

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

**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)

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Burr Ridge, Illinois 60527
(800) 894-6900**
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Copies to:

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Washington, D.C. 20015**

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
Participation Interests	985,982 interests	—	—	(2)

- Estimated solely for the purpose of calculating the registration fee.
- 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.

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 December __, 2006. 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, subscribers will be resolicited, and all funds previously delivered to us to purchase shares of common stock in the offering will be returned promptly to subscribers. Funds received during the offering will be held in a segregated account at BankFinancial, F.S.B. or another 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 15.

TERMS OF THE OFFERING

Price: \$10.00 per Share

	Minimum	Maximum	Adjusted Maximum
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.

[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 our wholly-owned subsidiary, Financial Assurance Services. 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.
- **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.
- **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—Significant Strategic Initiatives” for a further discussion of our business strategy.

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;
- 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.

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.”

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, L.C., 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 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.

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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-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.

	<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

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 resolicit persons who submitted orders to purchase shares of common stock in the offering.

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
Ranier 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 _____ shares of common stock in the offering, or _____% 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 15.

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—Limitation 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 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. 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 state regulatory agencies, against anyone who we believe has sold or given away his or her subscription

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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.

Stock order forms may not be delivered to our branch offices. 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, subscribers will be resolicited, and all funds delivered to us to purchase shares of common stock in the offering will be returned promptly to subscribers.

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 regulatory approval 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 _____ shares of common stock in the offering, or _____% of the shares to be sold at the

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midpoint of 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.

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.

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The following table summarizes the number of shares of common stock and aggregate dollar value of grants that are expected under the new stock recognition and retention plan and the new stock option plan if such plans are adopted within 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.

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.”

Our Dividend Policy

We will consider the payment of a cash dividend no earlier than the completion of the first full calendar quarter following completion of the offering. With the additional capital that is being raised in the offering, we will have a significant dividend paying capacity. However, we do not guarantee that we will pay dividends during such quarter or at any other time in the future.

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.);

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- 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.

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.

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

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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.

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 quoted market prices when they are available and are not too outdated to use. If a quoted market price for a specific security is not available or is too outdated to use, 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 is based, the transaction would result in a charge against our income in an amount equal to the difference between the fair value recorded for the security on our balance sheet and the actual proceeds of the sale.

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, it was selected by us 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.

We May Pursue Acquisitions to Supplement Internal Growth.

We completed our acquisition of Success Bancshares and its wholly owned subsidiary, Success National Bank, in November 2001. We will, in the future, consider the possible acquisition of other banks, thrifts and other financial services businesses to supplement internal growth. Our ability to successfully pursue this strategy will have a direct bearing on our ability to grow our franchise and compete effectively in our marketplace. There are risks associated with this strategy, however, including the following:

- Numerous potential acquirors exist for most acquisition candidates, creating intense competition, particularly with respect to price. In many cases, our competitors have significantly greater resources than we have;
- Any banks, thrifts or other financial services businesses we acquire may have asset quality issues or unknown or contingent liabilities. If these issues or liabilities exceed our estimates, our results of operations and financial condition may be adversely affected;
- Prices at which acquisitions can be made fluctuate with market conditions. We may not pursue acquisition opportunities if our management or board of directors considers the proposed purchase price unacceptable;
- The acquisition of other entities generally requires the integration of systems, procedures and personnel of the acquired entity in order to make the transaction economically advantageous. This integration process is complicated and time consuming, and it can also be disruptive to our customers and the customers of the acquired business. If the integration process is not conducted successfully and with minimal effect on the acquired business and its customers, we may not realize the anticipated benefits of particular acquisitions; and
- We may borrow funds to finance acquisitions, thereby increasing our leverage and reducing our liquidity.

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.

The Loss of One or More Key Personnel Could Adversely Affect Our Operations.

Our success depends in large part on the retention of a limited number of key management, lending and other banking personnel. We could undergo a difficult transition period if we were to lose the services of any one or more of these individuals. Our success also depends on the experience of our branch office managers and lending officers and on their relationships with the customers and communities they serve. The loss of one or more of these key persons could negatively impact our banking 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 assets in loans made for residential and housing purposes, investments related to such purposes, including certain mortgage-backed and related 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. 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.

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 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.

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 More Difficult to Achieve.

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 statute, 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.

International Events May Adversely Affect Financial Markets and Our Operations.

International events such as terrorist activities have resulted in military responses by the United States and other countries, as well as disruptions in air travel, substantial losses by various companies including airlines, insurance providers and aircraft makers, the need for heightened security across the country and decreases in consumer confidence that could cause a general slowdown in economic growth. These disruptions and uncertainties may adversely affect U.S. and world financial markets, as well as our financial condition and results of 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 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 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 December 31,						
	At June 30, 2004	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 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⁾	149.40	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, excluding net gain (loss) on sale of available-for-sale securities.

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;
- 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;

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- 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 15.

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.

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

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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, although we do not currently have any agreements or understandings regarding any specific acquisition transaction;
- 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.

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, although we do not now have any agreements or understandings regarding any specific acquisition transaction;
- 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.

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

OUR DIVIDEND POLICY

BankFinancial Corporation will consider the payment of a cash dividend no earlier than the end of the first full calendar quarter after the offering is completed. We do not guarantee that we will pay dividends during such quarter or at any other time in the future. With the additional capital that is being raised in the offering, we will have a significant dividend paying capacity. The payment of dividends, if any, and the amount of any such dividend, will be subject to the determination of the Board of Directors of BankFinancial Corporation, which will take into account, among other factors, our financial condition, results of operations, tax considerations, industry standards, economic conditions and regulatory restrictions that affect the payment of dividends by BankFinancial, F.S.B. to BankFinancial Corporation. We cannot guarantee that we will pay dividends or that, if paid, we will not reduce or eliminate dividends in the future.

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. In addition, BankFinancial, F.S.B. will not be permitted to make a capital distribution if, after making such distribution, it would be undercapitalized. BankFinancial, F.S.B. would be required to file an application for a capital distribution if BankFinancial, F.S.B.'s total capital distributions for the applicable calendar year exceeded the sum of BankFinancial, F.S.B.'s net income for that year to date plus retained net income for the preceding two years. See "The Conversion—Liquidation Rights." 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 "Taxation—Federal Taxation" and "Supervision and Regulation—Federal Banking Regulation."

Unlike BankFinancial, F.S.B., we are not restricted by Office of Thrift Supervision regulations on the payment of dividends to our stockholders, although the source of dividends will depend on the net proceeds retained by us and earnings thereon, and dividends from BankFinancial, F.S.B. However, we are subject to the requirements of Maryland law, which 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.

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

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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—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. 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—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;
- 250,000 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 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

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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.

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 consolidated stockholders' equity is not intended to represent the fair market value of the shares of common stock.

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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

⁽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.

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- (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 a greater number of shares if the plan is implemented more than one year after completion of the conversion). 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 a greater number of shares if the plan is implemented more than one year after completion of the conversion) 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—Liquidation Rights" and "Supervision and Regulation—Federal Banking Regulation—Capital Distributions."

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	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

⁽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.

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- (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 a greater number of shares if the plan is implemented more than one year after completion of the conversion). 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 a greater number of shares if the plan is implemented more than one year after completion of the conversion) 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—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.

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 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

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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 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 have invested significant resources in building a management team and a technological infrastructure capable of supporting future growth.

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.

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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.

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 (annuities and services), property, casualty, life and disability insurance products and title insurance products and 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.

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 shown as a reduction of equity. See "Business of BankFinancial Corporation—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

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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 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 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 use 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. 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 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").

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.

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.

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

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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.

Quantitative Analysis. We evaluate interest rate sensitivity using both a GAP analysis and an economic value of equity analysis, neither of which is relied upon exclusively. 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.

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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.

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.

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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.

	Six Months Ended June 30,						
	At June 30, 2004 Yield/Rate	2004			2003		
		Average Outstanding Balance	Interest	Yield/Rate ⁽¹⁾	Average Outstanding Balance	Interest	Yield/Rate ⁽¹⁾
(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 2.9%, or \$30.6 million, 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 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 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%. 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.

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 Corporation—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 Corporation—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 month 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. To the best of our knowledge, we have recorded all known and inherent losses that are both probable and reasonable to estimate for each reporting period. 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, a constant amount of impaired loans at December 31, 2003 and June 30, 2004 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

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losses was \$10.7 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 from 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 non-interest 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

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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.

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

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2.68% for the earlier year. The contraction in net interest margin and net interest rate spread were only 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. 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 Issuers 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

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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.

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.

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. 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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The following table summarizes our significant fixed and determinable contractual obligations and other funding needs by payment date at December 31, 2003. The payment amounts represent those amounts due to the recipient and do not include any unamortized premiums or discounts or other similar carrying amount adjustments.

Contractual Obligations	Payments Due by Period				Total
	Less than One Year	One to Three Years	Three to Five Years	More than Five Years	
			(In thousands)		
Long-term debt	\$ —	\$ 78,914	\$ 25,000	\$ 25,000	\$ 128,914
Standby letters of credit	1,767	30	—	—	1,797
Operating leases	442	789	542	—	1,773
Total	\$ 2,209	\$ 79,733	\$ 25,542	\$ 25,000	\$ 132,484
Commitments to extend credit	\$ 228,963	\$ —	\$ —	\$ —	\$ 228,963

Recent Accounting Standards

In March 2004, Staff Accounting Bulletin No. 105 was issued, which provides guidance regarding loan commitments that are accounted for as derivative instruments under Statement of Financial Accounting Standards No. 133 (as amended), "Accounting for Derivative Instruments and Hedging Activities." In this Bulletin, the Securities and Exchange Commission ruled that the amount of expected servicing rights should not be included when determining the fair value of derivative interest rate lock commitments. This guidance must be applied to rate locks initiated after March 31, 2004. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In January 2003, the Emerging Issues Task Force ("EITF") began a project (EITF 03-01) 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 to be effective for reporting periods beginning after June 15, 2004. We have elected to apply EITF 03-1 as of June 30, 2004. The implementation resulted in a reduction of \$15.0 million in the combined carrying value of our Fannie Mae and Freddie Mac preferred stocks and we recorded an impairment charge, net of tax effect, in the amount of \$9.2 million against our income for the quarter ended June 30, 2004.

The Financial Accounting Standards Board is preparing a proposed Statement that would be effective for all employee awards granted, modified, or settled in 2006 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 in the grant-date fair value as calculated under the original provisions of Statement 123, "Accounting for Stock-Based Compensation." Adoption of this proposed statement could materially impact the amount of compensation expense incurred for future financial statements reporting if we have a stock award program in place at the time the proposed statement becomes effective.

BUSINESS OF BANKFINANCIAL CORPORATION

BankFinancial Corporation is incorporated in the State of Maryland. We have not engaged in any business to date. Upon completion of the conversion, we will own all of the issued and outstanding stock of BankFinancial, F.S.B. We will retain up to 50% of the net proceeds from the offering and invest 50% of the remaining net proceeds in BankFinancial, F.S.B. as additional capital in exchange for 100% of the outstanding common stock of BankFinancial, F.S.B. BankFinancial Corporation will use a portion of its 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."

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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 our wholly-owned subsidiary, Financial Assurance Services Corporation. 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 de-centralized regional management to build brand awareness and new relationships.

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

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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 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 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.

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

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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,														
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 policies 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

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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.

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. 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.

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.

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

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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. Included in the substandard total are \$8.4 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. Since we believe we have sufficient collateral and all of these loans are current in their payments, we have not classified these loans as impaired and thus we have not allocated a specific reserve against such loans. This classified assets total includes \$1.3 million of real estate acquired through foreclosure and \$7.9 million of nonperforming loans.

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.

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.

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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	275	275	—	—	—
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

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%

⁽¹⁾ 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").

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 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

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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, in preparing the appraisal, it considered our determination that the loss on the floating rate preferred stocks was other than temporary, and advised us that this determination did not impact the credit risk, earnings profile and overall financial profile of BankFinancial Corporation because its effect was to accelerate the recognition of an unrealized loss that had already been subtracted from our members' equity.

