corporation, BankFinancial, F.S.B., Eligible Account Holders, Supplemental Eligible Account Holders, and other members of BankFinancial MHC. Unlike private letter rulings, opinions of counsel or tax advisors are not binding on the Internal Revenue Service or any state taxing authority, and such authorities may disagree with such opinions. In the event of such disagreement, there can be no assurance that BankFinancial Corporation or BankFinancial, F.S.B. would prevail in a judicial proceeding.

BankFinancial MHC and BankFinancial Corporation have received an opinion of counsel, Luse Gorman Pomerenk & Schick, P.C., regarding all of the material federal income tax consequences of the conversion, which includes the following:

1. The conversion of BankFinancial Corporation, a federal corporation, to a federally chartered interim stock savings bank will qualify as a tax-free reorganization within the meaning of Section 368(a)(1)(F) of the Internal Revenue Code, and the merger of BankFinancial Corporation with and into BankFinancial, F.S.B. qualifies as a tax-free reorganization within the meaning of Section 368(a)(1)(A) of the Internal Revenue Code.
2. Neither BankFinancial Corporation, a federal corporation, BankFinancial, F.S.B., nor BankFinancial MHC will recognize any gain or loss upon the transfer of assets of BankFinancial Corporation to BankFinancial, F.S.B. in exchange for shares of common stock of BankFinancial, F.S.B., which will be constructively received by BankFinancial MHC. (Sections 361 and 1032(a) of the Internal Revenue Code.)
3. The basis of the assets of BankFinancial Corporation and the holding period of such assets to be received by BankFinancial, F.S.B. will be the same as the basis and holding period in such assets in the hands of BankFinancial Corporation immediately before the exchange. (Sections 362(b) and 1223(2) of the Internal Revenue Code).
4. The conversion of BankFinancial MHC to a federally chartered interim stock savings bank will qualify as a tax-free reorganization within the meaning of Section 368(a)(1)(F) of the Internal Revenue Code and the merger of BankFinancial MHC with and into BankFinancial, F.S.B. qualifies as a tax-free reorganization within the meaning of Section 368(a)(1)(A) of the Internal Revenue Code.
5. The exchange of Eligible Account Holders' and Supplemental Account Holders' interests in BankFinancial MHC for interests in a liquidation account established in BankFinancial, F.S.B. will satisfy the continuity of interest requirement of Section 1.368-1(b) of the Federal Income Tax Regulations.
6. None of BankFinancial MHC, BankFinancial, F.S.B., nor Eligible Account Holders, Supplemental Eligible Account Holders or Other Members, will recognize any gain or

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loss on the transfer of the assets of BankFinancial MHC to BankFinancial, F.S.B. in exchange for an interest in a liquidation account established in BankFinancial, F.S.B. for the benefit of Eligible Account Holders and Supplemental Eligible Account holders who remain depositors of BankFinancial, F.S.B. and nontransferable subscription rights to purchase shares of BankFinancial Corporation common stock.

7. It is more likely than not that the nontransferable subscription rights have no value, based on the fact that these rights are acquired by the recipients without cost, are nontransferable and of short duration, and afford the recipients the right only to purchase the common stock at a price equal to its estimated fair market value, which will be the same price as the subscription price for the shares of common stock in the offering. Assuming that nontransferable subscription rights have no value, no gain or loss will be recognized by Eligible Account Holders, Supplemental Eligible Account Holders or other members upon distribution to them of nontransferable subscription rights to purchase shares of BankFinancial Corporation common stock, provided that the amount to be paid for BankFinancial Corporation common stock is equal to the fair market value of BankFinancial Corporation common stock.
8. The basis of the shares of BankFinancial Corporation common stock purchased in the offering will be the purchase price. The holding period of the BankFinancial Corporation common stock purchased pursuant to the exercise of nontransferable subscription rights will commence on the date on which the right to acquire such stock was exercised.
9. No gain or loss will be recognized by BankFinancial Corporation on the receipt of money in exchange for shares of BankFinancial Corporation common stock sold in the offering.

In the view of RP Financial, LC. (who is acting as independent appraiser of the value of the shares of BankFinancial Corporation common stock in connection with the conversion), which view is not binding on the Internal Revenue Service, the subscription rights do not have any value for the reasons set forth in paragraph 7, above. If the subscription rights granted to Eligible Account Holders and Supplemental Eligible Account Holders are deemed to have an ascertainable value, receipt of these rights could result in taxable gain to those Eligible Account Holders and Supplemental Eligible Account Holders who exercise the subscription rights in an amount equal to their value, and BankFinancial Corporation could recognize gain on a distribution. Eligible Account Holders and Supplemental Eligible Account Holders are encouraged to consult with their own tax advisors as to the tax consequences in the event that subscription rights are deemed to have an ascertainable value.

The Internal Revenue Service has announced that it will not issue private letter rulings with respect to the issue of whether nontransferable rights have value. Unlike private letter rulings, an opinion of counsel or the view of an independent appraiser is not binding on the Internal Revenue Service and the Internal Revenue Service could disagree with the conclusions reached therein. Depending on the conclusion or conclusions with which the Internal Revenue Service disagrees, the Internal Revenue Service may take the position that the transaction is taxable to any one or more of BankFinancial MHC, the members of BankFinancial MHC, BankFinancial Corporation and the Eligible Account Holders and Supplemental Eligible Account Holders who exercise their subscription rights. In the event of a disagreement, there can be no assurance that BankFinancial Corporation or BankFinancial, F.S.B. would prevail in a judicial or administrative proceeding.

The federal tax opinion has been filed with the Securities and Exchange Commission as an exhibit to BankFinancial Corporation's registration statement. Advice regarding the Illinois state income tax consequences consistent with the federal tax opinion has been issued by Crowe Chizek and Company LLC, tax advisors to BankFinancial MHC and BankFinancial Corporation.

Certain Restrictions on Purchase or Transfer of Our Shares after Conversion

All shares of common stock purchased in the offering by a director or an executive officer of BankFinancial, F.S.B. generally may not be sold for a period of one year following the closing of the conversion, except in the event of the death of the director or executive officer. Each certificate for restricted shares will bear a legend giving notice of this restriction on transfer, and instructions will be issued to the effect that any transfer within this time period of any certificate or record ownership of the shares other than as provided above is a violation of the restriction. Any shares of common stock issued at a later date as a stock dividend, stock split or otherwise with respect to the restricted stock will be similarly restricted. The directors and executive officers of BankFinancial Corporation also will be restricted by the insider trading rules promulgated pursuant to the Securities Exchange Act of 1934.

Purchases of shares of our common stock by any of our directors, executive officers and their associates, during the three-year period following the closing of the conversion may be made only through a broker or dealer registered with the Securities and Exchange Commission, except with the prior written approval of the Office of Thrift Supervision. This restriction does not apply, however, to negotiated transactions involving more than 1% of our outstanding common stock or to purchases of our common stock by our stock option plan or any of our tax-qualified employee stock benefit plans or nontax-qualified employee stock benefit plans, including any recognition and retention plans or restricted stock plans.

Office of Thrift Supervision regulations prohibit BankFinancial Corporation from repurchasing its shares of common stock during the first year following conversion unless compelling business reasons exist for such repurchases. After one year, the Office of Thrift Supervision does not impose any repurchase restrictions.

RESTRICTIONS ON ACQUISITION OF BANKFINANCIAL CORPORATION

Although the Board of Directors of BankFinancial Corporation is not aware of any effort that might be made to obtain control of BankFinancial Corporation after the conversion, the Board of Directors believes that it is appropriate to include certain provisions as part of BankFinancial Corporation's articles of incorporation to protect the interests of BankFinancial Corporation and its stockholders from takeovers which the Board of Directors of BankFinancial Corporation might conclude are not in the best interests of BankFinancial, F.S.B., BankFinancial Corporation or BankFinancial Corporation's stockholders.

The following discussion is a general summary of the material provisions of BankFinancial Corporation's articles of incorporation and bylaws, BankFinancial, F.S.B.'s charter and bylaws and certain other statutory and regulatory provisions that may be deemed to have an "anti-takeover" effect. The following description of certain of these provisions is necessarily general and, with respect to provisions contained in BankFinancial Corporation's articles of incorporation and bylaws and BankFinancial, F.S.B.'s charter and bylaws, reference should be made in each case to the document in question, each of which is part of BankFinancial MHC's application for conversion with the Office of Thrift Supervision and BankFinancial Corporation's registration statement filed with the Securities and Exchange Commission. See "Where You Can Find Additional Information."

BankFinancial Corporation’s Articles of Incorporation and Bylaws

BankFinancial Corporation’s articles of incorporation and bylaws contain a number of provisions relating to corporate governance and rights of stockholders that might 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.

The following description is a summary of the provisions of the articles of incorporation and bylaws. See “Where You Can Find Additional Information” as to how to review a copy of these documents.

Directors. Initially, the Board of Directors will be divided into three classes. Only one class of directors will be elected annually. Thus, it would take at least two annual elections to replace a majority of BankFinancial Corporation’s board of directors. Further, the bylaws authorize the board of directors to establish additional classes of directors, 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 meeting of stockholders.

Restrictions on Call of 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 entitled 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, directly or indirectly, 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 can be removed from office for cause if the removal is approved by the vote of 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. After the conversion, BankFinancial Corporation will have authorized but unissued shares of common and preferred stock. See “Description of Capital Stock of BankFinancial Corporation Following the Conversion.” 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 of BankFinancial Corporation may amend the articles of incorporation, without action by the

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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 addition, the Board of Directors of BankFinancial Corporation is authorized, without further approval of the stockholders, to issue additional shares of common or preferred stock and to classify or reclassify any unissued shares of stock (including common stock and preferred stock) from time to time into one or more classes or series subject to applicable provisions of law, 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, limitations as to dividends or other distributions, qualifications and terms and conditions 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 does not approve, it might be possible for the Board of Directors to authorize the issuance of common stock or a series of preferred stock with rights and preferences that would impede the completion of the transaction. An effect of the possible issuance of common or preferred stock therefore may be to deter a future attempt to gain control of BankFinancial Corporation. The Board of Directors has no present plan or understanding to issue any preferred stock.

Amendments to Articles of Incorporation and Bylaws. Maryland law provides that, subject to limited exceptions, the amendment or repeal of any provision of our articles of incorporation requires the approval at least two-thirds 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”). 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 directors authorized by our articles of incorporation and bylaws, 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 above 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 a majority of the total number of authorized directors of BankFinancial Corporation.

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 at 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 total number of directors authorized by our articles of incorporation and bylaws, 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

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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.

Conversion Regulations

Office of Thrift Supervision regulations prohibit any person from making an offer, announcing an intent to make an offer or participating in any other arrangement to purchase stock or acquiring stock or subscription rights in a converting institution or its holding company from another person prior to completion of its conversion. Further, without the prior written approval of the Office of Thrift Supervision, no person may make an offer or announcement of an offer to purchase shares or actually acquire shares of a converted institution or its holding company for a period of three years from the date of the completion of the conversion if, upon the completion of such offer, announcement or acquisition, the person would become the beneficial owner of more than 10% of the outstanding stock of the institution or its holding company. The Office of Thrift Supervision has defined "person" to include any individual, group acting in concert, corporation, partnership, association, joint stock company, trust, unincorporated organization or similar company, a syndicate or any other group formed for the purpose of acquiring, holding or disposing of securities of an insured institution. However, offers made exclusively to a bank or its holding company, or an underwriter or member of a selling group acting on the converting institution's or its holding company's behalf for resale to the general public are excepted. The regulation also provides civil penalties for willful violation or assistance in any such violation of the regulation by any person connected with the management of the converting institution or its holding company or who controls more than 10% of the outstanding shares or voting rights of a converted institution or its holding company.

Change of Control Regulations

Under the Change in Bank Control Act, no person may acquire control of an insured federal savings bank or its parent holding company unless the Office of Thrift Supervision has been given 60 days' prior written notice and has not issued a notice disapproving the proposed acquisition. In addition, Office of Thrift Supervision regulations provide that no company may acquire control of a savings bank without the prior approval of the Office of Thrift Supervision. Any company that acquires such control becomes a "savings and loan holding company" subject to registration, examination and regulation by the Office of Thrift Supervision.

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 savings bank's directors, or a determination by the Office of Thrift Supervision 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 savings bank's voting stock, if the acquiror is also subject to any one of eight "control factors," constitutes a rebuttable determination of control under the regulations. Such control factors include the acquiror being one of the two largest stockholders. The determination of control may be rebutted by submission to the Office of

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Thrift Supervision, prior to the acquisition of stock or the occurrence of any other circumstances giving rise to such determination, of a statement setting forth facts and circumstances which would support a finding that no control relationship will exist and containing certain undertakings. The regulations provide that persons or companies which acquire beneficial ownership exceeding 10% or more of any class of a savings bank's stock who do not intend to participate in or seek to exercise control over a savings bank's management or policies may qualify for a safe harbor by filing with the Office of Thrift Supervision a certification form that states, among other things, that the holder is not in control of such institution, is not subject to a rebuttable determination of control and will take no action which would result in a determination or rebuttable determination of control without prior notice to or approval of the Office of Thrift Supervision, as applicable. There are also rebuttable presumptions in the regulations concerning whether a group "acting in concert" exists, including presumed action in concert among members of an "immediate family."

The Office of Thrift Supervision may prohibit an acquisition of control if it finds, among other things, that:

- (1) the acquisition would result in a monopoly or substantially lessen competition;
- (2) the financial condition of the acquiring person might jeopardize the financial stability of the institution; or
- (3) the competence, experience or integrity of the acquiring person indicates that it would not be in the interest of the depositors or the public to permit the acquisition of control by such person.

DESCRIPTION OF CAPITAL STOCK

General

At the effective date, BankFinancial Corporation will be authorized to issue 100,000,000 shares of common stock, par value of \$0.01 per share, and 25,000,000 shares of preferred stock, par value \$0.01 per share. BankFinancial Corporation currently expects to issue in the offering up to 17,250,000 shares of common stock, subject to adjustment. BankFinancial Corporation will not issue shares of preferred stock in the conversion. Each share of BankFinancial Corporation common stock will have the same relative rights as, and will be identical in all respects to, each other share of common stock. Upon payment of the subscription price for the common stock, in accordance with the plan of conversion and reorganization, all of the shares of common stock will be duly authorized, fully paid and nonassessable.

The shares of common stock of BankFinancial Corporation will represent nonwithdrawable capital, will not be an account of an insurable type, and will not be insured by the Federal Deposit Insurance Corporation or any other government agency.

Common Stock

Dividends. BankFinancial Corporation may pay dividends 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 will be 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.

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Voting Rights. Upon consummation of the conversion, the holders of common stock of BankFinancial Corporation will have exclusive voting rights in BankFinancial Corporation. They will 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 will be entitled to one vote per share and will 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, will not be 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, including a consolidation, merger, share exchange or a sale of substantially all of the assets of BankFinancial Corporation require a two-thirds stockholder vote unless the transaction is first approved by at least two-thirds of the Board of Directors.

As a federal stock savings bank, corporate powers and control of BankFinancial, F.S.B. are vested in its Board of Directors, who elect the officers of BankFinancial, F.S.B. and who fill any vacancies on the Board of Directors. Voting rights of BankFinancial, F.S.B. are vested exclusively in the owners of the shares of capital stock of BankFinancial, F.S.B., which will be BankFinancial Corporation, and voted at the direction of BankFinancial Corporation's Board of Directors. Consequently, the holders of the common stock of BankFinancial Corporation will not have direct control of BankFinancial, F.S.B.

Liquidation. In the event of any liquidation, dissolution or winding up of BankFinancial, F.S.B., BankFinancial Corporation, as the holder of 100% of BankFinancial, F.S.B.'s capital stock, would be entitled to receive all assets of BankFinancial, F.S.B. available for distribution, after payment or provision for payment of all debts and liabilities of BankFinancial, F.S.B., including all deposit accounts and accrued interest thereon, and after distribution of the balance in the liquidation account to Eligible Account Holders and Supplemental Eligible Account Holders, all assets of BankFinancial, F.S.B. available for distribution. 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 will not be entitled to preemptive rights with respect to any shares that may be issued. The common stock is not subject to redemption.

Preferred Stock

None of the shares of BankFinancial Corporation's authorized preferred stock will be issued as part of the offering. Preferred stock may be issued with preferences and designations as our Board of Directors may from time to time determine. Our Board of Directors may, without stockholder approval, issue shares of preferred stock with voting, dividend, liquidation and conversion rights that 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.

TRANSFER AGENT

The transfer agent and registrar for BankFinancial Corporation's common stock is _____.

EXPERTS

The consolidated financial statements of BankFinancial MHC, Inc. as of December 31, 2003 and 2002, and for each of the years in the three-year period ended December 31, 2003, appearing elsewhere in this prospectus have been included herein and in the registration statement in reliance upon the report of Crowe Chizek and Company LLC, independent registered public accounting firm, which is included herein and upon the authority of said firm as experts in accounting and auditing.

RP Financial, LC. has consented to the publication herein of the summary of its report to BankFinancial Corporation setting forth its opinion as to the estimated pro forma market value of the shares of common stock upon completion of the conversion and offering and its letter with respect to subscription rights.

LEGAL MATTERS

Luse Gorman Pomerenk & Schick, P.C., Washington, D.C., counsel to BankFinancial Corporation, BankFinancial MHC and BankFinancial, F.S.B., will issue to BankFinancial Corporation its opinion regarding the legality of the common stock and the federal income tax consequences of the conversion. Certain legal matters will be passed upon for Sandler O'Neill & Partners, L.P. by Barack Ferrazzano Kirschbaum Perlman and Nagelberg LLP, Chicago, Illinois.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

BankFinancial Corporation has filed with the Securities and Exchange Commission a registration statement under the Securities Act of 1933 with respect to the shares of common stock offered hereby. As permitted by the rules and regulations of the Securities and Exchange Commission, this prospectus does not contain all the information set forth in the registration statement. Such information, including the appraisal report which is an exhibit to the registration statement, can be examined without charge at the public reference facilities of the Securities and Exchange Commission located at 450 Fifth Street, N.W., Washington, D.C. 20549, and copies of such material can be obtained from the Securities and Exchange Commission at prescribed rates. The Securities and Exchange Commission telephone number is 1-800-SEC-0330. In addition, the Securities and Exchange Commission maintains a web site (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Securities and Exchange Commission, including BankFinancial Corporation. The statements contained in this prospectus as to the contents of any contract or other document filed as an exhibit to the registration statement are, of necessity, brief descriptions of the material terms of, and should be read in conjunction with, such contract or document.

BankFinancial MHC has filed with the Office of Thrift Supervision an Application on Form AC with respect to the conversion. This prospectus omits certain information contained in the application. The application may be examined at the principal office of the Office of Thrift Supervision, 1700 G Street, N.W., Washington, D.C. 20552, and at the Southeast Regional Office of the Office of Thrift Supervision, 1475 Peachtree Street, N.E., Atlanta, Georgia 30309.

In connection with the offering, BankFinancial Corporation will register its common stock under Section 12(g) of the Securities Exchange Act of 1934 and, upon such registration, BankFinancial Corporation and the holders of its common stock will become subject to the proxy solicitation rules, reporting requirements and restrictions on common stock purchases and sales by directors, officers and greater than 10% stockholders, the annual and periodic reporting and certain other requirements of the Securities Exchange Act of 1934. Under the plan of conversion and reorganization, BankFinancial Corporation has undertaken that it will not terminate such registration for a period of at least three years following the conversion and the offering.

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BANKFINANCIAL MHC, INC.
Burr Ridge, Illinois
CONSOLIDATED FINANCIAL STATEMENTS
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All schedules are omitted as the required information either is not applicable or is included in the consolidated financial statements or related notes.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
BankFinancial MHC, Inc.
Burr Ridge, Illinois

We have audited the accompanying consolidated statements of financial condition of BankFinancial MHC, Inc. as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in members' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BankFinancial MHC, Inc. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003 in conformity with U.S. generally accepted accounting principles.

/s/ Crowe Chizek and Company LLC
Crowe Chizek and Company LLC

Oak Brook, Illinois
February 28, 2004

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BANKFINANCIAL MHC, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands except share data)

| | June 30, 2004 | December 31, | |
|---|--------------------|--------------------|--------------------|
| | (Unaudited) | 2003 | 2002 |
| ASSETS | | | |
| Cash and due from financial institutions | \$ 32,573 | \$ 26,359 | \$ 40,481 |
| Interest-bearing deposits in other financial institutions | 13,138 | 2,271 | 40,264 |
| | <u>45,711</u> | <u>28,630</u> | <u>80,745</u> |
| Cash and cash equivalents | 45,711 | 28,630 | 80,745 |
| Securities available-for-sale, at fair value | 246,558 | 257,520 | 233,572 |
| Loans held-for-sale | 10,816 | 5,280 | 11,166 |
| Loans receivable, net of allowance for loan losses: | | | |
| June 30, 2004, \$10,741 (unaudited); December 31, 2003, \$12,034; and December 31, 2002, \$12,461 | 1,068,153 | 1,067,248 | 1,077,932 |
| Stock in Federal Home Loan Bank, at cost | 23,520 | 22,806 | 21,128 |
| Premises and equipment, net | 32,689 | 33,019 | 26,800 |
| Accrued interest receivable | 4,978 | 5,201 | 5,786 |
| Goodwill | 10,865 | 10,865 | 10,865 |
| Core deposit intangible | 10,730 | 11,583 | 13,352 |
| Other assets | 14,947 | 15,979 | 9,380 |
| | <u>\$1,468,967</u> | <u>\$1,458,131</u> | <u>\$1,490,726</u> |
| Total assets | <u>\$1,468,967</u> | <u>\$1,458,131</u> | <u>\$1,490,726</u> |
| LIABILITIES AND MEMBERS' EQUITY | | | |
| Liabilities | | | |
| Deposits | \$1,104,512 | \$1,073,897 | \$1,054,762 |
| Borrowings | 249,151 | 268,225 | 307,180 |
| Advance payments by borrowers taxes and insurance | 8,287 | 7,523 | 7,531 |
| Accrued interest payable and other liabilities | 11,714 | 11,579 | 17,755 |
| | <u>1,373,664</u> | <u>1,361,224</u> | <u>1,387,228</u> |
| Total liabilities | 1,373,664 | 1,361,224 | 1,387,228 |
| Commitments and contingent liabilities | | | |
| Members' equity | | | |
| Retained earnings | 95,867 | 102,629 | 104,576 |
| Accumulated other comprehensive loss | (564) | (5,722) | (1,078) |
| | <u>95,303</u> | <u>96,907</u> | <u>103,498</u> |
| Total members' equity | 95,303 | 96,907 | 103,498 |
| Total liabilities and members' equity | <u>\$1,468,967</u> | <u>\$1,458,131</u> | <u>\$1,490,726</u> |

See accompanying notes to consolidated financial statements.

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BANKFINANCIAL MHC, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands)

| | Six months ended June 30, | | Years ended December 31, | | |
|---|------------------------------|-----------------|-----------------------------|-----------------|-----------------|
| | 2004 | 2003 | 2003 | 2002 | 2001 |
| | (Unaudited) | | | | |
| Interest and dividend income | | | | | |
| Loans, including fees | \$ 27,342 | \$29,223 | \$56,912 | \$68,230 | \$62,234 |
| Securities | 3,872 | 5,330 | 9,288 | 12,016 | 14,273 |
| Other | 766 | 1,038 | 1,842 | 1,950 | 1,944 |
| Total interest income | 31,980 | 35,591 | 68,042 | 82,196 | 78,451 |
| Interest expense | | | | | |
| Deposits | 6,194 | 7,147 | 13,317 | 19,508 | 32,713 |
| Borrowings | 5,356 | 7,824 | 17,235 | 19,257 | 16,033 |
| Total interest expense | 11,550 | 14,971 | 30,552 | 38,765 | 48,746 |
| Net interest income | 20,430 | 20,620 | 37,490 | 43,431 | 29,705 |
| Provision (credit) for loan losses | — | (275) | (579) | (422) | 2,000 |
| Net interest income after provision (credit) for loan losses | 20,430 | 20,895 | 38,069 | 43,853 | 27,705 |
| Noninterest income | | | | | |
| Fees and service charges | 2,578 | 2,442 | 5,790 | 5,112 | 3,120 |
| Insurance commissions and annuities income | 380 | 438 | 824 | 1,169 | 1,351 |
| Gain on sale of loans | 158 | 1,945 | 2,419 | 1,352 | 1,321 |
| Gain (loss) on sale of securities | 419 | — | — | (2) | — |
| Loan servicing fees | 459 | 272 | 664 | 606 | 252 |
| Amortization and impairment of servicing assets | (307) | (1,244) | (1,475) | (2,144) | (439) |
| Decline in fair value of derivatives | — | — | — | — | (982) |
| Operations of real estate owned | 82 | (123) | (215) | (224) | (166) |
| Other | 543 | 425 | 992 | 992 | 584 |
| Total noninterest income | 4,312 | 4,155 | 8,999 | 6,861 | 5,041 |
| Noninterest expense | | | | | |
| Compensation and benefits | 13,226 | 13,553 | 26,160 | 26,491 | 18,589 |
| Office occupancy and equipment | 2,593 | 2,367 | 4,942 | 6,286 | 3,426 |
| Advertising and public relations | 446 | 703 | 1,456 | 1,162 | 1,232 |
| Data processing | 1,415 | 1,266 | 2,515 | 3,394 | 2,322 |
| Supplies, telephone, and postage | 1,026 | 1,027 | 2,099 | 2,217 | 1,335 |
| Amortization of intangibles | 853 | 887 | 1,768 | 1,835 | 153 |
| Loss on impairment of securities available for sale | 14,966 | — | — | — | — |
| Losses on early extinguishment of debt | — | — | 8,347 | — | — |
| Other | 1,814 | 1,991 | 4,317 | 3,535 | 1,954 |
| Total noninterest expense | 36,339 | 21,794 | 51,604 | 44,920 | 29,011 |
| Income (loss) before income taxes | (11,597) | 3,256 | (4,536) | 5,794 | 3,735 |
| Income tax expense (benefit) | (4,835) | 780 | (2,589) | 748 | 599 |
| Net income (loss) | \$ (6,762) | \$ 2,476 | \$ (1,947) | \$ 5,046 | \$ 3,136 |

See accompanying notes to consolidated financial statements.

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BANKFINANCIAL MHC, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY AND
COMPREHENSIVE INCOME (LOSS)
(In thousands)

| | <u>Retained Earnings</u> | <u>Accumulated Other- Comprehensive Income (Loss)</u> | <u>Total Members' Equity</u> | <u>Compre- hensive Income (Loss)</u> |
|---|------------------------------|---|--------------------------------------|--|
| Balance at January 1, 2001 | \$ 96,394 | \$ 2,439 | \$ 98,833 | |
| Comprehensive income | | | | |
| Net income | 3,136 | — | 3,136 | \$ 3,136 |
| Change in other comprehensive income, net of tax effects | <u>—</u> | <u>503</u> | <u>503</u> | <u>503</u> |
| Total comprehensive income | | | | <u>\$ 3,639</u> |
| Balance at December 31, 2001 | 99,530 | 2,942 | 102,472 | |
| Comprehensive income | | | | |
| Net income | 5,046 | — | 5,046 | \$ 5,046 |
| Change in other comprehensive Income (loss), net of tax effects | <u>—</u> | <u>(4,020)</u> | <u>(4,020)</u> | <u>(4,020)</u> |
| Total comprehensive income | | | | <u>\$ 1,026</u> |
| Balance at December 31, 2002 | 104,576 | (1,078) | 103,498 | |
| Comprehensive income | | | | |
| Net loss | (1,947) | — | (1,947) | \$(1,947) |
| Change in other comprehensive loss, net of tax effects | <u>—</u> | <u>(4,644)</u> | <u>(4,644)</u> | <u>(4,644)</u> |
| Total comprehensive loss | | | | <u>\$(6,591)</u> |
| Balance at December 31, 2003 | 102,629 | (5,722) | 96,907 | |
| Comprehensive income (unaudited) | | | | |
| Net loss | (6,762) | — | (6,762) | \$(6,762) |
| Change in other comprehensive loss, net of tax effects | <u>—</u> | <u>5,158</u> | <u>5,158</u> | <u>5,158</u> |
| Total comprehensive loss | | | | <u>\$(1,604)</u> |
| Balance at June 30, 2004 (unaudited) | <u>\$ 95,867</u> | <u>\$ (564)</u> | <u>\$ 95,303</u> | |
| Comprehensive loss for the six months ended June 30, 2003 (unaudited) | | | | |
| Net income | | | | \$ 2,476 |
| Change in other comprehensive loss, net of tax effects | | | | <u>(3,795)</u> |
| Total comprehensive loss | | | | <u>\$(1,319)</u> |

See accompanying notes to consolidated financial statements.

BANKFINANCIAL MHC, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

| | Six months ended June 30, | | Years ended December 31, | | |
|---|------------------------------|----------|-----------------------------|-----------|----------|
| | 2004 | 2003 | 2003 | 2002 | 2001 |
| | (Unaudited) | | | | |
| Cash flows from operating activities | | | | | |
| Net income (loss) | \$ (6,762) | \$ 2,476 | \$ (1,947) | \$ 5,046 | \$ 3,136 |
| Adjustments to reconcile to net income (loss) to net cash from operating activities | | | | | |
| Provision (credit) for loan losses | — | (275) | (579) | (422) | 2,000 |
| Depreciation and amortization | 1,811 | 1,785 | 3,657 | 5,191 | 3,088 |
| Amortization of premiums and discounts | 149 | (415) | 1,057 | 1,837 | 2,184 |
| Net (gain) loss on sale of securities | (419) | — | — | 2 | — |
| Loss on impairment of securities available for sale | 14,966 | — | — | — | — |
| Loss on early extinguishment of debt | — | — | 8,347 | — | — |
| Amortization of premium on early extinguishment of debt | 2,070 | — | 4,131 | — | — |
| Amortization of core deposit and other intangible assets | 1,887 | 1,479 | 4,084 | 2,376 | 153 |
| Decline in fair value of derivatives | — | — | — | — | 982 |
| Net change in net deferred loan origination costs | (91) | 27 | (557) | 46 | 452 |
| Net gain on sale of real estate owned | (155) | (26) | (20) | (23) | (71) |
| Net gain on sale of loans | (158) | (1,945) | (2,419) | (1,352) | (1,321) |
| Loans originated for sale | (39,588) | (83,501) | (158,084) | (117,213) | (77,034) |
| Proceeds from sale of loans | 34,210 | 85,414 | 160,453 | 123,486 | 63,580 |
| Federal Home Loan Bank of Chicago stock dividends | (714) | (931) | (1,678) | (1,062) | (1,136) |
| Net change in: | | | | | |
| Deferred income tax | (4,826) | (222) | (2,106) | (547) | 213 |
| Accrued interest receivable | 223 | 183 | 585 | 1,600 | (247) |
| Other assets | (3,361) | (5,669) | 2,870 | 958 | (728) |
| Interest payable and other liabilities | 135 | 715 | (3,206) | (1,121) | 1,979 |
| Net cash from operating activities | (623) | (905) | 14,588 | 18,802 | (2,770) |

(Continued)

BANKFINANCIAL MHC, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

| | Six months ended June 30, | | Years ended December 31, | | |
|---|------------------------------|-------------------|-----------------------------|------------------|------------------|
| | 2004 | 2003 | 2003 | 2002 | 2001 |
| | (Unaudited) | | | | |
| Cash flows from investing activities | | | | | |
| Securities available-for-sale | | | | | |
| Proceeds from sales | \$ 10,232 | \$ — | \$ — | \$ 35,312 | \$ — |
| Proceeds from maturities | 345 | 310 | 4,139 | 33,552 | 99,180 |
| Proceeds from principal repayments | 23,005 | 72,024 | 127,043 | 66,512 | 22,440 |
| Purchases | — | (24,666) | (25,709) | (70,409) | (210,407) |
| Loans receivable | | | | | |
| Principal payments on loans receivable | 234,210 | 279,565 | 515,904 | 723,112 | 324,396 |
| Purchases | (43,076) | (11,322) | (115,660) | (13,816) | (1,812) |
| Originated for investment | (217,485) | (263,854) | (534,273) | (605,934) | (187,682) |
| Proceeds from sales | — | — | — | — | 77,858 |
| Proceeds from sale of real estate owned | 942 | 583 | 2,640 | 2,056 | 1,574 |
| Purchase of premises and equipment, net | (921) | (5,628) | (8,766) | (3,530) | (4,527) |
| Cash and cash equivalents acquired in acquisition, net of cash paid | — | — | — | — | 2,023 |
| Net cash from investing activities | 7,252 | 47,012 | (34,682) | 166,855 | 123,043 |
| Cash flows from financing activities | | | | | |
| Net increase (decrease) in deposits | 30,820 | 12,637 | 19,700 | (116,000) | (97,295) |
| Net change in advance payments by borrowers for taxes and insurance | 764 | 793 | (8) | 823 | (3,059) |
| Net change in borrowings | (21,132) | (25,415) | (34,518) | (23,877) | (12,550) |
| Payment of early extinguishment of debt | — | — | (17,195) | — | — |
| Net cash from financing activities | 10,452 | (11,985) | (32,021) | (139,054) | (112,904) |
| Net change in cash and cash equivalents | 17,081 | 34,122 | (52,115) | 46,603 | 7,369 |
| Beginning cash and cash equivalents | 28,630 | 80,745 | 80,745 | 34,142 | 26,773 |
| Ending cash and cash equivalents | \$ 45,711 | \$ 114,867 | \$ 28,630 | \$ 80,745 | \$ 34,142 |
| Supplemental disclosures | | | | | |
| Interest paid | \$ 9,665 | \$ 16,123 | \$ 28,592 | \$ 41,607 | \$ 48,366 |
| Income taxes paid | — | — | — | — | — |

See accompanying notes to consolidated financial statements.

BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts and transactions of BankFinancial MHC, Inc. and its wholly owned subsidiary, BankFinancial Corporation, and BankFinancial Corporation's wholly owned subsidiary, BankFinancial F.S.B. ("the Bank") and the Bank's wholly owned subsidiaries, BankFinancial Asset Recovery Corporation, SXNB Corporation, and Financial Assurance Inc. (collectively, "the Company"). SXNB Corporation ceased operations and was dissolved in October 2003. All significant intercompany accounts and transactions have been eliminated.

Nature of Business: 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 mortgage loans for which the underlying collateral is predominantly located in Illinois. The loan portfolio is concentrated in loans that are primarily secured by real estate.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, 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. The allowance for loan losses, loan servicing rights, impairment of securities and fair value of financial instruments are particularly subject to change.

Securities: Debt securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available-for-sale when they might be sold before maturity. Equity securities with readily determinable fair values are classified as available-for-sale. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income. Other securities, such as Federal Home Loan Bank ("FHLB") stock, are carried at cost.

Interest income includes amortization of purchase premium and discount. Gains and losses on sales are based on the amortized cost of the security sold. Securities are written down to fair value when a decline in fair value is not temporary.

Loans and Loan Income: Loans that management has the intent and ability to hold 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.

(Continued)

BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans originated are identified as either held for sale or investment at or soon after origination and accounted for accordingly. Loans that have been classified as held for sale are recorded at the lower of aggregate cost or market value. The Company sells a portion of its mortgage loan production in the secondary market. The Company obtains sales commitments on certain of these loans immediately prior to making the origination commitment. Net unrealized losses are recognized by charges to income.

Premiums and discounts associated with loans purchased are amortized over the expected life of the loan using the level-yield method.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual 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. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience; the nature and volume of the portfolio; information about specific borrower situations; and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers nonclassified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when full payment under the loan terms is not expected. Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if

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BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Loan commitments are considered in determining the provision for loan losses. The Company has not recorded any provision for losses on commitments since no losses were probable and reasonably estimable.

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, 10 to 20 years for routine building improvements, five to fifteen 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.

Mortgage Servicing Rights: Mortgage servicing rights are recognized as assets for purchased rights and for the allocation value of retained servicing rights on loans sold. Mortgage servicing rights are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the rights, using groupings of the underlying loans as to interest rates and then, secondarily, to geographic and prepayment characteristics. Any impairment of a grouping is reported as a valuation allowance.

Real Estate Owned: Real estate properties acquired in collection of a loan are initially recorded at fair value at acquisition, establishing a new cost basis. If fair value declines, a valuation allowance is recorded through expense. Expenses, gains and losses on disposition, and changes in the valuation allowance are reported in noninterest income.

Long-Term Assets: Premises and equipment 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.

Goodwill and Other Intangible Assets: Goodwill results from prior business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified.

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BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other intangible assets consist of core deposit intangible assets arising from whole bank acquisitions. They are initially measured at fair value and then are amortized over ten years using the sum-of-the-years-digits method.

Income Taxes: Income tax expense is the sum of the current year income tax due or refundable and the change in the deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

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.

Derivatives: Interest rate caps, which are derivative instruments, are recorded at their fair values. These derivatives are not designated as hedges; therefore, changes in fair value are reflected in income currently.

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.

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 now are such matters that will have a material effect on the financial statements.

Cash Flows Reporting: Cash and cash equivalents include cash, amounts due from financial institutions under 90 days, and daily funds sold. Net cash flows are reported for customer deposit transactions and advance payments by borrowers for taxes and insurance.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale, which are also recognized as separate components of members' equity.

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BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Standards (unaudited): In January 2003, the Emerging Issues Task Force (“EITF”) began a project “EITF 03-1” to provide additional guidance on when a market value decline on debt and marketable equity securities should be considered other-than-temporary. Currently, declines in market value that are considered to be other-than-temporary require that a loss be recognized through the income statement. The EITF issued additional guidance in March 2004 establishing criteria for recognition and measurement under this pronouncement. Management applied the provisions of EITF 03-1 as of June 30, 2004. The implementation resulted in the recording of an impairment charge of \$15.0 million against the combined carrying value of Fannie Mae and Freddie Mac preferred stock.

On March 9, 2004, the SEC issued Staff Accounting Bulletin No. 105, *Application of Accounting Principles to Loan Commitments*. According to the release, the fair value of the loan commitment is determined without considering the value of future cash flows related to servicing the loans, and thus the fair value represents the value of having to make a loan at what may become a below-market rate. This guidance is applicable for mortgage loan commitments, where the loans are to be sold, entered into as of April 1, 2004 or later. Management records the fair value of its loan commitments on the balance sheet in loans held-for-sale when the loans are to be sold at fair value in accordance with Statement of Financial Accounting Standard No. 133. Management determined that implementation did not have a material impact on financial statement reporting.

The Financial Accounting Standards Board is preparing a proposed Statement that would be effective for all employee awards granted, modified, or settled in 2005 for calendar year-end companies. As of the effective date, compensation expense related to the non-vested portion of awards outstanding as of that date would be based on the grant-date fair value as calculated under the original provisions of Statement 123. Adoption of this standard could materially impact the amount of compensation expense incurred for future financial statements reporting if the Company has a stock award program in place at the time the proposed statement becomes effective.

Unaudited Periods: Balances as of June 30, 2004 and for the six months ended June 30, 2004 and 2003 have not been audited. In the opinion of management, all adjustments consisting of normal recurring adjustments that are necessary for a fair presentation of the unaudited periods have been reflected.

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

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BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 2 - SECURITIES

The fair value of securities available-for-sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive loss are as follows:

| | Fair Value | Gross Unrealized Gains | Gross Unrealized Losses |
|--|------------------|------------------------------|-------------------------------|
| At June 30, 2004 (unaudited) | | | |
| State and municipal | \$ 2,135 | \$ 8 | \$ (13) |
| Mortgage-backed securities | 149,618 | 633 | (1,932) |
| Collateralized mortgage obligations | 1,827 | 28 | (1) |
| SBA-guaranteed loan participation certificates | 2,334 | 3 | (21) |
| Equity securities | 90,644 | 375 | — |
| | <u>\$246,558</u> | <u>\$ 1,047</u> | <u>\$ (1,967)</u> |
| At December 31, 2003 | | | |
| State and municipal | \$ 2,385 | \$ 14 | \$ (14) |
| Mortgage-backed securities | 154,267 | 1,471 | (832) |
| Collateralized mortgage obligations | 2,832 | 30 | (1) |
| SBA-guaranteed loan participation certificates | 2,601 | 2 | (14) |
| Equity securities | 95,335 | 431 | (10,785) |
| Other debt securities | 100 | — | — |
| | <u>\$257,520</u> | <u>\$ 1,948</u> | <u>\$ (11,646)</u> |
| At December 31, 2002 | | | |
| State and municipal | \$ 6,510 | \$ 41 | \$ (13) |
| Mortgage-backed securities | 72,355 | 1,883 | (10) |
| Collateralized mortgage obligations | 48,627 | 293 | — |
| SBA-guaranteed loan participation certificates | 4,290 | 8 | (18) |
| Equity securities | 101,590 | 491 | (4,590) |
| Other debt securities | 200 | — | — |
| | <u>\$233,572</u> | <u>\$ 2,716</u> | <u>\$ (4,631)</u> |

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BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 2 - SECURITIES (Continued)

Mortgage-backed securities and collateralized mortgage obligations consist of Federal Home Loan Mortgage Corporation (“Freddie Mac”), Federal National Mortgage Association (“Fannie Mae”) and Government National Mortgage Association (“Ginnie Mae”) issues at June 30, 2004 and December 31, 2003. Equity securities consist primarily of Fannie Mae and Freddie Mac preferred stock.

The fair values of debt securities available-for-sale at June 30, 2004 and December 31, 2003, 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.

| | June 30, 2004 | December 31, 2003 |
|--|-------------------|----------------------|
| | (Unaudited) | |
| Due in one year or less | \$ 450 | \$ 531 |
| Due after one year through five years | 1,296 | 1,206 |
| Due after five years through ten years | 389 | 748 |
| | <u>2,135</u> | <u>2,485</u> |
| Mortgage-backed securities | 149,618 | 154,267 |
| Collateralized mortgage obligations | 1,827 | 2,832 |
| SBA-guaranteed loan participation certificates | 2,334 | 2,601 |
| Equity securities | 90,644 | 95,335 |
| | <u>\$ 246,558</u> | <u>\$ 257,520</u> |

Securities pledged at June 30 2004 (unaudited) and year-end 2003 and 2002 had a carrying amount of \$166.0 million, \$171.4 million and \$187.9 million, respectively, and were pledged to secure certain depository relationships, advances from the FHLB of Chicago, and a line of credit with the Federal Reserve Bank of Chicago.

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BANKFINANCIAL MHC, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Table amounts in thousands)

NOTE 2 - SECURITIES (Continued)

Sales of securities available-for-sale were as follows:

| | Six months ended June 30, | | Years ended December 31, | | |
|--------------|------------------------------|------|-----------------------------|----------|------|
| | 2004 | 2003 | 2003 | 2002 | 2001 |
| | (Unaudited) | | | | |
| Proceeds | \$10,551 | \$— | \$— | \$35,312 | \$— |
| Gross gains | 419 | — | — | 69 | — |
| Gross losses | — | — | — | (71) | — |

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 |
| June 30, 2004 (unaudited) | | | | | | |
| State and municipal | \$ — | \$ — | \$ 1,081 | \$ 13 | \$ 1,081 | \$ 13 |
| Mortgage-backed securities | 93,947 | 1,579 | 16,910 | 353 | 110,857 | 1,932 |
| Collateralized mortgage obligations | 506 | 1 | — | — | 506 | 1 |
| SBA-guaranteed loan participation certificates | — | — | 1,613 | 21 | 1,613 | 21 |
| Total temporarily impaired | \$94,453 | \$ 1,580 | \$19,604 | \$ 387 | \$114,057 | \$ 1,967 |
| December 31, 2003 | | | | | | |
| State and municipal | \$ — | \$ — | \$ 1,081 | \$ 14 | \$ 1,081 | \$ 14 |
| Mortgage-backed securities | 83,268 | 831 | 523 | 1 | 83,791 | 832 |
| Collateralized mortgage obligations | 1,185 | 1 | — | — | 1,185 | 1 |
| SBA-guaranteed loan participation certificates | — | — | 186 | 14 | 186 | 14 |
| Equity securities | — | — | 64,825 | 10,785 | 64,825 | 10,785 |
| Total temporarily impaired | \$84,453 | \$ 832 | \$66,615 | \$ 10,814 | \$151,068 | \$ 11,646 |

The Company evaluates its investment securities with significant declines in fair value on a quarterly basis to determine whether they should be considered temporarily or other than temporarily impaired. We have historically conducted impairment reviews in accordance with

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BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 2 - SECURITIES (Continued)

the limited guidance set forth in SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities." As mentioned in the New Accounting Standards section the Company applied EITF 03-1 in testing its securities for impairment as of June 30, 2004. The standards that EITF 03-1 establishes for testing equity securities for impairment are more stringent and evidence-based than the standards set forth in SFAS 115 and those applicable to debt securities under EITF 03-1.

The unrealized losses on investments in state and municipal bonds, mortgage-backed securities and collateralized mortgage obligations, and SBA guaranteed loan participation certificates above were attributable to increases in interest rates, rather than credit quality. Since the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered impaired on an other-than-temporary basis.

The Company tested the Fannie Mae and Freddie Mac preferred stocks for impairment under EITF 03-1 as of June 30, 2004. The analysis performed and the evidence considered determined that the unrealized losses on the Fannie Mae and Freddie Mac preferred stocks constitute other than temporary impairments, notwithstanding the Company's belief that the securities will ultimately recover all or substantially all of their initial cost as interest rates, volatility rates and the spreads to the relevant risk-free benchmarks return to historical norms. The Company based this determination on the inability to forecast a full recovery for any of the preferred stocks over a reasonable period of time, the more stringent evidentiary standards that must be met under EITF 03-1 when the severity and duration of losses are significant and the forecasted recovery period is lengthy, and the uncertainties that are inherent in forecasting the timing and extent of future interest rates, interest rate volatilities and spreads to risk-free benchmarks. Based on these determinations, the Company reduced the combined carrying value of the Fannie Mae and Freddie Mac preferred stocks by recording an impairment charge of \$15.0 million for the quarter ended June 30, 2004 (unaudited).

(Continued)

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BANKFINANCIAL MHC, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Table amounts in thousands)

NOTE 3 - LOANS RECEIVABLE

Loans receivable are as follows:

| | At June 30, 2004 | At December 31, | |
|---|---------------------|--------------------|--------------------|
| | | 2003 | 2002 |
| | (Unaudited) | | |
| Secured by one-to-four-family residential real estate | \$ 352,920 | \$ 352,079 | \$ 453,884 |
| Secured by multi-family mortgage loans | 234,654 | 239,758 | 212,441 |
| Nonresidential real estate | 254,633 | 256,871 | 251,459 |
| Construction and land loans | 56,590 | 65,052 | 36,879 |
| Commercial loans | 83,473 | 79,729 | 79,459 |
| Commercial leases | 80,907 | 72,962 | 37,166 |
| Consumer loans | 2,898 | 3,502 | 3,909 |
| Other loans (including municipal) | 6,334 | 6,621 | 5,572 |
| Total loans | 1,072,409 | 1,076,574 | 1,080,769 |
| Loans in process | 4,679 | 993 | 8,466 |
| Net deferred loan origination costs | 1,806 | 1,715 | 1,158 |
| Allowance for loan losses | (10,741) | (12,034) | (12,461) |
| Loans, net | \$1,068,153 | \$1,067,248 | \$1,077,932 |

As of June 30, 2004 (unaudited) and December 31, 2003 and 2002, there were approximately \$176 million, \$161 million and \$110 million, respectively, of loans purchased from other financial institutions included in the amount of loans secured by one-to-four-family residential real estate. Loans purchased were secured primarily by properties in Illinois.

Activity in the allowance for loan losses is as follows:

| | Six months ended June 30, | | Years ended December 31, | | |
|------------------------------------|------------------------------|-----------------|-----------------------------|-----------------|-----------------|
| | 2004 | 2003 | 2003 | 2002 | 2001 |
| | (Unaudited) | | | | |
| Beginning balance | \$12,034 | \$12,461 | \$12,461 | \$13,465 | \$ 7,464 |
| Provision (credit) for loan losses | — | (275) | (579) | (422) | 2,000 |
| Loans charged off | (1,321) | (409) | (433) | (1,292) | (142) |
| Recoveries | 28 | 281 | 585 | 710 | 2 |
| Balance acquired in acquisition | — | — | — | — | 4,141 |
| Ending balance | \$10,741 | \$12,058 | \$12,034 | \$12,461 | \$13,465 |

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BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 3 - LOANS RECEIVABLE (Continued)

Impaired loans were as follows:

| | Six months ended June 30, 2004 | Years ended December 31, | |
|--|--------------------------------------|-----------------------------|------------------|
| | | 2003 | 2002 |
| | (Unaudited) | | |
| Period-end loans with allocated allowance for loan losses | \$ 6,039 | \$ 7,128 | \$ 7,502 |
| Period-end loans with no allocated allowance for loan losses | 8,603 | 2,731 | 4,250 |
| Total | \$ 14,642 | \$ 9,859 | \$ 11,752 |
| Amount of the allowance for loan losses allocated | \$ 1,352 | \$ 2,866 | \$ 1,957 |
| Average of impaired loans during the period | \$ 11,560 | \$ 6,057 | \$ 5,712 |

Interest income received on impaired loans was immaterial for the years ended 2003, 2002, and 2001 and for the six month periods ended June 30, 2004 and 2003 (unaudited).

Nonperforming loans were as follows:

| | Six months ended June 30, 2004 | Years ended December 31, | |
|--|-----------------------------------|-----------------------------|--------|
| | | 2003 | 2002 |
| | (Unaudited) | | |
| Loans past due over 90 days still on accrual | \$ — | \$ — | \$ — |
| Nonaccrual loans | 7,941 | 7,120 | 13,768 |

Nonperforming loans includes both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

(Continued)

BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 4 - SECONDARY MORTGAGE MARKET ACTIVITIES

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 approximately \$367.7 million and \$314.6 million, \$357.7 million, \$248.3 million and \$200.3 million at June 30, 2004 (unaudited) and 2003 (unaudited), December 31, 2003, 2002, and 2001, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately \$9.5 million and \$15.9 million, \$7.4 million, \$12.2 million and \$5.1 million at June 30, 2004 (unaudited) and 2003 (unaudited), December 31, 2003, 2002, and 2001, respectively.

Activity for capitalized mortgage servicing rights and the related valuation allowance was as follows.

| | Six months ended June 30, | | Years ended December 31, | |
|---|------------------------------|----------|-----------------------------|----------|
| | 2004 | 2003 | 2003 | 2002 |
| | (Unaudited) | | | |
| Servicing rights | | | | |
| Beginning of year | \$2,690 | \$ 2,745 | \$ 2,745 | \$ 2,425 |
| Additions | 453 | 1,097 | 2,102 | 1,530 |
| Amortized to expense | (515) | (1,158) | (2,157) | (1,210) |
| Balance, end of year | 2,628 | 2,684 | 2,690 | 2,745 |
| Valuation allowance | | | | |
| Beginning of year | 318 | 1,000 | 1,000 | 66 |
| Additions expensed | 151 | 144 | 144 | 1,146 |
| Reductions credited to expense | (359) | (57) | (826) | (212) |
| Balance, end of year | 110 | 1,087 | 318 | 1,000 |
| Carrying value of mortgage servicing rights | \$2,518 | \$ 1,597 | \$ 2,372 | \$ 1,745 |
| Fair value of mortgage servicing rights | \$3,676 | \$ 1,784 | \$ 3,146 | \$ 1,853 |

(Continued)
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BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 4 - SECONDARY MORTGAGE MARKET ACTIVITIES (Continued)

The estimated fair value of mortgage servicing rights is the present value of the expected future cash flows over the projected life of the loan. Assumptions used in the present value calculation are based on actual performance of the underlying servicing along with general market consensus. The expected cash flow is the net amount of all mortgage servicing income and expense items. The expected cash flows are discounted at an interest rate appropriate for the associated risk given the current market conditions. Significant assumptions are as follows:

| | June 30, 2004 | December 31, | |
|---------------------------------|------------------|--------------|---------|
| | (Unaudited) | 2003 | 2002 |
| Prepayment Speed | 12.14% | 18.24% | 31.68% |
| Discount rate | 12.00% | 9.00% | 8.00% |
| Average Servicing Cost per Loan | \$ 53.00 | \$53.00 | \$53.00 |
| Escrow Float Rate | 4.00% | 4.00% | 4.00% |

Estimated amortization expense for each of the next five years:

| | June 30, 2004 | | December 31, 2003 |
|------|------------------|------|----------------------|
| | (Unaudited) | | |
| 2005 | \$ 707 | 2004 | \$ 947 |
| 2006 | 586 | 2005 | 672 |
| 2007 | 423 | 2006 | 417 |
| 2008 | 291 | 2007 | 248 |
| 2009 | 215 | 2008 | 162 |

NOTE 5 - SECURITIZATIONS

The Company securitizes conforming adjustable rate residential mortgage loans. In these securitizations, the Company retained servicing responsibilities. The Company receives annual servicing fees approximating 0.25 percent of the outstanding balance. Fannie Mae has no recourse to the Company's other assets for failure of debtors to pay when due. The Company receives securities in exchange for loans in these transactions and records no gain or loss. During the first six months ended 2004 (unaudited), \$29.3 million of adjustable rate residential mortgage loans were securitized. During 2003, \$137.7 million of adjustable rate residential mortgage loans were securitized. There were no securitizations in 2002.

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BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 6 - ACCRUED INTEREST RECEIVABLE

Accrued interest receivable is summarized as follows:

| | June 30, 2004 | December 31, | |
|-----------------------|------------------|----------------|----------------|
| | | 2003 | 2002 |
| | (Unaudited) | | |
| Investment securities | \$ 587 | \$ 643 | \$ 878 |
| Loans receivable | 4,391 | 4,558 | 4,908 |
| | <u>\$ 4,978</u> | <u>\$5,201</u> | <u>\$5,786</u> |

NOTE 7 - PREMISES AND EQUIPMENT

Premises and equipment are as follows:

| | June 30, 2004 | December 31, | |
|----------------------------|------------------|------------------|------------------|
| | | 2003 | 2002 |
| | (Unaudited) | | |
| Land and land improvements | \$ 9,103 | \$ 9,080 | \$ 9,129 |
| Buildings and improvements | 27,789 | 27,455 | 19,061 |
| Furniture and equipment | 7,328 | 6,978 | 5,759 |
| Computer equipment | 9,705 | 9,452 | 9,598 |
| | <u>53,925</u> | <u>52,965</u> | <u>43,547</u> |
| Accumulated depreciation | <u>(21,236)</u> | <u>(19,946)</u> | <u>(18,725)</u> |
| | <u>32,689</u> | <u>33,019</u> | <u>24,822</u> |
| Construction in progress | <u>—</u> | <u>—</u> | <u>1,978</u> |
| | <u>\$ 32,689</u> | <u>\$ 33,019</u> | <u>\$ 26,800</u> |

Construction in progress at December 31, 2002 is comprised of \$2.0 million of building costs attributable to a site where the Bank was building a new main office. The new office building was completed in July 2003 at a final cost of \$8.2 million.

Depreciation and amortization of premises and equipment was \$1.8 million for the six months ended June 30, 2004 (unaudited) and 2003 (unaudited), respectively. Depreciation and amortization of premises and equipment was \$3.7 million, \$5.2 million, and \$3.1 million for the years ended December 31, 2003, 2002, and 2001, respectively.

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BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 7 - PREMISES AND EQUIPMENT (Continued)

The Company leases branch facilities and corporate office space under noncancelable operating lease agreements. Rent expense for facilities was \$120,000 and \$239,000 for the six months ended June 30, 2004 (unaudited) and 2003 (unaudited), respectively, excluding taxes, insurance, and maintenance. Rent expense for facilities was \$409,000, \$1.1 million, and \$304,000 in 2003, 2002, and 2001, respectively, excluding taxes, insurance, and maintenance. The minimum rental commitments, not including taxes, insurance, and maintenance, under leases are summarized below:

| | <u>June 30, 2004</u> | | <u>December 31 2003</u> |
|-------|--------------------------|-------|-----------------------------|
| | (Unaudited) | | |
| 2005 | \$ 404 | 2004 | \$ 442 |
| 2006 | 394 | 2005 | 390 |
| 2007 | 403 | 2006 | 399 |
| 2008 | 340 | 2007 | 402 |
| 2009 | — | 2008 | 140 |
| | <u>1,541</u> | | |
| Total | \$ 1,541 | Total | \$ 1,773 |

The Company has subleased some of these branch facilities and currently is entitled to receive income of approximately:

| | <u>June 30, 2004</u> | | <u>December 31 2003</u> |
|-------|--------------------------|-------|-----------------------------|
| | (Unaudited) | | |
| 2005 | \$ 208 | 2004 | \$ 207 |
| 2006 | 195 | 2005 | 208 |
| 2007 | 175 | 2006 | 178 |
| 2008 | 160 | 2007 | 175 |
| 2009 | — | 2008 | 93 |
| | <u>738</u> | | |
| Total | \$ 738 | Total | \$ 861 |

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BANKFINANCIAL MHC, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Table amounts in thousands)

NOTE 8 - GOODWILL AND CORE DEPOSIT INTANGIBLE

Goodwill

The change in the carrying amount of goodwill was as follows:

| | Six months ended June 30, 2004 | Years ended December 31, | |
|--|-----------------------------------|-----------------------------|-----------------|
| | (Unaudited) | 2003 | 2002 |
| Beginning of year | \$ 10,865 | \$10,865 | \$10,817 |
| Adjustments related to purchase price allocation | — | — | 48 |
| End of year | <u>\$ 10,865</u> | <u>\$10,865</u> | <u>\$10,865</u> |

Core deposit intangible assets were as follows as of the period:

| | Six months ended June 30, 2004 | | Years ended December 31, | | | |
|------------------------------|-----------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | (Unaudited) | | 2003 | | 2002 | |
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Amortized intangible assets: | | | | | | |
| Core deposit intangibles | \$15,340 | \$ 4,610 | \$15,340 | \$ 3,757 | \$15,340 | \$ 1,988 |

Aggregate amortization expense was \$1,768,000, \$1,835,000, and \$153,000 for 2003, 2002, and 2001, respectively. Aggregate amortization expense was \$853,000 and \$887,000 for the six-month period ends June 30, 2004 (unaudited) and 2003 (unaudited), respectively.

Estimated amortization expense for each of the next five years:

| | June 30, 2004 | | December 31, 2003 |
|------|------------------|------|----------------------|
| | (Unaudited) | | |
| 2005 | \$ 1,667 | 2004 | \$ 1,701 |
| 2006 | 1,600 | 2005 | 1,634 |
| 2007 | 1,528 | 2006 | 1,566 |
| 2008 | 1,456 | 2007 | 1,490 |
| 2009 | 1,389 | 2008 | 1,423 |

(Continued)

BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 9 - DEPOSITS

Year-end deposits are as follows:

| | June 30, 2004 | December 31, | |
|-----------------------------|---------------------|---------------------|---------------------|
| | | 2003 | 2002 |
| | (Unaudited) | | |
| Non-interest-bearing demand | \$ 109,712 | \$ 98,087 | \$ 113,477 |
| Interest-bearing NOW | 229,226 | 237,584 | 246,051 |
| Money market | 178,191 | 159,611 | 147,134 |
| Savings | 136,770 | 135,517 | 121,744 |
| Certificates of deposit | 450,613 | 443,098 | 426,356 |
| | <u>\$ 1,104,512</u> | <u>\$ 1,073,897</u> | <u>\$ 1,054,762</u> |

Certificates of deposit of \$100,000 or more were approximately \$138.0 million at June 30, 2004 (unaudited). Certificates of deposit of \$100,000 or more were approximately \$123.0 million and \$99.9 million at year-end 2003 and 2002, respectively. Amounts over \$100,000 are not insured by the Federal Deposit Insurance Corporation.

Included in certificates of deposit are \$22.2 million, 18.6 million and \$16.6 million of brokered deposits at June 30, 2004 (unaudited), December 31, 2003 and 2002, respectively. All brokered deposits are over \$100,000.

Scheduled maturities of certificates of deposit are as follows:

| | June 30, 2004 | | December 31 2003 |
|------------|-------------------|-------|---------------------|
| | (Unaudited) | | |
| 2005 | \$ 317,180 | 2004 | \$ 318,529 |
| 2006 | 104,897 | 2005 | 90,213 |
| 2007 | 18,120 | 2006 | 27,808 |
| 2008 | 2,422 | 2007 | 1,062 |
| 2009 | 7,790 | 2008 | 5,315 |
| Thereafter | 204 | 2009 | 171 |
| | <u>\$ 450,613</u> | | <u>\$ 443,098</u> |
| Total | <u>\$ 450,613</u> | Total | <u>\$ 443,098</u> |

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BANKFINANCIAL MHC, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Table amounts in thousands)

NOTE 9 - DEPOSITS (Continued)

Interest expense on deposit accounts is summarized as follows for the periods indicated:

| | June 30, | | December 31, | | |
|-------------------------|----------------|----------------|-----------------|-----------------|-----------------|
| | 2004 | 2003 | 2003 | 2002 | 2001 |
| | (Unaudited) | | | | |
| Interest-bearing NOW | \$ 506 | \$ 696 | \$ 1,208 | \$ 2,203 | \$ 3,062 |
| Money market accounts | 900 | 907 | 1,735 | 2,572 | 2,112 |
| Savings | 345 | 322 | 690 | 901 | 1,727 |
| Certificates of deposit | 4,443 | 5,222 | 9,684 | 13,832 | 25,812 |
| | <u>\$6,194</u> | <u>\$7,147</u> | <u>\$13,317</u> | <u>\$19,508</u> | <u>\$32,713</u> |

NOTE 10 - BORROWINGS

Borrowed funds are summarized as follows:

| | June 30, 2004 (Unaudited) | | | December 31, 2003 | | December 31, 2002 | |
|--|---------------------------------------|--|-----------|--|-----------|--|-----------|
| | Contractual Interest Rate Range | Weighted Average Contractual Rate | Amount | Weighted Average Contractual Rate | Amount | Weighted Average Contractual Rate | Amount |
| Fixed-rate advance from FHLB due: | | | | | | | |
| Within 1 year | 1.28% | 6.38% | \$ 97,029 | 1.30% | \$ 99,412 | 6.45% | \$ 50,869 |
| 1 to 2 years | 1.62 | 2.37 | 45,302 | 1.69 | 58,914 | 5.77 | 51,338 |
| 2 to 3 years | 2.20 | 2.70 | 20,000 | 2.52 | 20,000 | 6.22 | 47,348 |
| 3 to 4 years | 2.75 | 3.52 | 27,000 | 3.52 | 25,000 | — | — |
| 4 to 5 years | — | — | — | — | — | 3.52 | 25,000 |
| 5 to 6 years | — | — | — | — | — | 5.43 | 50,000 |
| Greater than 6 years (callable 9/30/04) | 6.44 | 6.44 | 25,000 | 6.44 | 25,000 | 6.56 | 50,000 |
| Total fixed rate advances | 1.28% | 6.44% | \$214,331 | 2.31% | \$228,326 | 5.85% | \$274,555 |
| Open Line advance, due on demand | — | — | — | 1.21 | 7,000 | — | — |
| Total FHLB funds | 1.28 | 6.44 | 214,331 | 2.27 | 235,326 | 5.85 | 274,555 |
| Securities sold under agreements to repurchase | 0.50 | 2,899 | 1,01 | 0.50 | 3,450 | 0.50 | 4,820 |
| Trust preferred securities | — | — | — | — | — | 8.95 | 14,175 |
| Other borrowings | 3.11 | 3.11 | 30,000 | 3.16 | 30,000 | 3.79 | 15,000 |
| Total borrowings | 0.50% | 6.44% | \$249,151 | 2.36% | \$268,225 | 5.42% | \$307,180 |

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BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 10 - BORROWINGS (Continued)

In July 2003, BankFinancial elected to pursue certain balance sheet restructuring strategies as a result of the historically low interest rate environment and its expectations of higher interest rates. The restructuring consisted of retiring \$25.0 million of Federal Home Loan Bank Advances and replacing the other \$145.0 million with new Federal Home Loan Bank Advances with a weighted average coupon of 1.38% and a weighted average maturity of approximately one year. The Company incurred a prepayment penalty of \$15.4 million, recognized an immediate loss of \$8.3 million on the early extinguishment of debt, and deferred the remaining prepayment penalty in accordance with EITF 96-19, *Debtor's Accounting for a Modification or Exchange of Debt Instruments*. The remaining portion of the prepayment penalty is being amortized as a yield adjustment over the life of the refinanced borrowings. As of June 30, 2004 (unaudited) and December 31, 2003, the unamortized prepayment penalty was \$817,000 and \$2.9 million, respectively.

The Company maintains a collateral pledge agreement covering secured advances whereby the Company has agreed to at all times 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 of Chicago. All stock in the FHLB of Chicago is pledged as additional collateral for these advances. At June 30, 2004 (unaudited), \$233.0 million of first mortgage loans and \$73.3 million in securities collateralized the advances. At December 31, 2003, \$250.7 million first mortgage loans and \$80.6 million in securities collateralized the advances.

At June 30, 2004 (unaudited) and December 31, 2003, the Company had available pre-approved overnight federal funds borrowing and repurchase agreement lines of \$65 million and \$45 million, respectively. At June 30, 2004 (unaudited) and December 31, 2003, the Company also had a line of credit available with the Federal Reserve Bank of Chicago for \$36.8 million and \$14.9 million, respectively. At June 30, 2004 (unaudited) and December 31, 2003, there was no outstanding balance on these lines.

The Company became the holder of the Trust Preferred Securities through the acquisition of Success Bancshares, Inc. ("Success") in November of 2001. On May 19, 1998, Success issued \$15 million (\$10 per preferred security) of Trust Preferred Securities ("Securities") through Success Capital Trust I ("Trust"), a statutory business trust and wholly owned subsidiary of Success. The Securities paid cumulative cash distributions quarterly at an annual rate of 8.95%. Proceeds from the sale of the Securities were invested by the Trust in 8.95% Junior Subordinated Deferrable Interest Debentures issued by Success, which represents all of the assets of the Trust. The Securities were subject to mandatory redemption, in whole or in part, upon repayment of the Junior Subordinated Debentures at the stated maturity, May 19, 2028 or their earlier redemption, in each case at a redemption price equal to the aggregate liquidation preference of the Securities plus any accumulated and unpaid distributions thereon to the date

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BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 10 - BORROWINGS (Continued)

of redemption. The Company provided a full, irrevocable, and unconditional guarantee on a subordinated basis of the obligations of the Trust under the preferred securities in the event of the occurrence of an event of default, as defined in such guarantee. The Company, in accordance with the redemption provisions of the Securities, repaid the Securities on December 15, 2003 for a total of \$15.5 million.

The Company entered into a promissory note with another financial institution on November 15, 2001. This note was amended during 2003 to increase the amount to \$30.0 million from \$15.0 million, with interest terms remaining the same, payable at the 90-day LIBOR plus 200 basis points. The interest on the note resets quarterly and interest is payable quarterly. At June 30, 2004, (unaudited), December 31, 2003 and 2002, the interest rate on the notes was 3.11%, 3.16%, and 3.79%, respectively. The Company also entered into a \$5 million revolving line of credit agreement at the 90-day LIBOR plus 200 basis points. The interest on the line resets quarterly and interest is payable quarterly. At June 30, 2004 (unaudited), December 31, 2003 and 2002, the Company had not drawn on the line. These borrowings are secured by 1,000 shares of common stock of the Company, and mature December 31, 2004. The financing agreements contain certain financial covenants. At June 30, 2004 (unaudited) and December 31, 2003, the Company was in compliance with these covenants, as amended.

NOTE 11 - REGULATORY MATTERS

The Bank is subject to regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators 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. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and plans for capital restoration are required.

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BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 11 - REGULATORY MATTERS (Continued)

At year end, actual capital levels and minimum required levels for the Bank were:

| | Actual | | Minimum Required for Capital Adequacy Purposes | | Minimum Required to Be Well Capitalized Under Prompt Corrective Action Provisions | |
|--|------------|--------|--|-------|---|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| June 30, 2004 (Unaudited) | | | | | | |
| Total capital (to risk-weighted assets) | \$ 113,402 | 10.39% | \$ 87,284 | 8.00% | \$ 109,106 | 10.00% |
| Tier 1 (core) capital (to risk-weighted assets) | 104,013 | 9.53 | 43,642 | 4.00 | 65,463 | 6.00 |
| Tier 1 (core) capital (to adjusted total assets) | 104,013 | 7.20 | 57,767 | 4.00 | 72,209 | 5.00 |
| December 31, 2003 | | | | | | |
| Total capital (to risk-weighted assets) | \$ 119,682 | 10.63% | \$ 90,094 | 8.00% | \$ 112,617 | 10.00% |
| Tier 1 (core) capital (to risk-weighted assets) | 110,514 | 9.81 | 45,047 | 4.00 | 67,570 | 6.00 |
| Tier 1 (core) capital (to adjusted total assets) | 110,514 | 7.65 | 57,811 | 4.00 | 72,264 | 5.00 |
| December 31, 2002 | | | | | | |
| Total capital (to risk-weighted assets) | \$ 122,026 | 11.20% | \$ 87,164 | 8.00% | \$ 108,955 | 10.00% |
| Tier 1 (core) capital (to risk-weighted assets) | 111,522 | 10.24 | 43,582 | 4.00 | 65,373 | 6.00 |
| Tier 1 (core) capital (to adjusted total assets) | 111,522 | 7.59 | 58,740 | 4.00 | 73,425 | 5.00 |

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BANKFINANCIAL MHC, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Table amounts in thousands)

NOTE 11 - REGULATORY MATTERS (Continued)

The following is a reconciliation of the Bank's equity under accounting principles generally accepted in the United States of America ("GAAP") to regulatory capital.

| | June 30, 2004 | December 31, | |
|--|------------------|--------------|------------|
| | | 2003 | 2002 |
| | (Unaudited) | | |
| GAAP equity | \$ 120,887 | \$ 122,753 | \$ 129,626 |
| Disallowed intangible assets | (17,438) | (17,961) | (18,920) |
| Unrealized loss on securities available-for-sale | 564 | 5,722 | 1,078 |
| Disallowed subsidiaries equity | — | — | (175) |
| Disallowed mortgage servicing assets | — | — | (87) |
| | 104,013 | 110,514 | 111,522 |
| Tier I capital | | | |
| General regulatory loan loss reserves | 9,389 | 9,168 | 10,504 |
| | \$ 113,402 | \$ 119,682 | \$ 122,026 |
| Total regulatory capital | | | |

As of June 30, 2004 (unaudited) and year-end 2003, the most recent notification from the OTS categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Federal regulations require the Bank to comply with a Qualified Thrift Lender ("QTL") test, which requires that 65% of assets be maintained in housing-related finance and other specified assets. If the QTL test is not met, limits are placed on growth, branching, new investment, FHLB advances, and dividends or the institution must convert to a commercial bank charter. Management considers the QTL test to have been met.

NOTE 12 - INCOME TAXES

The income tax expense (benefit) is as follows:

| | June 30, | | December 31, | | |
|------------------------------------|-------------|----------|--------------|----------|--------|
| | 2004 | 2003 | 2003 | 2002 | 2001 |
| | (Unaudited) | | | | |
| Current | \$ (9) | \$ 1,002 | \$ (483) | \$ 1,295 | \$ 386 |
| Deferred | (4,826) | (222) | (2,106) | (547) | 213 |
| | \$(4,835) | \$ 780 | \$(2,589) | \$ 748 | \$ 599 |
| Total income tax expense (benefit) | | | | | |

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BANKFINANCIAL MHC, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Table amounts in thousands)

NOTE 12 - INCOME TAXES (Continued)

A reconciliation of the provision for income taxes computed at the statutory federal corporate tax rate of 34% to the income tax expense in the consolidated statements of income follows:

| | June 30, | | December 31, | | |
|--|------------------|---------------|------------------|---------------|---------------|
| | 2004 | 2003 | 2003 | 2002 | 2001 |
| | (Unaudited) | | | | |
| Provision computed at the statutory federal tax rate | \$(3,943) | \$ 1,107 | \$(1,542) | \$ 1,970 | \$ 1,270 |
| State taxes and other, net | (668) | 61 | (429) | (99) | 487 |
| Dividends received deduction | (224) | (388) | (618) | (1,123) | (1,158) |
| | <u>\$(4,835)</u> | <u>\$ 780</u> | <u>\$(2,589)</u> | <u>\$ 748</u> | <u>\$ 599</u> |
| Effective income tax rate | (41.69)% | 23.96% | (57.08)% | 12.91% | 16.04% |

Retained earnings at June 30, 2004 (unaudited) and December 31, 2003 include approximately \$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 (liability) is as follows:

| | June 30, | December 31, | |
|---|---------------|---------------|--------------|
| | 2004 | 2003 | 2002 |
| | (Unaudited) | | |
| Gross deferred tax assets | | | |
| Allowance for loan losses | \$ 4,161 | \$ 4,662 | \$ 4,522 |
| Interest rate caps | 52 | 114 | 265 |
| Branch closing reserve | 178 | 175 | 423 |
| Accumulated depreciation | 195 | 263 | 103 |
| Alternative minimum tax, general business credit and net operating loss carryforwards | 3,983 | 4,626 | 1,687 |
| Impairment of securities available for sale | 5,798 | — | — |
| Unrealized loss on securities available-for-sale | 357 | 3,976 | 837 |
| Other | 74 | 108 | 298 |
| | <u>14,798</u> | <u>13,924</u> | <u>8,135</u> |

(Continued)

BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 12 - INCOME TAXES (Continued)

| | June 30, 2004 | December 31, | |
|-------------------------------------|------------------|--------------|-----------|
| | | 2003 | 2002 |
| | (Unaudited) | | |
| Gross deferred tax liabilities | | | |
| Net deferred loan origination costs | \$ (1,422) | \$ (1,410) | \$(1,086) |
| FHLB stock dividends | (2,687) | (2,411) | (1,884) |
| Purchase accounting adjustments | (4,941) | (5,621) | (6,169) |
| Mortgage servicing rights | (976) | (917) | (676) |
| | (10,026) | (10,359) | (9,815) |
| Net deferred tax asset (liability) | \$ 4,772 | \$ 3,565 | \$(1,680) |

As of June 30, 2004 (unaudited) and December 31, 2003, the Company had a federal net operating loss of approximately \$11.1 million and \$13.0 million, respectively. BankFinancial MHC files a combined Illinois state income tax return with all companies of the controlled group except for BankFinancial, F.S.B. As of June 30, 2004 (unaudited) and December 31, 2003, BankFinancial MHC had a state net operating loss of approximately \$9.1 million and \$8.2 million, respectively. As of June 30, 2004 (unaudited) and December 31, 2003, BankFinancial F.S.B. had a state net operating loss of approximately \$6.0 million and \$8.9 million, respectively. The net operating losses are being carried forward and will be available to reduce future taxable income. These net operating loss carryforwards expire beginning in 2016 through 2023.

NOTE 13 - EMPLOYEE BENEFIT PLANS

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 matches employee contributions up to 5% of an employee's wages. The Company may also contribute an additional amount annually at the discretion of the Board of Directors. Contributions totaling \$380,000, \$417,000, \$740,000, \$718,000, and \$450,000 were made for the six-month periods ended June 30, 2004 (unaudited), and June 30, 2003 (unaudited), and for the years ended 2003, 2002, and 2001, respectively.

NOTE 14 - LOAN COMMITMENTS AND OTHER RELATED 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

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BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 14 - LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES (Continued)

financial instruments include commitments to extend credit, standby letters of credit, unused lines of credit commitments to sell loans, and interest rate caps. 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.

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. For interest rate caps, the contractual or notional amounts substantially exceed actual exposure to credit loss.

The contractual or notional amounts are as follows:

| | June 30, 2004 | December 31, | |
|---|------------------|--------------|-----------|
| | | 2003 | 2002 |
| | (Unaudited) | | |
| Financial instruments wherein contractual amounts represent credit risk | | | |
| Commitments to extend credit | \$ 64,125 | \$ 23,617 | \$ 60,871 |
| Standby letters of credit | 1,294 | 1,797 | 105 |
| Unused lines of credit | 217,543 | 205,346 | 182,138 |
| Commitments to sell mortgages | 3,257 | 2,954 | 21,000 |
| Financial instruments wherein notional amounts exceed the amount of credit risk | | | |
| Interest rate caps | 50,000 | 50,000 | 75,000 |

Commitments to extend credit of \$64.1 million at June 30, 2004 (unaudited), represent \$8.7 million fixed-rate loans, with rates ranging from 3.75% to 7.25%, and \$55.4 million adjustable rate loans, with rates ranging from 3.38% to 6.63%. These commitments are due to expire within 2 months of issuance. At year-end 2003, fixed-rate commitments were \$5.3 million, with rates ranging from 4.88% to 7.50% and adjustable-rate commitments of \$18.3 million, with rates ranging from 3.75% to 6.13%. All are due to expire within nine months of issuance.

(Continued)

BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 14 - LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES (Continued)

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 counterparty. The collateral held varies, but primarily consists of single-family residential real estate.

Interest rate caps are used for asset liability management. These instruments involve underlying items, such as interest rates, and are designed to transfer risk. Notional amounts are amounts on which calculations and payments are based, but which do not represent credit exposure. All derivatives are recorded in the consolidated statements of financial condition at fair value with changes in fair value reflected currently in the income statement.

Details of the interest rate cap agreements at December 31, 2003 are as follows:

| <u>Effective Date</u> | <u>Termination Date</u> | <u>Notional Amount</u> | <u>Adjustment/ Payment Frequency</u> | <u>Floating Rate Index</u> | <u>Cap Rate</u> |
|-----------------------|-------------------------|------------------------|--|----------------------------|-----------------|
| December 21, 1994 | December 20, 2004 | \$ 50,000 | daily/quarterly | U.S. dollar Prime | 10.00% |

The fair value of the interest rate caps was \$0 as of June 30, 2004 (unaudited), December 31, 2003 and 2002.

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BANKFINANCIAL MHC, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Table amounts in thousands)

NOTE 15 - FAIR VALUES OF FINANCIAL INSTRUMENTS

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

| | June 30, 2004 | | December 31, 2003 | | December 31, 2002 | |
|--|-----------------------------------|-------------------------|----------------------|-------------------------|----------------------|-------------------------|
| | (Unaudited) Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Financial assets | | | | | | |
| Cash and cash equivalents | \$ 45,711 | \$ 45,711 | \$ 28,630 | \$ 28,630 | \$ 80,745 | \$ 80,745 |
| Securities available-for-sale | 246,558 | 246,558 | 257,520 | 257,520 | 233,572 | 233,572 |
| Loans held-for-sale | 10,816 | 10,816 | 5,280 | 5,280 | 11,166 | 11,166 |
| Loans receivable, net of allowance for loan losses | 1,068,153 | 1,096,958 | 1,067,248 | 1,095,391 | 1,077,932 | 1,081,925 |
| FHLB stock | 23,520 | 23,520 | 22,806 | 22,806 | 21,128 | 21,128 |
| Accrued interest receivable | 4,978 | 4,978 | 5,201 | 5,201 | 5,786 | 5,786 |
| Financial liabilities | | | | | | |
| Non-interest-bearing demand deposits | \$ (109,712) | \$ (109,712) | \$ (98,087) | \$ (98,087) | \$ (113,477) | \$ (113,477) |
| NOW and money market deposits | (407,417) | (407,417) | (397,195) | (397,195) | (393,185) | (393,185) |
| Savings | (136,770) | (136,770) | (135,517) | (135,517) | (121,744) | (121,744) |
| Certificates of deposit | (450,613) | (450,459) | (443,098) | (444,575) | (426,356) | (428,534) |
| Borrowings | (249,151) | (252,477) | (268,225) | (267,201) | (307,180) | (330,814) |
| Accrued interest payable | (627) | (627) | (604) | (604) | (1,666) | (1,666) |

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

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

Securities: The estimated fair values of securities are based on quoted market prices when they are currently available. If a quoted market price for a specific security is not currently available, the Company estimates the fair value based on the quoted market price of another security with similar characteristics, adjusted to reflect objectively measurable differences such as coupon rates and reset dates. In the absence of current quoted market prices for the same or a similar security, the Company uses other valuation techniques to determine fair value, such as obtaining broker-dealer valuations or estimating fair value based on valuation modeling. Significant judgment is involved in determining fair value in the absence of current quoted market prices.

(Continued)
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BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 15 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

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

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

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

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

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

While the above estimates are based on management's judgment of the most appropriate factors, as of the balance sheet date, there is no assurance that the estimated fair values would have been realized if the assets were disposed of or the liabilities settled at that date, since market values may differ depending on the various circumstances. The estimated fair values would also not apply to subsequent dates.

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

(Continued)
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BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 16 - OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive loss components and related taxes were as follows:

| | June 30, | | December 31, | | |
|---|-------------|------------|--------------|------------|--------|
| | 2004 | 2003 | 2003 | 2002 | 2001 |
| | (Unaudited) | | | | |
| Unrealized holding gains (losses) on securities available-for-sale | \$ (5,769) | \$ (6,327) | \$ (7,783) | \$ (6,767) | \$ 737 |
| Tax effect | 2,379 | 2,532 | 3,139 | 2,746 | (234) |
| Unrealized holding gains (losses) on securities available-for-sale, net of tax | (3,390) | (3,795) | (4,644) | (4,021) | 503 |
| Less reclassification adjustments for (gains) losses recognized in income | (419) | — | — | 2 | — |
| Tax effect | 173 | — | — | (1) | — |
| Less reclassification adjustments for (gains) losses recognized in income, net of tax | (246) | — | — | 1 | — |
| Loss on impairment of securities available-for-sale | 14,966 | — | — | — | — |
| Tax effect | (6,172) | — | — | — | — |
| Loss on impairment of securities available-for-sale, net of tax | 8,794 | — | — | — | — |
| Other comprehensive income (loss) | \$ 5,158 | \$ (3,795) | \$ (4,644) | \$ (4,020) | \$ 503 |

(Continued)

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BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 17 - PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed financial information of BankFinancial MHC, Inc. follows:

CONDENSED STATEMENTS OF FINANCIAL CONDITION

| | June 30, 2004 | December 31, | |
|--|------------------|--------------|-----------|
| | (Unaudited) | 2003 | 2002 |
| ASSETS | | | |
| Cash in subsidiary | \$ 197 | \$ 227 | \$ 209 |
| Investment in subsidiary | 95,034 | 96,620 | 103,192 |
| Other assets | 1,126 | 1,996 | 309 |
| | \$ 96,357 | \$98,843 | \$103,710 |
| LIABILITIES AND MEMBERS' EQUITY | | | |
| Accrued expenses and other liabilities | \$ 1,054 | \$ 1,936 | \$ 212 |
| Members' equity | 95,303 | 96,907 | 103,498 |
| | \$ 96,357 | \$98,843 | \$103,710 |

CONDENSED STATEMENTS OF INCOME

| | June 30, | | December 31, | | |
|---|-----------|---------|--------------|---------|---------|
| | 2004 | 2003 | 2003 | 2002 | 2001 |
| (Unaudited) | | | | | |
| Other expense | \$ 29 | \$ 18 | \$ 31 | \$ 33 | \$ 24 |
| Loss before income tax and subsidiary earnings (loss) | (29) | (18) | (31) | (33) | (24) |
| Income tax benefit | 11 | 7 | 12 | 13 | (17) |
| Equity in earnings (loss) of subsidiary | (6,744) | 2,487 | (1,928) | 5,066 | 3,177 |
| | \$(6,762) | \$2,476 | \$(1,947) | \$5,046 | \$3,136 |

(Continued)
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BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 17 - PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

| | June 30, | | December 31, | | |
|---|---------------|---------------|---------------|---------------|---------------|
| | 2004 | 2003 | 2003 | 2002 | 2001 |
| | (Unaudited) | | | | |
| Cash flows from operating activities | | | | | |
| Net income (loss) | \$(6,762) | \$ 2,476 | \$(1,947) | \$ 5,046 | \$ 3,136 |
| Adjustments | | | | | |
| Equity in (earnings) loss of subsidiary | 6,744 | (2,487) | 1,928 | (5,066) | (3,177) |
| Change in other assets | 870 | (430) | (1,687) | 2,190 | (1,778) |
| Change in other liabilities | (882) | 439 | 1,724 | (2,203) | 1,792 |
| Net cash from operating Activities | (30) | (2) | 18 | (33) | (27) |
| Net change in cash and cash equivalents | (30) | (2) | 18 | (33) | (27) |
| Beginning cash and cash equivalents | 227 | 209 | 209 | 242 | 269 |
| Ending cash and cash equivalents | <u>\$ 197</u> | <u>\$ 207</u> | <u>\$ 227</u> | <u>\$ 209</u> | <u>\$ 242</u> |

NOTE 18 - SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING AND INVESTING ACTIVITIES:

Supplemental disclosures of non-cash financing and investing activities were as follows:

| | June 30, | | December 31, | | |
|--|-------------|----------|--------------|---------|------------------|
| | 2004 | 2003 | 2003 | 2002 | 2001 |
| | (Unaudited) | | | | |
| Loans transferred to other real estate | \$ 407 | \$ 2,924 | \$ 3,301 | \$2,009 | \$ 1,880 |
| Loans securitized | 29,260 | 70,581 | 137,706 | — | — |
| Due from broker for sale of securities not settled | 319 | — | — | — | — |
| Acquisition of Success Bancshares, Inc.: | | | | | |
| Fair value of assets acquired | | | | | \$588,935 |
| Cash paid for Success Bancshares, Inc. | | | | | (50,114) |
| Fair value of liabilities assumed | | | | | <u>\$538,821</u> |

(Continued)
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BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 19 – ADOPTION OF PLAN OF CONVERSION AND REORGANIZATION (Unaudited)

On August 25, 2004, the Board of Directors of the Company adopted a Plan of Conversion and Reorganization to convert from a mutual holding company form of organization to the stock form of organization and will sell shares of common stock to the public. BankFinancial MHC, Inc., the mutual holding company parent of BankFinancial Corporation, will be merged into BankFinancial, F.S.B., and BankFinancial MHC will no longer exist. BankFinancial Corporation, which owns 100% of BankFinancial, F.S.B., will be succeeded by a new corporation with the same name. When the conversion is completed, all of the capital stock of BankFinancial, F.S.B. will be owned by BankFinancial Corporation, the newly formed holding company, and all of the common stock of BankFinancial Corporation will be owned by public stockholders.

A subscription offering of shares of common stock will be offered initially to eligible account holders, the Company's tax-qualified employee benefit plans, supplemental eligible account holders and other members of the Company. Any shares of the Company's common stock not sold in the subscription offering will be offered for sale to the general public, giving preference to the Company's market area.

At the time of conversion, the Company will establish a liquidation account in an amount equal to its net worth as of the latest statement of financial condition appearing in the final prospectus. The liquidation account will be maintained for the benefit of eligible depositors who continue to maintain their accounts at the Company after conversion. The liquidation account will be reduced annually to the extent that eligible depositors have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder's interest in the liquidation account. In the event of complete liquidation, each eligible depositor will be entitled to receive a distribution from the liquidation account in an amount proportionate to the current adjusted qualifying balances for the accounts held. The liquidation account balance is not available for payment of dividends.

Conversion costs will be deferred and deducted from the proceeds of the shares sold in the conversion. If the conversion is not completed, all costs will be charged to expense. At June 30, 2004 (unaudited), \$143,000 has been incurred and deferred.

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No person has been authorized to give any information or to make any representation other than as contained in this prospectus and, if given or made, such other information or representation must not be relied upon as having been authorized by BankFinancial Corporation or BankFinancial, F.S.B. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby to any person in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. Neither the delivery of this prospectus nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of BankFinancial Corporation or BankFinancial, F.S.B. since any of the dates as of which information is furnished herein or since the date hereof.

Up to 19,837,500 Shares

BankFinancial Corporation

(Proposed Holding Company for
BankFinancial, F.S.B.)

COMMON STOCK
par value \$0.01 per share

PROSPECTUS

Sandler O'Neill & Partners, L.P.

_____, 2004

These securities are not deposits or accounts and are not federally insured or guaranteed.

Until _____, 2004 or 25 days after commencement of the syndicated community offering, if any, whichever is later, all dealers effecting transactions in the registered securities, whether or not participating in this distribution, may be required to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

PART II: INFORMATION NOT REQUIRED IN PROSPECTUS**Item 13. Other Expenses of Issuance and Distribution**

| | <u>Amount(1)</u> |
|---|--------------------|
| * Registrant's Legal Fees and Expenses | \$ 350,000 |
| * Marketing Agent Legal Fees and Expenses | 75,000 |
| * Registrant's Accounting Fees and Expenses | 150,000 |
| * Conversion Agent and Data Processing Fees | 20,000 |
| * Marketing Agent Fees and Expenses | 1,253,345 |
| <hr/> | |
| * Appraisal and Business Plan Fees and Expenses | 135,000 |
| * Printing, Postage and Mailing | 250,000 |
| * Filing Fees (OTS, NASD, Nasdaq and SEC) | 157,461 |
| * Other | 89,645 |
| <hr/> | |
| * Total | <u>\$2,465,000</u> |

* Estimated

(1) BankFinancial Corporation has retained Sandler O'Neill & Partners, L.P. to assist in the sale of common stock on a best efforts basis in the offerings. Fees are estimated at the midpoint of the offering range.

Item 14. Indemnification of Directors and Officers

Articles 12 and 13 of the Articles of Incorporation of BankFinancial Corporation, a Maryland corporation (the "Corporation"), set forth circumstances under which directors, officers, employees and agents of the Corporation may be insured or indemnified against liability which they incur in their capacities as such:

Article 12. Indemnification.

Section A. Indemnification. The Corporation: (1) shall indemnify its current and former Directors (including any Director who was or is also an officer of the Corporation), whether serving the Corporation or at its request serving any other entity, including, without limitation, any subsidiary or other affiliate of the Corporation, to the fullest extent required or permitted by the MGCL (but, in the case of any amendment to the MGCL, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than such law permitted the Corporation to provide prior to such amendment), including the advancement of expenses under procedures permitted or required by applicable law and to the fullest extent permitted by applicable law; (2) shall indemnify (including the advancement of expenses under procedures permitted or required by applicable law) its current and former officers to the fullest extent, consistent with applicable law, as may be required in a contract approved by the Board of Directors pursuant to a resolution approved by a majority of Directors then in office, or as may be required the Bylaws of the Corporation; and (3) may, to the extent not required pursuant to paragraph (2) of this Section A of this Article 12, indemnify (including the advancement of expenses under procedures permitted or required by applicable law) current and former officers and other employees and agents of the Corporation as may be authorized by the Board of Directors in the specific case and permitted by applicable law or the Bylaws of the Corporation; provided, however, that, except as provided in Section B of this Article 12 with respect to proceedings to enforce rights to indemnification or in a contract approved by the Board of Directors pursuant to a resolution approved by a majority of Directors then in office, the Corporation shall not indemnify any such indemnitee in connection with a proceeding (or part thereof) initiated by such indemnitee unless such proceeding (or part thereof) was authorized by the Board of Directors pursuant to a resolution approved by a majority of the Directors then in office.

Section B. Procedure. If a claim under Section A of this Article 12 is not paid in full by the Corporation within 60 days after a written claim has been received by the Corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be 30 days, the indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, the indemnitee shall also be entitled to be reimbursed the expense of prosecuting or defending

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such suit against the Corporation. It shall be a defense to any action for advancement of expenses that the Corporation has not received both: (1) an undertaking as required by law to repay such advances in the event it shall ultimately be determined that the standard of conduct for indemnification has not been met; and (2) a written affirmation by the indemnitee of his or her good faith belief that the standard of conduct necessary for indemnification by the Corporation has been met. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct set forth in the MGCL, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) that the indemnitee has not met such applicable standard of conduct, shall create a presumption that the indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by an indemnitee to whom the Corporation has not agreed to advance expenses, be a defense to such suit. In any suit brought by the indemnitee to enforce any right to indemnification or to an advancement of expenses hereunder, or by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee is not entitled to be indemnified, or to such advancement of expenses, under this Article or otherwise, shall be on the Corporation.

Section C. Non-Exclusivity. The rights to indemnification and to the advancement of expenses conferred in this Article shall not be exclusive of any other right that any person may have or hereafter acquire under any statute, this Charter, the Bylaws of the Corporation, any contract, agreement, vote of stockholders or disinterested Directors, or otherwise.

Section D. Insurance. The Corporation may maintain insurance, at its expense, to protect itself or any Director, officer, employee or agent of the Corporation or another corporation, partnership, limited liability company, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the MGCL.

Section E. Miscellaneous. The Corporation shall not be liable for any payment under this Article 12 in connection with a claim made by any indemnitee to the extent such indemnitee has otherwise actually and unconditionally received payment under any insurance policy, agreement, or otherwise, of the amounts otherwise indemnifiable hereunder. The rights to indemnification and to the advancement of expenses conferred in Sections A and B of this Article 12 shall be contract rights and such rights shall continue as to an indemnitee who has ceased to be a Director or officer of the Corporation and shall inure to the benefit of the indemnitee's heirs, executors and administrators. Any repeal or modification of this Article 12 shall not in any way diminish any rights of any person to indemnification or advancement of expenses of or the obligations of the Corporation arising hereunder with respect to events occurring, or claims made, while this Article is in force.

Article 13. Limitation of Liability.

An officer or Director of the Corporation, as such, shall not be liable to the Corporation or its stockholders for money damages except: (A) to the extent that it is proved that the person actually received an improper benefit or profit in money, property or services for the amount of the benefit or profit in money, property or services actually received; or (B) to the extent that a judgment or other final adjudication adverse to the person is entered in a proceeding based on a finding in the proceeding that the person's action, or failure to act, was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding. If the MGCL is amended to further eliminate or limit the personal liability of officers and directors, then the liability of officers and Directors of the Corporation shall be further eliminated or limited to the fullest extent permitted by MGCL, as so amended. Any repeal or modification of this Article 13 by the stockholders of the Corporation shall not adversely affect any right or protection of a Director or officer of the Corporation existing at the time of such repeal or modification.

Item 15. Recent Sales of Unregistered Securities

Not Applicable.

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Item 16. Exhibits and Financial Statement Schedules:

The exhibits and financial statement schedules filed as part of this registration statement are as follows:

(a) List of Exhibits

- 1.1 Engagement Letter between BankFinancial MHC, Inc., BankFinancial Corporation, BankFinancial, F.S.B. and Sandler O'Neill & Partners, L.P.
- 1.2 Form of Agency Agreement between BankFinancial MHC, Inc., BankFinancial Corporation, BankFinancial, F.S.B. and Sandler O'Neill & Partners, L.P.
- 2 Plan of Conversion and Reorganization
- 3.1 Articles of Incorporation of BankFinancial Corporation*
- 3.2 Bylaws of BankFinancial Corporation*
- 4 Form of Common Stock Certificate of BankFinancial Corporation*
- 5 Opinion of Luse Gorman Pomerenk & Schick regarding legality of securities being registered*
- 8 Federal Tax Opinion of Luse Gorman Pomerenk & Schick
- 10.1 Employee Stock Ownership Plan
- 10.2 Deferred Compensation Plan*
- 10.3 Employment Agreement with F. Morgan Gasior*
- 10.4 Employment Agreement with James J. Brennan*
- 10.5 Employment Agreement with Paul A. Cloutier*
- 10.6 Employment Agreement with Robert O'Shaughnessy*
- 10.7 Employment Agreement with Christa Calabrese*
- 10.8 Loan Agreement with Bank One, NA (Successor to American National Bank and Trust Company of Chicago), as amended*
- 10.9 Commitment to Amend Loan Agreement with Bank One, NA (Successor to American National Bank and Trust Company of Chicago), as amended
- 10.10 Form of Employment Agreement with F. Morgan Gasior
- 10.11 Form of Employment Agreement with Senior Executive Officers
- 21 Subsidiaries of Registrant*
- 23.1 Consent of Luse Gorman Pomerenk & Schick (contained in Opinions included as Exhibits 5 and 8)
- 23.2 Consent of Crowe Chizek and Company LLC
- 23.3 Consent of RP Financial, LC.
- 24 Power of Attorney (set forth on signature page)
- 99.1 Appraisal Agreement between BankFinancial Corporation. and RP Financial, LC.*
- 99.2 Letter of RP Financial, LC. with respect to Subscription Rights*
- 99.3 Appraisal Report of RP Financial, LC.**
- 99.4 Marketing Materials
- 99.5 Order and Acknowledgment Form
- 99.6 Prospectus Supplement for participants in the BankFinancial and Subsidiaries Associate Investment Plan

* Previously filed.

** Supporting financial schedules filed pursuant to Rule 202 of Regulation S-T.

(b) Financial Statement Schedules

No financial statement schedules are filed because the required information is not applicable or is included in the consolidated financial statements or related notes.

Item 17. Undertakings

The undersigned Registrant hereby undertakes:

(1) To file, during any period in which it offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreements certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Burr Ridge, State of Illinois on October 28, 2004.

BANKFINANCIAL CORPORATION

By: /s/ F. Morgan Gasior

F. Morgan Gasior
Chairman of the Board, Chief Executive Officer and
President
(Duly Authorized Representative)

POWER OF ATTORNEY

We, the undersigned directors and officers of BankFinancial Corporation (the "Company") hereby severally constitute and appoint F. Morgan Gasior as our true and lawful attorney and agent, to do any and all things in our names in the capacities indicated below which said F. Morgan Gasior may deem necessary or advisable to enable the Company to comply with the Securities Act of 1933, and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with the registration statement on Form S-1 relating to the offering of the Company's common stock, including specifically, but not limited to, power and authority to sign for us in our names in the capacities indicated below the registration statement and any and all amendments (including post-effective amendments) thereto; and we hereby approve, ratify and confirm all that said F. Morgan Gasior shall do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

| <u>Signatures</u> | <u>Title</u> | <u>Date</u> |
|---|---|------------------|
| <u>/s/ F. Morgan Gasior</u> F. Morgan Gasior | Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer) | October 28, 2004 |
| <u>/s/ Paul A. Cloutier</u> Paul A. Cloutier | Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) | October 28, 2004 |
| <u>/s/ Kenneth Cmiel</u> Kenneth Cmiel | Director | October 28, 2004 |
| <u>/s/ Patrick I. Hartnett</u> Patrick I. Hartnett | Director | October 28, 2004 |
| <u>/s/ John M. Hausmann</u> John M. Hausmann | Director | October 28, 2004 |

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| | | |
|--------------------------------|----------|------------------|
| <u>/s/ Sherwin R. Koopmans</u> | Director | October 28, 2004 |
| Sherwin R. Koopmans | | |
| <u>/s/ Joseph A. Schudt</u> | Director | October 28, 2004 |
| Joseph A. Schudt | | |
| <u>/s/ Terry R. Wells</u> | Director | October 28, 2004 |
| Terry R. Wells | | |

EXHIBIT INDEX

| | |
|-------|---|
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| 1.2 | Form of Agency Agreement between BankFinancial MHC, Inc., BankFinancial Corporation, BankFinancial, F.S.B. and Sandler O’Neill & Partners, L.P. |
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| 3.2 | Bylaws of BankFinancial Corporation* |
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| 99.2 | Letter of RP Financial, LC. with respect to Subscription Rights* |
| 99.3 | Appraisal Report of RP Financial, LC.** |
| 99.4 | Marketing Materials |
| 99.5 | Order and Acknowledgment Form |
| 99.6 | Prospectus Supplement for participants in the BankFinancial and Subsidiaries Associate Investment Plan |

* Previously filed.

** Supporting financial schedules filed pursuant to Rule 202 of Regulation S-T.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

EXHIBITS
TO
PRE-EFFECTIVE AMENDMENT NO. TO THE
REGISTRATION STATEMENT
ON
FORM S-1

BankFinancial Corporation
Burr Ridge, Illinois

July 16, 2004

Board of Directors
BankFinancial MHC, Inc.
BankFinancial Corporation
BankFinancial FSB
15W060 Frontage Road
Burr Ridge, Illinois 60527

Attention: Mr. F. Morgan Gasior
Chairman of the Board

Gentlemen:

Reference is made to the engagement letter dated September 24, 2003 between Sandler O'Neill & Partners, L.P. ("Sandler O'Neill") and BankFinancial MHC, Inc. and its subsidiaries, BankFinancial Corporation and BankFinancial FSB (collectively, the "Company"), pursuant to which Sandler O'Neill acts as an independent financial advisor to the Company in connection with the Company's consideration of a possible minority stock issuance or a full conversion from mutual to stock form (the "Engagement Letter"). Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Engagement Letter. This letter is to supplement and amend the Engagement Letter.

The first sentence of the fifth paragraph of the section in the Engagement Letter captioned "Miscellaneous" shall be amended in its entirety to read as follows:

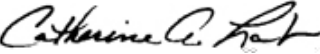
Either Sandler O'Neill or the Company may terminate this agreement if an Agency Agreement is not entered into prior to March 31, 2005.

In all other respects, the Engagement Letter shall remain unchanged and in full force and effect.


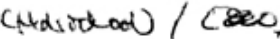
Please confirm your agreement with the foregoing by signing and returning to Sandler O'Neill the duplicate copy of this letter enclosed herewith.

Very truly yours,
Sandler O'Neill & Partners, L.P.

By: Sandler O'Neill & Partners Corp., the sole general partner.

By: 
Catherine A. Lawton
Vice President

Acknowledged and agreed to as of
the date written above:
BankFinancial MHC, Inc.
BankFinancial Corporation
BankFinancial FSB

By: 
Its: 

Sandler O'Neill & Partners, L.P., is a limited partnership, the sole general partner of which is Sandler O'Neill & Partners Corp., a New York Corporation.

September 24, 2003

Board of Directors
BankFinancial MHC, Inc.
BankFinancial Corporation
BankFinancial FSB
15W060 Frontage Road
Burr Ridge, Illinois 60527

Attention: Mr. F. Morgan Gasior
Chairman of the Board

Gentlemen:

We understand that the Boards of Directors of BankFinancial MHC, Inc. ("BFMHC") and its subsidiaries, BankFinancial Corporation ("BFC") and BankFinancial FSB (the "Bank"), are considering the strategic benefits of a possible minority stock issuance or a full conversion from mutual to stock form (BFMHC, BFC and the Bank are collectively referred to herein as the "Company" and their respective Boards of Directors are collectively referred to herein as the "Board").

Sandler O'Neill & Partners, L.P. ("Sandler O'Neill") is pleased to act as an independent financial advisor to the Board in its consideration of such alternatives ("General Advisory Services"). If the Board ultimately determines to pursue a minority stock issuance or to pursue a full conversion from mutual to stock form, Sandler O'Neill will be pleased to perform the conversion agent services ("Conversion Agent Services") described below. This letter is to confirm the terms and conditions of our engagement.

GENERAL ADVISORY SERVICES

In connection with Sandler O'Neill's General Advisory Services, we would expect to work with the Company's management, its counsel, accountants and other advisors to assess the Company's strategic alternatives. We anticipate that our activities would include, as appropriate, the following:

1. A review of the current business and financial characteristics of the Company, including a review of the bank's deposit market share, financial performance, trends and peer group comparison;

Sandler O'Neill & Partners, L.P., is a limited partnership, the sole general partner of which is Sandler O'Neill & Partners Corp., a New York Corporation.

2. An analysis of the financial impact on the Company of a minority stock issuance or a conversion to full stock form;
3. A review of capital management strategies available to the Company following a minority stock offering or a full conversion;
4. A review of other strategic alternatives available to the Company; and
5. Rendering such other financial advisory and investment banking services as may from time to time be agreed upon by Sandler O'Neill and the Company.

Sandler O'Neill will provide the General Advisory Services to the Company under the terms of this Agreement as an accommodation to the Company, for which Sandler O'Neill is not charging any fee or seeking any expense reimbursement.

CONVERSION ADVISORY SERVICES

Sandler O'Neill will serve as financial advisor to the Company in the event that the Board determines to undertake either an offering of minority shares (an "MHC Offering") or to reorganize into full stock form (a "Conversion Offering"). As you know, an MHC Offering or Conversion Offering will necessarily involve a sale of shares of common stock to eligible members in a Subscription Offering, and under certain circumstances could involve a sale of shares of common stock to members of the Bank's community in a Direct Community Offering and to the general public in a Syndicated Community Offering. In the case of any such offering of common stock (collectively, an "Offering"), we anticipate that our services would include the following, each as may be necessary and as the Company may reasonably request:

1. Consulting as to the securities marketing implications of any aspect of the Offering or related corporate documents;
2. Reviewing with the Board the independent appraiser's appraisal of the common stock;
3. Reviewing all offering documents, including the Prospectus, stock order forms and related offering materials (it being understood that preparation and filing of such documents will be the responsibility of the Company and its counsel);

4. Assisting in the design and implementation of a marketing strategy for the Offering;
5. Assisting management in scheduling and preparing for meetings with potential investors and broker-dealers; and
6. Providing such other general advice and assistance as may be requested to promote the successful completion of the Offering.

If an Offering is consummated, the Company agrees to pay Sandler O'Neill for its Conversion Advisory Services the fees set forth below:

1. With respect to any MHC Offering, a fee of one percent (1.0%) of the aggregate Actual Purchase Price (defined below) of the shares of common stock sold in the Subscription Offering and in the Direct Community Offering, excluding shares purchased by (a) any employee benefit plan of the Company established for the benefit of its directors, officers and/or employees, and/or (b) any director, officer or employee of the Company or members of their immediate families, or any of their respective individual retirement plans;
2. With respect to any Conversion Offering, a fee of nine-tenths of one percent (0.90%) of the aggregate Actual Purchase Price of the shares of common stock sold in the Subscription Offering and in the Direct Community Offering, excluding shares purchased by (a) any employee benefit plan of the Company established for the benefit of its directors, officers and/or employees, and/or (b) any director, officer or employee of the Company or members of their immediate families, or any of their respective individual retirement plans; and
3. In the case of either an MHC Offering or a Conversion Offering, if any shares of common stock remain available after the expiration of the Subscription Offering and the Direct Community Offering, at the request of the Company and subject to the continued satisfaction of the conditions set forth below, Sandler O'Neill will seek to form a syndicate of registered dealers to assist in the sale of such common stock in a Syndicated Community Offering on a best efforts basis, subject to the terms and conditions set forth in a selected dealers agreement. It is understood that in no event shall Sandler O'Neill be obligated to act as a selected dealer or to take or purchase any shares of the Company's common stock in any Offering. With respect to any shares of the Company's common stock sold by an NASD member firm (other than Sandler O'Neill) under any selected dealers agreement in any Syndicated Community Offering, the Company agrees to pay (a) the sales commission payable to the selected dealer under such agreement, (b) any

sponsoring dealer's fees, and (c) a management fee to Sandler O'Neill of one percent (1.0%). Any fees payable to Sandler O'Neill for common stock sold by Sandler O'Neill as a selected dealer under any such agreement shall be limited to an aggregate of one percent (1.0%) of the Actual Purchase Price of such shares. Sandler O'Neill will endeavor to limit the aggregate fees to be paid by the Company under any such selected dealers agreement to an amount competitive with gross underwriting discounts charged at such time for underwritings of comparable amounts of stock sold at a comparable price per share in a similar market environment, but in no event shall such fees exceed 6% of the Actual Purchase Price of the shares sold under such agreements.

For purposes of this letter, the term, "Actual Purchase Price" shall mean the price at which the shares of the Company's common stock are sold in the Offering. If (a) Sandler O'Neill's engagement hereunder is terminated for any reason or (b) the Offering is terminated by the Company, no fees shall be payable by the Company to Sandler O'Neill hereunder; however, the Company shall reimburse Sandler O'Neill for its reasonable out-of-pocket expenses incurred in connection with its engagement hereunder, subject to the terms and maximum limitation set forth under the caption "Costs and Expenses" below.

All fees payable to Sandler O'Neill hereunder shall be payable in cash at the time of the closing of the Offering. In recognition of the long lead times involved in the offering process, the Company agrees to make advance payments to Sandler O'Neill in the aggregate amount of \$50,000, \$25,000 of which shall be payable upon the Company's determination to undertake an Offering and the remaining \$25,000 of which shall be payable upon commencement of the Subscription Offering, all of which shall be credited against any fees or reimbursement of expenses payable hereunder.

CONVERSION AGENT SERVICES

Should the Company determine to undertake an Offering, the Company agrees that Sandler O'Neill shall also serve as conversion or records management agent for the Company in connection therewith. The terms and conditions of that engagement shall be set forth in a separate engagement letter which shall contain terms and conditions customary for such services and shall provide for a fee of \$35,000 (\$.25 per member account) and the reimbursement of reasonable out-of-pocket expenses.

EXPENSES

The Company agrees to reimburse Sandler O'Neill, upon request made from time to time, for its reasonable out-of-pocket expenses incurred in connection with its Conversion Advisory Services, regardless of whether the Offering is consummated, including, without limitation, legal fees,

advertising, promotional, syndication, and travel expenses; *provided, however*, that Sandler O'Neill shall document such expenses to the reasonable satisfaction of the Company, *and provided further*, that the Company shall not be required to reimburse any expenses exceeding \$50,000 in the aggregate unless Sandler O'Neill has obtained the Company's prior approval of such expenses (such approval not to be unreasonably withheld). The provisions of this paragraph are not intended to apply to or in any way impair the indemnification provisions of this letter.

As is customary, the Company will bear all other expenses incurred in connection with the Offering, including, without limitation, (a) the cost of obtaining all securities and bank regulatory approvals, including any required NASD filing fees; (b) the cost of printing and distributing the offering materials; (c) the costs of blue sky qualification (including fees and expenses of blue sky counsel) of the shares in the various states; (d) listing fees; and (e) all fees and disbursements of the Company's counsel, accountants and other advisors. In the event Sandler O'Neill incurs any such fees and expenses on behalf of the Company, the Company will reimburse Sandler O'Neill for such fees and expenses whether or not the Offering is consummated; *provided, however*, that Sandler O'Neill shall not incur any substantial expenses on behalf of the Company pursuant to this paragraph without the prior approval of the Company.

DUE DILIGENCE REVIEW

Sandler O'Neill's obligation to perform the Conversion Advisory Services contemplated by this letter shall be subject to the satisfactory completion of such investigation and inquiries relating to the Company and its directors, officers, agents and employees, as Sandler O'Neill and its counsel in their sole discretion may deem appropriate under the circumstances. In this regard, the Company agrees that, at its expense, it will make available to Sandler O'Neill all information which Sandler O'Neill requests, and will allow Sandler O'Neill the opportunity to discuss with the Company's management the financial condition, business and operations of the Company. The Company acknowledges that Sandler O'Neill will rely upon the accuracy and completeness of all information received from the Company and its directors, officers, employees, agents, independent accountants and counsel.

BLUE SKY MATTERS

The Company agrees that if Sandler O'Neill's counsel does not serve as counsel with respect to blue sky matters in connection with the Offering, the Company will cause the counsel performing such services to prepare a Blue Sky Memorandum related to the Offering, including Sandler

O'Neill's participation therein, and shall furnish Sandler O'Neill a copy thereof addressed to Sandler O'Neill or upon which such counsel shall state Sandler O'Neill may rely.

CONFIDENTIALITY

Except as contemplated in connection with the performance of its services under this agreement, as authorized by the Company or as otherwise required by law or regulation, Sandler O'Neill agrees that it will not disclose any Confidential Information relating to the Company or the Bank obtained in connection with its engagement hereunder; *provided, however*, that Sandler O'Neill may disclose such information to its agents and advisors who are assisting or advising Sandler O'Neill in connection with the Offering and who have agreed to be bound by the terms and conditions of this paragraph. As used in this paragraph, the term "Confidential Information" shall not include information which (a) is or becomes generally available to the public other than as a result of a disclosure by Sandler O'Neill, (b) was available to Sandler O'Neill on a non-confidential basis prior to its disclosure to Sandler O'Neill by the Company, or (c) becomes available to Sandler O'Neill on a non-confidential basis from a person other than the Company who is not otherwise known to Sandler O'Neill to be bound not to disclose such information pursuant to a contractual, legal or fiduciary obligation.

In the event that Sandler O'Neill is requested or becomes legally compelled (by oral questions, interrogatories, request for information or documents, subpoena, civil investigative demand or similar process) to disclose any of the Confidential Information, it will provide the Company with prompt written notice so that the Company may seek a protective order or other appropriate remedy and/or waive compliance with the provisions of this agreement. In the event that such protective order or other remedy is not obtained, or that the Company waives compliance with the provisions of this agreement, Sandler O'Neill will furnish only that portion of the Confidential Information that is legally required.

INDEMNIFICATION

The Company agrees to indemnify and hold Sandler O'Neill and its affiliates and their respective partners, directors, officers, employees, agents and controlling persons within the meaning of Section 15 of the Securities Act of 1933 or Section 20 of the Securities Exchange Act of 1934 (Sandler O'Neill and each such person being an "Indemnified Party") harmless from and against any and all losses, claims, damages and liabilities, joint or several, to which such Indemnified Party may become subject under applicable federal or state law, or otherwise, related to or arising out of any

Offering or the engagement of Sandler O'Neill pursuant to, or the performance by Sandler O'Neill of the services contemplated by, this letter, and will reimburse any Indemnified Party for all expenses (including reasonable legal fees and expenses) as they are incurred, including expenses incurred in connection with the investigation of, preparation for or defense of any pending or threatened claim or any action or proceeding arising therefrom, whether or not such Indemnified Party is a party; *provided, however*, that the Company will not be liable in any such case to the extent that any such loss, claim, damage, liability or expense (a) arises out of or is based upon any untrue statement of a material fact or the omission of a material fact required to be stated therein or necessary to make not misleading any statements contained in any final proxy statement or prospectus, or any amendment or supplement thereto, or any of the applications, notices, filings or documents related thereto made in reliance on and in conformity with written information furnished to the Company by Sandler O'Neill expressly for use therein, or (b) is primarily attributable to the gross negligence, willful misconduct or bad faith of Sandler O'Neill. If the foregoing indemnification is unavailable for any reason, the Company agrees to contribute to such losses, claims, damages, liabilities and expenses in the proportion that its financial interest in the Offering bears to that of Sandler O'Neill.

The Company agrees to notify Sandler O'Neill promptly of the assertion against it or any other person of any claim or the commencement of any action or proceeding relating to any transaction contemplated by this agreement.

MISCELLANEOUS

The Company will furnish Sandler O'Neill with such information as Sandler O'Neill reasonably believes appropriate to its assignment (all such information so furnished being the "Information"). The Company recognizes and confirms that Sandler O'Neill (a) will use and rely primarily on the Information and on information available from generally recognized public sources in performing the services contemplated by this letter without having independently verified the same, (b) does not assume responsibility for the accuracy or completeness of the Information and such other information and (c) will not make an appraisal of any assets, collateral securing assets or liabilities of the Company.

The Company hereby acknowledges and agrees that the financial models and presentations used by Sandler O'Neill in performing its services hereunder have been developed by and are proprietary to Sandler O'Neill and are protected under applicable copyright laws. The Company agrees that it will not reproduce or distribute all or any portion of such models or presentations without the prior written consent of Sandler O'Neill.

With respect to the provision of Conversion Advisory Services, Sandler O'Neill and the Company agree that (a) except as set forth in clause (b) below, the foregoing represents the general intention of the Company and Sandler O'Neill with respect to the services to be provided by Sandler O'Neill in connection with any Offering, which will serve as a basis for Sandler O'Neill commencing activities, and (b) the only legal and binding obligations of the Company and Sandler O'Neill with respect to any Offering shall be (i) the Company's obligation to reimburse costs and expenses pursuant to and subject to the limits specified in the section captioned "Costs and Expenses," (ii) those set forth under the captions "Confidentiality" and "Indemnification," and (iii) as set forth in a duly negotiated and executed definitive Agency Agreement to be entered into prior to the commencement of the Subscription Offering relating to the services of Sandler O'Neill in connection with the Offering. Such Agency Agreement shall be in form and content satisfactory to Sandler O'Neill and the Company and their respective counsel and shall contain standard indemnification provisions consistent herewith.

Sandler O'Neill's execution of such Agency Agreement shall also be subject to (a) Sandler O'Neill's satisfaction with its investigation of the Company's and the Bank's business, financial condition and results of operations, (b) preparation of offering materials that are satisfactory to Sandler O'Neill, (c) compliance with all relevant legal and regulatory requirements to the reasonable satisfaction of Sandler O'Neill, (d) agreement that the price established by the independent appraiser is reasonable, and (e) market conditions at the time of the proposed Offering.

Either Sandler O'Neill or the Company may terminate this agreement if an Agency Agreement is not entered into prior to July 31, 2004. Notwithstanding any other provisions of this letter agreement, in the event the Office of Thrift Supervision determines that any one or more provision(s) of this letter agreement are not binding or enforceable against the Bank, then such provision(s) shall have no force and effect upon the Bank.

This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and can be altered only by written consent signed by the parties. This Agreement shall be construed and enforced in accordance with the laws of the State of New York, without regard to the conflicts of laws principles thereof.

Please confirm that the foregoing correctly sets forth our agreement by signing and returning to Sandler O'Neill the duplicate copy of this letter enclosed herewith.

Very truly yours,

Sandler O'Neill & Partners, L.P.

By: Sandler O'Neill & Partners Corp.,
the sole general partner.

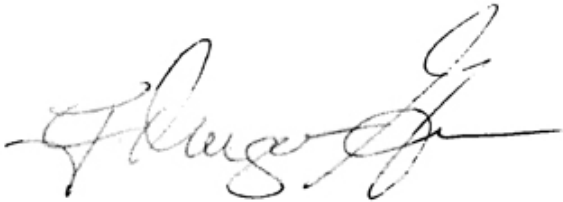
By: 

Thomas P. Duke
Vice President

Accepted and agreed to as of
the date first written above:

BankFinancial MHC, Inc.
BankFinancial Corporation
BankFinancial FSB

By:



Its: Chairman/CEO

17,250,000 Shares
(subject to increase up to 19,837,500 shares
in the event of an oversubscription)

BANKFINANCIAL CORPORATION
(a Maryland corporation)

Common Stock
(par value \$0.01 per share)

AGENCY AGREEMENT

_____, 2004

SANDLER O'NEILL & PARTNERS, L.P.

919 Third Avenue, 6th Floor
New York, New York 10022

Ladies and Gentlemen:

BankFinancial Corporation, a Maryland corporation (the "Company"), and BankFinancial, F.S.B., a federal savings bank (the "Bank"), hereby confirm their agreement with Sandler O'Neill & Partners, L.P. ("Sandler O'Neill" or the "Agent") with respect to the offer and sale by the Company of 17,250,000 shares (subject to increase up to 19,837,500 shares in the event of an oversubscription) of the Company's Common Stock, par value \$0.01 per share (the "Common Stock"). The shares of Common Stock to be sold by the Company are hereinafter called the "Securities."

The Securities are being offered for sale in accordance with the plan of conversion (the "Plan") adopted by the Board of Directors of each of the Bank, BankFinancial MHC, Inc., a federal mutual holding company (the "MHC") and BankFinancial Corporation, a federal stock corporation (the "Mid-Tier Holding Company") pursuant to which the Bank intends to convert from a federally chartered mutual savings bank to a federally chartered stock savings bank and issue all of its stock to the Company. Pursuant to the Plan, the Company is offering to the Bank's tax qualified employee benefit plans, including the Employee Stock Ownership Plan (the "ESOP") (collectively, the "Employee Plans") and to certain of the Bank's depositors and borrowers rights to subscribe for the Securities in a subscription offering (the "Subscription Offering"). To the extent Securities are not subscribed for in the Subscription

Offering, such Securities may be offered to certain members of the general public, with preference given to certain natural persons residing in the counties in Illinois in which the Bank's offices are located, in a direct community offering (the "Community Offering" and together with the Subscription Offering, as each may be extended or reopened from time to time, the "Subscription and Community Offering") to be commenced concurrently with, during or promptly after the Subscription Offering. It is currently anticipated by the Bank and the Company that any Securities not subscribed for in the Subscription and Community Offering will be offered, subject to Section 2 hereof, in a syndicated community offering (the "Syndicated Community Offering"). The Subscription and Community Offering and the Syndicated Community Offering are hereinafter referred to collectively as the "Offerings," and the conversion of the Bank from mutual to stock form, the acquisition of the capital stock of the Bank by the Company and the Offerings are hereinafter referred to collectively as the "Conversion." It is acknowledged that the number of Securities to be sold in the Conversion may be increased or decreased as described in the Prospectus (as hereinafter defined). If the number of Securities is increased or decreased in accordance with the Plan, the term "Securities" shall mean such greater or lesser number, where applicable.

The Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-1 (No. 333-119217), including a related prospectus, for the registration of the Securities under the Securities Act of 1933, as amended (the "Securities Act"), has filed such amendments thereto, if any, and such amended prospectuses as may have been required to the date hereof by the Commission in order to declare such registration statement effective, and will file such additional amendments thereto and such amended prospectuses and prospectus supplements as may hereafter be required. Such registration statement (as amended to date, if applicable, and as from time to time amended or supplemented hereafter) and the prospectuses constituting a part thereof (including in each case all documents incorporated or deemed to be incorporated by reference therein and the information, if any, deemed to be a part thereof pursuant to the rules and regulations of the Commission under the Securities Act, as from time to time amended or supplemented pursuant to the Securities Act or otherwise (the "Securities Act Regulations")), are hereinafter referred to as the "Registration Statement" and the "Prospectus," respectively, except that if any revised prospectus shall be used by the Company in connection with the Subscription and Community Offering or the Syndicated Community Offering which differs from the Prospectus on file at the Commission at the time the Registration Statement becomes effective (whether or not such revised prospectus is required to be filed by the Company pursuant to Rule 424(b) of the Securities Act Regulations), the term "Prospectus" shall refer to such revised prospectus from and after the time it is first provided to the Agent for such use.

Concurrently with the execution of this Agreement, the Company is delivering to the Agent copies of the Prospectus of the Company to be used in the Subscription and Community Offering. Such prospectus contains information with respect to the Bank, the Company and the Common Stock.

SECTION 1. REPRESENTATIONS AND WARRANTIES.

(a) The Company and the Bank jointly and severally represent and warrant to the Agent as of the date hereof as follows:

(i) The Registration Statement has been declared effective by the Commission, no stop order has been issued with respect thereto and no proceedings

therefor have been initiated or threatened by the Commission. At the time the Registration Statement became effective and at the Closing Time referred to in Section 2 hereof, the Registration Statement complied and will comply in all material respects with the requirements of the Securities Act and the Securities Act Regulations and did not and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. The Prospectus, at the date hereof, does not and at the Closing Time referred to in Section 2 hereof will not, include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided, however*, that the representations and warranties in this subsection shall not apply to statements in or omissions from the Registration Statement or Prospectus made in reliance upon and in conformity with information with respect to the Agent furnished to the Company in writing by the Agent expressly for use in the Registration Statement or Prospectus (the "Agent Information," which the Company and the Bank acknowledge appears only in the third sentence of the first paragraph of the section entitled "Market for the Common Stock" and the second paragraph of the section "The Conversion; Plan of Distribution- Plan of Distribution; Selling Agent Compensation" of the Prospectus).

(ii) The Company has filed with the Department of the Treasury, Office of Thrift Supervision (the "OTS") the Company's application for approval of its acquisition of the Bank (the "Holding Company Application") on Form H-(e)1-S promulgated under the savings and loan holding company provisions of the Home Owners' Loan Act, as amended ("HOLA") and the regulations promulgated thereunder. The Company has received written notice from the OTS of its approval of the acquisition of the Bank, such approval remains in full force and effect and no order has been issued by the OTS suspending or revoking such approval and no proceedings therefor have been initiated or threatened by the OTS. At the date of such approval and at the Closing Time referred to in Section 2, the Holding Company Application complied and will comply in all material respects with the applicable provisions of HOLA and the regulations promulgated thereunder.

(iii) Pursuant to the rules and regulations of the OTS governing the conversion of federally chartered mutual savings banks to stock form (the "Conversion Regulations"), the Bank has filed with the OTS an application for conversion on Form AC, and has filed such amendments thereto and supplementary materials as may have been required to the date hereof (such application, as amended to date, if applicable, and as from time to time amended or supplemented hereafter, is hereinafter referred to as the "Conversion Application"), including copies of the Bank's Proxy Statement, dated _____, 2004, relating to the Conversion (the "Proxy Statement"), and the Prospectus and the Conversion Application is truthful and accurate in all material respects. The OTS has, by letter dated _____, 2004, approved the Conversion Application, including the Proxy Statement and Prospectus, such approval remains in full force and effect and no order has been issued by the OTS suspending or revoking such approval and no proceedings therefor have been initiated or, to the knowledge of the Company or the Bank, threatened by the OTS. At the date of such approval and at the Closing Time referred to in Section 2, the Conversion Application complied and will comply in all material respects with the applicable provisions of the Conversion Regulations.

(iv) At the time of their use, the Proxy Statement and any other proxy solicitation materials will comply in all material respects with the applicable provisions of the Conversion Regulations and will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Company and the Bank have filed or will promptly file the Prospectus and any supplemental sales literature with the Commission and the OTS. The Prospectus and all supplemental sales literature, as of the date the Registration Statement became effective and at the Closing Time referred to in Section 2, complied and will comply in all material respects with the applicable requirements of the Conversion Regulations and, at or prior to the time of their first use, will have received all required authorizations of the OTS for use in final form.

(v) Neither the SEC nor the OTS has, by order or otherwise, prevented or suspended the use of the Proxy Statement, the Prospectus or any supplemental sales literature authorized by the Company or the Bank for use in connection with the Offerings and no action by or before any such governmental entity to prevent or suspend the use of the Proxy Statement, the Prospectus or any supplemental sales literature is pending, or to the best knowledge of the Company and the Bank, threatened.

(vi) At the Closing Time referred to in Section 2, the Company and the Bank will have completed the conditions precedent to the Conversion in accordance with the Plan, the applicable Conversion Regulations and all other applicable laws, regulations, decisions and orders, including all material terms, conditions, requirements and provisions precedent to the Conversion imposed upon the Company or the Bank by the OTS, the Federal Deposit Insurance Corporation (the "FDIC"), or any other regulatory authority, other than those which the regulatory authority permits to be completed after the Conversion.

(vii) RP Financial, LC., which prepared the valuation of the Bank as part of the Conversion, has advised the Company and the Bank in writing that it satisfies all requirements for an appraiser set forth in the Conversion Regulations and any interpretations or guidelines issued by the OTS and the FDIC with respect thereto.

(viii) The accountants who certified the consolidated financial statements and supporting schedules of the Bank included in the Registration Statement have advised the Company and the Bank in writing that they are independent public accountants within the meaning of the Code of Ethics of the American Institute of Certified Public Accountants (the "AICPA") and a registered public accounting firm with the Public Company Accounting Oversight Board, and such accountants are, with respect to the Company, the Bank and each subsidiary of the Bank, independent certified public accountants as required by the Securities Act and the Securities Act Regulations and such accountants are not in violation of the auditors independence requirements of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act").

(ix) The only direct and indirect subsidiaries of the Bank are Financial Assurance Services Corporation and BF Asset Recovery Corporation (collectively, the “Subsidiaries”). Except for the Subsidiaries, the Bank does not, directly or indirectly, control any other corporation, limited liability company, partnership, joint venture, association, trust or other business organization. Upon completion of the Conversion, the only direct subsidiary of the Company will be the Bank.

(x) The consolidated financial statements and the related notes thereto included in the Registration Statement and the Prospectus present fairly the financial position of the Company, the Bank and the Subsidiaries at the dates indicated and the results of operations, retained earnings, equity and cash flows for the periods specified, and comply as to form in all material respects with the applicable accounting requirements of the Securities Act Regulations and the Conversion Regulations; except as otherwise stated in the Registration Statement, said financial statements have been prepared in conformity with accounting principles generally accepted in the United States applied on a consistent basis; and the supporting schedules and tables included in the Registration Statement present fairly the information required to be stated therein. The other financial, statistical and pro forma information and related notes included in the Prospectus present fairly the information shown therein on a basis consistent with the audited and unaudited financial statements included in the Prospectus, and as to the pro forma adjustments, the adjustments made therein have been consistently applied on the basis described therein. The capitalization, liabilities, assets, properties and business of the Company and the Bank conform in all material respects to the descriptions contained in the Prospectus and, neither the Company nor the Bank has any material liabilities of any kind, contingent or otherwise, except as disclosed in the Registration Statement or the Prospectus.

(xi) Since the respective dates as of which information is given in the Registration Statement and the Prospectus, except as otherwise stated therein (A) there has been no material adverse change in the financial condition, results of operations, business affairs or prospects of the Company, the Bank and the Subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business consistent with past practice, and (B) except for transactions specifically referred to or contemplated in the Prospectus, there have been no transactions entered into by the Company, the Bank or any of the Subsidiaries, other than those in the ordinary course of business consistent with past practice, which are material with respect to the Company, the Bank and its subsidiaries, considered as one enterprise.

(xii) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maryland with corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus and to enter into and perform its obligations under this Agreement; and the Company is duly qualified as a foreign corporation to transact business and is in good standing in the State of Illinois and in each other jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure to so qualify in any other jurisdiction would not have a material adverse effect on the financial condition, results of operations or business affairs or prospects of the Company, the Bank and the Subsidiaries, considered as one enterprise.

(xiii) Upon consummation of the Conversion, the authorized, issued and outstanding capital stock of the Company will be as set forth in the Prospectus under “Capitalization” (except for subsequent issuances, if any, pursuant to reservations, agreements or employee benefit plans referred to in the Prospectus); no shares of Common Stock or other capital stock of the Company have been or will be issued and outstanding prior to the Closing Time referred to in Section 2; at the time of Conversion, the Securities will have been duly authorized for issuance and, when issued and delivered by the Company pursuant to the Plan against payment of the consideration calculated as set forth in the Plan and stated on the cover page of the Prospectus, will be duly and validly issued and fully paid and non-assessable; the terms and provisions of the Common Stock and the capital stock of the Company conform to all statements relating thereto contained in the Prospectus; the certificates representing the shares of Common Stock conform to the requirements of applicable law and regulations; and the issuance of the Securities is not subject to preemptive or other similar rights.

(xiv) The Bank, as of the date hereof, is a federally chartered savings bank in mutual form and upon consummation of the Conversion will be a federally chartered savings bank in stock form, in both instances with full corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus; the Company, the Bank and the Subsidiaries have obtained all licenses, permits and other governmental authorizations currently required for the conduct of their respective businesses or required for the conduct of their respective businesses as contemplated by the Holding Company Application and the Conversion Application, except where the failure to obtain such licenses, permits or other governmental authorizations would not have a material adverse effect on the financial condition, results of operations, business affairs or prospects of the Company, the Bank and the Subsidiaries considered as one enterprise; all such licenses, permits and other governmental authorizations are in full force and effect and the Company, the Bank and the Subsidiaries are in all material respects in compliance therewith; neither the Company, the Bank nor any of the Subsidiaries has received notice of any proceeding or action relating to the revocation or modification of any such license, permit or other governmental authorization which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, might have a material adverse effect on the financial condition, results of operations, business affairs or prospects of the Company, the Bank and the Subsidiaries, considered as one enterprise; and the Bank is validly existing and in good standing under the laws of the United States and is qualified as a foreign corporation in any jurisdiction in which the failure to so qualify would have a material adverse effect on the financial condition, results of operations, business affairs or prospects of the Company, the Bank and the Subsidiaries considered as one enterprise.

(xv) The deposit accounts of the Bank are insured by the FDIC up to the applicable limits. Upon consummation of the Conversion, the liquidation account for the benefit of eligible account holders and supplemental eligible account holders of the Bank will be duly established in accordance with the requirements of the Plan and the Conversion Regulations. The Bank is a “qualified thrift lender” within the meaning of 12 U.S.C. Section 1467a(m).

(xvi) Upon consummation of the Conversion, the authorized capital stock of the Bank will be 1,000 shares of common stock, par value \$0.01 per share (the “Bank Common Stock”) and 1,000 shares of preferred stock, par value \$0.01 per share (the “Bank Preferred Stock”), and the issued and outstanding capital stock of the Bank will be [_____] shares of Bank Common Stock and no shares of the Bank Preferred Stock, and no shares of Bank Common Stock or Bank Preferred Stock have been or will be issued prior to the Closing Time referred to in Section 2; and as of the Closing Time referred to in Section 2, all of the issued and outstanding capital stock of the Bank will be duly authorized, validly issued and fully paid and nonassessable and have been issued in compliance with all federal and state securities laws. The shares of Bank Common Stock to be issued to the Company will have been duly authorized for issuance and, when issued and delivered by the Bank pursuant to the Plan against payment of the consideration calculated as set forth in the Plan and as described in the Prospectus, will be duly and validly issued and fully paid and nonassessable, and all such Bank Common Stock will be owned beneficially and of record by the Company free and clear of any security interest, mortgage, pledge, lien, encumbrance or legal or equitable claim; the terms and provisions of the Bank Common Stock and the Bank Preferred Stock conform to all statements relating thereto contained in the Prospectus, and the certificates representing the shares of the Bank Common Stock will conform with the requirements of applicable laws and regulations; and the issuance of the Bank Common Stock is not subject to preemptive or similar rights; and there are no other warrants, options or rights of any kind to acquire additional shares of Bank Common Stock or any shares of Bank Preferred Stock.

(xvii) Each Subsidiary has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has full corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement and Prospectus, and is duly qualified to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure to so qualify would not have a material adverse effect on the financial condition, results of operations, business affairs or prospects of the Company, the Bank and the Subsidiaries considered as one enterprise; the activities of each Subsidiary are permitted for subsidiaries of a federally chartered savings bank and a savings and loan holding company by the rules, regulations, resolutions and practices of the OTS; all of the issued and outstanding capital stock of each Subsidiary has been duly authorized and validly issued, is fully paid and nonassessable and is owned by the Bank, directly, free and clear of any security interest, mortgage, pledge, lien, encumbrance or legal or equitable claim; and there are no warrants, options or rights of any kind to acquire shares of capital stock of any Subsidiary.

(xviii) The Company and the Bank have taken all corporate action necessary for them to execute, deliver and perform this Agreement, and this Agreement has been duly

executed and delivered by, and is the valid and binding agreement of, the Company and the Bank, enforceable in accordance with its terms, except as may be limited by bankruptcy, insolvency or other laws affecting the enforceability of the rights of creditors generally and judicial limitations on the right of specific performance and except as the enforceability of indemnification and contribution provisions may be limited by applicable securities laws.

(xix) Subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus and prior to the Closing Time, except as otherwise may be indicated or contemplated therein, none of the Company, the Bank or any of the Subsidiaries will have (A) issued any securities or incurred any liability or obligation, direct or contingent, or borrowed money, except borrowings in the ordinary course of business consistent with past practice from the same or similar sources and in similar amounts as indicated in the Prospectus, or (B) entered into any transaction or series of transactions which are material in light of the business of the Company, the Bank and the Subsidiaries, taken as a whole, excluding the origination, purchase, sale and securitization of loans or the purchase or sale of investment securities or mortgaged-backed securities in the ordinary course of business consistent with past practice.

(xx) No approval of any regulatory or supervisory or other public authority is required in connection with the execution and delivery of this Agreement or the issuance of the Securities that has not been obtained and a copy of which has been delivered to the Agent.

(xxi) Neither the Company, the Bank nor any of the Subsidiaries is in violation of its certificate of incorporation, organization certificate, articles of incorporation or charter, as the case may be, or bylaws (and the Bank will not be in violation of its charter or bylaws in stock form upon consummation of the Conversion); and neither the Company, the Bank nor any of the Subsidiaries is in default (nor has any event occurred which, with notice or lapse of time or both, would constitute a default) in the performance or observance of any obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, loan agreement, note, lease or other instrument to which the Company, the Bank or any of the Subsidiaries is a party or by which it or any of them may be bound, or to which any of the property or assets of the Company, the Bank or any of the Subsidiaries is subject, except for such defaults that would not, individually or in the aggregate, have a material adverse effect on the financial condition, results of operations, business affairs or prospects of the Company, the Bank and the Subsidiaries considered as one enterprise.

(xxii) The consummation of the Conversion, the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated herein have been duly authorized by all necessary corporate action on the part of the Company and the Bank and do not and will not conflict with or constitute a breach of, or default under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company, the Bank or any of the Subsidiaries pursuant to, any contract, indenture, mortgage, loan agreement, note, lease or other instrument to which the Company, the Bank or any of the Subsidiaries is a party or by which it or any

of them may be bound, or to which any of the property or assets of the Company, the Bank or any of the Subsidiaries is subject, except for such defaults that would not, individually or in the aggregate, have a material adverse effect on the financial condition, results of operations, business affairs or prospects of the Company, the Bank and the Subsidiaries considered as one enterprise; nor will such action result in any violation of the provisions of the certificate of incorporation, organization certificate, articles of incorporation or charter or by-laws of the Company, the Bank or any of the Subsidiaries, or any applicable law, administrative regulation or administrative or court decree.

(xxiii) No labor dispute with the employees of the Company, the Bank or any of the Subsidiaries exists or, to the knowledge of the Company or the Bank, is imminent or threatened; and the Company and the Bank are not aware of any existing or threatened labor disturbance by the employees of any of its principal suppliers or contractors which might be expected to result in any material adverse change in the financial condition, results of operations, business affairs or prospects of the Company, the Bank and the Subsidiaries considered as one enterprise.

(xxiv) Each of the Company, the Bank and the Subsidiaries have good and marketable title to all properties and assets for which ownership is material to the business of the Company, the Bank or the Subsidiaries and to those properties and assets described in the Prospectus as owned by them, free and clear of all liens, charges, encumbrances or restrictions, except such as are described in the Prospectus or are not material in relation to the business of the Company, the Bank or the Subsidiaries considered as one enterprise; and all of the leases and subleases material to the business of the Company, the Bank or the Subsidiaries under which the Company, the Bank or the Subsidiaries hold properties, including those described in the Prospectus, are valid and binding agreements of the Company, the Bank and the Subsidiaries in full force and effect, enforceable in accordance with their terms (except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization and similar laws of general applicability relating to or affecting creditors' rights or general principles of equity).

(xxv) None of the Company, the Bank nor the Subsidiaries are in violation of any directive from the Commission, the OTS or the FDIC or any other governmental entity to make any material change in the method of conducting their respective businesses; the Bank and the Subsidiaries have conducted and are conducting their business so as to comply in all material respects with all applicable statutes, regulations and administrative and court decrees (including, without limitation, all regulations, decisions, directives and orders of the Commission, the OTS and the FDIC). Neither the Company, the Bank nor any of the Subsidiaries is subject or is party to, or has received any notice or advice that any of them may become subject or party to, any investigation with respect to any cease-and-desist order, agreement, consent agreement, memorandum of understanding or other regulatory enforcement action, proceeding or order with or by, or is a party to any commitment letter or similar undertaking to, or is subject to any directive by, or has been a recipient of any supervisory letter from, or has adopted any board resolutions at the request of, any Regulatory Agency (as defined below) that currently restricts in any material respect the conduct of their business or that in any material manner relates to their capital adequacy, their credit policies, their management

or their business (each, a “Regulatory Agreement”), nor has the Company, the Bank or any of the Subsidiaries been advised by any Regulatory Agency that it is considering issuing or requesting any such Regulatory Agreement; and there is no unresolved violation, criticism or exception by any Regulatory Agency with respect to any report or statement relating to any examinations of the Company, the Bank or any of the Subsidiaries which, in the reasonable judgment of the Company or the Bank, is expected to result in a material adverse effect on the financial condition, results of operations, business affairs or prospects of the Company, the Bank and the Subsidiaries considered as one enterprise. As used herein, the term “Regulatory Agency” means any federal or state agency charged with the supervision or regulation of depository institutions or holding companies of depository institutions, or engaged in the insurance of depository institution deposits, or any court, administrative agency or commission or other governmental agency, authority or instrumentality having supervisory or regulatory authority with respect to the Company, the Bank or any of the Subsidiaries.

(xxvi) There is no action, suit or proceeding before or by any court or governmental agency or body, domestic or foreign, now pending, or, to the knowledge of the Company or the Bank, threatened, against or affecting the Company, the Bank or any of the Subsidiaries which is required to be disclosed in the Registration Statement (other than as disclosed therein), or which might result in any material adverse change in the financial condition, results of operations, business affairs or prospects of the Company, the Bank and the Subsidiaries considered as one enterprise, or which might materially and adversely affect the properties or assets thereof or which might materially and adversely affect the consummation of the Conversion or the performance of this Agreement; all pending legal or governmental proceedings to which the Company, the Bank or any subsidiary is a party or of which any of their respective property or assets is the subject which are not described in the Registration Statement, including ordinary routine litigation incidental to the business, are considered in the aggregate not material; and there are no contracts or documents of the Company or any of its subsidiaries which are required to be filed as exhibits to the Registration Statement or the Conversion Application which have not been so filed.

(xxvii) The Bank has obtained an opinion of its outside legal and tax counsel, Luse Gorman Pomerenk & Schick, P.C., with respect to the legality of the Securities to be issued and the federal income tax consequences of the Conversion (including franchise tax, sales or use tax, license fee on foreign corporations, stock transfer tax, real property transfer gain tax and real estate transfer tax), copies of which are filed as exhibits to the Registration Statement; all material aspects of the aforesaid opinions are accurately summarized in the Prospectus; the facts and representations upon which such opinions are based are truthful, accurate and complete in all material respects; and neither the Bank (including the Subsidiaries) nor the Company has taken or will take any action inconsistent therewith.

(xxviii) The Bank has received a letter from Crowe Chizek and Company LLC with respect to the tax consequences of the Conversion under the laws of the State of Illinois; all material aspects of the aforesaid opinions are accurately summarized in the Prospectus; the facts and representations upon which such letter is based are truthful, accurate and complete in all material respects; and neither the Bank (including the Subsidiaries) nor the Company has taken or will take any action inconsistent therewith.

(xxix) The Company is not and, upon completion of the Conversion and the Offerings and sale of the Common Stock and the application of the net proceeds therefrom, will not be, required to be registered under the Investment Company Act of 1940, as amended.

(xxx) All of the loans represented as assets on the most recent consolidated financial statements, in selected consolidated financial and other data or in the Recent Developments, selected consolidated financial and other data of the Bank included in the Prospectus meet or are exempt from all requirements of federal, state or local law pertaining to lending, including without limitation truth in lending (including the requirements of Regulations Z and 12 C.F.R. Part 226 and Section 563.99), real estate settlement procedures, consumer credit protection, equal credit opportunity and all disclosure laws applicable to such loans, except for violations which, if asserted, would not result in a material adverse effect on the financial condition, results of operations, business affairs or prospects of the Company, the Bank and the Subsidiaries considered as one enterprise.

(xxxi) To the knowledge of the Company and the Bank, with the exception of the intended loan to the Bank's ESOP by the Company to enable the ESOP to purchase shares of Common Stock in an amount of up to 8.0% of the Common Stock issued in the Conversion, none of the Company, the Bank or employees of the Bank has made any payment of funds of the Company or the Bank as a loan for the purchase of the Common Stock or made any other payment of funds prohibited by law, and no funds have been set aside to be used for any payment prohibited by law.

(xxxii) To the knowledge of the Company, there are no affiliations or associations (as such terms are defined by the National Association of Securities Dealers, Inc. ("NASD")) between any member of the NASD and any of the Company's officers or directors.

(xxxiii) The Company, the Bank and each Subsidiary carries, or is covered by, insurance in such amounts and covering such risks as is adequate for the conduct of their respective businesses and the value for their respective properties as is customary for companies engaged in similar industries

(xxxiv) The Company, the Bank and each of the Subsidiaries maintains a system of internal control over financial reporting sufficient (i) 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 (ii) to maintain records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets; (iii) to 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 are being made only in accordance with authorizations

of management; and (iv) to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

(xxxv) The Company, the Bank and each Subsidiary is in compliance in all material respects with the applicable financial recordkeeping and reporting requirements of the Currency and Foreign Transaction Reporting Act of 1970, as amended, and the rules and regulations thereunder. The Bank has established compliance programs to ensure compliance with the requirements of the USA Patriot Act and all applicable regulations promulgated thereunder. The Bank is in compliance in all material respects with the USA Patriot Act and all applicable regulations promulgated thereunder, and there is no charge, investigation, action, suit or proceeding before any court, regulatory authority or governmental agency or body pending or, to the best knowledge of the Company and the Bank, threatened regarding the Bank's compliance with the USA Patriot Act or any regulations promulgated thereunder.

(xxxvi) The Company and the Bank have not relied on Agent or its counsel for any legal, tax or accounting advice in connection with the Conversion.

(xxxvii) The records of eligible account holders, supplemental eligible account holders, and other depositors are accurate and complete in all material respects.

(xxxiii) The Company, the Bank and each Subsidiary is in compliance in all material respects with all presently applicable provisions of the Employee Retirement Income Security Act of 1974, as amended, including the regulations and published interpretations thereunder ("ERISA"); no "reportable event" (as defined in ERISA) has occurred with respect to any "pension plan" (as defined in ERISA) for which the Company, the Bank or any Subsidiary, respectively, would have any liability; each of the Company, the Bank and each Subsidiary has not incurred and does expect to incur liability under (i) Title IV of ERISA with respect to termination of, or withdrawal from, any "pension plan" or (ii) Sections 412 or 4971 of the Internal Revenue Code of 1986, as amended, including the regulations and published interpretations thereunder (the "Code"); and each "pension plan" for which the Company, the Bank and any Subsidiary would have any liability that is intended to be qualified under Section 401(a) of the Code is so qualified in all material respects and nothing has occurred, whether by action or by failure to act, which would cause the loss of such qualification.

(xxxix) None of the Company, the Bank nor the Subsidiaries nor any properties owned or operated by the Company, the Bank or the Subsidiaries is in violation of or liable under any Environmental Law (as defined below), except for such violations or liabilities that, individually or in the aggregate, would not have a material adverse effect on the financial condition, results of operations or business affairs of the Company, the Bank and the Subsidiaries considered as one enterprise. There are no actions, suits or proceedings, or demands, claims, notices or investigations (including, without limitation, notices, demand letters or requests for information from any environmental agency) instituted or pending, or to the knowledge of the Company or the Bank threatened,

relating to the liability of any property owned or operated by the Company, the Bank or the Subsidiaries, under any Environmental Law. For purposes of this subsection, the term "Environmental Law" means any federal, state, local or foreign law, statute, ordinance, rule, regulation, code, license, permit, authorization, approval, consent, order, judgment, decree, injunction or agreement with any regulatory authority relating to (i) the protection, preservation or restoration of the environment (including, without limitation, air, water, vapor, surface water, groundwater, drinking water supply, surface soil, subsurface soil, plant and animal life or any other natural resource), and/or (ii) the use, storage, recycling, treatment, generation, transportation, processing, handling, labeling, production, release or disposal of any substance presently listed, defined, designated or classified as hazardous, toxic, radioactive or dangerous, or otherwise regulated, whether by type or by quantity, including any material containing any such substance as a component.

(xl) The Company, the Bank and its subsidiaries have filed all federal income and state and local income and franchise tax returns required to be filed and have made timely payments of all taxes shown as due and payable in respect of such returns, and no deficiency has been asserted with respect thereto by any taxing authority. The Company and the Bank have no knowledge of any tax deficiency which has been asserted or could be asserted against the Company, the Bank or the Subsidiaries.

(xli) The Company has received approval, subject to regulatory approval to consummate the Offerings and issuance, to have the Securities quoted under the symbol "BFIN" on the National Market System of the National Association of Securities Dealers' Automated Quotation System ("Nasdaq National Market") effective as of the Closing Time referred to in Section 2 hereof.

(xlii) The Company has filed a registration statement for the Common Stock under Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and such registration statement was declared effective concurrent with the effectiveness of the Registration Statement.

(xliii) The Company is in compliance with the applicable provisions of the Sarbanes-Oxley Act and will use its best efforts to comply with those provisions of the Sarbanes-Oxley Act that will become effective in the future upon their effectiveness.

(xliv) There is no contract or other document of a character required to be described in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration Statement or Conversion Application which is not described or filed as required.

(xlv) The Company has established and maintains disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act); such disclosure controls and procedures (A) are designed to ensure that material information relating to the Company including its consolidated subsidiaries, is made known to the Company's principal executive officer and principal financial officer by others within those entities, particularly during the periods in which the periodic reports

required under the Exchange Act are being prepared, (B) have been evaluated for effectiveness as of the date of the Prospectus and (C) are effective to perform the functions for which they were established; the Company's auditors and the Audit Committee of the Board of Directors have been advised of: (i) 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 Company's ability to record, process, summarize, and report financial data and (ii) any fraud, whether or not material, that involves management or other employees who have a role in the Company's internal control over financial reporting; and such deficiencies or fraud have either been disclosed in the Prospectus or are not material to the Company, the Bank and the Subsidiaries; and since the date of the most recent evaluation of such disclosure controls and procedures, there have been no significant changes in internal controls or in other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies, material weaknesses or fraud.

(xlvi) Except as described in the Prospectus, there are no contractual encumbrances or contractual restrictions or regulatory restrictions on the ability (i) of the Company to pay dividends or make any other distributions on the Company's capital stock or (ii) of the Company, the Bank or any of the Subsidiaries (A) to pay any indebtedness owed to the Company, the Bank or any of the Subsidiaries, or (B) to make any loans or advances to, or investments in, the Company, the Bank or any of the Subsidiaries, or (C) to transfer any of its property or assets to the Company, the Bank or any of the Subsidiaries.

(xlvii) Each of the Company, the Bank and the Subsidiaries owns or possesses adequate patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks, trade names or other intellectual property (collectively, "Intellectual Property") presently employed by them in connection with the business now operated by them or reasonably necessary in order to conduct such business, and neither the Company nor any of the Subsidiaries has received any notice or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances, which would render any Intellectual Property invalid or inadequate to protect the interest of the Company, the Bank or any of the Subsidiaries therein, and which infringement or conflict (if the subject of any unfavorable decision, ruling or finding) or invalidity or inadequacy, singly or in the aggregate, in the reasonable judgment of the Company is likely to result in a material adverse effect upon the financial condition, results of operations, business affairs or prospects of the Company, the Bank and the Subsidiaries, considered as one enterprise.

(xlviii) No relationship, direct or indirect, exists between or among the Company, the Bank or any of the Subsidiaries on the one hand, and the directors, officers, customers or suppliers of the Company, the Bank or any of the Subsidiaries on the other hand, which is required to be described in the Registration Statement by the Securities Act or the Securities Act Regulations, and which has not been so described in the Registration Statement or the Prospectus.

(xvlii) The statistical and market related data contained in the Prospectus and Registration Statement are based on or derived from sources that the Company believes are reliable and accurate.

(b) Any certificate signed by any officer of the Company or the Bank or the Subsidiaries and delivered to either of the Agent or counsel for the Agent shall be deemed a representation and warranty by the Company or the Bank to each Agent and, for purposes of the opinion to be delivered to the Agent pursuant to Section 5(b)(2) hereof, to the counsel for the Agent as to the matters covered thereby.

SECTION 2. APPOINTMENT OF SANDLER O'NEILL; SALE AND DELIVERY OF THE SECURITIES; CLOSING.

On the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company hereby appoints Sandler O'Neill as its Agent to consult with and advise the Company, and to assist the Company with the solicitation of subscriptions and purchase orders for Securities, in connection with the Company's sale of Common Stock in the Subscription and Community Offering and the Syndicated Community Offering. On the basis of the representations and warranties herein contained, and subject to the terms and conditions herein set forth, Sandler O'Neill accepts such appointment and agrees to use its best efforts to assist the Company with the solicitation of subscriptions and purchase orders for Securities in accordance with this Agreement; *provided, however*, that the Agent shall not be obligated to take any action which is inconsistent with any applicable laws, regulations, decisions or orders. The services to be rendered by Sandler O'Neill pursuant to this appointment include the following: (i) consulting as to the securities marketing implications of any aspect of the Plan or related corporate documents; (ii) reviewing with the Board of Directors of each of the Company and the Bank the financial and securities marketing implications of the independent appraiser's appraisal of the common stock; (iii) reviewing all offering documents, including the Prospectus, stock order forms and related offering materials (it being understood that preparation and filing of such documents is the sole responsibility of the Company and the Bank and their counsel); (iv) assisting in the design and implementation of a marketing strategy for the Offerings; (v) assisting the Company and the Bank in obtaining all requisite regulatory approvals; (vi) assisting Company and Bank management in preparing for meetings with potential investors and broker-dealers; and (vii) providing such other general advice and assistance as may be requested to promote the successful completion of the Offerings.

The appointment of the Agent hereunder shall terminate upon the earlier to occur of (a) forty-five (45) days after the last day of the Subscription and Community Offering, unless the Company and the Agent agree in writing to extend such period and the OTS agrees to extend the period of time in which the Securities may be sold, or (b) the receipt and acceptance of subscriptions and purchase orders for all of the Securities, or (c) the completion of the Syndicated Community Offering.

If any of the Securities remain available after the expiration of both the Subscription and Community Offering, at the request of the Company and the Bank, Sandler O'Neill will seek to form a syndicate of registered brokers or dealers ("Selected Dealers") to assist in the

solicitation of purchase orders of such Securities on a best efforts basis, subject to the terms and conditions set forth in a selected dealers' agreement (the "Selected Dealers' Agreement"), substantially in the form set forth in Exhibit A to this Agreement. Sandler O'Neill will endeavor to limit the aggregate fees to be paid by the Company and the Bank under any such Selected Dealers' Agreement to an amount competitive with gross underwriting discounts charged at such time for underwritings of comparable amounts of stock sold at a comparable price per share in a similar market environment; *provided, however*, that the aggregate fees payable to Sander O'Neill and Selected Dealers shall not exceed 6.0% of the aggregate Purchase Price of the Securities sold by such Selected Dealers. Sander O'Neill will endeavor to distribute the Securities among the Selected Dealers in a fashion which best meets the distribution objective of the Company and the requirements of the Plan, which may result in limiting the allocation of stock to certain Selected Dealers. It is understood that in no event shall Sandler O'Neill be obligated to act as a Selected Dealer or to take or purchase any Securities.

In the event the Company is unable to sell at least the total minimum of the Securities, as set forth on the cover page of the Prospectus, within the period herein provided, this Agreement shall terminate and the Company shall refund to any persons who have subscribed for any of the Securities the full amount which it may have received from them, together with interest as provided in the Prospectus, and no party to this Agreement shall have any obligation to the others hereunder, except for the obligations of the Company and the Bank as set forth in Sections 4, 6(a) and 7 hereof and the obligations of the Agent as provided in Sections 6(b) and 7 hereof. Appropriate arrangements for placing the funds received from subscriptions for Securities or other offers to purchase Securities in special interest-bearing accounts with the Bank until all Securities are sold and paid for were made prior to the commencement of the Subscription Offering, with provision for refund to the purchasers as set forth above, or for delivery to the Company if the total minimum of the Securities are sold.

If at least the total minimum of Securities, as set forth on the cover page of the Prospectus, are sold, the Company agrees to issue or have issued the Securities sold and to release for delivery certificates for such Securities at the Closing Time against payment therefor by release of funds from the special interest-bearing accounts referred to above. The closing shall be held at the offices of Barack Ferrazzano Kirschbaum Perlman & Nagelberg LLP, at 10:00 a.m., Eastern time, or at such other place and time as shall be agreed upon by the parties hereto, on a business day to be agreed upon by the parties hereto. The Company shall notify the Agent by telephone, confirmed in writing, when funds shall have been received for all of the Securities. Certificates for Securities shall be delivered directly to the purchasers thereof in accordance with their directions. Notwithstanding the foregoing, certificates for Securities purchased through Selected Dealers shall be made available to the Agent for inspection at least 48 hours prior to the Closing Time at such office as the Agent shall designate. The hour and date upon which the Company shall release for delivery all of the Securities, in accordance with the terms hereof, is herein called the "Closing Time."

The Company will pay any stock issue and transfer taxes which may be payable with respect to the sale of the Securities.

In addition to the reimbursement of the expenses specified in Section 4 hereof, the Agent will receive the following compensation for its services hereunder:

- (a) nine-tenths of one percent (0.9%) of the aggregate purchase price of the Securities sold in the Subscription and Community Offering, excluding in each case shares purchased by (i) any employee benefit plan of the Company or the Bank established for the benefit of their respective directors, officers and employees, (ii) any director, officer or employee of the Company or the Bank or members of their immediate families (which term shall mean parents, grandparents, spouse, siblings, children and grandchildren); and
- (b) with respect to any Securities sold by an NASD member firm (other than Sandler O'Neill) under the Selected Dealers' Agreement in the Syndicated Community Offering, (i) the compensation payable to Selected Dealers under any Selected Dealers' Agreement, (ii) any sponsoring dealer's fees; and (iii) a management fee to Sandler O'Neill of one percent (1.0%). Any fees payable to Sandler O'Neill for Securities sold by Sandler O'Neill under any such agreement shall be limited to an aggregate of six percent (6.0%) of the purchase price of the Securities sold by Sandler O'Neill and other NASD member firms under such Selected Dealer's Agreement.

If this Agreement is terminated by the Agent in accordance with the provisions of Section 9(a) hereof or the Conversion is terminated by the Company, no fee shall be payable by the Company to Sandler O'Neill; *provided, however*; that the Company shall reimburse the Agent for all of its out-of-pocket expenses incurred prior to termination, including the reasonable fees and disbursements of counsel for the Agent in accordance with the provisions of Section 4 hereof. In addition, the Company shall be obligated to pay the fees and expenses as contemplated by the provisions of Section 4 hereof in the event of any such termination.

All fees payable to the Agent hereunder shall be payable in immediately available funds at Closing Time, or upon the termination of this Agreement, as the case may be. In recognition of the long lead times involved in the conversion process, the Bank agrees to make advance payments to the Agent in the aggregate amount of \$50,000, \$25,000 of which has been previously paid and the remaining \$25,000 of which shall be payable upon execution hereof, which shall be credited against any fees or reimbursement of expenses payable hereunder.

SECTION 3. COVENANTS OF THE COMPANY. The Company and the Bank covenant with the Agent as follows:

(a) The Company and the Bank will prepare and file such amendments or supplements to the Registration Statement, the Prospectus, the Conversion Application and the Proxy Statement as may hereafter be required by the Securities Act Regulations or the Conversion Regulations or as may hereafter be requested by the Agent. Following completion of the Subscription and Community Offering, in the event of a Syndicated Community Offering, the Company and the Bank will (i) promptly prepare and file with the Commission a post-effective amendment to the Registration Statement relating to the results of the Subscription and Community Offering, any additional information with respect to the proposed plan of distribution and any revised pricing information or (ii) if no such post-effective amendment is required, will file with, or mail for filing to, the Commission a prospectus or prospectus

supplement containing information relating to the results of the Subscription and Community Offering and pricing information pursuant to Rule 424 of the Securities Act Regulations, in either case in a form acceptable to the Agent. The Company and the Bank will notify the Agent immediately, and confirm the notice in writing, (i) of the effectiveness of any post-effective amendment of the Registration Statement, the filing of any supplement to the Prospectus and the filing of any amendment to the Conversion Application, (ii) of the receipt of any comments from the OTS or the Commission with respect to the transactions contemplated by this Agreement or the Plan, (iii) of any request by the Commission or the OTS for any amendment to the Registration Statement or the Conversion Application or any amendment or supplement to the Prospectus or for additional information, (iv) of the issuance by the OTS of any order suspending the Offerings or the use of the Prospectus or the initiation of any proceedings for that purpose, (v) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the initiation of any proceedings for that purpose, and (vi) of the receipt of any notice with respect to the suspension of any qualification of the Securities for offering or sale in any jurisdiction. The Company and the Bank will make every reasonable effort to prevent the issuance of any stop order and, if any stop order is issued, to obtain the lifting thereof at the earliest possible moment.

(b) The Company and the Bank each will give the Agent notice of its intention to file or prepare any amendment to the Holding Company Application, the Conversion Application or Registration Statement (including any post-effective amendment) or any amendment or supplement to the Prospectus (including any revised prospectus which the Company proposes for use in connection with the Syndicated Community Offering of the Securities which differs from the prospectus on file at the Commission at the time the Registration Statement becomes effective, whether or not such revised prospectus is required to be filed pursuant to Rule 424(b) of the Securities Act Regulations), will furnish the Agent with copies of any such amendment or supplement a reasonable amount of time prior to such proposed filing or use, as the case may be, and will not file any such amendment or supplement or use any such prospectus to which the Agent or counsel for the Agent may object.

(c) The Company and the Bank will deliver to the Agent as many signed copies and as many conformed copies of the Conversion Application and the Registration Statement as originally filed and of each amendment thereto (including exhibits filed therewith or incorporated by reference therein) as the Agent may reasonably request, and from time to time such number of copies of the Prospectus as the Agent may reasonably request.

(d) During the period when the Prospectus is required to be delivered, the Company and the Bank will comply, at their own expense, with all requirements imposed upon them by the OTS, by the applicable Conversion Regulations, as from time to time in force, and by the Nasdaq, the Securities Act, the Securities Act Regulations, the Exchange Act, and the rules and regulations of the Commission promulgated thereunder, including, without limitation, Regulation M under the Exchange Act, so far as necessary to permit the continuance of sales or dealing in shares of Common Stock during such period in accordance with the provisions hereof and the Prospectus.

(e) If any event or circumstance shall occur as a result of which it is necessary, in the opinion of counsel for the Agent, to amend or supplement the Prospectus in order to make the

Prospectus not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, the Company and the Bank will forthwith amend or supplement the Prospectus (in form and substance satisfactory to counsel for the Agent) so that, as so amended or supplemented, the Prospectus will not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time it is delivered to a purchaser, not misleading, and the Company and the Bank will furnish to the Agent a reasonable number of copies of such amendment or supplement. For the purpose of this subsection, the Company and the Bank will each furnish such information with respect to itself as the Agent may from time to time reasonably request.

(f) The Company and the Bank will take all necessary action, in cooperation with the Agent, to qualify the Securities for offering and sale under the applicable securities laws of such states of the United States and other jurisdictions as the Conversion Regulations may require and as the Agent and the Company have agreed; *provided, however*, that the Company and the Bank shall not be obligated to file any general consent to service of process or to qualify as a foreign corporation in any jurisdiction in which it is not so qualified. In each jurisdiction in which the Securities have been so qualified, the Company and the Bank will file such statements and reports as may be required by the laws of such jurisdiction to continue such qualification in effect for a period of not less than one year from the effective date of the Registration Statement.

(g) The Company authorizes Sandler O'Neill and any Selected Dealer to act as agent of the Company in distributing the Prospectus to persons entitled to receive subscription rights and other persons to be offered Securities having record addresses in the states or jurisdictions set forth in a survey of the securities or "blue sky" laws of the various jurisdictions in which the Offerings will be made (the "Blue Sky Survey").

(h) The Company will make generally available to its security holders as soon as practicable, but not later than 60 days after the close of the period covered thereby, an earnings statement (in form complying with the provisions of Rule 158 of the Securities Act Regulations) covering a twelve month period beginning not later than the first day of the Company's fiscal quarter next following the "effective date" (as defined in said Rule 158) of the Registration Statement.

(i) During the period ending on the third anniversary of the expiration of the fiscal year during which the closing of the transactions contemplated hereby occurs, the Company will furnish to its stockholders as soon as practicable after the end of each such fiscal year an annual report (including consolidated statements of financial condition and consolidated statements of income, stockholders' equity and cash flows, certified by independent public accountants) and, as soon as practicable after the end of each of the first three quarters of each fiscal year (beginning with the fiscal quarter ending after the effective date of the Registration Statement), consolidated summary financial information of the Company, the Bank and the Subsidiaries for such quarter in reasonable detail. In addition, such annual report and quarterly consolidated summary financial information shall be made public through the issuance of appropriate press releases at the same time or prior to the time of the furnishing thereof to stockholders of the Company.

(j) During the period ending on the third anniversary of the expiration of the fiscal

year during which the closing of the transactions contemplated hereby occurs, the Company will furnish to the Agent (i) as soon as publicly available, a copy of each report or other document of the Company furnished generally to stockholders of the Company or furnished to or filed with the Commission under the Exchange Act or any national securities exchange or system on which any class of securities of the Company is listed, and (ii) from time to time, such other information concerning the Company as the Agent may reasonably request.

(k) The Company and the Bank will conduct the Conversion in all material respects in accordance with the Plan, the Conversion Regulations and all other applicable regulations, decisions and orders, including all applicable terms, requirements and conditions precedent to the Conversion imposed upon the Company or the Bank by the OTS.

(l) The Company and the Bank will use the net proceeds received by it from the sale of the Securities in the manner specified in the Prospectus under “How We Intend to Use the Proceeds from the Offering.”

(m) The Company will report the use of proceeds from the Offerings on its first periodic report filed with the Commission pursuant to Section 13(a) or 15(d) of the Exchange Act and on any subsequent periodic reports as may be required pursuant to Rule 463 of the Securities Act Regulations.

(n) The Company will maintain the effectiveness of the Exchange Act Registration Statement for not less than three years and will comply in all material respects with its filing obligations under the Exchange Act. The Company will use its best efforts to effect and maintain the listing of the Common Stock on Nasdaq National Market and, once listed on the Nasdaq National Market, the Company will comply with all applicable corporate governance standards required by Nasdaq National Market. The Company will file with the Nasdaq Stock Market all documents and notices required by the Nasdaq Stock Market of companies that have issued securities that are traded in the over-the-counter market and quotations for which are reported by the Nasdaq National Market.

(o) The Company and the Bank will take such actions and furnish such information as are reasonably requested by the Agent in order for the Agent to ensure compliance with the National Association of Securities Dealers, Inc. Rule 2790 of the—Restrictions on the Purchase and Sale of Initial Equity Public Offerings.

(p) Other than in connection with any employee benefit plan or arrangement described in the Prospectus, the Company will not, without the prior written consent of the Agent, sell or issue, contract to sell or otherwise dispose of, any shares of Common Stock other than the Securities for a period of 180 days following the Closing Time.

(q) During the period beginning on the date hereof and ending on the later of the fifth anniversary of the Closing Time or the date on which the Agent receives full payment in satisfaction of any claim for indemnification or contribution to which it may be entitled pursuant to Sections 6 or 7, respectively, neither the Company nor the Bank shall, without the prior written consent of the Agent, take or permit to be taken any action that could result in the Bank Common Stock becoming subject to any security interest, mortgage, pledge, lien or encumbrance.

(r) The Company and the Bank will comply with the conditions imposed by or agreed to with the OTS in connection with its approval of the Holding Company Application and with the FDIC in connection with their approval or non-objection of, or non-objection to, the Conversion Application.

(s) During the period ending on the first anniversary of the Closing Time, the Bank will comply with all applicable law and regulation necessary for the Bank to continue to be a "qualified thrift lender" within the meaning of 12 U.S.C. Section 1467a(m).

(t) The Company shall not deliver the Securities until the Company and the Bank have satisfied each condition set forth in Section 5 hereof, unless such condition is waived in writing by the Agent.

(u) The Company or the Bank will furnish to Sandler O'Neill as early as practicable prior to the Closing Date, but no later than two (2) full business days prior thereto, a copy of the latest available unaudited interim consolidated financial statements of the Bank and the Subsidiaries which have been read by Crowe Chizek and Company LLC, as stated in their letters to be furnished pursuant to subsections (f) and (g) of Section 5 hereof.

(v) Each of the Company and the Bank will conduct its business in compliance in all material respects with all applicable federal and state laws, rules, regulations, decisions, directives and orders, including all decisions, directives and orders of the Commission, Nasdaq and the OTS.

(w) The Bank will not amend the Plan in any manner that would affect the sale of the Securities or the terms of this Agreement without the prior written consent of the Agent.

(x) The Company and the Bank will not, prior to the Closing Time, incur any liability or obligation, direct or contingent, or enter into any material transaction, other than in the ordinary course of business consistent with past practice, except as contemplated by the Prospectus.

(y) The Company and the Bank will use all reasonable efforts to comply with, or cause to be complied with, the conditions precedent to the several obligations of the Agent specified in Section 5 hereof.

(z) The Company and the Bank will provide the Agent with any information necessary to carry out the allocation of the Securities in the event of an oversubscription, and such information will be accurate and reliable in all material respects.

(aa) The Company and the Bank will notify the Agent when funds have been received for the minimum number of Securities set forth in the Prospectus.

SECTION 4. PAYMENT OF EXPENSES. The Company and the Bank jointly and severally agree to pay all expenses incident to the performance of their obligations under this Agreement, including but not limited to (i) the cost of obtaining all securities and bank regulatory approvals, (ii) the preparation, printing and filing of the Registration Statement, the Conversion Application and the Holding Company Application, each as originally filed and of each amendment thereto, (iii) the preparation, issuance and delivery of the certificates for the Securities to the purchasers in the Offerings, (iv) the fees and disbursements of the Company's and the Bank's counsel, accountants, appraiser and other advisors, (v) the qualification of the Securities under securities laws in accordance with the provisions of Section 3(f) hereof, including filing fees and the fees and disbursements of the Company and the Bank's counsel in connection therewith and in connection with the preparation of the Blue Sky Survey, (vi) the printing and delivery to the Agent (in such quantities as the Agent shall reasonably request) of copies of the Registration Statement as originally filed and of each amendment thereto and the printing and delivery of the Prospectus and any amendments or supplements thereto to the purchasers in the Offerings and the Agent (in such quantities as the Agent shall reasonably request), (vii) the printing and delivery to the Agent of copies of a Blue Sky Survey, and (viii) the fees and expenses incurred in connection with the listing of the Securities on the Nasdaq National Market. In the event the Agent incurs any such fees and expenses on behalf of the Bank or the Company, the Bank will reimburse the Agent for such fees and expenses whether or not the Conversion is consummated; *provided, however*, that the Agent shall not incur any substantial expenses on behalf of the Bank or the Company pursuant to this Section without the prior approval of the Bank.

The Company and the Bank jointly and severally agree to pay certain expenses incident to the performance of the Agent's obligations under this Agreement, regardless of whether the Conversion is consummated, including (i) the filing fees paid or incurred by the Agent in connection with all filings with the National Association of Securities Dealers, Inc., and (ii) all reasonable out of pocket expenses incurred by the Agent relating to the Offerings, including, without limitation, advertising, promotional, syndication and travel expenses and fees and expenses of the Agent's counsel; *provided, however*, that the Company shall not be required to reimburse such out of pocket expenses in excess of \$50,000 in the aggregate unless the Agent obtains the Company's approval of such expenses (which approval shall not be unreasonably withheld, conditioned or delayed). All fees and expenses to which the Agent is entitled to reimbursement under this paragraph of this Section 4 shall be due and payable upon receipt by the Company or the Bank of a written accounting therefor setting forth in reasonable detail the expenses incurred by the Agent.

SECTION 5. CONDITIONS OF AGENT'S OBLIGATIONS. The Company, the Bank and the Agent agree that the issuance and the sale of Securities and all obligations of the Agent hereunder are subject to the accuracy of the representations and warranties of the Company and the Bank herein contained as of the date hereof and the Closing Time, to the accuracy of the statements of officers and directors of the Company and the Bank made pursuant to the provisions hereof, to the performance by the Company and the Bank of their obligations hereunder, and to the following further conditions:

(a) No stop order suspending the effectiveness of the Registration Statement shall have been issued under the Securities Act or proceedings therefor initiated or threatened by the Commission, no order suspending the Offerings or authorization for final use of the Prospectus shall have been issued or proceedings therefor initiated or threatened by the OTS and no order suspending the sale of the Securities in any jurisdiction shall have been issued.

(b) At Closing Time, the Agent shall have received:

(1) The favorable opinion, dated as of Closing Time, of Luse Gorman Pomerenk & Schick, P.C., counsel for the Company and the Bank, in form and substance satisfactory to counsel for the Agent, to the effect that:

(i) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maryland.

(ii) The Company has full corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement and Prospectus and to enter into and perform its obligations under this Agreement.

(iii) The Company is duly qualified as a foreign corporation to transact business and is in good standing in the State of Illinois and in each other jurisdiction in which such qualification is required whether by reason of the ownership or leasing of property or the conduct of business, except where the failure to so qualify would not have a material adverse effect upon the financial condition, results of operations, business affairs or prospects of the Company, the Bank and the Subsidiaries, considered as one enterprise.

(iv) Upon consummation of the Conversion, the authorized, issued and outstanding capital stock of the Company will be as set forth in the Prospectus under "Capitalization" and, except for shares issued upon incorporation of the Company, no shares of Common Stock have been or will be issued and outstanding prior to the Closing Time.

(v) The Securities have been duly and validly authorized for issuance and sale and, when issued and delivered by the Company pursuant to the Plan against payment of the consideration calculated as set forth in the Plan, will be duly and validly issued and fully paid and non-assessable.

(vi) The issuance of the Securities is not subject to preemptive or other similar rights arising by operation of law or, to the best of their knowledge and information, otherwise.

(vii) Upon completion of the Conversion, the issuance of the Securities will be in compliance with all conditions imposed upon the Company and the Bank and by the OTS under the terms of their written approval or notice of intention not to object, as applicable.

(viii) The Bank has been at all times and prior to the Closing Time duly organized, and is validly existing and in good standing under the laws of the United States of America as a federally chartered savings bank of mutual form, and, at Closing Time, has become duly organized, validly existing and in good standing under the laws of the United States of America as a federally chartered savings bank of stock form, in both instances with full corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement and the Prospectus; and the Bank is duly qualified as a foreign corporation in each jurisdiction in which the failure to so qualify would have a material adverse effect upon the financial condition, results of operations, business affairs or prospects of the Bank. The Company is registered as a savings and loan holding company under HOLA.

(ix) The Bank is a member in good standing of the Federal Home Loan Bank of Chicago and the deposit accounts of the Bank are insured by the FDIC up to the applicable limits.

(x) Each Subsidiary of the Bank has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, and each of the Subsidiaries has full corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement and is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which the failure to so qualify would have a material adverse effect upon the financial condition, results of operations, business affairs or prospects of the Company, the Bank and the Subsidiaries, taken as a whole; the activities of each Subsidiary are permitted to subsidiaries of a savings and loan holding company and of a federally chartered savings bank by the rules, regulations, resolutions and practices of the OTS; all of the issued and outstanding capital stock of each Subsidiary has been duly authorized and validly issued, is fully paid and non-assessable and is owned by the Bank, directly or through subsidiaries, free and clear of any security interest, mortgage, pledge, lien, encumbrance, claim or equity.

(xi) Upon consummation of the Conversion, all of the issued and outstanding capital stock of the Bank when issued and delivered pursuant to the Plan against payment of consideration calculated as set forth in the Plan, will be duly authorized and validly issued and fully paid and nonassessable, and all such capital stock will be owned beneficially and of record by the Company free and clear of any security interest, mortgage, pledge, lien, encumbrance, claim or equity.

(xii) The OTS has duly approved the Holding Company

Application and the Conversion Application and no action is pending, or to the best of such counsel's knowledge after due inquiry, threatened respecting the Holding Company Application or the Conversion Application or the acquisition by the Company of all of the Bank's issued and outstanding capital stock; the Holding Company Application and the Conversion Application comply as to form with the applicable requirements of the OTS, include all documents required to be filed as exhibits thereto, and are, to the best of such counsel's knowledge after due inquiry, truthful, accurate and complete; and the Company is duly authorized to become a savings and loan holding company and is duly authorized to own all of the issued and outstanding capital stock of the Bank to be issued pursuant to the Plan.