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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.

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,	At December 31,		
	2004	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 therefore 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 February 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

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States for non-United States persons or their representatives (including foreign individuals visiting the United States).

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.

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.

BankFinancial Corporation's federal income tax returns have not been audited by the Internal Revenue Service in the last five fiscal years.

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 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 first annual meeting of stockholders of BankFinancial Corporation following the conversion and the offering, 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.

Name	Position(s) Held With BankFinancial Corporation	Age	Director Since ⁽¹⁾	Current Term Expires
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 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 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 Corporation, a Maryland corporation, and BankFinancial, F.S.B. are 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 quality. The Asset Quality Committee also coordinates with the Audit Committee certain oversight

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responsibilities relating to internal controls for credit operations. Mr. Schudt chairs the Asset Quality Committee and Messrs. Werfel 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	Year Ended 12/31 ⁽¹⁾	Annual Compensation			Long-Term Compensation			
		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; (vii) termination without cause of executive officer's employment with an affiliated company or executive officer's termination of employment for good reason with an affiliated company. 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 executive officers and our subsidiary Financial Assurance Services has entered into an employment agreement with one of its senior executive officers. Each such agreement has a term of 24 months and on the anniversary date thereof can be 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

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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.

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 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. 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 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

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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. 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.

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 \$_____ of common stock, equal to _____%, _____%, _____% and _____% 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		\$	%
Dr. Kenneth Cmiel			
Patrick I. Hartnett			
John M. Hausmann, C.P.A.			
Sherwin R. Koopmans			
Joseph A. Schudt			
Terry R. Wells			
Glen Wherfel, C.P.A.			
James J. Brennan			
Paul A. Cloutier			
Robert O’Shaughnessy			
Thad F. Stewart			
Christa N. Calabrese			
Gregg T. Adams			
Mark W. Collins			
Patricia Smith			
Donald F. Stelter			
All directors and executive officers as a group		\$	%

* 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

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 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 do not have any agreement or understanding as to any specific acquisition.

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.

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 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

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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, L.C. 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-earnings and price-to-book approaches in estimating pro forma market value.

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;

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- 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-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 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.

	<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

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;

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- 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, L.C. 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, L.C. did not independently verify our consolidated financial statements and other information that we provided to them, nor did RP Financial, L.C. 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, after consulting with the Office of Thrift Supervision, we may terminate the plan of conversion and reorganization, cancel deposit account withdrawal authorizations and promptly return by check all funds received with interest at BankFinancial, F.S.B.'s passbook savings rate of interest. Alternatively, we may hold a new offering, establish a new offering range, extend the offering period and commence a resolicitation of subscribers or 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

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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 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.

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Priority 2: Tax-Qualified Plans. Our tax-qualified employee stock 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 stock 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 stock 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 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.

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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 December __, 2006, 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 stock 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.

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

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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 December __, 2006, 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 stock 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;
- 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 stock 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.”

Plan of Distribution; Selling Agent 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 offering;

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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.

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. 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;
- (ii) preparation of order and/or request forms;

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- (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 10(b)-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, 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. Purchasers will be given an opportunity to place a new stock order.

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

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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. 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. Order forms may not be delivered to BankFinancial, F.S.B.'s branch offices. 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 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.

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

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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 Holders 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

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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 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

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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. 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, L.C. (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, 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. 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 four 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 articles of incorporation and 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 through an affiliate, 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 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

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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 relative the 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”).

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,

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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 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.

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.

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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

BANKFINANCIAL MHC, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands except share data)

	June 30, 2004	December 31,	
		2003	2002
	(Unaudited)		
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>
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
	<u>\$ 1,468,967</u>	<u>\$ 1,458,131</u>	<u>\$ 1,490,726</u>
Total liabilities and members' equity	\$ 1,468,967	\$ 1,458,131	\$ 1,490,726

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 for loan losses	—	(275)	(579)	(422)	2,000
Net interest income after provision 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>Comprehensive 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	—	503	503	503
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	—	(4,020)	(4,020)	(4,020)
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	—	(4,644)	(4,644)	(4,644)
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	—	5,158	5,158	5,158
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				(3,795)
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 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)
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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
	<u>7,252</u>	<u>47,012</u>	<u>(34,682)</u>	<u>166,855</u>	<u>123,043</u>
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)	—	—
	<u>10,452</u>	<u>(11,985)</u>	<u>(32,021)</u>	<u>(139,054)</u>	<u>(112,904)</u>
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
	<u>\$ 45,711</u>	<u>\$ 114,867</u>	<u>\$ 28,630</u>	<u>\$ 80,745</u>	<u>\$ 34,142</u>
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 MHC, Inc.'s wholly owned subsidiary, BankFinancial F.S.B. ("the Bank") (collectively, "the Company"). 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 for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of the allowance for loan losses, premiums and discounts on loans purchased, and net deferred loan costs. Interest income on loans is recognized in income over the term of the loan based on the amount of principal outstanding.

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

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BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively

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BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

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. 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.

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 on an accelerated method over their estimated useful lives, which is ten years.

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.

(Continued)

BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 loan and deposit transactions.

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.

New Accounting Standards: In January 2003, the Emerging Issues Task Force ("EITF") began a project 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 the EITF as of June 30, 2004. The implementation resulted in the reduction of \$15.0 million in the combined carrying value of Fannie Mae and Freddie Mac preferred stock and the recording of an impairment charge, net of income taxes, of \$9.2 million.

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BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 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 at December 31 is as follows:

	<u>Fair Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>
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>
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>
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 consist primarily of Federal Home Loan Mortgage Corporation (“Freddie Mac”) and Federal National Mortgage Association (“Fannie Mae”) issues. 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
	2,135	2,485
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
Total	\$ 246,558	\$ 257,520

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.

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)	—

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BANKFINANCIAL MHC, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Table amounts in thousands)

NOTE 2 - SECURITIES (Continued)

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 the limited guidance set forth in SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities." However, for financial reporting periods beginning after June 15, 2004, impairment testing must be conducted in accordance with EITF 03-1, "The Meaning of Other-than-Temporary Impairment and Its Application to Certain Investments." 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.

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BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 2 - SECURITIES (Continued)

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 \$15.0 million and recorded an impairment charge, net of tax effect, in the amount of \$9.2 million against our income for the quarter ended June 30, 2004 (unaudited).

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BANKFINANCIAL MHC, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Table amounts in thousands)

NOTE 3 - LOANS RECEIVABLE

Year-end loans receivable are as follows:

	June 30, 2004	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 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	3,790	2,731	4,250
Total	\$ 9,829	\$ 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	\$ 9,681	\$ 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.

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, \$357.7 million, and \$248.3 million at June 30, 2004 (unaudited), December 31, 2003, and December 31, 2002, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately \$9.5 million, \$7.4 million, and \$12.2 million at June 30, 2004 (unaudited), December 31, 2003, and December 31, 2002, respectively.

BANKFINANCIAL MHC, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Table amounts in thousands)

NOTE 4 - SECONDARY MORTGAGE MARKET ACTIVITIES (Continued)

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	<u>\$ 2,628</u>	<u>\$ 2,684</u>	<u>\$ 2,690</u>	<u>\$ 2,745</u>
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	<u>\$ 110</u>	<u>\$ 1,087</u>	<u>\$ 318</u>	<u>\$ 1,000</u>

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,	
	(Unaudited)	2003	2002
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,	
	(Unaudited)	2003	2002
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	(21,236)	(19,946)	(18,725)
	<u>32,689</u>	<u>33,019</u>	<u>24,822</u>
Construction in progress	—	—	1,978
	<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, including data processing expense and equipment expenses, was \$1.8 million for the six months ended June 30, 2004 (unaudited) and 2003 (unaudited), respectively. Depreciation and amortization of premises and equipment, including data processing expense and equipment expense, 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:

	June 30, 2004
	(Unaudited)
2005	\$ 404
2006	394
2007	403
2008	340
2009	—
	\$ 1,541
	\$ 1,541

	December 31, 2003
2004	\$ 442
2005	390
2006	399
2007	402
2008	140
	\$ 1,773
	\$ 1,773

The Company has subleased some of these branch facilities and currently is entitled to receive income of approximately:

	June 30, 2004
	(Unaudited)
2005	\$ 208
2006	195
2007	175
2008	160
2009	—
	\$ 738
	\$ 738

	December 31, 2003
2004	\$ 207
2005	208
2006	178
2007	175
2008	93
	\$ 861
	\$ 861

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 (Unaudited)	Years ended December 31,	
		2003	2002
Beginning of year	\$ 10,865	\$ 10,865	\$ 10,817
Adjustments related to purchase price allocation	—	—	48
End of year	\$ 10,865	\$ 10,865	\$ 10,865

Core deposit intangible assets were as follows as of the period:

	Six months ended June 30, 2004 (Unaudited)		Years ended December 31,			
			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 (Unaudited)
2005	\$ 1,667
2006	1,600
2007	1,528
2008	1,456
2009	1,389
	December 31, 2003
2004	\$ 1,701
2005	1,634
2006	1,566
2007	1,490
2008	1,423

(Continued)
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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.

Scheduled maturities of certificates of deposit are as follows:

	June 30, 2004
	(Unaudited)
2005	\$ 317,180
2006	104,897
2007	18,120
2008	2,422
2009	7,790
Thereafter	204
Total	<u>\$ 450,613</u>

	December 31, 2003
2004	\$ 318,529
2005	90,213
2006	27,808
2007	1,062
2008	5,315
2009	171
Total	<u>\$ 443,098</u>

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%	1.45%	\$ 97,029	1.30%	\$ 99,412	6.45%	\$ 50,869
1 to 2 years	1.62 2.37	1.95	45,302	1.69	58,914	5.77	51,338
2 to 3 years	2.20 2.70	2.55	20,000	2.52	20,000	6.22	47,348
3 to 4 years	2.75 3.52	3.46	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	6.44	25,000	6.44	25,000	6.56	50,000
Total fixed rate advances	1.28% 6.44%	2.50%	\$ 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	2.50	214,331	2.27	235,326	5.85	274,555
Securities sold under agreements to repurchase	0.50 0.50	0.50	4,820	0.50	2,899	1.01	3,450
Trust preferred securities	— —	—	—	—	—	8.95	14,175
Other borrowings	3.11 3.11	3.11	30,000	3.16	30,000	3.79	15,000
Total borrowings	0.50% 6.44%	2.54%	\$ 249,151	2.36%	\$ 268,225	5.42%	\$ 307,180

(Continued)
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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 Company retired or refinanced \$170.0 million of FHLB advances. 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 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

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BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 10 - BORROWINGS (Continued)

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

(Continued)

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,	
	(Unaudited)	2003	2002
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)
	<u>104,013</u>	<u>110,514</u>	<u>111,522</u>
Tier I capital	104,013	110,514	111,522
General regulatory loan loss reserves	9,389	9,168	10,504
	<u>113,402</u>	<u>119,682</u>	<u>122,026</u>
Total regulatory capital	\$ 113,402	\$ 119,682	\$ 122,026

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
	<u>(4,835)</u>	<u>780</u>	<u>(2,589)</u>	<u>748</u>	<u>599</u>
Total income tax expense (benefit)	\$ (4,835)	\$ 780	\$ (2,589)	\$ 748	\$ 599

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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>

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) at year end 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>

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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)
	<u>(10,026)</u>	<u>(10,359)</u>	<u>(9,815)</u>
Net deferred tax asset (liability)	<u>\$ 4,772</u>	<u>\$ 3,565</u>	<u>\$ (1,680)</u>

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.

At year end, 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

At June 30, 2004 (unaudited), commitments to extend credit are for both fixed and adjustable rates, with rates ranging from 3.375% to 7.25%, due to expire within 2 months of issuance. At year-end 2003, commitments to extend credit are for both fixed and adjustable rates, with rates ranging from 3.75% to 7.50%, due to expire within nine months of issuance.

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.

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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)

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.

(Continued)

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 of year end are as follows:

	June 30, 2004		December 31, 2003		December 31, 2002	
	Carrying Amount	Estimated Fair Value (Unaudited)	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 available and are not too outdated to use. If a quoted market price for a specific security is not available or is too outdated to use, 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 coupons 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.

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.

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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
Less reclassification adjustments for (gains) losses recognized in income	(419)	—	—	2	—
Loss on impairment of securities available for sale	14,966	—	—	—	—
Net unrealized gains (losses)	8,778	(6,327)	(7,783)	(6,765)	737
Tax effect	(3,620)	2,532	3,139	2,745	(234)
Other comprehensive income (loss)	\$ 5,158	(3,795)	\$ (4,644)	\$ (4,020)	\$ 503

NOTE 17 - PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed financial information of BankFinancial MHC, Inc. follows:

CONDENSED STATEMENTS OF FINANCIAL CONDITION

	June 30,	December 31,	
	2004	2003	2002
	(Unaudited)		
ASSETS			
Cash in subsidiary	\$ 197	\$ 227	\$ 209
Investment in subsidiary	95,034	96,620	103,192
Other assets	1,126	1,996	309
Total assets	\$ 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
Total liabilities and members' equity	\$ 96,357	\$ 98,843	\$ 103,710

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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 INCOME

	June 30,		December 31,		
	2004	2003	2003	2002	2001
	(Unaudited)				
Other expense	\$ 29	\$ 18	\$ 31	\$ 33	\$ 24
Loss before income tax and undistributed subsidiary income	(29)	(18)	(31)	(33)	(24)
Income tax benefit	11	7	12	13	(17)
Equity in undistributed (over distributed) subsidiary income (loss)	(6,744)	2,487	(1,928)	5,066	3,177
Net income (loss)	\$(6,762)	\$ 2,476	\$(1,947)	\$ 5,046	\$ 3,136

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 undistributed subsidiary (income) loss	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	\$ 197	\$ 207	\$ 227	\$ 209	\$ 242

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BANKFINANCIAL MHC, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Table amounts in thousands)

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)
					<u>\$ 538,821</u>
Fair value of liabilities assumed					\$ 538,821

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.

(Continued)

BANKFINANCIAL MHC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands)

NOTE 19 - ADOPTION OF PLAN OF CONVERSION AND REORGANIZATION (Unaudited) (Continued)

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 deferred.

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.

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PART II: INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

	Amount ⁽¹⁾
* 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	1,265,000
* 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	77,990
	<hr/>
* Total	\$2,465,000

* 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 Form of 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
- 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

* To be filed supplementally or by amendment.

** 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.

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 September 22, 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)	September 22, 2004
<u>/s/ Paul A. Cloutier</u> Paul A. Cloutier	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	September 22, 2004
<u>/s/ Kenneth Cmiel</u> Kenneth Cmiel	Director	September 22, 2004
<u>/s/ Patrick I. Hartnett</u> Patrick I. Hartnett	Director	September 22, 2004
<u>/s/ John M. Hausmann</u> John M. Hausmann	Director	September 22, 2004

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<u>/s/ Sherwin R. Koopmans</u>	Director	September 22, 2004
Sherwin R. Koopmans		
<u>/s/ Joseph A. Schudt</u>	Director	September 22, 2004
Joseph A. Schudt		
<u>/s/ Terry R. Wells</u>	Director	September 22, 2004
Terry R. Wells		

EXHIBIT INDEX

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10.8	Loan Agreement with Bank One, NA (Successor to American National Bank and Trust Company of Chicago), as amended
21	Subsidiaries of the 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. *,**
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99.6	Prospectus Supplement for participants in the BankFinancial and Subsidiaries Associate Investment Plan

* To be filed supplementally or by amendment.

** Supporting financial schedules filed pursuant to Rule 202 of Regulation S-T.

**PLAN OF CONVERSION AND REORGANIZATION
OF
BANKFINANCIAL MHC, INC.**

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**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 subscriptions of each such Supplemental Eligible Account Holder bears to the total amount of the subscriptions 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 Qualifying Deposit of each such Other Member bears to the total amount of the Qualifying Deposits 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 may 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

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").

RECITALS:

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

**ARTICLES OF INCORPORATION
OF
BANKFINANCIAL CORPORATION**

The undersigned, Robert B. Pomerenk, whose address is 5335 Wisconsin Ave., N.W., Suite 400, Washington, D.C. 20015, being at least 18 years of age, acting as sole incorporator, does hereby form a corporation under the General Laws of the State of Maryland having the following Charter:

Article 1. Name.

The name of the corporation is BankFinancial Corporation (herein the "Corporation").

Article 2. Principal Office.

The address of the principal office of the Corporation in the State of Maryland is c/o The Corporation Trust Incorporated, 300 East Lombard Street, Baltimore, Maryland 21202.

Article 3. Purpose.

The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of the State of Maryland, as now or hereafter in force (referred to herein as the "MGCL").

Article 4. Resident Agent.

The name and address of the resident agent of the Corporation in the State of Maryland is The Corporation Trust Incorporated, 300 East Lombard Street, Baltimore, Maryland 21202. Said resident agent is a Maryland corporation.

Article 5. Initial Directors.

The number of Directors constituting the initial Board of Directors of the Corporation is seven, which number may be increased, decreased or otherwise altered exclusively by the Board of Directors pursuant to the Bylaws of the Corporation and Section B of Article 8 of this Charter, but the number of Directors shall never be less than the minimum number required by the MGCL. The names and initial terms of office of the persons who are to serve as Directors until their successors are elected and qualify are:

<u>Name</u>	<u>Initial Term to Expire</u>
Patrick I. Hartnett	2005 Annual Meeting of Stockholders
Sherwin R. Koopmans	2005 Annual Meeting of Stockholders
Terry R. Wells	2005 Annual Meeting of Stockholders
Dr. Kenneth Cmiel	2006 Annual Meeting of Stockholders
John M. Hausmann, C.P.A.	2006 Annual Meeting of Stockholders
F. Morgan Gasior	2007 Annual Meeting of Stockholders
Joseph A. Schudt	2007 Annual Meeting of Stockholders

The terms of office of the Directors after the initial terms specified above shall be as provided in the Bylaws of the Corporation.

Article 6. Capital Stock.

Section A. Authorized Stock. The total number of shares of capital stock that the Corporation shall have the authority to issue is one hundred twenty-five million (125,000,000) shares, initially classified as follows:

- (1) Twenty-five million (25,000,000) shares of preferred stock, par value one cent (\$.01) per share (the "Preferred Stock"); and
- (2) One hundred million (100,000,000) shares of common stock, par value one cent (\$.01) per share (the "Common Stock").

The aggregate par value of all of the authorized capital stock is one million, two hundred fifty thousand dollars (\$1,250,000). Except to the extent required by governing law, rule or regulation, the shares of capital stock may be issued from time to time by the Board of Directors without further approval of the stockholders of the Corporation. The Corporation shall have the authority to purchase its capital stock to the fullest extent permitted by the MGCL. If shares of one class of stock are classified or reclassified into shares of another class of stock by the Board of Directors pursuant to this Article 6, the number of authorized shares of the former class shall be automatically decreased and the number of shares of the latter class shall be automatically increased, in each case by the number of shares so classified or reclassified, so that the aggregate number of shares of stock of all classes that the Corporation has authority to issue shall not be more than one hundred twenty-five million (125,000,000) shares. The Board of Directors, pursuant to a resolution approved by a majority of the Whole Board (rounded up to the nearest whole number), and without action by the stockholders, may amend this Charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that the Corporation has authority to issue. For the purposes of this Charter, the term "Whole Board" shall mean the total number of Directors that the Corporation would have if there were no vacancies on the Board of Directors at the time any such resolution is presented to the Board of Directors for adoption.

Section B. Reclassification of Capital Stock. The Board of Directors may classify or reclassify any unissued shares of capital stock from time to time into one or more classes or series of stock by setting or changing in one or more respects the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications or terms and conditions of redemption of such shares.

Section C. Common Stock. Except as provided under the terms of any stock classified or reclassified by the Board of Directors pursuant to this Article 6 and as limited by Section F of this Article 6, the exclusive voting power shall be vested in the Common Stock, the holders thereof being entitled, subject to the provisions of Section F of Article 6 of this Charter, to one vote for each share of such Common Stock standing in the holder's name on the books of the Corporation. Subject to any rights and preferences of any class of stock having preferences over the Common Stock, holders of Common Stock shall be entitled to such dividends as may be authorized by the Board of Directors and declared by the Corporation out of funds lawfully

available therefor. Upon any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, holders of Common Stock shall be entitled to receive pro rata the remaining assets of the Corporation after payment or provision for payment of all debts and liabilities of the Corporation and payment or provision for payment of any amounts owed to the holders of any class of stock having preference over the Common Stock on distributions on liquidation, dissolution or winding up of the Corporation.

Section D. Preferred Stock and Other Stock. Subject to the foregoing, the power of the Board of Directors to classify and reclassify any of the shares of capital stock shall include, without limitation, subject to the provisions of this Charter, authority to classify or reclassify any unissued shares of such stock into a class or classes of Preferred Stock, preference stock, special stock or other stock, and to divide and classify shares of any class into one or more series of such class. Prior to issuance of classified or reclassified shares of any class or series, the Board of Directors by resolution shall:

(1) Designate that class or series to distinguish it from all other classes and series of stock of the Corporation;

(2) Specify the number of shares to be included in the class or series;

(3) Set or change, subject to the express terms of any class or series of stock of the Corporation outstanding at the time, the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms and conditions of redemption for each class or series; and

(4) Cause the Corporation to file articles supplementary with the State Department of Assessments and Taxation of Maryland (the "SDAT"). Any of the terms of any class or series of stock set or changed pursuant to this paragraph 4 of this Section D of this Article 6 may be made dependent upon facts or events ascertainable outside this Charter (including determinations by the Board of Directors or other facts or events within the control of the Corporation) and may vary among holders thereof, provided that the manner in which such facts, events or variations shall operate upon the terms of such class or series of stock is clearly and expressly set forth in the articles supplementary or other Charter document.

Section E. Ranking of Capital Stock. For the purposes of this Charter and any articles supplementary to this Charter providing for the classification or reclassification of any shares of capital stock or of any other charter document of the Corporation (unless otherwise provided in any such articles or document), any class or series of stock of the Corporation shall be deemed to rank:

(1) Prior to another class or series either as to dividends or upon liquidation, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable on liquidation, dissolution or winding up, as the case may be, in preference or priority to holders of such other class or series;

(2) On a parity with another class or series either as to dividends or upon liquidation, whether or not the dividend rates, dividend payment dates or redemption or liquidation

price per share thereof is different from those of such others, if the holders of such class or series of stock shall be entitled to receipt of dividends or amounts distributable upon liquidation, dissolution or winding up, as the case may be, in proportion to their respective dividend rates or redemption or liquidation prices, without preference or priority over the holders of such other class or series; and

(3) Junior to another class or series either as to dividends or upon liquidation, if the rights of the holders of such class or series shall be subject or subordinate to the rights of the holders of such other class or series in respect of the receipt of dividends or the amounts distributable upon liquidation, dissolution or winding up, as the case may be.

Section F. Restrictions on Voting Rights. Notwithstanding any other provision of this Charter:

(1) In no event shall any record holder of any outstanding Common Stock that is beneficially owned, directly or indirectly, by a person who, as of any record date for the determination of stockholders entitled to vote on any matter, beneficially owns in excess of ten percent (10.0%) of the then-outstanding shares of Common Stock (a "Holder in Excess") be entitled or permitted to any vote in respect of the shares held in excess of ten percent (10.0%) of the then-outstanding shares of Common Stock (the "Limit"). The number of votes which may be cast by any record holder by virtue of the provisions hereof in respect of Common Stock beneficially owned by a Holder in Excess shall be a number equal to the number of votes which would be entitled to be cast by a record holder of a number of shares equal to the Limit, multiplied by a fraction, the numerator of which is the number of shares of such class or series which are owned of record by such record holder and of which the Holder in Excess is the beneficial owner, and the denominator of which is the total number of shares of Common Stock beneficially owned by such Holder in Excess.