(xiii) The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby (A) have been duly and validly authorized by all necessary action on the part of each of the Company and the Bank, and this Agreement constitutes the legal, valid and binding agreement of each of the Company and the Bank, enforceable in accordance with its terms, except as rights to indemnity and contribution hereunder may be limited under applicable law (it being understood that such counsel may avail itself of customary exceptions concerning the effect of bankruptcy, insolvency or similar laws and the availability of equitable remedies); (B) will not result in any violation of the provisions of the charter or by-laws of the Company, the Bank or any of the Subsidiaries; and, (C) will not conflict with or constitute a breach of, or default under, and no event has occurred which, with notice or lapse of time or both, would constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance, that, individually or in the aggregate, would have a material adverse effect on the financial condition, results of operations, business affairs or prospects of the Company, the Bank and the Subsidiaries considered as one enterprise, upon any property or assets of the Company, the Bank or the Subsidiaries pursuant to any contract, indenture, mortgage, loan agreement, note, lease or other instrument to which the Company, the Bank or the Subsidiaries is a party or by which any of them may be bound, or to which any of the property or assets of the Company, the Bank or the Subsidiaries is subject.

(xiv) The Prospectus has been duly authorized by the OTS for final use pursuant to the Conversion Regulations and no action is pending, or to the best of such counsel's knowledge after due inquiry, is threatened, by the OTS to revoke such authorization.

(xv) The Registration Statement is effective under the Securities Act and no stop order suspending the effectiveness of the Registration Statement has been issued under the Securities Act or, to the best of such counsel's knowledge after due inquiry, proceedings therefor initiated or threatened by the Commission.

(xvi) No further approval, authorization, consent or other order of any public board or body is required in connection with the execution and delivery of this Agreement, the issuance of the Securities and the consummation of the Conversion, except as may be required under the securities or Blue Sky laws of various jurisdictions as to which no opinion need be rendered.

(xvii) At the time the Registration Statement became effective, the Registration Statement (other than the financial statements and statistical data included therein, as to which no opinion need be rendered) complied as to form in all material respects with the requirements of the Securities Act and the Securities Act Regulations and the Conversion Regulations.

(xviii) The Common Stock conforms to the description thereof contained in the Prospectus, and the form of certificate used to evidence the Common Stock is in due and proper form and complies with all applicable statutory requirements.

(xix) There are no legal or governmental proceedings pending or threatened against or affecting the Company, the Bank or the Subsidiaries which are required, individually or in the aggregate, to be disclosed in the Registration Statement and Prospectus, other than those disclosed therein, and all pending legal or governmental proceedings to which the Company, the Bank or any of the Subsidiaries is a party or to which any of their property is subject which are not described in the Registration Statement, including ordinary routine litigation incidental to the business, are, considered in the aggregate, not material.

(xx) The information in the Prospectus under “Risk Factors -“-Various Factors May Make Takeover Attempts That You Want to Succeed More Difficult to Achieve”, “Our Dividend Policy,” “Business of BankFinancial, F.S.B – Lending Activities—Loans to One Borrower” “Business of BankFinancial, F.S.B.- Legal Proceedings”, “Supervision and Regulation”, “Taxation”, “The Conversion; Plan of Distribution – Approvals Required” “-Effects of Conversion on Depositors, Borrowers and Members”, “-Restrictions on Transfer of Subscription Rights and Shares”, “-Liquidation Rights”, “-Material Income Tax Consequences”, “-Certain Restrictions on Purchase or Transfer of Our Shares after Conversion”, “Restrictions on Acquisitions of BankFinancial Corporation” and “Description of Capital Stock,” to the extent that it constitutes matters of law, summaries of legal matters, documents or proceedings, or legal conclusions, has been reviewed by them and is complete and accurate in all material respects.

(xxi) There are no contracts, indentures, mortgages, loan

agreements, notes, leases or other instruments required to be described or referred to in the Registration Statement or to be filed as exhibits thereto other than those described or referred to therein or filed as exhibits thereto, and the descriptions thereof or references thereto are correct, and no default exists, and no event has occurred which, with notice or lapse of time or both, would constitute a default, in the due performance or observance of any material obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, loan agreement, note, lease or other instrument so described, referred to or filed.

(xxii) The Plan has been duly authorized by the Board of Directors of the Company and the Board of Directors of the Bank and, the OTS's approval of the Plan remains in full force and effect; the Bank's charter has been amended, effective upon consummation of the Conversion and the filing of such amended charter with the OTS, to authorize the issuance of permanent capital stock; the Company and the Bank have conducted the Conversion in all material respects in accordance with applicable requirements of the Conversion Regulations, the Plan and all other applicable regulations, decisions and orders thereunder, including all material applicable terms, conditions, requirements and conditions precedent to the Conversion imposed upon the Company or the Bank by the OTS and, no order has been issued by the OTS to suspend the Conversion or the Offerings and no action for such purpose has been instituted or threatened by the OTS; and, to the best of such counsel's knowledge after due inquiry, no person has sought to obtain review of the final action of the OTS in approving the Conversion Application (which includes the Plan) or the Holding Company Application.

(xxiii) To the best of such counsel's knowledge after due inquiry, the Company and the Bank and its subsidiaries have obtained all licenses, permits and other governmental authorizations currently required for the conduct of their respective businesses as described in the Registration Statement and Prospectus, and all such licenses, permits and other governmental authorizations are in full force and effect, and the Company and the Bank and its subsidiaries are in all material respects complying therewith.

(xxiv) Neither the Company, the Bank nor any of the Subsidiaries is in violation of its certificate of incorporation, organization certificate, articles of incorporation or charter, as the case may be, or bylaws (and the Bank will not be in violation of its charter in stock form upon consummation of the Conversion) or in default (nor has any event occurred which, with notice or lapse of time or both, would constitute a default) in the performance or observance of any obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, loan agreement, note, lease or other instrument to which the Company, the Bank or any of the Subsidiaries is a party or by which the Company, the Bank or any of the Subsidiaries or any of their property may be bound.

(xxv) The Company is not and, upon completion of the Conversion and the Offerings and the sale of the Common Stock and the application of the net proceeds therefrom, will not be required to be registered as an investment company under the Investment Company Act of 1940.

(xxvi) The Company is in compliance with the applicable provisions of the Sarbanes-Oxley Act.

(2) The favorable opinion, dated as of Closing Time, of Barack Ferrazzano Kirschbaum Perlman & Nagelberg LLP, counsel for the Agent, with respect to the matters set forth in Section 5(b)(1)(i), (iv), (v), (vi) (solely as to preemptive rights arising by operation of law), (xi), (xii), (xiii), (xv), (xvii) and (xv) and such other matters as the Agent may reasonably require.

(3) In giving their opinions required by subsections (b)(1) and (b)(2), respectively, of this Section, Luse Gorman Pomerenk & Schick, P.C. and Barack Ferrazzano Kirschbaum Perlman & Nagelberg LLP shall each additionally state that nothing has come to their attention that would lead them to believe that the Registration Statement (except for financial statements and schedules and other financial or statistical data included therein, as to which counsel need make no statement), at the time it became effective, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectus (except for financial statements and schedules and other financial or statistical data included therein, as to which counsel need make no statement), at the time the Registration Statement became effective or at Closing Time, included an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. In giving their opinions, Luse Gorman Pomerenk & Schick, P.C. and Barack Ferrazzano Kirschbaum Perlman & Nagelberg LLP may rely as to matters of fact on certificates of officers and directors of the Company and the Bank and certificates of public officials, and Barack Ferrazzano Kirschbaum Perlman & Nagelberg LLP may also rely on the opinion of Luse Gorman Pomerenk & Schick, P.C..

(c) At Closing Time referred to in Section 2, the Company and the Bank shall have completed in all material respects the conditions precedent to the Conversion in accordance with the Plan, the applicable Conversion Regulations and all other applicable laws, regulations, decisions and orders, including all terms, conditions, requirements and provisions precedent to the Conversion imposed upon the Company or the Bank by the OTS, or any other regulatory authority other than those which the OTS permits to be completed after the Conversion.

(d) At Closing Time, there shall not have been, since the date hereof or since the respective dates as of which information is given in the Registration Statement and the

Prospectus, any material adverse change in the financial condition, results of operations, business affairs or prospects of the Company, the Bank and the Subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business consistent with past practice, and the Agent shall have received a certificate of the Chairman of the Board, Chief Executive Officer and President of the Company and of the Bank, the Executive Vice President, Corporate Secretary and General Counsel of the Company and of the Bank and Executive Vice President and Chief Financial Officer of the Company and of the Bank, dated as of Closing Time, to the effect that (i) there has been no such material adverse change, (ii) there shall have been no material transaction entered into by the Company or the Bank from the latest date as of which the financial condition of the Company or the Bank as set forth in the Registration Statement and the Prospectus other than transactions referred to or contemplated therein and transactions in the ordinary course of business consistent with past practice, (iii) neither the Company nor the Bank shall have received from the OTS any direction (oral or written) to make any material change in the method of conducting its business with which it has not complied (which direction, if any, shall have been disclosed to the Agent) or which materially and adversely would affect the business affairs, financial condition, results of operations or prospects of the Company, the Bank or the Subsidiaries, (iv) the representations and warranties in Section 1 hereof are true and correct with the same force and effect as though expressly made at and as of the Closing Time, (v) the Company and the Bank have complied with all agreements and satisfied all conditions on their part to be performed or satisfied at or prior to Closing Time, (vi) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been initiated or threatened by the Commission, (vii) no order suspending the Offerings or the authorization for final use of the Prospectus has been issued and no proceedings for that purpose have been initiated or threatened by the OTS or the FDIC and no person has sought to obtain regulatory or judicial review of the action of the OTS in approving the Plan in accordance with the Conversion Regulations nor has any person sought to obtain regulatory or judicial review of the action of the OTS in approving the Holding Company Application and (viii) as to such other matters as Agent may reasonably request.

(e) At the Closing Time, the Agent shall have received a certificate of the Chairman of the Board, Chief Executive Officer and President of the Company and of the Bank and the Executive Vice President and Chief Financial Officer of the Company and of the Bank, dated as of Closing Time, to the effect that (i) they have reviewed the contents of the Registration Statement and the Prospectus; (ii) based on each of their knowledge, the Registration Statement and the Prospectus do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which such statements were made, not misleading; (iii) based on each of their knowledge, the financial statements and other financial information included in the Registration Statement and the Prospectus fairly present the financial condition and results of operations of the Bank and the Subsidiaries as of and for the dates and periods covered by the Registration Statement and the Prospectus; (iv) they are responsible for establishing and maintaining internal control over financial reporting; (v) they have designed such internal control over financial reporting to ensure that material information relating to the Company, the Bank and the Subsidiaries is made known to them; (vi) they have evaluated the effectiveness of their internal control over financial reporting; and (vii) they have disclosed to Crowe Chizek and Company LLC and the audit committee (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 Company's and the Bank's ability to record, process, summarize, and report financial data, and have identified for the Company's and the Bank's auditors any material weaknesses in internal control over financial reporting and (B) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's, the Bank's and the Subsidiaries' internal control over financial reporting.

(f) At the time of the execution of this Agreement, the Agent shall have received from Crowe Chizek and Company LLC a letter dated such date, in form and substance satisfactory to the Agent, to the effect that (i) they are independent public accountants with respect to the Company, the Bank and the Subsidiaries within the meaning of the Code of Ethics of the American Institute of Certified Public Accountants, the Securities Act and the Securities Act Regulations and the Conversion Regulations, they are not in violation of the auditor independence requirements of the Sarbanes-Oxley Act and they are a registered public accounting firm with the Public Company Accounting Oversight Board; (ii) it is their opinion that the consolidated financial statements and supporting schedules included in the Registration Statement and covered by their opinions therein comply as to form in all material respects with the applicable accounting requirements of the Securities Act and the Securities Act Regulations and the Conversion Regulations; (iii) based upon limited procedures as agreed upon by the Agent and Crowe Chizek and Company LLC set forth in detail in such letter, nothing has come to their attention which causes them to believe that (A) the unaudited financial statements and supporting schedules of the Bank and its subsidiaries included in the Registration Statement do not comply as to form in all material respects with the applicable accounting requirements of the Securities Act, the Securities Act Regulations and the Conversion Regulations or are not presented in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited financial statements included in the Registration Statement and the Prospectus, (B) the unaudited amounts of net interest income and net income set forth under "Selected Financial and Other Data of the Bank" in the Registration Statement and Prospectus do not agree with the amounts set forth in unaudited consolidated financial statements as of and for the dates and periods presented under such captions or such amounts were not determined on a basis substantially consistent with that used in determining the corresponding amounts in the audited financial statements included in the Registration Statement, (C) at a specified date not more than five days prior to the date of this Agreement, there has been any increase in the borrowings of the Bank and the Subsidiaries or any decrease in total assets, securities available for sale, at fair value, loans receivable, net of allowance for loans losses, allowance for loan losses, goodwill, deposits, retained earnings or members' equity of the Bank and the Subsidiaries, in each case as compared with the amounts shown in the December 31, 2003 balance sheet included in the Registration Statement, (D) during the period from December 31, 2003 to a specified date not more than five days prior to the date of this Agreement, there were any decreases, as compared with the corresponding period in the preceding year, in interest income, net interest income, net interest income after provision for loan losses, income before income taxes or net income of the Bank and the Subsidiaries, except in all instances for increases or decreases which the Registration Statement and the Prospectus disclose have occurred or may occur, (E) the information set forth in "Selected Consolidated Financial And Other Data" does not comply as to form in all material respects with the applicable accounting requirements of the Securities Act or the Securities Act Regulations, (F) the executive compensation information contained in the Prospectus does not comply as to form in all material respects with the applicable accounting requirements of the Securities Act or the Securities Act Regulations, or

(G) the unaudited pro forma information in the unaudited historical and pro forma regulatory capital compliance table, the unaudited pro forma capitalization table and the unaudited pro forma data does not comply as to form in all material respects with the applicable accounting requirements of the Securities Act or the Securities Act Regulations and the Conversion Regulations; and (iv) in addition to the examination referred to in their opinions and the limited procedures referred to in clause (iii) above, they have carried out certain specified procedures, not constituting an audit, with respect to certain amounts, percentages and financial information which are included in the Registration Statement and the Prospectus and which are specified by the Agent, and have found such amounts, percentages and financial information to be in agreement with the relevant accounting, financial and other records of the Company, the Bank and the Subsidiaries identified in such letter.

(g) At Closing Time, the Agent shall have received from Crowe Chizek and Company LLC a letter, dated as of Closing Time, to the effect that they reaffirm the statements made in the letter furnished pursuant to subsection (d) of this Section, except that the specified date referred to shall be a date not more than five days prior to Closing Time.

(h) At Closing Time, the Securities shall have been approved for listing on the Nasdaq National Market upon notice of issuance.

(i) At Closing Time, the Agent shall have received a letter from RP Financial, LC., dated as of the Closing Time, confirming its appraisal.

(j) At Closing Time, counsel for the Agent shall have been furnished with such documents and opinions as they may require for the purpose of enabling them to pass upon the issuance and sale of the Securities as herein contemplated and related proceedings, or in order to evidence the accuracy of any of the representations or warranties, or the fulfillment of any of the conditions, herein contained; and all proceedings taken by the Company in connection with the issuance and sale of the Securities as herein contemplated shall be satisfactory in form and substance to the Agent and counsel for the Agent.

(k) At any time prior to Closing Time, (i) there shall not have occurred any material adverse change in the financial markets in the United States or elsewhere or any outbreak of hostilities or escalation thereof or other calamity or crisis the effect of which, in the judgment of the Agent, are so material and adverse as to make it impracticable to market the Securities or to enforce contracts, including subscriptions or orders, for the sale of the Securities, and (ii) trading generally on the American Stock Exchange, the New York Stock Exchange or the Nasdaq National Market shall not have been suspended, and minimum or maximum prices for trading shall not have been fixed, or maximum ranges for prices for securities shall not have been required, by any of said Exchanges or by order of the Commission or any other governmental authority, and a banking moratorium shall not have been declared by either Federal, New York or Illinois authorities.

SECTION 6. INDEMNIFICATION.

(a) The Company and the Bank, jointly and severally, agree to indemnify and

hold harmless the Agent, each person, if any, who controls the Agent, within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, and its respective partners, directors, officers, employees and agents as follows:

(i) from and against any and all loss, liability, claim, damage and expense whatsoever, as incurred, related to or arising out of the Conversion or any action taken by the Agent where acting as agent of the Company or the Bank or otherwise as described in Section 2 hereof.

(ii) from and against any and all loss, liability, claim, damage and expense whatsoever, as incurred, based upon or arising out of any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or any amendment thereto), or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein not misleading or arising out of any untrue statement or alleged untrue statement of a material fact contained in the Proxy Statement or Prospectus (or any amendment or supplement thereto) or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(iii) from and against any and all loss, liability, claim, damage and expense whatsoever, as incurred, to the extent of the aggregate amount paid in settlement of any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or of any claim whatsoever described in clauses (i) or (ii) above, if such settlement is effected with the written consent of the Company or the Bank, which consent shall not be unreasonably withheld; and

(iv) from and against any and all expense whatsoever, as incurred (including, subject to Section 6(c) hereof, the fees and disbursements of counsel chosen by the Agent), reasonably incurred in investigating, preparing for or defending against any litigation, or any investigation, proceeding or inquiry by any governmental agency or body, commenced or threatened, or any claim pending or threatened whatsoever described in clauses (i) or (ii) above, to the extent that any such expense is not paid under (i), (ii) or (iii) above;

provided, however, that the indemnification provided for in this paragraph (a) shall not apply to any loss, liability, claim, damage or expense to the extent arising out of any untrue statement or alleged untrue statement of a material fact contained in the Prospectus (or any amendment or supplement thereto) or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading which was made in reliance upon and in conformity with the Agent Information.

(b) The Agent agrees to indemnify and hold harmless the Company, the Bank, their directors, each of their officers who signed the Registration Statement, and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act against any and all loss, liability, claim, damage and expense

described in the indemnity contained in subsection (a) of this Section, as incurred, but only with respect to untrue statements or omissions, or alleged untrue statements or omissions, of a material fact made in the Prospectus (or any amendment or supplement thereto) in reliance upon and in conformity with the Agent Information.

(c) Each indemnified party shall give notice as promptly as reasonably practicable to each indemnifying party of any action commenced against it in respect of which indemnity may be sought hereunder, but failure to so notify an indemnifying party shall not relieve such indemnifying party from any liability which it may have otherwise than on account of this indemnity agreement. An indemnifying party may participate at its own expense in the defense of any such action. In no event shall the indemnifying parties be liable for fees and expenses of more than one counsel (in addition to no more than one local counsel in each separate jurisdiction in which any action or proceeding is commenced) separate from their own counsel for all indemnified parties in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances.

(d) The Company and the Bank also agree that the Agent shall not have any liability (whether direct or indirect, in contract or tort or otherwise) to the Bank, the Company, its security holders or the Bank's or the Company's creditors relating to or arising out of the engagement of the Agent pursuant to, or the performance by the Agent of the services contemplated by, this Agreement.

(e) In addition to, and without limiting, the provisions of Section (6)(a)(iv) hereof, in the event that the Agent, any person, if any, who controls the Agent within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act or any of its partners, directors, officers, employees or agents is requested or required to appear as a witness or otherwise gives testimony in any action, proceeding, investigation or inquiry brought by or on behalf of or against the Company, the Bank, the Agent or any of its respective affiliates or any participant in the transactions contemplated hereby in which the Agent or such person or agent is not named as a defendant, the Company and the Bank jointly and severally agree to reimburse the Agent or such other person for all reasonable and necessary out-of-pocket expenses incurred by it or them in connection with preparing or appearing as a witness or otherwise giving testimony and to compensate the Agent in an amount to be mutually agreed upon.

SECTION 7. CONTRIBUTION. In order to provide for just and equitable contribution in circumstances in which the indemnity agreement provided for in Section 6 hereof is for any reason held to be unenforceable by the indemnified parties although applicable in accordance with its terms, the Company, the Bank and the Agent shall contribute to the aggregate losses, liabilities, claims, damages and expenses of the nature contemplated by said indemnity agreement incurred by the Company or the Bank and the Agent, as incurred, in such proportions (i) that the Agent is responsible for that portion represented by the percentage that the maximum aggregate marketing fees included in the estimated offering expenses appearing on the cover page of the Prospectus bears to the maximum aggregate gross proceeds appearing thereon and the Company and the Bank are jointly and severally responsible for the balance or (ii) if, but only if, the allocation provided for in clause (i) is for any reason held unenforceable, in such proportion as is appropriate to reflect not only the relative benefits to the Company and the

Bank on the one hand and the Agent on the other, as reflected in clause (i), but also the relative fault of the Company and the Bank on the one hand and the Agent on the other, as well as any other relevant equitable considerations; *provided, however*, that no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section, each person, if any, who controls the Agent within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act shall have the same rights to contribution as the Agent, and each director of the Company and the Bank, each officer of the Company who signed the Registration Statement, and each person, if any, who controls the Company or the Bank within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act shall have the same rights to contribution as the Company and the Bank. Notwithstanding anything to the contrary set forth herein, to the extent permitted by applicable law, in no event shall the Agent be required to contribute an aggregate amount in excess of the aggregate marketing fees to which the Agent is entitled and actually paid pursuant to this Agreement.

SECTION 8. REPRESENTATIONS, WARRANTIES AND AGREEMENTS TO SURVIVE DELIVERY. All representations, warranties and agreements contained in this Agreement, or contained in certificates of officers of the Company or the Bank submitted pursuant hereto, shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of any Agent or controlling person, or by or on behalf of the Company, and shall survive delivery of the Securities.

SECTION 9. TERMINATION OF AGREEMENT.

(a) The Agent may terminate this Agreement, by notice to the Company, at any time at or prior to Closing Time (i) if there has been, since the date of this Agreement or since the respective dates as of which information is given in the Registration Statement, any material adverse change in the financial condition, results of operations, business affairs or prospects of the Company or the Bank, or the Company, the Bank and the Subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business, or (ii) if there has occurred any material adverse change in the financial markets in the United States or elsewhere or any outbreak of hostilities or escalation thereof or other calamity or crisis the effect of which, in the judgment of the Agent, are so material and adverse as to make it impracticable to market the Securities or to enforce contracts, including subscriptions or orders, for the sale of the Securities, (iii) if trading generally on the Nasdaq Stock Market, the American Stock Exchange or the New York Stock Exchange has been suspended, or minimum or maximum prices for trading have been fixed, or maximum ranges for prices for securities have been required, by either of said exchanges or by order of the Commission or any other governmental authority, or if a banking moratorium has been declared by either Federal, New York or Illinois authorities, (iv) if any condition specified in Section 5 shall not have been fulfilled when and as required to be fulfilled; (v) if there shall have been such material adverse change in the condition or prospects of the Company or the Bank or the prospective market for the Company's securities as in the Agent's good faith opinion would make it inadvisable to proceed with the offering, sale or delivery of the Securities; (vi) if, in the Agent's good faith opinion, the price for the Securities established by RP Financial, LC. is not reasonable or equitable under then prevailing market conditions, or (vii) if the Conversion is not consummated on or prior to [_____].

(b) If this Agreement is terminated pursuant to this Section, such termination shall be without liability of any party to any other party except as provided in Sections 2 and 4 hereof relating to the reimbursement of expenses and except that the provisions of Sections 6 and 7 hereof shall survive any termination of this Agreement.

SECTION 10. NOTICES. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given if mailed or transmitted by any standard form of telecommunication. Notices to the Agent shall be directed to the Agent at 919 Third Avenue, 6th Floor, New York, New York 10022, attention of Catherine A. Lawton, General Counsel, facsimile number (212) 466-7711; notices to the Company and the Bank shall be directed to either of them at 15W060 North Frontage Road, Burr Ridge, Illinois 60527, attention of James Brennan, facsimile number (630) 242-7569.

SECTION 11. PARTIES. This Agreement shall inure to the benefit of and be binding upon the Agent, the Company and the Bank and their respective successors. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, firm or corporation, other than the Agent, the Company and the Bank and their respective successors and the controlling persons and partners, and officers and directors referred to in Sections 6 and 7 and their heirs and legal representatives, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein or therein contained. This Agreement and all conditions and provisions hereof and thereof are intended to be for the sole and exclusive benefit of the Agent, the Company and the Bank and their respective successors, and said controlling persons and partners and officers and directors and their heirs and legal representatives, and for the benefit of no other person, firm or corporation.

SECTION 12. ENTIRE AGREEMENT; AMENDMENT. This Agreement represents the entire understanding of the parties hereto with reference to the transactions contemplated hereby and supersedes any and all other oral or written agreements heretofore made, except for the engagement letter dated September 24, 2003, by and between the Agent and the Company and the Bank, relating to the Agent's providing conversion agent services to the Company and the Bank in connection with the Conversion. No waiver, amendment or other modification of this Agreement shall be effective unless in writing and signed by the parties hereto.

SECTION 13. GOVERNING LAW AND TIME. This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to agreements made and to be performed in said State without regard to the conflicts of laws provisions thereof. Unless otherwise noted, specified times of day refer to Eastern time.

SECTION 14. SEVERABILITY. Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, the provision shall be interpreted to be only so broad as is enforceable.

SECTION 15. HEADINGS. Sections headings are not to be considered part of this Agreement, are for convenience and reference only, and are not to be deemed to be full or accurate descriptions of the contents of any paragraph or subparagraph.

[Remainder of Page Intentionally Left Blank.]

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement between the Agent, the Company and the Bank in accordance with its terms.

Very truly yours,

BANKFINANCIAL CORPORATION

By: _____

Title:

BANKFINANCIAL, F.S.B.

By: _____

Title:

CONFIRMED AND ACCEPTED,
as of the date first above written:

SANDLER O'NEILL & PARTNERS, L.P.

By: Sandler O'Neill & Partners Corp.,
the sole general partner

By: _____

[Name]
Vice President

**PLAN OF CONVERSION AND REORGANIZATION OF
BANKFINANCIAL MHC, INC.**

1. INTRODUCTION

This Plan of Conversion and Reorganization (this “Plan”) provides for the conversion of BankFinancial MHC, Inc., a federal mutual holding company (the “Mutual Holding Company”), into the capital stock form of organization. The Mutual Holding Company currently owns 100% of the common stock of BankFinancial Corporation, a federal stock corporation (the “Mid-Tier Holding Company”), which owns 100% of the common stock of BankFinancial F.S.B. (the “Bank”), a federal stock savings bank that is headquartered in Burr Ridge, Illinois. A new stock holding company (the “Holding Company”) will be established as part of the Conversion and will succeed to all the rights and obligations of the Mutual Holding Company and the Mid-Tier Holding Company and issue Common Stock in the Conversion. The purpose of the Conversion is to convert the Mutual Holding Company to the capital stock form of organization and to raise capital in the Offering. The Holding Company will offer its Common Stock in the Offering upon the terms and conditions set forth herein. The subscription rights granted to Participants in the Subscription Offering are set forth in Sections 8 through 11 hereof. All sales of Common Stock in the Community Offering or the Syndicated Community Offering will be at the sole discretion of the Board of Directors of the Bank and the Holding Company. The Conversion will have no impact on depositors, borrowers or customers of the Bank. After the Conversion, the Bank’s insured deposits will continue to be insured by the FDIC to the extent provided by applicable law.

This Plan has been adopted by the Boards of Directors of the Mutual Holding Company, the Mid-Tier Holding Company and the Bank. This Plan also must be approved by a majority of the total number of outstanding votes entitled to be cast by Voting Members of the Mutual Holding Company at a Special Meeting of Members to be called for that purpose. The OTS must approve this Plan before it is presented to Voting Members for their approval.

2. DEFINITIONS

For the purposes of this Plan, the following terms have the following meanings:

Account Holder – Any Person holding a Deposit Account in the Bank.

Acting in Concert – The term Acting in Concert means (i) knowing participation in a joint activity or interdependent conscious parallel action towards a common goal whether or not pursuant to an express agreement; or (ii) a combination or pooling of voting or other interests in the securities of an issuer for a common purpose pursuant to any contract, understanding, relationship, agreement or other arrangement, whether written or otherwise. A person or company which acts in concert with another person or company (“other party”) shall also be deemed to be acting in concert with any person or company who is also acting in concert with that other party, except that any tax-qualified employee stock benefit plan will not be deemed to be acting in concert with its trustee or a person who serves in a similar capacity solely for the purpose of determining whether stock held by the trustee and stock held by the plan will be aggregated.

Affiliate – Any Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with another Person.

Appraised Value Range – The range of the estimated consolidated pro forma market value of the Holding Company, which shall also be equal to the estimated pro forma market value of the total number of Subscription Shares to be issued in the Conversion, as determined by the Independent Appraiser prior to the Subscription Offering and as it may be amended from time to time thereafter. The maximum and minimum of the Appraised Value Range may vary as much as 15% above and 15% below, respectively, the midpoint of the Appraised Value Range.

Associate – The term Associate when used to indicate a relationship with any person, means (i) any corporation or organization (other than the Mid-Tier Holding Company, the Bank or a majority-owned subsidiary of the Bank) if the person is a senior officer or partner or beneficially owns, directly or indirectly, 10% or more of any class of equity securities of the corporation or organization, (ii) any trust or other estate, if the person has a substantial beneficial interest in the trust or estate or is a trustee or fiduciary of the trust or estate except that for the purposes of this Plan relating to subscriptions in the Offering and the sale of Subscription Shares following the Conversion, a person who has a substantial beneficial interest in any Non-Tax-Qualified Employee Stock Benefit Plan or any Tax-Qualified Employee Stock Benefit Plan, or who is a trustee or fiduciary of such plan, is not an associate of such plan, and except that, for purposes of aggregating total shares that may be held by Officers and Directors the term “Associate” does not include any Tax-Qualified Employee Stock Benefit Plan, and (iii) any person who is related by blood or marriage to such person and who lives in the same home as such person or who is a Director or Officer of the Mid-Tier Holding Company, the Bank or the Holding Company, or any of its parents or subsidiaries.

Bank – BankFinancial F.S.B., Burr Ridge, Illinois.

Bank Merger – The merger of Interim with the Bank as set forth in this Plan.

Common Stock – The common stock, par value \$0.01 per share, of the Holding Company.

Community – The Illinois counties of Cook, DuPage, Lake and Will.

Community Offering – The offering for sale to certain members of the general public directly by the Holding Company of shares not subscribed for in the Subscription Offering.

Control – (including the terms “controlling,” “controlled by,” and “under common control with”) means the direct or indirect power to direct or exercise a controlling influence over the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise as described in 12 C.F.R. Part 574.

Conversion – The conversion and reorganization of the Mutual Holding Company to stock form pursuant to this Plan, and all steps incident or necessary thereto, including the Offering.

Deposit Account – Any withdrawable account, including, without limitation, savings, time, demand, NOW accounts, money market, certificate and passbook accounts.

Director – A member of the Board of Directors of the Bank, the Mid-Tier Holding Company, the Holding Company or the Mutual Holding Company, as appropriate in the context.

Eligible Account Holder – Any Person holding a Qualifying Deposit on the Eligibility Record Date for purposes of determining subscription rights and establishing subaccount balances in the Liquidation Account.

Eligibility Record Date – The date for determining Eligible Account Holders of the Bank, which is March 31, 2003.

Employees – All Persons who are employed by the Bank, the Mid-Tier Holding Company or the Mutual Holding Company.

Employee Plans – Any one or more Tax-Qualified Employee Stock Benefit Plans of the Bank or the Holding Company, including any ESOP and 401(k) Plan.

ESOP – The Bank's Employee Stock Ownership Plan and related trust.

FDIC – The Federal Deposit Insurance Corporation.

Holding Company – The Maryland corporation formed for the purpose of acquiring all of the shares of capital stock of the Bank in connection with the Conversion. Shares of Common Stock will be issued in the Conversion to Participants and others in the Offering.

Independent Appraiser – The appraiser retained by the Mutual Holding Company, the Mid-Tier Holding Company and the Bank to prepare an appraisal of the pro forma market value of the Subscription Shares.

Interim – BankFinancial Interim Bank III, the interim federal savings bank subsidiary of the Holding Company established to effect the Conversion.

Liquidation Account – The interest in the Bank received by Eligible Account Holders and Supplemental Eligible Account Holders in exchange for their interest in the Mutual Holding Company in connection with the Conversion.

Member – Any Person or entity who qualifies as a member of the Mutual Holding Company pursuant to its charter and bylaws.

MHC Merger – The conversion of the Mutual Holding Company into an interim stock savings bank and subsequent merger with and into the Bank, which shall occur immediately prior to completion of the Conversion, as set forth in this Plan.

Mid-Tier Holding Company – BankFinancial Corporation, the federal corporation that owns 100% of the Bank's Common Stock and any successor thereto.

Mid-Tier Merger – The conversion of the Mid-Tier Holding Company into an interim stock savings bank and subsequent merger with and into the Bank, which shall occur immediately prior to completion of the Conversion, as set forth in this Plan.

Mutual Holding Company – BankFinancial MHC, Inc., the mutual holding company of the Mid-Tier Holding Company.

Offering – The offering and issuance, pursuant to this Plan, of Common Stock in a Subscription Offering, Community Offering or Syndicated Community Offering, as the case may be.

Offering Range – The range of the number of shares of Common Stock offered for sale in the Offering. The Offering Range shall be equal to the Appraised Value Range divided by the Subscription Price.

Officer – An executive officer of the Bank, the Mid-Tier Holding Company, the Holding Company or the Mutual Holding Company as appropriate in the context, which includes the Chief Executive Officer, President, Senior Vice Presidents, Executive Vice President in charge of principal business functions, Secretary and Controller and any Person performing functions similar to those performed by the foregoing persons.

Order Form – Any form (together with any cover letter and acknowledgments) sent to any Participant or Person containing among other things a description of the alternatives available to such Person under this Plan and by which any such Person may make elections regarding subscriptions for Subscription Shares.

Other Member – Any person holding a Deposit Account on the Voting Record Date who is not an Eligible Account Holder or Supplemental Eligible Account Holder, or any borrower who qualifies as a Voting Member.

OTS – The Office of Thrift Supervision, a division of the United States Department of Treasury.

Participant – Any Eligible Account Holder, Employee Plan, Supplemental Eligible Account Holder, or Other Member.

Person – An individual, a corporation, a partnership, an association, a joint-stock company, a limited liability company, a trust, an unincorporated organization, or a government or political subdivision of a government.

Plan – This Plan of Conversion and Reorganization of the Mutual Holding Company as it exists on the date hereof and as it may hereafter be amended in accordance with its terms.

Prospectus – The one or more documents used in offering the Subscription Shares.

Qualifying Deposit – The aggregate balance of all Deposit Accounts in the Bank of (i) an Eligible Account Holder at the close of business on the Eligibility Record Date, provided such aggregate balance is not less than \$50, and (ii) a Supplemental Eligible Account Holder at the close of business on the Supplemental Eligibility Record Date, provided such aggregate balance is not less than \$50.

Resident – Any Person who occupies a dwelling within the Community, has a present intent to remain within the Community for a period of time, and manifests the genuineness of that intent by establishing an ongoing physical presence within the Community together with an indication that such presence within the Community is something other than merely transitory in nature. To the extent the person is a corporation or other business entity, the principal place of business or headquarters shall be in the Community. To the extent a person is a personal benefit plan, the circumstances of the beneficiary shall apply with respect to this definition. In the case of all other benefit plans, circumstances of the trustee shall be examined for purposes of this definition. The Mutual Holding Company and the Bank may utilize deposit or loan records or such other evidence provided to it to make a determination as to whether a person is a resident. In all cases, however, such a determination shall be in the sole discretion of the Mutual Holding Company and the Bank. A Participant must be a “Resident” for purposes of determining whether such person “resides” in the Community as such term is used in this Plan.

SEC – The Securities and Exchange Commission.

Special Meeting of Members – The special meeting of Voting Members and any adjournments thereof held to consider and vote upon this Plan.

Subscription Offering – The offering of Subscription Shares to Participants.

Subscription Price – The price per Subscription Share to be paid by Participants and others in the Offering. The Subscription Price will be determined by the Board of Directors of the Holding Company and fixed prior to the commencement of the Subscription Offering.

Subscription Shares – Shares of Common Stock offered for sale in the Offering.

Supplemental Eligible Account Holder – Any Person, other than Directors and Officers of the Bank and the Mid-Tier Holding Company and their Associates, holding a Qualifying Deposit on the Supplemental Eligibility Record Date, who is not an Eligible Account Holder.

Supplemental Eligibility Record Date – The date for determining Supplemental Eligible Account Holders, which shall be the last day of the calendar quarter preceding OTS approval of the application for conversion.

Syndicated Community Offering – The offering of Subscription Shares, at the sole discretion of the Holding Company, following the Subscription and Community Offerings through a syndicate of broker-dealers.

Tax-Qualified Employee Stock Benefit Plan – Any defined benefit plan or defined contribution plan, such as an employee stock ownership plan, stock bonus plan, profit-sharing plan or other plan, which, with its related trust, meets the requirements to be “qualified” under Section 401 of the Internal Revenue Code of 1986, as amended. The Bank may make scheduled discretionary contributions to a tax-qualified employee stock benefit plan, *provided* such contributions do not cause the Bank to fail to meet its regulatory capital requirements. A “Non-Tax-Qualified Employee Stock Benefit Plan” is any defined benefit plan or defined contribution plan that is not so qualified.

Voting Member – Any Person who at the close of business on the Voting Record Date is entitled to vote as a Member of the Mutual Holding Company pursuant to its charter and bylaws.

Voting Record Date – The date fixed by the Directors for determining eligibility to vote at the Special Meeting of Members.

3. PROCEDURES FOR CONVERSION

A. After approval of this Plan by the Boards of Directors of the Bank, the Mid-Tier Holding Company and the Mutual Holding Company, this Plan together with all other requisite material shall be submitted to the OTS for approval. Notice of the adoption of this Plan by the Board of Directors of the Bank and the Board of Directors of the Mutual Holding Company and the submission of this Plan to the OTS for approval will be published in a newspaper having general circulation in each community in which an office of the Bank is located, and copies of this Plan will be made available at each office of the Bank for inspection by depositors. The Mutual Holding Company also will publish a notice of the filing with the OTS of an application to convert in accordance with the provisions of this Plan.

B. Promptly following approval by the OTS, this Plan will be submitted to a vote of the Voting Members at the Special Meeting of Members. The Mutual Holding Company will mail to all Voting Members, at their last known address appearing on the records of the Bank, a proxy statement in either long or summary form describing this Plan, which will be submitted to a vote of Voting Members at the Special Meeting of Members. The Holding Company also will mail to all Participants either a Prospectus and Order Form for the purchase of Subscription Shares or a letter informing them of their right to receive a Prospectus and Order Form and a postage prepaid card to request such materials, subject to other provisions of this Plan. In addition, all Participants will receive, or be given the opportunity to request by either returning a postage prepaid card which will be distributed with the proxy statement or by letter addressed to the Bank's Secretary, a copy of this Plan. Upon approval of this Plan by a majority of the total number of votes entitled to be cast by Voting Members, the Holding Company and the Bank will take all other necessary steps pursuant to applicable laws and regulations to consummate the Conversion and Offering. The Conversion must be completed within 24 months of the approval of this Plan by Voting Members, unless a longer time period is permitted by governing laws and regulations.

C. The Conversion will be effected as follows, or in any other manner that is consistent with the purposes of this Plan and applicable laws and regulations, including a merger of the Mutual Holding Company into the Mid-Tier Holding Company followed immediately by the Offering. The choice of which method to use to effect the Conversion will be made by the Board of Directors of the Mutual Holding Company immediately prior to the closing of the Conversion. Each of the steps set forth below shall be deemed to occur in such order as is necessary to consummate the Conversion pursuant to this Plan, the intent of the Board of Directors of the Mutual Holding Company and the Board of Directors of the Bank, and applicable federal and state regulations and policy. Approval of this Plan by Voting Members also shall constitute approval of each of the transactions necessary to implement this Plan.

- (1) The Bank will establish the Holding Company as a first-tier stock holding company subsidiary.
- (2) Holding Company will charter Interim.
- (3) The Mid-Tier Holding Company will convert to an interim stock savings bank and merge with and into the Bank (the “Mid-Tier Merger”) with the Bank as the resulting entity pursuant to the Agreement of Merger attached hereto as Exhibit A between the Mid-Tier Holding Company and the Bank, whereby the Mutual Holding Company will receive shares of Bank common stock in exchange for its Mid-Tier Holding Company common stock.
- (4) Immediately after the Mid-Tier Merger, the Mutual Holding Company will convert to an interim stock savings bank and will merge with and into the Bank (the “MHC Merger”) pursuant to the Agreement of Merger attached hereto as Exhibit B between the Mutual Holding Company and the Bank, whereby the shares of Bank common stock held by the Mutual Holding Company will be canceled and each Eligible Account Holder and Supplemental Eligible Account Holder will receive an interest in a Liquidation Account of the Bank in exchange for such person’s interest in the Mutual Holding Company.
- (5) Immediately after the MHC Merger and the Mid-Tier Merger, Interim will merge with and into the Bank with the Bank as the surviving entity (the “Bank Merger”) pursuant to the Agreement of Merger between the Bank and Interim attached hereto as Exhibit C.
- (6) Immediately after the Bank Merger, the Holding Company will offer for sale the Subscription Shares in the Offering.

D. The Holding Company shall register the issuance of the Subscription Shares with the SEC and any appropriate state securities authorities.

E. All assets, rights, interests, privileges, powers, franchises and property (real, personal and mixed) of the Mid-Tier Holding Company shall be automatically transferred to and vested in the Holding Company by virtue of the Conversion without any deed or other document of transfer. The Holding Company, without any order or action on the part of any court or otherwise and without any documents of assumption or assignment, shall hold and enjoy all of the properties, franchises and interests, including appointments, powers, designations, nominations and all other rights and interests as the agent or other fiduciary in the same manner and to the same extent as such rights, franchises, and interests and powers were held or enjoyed by the Mid-Tier Holding Company. The Holding Company shall be responsible for all of the liabilities, restrictions and duties of every kind and description of the Mid-Tier Holding Company immediately prior to the Conversion, including liabilities for all debts, obligations and

contracts of the Mid-Tier Holding Company, matured or unmatured, whether accrued, absolute, contingent or otherwise and whether or not reflected or reserved against on balance sheets, books or accounts or records of the Mid-Tier Holding Company.

F. The home office and branch offices of the Bank shall be unaffected by the Conversion. The executive offices of the Holding Company shall be located at the current offices of the Mutual Holding Company and Mid-Tier Holding Company.

4. HOLDING COMPANY APPLICATIONS AND APPROVALS

The Boards of Directors of the Mutual Holding Company, the Mid-Tier Holding Company, the Holding Company and the Bank will take all necessary steps to convert the Mutual Holding Company to stock form, form the Holding Company and complete the Offering. The Holding Company shall make timely applications to the OTS and filings with the SEC for any requisite regulatory approvals to complete the Conversion.

5. SALE OF SUBSCRIPTION SHARES

The Subscription Shares will be offered simultaneously in the Subscription Offering to the Participants in the respective priorities set forth in this Plan. The Subscription Offering may begin as early as the mailing of the Proxy Statement for the Special Meeting of Members. The Common Stock will not be insured by the FDIC. The Bank will not extend credit to any Person to purchase shares of Common Stock.

Any shares of Common Stock for which subscriptions have not been received in the Subscription Offering may be issued in the Community Offering. The Subscription Offering may begin prior to the Special Meeting of Members and, in that event, the Community Offering also may begin prior to the Special Meeting of Members. The offer and sale of Common Stock prior to the Special Meeting of Members, however, is subject to the approval of this Plan by Voting Members.

If feasible, any shares of Common Stock remaining after the Subscription Offering, and the Community Offering should one be conducted, will be sold in a Syndicated Community Offering or in any manner that will achieve the widest distribution of the Common Stock. The Syndicated Community may be conducted in addition to, or instead of, a Community Offering. The issuance of Common Stock in any Subscription Offering and any Community Offering will be consummated simultaneously on the date the sale of Common Stock in the Syndicated Community Offering is consummated and only if the required minimum number of shares of Common Stock has been issued.

6. PURCHASE PRICE AND NUMBER OF SUBSCRIPTION SHARES

The total number of shares, or a range thereof, of Subscription Shares to be offered for sale in the Offering will be determined jointly by the Boards of Directors of the Mutual Holding Company, the Mid-Tier Holding Company and the Holding Company immediately prior to the commencement of the Subscription and Community Offerings, and will be based on the Appraised Value Range and the Subscription Price. The Offering Range will be equal to the

Appraised Value Range divided by the Subscription Price. The estimated pro forma consolidated market value of the Holding Company will be subject to adjustment within the Appraised Value Range if necessitated by market or financial conditions, with the receipt of any required approvals of the OTS, and the maximum of the Appraised Value Range may be increased by up to 15% subsequent to the commencement of the Subscription Offering to reflect changes in market and financial conditions or demand for the shares. The number of Subscription Shares issued in the Offering will be equal to the estimated pro forma consolidated market value of the Holding Company, as may be amended, divided by the Subscription Price.

In the event that the Subscription Price multiplied by the number of Subscription Shares to be issued in the Offering is below the minimum of the Appraised Value Range, or materially above the maximum of the Appraised Value Range, a resolicitation of purchasers may be required, *provided* that up to a 15% increase above the maximum of the Appraised Value Range will not be deemed material so as to require a resolicitation. Any such resolicitation shall be effected in such manner and within such time as the Bank and the Mutual Holding Company shall establish, if all required regulatory approvals are obtained.

Notwithstanding the foregoing, Subscription Shares will not be issued unless, prior to the consummation of the Offering, the Independent Appraiser confirms to the Bank, the Mutual Holding Company, the Holding Company, and the OTS, that, to the best knowledge of the Independent Appraiser, nothing of a material nature has occurred which, taking into account all relevant factors, would cause the Independent Appraiser to conclude that the number of Subscription Shares issued in the Offering multiplied by the Subscription Price is incompatible with its estimate of the aggregate consolidated pro forma market value of the Holding Company. If such confirmation is not received, the Holding Company may cancel the Offering, extend the Offering and establish a new Subscription Price and/or Appraised Value Range, extend, reopen or hold a new Offering, or take such other action as the OTS may permit.

The Common Stock to be issued in the Offering shall be fully paid and non-assessable.

7. RETENTION OF OFFERING PROCEEDS BY THE HOLDING COMPANY

The Holding Company may retain up to 50% of the proceeds of the Offering. The Holding Company believes that the Offering proceeds will provide economic strength to the Holding Company and the Bank for the future in a highly competitive and regulated financial services environment and would facilitate the continued expansion through acquisitions of financial service organizations, continued diversification into other related businesses and for other business and investment purposes, including the possible payment of dividends and possible future repurchases of the Common Stock as permitted by applicable federal and state regulations and policy.

8. SUBSCRIPTION RIGHTS OF ELIGIBLE ACCOUNT HOLDERS (FIRST PRIORITY)

A. Each Eligible Account Holder shall have nontransferable subscription rights to subscribe for in the Subscription Offering up to the greater of 50,000 shares of Common Stock, 0.10% of the total number of shares of Common Stock issued in the Offering, or fifteen times the

product (rounded down to the next whole number) obtained by multiplying the number of Subscription Shares offered in the Offering by a fraction of which the numerator is the amount of the Eligible Account Holder's Qualifying Deposit and the denominator is the total amount of Qualifying Deposits of all Eligible Account Holders, in each case on the Eligibility Record Date, subject to the provisions of Section 14.

B. In the event that Eligible Account Holders exercise subscription rights for a number of Subscription Shares in excess of the total number of such shares eligible for subscription, the Subscription Shares shall be allocated among the subscribing Eligible Account Holders so as to permit each subscribing Eligible Account Holder to purchase a number of shares sufficient to make his or her total allocation of Subscription Shares equal to the lesser of 100 shares or the number of shares for which such Eligible Account Holder has subscribed. Any remaining shares will be allocated among the subscribing Eligible Account Holders whose subscriptions remain unsatisfied in the proportion that the amount of the Qualifying Deposit of each Eligible Account Holder whose subscription remains unsatisfied bears to the total amount of the Qualifying Deposits of all Eligible Account Holders whose subscriptions remain unsatisfied. If the amount so allocated exceeds the amount subscribed for by any one or more Eligible Account Holders, the excess shall be reallocated (one or more times as necessary) among those Eligible Account Holders whose subscriptions are still not fully satisfied on the same principle until all available shares have been allocated.

C. Subscription rights as Eligible Account Holders received by Directors and Officers and their Associates that are based on deposits made by such persons during the 12 months preceding the Eligibility Record Date shall be subordinated to the subscription rights of all other Eligible Account Holders.

9. SUBSCRIPTION RIGHTS OF EMPLOYEE PLANS (SECOND PRIORITY)

The Employee Plans of the Holding Company and the Bank shall have subscription rights to purchase in the aggregate up to 10% of the Subscription Shares issued in the Offering, including any Subscription Shares to be issued as a result of an increase in the maximum of the Offering Range after commencement of the Subscription Offering and prior to completion of the Offering. Consistent with applicable laws and regulations and practices and policies, the Employee Plans may use funds contributed by the Holding Company or the Bank and/or borrowed from an independent financial institution to exercise such subscription rights, and the Holding Company and the Bank may make scheduled discretionary contributions thereto, provided that such contributions do not cause the Holding Company or the Bank to fail to meet any applicable regulatory capital requirements. The Employee Plans shall not be deemed to be Associates or Affiliates of or Persons Acting in Concert with any Director or Officer of the Holding Company or the Bank. Alternatively, if permitted by the OTS, the Employee Plans may purchase all or a portion of such shares in the open market.

10. SUBSCRIPTION RIGHTS OF SUPPLEMENTAL ELIGIBLE ACCOUNT HOLDERS (THIRD PRIORITY)

A. Each Supplemental Eligible Account Holder shall have nontransferable subscription rights to subscribe for in the Subscription Offering up to the greater of 50,000 shares

of Common Stock, 0.10% of the total number of shares of Common Stock issued in the Offering, or fifteen times the product (rounded down to the next whole number) obtained by multiplying the number of shares Subscription Shares offered in the Offering by a fraction of which the numerator is the amount of the Supplemental Eligible Account Holder's Qualifying Deposit and the denominator is the total amount of Qualifying Deposits of all Supplemental Eligible Account Holders, in each case on the Supplemental Eligibility Record Date, subject to the availability of sufficient shares after filling in full all subscription orders of the Eligible Account Holders and Employee Plans and to the purchase limitations specified in Section 14.

B. In the event that Supplemental Eligible Account Holders exercise subscription rights for a number of Subscription Shares in excess of the total number of such shares eligible for subscription, the Subscription Shares shall be allocated among the subscribing Supplemental Eligible Account Holders so as to permit each such subscribing Supplemental Eligible Account Holder, to the extent possible, to purchase a number of shares sufficient to make his or her total allocation of Subscription Shares equal to the lesser of 100 shares or the number of shares for which each such Supplemental Eligible Account Holder has subscribed. Any remaining shares will be allocated among the subscribing Supplemental Eligible Account Holders whose subscriptions remain unsatisfied in the proportion that the amount of the Qualifying Deposit of each such Supplemental Eligible Account Holder bears to the total amount of the Qualifying Deposits of all Supplemental Eligible Account Holders whose subscriptions remain unsatisfied. If the amount so allocated exceeds the amount subscribed for by any one or more Supplemental Eligible Account Holders, the excess shall be reallocated (one or more times as necessary) among those Supplemental Eligible Account Holders whose subscriptions are still not fully satisfied on the same principle until all available shares have been allocated.

11. SUBSCRIPTION RIGHTS OF OTHER MEMBERS (FOURTH PRIORITY)

A. Each Other Member shall have nontransferable subscription rights to subscribe for in the Subscription Offering up to the greater of 50,000 shares of Common Stock or 0.10% of the total number of shares of Common Stock issued in the Offering, subject to the availability of sufficient shares after filling in full all subscription orders of Eligible Account Holders, Employee Plans and Supplemental Eligible Account Holders and to the purchase limitations specified in Section 14.

B. In the event that such Other Members subscribe for a number of Subscription Shares which, when added to the Subscription Shares subscribed for by the Eligible Account Holders, Employee Plans and Supplemental Eligible Account Holders, is in excess of the total number of Subscription Shares to be issued, the available shares will be allocated to Other Members so as to permit each such subscribing Other Member, to the extent possible, to purchase a number of shares sufficient to make his or her total allocation of Subscription Shares equal to the lesser of 100 shares or the number of shares for which each such Other Member has subscribed. Any remaining shares will be allocated among the subscribing Other Members whose subscriptions remain unsatisfied in the proportion that the amount of the subscription of each such Other Member bears to the total amount of the subscriptions of all Other Members whose subscriptions remain unsatisfied.

12. COMMUNITY OFFERING

If subscriptions are not received for all Subscription Shares offered for sale in the Subscription Offering, shares for which subscriptions have not been received may be issued for sale in the Community Offering through a direct community marketing program which may use a broker, dealer, consultant or investment banking firm experienced and expert in the sale of savings institutions securities. Such entities may be compensated on a fixed fee basis or on a commission basis, or a combination thereof. In the event orders for Common Stock in the Community Offering exceed the number of shares available for sale, shares may be allocated (to the extent shares remain available) first to cover orders of natural persons residing in the Community, and thereafter to cover orders of other members of the general public, so that each Person in such category of the Community Offering may receive 100 shares. In the event orders for Common Stock in any of these categories exceed the number of shares available for sale, shares any be allocated on a pro rata basis within a category based on the amount of the respective orders. In addition, orders received for Common Stock in the Community Offering will first be filled up to a maximum of two percent (2%) of the shares sold in the Offering, and thereafter any remaining shares will be allocated on an equal number of shares basis per order. The Holding Company shall use its best efforts consistent with this Plan to distribute Common Stock sold in the Community Offering in such a manner as to promote the widest distribution practicable of such stock. The Holding Company reserves the right to reject any or all orders in whole or in part, which are received in the Community Offering. Any Person may purchase up to 50,000 shares of Common Stock in the Community Offering, subject to the purchase limitations specified in Section 14.

13. SYNDICATED COMMUNITY OFFERING

If feasible, the Board of Directors may determine to offer Subscription Shares not issued in the Subscription Offering or the Community Offering in a Syndicated Community, subject to such terms, conditions and procedures as may be determined by the Holding Company, in a manner that will achieve the widest distribution of the Common Stock, subject to the right of the Holding Company to accept or reject in whole or in part any subscriptions in the Syndicated Community Offering. In the Syndicated Community Offering, any Person may purchase up to 50,000 shares of Common Stock, subject to the purchase limitations specified in Section 14.

Provided that the Subscription Offering has begun, the Holding Company may begin the Syndicated Community Offering at any time, *provided* that the completion of the offer and sale of the Common Stock will be conditioned upon the approval of this Plan by Voting Members. If the Syndicated Community Offering does not begin pursuant to the provisions of the preceding sentence, such offering will begin as soon as practicable following the date upon which the Subscription and Community Offerings terminate.

If for any reason a Syndicated Community Offering of shares of Common Stock not sold in the Subscription and Community Offerings cannot be effected, or in the event that any insignificant residue of shares of Common Stock is not sold in the Subscription and Community Offerings or in the Syndicated Community, if possible, the Holding Company will make other arrangements for the disposition of unsubscribed shares aggregating at least the minimum of the Offering Range. Such other purchase arrangements will be subject to receipt of any required approval of the OTS.

14. LIMITATION ON PURCHASES

The following limitations shall apply to all purchases and issuances of shares of Subscription Shares:

A. The maximum number of Common Stock that may be subscribed for or purchased in all categories in the Offering by any Person or Participant together with any Associate or group of Persons Acting in Concert shall not exceed 75,000 shares of Common Stock, except that the Employee Plans may subscribe for up to 10% of the Common Stock issued in the Offering (including shares issued in the event of an increase in the maximum of the Offering Range of 15%).

B. The maximum number of shares of Common Stock that may be issued to or purchased in all categories of the Offering by Officers and Directors and their Associates in the aggregate, shall not exceed 25% of the shares of Common Stock issued in the Offering.

C. A minimum of 25 shares of Common Stock must be purchased by each Person purchasing shares in the Offering to the extent those shares are available; *provided, however*, that in the event the minimum number of shares of Common Stock purchased times the price per share exceeds \$500, then such minimum purchase requirement shall be reduced to such number of shares which when multiplied by the price per share shall not exceed \$500, as determined by the Board.

D. The maximum number of shares of Common Stock that may be subscribed for or purchased in the Offering by any Person or Participant together with any Associate or group of Persons Acting in Concert, shall not exceed 5.0% of the shares of Common Stock issued and outstanding at the completion of the Offering, except that this limitation shall not apply to the Employee Plans.

If the number of shares of Common Stock otherwise allocable pursuant to Sections 8 through 13, inclusive, to any Person or that Person's Associates would be in excess of the maximum number of shares permitted as set forth above, the number of shares of Common Stock allocated to each such person shall be reduced to the lowest limitation applicable to that Person, and then the number of shares allocated to each group consisting of a Person and that Person's Associates shall be reduced so that the aggregate allocation to that Person and his or her Associates complies with the above limits.

Depending upon market or financial conditions, the Board of Directors of the Holding Company, with the receipt of any required approvals of the OTS and without further approval of Voting Members, may decrease or increase the purchase limitations in this Plan, *provided* that the maximum purchase limitations may not be increased to a percentage in excess of 5% of the shares issued in the Offering except as provided below. If the Holding Company increases the maximum purchase limitations, the Holding Company is only required to resolicit Persons who subscribed for the maximum purchase amount in the Subscription Offering and may, in the sole discretion of the Holding Company, resolicit certain other large subscribers. In the event that the

maximum purchase limitation is increased to 5% of the shares issued in the Offering, such limitation may be further increased to 9.99%, *provided* that orders for Common Stock exceeding 5% of the shares of Common Stock issued in the Offering shall not exceed in the aggregate 10% of the total shares of Common Stock issued in the Offering. Requests to purchase additional Subscription Shares in the event that the purchase limitation is so increased will be determined by the Board of Directors of the Holding Company in its sole discretion.

In the event of an increase in the total number of shares offered in the Subscription Offering due to an increase in the maximum of the Offering Range of up to 15% (the "Adjusted Maximum"), the additional shares will be used to fill the Employee Plans orders and then will be allocated in accordance with the priorities set forth in this Plan.

For purposes of this Section 14, the Directors of the Bank, the Mid-Tier Holding Company and the Holding Company shall not be deemed to be Associates or a group affiliated with each other or otherwise Acting in Concert solely as a result of their being Directors of the Bank, the Mid-Tier Holding Company or the Holding Company.

Each Person purchasing Common Stock in the Offering shall be deemed to confirm that such purchase does not conflict with the above purchase limitations contained in this Plan.

15. PAYMENT FOR SUBSCRIPTION SHARES

All payments for Common Stock subscribed for in the Subscription Offering and Community Offering must be delivered in full to the Bank or Holding Company, together with a properly completed and executed Order Form, on or prior to the expiration date of the Offering; *provided, however*, that if the Employee Plans subscribe for shares in the Subscription Offering, such plans will not be required to pay for the shares at the time they subscribe but rather may pay for such shares of Common Stock subscribed for by such plans at the Subscription Price upon consummation of the Offering.

Payment for Common Stock subscribed for shall be made by check, money order or bank draft. Alternatively, subscribers in the Subscription and Community Offerings may pay for the shares for which they have subscribed by authorizing the Bank on the Order Form to make a withdrawal from the designated types of Deposit Accounts at the Bank in an amount equal to the aggregate Subscription Price of such shares. Such authorized withdrawal shall be without penalty as to premature withdrawal. If the authorized withdrawal is from a certificate account, and the remaining balance does not meet the applicable minimum balance requirement, the certificate shall be canceled at the time of withdrawal, without penalty, and the remaining balance will earn interest at the passbook rate. Funds for which a withdrawal is authorized will remain in the subscriber's Deposit Account but may not be used by the subscriber during the Subscription and Community Offerings. Thereafter, the withdrawal will be given effect only to the extent necessary to satisfy the subscription (to the extent it can be filled) at the Subscription Price per share. Interest will continue to be earned on any amounts authorized for withdrawal until such withdrawal is given effect. Interest on funds received in cash, check or money order will be paid by the Bank at not less than the passbook rate on payments for Common Stock. Such interest will be paid from the date payment is received by the Bank until consummation or termination of the Offering. If for any reason the Offering is not consummated, all payments

made by subscribers in the Subscription and Community Offerings will be refunded to them with interest. In case of amounts authorized for withdrawal from Deposit Accounts, refunds will be made by canceling the authorization for withdrawal. The Bank is prohibited by regulation from knowingly making any loans or granting any lines of credit for the purchase of stock in the Offering, and therefore, will not do so.

16. MANNER OF EXERCISING SUBSCRIPTION RIGHTS THROUGH ORDER FORMS

As soon as practicable after the Prospectus prepared by the Holding Company and Bank has been declared effective by the SEC, Order Forms will be distributed to the Eligible Account Holders, Employee Plans, Supplemental Eligible Account Holders and Other Members at their last known addresses appearing on the records of the Bank for the purpose of subscribing for shares of Common Stock in the Subscription Offering and will be made available for use by those Persons to whom a Prospectus is delivered.

Each Order Form will be preceded or accompanied by a prospectus describing the Holding Company, the Bank, the Common Stock and the Offering. Each Order Form will contain, among other things, the following:

A. A specified date by which all Order Forms must be received by the Bank or the Holding Company, which date shall be not less than 20 days, nor more than 45 days, following the date on which the Order Forms are mailed by the Holding Company, and which date will constitute the termination of the Subscription Offering unless extended;

B. The Subscription Price per share for shares of Common Stock to be sold in the Offering;

C. A description of the minimum and maximum number of Subscription Shares that may be subscribed for pursuant to the exercise of subscription rights or otherwise purchased in the Subscription and Community Offering;

D. Instructions as to how the recipient of the Order Form is to indicate thereon the number of Subscription Shares for which such person elects to subscribe and the available alternative methods of payment therefor;

E. An acknowledgment that the recipient of the Order Form has received a final copy of the prospectus prior to execution of the Order Form;

F. A statement to the effect that all subscription rights are nontransferable, will be void at the end of the Subscription Offering, and can only be exercised by delivering to the Holding Company within the subscription period such properly completed and executed Order Form, together with payment in the full amount of the aggregate purchase price as specified in the Order Form for the shares of Common Stock for which the recipient elects to subscribe in the Subscription Offering (or by authorizing on the Order Form that the Bank withdraw said amount from the subscriber's Deposit Account at the Bank); and

G. A statement to the effect that the executed Order Form, once received by the Holding Company, may not be modified or amended by the subscriber without the consent of the Holding Company.

Notwithstanding the above, the Holding Company reserves the right in its sole discretion to accept or reject orders received on photocopied or facsimiled order forms.

17. UNDELIVERED, DEFECTIVE OR LATE ORDER FORM; INSUFFICIENT PAYMENT

In the event Order Forms (a) are not delivered by the United States Postal Service, (b) are not received back by the Holding Company or are received by the Holding Company after the expiration date specified thereon, (c) are defectively filled out or executed, (d) are not accompanied by the full required payment, unless waived by the Holding Company, for the shares of Common Stock subscribed for (including cases in which deposit accounts from which withdrawals are authorized are insufficient to cover the amount of the required payment), or (e) are not mailed pursuant to a "no mail" order placed in effect by the account holder, the subscription rights of the Person to whom such rights have been granted will lapse as though such Person failed to return the completed Order Form within the time period specified thereon; *provided, however*, that the Holding Company may, but will not be required to, waive any immaterial irregularity on any Order Form or require the submission of corrected Order Forms or the remittance of full payment for subscribed shares by such date as the Holding Company may specify. The interpretation of the Holding Company of terms and conditions of this Plan and of the Order Forms will be final, subject to the authority of the OTS.

18. RESIDENTS OF FOREIGN COUNTRIES AND CERTAIN STATES

The Holding Company will make reasonable efforts to comply with the securities laws of all States in the United States in which Persons entitled to subscribe for shares of Common Stock pursuant to this Plan reside. However, no such Person will be issued subscription rights or be permitted to purchase shares of Common Stock in the Subscription Offering if such Person resides in a foreign country; or in a State of the United States with respect to which any of the following apply: (A) a small number of Persons otherwise eligible to subscribe for shares under this Plan reside in such state; (B) the issuance of subscription rights or the offer or sale of shares of Common Stock to such Persons would require the Holding Company under the securities laws of such state, to register as a broker, dealer, salesman or agent or to register or otherwise qualify its securities for sale in such state; and (C) such registration or qualification would be impracticable for reasons of cost or otherwise.

19. ESTABLISHMENT OF LIQUIDATION ACCOUNT

The Bank shall establish at the time of the MHC Merger, a Liquidation Account in an amount equal to the Mutual Holding Company's total equity as reflected in the latest statement of financial condition contained in the final Prospectus used in the Offering. Following the Conversion, the Liquidation Account will be maintained by the Bank for the benefit of the Eligible Account Holders and Supplemental Eligible Account Holders who continue to maintain their Deposit Accounts at the Bank. Each Eligible Account Holder and Supplemental Eligible

Account Holder shall, with respect to his Deposit Account, hold a related inchoate interest in a portion of the Liquidation Account balance, in relation to his Deposit Account balance at the Eligibility Record Date or Supplemental Eligibility Record Date, respectively, or to such balance as it may be subsequently reduced, as hereinafter provided.

In the unlikely event of a complete liquidation of the Bank (and only in such event), following all liquidation payments to creditors (including those to Account Holders to the extent of their Deposit Accounts) each Eligible Account Holder and Supplemental Eligible Account Holder shall be entitled to receive a liquidating distribution from the Liquidation Account, in the amount of the then adjusted subaccount balance for his Deposit Account then held, before any liquidation distribution may be made to any holders of the Bank's capital stock. No merger, consolidation, purchase of bulk assets with assumption of Deposit Accounts and other liabilities, or similar transactions with an FDIC-insured institution, in which the Bank is not the surviving institution, shall be deemed to be a complete liquidation for this purpose. In such transactions, the Liquidation Account shall be assumed by the surviving institution.

The initial subaccount balance for a Deposit Account held by an Eligible Account Holder and Supplemental Eligible Account Holder shall be determined by multiplying the opening balance in the Liquidation Account by a fraction, the numerator of which is the amount of the Qualifying Deposits of such Account Holder and the denominator of which is the total amount of all Qualifying Deposits of all Eligible Account Holders and Supplemental Account Holders. For Deposit Accounts in existence at both the Eligibility Record Date and the Supplemental Eligibility Record Date, separate initial subaccount balances shall be determined on the basis of the Qualifying Deposits in such Deposit Account on each such record date. Such initial subaccount balance shall not be increased, but shall be subject to downward adjustment as described below.

If, at the close of business on any December 31 annual closing date, commencing on or after the effective date of the Conversion, the deposit balance in the Deposit Account of an Eligible Account Holder or Supplemental Eligible Account Holder is less than the lesser of (i) the balance in the Deposit Account at the close of business on any other annual closing date subsequent to the Eligibility Record Date or Supplemental Eligibility Record Date, or (ii) the amount of the Qualifying Deposit in such Deposit Account as of the Eligibility Record Date or Supplemental Eligibility Record Date, the subaccount balance for such Deposit Account shall be adjusted by reducing such subaccount balance in an amount proportionate to the reduction in such deposit balance. In the event of such downward adjustment, the subaccount balance shall not be subsequently increased, notwithstanding any subsequent increase in the deposit balance of the related Deposit Account. If any such Deposit Account is closed, the related subaccount shall be reduced to zero.

The creation and maintenance of the Liquidation Account shall not operate to restrict the use or application of any of the equity accounts of the Bank, except that the Bank shall not declare or pay a cash dividend on, or repurchase any of, its capital stock if the effect thereof would cause its equity to be reduced below (i) the amount required for the Liquidation Account; or (ii) the regulatory capital requirements of the Bank.

20. VOTING RIGHTS OF STOCKHOLDERS

Following consummation of the Conversion, the holders of the voting capital stock of the Holding Company shall have the exclusive voting rights with respect to the Holding Company.

21. RESTRICTIONS ON RESALE OR SUBSEQUENT DISPOSITION

A. All shares of Common Stock purchased by Directors or Officers of the Holding Company or the Bank in the Offering shall be subject to the restriction that, except as provided in this Section 21 or as may be approved by the OTS, no interest in such shares may be sold or otherwise disposed of for value for a period of one year following the date of purchase in the Offering.

B. The restriction on disposition of Subscription Shares set forth above in this Section 21 shall not apply to the following:

- (1) Any exchange of such shares in connection with a merger or acquisition involving the Bank or the Holding Company, as the case may be, which has been approved by the appropriate federal regulatory agency; and
- (2) Any disposition of such shares following the death of the person to whom such shares were initially sold under the terms of this Plan.

C. With respect to all Subscription Shares subject to restrictions on resale or subsequent disposition, each of the following provisions shall apply:

- (1) Each certificate representing shares restricted by this section shall bear a legend prominently stamped on its face giving notice of the restriction;
- (2) Instructions shall be issued to the stock transfer agent for the Holding Company not to recognize or effect any transfer of any certificate or record of ownership of any such shares in violation of the restriction on transfer; and
- (3) Any shares of capital stock of the Holding Company issued with respect to a stock dividend, stock split, or otherwise with respect to ownership of outstanding Subscription Shares subject to the restriction on transfer hereunder shall be subject to the same restriction as is applicable to such Subscription Shares.

22. REQUIREMENTS FOR STOCK PURCHASES BY DIRECTORS AND OFFICERS FOLLOWING THE CONVERSION

For a period of three years following the Conversion, no Officer, Director or their Associates shall purchase, without the prior written approval of the OTS, any outstanding shares of Common Stock except from a broker-dealer registered with the SEC. This provision shall not apply to negotiated transactions involving more than 1% of the outstanding shares of Common Stock, the exercise of any options pursuant to a stock option plan or purchases of Common Stock

made by or held by any Tax-Qualified Employee Stock Benefit Plan or Non-Tax-Qualified Employee Stock Benefit Plan of the Bank or the Holding Company (including the Employee Plans) which may be attributable to any Officer or Director. As used herein, the term “negotiated transaction” means a transaction in which the securities are offered and the terms and arrangements relating to any sale are arrived at through direct communications between the seller or any person acting on its behalf and the purchaser or his investment representative. The term “investment representative” shall mean a professional investment advisor acting as agent for the purchaser and independent of the seller and not acting on behalf of the seller in connection with the transaction.

23. TRANSFER OF DEPOSIT ACCOUNTS

Each person holding a Deposit Account at the Bank at the time of Conversion shall retain an identical Deposit Account at the Bank following Conversion in the same amount and subject to the same terms and conditions (except as to voting and liquidation rights).

24. REGISTRATION AND MARKETING

Within the time period required by applicable laws and regulations, the Holding Company will register the securities issued in connection with the Offering pursuant to the Securities Exchange Act of 1934 and will not deregister such securities for a period of at least three years thereafter, except that the requirement that registration be maintained for three years may be fulfilled by any successor to the Holding Company. In addition, the Holding Company will use its best efforts to encourage and assist a market-maker to establish and maintain a market for the Common Stock and to list those securities on a national or regional securities exchange or the Nasdaq Stock Market.

25. TAX RULINGS OR OPINIONS

Consummation of the Conversion is expressly conditioned upon prior receipt by the Mutual Holding Company, the Mid-Tier Holding Company and the Bank of either a ruling or an opinion of counsel with respect to federal tax laws, and either a ruling, an opinion of counsel, or a letter of advice from their tax advisor with respect to applicable state tax laws, to the effect that consummation of the transactions contemplated by the Conversion and this Plan will not result in a taxable reorganization under the provisions of the applicable codes or otherwise result in any adverse tax consequences to the Mutual Holding Company, the Mid-Tier Holding Company, the Holding Company or the Bank, or the account holders receiving subscription rights before or after the Conversion, except in each case to the extent, if any, that subscription rights are deemed to have value on the date such rights are issued.

26. STOCK BENEFIT PLANS AND EMPLOYMENT AGREEMENTS

A. The Holding Company and the Bank are authorized to adopt Tax-Qualified Employee Stock Benefit Plans in connection with the Offering, including without limitation, an ESOP. Existing as well as any newly created Tax-Qualified Employee Stock Benefit Plans may purchase shares of Common Stock in the Offering, to the extent permitted by the terms of such benefit plans and this Plan.

B. The Holding Company and the Bank are authorized to enter into employment agreements with their executive officers.

C. The Holding Company and the Bank are authorized to adopt stock option plans, restricted stock grant plans and other Non-Tax-Qualified Employee Stock Benefit Plans, provided that such plans conform to any applicable requirements of federal regulations.

27. RESTRICTIONS ON ACQUISITION OF BANK AND HOLDING COMPANY

- A. (1) The charter of the Bank may contain a provision stipulating that no person, except the Holding Company, for a period of five years following the closing date of the Offering, may directly or indirectly acquire or offer to acquire the beneficial ownership of more than 10% of any class of an equity security of the Bank, without the prior written approval of the OTS. In addition, such charter may also provide that for a period of five years following the closing date of the Conversion, shares beneficially owned in violation of the above-described charter provision shall not be entitled to vote and shall not be voted by any person or counted as voting stock in connection with any matter submitted to stockholders for a vote. In addition, special meetings of the stockholders relating to changes in control or amendment of the charter may only be called by the Board of Directors, and shareholders shall not be permitted to cumulate their votes for the election of Directors.
- (2) For a period of three years from the date of consummation of the Conversion, no person, other than the Holding Company, may directly or indirectly offer to acquire or acquire the beneficial ownership of more than 10% of any class of an equity security of the Bank without the prior written consent of the OTS.

B. The Articles of Incorporation of the Holding Company may contain a provision stipulating that in no event shall any record owner of any outstanding shares of Common Stock who beneficially owns in excess of 10% of such outstanding shares be entitled or permitted to any vote with respect to any shares held in excess of 10%. In addition, the Articles of Incorporation and Bylaws of the Holding Company may contain provisions which prohibit cumulative voting for the election of directors and provide for staggered terms of the directors, limitations on the calling of special meetings, a fair price provision for certain business combinations and certain notice requirements.

C. For the purposes of this section:

- (1) The term "person" includes an individual, a firm, a corporation or other entity;
- (2) The term "offer" includes every offer to buy or acquire, solicitation of an offer to sell, tender offer for, or request or invitation for tenders of, a security or interest in a security for value;

- (3) The term “acquire” includes every type of acquisition, whether effected by purchase, exchange, operation of law or otherwise; and
- (4) The term “security” includes non-transferable subscription rights issued pursuant to a plan of conversion as well as a “security” as defined in 15 U.S.C. § 77b(a)1.

28. PAYMENT OF DIVIDENDS AND REPURCHASE OF STOCK

A. The Holding Company shall comply with any applicable regulation in the repurchase of any shares of its capital stock following consummation of the Conversion.

B. The Bank shall not declare or pay a cash dividend on, or repurchase any of, its capital stock if the effect thereof would cause its regulatory capital to be reduced below (i) the amount required for the liquidation account, or (ii) the federal or state regulatory capital requirements.

29. CONSUMMATION OF CONVERSION AND EFFECTIVE DATE

The Effective Date of the Conversion shall be the date upon which the Articles of Combination (or similar documents) shall be filed with OTS with respect to the MHC Merger, the Mid-Tier Merger and the Bank Merger. The Articles of Combination shall be filed after all requisite regulatory and depositor approvals have been obtained, all applicable waiting periods have expired, and sufficient subscriptions and orders for Subscription Shares have been received. The Closing of the sale of all shares of Common Stock sold in the Offering shall occur simultaneously on the effective date of the Closing.

30. EXPENSES OF CONVERSION

The Mutual Holding Company, the Mid-Tier Holding Company, the Bank and the Holding Company may retain and pay for the services of legal, financial and other advisors to assist in connection with any or all aspects of the Conversion, including the Offering, and such parties shall use their best efforts to assure that such expenses are reasonable.

31. AMENDMENT OR TERMINATION OF PLAN

If deemed necessary or desirable, this Plan may be substantively amended as a result of comments from the OTS or otherwise at any time prior to solicitation of proxies from Voting Members to vote on this Plan by the Board of Directors of the Mutual Holding Company, and at any time thereafter by the Board of Directors of the Mutual Holding Company with the concurrence of the OTS. Any amendment to this Plan made after approval by Voting Members with the approval of the OTS shall not require further approval by Voting Members unless otherwise required by the OTS. The Board of Directors of the Mutual Holding Company may terminate this Plan at any time prior to the Special Meeting of Members to vote on this Plan, and at any time thereafter with the concurrence of the OTS.

By adopting this Plan, Voting Members of the Mutual Holding Company authorize the Board of Directors of the Mutual Holding Company to amend or terminate this Plan under the circumstances set forth in this Section 32.

32. CONDITIONS TO CONVERSION

Consummation of the Conversion pursuant to this Plan is expressly conditioned upon the following:

A. Prior receipt by the Mutual Holding Company, the Mid-Tier Holding Company, and the Bank of rulings of the United States Internal Revenue Service and the state taxing authorities, or opinions of counsel or tax advisers as described in Section 25 hereof;

B. The issuance of the Subscription Shares offered in the Offering; and

C. The completion of the Conversion within the time period specified in Section 3 of this Plan.

33. INTERPRETATION

All interpretations of this Plan and application of its provisions to particular circumstances by a majority of the Board of Directors of the Mutual Holding Company shall be final, subject to the authority of the OTS.

Dated: August 25, 2004, as amended on September 21, 2004 and October 27, 2004

EXHIBIT A

**AGREEMENT OF MERGER BETWEEN
BANKFINANCIAL CORPORATION, BANKFINANCIAL INTERIM BANK I,
AND BANKFINANCIAL F.S.B.**

**FORM OF
AGREEMENT OF MERGER BETWEEN
BANKFINANCIAL CORPORATION, BANKFINANCIAL INTERIM BANK I, AND
BANKFINANCIAL F.S.B.**

THIS AGREEMENT OF MERGER (the "Mid-Tier Merger Agreement") dated as of _____, 2004, is made by and between BankFinancial Corporation, a federal corporation (the "Mid-Tier Holding Company"), BankFinancial F.S.B., a federal savings bank (the "Bank"), and BankFinancial Interim Bank I, an interim federal savings bank ("Interim I").

R E C I T A L S :

1. The Mid-Tier Holding Company is a federal corporation that owns 100% of the common stock of the Bank.
2. Contemporaneously with the transactions contemplated by this Mid-Tier Merger Agreement, the Mid-Tier Holding Company will exchange its charter for that of Interim I, and Interim I will merge with and into the Bank with the Bank as the surviving entity.
3. At least two-thirds of the members of the boards of directors of the Bank and the Mid-Tier Holding Company have approved this Mid-Tier Merger Agreement whereby Interim I shall be merged with and into the Bank with the Bank as the surviving or resulting institution (the "Mid-Tier Merger"), and have authorized the execution and delivery thereof.

NOW, THEREFORE, in consideration of the premises and mutual agreements contained herein, the parties hereto have agreed as follows:

1. **Merger.** At and on the Effective Date of the Mid-Tier Merger, (i) the Mid-Tier Holding Company will exchange its charter for that of Interim I, and will merge with and into the Bank with the Bank as the resulting entity (the "Resulting Institution"), and (ii) the Mutual Holding Company shall receive shares of Bank common stock in exchange for its Mid-Tier Holding Company common stock.

2. **Effective Date.** The Mid-Tier Merger shall not be effective until and unless (i) the Mid-Tier Merger is approved by the Office of Thrift Supervision (the "OTS") after approval by at least two-thirds of the outstanding common stock of the Mid-Tier Holding Company and of the Bank, (ii) the Plan is approved by a majority of the total outstanding votes held by Voting Members, and (iii) the Articles of Combination shall have been filed with the OTS with respect to the Mid-Tier Merger. Approval of the Plan by the Voting Members shall constitute approval of the Mid-Tier Merger Agreement by the Voting Members. Approval of the Plan by the sole stockholder of the Mid-Tier Holding Company and by the sole stockholder of the Bank shall constitute approval of the Mid-Tier Merger Agreement by such stockholder.

3. **Name.** The name of the Resulting Institution shall be BankFinancial F.S.B.

4. **Offices.** The main banking office of the Resulting Institution shall be 15W060 North Frontage Road, Burr Ridge, Illinois 60527. The branch offices of the Bank that were in lawful operation prior to the Mid-Tier Merger shall be operated as branch offices of the Resulting Institution.

5. **Directors and Officers.** The directors and officers of the Bank immediately prior to the Effective Date shall be the directors and officers of the Resulting Institution after the Effective Date.

6. **Rights and Duties of the Resulting Institution.** At the Effective Date, the Mid-Tier Holding Company shall convert to Interim I, which shall be merged with and into the Bank with the Bank as the Resulting Institution. The business of the Resulting Institution shall be that of a federal savings bank as provided in its Charter. All assets, rights, interests, privileges, powers, franchises and property (real, personal and mixed) of the Mid-Tier Holding Company, the Bank and Interim I shall be transferred automatically to and vested in the Resulting Institution by virtue of the Mid-Tier Merger without any deed or other document of transfer. The Resulting Institution, without any order or action on the part of any court or otherwise and without any documents of assumption or assignment, shall hold and enjoy all of the properties, franchises and interests, including appointments, powers, designations, nominations and all other rights and interests as the agent or other fiduciary in the same manner and to the same extent as such rights, franchises, and interests and powers were held or enjoyed by the Bank, the Mid-Tier Holding Company and Interim I. The Resulting Institution shall be responsible for all of the liabilities, restrictions and duties of every kind and description of the Mid-Tier Holding Company, the Bank and Interim I immediately prior to the Mid-Tier Merger, including liabilities for all debts, obligations and contracts of the Mid-Tier Holding Company, the Bank and Interim I, matured or unmatured, whether accrued, absolute, contingent or otherwise and whether or not reflected or reserved against on balance sheets, books of accounts or records of the Mid-Tier Holding Company, the Bank and Interim I. The stockholders of the Bank shall possess all voting rights with respect to the shares of stock of Interim I and the Mid-Tier Holding Company. All rights of creditors and other obligees and all liens on property of the Bank, the Mid-Tier Holding Company and Interim I shall be preserved and shall not be released or impaired.

7. **Other Terms.** All terms used in this Mid-Tier Merger Agreement shall, unless defined herein, have the meanings set forth in the Plan. The Plan is incorporated herein by this reference and made a part hereof to the extent necessary or appropriate to effect and consummate the terms of this Mid-Tier Merger Agreement and the Conversion.

IN WITNESS WHEREOF, the Mid-Tier Holding Company, Interim I and the Bank have caused this Mid-Tier Merger Agreement to be executed as of the date first above written.

BankFinancial Corporation
(a federal corporation)

ATTEST:

James J. Brennan, Corporate Secretary

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

BankFinancial F.S.B.
(a federal savings bank)

ATTEST:

James J. Brennan, Corporate Secretary

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

BankFinancial Interim Bank I
(an interim federal savings bank)

ATTEST:

James J. Brennan, Corporate Secretary

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

EXHIBIT B

**AGREEMENT OF MERGER BETWEEN
BANKFINANCIAL MHC, INC.,
BANKFINANCIAL INTERIM BANK II, AND BANKFINANCIAL F.S.B.**

EXHIBIT B
FORM OF
AGREEMENT OF MERGER BETWEEN
BANKFINANCIAL MHC, INC.,
BANKFINANCIAL INTERIM BANK II, AND BANKFINANCIAL F.S.B.

THIS AGREEMENT OF MERGER (the "MHC Merger Agreement"), dated as of _____, 2004, is made by and between BankFinancial MHC, Inc., a federal corporation (the "Mutual Holding Company"), BankFinancial F.S.B., a federal savings bank (the "Bank"), and BankFinancial Interim Bank II, an interim federal savings bank ("Interim II").

R E C I T A L S:

1. The Mutual Holding Company is a federal corporation that owns all of the common stock of the Bank as a result of the merger of BankFinancial Corporation, a federal corporation, into the Bank (the "Mid-Tier Merger") immediately prior to the merger provided for in this MHC Merger Agreement.

2. Contemporaneously with the transactions contemplated by this MHC Merger Agreement, the Mutual Holding Company will exchange its charter for that of Interim II and Interim II will merge with and into the Bank with the Bank as the resulting entity.

3. At least two-thirds of the members of the boards of directors of the Bank and the Mutual Holding Company have approved this MHC Merger Agreement whereby Interim II will be merged with and into the Bank with the Bank as the surviving or resulting institution (the "MHC Merger"), and authorized the execution and delivery thereof.

NOW, THEREFORE, in consideration of the premises and mutual agreements contained herein, the parties hereto have agreed as follows:

1. **Merger.** At and on the Effective Date of the MHC Merger, (i) the Mutual Holding Company shall exchange its charter for that of Interim II, and will merge with and into the Bank with the Bank as the resulting entity (the "Resulting Institution"), whereupon all shares of Bank common stock owned by the Mutual Holding Company shall be canceled. As part of the MHC Merger, each Eligible Account Holder and Supplemental Eligible Account Holder (as defined in the Plan of Conversion and Reorganization (the "Plan")), shall automatically receive an interest in the Liquidation Account established in the Bank, in exchange for such person's interest in the Mutual Holding Company as set forth in the Plan.

2. **Effective Date.** The MHC Merger shall not be effective until and unless it is approved by the Office of Thrift Supervision (the "OTS") after (i) approval by at least two-thirds of the outstanding common stock of the Bank, (ii) approval by a majority of the total eligible votes of Voting Members, and (iii) the Articles of Combination shall have been filed with the OTS with respect to the MHC Merger. Approval of the Plan by the Voting Members shall constitute approval of the MHC Merger Agreement by the Voting Members. Approval of the Plan by the sole stockholder of the Bank shall constitute approval of the MHC Merger Agreement by such stockholder.

3. **Name.** The name of the Resulting Institution shall be BankFinancial F.S.B.

4. **Offices.** The main banking office of the Resulting Institution shall be 15W060 North Frontage Road, Burr Ridge, Illinois 60527. The branch offices of the Bank that were in lawful operation prior to the MHC Merger shall be operated as branch offices of the Resulting Institution.

5. **Directors and Officers.** The directors and officers of the Bank immediately prior to the Effective Date shall be the directors and officers of the Resulting Institution after the Effective Date.

6. **Rights and Duties of the Resulting Institution.** At the Effective Date, the Mutual Holding Company shall convert to Interim II, which shall be merged with and into the Bank with the Bank as the Resulting Institution. The business of the Resulting Institution shall be that of a federal savings bank as provided in its Charter. All assets, rights, interests, privileges, powers, franchises and property (real, personal and mixed) of the Mutual Holding Company, the Bank and Interim II shall be transferred automatically to and vested in the Resulting Institution by virtue of the MHC Merger without any deed or other document of transfer. The Resulting Institution, without any order or action on the part of any court or otherwise and without any documents of assumption or assignment, shall hold and enjoy all of the properties, franchises and interests, including appointments, powers, designations, nominations and all other rights and interests as the agent or other fiduciary in the same manner and to the same extent as such rights, franchises, and interests and powers were held or enjoyed by the Bank, the Mutual Holding Company and Interim II. The Resulting Institution shall be responsible for all of the liabilities, restrictions and duties of every kind and description of the Mutual Holding Company, the Bank and Interim II immediately prior to the Merger, including liabilities for all debts, obligations and contracts of the Mutual Holding Company, the Bank and Interim II, matured or unmatured, whether accrued, absolute, contingent or otherwise and whether or not reflected or reserved against on balance sheets, books of accounts or records of the Mutual Holding Company, the Bank and Interim II. The stockholders of the Bank shall possess all voting rights with respect to the shares of stock of the Bank. All rights of creditors and other obligees and all liens on property of the Mutual Holding Company, the Bank and Interim II shall be preserved and shall not be released or impaired.