(2) The following definitions and rules of interpretation shall apply to this Section F of this Article 6:

(a) An "affiliate" of a specified person shall mean a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified.

(b) "Beneficial ownership" shall be determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Securities Exchange Act of 1934 (or any successor rule or statutory provision); provided that, in any event, a person shall also be deemed the "beneficial owner" of any Common Stock:

(i) Which such person or any affiliate of such person beneficially owns, directly or indirectly;

(ii) Which such person or any affiliate of such person has the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement

or understanding, or upon the exercise of conversion rights, exchange rights, warrants, or options or otherwise;

(iii) With respect to which such person or any affiliate of such person has sole or shared voting or investment power pursuant to any agreement, arrangement, understanding, relationship or otherwise; or

(iv) Which are beneficially owned, directly or indirectly, by any other person with which such first mentioned person or any affiliate of such first mentioned person acts as a partnership, limited partnership, syndicate or other group pursuant to any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of capital stock of the Corporation.

(c) Notwithstanding paragraphs 2(a) and 2(b) of this Section F of this Article 6 and any other provision of this Charter:

(i) No Director or officer of the Corporation (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, for any purposes of this Section F of this Article 6, to beneficially own any Common Stock beneficially owned by any other such Director or officer (or any affiliate thereof);

(ii) No employee stock ownership plan, employee retirement or benefit plan or similar plan of the Corporation or any subsidiary of the Corporation, or any trustee of any such plan acting in its capacity as such (or any affiliate of such trustee), shall be deemed, for any purposes of this Section F of this Article 6, to beneficially own any Common Stock held under any such plan of the Corporation;

(iii) No person shall be deemed, for any purposes of this Section F of this Article 6, to be the beneficial owner of any Common Stock solely by reason of an agreement, contract or other arrangement with the Corporation to effect or facilitate any merger or consolidation of the Corporation or sale of substantially all of its assets, but only if such agreement, contract or other arrangement and such merger, consolidation or sale have been approved by the Board of Directors pursuant to a resolution approved by 2/3 of the Whole Board (rounded up to the nearest whole number); and

(iv) No person shall be deemed, for any purposes of this Section F of this Article 6, to be the beneficial owner of any Common Stock solely by reason of a revocable proxy granted for a particular meeting of stockholders pursuant to a public solicitation of proxies for such meeting, but only with respect to shares of which neither such person nor any such affiliate of such person is otherwise deemed the beneficial owner.

(d) For purposes of computing the percentage of beneficial ownership of Common Stock of a person, the outstanding Common Stock: (i) shall include shares deemed to be beneficially owned by such person through application of this Section F of this Article 6, whether such shares have been issued or may be issuable by the Corporation; and (ii) shall not include any other shares of Common Stock which may be issuable by the Corporation pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise, and which are not deemed to be beneficially owned by such person. For all other purposes, the outstanding Common Stock shall include only the shares of Common Stock then outstanding and shall not include any shares of Common Stock which may be issuable by the Corporation pursuant to any agreement, arrangement or understanding, or upon the exercise of conversion rights, warrants or options, or otherwise.

(e) A "person" shall mean an individual, a corporation, a partnership, an association, a business trust, an unincorporated organization, a limited liability company or any other firm or entity.

(3) The Board of Directors shall have the power to construe and apply the provisions of this Section F of this Article 6 and to make all determinations it deems necessary or desirable to implement such provisions, including, but not limited to, matters with respect to:

(a) The number of shares of Common Stock beneficially owned by any person;

(b) Whether a person is an affiliate of another;

(c) Whether a person has an agreement, arrangement or understanding with another as to the matters referred to in the definition of beneficial ownership;

(d) The application of any other definition or operative provision of this Section F of this Article 6 to the given facts; and

(e) Any other matter relating to the applicability or effect of this Section F of this Article 6.

(4) The Board of Directors shall have the right to demand that any person who is reasonably believed by it to be a Holder in Excess or a record holder of Common Stock beneficially owned by a Holder in Excess supply, and such Holder in Excess or record holder shall thereupon promptly supply, the Corporation with complete information as to:

(a) The record holder(s) of all shares beneficially owned by such Holder in Excess, and

(b) Any other factual matter relating to the applicability or effect of this Section F of this Article 6 as may reasonably be requested of such Holder in Excess. The Corporation shall further have the right to receive from any Holder in Excess, upon a demand made by the Board of Directors, reimbursement for all expenses incurred by the Corporation in connection with the investigation by the Board of Directors of any matters relating to the applicability or effect of this Section F of this Article 6 on such Holder in Excess, to the extent such investigation is deemed appropriate by the Board of Directors as a result of a refusal by the Holder in Excess to promptly supply the Corporation with the information described in the previous sentence.

(5) Except as otherwise provided by the MGCL or other applicable law, the presence, in person or by proxy, of the holders of record of shares of capital stock entitled to cast a majority of all the votes entitled to be cast at the meeting (after giving due effect to the provisions of this Section F of this Article 6) shall constitute a quorum at all meetings of the stockholders.

(6) In the event any provision (or portion thereof) of this Section F of this Article 6 shall be found to be invalid, prohibited or unenforceable for any reason, the remaining provisions (or portions thereof) of this Section F of this Article 6 shall remain in full force and effect, and shall be construed as if such invalid, prohibited or unenforceable provision had been stricken from this Charter or otherwise rendered inapplicable, it being the intent of the Corporation and its stockholders that each such remaining provision (or portion thereof) of this Section F of this Article 6 shall remain, to the fullest extent permitted by law, applicable and enforceable as to all stockholders, including any Holders in Excess, notwithstanding any such finding.

Section G. Special Voting Requirements. Notwithstanding any other provision of this Charter or any provision of the MGCL or other applicable law that might otherwise permit a lesser vote of stockholders, but in addition to any vote of the holders of any class or series of the stock of the Corporation required by this Charter or any provision of the MGCL or other applicable law:

(1) A proposed consolidation, merger, share exchange, dissolution or sale of all or substantially all of the assets of the Corporation shall be approved by at least 2/3 of all the votes entitled to be cast by the holders of shares of capital stock of the Corporation entitled to vote on the matter (after giving due effect to the provisions of Section F of Article 6 of this Charter), except that: (a) no stockholder approval shall be required if the approval of stockholders is not required for the transaction by the MGCL or other applicable law; and (b) the transaction need only be approved by the vote of a majority of all the votes entitled to be cast by the holders of shares of capital stock of the Corporation entitled to vote on the matter (after giving due effect to the provisions of Section F of Article 6 of this Charter) if the transaction is approved by the Board of Directors pursuant to a resolution approved by at least 2/3 of the Whole Board (rounded up to the nearest whole number).

(2) The amendment or repeal of any provision of this Charter shall be approved by at least 2/3 of all votes entitled to be cast by the holders of shares of capital stock of the Corporation entitled to vote on the matter (after giving due effect to the provisions of Section F of Article 6 of this Charter), except that: (a) as provided in Article 6 of this Charter, the Board of Directors, pursuant to a resolution approved by a majority of the Whole Board (rounded up to the nearest whole number), and without action by the stockholders, may amend this Charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that the Corporation has authority to issue; (b) no stockholder approval shall be required if the approval of stockholders is not required for the proposed amendment or repeal by the MGCL; and (c) the proposed amendment or repeal of any provision of this Charter need only be approved by the vote of a majority of all the votes entitled to be cast by the holders of shares of capital stock of the Corporation entitled to vote on the matter (after giving due effect to the provisions of Section F of Article 6 of this Charter) if the amendment or repeal of such provision is approved by the Board of Directors pursuant to a resolution approved by at least 2/3 of the Whole Board (rounded up to the nearest whole number). The amendment or repeal of any provision of this Charter for which the approval of stockholders is required by the MGCL shall also be subject to the conditions, limitations and requirements set forth in Article 14 of this Charter.

Article 7. Preemptive Rights and Appraisal Rights.

Section A. Preemptive Rights. Except for preemptive rights approved by the Board of Directors pursuant to a resolution approved by a majority of the Directors then in office, no holder of the capital stock of the Corporation or series of stock or of options, warrants or other rights to purchase shares of any class or series of stock or of other securities of the Corporation shall have any preemptive right to purchase or subscribe for any unissued capital stock of any class or series, or any unissued bonds, certificates of indebtedness, debentures or other securities convertible into or exchangeable for capital stock of any class or series or carrying any right to purchase stock of any class or series.

Section B. Appraisal Rights. Holders of shares of stock shall not be entitled to exercise any rights of an objecting stockholder provided for under Title 3, Subtitle 2 of the MGCL or any successor statute unless the Board of Directors, pursuant to a resolution approved by a majority of the Directors then in office, shall determine that such rights apply with respect to all or any classes or series of stock, to one or more transactions occurring after the date of such determination in connection with which holders of such shares would otherwise be entitled to exercise such rights.

Article 8. Directors.

Section A. Management of the Corporation. The business and affairs of the Corporation shall be managed under the direction of the Board of Directors. In addition to the powers and authority expressly conferred upon the Board of Directors by the MGCL, any other applicable law, this Charter and the Bylaws of the Corporation, the Board of Directors is hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation.

Section B. Number of Directors; No Cumulative Voting. The initial number of Directors shall be the number provided in Article 5 of this Charter. The Board of Directors may alter the number of Directors provided in Article 5 of this Charter at any time by establishing, increasing, decreasing or otherwise altering the number of Directors as provided in the Bylaws of the Corporation. Stockholders shall not be permitted to cumulate their votes in the election of Directors.

Section C. Vacancies. The Corporation elects, at such time as it becomes eligible to make the election provided for under Section 3-802(b) and Section 3-804(c) of the MGCL that, except as may be provided by the Board of Directors in setting the terms of any class or series of stock, any and all vacancies on the Board of Directors, however arising, including, without limitation, vacancies arising from the death, resignation, removal or disqualification of one or more Directors and from newly created or established Directorships, shall be filled only by the Board of Directors pursuant to a resolution approved by a majority of the remaining Directors then in office, even if the remaining Directors do not constitute a quorum, and any Director elected to fill a vacancy shall serve for the remainder of the full term of the class in which such vacancy occurred. No decrease in the number of Directors constituting the Board of Directors shall shorten the tenure of any Director then in office.

Section D. Removal of Directors. Subject to the rights of the holders of any series of Preferred Stock then outstanding, any Director may be removed from office at any time only as follows:

(1) A Director may be removed from office for cause (as defined below) if the removal of such Director for cause shall be approved by at least 2/3 of all votes entitled to be cast by the holders of shares of capital stock of the Corporation entitled to vote generally in the election of Directors (after giving due effect to the provisions of Section F of Article 6 of this Charter). For the purposes of this paragraph (1) of this Section D of this Article 8, "cause" shall mean, with respect to any particular Director: (1) the conviction of a felony; or (2) a final judgment of a court of competent jurisdiction holding that, in the performance of his or her duties to the Corporation, such Director acted in bad faith, engaged in active and deliberate dishonesty or engaged in willful misconduct, and such bad faith, active and deliberate dishonesty or willful misconduct caused material financial or other harm to the Corporation; and

(2) A Director may be removed from office with or without cause if: (a) the removal of such Director is recommended by the Board of Directors pursuant to a resolution approved by at least 2/3 of the total number (rounded up to the nearest whole number) of Directors that the Corporation would have if there were no vacancies on the Board of Directors at the time such resolution is presented to the Board of Directors for adoption and if the Director whose removal is sought were not counted in such total number; and (b) the removal of such Director shall be approved by the vote of a majority of all the votes entitled to be cast by the holders of shares of capital stock of the Corporation entitled to vote generally in the election of Directors (after giving due effect to the provisions of Section F of Article 6 of this Charter).

Section E. Stockholder Proposals and Nominations of Directors. For any stockholder proposal to be qualified to be presented in connection with an annual meeting of

stockholders of the Corporation, including any nomination or proposal relating to the nomination of a Director to be elected to the Board of Directors of the Corporation, the stockholder must have given timely written notice thereof to the Secretary of the Corporation in the manner and containing the information required by the Bylaws of the Corporation. Stockholder proposals to be presented in connection with a special meeting of stockholders shall be presented by the Corporation only to the extent required by Section 2-502 of the MGCL and the Bylaws of the Corporation.

Section F. Determinations by Board. The determination as to any of the following matters, made in good faith by or pursuant to the direction of the Board of Directors consistent with this Charter, shall be final and conclusive and shall be binding upon the Corporation and every holder of shares of its stock: (1) the amount of the net income of the Corporation for any period and the amount of assets at any time legally available for the payment of dividends, redemption of its stock or the payment of other distributions on its stock; (2) the amount of paid-in surplus, net assets, other surplus, annual or other cash flow, funds from operations, net profit, net assets in excess of capital, undivided profits or excess of profits over losses on sales of assets; (3) the amount, purpose, time of creation, increase or decrease, alteration or cancellation of any reserves or charges and the propriety thereof (whether or not any obligation or liability for which such reserves or charges shall have been created shall have been paid or discharged); (4) any interpretation of the terms, preferences, conversion or other rights, and voting powers, rights and limitations concerning any class or series of stock of the Corporation (including, without limitation, the provisions of Section F of Article 6 of this Charter); (5) any interpretations of restrictions or limitations as to dividends or distributions concerning any class or series of stock of the Corporation; (6) any interpretations of the qualifications or terms or conditions of the redemption of any class or series of stock of the Corporation; (7) the fair value, or any sale, bid or asked price to be applied in determining the fair value, of any asset owned or held by the Corporation or of any shares of stock of the Corporation; (8) the number of shares of stock of any class of the Corporation; (9) any matter relating to the acquisition, holding and disposition of any assets by the Corporation; or (10) any other matter relating to the business and affairs of the Corporation or required or permitted by the MGCL or other applicable law, this Charter or the Bylaws of the Corporation or otherwise to be determined by the Board of Directors.

Article 9. Bylaws.

The Board of Directors shall have the exclusive power to adopt, amend, restate or repeal the Bylaws of the Corporation. Any adoption, amendment, restatement or repeal of the Bylaws of the Corporation shall be approved by the Board of Directors as provided in such Bylaws.

Article 10. Maryland Business Combination Statute.

The Corporation elects to be governed by the provisions of Sections 3-601 through 3-604 of the MGCL (the "Maryland Business Combination Act") as in effect on the date these Articles of Incorporation are accepted for record by the SDAT. The Corporation elects not to be governed by any amendment to the Maryland Business Combination Act after such date unless the Board of Directors, pursuant to a resolution approved by a majority of the Directors then in office, determines that such amendment shall apply to the Corporation. In the event that the Maryland Business Combination Act is repealed or, in the sole discretion of the Board of

Directors, amended or substantially altered to the detriment of the Corporation, the Corporation shall continue to be governed by the provisions of the Maryland Business Combination Act in effect on the date these Articles of Incorporation are accepted for record by the SDAT, together with any amendments to the Maryland Business Combination Act that the Board of Directors has determined shall apply to the Corporation.

Article 11. Evaluation of Certain Offers.

The Board of Directors, in considering any potential acquisition of control of the Corporation, including, without limitation, a tender offer for any equity security of the Corporation, a merger or consolidation of the Corporation with or into another entity or a sale of all or substantially all of the assets of the Corporation, may, but shall not be obligated to, give due consideration to all relevant factors, including, without limitation, the effect of the potential acquisition of control on stockholders, employees, suppliers, customers, and creditors of the Corporation and any of its subsidiaries, and communities in which offices or other establishments of the Corporation or any of its subsidiaries are located.

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 by 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 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.

Article 14. Amendment of this Charter.

The Corporation reserves the right to amend or repeal any provision contained in this Charter in the manner prescribed by the MGCL, and all rights conferred upon stockholders are granted subject to this reservation; provided that: (A) no proposed amendment or repeal of any provision of this Charter shall be submitted to a stockholder vote unless the Board of Directors shall have (1) approved the proposed amendment or repeal, (2) determined that it is advisable, and (3) directed that it be submitted for consideration at either an annual or special meeting of the stockholders pursuant to a resolution approved by the Board of Directors; and (B) the proposed amendment or repeal shall also be approved by a vote of the stockholders in accordance with the voting and other requirements forth in paragraph 2 of Section G of Article 6 of this Charter, but only if the approval of stockholders is required for the proposed amendment or repeal by the MGCL. Any proposed amendment or repeal of any provision of this Charter may be abandoned by the Board of Directors at any time before its effective time upon the adoption of a resolution approved by a majority of the Whole Board (rounded up to the nearest whole number).

Article 15. Name and Address of Incorporator.

The name and mailing address of the sole incorporator are as follows:

Robert B. Pomerenk, Esq.
5335 Wisconsin Ave., N.W. Suite 400
Washington, D.C. 20015

I, THE UNDERSIGNED, being the incorporator, for the purpose of forming a corporation under the laws of the State of Maryland, do make, file and record this Charter, do certify that the facts herein stated are true, and, accordingly, have hereto set my hand this 22nd day of September, 2004.

/s/ Robert B. Pomerenk

Robert B. Pomerenk, Incorporator

**BANKFINANCIAL CORPORATION
BYLAWS**

Article 1. Stockholders

Section 1.01 Annual Meeting. An annual meeting of the stockholders for the election of Directors and the transaction of any other business within the powers of the Corporation shall be held during the month of May in each year on a date and at the time and place set by the Board of Directors.

Section 1.02 Special Meetings.

(a) *Calling of Special Meetings.* Subject to the rights of the holders of any class or series of preferred stock of the Corporation, special meetings of stockholders of the Corporation may be called by the by the Chief Executive Officer, the President, or the Board of Directors pursuant to a resolution approved by majority of the Whole Board. For the purposes of these Bylaws, the term "Whole Board" shall mean the total number of Directors that the Corporation would have if there were no vacancies on the Board of Directors at the time any such resolution is presented to the Board of Directors for adoption. Subject to the requirements of this Section 1.02, special meetings of the stockholders shall be called by the Secretary only upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at the meeting.

(b) *Notice and Procedural Requirements for Special Meetings.*

(1) Any stockholder of record seeking to have stockholders request a special meeting shall, by sending written notice to the Secretary at the principal executive office of the Corporation (the "Record Date Request Notice") by registered mail, return receipt requested, request the Board of Directors to fix a record date to determine the stockholders entitled to request a special meeting (the "Request Record Date"). The Record Date Request Notice shall set forth the purpose of the meeting and the matters proposed to be acted on at it, shall be signed by one or more stockholders of record as of the date of signature (or their agents duly authorized in a writing accompanying the Record Date Request Notice), shall bear the date of signature of each such stockholder (or such agent) and shall set forth all information relating to each such stockholder that must be disclosed in solicitations of proxies for election of Directors in an election contest (even if an election contest is not involved), or is otherwise required, in each case pursuant to Regulation 14A (or any successor provision) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Upon receiving the Record Date Request Notice, the Board of Directors may fix a Request Record Date. The Request Record Date shall not precede and shall not be more than ten days after the close of business on the date on which the Board of Directors adopts a resolution fixing the Request Record Date. If the Board of Directors, within 10 days after the date on which a valid Record Date Request Notice is received, fails to adopt a resolution fixing

the Request Record Date, the Request Record Date shall be the close of business on the 10th day after the first date on which the Record Date Request Notice is received by the Secretary.

(2) In order for any stockholder to request a special meeting, one or more written requests for a special meeting signed by stockholders of record (or their agents duly authorized in a writing accompanying the request) as of the Request Record Date entitled to cast not less than a majority (the "Special Meeting Percentage") of all of the votes entitled to be cast at such meeting (the "Special Meeting Request") shall be delivered to the Secretary. In addition, the Special Meeting Request: (i) shall set forth the purpose of the meeting and the matters proposed to be acted on at it (which shall be limited to those lawful matters set forth in the Record Date Request Notice received by the Secretary); (ii) shall bear the date of signature of each such stockholder (or such agent) signing the Special Meeting Request; (iii) shall set forth the name and address, as they appear in the Corporation's books, of each stockholder signing such request (or on whose behalf the Special Meeting Request is signed), the class, series and number of all shares of stock of the Corporation which are owned by each such stockholder, and the nominee holder for, and number of, shares owned by such stockholder beneficially but not of record; (iv) shall be sent to the Secretary at the Corporation's principal executive office by registered mail, return receipt requested; and (v) shall be received by the Secretary within 60 days after the Request Record Date. Any requesting stockholder (or agent duly authorized in a writing accompanying the revocation or the Special Meeting Request) may revoke his, her or its request for a special meeting at any time by written revocation delivered to the Secretary.

(3) The Secretary shall inform the requesting stockholders of the reasonably estimated cost of preparing and mailing the notice of meeting (including the Corporation's proxy materials). The Secretary shall not be required to call a special meeting upon stockholder request and such meeting shall not be held unless, in addition to the documents required by paragraph (2) of this Section 1.02(b), the Secretary receives payment of such reasonably estimated cost prior to the mailing of any notice of the meeting.

(4) Except as provided in the next sentence, any special meeting shall be held at such place, date and time as may be designated in a resolution approved by a majority of the Whole Board. In the case of any special meeting called by the Secretary upon the request of stockholders (a "Stockholder Requested Meeting"), such meeting shall be held at such place, date and time as may be designated by the Board of Directors; provided, however, that the date of any Stockholder Requested Meeting shall be not more than 90 days after the record date for such meeting (the "Meeting Record Date"); and provided further that if the Board of Directors fails to designate, within ten days after the date that a valid Special Meeting

Request is actually received by the Secretary (the "Delivery Date"), a date and time for a Stockholder Requested Meeting, then such meeting shall be held at 2:00 p.m. local time on the 90th day after the Meeting Record Date or, if such 90th day is not a Business Day (as defined below), on the first preceding Business Day; and provided further that in the event that the Board of Directors fails to designate a place for a Stockholder Requested Meeting within ten days after the Delivery Date, then such meeting shall be held at the principal executive office of the Corporation. In fixing a date for any special meeting, the Board of Directors may consider such factors as it deems relevant within the good faith exercise of business judgment, including, without limitation, the nature of the matters to be considered, the facts and circumstances surrounding any request for the meeting, and any plan of the Board of Directors to call an annual meeting or a special meeting. In the case of any Stockholder Requested Meeting, if the Board of Directors fails to fix a Meeting Record Date that is a date within 30 days after the Delivery Date, then the close of business on the 30th day after the Delivery Date shall be the Meeting Record Date. The Board of Directors may revoke the notice for any Stockholder Requested Meeting in the event that the requesting stockholders fail to comply with the provisions of Section 1.02(b)(3).

(5) If written revocations of requests for a special meeting have been delivered to the Secretary and the result is that stockholders of record (or their agents duly authorized in writing), as of the Request Record Date, entitled to cast less than the Special Meeting Percentage have delivered, and have not been revoked, requests for a special meeting to the Secretary, the Secretary shall: (i) if the notice of meeting has not already been mailed, refrain from mailing the notice of the meeting and send to all requesting stockholders who have not revoked such requests written notice of any revocation of a request for the special meeting; or (ii) if the notice of meeting has been mailed and if the Secretary first sends to all requesting stockholders who have not revoked requests for a special meeting written notice of any revocation of a request for the special meeting and written notice of the Secretary's intention to revoke the notice of the meeting, revoke the notice of the meeting at any time before 10 days before the commencement of the meeting. Any request for a special meeting received after a revocation by the Secretary of a notice of a meeting shall be considered a request for a new special meeting.