7. **Other Terms.** All terms used in this MHC Merger Agreement shall, unless defined herein, have the meanings set forth in the Plan. The Plan is incorporated herein by this reference and made a part hereof to the extent necessary or appropriate to effect and consummate the terms of this MHC Merger Agreement and the Conversion.

IN WITNESS WHEREOF, the Mutual Holding Company, Interim II and the Bank have caused this MHC Merger Agreement to be executed as of the date first above written.

BankFinancial Corporation
(a federal corporation)

ATTEST:

James J. Brennan, Corporate Secretary

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

BankFinancial F.S.B.
(a federal savings bank)

ATTEST:

James J. Brennan, Corporate Secretary

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

BankFinancial Interim Bank II
(an interim federal savings bank)

ATTEST:

James J. Brennan, Corporate Secretary

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

EXHIBIT C

**FORM OF AGREEMENT OF MERGER BETWEEN
BANKFINANCIAL F.S.B., BANKFINANCIAL INTERIM BANK III, AND
BANKFINANCIAL CORPORATION**

EXHIBIT C

**FORM OF AGREEMENT OF MERGER BETWEEN
BANKFINANCIAL F.S.B., BANKFINANCIAL INTERIM BANK III, AND
BANKFINANCIAL CORPORATION**

THIS AGREEMENT OF MERGER (the "Bank Merger Agreement") dated as of _____, 2004, is made by and between BankFinancial F.S.B., a federal savings bank (the "Bank"), BankFinancial Corporation, a Maryland corporation (the "Holding Company"), and BankFinancial Interim Bank III, an interim federal savings bank ("Interim III").

R E C I T A L S :

1. The Bank is a federal savings bank that prior to the transactions contemplated by this Bank Merger Agreement and the Plan of Conversion and Reorganization of BankFinancial MHC, Inc. (the "Plan"), was a wholly-owned subsidiary of BankFinancial Corporation, a federal corporation (the "Mid-Tier Holding Company").

2. The Holding Company was formed as a wholly owned subsidiary of the Bank to facilitate and effect the Conversion.

3. The Holding Company has organized Interim III as a wholly owned subsidiary of the Bank to effect and facilitate the Conversion.

4. Immediately prior to the transactions contemplated by this Bank Merger Agreement, (i) the Mid-Tier Holding Company will convert to BankFinancial Interim Bank I, an interim federal savings bank, and merge with and into the Bank (the "Mid-Tier Merger") with the Bank as the resulting entity, (ii) the Mutual Holding Company will receive 100% of the common stock of the Bank in exchange for its Mid-Tier Holding Company common stock, and (iii) BankFinancial MHC, Inc. will convert to Interim Savings Bank II, an interim federal savings bank, and merge with and into the Bank with the Bank as the resulting entity (the "MHC Merger").

5. At least two-thirds of the members of the boards of directors of the Bank and Interim III have approved this Bank Merger Agreement whereby Interim III will merge with and into the Bank with the Bank as the surviving or resulting institution (the "Bank Merger"), and have authorized the execution and delivery thereof.

NOW, THEREFORE, in consideration of the premises and mutual agreements contained herein, the parties hereto have agreed as follows:

1. **Merger.** At and on the Effective Date of the Bank Merger and immediately after the Mid-Tier Merger and the MHC Merger, Interim III will merge with and into the Bank with the Bank as the surviving entity (the "Resulting Institution"). As a result of the Bank Merger, the Holding Company will own 100% of the common stock of the Bank.

2. **Stock Offering.** Contemporaneously with the Bank Merger, the Holding Company will offer all of its shares of common stock for sale in the Offering as described in the Plan.

3. **Effective Date.** The Bank Merger shall not be effective until and unless it is approved by the Office of Thrift Supervision (the "OTS") after (i) the Bank Merger is approved by at least two-thirds of the outstanding common stock of the Bank and Interim III, (ii) the Plan is approved by a majority of the total eligible votes of Voting Members, and (iii) the Articles of Combination shall have been filed with the OTS with respect to the Bank Merger.

4. **Name.** The name of the Resulting Institution shall be BankFinancial F.S.B.

5. **Offices.** The main banking office of the Resulting Institution shall be 15W060 North Frontage Road, Burr Ridge, Illinois 60527. The branch offices of the Bank that were in lawful operation prior to the Merger shall be operated as branch offices of the Resulting Institution.

6. **Directors and Officers.** The directors and officers of the Bank immediately prior to the Effective Date shall be the directors and officers of the Resulting Institution immediately after the Effective Date.

7. **Rights and Duties of the Resulting Institution.** At the Effective Date, Interim III shall be merged with and into the Bank with the Bank as the Resulting Institution. The business of the Resulting Institution shall be that of a federal savings bank as provided in its Charter. All assets, rights, interests, privileges, powers, franchises and property (real, personal and mixed) of Interim III and the Bank shall be transferred automatically to and vested in the Resulting Institution by virtue of such Merger without any deed or other document of transfer. The Resulting Institution, without any order or action on the part of any court or otherwise and without any documents of assumption or assignment, shall hold and enjoy all of the properties, franchises and interests, including appointments, powers, designations, nominations and all other rights and interests as the agent or other fiduciary in the same manner and to the same extent as such rights, franchises, and interests and powers were held or enjoyed by the Bank and Interim III. The Resulting Institution shall be responsible for all of the liabilities, restrictions and duties of every kind and description of both Interim III and the Bank immediately prior to the Bank Merger, including liabilities for all debts, obligations and contracts of Interim III and the Bank, matured or unmatured, whether accrued, absolute, contingent or otherwise and whether or not reflected or reserved against on balance sheets, books of accounts or records of Interim III or the Bank. The stockholders of the Resulting Institution shall possess all voting rights with respect to the shares of stock of the Bank and Interim III. All rights of creditors and other obligees and all liens on property of Interim III and the Bank shall be preserved and shall not be released or impaired.

8. **Other Terms.** All terms used in this Bank Merger Agreement shall, unless defined herein, have the meanings set forth in the Plan. The Plan is incorporated herein by this reference and made a part hereof to the extent necessary or appropriate to effect and consummate the terms of the Bank Merger Agreement and the Conversion.

IN WITNESS WHEREOF, the Bank, the Holding Company and Interim III have caused this Bank Merger Agreement to be executed as of the date first above written.

BankFinancial F.S.B.
(a federal savings bank)

ATTEST:

James J. Brennan, Corporate Secretary

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

BankFinancial Interim Bank III
(an interim federal savings bank)

ATTEST:

James J. Brennan, Corporate Secretary

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

BankFinancial Corporation

ATTEST:

James J. Brennan, Corporate Secretary

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

(202) 274-2000

October 27, 2004

Boards of Directors
BankFinancial MHC, Inc.
BankFinancial Corporation (Federal)
BankFinancial Corporation (Maryland)
BankFinancial F.S.B.
15W060 North Frontage Road
Burr Ridge, Illinois 60527

Ladies and Gentlemen:

You have requested this firm's opinion regarding the federal income tax consequences which will result from the conversion of BankFinancial, MHC, Inc., a federal mutual holding company (the "Mutual Holding Company") into the capital stock form of organization, as effectuated pursuant to the three integrated transactions described below.

In connection therewith, we have made such investigations as we have deemed relevant or necessary for the purpose of this opinion. In our examination, we have assumed the authenticity of original documents, the accuracy of copies and the genuineness of signatures. We have further assumed the absence of adverse facts not apparent from the face of the instruments and documents we examined and have relied upon the accuracy of the factual matters set forth in the Plan of Conversion and Reorganization of BankFinancial MHC, Inc. (the "Plan") and the Registration Statement filed by BankFinancial Corporation (the "Holding Company") with the Securities and Exchange Commission ("SEC") under the Securities Act of 1933, as amended, and the Application for Conversion on Form AC filed with the Office of Thrift Supervision (the "OTS").

Our opinion is based upon the existing provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and regulations thereunder (the "Treasury Regulations"), and upon current Internal Revenue Service ("IRS") published rulings and existing court decisions, any of which could be changed at any time. Any such changes may be retroactive and could significantly modify the statements and opinions expressed herein. Similarly, any change in the facts and assumptions stated below, upon which this opinion is based, could modify the conclusions. This opinion is as of the date hereof, and we disclaim any obligation to advise you of any change in any matter considered herein after the date hereof.

We, of course, opine only as to the matters we expressly set forth, and no opinions should be inferred as to any other matters or as to the tax treatment of the transactions that we do not specifically address. We express no opinion as to other federal laws and regulations, or as to laws and regulations of other jurisdictions, or as to factual or legal matters other than as set forth herein.

For purposes of this opinion, we are relying on the representations as to certain factual matters provided to us by the Mutual Holding Company, BankFinancial F.S.B. (the "Bank"), and the Holding Company, as set forth in the affidavits of the authorized officers of each of the aforementioned entities, incorporated herein by reference. Capitalized terms used but not defined herein shall have the same meaning as set forth in the Plan.

Description of Proposed Transactions

Based upon our review of the documents described above, and in reliance upon such documents, we understand that the relevant facts are as follows. In January 1999, the Bank reorganized into the two-tier mutual holding company form of organization. Following the reorganization, the Mutual Holding Company owned 100% of the outstanding shares of the Mid-Tier Holding Company, and the Mid-Tier Holding Company owned 100% of the outstanding shares of the Bank.

On August 25, 2004, the Board of Directors of the Mutual Holding Company adopted the Plan of Conversion and Reorganization ("Plan") providing for the conversion of the Mutual Holding Company from a federally chartered mutual holding company to a Maryland stock corporation, which shall be named "BankFinancial Corporation."

At the present time, three transactions referred to as the "MHC Merger", the "Mid-Tier Merger", and the "Bank Merger" are being undertaken. Pursuant to the Plan, the conversion ("Conversion") will be effected in the following steps, each of which will be completed contemporaneously.

- (i) The Bank will establish the Holding Company as a first-tier stock holding company subsidiary.
- (ii) The Holding Company will charter an interim federal savings bank subsidiary ("Interim") as a wholly-owned subsidiary.
- (iii) The Mid-Tier Holding Company will convert to an interim stock savings bank and merge with and into the Bank with the Bank as the resulting entity (the "Mid-Tier Merger"), whereby the Mutual Holding Company will receive shares of Bank common stock in exchange for its Mid-Tier Holding Company common stock.

- (iv) Immediately after the Mid-Tier Merger, the Mutual Holding Company will convert to an interim stock savings bank and will merge with and into the Bank with the Bank as the resulting entity (the "MHC Merger"), whereby the shares of Bank common stock held by the Mutual Holding Company will be canceled and each Eligible Account Holder and Supplemental Eligible Account Holder will receive an interest in a Liquidation Account of the Bank in exchange for such person's interest in the Mutual Holding Company.
- (v) Immediately after the MHC Merger and the Mid-Tier Merger, Interim will merge with and into the Bank with the Bank as the surviving entity (the "Bank Merger").
- (vi) Immediately after the Bank Merger, the Holding Company will offer for sale the Subscription Shares in the Offering.

In the MHC Merger, a liquidation account is being established by the Bank for the benefit of Eligible Account Holders and Supplemental Account Holders who continue to maintain their deposit accounts with the Bank. Pursuant to Section 19 of the Plan, the liquidation account will be equal to the Mutual Holding Company's total equity as reflected in the latest statement of financial condition contained in the final Prospectus used in the Offering.

The common stock of Interim owned by the Holding Company prior to the Bank Merger will be converted into and become shares of common stock of the Bank on the Effective Date. The Holding Company Common Stock held by the Bank immediately prior to the Effective Date will be canceled on the Effective Date. Immediately following the Bank Merger, additional shares of Holding Company Common Stock will be sold to depositors and former shareholders of the Bank and to members of the public in the Offering.

As a result of the Mid-Tier Merger, the MHC Merger and the Bank Merger, the Holding Company will be a publicly held corporation, will register the Holding Company Common Stock under Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and will become subject to the rules and regulations thereunder and file periodic reports and proxy statements with the SEC. The Bank will become a wholly owned subsidiary of the Holding Company and will continue to carry on its business and activities as conducted immediately prior to the Conversion.

The stockholders of the Holding Company will be those persons who purchase shares of Holding Company Common Stock in the Offering. Nontransferable rights to subscribe for the Holding Company Common Stock have been granted, in order of priority, to depositors of the Bank who have account balances of \$50.00 or more as of the close of business on March 31, 2003 ("Eligible Account Holders"), the Bank's tax-qualified employee plans ("Employee Plans"), depositors of the Bank who have account balances of \$50.00 or more as of the close of business on September 30, 2004 ("Supplemental Eligible Account Holders"), depositors of the

Bank as of the Voting Record Date (other than Eligible Account Holders and Supplemental Eligible Account Holders) and borrowers of the Bank as of January 1, 1999 whose borrowings remained outstanding as of the Voting Record Date ("Other Members"). Subscription rights are nontransferable. The Holding Company will also offer shares of Holding Company Common Stock not subscribed for in the subscription offering, if any, for sale in a community offering to certain members of the general public.

Opinions

Based on the foregoing description of the MHC Merger, the Mid-Tier Merger and the Bank Merger, and subject to the qualifications and limitations set forth in this letter, we are of the opinion that:

1. The conversion of the Mid-Tier Holding Company to a federally chartered interim stock savings bank (which we shall continue to refer to as "Mid-Tier Holding Company") will constitute a mere change in identity, form or place of organization within the meaning of Section 368(a)(1)(F) of the Code.
2. The Mid-Tier Merger qualifies as a tax-free reorganization within the meaning of Section 368(a)(1)(A) of the Code. (Section 368(a)(1)(A) of the Code.)
3. The Mid-Tier Holding Company will not recognize any gain or loss on the transfer of its assets to the Bank and the Bank's assumption of its liabilities in exchange for shares of common stock in the Bank or on the constructive distribution of such stock to the Mutual Holding Company. (Sections 361(a), 361(c) and 357(a) of the Code.)
4. No gain or loss will be recognized by the Bank upon the receipt of the assets of Mid-Tier Holding Company in the Mid-Tier Merger (Section 1032(a) of the Code).
5. The basis of the assets of the Mid-Tier Holding Company (other than stock in the Bank) to be received by Bank will be the same as the basis of such assets in the hands of Mid-Tier Holding Company immediately prior to the transfer. (Section 362(b) of the Code.)
6. The holding period of the assets of Mid-Tier Holding Company (other than stock in Bank) to be received by Bank will include the holding period of those assets in the hands of Mid-Tier Holding Company immediately prior to the transfer. (Section 1223(2) of the Code.)
7. The Mutual Holding Company will not recognize any gain or loss upon its constructive exchange of Mid-Tier Holding Company common stock for Bank common stock.

8. The conversion of the Mutual Holding Company to a federally chartered stock savings bank (which we shall continue to refer to as “Mutual Holding Company”) will constitute a mere change in identity, form or place of organization within the meaning of Section 368(a)(1)(F) of the Code.

9. The MHC Merger qualifies as a tax-free reorganization within the meaning of Section 368(a)(1)(A) of the Code. (Section 368(a)(1)(A) of the Code.)

10. The exchange of the members’ equity interests in the Mutual Holding Company for interests in a Liquidation Account established in the Bank in the MHC Merger will satisfy the continuity of interest requirement of Section 1.368-1(b) of the Income Tax Regulations (cf. Rev. Rul. 69-3, 1969-1 C.B. 103, and Rev. Rul. 69-646, 1969-2 C.B. 54).

11. The Mutual Holding Company will not recognize any gain or loss on the transfer of its assets to the Bank and the Bank’s assumption of its liabilities, if any, in exchange for an interest in a Liquidation Account in the Bank or on the constructive distribution of such Liquidation Account to the Mutual Holding Company’s members who remain depositors of the Bank. (Section 361(a), 361(c) and 357(a) of the Code.)

12. No gain or loss will be recognized by the Bank upon the receipt of the assets of the Mutual Holding Company in the MHC Merger in exchange for the transfer to the members of the Mutual Holding Company of an interest in the Liquidation Account in the Bank. (Section 1032(a) of the Code.)

13. Persons who have an interest in the Mutual Holding Company will recognize no gain or loss upon the receipt of an interest in the Liquidation Account in the Bank in exchange for their voting and liquidation rights in the Mutual Holding Company. (Section 354(a) of the Code.)

14. The basis of the assets of Mutual Holding Company (other than stock in the Bank) to be received by Bank will be the same as the basis of such assets in the hands of the Mutual Holding Company immediately prior to the transfer. (Section 362(b) of the Code.)

15. The holding period of the assets of the Mutual Holding Company in the hands of the Bank will include the holding period of those assets in the hands of the Mutual Holding Company. (Section 1223(2) of the Code.)

16. The Bank Merger qualifies as a reorganization within the meaning of Section 368(a)(1)(A) of the Code, pursuant to Section 368(a)(2)(E) of the Code. For these purposes, each of the Bank, the Holding Company and Interim are “a party to the reorganization” within the meaning of Section 368(b) of the Code.

17. Interests in the Liquidation Account established at the Bank, and the shares of Bank common stock held by Mutual Holding Company prior to consummation of the MHC Merger, will be disregarded for the purpose of determining that an amount of stock in the Bank which constitutes "control" of such corporation was acquired by the Holding Company in exchange for shares of common stock of the Holding Company pursuant to the Bank Merger (Code Section 368(c)).

18. Interim will not recognize any gain or loss on the transfer of its assets to Bank in exchange for Bank common stock and the assumption by Bank of the liabilities, if any, of Interim. (Section 361(a) and 357(a) of the Code.)

19. The Bank will not recognize any gain or loss upon the receipt of the assets of Interim in the Bank Merger. (Section 1032(a) of the Code.)

20. The Holding Company will not recognize any gain or loss upon its receipt of Bank common stock in exchange for Interim common stock. (Section 354(a) of the Code.)

21. It is more likely than not that the fair market value of the nontransferable subscription rights to purchase Holding Company Common Stock is zero. Accordingly, no gain or loss will be recognized by Eligible Account Holders, Supplemental Eligible Account Holders and Other Members upon distribution to them of nontransferable subscription rights to purchase shares of Holding Company Common Stock. (Section 356(a) of the Code). Eligible Account Holders, Supplemental Eligible Account Holders and Other Members will not realize any taxable income as the result of the exercise by them of the nontransferable subscriptions rights. (Rev. Rul. 56-572, 1956-2 C.B.182).

22. It is more likely than not that the basis of the Holding Company Common Stock purchased in the Offering by the exercise of the nontransferable subscription rights will be the purchase price thereof. (Section 1012 of the Code).

23. The holding period of the Holding Company Common Stock purchased pursuant to the exercise of subscriptions rights shall commence on the date on which the right to acquire such stock was exercised. (Section 1223(6) of the Code.)

24. No gain or loss will be recognized by Holding Company on the receipt of money in exchange for Holding Company Common Stock sold in the Offering. (Section 1032 of the Code.)

Our opinion under paragraph 21 above is predicated on the representation that no person shall receive any payment, whether in money or property, in lieu of the issuance of subscription rights. Our opinions under paragraphs 21 and 22 are based on the position that the subscription rights to purchase shares of Common Stock received by Eligible Account Holders, Supplemental Eligible Account Holders and Other Members have a fair market value of zero. We understand that the subscription rights will be granted at no cost to the recipients, will be legally nontransferable and of short duration, and will provide the recipient with the right only to purchase shares of Common Stock at the same price to be paid by members of the general public in any Community Offering. We also note that the Internal Revenue Service has not in the past concluded that subscription rights have value. Based on the foregoing, we believe it is more likely than not that the nontransferable subscription rights to purchase Common Stock have no value.

If the subscription rights are subsequently found to have a fair market value, income may be recognized by various recipients of the subscription rights (in certain cases, whether or not the rights are exercised) and the Holding Company may be taxable on the distribution of the subscription rights.

CONSENT

We hereby consent to the filing of the opinion as an exhibit to the MHC's Application for Conversion filed with the Office of Thrift Supervision and to the Holding Company's Registration Statement on Form S-1 as filed with the SEC. We also consent to the references to our firm in the Prospectus contained in the Application for Conversion and S-1 under the captions "The Conversion-Tax Aspects" and "Legal Matters."

Very truly yours,

LUSE GORMAN POMERENK & SCHICK,
A PROFESSIONAL CORPORATION

\s\ Luse Gorman Pomerenk & Schick, P.C.

BANKFINANCIAL, F.S.B.
EMPLOYEE STOCK OWNERSHIP PLAN
(adopted effective January 1, 2005)

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BANKFINANCIAL, F.S.B.
EMPLOYEE STOCK OWNERSHIP PLAN

Section 1. Plan Identity.

1.1 **Name.** The name of this Plan is “BankFinancial, F.S.B. Employee Stock Ownership Plan.”

1.2 **Purpose.** The purpose of this Plan is to describe the terms and conditions under which contributions made pursuant to the Plan will be credited and paid to the Participants and their Beneficiaries.

1.3 **Effective Date.** The Effective Date of this Plan is January 1, 2005.

1.4 **Fiscal Period.** This Plan shall be operated on the basis of a January 1 to December 31 fiscal year for the purpose of keeping the Plan’s books and records and distributing or filing any reports or returns required by law.

1.5 **Single Plan for All Employers.** This Plan shall be treated as a single plan with respect to all participating Employers for the purpose of crediting contributions and forfeitures and distributing benefits, determining whether there has been any termination of Service, and applying the limitations set forth in Section 5.

1.6 **Interpretation of Provisions.** The Employers intend this Plan and the Trust to be a qualified stock bonus plan under Section 401(a) of the Code and an employee stock ownership plan within the meaning of Section 407(d)(6) of ERISA and Section 4975(e)(7) of the Code. The Plan is intended to have its assets invested primarily in qualifying employer securities of one or more Employers within the meaning of Section 407(d)(3) of ERISA, and to satisfy any requirement under ERISA or the Code applicable to such a plan.

Accordingly, the Plan and Trust Agreement shall be interpreted and applied in a manner consistent with this intent and shall be administered at all times and in all respects in a nondiscriminatory manner.

Section 2. Definitions.

The following capitalized words and phrases shall have the meanings specified when used in this Plan and in the Trust Agreement, unless the context clearly indicates otherwise:

“**Account**” means a Participant’s interest in the assets accumulated under this Plan as expressed in terms of a separate account balance which is periodically adjusted to reflect his Employer’s contributions, the Plan’s investment experience, and distributions and forfeitures.

“**Active Participant**” means a Participant who has satisfied the eligibility requirements under Section 3 and who has at least 1,000 Hours of Service during the current Plan Year. However, a Participant shall not qualify as an Active Participant unless (i) he is in active Service with an Employer as of the last day of the Plan Year, or (ii) he is on a Recognized Absence as of that date, or (iii) his Service terminated during the Plan Year by reason of Disability, death, Early or Normal Retirement.

“**Bank**” means BankFinancial, F.S.B. and any entity which succeeds to the business of BankFinancial, and adopts this Plan as its own pursuant to Section 13.1 of the Plan.

“Beneficiary” means the person or persons who are designated by a Participant to receive benefits payable under the Plan on the Participant’s death. In the absence of any designation or if all the designated Beneficiaries shall die before the Participant dies or shall die before all benefits have been paid, the Participant’s Beneficiary shall be his surviving Spouse, if any, or his estate if he is not survived by a Spouse. The Committee may rely upon the advice of the Participant’s executor or administrator as to the identity of the Participant’s Spouse.

“Break in Service” means any Plan Year, or, for the initial eligibility computation period under Section 3.2, the 12-consecutive month period beginning on the first day of which an Employee has an Hour of Service, in which an Employee has 500 or fewer Hours of Service. Solely for this purpose, an Employee shall be considered employed for his normal hours of paid employment during a Recognized Absence (said Employee shall not be credited with more than 501 Hours of Service to avoid a Break in Service), unless he does not resume his Service at the end of the Recognized Absence. Further, if an Employee is absent for any period (i) by reason of the Employee’s pregnancy, (ii) by reason of the birth of the Employee’s child, (iii) by reason of the placement of a child with the Employee in connection with the Employee’s adoption of the child, or (iv) for purposes of caring for such child for a period beginning immediately after such birth or placement, the Employee shall be credited with the Hours of Service which would normally have been credited but for such absence, up to a maximum of 501 Hours of Service.

“Code” means the Internal Revenue Code of 1986, as amended.

“Committee” means the committee responsible for the administration of this Plan in accordance with Section 12.

“Company” means BankFinancial Corporation, the holding company of the Bank, and any successor entity which succeeds to the business of the Company.

“Disability” means only a disability which renders the Participant totally unable, as a result of bodily or mental disease or injury, to perform any duties for an Employer for which he is reasonably fitted, which disability is expected to be permanent or of long and indefinite duration. However, this term shall not include any disability directly or indirectly resulting from or related to habitual drunkenness or addiction to narcotics, a criminal act or attempt, service in the armed forces of any country, an act of war, declared or undeclared, any injury or disease occurring while compensation to the Participant is suspended, or any injury which is intentionally self-inflicted. Further, this term shall apply only if (i) the Participant is sufficiently disabled to qualify for the payment of disability benefits under the federal Social Security Act or Veterans Disability Act, or (ii) the Participant’s disability is certified by a physician selected by the Committee. Unless the Participant is sufficiently disabled to qualify for disability benefits under the federal Social Security Act or Veterans Disability Act, the Committee may require the Participant to be appropriately examined from time to time by one or more physicians chosen by the Committee, and no Participant who refuses to be examined shall be treated as having a Disability. In any event, the Committee’s good faith decision as to whether a Participant’s Service has been terminated by Disability shall be final and conclusive.

“Early Retirement” means retirement on or after a Participant’s attainment of age 55 and the completion of 25 years of credited Service with an Employer. If the Participant terminates employment before satisfying the age requirement, but has satisfied the employment requirement, the Participant will be entitled to elect early retirement upon satisfaction of the age requirement.

“Effective Date” means January 1, 2005.

“Employee” means any individual who is or has been employed or self-employed by an Employer. “Employee” also means an individual employed by a leasing organization who, pursuant to an agreement between an Employer and the leasing organization, has performed services for the Employer and any related persons (within the meaning of Section 414(n)(6) of the Code) on a substantially full-time basis for more than one year, if such services are performed under the primary direction or control of the Employer. However, such a “leased employee” shall not be considered an Employee if (i) he participates in a money purchase pension plan sponsored by the leasing organization which provides for immediate participation, immediate full vesting, and an annual contribution of at least 10 percent of the Employee’s 415 Compensation, and (ii) leased employees do not constitute more than 20 percent of the Employer’s total work force (including leased employees, but excluding Highly Paid Employees and any other Employees who have not performed services for the Employer on a substantially full-time basis for at least one year).

“Employer” means the Bank or any affiliate within the purview of section 414(b), (c) or (m) and 415(h) of the Code, any other corporation, partnership, or proprietorship which adopts this Plan with the Bank’s consent pursuant to Section 13.1, and any entity which succeeds to the business of any Employer and adopts the Plan pursuant to Section 13.2. For these purposes, Employer also means Financial Assurance Services and BF Asset Recovery Corporation.

“Entry Date” means the Effective Date of the Plan and each January 1 and July 1 of each Plan Year after the Effective Date.

“ERISA” means the Employee Retirement Income Security Act of 1974 (P.L. 93-406, as amended).

“415 Compensation”

(a) shall mean wages, as defined in Code Section 3401(a) for purposes of income tax withholding at the source.

(b) Any elective deferral as defined in Code Section 402(g)(3) (any Employer contributions made on behalf of a Participant to the extent not includible in gross income and any Employer contributions to purchase an annuity contract under Code Section 403(b) under a salary reduction agreement) and any amount which is contributed or deferred by the Employer at the election of the Participant and which is not includible in gross income of the Participant by reason of Code Section 125 (Cafeteria Plan), Code Section 457 or 132(f)(4) shall also be included in the definition of 415 Compensation.

(b) 415 Compensation in excess of \$205,000 (as indexed) shall be disregarded for all Participants. For purposes of this sub-section, the \$205,000 limit shall be referred to as the “applicable limit” for the Plan Year in question. The \$205,000 limit shall be adjusted for increases in the cost of living in accordance with Section 401(a)(17)(B) of the Code, effective for the Plan Year which begins within the applicable calendar year. For purposes of the applicable limit, 415 Compensation shall be prorated over short Plan Years.

“Highly Paid Employee” for any Plan Year means an Employee who, during either that or the immediately preceding Plan Year was at any time a five percent owner of the Employer (as defined in Code Section 416(i)(1)) or, during the immediately preceding Plan Year, had 415 Compensation exceeding \$90,000 and was among the most highly compensated one-fifth of all Employees (the \$90,000 amount is adjusted at the same time and in the same manner as under Code Section 415(d), provided, however, the base period is the calendar quarter ending September 30, 1996). For these purposes, “the most highly compensated one-fifth of all Employees” shall be determined by taking into account all individuals working for all related Employer

entities described in the definition of "Service," but excluding any individual who has not completed six months of Service, who normally works fewer than 17 1/2 hours per week or in fewer than six months per year, who has not reached age 21, whose employment is covered by a collective bargaining agreement, or who is a nonresident alien who receives no earned income from United States sources. The applicable year for which a determination is being made is called a "determination year" and the preceding 12-month period is called a look-back year.

"Hours of Service" means hours to be credited to an Employee under the following rules:

(a) Each hour for which an Employee is paid or is entitled to be paid for services to an Employer is an Hour of Service.

(b) Each hour for which an Employee is directly or indirectly paid or is entitled to be paid for a period of vacation, holidays, illness, disability, lay-off, jury duty, temporary military duty, or leave of absence is an Hour of Service. However, except as otherwise specifically provided, no more than 501 Hours of Service shall be credited for any single continuous period which an Employee performs no duties. No more than 501 Hours of Service will be credited under this paragraph for any single continuous period (whether or not such period occurs in a single computation period). Further, no Hours of Service shall be credited on account of payments made solely under a plan maintained to comply with worker's compensation, unemployment compensation, or disability insurance laws, or to reimburse an Employee for medical expenses.

(c) Each hour for which back pay (ignoring any mitigation of damages) is either awarded or agreed to by an Employer is an Hour of Service. However, no more than 501 Hours of Service shall be credited for any single continuous period during which an Employee would not have performed any duties. The same Hours of Service will not be credited both under paragraph (a) or (b) as the case may be, and under this paragraph (c). These hours will be credited to the employee for the computation period or periods to which the award or agreement pertains rather than the computation period in which the award agreement or payment is made.

(d) Hours of Service shall be credited in any one period only under one of the foregoing paragraphs (a), (b) and (c); an Employee may not get double credit for the same period.

(e) If an Employer finds it impractical to count the actual Hours of Service for any class or group of non-hourly Employees, each Employee in that class or group shall be credited with 45 Hours of Service for each weekly pay period in which he has at least one Hour of Service. However, an Employee shall be credited only for his normal working hours during a paid absence.

(f) Hours of Service to be credited on account of a payment to an Employee (including back pay) shall be recorded in the period of Service for which the payment was made. If the period overlaps two or more Plan Years, the Hours of Service credit shall be allocated in proportion to the respective portions of the period included in the several Plan Years. However, in the case of periods of 31 days or less, the Administrator may apply a uniform policy of crediting the Hours of Service to either the first Plan Year or the second.

(g) In all respects an Employee's Hours of Service shall be counted as required by Section 2530.200b-2(b) and (c) of the Department of Labor's regulations under Title I of ERISA.

"Investment Fund" means that portion of the Trust Fund consisting of assets other than Stock. Notwithstanding the above, assets from the Investment Fund may be used to purchase Stock in the open market or otherwise, or used to pay on the Stock Obligation, and shares so purchased will be allocated to a Participant's Stock Fund.

“Normal Retirement” means retirement on or after the Participant’s Normal Retirement Date.

“Normal Retirement Date” means the later of (i) the date on which a Participant attains age 65 and (ii) the 5th anniversary of the time a Participant commenced participation in the Plan.

“Participant” means any Employee who is an Active Participant participating in the Plan, or Employee or former Employee who was previously an Active Participant and still has a balance credited to his Account.

“Plan Year” means the twelve-month period commencing January 1 and ending December 31, 2005 and each period of 12 consecutive months beginning on January 1 of each succeeding year.

“Recognized Absence” means a period for which —

- (a) an Employer grants an Employee a leave of absence for a limited period, but only if an Employer grants such leave on a nondiscriminatory basis;
- or
- (b) an Employee is temporarily laid off by an Employer because of a change in business conditions; or
- (c) an Employee is on active military duty, but only to the extent that his employment rights are protected by the Military Selective Service Act of 1967 (38 U.S.C. Sec. 2021).

“Service” means an Employee’s period(s) of employment or self-employment with an Employer, excluding for initial eligibility purposes any period in which the individual was a nonresident alien and did not receive from an Employer any earned income which constituted income from sources within the United States. An Employee’s Service shall include any Service which constitutes Service with a predecessor Employer within the meaning of Section 414(a) of the Code, provided, however, that Service with an acquired entity shall not be considered Service under the Plan unless required by applicable law or agreed to by the parties to such transaction. An Employee’s Service shall also include any Service with an entity which is not an Employer, but only either (i) for a period after 1975 in which the other entity is a member of a controlled group of corporations or is under common control with other trades and businesses within the meaning of Section 414(b) or 414(c) of the Code, and a member of the controlled group or one of the trades and businesses is an Employer, (ii) for a period after 1979 in which the other entity is a member of an affiliated service group within the meaning of Section 414(m) of the Code, and a member of the affiliated service group is an Employer, or (iii) all Employers aggregated with the Employer under Section 414(o) of the Code (but not until the Proposed Regulations under Section 414(o) become effective). Notwithstanding any provision of this Plan to the contrary, contributions, benefits and service credit with respect to qualified military service will be provided in accordance with Section 414(u) of the Code.

“Spouse” means the individual, if any, to whom a Participant is lawfully married on the date benefit payments to the Participant are to begin, or on the date of the Participant’s death, if earlier. A former Spouse shall be treated as the Spouse or surviving Spouse to the extent provided under a qualified domestic relations order as described in Section 414(p) of the Code.

“**Stock**” means shares of the Company’s voting common stock or preferred stock meeting the requirements of Section 409(e)(3) of the Code issued by an Employer which is a member of the same controlled group of corporations within the meaning of Code Section 414(b).

“**Stock Fund**” means that portion of the Trust Fund consisting of Stock.

“**Stock Obligation**” means an indebtedness arising from any extension of credit to the Plan or the Trust which satisfies the requirements set forth in Section 6.3 and which was obtained for any or all of the following purposes:

- (i) to acquire qualifying Employer securities as defined in Treasury Regulations §54.4975-12;
- (ii) to repay such Stock Obligation; or
- (iii) to repay a prior exempt loan.

“**Trust**” or “**Trust Fund**” means the trust fund created under this Plan.

“**Trust Agreement**” means the agreement between the Bank and the Trustee concerning the Trust Fund. If any assets of the Trust Fund are held in a co-mingled trust fund with assets of other qualified retirement plans, “Trust Agreement” shall be deemed to include the trust agreement governing that co-mingled trust fund. With respect to the allocation of investment responsibility for the assets of the Trust Fund, the provisions of Article II of the Trust Agreement are incorporated herein by reference.

“**Trustee**” means one or more corporate persons or individuals selected from time to time by the Bank to serve as trustee or co-trustees of the Trust Fund.

“**Unallocated Stock Fund**” means that portion of the Stock Fund consisting of the Plan’s holding of Stock which have been acquired in exchange for one or more Stock obligations and which have not yet been allocated to the Participant’s Accounts in accordance with Section 4.2.

“**Valuation Date**” means the last day of the each calendar quarter during the Plan Year and each other date as of which the Committee shall determine the investment experience of the Investment Fund and adjust the Participants’ Accounts accordingly.

“**Valuation Period**” means the period following a Valuation Date and ending with the next Valuation Date.

“**Vesting Year**” means a unit of Service credited to a Participant pursuant to Section 9.2 for purposes of determining his vested interest in his Account.

Section 3. Eligibility for Participation.

3.1 **Initial Eligibility.** An Employee shall enter the Plan as of the Entry Date coincident with or next following the last day of the Employee’s first Eligibility Year. However, if an Employee is not in active Service with an Employer on the date he would otherwise first enter the Plan, his entry shall be deferred until the next day he is in Service.

3.2 **Definition of Eligibility Year.** An “Eligibility Year” means an applicable eligibility period (as defined below) in which the Employee has completed 1,000 Hours of Service for the Employer. For this purpose:

- (a) an Employee’s first “eligibility period” is the 12-consecutive month period beginning on the first day on which he has an Hour of Service, and
- (b) his subsequent eligibility periods will be 12-consecutive month periods beginning on each January 1 after that first day of Service.

3.3 **Terminated Employees.** No Employee shall have any interest or rights under this Plan if he is never in active Service with an Employer on or after the Effective Date.

3.4 **Certain Employees Ineligible.**

- (a) No Employee shall participate in the Plan while his Service is covered by a collective bargaining agreement between an Employer and the Employee’s collective bargaining representative if (i) retirement benefits have been the subject of good faith bargaining between the Employer and the representative and (ii) the collective bargaining agreement does not provide for the Employee’s participation in the Plan.
- (b) Leased Employees are not eligible to participate in the Plan.
- (c) An eligible Employee may elect not to participate in the Plan, provided, however, such election is made solely to meet the requirements of Code Section 409(n). For an election to be effective for a particular Plan Year, the Employee or Participant must file the election in writing with the Plan Administrator no later than the last day of the Plan Year for which the election is to be effective. The Employer may not make a contribution under the Plan for the Employee or for the Participant for the Plan Year for which the election is effective, nor for any succeeding Plan Year, unless the Employee or Participant re-elects to participate in the Plan. The Employee or Participant may elect again not to participate, but not earlier than the first Plan Year following the Plan Year in which the re-election was first effective.

3.5 **Participation and Reparticipation.** Subject to the satisfaction of the foregoing requirements, an Employee shall participate in the Plan during each period of his Service from the date on which he first becomes eligible until his termination. For this purpose, an Employee who returns before five (5) consecutive Breaks in Service who previously satisfied the initial eligibility requirements or who returns after five (5) consecutive one year Breaks in Service with a vested Account balance in the Plan shall re-enter the Plan as of the date of his return to Service with an Employer.

3.6 **Omission of Eligible Employee.** If, in any Plan Year, any Employee who should be included as a Participant in the Plan is erroneously omitted and discovery of such omission is not made until after a contribution by his Employer for the year has been made, the Employer shall make a subsequent contribution with respect to the omitted Employee in the amount which the said Employer would have contributed regardless of whether or not it is deductible in whole or in part in any taxable year under applicable provisions of the Code.

Section 4. Contributions and Credits.

4.1 **Discretionary Contributions.** The Employer shall from time to time contribute, with respect to a Plan Year, such amounts as it may determine from time to time. The Employer shall have no obligation to contribute any amount under this Plan except as so determined in its sole discretion. The Employer's contributions and available forfeitures for a Plan Year shall be credited as of the last day of the year to the Accounts of the Active Participants in proportion to their amounts of 415 Compensation earned during that portion of the Plan Year that such persons are Participants in the Plan.

4.2 **Contributions for Stock Obligations.** If the Trustee, upon instructions from the Committee, incurs any Stock Obligation upon the purchase of Stock, the Employer may contribute for each Plan Year an amount sufficient to cover all payments of principal and interest as they come due under the terms of the Stock Obligation. If there is more than one Stock Obligation, the Employer shall designate the one to which any contribution is to be applied. Investment earnings realized on Employer contributions and any dividends paid by the Employer on Stock held in the Unallocated Stock Account, shall be applied to the Stock Obligation related to that Stock, subject to Section 7.2.

In each Plan Year in which Employer contributions, earnings on contributions, or dividends on unallocated Stock are used as payments under a Stock Obligation, a certain number of shares of the Stock acquired with that Stock Obligation which is then held in the Unallocated Stock Fund shall be released for allocation among the Participants. The number of shares released shall bear the same ratio to the total number of those shares then held in the Unallocated Stock Fund (prior to the release) as (i) the principal and interest payments made on the Stock Obligation in the current Plan Year bears to (ii) the sum of (i) above, and the remaining principal and interest payments required (or projected to be required on the basis of the interest rate in effect at the end of the Plan Year) to satisfy the Stock Obligation.

At the direction of the Committee, the current and projected payments of interest under a Stock Obligation may be ignored in calculating the number of shares to be released in each year if (i) the Stock Obligation provides for annual payments of principal and interest at a cumulative rate that is not less rapid at any time than level annual payments of such amounts for 10 years, (ii) the interest included in any payment is ignored only to the extent that it would be determined to be interest under standard loan amortization tables, and (iii) the term of the Stock Obligation, by reason of renewal, extension, or refinancing, has not exceeded 10 years from the original acquisition of the Stock.

4.3 **Conditions as to Contributions.** Employers' contributions shall in all events be subject to the limitations set forth in Section 5. Contributions may be made in the form of cash, or securities and other property to the extent permissible under ERISA, including Stock, and shall be held by the Trustee in accordance with the Trust Agreement. In addition to the provisions of Section 13.3 for the return of an Employer's contributions in connection with a failure of the Plan to qualify initially under the Code, any amount contributed by an Employer due to a good faith mistake of fact, or based upon a good faith but erroneous determination of its deductibility under Section 404 of the Code, shall be returned to the Employer within one year after the date on which the contribution was originally made, or within one year after its nondeductibility has been finally determined. However, the amount to be returned shall be reduced to take account of any adverse investment experience within the Trust Fund in order that the balance credited to each Participant's Account is not less than it would have been if the contribution had never been made.

4.4 **Rollover Contributions.** This Plan shall not accept a direct rollover or rollover contribution of an “eligible rollover distribution” as such term is defined in Section 10.9-1 of the Plan.

Section 5. Limitations on Contributions and Allocations.

5.1 **Limitation on Annual Additions.** Notwithstanding anything herein to the contrary, allocation of Employer contributions for any Plan Year shall be subject to the following:

5.1-1 If allocation of Employer contributions in accordance with Section 4.1 will result in an allocation of more than one-third the total contributions for a Plan Year to the Accounts of Highly Paid Employees, then allocation of such amount shall be adjusted so that such excess will not occur.

5.1-2 After adjustment, if any, required by the preceding paragraph, the annual additions during any Plan Year to any Participant’s Account under this and any other defined contribution plans maintained by the Employer or an affiliate (within the purview of Section 414(b), (c) and (m) and Section 415(h) of the Code, which affiliate shall be deemed the Employer for this purpose) shall not exceed the lesser of \$41,000 (or such other dollar amount which results from cost-of-living adjustments under Section 415(d) of the Code) (the “dollar limitation”) or 100 percent of the Participant’s 415 Compensation for such limitation year (the “percentage limitation”). The percentage limitation shall not apply to any contribution for medical benefits after separation from service (within the meaning of Section 401(h) or Section 419A(f)(2) of the Code) which is otherwise treated as an annual addition. If, as a result of the allocation of forfeitures, a reasonable error in estimating a Participant’s annual compensation, a reasonable error in determining the amount of elective deferrals (within the meaning of Code Section 402(g)(3)) that may be made with respect to any individual under the limits of Code Section 415, or under other limited facts and circumstances that the Commissioner of the Internal Revenue Service finds justify the availability of the rules set forth in this paragraph, the annual additions under the terms of the Plan for a particular Participant would cause the limitations of Code Section 415 applicable to that Participant for the limitation year to be exceeded, the excess amounts shall not be deemed annual additions in that limitation year if they are treated in accordance with any one of the following:

(i) Any excess amount at the end of the Plan Year that cannot be allocated to the Participant’s Account shall be reallocated to the remaining Participants who are eligible for an allocation of Employer contributions for the Plan Year. The reallocation shall be made in accordance with Section 4.1 of the Plan as if the Participant whose Account otherwise would receive the excess amount is not eligible for an allocation of Employer contributions.

(ii) If the allocation or reallocation of the excess amounts causes the limitations of Code section 415 to be exceeded with respect to each Participant for the limitation year, then the excess amount will be held unallocated in a suspense account. The suspense account will be applied to reduce future Employer contributions for all remaining Participants in the next limitation year and each succeeding limitation year if necessary.

(iii) If a suspense account is in existence at any time during a limitation year, it will not participate in any allocation of investment gains and losses. All amounts held in suspense accounts must be allocated to Participants’ Accounts before any contributions may be made to the Plan for the limitation year.

(iv) If a suspense account exists at the time of Plan termination, amounts held in the suspense account that cannot be allocated shall revert to the Employer.

5.1-3 For purposes of this Section 5.1, the “annual addition” to a Participant’s Accounts means the sum of (i) Employer contributions, (ii) Employee contributions, if any, and (iii) forfeitures. Annual additions to a defined contribution plan also include amounts allocated, after March 31, 1984, to an individual medical account, as defined in Section 415(l)(2) of the Internal Revenue Code, which is part of a pension or annuity plan maintained by the Employer, amounts derived from contributions paid or accrued after December 31, 1985, in taxable years ending after such date, which are attributable to post-retirement medical benefits allocated to the separate account of a Key Employee under a welfare benefit fund, as defined in Section 419A(d) of the Internal Revenue Code, maintained by the Employer. For these purposes, annual additions to a defined contribution plan shall not include the allocation of the excess amounts remaining in the Unallocated Stock Fund subsequent to a sale of stock from such fund in accordance with a transaction described in Section 8.1 of the Plan.

5.1-4 Notwithstanding the foregoing, if no more than one-third of the Employer contributions to the Plan for a year which are deductible under Section 404(a)(9) of the Code are allocated to Highly Paid Employees (within the meaning of Section 414(q) of the Internal Revenue Code), the limitations imposed herein shall not apply to:

(i) forfeitures of Employer securities (within the meaning of Section 409 of the Code) under the Plan if such securities were acquired with the proceeds of a loan described in Section 404(a)(9)(A) of the Code), or

(ii) Employer contributions to the Plan which are deductible under Section 404(a)(9)(B) and charged against a Participant’s Account.

5.1-5 If the Employer contributes amounts, on behalf of Employees covered by this Plan, to other “defined contribution plans” as defined in Section 3(34) of ERISA, the limitation on annual additions provided in this Section shall be applied to annual additions in the aggregate to this Plan and to such other plans. Reduction of annual additions, where required, shall be accomplished first by reductions under such other plan pursuant to the directions of the named fiduciary for administration of such other plans or under priorities, if any, established under the terms of such other plans and then by allocating any remaining excess for this Plan in the manner and priority set out above with respect to this Plan.

5.1-6 A limitation year shall mean each 12 consecutive month period beginning each January 1.

5.2 **Effect of Limitations.** The Committee shall take whatever action may be necessary from time to time to assure compliance with the limitations set forth in Section 5.1. Specifically, the Committee shall see that each Employer restrict its contributions for any Plan Year to an amount which, taking into account the amount of available forfeitures, may be completely allocated to the Participants consistent with those limitations. Where the limitations would otherwise be exceeded by any Participant, further allocations to the Participant shall be curtailed to the extent necessary to satisfy the limitations. Where an excessive amount is contributed on account of a mistake as to one or more Participants’ compensation, or there is an amount of forfeitures which may not be credited in the Plan Year in which it becomes available, the amount shall be corrected in accordance with Section 5.1-2 of the Plan. If it is determined at any time that the Committee and/or Trustee has erred in accepting and allocating any contributions or forfeitures under this Plan, or in allocating net gain or loss pursuant to Sections 8.2 and 8.3, then the Committee, in a uniform and nondiscriminatory manner, shall determine the manner in which such error shall be corrected and shall promptly advise the Trustee in writing of such error and of the method for correcting such error. The Accounts of any or all Participants may be revised, if necessary, in order to correct such error.

5.3 **Limitations as to Certain Participants.** Aside from the limitations set forth in Section 5.1, if the Plan acquires any Stock in a transaction as to which a selling shareholder or the estate of a deceased shareholder is claiming the benefit of Section 1042 of the Code, the Committee shall see that none of such Stock, and no other assets in lieu of such Stock, are allocated to the Accounts of certain Participants in order to comply with Section 409(n) of the Code.

This restriction shall apply at all times to a Participant who owns (taking into account the attribution rules under Section 318(a) of the Code, without regard to the exception for employee plan trusts in Section 318(a)(2)(B)(i) more than 25 percent of any class of stock of a corporation which issued the Stock acquired by the Plan, or another corporation within the same controlled group, as defined in Section 409(l)(4) of the Code (any such class of stock hereafter called a "Related Class"). For this purpose, a Participant who owns more than 25 percent of any Related Class at any time within the one year preceding the Plan's purchase of the Stock shall be subject to the restriction as to all allocations of the Stock, but any other Participant shall be subject to the restriction only as to allocations which occur at a time when he owns more than 25 percent of any Related Class.

Further, this restriction shall apply to the selling shareholder claiming the benefit of Section 1042 and any other Participant who is related to such a shareholder within the meaning of Section 267(b) of the Code, during the period beginning on the date of sale and ending on the later of (1) the date that is ten years after the date of sale, or (2) the date of the Plan allocation attributable to the final payment of acquisition indebtedness incurred in connection with the sale.

This restriction shall not apply to any Participant who is a lineal descendant of a selling shareholder if the aggregate amounts allocated under the Plan for the benefit of all such descendants do not exceed five percent of the Stock acquired from the shareholder.

5.4 **Erroneous Allocations.** No Participant shall be entitled to any annual additions or other allocations to his Account in excess of those permitted under Section 5. If it is determined at any time that the administrator and/or Trustee have erred in accepting and allocating any contributions or forfeitures under this Plan, or in allocating investment adjustments, or in excluding or including any person as a Participant, then the administrator, in a uniform and nondiscriminatory manner, shall determine the manner in which such error shall be corrected and shall promptly advise the Trustee in writing of such error and of the method for correcting such error. The Accounts of any or all Participants may be revised, if necessary, in order to correct such error.

Section 6. Trust Fund and Its Investment.

6.1 **Creation of Trust Fund.** All amounts received under the Plan from Employers and investments shall be held as the Trust Fund pursuant to the terms of this Plan and of the Trust Agreement between the Bank and the Trustee. The benefits described in this Plan shall be payable only from the assets of the Trust Fund, and none of the Bank, any other Employer, its board of directors or trustees, its stockholders, its officers, its employees, the Committee, and the Trustee shall be liable for payment of any benefit under this Plan except from the Trust Fund.

6.2 **Stock Fund and Investment Fund.** The Trust Fund held by the Trustee shall be divided into the Stock Fund, consisting entirely of Stock, and the Investment Fund, consisting of all assets of the Trust other than Stock. The Trustee shall have no investment responsibility for the Stock Fund, but shall accept any

Employer contributions made in the form of Stock, and shall acquire, sell, exchange, distribute, and otherwise deal with and dispose of Stock in accordance with the instructions of the Committee. The Trustee shall have full responsibility for the investment of the Investment Fund, except to the extent such responsibility may be delegated from time to time to one or more investment managers pursuant to Section 2.3 of the Trust Agreement, or to the extent the Committee directs the Trustee to purchase Stock with the assets in the Investment Fund.

6.3 Acquisition of Stock. From time to time the Committee may, in its sole discretion, direct the Trustee to acquire Stock from the issuing Employer or from shareholders, including shareholders who are or have been Employees, Participants, or fiduciaries with respect to the Plan. The Trustee shall pay for such Stock no more than its fair market value, which shall be determined conclusively by the Committee pursuant to Section 12.4. The Committee may direct the Trustee to finance the acquisition of Stock by incurring or assuming indebtedness to the seller or another party which indebtedness shall be called a "Stock Obligation." The term "Stock Obligation" shall refer to a loan made to the Plan by a disqualified person within the meaning of Section 4975(e)(2) of the Code, or a loan to the Plan which is guaranteed by a disqualified person. A Stock Obligation includes a direct loan of cash, a purchase-money transaction, and an assumption of an obligation of a tax-qualified employee stock ownership plan under Section 4975(e)(7) of the Code ("ESOP"). For these purposes, the term "guarantee" shall include an unsecured guarantee and the use of assets of a disqualified person as collateral for a loan, even though the use of assets may not be a guarantee under applicable state law. An amendment of a Stock Obligation in order to qualify as an "exempt loan" is not a refinancing of the Stock Obligation or the making of another Stock Obligation. The term "exempt loan" refers to a loan that satisfies the provisions of this paragraph. A "non-exempt loan" fails to satisfy this paragraph. Any Stock Obligation shall be subject to the following conditions and limitations:

6.3-1 A Stock Obligation shall be for a specific term, shall not be payable on demand except in the event of default, and shall bear a reasonable rate of interest.

6.3-2 A Stock Obligation may, but need not, be secured by a collateral pledge of either the Stock acquired in exchange for the Stock Obligation, or the Stock previously pledged in connection with a prior Stock Obligation which is being repaid with the proceeds of the current Stock Obligation. No other assets of the Plan and Trust may be used as collateral for a Stock Obligation, and no creditor under a Stock Obligation shall have any right or recourse to any Plan and Trust assets other than Stock remaining subject to a collateral pledge.

6.3-3 Any pledge of Stock to secure a Stock Obligation must provide for the release of pledged Stock in connection with payments on the Stock obligations in the ratio prescribed in Section 4.2.

6.3-4 Repayments of principal and interest on any Stock Obligation shall be made by the Trustee only from Employer cash contributions designated for such payments, from earnings on such contributions, and from cash dividends received on Stock, in the last case, however, subject to the further requirements of Section 7.2.

6.3-5 In the event of default of a Stock Obligation, the value of Plan assets transferred in satisfaction of the Stock Obligation must not exceed the amount of the default. If the lender is a disqualified person within the meaning of Section 4975 of the Code, a Stock Obligation must provide for a transfer of Plan assets upon default only upon and to the extent of the failure of the Plan to meet the payment schedule of said Stock Obligation. For purposes of this paragraph, the making of a guarantee does not make a person a lender.

6.4 Participants' Option to Diversify. The Committee shall provide for a procedure under which each Participant may, during the qualified election period, elect to "diversify" a portion of the Employer Stock allocated to his Account, as provided in Section 401(a)(28)(B) of the Code. An election to diversify must be made on the prescribed form and filed with the Committee within the period specified herein. For each of the first five (5) Plan years in the qualified election period, the Participant may elect to diversify an amount which does not exceed 25% of the number of shares allocated to his Account since the inception of the Plan, less all shares with respect to which an election under this Section has already been made. For the last year of the qualified election period, the Participant may elect to have up to 50 percent of the value of his Account committed to other investments, less all shares with respect to which an election under this Section has already been made. The term "qualified election period" shall mean the six (6) Plan Year period beginning with the first Plan Year in which a Participant has both attained age 55 and completed 10 years of participation in the Plan. A Participant's election to diversify his Account may be made within each year of the qualified election period and shall continue for the 90-day period immediately following the last day of each year in the qualified election period. Once a Participant makes such election, the Plan must complete diversification in accordance with such election within 90 days after the end of the period during which the election could be made for the Plan Year. In the discretion of the Committee, the Plan may satisfy the diversification requirement by any of the following methods:

6.4-1 The Plan may distribute all or part of the amount subject to the diversification election.

6.4-2 The Plan may offer the Participant at least three other distinct investment options, if available under the Plan. The other investment options shall satisfy the requirements of Regulations under Section 404(c) of ERISA.

6.4-3 The Plan may transfer the portion of the Participant's Account subject to the diversification election to another qualified defined contribution plan of the Employer that offers at least three investment options satisfying the requirements of the Regulations under Section 404(c) of ERISA.

Section 7. Voting Rights and Dividends on Stock.

7.1 Voting and Tendering of Stock. The Trustee generally shall vote all shares of Stock held under the Plan in accordance with the written instructions of the Committee. However, if any Employer has registration-type class of securities within the meaning of Section 409(e)(4) of the Code, or if a matter submitted to the holders of the Stock involves a merger, consolidation, recapitalization, reclassification, liquidation, dissolution, or sale of substantially all assets of an entity, then (i) the shares of Stock which have been allocated to Participants' Accounts shall be voted by the Trustee in accordance with the Participants' written instructions, and (ii) the Trustee shall vote any unallocated Stock and allocated Stock for which it has received no voting instructions in the same proportions as it votes the allocated Stock for which it has received instructions from Participants; provided, however, that if an exempt loan, as defined in Section 4975(d) of the Code, is outstanding and the Plan is in default on such exempt loan, as default is defined in the loan documents, then to the extent that such loan documents require the lender to exercise voting rights with respect to the unallocated shares, the loan documents will prevail. In the event no shares of Stock have been allocated to Participants' Accounts at the time Stock is to be voted and any exempt loan which may be outstanding is not in default, each Participant shall be deemed to have one share of Stock allocated to his or her Account for the sole purpose of providing the Trustee with voting instructions.

Notwithstanding any provision hereunder to the contrary, all unallocated shares of Stock must be voted by the Trustee in a manner determined by the Trustee to be for the exclusive benefit of the Participants and Beneficiaries. Whenever such voting rights are to be exercised, the Employers shall provide the Trustee, in a

timely manner, with the same notices and other materials as are provided to other holders of the Stock, which the Trustee shall distribute to the Participants. The Participants shall be provided with adequate opportunity to deliver their instructions to the Trustee regarding the voting of Stock allocated to their Accounts. The instructions of the Participants' with respect to the voting of allocated shares hereunder shall be confidential.

7.1-1 In the event of a tender offer, Stock shall be tendered by the Trustee in the same manner as set forth above with respect to the voting of Stock. Notwithstanding any provision hereunder to the contrary, Stock must be tendered by the Trustee in a manner determined by the Trustee to be for the exclusive benefit of the Participants and Beneficiaries.

7.2 **Dividends on Stock.** Dividends on Stock which are received by the Trustee in the form of additional Stock shall be retained in the Stock Fund, and shall be allocated among the Participant's Accounts and the Unallocated Stock Fund in accordance with their holdings of the Stock on which the dividends have been paid. Dividends on Stock credited to Participants' Accounts which are received by the Trustee in the form of cash shall, at the direction of the Employer paying the dividends, either (i) be credited to the Accounts in accordance with Section 8.3 and invested as part of the Investment Fund, (ii) be distributed immediately to the Participants in proportion with the Participants' Stock Fund Account balance (iii) be distributed to the Participants within 90 days of the close of the Plan Year in which paid in proportion with the Participants' Stock Fund Account balance, or (iv) be used to make payments on the Stock Obligation. If dividends on Stock allocated to a Participant's Account are used to repay the Stock Obligation, Stock with a fair market value equal to the dividends so used must be allocated to such Participant's Account in lieu of the dividends. In addition, in the sole discretion of the Employer, the Employer may grant Participants the right either: (A) to receive cash dividends paid on shares of Stock credited to such Participants' ESOP Stock Accounts in accordance with alternative "(ii)" or "(iii)" above (the decision whether such distribution would be made in accordance with alternative "(ii)" or "(iii)" would be made by the Employer or could be provided to the Participant, in the Employer's sole discretion), or (B) to leave the cash dividends in the Plan to be credited to the ESOP Stock Account and invested shares of Stock. Dividends on which such election may be made will be fully vested in the Participant. Accordingly, the Employer may elect to offer such fifth election only to Participants who are fully vested in their Account. For so long as there is an outstanding Stock Obligation, dividends on Stock held in the Unallocated Stock Fund which are received by the Trustee in the form of cash shall be allocated to Participants' Investment Fund Accounts (pro rata based on the Participant's Account balance in relation to all Participants' Account balances) and shall be applied as soon as practicable to payments of principal and interest under the Stock Obligation incurred with the purchase of the Stock.

Section 8. Adjustments to Accounts.

8.1 **Adjustments for Transactions.** An Employer contribution pursuant to Section 4.1 shall be credited to the Participants' Accounts as of the last day of the Plan Year for which it is contributed, in accordance with Section 4.1. Stock released from the Unallocated Stock Fund upon the Trust's repayment of a Stock Obligation pursuant to Section 4.2 shall be credited to the Participants' Accounts as of the last day of the Plan Year in which the repayment occurred, pro rata based on the cash applied from such Participant's Account relative to the cash applied from all Participants' Accounts. Any excess amounts remaining in the suspense account following a sale of Stock from the Unallocated Stock Fund to repay a Stock Obligation shall be allocated as of the last day of the Plan Year in which the repayment occurred among the Participants' Accounts in proportion to 415 Compensation. Any benefit which is paid to a Participant or Beneficiary pursuant to Section 10 shall be charged to the Participant's Account as of the first day of the Valuation Period in which it is paid. Any forfeiture or restoral shall be charged or credited to the Participant's Account as of the first day of the Valuation Period in which the forfeiture or restoral occurs pursuant to Section 9.6.

8.2 Valuation of Investment Fund. As of each Valuation Date, the Trustee shall prepare a balance sheet of the Investment Fund, recording each asset (including any contribution receivable from an Employer) and liability at its fair market value. Any liability with respect to short positions or options and any item of accrued income or expense and unrealized appreciation or depreciation shall be included; provided, however, that such an item may be estimated or excluded if it is not readily ascertainable unless estimating or excluding it would result in a material distortion. The Committee shall then determine the net gain or loss of the Investment Fund since the preceding Valuation Date, which shall mean the entire income of the Investment Fund, including realized and unrealized capital gains and losses, net of any expenses to be charged to the general Investment Fund and excluding any contributions by the Employer. The determination of gain or loss shall be consistent with the balance sheets of the Investment Fund for the current and preceding Valuation Dates.

8.3 Adjustments for Investment Experience. Any net gain or loss of the Investment Fund during a Valuation Period, as determined pursuant to Section 8.2, shall be allocated as of the last day of the Valuation Period among the Participants' Accounts in proportion to the opening balance in each Account, as adjusted for benefit payments and forfeitures during the Valuation Period, without regard to whatever Stock may be credited to an Account. Any cash dividends received on Stock credited to Participant's Accounts shall be allocated as of the last day of the Valuation Period among the Participants' Accounts based on the opening balance in each Participant's Stock Fund Account.

Section 9. Vesting of Participants' Interests.

9.1 Deferred Vesting in Accounts. A Participant's vested interest in his Account shall be based on his Vesting Years in accordance with the following table, subject to the balance of this Section 9:

| <u>Vesting Years</u> | <u>Percentage of Interest Vested</u> |
|----------------------|--------------------------------------|
| Fewer than 5 | 0% |
| 5 or more | 100% |

9.2 Computation of Vesting Years. For purposes of this Plan, a "Vesting Year" means generally a Plan Year in which an Employee has at least 1,000 Hours of Service, beginning with the first Plan Year in which the Employee has completed an Hour of Service with the Employer, and including Service with other Employers as provided in the definition of "Service." Notwithstanding the above, an Employee who was employed with the Bank in its pre-conversion mutual form (the "Mutual Bank") shall receive credit for vesting purposes for each calendar year of continuous employment with the Mutual Bank in which such Employee completed 1,000 Hours of Service (such years shall also be referred to as "Vesting Years"). However, a Participant's Vesting Years shall be computed subject to the following conditions and qualifications:

9.2-1 A Participant's Vesting Years shall not include any Service prior to the date on which an Employee attains age 18.

9.2-2 A Participant's vested interest in his Account accumulated before five (5) consecutive Breaks in Service shall be determined without regard to any Service after such five consecutive Breaks in Service. Further, if a Participant has five (5) consecutive Breaks in Service before his interest in his Account has become vested to some extent, pre-Break years of Service shall not be required to be taken into account for purposes of determining his post-Break vested percentage.

9.2-3 In the case of a Participant who has 5 or more consecutive 1-year Breaks in Service, the Participant's pre-Break Service will count in vesting of the Employer-derived post-break accrued benefit only if either:

(i) such Participant has any nonforfeitable interest in the accrued benefit attributable to Employer contributions at the time of separation from Service, or

(ii) upon returning to Service the number of consecutive 1-year Breaks in Service is less than the number of years of Service.

9.2-4 Notwithstanding any provision of the Plan to the contrary, effective January 1, 1998, calculation of service for determining Vesting Years with respect to qualified military service will be provided in accordance with Section 414(u) of the Code.

9.2-5 If any amendment changes the vesting schedule, including an automatic change to or from a top-heavy vesting schedule, any Participant with three (3) or more Vesting Years may, by filing a written request with the Employer, elect to have his vested percentage computed under the vesting schedule in effect prior to the amendment. The election period must begin not later than the later of sixty (60) days after the amendment is adopted, the amendment becomes effective, or the Participant is issued written notice of the amendment by the Employer or the Committee.

9.3 Full Vesting Upon Certain Events.

9.3-1 Notwithstanding Section 9.1, a Participant's interest in his Account shall fully vest on the Participant's Normal Retirement Date. The Participant's interest shall also fully vest in the event that his Service is terminated by Early Retirement, Disability or by death.

9.3-2 The Participant's interest in his Account shall also fully vest upon the occurrence of a "Change in Control" (as defined below) unless the Change of Control constitutes an "Exempt Change in Control" (as defined below). For the purposes of this Section 9:

(i) The term "Change in Control" means any of the following:

(a) any "person," as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934 (a "Person"), is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of securities of the Company representing twenty percent (20%) or more of the combined voting power of the Company's then outstanding voting securities, provided that, notwithstanding the foregoing and for all purposes of this Section 9.3: (1) the term "Person" shall not include (A) the Company or any of its subsidiaries, (B) an employee benefit plan of the Company or any of its subsidiaries (including the Plan), and any trustee or other fiduciary holding securities under any such plan, and (C) a corporation or other entity owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company; (2) no Person shall be deemed the beneficial owner of any securities acquired by such Person in an Excluded Transaction (as defined below); and (3) no director or officer of the Company or any direct or indirect subsidiary of the Company (or any affiliate of any such director or officer) shall, by reason of any or all of such directors or officers acting in their capacities as such, be deemed to beneficially own any securities beneficially owned by any other such director or officer (or any affiliate thereof); or

(b) the "Incumbent Directors" (as defined below) cease, for any reason, to constitute a majority of the "Whole Board" (as defined below); or

(c) a plan of reorganization, merger, consolidation or similar transaction involving the Company and one or more other corporations or entities is consummated, other than a plan of reorganization, merger, consolidation or similar transaction that is an "Excluded Transaction" (as defined below), or the stockholders of the Company approve a plan of complete liquidation of the Company, or a sale, liquidation or other disposition of all or substantially all of the assets of the Company or the Bank is consummated; or

(d) a tender offer is made for 20% or more of the outstanding voting securities of the Company and the stockholders owning beneficially or of record 20% or more of the outstanding voting securities of the Company have tendered or offered to sell their shares pursuant to such tender offer and such tendered shares have been accepted by the tender offeror; or

(e) A "Potential Change in Control" (as defined below) occurs, and the Board determines, pursuant to the vote of a majority of the Whole Board, with at least two-thirds (2/3) of the Incumbent Directors then in office voting in favor of such determination, to deem the Potential Change in Control to be a Change in Control for the purposes of this Section 9.3.

(ii) The term "Excluded Transaction" means a plan of reorganization, merger, consolidation or similar transaction that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving corporation or any parent thereof) at least 50% of the combined voting power of the voting securities of the entity surviving the plan of reorganization, merger, consolidation or similar transaction (or the parent of such surviving entity) immediately after such plan of reorganization, merger, consolidation or similar transaction.

- (iii) The term “Incumbent Directors” means:
- (a) the individuals who, on the date hereof, constitute the Board; and
 - (b) any new director whose appointment or election by the Board or nomination for election by the Company’s stockholders was approved or recommended: (1) by the vote of at least two-thirds (2/3) of the Whole Board, with at least two-thirds of the Incumbent Directors then in office voting in favor of such approval or recommendation; or (2) by a Nominating Committee of the Board whose members were appointed by the vote of at least two-thirds (2/3) of the Whole Board, with at least two-thirds of the Incumbent Directors then in office voting in favor of such appointments.
- (iv) The term “Whole Board” means the total number of directors that the Company would have if there were no vacancies on the Board at the time the relevant action or matter is presented to the Board for approval.
- (v) The term “Potential Change in Control” shall mean:
- (a) the public announcement by any Person of an intention to take or to consider taking actions which, if consummated, would constitute a Change in Control; or
 - (b) one or more transactions, events or occurrences that result in a change in control of the Bank or the Company within the meaning of the Home Owners Loan Act, as amended, and the applicable rules and regulations promulgated thereunder, as in effect at the time of the change in control; or
 - (c) a proxy statement soliciting proxies from stockholders of the Company is filed or distributed seeking stockholder approval of a plan of reorganization, merger, consolidation or similar transaction involving the Company and one or more other entities, but only if such plan of reorganization, merger, consolidation or similar transaction has not been approved by the vote of at least two-thirds (2/3) of the Whole Board, with at least two-thirds (2/3) of the Incumbent Directors then in office voting in favor of such plan of reorganization, merger, consolidation or similar transaction.

9.4 Full Vesting Upon Plan Termination. Notwithstanding Section 9.1, a Participant’s interest in his Account shall fully vest upon termination of this Plan or upon the permanent and complete discontinuance of contributions by his Employer. In the event of a partial termination, the interest of each affected Participant shall fully vest with respect to that part of the Plan which is terminated.

9.5 Forfeiture, Repayment, and Restoral. If a Participant’s Service terminates before his interest in his Account is fully vested, that portion which has not vested shall be forfeited if he either (i) receives a distribution of his entire vested interest pursuant to Section 10.1, or (ii) incurs a one-year Break in Service. If a Participant’s Service terminates prior to having any portion of his Account become vested, such Participant shall be deemed to have received a distribution of his vested interest as of the Valuation Date next following his termination of Service.

If a Participant who has suffered a forfeiture of the nonvested portion of his Account returns to Service before he has five (5) consecutive Breaks in Service, the nonvested portion shall be restored, provided that, if the Participant had received a distribution of his vested Account balance, the amount distributed shall be repaid prior to such restoral. The Participant may repay such amount at any time within five years after he has returned to Service. The amount repaid shall be credited to his Account at the time it is repaid; an additional amount equal to that portion of his Account which was previously forfeited shall be restored to his Account at the same time from other Employees’ forfeitures and, if such forfeitures are insufficient, from a special contribution by his Employer for that year. If the Participant did not receive a distribution of his vested Account balance, any forfeiture restored shall include earnings that would have been credited to the Account but for the forfeiture. A Participant who was deemed to have received a distribution of his vested interest in the Plan shall have his Account restored as of the first day on which he performs an Hour of Service after his return.

9.6 Accounting for Forfeitures. If a portion of a Participant’s Account is forfeited, Stock allocated to said Participant’s Account shall be forfeited only after other assets are forfeited. If interests in more than one class of Stock have been allocated to a Participant’s Account, the Participant must be treated as forfeiting the same proportion of each class of Stock. A forfeiture shall be charged to the Participant’s Account as of the first day of the first Valuation Period in which the forfeiture becomes certain pursuant to Section 9.5. Except as otherwise provided in that Section, a forfeiture shall be added to the contributions of the terminated Participant’s Employer which are to be credited to other Participants pursuant to Section 4.1 as of the last day of the Plan Year in which the forfeiture becomes certain.

9.7 Vesting and Nonforfeatability. A Participant’s interest in his Account which has become vested shall be nonforfeitable for any reason.

Section 10. Payment of Benefits.

10.1 **Benefits for Participants.** For a Participant whose Service ends for any reason, distribution will be made to or for the benefit of the Participant or, in the case of the Participant's death, his Beneficiary, by payment in a lump sum, in accordance with Section 10.2, either, or a combination of the following methods:

10.1-1 By payment in a lump sum, in accordance with Section 10.2; or

10.2-2 By payment in a series of substantially equal annual installments over a period not to exceed five (5) years, provided the maximum period over which the distribution of a Participant's Account may be made shall be extended by 1 year, up to five (5) additional years, for each \$165,000 (or fraction thereof) by which such Participant's Account balance exceeds \$830,000 (the aforementioned figures are subject to cost-of-living adjustments prescribed by the Secretary of the Treasury pursuant to Section 409(o)(2) of the Code).

The Participant shall elect the manner in which his vested Account balance will be distributed to him. If a Participant so desires, he may direct how his benefits are to be paid to his Beneficiary. If a deceased Participant did not file a direction with the Committee, the Participant's benefits shall be distributed to his Beneficiary in a lump sum. Notwithstanding any provision to the contrary, if the value of a Participant's vested Account balance at the time of any distribution, does not equal or exceed \$5,000, then such Participant's vested Account shall be distributed in a lump sum within 60 days after the end of the Plan Year in which employment terminates. If the value of a Participant's vested Account balance is, or has ever been, in excess of \$5,000, then his benefits shall not be paid prior to the later of the time he has attained Normal Retirement or age 62 unless he elects an early payment date in a written election filed with the Committee. A Participant may modify such an election at any time, provided any new benefit payment date is at least 30 days after a modified election is delivered to the Committee. Failure of a Participant to consent to a distribution prior to the later of Normal Retirement or age 62 shall be deemed to be an election to defer commencement of payment of any benefit under this section.

10.2 Time for Distribution.

10.2-1 If the Participant and, if applicable, with the consent of the Participant's spouse, elects the distribution of the Participant's Account balance in the Plan, distribution shall commence as soon as practicable following his termination of Service, but no later than one year after the close of the Plan Year:

- (i) in which the Participant separates from service by reason of attainment of Normal Retirement Age under the Plan, Disability, or death; or
- (ii) which is the fifth Plan Year following the year in which the Participant resigns or is dismissed, unless he is reemployed before such date.

10.2.2 Unless the Participant elects otherwise, the distribution of the balance of a Participant's Account shall commence not later than the 60th day after the latest of the close of the Plan Year in which -

- (i) the Participant attains the age of 65;
- (ii) occurs the tenth anniversary of the year in which the Participant commenced participation in the Plan; or

(iii) the Participant terminates his Service with the Employer.

10.2-3 Notwithstanding anything to the contrary, (1) with respect to a 5-percent owner (as defined in Code Section 416), distribution of a Participant's Account shall commence (whether or not he remains in the employ of the Employer) not later than the April 1 of the calendar year next following the calendar year in which the Participant attains age 70 1/2, and (2) with respect to all other Participants, payment of a Participant's benefit will commence not later than April 1 of the calendar year following the calendar year in which the Participant attains age 70 1/2, or, if later, the year in which the Participant retires. A Participant's benefit from that portion of his Account committed to the Investment Fund shall be calculated on the basis of the most recent Valuation Date before the date of payment.

10.2-4 Distribution of a Participant's Account balance after his death shall comply with the following requirements:

(i) If a Participant dies before his distributions have commenced, distribution of his Account to his Beneficiary shall commence not later than one year after the end of the Plan Year in which the Participant died; however, if the Participant's Beneficiary is his surviving Spouse, distributions may commence on the date on which the Participant would have attained age 70 1/2. In either case, distributions shall be completed within five years after they commence.

(ii) If the Participant dies after distribution has commenced pursuant to Section 10.1.2 but before his entire interest in the Plan has been distributed to him, then the remaining portion of that interest shall, in accordance with Section 401(a)(9) of the Code, be distributed at least as rapidly as under the method of distribution being used under Section 10.1.2 at the date of his death.

(iii) If a married Participant dies before his benefit payments begin, then unless he has specifically elected otherwise the Committee shall cause the balance in his Account to be paid to his Spouse. No election by a married Participant of a different Beneficiary shall be valid unless the election is accompanied by the Spouse's written consent, which (i) must acknowledge the effect of the election, (ii) must explicitly provide either that the designated Beneficiary may not subsequently be changed by the Participant without the Spouse's further consent, or that it may be changed without such consent, and (iii) must be witnessed by the Committee, its representative, or a notary public. (This requirement shall not apply if the Participant establishes to the Committee's satisfaction that the Spouse may not be located.)

10.2-5 All distributions under this section shall be determined and made in accordance with final and temporary regulations Sections 1.401(a)(9)-1 through 1.401(a)(9)-9, as promulgated under Code Section 401(a)(9), including the minimum distribution incidental benefit requirements of Code Section 401(a)(9)(G) and Section 1.401(a)(9)-2 of the proposed regulations. These provisions override any distribution options in the Plan inconsistent with Code Section 401(a)(9).

10.3 **Marital Status.** The Committee, the Plan, the Trustee, and the Employers shall be fully protected and discharged from any liability to the extent of any benefit payments made as a result of the Committee's good faith and reasonable reliance upon information obtained from a Participant and his Employer as to his marital status.

10.4 **Delay in Benefit Determination.** If the Committee is unable to determine the benefits payable to a Participant or Beneficiary on or before the latest date prescribed for payment pursuant to Section 10.1 or 10.2, the benefits shall in any event be paid within 60 days after they can first be determined, with whatever makeup payments may be appropriate in view of the delay.

10.5 **Accounting for Benefit Payments.** Any benefit payment shall be charged to the Participant's Account as of the first day of the Valuation Period in which the payment is made.

10.6 **Options to Receive Stock or Cash.** Unless ownership of virtually all Stock is restricted to active Employees and qualified retirement plans for the benefit of Employees pursuant to the certificates of incorporation or by-laws of the Employers issuing Stock, a terminated Participant or the Beneficiary of a deceased Participant may instruct the Committee to distribute the Participant's entire vested interest in his Account in the form of cash or Stock or a combination thereof. In the event the Participant elects to receive all Stock, the Committee shall apply the Participant's vested interest in the Investment Fund to purchase sufficient Stock from the Stock Fund or from any owner of Stock to make the required distribution.

Any Participant who receives Stock pursuant to Section 10.1, and any person who has received Stock from the Plan or from such a Participant by reason of the Participant's death or incompetency, by reason of divorce or separation from the Participant, or by reason of a rollover contribution described in Section 402(a)(5) of the Code, shall have the right to require the Employer which issued the Stock to purchase the Stock for its current fair market value (hereinafter referred to as the "put right"). The put right shall be exercisable by written notice to the Committee during the first 60 days after the Stock is distributed by the Plan, and, if not exercised in that period, during the first 60 days in the following Plan Year after the Committee has communicated to the Participant its determination as to the Stock's current fair market value. However, the put right shall not apply to the extent that the Stock, at the time the put right would otherwise be exercisable, may be sold on an established market in accordance with federal and state securities laws and regulations. Similarly, the put option shall not apply with respect to the portion of a Participant's Account which the Employee elected to have reinvested under Code Section 401(a)(28)(B). If the put right is exercised, the Trustee may, if so directed by the Committee in its sole discretion, assume the Employer's rights and obligations with respect to purchasing the Stock. Notwithstanding anything herein to the contrary, in the case of a plan established by a bank (as defined in Code Section 581), the put option shall not apply if the Bank is prohibited by a federal or state law from owning its stock or the stock of an affiliate and Participants are entitled to elect their benefits be distributed in cash.

If a Participant elects to receive his distribution in the form of a lump sum pursuant to Section 10.1.1 of the Plan, the Employer or the Trustee, as the case may be, may elect to pay for the Stock in equal periodic installments, not less frequently than annually, over a period beginning not later than 30 days after the exercise of the put right and not exceeding five years, with adequate security and interest at a reasonable rate on the unpaid balance, all such terms to be set forth in a promissory note delivered to the seller with normal terms as to acceleration upon any uncured default.

If a Participant elects to receive his distribution in the form of an installment payment pursuant to Section 10.1.2 of the Plan, the Employer or the Trustee, as the case may be, shall pay for the Stock distributed in the installment distribution over a period which shall not exceed 30 days after the exercise of the put right.

Nothing contained herein shall be deemed to obligate any Employer to register any Stock under any federal or state securities law or to create or maintain a public market to facilitate the transfer or disposition of any Stock. The put right described herein may only be exercised by a person described in the second preceding paragraph, and may not be transferred with any Stock to any other person. As to all Stock purchased by the Plan in exchange for any Stock Obligation, the put right shall be nonterminable. The put right for Stock acquired through a Stock Obligation shall continue with respect to such Stock after the Stock Obligation is repaid or the Plan ceases to be an employee stock ownership plan.

10.7 Restrictions on Disposition of Stock. Except in the case of Stock which is traded on an established market, a Participant who receives Stock pursuant to Section 10.1, and any person who has received Stock from the Plan or from such a Participant by reason of the Participant's death or incompetency, by reason of divorce or separation from the Participant, or by reason of a rollover contribution described in Section 402(a)(5) of the Code, shall, prior to any sale or other transfer of the Stock to any other person, first offer the Stock to the issuing Employer and to the Plan at the greater of (i) its current fair market value, or (ii) the purchase price offered in good faith by an independent third party purchaser. This restriction shall apply to any transfer, whether voluntary, involuntary, or by operation of law, and whether for consideration or gratuitous. Either the Employer or the Trustee may accept the offer within 14 days after it is delivered. Any Stock distributed by the Plan shall bear a conspicuous legend describing the right of first refusal under this Section 10.7, as well as any other restrictions upon the transfer of the Stock imposed by federal and state securities laws and regulations.

10.8 Continuing Loan Provisions; Creations of Protections and Rights. Except as otherwise provided in Sections 10.6 and 10.7 and this Section, no shares of Employer Stock held or distributed by the Trustee may be subject to a put, call or other option, or buy-sell arrangement. The provisions of this Section shall continue to be applicable to such Stock even if the Plan ceases to be an employee stock ownership plan under Section 4975(e)(7) of the Code.

10.9 Direct Rollover of Eligible Distribution. A Participant or distributee may elect, at the time and in the manner prescribed by the Trustee or the Committee, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the Participant or distributee in a direct rollover.

10.9-1 An "eligible rollover" is any distribution that does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the Participant and the Participant's Beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under Code Section 401(a)(9); any hardship distribution described in Section 401(k)(2)(B)(i)(IV) of the Code; and the portion of any distribution that is not included in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities). A portion of a distribution shall not fail to be an eligible rollover distribution merely because the portion consists of after-tax employee contributions which are not includible in gross income. However, such portion may be transferred only to an individual retirement account or annuity described in Section 408(a) or (b) of the Code, or to a qualified defined contribution plan described in Section 401(a) or 403(a) of the Code that agrees to separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible.

10.9-2 An "eligible retirement plan" is an individual retirement account described in Code Section 408(a), an individual retirement annuity described in Code Section 408(b), an annuity plan described in Code Section 403(a), or a qualified trust described in Code Section 401(a), that accepts the distributee's eligible rollover distribution. In the case of distributions after December 31, 2001, an eligible retirement plan shall also include an annuity contract described in Section 403(b) of the Code and an eligible plan under Section 457(b) of the Code which is maintained by a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this plan. In the case of an eligible rollover distribution to a surviving Spouse, an eligible retirement plan is an individual retirement account or individual retirement annuity.

10.9-3 A “direct rollover” is a payment by the Plan to the eligible retirement plan specified by the distributee.

10.9-4 The term “distributee” shall refer to a deceased Participant’s Spouse or a Participant’s former Spouse who is the alternate payee under a qualified domestic relations order, as defined in Code Section 414(p).

10.10 **Waiver of 30-Day Period After Notice of Distribution.** If a distribution is one to which Sections 401(a)(11) and 417 of the Code do not apply, such distribution may commence less than 30 days after the notice required under Section 1.411(a)-11(c) of the Income Tax Regulations is given, provided that:

(i) the Trustee or Committee, as applicable, clearly informs the Participant that the Participant has a right to a period of at least 30 days after receiving the notice to consider the decision of whether or not to elect a distribution (and, if applicable, a particular option), and

(ii) the Participant, after receiving the notice, affirmatively elects a distribution.

Section 11. Rules Governing Benefit Claims and Review of Appeals.

11.1 **Claim for Benefits.** Any Participant or Beneficiary who qualifies for the payment of benefits shall file a claim for his benefits with the Committee on a form provided by the Committee. The claim, including any election of an alternative benefit form, shall be filed at least 30 days before the date on which the benefits are to begin. If a Participant or Beneficiary fails to file a claim by the day before the date on which benefits become payable, he shall be presumed to have filed a claim for payment for the Participant’s benefits in the standard form prescribed by Sections 10.1 or 10.2.

11.2 **Notification by Committee.** Within 90 days after receiving a claim for benefits (or within 180 days, if special circumstances require an extension of time and written notice of the extension is given to the Participant or Beneficiary within 90 days after receiving the claim for benefits), the Committee shall notify the Participant or Beneficiary whether the claim has been approved or denied. If the Committee denies a claim in any respect, the Committee shall set forth in a written notice to the Participant or Beneficiary:

(i) each specific reason for the denial;

(ii) specific references to the pertinent Plan provisions on which the denial is based;

(iii) a description of any additional material or information which could be submitted by the Participant or Beneficiary to support his claim, with an explanation of the relevance of such information; and

(iv) an explanation of the claims review procedures set forth in Section 11.3.

11.3 **Claims Review Procedure.** Within 60 days after a Participant or Beneficiary receives notice from the Committee that his claim for benefits has been denied in any respect, he may file with the Committee a written notice of appeal setting forth his reasons for disputing the Committee’s determination. In connection with his appeal the Participant or Beneficiary or his representative may inspect or purchase copies of pertinent documents and records to the extent not inconsistent with other Participants’ and Beneficiaries’ rights of privacy. Within 60 days after receiving a notice of appeal from a prior determination (or within 120 days, if special circumstances require an extension of time and written notice of the extension is given to the Participant or Beneficiary and his representative within 60 days after receiving the notice of appeal), the

Committee shall furnish to the Participant or Beneficiary and his representative, if any, a written statement of the Committee's final decision with respect to his claim, including the reasons for such decision and the particular Plan provisions upon which it is based.

Section 12. The Committee and its Functions.

12.1 **Authority of Committee.** The Committee shall be the "plan administrator" within the meaning of ERISA and shall have exclusive responsibility and authority to control and manage the operation and administration of the Plan, including the interpretation and application of its provisions, except to the extent such responsibility and authority are otherwise specifically (i) allocated to the Bank, the Employers, or the Trustee under the Plan and Trust Agreement, (ii) delegated in writing to other persons by the Bank, the Employers, the Committee, or the Trustee, or (iii) allocated to other parties by operation of law. The Committee shall have exclusive responsibility regarding decisions concerning the payment of benefits under the Plan. The Committee shall have no investment responsibility with respect to the Investment Fund except to the extent, if any, specifically provided in the Trust Agreement. In the discharge of its duties, the Committee may employ accountants, actuaries, legal counsel, and other agents (who also may be employed by an Employer or the Trustee in the same or some other capacity) and may pay their reasonable expenses and compensation.

12.2 **Identity of Committee.** The Committee shall consists of three or more individuals selected by the Bank. Any individual, including a director, trustee, shareholder, officer, or Employee of an Employer, shall be eligible to serve as a member of the Committee. The Bank shall have the power to remove any individual serving on the Committee at any time without cause upon 10 days written notice, and any individual may resign from the Committee at any time upon 10 days written notice to the Bank. The Bank shall notify the Trustee of any change in membership of the Committee.

12.3 **Duties of Committee.** The Committee shall keep whatever records may be necessary to implement the Plan and shall furnish whatever reports may be required from time to time by the Bank. The Committee shall furnish to the Trustee whatever information may be necessary to properly administer the Trust. The Committee shall see to the filing with the appropriate government agencies of all reports and returns required of the Plan under ERISA and other laws.

Further, the Committee shall have exclusive responsibility and authority with respect to the Plan's holdings of Stock and shall direct the Trustee in all respects regarding the purchase, retention, sale, exchange, and pledge of Stock and the creation and satisfaction of Stock Obligations. The Committee shall at all times act consistently with the Bank's long-term intention that the Plan, as an employee stock ownership plan, be invested primarily in Stock. Subject to the direction of the board as to the application of Employer contributions to Stock Obligations, and subject to the provisions of Sections 6.4 and 10.6 as to Participants' rights under certain circumstances to have their Accounts invested in Stock or in assets other than Stock, the Committee shall determine in its sole discretion the extent to which assets of the Trust shall be used to repay Stock Obligations, to purchase Stock, or to invest in other assets to be selected by the Trustee or an investment manager. No provision of the Plan relating to the allocation or vesting of any interests in the Stock Fund or the Investment Fund shall restrict the Committee from changing any holdings of the Trust, whether the changes involve an increase or a decrease in the Stock or other assets credited to Participants' Accounts. In determining the proper extent of the Trust's investment in Stock, the Committee shall be authorized to employ investment counsel, legal counsel, appraisers, and other agents and to pay their reasonable expenses and compensation.

12.4 **Valuation of Stock.** If the valuation of any Stock is not established by reported trading on a generally recognized public market, the valuation of such Stock shall be determined by an independent

appraiser. For purposes of the preceding sentence, the term “independent appraiser” means any appraiser meeting requirements similar to the requirements of the regulations prescribed under Section 170(a)(1) of the Code. 12.5 **Compliance with ERISA**. The Committee shall perform all acts necessary to comply with ERISA. Each individual member or employee of the Committee shall discharge his duties in good faith and in accordance with the applicable requirements of ERISA.

12.6 **Action by Committee**. All actions of the Committee shall be governed by the affirmative vote of a number of members which is a majority of the total number of members currently appointed, including vacancies.

12.7 **Execution of Documents**. Any instrument executed by the Committee shall be signed by any member or employee of the Committee.

12.8 **Adoption of Rules**. The Committee shall adopt such rules and regulations of uniform applicability as it deems necessary or appropriate for the proper administration and interpretation of the Plan.

12.9 **Responsibilities to Participants**. The Committee shall determine which Employees qualify to enter the Plan. The Committee shall furnish to each eligible Employee whatever summary plan descriptions, summary annual reports, and other notices and information may be required under ERISA. The Committee also shall determine when a Participant or his Beneficiary qualifies for the payment of benefits under the Plan. The Committee shall furnish to each such Participant or Beneficiary whatever information is required under ERISA (or is otherwise appropriate) to enable the Participant or Beneficiary to make whatever elections may be available pursuant to Sections 6 and 10, and the Committee shall provide for the payment of benefits in the proper form and amount from the assets of the Trust Fund. The Committee may decide in its sole discretion to permit modifications of elections and to defer or accelerate benefits to the extent consistent with applicable law and the best interests of the individuals concerned.

12.10 **Alternative Payees in Event of Incapacity**. If the Committee finds at any time that an individual qualifying for benefits under this Plan is a minor or is incompetent, the Committee may direct the benefits to be paid, in the case of a minor, to his parents, his legal guardian, or a custodian for him under the Uniform Gifts to Minors Act, or, in the case of an incompetent, to his spouse, or his legal guardian, the payments to be used for the individual's benefit. The Committee and the Trustee shall not be obligated to inquire as to the actual use of the funds by the person receiving them under this Section 12.10, and any such payment shall completely discharge the obligations of the Plan, the Trustee, the Committee, and the Employers to the extent of the payment.

12.11 **Indemnification by Employers**. Except as separately agreed in writing, the Committee, and any member or employee of the Committee, shall be indemnified and held harmless by the Employer, jointly and severally, to the fullest extent permitted by ERISA, and subject to and conditioned upon compliance with 29 C.F.R. Section 545.121, to the extent applicable, against any and all costs, damages, expenses, and liabilities reasonably incurred by or imposed upon it or him in connection with any claim made against it or him or in which it or he may be involved by reason of its or his being, or having been, the Committee, or a member or employee of the Committee, to the extent such amounts are not paid by insurance.

12.12 **Nonparticipation by Interested Member**. Any member of the Committee who also is a Participant in the Plan shall take no part in any determination specifically relating to his own participation or benefits, unless his abstention would leave the Committee incapable of acting on the matter.

Section 13. Adoption, Amendment, or Termination of the Plan.

13.1 **Adoption of Plan by Other Employers.** With the consent of the Bank, any entity may become a participating Employer under the Plan by (i) taking such action as shall be necessary to adopt the Plan, (ii) becoming a party to the Trust Agreement establishing the Trust Fund, and (iii) executing and delivering such instruments and taking such other action as may be necessary or desirable to put the Plan into effect with respect to the entity's Employees.

13.2 **Plan Adoption Subject to Qualification.** Notwithstanding any other provision of the Plan, the adoption of the Plan and the execution of the Trust Agreement are conditioned upon their being determined initially by the Internal Revenue Service to meet the qualification requirements of Section 401(a) of the Code, so that the Employers may deduct currently for federal income tax purposes their contributions to the Trust and so that the Participants may exclude the contributions from their gross income and recognize income only when they receive benefits. In the event that this Plan is held by the Internal Revenue Service not to qualify initially under Section 401(a), the Plan may be amended retroactively to the earliest date permitted by U.S. Treasury Regulations in order to secure qualification under Section 401(a). If this Plan is held by the Internal Revenue Service not to qualify initially under Section 401(a) either as originally adopted or as amended, each Employer's contributions to the Trust under this Plan (including any earnings thereon) shall be returned to it and this Plan shall be terminated. In the event that this Plan is amended after its initial qualification and the Plan as amended is held by the Internal Revenue Service not to qualify under Section 401(a), the amendment may be modified retroactively to the earliest date permitted by U.S. Treasury Regulations in order to secure approval of the amendment under Section 401(a).

13.3 **Right to Amend or Terminate.** The Bank intends to continue this Plan as a permanent program. However, each participating Employer separately reserves the right to suspend, supersede, or terminate the Plan at any time and for any reason, as it applies to that Employer's Employees, and the Bank reserves the right to amend, suspend, supersede, merge, consolidate, or terminate the Plan at any time and for any reason, as it applies to the Employees of each Employer. No amendment, suspension, supersession, merger, consolidation, or termination of the Plan shall (i) reduce any Participant's or Beneficiary's proportionate interest in the Trust Fund, (ii) reduce or restrict, either directly or indirectly, the benefit provided any Participant prior to the amendment, or (iii) divert any portion of the Trust Fund to purposes other than the exclusive benefit of the Participants and their Beneficiaries prior to the satisfaction of all liabilities under the Plan. Moreover, there shall not be any transfer of assets to a successor plan or merger or consolidation with another plan unless, in the event of the termination of the successor plan or the surviving plan immediately following such transfer, merger, or consolidation, each participant or beneficiary would be entitled to a benefit equal to or greater than the benefit he would have been entitled to if the plan in which he was previously a participant or beneficiary had terminated immediately prior to such transfer, merger, or consolidation. Following a termination of this Plan by the Bank, the Trustee shall continue to administer the Trust and pay benefits in accordance with the Plan as amended from time to time and the Committee's instructions.

Section 14. Miscellaneous Provisions.

14.1 **Plan Creates No Employment Rights.** Nothing in this Plan shall be interpreted as giving any Employee the right to be retained as an Employee by an Employer, or as limiting or affecting the rights of an Employer to control its Employees or to terminate the Service of any Employee at any time and for any reason, subject to any applicable employment or collective bargaining agreements.

14.2 **Nonassignability of Benefits.** No assignment, pledge, or other anticipation of benefits from the Plan will be permitted or recognized by the Employer, the Committee, or the Trustee. Moreover, benefits from the Plan shall not be subject to attachment, garnishment, or other legal process for debts or liabilities of

any Participant or Beneficiary, to the extent permitted by law. This prohibition on assignment or alienation shall apply to any judgment, decree, or order (including approval of a property settlement agreement) which relates to the provision of child support, alimony, or property rights to a present or former spouse, child or other dependent of a Participant pursuant to a state domestic relations or community property law, unless the judgment, decree, or order is determined by the Committee to be a qualified domestic relations order within the meaning of Section 414(p) of the Code, as more fully set forth in Section 14.12 hereof.

14.3 **Limit of Employer Liability.** The liability of the Employer with respect to Participants under this Plan shall be limited to making contributions to the Trust from time to time, in accordance with Section 4.

14.4 **Treatment of Expenses.** All expenses incurred by the Committee and the Trustee in connection with administering this Plan and Trust Fund shall be paid by the Trustee from the Trust Fund to the extent the expenses have not been paid or assumed by the Employer or by the Trustee. The Committee may determine that, and shall inform the Trustee when, reasonable expenses may be charged directly to the Account or Accounts of a Participant or group of Participants to whom or for whose benefit such expenses are allocable, subject to the guidelines set forth in Field Assistance Bulletin 2003-03, to the extent not superseded, or any successor directive issued by the Department of Labor.

14.5 **Number and Gender.** Any use of the singular shall be interpreted to include the plural, and the plural the singular. Any use of the masculine, feminine, or neuter shall be interpreted to include the masculine, feminine, or neuter, as the context shall require.

14.6 **Nondiversion of Assets.** Except as provided in Sections 5.2 and 14.12, under no circumstances shall any portion of the Trust Fund be diverted to or used for any purpose other than the exclusive benefit of the Participants and their Beneficiaries prior to the satisfaction of all liabilities under the Plan.

14.7 **Separability of Provisions.** If any provision of this Plan is held to be invalid or unenforceable, the other provisions of the Plan shall not be affected but shall be applied as if the invalid or unenforceable provision had not been included in the Plan.

14.8 **Service of Process.** The agent for the service of process upon the Plan shall be the president of the Bank, or such other person as may be designated from time to time by the Bank.

14.9 **Governing State Law.** This Plan shall be interpreted in accordance with the laws of the State of Illinois to the extent those laws are applicable under the provisions of ERISA.

14.10 **Employer Contributions Conditioned on Deductibility.** Employer Contributions to the Plan are conditioned on deductibility under Code Section 404. In the event that the Internal Revenue Service shall determine that all or any portion of an Employer Contribution is not deductible under that Section, the nondeductible portion shall be returned to the Employer within one year of the disallowance of the deduction.

14.11 **Unclaimed Accounts.** Neither the Employer nor the Trustees shall be under any obligation to search for, or ascertain the whereabouts of, any Participant or Beneficiary. The Employer or the Trustees, by certified or registered mail addressed to his last known address of record with the Employer, shall notify any Participant or Beneficiary that he is entitled to a distribution under this Plan, and the notice shall quote the provisions of this Section. If the Participant or Beneficiary fails to claim his benefits or make his whereabouts known in writing to the Employer or the Trustees within seven (7) calendar years after the date of notification, the benefits of the Participant or Beneficiary under the Plan will be disposed of as follows:

(a) If the whereabouts of the Participant is unknown but the whereabouts of the Participant's Beneficiary is known to the Trustees, distribution will be made to the Beneficiary.

(b) If the whereabouts of the Participant and his Beneficiary are unknown to the Trustees, the Plan will forfeit the benefit, provided that the benefit is subject to a claim for reinstatement if the Participant or Beneficiary make a claim for the forfeited benefit.

Any payment made pursuant to the power herein conferred upon the Trustees shall operate as a complete discharge of all obligations of the Trustees, to the extent of the distributions so made.

14.12 **Qualified Domestic Relations Order.** Section 14.2 shall not apply to a “qualified domestic relations order” defined in Code Section 414(p), and such other domestic relations orders permitted to be so treated under the provisions of the Retirement Equity Act of 1984. Further, to the extent provided under a “qualified domestic relations order,” a former Spouse of a Participant shall be treated as the Spouse or surviving Spouse for all purposes under the Plan.

In the case of any domestic relations order received by the Plan:

(a) The Employer or the Committee shall promptly notify the Participant and any other alternate payee of the receipt of such order and the Plan’s procedures for determining the qualified status of domestic relations orders, and

(b) Within a reasonable period after receipt of such order, the Employer or the Committee shall determine whether such order is a qualified domestic relations order and notify the Participant and each alternate payee of such determination. The Employer or the Committee shall establish reasonable procedures to determine the qualified status of domestic relations orders and to administer distributions under such qualified orders.

During any period in which the issue of whether a domestic relations order is a qualified domestic relations order is being determined (by the Employer or Committee, by a court of competent jurisdiction, or otherwise), the Employer or the Committee shall segregate in a separate account in the Plan or in an escrow account the amounts which would have been payable to the alternate payee during such period if the order had been determined to be a qualified domestic relations order. If within eighteen (18) months the order (or modification thereof) is determined to be a qualified domestic relations order, the Employer or the Committee shall pay the segregated amounts (plus any interest thereon) to the person or persons entitled thereto. If within eighteen (18) months it is determined that the order is not a qualified domestic relations order, or the issue as to whether such order is a qualified domestic relations order is not resolved, then the Employer or the Committee shall pay the segregated amounts (plus any interest thereon) to the person or persons who would have been entitled to such amounts if there had been no order. Any determination that an order is a qualified domestic relations order which is made after the close of the eighteen (18) month period shall be applied prospectively only. The term “alternate payee” means any Spouse, former Spouse, child or other dependent of a Participant who is recognized by a domestic relations order as having a right to receive all, or a portion of, the benefit payable under a Plan with respect to such Participant.

Section 15. Top-Heavy Provisions.

15.1 **Top-Heavy Plan.** This Plan is top-heavy if any of the following conditions exist:

(a) If the top-heavy ratio for this Plan exceeds sixty percent (60%) and this Plan is not part of any required aggregation group or permissive aggregation group;

(b) If this Plan is a part of a required aggregation group (but is not part of a permissive aggregation group) and the aggregate top-heavy ratio for the group of Plans exceeds sixty percent (60%); or

(c) If this Plan is a part of a required aggregation group and part of a permissive aggregation group and the aggregate top-heavy ratio for the permissive aggregation group exceeds sixty percent (60%).

15.2 **Super Top-Heavy Plan.** This Plan will be a super top-heavy Plan if any of the following conditions exist:

(a) If the top-heavy ratio for this Plan exceeds ninety percent (90%) and this Plan is not part of any required aggregation group or permissive aggregation group.

(b) If this Plan is a part of a required aggregation group (but is not part of a permissive aggregation group) and the aggregate top-heavy ratio for the group of Plans exceeds ninety percent (90%), or

(c) If this Plan is a part of a required aggregation group and part of a permissive aggregation group and the aggregate top-heavy ratio for the permissive aggregation group exceeds ninety percent (90%).

15.3 **Definitions.**

In making this determination, the Committee shall use the following definitions and principles:

15.3-1 The "Determination Date," with respect to the first Plan Year of any plan, means the last day of that Plan Year, and with respect to each subsequent Plan Year, means the last day of the preceding Plan Year. If any other plan has a Determination Date which differs from this Plan's Determination Date, the top-heaviness of this Plan shall be determined on the basis of the other plan's Determination Date falling within the same calendar years as this Plan's Determination Date.

15.3-2 A "Key Employee" means any employee or former employee (including any deceased employee) who at any time during the plan year that includes the determination date was an officer of the employer having annual compensation greater than \$130,000 (as adjusted under section 416(i)(1) of the Code for plan years beginning after December 31, 2002, a 5-percent owner of the employer, or a 1-percent owner of the employer having annual compensation of more than \$150,000. For this purpose, annual compensation means compensation within the meaning of section 415(c)(3) of the Code. The determination of who is a key employee will be made in accordance with section 416(i)(1) of the Code and the applicable regulations and other guidance of general applicability issued thereunder.

15.3-3 A "Non-key Employee" means an Employee who at any time during the five years ending on the top-heavy Determination Date for the Plan Year has received compensation from an Employer and who has never been a Key Employee, and the Beneficiary of any such Employee.

15.3-4 A "required aggregation group" includes (a) each qualified Plan of the Employer in which at least one Key Employee participates in the Plan Year containing the Determination Date and (b) any other qualified Plan of the Employer which enables a Plan described in (a) to meet the requirements of Code Sections 401(a)(4) or 410. For purposes of the preceding sentence, a qualified

Plan of the Employer includes a terminated Plan maintained by the Employer within the period ending on the Determination Date. In the case of a required aggregation group, each Plan in the group will be considered a top-heavy Plan if the required aggregation group is a top-heavy group. No Plan in the required aggregation group will be considered a top-heavy Plan if the required aggregation group is not a top-heavy group. All Employers aggregated under Code Sections 414(b), (c) or (m) or (o) (but only after the Code Section 414(o) regulations become effective) are considered a single Employer.

15.3-5 A “permissive aggregation group” includes the required aggregation group of Plans plus any other qualified Plan(s) of the Employer that are not required to be aggregated but which, when considered as a group with the required aggregation group, satisfy the requirements of Code Sections 401(a) (4) and 410 and are comparable to the Plans in the required aggregation group. No Plan in the permissive aggregation group will be considered a top-heavy Plan if the permissive aggregation group is not a top-heavy group. Only a Plan that is part of the required aggregation group will be considered a top-heavy Plan if the permissive aggregation group is top-heavy.

15.4 Top-Heavy Rules of Application.

For purposes of determining the value of Account balances and the present value of accrued benefits the following provisions shall apply:

15.4-1 The value of Account balances and the present value of accrued benefits will be determined as of the most recent Valuation Date that falls within or ends with the twelve (12) month period ending on the Determination Date.

15.4-2 For purposes of testing whether this Plan is top-heavy, the present value of an individual’s accrued benefits and an individual’s Account balances is counted only once each year.

15.4-3 The Account balances and accrued benefits of a Participant who is not presently a Key Employee but who was a Key Employee in a Plan Year beginning on or after January 1, 1984 will be disregarded.

15.4-4 Employer contributions attributable to a salary reduction or similar arrangement will be taken into account. Employer matching contributions also shall be taken into account for purposes of satisfying the minimum contribution requirements of Section 416(c)(2) of the Code and the Plan.

15.4-5 When aggregating Plans, the value of Account balances and accrued benefits will be calculated with reference to the Determination Dates that fall within the same calendar year.

15.4-6 The present values of accrued benefits and the amounts of account balances of an employee as of the determination date shall be increased by the distributions made with respect to the employee under the plan and any plan aggregated with the plan under Section 416(g)(2) of the Code during the 1-year period ending on the determination date. The preceding sentence shall also apply to distributions under a terminated plan which, had it not been terminated, would have been aggregated with the plan under Section 416(g)(2)(A)(i) of the Code. In the case of a distribution made for a reason other than separation from service, death, or disability, this provision shall be applied by substituting “five (5) year period” for “one (1) year period.”

15.4-7 Accrued benefits and Account balances of an individual shall not be taken into account for purposes of determining the top-heavy ratios if the individual has performed no services for the Employer during the one (1) year period ending on the applicable Determination Date. Compensation for purposes of this subparagraph shall not include any payments made to an individual by the Employer pursuant to a qualified or non-qualified deferred compensation plan.

15.4-8 The present value of the accrued benefits or the amount of the Account balances of any Employee participating in this Plan shall not include any rollover contributions or other transfers voluntarily initiated by the Employee except as described below. If this Plan transfers or rolls over funds to another Plan in a transaction voluntarily initiated by the Employee, then this Plan shall count the distribution for purposes of determining Account balances or the present value of accrued benefits. A transfer incident to a merger or consolidation of two or more Plans of the Employer (including Plans of related Employers treated as a single Employer under Code Section 414), or a transfer or rollover between Plans of the Employer, shall not be considered as voluntarily initiated by the Employee.

15.5 **Minimum Contributions.** For any Top-Heavy Year, each Employer shall make a special contribution on behalf of each Participant to the extent that the total allocations to his Account pursuant to Section 4 is less than the lesser of:

(i) three percent of his 415 Compensation for that year, or

(ii) the highest ratio of such allocation to 415 Compensation received by any Key Employee for that year. For purposes of the special contribution of this Section 15.2, a Key Employee's 415 Compensation shall include amounts the Key Employee elected to defer under a qualified 401(k) arrangement. Such a special contribution shall be made on behalf of each Participant who is employed by an Employer on the last day of the Plan Year, regardless of the number of his Hours of Service, and shall be allocated to his Account.

If the Employer maintains a qualified plan in addition to this Plan and more than one such plan is determined to be Top-Heavy, a minimum contribution or a minimum benefit shall be provided in one of such other plans, including a plan that consists solely of a cash or deferred arrangement which meets the requirements of Section 401(k)(12) of the Code and matching contributions with respect to which the requirements of Section 401(m)(11) of the Code are met. If the Employer has both a Top-Heavy defined benefit plan and a Top-Heavy defined contribution plan and a minimum contribution is to be provided only in the defined contribution plan, then the sum of the Employer contributions and forfeitures allocated to the Account of each Non-key Employee shall be equal to at least five percent (5%) of such Non-key Employee's 415 Compensation for that year.

15.6 **Minimum Vesting.** For any Plan Year in which this Plan is Top-Heavy, a Participant's vested interest in his Account shall be based on the following "top-heavy table":

| <u>Vesting Years</u> | <u>Percentage of Interest Vested</u> |
|----------------------|--------------------------------------|
| Less than 2 | 0% |
| 2 | 20% |
| 3 | 40% |
| 4 | 60% |
| 5 | 100% |

15.7 **Top-Heavy Provisions Control in Top-Heavy Plan.** In the event this Plan becomes top-heavy and a conflict arises between the top-heavy provisions herein set forth and the remaining provisions set forth in this Plan, the top-heavy provisions shall control.

Correspondent Banking

Mail Code IL1-1110
120 South LaSalle Street
Chicago, IL 60603312 661 5000
312 661 9511

October 27, 2004

Mr. F. Morgan Gasior
Chairman and Chief Executive Officer
BankFinancial MHC, Inc.
BankFinancial Corporation
15 W 060 North Frontage Road
Burr Ridge, Illinois 60527**RE: *Commitment to Amend BankFinancial's Loan Agreement***

Dear Mr. Gasior:

You have provided us with a draft prospectus (the "Prospectus") outlining a proposed mutual to stock conversion (the "Conversion") pursuant to which BankFinancial Corporation, a Maryland corporation ("BFC Maryland") will issue shares of stock to the public, and will become the successor to BankFinancial MHC, Inc. ("Parent") and BankFinancial Corporation ("Borrower"), and also will become the sole stockholder of the Bank.

This letter will constitute the consent of Bank One, NA ("Lender") to the Conversion and the corporate reorganization and other steps described in the Prospectus that will be necessary to facilitate and effect the Conversion, and shall evidence Lender's commitment (the "Commitment") to amend the Loan Agreement and the other Financing Agreements in the following respects:

1. Amend the definition "Termination Date" for the Term Loan to substitute June 30, 2005 for December 31, 2004.
2. Amend the Loan Agreement and the other Financing Agreements to provide that unpaid principal balance plus all accrued but unpaid interest hereunder and any other amounts owing with respect to the Revolving Note shall be due and payable on December 31, 2005, or such earlier date on which such amount shall become due and payable on account of acceleration by the Lender pursuant to the Loan Agreement and other Financing Agreements.
3. Amend the definition of "Borrower" as necessary to reflect that, upon the consummation of the Conversion, the separate corporate existence of Parent and Borrower will cease to exist, and that BFC Maryland will become the sole stockholder of the Bank and sole obligor under the Loan Agreement and the other Financing Arrangements.
4. Amend the warranties, representations, covenants and other terms and conditions of the Loan Agreement and the other Financing Agreements as necessary to reflect the new corporate structure and the change in the ownership of the stock of the Bank that will result from the Conversion (all as described in the Prospectus).
5. Amend the warranties, representations, covenants and other terms and conditions of the Loan Agreement and the other Financing Agreements as necessary to provide that the Change of Control and the change in the ownership of the stock of the Bank that will result from the Conversion (all as described in the Prospectus) shall not constitute Events of Default or Defaults.

Lender reserves the right to withdraw this Commitment prior to closing as follows:

- A. If an Event of Default or Default occurs under the Loan Agreement or other Financing Agreements.
- B. If Lender is advised prior to the closing of this transaction of any law or regulation which prevents or prohibits Lender from making any credit extensions in accordance with the terms and conditions contained herein or other conditions which, in the judgment of Lender, have a material adverse effect upon Lender's ability to provide the Facilities.
- C. This Commitment presumes the full disclosure and accuracy of all pertinent information submitted by the Borrowers to Lender and may be canceled by Lender if any such information is false, incomplete, or inaccurate in any material respect or if the conditions represented or indicated to exist shall change in any material respect.
- D. All amendments to the Loan Agreement and other Financing Agreements must be satisfactory to Lender in form and content satisfactory.

If you have any question regarding this Commitment, please feel free to contact me.

Bank One, NA

By: \s\ John L. Spalding

Name: John L. Spalding
Title: First Vice President

By: \s\ Gregory S. Pike

Name: Gregory S. Pike
Title: Assistant Vice President

Accepted:

BankFinancial, MHC, Inc.

By: \s\ F. Morgan Gasior

Name: F. Morgan Gasior
Title: Chairman and CEO

BankFinancial Corporation

By: \s\ F. Morgan Gasior

Name: F. Morgan Gasior
Title: Chairman and CEO

**BANKFINANCIAL CORPORATION
EMPLOYMENT AGREEMENT**

THIS AGREEMENT (“Agreement”) is made effective as of _____, 200__ (the “Effective Date”), by and between **BankFinancial Corporation** (the “Company”), a Maryland corporation having its principal office at 15 W 060 North Frontage Road, Burr Ridge, and **F. Morgan Gasior** (“Executive”).

WHEREAS, the Board of Directors of the Company (the “Board”) considers the continued availability of Executive’s services to be important to the successful management and conduct of the Company’s business, and wishes to assure the continued availability of Executive’s full-time services to the Company as provided in this Agreement; and

WHEREAS, Executive is willing to continue to serve in the employ of the Company on a full-time basis on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants herein contained, and upon the other terms and conditions hereinafter provided, the parties hereby agree as follows:

1. POSITION AND RESPONSIBILITIES.

(a) Position. During the period of employment established by Section 2(a) of this Agreement (the “Employment Period”): (i) Executive agrees to serve, if elected or appointed to serve, as a director and the Chairman, President and Chief Executive Officer of the Company and BankFinancial, F.S.B. (the “Bank”), (ii) the Board agrees to appoint Executive as the President and Chief Executive Officer of the Company, and to cause and permit him to hold such positions; and (iii) the Board agrees to appoint Executive as the Chairman of the Board of the Company, and to cause and permit him to hold such position at all times during which Executive is a director of the Company.

(b) Duties and Responsibilities. Executive shall have and exercise the same duties, responsibilities, privileges, powers and authority as Executive held and exercised on the Effective Date as the Chairman, President and Chief Executive Officer of the Company, and such additional duties, responsibilities, privileges, powers and authority commensurate with such positions as the Board may hereafter assign to Executive. Executive shall report only to the Board and shall not report or be subordinate to any other officers or employees of the Company.

(c) Faithful Performance. Except for periods of paid time off taken in accordance with Section 3(f) hereof or following a Disability Determination made in accordance with Section 4(b) hereof, Executive shall devote substantially all of his business time, attention, skill and efforts during the Employment Period to the faithful performance of his duties hereunder, and shall not engage in any business or activity that interferes with the performance of such duties or conflicts with the business, affairs or interests of the Bank or the Company; provided that, notwithstanding the foregoing, Executive may: (i) perform his obligations under any Employment Agreement between the Bank and Executive (the “Bank Agreement”); (ii) hold directorships, offices or other positions in one or more other organizations to the extent permitted by the Company’s Professional Responsibility Policy, as amended from time to time, or as otherwise approved by the Board; and (iii) engage in the occasional practice of law for personal

clients provided that the same does not interfere with Executive's obligation to devote substantially all of his business time, attention, skill and efforts to the faithful performance of his duties under this Agreement.

2. TERM OF EMPLOYMENT.

(a) **Term.** The Employment Period shall commence as of the Effective Date and shall thereafter continue for a period of thirty-six (36) months (as adjusted on _____, 200__, as provided below) unless extended as provided herein. On or before _____, 200__, and on or before _____ of each succeeding calendar year during the Employment Period (each an "Anniversary Date"), the Board, subject to the review process set forth in Section 2(b) hereof, may extend the Employment Period for an additional one (1) year so that the remaining term of the Employment Period shall then be thirty-six (36) months. All references herein to the Employment Period shall mean, for all purposes of this Agreement, Executive's Employment Period as initially established by, and as may subsequently be extended pursuant to, this Section 2(a).

(b) **Annual Review.** The Board shall review this Agreement and the compensation arrangements provided for herein on or before _____, 200__, and at least annually thereafter on or before each subsequent Anniversary Date. As part of each annual review, the Board shall determine whether or not to increase Executive's Base Salary as provided in Section 3(a) hereof and to extend the Employment Period for an additional one (1) year as provided in Section 2(a) hereof. The rationale and results of such review, and the justification for any such increase or extension, shall be documented in the minutes of the meeting at which the Board conducted such review. The Board or a committee or representative thereof shall notify Executive in writing as soon as practicable, and not later than each applicable Anniversary Date, of the results of such review, including its decision whether or not to increase Executive's Base Salary and to extend the Employment Period. A decision by the Board not to, or the Board's failure to, increase Executive's Base Salary shall not constitute a breach of this Agreement or a "Good Reason" under Section 5(b) hereof.

3. COMPENSATION AND OTHER BENEFITS.

(a) **Base Salary.** During the Employment Period, the Company shall pay Executive the annual base salary that is reflected in the payroll records of the Company on the Effective Date ("Base Salary"), subject to any discretionary increases that the Board may hereafter elect to make pursuant to this Section 3(a). Any portion of annual Base Salary that Executive elects to defer under any deferred compensation arrangement that is now or hereafter maintained by the Company shall be considered part of Base Salary for the purposes of this Agreement. Executive's Base Salary shall be payable in accordance with the regular payroll practices of the Company. The Board or the Board's Compensation Committee (the "Compensation Committee") may increase Executive's Base Salary at any time, but shall not reduce Executive's Base Salary during the Employment Period without the Executive's express prior written consent. All references herein to Base Salary shall mean, for all purposes of this Agreement, Executive's Base Salary as initially established in, and as may subsequently be increased pursuant to, this Section 3(a).

(b) Bonuses; Incentive Compensation. In addition to Executive's Base Salary, Executive shall be entitled to incentive compensation and bonuses to the extent earned pursuant to any plan or arrangement of the Company in which Executive is eligible to participate during the Employment Period, or to such other extent as the Board or its Compensation Committee may determine in its discretion to award to Executive.

(c) Other Compensation. The Company may provide such additional compensation to Executive in such form and in such amounts as may be approved by the Board or the Compensation Committee in its sole discretion.

(d) Special Allowances. The Company shall provide Executive with an automobile allowance and a cellular telephone allowance during the Employment Period in accordance with the standard policies and practices of the Company.

(e) Reimbursement of Expenses. The Company shall pay or reimburse Executive in accordance with the standard policies and practices of the Company for all reasonable expenses incurred by Executive during the Employment Period in connection with his employment hereunder or the business of the Company.

(f) Paid Time Off. Executive shall be entitled to receive not less than 176 hours of paid time off ("PTO") per calendar year during the Employment Period in accordance with the PTO policies of the Company as then applicable to senior executive officers of the Company. Executive shall also be entitled to take time off during all legal holidays approved by the Board for Bank employees generally. Executive shall receive his Base Salary and the other amounts and benefits provided for in Section 3 hereof during all PTO periods and legal holidays. Except as permitted by the PTO policies of the Company, Executive shall not be entitled to receive any additional compensation for his failure to take PTO or accumulate unused PTO from one year to the next.

(g) Other Benefits. The Company shall provide Executive with all other benefits that are now or hereafter provided uniformly to non-probationary full-time employees of the Company during the Employment Period, including, without limitation, benefits under any Section 125 Cafeteria Plan, any group medical, dental, vision, disability and life insurance plans that are now or hereafter maintained by the Company (collectively, the "Core Plans"), and under any 401(k) plan that is now or hereafter sponsored by the Company, in each case subject to the Company's policies concerning employee payments and contributions under such plans. The Company shall not make any changes to any Core Plan that would materially and adversely affect Executive's rights or benefits under such plan unless such changes are made applicable to all non-probationary full-time employees of the Company on a non-discriminatory basis. Nothing paid to Executive under any Core Plan or any 401(k) plan shall be deemed to be in lieu of any other compensation that Executive is entitled to receive under this Agreement.

(h) Disability Insurance. During the Employment Period, the Company may provide Executive with a disability insurance policy with coverage sufficient to provide Executive with annual disability insurance payments in an amount equal to not less than sixty percent (60%) of Executive's Base Salary for a period at least equal to the then remaining term of the Employment Period (the "Disability Policy") in the event that Executive's employment is

terminated by reason of a Disability Determination (as defined below). If a Disability Policy is so provided, Executive shall be responsible for the payment of all premiums on the Disability Policy and shall cooperate with the Company in all respects as necessary or appropriate to enable the Company to procure the Disability Policy, and the Company shall provide Executive with an annual allowance in an amount sufficient, on an after-tax basis, to equal the annual premiums for the Disability Policy.

(i) Disability Insurance Adjustment. If Executive receives disability benefits under the Disability Policy or any Core Plan or receives federal Social Security disability benefits (collectively, "Disability Payments"), the Company's obligation under Section 3(a) and 6(b) hereof to pay Executive his Base Salary shall be reduced, as of the date the Disability Payments are first received by Executive, to an amount equal to the difference between Executive's Base Salary and the Disability Payments that Executive received during each applicable payroll period. The Executive shall make reasonable good faith efforts to notify the Company of the receipt of Disability Payments.

(j) Life Insurance. During the Employment Period, the Company may provide Executive with a term life insurance policy with coverage sufficient to provide a death benefit in an amount not less than three (3) times Executive's Base Salary, as of the date of this Agreement, containing a rider for inflation based adjustments (the "Life Insurance Policy"), unless such life insurance policy is unobtainable due to the Executive's failure to cooperate in obtaining the same or Executive is uninsurable. If a Life Insurance Policy is so provided, the Company shall pay all premiums on the Life Insurance Policy and Executive shall pay all income taxes that become due as a result of the Company's payment of such premiums; provided, however, that the Company shall provide Executive with an annual Life Insurance Policy allowance in an amount calculated as follows: (the amount of the annual premiums paid by the Company for the Life Insurance Policy during that year) divided by (1 – Executive's income tax rate for that year). Executive shall cooperate with the Company in all respects as necessary or appropriate to enable the Company to procure the Life Insurance Policy. Executive shall own and have exclusive authority to designate one or more beneficiaries under the Life Insurance Policy. Executive shall have the right to assume responsibility for the payment of the premiums under and to continue the Life Insurance Policy following the termination of Executive's employment with the Company, but only if such assumption and continuation are permissible under the terms of the Life Insurance Policy and any costs associated therewith are borne by Executive. The Life Insurance Policy shall be in addition to any life insurance benefits that the Company now or hereafter provides uniformly to non-probationary full-time employees of the Company during the Employment Period.

(k) Club Dues. In addition to any other compensation provided for under this Agreement, the Company shall pay Executive an amount sufficient, on an after-tax basis, to maintain his membership at Olympia Fields Country Club, Olympia Fields, Illinois, during the Employment Period.]

4. TERMINATION BY THE COMPANY.

(a) Termination For Cause. The Board may terminate Executive's employment with the Company "For Cause" at any time during the Employment Period, subject to the

requirements set forth in this Section 4(a) and in Section 7 of this Agreement. A termination "For Cause" shall mean the Company's termination of Executive's full-time employment hereunder because of Executive's personal dishonesty, incompetence, willful misconduct, breach of fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule or regulation (other than traffic violations or similar offenses), or final cease-and-desist order, or a material breach of any provision of this Agreement. Notwithstanding the foregoing, Executive shall not be deemed to have been terminated For Cause unless and until (i) there shall have been delivered to Executive a written notice of the Board's intention to terminate Executive's employment For Cause, specifying the alleged grounds for such termination; (ii) if the alleged grounds for such termination are a material breach of a provision of this Agreement, providing Executive with a reasonable opportunity to cure, if curable, any conduct or acts alleged to be a material breach of any provision of this Agreement; (iii) following delivery of such written notice, Executive (together with any counsel selected by him) shall have been given a reasonable opportunity to present to the Board, at a meeting called and held for or including that purpose, Executive's position regarding any dispute that exists regarding the alleged grounds for termination For Cause, and (iv) the Board shall adopt a resolution by the affirmative vote of not less than a majority of its members, finding in good faith and on the basis of reasonable evidence that Executive was guilty of conduct justifying a termination For Cause. The Notice of Termination (as defined in Section 7 below) issued in connection with the termination of Executive's employment For Cause shall be accompanied by a copy of such resolution. Should a dispute arise concerning the Executive's termination For Cause, any review of the For Cause termination in any judicial or arbitration proceeding will be limited to a determination of whether the Board acted in good faith and on the basis of reasonable evidence. The Board shall also be deemed to have terminated Executive's employment with the Company For Cause if Executive's employment with the Bank is terminated For Cause during the Employment Period in accordance with the requirements set forth in Section 4(a) of the Bank Agreement.

(b) Termination for Disability. The Board, in its discretion, may terminate Executive's employment with the Company at any time from and after the date on which a physician chosen by the Company and reasonably acceptable to Executive or Executive's personal representatives determines that Executive, due to an accident or a physical or mental illness, has been, is or will be incapable of fulfilling the duties and responsibilities set forth in Section 1(b) hereof for a period of more than one hundred and eighty (180) days within a one (1) year period (a "Disability Determination"). Following a Disability Determination, the Board may, in lieu of terminating Executive's employment by reason of the Disability Determination, appoint one or more other persons to serve as Acting Chairman, Acting President and Acting Chief Executive Officer of the Company to fulfill, on a temporary basis, the duties and responsibilities of Executive. Any such temporary appointment shall be without prejudice to the Board's right to thereafter terminate Executive's employment based on a Disability Determination made pursuant to this Section 4(b) or as otherwise provided herein. The Board shall also be deemed to have terminated Executive's employment with the Company based on a "Disability Determination" if Executive's employment with the Bank is terminated during the Employment Period based on a "Disability Determination" in accordance with the requirements set forth in Section 4(b) of the Bank Agreement.

(c) Termination Without Cause. The Board, in its discretion, may terminate Executive's employment with the Company "Without Cause" at any time, subject to the notification requirements set forth in Section 7 hereof. A termination "Without Cause" shall mean the Board's termination of Executive's employment for any reason other than a termination For Cause or a termination based on a Disability Determination. The Board shall also be deemed to have terminated Executive's employment with the Company Without Cause if Executive's employment with the Bank is terminated during the Employment Period "Without Cause" in accordance with the requirements set forth in Section 4(c) of the Bank Agreement.

5. TERMINATION BY EXECUTIVE OR BY REASON OF DEATH.

(a) Termination By Resignation. Executive may, in his discretion, terminate his employment with the Company "By Resignation" at any time during the Employment Period, subject to the notification requirements set forth in Section 7 hereof. A termination "By Resignation" shall mean Executive's termination of his employment for any reason other than a "Good Reason" as such term is defined in Section 5(b) hereof. Executive shall also be deemed to have resigned his employment with the Company, and to have terminated his employment with the Company By Resignation, if Executive's employment with the Bank is terminated during the Employment Period By Resignation in accordance with the requirements set forth in Section 5(a) of the Bank Agreement.

(b) Termination For Good Reason. Executive may terminate Executive's employment with the Company for "Good Reason," subject to the requirements set forth in this Section 5(b) and the notification requirements set forth in Section 7 hereof. A termination for "Good Reason" shall mean Executive's resignation from the Company's employ during the Employment Period based upon any of the following acts, omissions or events, but only if (taken or occurring during the Employment Period without Executive's prior written express consent (in the manner specified herein below): (i) a decision by the Board not to elect or re-elect or to appoint or re-appoint Executive to the offices of President and Chief Executive Officer of the Company, and if Executive is elected as a director of the Company, as the Chairman of the Board of the Company; (ii) a failure by the Board to elect or re-elect or to appoint or re-appoint Executive to the offices of President and Chief Executive Officer of the Company, and if elected as a director of the Company, as the Chairman of the Board of the Company, or a decision by the Board to remove Executive from any such position; (iii) the failure of the Nominating Committee of the Board (or if there is no Nominating Committee, the failure of the Board) to nominate and recommend Executive for election by the stockholders of the Company as director of the Company for any term immediately following the expiration Executive's then existing term as a director ; (iv) a material reduction, imposed by the Board, of Executive's functions, duties, powers, privileges, authority or responsibilities; (v) the failure of the Board to extend the Employment Period on or before an applicable Anniversary Date pursuant to Section 2(a) for an additional one (1) year so that the remaining term thereof will be thirty-six (36) months; (vi) the Board's relocation of Executive's principal place of employment to a place that is more than fifteen (15) miles from the city limits of Chicago, Illinois; (vii) a reduction in Executive's Base Salary, or a material reduction in the benefits that Executive is entitled to receive under Section 3(d) through (k) of this Agreement; (viii) a liquidation or dissolution of the Company, (ix) a material uncured breach of this Agreement by the Company; or (x) the occurrence of a "Change in Control" of the Company, as such term is defined in Section 24 hereof. Executive shall have

the right to elect to terminate his employment for Good Reason only by giving the General Counsel of the Company a Notice of Termination (as defined below) within sixty (60) days after the act, omission or event giving rise to said right to elect, provided, however, that the period for Executive to give a Notice of Termination shall be one (1) year from the occurrence of a Change in Control in the event of a Change in Control. Executive's prior written consent to an act, omission or event which would otherwise constitute "Good Reason" shall be made in writing, shall be delivered to the Board of Directors of the Company and shall state specifically the sub-section of this Section 5(b) to which such consent shall apply. Notwithstanding anything herein to the contrary, Executive's voting (in any capacity) in favor of a Change in Control shall not be deemed to be consent to the Change in Control for purposes of this Section 5(b). Notwithstanding the foregoing, Executive shall not have a right to elect to terminate his employment (i) based on the events set forth in this Section 5(b) solely on the basis of the Board's appointment of an Acting Chairman, Acting President or Acting Chief Executive Officer following a Disability Determination made in accordance with Section 4(b) of this Agreement, or (ii) except in the case of a Notice of Termination delivered pursuant to Section 5(b)(x) following the occurrence of a Change in Control, if the Company fully rescinds or cures, within ten (10) days after its receipt of Executive's Notice of Termination, the act, omission or event giving rise to Executive's right to elect to terminate his employment for Good Reason. Executive shall also be deemed to have terminated his employment with the Company for Good Reason if Executive's employment with the Bank is terminated during the Employment Period for Good Reason in accordance with the requirements set forth in Section 5(b) of the Bank Agreement.

(c) Termination Upon Death. Executive's employment with the Company shall terminate immediately upon Executive's death, without regard to the notification requirements set forth in Section 7 hereof.

6. FINANCIAL CONSEQUENCES OF TERMINATION.

(a) Termination For Cause. In the event that Executive's employment is terminated For Cause during the Employment Period, the Company shall pay Executive the unpaid balance of Executive's Base Salary through the effective date of the termination of Executive's employment ("Earned Salary"), but Executive shall receive no bonus or incentive compensation for the current year (all such amounts shall remain unearned and unvested), and shall receive no compensation or other benefits (including the compensation and benefits set forth in Section 3(a) through (k) and Section 6 hereof) for any period after the effective date of the termination of Executive's employment; provided, however, that the right of Executive to assume and continue the Life Insurance Policy under Section 3(j) hereof, any rights of Executive under any applicable state and federal laws, including ERISA and COBRA, and any rights of Executive that have vested, whether by application of any state or federal law, the provisions of any contract, employee benefits plan or otherwise, shall not be terminated or prejudiced by a termination For Cause. Upon Executive's death, any payments due under this Section 6(a) shall be paid, as applicable, to Executive's estate, trust or as otherwise required by law.

(b) Termination for Disability. In the event that Executive's employment is terminated during the Employment Period based on a Disability Determination, the Company shall: (i) pay Executive his Earned Salary (as defined above); (ii) pay Executive an amount equal to the annual average of any cash incentive compensation and bonus that Executive received

during the immediately preceding two (2) fiscal years, prorated based on the number of days during such year that elapsed prior to the effective date of the termination of Executive's employment ("Prorated Incentive Compensation"); (iii) make, for the benefit of Executive, the matching 401(k) plan contribution that Executive is entitled to receive for the current year, prorated based on the number of days during such year that elapsed prior to the effective date of the termination of Executive's employment ("Accrued Plan Contribution"), (iv) subject to the disability insurance adjustment set forth in Section 3(i) hereof, pay Executive the Base Salary that Executive would have been paid pursuant to Section 3(a) hereof from the effective date of termination through the date the Employment Period would have expired if Executive's employment had not been sooner terminated based on a Disability Determination; and (v) provide Executive (or upon his death, his surviving spouse and minor children, if any) with the same coverage under the Core Plans (or if applicable, a Contingent Insurance Stipend under Section 6(h)) that Executive would have been provided pursuant to Section 3(g) hereof from the effective date of termination through the date the Employment Period would have expired if Executive's employment had not been sooner terminated based on a Disability Determination (in each case subject to Executive's payment of the costs and contributions that such plans provide are the responsibility of the insured employee and the availability of such continued coverage through the Company's then-current insurance carrier). Except as provided in Section 3(h), Section 3(j) (but only with respect to the assumption and continuation of the Life Insurance Policy) and this Section 6(b), the Company shall have no obligation to provide Executive with any other compensation or benefits pursuant Section 3(a) through (k) or Section 6 of this Agreement following a termination of Executive's employment based on a Disability Determination. Except as provided in Section 6(g) hereof, the amounts payable under Subsections (ii) and (iv) of this Section 6(b) shall be paid in equal installments over the period beginning on the Company's first regular payroll date after the effective date of termination and continuing through the Company's first regular payroll date after the date the Employment Period would have expired if Executive's employment had not been sooner terminated based on a Disability Determination. Upon Executive's death, any payments due under this Section 6(b) shall be paid, as applicable, to Executive's estate, trust or as otherwise required by law.

(c) Termination Without Cause. In the event that Executive's employment is terminated Without Cause during the Employment Period, the Company shall: (i) pay Executive his Earned Salary (as defined above); (ii) pay Executive his Prorated Incentive Compensation (as defined above); (iii) make, for the benefit of Executive, the Accrued Plan Contribution (as defined above); (iv) subject to Section 6(h), provide Executive (or upon his death, his surviving spouse and minor children, if any) with coverage under the Core Plans (or if applicable, a Contingent Insurance Stipend) for a period of thirty-six (36) months from the effective date of the termination of Executive's Employment (in each case subject to Executive's payment of the costs and contributions that such plans provide are the responsibility of the insured employee and the availability of such continued coverage through the Company's then-current insurance carrier); and (v) pay Executive an amount equal to three (3) times Executive's Average Annual Compensation. The term "Average Annual Compensation" shall mean the average of Executive's annual Compensation based on the most recent three (3) taxable years, or if Executive was employed by the Company for less than three (3) full taxable years, based on such lesser number of taxable years or portions thereof as Executive was employed by the Company. The term "Compensation" shall mean, for the purposes of the foregoing definition as it relates to any tax year, all Base Salary, incentive compensation, bonuses, special allowances, other

compensation, club dues and other benefits paid by the Company to Executive in such taxable year pursuant to Section 3(a) through (k) hereof, any director or committee fees paid by the Company to Executive during such tax year, and any other taxable income paid by the Company to Executive during such tax year. Except as provided in Section 3(j) (but only with respect to the assumption and continuation of the Life Insurance Policy) and this Section 6(c), the Company shall have no obligation to provide Executive with any other compensation or benefits pursuant Section 3(a) through (k) or Section 6 of this Agreement following a termination of Executive's employment Without Cause. Except as provided in Section 6(g) hereof, the amounts payable under Sections (ii) and (v) hereof shall be paid in equal installments over the period beginning on the Company's first regular payroll date after the effective date of termination and continuing thereafter on each regular payroll date for thirty-six (36) months. Upon Executive's death, any payments due under this Section 6(c) shall be paid, as applicable, to Executive's estate, trust or as otherwise required by law.

(d) Termination By Resignation. In the event that Executive's full-time employment is terminated By Resignation during the Employment Period, the Company shall pay Executive his Earned Salary (as defined above), but Executive shall receive no compensation or other benefits (including the compensation and benefits set forth in Section 3(a) through (k) hereof) for any period after the effective date of the termination of Executive's employment; provided, however, that the right of Executive to assume and continue the Life Insurance Policy under Section 3(j) hereof, any rights of Executive under any applicable state and federal laws, including ERISA and COBRA, and any rights of Executive that have vested, whether by application of any applicable state or federal law, the provisions of any contract, employee benefits plan or otherwise, shall not be terminated or prejudiced by a termination By Resignation. Except as provided in Section 3(j) (but only with respect to the assumption and continuation of the Life Insurance Policy) and this Section 6(d), the Company shall have no obligation to provide Executive with any other compensation or benefits pursuant Section 3(a) through (k) or Section 6 of this Agreement following a termination of Executive's employment By Resignation.

(e) Termination for Good Reason. In the event that Executive's employment is terminated by Executive for Good Reason during the Employment Period, the Company shall pay Executive the same amounts, and shall, subject to Section 6(h) hereof, provide Executive (or upon his death, his spouse and minor children, if any) with the same coverages under the Core Plans (or if applicable, the same Contingent Insurance Stipend), that Executive would have been paid and provided pursuant to Section 6(c) hereof if his employment had been terminated by the Company Without Cause on the effective date of the termination of Executive's employment. Except as provided in Section 3(j) (but only with respect to the assumption and continuation of the Life Insurance Policy) and this Section 6(e), the Company shall have no obligation to provide Executive with any other compensation or benefits pursuant Section 3(a) through (k) or Section 6 of this Agreement following a termination of Executive's employment for Good Reason. Except as provided in Section 6(c) and Section 6(g) hereof, the amounts payable under this Section shall be paid in equal installments over the period beginning on the Company's first regular payroll date after the effective date of termination and continuing thereafter on each regular payroll date for thirty-six (36) months. Upon Executive's death, any payments due under this Section 6(e) shall be paid, as applicable, to Executive's estate, trust or as otherwise required by law.

(f) Termination Upon Death. In the event Executive's employment with the Company is terminated during the Employment Period by reason of Executive's death, the Company shall, subject to Section 6(h) hereof, provide Executive's surviving spouse and minor children, if any, with the same coverages under the Core Plans (or if applicable, the same Contingent Insurance Stipend) that Executive would have been provided pursuant to Section 6(b) hereof if his employment had been terminated by the Company based on a Disability Determination on the date of Executive's death (subject to the availability of such continued coverage through the Company's then-current insurance carrier). In addition, the Company shall pay, as applicable, Executive's estate or trust, in accordance with the Company's regular payroll practices, the Base Salary that Executive would have been paid pursuant to Section 3(a) hereof from the effective date of termination through the date the Employment Period would have expired if Executive's employment had not been sooner terminated based on Executive's death; Notwithstanding the foregoing: (i) the Company shall have no obligation to make such payments if it procures and causes Executive to be insured under the Life Insurance Policy in the amount specified in, and otherwise in accordance with, Section 3(j) hereof; and (ii) if the Company procures and causes Executive to be insured under a Life Insurance Policy obtained pursuant to Section 3(j) hereof, but the death benefits payable thereunder are less than the policy amount required Section 3(j) hereof, the Company's obligation to make such payments shall not be extinguished, but shall be reduced by the amount payable under the Life Insurance Policy; provided that in either case the Company's obligations to make such payments shall only be reduced by the amount of death benefits that are actually paid to and received by the beneficiaries under the Life Insurance Policy in accordance with Section 3(j) hereof. Except as provided in Section 3(j) or this Section 6(f), the Company shall have no obligation to provide Executive's estate, surviving spouse or minor children with any other compensation or benefits pursuant to Section 3(a) through (k) or Section 6 of this Agreement following a termination of Executive's employment by reason of Executive's death. This provision shall not negate any rights that Executive, his estate or beneficiaries may have to death benefits under any employee benefit plan of the Company. Except as provided in Section 6(b) and Section 6(g) hereof, any amounts payable under this Section (f) shall be paid in equal installments over the period beginning on the Company's first regular payroll date after the date of death and continuing through the Company's first regular payroll date after the date the Employment Period would have expired if Executive's employment had not been sooner terminated based on Executive's death.

(g) Installment Payments; Lump Sum Payment Election. At the election of the Company, all amounts payable hereunder in installments may be paid in a single lump sum within forty-five (45) days of the effective date of the termination of Executive's employment. For the purpose of calculating the amount of the lump sum payment, all amounts payable to Executive in installments, other than any cash incentive compensation payments that are payable in accordance with Section 6(b), Section 6(c), Section 6(e) or Section 6(f) of this Agreement, any Core Plan contributions that are required to be made by the Company and any Contingent Insurance Stipend payable pursuant to Section 6(h), shall be discounted to reflect the present value of such payments using a discount rate equal to the then applicable rate for two (2) year United States Treasury Notes. If the Company desires to make such an election, it shall be required to do so in a writing delivered to Executive or if applicable, the executor or personal representative of Executive's estate or the trustee of Executive's trust, within forty-five (45) days of the effective date of the termination of Executive's employment. Except as provided in

Section 8(f), no payments due Executive under this Agreement shall be reduced solely by reason of the fact that Executive obtains other employment following termination of his employment with the Company.

(h) Contingent Insurance Stipend. In the event that the continued medical insurance coverage that the Company is obligated to provide pursuant to Sections 6(b)(v) and 6(c)(iv) (and by operation of such provisions, pursuant to Sections 6(e) and 6(f)) of this Agreement is not then available, the Company shall pay Executive (or upon his death, his spouse and minor children, if any), during the applicable period, a stipend in an amount sufficient, on an after-tax basis, to equal the amount that the Company would have contributed for Executive's benefit during the applicable period under the Company's Section 125 Cafeteria Plan if Executive had remained in the Company's employ during the applicable period. The stipend shall be payable in equal installments during the applicable period on dates coinciding with the Company's regular payroll dates.

(i) General Release. In consideration of the Company's agreements with respect to the monetary payments provided for in Sections 6(b), 6(c), 6(e) and 6(f) of this Agreement (which payments exceed the nature and scope of that to which Executive would have been legally entitled to receive absent this Agreement), and as a condition precedent to Executive's receipt of such payments, Executive (or in the event of Executive's death, Executive's executor, trustee, administrator or personal representative, as applicable), shall, at the time the first of any such payments is tendered, execute and deliver to the Company a general release in favor of the Company and its Affiliates (as defined below), releasing all claims, demands, causes of actions and liabilities arising out of this Agreement, Executive's employment or the termination thereof, including, but not limited to, claims, demands, causes of action and liabilities for wages, back pay, front pay, attorney's fees, other sums of money, insurance, benefits, or contracts; and all claims, demands, causes of actions and liabilities arising out of or under the statutory, common law or other rules, orders or regulations of the United States or any State or political subdivision thereof, whether now existed or hereinafter enacted or adopted, including the Age Discrimination in Employment Act and the Older Workers Benefit Protection Act, and no further payments shall be due Executive until such time as all applicable waiting or rescission periods thereunder shall have expired or shall have been waived. Notwithstanding the foregoing or anything to the contrary herein, the general release shall not release any unperformed obligations of the Company under this Agreement, or of the Bank under its respective Employment Agreement with Executive.

7. NOTICE OF TERMINATION.

Any termination or purported termination by the Company or Executive of Executive's employment with the Company shall be communicated by a Notice of Termination to the other party. A "Notice of Termination" shall mean a written notice that shall set forth the effective date of the termination of Executive's employment, identify the specific termination provision(s) in this Agreement relied upon, and set forth in reasonable detail the facts and circumstances claimed to provide a basis for the termination of Executive's employment under the provision so identified. The party issuing the Notice of Termination shall cause it to be delivered to the other party either in person, by United States mail or via a reputable commercial delivery service (i) not less than thirty (30) days prior to the effective date of termination in the case of a termination

Without Cause or By Resignation or based on a Disability Determination; (ii) not less than thirty (30) prior to the effective date of termination and as otherwise provided in Section 4(a) hereof in the case of a termination For Cause; and (iii) as provided in Section 5(b) hereof in the case of a Termination for Good Reason. Notices to the Company shall be addressed and delivered to the principal headquarters office of the Company, Attention: General Counsel, with a copy concurrently so delivered to General Corporate Counsel to the Company, Barack Ferrazzano Kirschbaum Perlman & Nagelberg, 333 West Wacker Drive, Suite 2700, Chicago, Illinois 60606, to the joint attention of Edwin S. del Hierro and Lynne D. Mapes-Riordan. Notices to the Executive shall be sent to the address set forth below the Executive's signature on this Agreement, or to such other address as Executive may hereafter designate in a written notice given to the Company and its counsel.

8. NON-COMPETITION AND OTHER AGREEMENTS.

(a) Non-Competition. Executive shall not, during the Non-Competition Period (as hereinafter defined), directly or indirectly, and in any capacity, including as an individual for Executive's own account, or as an employee, agent, independent contractor, consultant, officer, director, stockholder, owner or member of any association, corporation (whether for profit or not for profit), partnership (whether general or limited), limited liability company, trust, firm, any federal, state or local government, agency, commission, board, district or body politic, any other registered or legal entity of any type (each a "Legal Entity"), or as an employee, agent, independent contractor or consultant of or for any person, compete with the Company in any of the following lines of business: the business of originating or purchasing loans, leases and payment streams thereunder, accepting deposits, selling or providing insurance, securities, financial planning, and asset management products and services, accepting referrals of any of the foregoing, and other business contracts, relationships or activities of the Company and any Affiliate (as defined below) of the Company (collectively, "Banking Business") from a place that is located within five (5) miles of a place where the Company or any Affiliate maintains a branch, office or other place of business, or has filed a regulatory notice or application to establish a branch, office or other place of business (collectively, the "Restricted Area"). The term "Non-Competition Period" shall mean: (i) the greater of (A) six (6) months after the effective date of the termination of Executive's employment, and (B) any period of time during which Executive is entitled to receive payments or benefits pursuant to Section 6(b), 6(c) or 6(e) of this Agreement on account of a termination based on a Disability Determination, Without Cause or for Good Reason, respectively, which period shall be determined without regard to any election made by the Company to make any payments in a single lump sum pursuant to Section 6(g) of this Agreement; and (ii) six (6) months from the effective date of the termination of Executive's employment if such employment is terminated By Resignation or With Cause. Notwithstanding the foregoing or anything to the contrary herein, Executive shall be entitled to engage in the practice of law during the Non-Competition Period and the foregoing restrictions shall not apply to any activities in which Executive engages that are within the scope of Executive's practice of law. The term "Affiliate" means, for all purposes of this Agreement, any Legal Entity that directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, the Company. The following Legal Entities are Affiliates of the Company as of the date of this Agreement: BankFinancial, F.S.B.; Financial Assurance Services, Inc.; and BF Asset Recovery Corporation.

(b) Non-Solicitation. Executive shall not, during the Non-Solicitation Period (as hereinafter defined), directly or indirectly, either as an individual for Executive's own account, or as an employee, agent, independent contractor or consultant of or for any person or Legal Entity, or as an officer, director, stockholder, owner or member of any Legal Entity: (i) call upon or solicit for the purpose of obtaining Banking Business from, or do any Banking Business with, any person or Legal Entity that was or is a customer of the Company or any Affiliate at any time between the Effective Date of this Agreement and the last day of the Non-Solicitation Period (a "Protected Customer"); (ii) divert or take away from the Company or an Affiliate any existing Banking Business between the Company or an Affiliate and a Protected Customer; (iii) call upon or solicit for the purpose of obtaining Banking Business from, or do any Banking Business with, any person or Legal Entity from which the Company or an Affiliate purchased loans or personal property leases (or any payment streams thereunder), or that referred or originated loans or personal property leases (or any payment streams thereunder) to, for or on behalf of the Company or an Affiliate at any time between the Effective Date of this Agreement and the last day of the Non-Solicitation Period (a "Protected Referral Source"); (iv) divert or take away from the Company or an Affiliate any existing Banking Business between the Company or an Affiliate and a Protected Referral Source; (v) solicit or induce any Protected Customer or Protected Referral Source to terminate or not renew or continue any Banking Business with the Company or any Affiliate, or to terminate or not renew or continue any contractual relationship with the Company or any Affiliate; (vi) hire, or assist or cause any person or Legal Entity with which Executive is affiliated or associated in hiring, any person who was or is an employee of the Company or any Affiliate between the Effective Date of this Agreement and the last day of the Non-Solicitation Period (a "Protected Employee"); (vii) solicit or induce any Protected Employee to terminate his or her employment with the Company or any Affiliate; or (viii) attempt to do, or conspire with or aid and abet others in doing or attempting to do, any of the foregoing. The term "Non-Solicitation Period" shall mean, except as provided in Section 8(f) below, a period of eighteen (18) months commencing on the effective date of the termination of Executive's employment.

(c) Confidentiality. Executive recognizes and acknowledges that personal information and knowledge thereof regarding the customers of the Company and its Affiliates are protected by state and federal law and the Privacy Principles of the Company and its Affiliates, as amended from time to time (collectively, "Protected Customer Information"), and that customer lists, trade secrets, nonpublic financial information, and nonpublic past, present, planned or considered business activities of the Company and its Affiliates and any plans for such business activities (collectively, "Proprietary Information") are valuable, special and unique assets of the Company. Executive will not, during or after the Employment Period, disclose any Protected Customer Information or Proprietary Information or his knowledge thereof to any person or Legal Entity other than the Company or any Affiliate, or use any Protected Customer Information or Proprietary Information to the detriment of the Company, any Affiliate or any of their respective customers or employees, or for the benefit of himself, any person or any Legal Entity, for any reason or purpose whatsoever. Notwithstanding the foregoing, Executive may (i) disclose and use information that becomes publicly known through no wrongful act or omission of Executive, but only if the disclosure of such information is not restricted by any applicable state or federal laws or regulations and the information is not received from a person who was or is bound by an obligation not to disclose such information; (ii) disclose and use any financial, banking, business or economic principles, concepts or ideas that do not constitute Protected

Customer Information or Proprietary Information; (iii) disclose any information regarding the business activities of the Company or its Affiliates to a governmental authority pursuant to a formal written request made by such governmental authority; and (iv) disclose any information required to be disclosed by Executive pursuant to an order or judicial process issued by a court of competent jurisdiction; provided, however, that to the extent not prohibited by applicable state or federal law, Executive shall provide the Company or the applicable Affiliate with at least ten (10) days' prior written notice of his intention to disclose information pursuant to subparagraph (iii) or (iv) of this Section 8(c).

(d) Cooperation in Legal Proceedings. During the Employment Period and for a period equal to three (3) years from the effective date of the termination of Executive's employment, Executive shall, upon reasonable notice, furnish such cooperation, information and assistance to the Company as may reasonably be required by the Company or any Affiliate of the Company in connection with any pending or threatened judicial, administrative or arbitration proceeding or any investigation that is based on events or circumstances in which Executive had personal knowledge or involvement and in which the Company or any of its Affiliates is or may become a party or target, except for proceedings instituted against Executive by the Company or any governmental or regulatory authority, or proceedings instituted by Executive against the Company to enforce the terms of this Agreement or any other duties or obligations of the Company to Executive. The Company, or if applicable, its Affiliate, shall reimburse Executive for all reasonable costs and expenses incurred by Executive in providing such cooperation, information and assistance. Unless Executive's appearance is compelled by a court order or other legal process, Executive shall not be obligated to devote more than two (2) days per calendar month in fulfilling his obligations under this Section 8(d), and the Company or its Affiliate shall make reasonable accommodations to avoid interfering with any duties that Executive may then have to any client or other employer. Notwithstanding anything to the contrary in this Section 8(d) or this Agreement, while Executive will be encouraged to voluntarily provide sworn testimony where appropriate, Executive shall have no duty to provide sworn testimony in any judicial, arbitration or discovery proceeding except as may be required by any rule of procedure, subpoena or judicial process applicable to or enforceable against Executive, and in no case shall Executive be required to provide any testimony that, in the judgment of Executive, might or could expose him to civil liability or compromise his privilege against self incrimination. Any testimony given by Executive in such a proceeding shall be truthful, but in no event shall the content of any testimony given by Executive in such a proceeding constitute a breach of this Section 8(d) or any other provision of this Agreement. Executive may condition his providing of assistance and testimony hereunder on his receipt of an undertaking from the Company that it will indemnify him for such actions to the fullest extent permitted by applicable law.

(e) Remedies. Executive and the Company stipulate that irreparable injury will result to the Company and its Affiliates and their business and property in the event of Executive's violation of any provision of this Section 8, and agree that, in the event of any such violation by Executive, the Company, and if applicable, its Affiliates, will be entitled, in addition to any other rights, remedies and money damages that may then be available, to injunctive relief to restrain the violation hereof by Executive, Executive's partners, agents, servants, employees and all persons acting for, under the direction or control of or in concert with Executive, and to such other equitable remedies as may then be available. Nothing herein will be construed as prohibiting the Company or any Affiliate from pursuing any other remedies available to the Company or such Affiliate for such breach or threatened breach, including the recovery of money damages from Executive.

(f) Adjustment of Non-Solicitation Period. The Non-Solicitation Period shall be reduced from eighteen (18) months to six (6) months, but only with respect to the restrictions set forth in Subsection (b)(i) and Subsection (b)(iii) of Section 8 of this Agreement (and the prohibitions in Subsection (b)(viii) of Section 8 against, aiding, abetting, inducing or conspiring with others to violate those restrictions), in the event that the Company terminates this Agreement Without Cause or Executive terminates this Agreement for Good Reason, provided that, in either case, Executive executes and delivers to the Company a writing, acceptable in form and substance to the Company, that releases and waives any and all obligations that the Company may have under Section 6(c) or 6(e) of this Agreement to pay Executive any Base Salary after the expiration of such six-month period, or to provide Executive (or upon his death, his surviving spouse and minor children, if any) with coverage under the Core Plans after the expiration of such six-month Non-Solicitation Period. Notwithstanding the foregoing, in the event that the Company has theretofore made a lump sum payment to Executive pursuant to Section 6(g) of this Agreement that included amounts attributable to any period of time after the expiration of such six-month Non-Solicitation Period, Executive shall refund to the Company all amounts attributable to such period of time as a condition precedent to the reduction of the Non-Solicitation Period from eighteen (18) months to six (6) months.

9. SOURCE OF FUNDS; ALLOCATION.

All payments provided in this Agreement shall be timely paid in cash or check from the general funds of the Company; provided, however, that to the extent that any compensation payments and benefits provided for in this Agreement are paid to or received by Executive from the Bank pursuant to the Bank Agreement or otherwise, such compensation payments and benefits paid by the Bank shall be subtracted from any amounts due simultaneously to Executive under this Agreement. Payments due Executive pursuant to this Agreement and the Bank Agreement shall be allocated in proportion to the services rendered and time expended on such activities by Executive as determined by the Bank and the Company on a quarterly basis or as required by law.

10. EFFECT ON PRIOR AGREEMENTS AND EXISTING PLANS.

This Agreement contains the entire understanding between the parties hereto with respect to Executive's employment with the Company, and supersedes any prior offer of employment, employment letter or other agreements or understandings between the Company and Executive, whether oral or written, with respect thereto, except that this Agreement shall not affect or operate to reduce any benefit or compensation inuring to Executive of a kind provided for in any Core Plan or any separate plan or program established for the benefit of Bank employees generally, or any separate plan or program established after the date of this Agreement for the specific benefit of Executive. No provision of this Agreement shall be interpreted to mean that Executive is subject to receiving fewer benefits than those available to him without reference to this Agreement.

11. MODIFICATION AND WAIVER.

This Agreement may not be modified or amended except by an instrument in writing signed by the parties hereto and approved by the Board. No term or condition of this Agreement shall be deemed to have been waived, nor shall there be any estoppel against the enforcement of any provision of this Agreement, except by written instrument of the party charged with such waiver or estoppel. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future as to any act other than that specifically waived. Notwithstanding the foregoing, in the event that any provision or the implementation of any provision of this Agreement is finally determined to violate any applicable law, regulation or other regulatory requirement that is binding on the Company, or to constitute an unsafe and unsound banking practice, Executive and the Company agree to amend such provision to the extent necessary to remove or eliminate such violation or unsafe and unsound banking practice, and such provision shall then be applicable in the amended form.

12. NO ATTACHMENT.

Except as required by law, no right to receive payments under this Agreement shall be subject to anticipation, commutation, alienation, sale, assignment, encumbrance, charge, pledge, or hypothecation, or to execution, attachment, levy, or similar process or assignment by operation of law, and any attempt, voluntary or involuntary, to effect any such action shall be null, void, and of no effect.

13. REQUIRED PROVISIONS.

In the event any of the foregoing provisions of this Agreement are in conflict with the provisions of this Section 13, this Section 13 shall prevail.

(a) Rights Not Prejudiced. The Company may terminate Executive's employment at any time, but any termination by the Company, other than For Cause, shall not prejudice any right of Executive to compensation or other benefits under this Agreement. Executive shall not have the right to receive compensation or other benefits for any period after a termination For Cause as provided in Section 6(a) hereof.

(b) Certain Payments. Any payments made to Executive pursuant to this Agreement, or otherwise, are subject to and conditioned upon compliance with Section 18(k) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1828(k) and the rules and regulations promulgated thereunder in 12 C.F.R. Part 359.

14. WITHHOLDING.

All payments required to be made to Executive under this Agreement shall be subject to the withholding of such amounts, if any, relating to tax and other payroll deductions as the Company reasonably determines should be withheld pursuant to any applicable state or federal law or regulation.

15. SEVERABILITY.

If, for any reason, any provision of this Agreement, or any part of any provision, is held invalid, such invalidity shall not affect any other provision of this Agreement or any part of such provision that is not held invalid, and each such other provision and part thereof shall to the full extent consistent with law continue in full force and effect. Without limiting the foregoing, if any provisions of Section 8 of this Agreement are held to be unenforceable because of the scope, duration or area of applicability, the court making such determination shall have the power to modify such scope, duration or area of applicability, or all of them, and such provision shall then be applicable in the modified form.

16. HEADINGS FOR REFERENCE ONLY.

The headings of sections and paragraphs herein are included solely for convenience of reference and shall not control the meaning or interpretation of any of the provisions of this Agreement.

17. GOVERNING LAW.

The validity, interpretation, performance and enforcement of this Agreement shall be governed by the internal laws of the State of Illinois, without regard or reference to any principles of conflicts of law of the State of Illinois, except to the extent that such internal laws are preempted by the laws of the United States or the regulations of the OTS or any other agency of the United States.

18. DISPUTE RESOLUTION.

(a) Arbitration. Except for claims, cases or controversies based on or arising out of Section 8 of this Agreement (“Section 8 Claims”), all claims, cases or controversies arising out of or in connection with either this Agreement, Executive’s employment with the Company or the termination or cessation of such employment (collectively, “Employment Claims”), whether asserted against the Company, an Affiliate (as defined below), and/or an officer, director or employee of the Company or an Affiliate, and whether based on this Agreement or existing or subsequently enacted or adopted statutory or common law doctrines, shall be finally settled by arbitration conducted by JAMS Endispute or a successor entity (“JAMS”) in Chicago, Illinois, in accordance with the then applicable Employment Arbitration Rules and Procedures of JAMS, or in the event JAMS or a successor in interest of JAMS no longer provides arbitration services, by the American Arbitration Association or a successor entity (the “AAA”) in accordance with its then applicable National Rules for the Resolution of Employment Disputes. The costs and fees imposed by JAMS or the AAA for conducting such arbitration shall be borne equally by Executive and the Company unless the arbitrator determines otherwise. The award rendered by the arbitrator(s) shall be final and binding upon Executive, the Company and any other parties to such proceeding, and may be entered and enforced as a judgment in any court of competent jurisdiction. The Employment Claims subject to arbitration hereunder shall include, but shall not be limited to, those arising under the Age Discrimination in Employment Act, Title VII of the Civil Rights Act of 1964, as amended, including the amendments of the Civil Rights Act of 1991, the Older Workers Benefit Protection Act, the Americans with Disabilities Act, the law of

contract, the law of tort, and other claims under federal, state or local statutes, ordinances and rules or the common law. Executive and the Company acknowledge that by agreeing to arbitration they are relinquishing all rights they have to sue each other for Employment Claims that do not constitute Section 8 Claims and any rights that they may have to a jury trial on Employment Claims that do not constitute Section 8 Claims.

(b) Section 8 Claims. All Section 8 Claims shall be brought, commenced and maintained only in a state or federal court of competent jurisdiction situated in the County of Cook or the County of DuPage, State of Illinois. Executive and the Company each hereby (i) consents to the exercise of jurisdiction over his or its person and property by any court of competent jurisdiction situated in the County of Cook or the County of DuPage, State of Illinois for the enforcement of any claim, case or controversy based on or arising under Section 8 of this Agreement; (ii) waives any and all personal or other rights to object to such jurisdiction for such purposes; and (iii) waives any objection which it may have to the laying of venue of any such action, suit or proceeding in any such court.

19. INDEMNIFICATION AND INSURANCE.

(a) General. The Company shall indemnify Executive, and shall promptly pay to Executive, in advance of the final disposition of Proceeding to which Executive is a Party by reason of his service in his Official Capacity, the reasonable Expenses incurred by Executive in such Proceeding, in each case to the maximum extent permitted or required by Maryland law as in effect on the date hereof and as amended from time to time, including, without limitation, Section 2-418 of the Maryland General Corporation Law (the "MGCL"); provided that: (i) the Company shall not be obligated to pay or advance any amounts otherwise indemnifiable or payable hereunder if and to the extent that Executive has otherwise actually received such payment or advance under any insurance policy or any other contract or agreement to which Executive is a Party, including, without limitation, the Bank Employment Contract or any directors' and officers' liability insurance policy maintained by the Company, the Bank or any affiliate of either; and (ii) the Company shall only pay and advance Expenses under procedures permitted or required by applicable law. For the purposes of this Section 19, the terms "Expenses," "Official Capacity," "Party" and "Proceeding" shall have the meanings provided in Section 2-418 of the MGCL, as in effect on the date hereof.

(b) Successful Defense of Claims. If a claim for indemnification under this Section 19 is based on Executive's successful defense of a Proceeding, Executive shall be deemed to have been successful in the defense of a claim, issue or matter asserted in such Proceeding if it is dismissed pursuant to a settlement agreement that is approved by the Company in writing, or if such claim, issue or matter is otherwise dismissed, on the merits or otherwise, with or without prejudice. If Executive is successful in the defense of one or more but less than all claims, issues or matters asserted or arising in a Proceeding, the Company shall indemnify Executive for all Expenses actually and reasonably incurred by Executive or on his behalf in connection with each claim, issue or matter that Executive has successfully defended. In such event, Expenses shall be allocated on a reasonable and proportionate basis among the claims, issues and matters that have been successfully defended, and among any that have not been successfully defended.

(c) Procedures. To seek indemnification or the advance of Expenses hereunder, Executive shall submit to the Company a written request therefor, which shall: (i) describe with reasonable particularity the claim that has been made or threatened against Executive and the reasons why Executive believes that it is lawful and appropriate for the Company to indemnify and/or pay, advance or reimburse Expenses to Executive in connection therewith; and (ii) contain or include such documentation and information as is reasonably available to Executive and is reasonably necessary to enable the Board of Directors or a committee thereof, or if applicable, special legal counsel to the Board of Directors, to determine whether to approve, deny or otherwise respond to such request. Such determination shall be made and communicated to Executive in writing as soon as reasonably practicable, but in no case more than thirty (30) days of the Company's receipt of Executive's request. In any Proceeding commenced to enforce Executive's entitlement to indemnification or the advance of Expenses, the Company shall have the burden of proving that Executive is not entitled to indemnification or the advance of Expenses, as the case may be. All other procedures with respect to indemnification and the payment, advancement or reimbursement of Expenses in connection with a Proceeding to which Executive is a Party by reason of his service in his Official Capacity shall be as provided in the charter or bylaws of the Company and Maryland law.

(d) Survival of Rights and Benefits. The rights and benefits provided to Executive under this Section 19 shall survive the termination or expiration of this Agreement and shall not be deemed to be exclusive of any other rights or benefits to which Executive may at any time be entitled under Maryland law or any other applicable law, the charter or bylaws of the Company, or any other agreement to which Executive is a Party. No amendment, alteration or repeal of any applicable Maryland law or any provision of the charter or bylaws of the Company shall: (i) have the effect of reducing, limiting or restricting the rights and benefits that were available to Executive under this Section 19 based on such law or provision as in effect on the date hereof; or (ii) limit or restrict any right of or benefit to Executive hereunder in respect of any action taken or omitted by Executive in his official capacity prior to such amendment, alteration or repeal.

20. COSTS AND LEGAL FEES.

(a) Payment to Executive. Except as provided in Section 18(a) hereof, in the event any dispute or controversy arising under or in connection with any provision of this Agreement other than Section 8 hereof is resolved on the merits in favor of Executive pursuant to an arbitration award or final judgment, order or decree of a court of competent jurisdiction (the time for appeal therefrom having expired and no appeal having been perfected), the Company shall be obligated to pay Executive, within thirty (30) after the date on which such judgment becomes final and not subject to further appeal, all reasonable costs and legal fees paid or incurred by Executive in connection with such dispute or controversy.

(b) Payment to the Company. Except as provided in Section 18(a) hereof, in the event any dispute or controversy arising under or in connection with Section 8 of this Agreement is resolved on the merits in favor of the Company pursuant to an arbitration award or final judgment, order or decree of a court of competent jurisdiction (the time for appeal therefrom having expired and no appeal having been perfected), Executive shall be obligated to pay the Company, within thirty (30) after the date on which such judgment becomes final and not subject to further appeal, all reasonable costs and legal fees paid or incurred by the Company in connection with such dispute or controversy.

21. NO CONFLICTS.

Executive has heretofore advised the Company and hereby represents that the execution and delivery of this Agreement and the performance of the obligations hereunder do not and will not conflict with, or result in any default, violation or breach of any contract or agreement to which Executive is a party, or of any legal duty of Executive.

22. SURVIVAL.

The rights and obligations of Executive and the Company under Sections 6, 8, 13, 17, 18, 19 and 20 of this Agreement shall survive the termination of Executive's employment and the termination or expiration of this Agreement. All other rights and obligations of Executive and the Company shall survive the termination or expiration of this Agreement shall survive such termination only to the extent that they expressly contemplate future performance and remain unperformed.

23. SUCCESSORS AND ASSIGNS.

(a) Continuing Rights and Obligations. This Agreement shall be binding upon, and inure to the benefit of, Executive and his heirs, executors, administrators and assigns, and the Company and its successors and assigns. The Company shall require any of its respective successors or assigns, whether resulting from a purchase, merger, consolidation, reorganization, conversion or a transfer of all or substantially all of its business or assets, to expressly and unconditionally to assume and agree to perform its respective obligations under this Agreement, in the same manner and to the same extent that it would be required to perform such obligations if no such succession or assignment had occurred.

(b) Payments to Estate or Trust. Any amounts due Executive hereunder shall be paid to Executive's estate in the event of Executive's death except as expressly provided herein; provided that, notwithstanding the foregoing, Executive may, in his discretion, provide for the payment of some or all of such amounts to a trust established by Executive, and may provide for the payment of amounts payable under the Life Insurance Policy to the beneficiaries designated by Executive. In the event that Executive desires that such amounts be paid to a trust, Executive shall notify the Company of such intention in writing and comply with any requirements of applicable law.

24. CHANGE IN CONTROL DEFINITION.

(a) For the purposes of this Agreement, including Section 5(b) hereof, the term "Change in Control" means any of the following:

(i) any "person," as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934 (a "Person"), is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of securities of the

Company representing twenty percent (20%) or more of the combined voting power of the Company's then outstanding voting securities, provided that, notwithstanding the foregoing and for all purposes of this Section 9.3: (A) the term "Person" shall not include (1) the Company or any of its subsidiaries, (2) an employee benefit plan of the Company or any of its subsidiaries (including the Plan), and any trustee or other fiduciary holding securities under any such plan, and (3) a corporation or other entity owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company; (B) no Person shall be deemed the beneficial owner of any securities acquired by such Person in an Excluded Transaction (as defined below); and (C) no director or officer of the Company or any direct or indirect subsidiary of the Company (or any affiliate of any such director or officer) shall, by reason of any or all of such directors or officers acting in their capacities as such, be deemed to beneficially own any securities beneficially owned by any other such director or officer (or any affiliate thereof); or

(i) the "Incumbent Directors" (as defined below) cease, for any reason, to constitute a majority of the "Whole Board" (as defined below); or

(ii) a plan of reorganization, merger, consolidation or similar transaction involving the Company and one or more other corporations or entities is consummated, other than a plan of reorganization, merger, consolidation or similar transaction that is an "Excluded Transaction" (as defined below), or the stockholders of the Company approve a plan of complete liquidation of the Company, or a sale, liquidation or other disposition of all or substantially all of the assets of the Company or the Bank is consummated; or

(iii) a tender offer is made for 20% or more of the outstanding voting securities of the Company and the stockholders owning beneficially or of record 20% or more of the outstanding voting securities of the Company have tendered or offered to sell their shares pursuant to such tender offer and such tendered shares have been accepted by the tender offeror; or

(iv) A "Potential Change in Control" (as defined below) occurs, and the Board determines, pursuant to the vote of a majority of the Whole Board, with at least two-thirds (2/3) of the Incumbent Directors then in office voting in favor of such determination, to deem the Potential Change in Control to be a Change in Control for the purposes of this Section 9.3.

The term "Excluded Transaction" means a plan of reorganization, merger, consolidation or similar transaction that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving corporation or any parent thereof) at least 50% of the combined voting power of the voting securities of the entity surviving the plan of reorganization, merger, consolidation or similar transaction (or the parent of such surviving entity) immediately after such plan of reorganization, merger, consolidation or similar transaction.

(b) For purposes of the definition of Change in Control set forth in Section 24(a) above, the term "Incumbent Directors" means:

(i) the individuals who, on the date hereof, constitute the Board; and

(ii) any new director whose appointment or election by the Board or nomination for election by the Company's stockholders was approved or recommended: (A) by the vote of at least two-thirds (2/3) of the Whole Board, with at least two-thirds of the Incumbent Directors then in office voting in favor of such approval or recommendation; or (B) by a Nominating Committee of the Board whose members were appointed by the vote of at least two-thirds (2/3) of the Whole Board, with at least two-thirds of the Incumbent Directors then in office voting in favor of such appointments.

(b) For purposes of the definition of Change in Control set forth in Section 24(a) above, the term "Whole Board" means the total number of directors that the Company would have if there were no vacancies on the Board at the time the relevant action or matter is presented to the Board for approval.

(c) For purposes of the definition of Change in Control set forth in Section 24(a) above, the term "Potential Change in Control" shall mean:

(i) the public announcement by any Person of an intention to take or to consider taking actions which, if consummated, would constitute a Change in Control; or

(ii) one or more transactions, events or occurrences that result in a change in control of the Bank or the Company within the meaning of the Home Owners Loan Act, as amended, and the applicable rules and regulations promulgated thereunder, as in effect at the time of the change in control; or

(iii) a proxy statement soliciting proxies from stockholders of the Company is filed or distributed seeking stockholder approval of a plan of reorganization, merger, consolidation or similar transaction involving the Company and one or more other entities, but only if such plan of reorganization, merger, consolidation or similar transaction has not been approved by the vote of at least two-thirds (2/3) of the Whole Board, with at least two-thirds (2/3) of the Incumbent Directors then in office voting in favor of such plan of reorganization, merger, consolidation or similar transaction.

IN WITNESS WHEREOF, BankFinancial Corporation has caused this Agreement to be executed by its duly authorized officers and directors, and Executive has signed this Agreement as of this _____ day of _____, 200__.

By: _____

F. Morgan Gasior

Its: _____

**BANKFINANCIAL CORPORATION
EMPLOYMENT AGREEMENT**

THIS AGREEMENT (“Agreement”) is made effective as of _____, 200__ (the “Effective Date”), by and between **BankFinancial Corporation** (the “Company”), a Maryland corporation having its principal office at 15 W 060 North Frontage Road, Burr Ridge, Illinois, and _____ (“Executive”).

WHEREAS, the Board of Directors of the Company (the “Board”) considers the continued availability of Executive’s services to be important to the successful management and conduct of the Company’s business, and wishes to assure the continued availability of Executive’s full-time services to the Company as provided in this Agreement; and

WHEREAS, Executive is willing to continue to serve in the employ of the Company on a full-time basis on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants herein contained, and upon the other terms and conditions hereinafter provided, the parties hereby agree as follows:

1. POSITION AND RESPONSIBILITIES.

(a) Position. During the period of employment established by Section 2(a) of this Agreement (the “Employment Period”), Executive agrees to serve, if appointed to serve, as the _____ and the Executive Vice President of the _____ Division of the Company.

(b) Duties and Responsibilities. Executive shall have and exercise the duties, responsibilities, privileges, powers and authority commensurate with such position as the Board or the Chief Executive Officer of the Company has assigned and may hereafter assign to Executive.

(c) Faithful Performance. Except for periods of paid time off taken in accordance with Section 3(f) hereof or following a Disability Determination made in accordance with Section 4(b) hereof, Executive shall devote substantially all of his business time, attention, skill and efforts during the Employment Period to the faithful performance of his duties hereunder, and shall not engage in any business or activity that interferes with the performance of such duties or conflicts with the business, affairs or interests of the Bank or the Company; provided that, notwithstanding the foregoing, Executive may: (i) perform his obligations under any Employment Agreement between the Bank and Executive (the “Bank Agreement”); (ii) hold directorships, offices or other positions in one or more other organizations to the extent permitted by the Company’s Professional Responsibility Policy, as amended from time to time, or as otherwise approved by the Board or the Chief Executive Officer, and (iii) engage in the occasional _____ provided that the same does not interfere with Executive’s obligation to devote substantially all of his business time, attention, skill and efforts to the faithful performance of his duties under this Agreement.

(d) Performance Standards. During the Employment Period, Executive shall perform his duties in accordance with the policies and procedures of the Company, as amended

from time to time, such reasonable performance standards as the Board or the Chief Executive Officer of the Company has established or may hereafter establish in the exercise of good faith business judgment, including those set forth in the Company's Personnel Manual, as amended from time to time, and such Business Plans as the Board or the Chief Executive Officer of the Company has established or may hereafter establish in the exercise of good faith business judgment.

2. TERM OF EMPLOYMENT.

(a) Term. The Employment Period shall commence as of the Effective Date and shall thereafter continue for a period of thirty-six (36) months (as adjusted on _____, 200__, as provided below) unless extended as provided herein. On or before _____, 200__, and on or before _____ of each succeeding calendar year during the Employment Period (each an "Anniversary Date"), the Board, subject to the review process set forth in Section 2(b) hereof, may extend the Employment Period for an additional one (1) year so that the remaining term of the Employment Period shall then be thirty-six (36) months. All references herein to the Employment Period shall mean, for all purposes of this Agreement, Executive's Employment Period as initially established by, and as may subsequently be extended pursuant to, this Section 2(a).

(b) Annual Review. The Board shall review this Agreement and the compensation arrangements provided for herein on or before _____, 200__, and at least annually thereafter on or before each subsequent Anniversary Date. As part of each annual review, the Board shall determine whether or not to increase Executive's Base Salary as provided in Section 3(a) hereof and to extend the Employment Period for an additional one (1) year as provided in Section 2(a) hereof. The rationale and results of such review, and the justification for any such increase or extension, shall be documented in the minutes of the meeting at which the Board conducted such review. The Board or a committee or representative thereof shall notify Executive in writing as soon as practicable, and not later than each applicable Anniversary Date, of the results of such review, including its decision whether or not to increase Executive's Base Salary and to extend the Employment Period. A decision by the Board not to, or the Board's failure to, increase Executive's Base Salary shall not constitute a breach of this Agreement or a "Good Reason" under Section 5(b) hereof.

3. COMPENSATION AND OTHER BENEFITS.

(a) Base Salary. During the Employment Period, the Company shall pay Executive the annual base salary that is reflected in the payroll records of the Company on the Effective Date ("Base Salary"), subject to any discretionary increases that the Board may hereafter elect to make pursuant to this Section 3(a). Any portion of annual Base Salary that Executive elects to defer under any deferred compensation arrangement that is now or hereafter maintained by the Company shall be considered part of Base Salary for the purposes of this Agreement. Executive's Base Salary shall be payable in accordance with the regular payroll practices of the Company. The Board or the Board's Compensation Committee (the "Compensation Committee") may increase Executive's Base Salary at any time, but shall not reduce Executive's Base Salary during the Employment Period without the Executive's express prior written consent. All references herein to Base Salary shall mean, for all purposes of this Agreement, Executive's Base Salary as initially established in, and as may subsequently be increased pursuant to, this Section 3(a).