(6) The Board of Directors may, but shall not be obligated to, appoint regionally or nationally recognized independent inspectors of elections to act as the agent of the Corporation for the purpose of promptly performing a ministerial review of the validity of any purported Special Meeting Request received by the Secretary. For the purpose of permitting the inspectors to perform such review, no such purported request shall be deemed to have been delivered to the Secretary until the earlier of (i) five Business Days after receipt by the Secretary of such purported request and (ii) such date as

the independent inspectors certify to the Corporation that the valid requests received by the Secretary represent at least a majority of the issued and outstanding shares of stock that would be entitled to vote at such meeting. Nothing contained in this Section 1.02(b)(6) shall in any way be construed to suggest or imply that the Corporation or any stockholder shall not be entitled to contest the validity of any request, whether during or after such five Business Day period, or to take any other action (including, without limitation, the commencement, prosecution or defense of any litigation with respect thereto, and the seeking of injunctive relief in such litigation).

(7) For purposes of these Bylaws, "Business Day" shall mean any day other than a Saturday, a Sunday or a day on which banking institutions in the State of Illinois are authorized or obligated by law or executive order to close.

Section 1.03 Notice of Meetings. Not less than 10 nor more than 90 days before each stockholders' meeting, the Secretary shall give notice of the meeting in writing or by electronic transmission to each stockholder entitled to vote at the meeting and to each other stockholder entitled to notice of the meeting. The notice shall state: (a) the time and place of the meeting; (b) the purpose of the meeting, but only if the meeting is a special meeting or notice of the purpose of the meeting is otherwise required by the General Corporation Law of the State of Maryland, as now or hereafter in force (referred to herein as the "MGCL") or other applicable law; and (c) the means of remote communication, if any, by which stockholders and proxy holders may be deemed to be present in person and may vote at the meeting. Notice is given to a stockholder when it is personally delivered to the stockholder, left at the stockholder's usual place of business, mailed to the stockholder at his or her address as it appears on the records of the Corporation, or, subject to the requirements of the MGCL, transmitted to the stockholder by electronic transmission to any address or number of the stockholder at which the stockholder receives electronic transmissions. If two or more stockholders share an address, notice to such stockholders may be given by a single notice to the fullest extent permitted by the MGCL. Each person who is entitled to notice waives notice if such person, before or after the meeting, delivers a written waiver or a waiver by electronic transmission that is filed with the records of the stockholders' meeting, or is present at the meeting in person or by proxy.

Section 1.04 Adjournment. A meeting of stockholders convened on the date for which it was called may be adjourned from time to time by the chairman of the meeting, whether or not a quorum is present, to a time and date not more than 120 days after the original record date without notice other than announcement at the meeting. At an adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted at the meeting as originally notified.

Section 1.05 Quorum. At any meeting of the stockholders, the presence in person or by proxy of stockholders entitled to cast a majority of all the votes entitled to be cast at the meeting on any matter (after giving due effect to the provisions of Article 6, Section F of the Charter of the Corporation) constitutes a quorum for all purposes, unless or except to the extent that the presence of a larger number may be required by the Charter

of the Corporation. Where a separate vote by a class or classes is required, a majority of the shares of such class or classes, present in person or represented by proxy, shall constitute a quorum entitled to take action with respect to that vote on that matter. The stockholders present either in person or by proxy at a meeting that has been duly called and convened may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

Section 1.06 Voting; Proxies.

(a) *Voting.* Subject to the limitations set forth in Article 6, Section F of the Charter of the Corporation, and any other provisions of the Charter of the Corporation that provide for a greater or lesser number of votes per share or limit or deny voting rights, each outstanding share of stock, regardless of class, is entitled to one vote on each matter submitted to a vote at a meeting of stockholders, subject to the provisions of Article 6, Section F of the Charter. A plurality of all the votes cast (after giving due effect to the provisions of Article 6, Section F of the Charter) at a meeting of stockholders duly called and at which a quorum is present shall be sufficient to elect a Director. Each share may be voted (after giving due effect to the provisions of Article 6, Section F of the Charter) for as many individuals as there are Directors to be elected and for whose election the share is entitled to be voted. A majority of the votes cast (after giving due effect to the provisions of Article 6, Section F of the Charter) at a meeting of stockholders duly called and at which a quorum is present shall be sufficient to approve any other matter which may properly come before the meeting, unless more than a majority of the votes cast is required by statute or the Charter of the Corporation for a specific action.

(b) *Proxies.* A stockholder may cast the votes entitled to be cast by the shares of stock owned of record by the stockholder in person or by proxy executed by the stockholder or by the stockholder's duly authorized agent in any manner permitted by law. A stockholder may authorize another person to act as proxy by signing a writing authorizing such person to act as proxy. Signing may be accomplished by the stockholder or the stockholder's authorized agent signing the writing or causing the stockholder's signature to be affixed to the writing by any reasonable means, including facsimile signature. A stockholder may also authorize another person to act as proxy by transmitting or authorizing the transmission of a facsimile or other means of electronic transmission to the person authorized to act as proxy or to a proxy solicitation firm, proxy support service organization, or other person authorized by the person who will act as proxy to receive the transmission. Such proxy or evidence of authorization of such proxy shall be filed with the Secretary of the Corporation before or at the meeting. No proxy shall be valid more than eleven months after its date unless otherwise provided in the proxy. A proxy may be made irrevocable if the proxy so states, but only for so long as it is coupled with an interest.

Section 1.07 Conduct of Business.

(a) *Conduct of Meeting.* Every meeting of stockholders shall be conducted by an individual appointed by the Board of Directors to be chairman of the meeting. In the absence of such appointment, the Chairman of the Board or, in the case of a vacancy in the office or the absence of the Chairman of the Board, one of the following officers present at

the meeting in the order of their rank: the Chief Executive Officer, the President, the Secretary, and the Chief Financial Officer/Treasurer, shall serve as chairman of the meeting. The Secretary, or, in the Secretary's absence, an Assistant Secretary, or in the absence of both the Secretary and an Assistant Secretary, a person appointed by the Board of Directors or the chairman of the meeting shall act as secretary of the meeting. In the event that the Secretary presides at a meeting of the stockholders, an Assistant Secretary, or in the absence of Assistant Secretaries, an individual appointed by the Board of Directors or the chairman of the meeting, shall record the minutes of the meeting.

(b) *Order of Business; Rules and Regulations.* The order of business and all other matters of procedure at any meeting of stockholders shall be determined by the chairman of the meeting. The chairman of the meeting may prescribe such rules, regulations and procedures and take such action as, in the discretion of such chairman, are appropriate for the proper conduct of the meeting, including, without limitation: (i) restricting admission to the time set for the commencement of the meeting; (ii) limiting attendance at the meeting to stockholders of record of the Corporation, their duly authorized proxies and other such individuals as the chairman of the meeting may determine; (iii) limiting participation at the meeting on any matter to stockholders of record of the Corporation entitled to vote on such matter, their duly authorized proxies and other such individuals as the chairman of the meeting may determine; (iv) limiting the time allotted to questions or comments by participants; (v) determining when the polls should be opened and closed; (vi) maintaining order and security at the meeting; (vii) removing any stockholder or any other individual who refuses to comply with meeting procedures, rules or guidelines as set forth by the chairman of the meeting; and (viii) concluding a meeting or recessing or adjourning the meeting to a later date and time and at a place announced at the meeting. Unless otherwise determined by the chairman of the meeting, meetings of stockholders are not required to be held in accordance with Roberts Rules of Order or other rules of parliamentary procedure.

Section 1.08 Conduct of Voting.

(a) *Inspectors of Election.* The Board of Directors shall appoint one or more persons as inspectors of election, to act at the meeting or any adjournment thereof and make a written report thereof, in accordance with these Bylaws and applicable law. If an inspector or inspectors are not appointed, the chairman of the meeting shall appoint one or more inspectors. If a person who has been appointed as an inspector fails to appear or act, the Board of Directors or the chairman of the meeting may fill the vacancy. The inspectors shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, the qualifications of voters, the validity and effect of proxies, and shall receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all stockholders. Each such report shall be in writing and signed by him or her or by a majority of them if there is more than one inspector acting at such meeting. If there is more than one inspector, the report of a majority shall be the report of the inspectors. The report of the inspector or inspectors on the number of shares represented at the meeting and the results of the voting shall be *prima facie* evidence thereof.

(b) *Manner of Voting.* All voting, except where otherwise required by applicable law, may be by a voice vote; provided, however, that upon demand therefor by a stockholder entitled to vote or his or her proxy, a stock vote shall be taken. Every stock vote shall be taken by ballot, each of which shall state the name of the stockholder or proxy voting and such other information as may be required under the procedure established for the meeting. Every vote taken by ballot shall be counted by an inspector or inspectors appointed by the chairman of the meeting. No candidate for election as a Director at a meeting shall serve as an inspector at such meeting.

(c) *Voting by Certain Holders.* Stock of the Corporation registered in the name of a corporation, partnership, trust or other entity, if entitled to be voted, may be voted by the President or a Vice-President, a general partner or trustee thereof, as the case may be, or a proxy appointed by any of the foregoing individuals, unless some other person who has been appointed to vote such stock pursuant to a bylaw or a resolution of the governing body of such corporation or other entity or agreement of the partners of a partnership presents a certified copy of such bylaw, resolution or agreement, in which case such person may vote such stock. Any Director or other fiduciary may vote stock registered in his or her name as such fiduciary, either in person or by proxy.

(d) *Stock Owned by the Corporation.* Shares of stock of the Corporation directly or indirectly owned by it shall not be voted at any meeting and shall not be counted in determining the total number of outstanding shares entitled to be voted at any given time, unless they are held by it in a fiduciary capacity, in which case they may be voted and shall be counted in determining the total number of outstanding shares at any given time.

Section 1.09 Stockholder Nominations of Directors and Proposals.

(a) Nominations and Proposals for Annual Meetings of Stockholders.

(1) Nominations of individuals for election to the Board of Directors and the proposal of other business to be considered by the stockholders may be made at an annual meeting of stockholders: (i) pursuant to the Corporation's notice of meeting; (ii) by or at the direction of the Board of Directors; or (iii) by any stockholder of the Corporation who was a stockholder of record both at the time of giving of notice by the stockholder as provided for in this Section 1.09(a) and at the time of the annual meeting, who is entitled to vote at the meeting and who has complied with the requirements of this Section 1.09(a).

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (iii) of paragraph (a)(1) of this Section 1.09, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and such other business must otherwise be a proper matter for action by the stockholders. To be timely, a stockholder's notice shall set forth all information required under this

Section 1.09(a)(2) and shall be delivered to the Secretary at the principal executive office of the Corporation not earlier than the 150th day nor later than 5:00 p.m., Chicago, Illinois Time, on the 120th day prior to the first anniversary of the date of mailing of the notice for the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced or delayed by more than 30 days from the first anniversary of the date of the preceding year's annual meeting, notice by the stockholder to be timely must be so delivered not earlier than the 150th day prior to the date of such annual meeting and not later than 5:00 p.m., Chicago, Illinois Time, on the later of the 120th day prior to the date of such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. The public announcement of a postponement or adjournment of an annual meeting shall not commence a new time period for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth (i) as to each individual whom the stockholder proposes to nominate for election or reelection as a Director, (A) the name, age, business address and residence address of such individual, (B) the class, series and number of any shares of stock of the Corporation that are beneficially owned by such individual, (C) the date such shares were acquired and the investment intent of such acquisition and (D) all other information relating to such individual that is required to be disclosed in solicitations of proxies for election of Directors in an election contest (even if an election contest is not involved), or is otherwise required, in each case pursuant to Regulation 14A (or any successor provision) under the Exchange Act and the rules thereunder (including such individual's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected); (ii) as to any other business that the stockholder proposes to bring before the meeting, a description of such business, the reasons for proposing such business at the meeting and any material interest in such business of such stockholder and any Stockholder Associated Person (as defined below), individually or in the aggregate, including any anticipated benefit to the stockholder and the Stockholder Associated Person therefrom; (iii) as to the stockholder giving the notice and any Stockholder Associated Person, the class, series and number of all shares of stock of the Corporation which are owned by such stockholder and by such Stockholder Associated Person, if any, and the nominee holder for, and number of, shares owned beneficially but not of record by such stockholder and by any such Stockholder Associated Person; (iv) as to the stockholder giving the notice and any Stockholder Associated Person covered by clauses (ii) or (iii) of this paragraph (2) of this Section 1.09(a), the name and address of such stockholder, as they appear on the Corporation's stock ledger and current name and address, if different, and of such Stockholder Associated Person; and (v) to the extent known by the stockholder giving the notice, the name and address of any other stockholder supporting the nominee for election or reelection as a Director or the proposal of other business on the date of such stockholder's notice.