(b) Bonuses; Incentive Compensation. In addition to Executive's Base Salary, Executive shall be entitled to incentive compensation and bonuses to the extent earned pursuant to any plan or arrangement of the Company in which Executive is eligible to participate during the Employment Period, or to such other extent as the Board or its Compensation Committee may determine in its discretion to award to Executive.

(c) Other Compensation. The Company may provide such additional compensation to Executive in such form and in such amounts as may be approved by the Board or the Compensation Committee in its sole discretion.

(d) Special Allowances. The Company shall provide Executive with an automobile allowance and a cellular telephone allowance during the Employment Period in accordance with the standard policies and practices of the Company.

(e) Reimbursement of Expenses. The Company shall pay or reimburse Executive in accordance with the standard policies and practices of the Company for all reasonable expenses incurred by Executive during the Employment Period in connection with his employment hereunder or the business of the Company.

(f) Paid Time Off. Executive shall be entitled to receive not less than 176 hours of paid time off ("PTO") per calendar year during the Employment Period in accordance with the PTO policies of the Company as then applicable to senior executive officers of the Company. Executive shall also be entitled to take time off during all legal holidays approved by the Board for Bank employees generally. Executive shall receive his Base Salary and the other amounts and benefits provided for in Section 3 hereof during all PTO periods and legal holidays. Except as permitted by the PTO policies of the Company, Executive shall not be entitled to receive any additional compensation for his failure to take PTO or accumulate unused PTO from one year to the next.

(g) Other Benefits. The Company shall provide Executive with all other benefits that are now or hereafter provided uniformly to non-probationary full-time employees of the Company during the Employment Period, including, without limitation, benefits under any Section 125 Cafeteria Plan, any group medical, dental, vision, disability and life insurance plans that are now or hereafter maintained by the Company (collectively, the "Core Plans"), and under any 401(k) plan that is now or hereafter sponsored by the Company, in each case subject to the Company's policies concerning employee payments and contributions under such plans. The Company shall not make any changes to any Core Plan that would materially and adversely affect Executive's rights or benefits under such plan unless such changes are made applicable to all non-probationary full-time employees of the Company on a non-discriminatory basis. Nothing paid to Executive under any Core Plan or any 401(k) plan shall be deemed to be in lieu of any other compensation that Executive is entitled to receive under this Agreement.

(h) Disability Insurance. During the Employment Period, the Company may provide Executive with a disability insurance policy with coverage sufficient to provide

Executive with annual disability insurance payments in an amount equal to not less than sixty percent (60%) of Executive's Base Salary for a period at least equal to the then remaining term of the Employment Period (the "Disability Policy") in the event that Executive's employment is terminated by reason of a Disability Determination (as defined below). If a Disability Policy is so provided, Executive shall be responsible for the payment of all premiums on the Disability Policy and shall cooperate with the Company in all respects as necessary or appropriate to enable the Company to procure the Disability Policy, and the Company shall provide Executive with an annual allowance in an amount sufficient, on an after-tax basis, to equal the annual premiums for the Disability Policy.

(i) Disability Insurance Adjustment. If Executive receives disability benefits under the Disability Policy or any Core Plan or receives federal Social Security disability benefits (collectively, "Disability Payments"), the Company's obligation under Section 3(a) and 6(b) hereof to pay Executive his Base Salary shall be reduced, as of the date the Disability Payments are first received by Executive, to an amount equal to the difference between Executive's Base Salary and the Disability Payments that Executive received during each applicable payroll period. The Executive shall make reasonable good faith efforts to notify the Company of the receipt of Disability Payments.

(j) Life Insurance. During the Employment Period, the Company may provide Executive with a term life insurance policy with coverage sufficient to provide a death benefit in an amount not less than three (3) times Executive's Base Salary, as of the date of this Agreement, containing a rider for inflation based adjustments (the "Life Insurance Policy"), unless such life insurance policy is unobtainable due to the Executive's failure to cooperate in obtaining the same or Executive is uninsurable. If a Life Insurance Policy is so provided, the Company shall pay all premiums on the Life Insurance Policy and Executive shall pay all income taxes that become due as a result of the Company's payment of such premiums; provided, however, that the Company shall provide Executive with an annual Life Insurance Policy allowance in an amount calculated as follows: (the amount of the annual premiums paid by the Company for the Life Insurance Policy during that year) divided by (1 - Executive's income tax rate for that year). Executive shall cooperate with the Company in all respects as necessary or appropriate to enable the Company to procure the Life Insurance Policy. Executive shall own and have exclusive authority to designate one or more beneficiaries under the Life Insurance Policy. Executive shall have the right to assume responsibility for the payment of the premiums under and to continue the Life Insurance Policy following the termination of Executive's employment with the Company, but only if such assumption and continuation are permissible under the terms of the Life Insurance Policy and any costs associated therewith are borne by Executive. The Life Insurance Policy shall be in addition to any life insurance benefits that the Company now or hereafter provides uniformly to non-probationary full-time employees of the Company during the Employment Period.

(k) Club Dues. In addition to any other compensation provided for under this Agreement, the Company shall pay Executive an amount sufficient, on an after-tax basis, to maintain his membership at _____ during the Employment Period.

4. TERMINATION BY THE COMPANY.

(a) Termination For Cause. The Board may terminate Executive's employment with the Company "For Cause" at any time during the Employment Period, subject to the requirements set forth in this Section 4(a) and in Section 7 of this Agreement. A termination "For Cause" shall mean the Company's termination of Executive's full-time employment hereunder because of Executive's personal dishonesty, incompetence, willful misconduct, breach of fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule or regulation (other than traffic violations or similar offenses), or final cease-and-desist order, a repeated and material failure to achieve minimum objectives under a Business Plan established in accordance with Section 1(d) of this Agreement, a repeated and material failure of Executive to meet reasonable performance standards established in accordance with Section 1(d) of this Agreement, or a material breach of any provision of this Agreement. Notwithstanding the foregoing, Executive shall not be deemed to have been terminated For Cause unless and until (i) there shall have been delivered to Executive a written notice of the Board's intention to terminate Executive's employment For Cause, specifying the alleged grounds for such termination; (ii) if the alleged grounds for such termination are a material breach of a provision of this Agreement, a repeated and material failure to achieve minimum objectives under a Business Plan established in accordance with Section 1(d) of this Agreement, or a repeated and material failure of Executive to meet reasonable performance standards established in accordance with Section 1(d) of this Agreement, providing Executive with a reasonable opportunity to cure, if curable, any conduct or acts alleged as grounds alleged to be such; (iii) following delivery of such written notice, Executive (together with any counsel selected by him) shall have been given a reasonable opportunity to present to the Board, at a meeting called and held for or including that purpose, Executive's position regarding any dispute that exists regarding the alleged grounds for termination For Cause, and (iv) the Board shall adopt a resolution by the affirmative vote of not less than a majority of its members, finding in good faith and on the basis of reasonable evidence that Executive was guilty of conduct justifying a termination For Cause. The Notice of Termination (as defined in Section 7 below) issued in connection with the termination of Executive's employment For Cause shall be accompanied by a copy of such resolution. Should a dispute arise concerning the Executive's termination For Cause, any review of the For Cause termination in any judicial or arbitration proceeding will be limited to a determination of whether the Board acted in good faith and on the basis of reasonable evidence. The Board shall also be deemed to have terminated Executive's employment with the Company For Cause if Executive's employment with the Bank is terminated For Cause during the Employment Period in accordance with the requirements set forth in Section 4(a) of the Bank Agreement.

(b) Termination for Disability. The Board, in its discretion, may terminate Executive's employment with the Company at any time from and after the date on which a physician chosen by the Company and reasonably acceptable to Executive or Executive's personal representatives determines that Executive, due to an accident or a physical or mental illness, has been, is or will be incapable of fulfilling the duties and responsibilities set forth in Section 1(b) hereof for a period of more than one hundred and eighty (180) days within a one (1) year period (a "Disability Determination"). Following a Disability Determination, the Board may, in lieu of terminating Executive's employment by reason of the Disability Determination, appoint one or more other persons to serve as Acting _____ and/or Acting

Executive Vice President of the _____ Division and/or Acting _____ of the Company to fulfill, on a temporary basis, the duties and responsibilities of Executive. Any such temporary appointment shall be without prejudice to the Board's right to thereafter terminate Executive's employment based on a Disability Determination made pursuant to this Section 4(b) or as otherwise provided herein. The Board shall also be deemed to have terminated Executive's employment with the Company based on a "Disability Determination" if Executive's employment with the Bank is terminated during the Employment Period based on a "Disability Determination" in accordance with the requirements set forth in Section 4(b) of the Bank Agreement.

(c) Termination Without Cause. The Board, in its discretion, may terminate Executive's employment with the Company "Without Cause" at any time, subject to the notification requirements set forth in Section 7 hereof. A termination "Without Cause" shall mean the Board's termination of Executive's employment for any reason other than a termination For Cause or a termination based on a Disability Determination. The Board shall also be deemed to have terminated Executive's employment with the Company Without Cause if Executive's employment with the Bank is terminated during the Employment Period "Without Cause" in accordance with the requirements set forth in Section 4(c) of the Bank Agreement.

5. TERMINATION BY EXECUTIVE OR BY REASON OF DEATH.

(a) Termination By Resignation. Executive may, in his discretion, terminate his employment with the Company "By Resignation" at any time during the Employment Period, subject to the notification requirements set forth in Section 7 hereof. A termination "By Resignation" shall mean Executive's termination of his employment for any reason other than a "Good Reason" as such term is defined in Section 5(b) hereof. Executive shall also be deemed to have resigned his employment with the Company, and to have terminated his employment with the Company By Resignation, if Executive's employment with the Bank is terminated during the Employment Period By Resignation in accordance with the requirements set forth in Section 5(a) of the Bank Agreement.

(b) Termination For Good Reason. Executive may terminate Executive's employment with the Company for "Good Reason," subject to the requirements set forth in this Section 5(b) and the notification requirements set forth in Section 7 hereof. A termination for "Good Reason" shall mean Executive's resignation from the Company's employ during the Employment Period based upon any of the following acts, omissions but only if taken or occurring during the Employment Period without Executive's prior written express consent (in the manner specified herein below): (i) a decision by the Board not to elect or re-elect or to appoint or re-appoint Executive to the offices of _____ and Executive Vice President of the _____ Division; (ii) a failure by the Board to elect or re-elect or to appoint or re-appoint Executive to the of offices of _____ and Executive Vice President of the _____ Division of the Company, or a decision by the Board to remove Executive from any such position; (iii); the failure of the Board to extend the Employment Period on or before an applicable Anniversary Date pursuant to Section 2(a) for an additional one (1) year so that the remaining term thereof will be thirty-six (36) months; (iv) the Board's relocation of Executive's principal place of employment to a place that is more than fifteen (15) miles from the city limits of Chicago, Illinois; (v) a reduction in Executive's Base Salary, or a material reduction in the benefits that Executive is entitled to

receive under Section 3(d) through (k) of this Agreement; (vi) a liquidation or dissolution of the Company, (vi) a material uncured breach of this Agreement by the Company; or (vii)) the occurrence of a "Change in Control" of the Company, as such term is defined in Section 24 hereof. Executive shall have the right to elect to terminate his employment for Good Reason only by giving the General Counsel of the Company a Notice of Termination (as defined below) within sixty (60) days after the act, omission or event giving rise to said right to elect, provided, however, that the period for Executive to give Notice of Termination shall be one (1) year from the occurrence of a Change in Control in the event of a Change in Control. Executive's prior written consent to an act, omission or event which would otherwise constitute "Good Reason" shall be made in writing, shall be delivered to the President of the Company and shall state specifically the subsection of this Section 5(b) to which such consent shall apply. Notwithstanding anything herein to the contrary, Executive's voting (in any capacity) in favor of a Change in Control shall not be deemed to be consent to the Change in Control for purposes of this Section 5(b). Notwithstanding the foregoing, Executive shall not have a right to elect to terminate his employment (i) based on the events set forth in this Section 5(b) solely on the basis of the Board's appointment of an Acting _____ or Acting Executive Vice President of the _____ Division following a Disability Determination made in accordance with Section 4(b) of this Agreement, or (ii) except in the case of a Notice of Termination delivered pursuant to Section 5(b)(x) following the occurrence of a Change in Control, if the Company fully rescinds or cures, within ten (10) days after its receipt of Executive's Notice of Termination, the act, omission or event giving rise to Executive's right to elect to terminate his employment for Good Reason. Executive shall also be deemed to have terminated his employment with the Company for Good Reason if Executive's employment with the Bank is terminated during the Employment Period for Good Reason in accordance with the requirements set forth in Section 5(b) of the Bank Agreement.

(c) Termination Upon Death. Executive's employment with the Company shall terminate immediately upon Executive's death, without regard to the notification requirements set forth in Section 7 hereof.

6. FINANCIAL CONSEQUENCES OF TERMINATION.

(a) Termination For Cause. In the event that Executive's employment is terminated For Cause during the Employment Period, the Company shall pay Executive the unpaid balance of Executive's Base Salary through the effective date of the termination of Executive's employment ("Earned Salary"), but Executive shall receive no bonus or incentive compensation for the current year (all such amounts shall remain unearned and unvested), and shall receive no compensation or other benefits (including the compensation and benefits set forth in Section 3(a) through (k) and Section 6 hereof) for any period after the effective date of the termination of Executive's employment; provided, however, that the right of Executive to assume and continue the Life Insurance Policy under Section 3(j) hereof, any rights of Executive under any applicable state and federal laws, including ERISA and COBRA, and any rights of Executive that have vested, whether by application of any state or federal law, the provisions of any contract, employee benefits plan or otherwise, shall not be terminated or prejudiced by a termination For Cause. Upon Executive's death, any payments due under this Section 6(a) shall be paid, as applicable, to Executive's estate, trust or as otherwise required by law.

(b) Termination for Disability. In the event that Executive's employment is terminated during the Employment Period based on a Disability Determination, the Company shall: (i) pay Executive his Earned Salary (as defined above); (ii) pay Executive an amount equal to the annual average of any cash incentive compensation and bonus that Executive received during the immediately preceding two (2) fiscal years, prorated based on the number of days during such year that elapsed prior to the effective date of the termination of Executive's employment ("Prorated Incentive Compensation"); (iii) make, for the benefit of Executive, the matching 401(k) plan contribution that Executive is entitled to receive for the current year, prorated based on the number of days during such year that elapsed prior to the effective date of the termination of Executive's employment ("Accrued Plan Contribution"), (iv) subject to the disability insurance adjustment set forth in Section 3(i) hereof, pay Executive the Base Salary that Executive would have been paid pursuant to Section 3(a) hereof from the effective date of termination through the date the Employment Period would have expired if Executive's employment had not been sooner terminated based on a Disability Determination; and (v) provide Executive (or upon his death, his surviving spouse and minor children, if any) with the same coverage under the Core Plans (or if applicable, a Contingent Insurance Stipend under Section 6(h)) that Executive would have been provided pursuant to Section 3(g) hereof from the effective date of termination through the date the Employment Period would have expired if Executive's employment had not been sooner terminated based on a Disability Determination (in each case subject to Executive's payment of the costs and contributions that such plans provide are the responsibility of the insured employee and the availability of such continued coverage through the Company's then-current insurance carrier). Except as provided in Section 3(h), Section 3(j) (but only with respect to the assumption and continuation of the Life Insurance Policy) and this Section 6(b), the Company shall have no obligation to provide Executive with any other compensation or benefits pursuant Section 3(a) through (k) or Section 6 of this Agreement following a termination of Executive's employment based on a Disability Determination. Except as provided in Section 6(g) hereof, the amounts payable under Subsections (ii) and (iv) of this Section 6(b) shall be paid in equal installments over the period beginning on the Company's first regular payroll date after the effective date of termination and continuing through the Company's first regular payroll date after the date the Employment Period would have expired if Executive's employment had not been sooner terminated based on a Disability Determination. Upon Executive's death, any payments due under this Section 6(b) shall be paid, as applicable, to Executive's estate, trust or as otherwise required by law.

(c) Termination Without Cause. In the event that Executive's employment is terminated Without Cause during the Employment Period, the Company shall: (i) pay Executive his Earned Salary (as defined above); (ii) pay Executive his Prorated Incentive Compensation (as defined above); (iii) make, for the benefit of Executive, the Accrued Plan Contribution (as defined above); (iv) subject to Section 6(h), provide Executive (or upon his death, his surviving spouse and minor children, if any) with coverage under the Core Plans (or if applicable, a Contingent Insurance Stipend) for a period of thirty-six (36) months from the effective date of the termination of Executive's Employment (in each case subject to Executive's payment of the costs and contributions that such plans provide are the responsibility of the insured employee and the availability of such continued coverage through the Company's then-current insurance carrier); and (v) pay Executive an amount equal to three (3) times Executive's Average Annual Compensation. The term "Average Annual Compensation" shall mean the average of Executive's annual Compensation based on the most recent three (3) taxable years, or if

Executive was employed by the Company for less than three (3) full taxable years, based on such lesser number of taxable years or portions thereof as Executive was employed by the Company. The term "Compensation" shall mean, for the purposes of the foregoing definition as it relates to any tax year, all Base Salary, incentive compensation, bonuses, special allowances, other compensation, club dues and other benefits paid by the Company to Executive in such taxable year pursuant to Section 3(a) through (k) hereof, any director or committee fees paid by the Company to Executive during such tax year, and any other taxable income paid by the Company to Executive during such tax year. Except as provided in Section 3(j) (but only with respect to the assumption and continuation of the Life Insurance Policy) and this Section 6(c), the Company shall have no obligation to provide Executive with any other compensation or benefits pursuant Section 3(a) through (k) or Section 6 of this Agreement following a termination of Executive's employment Without Cause. Except as provided in Section 6(g) hereof, the amounts payable under Sections (ii) and (v) hereof shall be paid in equal installments over the period beginning on the Company's first regular payroll date after the effective date of termination and continuing thereafter on each regular payroll date for thirty-six (36) months. Upon Executive's death, any payments due under this Section 6(c) shall be paid, as applicable, to Executive's estate, trust or as otherwise required by law.

(d) Termination By Resignation. In the event that Executive's full-time employment is terminated By Resignation during the Employment Period, the Company shall pay Executive his Earned Salary (as defined above), but Executive shall receive no compensation or other benefits (including the compensation and benefits set forth in Section 3(a) through (k) hereof) for any period after the effective date of the termination of Executive's employment; provided, however, that the right of Executive to assume and continue the Life Insurance Policy under Section 3(j) hereof, any rights of Executive under any applicable state and federal laws, including ERISA and COBRA, and any rights of Executive that have vested, whether by application of any applicable state or federal law, the provisions of any contract, employee benefits plan or otherwise, shall not be terminated or prejudiced by a termination By Resignation. Except as provided in Section 3(j) (but only with respect to the assumption and continuation of the Life Insurance Policy) and this Section 6(d), the Company shall have no obligation to provide Executive with any other compensation or benefits pursuant Section 3(a) through (k) or Section 6 of this Agreement following a termination of Executive's employment By Resignation.

(e) Termination for Good Reason. In the event that Executive's employment is terminated by Executive for Good Reason during the Employment Period, the Company shall pay Executive the same amounts, and shall, subject to Section 6(h) hereof, provide Executive (or upon his death, his spouse and minor children, if any) with the same coverages under the Core Plans (or if applicable, the same Contingent Insurance Stipend), that Executive would have been paid and provided pursuant to Section 6(c) hereof if his employment had been terminated by the Company Without Cause on the effective date of the termination of Executive's employment. Except as provided in Section 3(j) (but only with respect to the assumption and continuation of the Life Insurance Policy) and this Section 6(e), the Company shall have no obligation to provide Executive with any other compensation or benefits pursuant Section 3(a) through (k) or Section 6 of this Agreement following a termination of Executive's employment for Good Reason. Except as provided in Section 6(c) and Section 6(g) hereof, the amounts payable under this Section shall be paid in equal installments over the period beginning on the Company's first regular payroll

date after the effective date of termination and continuing thereafter on each regular payroll date for thirty-six (36) months. Upon Executive's death, any payments due under this Section 6(e) shall be paid, as applicable, to Executive's estate, trust or as otherwise required by law.

(f) Termination Upon Death. In the event Executive's employment with the Company is terminated during the Employment Period by reason of Executive's death, the Company shall, subject to Section 6(h) hereof, provide Executive's surviving spouse and minor children, if any, with the same coverages under the Core Plans (or if applicable, the same Contingent Insurance Stipend) that Executive would have been provided pursuant to Section 6(b) hereof if his employment had been terminated by the Company based on a Disability Determination on the date of Executive's death (subject to the availability of such continued coverage through the Company's then-current insurance carrier). In addition, the Company shall pay, as applicable, Executive's estate or trust, in accordance with the Company's regular payroll practices, the Base Salary that Executive would have been paid pursuant to Section 3(a) hereof from the effective date of termination through the date the Employment Period would have expired if Executive's employment had not been sooner terminated based on Executive's death; Notwithstanding the foregoing: (i) the Company shall have no obligation to make such payments if it procures and causes Executive to be insured under the Life Insurance Policy in the amount specified in, and otherwise in accordance with, Section 3(j) hereof; and (ii) if the Company procures and causes Executive to be insured under a Life Insurance Policy obtained pursuant to Section 3(j) hereof, but the death benefits payable thereunder are less than the policy amount required Section 3(j) hereof, the Company's obligation to make such payments shall not be extinguished, but shall be reduced by the amount payable under the Life Insurance Policy; provided that in either case the Company's obligations to make such payments shall only be reduced by the amount of death benefits that are actually paid to and received by the beneficiaries under the Life Insurance Policy in accordance with Section 3(j) hereof. Except as provided in Section 3(j) or this Section 6(f), the Company shall have no obligation to provide Executive's estate, surviving spouse or minor children with any other compensation or benefits pursuant to Section 3(a) through (k) or Section 6 of this Agreement following a termination of Executive's employment by reason of Executive's death. This provision shall not negate any rights that Executive, his estate or beneficiaries may have to death benefits under any employee benefit plan of the Company. Except as provided in Section 6(b) and Section 6(g) hereof, any amounts payable under this Section (f) shall be paid in equal installments over the period beginning on the Company's first regular payroll date after the date of death and continuing through the Company's first regular payroll date after the date the Employment Period would have expired if Executive's employment had not been sooner terminated based on Executive's death.

(g) Installment Payments; Lump Sum Payment Election. At the election of the Company, all amounts payable hereunder in installments may be paid in a single lump sum within forty-five (45) days of the effective date of the termination of Executive's employment. For the purpose of calculating the amount of the lump sum payment, all amounts payable to Executive in installments, other than any cash incentive compensation payments that are payable in accordance with Section 6(b), Section 6(c), Section 6(e) or Section 6(f) of this Agreement, any Core Plan contributions that are required to be made by the Company and any Contingent Insurance Stipend payable pursuant to Section 6(h), shall be discounted to reflect the present value of such payments using a discount rate equal to the then applicable rate for two (2) year

United States Treasury Notes. If the Company desires to make such an election, it shall be required to do so in a writing delivered to Executive or if applicable, the executor or personal representative of Executive's estate or the trustee of Executive's trust, within forty-five (45) days of the effective date of the termination of Executive's employment. Except as provided in Section 8(f), no payments due Executive under this Agreement shall be reduced solely by reason of the fact that Executive obtains other employment following termination of his employment with the Company.

(h) Contingent Insurance Stipend. In the event that the continued medical insurance coverage that the Company is obligated to provide pursuant to Sections 6(b)(v) and 6(c)(iv) (and by operation of such provisions, pursuant to Sections 6(e) and 6(f)) of this Agreement is not then available, the Company shall pay Executive (or upon his death, his spouse and minor children, if any), during the applicable period, a stipend in an amount sufficient, on an after-tax basis, to equal the amount that the Company would have contributed for Executive's benefit during the applicable period under the Company's Section 125 Cafeteria Plan if Executive had remained in the Company's employ during the applicable period. The stipend shall be payable in equal installments during the applicable period on dates coinciding with the Company's regular payroll dates.

(i) General Release. In consideration of the Company's agreements with respect to the monetary payments provided for in Sections 6(b), 6(c), 6(e) and 6(f) of this Agreement (which payments exceed the nature and scope of that to which Executive would have been legally entitled to receive absent this Agreement), and as a condition precedent to Executive's receipt of such payments, Executive (or in the event of Executive's death, Executive's executor, trustee, administrator or personal representative, as applicable), shall, at the time the first of any such payments is tendered, execute and deliver to the Company a general release in favor of the Company and its Affiliates (as defined below), releasing all claims, demands, causes of actions and liabilities arising out of this Agreement, Executive's employment or the termination thereof, including, but not limited to, claims, demands, causes of action and liabilities for wages, back pay, front pay, attorney's fees, other sums of money, insurance, benefits, or contracts; and all claims, demands, causes of actions and liabilities arising out of or under the statutory, common law or other rules, orders or regulations of the United States or any State or political subdivision thereof, whether now existed or hereinafter enacted or adopted, including the Age Discrimination in Employment Act and the Older Workers Benefit Protection Act, and no further payments shall be due Executive until such time as all applicable waiting or rescission periods thereunder shall have expired or shall have been waived. Notwithstanding the foregoing or anything to the contrary herein, the general release shall not release any unperformed obligations of the Company under this Agreement, or of the Bank under its respective Employment Agreement with Executive.

7. NOTICE OF TERMINATION.

Any termination or purported termination by the Company or Executive of Executive's employment with the Company shall be communicated by a Notice of Termination to the other party. A "Notice of Termination" shall mean a written notice that shall set forth the effective date of the termination of Executive's employment, identify the specific termination provision(s) in this Agreement relied upon, and set forth in reasonable detail the facts and circumstances

claimed to provide a basis for the termination of Executive's employment under the provision so identified. The party issuing the Notice of Termination shall cause it to be delivered to the other party either in person, by United States mail or via a reputable commercial delivery service (i) not less than thirty (30) days prior to the effective date of termination in the case of a termination Without Cause or By Resignation or based on a Disability Determination; (ii) not less than thirty (30) days prior to the effective date of termination and as otherwise provided in Section 4(a) hereof in the case of a termination For Cause; and (iii) as provided in Section 5(b) hereof in the case of a Termination for Good Reason. Notices to the Company shall be addressed and delivered to the principal headquarters office of the Company, Attention: _____, with a copy concurrently so delivered to General Corporate Counsel to the Company, Barack Ferrazzano Kirschbaum Perlman & Nagelberg, 333 West Wacker Drive, Suite 2700, Chicago, Illinois 60606, to the joint attention of Edwin S. del Hierro and Lynne D. Mapes-Riordan. Notices to the Executive shall be sent to the address set forth below the Executive's signature on this Agreement, or to such other address as Executive may hereafter designate in a written notice given to the Company and its counsel.

8. NON-COMPETITION AND OTHER AGREEMENTS.

(a) Non-Competition. Executive shall not, during the Non-Competition Period (as hereinafter defined), directly or indirectly, and in any capacity, including as an individual for Executive's own account, or as an employee, agent, independent contractor, consultant, officer, director, stockholder, owner or member of any association, corporation (whether for profit or not for profit), partnership (whether general or limited), limited liability company, trust, firm, any federal, state or local government, agency, commission, board, district or body politic, any other registered or legal entity of any type (each a "Legal Entity"), or as an employee, agent, independent contractor or consultant of or for any person, compete with the Company in any of the following lines of business: the business of originating or purchasing loans, leases and payment streams thereunder, accepting deposits, selling or providing insurance, securities, financial planning, and asset management products and services, accepting referrals of any of the foregoing, and other business contracts, relationships or activities of the Company and any Affiliate (as defined below) of the Company (collectively, "Banking Business") from a place that is located within five (5) miles of a place where the Company or any Affiliate maintains a branch, office or other place of business, or has filed a regulatory notice or application to establish a branch, office or other place of business (collectively, the "Restricted Area"). The term "Non-Competition Period" shall mean: (i) the greater of (A) six (6) months after the effective date of the termination of Executive's employment, and (B) any period of time during which Executive is entitled to receive payments or benefits pursuant to Section 6(b), 6(c) or 6(e) of this Agreement on account of a termination based on a Disability Determination, Without Cause or for Good Reason, respectively, which period shall be determined without regard to any election made by the Company to make any payments in a single lump sum pursuant to Section 6(g) of this Agreement; and (ii) six (6) months from the effective date of the termination of Executive's employment if such employment is terminated By Resignation or With Cause. Notwithstanding the foregoing or anything to the contrary herein, Executive shall be entitled to engage in _____ during the Non-Competition Period and the foregoing restrictions shall not apply to any activities in which Executive engages that are within the scope of Executive's _____. The term "Affiliate" means, for all purposes of this Agreement, any Legal Entity that directly or indirectly, through one or more intermediaries,

controls, or is controlled by, or is under common control with, the Company. The following Legal Entities are Affiliates of the Company as of the date of this Agreement: BankFinancial, F.S.B.; Financial Assurance Services, Inc.; and BF Asset Recovery Corporation.

(b) Non-Solicitation. Executive shall not, during the Non-Solicitation Period (as hereinafter defined), directly or indirectly, either as an individual for Executive's own account, or as an employee, agent, independent contractor or consultant of or for any person or Legal Entity, or as an officer, director, stockholder, owner or member of any Legal Entity: (i) call upon or solicit for the purpose of obtaining Banking Business from, or do any Banking Business with, any person or Legal Entity that was or is a customer of the Company or any Affiliate at any time between the Effective Date of this Agreement and the last day of the Non-Solicitation Period (a "Protected Customer"); (ii) divert or take away from the Company or an Affiliate any existing Banking Business between the Company or an Affiliate and a Protected Customer; (iii) call upon or solicit for the purpose of obtaining Banking Business from, or do any Banking Business with, any person or Legal Entity from which the Company or an Affiliate purchased loans or personal property leases (or any payment streams thereunder), or that referred or originated loans or personal property leases (or any payment streams thereunder) to, for or on behalf of the Company or an Affiliate at any time between the Effective Date of this Agreement and the last day of the Non-Solicitation Period (a "Protected Referral Source"); (iv) divert or take away from the Company or an Affiliate any existing Banking Business between the Company or an Affiliate and a Protected Referral Source; (v) solicit or induce any Protected Customer or Protected Referral Source to terminate or not renew or continue any Banking Business with the Company or any Affiliate, or to terminate or not renew or continue any contractual relationship with the Company or any Affiliate; (vi) hire, or assist or cause any person or Legal Entity with which Executive is affiliated or associated in hiring, any person who was or is an employee of the Company or any Affiliate between the Effective Date of this Agreement and the last day of the Non-Solicitation Period (a "Protected Employee"); (vii) solicit or induce any Protected Employee to terminate his or her employment with the Company or any Affiliate; or (viii) attempt to do, or conspire with or aid and abet others in doing or attempting to do, any of the foregoing. The term "Non-Solicitation Period" shall mean, except as provided in Section 8(f) below, a period of eighteen (18) months commencing on the effective date of the termination of Executive's employment.

(c) Confidentiality. Executive recognizes and acknowledges that personal information and knowledge thereof regarding the customers of the Company and its Affiliates are protected by state and federal law and the Privacy Principles of the Company and its Affiliates, as amended from time to time (collectively, "Protected Customer Information"), and that customer lists, trade secrets, nonpublic financial information, and nonpublic past, present, planned or considered business activities of the Company and its Affiliates and any plans for such business activities (collectively, "Proprietary Information") are valuable, special and unique assets of the Company. Executive will not, during or after the Employment Period, disclose any Protected Customer Information or Proprietary Information or his knowledge thereof to any person or Legal Entity other than the Company or any Affiliate, or use any Protected Customer Information or Proprietary Information to the detriment of the Company, any Affiliate or any of their respective customers or employees, or for the benefit of himself, any person or any Legal Entity, for any reason or purpose whatsoever. Notwithstanding the foregoing, Executive may (i) disclose and use information that becomes publicly known through no wrongful act or omission

of Executive, but only if the disclosure of such information is not restricted by any applicable state or federal laws or regulations and the information is not received from a person who was or is bound by an obligation not to disclose such information; (ii) disclose and use any financial, banking, business or economic principles, concepts or ideas that do not constitute Protected Customer Information or Proprietary Information; (iii) disclose any information regarding the business activities of the Company or its Affiliates to a governmental authority pursuant to a formal written request made by such governmental authority; and (iv) disclose any information required to be disclosed by Executive pursuant to an order or judicial process issued by a court of competent jurisdiction; provided, however, that to the extent not prohibited by applicable state or federal law, Executive shall provide the Company or the applicable Affiliate with at least ten (10) days' prior written notice of his intention to disclose information pursuant to subparagraph (iii) or (iv) of this Section 8(c).

(d) Cooperation in Legal Proceedings. During the Employment Period and for a period equal to three (3) years from the effective date of the termination of Executive's employment, Executive shall, upon reasonable notice, furnish such cooperation, information and assistance to the Company as may reasonably be required by the Company or any Affiliate of the Company in connection with any pending or threatened judicial, administrative or arbitration proceeding or any investigation that is based on events or circumstances in which Executive had personal knowledge or involvement and in which the Company or any of its Affiliates is or may become a party or target, except for proceedings instituted against Executive by the Company or any governmental or regulatory authority, or proceedings instituted by Executive against the Company to enforce the terms of this Agreement or any other duties or obligations of the Company to Executive. The Company, or if applicable, its Affiliate, shall reimburse Executive for all reasonable costs and expenses incurred by Executive in providing such cooperation, information and assistance. Unless Executive's appearance is compelled by a court order or other legal process, Executive shall not be obligated to devote more than two (2) days per calendar month in fulfilling his obligations under this Section 8(d), and the Company or its Affiliate shall make reasonable accommodations to avoid interfering with any duties that Executive may then have to any client or other employer. Notwithstanding anything to the contrary in this Section 8(d) or this Agreement, while Executive will be encouraged to voluntarily provide sworn testimony where appropriate, Executive shall have no duty to provide sworn testimony in any judicial, arbitration or discovery proceeding except as may be required by any rule of procedure, subpoena or judicial process applicable to or enforceable against Executive, and in no case shall Executive be required to provide any testimony that, in the judgment of Executive, might or could expose him to civil liability or compromise his privilege against self incrimination. Any testimony given by Executive in such a proceeding shall be truthful, but in no event shall the content of any testimony given by Executive in such a proceeding constitute a breach of this Section 8(d) or any other provision of this Agreement. Executive may condition his providing of assistance and testimony hereunder on his receipt of an undertaking from the Company that it will indemnify him for such actions to the fullest extent permitted by applicable law.

(e) Remedies. Executive and the Company stipulate that irreparable injury will result to the Company and its Affiliates and their business and property in the event of Executive's violation of any provision of this Section 8, and agree that, in the event of any such violation by Executive, the Company, and if applicable, its Affiliates, will be entitled, in addition to any other rights, remedies and money damages that may then be available, to injunctive relief

to restrain the violation hereof by Executive, Executive's partners, agents, servants, employees and all persons acting for, under the direction or control of or in concert with Executive, and to such other equitable remedies as may then be available. Nothing herein will be construed as prohibiting the Company or any Affiliate from pursuing any other remedies available to the Company or such Affiliate for such breach or threatened breach, including the recovery of money damages from Executive.

(f) Adjustment of Non-Solicitation Period. The Non-Solicitation Period shall be reduced from eighteen (18) months to ninety (90) days, but only with respect to the restrictions set forth in Subsection (b)(i) and Subsection (b)(iii) of Section 8 of this Agreement (and the prohibitions in Subsection (b)(viii) of Section 8 against, aiding, abetting, inducing or conspiring with others to violate those restrictions), in the event that the Company terminates Executive's employment For Cause based on a repeated and material failure to achieve minimum objectives under a Business Plan established in accordance with Section 1(d) of this Agreement, or a repeated and material failure of Executive to meet reasonable performance standards established in accordance with Section 1(d) of this Agreement. The Non-Solicitation Period shall be reduced from eighteen (18) months to six (6) months, but only with respect to the restrictions set forth in Subsection (b)(i) and Subsection (b)(iii) of Section 8 of this Agreement (and the prohibitions in Subsection (b)(viii) of Section 8 against, aiding, abetting, inducing or conspiring with others to violate those restrictions), in the event that the Company terminates this Agreement Without Cause or Executive terminates this Agreement for Good Reason, provided that, in either case, Executive executes and delivers to the Company a writing, acceptable in form and substance to the Company, that releases and waives any and all obligations that the Company may have under Section 6(c) or 6(e) of this Agreement to pay Executive any Base Salary after the expiration of such six-month period, or to provide Executive (or upon his death, his surviving spouse and minor children, if any) with coverage under the Core Plans after the expiration of such six-month Non-Solicitation Period. Notwithstanding the foregoing, in the event that the Company has theretofore made a lump sum payment to Executive pursuant to Section 6(g) of this Agreement that included amounts attributable to any period of time after the expiration of such six-month Non-Solicitation Period, Executive shall refund to the Company all amounts attributable to such period of time as a condition precedent to the reduction of the Non-Solicitation Period from eighteen (18) months to six (6) months.

9. SOURCE OF FUNDS; ALLOCATION.

All payments provided in this Agreement shall be timely paid in cash or check from the general funds of the Company; provided, however, that to the extent that any compensation payments and benefits provided for in this Agreement are paid to or received by Executive from the Bank pursuant to the Bank Agreement or otherwise, such compensation payments and benefits paid by the Bank shall be subtracted from any amounts due simultaneously to Executive under this Agreement. Payments due Executive pursuant to this Agreement and the Bank Agreement shall be allocated in proportion to the services rendered and time expended on such activities by Executive as determined by the Bank and the Company on a quarterly basis or as required by law.

10. EFFECT ON PRIOR AGREEMENTS AND EXISTING PLANS.

This Agreement contains the entire understanding between the parties hereto with respect to Executive's employment with the Company, and supersedes any prior offer of employment, employment letter or other agreements or understandings between the Company and Executive, whether oral or written, with respect thereto, except that this Agreement shall not affect or operate to reduce any benefit or compensation inuring to Executive of a kind provided for in any Core Plan or any separate plan or program established for the benefit of Bank employees generally, or any separate plan or program established after the date of this Agreement for the specific benefit of Executive. No provision of this Agreement shall be interpreted to mean that Executive is subject to receiving fewer benefits than those available to him without reference to this Agreement.

11. MODIFICATION AND WAIVER.

This Agreement may not be modified or amended except by an instrument in writing signed by the parties hereto and approved by the Board. No term or condition of this Agreement shall be deemed to have been waived, nor shall there be any estoppel against the enforcement of any provision of this Agreement, except by written instrument of the party charged with such waiver or estoppel. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future as to any act other than that specifically waived. Notwithstanding the foregoing, in the event that any provision or the implementation of any provision of this Agreement is finally determined to violate any applicable law, regulation or other regulatory requirement that is binding on the Company, or to constitute an unsafe and unsound banking practice, Executive and the Company agree to amend such provision to the extent necessary to remove or eliminate such violation or unsafe and unsound banking practice, and such provision shall then be applicable in the amended form.

12. NO ATTACHMENT.

Except as required by law, no right to receive payments under this Agreement shall be subject to anticipation, commutation, alienation, sale, assignment, encumbrance, charge, pledge, or hypothecation, or to execution, attachment, levy, or similar process or assignment by operation of law, and any attempt, voluntary or involuntary, to effect any such action shall be null, void, and of no effect.

13. REQUIRED PROVISIONS.

In the event any of the foregoing provisions of this Agreement are in conflict with the provisions of this Section 13, this Section 13 shall prevail.

(a) Rights Not Prejudiced. The Company may terminate Executive's employment at any time, but any termination by the Company, other than For Cause, shall not prejudice any right of Executive to compensation or other benefits under this Agreement. Executive shall not have the right to receive compensation or other benefits for any period after a termination For Cause as provided in Section 6(a) hereof.

(b) Certain Payments. Any payments made to Executive pursuant to this Agreement, or otherwise, are subject to and conditioned upon compliance with Section 18(k) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1828(k), and the rules and regulations promulgated thereunder in 12 C.F.R. Part 359.

14. WITHHOLDING.

All payments required to be made to Executive under this Agreement shall be subject to the withholding of such amounts, if any, relating to tax and other payroll deductions as the Company reasonably determines should be withheld pursuant to any applicable state or federal law or regulation.

15. SEVERABILITY.

If, for any reason, any provision of this Agreement, or any part of any provision, is held invalid, such invalidity shall not affect any other provision of this Agreement or any part of such provision that is not held invalid, and each such other provision and part thereof shall to the full extent consistent with law continue in full force and effect. Without limiting the foregoing, if any provisions of Section 8 of this Agreement are held to be unenforceable because of the scope, duration or area of applicability, the court making such determination shall have the power to modify such scope, duration or area of applicability, or all of them, and such provision shall then be applicable in the modified form.

16. HEADINGS FOR REFERENCE ONLY.

The headings of sections and paragraphs herein are included solely for convenience of reference and shall not control the meaning or interpretation of any of the provisions of this Agreement.

17. GOVERNING LAW.

The validity, interpretation, performance and enforcement of this Agreement shall be governed by the internal laws of the State of Illinois, without regard or reference to any principles of conflicts of law of the State of Illinois, except to the extent that such internal laws are preempted by the laws of the United States or the regulations of the OTS or any other agency of the United States.

18. DISPUTE RESOLUTION.

(a) Arbitration. Except for claims, cases or controversies based on or arising out of Section 8 of this Agreement (“Section 8 Claims”), all claims, cases or controversies arising out of or in connection with either this Agreement, Executive’s employment with the Company or the termination or cessation of such employment (collectively, “Employment Claims”), whether asserted against the Company, an Affiliate (as defined below), and/or an officer, director or employee of the Company or an Affiliate, and whether based on this Agreement or existing or subsequently enacted or adopted statutory or common law doctrines, shall be finally settled by arbitration conducted by JAMS Endispute or a successor entity (“JAMS”) in Chicago, Illinois, in accordance with the then applicable Employment Arbitration Rules and Procedures of JAMS, or

in the event JAMS or a successor in interest of JAMS no longer provides arbitration services, by the American Arbitration Association or a successor entity (the "AAA") in accordance with its then applicable National Rules for the Resolution of Employment Disputes. The costs and fees imposed by JAMS or the AAA for conducting such arbitration shall be borne equally by Executive and the Company unless the arbitrator determines otherwise. The award rendered by the arbitrator(s) shall be final and binding upon Executive, the Company and any other parties to such proceeding, and may be entered and enforced as a judgment in any court of competent jurisdiction. The Employment Claims subject to arbitration hereunder shall include, but shall not be limited to, those arising under the Age Discrimination in Employment Act, Title VII of the Civil Rights Act of 1964, as amended, including the amendments of the Civil Rights Act of 1991, the Older Workers Benefit Protection Act, the Americans with Disabilities Act, the law of contract, the law of tort, and other claims under federal, state or local statutes, ordinances and rules or the common law. Executive and the Company acknowledge that by agreeing to arbitration they are relinquishing all rights they have to sue each other for Employment Claims that do not constitute Section 8 Claims and any rights that they may have to a jury trial on Employment Claims that do not constitute Section 8 Claims.

(b) Section 8 Claims. All Section 8 Claims shall be brought, commenced and maintained only in a state or federal court of competent jurisdiction situated in the County of Cook or the County of DuPage, State of Illinois. Executive and the Company each hereby (i) consents to the exercise of jurisdiction over his or its person and property by any court of competent jurisdiction situated in the County of Cook or the County of DuPage, State of Illinois for the enforcement of any claim, case or controversy based on or arising under Section 8 of this Agreement; (ii) waives any and all personal or other rights to object to such jurisdiction for such purposes; and (iii) waives any objection which it may have to the laying of venue of any such action, suit or proceeding in any such court.

19. INDEMNIFICATION AND INSURANCE.

(a) General. The Company shall indemnify Executive, and shall promptly pay to Executive, in advance of the final disposition of Proceeding to which Executive is a Party by reason of his service in his Official Capacity, the reasonable Expenses incurred by Executive in such Proceeding, in each case to the maximum extent permitted or required by Maryland law as in effect on the date hereof and as amended from time to time, including, without limitation, Section 2-418 of the Maryland General Corporation Law (the "MGCL"); provided that: (i) the Company shall not be obligated to pay or advance any amounts otherwise indemnifiable or payable hereunder if and to the extent that Executive has otherwise actually received such payment or advance under any insurance policy or any other contract or agreement to which Executive is a Party, including, without limitation, the Bank Employment Contract or any directors' and officers' liability insurance policy maintained by the Company, the Bank or any affiliate of either; and (ii) the Company shall only pay and advance Expenses under procedures permitted or required by applicable law. For the purposes of this Section 19, the terms "Expenses," "Official Capacity," "Party" and "Proceeding" shall have the meanings provided in Section 2-418 of the MGCL, as in effect on the date hereof.

(b) Successful Defense of Claims. If a claim for indemnification under this Section 19 is based on Executive's successful defense of a Proceeding, Executive shall be deemed to have

been successful in the defense of a claim, issue or matter asserted in such Proceeding if it is dismissed pursuant to a settlement agreement that is approved by the Company in writing, or if such claim, issue or matter is otherwise dismissed, on the merits or otherwise, with or without prejudice. If Executive is successful in the defense of one or more but less than all claims, issues or matters asserted or arising in a Proceeding, the Company shall indemnify Executive for all Expenses actually and reasonably incurred by Executive or on his behalf in connection with each claim, issue or matter that Executive has successfully defended. In such event, Expenses shall be allocated on a reasonable and proportionate basis among the claims, issues and matters that have been successfully defended, and among any that have not been successfully defended.

(c) Procedures. To seek indemnification or the advance of Expenses hereunder, Executive shall submit to the Company a written request therefor, which shall: (i) describe with reasonable particularity the claim that has been made or threatened against Executive and the reasons why Executive believes that it is lawful and appropriate for the Company to indemnify and/or pay, advance or reimburse Expenses to Executive in connection therewith; and (ii) contain or include such documentation and information as is reasonably available to Executive and is reasonably necessary to enable the Board of Directors or a committee thereof, or if applicable, special legal counsel to the Board of Directors, to determine whether to approve, deny or otherwise respond to such request. Such determination shall be made and communicated to Executive in writing as soon as reasonably practicable, but in no case more than thirty (30) days of the Company's receipt of Executive's request. In any Proceeding commenced to enforce Executive's entitlement to indemnification or the advance of Expenses, the Company shall have the burden of proving that Executive is not entitled to indemnification or the advance of Expenses, as the case may be. All other procedures with respect to indemnification and the payment, advancement or reimbursement of Expenses in connection with a Proceeding to which Executive is a Party by reason of his service in his Official Capacity shall be as provided in the charter or bylaws of the Company and Maryland law.

(d) Survival of Rights and Benefits. The rights and benefits provided to Executive under this Section 19 shall survive the termination or expiration of this Agreement and shall not be deemed to be exclusive of any other rights or benefits to which Executive may at any time be entitled under Maryland law or any other applicable law, the charter or bylaws of the Company, or any other agreement to which Executive is a Party. No amendment, alteration or repeal of any applicable Maryland law or any provision of the charter or bylaws of the Company shall: (i) have the effect of reducing, limiting or restricting the rights and benefits that were available to Executive under this Section 19 based on such law or provision as in effect on the date hereof; or (ii) limit or restrict any right of or benefit to Executive hereunder in respect of any action taken or omitted by Executive in his official capacity prior to such amendment, alteration or repeal.

20. COSTS AND LEGAL FEES.

(a) Payment to Executive. Except as provided in Section 18(a) hereof, in the event any dispute or controversy arising under or in connection with any provision of this Agreement other than Section 8 hereof is resolved on the merits in favor of Executive pursuant to an arbitration award or final judgment, order or decree of a court of competent jurisdiction (the time for appeal therefrom having expired and no appeal having been perfected), the Company shall be obligated to pay Executive, within thirty (30) after the date on which such judgment becomes final and not subject to further appeal, all reasonable costs and legal fees paid or incurred by Executive in connection with such dispute or controversy.

(b) Payment to the Company. Except as provided in Section 18(a) hereof, in the event any dispute or controversy arising under or in connection with Section 8 of this Agreement is resolved on the merits in favor of the Company pursuant to an arbitration award or final judgment, order or decree of a court of competent jurisdiction (the time for appeal therefrom having expired and no appeal having been perfected), Executive shall be obligated to pay the Company, within thirty (30) after the date on which such judgment becomes final and not subject to further appeal, all reasonable costs and legal fees paid or incurred by the Company in connection with such dispute or controversy.

21. NO CONFLICTS.

Executive has heretofore advised the Company and hereby represents that the execution and delivery of this Agreement and the performance of the obligations hereunder do not and will not conflict with, or result in any default, violation or breach of any contract or agreement to which Executive is a party, or of any legal duty of Executive.

22. SURVIVAL.

The rights and obligations of Executive and the Company under Sections 6, 8, 13, 17, 18, 19 and 20 of this Agreement shall survive the termination of Executive's employment and the termination or expiration of this Agreement. All other rights and obligations of Executive and the Company shall survive the termination or expiration of this Agreement shall survive such termination only to the extent that they expressly contemplate future performance and remain unperformed.

23. SUCCESSORS AND ASSIGNS.

(a) Continuing Rights and Obligations. This Agreement shall be binding upon, and inure to the benefit of, Executive and his heirs, executors, administrators and assigns, and the Company and its successors and assigns. The Company shall require any of its respective successors or assigns, whether resulting from a purchase, merger, consolidation, reorganization, conversion or a transfer of all or substantially all of its business or assets, to expressly and unconditionally to assume and agree to perform its respective obligations under this Agreement, in the same manner and to the same extent that it would be required to perform such obligations if no such succession or assignment had occurred.

(b) Payments to Estate or Trust. Any amounts due Executive hereunder shall be paid to Executive's estate in the event of Executive's death except as expressly provided herein; provided that, notwithstanding the foregoing, Executive may, in his discretion, provide for the payment of some or all of such amounts to a trust established by Executive, and may provide for the payment of amounts payable under the Life Insurance Policy to the beneficiaries designated by Executive. In the event that Executive desires that such amounts be paid to a trust, Executive shall notify the Company of such intention in writing and comply with any requirements of applicable law.

24. CHANGE IN CONTROL DEFINITION.

(a) For the purposes of this Agreement, including Section 5(b) hereof, the term “Change in Control” means any of the following:

(i) any “person,” as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934 (a “Person”), is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of securities of the Company representing twenty percent (20%) or more of the combined voting power of the Company’s then outstanding voting securities, provided that, notwithstanding the foregoing and for all purposes of this Section 9.3: (A) the term “Person” shall not include (1) the Company or any of its subsidiaries, (2) an employee benefit plan of the Company or any of its subsidiaries (including the Plan), and any trustee or other fiduciary holding securities under any such plan, and (3) a corporation or other entity owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company; (B) no Person shall be deemed the beneficial owner of any securities acquired by such Person in an Excluded Transaction (as defined below); and (C) no director or officer of the Company or any direct or indirect subsidiary of the Company (or any affiliate of any such director or officer) shall, by reason of any or all of such directors or officers acting in their capacities as such, be deemed to beneficially own any securities beneficially owned by any other such director or officer (or any affiliate thereof); or

(i) the “Incumbent Directors” (as defined below) cease, for any reason, to constitute a majority of the “Whole Board” (as defined below); or

(ii) a plan of reorganization, merger, consolidation or similar transaction involving the Company and one or more other corporations or entities is consummated, other than a plan of reorganization, merger, consolidation or similar transaction that is an “Excluded Transaction” (as defined below), or the stockholders of the Company approve a plan of complete liquidation of the Company, or a sale, liquidation or other disposition of all or substantially all of the assets of the Company or the Bank is consummated; or

(iii) a tender offer is made for 20% or more of the outstanding voting securities of the Company and the stockholders owning beneficially or of record 20% or more of the outstanding voting securities of the Company have tendered or offered to sell their shares pursuant to such tender offer and such tendered shares have been accepted by the tender offeror; or

(iv) A “Potential Change in Control” (as defined below) occurs, and the Board determines, pursuant to the vote of at majority of the Whole Board, with at least two-thirds (2/3) of the Incumbent Directors then in office voting in favor of such determination, to deem the Potential Change in Control to be a Change in Control for the purposes of this Section 9.3.

The term “Excluded Transaction” means a plan of reorganization, merger, consolidation or similar transaction that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving corporation or any parent thereof) at least 50% of the combined voting power of the voting securities of the entity surviving the plan of

reorganization, merger, consolidation or similar transaction (or the parent of such surviving entity) immediately after such plan of reorganization, merger, consolidation or similar transaction.

(b) For purposes of the definition of Change in Control set forth in Section 24(a) above, the term “Incumbent Directors” means:

(i) the individuals who, on the date hereof, constitute the Board; and

(ii) any new director whose appointment or election by the Board or nomination for election by the Company’s stockholders was approved or recommended: (A) by the vote of at least two-thirds (2/3) of the Whole Board, with at least two-thirds of the Incumbent Directors then in office voting in favor of such approval or recommendation; or (B) by a Nominating Committee of the Board whose members were appointed by the vote of at least two-thirds (2/3) of the Whole Board, with at least two-thirds of the Incumbent Directors then in office voting in favor of such appointments.

(b) For purposes of the definition of Change in Control set forth in Section 24(a) above, the term “Whole Board” means the total number of directors that the Company would have if there were no vacancies on the Board at the time the relevant action or matter is presented to the Board for approval.

(c) For purposes of the definition of Change in Control set forth in Section 24(a) above, the term “Potential Change in Control” shall mean:

(i) the public announcement by any Person of an intention to take or to consider taking actions which, if consummated, would constitute a Change in Control; or

(ii) one or more transactions, events or occurrences that result in a change in control of the Bank or the Company within the meaning of the Home Owners Loan Act, as amended, and the applicable rules and regulations promulgated thereunder, as in effect at the time of the change in control; or

(iii) a proxy statement soliciting proxies from stockholders of the Company is filed or distributed seeking stockholder approval of a plan of reorganization, merger, consolidation or similar transaction involving the Company and one or more other entities, but only if such plan of reorganization, merger, consolidation or similar transaction has not been approved by the vote of at least two-thirds (2/3) of the Whole Board, with at least two-thirds (2/3) of the Incumbent Directors then in office voting in favor of such plan of reorganization, merger, consolidation or similar transaction.

IN WITNESS WHEREOF, BankFinancial Corporation has caused this Agreement to be executed by its duly authorized officers and directors, and Executive has signed this Agreement as of this _____ day of _____, 200__.

BANKFINANCIAL CORPORATION

EXECUTIVE

By: _____

Name:

Its: _____

EVP HC JJB 10-28

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the use in this Amendment No. 1 to the Registration Statement No. 333-119217 on Form S-1 filed with the Securities and Exchange Commission and Amendment No. 1 to the Form AC filed with the Office of Thrift Supervision of our report dated February 28, 2004 on the consolidated financial statements of BankFinancial MHC, Inc. We also consent to the references to us under the headings "Material Tax Consequences" and "Experts" in Amendment Number 1 to the Registration Statement on Form S-1 and Amendment Number 1 to the Form AC.

\\ Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Oak Brook, Illinois
October 29, 2004

RP® FINANCIAL, LC.

Financial Services Industry Consultants

October 28, 2004

Board of Directors
BankFinancial, MHC, Inc.
BankFinancial Corporation
BankFinancial, F.S.B.
15W060 North Frontage Road
Burr Ridge, Illinois 60527

Members of the Board of Directors:

We hereby consent to the use of our firm's name in the Form AC Application for Conversion of BankFinancial MHC, Inc., and any amendments thereto, and in the Registration Statement on Form S-1 of BankFinancial Corporation, and any amendments thereto. We also hereby consent to the inclusion of, summary of and references to our Appraisal and our statement concerning subscription rights in such filings including the prospectus of BankFinancial Corporation.

Sincerely,

RP Financial, LC.

RP FINANCIAL, LC.

Washington Headquarters

Rosslyn Center
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Arlington, VA 22209
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Toll-Free No.: (866) 723-0594
E-Mail: mail@rpfinancial.com

CONVERSION APPRAISAL REPORT
BANKFINANCIAL CORPORATION
PROPOSED HOLDING COMPANY FOR
BANKFINANCIAL, F.S.B.
Burr Ridge, Illinois

Dated As Of:
September 10, 2004

Prepared By:
RP Financial, L.C.
1700 North Moore
Street Suite 2210
Arlington, Virginia 22209

Board of Directors
BankFinancial, MHC, Inc.
BankFinancial Corporation
BankFinancial, F.S.B.
15W060 North Frontage Road
Burr Ridge, Illinois 60527

Members of the Board of Directors:

At your request, we have completed and hereby provide an independent appraisal (“Appraisal”) of the estimated pro forma market value of the common stock which is to be offered in connection with the plan of stock issuance described below.

This Appraisal is furnished pursuant to the conversion regulations promulgated by the Office of Thrift Supervision (“OTS”). Specifically, this Appraisal has been prepared in accordance with the “Guidelines for Appraisal Reports for the Valuation of Savings and Loan Associations Converting from Mutual to Stock Form of Organization” as set forth by the OTS, and applicable regulatory interpretations thereof.

Description of Reorganization and Plan of Stock Issuance

In January 1999, BankFinancial, F.S.B. (“BankFinancial” or the “Bank”) reorganized into the two-tier mutual holding company structure. As part of the reorganization, BankFinancial formed BankFinancial Corporation (the “Company”) and BankFinancial MHC, Inc. (the “MHC”), a federally-chartered mid-tier stock holding company and mutual holding company, respectively. BankFinancial became a federally-chartered capital stock savings bank, and a wholly-owned subsidiary of the Company, and the Company became the wholly-owned subsidiary of the MHC.

The respective Boards of Directors of BankFinancial MHC, Inc. and BankFinancial Corporation, a federal corporation, adopted a plan of conversion and reorganization on August 25, 2004. Pursuant to the plan of conversion and reorganization, the organization will convert from the mutual holding company form of organization to the fully stock form and will sell shares of common stock to the public in a stock offering. BankFinancial MHC, Inc., the mutual holding company parent of BankFinancial Corporation, a federal corporation, will be merged into BankFinancial, F.S.B., and BankFinancial MHC, Inc. will no longer exist. BankFinancial Corporation, a federal corporation, which owns 100% of the Bank, will be succeeded by a new Maryland corporation with the same name. When the conversion is completed, all of the capital stock of BankFinancial, F.S.B. will be owned by BankFinancial Corporation, the newly formed Maryland holding company, and all of the common stock of BankFinancial Corporation will be owned by public stockholders.

Concurrent with the plan of conversion and reorganization, the Company will retain up to 50% of the net stock proceeds of the stock offering, and downstream to the Bank the remaining net proceeds of the offering in exchange for 100% ownership of the Bank. The funds downstreamed to the Bank will be includable as core capital. Immediately after consummation of the conversion and reorganization, it is not anticipated that the Company will engage in any business activity other than ownership of the Bank subsidiary, extending the loan to the Bank's newly formed employee stock ownership plan ("ESOP") and investment of stock proceeds that are retained by the Company. Subsequent activities of the Company may include payment of regular or special dividends, acquisitions of other financial institutions or branches of other financial institutions, establishment of other employee benefit plans, acquisitions of other financial service providers and/or stock repurchases.

It is anticipated that the shares will be offered in a subscription offering to the Bank's Eligible Account Holders, Tax-Qualified Plans, Supplemental Eligible Account Holders and Other Members of BankFinancial. To the extent that shares remain available for purchase after satisfaction of all subscriptions received in the subscription offering, the shares may be offered for sale in a community offering.

RP Financial, LC.

RP Financial, LC. ("RP Financial") is a financial consulting firm serving the financial services industry nationwide that, among other things, specializes in financial valuations and analyses of business enterprises and securities, including the pro forma valuation for savings institutions converting from mutual-to-stock form. The background and experience of RP Financial is detailed in Exhibit V-1. We believe that, except for the fee we will receive for our appraisal and planning services performed prior to June 21, 2004, we are independent of the Bank, the Company and the MHC and the other parties engaged by the Bank to assist in the stock issuance process.

Valuation Methodology.

In preparing our appraisal, we have reviewed the Bank's, the Company's and MHC's regulatory applications, including the prospectus as filed with the OTS and the Securities and Exchange Commission ("SEC"). We have conducted a financial analysis of the MHC, the Company and the Bank that has included a review of its audited financial information for the fiscal years ended December 31, 1999 through December 31, 2003, and various audited and unaudited information and internal financial reports through June 30, 2004 and due diligence related discussions with the Bank's management; Crowe Chizek and Company LLC, the Company's independent auditor; Luse Gorman Pomerenk & Schick, P.C., the Company's counsel in connection with the plan of conversion and reorganization; and Sandler O'Neill & Partners, LLP, the Company's financial and marketing advisor in connection with the stock offering. All conclusions set forth in the Appraisal were reached independently from such discussions. In addition, where appropriate, we have considered information based on other available published sources that we believe are reliable. While we believe the information and data gathered from all these sources are reliable, we cannot guarantee the accuracy and completeness of such information.

We have investigated the competitive environment within which the Company operates and have assessed the Company's relative strengths and weaknesses. We have kept abreast of the changing regulatory and legislative environment for financial institutions and analyzed the potential impact on the Company and the industry as a whole. We have analyzed the potential effects of the stock offering on the Company's operating characteristics and financial performance as they relate to the pro forma market value. We have reviewed the economy in the Company's primary market area and have compared the Company's financial performance and condition with publicly-traded thrifts. We have reviewed market conditions for stocks in general and market conditions for thrift stocks in particular, including the market for existing thrift issues and the market for initial public offerings by thrifts. We have also considered the expected market for the Company's public shares. We have excluded from such analyses thrifts subject to announced or rumored acquisition, mutual holding company institutions and/or those institutions that exhibit other unusual characteristics.

Our Appraisal is based on the Company's representation that the information contained in the regulatory applications and additional information furnished to us by the Company, its independent auditors, legal counsel and other authorized agents are truthful, accurate and complete. We did not independently verify the financial statements and other information provided by the Company, its independent auditors, legal counsel and other authorized agents nor did we independently value the assets or liabilities of the Company. The valuation considers the Company only as a going concern and should not be considered as an indication of the Company's liquidation value.

Our appraised value is predicated on a continuation of the current operating environment for the Bank, the MHC and the Company and for all thrifts and their holding companies. Changes in the local, state and national economy, the legislative and regulatory environment for financial institutions and mutual holding companies, the stock market, interest rates, and other external forces (such as natural disasters or significant world events) may occur from time to time, often with great unpredictability, and may materially impact the value of thrift stocks as a whole or the Company's value alone. It is our understanding that there are no current plans for selling control of the Company or the Bank following the offering. To the extent that such factors can be foreseen, they have been factored into our analysis.

Pro forma market value is defined as the price at which the Company's stock, immediately upon completion of the offering, would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of relevant facts.

Valuation Conclusion

It is our opinion that, as of September 10, 2004, the pro forma market value of the Company's common stock immediately following the offering is \$150,000,000 at the midpoint, equal to 15,000,000 shares offered at a per share value of \$10.00. Pursuant to conversion guidelines, the 15% offering range provides for a minimum value of \$127,500,000 and a maximum value of \$172,500,000. Based on the \$10.00 per share offering price, this valuation range equates to total shares outstanding of 12,750,000 at the minimum and 17,500,000 at the maximum. In the event the appraised value is subject to an increase, up to 19,837,500 shares may be issued at an issue price of \$10.00 per share for an aggregate market value of \$198,375,000 without requiring a resolicitation.

Limiting Factors and Considerations

Our valuation is not intended, and must not be construed, as a recommendation of any kind as to the advisability of purchasing shares of the common stock. Moreover, because such valuation is necessarily based upon estimates and projections of a number of matters, all of which are subject to change from time to time, no assurance can be given that persons who purchase shares of common stock in the conversion will thereafter be able to buy or sell such shares at prices related to the foregoing valuation of the pro forma market value thereof.

RP Financial's valuation was determined based on the financial condition and operations of the Company and the MHC as of June 30, 2004, the date of the financial data included in the regulatory applications and prospectus.

RP Financial is not a seller of securities within the meaning of any federal and state securities laws and any report prepared by RP Financial shall not be used as an offer or solicitation with respect to the purchase or sale of any securities. RP Financial maintains a policy which prohibits the company, its principals or employees from purchasing stock of its client institutions.

The valuation will be updated as provided for in the conversion regulations and guidelines. These updates will consider, among other things, any developments or changes in the Company's financial performance and condition, management policies, and current conditions in the equity markets for thrift stocks. These updates may also consider changes in other external factors which impact value including, but not limited to: various changes in the legislative and regulatory environment, the stock market and the market for thrift stocks, and interest rates. Should any such new developments or changes be material, in our opinion, to the valuation of the shares, appropriate adjustments to the estimated pro forma market value will be made. The reasons for any such adjustments will be explained in the update at the date of the release of the update.

Respectfully submitted,
RP FINANCIAL, LC.

/s/ William E. Pommerening

William E. Pommerening
Chief Executive Officer

/s/ James J. Oren

James J. Oren
Senior Vice President

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Chicago, Illinois

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I. OVERVIEW AND FINANCIAL ANALYSIS

Introduction

BankFinancial is a federally chartered stock savings bank operating from a headquarters office and 16 branch office locations in the Chicago metropolitan area, specifically in Cook, Lake, Will and DuPage Counties. The Bank is wholly-owned by the Company, while the MHC owns 100% of the Company. A map of the Bank's office locations is provided in Exhibit I-1. The Bank and Company's primary regulators are the Office of Thrift Supervision and the Federal Deposit Insurance Corporation ("FDIC"). BankFinancial is a member of the Federal Home Loan Bank ("FHLB") system, and its deposits are insured up to the regulatory maximums by the Savings Association Insurance Fund ("SAIF") of the FDIC. At June 30, 2004, the MHC, the parent company of both BankFinancial and the Company, on a consolidated basis, had \$1.47 billion in assets, \$1.10 billion in deposits and total equity of \$95.3 million or 6.49% of total assets.

Plan of Reorganization

The respective Boards of Directors of BankFinancial MHC, Inc. and BankFinancial Corporation, a federal corporation, adopted a plan of conversion and reorganization on August 25, 2004. Pursuant to the plan of conversion and reorganization, the organization will convert from the mutual Corporation form of organization to the fully stock form and will sell shares of common stock to the public in a stock offering. BankFinancial MHC, Inc., the mutual Corporation parent of BankFinancial Corporation, a federal corporation, will be merged into BankFinancial, F.S.B., and BankFinancial MHC, Inc. will no longer exist. BankFinancial Corporation, a federal corporation, which owns 100% of the Bank, will be succeeded by a new Maryland corporation with the same name. When the conversion is completed, all of the capital stock of BankFinancial, F.S.B. will be owned by BankFinancial Corporation, the newly formed Maryland Corporation, and all of the common stock of BankFinancial Corporation will be owned by public stockholders.

Concurrent with the plan of conversion and reorganization, the Company will retain up to 50% of the net stock proceeds of the stock offering, and downstream to the Bank the remaining

net proceeds of the offering in exchange for 100% ownership of the Bank. The funds downstreamed to the Bank will be includable as core capital. Immediately after consummation of the conversion and reorganization, it is not anticipated that the Company will engage in any business activity other than ownership of the Bank subsidiary, extending the loan to the Company's newly formed employee stock ownership plan ("ESOP") and investment of stock proceeds that are retained by the Company. Subsequent activities of the Company may include payment of regular or special dividends, acquisitions of other financial institutions or branches of other financial institutions, establishment of other employee benefit plans, acquisitions of other financial service providers and/or stock repurchases.

Strategic Overview

Following decades of operations as a traditional thrift in the urban Chicago market area, BankFinancial's business strategy for the past five years has been to transform BankFinancial, F.S.B. in a safe and sound manner, from a traditional savings bank to a multi-faceted organization with strong capabilities in commercial banking and selected other financial services, to expand the Bank's geographic presence in the Chicago metropolitan market, and to develop managerial and technological resources capable of supporting future growth. In pursuing these objectives, BankFinancial developed significant internal capabilities in multi-family residential lending, non-residential real estate lending, commercial business lending and leasing, information technology, and financial institution acquisitions. BankFinancial acquired Success Bancshares, the publicly-held holding company for Success National Bank, in November 2001. The emphasis on traditional 1-4 family residential lending products has declined in conjunction with the increased emphasis in other lending areas. The current residential lending activities include both first mortgage loans and home equity/second mortgage loans. In the past, retail deposits have constituted the principal components of the Bank's interest-bearing liability base, with borrowed funds also utilized for the strategy of fully leveraging the available capital base. The Bank's residential mortgage loan portfolio is comprised of both fixed rate and adjustable rate loans, with the adjustable rate mortgage loans aiding in interest rate risk management.

Beyond 1-4 family permanent mortgage loans, the Bank's loan portfolio includes balances of construction/land development loans, commercial real estate loans, with such loans

secured by various commercial real estate such as multi-family properties and non-residential real estate, and commercial business loans and leases. This lending diversification provides both an attractive yield for interest income, and assists in interest rate risk management as most of these loans are adjustable in nature. Pursuant to the Bank's current strategic plan, BankFinancial will remain primarily a diversified real estate and non-real estate lender with little emphasis on consumer lending.

BankFinancial's emphasis on real estate lending, and a detailed approach to loan portfolio monitoring of the commercial real estate loan portfolio and the commercial business loan and lease portfolio has acted to limit the credit risk associated with the overall loan portfolio. This overall presence of limited credit risk lending has resulted in lower levels of classified assets and non-performing loans or delinquencies, along with only moderate levels of loan loss provisions. In the most recent fiscal years, the Bank was able to decrease the level of the allowances for loan and lease losses due to higher overall credit quality. In an effort to lessen credit risk, BankFinancial emphasizes origination of such loans almost solely in local and familiar markets. Credit risk associated with the loan portfolio is also minimized by loan portfolio tracking procedures which track borrower financial characteristics, among other parameters.

BankFinancial has historically maintained noticeable levels of investment in investment securities, with the balances typically approximating 20% of total assets. In the most recent fiscal years, the investment portfolio has contained primarily mortgage-backed securities ("MBS") issued by Fannie Mae, Freddie Mac, and Ginnie Mae, which carry adjustable interest rate terms, along with additional investment in six issues of perpetual preferred stock issued by Fannie Mae and Freddie Mac. The general objectives of the investment portfolio are to provide liquidity when loan demand is high, to assist in maintaining earnings when loan demand is low and to maximize earnings while satisfactorily managing risk, including credit risk, reinvestment risk, liquidity risk and interest rate risk. Investments serve as a supplement to the Bank's lending activities and the investment portfolio is considered to be indicative of a low credit risk investment philosophy. In addition to the above listed securities, the investment portfolio is comprised primarily of cash and cash equivalents, interest bearing deposits with other financial institutions and FHLB stock.

Retail deposits and to a lesser extent, borrowings, have served as the primary interest-bearing funding sources for the Bank. BankFinancial has utilized borrowings, consisting primarily of FHLB advances in the last three years as a source of funds to fully leverage the capital base. The borrowings include a small balance of reverse repurchase agreements and a \$30 million loan from a third party financial institution. Most of the FHLB advances were restructured in fiscal 2003 in order to lower interest costs going forward. The deposit base includes a mixture of demand deposits, transaction and savings accounts and CDs. Non-CD accounts comprise the largest portion of the Bank's deposit composition, and the Bank has only a moderate balance of brokered deposits in portfolio. Retail deposits and borrowed funds are expected to be the primary sources to fund the Bank's future growth; however, to the extent additional borrowings are required, FHLB advances would likely continue to be the principal source of borrowings utilized by the Bank.

BankFinancial's recurring earnings base is largely dependent upon net interest income and operating expense levels. The Bank's net interest margin has been limited by the emphasis on minimizing interest rate risk, which has resulted in lower earning asset yields. The Bank's emphasis on commercial-based lending, which utilizes the prime rate as an index, has also restricted overall yields. The current low tangible capital ratio, which has resulted in a relatively equal interest-earning assets/interest-bearing liabilities ratio, has also limited the net interest margin. The level of adjustable rate investment securities held in portfolio also has kept interest income lower, along with the investment in agency preferred stock, whose dividend rates have fallen in the recent historically low interest rate environment. As a positive factor, the balance of low cost core deposit accounts (non-CD accounts) held in the deposit portfolio have assisted in increasing the net interest margin.

Operating expenses represent the other major component of the Bank's earnings, and these expenses have been maintained at a level above industry averages in recent years, when viewed as a percent of average assets. The operating expense ratio reflects primarily the overall complexity of the operations of the Bank and the branch office network, which results in lower efficiencies in terms of personnel and the overall expense base. The shrinkage in the asset base since December 2001, following the acquisition of Success Bancshares, without a reduction in the branch office network, has placed upward pressure on the operating expense ratio, along with

the additional expense related to the core deposit intangible. Pursuant to accounting guidelines, this core deposit intangible expense amortizes most noticeably in the first periods of operations following the acquisition. The Bank's increased capital position following the infusion of conversion proceeds is expected to facilitate additional leveraging of the operating expense ratio. At the same time, BankFinancial will incur additional operating expenses following the conversion, including expenses associated with the stock benefit plans and, thus, leveraging of the operating expense ratio will be moderated by these factors.

The post-conversion business plan of the Bank is expected to continue to focus on expanding the commercial and retail operations in the Chicago metropolitan area with the similar products and services that have been emphasized recently. BankFinancial will continue to pursue maintaining a strong level of asset quality, pursue efficient growth by leveraging the existing operational and management resources, and modestly improving non-interest income. BankFinancial will continue to be an independent community-oriented financial institution with a commitment to local real estate mortgage financing and commercial real estate and commercial business financing with operations funded by retail deposits, borrowings, equity capital and internal cash flows.

The Company's Board of Directors has elected to pursue the stock offering in order to improve the competitive position of BankFinancial. The additional capital realized from the stock offering will increase the operating flexibility and overall financial strength of BankFinancial as well as support the expansion of the Bank's strategic focus of providing competitive community banking services in its local market area. BankFinancial's higher equity-to-assets ratio will also better position the Bank to take advantage of expansion opportunities as they arise. The Company or the Bank will consider branch acquisitions, acquisitions of other regional thrifts or commercial banks. BankFinancial's higher capital position resulting from the infusion of conversion proceeds will also serve to reduce interest rate risk, through enhancing the Bank's interest-earning-assets-to-interest-bearing-liabilities ("IEA/IBL") ratio. The additional funds realized from the stock offering will provide an alternative funding source to deposits and borrowings in meeting the Bank's future funding needs, which may facilitate a reduction in BankFinancial's funding costs. The Company's projected internal use of proceeds are highlighted below.

- BankFinancial Corporation. The Company is expected to retain one-half of the net conversion proceeds. At present, funds at the Company level are expected to: (1) be utilized to pay off the \$30 million loan currently held by the Company; (2) fund the ESOP; and (3) use the remaining funds for Company operating expenses and for reinvestment into earning assets. BankFinancial Corporation may also pay cash dividends to shareholders. The remaining funds held at the Company are expected to be primarily invested initially into short-term investment grade securities. Over time, the funds may be utilized for various corporate purposes.
- BankFinancial. The remaining net conversion proceeds will be infused into the Bank in exchange for all of the Bank's stock. The increase in capital will be less, as the amount to be borrowed by the ESOP to fund the ESOP stock purchase will be deducted from capital. Cash proceeds (i.e., net proceeds less deposits withdrawn to fund stock purchases) infused into the Bank are anticipated to become part of general operating funds, and are expected to be primarily utilized to fund loan growth.

Overall, it is the Bank's objective to pursue growth that will serve to increase returns and operating efficiencies, while, at the same time, growth will not be pursued that could potentially compromise the overall risk associated with BankFinancial's operations.

Balance Sheet Trends

From December 31, 1999 through June 30, 2004, BankFinancial exhibited a moderate level of annual asset growth of 3.3% (see Table 1.1). During this period, the Bank's interest-earning asset composition experienced a decrease in the proportion of loans receivable from 78.1% of assets at fiscal year end 1999 to 73.5% of assets at June 30, 2004. Also, since fiscal 2001, assets have declined as the Bank followed a strategy of forcing higher cost deposit funds to leave the Bank while at the same time reducing the dependence on borrowed funds. The Bank's audited financial statements are incorporated by reference in Exhibit I-2, and a summary of BankFinancial's key operating ratios for the past five fiscal years are presented in Exhibit I-3.

BankFinancial's loans receivable portfolio remained relatively stable in recent years, increasing at a 1.9% annual rate from fiscal year end 1999 through June 30, 2004, although the portfolio declined between December 31, 2001 and June 30, 2004. Since December 31, 2001 (following the acquisition of Success Bancshares), the loan portfolio has declined by \$124.2 million, or 10.3%, as the Bank has de-emphasized residential mortgage lending. The Bank also sells longer-term fixed rate residential loans into the secondary market, opting to hold the securitized adjustable rate residential loans in portfolio as mortgage-backed securities. The Bank

thus maintained a portfolio of loans serviced for others (\$367.7 million) as of June 30, 2004, resulting from these previous loan sales.

The composition of BankFinancial's loan portfolio has also changed considerably over the past five years. BankFinancial's recent historical emphasis on non-residential mortgage lending is reflected in its loan portfolio composition, as 32.9% of total loans receivable consisted of 1-4 family mortgage loans at June 30, 2004, a decrease from 93.6% as of December 31, 1999. The loan diversification strategies pursued by the Bank between December 31, 1999 to June 30, 2004 are evident in the increases in construction/land loans (0.3% to 5.3% of loans), multi-family loans (3.1% to 21.9% of loans), nonresidential real estate loans (1.1% to 23.7% of loans), and commercial loans and leases (1.6% to 15.3% of loans). Over the same time period, BankFinancial has engaged in minimal consumer lending.

The intent of the Bank's investment policy is to provide adequate liquidity within the context of supporting BankFinancial's overall profitability, credit, reinvestment, liquidity and interest rate risk objectives. Over the past five years, the Bank's level of cash and investment securities (inclusive of FHLB stock) ranged from a low of 18.4% of assets at fiscal year end 1999 to a high of 22.1% of assets at December 31, 2002. As of June 30, 2004, the Bank's cash and investments portfolio totaled \$315.8 million, or 21.5% of total assets, and was comprised of non-interest bearing cash and due from banks (\$32.6 million), interest bearing deposits in other financial institutions (\$13.1 million), SBA loans (\$2.3 million), municipal obligations (\$2.1 million), preferred stock equity securities (\$90.6 million), mortgage backed securities/CMOs (\$151.4 million) and FHLB stock (\$23.2 million). Exhibit I-4 provides detail of the Bank's investment portfolio. Immediately following the holding company offering, the Bank intends to invest the available funds into various types of securities. These funds will be gradually deployed into whole loans receivable over time. The Bank anticipates that the future composition of the liquidity portfolio will consist of similar types of short-term and low risk investments, with most available funds reinvested into whole loans receivable.

Table 1.1 also presents trends in the level of fixed assets since December 31, 1999, and illustrates that the Bank has operated with relatively moderate levels of investment in fixed assets. The level of such assets increased in fiscal 2001 due to additional branches and other assets obtained as part of the acquisition of Success Bancshares, while fixed assets increased in

fiscal 2003 following construction of the current Burr Ridge, Illinois headquarters office, which added approximately \$8 million of fixed assets. Even with these recent increases in fixed assets, the Bank's overall investment remains at or below industry averages. The relative investment in fixed assets positively impacts the Bank's reported income.

Over the past five years, BankFinancial's funding needs have been substantially met through retail deposits, borrowings, internal cash flows and retained earnings. From fiscal year end 1999 through June 30, 2004, the Bank's deposits increased at an annual rate of 5.5%, as BankFinancial gained deposits through the acquisition of Success Bancshares and continued marketing efforts to build the deposit base. However, since fiscal 2001, deposits have declined by \$67.8 million, or 5.8%, as the Bank has allowed certain higher cost funds to leave the Bank. As of June 30, 2004, non-CD deposits represented 59.0% of the Bank's total deposits, representing an attractive, low cost core deposit base. Since fiscal 2001, non-CD accounts have increased in balance, thus increasing in proportion of overall deposits. As of June 30, 2004, the Bank had a moderate amount of brokered CDs in the deposit base, totaling \$22.2 million.

Borrowings serve as an alternative funding source for the Bank to enable the Bank to fully leverage the capital base, support control of deposit costs and to aid in interest rate risk management. The Bank has used borrowings in the most recent fiscal years, and as of June 30, 2004, borrowings held by BankFinancial totaled \$249.2 million, or 18% of total deposits and borrowings. Most of the borrowings held by BankFinancial at June 30, 2004 consisted of FHLB advances, with such advances carrying a weighted average interest rate of 2.54%. Other borrowings maintained by the Bank include \$4.8 million of securities sold under agreements to repurchase and a \$30.0 million loan from a third party financial institution that is intended to be paid off as part of the use of the conversion proceeds. Additional borrowings, deposit growth, the offering proceeds, and internal cash flows are expected to adequately address most of the Bank's funding needs in the foreseeable future. To the extent additional borrowings may be utilized by the Bank, such borrowings would likely consist of FHLB advances.

Since fiscal year end 1999, various factors related to retained earnings have translated into an annual increase in retained earnings of 0.30%, and an annual decline in tangible retained earnings of 5.3%. These trends, along with the changes in the Bank's asset base, has resulted in a decline in BankFinancial's equity-to-assets ratio from 7.4% at fiscal year end 1999 to 6.5% at

June 30, 2004. The tangible equity-to-assets ratio declined from 7.4% to 5.3% over the same time period. The Bank maintained capital surpluses relative to all of its regulatory capital requirements at June 30, 2004. The addition of conversion proceeds will serve to strengthen BankFinancial's capital position and competitive posture within its primary market area, as well as support expansion of the asset base. At the same time, as the result of the Bank's increased pro forma capital position, BankFinancial's ROE can be expected to be below industry averages following its conversion.

Income and Expense Trends

Table 1.2 shows the Bank's historical income statements from fiscal year 1999 through the twelve months ended June 30, 2004. The Bank reported positive earnings from fiscal 1999 to 2002, ranging from a low of 0.12% of average assets during fiscal 2000 to a high of 0.33% of average assets during fiscal 2001. For fiscal 2003, BankFinancial reported a net loss of \$1.947 million, or 0.13% of average assets, and a net loss of \$11.185 million, or 0.77% of average assets for the twelve months ended June 30, 2004. The recent net losses have been primarily incurred due to a non-recurring expenses in the form of a prepayment penalty on early payment of certain FHLB advances, and a loss on the impairment of securities held as available-for-sale ("AFS"). Consistent with the Bank's community bank operating strategy, net interest income, non-interest income and operating expenses have been the dominant factors in BankFinancial's income statement. In the most recent periods, loan loss provisions have not been a significant factor in the Bank's income statement. BankFinancial has reported various types of non-operating items (gains or losses) in the past three years.

BankFinancial maintained a net interest margin between 2.13% and 2.84% of average assets throughout the period shown in Table 1.2. During the most recent twelve month period, the net interest margin has narrowed from fiscal 2002 due to the Bank's maintenance of a relatively high concentration of short term or adjustable investment securities (MBS) in portfolio, along with a balance of adjustable rate commercial real estate/commercial business loans and leases that are generally tied to the prime rate of interest. All of these types of assets carry relatively lower yields in the current low interest rate environment. Interest expense totals are favorably affected by the balance of core deposits held in portfolio, and the use of shorter

term FHLB advances which currently carry relatively low rates. The Bank's historical net interest rate spreads and yields and costs are set forth in Exhibits I-3 and I-5.

Sources of non-interest operating income have been a moderate, but increasing contributor to the Bank's earnings in recent years, as BankFinancial has historically generated a level of income from the customer base. During the last three fiscal years, non-interest operating income has ranged from 0.42% of average assets to 0.55% of average assets, and totaled 0.59% of average assets for the twelve months ended June 30, 2004, and consisted of fees and charges on the deposit base, lending and servicing operations, insurance commission and annuities income and other miscellaneous income sources. As part of the future plans, the Bank intends to continue efforts to increase the level of sources of non-interest income.

Operating expenses represent the other major component of the Bank's earnings, ranging from a low of 1.86% of average assets in fiscal 1999 to a high of 2.82% of average assets in fiscal 2002 and for the twelve months ended June 30, 2004. Such expenses exclude the amortization of certain core deposit intangibles that were booked as part of the Success Bancshares acquisition in late 2001. Since fiscal 2002, operating expenses as a percent of average assets have remained relatively stable. The operating expense ratio for the Bank reflects the overall complexity of operations of BankFinancial and the branch office network, which acts to increase expenses and limit operating efficiencies. Upward pressure will be placed on the Bank's operating expense ratio following the stock offering, due to expenses associated with operating as a publicly-traded company, including expenses related to the stock benefit plans. At the same time, the increase in capital realized from the stock offering will increase the Bank capacity to leverage operating expenses through pursuing a more aggressive growth strategy.

Overall, the general trends in the Bank's net interest margin and operating expense ratio since 1999 reflect a minimal and declining level of core earnings, as indicated by the Bank's expense coverage ratio (net interest income divided by operating expenses). BankFinancial's expense coverage ratio equaled 1.14 times in fiscal 1999, versus a comparable ratio of 0.91 times during the twelve months ended June 30, 2004. Similarly, BankFinancial's efficiency ratio (operating expenses, net of amortization of intangibles, as a percent of the sum of net interest income and other operating income) of 89.4% for twelve months ended June 30, 2004 was less favorable in comparison to the 74.8% efficiency ratio maintained in fiscal 1999. The amortization of the prepayment penalty on the repayment of FHLB advances in the most recent year has had an adverse affect on the efficiency ratio.

Due to maintenance of adequate asset quality in the past several years, and lack of appreciable levels of loan chargeoffs, BankFinancial has experienced recoveries on previously charged off loan loss provisions in fiscal 2002 and 2003 and for the twelve months ended June 30, 2004, totaling \$304,000, following the establishment of a moderate level of provisions in fiscal 1999 through 2001. The lower level of allowances for loan losses required at present also reflect the Bank's assessment of the loan portfolio quality and other factors related to the collectibility of the loan portfolio. As of June 30, 2004, the Bank maintained an allowance for loan losses of \$10.7 million, equal to 116.81% of non-performing assets and accruing loans more than 90 days past due and 1.00% of net loans receivable. Exhibit I-6 sets forth the Bank's allowance for loan loss activity during the past two years.

As stated previously, the primary non-operating income or expense items in the most recent two fiscal years and recent twelve month periods have consisted of a penalty booked on the prepayment of certain higher cost FHLB advances, and a loss on the impairment of securities held as AFS. These securities consist of the six perpetual preferred stock issues. In addition, in the most recent twelve month period, the Bank has incurred amortization or impairment of loan servicing assets of \$538,000, and recorded gains on the sale of investment securities of \$419,000. Gains on the sale of loans totaled \$632,000 for the twelve months ended June 30, 2004. The Bank's effective tax rate has been affected by the overall low levels of income and certain tax loss carryforwards. On a go forward basis, assuming moderately profitable operation, the Bank's effective tax rate is expected to approximate 40%.

Interest Rate Risk Management

Certain interest rate risk calculations provided by the OTS indicate that BankFinancial is not subject to a noticeable level of interest rate risk. As of June 30, 2004, the Net Portfolio Value ("NPV") analysis provided by the OTS indicated that a 2% instantaneous and sustained increase in interest rates would result in a 5.3% increase in the Bank's NPV (see Exhibit I-7).

The Bank manages interest rate risk from both the asset and liability sides of the balance sheet. On the asset side of the balance sheet, BankFinancial maintains a loan portfolio with

adjustable rate features, including adjustable rate residential loans, and adjustable commercial real estate and commercial business loans. The Bank also maintains a balance of short-term liquid funds and an adjustable rate MBS portfolio, along with other short-term or adjustable rate investment securities. On the liability and equity side of the balance sheet, management of interest rate risk has been pursued through emphasizing less interest rate sensitive and lower costing transaction and savings accounts. Exhibit I-8 reveals the characteristics of the Bank's loan portfolio.

The infusion of stock proceeds will serve to further limit the Bank's interest rate risk exposure, as most of the net proceeds will be redeployed into interest-earning assets and the increase to capital will lessen the proportion of interest rate sensitive liabilities funding assets.

Lending Activities and Strategy.

BankFinancial's lending activities have recently de-emphasized 1-4 family permanent mortgage loans and emphasized construction/land loans, multi-family/non-residential real estate loans, along with commercial business and lease loans, and these loan types continue to comprise the largest concentration of the loan portfolio. Additional lending diversification by the Bank includes a balance of home equity loans and a small balance of consumer loans. Exhibit I-9 provides historical detail of BankFinancial's loan portfolio composition over the past two years and Exhibit I-10 provides the contractual maturity of the Bank's loan portfolio by loan type as of June 30, 2004.

Residential Real Estate Lending - At June 30, 2004, the largest segment of the Bank's loan portfolio was concentrated in 1-4 family residential mortgage loans, which totaled \$352.9 million, or 32.9% of loans receivable. These loans consist of conforming and non-conforming, fixed rate and adjustable rate residential mortgage loans with maturities of up to 30 years, including home equity lines of credit and second mortgage loans.

First mortgage fixed rate residential loans originated by BankFinancial for the purpose of purchasing an owner-occupied home include terms of 10 to 30-years, with loan-to-value ("LTV") ratios of 80% or more requiring private mortgage insurance. The Bank also originates adjustable rate mortgage ("ARM") loans, with such loans indexed to a corresponding term of U.S. Treasuries, primarily with 1/1, 3/1 or 5/1 year adjustment terms. The 1-4 family residential

mortgage loans are generally underwritten according to Fannie Mae and Freddie Mac guidelines, which conform to maximum loan limits set by these agencies. The current maximum loan limit is \$333,700 for single-family homes. These loans are referred to as “conforming” loans. The Bank also originates loans with balances in excess of the conforming limit, referred to as “jumbo” loans that have been underwritten to the credit standards of Fannie Mae or Freddie Mac.

BankFinancial has been an active seller of fixed rate residential loans into the secondary market, as part of interest rate risk management. Such loans are sold servicing retained, in order for the Bank to maintain the primary customer contact. In addition, adjustable rate residential loans originated by the Bank have been securitized into mortgage-backed securities pools that are guaranteed by Fannie Mae or Freddie Mac, with this activity pursued in order to reduce credit risk of the earning asset portfolio. Notwithstanding future liquidity and capital management needs, the Bank intends to continue these strategies following completion of the conversion transaction.

BankFinancial also originates residential second mortgage loans, home equity loans or lines of credit loans, consisting of loans with adjustable rates tied to the prime rate of interest, or fixed rate loans with terms of up to 10 years. Such loans totaled \$107.5 million as of June 30, 2004. BankFinancial originates first mortgage home equity loans in amounts up to 80% of the appraised value. LTV's on second mortgage loans are restricted to 80%, in accordance with Bank policy. These loan products are reflective of the Bank's recent business strategy of lending on residential property and providing a broader range of products and services to the customer base. These types of lending will continue to be emphasized over the course of this plan, due to the acceptable yields and credit risk associated with these loans.

Multi-Family Real Estate Lending - BankFinancial also is an active originator of real estate loans secured by multi-family property. The Bank's multi-family loan portfolio totaled \$234.7 million as of June 30, 2004, consisting primarily of smaller apartment buildings in the greater Chicago metropolitan area, generally with 6-12 units for each building. A single loan may include a number of these smaller apartment buildings, as overall loan sizes generally range from \$500,000 to \$3 million. The multi-family loans are grouped into three main categories, those with sufficient security of the land and building to support the loan, those that qualify for 50% regulatory risk-weighting and those that do not qualify for the 50% risk-weighting.

Balances are maintained in each of the three categories for yield, interest rate risk and other business reasons. Such loans are generally adjustable rate in nature with 3/1, 5/1 or 7/1 adjustment terms, and overall yields on this portfolio are 50-75 basis points above the 1-4 family portfolio loan yields. The Bank intends to continue emphasizing this lending activity, given the nature of the market area surrounding the branch offices.

Commercial Real Estate Lending – BankFinancial has also been an active originator of commercial real estate loans, consisting of loans on non-residential real estate property. The Bank's senior management team, including the lending function, contains personnel with sufficient experience to operate the active commercial loan department. This type of lending is attractive due to the higher yields and adjustable rate nature of these loans, and permits the Bank to operate as a more complete community bank and full service institution, offering a wider array of loan products to the communities served. The generally larger balances of such loans is also attractive to BankFinancial as this allows the Bank to operate the lending function more efficiently with fewer personnel required. Such loans totaled \$254.6 million as of June 30, 2004. A significant portion of these loans were secured by nursing homes, with other security types including small, local commercial business properties, office buildings and strip malls in the local market areas served by the Bank. In order to take advantage of local lending opportunities, provide for higher asset yields and to position the Bank as a more full-service financial institution, BankFinancial intends to continue to offer such non-residential mortgage loans, and this will continue to be an area of emphasis for the Bank. A significant portion of these loans are tied to the prime rate of interest, and are thus short-term adjustable loans. BankFinancial also makes a number of fixed rate commercial real estate loans. The Bank has in place sufficient experienced personnel in this area of lending in order to facilitate expansion of this area going forward.

Construction Lending – BankFinancial also originates land acquisition, development and construction loans to builders in the local market area, with these loans originated on single family residential, multi-family and non-residential property. As of June 30, 2004, these loans totaled \$56.6 million, or 5.3% of total loans receivable. These loans are pursued as a business strategy to enhance the overall yield of the loan portfolio, shorten the term to maturity of the loan portfolio, and increase the Bank's presence in the local market area in connection with builders

and real estate agents. Construction loans are made on sites that are either pre-sold or, to a lesser extent, speculative homes, including some "high end" home worth in excess of \$1 million. Construction loan terms include a maximum LTV of 80% and terms of no more than one year. Lending in this area is expected to continue to be a material activity over the course of this Plan.

Commercial Business/Lease Lending – As of June 30, 2004, the Bank held a total \$83.5 million of commercial business loans and \$80.1 million of commercial leases in portfolio. In parallel with the commercial real estate lending activities, the Bank originates commercial business loans to businesses located in the local market area, with such loans secured by various business assets such as inventory or property, plant and equipment. About 50% of the commercial business loans are working capital loans for nursing homes in the local market area. These loans are primarily prime-based loans and thus are short-term adjustable loans that assist in interest rate risk management. BankFinancial does originate a few fixed rate commercial business loans, with terms generally limited to approximately 3-4 years. This area of lending is expected to be increased over the course of this Plan, and the Bank has in place the required personnel expertise needed to adequately manage and expand this business activity.

As part of the Bank's loan diversification efforts, BankFinancial maintains a commercial leasing portfolio. The leases in portfolio are either originated from Fortune 1000 companies that have an investment grade public debt rating, or from subsidiaries of foreign companies that meet the required underwriting standards but are not rated. The security for the leases is generally an assignment of the lease payments and a secured interest in the equipment being leased. Commercial leases generally have a maximum maturity of 5 years and a maximum credit exposure of \$5.0 million. Leases to below-investment grade companies are limited to 10% of the commercial lease portfolio and a maximum credit exposure of \$1.0 million. Lease loans are always fully amortizing, with fixed interest rates.

Consumer lending has not been an area of emphasis for BankFinancial, due to the need for additional personnel to originate and service such loans. Consumer loans totaled only \$2.9 million as of as of June 30, 2004, and consisted mostly of loans on deposit accounts, automobile loans and credit card loans. These loans are offered in order to provide a broader product line for customers, however such loans are not actively marketed. Such loans are higher yielding and short-term loans, thus assisting in reaching income and interest rate risk goals.

Asset Quality

The Bank's balance of non-performing assets and accruing loans that are more than 90 days past due has been moderate over the past two fiscal years and for the most recent period, equaling 0.99% and 0.60% of assets as of December 31, 2002 and December 31, 2003, respectively, and 0.63% of assets as of June 30, 2004. The consistently strong credit quality has been realized through aggressive oversight of the loan portfolio and selective underwriting. As shown in Exhibit I-11, the Bank's balance of problem assets at June 30, 2004 consisted of \$7.9 million of non-accruing loans and \$1.3 million of real estate owned. The non-accruing loan balance consisted primarily of residential mortgage and non-residential mortgage loans.

The Bank reviews and classifies assets on a quarterly basis and establishes loan loss provisions based on the overall quality, size and composition of the loan portfolio, as well other factors such as historical loss experience, industry trends and local real estate market and economic conditions. The Bank maintained valuation allowances of \$10.7 million at June 30, 2004, equal to 1.00% of net loans receivable and 116.81% of non-performing assets and accruing loans more than 90 days past due.

Funding Composition and Strategy

Deposits have consistently accounted for the Bank's primary source of funds and at June 30, 2004 deposits equaled approximately 82% of BankFinancial's interest-bearing funding composition. Exhibits I-12 and I-13 provide the composition of the deposit portfolio, and the interest rate and maturity composition of the CD portfolio at June 30, 2004. Lower costing NOW and money market accounts, along with savings accounts and non-interest bearing demand accounts, comprise the largest component of the Bank's deposit composition, with such deposits amounting to \$639 million or 59.0% of total deposits for the three months ended June 30, 2004. Over the past year, the Bank's deposit base composition has remained relatively stable.

CDs represent the second largest component of the Bank's deposit composition, with BankFinancial's current CD composition reflecting a higher concentration of short-term CDs

(maturities of one year or less). As of June 30, 2004, the CD portfolio totaled \$443.3 million or 41.0% of total deposits and 70% of the CDs were scheduled to mature in one year or less. BankFinancial holds only a moderate amount of brokered CDs in portfolio. Deposit rates offered by the Bank are generally in the middle of the range of rates offered by local competitors.

Borrowings, consisting of FHLB advances, reverse repurchase agreements and a third party loan, have been utilized by the BankFinancial in the most recent fiscal year, primarily to assist in interest rate risk management and to support expansion of operations, as such funds were used to purchase investment securities and fund certain lending operations. The Bank maintained \$249.2 million of borrowings at June 30, 2004, versus a balance of \$332.0 million as of December 31, 2001. Exhibit I-14 provides further detail of BankFinancial's borrowing activities during the past two fiscal years. The advances are short and medium term advances, with terms generally extending out a three year period. BankFinancial is expecting to utilize additional borrowings, in addition to deposit growth, internal funding and stock proceeds, to fund the desired growth of the Bank following completion of the conversion. To the extent additional borrowings are utilized by the Bank, such borrowings would most likely consist of FHLB advances.

Subsidiary Operations

BankFinancial currently has two wholly-owned subsidiaries. Financial Assurance Services sells title insurance, property and casualty insurance and other insurance products. Financial Assurance services also offers title services through its Financial Title Services division. During the six months ended June 30, 2004 and the year ended December 31, 2003, Financial Assurance Services reported net income (loss) of \$(18,000) and \$93,000, respectively. As of June 30, 2004, Financial Assurance had 12 employees. A second wholly-owned subsidiary, BankFinancial Asset Recovery Corporation, holds title to real estate foreclosed upon by the Bank. For the six months ended June 30, 2004 and the year ended December 31, 2003, BankFinancial Asset Recovery Corporation reported a net loss of \$6,000 and \$11,000, respectively.

Legal Proceedings

BankFinancial is involved in routine legal proceedings occurring in the ordinary course of business which, in the aggregate, are believed by management to be immaterial to the financial condition of the Bank.

II- MARKET AREA

Introduction

The Bank conducts operations in the Chicago metropolitan area counties of Cook, Lake, Will and DuPage through a network of 16 branch offices and its headquarters office in Cook County. See Exhibit II-1 for a description of the Bank's office facilities. Essentially all of the Bank's lending and deposit operations are conducted in these four market area counties. The population of the Chicago MSA was 8.5 million as of 2003, representing a slight increase from the 2000 census, and thus the Chicago MSA represents one of the largest metropolitan statistical areas in the United States, with a largely diversified economy, employment base, and population base. The Bank's branch office network, which is dispersed across a majority of the region, is characterized by a complete cross-section of the region's population base, businesses and property characteristics.

The Bank holds only a minor market share of deposits in Cook County (approximately 0.5%), and thus has potential for additional growth if given the financial strength and ability to establish a wider branch office network with greater access to customers. BankFinancial competes with a large number of national, regional and locally-based financial institutions. The primary larger financial institution competitors include Bank One N.A., LaSalle Bank N.A., Harris Trust and Savings Bank, Citibank, FSB, Charter One Bank, N.A., and Washington Mutual. In addition, the Bank faces competition from mortgage banking companies, consumer finance companies, investment houses, mutual funds, insurance companies and other financial intermediaries. Over the past couple of years, the competitive factors have intensified with the growth of electronic delivery systems (particularly the Internet).

Future growth opportunities for the Bank depend on future growth and stability of the regional economy (in particular the Chicago metropolitan statistical area), demographic growth trends and the nature and intensity of the competitive environment. These factors have been briefly examined in the following pages to help determine the growth potential that exists for the Bank and the relative economic health of the Bank's market area, and the relative impact on value.

National Economic Factors

The business potential of a financial institution is partially dependent on the future operating environment and growth opportunities for the banking industry and the economy as a whole. The major stock exchange indices increased during calendar year 2003 and through mid-2004, due to the completion of major military action in Iraq, a somewhat improved economic performance by the nation's economy, a continued expectation that interest rates would remain at current historical low levels, low inflation rates and more positive recent corporate earnings reports. However, during April and May 2004, increasing signs of a strongly growing economy led to fears of inflation, higher interest rates and a potential slowdown of the national economy, which resulted in a moderate pullback in the stock market during mid-2004. The price of oil reached all time highs approaching \$50 per barrel, which also led to fears of adverse economic impacts. The national unemployment rate has remained relatively low in comparison to recent historical levels, and was 5.5% as of July 2004, representing a decline from 6.2% one year earlier. The size of the projected federal budget deficit in the future has also led to a level of uncertainty about future economic performance. As an indication of the changes in the nation's stock markets over the last twelve months, as of September 10, 2004, the Dow Jones Industrial Average closed at 10313.1, an increase of 8.9% from September 10, 2003, while the NASDAQ Composite Index stood at 1894.3, an increase of 2.1% over the same time period. The Standard & Poors 500 Index totaled 1123.9 as of September 10, 2004, an increase of 10.3%.

Economic and Interest Rate Environment

The future success of BankFinancial's operations is partially dependent upon various national and local economic trends. Trends in the national economy improved during calendar year 2003 and in the first half of 2004. Inflation remains relatively low compared to historical levels, increasing at an annual rate of 4.1% for the first six months of 2004. The economic slowdown of 2000 to 2002, the results of the reaction to the September 11 attacks, and other actions by the federal government has eliminated the previous Federal budget surplus and caused

a record budget deficit for fiscal 2004. The economic slowdown has also caused a noticeable increase in unemployment, which increased from several decades lows of below 5.0% in 2000 to 6.0% in late 2003. As of July 2004, the unemployment rate had declined to 5.5%, although a large number of potential workers had stopped seeking employment and thus were not counted among the unemployed. The economy has showed signs of recovery, termed a "jobless recovery", although certain sectors of the economy remain stagnant. The GDP increased by 4.4% in the first quarter of 2004 and a revised 4.1% in the fourth quarter of 2003, indicating gaining strength to the economy.

After remaining at historical lows over the past couple of years, market rates have increased in recent months, following the perception of a strongly growing economy, and statements by the Federal Reserve that it would likely raise key interest rates in the near future. On June 30, 2004, the Federal Reserve raised the key interest rates by 0.25%, in recognition of the current stronger economy. At the July 2004 Federal Reserve meeting, interest rates were again raised by 0.25%, although the Federal Reserve was not specific about future rate change intentions. The Federal Reserve had kept key market interest rates at historical lows not seen since the 1950s, having lowered the key interest rates (federal funds and the discount rate) over a dozen times since January 1, 2001. As of the latest Fed rate increase, effective July 2004, the Fed Funds rate was 1.50%, down from 6.50% at the beginning of 2001, while the Discount Rate stood at 1.25%, down from 6.00% at January 1, 2001. The financial markets had previously "priced in" the expectation of rising interest rates, as the treasury yield curve had risen in the past 3 months. As of September 10, 2004, one- and ten-year U.S. government bonds were yielding 2.02% and 4.14%, respectively, compared to 1.09% and 4.28%, respectively, as of one year ago. See Exhibit II-2 for historical recent interest rate trends.

Market Area Demographics

Table 2.1 presents information regarding the demographic and economic trends for the Bank's market area counties from 2000 to 2003 and projected through 2008, with additional data provided in Exhibit II-3. Data for the nation, the State of Illinois and the Chicago MSA is included for comparative purposes. Within the four market area counties, Cook County maintained a population of approximately 5.4 million as of 2003, approximately 64% of the total

MSA population. The remaining three market area counties contained sizeable population bases, each in excess of 600,000. Reflecting trends across the nation, the inner county of Cook reported the lowest annual population growth rate of 0.3% from 2000 to 2003, a rate lower than the statewide rate of 0.6% annually, and lower than the MSA's 0.9% growth rate. The outlying counties each reported stronger growth rates, with Will County reporting the highest annual rate, 3.3%. These trends are projected to continue over the next five years through 2008.

These population trends represent a less than desirable trend for Bank as approximately 69% of the Bank's deposits are located in Cook County, and that the most attractive growth trends are located in the outlying counties. The larger overall population base of Cook County provides an adequate source of business for financial institutions, although the Bank is relatively midsized institution that faces many smaller and larger competitors in the local market area. As shown in Table 2.1, the number and growth of households performed somewhat better over the same time period, although this reflects a national trend towards a lower average household size and an increase in the number of households overall. In addition, the population and household growth trends described above are forecast to remain relatively constant over the next five years, indicating that the Bank's business prospects are expected to remain stable in the foreseeable future. The demographic trends also provide support for the need to seek growth in other areas besides Cook County. Table 2.1 also details the age distribution of the residents of the four market area counties, and reveals that overall, the market area's population base is relatively dispersed in terms of age, with Lake and Will Counties having a largest proportion of younger residents and Cook and DuPage Counties have the largest proportion of older residents.

Examination of another characteristic of the Bank's market area, median household income and per capita income, revealed that Cook County reported income levels in line with the statewide averages, while the three outlying counties reported noticeably higher levels of income. The relatively low income levels in Cook County indicate the potential for reduced levels of financial institution deposits, deposit growth and overall need for financial institution services. Local household income distribution data also revealed a noticeably lower overall income level in Cook County versus the other market areas served.

Local Economy

Due to the overall large size of the Chicago metropolitan area population base and economy, the Bank operates in a very diversified economic and demographic area, where all economic sectors are fully represented. As shown in Table 2.2 below, the State of Illinois, Cook County and the four county market area all reported the largest proportion of employment in services, wholesale/retail trade, manufacturing and government, indicative of a relatively diversified employment base. The state of Illinois recorded a higher level of manufacturing employment, while Cook County recorded a higher level of transportation/public utilities employment. Overall, however, the employment base of the four market area counties, including Cook County was quite similar to the statewide averages, indicative of the overall large economy in the Chicago metropolitan area. See Exhibit II-3 for additional data and details.

Table 2.2
Primary Market Area Employment Sectors
(Percent of Labor Force)

| <u>Employ. Sectors</u> | <u>Illinois</u> | <u>Cook County</u> | <u>Four Cty Avg.</u> |
|-----------------------------|-----------------|--------------------|----------------------|
| Services | 32.4% | 36.2% | 32.2% |
| Wholesale/Ret. Trade | 20.7 | 19.0 | 22.1 |
| Manufacturing | 12.9 | 11.9 | 12.2 |
| Government | 12.0 | 10.8 | 11.5 |
| Finance, Ins., Real Estate | 9.1 | 10.8 | 9.0 |
| Transportation/Public Util. | 5.5 | 6.7 | 5.2 |
| Construction | 5.0 | 4.1 | 6.2 |
| Agriculture | 1.4 | 0.0 | 0.3 |
| Other | 1.0 | 0.5 | 1.3 |
| | 100.0% | 100.0% | 100.0% |

Source: REIS DataSource.

As shown in Table 2.3, similar to national trends, the unemployment rate in Illinois decreased in the last twelve months, during which the unemployment rate in Cook, Lake, Will and DuPage Counties all decreased. The lowest unemployment rate was found in DuPage County. Illinois, Cook County and Will County had unemployment rates above the national average, an unfavorable sign as it reflects a certain weakness to the job market for workforce employers.

Table 2.3
Market Area Unemployment Trends

| <u>Region</u> | <u>June 2003 Unemployment</u> | <u>June 2004 Unemployment</u> |
|---------------|-----------------------------------|-----------------------------------|
| United States | 6.5% | 5.8% |
| Illinois | 6.6% | 5.9% |
| Cook County | 7.6% | 6.6% |
| Lake County | 5.9% | 5.3% |
| Will County | 7.0% | 6.7% |
| DuPage County | 5.5% | 4.7% |

Source: U.S. Bureau of Labor Statistics.

Competition

Due to the overall size of the market in which the Bank operates, BankFinancial holds a minimal market share of deposits of 0.5% in Cook County, and market shares of 1.3% in Lake County and 2.1% in Will County (see Table 2.4). With the current market share below 3%, additional deposit growth in the market area is likely achievable, particularly as BankFinancial competes with a number of regional and super-regional competitors, along with a number of locally-based financial institutions.

Table 2.4 displays deposit trends for thrifts and commercial banks in Illinois and the four market area counties. Since 1999, deposit growth in Illinois has been positive for both commercial banks and savings institutions, with commercial banks increasing deposits at a rate faster than savings institutions. Commercial banks continue to maintain the majority of deposit funds in the state of Illinois, approximately 88% of all deposits as of the most recent date.

Within Cook County, BankFinancial recorded a decrease in the balance of deposits of 5.1% since 1999, although this decline was due to a decision to force certain higher cost deposits to leave the Bank following the acquisition of Success National Bank. This resulted in a reduction in BankFinancial's deposit market share from 0.8% in 1999 to 0.5% in 2003. Overall,

commercial banks increased deposits in Cook County at an annual rate of 9.2%, while savings institutions recorded a decline in deposits at an annual rate of 7.6%. Commercial banks have approximately 89% of deposit funds in Cook County. In the other three market area counties, deposits increased by an annual average of 7.8%, with commercial banks increasing at a faster rate than savings institutions in Will and DuPage Counties.

With regard to lending competition in the local market area, the Bank anticipates the most significant competition from larger financial institutions such as LaSalle Bank, N.A., Citibank, FSB, Mid America Bank, FSB, and Fifth Third Bank, along with other mid-sized commercial banks. Another type of competitor includes real estate mortgage investment conduits (“REMICs”), which are also aggressively purchasing certain types of loans. In addition other competitors include other local and regional mortgage companies, independent mortgage brokers and credit unions in originating mortgage and non-mortgage loans. To remain competitive, BankFinancial focuses on providing residential and multi-family mortgage loans, non-residential mortgage loans and commercial business loans and retail deposit services to existing customers and the new customers attracted to the Bank. As indicated in the mission statement, the Bank’s mission is to position itself to exceed every expectation for providing high quality personal customer service. This strategy is designed to identify a niche in the market where the Bank can compete against other institutions. BankFinancial’s approach to reaching the potential customer base is to market to the general public at large through various marketing avenues.

Summary.

The overall condition of the primary market area can be characterized as stable, with moderate growth potential in the immediate Cook County market area and higher growth potential in the three remaining market area counties, based on regional population and economic projections. The overall total population base within the Bank’s market area does provide the potential for additional banking customers, particularly in light of the current market share of deposits held by the Bank. Going forward, in view of the local demographic and economic trends and the numbers and types of competitors in the market area, the competition for deposits is expected to remain substantial, which will result in BankFinancial having to pay competitive

deposit rates, provide high quality service and consider providing electronic banking capabilities to increase local market share. In addition, the Bank also will have to engage in sufficient levels of marketing activities.

III. PEER GROUP ANALYSIS

This chapter presents an analysis of BankFinancial's operations versus a group of comparable companies (the "Peer Group") selected from the universe of all publicly-traded savings institutions. The primary basis of the pro forma market valuation of BankFinancial is provided by these public companies. Factors affecting the Bank's pro forma market value such as financial condition, credit risk, interest rate risk, and recent operating results can be readily assessed in relation to the Peer Group. Current market pricing of the Peer Group, subject to appropriate adjustments to account for differences between BankFinancial and the Peer Group, will then be used as a basis for the valuation of BankFinancial's to-be-issued common stock.

Peer Group Selection

The Peer Group selection process is governed by the general parameters set forth in the regulatory valuation guidelines. Accordingly, the Peer Group is comprised of only those publicly-traded savings institutions whose common stock is either listed on a national exchange (NYSE or AMEX), or is NASDAQ listed, since their stock trading activity is regularly reported and generally more frequent than non-publicly traded and closely-held institutions. Non-listed institutions are inappropriate since the trading activity for thinly-traded or closely-held stocks is typically highly irregular in terms of frequency and price and thus may not be a reliable indicator of market value. We have also excluded from the Peer Group those companies under acquisition or subject to rumored acquisition, mutual holding companies and recent conversions, since their pricing ratios are subject to unusual distortion and/or have limited trading history. A recent listing of the universe of all publicly-traded savings institutions is included as Exhibit III-1.

Ideally, the Peer Group, which must have at least 10 members to comply with the regulatory valuation guidelines, should be comprised of locally or regionally-based institutions with comparable resources, strategies and financial characteristics. There are approximately 175 fully-converted publicly-traded thrift institutions nationally and, thus, it is typically the case that the Peer Group will be comprised of institutions with relatively comparable characteristics. To the extent that differences exist between the converting institution and the Peer Group, valuation

adjustments will be applied to account for the differences. From the universe of publicly-traded thrifts, we selected 10 institutions with characteristics similar to those of BankFinancial. In the selection process, we applied one “screen” to the universe of all public companies:

- Screen #1. Midwest institutions with assets between \$800 million and \$2.3 billion and a return on equity of less than 10%. Ten companies met the criteria for Screen #1 and all ten were included in the Peer Group. Exhibit III-2 provides financial and public market pricing characteristics of all publicly-traded Midwest based thrifts with assets greater than \$500 million, from which the Peer Group was selected.

Table 3.1 shows the general characteristics of each of the 10 Peer Group companies and Exhibit III-3 provides summary demographic and deposit market share data for the primary market areas served by each of the Peer Group companies. While there are expectedly some differences between the Peer Group companies and BankFinancial, we believe that the Peer Group companies, on average, provide a good basis for valuation subject to valuation adjustments. The following sections present a comparison of BankFinancial’s financial condition, income and expense trends, loan composition, interest rate risk and credit risk versus the Peer Group as of the most recent publicly available date.

A summary description of the key characteristics of each of the Peer Group companies is detailed below.

- TierOne Corp. of Lincoln, NE. Largest peer group company with relatively strong capital position and earnings. Loan portfolio is diversified into multi-family/commercial real estate and construction/land loans.
- United Community Fin. Corp of OH. Second largest peer group company, with a relatively significant intangible balance and high level of earnings. United Community has also diversified into multi-family/commercial real estate and construction/land loans.
- First Place Financial Corp. of OH. Asset size closely matches BankFinancial’s pro forma assets. Asset composition includes a balance of investment securities and a relatively lower loan balance. First Place’s asset loan composition is relatively undiversified away from residential loans, but First Place holds the largest loans serviced for others portfolio and servicing intangible.
- CFS Bancorp, Inc. of IN. Operates in the Chicago metropolitan area with a similar sized branch office network. CFS has the largest investment portfolio of all peer group members, funded with largest borrowing base. Lowest earning peer group member, due to low net interest income. Assets invested primarily into securities, residential loans and multi-family/commercial real estate, with no loan servicing portfolio.

- Citizens First Bancorp, Inc. of MI. Citizens is a 15-branch thrift with significant investment in loans receivable funded with the highest equity/assets ratio of the all peer group members. Strong net income is supported by the net interest margin and high levels of non-interest income. Loans are relatively diversified into multi-family/commercial real estate and non-mortgage lending. Strong asset quality and reserve coverage ratios in comparison to other peer group members.
- Camco Financial Corp. of Cambridge, OH. Camco operates with a leveraged balance sheet and reports relatively low net income due to a low net interest margin. Earning assets are concentrated in residential loans, resulting in a low risk-assets ratio. Asset quality and reserve coverage ratios are well below peer group averages.
- First Defiance Financial Corp. of OH. Located in northwestern Ohio, First Defiance reported the most significant asset growth of all peer group companies in the past year, along with the highest level of net income. A strong net interest margin and non-interest income supported earnings. First Defiance reported the most significant diversification into multi-family/commercial real estate lending and consumer lending, resulting in the lowest investment in traditional residential lending. Asset quality and reserve coverage ratios were well above peer group averages.
- EFC Bancorp, Inc. of IL. EFC, located close to the Chicago metropolitan area, contained the smallest branch office network (8 branches) and a relatively low equity/assets ratio. Net income approximated the peer group average, while the loan portfolio was concentrated in residential lending.
- HF Financial Corp. of SD. The most leveraged of all peer group members, HF Financial reported relatively low profitability due to high operating expenses, notwithstanding a strong level of non-interest income. Earning assets were well diversified into multi-family/commercial real estate and non-mortgage lending. Asset quality was stronger than the peer group average, while reserve coverage ratios were weaker.
- MutualFirst Financial, Inc. of IN. The smallest peer group member, operating with a high ratio of loans/assets and a relatively high capital ratio. Income was supported by a strong net interest margin and diversification into commercial business lending. Asset quality was in line with the peer group average.

In aggregate, the Peer Group companies maintain a similar level of capital than the industry average (10.16% of assets versus 10.74% for all public companies), generate lower earnings as a percent of average assets (0.77% ROAA versus 0.82% for all public companies), and generate a slightly lower return on equity (7.06% ROE versus 8.71% for all public companies). Overall, the Peer Group's average P/B ratio and average P/E multiple were below and comparable to the respective averages for all publicly-traded thrifts.

| | <u>All Publicly-Traded</u> | <u>Peer Group</u> |
|---|--------------------------------|-------------------|
| <u>Financial Characteristics (Averages)</u> | | |
| Assets (\$Mil) | \$ 2,968 | \$ 1,419 |
| Market capitalization (\$Mil) | \$ 475 | \$ 198 |
| Equity/assets (%) | 10.74% | 10.16% |
| Return on assets (%) | 0.82% | 0.77% |
| Return on equity (%) | 8.71% | 7.06% |
| <u>Pricing Ratios (Averages)(1)</u> | | |
| Price/earnings (x) | 17.80x | 17.53x |
| Price/book (%) | 160.85% | 129.68% |
| Price/tangible book (%) | 175.25% | 144.46% |
| Price/assets (%) | 17.14% | 13.24% |

(1) Based on market prices as of September 10, 2004.

Ideally, the Peer Group companies would be comparable to BankFinancial in terms of all of the selection criteria, but the universe of publicly-traded thrifts does not provide for an appropriate number of such companies. However, in general, the companies selected for the Peer Group were fairly comparable to BankFinancial, as will be highlighted in the following comparative analysis.

Financial Condition

Table 3.2 shows comparative balance sheet measures for BankFinancial and the Peer Group. BankFinancial's and the Peer Group's ratios reflect balances as of June 30, 2004, unless otherwise indicated for the Peer Group companies. BankFinancial's equity-to-assets ratio of 6.5% was below the Peer Group's average net worth ratio of 11.4%. However, the Bank's pro forma capital position will increase with the addition of stock proceeds and will exceed the Peer Group's ratio following the conversion. Tangible equity-to-assets ratios for the Bank and the Peer Group equaled 5.0% and 10.8%, respectively, as goodwill and intangibles maintained by the Bank equaled 1.5% of assets. The increase in BankFinancial's pro forma capital position will be favorable from a risk perspective and in terms of future earnings potential that could be realized through leverage and lower funding costs. At the same time, the Bank's higher pro forma capitalization will also result in a relatively low return on equity. Both the Bank's and the

Peer Group's capital ratios reflected capital surpluses with respect to the regulatory capital requirements, with the Peer Group's ratios currently exceeding the Bank's ratios. On a pro forma basis, the Bank's surpluses will likely be more significant than indicated for the Peer Group.

The interest-earning asset compositions for the Bank and the Peer Group were somewhat similar, with loans constituting the bulk of interest-earning assets for both BankFinancial and the Peer Group. BankFinancial's loans-to-assets ratio of 73.7% was below the comparable Peer Group ratio of 78.7%. Comparatively, BankFinancial's cash and investments-to assets ratio of 21.5% was above than the comparable Peer Group measure of 15.7%. Overall, BankFinancial's interest-earning assets amounted to 95.0% of assets, which approximated the Peer Group's ratio of 94.4%.

BankFinancial's funding liabilities reflected a funding strategy that was somewhat similar to that of the Peer Group's funding composition. The Bank's deposits equaled 75.1% of assets, which was above the comparable Peer Group ratio of 67.1%. Comparatively, borrowings accounted for a lower portion of the Bank's interest-bearing funding composition, as indicated by borrowings-to-assets ratios of 17.0% and 20.8% for BankFinancial and the Peer Group, respectively. Total interest-bearing liabilities maintained by the Bank and the Peer Group, as a percent of assets, equaled 92.1% and 88.5%, respectively. Following the increase in capital provided by the net proceeds of the conversion offering, the Bank's ratio of interest-bearing liabilities as a percent of assets will be less than the Peer Group's ratio.

A key measure of balance sheet strength for a thrift institution is its IEA/IBL ratio. Presently, the Peer Group's IEA/IBL ratio is stronger than the Bank's ratio, based on respective ratios of 106.7% and 103.2%. The additional capital realized from stock proceeds should serve to provide BankFinancial with an IEA/IBL ratio that exceeds the Peer Group's ratio, as the increase in capital provided by the infusion of conversion proceeds will serve to lower the level of interest-bearing liabilities funding assets and will be primarily deployed into interest-earning assets.

The growth rate section of Table 3.2 shows annual growth rates for key balance sheet items. BankFinancial's growth rates are based on annualized growth for the 6 months ended

June 30, 2004, while the Peer Group's growth measures are based on annual growth for the twelve months ended June 30, 2004 or the most recent period available. BankFinancial's assets showed only a slight increase, at a 1.49% annualized rate, versus a 9.2% asset growth rate posted by the Peer Group. Notwithstanding the continued change in the loan portfolio composition, BankFinancial's major asset categories showed little change over the time period, in line with the stable level of assets. Asset growth for the Peer Group was realized through loan growth, as cash and investments declined. Overall, the Peer Group's asset growth measures would tend to indicate greater earnings growth potential relative to the Bank's asset growth measures. In contrast, BankFinancial's future asset growth potential will be enhanced by the increased leverage capacity that will result from the infusion of net conversion proceeds into capital.

Similar to the asset side of the balance sheet, the Bank's balances of deposits and borrowings also showed an increase in deposits, offset by a decline in borrowings, while the equity base was slightly lower. The Peer Group's growth rates for deposits and borrowings were higher than the comparable growth rates indicated for the Bank, with borrowings increasing at the highest rate. The Peer Group also reported a decline in the equity base, of 1.13%. Factors contributing to the Bank's capital decline included its low earnings levels and changes in the adjustment for assets held for sale, along with certain non-recurring losses. Comparatively, despite recording a higher return on assets than the Bank, the Peer Group's capital declined due to dividend payments as well as stock repurchases, and changes to the AFS adjustment. The increase in capital realized from stock proceeds, as well as possible dividend payments and stock repurchases, will depress the Bank's capital growth rate following the stock offering.

Income and Expense Components

Table 3.3 displays comparable statements of operations for BankFinancial and the Peer Group, based on earnings for the twelve months ended June 30, 2004 unless indicated otherwise for the Peer Group companies. For the period shown in Table 3.3, BankFinancial reported a loss of 0.77% of average assets, while the Peer Group reported net income to average assets of 0.77%. The comparable returns indicated for Bank and the Peer Group resulted from the Bank's lower net interest margin and higher level of operating expense, along with a lower level of non-

interest income. The Bank also reported a level of net non-operating losses, in comparison to the Peer Group's level of non-operating income.

Net interest income represents the primary source of earnings for the Bank and the Peer Group, equaling 2.56% and 2.90% of average assets, respectively. The Bank maintained both a lower interest income ratio and a lower interest expense ratio in comparison to the Peer Group's ratios. The Bank's lower interest income ratio was caused by maintaining a lower yield on interest earning assets (4.68% versus 5.37% for the Peer Group), which was caused by the Bank's short-term interest-earning asset mix that reflected a higher concentration of prime-based loans in comparison to the Peer Group, along with significant balances of adjustable rate investment securities, including one-year adjustable mortgage-backed securities and the preferred stock investments that currently provide for relatively low yields. In addition, the Bank holds in portfolio noticeable balances of tax-exempt securities which provide for lower reported yields. The Bank's lower interest expense ratio posted was facilitated by maintaining balances of core deposits, primarily resulting from the Bank's active marketing and merchant processing activities and commercial business lending activities. In addition, the Bank restructured the FHLB borrowings portfolio in 2003, prepaying longer-term higher cost borrowings and replacing such borrowings with very short-term, lost cost advances. The Bank's advantage in funding costs (2.20% versus 2.47% for the Peer Group) was offset in part by a higher ratio of interest-bearing liabilities as a percent of assets. Following the Bank's conversion, the increase in capital to be realized from the infusion of conversion proceeds and the resultant decline in the level of interest-bearing liabilities funding assets should further improve the Bank's advantage in comparison to the Peer Group with respect to maintaining a lower interest expense ratio.

In another key area of core earnings strength, the Bank maintained a higher level of operating expenses than the Peer Group. For the period covered in Table 3.3, the Bank and the Peer Group reported operating expense to average assets ratios of 2.94% and 2.64%, respectively, inclusive of amortization of goodwill and other intangibles. In general, the Bank's higher operating expense ratio is reflective of its strategy to broaden products and services offered to its customers, its deposit composition which consist of a relatively high concentration of transaction accounts that are more costly to service than time deposits and its mortgage banking operations. Consistent with the Bank's higher operating expense ratio, BankFinancial

maintained a comparatively higher number of employees relative to its asset size. Assets per full time equivalent employee equaled \$3.1 million for the Bank, versus a comparable measure of \$4.2 million for the Peer Group. On a post-offering basis, the Bank's operating expenses can be expected to increase with the addition of stock benefit plans and expenses related to operating as a publicly-traded company, with such expenses already impacting the Peer Group's operating expenses. At the same time, BankFinancial's capacity to leverage operating expenses will be greater than the Peer Group's leverage capacity following the increase in capital realized from the infusion of net stock proceeds.

When viewed together, net interest income and operating expenses provide considerable insight into a thrift's earnings strength, since those sources of income and expenses are typically the most prominent components of earnings and are generally more predictable than losses and gains realized from the sale of assets or other non-recurring activities. In this regard, as measured by their expense coverage ratios (net interest income divided by operating expenses), the Bank's earnings strength was less than the Peer Group's. For the twelve months ended June 30, 2004, BankFinancial's and the Peer Group's expense coverage ratios equaled 0.87x and 1.10x, respectively. An expense coverage ratio of greater than 1.0x indicates that an institution is able to sustain pre-tax profitability without having to rely on non-interest sources of income.

Sources of non-interest operating income were a larger contributor to the Peer Group's earnings, with such income amounting to 0.59% and 0.88% of BankFinancial's and the Peer Group's average assets, respectively. The Peer Group's higher level of non-interest operating income is supported by income generated through service fees and charges. Taking non-interest operating income into account in comparing the Bank's and the Peer Group's earnings, BankFinancial's efficiency ratio of 93.3% was less favorable than the Peer Group's efficiency ratio of 69.8%.

Loan loss provisions had a fairly minor impact on the Bank's earnings, with BankFinancial reporting a recovery of 0.02% of average assets, while the Peer Group established reserves equaling 0.19% of average assets. The level of loan loss provisions established by the Bank and the Peer Group was indicative of their generally favorable credit quality measures.

Net gains or losses were a factor in the Bank's and the Peer Group's earnings, with BankFinancial reporting net non-operating losses of 1.57% of average assets, while the Peer Group reported gains of 0.21% of average assets. Typically, gains and losses generated from the sale of assets are viewed as earnings with a relatively high degree of volatility and, thus, are substantially discounted in the evaluation of an institution's core earnings. In the case of BankFinancial, the losses were primarily derived from the prepayment of FHLB advances, which equaled 0.57% of average assets and 1.03% of average assets on the loss on impairment of securities held for sale. Other items that affected the Bank's income statement included impairment of servicing assets and gains on the sale of investment securities. The gains recorded by the Peer Group were supported by gains derived from the sale of fixed rate loans as an ongoing activity. Accordingly, such gains warrant some consideration as a core earnings factor for the Bank and the Peer Group, but are still viewed as a more volatile source of income than income generated through the net interest margin and non-interest operating income.

Due to the Bank's recorded loss for the twelve months ended June 30, 2004, the Bank recorded a tax benefit at a rate of 42.3%, while the Peer Group posted an effective tax rate of 32.6%, respectively.

Loan Composition

Table 3.4 presents data related to the loan composition of BankFinancial and the Peer Group. In comparison to the Peer Group, the Bank's loan portfolio composition reflected a lower concentration in the aggregate of 1-4 family permanent mortgage loans and mortgage-backed securities than maintained by the Peer Group (34.4% of assets versus 44.7% for the Peer Group). A higher concentration of 1-4 family loans primarily accounted for the Peer Group's higher ratio, although the Bank maintained a higher ratio of mortgage-backed securities. Loans serviced for others equaled 25.0% and 35.2% of the Bank's and the Peer Group's assets, respectively, thereby indicating the greater influence of mortgage banking activities on the Peer Group's operations. The Peer Group's higher balance of loans serviced for others translated into a higher ratio of servicing intangibles, as servicing assets equaled 0.17% and 0.35% of the Bank's and the Peer Group's assets, respectively.

Diversification into higher risk and higher yielding types of lending was more significant for the Bank, largely on the basis of the Bank's higher concentration of commercial real estate/multi-family and commercial business loans. Commercial real estate/multi-family loans represented the most significant area of lending diversification for the Bank (33.3% of assets), followed by commercial business loans (11.2% of assets). Multi-family loans constituted approximately one-half of the total, indicating a significant investment in these loan types. Similarly, commercial real estate/multi-family loans represented the most significant area of lending diversification for the Peer Group (18.1% of assets) followed by consumer loans (6.1% of assets). In comparison to BankFinancial, the Peer Group's loan composition reflected higher concentrations of construction/land loans (5.6% of assets) and consumer loans (6.1% of assets). Beyond commercial real estate/multi-family and commercial business loans, lending diversification for the Bank was limited consisting of balances of construction and land loans (3.9% of assets) and consumer loans (0.2% of assets). Overall, the Bank's greater degree of lending diversification into higher risk types of lending translated into a higher risk weighted assets-to-assets ratio of 74.3%, versus a comparable ratio of 70.5% maintained by the Peer Group.

Credit Risk

Overall, the Bank's credit risk exposure appears to be similar to the Peer Group's, based on the Bank's similar ratios of non-performing loans and non-performing assets as a percent of non-performing loans and non-performing assets. As shown in Table 3.5, the Bank's ratio of non-performing assets and accruing loans that are more than 90 days past due equaled 0.63% of assets, which was slightly below the comparable Peer Group ratio of 0.66%. Non-performing loans equaled 0.74% of the Bank's loans compared to 0.75% for the Peer Group. The Bank maintained a lower level of loss reserves as a percent of non-performing loans (135.3% versus 192.6% for the Peer Group), while at the same time maintaining higher reserves as a percent of loans (1.00% versus 0.92% for the Peer Group). The similar credit risk was also evident in the level of net charge-offs for the twelve month period, which equaled 0.12% and 0.18% of the Peer Group's and the Bank's respectively, both of which are relatively low figures.

Interest Rate Risk

Table 3.6 reflects various key ratios highlighting the relative interest rate risk exposure of the Bank versus the Peer Group companies. In terms of balance sheet composition, BankFinancial's interest rate risk characteristics were considered to be slightly less favorable in a declining interest rate environment than the Peer Group's. Most notably, BankFinancial's lower tangible capital position and lower IEA/IBL ratio indicate a greater dependence on the yield-cost spread to sustain the net interest margin. A lower level of non-interest earning assets represented an advantage for the Bank with respect to capacity to generate net interest income and, in turn, limiting the interest rate risk associated with the balance sheet. On a pro forma basis, the infusion of stock proceeds should provide the Bank with comparable or slightly more favorable balance sheet interest rate risk characteristics than currently maintained by the Peer Group, particularly with respect to the increases that will be realized in Bank's equity-to-assets and IEA/IBL ratios.

To analyze interest rate risk associated with the net interest margin, we reviewed quarterly changes in net interest income as a percent of average assets for BankFinancial and the Peer Group. In general, the more significant fluctuations in the Bank's ratios implied there was a greater degree of interest rate risk associated with its net interest income compared to the Peer Group's, based on the interest rate environment that prevailed during the period covered in Table 3.6. However, it is recognized that the Bank's income statement is currently being impacted by certain non-cash expenses related to restructuring actions, including the prepayment of FHLB advances and the mark-to-market entries associated with the acquisition of Success National Bank. Therefore, direct conclusions from the data shown in Table 3.6 are more difficult. The stability of the Bank's net interest margin should be enhanced by the infusion of stock proceeds, as interest rate sensitive liabilities will be funding a lower portion of BankFinancial's assets and the proceeds will be substantially deployed into interest-earning assets.

Summary

Based on the above analysis, RP Financial concluded that the Peer Group forms a reasonable basis for determining the pro forma market value of BankFinancial. Such general characteristics as asset size, capital position, interest-earning asset composition, funding

composition, core earnings measures, loan composition, credit quality and exposure to interest rate risk all tend to support the reasonability of the Peer Group from a financial standpoint. Those areas where differences exist will be addressed in the form of valuation adjustments to the extent necessary.

IV. VALUATION ANALYSIS

Introduction

This chapter presents the valuation analysis and methodology used to determine BankFinancial's estimated pro forma market value for purposes of pricing the stock. The valuation incorporates the appraisal methodology promulgated by the OTS and adopted in practice by the FDIC for standard conversion offerings, particularly regarding selection of the Peer Group, fundamental analysis on both the Company and the Peer Group, and determination of the Company's pro forma market value utilizing the market value approach.

Appraisal Guidelines

The OTS written appraisal guidelines specify the market value methodology for estimating the pro forma market value of an institution pursuant to a mutual-to-stock conversion. Pursuant to this methodology: (1) a peer group of comparable publicly-traded institutions is selected; (2) a financial and operational comparison of the subject company to the peer group is conducted to discern key differences; and (3) a valuation analysis in which the pro forma market value of the subject company is determined based on the market pricing of the peer group as of the date of valuation, incorporating valuation adjustments for key differences. In addition, the pricing characteristics of recent conversions, both at conversion and in the aftermarket, must be considered.

RP Financial Approach to the Valuation

The valuation analysis herein complies with such regulatory approval guidelines. Accordingly, the valuation incorporates a detailed analysis based on the Peer Group, discussed in Chapter III, which constitutes "fundamental analysis" techniques. Additionally, the valuation incorporates a "technical analysis" of recently completed conversions and stock offerings, including closing pricing and aftermarket trading of such offerings. It should be noted that these valuation analyses, based on either the Peer Group or the recent conversions cannot possibly fully account for all the market forces which impact trading activity and pricing characteristics of a stock on a given day.

The pro forma market value determined herein is a preliminary value for the Company's to-be-issued stock. Throughout the conversion process, RP Financial will: (1) review changes in the Company's operations and financial condition; (2) monitor the Company's operations and financial condition relative to the Peer Group to identify any fundamental changes; (3) monitor the external factors affecting value including, but not limited to, local and national economic conditions, interest rates, and the stock market environment, including the market for thrift stocks; and (4) monitor pending standard conversion offerings both regionally and nationally. If material changes should occur prior to close of the offering, RP Financial will evaluate if updated valuation reports should be prepared reflecting such changes and their related impact on value, if any. RP Financial will also prepare a final valuation update at the closing of the offering to determine if the prepared valuation analysis and resulting range of value continues to be appropriate.

The appraised value determined herein is based on the current market and operating environment for the Company and for all thrifts. Subsequent changes in the local and national economy, the legislative and regulatory environment, the stock market, interest rates, and other external forces (such as natural disasters or major world events), which may occur from time to time (often with great unpredictability) may materially impact the market value of all thrift stocks, including BankFinancial's value, the market value of the stocks of public institutions, or BankFinancial's value alone. To the extent a change in factors impacting the Company's value can be reasonably anticipated and/or quantified, RP Financial has incorporated the estimated impact into its analysis.

Valuation Analysis

A fundamental analysis discussing similarities and differences relative to the Peer Group was presented in Chapter III. The following sections summarize the key differences between the Company and the Peer Group and how those differences affect the pro forma valuation. Emphasis is placed on the specific strengths and weaknesses of the Company relative to the Peer

Group in such key areas as financial condition, profitability, growth and viability of earnings, asset growth, primary market area, dividends, liquidity of the shares, marketing of the issue, management, and the effect of government regulations and/or regulatory reform. We have also considered the market for thrift stocks, in particular new issues, to assess the impact on value of BankFinancial coming to market at this time.

1. Financial Condition

The financial condition of an institution is an important determinant in pro forma market value because investors typically look to such factors as liquidity, capital, asset composition and quality, and funding sources in assessing investment attractiveness. The similarities and differences in the Company's and the Peer Group's financial strength are noted as follows:

- Overall A/L Composition. Loans funded by retail deposits were the primary components of both BankFinancial's and the Peer Group's balance sheets. The Peer Group's interest-earning asset composition exhibited a higher concentration of loans, while the Company's loan portfolio composition reflected a greater degree of diversification into higher risk and higher yielding types of loans. This more notable diversification into higher risk types of loans resulted in a slightly higher risk weighted assets-to-assets ratio than the Peer Group. BankFinancial's funding composition reflected similar concentrations of deposits and borrowings relative to the Peer Group's ratios. Overall, as a percent of assets, the Company maintained a slightly lower level of interest-earning assets and a higher level of interest-bearing liabilities than indicated for the Peer Group, which resulted in a lower IEA/IBL ratio for the Company. The infusion of stock proceeds should serve to increase the Company's IEA/IBL ratio and, thus, eliminate the comparative advantage currently indicated in the Peer Group's IEA/IBL ratio. For valuation purposes, RP Financial concluded no adjustment was warranted for the Company's overall asset/liability composition.
- Credit Quality. The Company maintained slightly lower ratios of non-performing assets-to-assets and non-performing loans-to-loans. At the same time, the Company maintained lower reserve coverage ratios, both as a percent of non-performing loans and as a percent of non-performing assets. Net loan charge-offs were slightly higher for the Company, while the Company maintained a slightly higher risk weighted assets-to-assets ratio. The Company also maintained a concentration of preferred stock investments that were subject to significant writedowns in the quarter ended June 30, 2004. The Peer Group did not maintain a similar concentration of such securities. Overall, in comparison to the Peer Group, the Company's measures imply a slightly higher degree of credit exposure and, thus, RP Financial concluded that a slight downward adjustment was warranted for the Company's credit quality.

- Balance Sheet Liquidity. The Company operated with a higher level of cash and investment securities relative to the Peer Group (21.5% of assets versus 16.8% for the Peer Group). BankFinancial's future borrowing capacity was considered to be comparable to the Peer Group's, in light of the similar level of borrowings that were maintained by the Company and the Peer Group. Overall, balance sheet liquidity for the Company and the Peer Group were not viewed as being materially different and, thus, RP Financial concluded that no adjustment was warranted for the Company's balance sheet liquidity.
- Funding Liabilities. Retail deposits and borrowings comprised a similar portion of the Company's and the Peer Group's respective funding compositions. The Company's overall funding composition provided for a slightly lower cost of funds than maintained by the Peer Group. In total, the Company maintained a higher level of interest-bearing liabilities than the Peer Group, which was attributable to BankFinancial's lower capital position. Following the stock offering, the increase in the Company's capital position should provide BankFinancial with a comparable or lower level of interest-bearing liabilities than maintained by the Peer Group. Overall, RP Financial concluded that no adjustment was warranted for BankFinancial's funding composition.
- Capital. The Peer Group operates with a higher equity-to-assets ratio than the Company. However, following the stock offering, BankFinancial's pro forma capital position will likely exceed the Peer Group's equity-to-assets ratio. The Company's higher pro forma capital position will result in greater leverage potential and reduce the level of interest-bearing liabilities utilized to fund assets. At the same time, the Company's more significant capital surplus will likely result in a depressed ROE. Overall, RP Financial concluded that a slight upward adjustment was warranted for the Company's pro forma capital position.

On balance, BankFinancial's balance sheet strength was considered to be in general similar to the Peer Group's, as implied overall by the Company's A/L composition, credit quality, liquidity and pro forma capital position. Accordingly, we concluded that no valuation adjustment was warranted for the Company's financial condition.

2. Profitability, Growth and Viability of Earnings

Earnings are a key factor in determining pro forma market value, as the level and risk characteristics of an institution's earnings stream and the prospects and ability to generate future earnings heavily influence the multiple that the investment community will pay for earnings. The major factors considered in the valuation are described below.

- **Reported Earnings.** The Company reported lower earnings on a ROAA basis (a loss of 0.77% of average assets versus earnings of 0.77% for the Peer Group). Higher levels of net interest income, non-interest operating income and non-operating income, along with lower operating expenses, supported the Peer Group's higher return. Reinvestment and leveraging of the net stock proceeds should enhance returns for the Company, but the pick-up in earnings will be somewhat offset by the increase in operating expenses that will result from the implementation of the stock benefit plans and expenses related to operating as a publicly-traded Company with shareholders to report to. Overall, the Company's reported earnings were considered to be less favorable than the Peer Group's reported earnings and, thus, RP Financial concluded that a slight downward adjustment was appropriate for the Company's reported earnings.
- **Core Earnings.** The Company's and the Peer Group's earnings were derived largely from recurring sources, including net interest income, operating expenses, and non-interest operating income. However, the Company's earnings for the most recent twelve month period were negatively affected by a prepayment penalty incurred in connection with prepayment of FHLB advances and an impairment charge recorded against preferred stock investments available for sale. In addition, the Company's earnings were also impacted by gains on the sale of loans and securities into the secondary market. Adjusting the Company's results for these items resulted in modest core profitability of \$2.229 million, or approximately 0.15% of average assets, which remains much lower than the peer group average of 0.64% of average assets. The Company's expense coverage ratio was lower than the Peer Group's ratio (0.87x versus 1.10x for the Peer Group), and BankFinancial's efficiency ratio of 93.3% was also less comparable to the Peer Group's efficiency ratio of 69.8%. Loss provisions had a larger impact on the Peer Group's earnings. Overall, these measures, after taking into account the expected earnings benefits the Company should realize from the redeployment of stock proceeds into interest-earning assets, which will be negated by expenses associated with the stock benefit plans and operating as a publicly-traded Company, indicate that the Company's core earnings remain less favorable than the Peer Group. Therefore, RP Financial concluded that a slight downward adjustment was necessary for core earnings.
- **Interest Rate Risk.** Quarterly changes in the Company's and the Peer Group's net interest income to average assets ratios indicated that a slightly higher degree of volatility was associated with the Company's net interest margin, although this data was impacted by other factors related to restructuring activities. The Peer Group's stronger capital and IEA/IBL ratios, along with a similar level of non-interest earning assets, implied a lower dependence on the yield-cost spread to sustain net interest income. On a pro forma basis, the Company's capital position and IEA/IBL ratio will be enhanced by the infusion of stock proceeds and should eliminate the current advantages indicated for the Peer Group's ratios. Overall, RP Financial concluded that the interest rate risk associated with the Company's earnings was comparable to the Peer Group's earnings interest rate risk exposure and no valuation adjustment was necessary for this factor.

- Credit Risk. Loan loss provisions were a larger factor in the Peer Group's earnings, as the Company reported a modest recovery of loss provisions for the twelve months ended June 30, 2004. In terms of future exposure to credit quality related losses, the Company's and the Peer Group's credit quality measures generally implied a comparable degree of earnings credit risk exposure. In particular, the slightly more favorable earnings credit risk associated with the Company's ratios of non-performing assets and non-performing loans was offset in part by more favorable reserve coverage ratios as a percent of loans and non-performing loans by the Peer Group. The Company does, however, continue to retain its portfolio of preferred stock which resulted in impairment charges in the most recent quarter. Future impairment charges are not anticipated for this portfolio, however the portfolio represents a concentration and risk that affects our valuation adjustment for earnings. Overall, RP Financial concluded that a slight downward adjustment was warranted for this factor.
- Earnings Growth Potential. Several factors were considered in assessing earnings growth potential. First, the Company's recent historical balance sheet growth was lower than the Peer Group's. Second, the infusion of stock proceeds will increase the Company's earnings growth potential with respect to leverage capacity, as the Company's pro forma leverage capacity should be comparable to or greater than the Peer Group's. Lastly, the Peer Group's more diversified operations into areas that generate non-interest operating income provides greater earnings growth potential and sustainability of earnings during periods when net interest margins come under pressure as the result of higher interest rates. Overall, the Company's earnings growth potential appears to be comparable to the Peer Group's, and, thus, we concluded that no adjustment was warranted for this factor.
- Return on Equity. As the result of the increase in capital that will be realized from the infusion of net stock proceeds, the Company's return on equity will be below the comparable averages for the Peer Group and all publicly-traded thrifts. In view of the lower capital growth rate that will be imposed by BankFinancial's lower ROE, we concluded that a slight downward adjustment was warranted for the Company's ROE.

Overall, a moderate downward adjustment was applied for the Company's profitability, growth and viability of earnings.

3. Asset Growth

BankFinancial's asset growth rate was lower than the Peer Group's during the period covered in our comparative analysis (1.5% versus 9.2% for the Peer Group). Additionally, the Peer Group's asset growth was realized through growth of loans, as opposed to lower yielding

cash and investments. On a pro forma basis, the Company's tangible equity-to-assets ratio will be above the Peer Group's tangible equity-to-assets ratio, indicating greater leverage capacity for the Company. On average, the demographic characteristics of the Company's primary market area were considered to be more favorable than the markets served by the Peer Group companies with respect to supporting lending and deposit growth opportunities. On balance, we believe a slight upward adjustment was warranted for this factor.

4. Primary Market Area

The general condition of an institution's market area has an impact on value, as future success is in part dependent upon opportunities for profitable activities in the local market served. BankFinancial's primary market area for loans and deposits is considered to be greater Chicago metropolitan area, specifically the counties of Cook, Lake, Will and DuPage, where the main office and all of its branches are located. This four county market area contains 7.5 million residents, representing one of the largest population centers in the United States. In general, the market area is a relatively moderate growth market, with such growth somewhat lower than the U.S. growth rates. Household and per capita income measures for the market area are well above national averages, reflecting the more urban characteristics of the Company's market area.

Overall, the markets served by the Peer Group companies were viewed as being less favorable with respect to supporting growth opportunities. Cook County's population growth was stronger than the median of the markets served by the Peer Group companies, and, on average, the Company serves a more populous market than the Peer Group. Per capita income for the markets served by the Peer Group companies was on average less than Cook County's per capita income. The average deposit market share maintained by the Peer Group companies was higher than the Company's market share of deposits in Cook County. In general, the degree of competition faced by the Peer Group companies was viewed as being less than the Company's competitive environment. Summary demographic and deposit market share data for the Company and the Peer Group companies is provided in Exhibit III-3. As shown in Table 4.1, June 2004 unemployment rates for the majority of the markets served by the Peer Group companies were somewhat lower than the unemployment rate reflected for Cook County. On balance, we concluded that a slight upward adjustment was appropriate for the Company's market area.

Table 4.1
Market Area Unemployment Rates
BankFinancial, Inc. and the Peer Group Companies(1)

| | County | June 2004 Unemployment |
|---|-----------|---------------------------|
| BankFinancial Corp. - IL | Cook | 6.6% |
| <u>The Peer Group Average</u> | | 6.0% |
| TierOne Corp. of Lincoln, NE | Lancaster | 3.7% |
| United Comm. Fin. Corp. of OH | Mahoning | 7.7 |
| First Place Fin. Corp. of OH | Trumbull | 7.1 |
| CFS Bancorp, Inc. of Munster, IN | Lake | 6.2 |
| Citizens First Bancorp, Inc. of MI | St. Clair | 7.8 |
| Camco Fin. Corp. of Cambridge, OH | Guernsey | 7.2 |
| First Defiance Fin. Corp. of OH | Defiance | 6.6 |
| EFC Bancorp, Inc. of Elgin, IL | Kane | 5.8 |
| HF Financial Corp. of Souix Falls, SD | Minnehaha | 3.2 |
| MutualFirst Financial, Inc. of Muncie, IN | Delaware | 5.1 |

(1) Unemployment rates are not seasonally adjusted.
Source: U.S. Bureau of Labor Statistics.

5. Dividends

At this time the Company has not established a dividend policy. Future declarations of dividends by the Board of Directors will depend upon a number of factors, including investment opportunities, growth objectives, financial condition, profitability, tax considerations, minimum capital requirements, regulatory limitations, stock market characteristics and general economic conditions.

All ten of the Peer Group companies pay regular cash dividends, with implied dividend yields ranging from 0.92% to 3.84%. The average dividend yield on the stocks of the Peer Group institutions equaled 2.52% as of September 10, 2004. As of September 10, 2004, approximately 89% of all publicly-traded thrifts had adopted cash dividend policies (see Exhibit IV-1), exhibiting an average yield of 2.17%. The dividend paying thrifts generally maintain higher than average profitability ratios, facilitating their ability to pay cash dividends.

While the Company has not established a definitive dividend policy prior to converting, the Company will have the capacity to pay a dividend comparable to the Peer Group's average dividend yield based on pro forma earnings and capitalization. On balance, we concluded that no adjustment was warranted for purposes of the Company's dividend policy.

6. Liquidity of the Shares

The Peer Group is by definition composed of companies that are traded in the public markets. Nine of the Peer Group members trade on the NASDAQ system and one of the Peer Group members trade on the AMEX. Typically, the number of shares outstanding and market capitalization provides an indication of how much liquidity there will be in a particular stock. The market capitalization of the Peer Group companies, based on the shares issued and outstanding to shareholders ranged from \$57 million to \$396 million as of September 10, 2004, with average and median market values of \$198 million and \$167 million, respectively. The shares issued and outstanding to the shareholders of the Peer Group members ranged from 3.5 million to 31.1 million, with average and median shares outstanding of 11.2 million and 7.8 million, respectively. The Company's stock offering is expected to have a pro forma market value that is comparable to the Peer Group average, while public shares outstanding for the Company is expected to be in the upper end of the range of shares outstanding maintained by the individual Peer Group companies. Like the majority of the Peer Group companies, the Company's stock will be quoted on the NASDAQ National Market System following the stock offering. Overall, we anticipate that the Company's public stock will have a comparable trading market as the Peer Group companies on average and, therefore, concluded no adjustment was necessary for this factor.

7. Marketing of the Issue

Three separate markets exist for thrift stocks: (1) the after-market for public companies, in which trading activity is regular and investment decisions are made based upon financial condition, earnings, capital, ROE, dividends and future prospects; (2) the new issue market in which converting thrifts are evaluated on the basis of the same factors, but on a pro forma basis

without the benefit of prior operations as a publicly-held company and stock trading history; and (3) the thrift acquisition market for thrift franchises in Illinois. All of these markets were considered in the valuation of the Bank's to-be-issued stock.

A. The Public Market

The value of publicly-traded thrift stocks is easily measurable, and is tracked by most investment houses and related organizations. Exhibit IV-1 provides pricing and financial data on all publicly-traded thrifts. In general, thrift stock values react to market stimuli such as interest rates, inflation, perceived industry health, projected rates of economic growth, regulatory issues and stock market conditions in general. Exhibit IV-2 displays historical stock market trends for various indices and includes historical stock price index values for thrifts and commercial banks. Exhibit IV-3 displays historical stock price indices for thrifts only.

In terms of assessing general stock market conditions, the performance of the overall stock market has been mixed over the past year. Economic data that showed a strengthening economy, particularly in the manufacturing sector, propelled stocks higher through September 2003, as the DJIA and NASDAQ posted respective 14-month and 16-month highs. Stocks retreated following the release of August employment data which showed further job losses, but then recovered in mid-September as the Federal Reserve indicated that it would not raise rates in the near term. Weaker than expected numbers for consumer confidence and manufacturing activity pulled the boarder market lower at the close of the third quarter, which ended a streak of six monthly gains in the DJIA.

Comparatively, at the start of the fourth quarter stocks showed renewed strength, as optimism about third quarter earnings and employment data for September 2003 provided a boost to stocks. In mid-October, the DJIA and the NASDAQ hit 16- and 19-month highs, respectively, primarily on the basis of some favorable third quarter earnings reports. The broader stock market rally cooled in mid-October, as the result of profit taking and the posting of some less favorable third quarter earnings by some of the bellwether technology and manufacturing stocks. Indications that the economic recovery was gaining momentum, including an annualized GDP growth rate of 8.2% in the third quarter, as well as the Federal Reserve's statement that it would not raise its target interest rates for a considerable period, supported a stock market rally

during late-October and into early-November. Despite upbeat economic news, including employment data that showed the size of the U.S. workforce increased in October, stocks edged lower in mid-November on profit taking and concerns over increased terrorism in the Middle East. In late-November and early-December 2003, positive economic news such as improved third quarter corporate profits and a strong start to the Christmas shopping season provided a boost to stocks. Stocks continued to move higher at the close of 2003, as key sectors of the economy continued to show signs of strengthening.

Year end momentum in the stock market was sustained at the beginning of 2004, reflecting generally favorable fourth quarter earnings and an increase in consumer confidence. Profit taking and slower than expected GDP growth in the fourth quarter of 2003 caused stocks to falter in late-January. However, aided by January employment data that showed jobs were added and a decline in the national unemployment rate to 5.6%, the broader stock market moved higher during the first half of February. Stocks generally declined during the balance of February and during the first half of March, reflecting valuation concerns following a year of strong gains and weaker than expected job growth during February. Concerns about terrorism and higher oil prices caused stocks to tumble in late-March, before rebounding at the close of the first quarter on more attractive fundamentals and optimism about first quarter earnings.

Stocks moved higher in early April 2004, as investors reacted favorably to a strong employment report for March. For the balance of April trading in the broader market produced uneven results, as generally favorable first quarter earnings and strong economic data weighed against the growing threat of inflation and higher interest rates. The DJIA closed below 10000 for the first time in 2004 in the second week of May, as strong job growth during April raised expectations of a rate increase by the Federal Reserve. The downward trend in stocks prevailed through most of May, on concerns about higher oil prices, violence in the Middle East and higher interest rates. Stocks rebounded in late-May, primarily on the basis of higher corporate earnings and lower oil prices. Strong employment data for May combined with lower oil prices and favorable inflation data provided for a positive trend in the broader market through mid-June. Stocks traded in a narrow range through the end of the second quarter, as investors awaited the outcome of the Federal Reserve meeting at the end of June.

Rising oil prices and profit warnings from some technology companies caused major stock indices to fall at the start of the third quarter of 2004. Stocks continued to trend lower through most of July, as a slow down in the economic expansion raised concerns about future earnings growth. Strong consumer confidence numbers for July reversed the downward in stocks during the last week of July, with the DJIA closing up for the week for the first time since mid-June. The recovery in the stock market was short-lived, as record high oil prices, weak retail sales for July and weaker than expected job growth for July pulled stocks lower in early-August. A positive economic outlook by the Federal Reserve and bargain hunting supported gains in the stock market during mid-August, as the DJIA moved back above the 10000 barrier. The stock market traded in a narrow range through early September 2004, as concerns about earnings, particularly in the high tech industry, and terrorism fears and the effect on world oil prices, continued to weigh on the U.S. stock market. As an indication of the general trends in the nation's stock markets over the past year, as of September 10, 2004, the DJIA closed at 10313.1, an increase of 8.9% from one year ago and a decline of 1.4% year-to-date. As of September 10, 2004 the NASDAQ closed at 1894.3, an increase of 2.1% from one year ago and decline of 5.4% year-to-date. The Standard & Poors 500 Index closed at 1123.9 on September 10, 2004, an increase of 10.3% from a year ago and an increase of 1.1% year-to-date.

The market for thrift stocks has been mixed as well during the past twelve months, but, in general, thrift issues have paralleled trends in the broader market. Merger activity and acquisition speculation in the thrift sector provided a boost to thrift prices in early-September 2003. After easing lower into mid-September on data that showed a slow down in refinancing activity, thrift stocks strengthened following the Federal Reserve's decision to leave interest rates unchanged at its mid-September meeting.

After following the broader stock market lower as the close of the third quarter approached, thrift issues posted solid gains at the beginning of the fourth quarter of 2003. A rally in the broader stock market and acquisition activity were noteworthy factors that supported the positive trend in thrift stocks. Following a two week run-up, thrift stocks declined in mid-October on profit taking and a pullback in the broader market. Merger activity, most notably Bank America's announced acquisition of FleetBoston Financial Corp., along with strength in the broader market, provided for gains in the thrift sector during late-October. The positive trend

in thrift stocks carried into early-November, reflecting expectations of improving net interest margins and more consolidation of thrifts. Thrifts stocks eased lower in mid-November in conjunction with the decline in the broader market. In late-November and early-December 2003, thrift stocks followed the broader market higher and then stabilized at the close of the fourth quarter.

After trading in a narrow range at the beginning of 2004, thrift issues trended higher in late-January and the first half of February. The positive trend was supported by further consolidation in the thrift sector, including GreenPoint Financial's agreement to sell to North Fork Bancorp, as well as generally favorable fourth quarter earnings. Indications that interest rates would continue to remain low provided further support to thrift prices. Thrift stocks followed the broader market lower in mid-February, before recovering in late-February following a dip in long term Treasury yields. Thrift issues generally experienced some selling pressure during the first half of March, reflecting profit taking and weakness in the broader stock market. Higher interest rates and weakness in the broader market pressured thrift issues lower in late-March, which was followed by an upward move in thrift prices at the close of the first quarter.

Thrifts stocks generally traded lower at the start of the second quarter of 2004, as a strong employment report for March pushed interest rates higher. Higher interest rates and inflation worries pressured interest rate sensitive issues lower through most of April, with the sell-off sharpening in early-May following another strong employment report for April. Thrift stocks recovered modestly in mid-May as the yield on 10-year Treasury note declined slightly. Acquisition speculation involving the sale of Washington Mutual lifted the thrift sector in late-May. Thrift stocks generally retreated during the first half of June, as the yield on the 10-year Treasury note moved to a two-year high on inflation concerns. Following the sharp sell-off, thrift stocks rebounded as a moderate increase in core consumer prices during may and comments by the Federal Reserve Chairman that inflation did not seem likely to be a serious problem eased fears of a sharp rise in inflation. Acquisition activity helped to boost thrift stocks in late-June, but the upward trend was abruptly reversed at the end of June as a significant decline in Washington Mutual's 2004 earnings guidance pulled the broader thrift sector lower.

Thrift stocks responded favorably to the 25 basis point rate increase implemented by the Federal Reserve at the close of the 2004 second quarter, as the Federal Reserve indicated that it would continue to raise the federal funds rate 25 basis points at a time. June employment data which showed weaker than expected job growth also provided support to thrift stocks in early-July. For most of July there was little movement in thrift stocks, as second quarter earnings were generally in line with expectations. A rally in the broader market in late-July provided a boost to thrift stocks as well. Thrift issues traded down with the rest of the market in early-August, although losses in the thrift sector were mild compared to the sell-off experienced in the broader market as weaker than expected job growth for July pushed interest rates lower. Improved inflation data, lower interest rates and a rally in the broader stock market combined to push the thrift sector in mid-August. On September 10, 2004, the SNL Index for all publicly-traded thrifts closed at 1,498.2, an increase of 15.2% from one year ago and an increase of 1.1% year-to-date.

B. The New Issue Market

In addition to thrift stock market conditions in general, the new issue market for converting thrifts is also an important consideration in determining the Bank's pro forma market value. The new issue market is separate and distinct from the market for seasoned thrift stocks in that the pricing ratios for converting issues are computed on a pro forma basis, specifically: (1) the numerator and denominator are both impacted by the conversion offering amount, unlike existing stock issues in which price change affects only the numerator; and (2) the pro forma pricing ratio incorporates assumptions regarding source and use of proceeds, effective tax rates, stock plan purchases, etc. which impact pro forma financials, whereas pricing for existing issues are based on reported financials. The distinction between pricing of converting and existing issues is perhaps no clearer than in the case of the price/book ("P/B") ratio in that the P/B ratio of a converting thrift will typically result in a discount to book value whereas in the current market for existing thrifts the P/B ratio often reflects a premium to book value. Therefore, it is appropriate to also consider the market for new issues, both at the time of the conversion and in the aftermarket.

Thrift offerings completed in 2004 have generally been well received, with most offerings being oversubscribed and trading higher in initial trading activity. However, reflecting the general pull back in thrift stocks, four of the five recent offerings shown in Table 4.2 were not oversubscribed and the two second-step conversion offerings traded below their IPO prices in initial trading activity. As shown in Table 4.2, one standard conversion, two second-step conversions and two mutual holding company offerings were completed during the past three months. The standard conversion offerings are considered to be more relevant for purposes of our analysis, however this offering, Third Century Bancorp, trades on the OTC Bulletin Board. As of September 10, 2004, Third Century Bancorp's stock price was \$11.15, representing an increase of 11.5% since the initial public offering date of June 30, 2004.

Shown in Table 4.3 are the current pricing ratios of Partner Trust Financial Group, which is the only NASDAQ or Exchange listed fully-converted offering that has been completed within the past three months. Partners Trust's closing market price of \$10.15 on September 10, 2004 represented a 1.5% increase from its IPO price.

C. The Acquisition Market

Also considered in the valuation was the potential impact on BankFinancial's stock price of recently completed and pending acquisitions of other savings institutions operating in Illinois. As shown in Exhibit IV-4, there were nine Illinois thrift acquisitions announced from 2001 through year-to-date 2004, and there are currently three pending acquisitions of Illinois savings institutions. The recent acquisition activity in the regional market area may imply a certain degree of acquisition speculation for the Bank's stock. To the extent that acquisition speculation may impact the Bank's offering, we have largely taken this into account in selecting companies which operate in markets that have experienced a comparable level of acquisition activity as the Bank's market and, thus, are subject to the same type of acquisition speculation that may influence BankFinancial's trading price. However, since converting thrifts are subject to a three-year regulatory moratorium from being acquired, acquisition speculation in

BankFinancial's stock would tend to be less compared to the more seasoned stocks of the Peer Group companies.

* * * * *

In determining our valuation adjustment for marketing of the issue, we considered trends in both the overall thrift market, the new issue market and the local acquisition market for thrift stocks. Taking these factors and trends into account, RP Financial concluded that no adjustment was appropriate in the valuation analysis for purposes of marketing of the issue.

8. Management

BankFinancial's management team appears to have experience and expertise in all of the key areas of the Company's operations. Exhibit IV-5 provides summary resumes of BankFinancial's Board of Directors and senior management. The Company appears to have the organizational structure and management depth typically found in institutions of a similar asset size and complexity of operations. Management and the Board have been effective in implementing an operating strategy that can be well managed by the Company's present organizational structure.

Similarly, the returns, capital positions and other operating measures of the Peer Group companies are indicative of well-managed financial institutions, which have Boards and management teams that have been effective in implementing competitive operating strategies. Therefore, on balance, we concluded no valuation adjustment relative to the Peer Group was appropriate for this factor.

9. Effect of Government Regulation and Regulatory Reform

In summary, as a fully-converted SAIF-insured institution, BankFinancial will operate in substantially the same regulatory environment as the Peer Group members — all of whom are adequately capitalized institutions and are operating with no apparent restrictions. Exhibit IV-6 reflects the Bank's pro forma regulatory capital ratios. On balance, no adjustment has been applied for the effect of government regulation and regulatory reform.

Summary of Adjustments

Overall, based on the factors discussed above, we concluded that the Company's pro forma market value should reflect the following valuation adjustments relative to the Peer Group:

Table 4.4
BankFinancial Corporation
Valuation Adjustments

| <u>Key Valuation Parameters:</u> | <u>Valuation Adjustment</u> |
|--|-----------------------------|
| Financial Condition | No Adjustment |
| Profitability, Growth and Viability of Earnings | Moderate Downward |
| Asset Growth | Slight Upward |
| Primary Market Area | Slight Upward |
| Dividends | No Adjustment |
| Liquidity of the Shares | No Adjustment |
| Marketing of the Issue | No Adjustment |
| Management | No Adjustment |
| Effect of Government Regulations and Regulatory Reform | No Adjustment |

Valuation Approaches

In applying the accepted valuation methodology promulgated by the OTS and adopted by the FDIC, i.e., the pro forma market value approach, we considered the three key pricing ratios in valuing BankFinancial's to-be-issued stock — price/earnings ("P/E"), price/book ("P/B"), and price/assets ("P/A") approaches — all performed on a pro forma basis including the effects of the conversion proceeds. In computing the pro forma impact of the conversion and the related pricing ratios, we have incorporated the valuation parameters disclosed in BankFinancial's prospectus for reinvestment rate, the effective tax rate, offering expenses and stock benefit plan assumptions (summarized in Exhibits IV-7 and IV-8). In our estimate of value, we assessed the relationship of the pro forma pricing ratios relative to the Peer Group and the recent conversions.

RP Financial's valuation placed an emphasis on the following:

- P/E Approach. The P/E approach is generally the best indicator of long-term value for a stock. Given the similarities between the Company's and the Peer Group's earnings composition and overall financial condition, the P/E approach

was carefully considered in this valuation. At the same time, since reported earnings for both BankFinancial and the Peer Group included certain non-recurring items, we also made adjustments to earnings to arrive at core earnings estimates for the Company and the Peer Group and resulting price/core earnings ratios.

- P/B Approach. P/B ratios have generally served as a useful benchmark in the valuation of thrift stocks, particularly in the context of an initial public offering, as the earnings approach involves assumptions regarding the use of proceeds. RP Financial considered the P/B approach to be a useful indicator of pro forma value taking into account the pricing ratios under the P/E and P/A approaches. We have also modified the P/B approach to exclude the impact of intangible assets (i.e., price/tangible book value or "P/TB"), in that the investment community frequently makes this adjustment in its evaluation of this pricing approach.
- P/A Approach. P/A ratios are generally a less reliable indicator of market value, as investors typically assign less weight to assets and attribute greater weight to book value and earnings - we have also given less weight to the assets approach. Furthermore, this approach as set forth in the regulatory valuation guidelines does not take into account the amount of stock purchases funded by deposit withdrawals, thus understating the pro forma P/A ratio. At the same time, the P/A ratio is an indicator of franchise value, and, in the case of highly capitalized institutions, high P/A ratios may limit the investment community's willingness to pay market multiples for earnings or book value when ROE is expected to be low.

The Company will adopt Statement of Position ("SOP") 93-6, which will cause earnings per share computations to be based on shares issued and outstanding excluding unreleased ESOP shares. For purposes of preparing the pro forma pricing analyses, we have reflected all shares issued in the offering, including all ESOP shares, to capture the full dilutive impact, particularly since the ESOP shares are economically dilutive, receive dividends and can be voted. However, we did consider the impact of the adoption of SOP 93-6 in the valuation.

Based on the application of the three valuation approaches, taking into consideration the valuation adjustments discussed above, RP Financial concluded that, as of September 10, 2004, the pro forma market value of BankFinancial's conversion stock was \$150,000,000 at the midpoint, equal to 15,000,000 shares at \$10.00 per share.

1. Price-to-Earnings ("P/E"). The application of the P/E valuation method requires calculating the Company's pro forma market value by applying a valuation P/E multiple to the pro forma earnings base. In applying this technique, we considered both reported earnings and a

recurring earnings base, that is, earnings adjusted to exclude any one-time non-operating items, plus the estimated after-tax earnings benefit of the reinvestment of the net proceeds. The Company's reported earnings equaled a loss of \$11.185 million for the twelve months ended June 30, 2004. Thus, the Company's reported earnings are deemed "not meaningful" for valuation purposes, and thus are not further discussed in this valuation. In deriving BankFinancial's core earnings, the adjustments made to reported earnings included eliminating the losses incurred on the FHLB advance prepayment and the impairment in value of the securities held for sale, eliminating gains on the sale of assets (loans and investment securities) for the twelve month period ended June 30, 2004. As shown below, on a tax affected basis, assuming an effective marginal tax rate of 39.7%, the Company's core earnings were determined to equal \$2.229 million for the twelve months ended June 30, 2004. (Note: see Exhibit IV-9 for the adjustments applied to the Peer Group's earnings in the calculation of core earnings).

Table 4.5
BankFinancial Corporation
Core Earnings Estimate

| | <u>Amount</u> |
|---|---------------|
| | (\$000) |
| Net income | \$(11,185) |
| Addback: FHLB advance prepayment penalty(1) | 5,029 |
| Addback: Loss on Impairment of Securities Held AFS(1) | 9,018 |
| Less: Gain on sale of assets(1) | (633) |
| | <hr/> |
| Core earnings estimate | \$ 2,229 |

(1) Tax effected at 39.7%.

Based on the Company's estimated core earnings, and incorporating the impact of the pro forma assumptions discussed previously, the Company's pro forma core P/E multiple at the \$150.0 million midpoint value equaled 50.48 times, which provided for premiums of 129.8% and 160.7% relative to the Peer Group's average and median core earnings multiples of 21.97 times and 19.36 times, respectively (see Table 4.6). At the top of the super range, the Company's core P/E multiple of 61.68 times reflected premiums of 180.8% and 218.6% relative to the comparable P/E multiples for the Peer Group.

2. Price-to-Book and Price-to-Tangible Book (“P/B” and “P/TB”). The application of the P/B and P/TB valuation methods require calculating the Company’s pro forma market value by applying valuation P/B and P/TB ratios to BankFinancial’s pro forma book value. The pre-conversion reported book value for BankFinancial equaled \$95.3 million, while the pre-conversion tangible book value totaled \$73.7 million. Based on the \$150.0 million midpoint valuation, BankFinancial’s pro forma P/B and P/TB ratios equaled 66.7% and 73.8%, respectively. In comparison to the average P/B and P/TB ratios for the Peer Group of 129.68% and 144.46%, respectively, the Company’s ratios reflected a discount of 48.6% on a P/B basis and a discount of 48.9% on a P/TB basis. At the top of the super range, the Company’s P/B and P/TB ratios equaled 74.3% and 80.8% and reflected discounts of 42.7% and 44.1% relative to the comparable P/B and P/TB ratios for the Peer Group. RP Financial considered the discounts under the P/B approach to be reasonable in light of the Company’s significantly lower pro forma return on equity and the Company’s resulting P/E multiples.

3. Price-to-Assets (“P/A”). The P/A valuation methodology determines market value by applying a valuation P/A ratio to the Company’s pro forma asset base, conservatively assuming no deposit withdrawals are made to fund stock purchases. In all likelihood there will be deposit withdrawals, which results in understating the pro forma P/A ratio which is computed herein. At the midpoint of the valuation range, BankFinancial’s value equaled 9.38% of pro forma assets. Comparatively, the Peer Group companies exhibited an average P/A ratio of 13.24%, which implies a 29.2% discount to the Company’s pro forma P/A ratio.

Comparison to Recent Conversions

As indicated at the beginning of this chapter, RP Financial’s analysis of recent conversion offering pricing characteristics at closing and in the aftermarket has been limited to a “technical” analysis and, thus, the pricing characteristics of recent conversion offerings can not be a primary determinate of value. Particular focus was placed on the P/TB approach in this analysis, since the P/E multiples do not reflect the actual impact of reinvestment and the source of the stock proceeds (i.e., external funds vs. deposit withdrawals). The standard conversion offering

completed within the past three months closed at a P/TB ratio of 74.9% and appreciated 10.5% during the first week of trading. In comparison, BankFinancial's P/TB ratio at the midpoint of 73.8% represents a discount of 1.5% from Third Century's closing P/TB ratio.

Valuation Conclusion

Based on the foregoing, it is our opinion that, as of September 10, 2004, the estimated aggregate pro forma market value of the shares to be issued immediately following the conversion was \$150,000,000 at the midpoint. Pursuant to conversion guidelines, the 15% offering range indicates a minimum value of \$127,500,000 and a maximum value of \$172,500,000. Based on the \$10.00 per share offering price, this valuation range equates to an offering of 12,750,000 shares at the minimum and 17,250,000 shares at the maximum. In the event the appraised value is subject to an increase, the offering range may be increased up to a super maximum value of \$198,375,000 without requiring a resolicitation. The comparative pro forma valuation calculations relative to the Peer Group are shown in Table 4.6 and are detailed in Exhibit IV-7 and Exhibit IV-8.

BankFinancial, F.S.B.

PROPOSED MAILING AND INFORMATIONAL MATERIALS

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4. Dear Potential Investor Letter*
5. Dear Customer Letter - Used as a Cover Letter for States Requiring "Agent" Mailing*
- 6.-10. Proxy and Stock Q&A*
11. Proxy Request Letter (*immediate follow-up*)
12. Proxy Request
13. Stock Order/Certification Form (*page 1 of 2*)*
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15. Stock Order Form Guidelines*
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23. Letter for Sandler O'Neill Mailing to Clients*

* Accompanied by a Prospectus

Note: Items 1 through 15 are produced by the Financial Printer and Items 16 through 23 are produced by the conversion center.

Dear Member:

The Board of Directors of BankFinancial MHC, Inc. has voted in favor of the plan of conversion and reorganization whereby BankFinancial MHC will convert from the mutual holding company form of organization to the fully stock form. We are converting so that BankFinancial, F.S.B. will be structured in the form of ownership that we believe will best support the Bank's future growth.

To accomplish the conversion, your participation is extremely important. On behalf of the Board, I ask that you help us meet our goal by reading the enclosed material and then casting your vote in favor of the plan of conversion and reorganization and mailing your signed proxy card immediately in the enclosed [COLOR] postage-paid envelope marked "PROXY RETURN." Should you choose to attend the Special Meeting of Members and wish to vote in person, you may do so by revoking any previously executed proxy. If you have an IRA or other Qualified Retirement Plan account for which BankFinancial, F.S.B. acts as trustee and we do not receive a proxy from you, BankFinancial, F.S.B., as trustee for such account, intends to vote in favor of the plan of conversion and reorganization on your behalf. **If you have more than one account you may receive more than one proxy. Please vote by returning all proxy cards received.**

If the plan of conversion and reorganization is approved let me assure you that:

- deposit accounts will continue to be federally insured to the same extent permitted by law;
- existing deposit accounts and loans will not undergo any change; and
- voting for approval will not obligate you to buy any shares of common stock.

As a qualifying account holder, you may also take advantage of your nontransferable rights to subscribe for shares of BankFinancial Corporation common stock on a priority basis, before the stock is offered to the general public. The enclosed proxy statement and prospectus describe the stock offering and the operations of BankFinancial, F.S.B. If you wish to purchase stock, please complete the stock order and certification form and mail it, along with full payment for the shares (or appropriate instructions authorizing withdrawal from a deposit account with BankFinancial, F.S.B.) to BankFinancial, F.S.B. in the enclosed YELLOW postage-paid envelope marked "STOCK ORDER RETURN," or return it to any full service office of the Bank. Your order must be physically received by BankFinancial, F.S.B. no later than 12:00 noon Central time on _____, December __, 2004. **Please read the prospectus carefully before making an investment decision.**

If you wish to use funds in your IRA or Qualified Retirement Plan at BankFinancial, F.S.B. to subscribe for common stock, please be aware that federal law requires that such funds first be transferred to a self-directed retirement account with a trustee other than BankFinancial, F.S.B. The transfer of such funds to a new trustee takes time, so please make arrangements as soon as possible.