(3) Notwithstanding anything in this Section 1.09(a) to the contrary, in the event the Board of Directors increases or decreases the maximum or minimum number of Directors in accordance with these Bylaws, and there is no public announcement of such action at least 130 days prior to the first anniversary of the date of mailing of the notice of the preceding year's annual meeting, a stockholder's notice required by this Section 1.09(a) shall also be considered timely, but only with respect to nominees for such newly created Directorships for which the term of office will expire at the next annual meeting, if it shall be delivered to the Secretary at the principal executive office of the Corporation not later than 5:00 p.m., Chicago, Illinois Time, on the tenth day following the day on which such public announcement is first made by the Corporation.

(4) For purposes of this Section 1.09, "Stockholder Associated Person" of any stockholder shall mean: (i) any person controlling, directly or indirectly, or acting in concert with, such stockholder; (ii) any beneficial owner of shares of stock of the Corporation owned of record or beneficially by such stockholder; and (iii) any person controlling, controlled by or under common control with such Stockholder Associated Person.

(b) *Nominations and Proposals for Special Meetings of Stockholders.*

(1) Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting.

(2) Nominations of individuals for election to the Board of Directors may be made at a special meeting of stockholders at which Directors are to be elected: (i) pursuant to the Corporation's notice of meeting; (ii) by or at the direction of the Board of Directors; or (iii) provided that the Board of Directors has determined that Directors shall be elected at such special meeting, by any stockholder of the Corporation who is a stockholder of record both at the time of giving of notice provided for in Section 1.09(a) and at the time of the special meeting, who is entitled to vote at the meeting and who complied with the notice procedures and other requirements set forth in this Section 1.09.

(3) In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more individuals to the Board of Directors, any such stockholder may nominate an individual or individuals (as the case may be) for election as a Director as specified in the Corporation's notice of meeting, if the stockholder's notice required by Section 1.09(a)(2) shall be delivered to the Secretary at the principal executive office of the Corporation not earlier than the 120th day prior to such special meeting and not later than 5:00 p.m., Chicago, Illinois Time on the later of the 90th day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the special meeting and of

the nominees proposed by the Board of Directors to be elected at such meeting. The public announcement of a postponement or adjournment of a special meeting shall not commence a new time period for the giving of a stockholder's notice as described above.

(c) *Additional Requirements for Stockholder Nominations and Proposals.*

(1) Upon written request by the Secretary or the Board of Directors or any committee thereof, any stockholder proposing a nominee for election as a Director or any proposal for other business at a meeting of stockholders shall provide, within five Business Days of delivery of such request (or such other period as may be specified in such request), written verification, satisfactory, in the discretion of the Board of Directors or any committee thereof or any authorized officer of the Corporation, to demonstrate the accuracy of any information submitted by the stockholder pursuant to this Section 1.09. If a stockholder fails to provide such written verification within such period, the information as to which written verification was requested may be deemed not to have been provided in accordance with this Section 1.09.

(2) Only such individuals who are nominated in accordance with this Section 1.09 shall be eligible for election by stockholders as Directors, and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with this Section 1.09. The chairman of the meeting shall have the power to determine whether a nomination or any other business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with this Section 1.09.

(3) For purposes of this Section 1.09, (a) the "date of mailing of the notice" shall mean the date of the proxy statement for the solicitation of proxies for election of Directors and (b) "public announcement" shall mean disclosure (i) in a press release reported by the Dow Jones News Service, Associated Press, Business Wire, PR Newswire or comparable news service or (ii) in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to the Exchange Act.

(4) Notwithstanding the foregoing provisions of this Section 1.09, a stockholder shall also comply with all applicable requirements of state law and of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 1.09. Nothing in this Section 1.09 shall be deemed to affect any right of a stockholder to request inclusion of a proposal in, nor the right of the Corporation to omit a proposal from, the Corporation's proxy statement pursuant to Rule 14a-8 (or any successor provision) under the Exchange Act.

Section 1.10 Participation via Conference Communications. The Board of Directors may, but shall not be obligated to, allow stockholders to participate in any annual or special meeting of stockholders by means of a conference telephone or other communications equipment to the fullest extent permitted by the MGCL.

Section 1.11 Place of Meetings. All meetings of stockholders shall be held at the place determined by the Board of Directors, and if the Board of Directors determines to hold a meeting solely by remote communication, the meeting need not be held at any place.

Section 1.12 Informal Action by Stockholders. Any action required or permitted to be taken at a meeting of stockholders may be taken without a meeting if there is filed with the records of the stockholders' meetings a unanimous written consent which sets forth the action and is signed by each stockholder entitled to vote on the matter and a written waiver of any right to dissent signed by each stockholder entitled to notice of the meeting but not entitled to vote at the meeting.

Article 2. Board of Directors

Section 2.01 General Powers, Number, Tenure and Qualifications.

(a) *General Powers.* The business and affairs of the Corporation shall be managed under the direction of its Board of Directors. The Board of Directors may, to the fullest extent permitted by the Charter of the Corporation, the MGCL and any other applicable law, exercise all such powers and do all such acts and things as may be exercised or done by the Corporation. Without limiting the generality of the foregoing, the Board of Directors shall have the unqualified power: (i) to authorize dividends and other distributions from time to time in accordance with law; (ii) to purchase or otherwise acquire any property, rights or privileges on such terms as it shall determine; (iii) to authorize the creation, making and issuance, in such form as it may determine, of written obligations of every kind, negotiable or non-negotiable, secured or unsecured, and to do all things necessary in connection therewith; (iv) to remove any officer of the Corporation with or without cause, and from time to time to devolve the powers and duties of any officer upon any other person for the time being; (v) to confer upon any officer of the Corporation the power to appoint, remove and suspend subordinate officers, employees and agents; (vi) to adopt from time to time such stock, option, stock purchase, bonus or other compensation plans for Directors, officers, employees and agents of the Corporation and its subsidiaries as it may determine; (vii) to adopt from time to time such insurance, retirement, and other benefit plans for Directors, officers, employees and agents of the Corporation and its subsidiaries as it may determine; and (viii) to adopt from time to time regulations or policies, not inconsistent with these Bylaws, for the management of the Corporation's business and affairs.

(b) *Number of Directors.* *Number of Directors.* The initial number of Directors shall be the number provided in the Charter. The Board of Directors may alter the number of Directors provided in the Charter at any time by establishing, increasing or decreasing the number of Directors pursuant to a resolution approved by a majority of the Whole Board (rounded up to the nearest whole number), provided that the number of Directors

shall never be less than the minimum number of Directors required by the MGCL, and provided further that the tenure of office of a Director shall not be affected by any increase or decrease in the number of Directors. The tenure of office of any Director elected to fill a vacancy resulting from an increase in the number of Directors shall be determined as provided in Section 2.02.

(c) *Classes of Directors; Initial Tenure.* The Directors, other than those who may be elected by the holders of any class or series of stock, shall initially be divided into three classes, as nearly equal in number as reasonably possible, to be known as Class 1, Class 2 and Class 3, respectively. The initial term of office of the members of Class 1 shall expire at the conclusion of the first annual meeting of stockholders held in 2005; the initial term of office of the members of Class 2 shall expire at the conclusion of the annual meeting of stockholders held in 2006; and the initial term of office of the members of Class 3 shall expire at the conclusion of the annual meeting of stockholders held in 2007. The Board of Directors may establish new classes of Directors or otherwise change the number of classes of Directors at any time and to the fullest extent permitted by the MGCL pursuant to a resolution approved by a majority of the Whole Board (rounded up to the nearest whole number). Each Director shall hold office until his or her successor shall have been duly elected and qualified, including upon the delay of or the failure to hold any annual meeting of stockholders.

(d) *Terms of Office after Initial Term.* At each annual meeting of stockholders, commencing with the first annual meeting, Directors elected to succeed those Directors whose terms of office will expire at the conclusion of such annual meeting shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election, with each Director to hold office and until his or her successor shall have been duly elected and qualified, unless the Board of Directors shall by resolution establish a different term of office for such Directors.

(e) *Qualifications; Age Limit.* Each Director shall be a stockholder of the Corporation. No person more than 75 years of age shall be eligible for election, reelection, appointment, or reappointment to the Board of the Corporation, but upon attaining age 75, a Director may serve for the remainder of the full term for which he or she was elected or chosen and shall hold office until his or her successor shall have been duly elected and qualified.

Section 2.02 Chairman of the Board. The Board of Directors shall annually elect a Chairman of the Board from among its members. The Chairman of the Board shall preside at all meetings of the Board of Directors and shall have such other duties as are provided in these Bylaws and as from time to time may be assigned by the Board of Directors. In the absence of the Chairman of the Board or if one is not elected, the Board of Directors shall designate another Director to perform such duties and functions.

Section 2.03 Vacancies, Including Newly Created Directorships. Except as may be provided by the Board of Directors in setting the terms of any class or series of stock, any and all vacancies on the Board of Directors, however arising, including, without limitation, vacancies arising from the death, resignation, removal or disqualification of one

or more Directors and from newly created or established Directorships, may be filled only by Board of Directors pursuant to a resolution approved by a majority of the remaining Directors then in office, even if the remaining Directors do not constitute a quorum, and any Director elected to fill a vacancy shall serve for the remainder of the full term of the class in which such vacancy occurred. No decrease in the number of Directors constituting the Board of Directors shall shorten the tenure of any Director then in office. If for any reason any or all the Directors cease to be Directors, such event shall not terminate the Corporation or affect these Bylaws or the powers of the remaining Directors hereunder (even if fewer than the minimum number of Directors required by the MGCL remain in office).

Section 2.04 Removal. A Director may be removed only in accordance with the provisions of the Charter of the Corporation.

Section 2.05 Regular Meetings. Regular meetings of the Board of Directors shall be held at such place or places, on such date or dates, and at such time or times as shall have been established by the Board of Directors and publicized among all Directors. A written notice of each regular meeting of the Board of Directors shall not be required.

Section 2.06 Special Meetings.

(a) *Calling of Special Meetings.* Special meetings of the Board of Directors may be called by the Chairman of the Board, by the Chief Executive Officer, or by one-third (1/3) of the Directors then in office (rounded up to the nearest whole number), and shall be held at such place, on such date, and at such time as the Board of Directors or the person calling the meeting shall fix.

(b) *Notice of Special Meetings.* Notice of the place, date, and time of each such special meeting of the Board of directors shall be given to each Director who has not waived notice, except that the Board of Directors may adopt a resolution setting the place, date and time for holding one or more special meetings without giving notice other than such resolution. In the absence of such a resolution, notice of any special meeting of the Board of Directors shall be given by telephone, electronic mail, facsimile transmission, United States mail, personal delivery or courier to each Director at his or her business or residence address and/or telephone or facsimile number. The notice shall inform the recipient of the purpose and general business to be transacted at the special meeting.