If you have any questions after reading the enclosed material, please call our conversion center at xxx-xxx-xxxx, Monday through Friday, between the hours of 10:00 a.m. and 4:00 p.m. Please note that the conversion center will be closed from 12:00 noon Wednesday, November 24 through 12:00 noon Monday, November 29, in observance of the Thanksgiving holiday.

Sincerely,

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

The shares of common stock offered in the conversion are not savings accounts or deposits and are not insured or guaranteed by BankFinancial, F.S.B., BankFinancial MHC, Inc., Inc., BankFinancial Corporation, the Federal Deposit Insurance Corporation or any other government agency.

This is not an offer to sell or a solicitation of an offer to buy common stock. The offer is made only by the prospectus.

Dear Member:

The Board of Directors of BankFinancial MHC, Inc. has voted in favor of the plan of conversion and reorganization whereby BankFinancial MHC will convert from the mutual holding company form of organization to the fully stock form. We are converting so that BankFinancial, F.S.B. will be structured in the form of ownership that we believe will best support the Bank's future growth.

To accomplish the conversion, your participation is extremely important. On behalf of the Board, I ask that you help us meet our goal by reading the enclosed material and then casting your vote in favor of the plan of reorganization and mailing your signed proxy card immediately in the enclosed postage-paid envelope marked "PROXY RETURN." Should you choose to attend the Special Meeting of Members and wish to vote in person, you may do so by revoking any previously executed proxy. If you have an IRA or other Qualified Retirement Plan for which BankFinancial, F.S.B. acts as trustee and we do not receive a proxy from you, BankFinancial, F.S.B., as trustee for such account, intends to vote in favor of the plan of conversion and reorganization on your behalf. **If you have more than one account you may receive more than one proxy. Please vote by returning all proxy cards received.**

If the plan of conversion and reorganization is approved let me assure you that:

- deposit accounts will continue to be federally insured to the same extent permitted by law; and
- existing deposit accounts and loans will not undergo any change.

We regret that we are unable to offer you common stock in the subscription offering because the laws of your state or jurisdiction require us to register either (1) the to-be-issued common stock of BankFinancial Corporation, or (2) an agent of BankFinancial Corporation to solicit the sale of such stock, and the number of eligible subscribers in your state or jurisdiction does not justify the expense of such registration.

If you have any questions after reading the enclosed material, please call our conversion center at xxx-xxx-xxxx, Monday through Friday, between the hours of 10:00 a.m. and 4:00 p.m. Please note that the conversion center will be closed from 12:00 noon Wednesday, November 24 through 12:00 noon Monday, November 29, in observance of the Thanksgiving holiday.

Sincerely,

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

The shares of common stock offered in the conversion are not savings accounts or deposits and are not insured or guaranteed by BankFinancial, F.S.B., BankFinancial MHC, Inc., BankFinancial Corporation, the Federal Deposit Insurance Corporation or any other government agency.

This is not an offer to sell or a solicitation of an offer to buy common stock. The offer is made only by the prospectus.

[BankFinancial, F.S.B.]

Dear Friend of BankFinancial F.S.B.:

The Board of Directors of BankFinancial MHC, Inc. has voted in favor of the plan of conversion and reorganization whereby BankFinancial MHC will convert from the mutual holding company form of organization to the fully stock form. We are converting so that BankFinancial, F.S.B. will be structured in the form of ownership that we believe will best support the Bank's future growth.

As a former account holder, you may take advantage of your nontransferable rights to subscribe for shares of BankFinancial Corporation common stock on a priority basis, before the stock is offered to the general public. The enclosed prospectus describes the stock offering and the operations of BankFinancial, F.S.B. If you wish to purchase stock, please complete the stock order and certification form and mail it, along with full payment for the shares (or appropriate instructions authorizing withdrawal from a deposit account with BankFinancial, F.S.B.) to BankFinancial, F.S.B. in the enclosed postage-paid envelope marked "STOCK ORDER RETURN," or return it to any full service office of the Bank. Your order must be physically received by BankFinancial, F.S.B. no later than 12:00 noon Central time on _____, December __, 2004. **Please read the prospectus carefully before making an investment decision.**

If you have any questions after reading the enclosed material, please call our conversion center at xxx-xxx-xxxx, Monday through Friday, between the hours of 10:00 a.m. and 4:00 p.m. Please note that the conversion center will be closed from 12:00 noon Wednesday, November 24 through 12:00 noon Monday, November 29, in observance of the Thanksgiving holiday.

Sincerely,

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

The shares of common stock offered in the conversion are not savings accounts or deposits and are not insured or guaranteed by BankFinancial, F.S.B., BankFinancial MHC, Inc., BankFinancial Corporation, the Federal Deposit Insurance Corporation or any other government agency.

This is not an offer to sell or a solicitation of an offer to buy common stock. The offer is made only by the prospectus.

[BankFinancial Corporation]

Dear Potential Investor:

We are pleased to provide you with the enclosed material in connection with the stock offering by BankFinancial Corporation. We are raising capital to support BankFinancial, F.S.B.'s future growth.

This information packet includes the following:

PROSPECTUS: This document provides detailed information about BankFinancial's operations and the proposed stock offering by BankFinancial Corporation. Please read it carefully prior to making an investment decision.

STOCK ORDER AND CERTIFICATION FORM: Use this form to subscribe for common stock and return it, together with full payment for the shares (or appropriate instructions authorizing withdrawal from a deposit account with BankFinancial, F.S.B.) to BankFinancial, F.S.B. in the enclosed postage-paid envelope. Your order must be physically received by BankFinancial, F.S.B. no later than 12:00 noon Central time on _____, December __, 2004.

We are pleased to offer you this opportunity to become one of our charter shareholders. If you have any questions regarding the plan of conversion and reorganization or the prospectus, please call our conversion center at xxx-xxx-xxxx, Monday through Friday, between the hours of 10:00 a.m. and 4:00 p.m.

Sincerely,

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

The shares of common stock offered in the conversion are not savings accounts or deposits and are not insured or guaranteed by BankFinancial, F.S.B., BankFinancial MHC, Inc., BankFinancial Corporation, the Federal Deposit Insurance Corporation or any other government agency.

This is not an offer to sell or a solicitation of an offer to buy common stock. The offer is made only by the prospectus.

Dear Customer of BankFinancial, F.S.B.:

At the request of BankFinancial, F.S.B, we have enclosed material regarding the offering of common stock of BankFinancial Corporation in connection with the plan of conversion and reorganization whereby BankFinancial MHC, Inc. will convert from the mutual holding company form of organization to the fully stock form. These materials include a prospectus and a stock order and certification form, which offer you the opportunity to subscribe for shares of common stock of BankFinancial Corporation.

We recommend that you read this material carefully. If you decide to subscribe for shares, you must return the properly completed and signed stock order and certification form, along with full payment for the shares (or appropriate instructions authorizing withdrawal from a deposit account with BankFinancial, F.S.B.) to BankFinancial, F.S.B. in the accompanying YELLOW postage-paid envelope marked "STOCK ORDER RETURN." Your order must be physically received by BankFinancial, F.S.B. no later than 12:00 noon Central time on _____, December __, 2004. If you have any questions after reading the enclosed material, please call the conversion center at xxx-xxx-xxxx, Monday through Friday, between the hours of 10:00 a.m. and 4:00 p.m., and ask for a Sandler O'Neill representative.

We have been asked to forward these documents to you in view of certain requirements of the securities laws of your jurisdiction. We should not be understood as recommending or soliciting in any way any action by you with regard to the enclosed material.

Sandler O'Neill & Partners, L.P.

The shares of common stock offered in the conversion are not savings accounts or deposits and are not insured or guaranteed by BankFinancial, F.S.B., BankFinancial MHC, Inc., BankFinancial Corporation, the Federal Deposit Insurance Corporation or any other government agency.

This is not an offer to sell or a solicitation of an offer to buy common stock. The offer is made only by the prospectus.

Enclosure

***Questions
& Answers
About the
Conversion &
Reorganization***

BankFinancial Corporation
Logo

Proposed holding company for
BankFinancial, F.S.B.

QUESTIONS AND ANSWERS

About the Plan of Conversion and Reorganization

The Board of Directors of BankFinancial MHC, Inc. has voted in favor of the plan of conversion and reorganization whereby BankFinancial MHC will convert from the mutual holding company form of organization to the fully stock form. As part of this reorganization, BankFinancial MHC, the mutual holding company parent of BankFinancial Corporation, will be merged into BankFinancial, F.S.B., and BankFinancial MHC will no longer exist. BankFinancial Corporation, which owns 100% of BankFinancial, F.S.B., will be succeeded by a new Maryland corporation with the same name. Pursuant to the terms of the plan, BankFinancial Corporation will be offering its shares of common stock for sale. We are reorganizing so that BankFinancial, F.S.B. will be structured in the form of ownership that we believe will best support the Bank's future growth.

It is necessary for the Bank to receive a majority of the outstanding votes in favor of the plan of conversion and reorganization, so **YOUR VOTE IS VERY IMPORTANT**. Please return your proxy in the enclosed [COLOR] postage-paid envelope marked "PROXY RETURN." **YOUR BOARD OF DIRECTORS URGES YOU TO VOTE "FOR" THE PLAN OF CONVERSION AND REORGANIZATION AND TO RETURN YOUR PROXY TODAY.**

Effect on Deposits and Loans

Q. Will the reorganization affect any of my deposit accounts or loans?

- A. No. The reorganization will have no effect on the balance or terms of any deposit account or loan. Your deposits will continue to be federally insured to the fullest extent permissible.

About Voting

Q. Who is eligible to vote on the plan of conversion and reorganization?

- A. Depositors of the Bank and certain borrowers as of the close of business on _____, 2004 (the "Voting Record Date").

Q. How do I vote?

- A. You may vote by mailing your signed proxy card(s) in the [COLOR] postage-paid envelope marked "PROXY RETURN." Should you choose to attend the Special Meeting of Members and decide to change your vote, you may do so by revoking any previously executed proxy.

Q. Am I required to vote?

- A. No. Depositors are not required to vote. However, because the reorganization will produce a fundamental change in the Bank's corporate structure, the Board of Directors encourages all depositors to vote.

Q. Why did I receive several proxies?

- A. If you have more than one account you may have received more than one proxy depending upon the ownership structure of your accounts. **Please vote, sign and return ALL proxy cards that you received.**

Q. Does my vote for reorganization mean that I must buy common stock of BankFinancial Corporation?

- A. No. Voting for the plan of reorganization does not obligate you to buy shares of common stock of BankFinancial Corporation.

Q. Are two signatures required on the proxy of a joint account?

A. Only one signature is required, but both parties should sign if possible.

Q. Who must sign proxies for trust or custodian accounts?

A. The trustee or custodian must sign proxies for such accounts, not the beneficiary.

Q. I am the executor (administrator) for a deceased depositor. Can I sign the proxy card?

A. Yes. Please indicate on the card the capacity in which you are signing the card.

About The Stock

Investment in common stock involves certain risks. For a discussion of these risks and other factors, investors are urged to read the accompanying prospectus.

Q. What are the priorities for purchasing the common stock?

A. The common stock of BankFinancial Corporation will be offered in the subscription offering in the following order of priority:

- Eligible Account Holders (depositors with accounts totaling \$50 or more as of March 31, 2003).
- Employee Plans (tax-qualified employee stock benefit plans) of BankFinancial, F.S.B.
- Supplemental Eligible Account Holders (depositors with accounts totaling \$50 or more as of September 30, 2004).
- Other Members (depositors and certain borrowers as of the close of business on _____, 2004, “the Voting Record Date”).

Upon completion of the subscription offering, common stock that is not sold in the Subscription Offering will be offered to certain members of the general public in a community offering and then to the general public in a syndicated community offering.

Q. Will any account I hold with BankFinancial, F.S.B. be converted into stock?

A. No. All accounts remain as they were prior to the reorganization. As an eligible account holder, supplemental eligible account holder or voting depositor, you receive priority over the general public in exercising your right to subscribe for shares of common stock.

Q. Will I receive a discount on the price of the stock?

A. No. The price of the stock is the same for customers, directors, officers, employees of BankFinancial, F.S.B. and the general public.

Q. How many shares of stock are being offered, and at what price?

A. BankFinancial Corporation is offering for sale 17,250,000 shares of Common Stock at a subscription price of \$10.00 per share. Under certain circumstances, BankFinancial Corporation may sell up to 19,837,500 shares.

Q. How much stock can I purchase?

A. The minimum purchase is 25 shares. As more fully discussed in the plan of reorganization outlined in the prospectus, the maximum purchase by any person in the subscription or community offering is \$500,000 (50,000 shares); no person by himself or herself, with an associate or group of persons acting in concert, may purchase more than \$750,000 (75,000 shares) of common stock offered in the offering.

- Q. How do I order stock?**
- A. You may subscribe for shares of common stock by completing and returning the stock order and certification form, together with your payment, either in person to any full service office of BankFinancial, F.S.B. or by mail in the YELLOW postage-paid envelope marked "STOCK ORDER RETURN." Stock order forms may not be delivered to a walk up or drive through window located at any of the Bank's offices.
- Q. How can I pay for my shares of stock?**
- A. You can pay for the common stock by check, money order or withdrawal from your deposit account at the Bank.
- Q. When is the deadline to subscribe for stock?**
- A. An executed order form and certification form with the required full payment must be physically received by the Bank no later than 12:00 noon, Central time on _____, December__, 2004.
- Q. Can I subscribe for shares using funds in my IRA/Qualified Retirement Plan at the Bank?**
- A. Federal regulations do not permit the purchase of common stock with your existing IRA or Qualified Retirement Plan at the Bank. To use such funds to subscribe for common stock, you need to establish a "self-directed" trust account with an outside trustee. Please call our conversion center if you require additional information. TRANSFER OF SUCH FUNDS TAKES TIME, SO PLEASE MAKE ARRANGEMENTS AS SOON AS POSSIBLE.
- Q. Can I subscribe for shares and add someone else who is not on my account to my stock registration?**
- A. No. Federal regulations prohibit the transfer of subscription rights. Adding the names of other persons who are not owners of your qualifying account(s) will result in the loss of your subscription rights.
- Q. Can I subscribe for shares in my name alone if I have a joint account?**
- A. Yes.
- Q. Am I guaranteed to receive shares by placing an order?**
- A. No. It is possible that orders received during the offering period will exceed the number of shares being sold. Such an oversubscription would result in shares being allocated among subscribers starting with subscribers who are Eligible Account Holders. If the offering is oversubscribed in the subscription offering, no orders received in the community offering will be filled. Please refer to the section of the prospectus entitled "The Conversion."
- Q. Will payments for common stock earn interest until the offering closes?**
- A. Yes. Any payments made by check or money order will earn interest at the Bank's passbook rate from the date of receipt to the completion or termination of the reorganization. Withdrawals from a deposit account or a certificate of deposit at the Bank to buy common stock may be made without penalty. Depositors who elect to pay for their common stock by a withdrawal authorization will receive interest at the contractual rate on the account until the completion or termination of the offering.
- Q. Will dividends be paid on the stock?**
- A. We will consider the payment of a cash dividend no earlier than the completion of the first full calendar quarter following the completion of the offering.
- Q. Will my stock be covered by deposit insurance?**
- A. No. The common stock cannot be insured by the Federal Deposit Insurance Corporation or any other government agency nor is it insured or guaranteed by BankFinancial, F.S.B., BankFinancial MHC, or BankFinancial Corporation.

Q. Where will the stock be traded?

A. Upon completion of the reorganization, BankFinancial Corporation expects the stock to trade on the Nasdaq National Market under the symbol "BFIN".

Q. Can I change my mind after I place an order to subscribe for stock?

A. No. After receipt, your order may not be modified or withdrawn.

Additional Information

Q. What if I have additional questions or require more information?

A. BankFinancial, F.S.B.'s proxy statement and prospectus describe the plan of conversion and reorganization in detail. Please read the proxy statement and prospectus carefully before voting or subscribing for stock. If you have any questions after reading the enclosed material you may call our conversion center at xxx-xxx-xxxx, Monday through Friday, between the hours of 10:00 a.m. and 4:00 p.m. Additional material may only be obtained from the conversion center. **To ensure that each purchaser receives a prospectus at least 48 hours prior to the end of the offering, in accordance with Rule 15c2-8 of the Securities Exchange Act of 1934, as amended, no prospectus will be mailed any later than five days prior to such date or hand delivered any later than two days prior to such date.**

The shares of common stock offered in the conversion are not savings accounts or deposits and are not insured or guaranteed by BankFinancial, F.S.B., BankFinancial, MHC, Inc., BankFinancial Corporation, the Federal Deposit Insurance Corporation or any other government agency.

This is not an offer to sell or a solicitation of an offer to buy common stock. The offer is made only by the prospectus.

Dear Depositor:

As a follow-up to our recent mailing, this is to remind you that your vote is very important.

The Boards of Director of BankFinancial MHC, Inc. has voted in favor of the plan of conversion and reorganization whereby BankFinancial MHC will convert from the mutual holding company form of organization to the fully stock form. We are converting so that BankFinancial, F.S.B. will be structured in the form of ownership that we believe will best support the Bank's future growth.

To accomplish the reorganization, your participation is extremely important. On behalf of the Board, I ask that you help us meet our goal by casting your vote in favor of the plan of conversion and reorganization and mailing your signed proxy card immediately in the enclosed postage-paid envelope marked "PROXY RETURN." Should you choose to attend the Special Meeting of Depositors and wish to vote in person, you may do so by revoking any previously executed proxy. If you have an IRA or other Qualified Retirement Plan account for which BankFinancial, F.S.B. acts as trustee and we do not receive a proxy from you, BankFinancial, F.S.B., as trustee for such account, intends to vote in favor of the plan of reorganization on your behalf. **If you have more than one account you may receive more than one proxy. Please vote by returning all proxy cards received.**

If the plan of reorganization is approved let me assure you that:

- deposit accounts will continue to be federally insured to the same extent permitted by law;
- existing deposit accounts and loans will not undergo any change; and
- voting for approval will not obligate you to buy any shares of common stock.

If you have any questions after reading the enclosed material, please call our conversion center at xxx-xxx-xxxx, Monday through Friday, between the hours of 10:00 a.m. and 4:00 p.m.

Sincerely,

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

The shares of common stock offered in the conversion are not savings accounts or deposits and are not insured or guaranteed by BankFinancial, F.S.B., BankFinancial MHC, Inc., BankFinancial Corporation, the Federal Deposit Insurance Corporation or any other government agency.

This is not an offer to sell or a solicitation of an offer to buy common stock. The offer is made only by the prospectus.

PROXY REQUEST

Logo

WE NEED YOUR VOTE

Dear Customer of BankFinancial, F.S.B.:

Your vote on our plan of reorganization has not yet been received. Your vote is very important to us. Please vote and mail the enclosed proxy today. If you have more than one account you may receive more than one proxy. Please complete and mail all proxies you receive.

Remember: Voting does not obligate you to buy stock. Your Board of Directors has approved the plan of conversion and reorganization and urges you to vote in favor of it. Your deposit accounts or loans with BankFinancial, F.S.B. will not be affected in any way. Deposit accounts will continue to be federally insured to the legal maximum.

A postage-paid envelope is enclosed with the proxy form. If you have any questions, please call our conversion center at xxx-xxx-xxxx.

Sincerely,
BankFinancial, F.S.B.

Please vote today by returning all proxy forms received.

If you have more than one account you may receive more than one proxy.

Please complete and mail all proxies you receive.

Logo

Please Support Us

Vote Your Proxy Card Today

If you have more than one account, you may have received more than one proxy depending upon the ownership structure of your accounts. Please vote, sign and return all proxy cards that you received.

_____, 2003

Dear _____:

The Boards of Directors of BankFinancial MHC and BankFinancial Corporation have voted in favor of the plan of conversion and reorganization whereby BankFinancial MHC will convert from the mutual holding company form of organization to the fully stock form. We are reorganizing so that BankFinancial, F.S.B. will be structured in the form of ownership that we believe will best support the Bank's future growth.

To learn more about the reorganization and stock offering you are cordially invited to join members of our senior management team at a community meeting to be held on ____ at 7:00 p.m.

A member of our staff will be calling to confirm your interest in attending the meeting.

If you would like additional information regarding the meeting or our reorganization, please call our conversion center at xxx-xxx-xxxx, Monday through Friday between the hours of 10:00 a.m. to 4:00 p.m.

Sincerely,

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

The shares of common stock offered in the conversion are not savings accounts or deposits and are not insured or guaranteed by BankFinancial, F.S.B., BankFinancial MHC, Inc., BankFinancial Corporation, the Federal Deposit Insurance Corporation or any other government agency.

This is not an offer to sell or a solicitation of an offer to buy common stock. The offer is made only by the prospectus.

(Printed by Conversion Center)

_____, 2004

Dear Subscriber:

We hereby acknowledge receipt of your order for shares of common stock in BankFinancial Corporation.

At this time, we cannot confirm the number of shares of BankFinancial Corporation common stock that will be issued to you. Such allocation will be made in accordance with the plan of conversion and reorganization following completion of the stock offering.

If you have any questions, please call our conversion center at xxx-xxx-xxxx.

Sincerely,

BankFinancial Corporation
Conversion Center

The shares of common stock offered in the conversion are not savings accounts or deposits and are not insured or guaranteed by BankFinancial, F.S.B., BankFinancial MHC, Inc., BankFinancial Corporation, the Federal Deposit Insurance Corporation or any other government agency.

(Printed by Conversion Center)

_____, 2004

Dear Charter Stockholder:

Our subscription offering has been completed and we are pleased to confirm your subscription for shares at a price of \$10.00 per share. If your subscription was paid for by check, interest and any refund due to you will be mailed promptly.

The closing of the transaction occurred on January _____, 2004; this is your stock purchase date. Trading will commence on the Nasdaq National Market under the symbol "BFIN" on _____January _____, 2004.

Thank you for your interest in BankFinancial Corporation. Your stock certificate will be mailed to you shortly.

The shares of common stock offered in the conversion are not savings accounts or deposits and are not insured or guaranteed by BankFinancial, F.S.B., BankFinancial Corporation, the Federal Deposit Insurance Corporation or any other government agency.

(Printed by Conversion Center)

_____, 2004

Dear Interested Investor:

We recently completed our subscription and direct community offerings. Unfortunately, due to the response from our Eligible Account Holders, stock was not available for our Supplemental Eligible Account Holders, Other Depositors or community friends. If your subscription was paid for by check, a refund of any balance due you with interest will be mailed to you promptly.

We appreciate your interest in BankFinancial Corporation and hope you become an owner of our stock in the future. The stock trades on the Nasdaq National Market under the symbol "BFIN".

Sincerely,

BankFinancial Corporation
Conversion Center

The shares of common stock offered in the conversion are not savings accounts or deposits and are not insured or guaranteed by BankFinancial, F.S.B., BankFinancial Corporation, the Federal Deposit Insurance Corporation or any other government agency.

(Printed by Conversion Center)

Welcome Stockholder:

We are pleased to enclose the stock certificate that represents your share of ownership in BankFinancial Corporation, the holding company of BankFinancial, F.S.B. The shares of common stock will be quoted on the Nasdaq National Market under the symbol "BFIN"

Please examine your stock certificate to be certain that it is properly registered. If you have any questions about your certificate, you should contact the Transfer Agent immediately at the following address:

XXXXXXXX XXXXX
Investor Relations Department
XX XXXXXX XX
XXXXXXXX, XXXXXX XXXXX-XXXX
1 (800) XXX-XXXX
email: XXXX@XXXX.com

Also, please remember that your certificate is a negotiable security which should be stored in a secure place, such as a safe deposit box or on deposit with your stockbroker.

On behalf of the Boards of Directors of BankFinancial Corporation, BankFinancial, F.S.B. and our employees, I would like to thank you for supporting our offering.

Sincerely,

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

The shares of common stock offered in the conversion are not savings accounts or deposits and are not insured or guaranteed by BankFinancial, F.S.B., BankFinancial Corporation, the Federal Deposit Insurance Corporation or any other government agency.

(Printed by Conversion Center)

Dear Interested Subscriber:

We regret to inform you that BankFinancial, F.S.B. and BankFinancial Corporation, the holding company for BankFinancial, F.S.B., have decided not to accept your order for shares of BankFinancial Corporation common stock in our direct community offering. This action is in accordance with our plan of conversion and reorganization which gives BankFinancial, F.S.B. and BankFinancial Corporation the absolute right to reject the subscription of any community member, in whole or in part, in the community offering.

Enclosed is a check representing your subscription and interest earned thereon.

Sincerely,

BankFinancial Corporation
Conversion Center

(Printed by Conversion Center)

_____, 2003

To Our Friends:

We are enclosing the offering material for BankFinancial Corporation, the proposed holding company for BankFinancial, F.S.B., which is now in the process of reorganizing from the mutual to the stock form of organization.

Sandler O'Neill & Partners, L.P. is managing the subscription offering, which will conclude at 12:00 noon Central time on December xx, 2004. Sandler O'Neill is also providing conversion agent and proxy solicitation services for BankFinancial, F.S.B. In the event that all the stock is not sold in the subscription offering and direct community offering, Sandler O'Neill will form and manage a syndicated community offering to sell the remaining stock.

Members of the general public, other than residents of *[Insert states not cleared in]*, are eligible to participate. If you have any questions about this transaction, please do not hesitate to call.

Sincerely,

Sandler O'Neill & Partners, L.P.

The shares of common stock offered in the conversion are not savings accounts or deposits and are not insured or guaranteed by BankFinancial, F.S.B., BankFinancial MHC, Inc., BankFinancial Corporation, the Federal Deposit Insurance Corporation or any other government agency.

This is not an offer to sell or a solicitation of an offer to buy common stock. The offer is made only by the prospectus.

(Printed by Sandler O'Neill)

BankFinancial Corporation
 Subscription & Community Offering Stock Order
 Form _____

BankFinancial, F.S.B.

Conversion Center
 Xx xxxxxx xxxxxx
 xxxxxxxx, IL xxxxx
 xxx-xxx-xxxx

Expiration Date

for Stock Order Forms:
 ___ day, December x, 2004
 12:00 noon., Central Time
 (received not postmarked)

IMPORTANT: A properly completed original stock order form must be used to subscribe for common stock. Copies of this form are not required to be accepted. Please read the Stock Ownership Guide and Stock Order Form Instructions as you complete this form.

(1) **Number of Shares** _____ *Subscription Price* (2) **Total Payment Due**
 X 10.00 = \$ _____

Minimum number of shares: 25 shares (\$250.00)
 Maximum number of shares: 50,000 shares (\$500,000.00). See Instructions.

(3) Employee/Officer/Director Information

Check here if you are an employee, officer or director of BankFinancial, F.S.B. or member of such person's immediate family living in the same household.

(4) Method of Payment/Check

Enclosed is a check, bank draft or money order payable to BankFinancial Corporation in the amount indicated in this box. Total Check Amount \$ _____ .

(5) Method of Payment/Withdrawal - The undersigned authorizes withdrawal from the following account(s) at BankFinancial, F.S.B. There is no early withdrawal penalty for this form of payment. Individual Retirement Accounts maintained at BankFinancial, F.S.B. cannot be used unless special transfer arrangements are made.

| Bank Use | Account Number(s) To Withdraw | \$ Withdrawal Amount |
|----------|-------------------------------|----------------------|
| _____ | _____ | \$ _____ . |
| _____ | _____ | \$ _____ . |

(6) Purchaser Information

Subscription Offering - Check here if you are an:

- a. Eligible Account Holder with a deposit account(s) totaling \$50.00 or more on March 31, 2003. List account(s) below.
- b. Supplemental Eligible Account Holder with a deposit account(s) totaling \$50.00 on September 30, 2004 but are not an Eligible Account Holder. List account(s) below.
- c. Other Members with a deposit account(s) on November x, 2004 and each borrower as of January 1, 1999 whose borrowings remain outstanding as of November x, 2004 but are not an Eligible Account Holder or Supplemental Eligible Account Holder. List account(s) or loan(s) below.

Community Offering - Check here if you are an:

- d. Other community member (Indicate county of residence in #8 below).

PLEASE NOTE: FAILURE TO LIST ALL YOUR ACCOUNTS MAY RESULT IN THE LOSS OF PART OR ALL OF YOUR SUBSCRIPTION RIGHTS. SEE REVERSE SIDE FOR ADDITIONAL SPACE.

| Account Number(s) | Account Title (Name(s) on Account) | BANK USE |
|-------------------|------------------------------------|----------|
| _____ | _____ | _____ |

(7) Form of Stock Ownership & SS# or Tax ID#:

Individual Joint Tenants Tenants in Common Fiduciary (i.e. trust, estate) SS#/Tax ID#- _____
 Uniform Transfers to Minors Act Company/Corporation/ Partnership IRA or other qualified plan
 (Indicate SS# of Minor only) SS#/Tax ID#- _____

(8) Stock Registration & Address: Name and address to appear on stock certificate. Adding the names of other persons who are not owners of your qualifying account(s) will result in the loss of your subscription rights.

Name: _____
 Name Continued: _____

Mail to-
 Street: _____
 City: _____ State: _____ Zip Code: _____

(9) Telephone () - () - _____ County of Residence _____
 Daytime/Evening

(10) NASD Affiliation - Check here if you are a member of the National Association of Securities Dealers, Inc. ("NASD"), a person affiliated, or associated, with a NASD member, (continued on reverse side)

(11) Associates/Acting in Concert - Check here and complete the reverse side of this form, if you or any associates or persons acting in concert with you have submitted other orders for shares.

(12) Acknowledgement - To be effective, this stock order form must be properly completed and physically received by BankFinancial, F.S.B. no later than 12:00 noon, Central time, on ___ day, December __ 2004, unless extended; otherwise this stock order form and all subscription rights will be void. The undersigned agrees that after receipt by BankFinancial, F.S.B., this stock order form may not be modified, withdrawn or canceled without BankFinancial, F.S.B.'s consent and if authorization to withdraw from deposit accounts at BankFinancial, F.S.B. has been given as payment for shares, the amount authorized for withdrawal shall not otherwise be available for withdrawal by the undersigned. Under penalty of perjury, I hereby certify that the Social Security or Tax ID Number and the

information provided on this stock order form is true, correct and complete and that I am not subject to back-up withholding. It is understood that this stock order form will be accepted in accordance with, and subject to, the terms and conditions of the plan of conversion and reorganization of BankFinancial Corporation described in the accompanying prospectus. The undersigned hereby acknowledges receipt of the prospectus at least 48 hours prior to delivery of this stock order form to BankFinancial Corporation.

Bank Use

Federal regulations prohibit any person from transferring, or entering into any agreement, directly or indirectly, to transfer the legal or beneficial ownership of reorganization subscription rights or the underlying securities to the account of another. BankFinancial, F.S.B., BankFinancial MHC and BankFinancial Corporation will pursue any and all legal and equitable remedies in the event they become aware of the transfer of subscription rights and will not honor orders known by them to involve such transfer.

Under penalty of perjury, I certify that I am purchasing shares solely for my account and that there is no agreement or understanding regarding the sale or transfer of such shares, or my right to subscribe for shares.

THE CERTIFICATION FORM ON THE **REVERSE SIDE** MUST BE SIGNED IN ADDITION TO THE SIGNATURE BELOW

Signature

Date

Signature

Date

Item (6) Purchaser Account Information – continued:

Account Number(s)

Account Title (Name(s) on Account)

BANK USE

Item (10) NASD continued:

a member of the immediate family of any such person to whose support such person contributes, directly or indirectly, or the holder of an account in which a NASD member or person associated with a NASD member has a beneficial interest. You agree, if you have checked the NASD Affiliation box, to report this subscription in writing to the applicable NASD member within one day of payment therefor.

Item (11) Associates/Acting In Concert continued:

If you checked the box in item #11 on the reverse side of this form, list below all other orders submitted by you or associates (as defined below) or by persons acting in concert with you (also defined below).

Name(s) listed on other stock order forms

Number of shares ordered

Associate - The term “associate” of a person means:

- (1) any corporation or organization, other than BankFinancial Corporation, BankFinancial, F.S.B. or a majority-owned subsidiary of BankFinancial, F.S.B. of which a person is a senior officer or partner or 10% beneficial stockholder;
- (2) any trust or other estate in which the person has a substantial beneficial interest or serves as a trustee or in a fiduciary capacity, excluding any employee stock benefit plan in which the person has a substantial beneficial interest or serves as trustee or in a fiduciary capacity; and
- (3) any blood or marriage relative of the person, who either lives in the same home as the person or who is a director or officer of BankFinancial Corporation or BankFinancial, F.S.B.

Acting in concert - The term “acting in concert” means:

- (1) knowing participation in a joint activity or interdependent conscious parallel action towards a common goal whether or not by an express agreement; or
- (2) a combination or pooling of voting or other interests in the securities of an issuer for a common purpose pursuant to any contract, understanding, relationship, agreement or other arrangement, whether written or otherwise.

In general, a person who acts in concert with another party will also be deemed to be acting in concert with any person who is also acting in concert with that other party.

Persons or companies who file jointly a form 13D or 13G with any regulatory agency will be deemed to be acting in concert.

**YOU MUST SIGN THE FOLLOWING CERTIFICATION IN ORDER TO PURCHASE STOCK
CERTIFICATION FORM**

I ACKNOWLEDGE THAT THIS SECURITY IS NOT A DEPOSIT OR ACCOUNT AND IS NOT FEDERALLY INSURED OR GUARANTEED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION, AND IS NOT INSURED OR GUARANTEED BY BANKFINANCIAL, F.S.B., BANKFINANCIAL MHC, BANKFINANCIAL, CORPORATION., THE FEDERAL GOVERNMENT OR BY ANY GOVERNMENT AGENCY. THE ENTIRE AMOUNT OF AN INVESTOR’S PRINCIPAL IS SUBJECT TO LOSS.

If anyone asserts that this security is federally insured or guaranteed, or is as safe as an insured deposit, I should call the Office of Thrift Supervision, Robert Albanese, Regional Director of the Northeast Regional Office at (xxx) xxx-xxxx.

I further certify that, before purchasing the common stock, par value \$0.01 per share, of BankFinancial Corporation (the “Company”), the proposed holding company for BankFinancial, F.S.B., I received a prospectus of the Company dated ____, 2004 relating to such offer of common stock.

The prospectus that I received contains disclosure concerning the nature of the common stock being offered by the Company and describes in the “Risk Factors” section beginning on page __, the risks involved in the investment in this common stock, including but not limited to the following:

- 1) Our Nonresidential Real Estate Loans, Multi-family Mortgage Loans, Construction and Land Loans, Commercial Loans and Commercial Leases Expose Us to Increased Credit Risks.
- 2) Our Concentration of Loans to Nursing Homes Exposes Us to Increased Credit Risk.
- 3) The Net Realizable Value of Our Investment Securities Could Be Lower than the Fair Values Assigned to Them Under Accounting Principles Generally Accepted in the United States of America.
- 4) Changes in Market Interest Rates Could Adversely Affect Our Financial Condition and Results of Operations.
- 5) The Future Price of the Shares of Common Stock May be Less Than the Purchase Price in the Offering.
- 6) If Our Allowance for Loan Losses is Not Sufficient to Cover Actual Loan Losses, Our Earnings Could Decrease.
- 7) We May Pursue Acquisitions to Supplement Internal Growth.
- 8) Since Our Business is Concentrated in the Chicago Metropolitan Area, a Downturn in the Economy of This Area May Adversely Affect Our Business.
- 9) The Loss of One or More Key Personnel Could Adversely Affect Our Operations.
- 10) Our Ability to Originate Commercial and Other Nonresidential Loans is Restricted by Federal Regulation.
- 11) Our Future Success Is Dependent On Our Ability To Compete Effectively In The Highly Competitive Banking Industry.
- 12) Our Stock-Based Benefit Plans Will Increase Our Costs, Which Will Reduce Our Profitability and Stockholders’ Equity.
- 13) The Implementation of Stock-Based Benefit Plans Following the Offering May Dilute Your Ownership Interest.
- 14) Our Return on Stockholders’ Equity Will Continue to Be Low Following the Offering.

- 15) Our Failure to Effectively Utilize the Net Proceeds of the Offering Could Reduce Our Profitability.
- 16) Various Factors May Make Takeover Attempts More Difficult to Achieve.
- 17) We Continually Encounter Technological Change, and May Have Fewer Resources Than Many of Our Competitors to Continue to Invest In Technological Improvements.
- 18) Our Business May Be Adversely Affected By The Highly Regulated Environment In Which We Operate.
- 19) International Events May Adversely Affect Financial Markets and Our Operations.

(By Executing this Certification Form the Investor is Not Waiving Any Rights Under the Federal Securities Laws, Including the Securities Act of 1933 and the Securities Exchange Act of 1934)

| | | | |
|------------|------|------------|------|
| Signature | Date | Signature | Date |
| Print Name | | Print Name | |

THIS CERTIFICATION MUST BE SIGNED IN ORDER TO PURCHASE STOCK

Stock Ownership Guide

Individual

Include the first name, middle initial and last name of the shareholder. Avoid the use of two initials. Please omit words that do not affect ownership rights, such as “Mrs.,” “Mr.,” “Dr.,” “special account,” “single person”, etc.

Joint Tenants

Joint tenants with right of survivorship may be specified to identify two or more owners. When stock is held by joint tenants with right of survivorship, ownership is intended to pass automatically to the surviving joint tenant(s) upon the death of any joint tenant. All parties must agree to the transfer or sale of shares held by joint tenants.

Tenants in Common

Tenants in common may also be specified to identify two or more owners. When stock is held by tenants in common, upon the death of one co-tenant, ownership of the stock will be held by the surviving co-tenant(s) and by the heirs of the deceased co-tenant. All parties must agree to the transfer or sale of shares held by tenants in common.

Uniform Transfers to Minors Act (“UTMA”)

Stock may be held in the name of a custodian for a minor under the Uniform Transfers to Minors Act of each state. There may be only one custodian and one minor designated on a stock certificate. The standard abbreviation for Custodian is “CUST”, while the Uniform Transfers to Minors Act is “UTMA”. Standard U.S. Postal Service state abbreviations should be used to describe the appropriate state. For example, stock held by John Doe as custodian for Susan Doe under the Illinois Uniform Transfers to Minors Act will be abbreviated John Doe, CUST Susan Doe UTMA IL(use minor’s social security number).

Fiduciaries

Information provided with respect to stock to be held in a fiduciary capacity must contain the following:

- The name(s) of the fiduciary. If an individual, list the first name, middle initial and last name. If a corporation, list the full corporate title (name). If an individual and a corporation, list the corporation’s title before the individual.
- The fiduciary capacity, such as administrator, executor, personal representative, conservator, trustee, committee, etc.
- A description of the document governing the fiduciary relationship, such as a trust agreement or court order. Documentation establishing a fiduciary relationship may be required to register your stock in a fiduciary capacity.
- The date of the document governing the relationship, except that the date of a trust created by a will need not be included in the description.
- The name of the maker, donor or testator and the name of the beneficiary.

An example of fiduciary ownership of stock in the case of a trust is: John Doe, Trustee Under Agreement Dated 10-1-93 for Susan Doe.

Stock Order Form Instructions

Items 1 and 2 - Number of Shares and Total Payment Due

Fill in the number of shares that you wish to purchase and the total payment due. The amount due is determined by multiplying the number of shares by the subscription price of \$10.00 per share. The minimum purchase in the Subscription Offering is 25 shares. As more fully described in the plan of reorganization and minority stock issuance outlined in the prospectus, the maximum purchase in the Subscription Offering is \$500,000 (50,000 shares), and the maximum purchase in the Community Offering (if held) by any person, is \$500,000 (50,000 shares). However, no person, together with associates and persons acting in concert with such person, may purchase in the aggregate more than \$750,000 (75,000 shares) of common stock.

Item 3 - Employee/Officer/Director Information

Check this box to indicate whether you are an employee, officer or director of BankFinancial, F.S.B. or a member of such person’s immediate family living in the same household.

Item 4 - Method of Payment by Check

If you pay for your stock by check, bank draft or money order, indicate the total amount in this box. Payment for shares may be made by check, bank draft or money order payable to BankFinancial Corporation. Your funds will earn interest at BankFinancial, F.S.B.’s passbook rate of interest until the reorganization is completed.

Item 5 - Method of Payment by Withdrawal

If you pay for your stock by a withdrawal from a deposit account at BankFinancial, F.S.B., indicate the account number(s) and the amount of your withdrawal authorization for each account. The total amount withdrawn should equal the amount of your stock purchase. There will be no penalty assessed for early withdrawals from certificate accounts used for stock purchases. **This form of payment may not be used if your account is an Individual Retirement Account.**

Item 6 – Purchaser Information

Subscription Offering

- a. Check this box if you are an Eligible Account Holder with a deposit account(s) totaling \$50.00 or more on March 31, 2003.
- b. Check this box if you are a Supplemental Eligible Account Holder with a deposit account(s) totaling \$50.00 or more on September 30, 2004 but are not an Eligible Account Holder.

- c. Check this box if you are an Other Depositor with a deposit account(s) on _____ x, 2004 and each borrower as of January 1, 1999 whose borrowings remain outstanding as of November x, 2004 but are not an Eligible Account Holder or Supplemental Eligible Account Holder.

Please list all account numbers and all names on accounts you had on these dates in order to insure proper identification of your purchase rights.

Note: Failure to list all your accounts may result in the loss of part or all of your subscription rights.

Community Offering

- d. Check this box if you are an other community member (Indicate county of residence in item 8).

Items 7 and 8 - Form of Stock Ownership, SS# or Tax ID#, Stock Registration, Mailing Address and County

Check the box that applies to your requested form of stock ownership and indicate your social security or tax ID number(s) in item 7. Complete the requested stock certificate registration, mailing address and county in item 8.

The stock transfer industry has developed a uniform system of shareholder registrations that will be used in the issuance of your common stock.

If you have any questions regarding the registration of your stock, please consult your legal advisor. Stock ownership must be registered in one of the ways described above under "Stock Ownership Guide". **Adding the names of other persons who are not owners of your qualifying account(s) will result in the loss of your subscription rights.**

Item 9 – Telephone Number(s)

Indicate your daytime and evening telephone number(s). We may need to call you if we have any questions regarding your order or we cannot execute your order as given.

Item 10 – NASD Affiliation

Check this box if you are a member of the NASD or if this item otherwise applies to you.

Item 11 – Associates/Acting in Concert

Check this box if you or any associate (as defined on the reverse side of the stock order form) or person acting in concert (also defined on the reverse) with you has submitted another order for shares and complete the reverse side of the stock order and certification form.

Item 12 – Acknowledgement

Sign and date the stock order and certification form where indicated. Before you sign, review the stock order and certification form, including the acknowledgement. Normally, one signature is required. An additional signature is required only when payment is to be made by withdrawal from a deposit account that requires multiple signatures to withdraw funds.

You may mail your completed stock order form and certification form in the envelope that has been provided, or you may deliver your stock order and certification form to any full service branch office of BankFinancial, F.S.B. Your stock order form, properly completed, signed certification form and payment in full (or withdrawal authorization) at the subscription price must be physically received (not postmarked) by BankFinancial, F.S.B. no later than 12:00 noon, Central time, on _____ day, December x, 2004 or it will become void. If you have any remaining questions, or if you would like assistance in completing your stock order form, you may call our conversion center at xxx-xxx-xxxx, Monday through Friday, between the hours of 10:00 a.m. and 4:00 p.m. The conversion center will be closed for bank holidays.

BankFinancial, F.S.B., Conversion Center
Xx xxxxxxxxxxxx
xxxxxxx, IL xxxxx

Prospectus Supplement

**Interests in
BANKFINANCIAL AND SUBSIDIARIES
ASSOCIATE INVESTMENT PLAN
and
Offering of Up to 985,982 Shares of
BANKFINANCIAL CORPORATION
Common Stock**

In connection with the conversion of BankFinancial MHC, Inc. from the mutual to the stock form of organization and the stock offering, BankFinancial Corporation is allowing participants in the BankFinancial and Subsidiaries Associate Investment Plan (the "Plan") to invest all or a portion of their accounts in the common stock of BankFinancial Corporation (the "Common Stock"). Based upon the value of the Plan assets at June 30, 2004, the trustee of the Plan could purchase up to 985,982 shares of the Common Stock, assuming a purchase price of \$10.00 per share. This prospectus supplement relates to the initial election of Plan participants to direct the trustee of the Plan to invest all or a portion of their Plan accounts in the BankFinancial Corporation Stock Fund at the time of the conversion and stock offering.

The BankFinancial Corporation's prospectus, dated _____, 2004, is attached to this prospectus supplement. It contains detailed information regarding the conversion and stock offering, BankFinancial Corporation common stock and the financial condition, results of operations and business of BankFinancial, F.S.B. This prospectus supplement provides information regarding the Plan. You should read this prospectus supplement together with the prospectus and keep both for future reference.

For a discussion of risks that you should consider, see "Risk Factors" beginning on page __ of the prospectus.

The interests in the Plan and the offering of the Common Stock have not been approved or disapproved by the Office of Thrift Supervision, the Securities and Exchange Commission or any other federal or state agency. Any representation to the contrary is a criminal offense.

The securities offered in this prospectus supplement are not deposits or accounts and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

This prospectus supplement may be used only in connection with offers and sales by BankFinancial Corporation of interests or shares of Common Stock pursuant to the Plan. No one may use this prospectus supplement to reoffer or resell interests or shares of Common Stock acquired through the Plan.

You should rely only on the information contained in this prospectus supplement and the attached prospectus. BankFinancial Corporation, BankFinancial, F.S.B. and the Plan have not authorized anyone to provide you with information that is different.

This prospectus supplement does not constitute an offer to sell or solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make an offer or solicitation in that jurisdiction. Neither the delivery of this prospectus supplement and the prospectus nor any sale of Common Stock shall under any circumstances imply that there has been no change in the affairs of BankFinancial, F.S.B. or the Plan since the date of this prospectus supplement, or that the information contained in this prospectus supplement or incorporated by reference is correct as of any time after the date of this prospectus supplement.

The date of this prospectus supplement is _____, 2004.

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THE OFFERING

Securities Offered

BankFinancial Corporation is offering participation interests in the BankFinancial and Subsidiaries Associate Investment Plan (the "Plan"). The participation interests represent indirect ownership of BankFinancial Corporation's common stock through the Plan. Assuming a purchase price of \$10 per share, the Plan may acquire up to 985,982 shares of BankFinancial Corporation common stock in the offering. Only employees of BankFinancial, F.S.B. may become participants in the Plan. Your investment in the common stock of BankFinancial Corporation in the offering through the purchase of units in the BankFinancial Corporation Stock Fund available under the Plan is subject to the purchase priorities contained in the Plan of Conversion and Reorganization of BankFinancial MHC, Inc.

Information with regard to the Plan is contained in this prospectus supplement and information with regard to the financial condition, results of operations and business of BankFinancial, F.S.B. is contained in the attached prospectus. The address of the principal executive office of BankFinancial, F.S.B. is 15W060 North Frontage Road, Burr Ridge, Illinois 60527.

Election to Purchase Common Stock in the Offering: Priorities

In connection with the stock offering, you may elect to transfer all or part of your account balances in the Plan to the BankFinancial Corporation Stock Fund, to be used to purchase units in the employer stock fund which will consist of common stock issued in the offering plus a percentage of cash. All Plan participants are eligible to direct a transfer of funds to the BankFinancial Corporation Stock Fund. However, such directions are subject to the purchase priorities in the plan of conversion and reorganization as follows: (1) eligible account holders, (2) tax-qualified employee benefit plans of BankFinancial, F.S.B., including the employee stock ownership plan and the Plan, (3) supplemental eligible account holders, and (4) other members. An eligible account holder is a depositor whose deposit account(s) totaled \$50.00 or more on March 31, 2003. A supplemental eligible account holder is a depositor whose deposit account(s) totaled \$50.00 or more on June 30, 2004. Other members are depositors as of _____, 2004 and borrowers as of January 1, 1999 whose borrowings remained outstanding as of _____, 2004. If you fall into subscription offering categories (1), (3) or (4), you have subscription rights to purchase shares of BankFinancial Corporation common stock in the subscription offering and you may use funds in the Plan account to pay for the shares of BankFinancial Corporation common stock which you are eligible to purchase. You may also be able to

purchase shares of BankFinancial Corporation common stock in the subscription offering even though you are unable to purchase through subscription offering categories (1), (3) or (4) if BankFinancial, F.S.B. determines to allow the Plan to purchase shares through subscription offering category (2), reserved for its tax-qualified employee plans, including the employee stock ownership plan and the Plan. The trustee of the BankFinancial Corporation Stock Fund will purchase common stock in accordance with your directions. No later than the closing date of the subscription offering period, the amount that you elect to transfer from your existing account balances for the purchase of common stock in the offering will be removed from your existing accounts and transferred to an interest-bearing account, pending the closing of the offering. At the close of the offering, and subject to a determination as to whether all or any portion of your order may be filled (based on your purchase priority and whether the offering is oversubscribed), all or a portion of the amount that you have transferred to purchase stock in the offering will be applied to the common stock purchase.

In the event the offering is oversubscribed, i.e. there are more orders for common stock than shares available for sale in the offering, and the trustee is unable to use the full amount allocated by you to purchase common stock in the offering, the amount that cannot be invested in common stock and any interest earned will be reinvested in the Money Market fund of the Plan. It will then be up to the participant to utilize the internet or automated telephone line to direct the assets into the funds of their choosing. If you fail to direct the investment of your account balances towards the purchase of any shares in connection with the offering, your account balances will remain in the investment funds of the Plan as previously directed by you.

Value of Plan Assets

As of June 30, 2004, the market value of the assets of the Plan was approximately \$10,027,409, of which approximately \$9,859,822 is eligible to purchase common stock in the offering. The Plan administrator informed each participant of the value of his or her account balance under the Plan as of June 30, 2004.

**Election to Purchase
Common Stock in the
Stock Offering**

In connection with the stock offering, the Plan will permit you to direct the trustee to transfer all or part of the funds which represent your current beneficial interest in the assets of the Plan to the BankFinancial Corporation Stock Fund. The trustee of the Plan will subscribe for BankFinancial Corporation common stock offered for sale in connection with the stock offering, in accordance with each participant's direction. In order to purchase shares in the offering through the Plan, the minimum investment is \$268.82 in order to meet the 25 shares requirement minimum. Of this \$268.82,

\$250.00 will be invested in shares of BankFinancial and 18.82 will establish the cash buffer for the fund. The trustee will pay \$10.00 per share, which will be the same price paid by all other persons who purchase shares in the offering.

Method of Directing Transfer

You will receive a Special Election Form on which you can elect to transfer all or a portion of your account balance in the Plan to the BankFinancial Corporation Stock Fund for the purchase of stock in the offering, provided that you invest at least \$268.82 to purchase units consisting of 25 shares through the Plan plus the cash buffer for the fund. If you wish to use all or part of your account balance in the Plan to purchase common stock issued in the offering, you should indicate that decision on the Special Election Form. If you do not wish to make an election at this time, you do not need to take any action.

Time for Directing Transfer

If you wish to purchase common stock with your Plan account balances, you must return your Special Election Form to _____, a representative of the Plan administrator, BankFinancial, F.S.B., 15W060 North Frontage Road, Burr Ridge, Illinois 60527 no later than 12:00 Noon on _____, 2004. You may return your Special Election Form by mail or by faxing it to (____) _____, so long as it is returned by the time specified.

Irrevocability of Transfer Direction

You may not change your special election to transfer amounts to the BankFinancial Corporation Stock Fund for the purchase of stock in the offering. Your election is irrevocable until after the offering has concluded. You will, however, continue to have the ability to transfer amounts not directed towards the purchase of stock in the offering amongst all of the other investment funds on a daily basis.

Direction to Purchase Common Stock

You will be able to purchase stock after the offering through your investment in the BankFinancial Corporation Stock Fund. You may direct that your future contributions or your account balance in the Plan be transferred to the BankFinancial Corporation Stock Fund. After the offering, the trustee of the Plan will acquire common stock in open market transactions at the prevailing price. You may change your investment allocation on a daily basis. Special restrictions may apply to transfers directed to and from the BankFinancial Corporation Stock Fund by the participants who are subject to the provisions of section 16(b) of the Securities Exchange Act of 1934, as amended, relating to the purchase and sale of securities by officers, directors and principal shareholders of BankFinancial Corporation.

**Voting Rights of Common
Stock**

The Plan provides that you may direct the trustee how to vote any shares of BankFinancial Corporation common stock held by the BankFinancial Corporation Stock Fund and credited to your account. If the trustee does not receive your voting instructions, the Plan administrator will exercise those rights as it determines in its discretion and will direct the trustee accordingly. All voting instructions will be kept confidential.

DESCRIPTION OF THE PLAN

Introduction

BankFinancial, F.S.B. established a profit sharing plan and trust effective July 1, 1993, originally known as the Financial Federal Trust & Savings Bank and Subsidiaries Employee Investment Plan, subsequently renamed the BankFinancial and Subsidiaries Associate Investment Plan, which was amended and restated effective January 1, 2002 (referred to as the "Plan"). The Plan is a tax-qualified plan with a cash or deferred compensation feature established in accordance with the requirements under Section 401(a) and Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code").

BankFinancial, F.S.B. intends that the Plan, in operation, will comply with the requirements under Section 401(a) and Section 401(k) of the Code. BankFinancial, F.S.B. will adopt any amendments to the Plan that may be necessary to ensure the continuing qualified status of the Plan under the Code and applicable Treasury Regulations.

Employee Retirement Income Security Act ("ERISA"). The Plan is an "individual account plan" other than a "money purchase pension plan" within the meaning of ERISA. As such, the Plan is subject to all of the provisions of Title I (Protection of Employee Benefit Rights) and Title II (Amendments to the Code Relating to Retirement Plans) of ERISA, except to the funding requirements contained in Part 3 of Title I of ERISA which by their terms do not apply to an individual account plan (other than a money purchase plan). The Plan is not subject to Title IV (Plan Termination Insurance) of ERISA. The funding requirements contained in Title IV of ERISA are not applicable to participants or beneficiaries under the Plan.

Reference to Full Text of Plan. The following portions of this prospectus supplement summarize certain provisions of the Plan. They are not complete and are qualified in their entirety by the full text of the Plan. Copies of the Plan are available to all employees by filing a request with the Plan administrator c/o BankFinancial, F.S.B., 15W060 North Frontage Road, Burr Ridge, Illinois 60527. You are urged to read carefully the full text of the Plan.

Eligibility and Participation

Effective July 1, 2002, you are eligible to participate in the Plan if you have completed 250 hours of service during your initial six months of employment with BankFinancial, F.S.B. and have attained age 21. For eligibility purposes, your years of service with Success Bancshares, Inc. or Success National Bank will be taken into account. You may begin participating in the Plan on January 1, April 1, July 1, or October 1 coinciding with or next following the date you have satisfied the eligibility requirements. Leased employees and certain nonresident aliens who have no earned income from sources within the United States are not eligible to participate in the Plan. The Plan year is January 1 to December 31 (the "Plan Year").

As of June 30, 2004, there were approximately 434 employees, former employees and beneficiaries eligible to participate in the Plan and 351 employees participating by making elective deferral contributions.

Contributions Under the Plan

Employee Salary Deferrals. You are permitted to defer on a pre-tax basis up to 50% of your compensation, subject to certain restrictions imposed by the Code, and to have that amount contributed to the Plan on your behalf. For purposes of the Plan, "compensation" means your total taxable compensation as reported on your Form W-2 (including amounts contributed pursuant to a salary reduction agreement and which are not includible in the gross income of the participant under Internal Revenue Code Sections 125, 132(f)(4) for Plan Years beginning after December 31, 2000, 402(e)(3), 402(h)(1)(B), 403(b) or 457(b), and employee contributions described in Internal Revenue Code Section 414(h)(2) that are treated as employer contributions). In 2004, the annual compensation of each participant taken into account under the Plan is limited to \$205,000. (Limits established by the Internal Revenue Service are subject to increase pursuant to an annual cost-of-living adjustment, as permitted by the Code). You may elect to modify the amount contributed to the Plan by filing a new elective deferral agreement with the Plan administrator once per calendar quarter.

Employer Matching Contributions. BankFinancial, F.S.B. may make discretionary matching contributions to the Plan equal to a uniform percentage of the amount of salary reduction you elect to defer, which percentage will be determined each year by BankFinancial, F.S.B. The matching contribution will be based on up to 5% of your payroll period compensation.

Qualified Non-Elective Contributions. BankFinancial, F.S.B. may also make a qualified non-elective contribution equal to a uniform percentage of your compensation determined each year on behalf of each non-highly compensated participant. You must be actively employed on the last day of the Plan Year to share in the qualified non-elective contribution for the year.

Discretionary Profit Sharing Contributions. BankFinancial, F.S.B. may make a discretionary profit sharing contribution. You must complete a Year of Service during the Plan Year and be actively employed on the last day of the Plan Year to share in the discretionary profit sharing contribution.

Limitations on Contributions

Limitations on Employee Salary Deferrals. For the Plan Year beginning January 1, 2004, the amount of your before-tax contributions may not exceed \$13,000 per calendar year. This amount is increased in \$1,000 increments through 2006 and thereafter may be adjusted periodically by law, based on changes in the cost of living. Contributions in excess of this limit are known as excess deferrals. If you defer amounts in excess of this limitation, your gross income for federal income tax purposes will include the excess in the year of the deferral. In addition, unless the excess deferral is distributed before April 15 of the following year, it will be taxed again in the year distributed. Income on the excess deferral distributed by April 15 of the immediately succeeding year will be treated, for federal income tax purposes, as earned and received by you in the tax year in which the contribution is made.

Effective as of January 1, 2002, if you are age 50 or older, you may elect to defer additional amounts (called “catch-up contributions”) to the Plan. The additional amounts may be deferred regardless of any other limitations on the amount that you may defer to the Plan. The maximum “catch-up contribution” that you can make in 2004 is \$3,000. This amount will be increased by \$1,000 each year, up to 2006, when the maximum catch-up contribution will be \$5,000. After 2006, the maximum catch-up contribution may increase for cost-of-living adjustments.

Limits on Contributions to Your Account. Generally, the law imposes a maximum limit on the amount of contributions you may receive under the Plan. This limit applies to all contributions made by BankFinancial, F.S.B. on your behalf, all contributions you make to the Plan and any other amounts allocated to any of your accounts during the Plan Year, excluding earnings and any transfers/rollovers. For the year 2004, the maximum limit on annual additions that can be allocated to your account under this and all other deferred contribution plans maintained by BankFinancial, F.S.B. and its affiliates, in the aggregate, cannot exceed the lesser of \$41,000 (as indexed) or 100% of your annual compensation (for this purpose, compensation includes your salary deferrals.)

Limitation on Plan Contributions for Highly Compensated Employees. Special provisions of the Code limit the amount of employee deferrals and employer matching contributions that may be made to the Plan in any year on behalf of highly compensated employees, in relation to the amount of employee deferrals and employer matching contributions made by or on behalf of all other employees eligible to participate in the Plan. A highly compensated employee includes any employee who (1) was a 5% owner of BankFinancial Corporation at any time during the current or preceding year, or (2) had compensation for the preceding year of more than \$90,000 and, if BankFinancial Corporation so elects, was in the top 20% of employees by compensation for the preceding year. The dollar amounts in the foregoing sentence may be adjusted annually to reflect increases in the cost of living. If these limitations are exceeded, the level of deferrals by highly compensated employees may have to be adjusted.

Allocation of Contributions

BankFinancial, F.S.B.’s discretionary profit sharing contribution will be allocated to your account in the same proportion that your compensation in excess of the Social Security Taxable Wage Base (also called “excess compensation”) plus your compensation bears to the total “excess compensation” plus compensation of all eligible participants. However, the maximum amount which can be allocated to you in this first step is 5.7% of your “excess compensation” plus your compensation. If, after the first step of the allocation process, there still remains a portion of BankFinancial, F.S.B.’s discretionary profit sharing contribution which has not yet been allocated, then the remainder will be allocated to you in the same proportion that your compensation bears to the total compensation of all participants.

In the event BankFinancial, F.S.B. maintains two or more plans providing for an allocation or benefit in excess of a portion of your compensation, then the allocation above may

be adjusted. The Plan administrator will notify you if your allocation is affected. For any short Plan Year, the Social Security Taxable Wage Base will be prorated. These contributions will vest according to the vesting schedule.

In addition to BankFinancial, F.S.B.'s contributions to your account, your account will be credited annually with a share of the investment earnings or losses of the trust fund.

Benefits Under the Plan

Vesting. At all times, you have a fully vested, nonforfeitable interest in your salary deferrals and in the employer's qualified non-elective contributions made to the Plan. To earn a Year of Service, you must be credited with at least 500 hours of service during any Plan year. Other employer contributions vest in accordance with the following schedule:

| <u>Years of Service</u> | <u>Percentage</u> |
|-------------------------|-------------------|
| 2 | 25% |
| 3 | 50% |
| 4 | 75% |
| 5 | 100% |

However, an employee who has completed three years of service as of February 25, 2003 may elect to have his vested percentage determined under the vesting schedule in effect prior to the amendment and restatement of the Plan. The prior vesting schedule is as follows:

| <u>Years of Service</u> | <u>Percentage</u> |
|-------------------------|-------------------|
| 1 | 0% |
| 2 | 0% |
| 3 | 100% |

Withdrawals and Distributions from the Plan

Applicable federal law requires the Plan to impose substantial restrictions on the right of a Plan participant to withdraw amounts held for his or her benefit under the Plan prior to the participant's termination of employment with BankFinancial, F.S.B. A substantial federal tax penalty may also be imposed on withdrawals made prior to the participant's attainment of age 59 ½, regardless of whether such a withdrawal occurs during his or her employment with BankFinancial, F.S.B. or after termination of employment.

Retirement Benefits. You will be entitled to all your accounts under the Plan when you reach your normal retirement age (age 65). You may also remain employed past your normal retirement age and retire instead on your late retirement date. You will be entitled to all your accounts under the Plan on your late retirement date.

Termination of Employment Prior to Retirement Age. If you terminate employment for reasons other than death, disability or retirement, you will be entitled to receive only the vested percentage of your account balance.

Disability Benefits. If you become disabled while a participant, you will be entitled to 100% of your account balance. Payment of your disability benefits will be made to you as if you had retired.

Death Benefits. If you die while in the employ of BankFinancial, F.S.B., your entire account balance will be used to provide your beneficiary with a death benefit. If you terminate employment with BankFinancial, F.S.B. and subsequently die, your beneficiary will be entitled to the vested percentage of your remaining account balance at the time of your death.

In-Service Distributions. Generally, you may receive a distribution from the Plan prior to your termination of employment if you satisfy certain conditions. You may be entitled to receive a pre-retirement distribution if you have reached age 59 1/2 and are 100% vested in the account from which such distribution is made.

Hardship Withdrawal. If you satisfy certain conditions, the Plan administrator may direct the Plan trustee to distribution up to 100% of your account balance attributable to your salary reduction election in the event of a financial hardship.

Loans. Plan participants may obtain loans from their accounts, provided they satisfy certain requirements. Loans are limited to the lesser of \$50,000, reduced by the excess, if any, of the participant's highest outstanding balance of loans from the Plan during the one-year period prior to the date of the loan over the participant's current outstanding balance of loans, or half of the participant's vested account balance. No loan will be made in an amount less than \$1,000 nor will any loan be made if a prior loan is currently outstanding.

Form of Benefit Payment. All distributions from the Plan will be made in a lump-sum payment in cash directly to you, as a rollover, or in a combination with a partial distribution to you and the remainder rolled over. If your vested benefit under the Plan exceeds \$5,000, you must consent to the distribution. If your vested benefit under the Plan does not exceed \$5,000, your benefit must be distributed to you as soon as possible following the event that entitles you to a distribution.

Investment of Contributions and Account Balances

All amounts credited to your accounts under the Plan are held in the Plan trust (the "Trust") which is administered by the trustee appointed by BankFinancial, F.S.B.'s Board of Directors. BankFinancial, F.S.B. has established procedures to permit you do direct the investment of contributions made by you or on your behalf to the Plan. These are called "Participant Direction Procedures." You should request a copy of these Procedures from the Administrator.

Prior to the effective date of the offering, you were provided the opportunity to direct the investment of your account into one of the following funds:

1. Janus Aspen Series Mid Cap Growth Portfolio
2. AIM V.I. Premier Equity Fund
3. Fidelity VIP Growth Portfolio
4. ING UBS U.S. Large Cap Equity Portfolio
5. AIM V.I. Core Equity Fund
6. ING VP Growth and Income Portfolio
7. Janus Aspen Series Balanced Portfolio
8. ING VP Bond Portfolio
9. ING Fixed Account
10. ING VP Money Market Portfolio

In connection with the offering, the Plan now provides that in addition to the funds specified above, you may direct the trustee, or its representative, to invest all or a portion of your account in the BankFinancial Corporation Stock Fund. You may elect to have both past contributions and earnings, as well as future contributions to your account invested among the funds listed above. If you fail to provide an effective investment direction, your contributions will be invested in the Money Market Fund until such time as you provide an effective investment direction. Transfers of past contributions and the earnings thereon do not affect the investment mix of future contributions. You may change your investment directions at any time. This may be done either by filing a form or by telephone or other electronic medium. You may also redirect the investment of your investment accounts such that a percentage of any one or more investment accounts may be transferred to any one or more other investment accounts either by filing a form or by telephone or other electronic medium.

Performance History

The following table provides performance data with respect to the investment funds available under the Plan through June 30, 2004:

FUND RETURNS THROUGH JUNE 30, 2004

| <u>Stock Funds</u> | <u>Monthly Return</u> | <u>Year to Date</u> | <u>Last 12 Months</u> | <u>5 Calendar Years Annualized</u> | <u>10 Calendar Years Annualized</u> |
|---|---------------------------|-------------------------|---------------------------|--|---|
| Janus Aspen Series Mid Cap Growth Portfolio | 2.59% | 8.11% | 25.26% | -6.16% | 8.98% |
| AIM V.I. Premier Equity Fund | 2.03% | 0.86% | 13.88% | -6.26% | 8.08% |
| Fidelity VIP Growth Portfolio | 1.54% | 1.07% | 17.87% | -4.43% | 10.00% |
| ING UBS U.S. Large Cap Equity Portfolio | 2.28% | 3.91% | 16.38% | -4.05% | 0.90% ⁽¹⁾ |
| AIM V.I. Core Equity Fund | 1.81% | 3.72% | 17.31% | -3.95% | 9.11% |
| ING VP Growth and Income Portfolio | 2.04% | 2.82% | 17.42% | -5.87% | 7.14% |
| Janus Aspen Series Balanced Portfolio | 1.43% | 1.56% | 8.61% | 2.09% | 11.05% |
| ING VP Bond Portfolio | 0.57% | 0.15% | 0.92% | 6.23% | 6.64% |
| ING Fixed Account | 0.29% | 1.85% | 4.11% | 5.14% | 5.54% |
| ING VP Money Market Portfolio | 0.02% | 0.10% | 0.26% | 2.69% | 3.81% |

⁽¹⁾ ING UBS U.S. Large Cap Equity/American Century VP Cap Apr was “folded into” this fund. This 0.90% figure represents appreciation since the Fund’s inception on November 28, 1997.

The following is a description of each of the Plan's investment funds (grouped together by type):

AGGRESSIVE GROWTH

Funds in this category carry the highest relative risk rating of "Aggressive." Small cap, mid cap and "specialty" funds are in this category, employing investment styles of growth, value or "blend." These funds seek capital appreciation by investing primarily in stocks of small-and medium-sized companies. Generally, these companies are striving to develop new products or markets and have above-average earnings growth potential. Because of their smaller size, they may face greater business risk, and investments in these funds generally carry much higher risk than other domestic equity funds. "Specialty" or "sector" funds invest in stocks of companies in a particular industry. This narrow focus can significantly increase the risk and volatility of such funds.

- **Janus Aspen Series Mid Cap Growth Portfolio** This Fund contains a diversified Portfolio that seeks long-term growth of capital by investing primarily in common stocks selected for their growth potential and by normally investing at least 80 percent of its equity assets in medium-sized companies. The portfolio manager applies a "bottom up" approach in choosing investments that identifies individual companies with earnings growth potential that may not be recognized by the market at large. Since this fund may invest substantially all of its assets in common stocks, the main risk is that the value of the stocks it holds might decrease in response to the activities of an individual company or in response to general market and/or economic conditions. Performance may also be affected by risks specific to certain types of investments, such as foreign securities, derivative investments, non-investment grade debt securities (high-yield/high-risk bonds or "junk" bonds) or companies with relatively small market capitalizations.

Note: ILIAC will no longer be investing in this Fund effective on or about December 3, 2004. Your Plan Sponsor will decide by November 1, 2004 to: (i) invest the assets in this Fund in the substitute fund selected by ING and agreed to by fund shareholders - ING T.Rowe Price Diversified Mid Cap Growth Portfolio (a fund similar in risk/return characteristics with an identical expense ratio); (ii) transfer the assets of this Fund into other funds currently available under the Plan; or (iii) add another funding option from the list of Funds currently offered to the Plan by ILIAC.

GROWTH

Funds in this category can have a relative risk rating of “Moderate” or “Aggressive.” Funds with fewer holdings and a relatively narrow focus merit the risk level of “Aggressive.” Overall, these funds invest primarily in stocks of larger U.S. companies, employing an investment style of growth, value or “blend.” The funds seek long-term growth of capital. Funds emphasizing growth stocks will typically have higher price/earnings ratios and make little or no dividend payments. Large capitalization companies tend to be more established, with lower relative volatility, than more aggressive small- and mid-cap stock funds.

- **AIM V.I. Premier Equity Fund** The fund seeks to achieve long-term growth of capital with income as a secondary objective by investing, normally, at least 80 percent of its net assets, plus the amount of any borrowings for investment purposes, in equity securities, including convertible securities. The Fund may also invest in preferred stocks and debt instruments that have prospects for growth of capital. The principal risks of this Fund include the fluctuation of the price of securities due to several factors including the historical and prospective earnings of the issuer, the value of its assets, general economic conditions, interest rates, investor perceptions and market liquidity.
- **Fidelity VIP Growth Portfolio** This Fund seeks to achieve capital appreciation though primarily investing in common stocks of companies that it believes have above-average growth potential (may include both domestic and foreign stock). Risks to which the Fund is subjected include stock market volatility, foreign exposure, issuer-specific changes, and “growth” investing.
- **ING UBS U.S. Large Cap Equity Portfolio** This Fund seeks long-term growth of capital and future income by investing at least 80 percent of its net assets in U.S. equity securities, including dividend-paying securities, common stock, and preferred stock. The Fund generally emphasized large capitalization stocks, but may also include small and intermediate capitalization stocks. The Fund is subject to a variety of risks including active or frequent trading risks, derivatives risks, market and company risks, over the counter risks, small and mid-capitalization risks, and stock risks.

GROWTH & INCOME (STOCKS)

Funds in this category have a relative risk rating of “Moderate.” Funds seek long-term growth of capital or a combination of growth and income by investing primarily in stocks of larger, mature companies. The investment styles exhibited are value and “blend.” Stocks are selected for price appreciation and for the value of the current income provided through dividends. These funds generally exhibit a lower level of price volatility, due to the types of companies they favor, such as those able to pay dividends.

- **AIM V.I. Core Equity Fund** This Fund seeks growth of capital by investing at least 80 percent of its net assets in equity securities including convertible securities, of established companies that have long-term above-average growth in earning, and growth companies that the Fund managers believe have the potential above-average growth in earnings. Risks associated with this Fund include the historical and prospective earnings of the issuer, the value of its assets, general economic conditions, interest rates, investor perceptions, and market liquidity.
- **ING VP Growth and Income Portfolio** This fund seeks to maximize capital appreciation and investment income through investments in a diversified portfolio of common stocks and securities convertible into common stock. Under normal market conditions this Fund invests at least 65 percent of its total assets in common stocks that the Fund's subadviser believes have significant potential for capital appreciation or income growth or both. The principal risks of this Fund include market volatility and sensitivity to interest rates, especially for stocks of medium-sized and smaller companies.

GROWTH & INCOME (STOCKS & BONDS)

Funds in this category have a relative risk rating of "Moderate." These funds seek to "balance" growth of principal and current income by investing in a combination of stocks and bonds – generally in a 60/40 proportion. The investment style used here is called "domestic hybrid." Some funds have fixed asset allocations and others allow managers discretion to allocate between equities and bonds, depending on their view of return and risk.

- **Janus Aspen Series Balanced Portfolio** This Fund seeks long-term capital growth, consistent with preservation of capital and balanced by current income by normally invests 40-60 percent of its assets in securities selected primarily for their growth potential and 40-60 percent of its assets in securities selected primarily for their income potential. In addition, the Fund normally invests at least 25 percent of its assets in fixed-income senior securities. A "bottom up" approach in choosing investments is used and identifies individual companies with earnings growth potential that may not be recognized by the market at large. Because the Fund may invest a significant portion of its assets in common stocks, the main risk is that the value of the stocks it holds might decrease in response to the activities of an individual company or in response to general market and/or economic conditions.

Note: ILIAC will no longer be investing in this Fund effective on or about December 3, 2004. Your Plan Sponsor will decide by November 1, 2004 to: (i) invest the assets in this Fund in the substitute fund selected by ING and agreed to by the fund shareholders – ING Van Kampen Equity and Income Portfolio (a fund similar in risk/return characteristics with an identical expense ratio); (ii) transfer the assets of this Fund into other funds currently available under the Plan; or (iii) add another funding option from the list of Funds currently offered to the Plan by ILIAC.

INCOME

Funds in this category run the spectrum of relative risk from “Conservative” to “Moderate” to “Aggressive.” Risk is assessed in relative terms among fixed income instruments, not in relation to more volatile equities. Investors here are primarily seeking income or growth of income, with less emphasis on capital appreciation. Aggressive fixed-income funds are those that may have significant investments in below-investment grade bonds (“junk bonds”) or bonds of foreign issuers. The investment style for such funds would be high yield or international bond. Funds with a “Moderate” risk evaluation can invest in investment grade corporate bonds, mortgages, government bonds and, to a lesser degree, preferred stock, foreign or convertible bonds. Conservative funds are short-term bond funds focusing solely on Treasury Bills and other highly-rated, short-term (e.g. 90 day) securities.

- **ING VP Intermediate Bond Portfolio** This Fund seeks to maximize total return consistent with reasonable risk, through investments in a diversified portfolio consisting primarily of investment grade bonds, and debt securities. It is anticipated that capital appreciation and investment income will both be major factors in achieving total return. Under normal market conditions, the Fund will invest at least 80 percent of its assets in a portfolio of bonds, including but not limited to corporate, government and mortgage bonds, which, at the time of investment, are rated investment grade (for example, rated at least BBB by Standard & Poor’s Rating Group or Baa by Moody’s Investors Service, Inc.) or have an equivalent rating by a nationally recognized statistical rating organization, or of comparable quality if unrated. This Fund’s principal risks include those generally attributable to debt investing such as sensitivity to rising interest rates, length of maturity, and issuer default.

STABILITY OF PRINCIPAL

Funds here will have a relative risk rating of “Conservative.” Funds are invested in conservative investment options that seek – but not necessarily guarantee – to hold the principal value of an investment stable through all market conditions. These options may credit a stated rate of return or minimum periodic interest rate that may vary. Dividend rates and income levels fluctuate with market conditions and are not guaranteed. These investment options, including money market portfolios, are neither insured nor guaranteed by the U.S. government.

- **ING Fixed Account** The primary objective of this Fund is the stability of principal. The Fund guarantees a minimum rate of interest. Once the rate is credited, the interest becomes part of the principal and the investment increases through compound interest.
- **ING VP Money Market Portfolio** This Fund seeks to provide high current return, consistent with preservation of capital and liquidity, through investment in high-quality money market instruments, including high-quality fixed income securities denominated in U.S. dollars, with short remaining maturities. While the risks associated with this Fund are relatively low, they nevertheless include a weak economy, strong equity markets, and changes by the Federal Reserve and its monetary policies.

An investment in any of the funds listed above is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. As with any mutual fund investment, there is always a risk that you may lose money on your investment in any of the funds listed above.

INVESTMENT IN COMMON STOCK OF BANKFINANCIAL CORPORATION

In connection with the conversion and stock offering, the Plan now offers the BankFinancial Corporation Stock Fund as an additional choice to these investments options. The BankFinancial Corporation Stock Fund invests primarily in the common stock of BankFinancial Corporation. In connection with the stock offering, you may direct the trustee to invest up to 100% of your Plan account in the BankFinancial Corporation Stock Fund as a one-time special election. Subsequent to the stock offering, you may elect to invest all or a portion of your payroll deduction contributions in the BankFinancial Corporation Stock Fund. Subsequent to the stock offering, you may also elect to transfer into the BankFinancial Corporation Stock Fund all or a portion of your accounts currently invested in other funds under the Plan.

The BankFinancial Corporation Stock Fund consists primarily of investments in the common stock of BankFinancial Corporation and a small percentage in a money market fund. After the stock offering, the trustee of the Plan will maintain approximately 93% of the fund's value invested in shares of the common stock of BankFinancial Corporation and 7% in a money market fund both of which make up the unitized stock fund. Cash dividends received by the Fund will be similarly invested. Participants in the plan will own units in this fund.

As of the date of this prospectus supplement, none of the shares of BankFinancial Corporation common stock have been issued or are outstanding and there is no established market for BankFinancial Corporation common stock. Accordingly, there is no record of the historical performance of the BankFinancial Corporation Stock Fund. Performance of the BankFinancial Corporation Stock Fund depends on a number of factors, including the financial condition and profitability of BankFinancial Corporation and BankFinancial, F.S.B. and market conditions for BankFinancial Corporation common stock generally.

Investments in the BankFinancial Corporation Stock Fund involve special risks common to investments in the common stock of BankFinancial Corporation.

For a discussion of material risks you should consider, see "Risk Factors" beginning on page ___ of the attached prospectus.

Administration of the Plan

The Trustee and Custodian. The trustee of the Plan is ING National Trust. ING National Trust serves as trustee for all the investments funds under the Plan, provided, however, that

during the offering period for BankFinancial Corporation common stock, _____ will serve as trustee of the BankFinancial Corporation Stock Fund. Following the offering period, ING National Trust will also serve as the trustee of the BankFinancial Corporation Stock Fund.

Plan Administrator. Pursuant to the terms of the Plan, the Plan is administered by the Plan administrator. The address of the Plan administrator is BankFinancial, F.S.B., Attention: Patricia M. Smith, 15W060 North Frontage Road, Burr Ridge, Illinois 60527, telephone number (630) 242-7062. The Plan administrator is responsible for the administration of the Plan, interpretation of the provisions of the Plan, prescribing procedures for filing applications for benefits, preparation and distribution of information explaining the Plan, maintenance of Plan records, books of account and all other data necessary for the proper administration of the Plan, preparation and filing of all returns and reports relating to the Plan which are required to be filed with the U.S. Department of Labor and the Internal Revenue Service, and for all disclosures required to be made to participants, beneficiaries and others under Sections 104 and 105 of ERISA.

Reports to Plan Participants. The Plan administrator will furnish you a statement at least quarterly showing the balance in your account as of the end of that period, the amount of contributions allocated to your account for that period, and any adjustments to your account to reflect earnings or losses (if any).

Amendment and Termination

It is the intention of BankFinancial, F.S.B. to continue the Plan indefinitely. Nevertheless, BankFinancial, F.S.B. may terminate the Plan at any time. If the Plan is terminated in whole or in part, then regardless of other provisions in the Plan, you will have a fully vested interest in your accounts. BankFinancial, F.S.B. reserves the right to make any amendment or amendments to the Plan which do not cause any part of the trust to be used for, or diverted to, any purpose other than the exclusive benefit of participants or their beneficiaries; provided, however, that BankFinancial, F.S.B. may make any amendment it determines necessary or desirable, with or without retroactive effect, to comply with ERISA.

Merger, Consolidation or Transfer

In the event of the merger or consolidation of the Plan with another plan, or the transfer of the trust assets to another plan, the Plan requires that you would, if either the Plan or the other plan terminates, receive a benefit immediately after the merger, consolidation or transfer which is equal to or greater than the benefit you would have been entitled to receive immediately before the merger, consolidation or transfer, if the Plan had then terminated.

Federal Income Tax Consequences

The following is a brief summary of the material federal income tax aspects of the Plan. You should not rely on this summary as a complete or definitive description of the material federal income tax consequences relating to the Plan. Statutory provisions change, as do their interpretations, and their application may vary in individual circumstances. Finally, the

consequences under applicable state and local income tax laws may not be the same as under the federal income tax laws. Please consult your tax advisor with respect to any distribution from the Plan and transactions involving the plan.

As a “tax-qualified retirement plan,” the Code affords the Plan special tax treatment, including:

- (1) the sponsoring employer is allowed an immediate tax deduction for the amount contributed to the Plan each year;
- (2) participants pay no current income tax on amounts contributed by the employer on their behalf; and
- (3) earnings of the Plan are tax-deferred, thereby permitting the tax-free accumulation of income and gains on investments.

BankFinancial, F.S.B. will administer the Plan to comply with the requirements of the Code as of the applicable effective date of any change in the law.

Lump-Sum Distribution. A distribution from the Plan to a participant or the beneficiary of a participant will qualify as a lump-sum distribution if it is made within one taxable year, on account of the participant’s death, disability or separation from service, or after the participant attains age 59 1/2, and consists of the balance credited to participants under the Plan and all other profit sharing plans, if any, maintained by BankFinancial, F.S.B. The portion of any lump-sum distribution required to be included in your taxable income for federal income tax purposes consists of the entire amount of the lump-sum distribution, less the amount of after-tax contributions, if any, you have made to this Plan and any other profit sharing plans maintained by BankFinancial, F.S.B., which is included in the distribution.

BankFinancial Corporation Common Stock Included in Lump-Sum Distribution. If a lump-sum distribution includes BankFinancial Corporation common stock, the distribution generally will be taxed in the manner described above, except that the total taxable amount may be reduced by the amount of any net unrealized appreciation with respect to BankFinancial Corporation common stock; that is, the excess of the value of BankFinancial Corporation common stock at the time of the distribution over its cost or other basis of the securities to the trust. The tax basis of BankFinancial Corporation common stock, for purposes of computing gain or loss on its subsequent sale, equals the value of BankFinancial Corporation common stock at the time of distribution, less the amount of net unrealized appreciation. Any gain on a subsequent sale or other taxable disposition of BankFinancial Corporation common stock, to the extent of the amount of net unrealized appreciation at the time of distribution, will constitute long-term capital gain, regardless of the holding period of BankFinancial Corporation common stock. Any gain on a subsequent sale or other taxable disposition of BankFinancial Corporation common stock, in excess of the amount of net unrealized appreciation at the time of distribution, will be considered long-term capital gain. The recipient of a distribution may elect to include the amount of any net unrealized appreciation in the total taxable amount of the distribution, to the extent allowed by regulations to be issued by the Internal Revenue Service.

Distributions: Rollovers and Direct Transfers to Another Qualified Plan or to an IRA. You may roll over virtually all distributions from the Plan to another qualified plan or to an individual retirement account in accordance with the terms of the other plan or account.

Additional Employee Retirement Income Security Act (“ERISA”) Considerations

As noted above, the Plan is subject to certain provisions of ERISA, including special provisions relating to control over the Plan’s assets by participants and beneficiaries. The Plan’s feature that allows you to direct the investment of your account balances is intended to satisfy the requirements of section 404(c) of ERISA relating to control over plan assets by a participant or beneficiary. The effect of this is two-fold. First, you will not be deemed a “fiduciary” because of your exercise of investment discretion. Second, no person who otherwise is a fiduciary, such as BankFinancial, F.S.B., the Plan administrator, or the Plan’s trustee is liable under the fiduciary responsibility provision of ERISA for any loss which results from your exercise of control over the assets in your Plan account.

Because you will be entitled to invest all or a portion of your account balance in the Plan in BankFinancial Corporation common stock, the regulations under section 404(c) of the ERISA require that the Plan establish procedures that ensure the confidentiality of your decision to purchase, hold, or sell employer securities, except to the extent that disclosure of such information is necessary to comply with federal or state laws not preempted by ERISA. These regulations also require that your exercise of voting and similar rights with respect to the Common Stock be conducted in a way that ensures the confidentiality of your exercise of these rights.

Securities and Exchange Commission Reporting and Short-Swing Profit Liability

Section 16 of the Securities Exchange Act of 1934 imposes reporting and liability requirements on officers, directors, and persons beneficially owning more than 10% of public companies such as BankFinancial Corporation. Section 16(a) of the Securities Exchange Act of 1934 requires the filing of reports of beneficial ownership. Within 10 days of becoming an officer, director or person beneficially owning more than 10% of the shares of BankFinancial Corporation, a Form 3 reporting initial beneficial ownership must be filed with the Securities and Exchange Commission. Changes in beneficial ownership, such as purchases, sales and gifts generally must be reported periodically, either on a Form 4 within 2 business days after the change occurs, or annually on a Form 5 within 45 days after the close of BankFinancial Corporation’s fiscal year. Discretionary transactions in and beneficial ownership of the Common Stock through the BankFinancial Corporation Stock Fund of the Plan by officers, directors and persons beneficially owning more than 10% of the common stock of BankFinancial Corporation generally must be reported to the Securities and Exchange Commission by such individuals.

In addition to the reporting requirements described above, section 16(b) of the Securities Exchange Act of 1934 provides for the recovery by BankFinancial Corporation of profits realized by an officer, director or any person beneficially owning more than 10% of

BankFinancial Corporation's common stock resulting from non-exempt purchases and sales of BankFinancial Corporation common stock within any six-month period.

The Securities and Exchange Commission has adopted rules that provide exemptions from the profit recovery provisions of section 16(b) for all transactions in employer securities within an employee benefit plan, provided certain requirements are met. These requirements generally involve restrictions upon the timing of elections to acquire or dispose of employer securities for the accounts of section 16(b) persons.

Except for distributions of Common Stock due to death, disability, retirement, termination of employment or under a qualified domestic relations order, persons affected by section 16(b) are required to hold shares of Common Stock distributed from the Plan for six months following such distribution and are prohibited from directing additional purchases of units within the BankFinancial Corporation stock fund for six months after receiving such a distribution.

Financial Information Regarding Plan Assets

Financial information representing the net assets available for Plan benefits and the change in net assets available for Plan benefits at _____, 200__, are attached to this prospectus supplement.

LEGAL OPINION

The validity of the issuance of the Common Stock has been passed upon by Luse Gorman Pomerenk & Schick, P.C., Washington, D.C., which firm acted as special counsel to BankFinancial, F.S.B. in connection with BankFinancial Corporation's stock offering.

BANKFINANCIAL AND SUBSIDIARIES
Associate Investment Plan

Statement of Net Assets Available for Benefits as of _____, 200__

| | _____ ,200__ | _____ ,200__ |
|--|------------------------------|------------------------|
| | <u>Beginning of Year</u> | <u>End of Year</u> |
| <u>Assets</u> | \$ | \$ |
| Investments | \$ | \$ |
| Liabilities | \$ — | \$ — |
| Net Assets Available for Plan Benefits | \$ | \$ |

BANKFINANCIAL AND SUBSIDIARIES
Associate Investment Plan

Statement of Changes in Net Assets Available For Plan Benefits

_____, 200__

| | |
|---|-----------|
| Investment Income | \$ |
| Investment Expense | \$ |
| Net Investment Income | \$ |
| Contributions | \$ |
| Total Additions | \$ |
| Benefits paid: | |
| Withdrawals | \$ |
| Increase in Net Assets | \$ |
| Net Assets Available for Plan Benefits: Beginning of Year | \$ |
| End of Year | \$ |