(c) *Time of Notice.* Notice of a special meeting of the Board of Directors given by telephone, electronic mail or facsimile transmission or personal delivery shall be given at least 24 hours prior to the meeting. Notice by United States mail shall be given at least three days prior to the meeting. Notice by courier shall be given at least two days prior to the meeting. It shall not be necessary to give notice of any special meeting to any Director who attends the meeting except when a Director attends the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting was not lawfully called or convened, or to any Director who, in a writing executed and filed with the records of the meeting either before or after the meeting, waives such notice.

(d) *When Notice is Deemed Given.* Notice of a special Meeting of the Board of Directors shall be deemed to be given: (i) by telephone, when the Director or his or her agent is personally given such notice in a telephone call to which the Director or his or her agent is a party; (ii) by electronic mail notice, upon transmission of the message to the electronic mail address given to the Corporation by the Director; (iii) by facsimile transmission, upon completion of the transmission of the message to the number given to the Corporation by the Director and receipt of a completed answer-back indicating receipt; (iv) by United States mail, when deposited in the United States mail properly addressed, with postage thereon prepaid; and (v) by courier, when deposited with or delivered to a courier properly addressed to the intended recipient.

Section 2.07 Quorum. A majority of the Directors then in office shall constitute a quorum for all purposes, provided that if there is only one Director, the one Director will constitute a quorum, and if there are two or three Directors, two Directors shall constitute quorum. If a quorum shall fail to be present at any meeting, a majority of the Directors present may adjourn the meeting to another place, date, or time, without further notice or waiver thereof other than an announcement made prior to or at the time of adjournment. The Directors present at a meeting that has been duly called and convened but which has not been adjourned may continue to transact business until adjournment, notwithstanding the withdrawal of a sufficient number of Directors from the meeting to leave less than a quorum present, and in such case, the action of the majority of Directors present shall constitute the action of the Board of Directors unless the concurrence of a greater proportion is required for such action by the MGCL or other applicable law, the Charter of the Corporation or these Bylaws.

Section 2.08 Participation in Meetings by Conference Telephone. Directors may participate in a meeting of the Board of Directors by means of conference telephone or other communications equipment if all persons participating in the meeting can hear each other at the same time. A Director's participation in a meeting by these means shall constitute his or her presence at the meeting.

Section 2.09 Conduct of Business; Board Action. At any regular or special meeting of the Board of Directors, business shall be transacted in such order and manner as the Chairman of the Board may from time to time determine. The action of a majority of the Directors at a meeting at which a quorum is present shall constitute the action of the Board of Directors unless the concurrence of a greater proportion is required for such action by the MGCL or other applicable law, the Charter of the Corporation or these Bylaws.

Section 2.10 Action without a Meeting. Any action permitted or required to be taken at a meeting of the Board of Directors may be taken if a unanimous consent that sets forth the action is given in writing by each Director and filed in paper or electronic form with the minutes of the proceedings of the Board of Directors.

Section 2.11 Adjournment. Any regular or special meeting of the Board of Directors may be adjourned from time to time by the Chairman of the Board or by the Board of Directors pursuant to a resolution approved by a majority of the Directors present

to reconvene at the same or some other place, and no notice need be given of any such adjourned meeting other than an announcement made at or prior to the time of adjournment.

Section 2.12 Compensation of Directors. Pursuant to a resolution of the Board of Directors, the Corporation may compensate Directors for their services as Directors, including, without limitation, compensation for services as a member of the Board of Directors and as a member or the chairman of a committee of the Board of Directors, and may reimburse Directors for expenses incurred in performing such services as Directors, including expenses incurred in attending meetings of the Board of Directors and committees of the Board of Directors. Nothing in this Section 2.12 shall preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor.

Section 2.13 Presumption of Assent. A Director who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless such Director: (a) announces his or her dissent to such action at the meeting, and (b) such dissent is (i) entered in the minutes of the meeting; (ii) filed in writing with the person acting as the secretary of the meeting before the meeting is adjourned; or (iii) forwarded in writing by such Director to the secretary of the meeting within 24 hours after the meeting is adjourned, by certified mail, return receipt requested, bearing a postmark from the United States Postal Service. A Director who votes in favor of an action or fails to make his or her dissent to such action known at the meeting at which such action is taken shall have no right to dissent to such action.

Section 2.14 Reliance upon Books, Reports and Records. In performing his or her duties, a Director shall be entitled to rely on any opinion, report or statement, including a financial statement of financial data, prepared or presented by: (a) an officer or employee of the Corporation whom the Director reasonably believes to be reliable and competent in the matters presented; (b) a lawyer, certified public accountant, appraiser, financial advisor, consultant, expert or other person as to a matter which the Director reasonably believes to be within such person's professional or expert competence; or (c) a committee of the Board of Directors on which the Director does not serve as to a matter within its designated authority if the Director reasonably believes the committee to merit confidence. A Director who performs his or her duties in reliance on such an opinion, report or statement shall have immunities and protections to the fullest extent afforded by the MGCL and other applicable law.

Article 3. Committees

Section 3.01 Committees of the Board of Directors.

(a) *General Provisions.* The Board of Directors may appoint from among its members an Executive Committee, an Audit Committee, a Compensation Committee, a Nominating Committee, and such other committees as the Board of Directors deems necessary or desirable. The membership of the Audit Committee, the Compensation Committee and the Nominating Committee shall consist of independent directors to the

extent required by the applicable rules of the Securities and Exchange Commission and the NASDAQ Stock Market. The Board of Directors may delegate to any committee so appointed any of the powers and authorities of the Board of Directors to the fullest extent permitted by the MGCL and any other applicable law.

(b) *Composition.* Each committee shall be composed of one or more Directors or any other number of members specified in these Bylaws. The Chairman of the Board may recommend committees, committee memberships, and committee chairmanships to the Board of Directors. The Board of Directors shall have the power at any time to appoint the chairman and the members of any committee, change the membership of any committee, to fill all vacancies on committees, to designate alternate members to replace or act in the place of any absent or disqualified member of a committee, or to dissolve any committee.

(c) *Nominating Committee.* The Nominating Committee, if appointed, shall consist of not less than three members who meet the applicable independence requirements referenced in Section 3.01(a), and shall have authority: (i) to review any nominations for election to the Board of Directors made by a stockholder of the Corporation pursuant to Section 1.09 of these Bylaws in order to determine compliance with such Bylaw provision; and (ii) to recommend to the Board of Directors nominees for election to the Board of Directors to replace those Directors whose terms expire at the annual meeting of stockholders next ensuing. No Director shall serve on the Nominating Committee at a meeting at which he or she has been or is seeking to be proposed as a nominee.

(d) *Issuance of Stock.* If the Board of Directors has given general authorization for the issuance of stock providing for or establishing a method or procedure for determining the maximum number of shares to be issued, a committee of the Board of Directors, in accordance with that general authorization or any stock option or other plan or program adopted by the Board of Directors, may authorize or fix the terms of stock subject to classification or reclassification and the terms on which any stock may be issued, including all terms and conditions required or permitted to be established or authorized by the Board of Directors. Any committee so designated may exercise the power and authority of the Board of Directors if the resolution that designated the committee or a supplemental resolution of the Board of Directors shall so provide.

Section 3.02 Conduct of Business.

(a) *Procedures.* The chairman of each committee shall determine the procedural rules for meeting and conducting the business of the committee, except as otherwise required by these Bylaws, applicable law or a resolution of the Board of Directors.

(b) *Quorum; Committee Action.* A majority of the members of a committee shall constitute a quorum unless the committee shall consist of one or two members, in which case one member of the committee shall constitute a quorum. If a quorum is present, the action of the majority of committee members present shall constitute the action of the committee unless the concurrence of a greater proportion is required for such action by the MGCL or other applicable law, the Charter of the Corporation, these Bylaws or the Board of Directors.

(c) *Committee Meetings.* Regular meetings of committees shall be held at such place or places, on such date or dates, and at such time or times as shall have been established by the Board of Directors or the committee and publicized among all members of the committee. A written notice of a regular committee meeting shall not be required. The chairman of a committee or any two members of the committee (if there are at least two members of the committee) may call and fix the time and place of any special meeting of a committee. Notice of special meetings of a committee shall be given in the same manner as notice for special meetings of the Board of Directors.

(d) *Participation in Committee Meetings by Conference Telephone.* Members of a committee of the Board of Directors may participate in a meeting of the committee by means of conference telephone or other communications equipment if all persons participating in the meeting can hear each other at the same time. A Director's participation in a meeting by these means shall constitute his or her presence at the meeting.

(e) *Action without a Meeting.* Any action that is required or permitted to be taken at any meeting of a committee may be taken without a meeting if a consent in writing or by electronic transmission to such action is given by each member of the committee and is filed with the minutes of proceedings of such committee.

(f) *Adjournment.* Any regular or special meeting of a committee the Board of Directors may be adjourned from time to time by the chairman of the committee or a resolution approved by a majority of the members of the committee to reconvene at the same or some other place, and no notice need be given of any such adjourned meeting other than an announcement made at or prior to the time of adjournment.

Article 4. Officers

Section 4.01 Generally.

(a) *Offices; Election and Appointment.* The officers of the Corporation shall include a Chief Executive Officer, a President, a Secretary, a Chief Financial Officer/Treasurer, one or more Vice-Presidents, and such other officers as the Board may deem necessary or desirable. The officers of the Corporation shall be elected annually by the Board of Directors, except that the Chief Executive Officer may from time to time appoint one or more Senior Vice-Presidents, Vice-Presidents, Assistant Vice-Presidents, Assistant Secretaries or Assistant Treasurers, in each case subject to the ratification of such appointments by the Board of Directors no less frequently than annually. Any two or more offices except President and Vice-President may be held by the same individual.

(b) *Tenure.* Each officer shall hold office until his or her successor is elected and qualifies or until his or her death, or his or her resignation or removal in the manner hereinafter provided.

(c) *Removal.* Any officer of the Corporation may be removed, with or without cause, by the Board of Directors if in its judgment the best interests of the Corporation would be served thereby, but such removal shall be without prejudice to the contract rights,

if any, of the Corporation and the person so removed. The Board of Directors may authorize any officer to remove subordinate officers.

(d) *Resignation.* Any officer of the Corporation may resign at any time by giving written notice of his or her resignation to the Board of Directors, the Chairman of the Board, the President or the Secretary. Any resignation shall take effect immediately upon its receipt or at such later time as is required by any contract between the officer and the Corporation, or if no such contract exists, as is specified in the notice of resignation. The acceptance of a resignation shall not be necessary to make it effective unless otherwise stated in the resignation. Such resignation shall be without prejudice to the contract rights, if any, of the officer and the Corporation.

(e) *Interim Appointments; Vacancies.* In the event of a vacancy in any office, the Board of Directors may fill such vacancy for the balance of the term. In the absence or incapacity of any officer, the Board of Directors may designate another person to fill such office on an acting basis.

(f) *Powers and Duties.* All officers shall each have such powers and duties as are specified in or assigned pursuant to this Article 4.

Section 4.02 Chief Executive Officer. Subject to the control of the Board of Directors, the Chief Executive Officer shall have general supervisory power and authority over the policies and affairs of the Corporation, the management and oversight of the administration and operation of the Corporation's business, and such other duties, powers and authorities as are provided in these Bylaws, or as are from time to time assigned by the Board of Directors, or as are usually incident to the office of Chief Executive Officer. The Chief Executive Officer shall also see that all orders and resolutions of the Board of Directors and of any committee thereof are carried into effect, and shall preside over each meeting of the stockholders unless the Board of Directors has designated another person to perform such functions. The person who is Chief Executive Officer may also serve as the Chairman of the Board and/or the President.

Section 4.03 President. The President shall have such duties as are provided in these Bylaws or as are from time to time may be assigned by the Board of Directors or the Chief Executive Officer. In the absence of the Chief Executive Officer or if one is not elected, the President shall perform the duties and exercise the functions of the Chief Executive Officer unless the Board of Directors has designated another person to perform such duties and exercise such duties and functions.

Section 4.04 Secretary. The Secretary shall issue notices of meetings, shall keep the minutes of the Corporation, shall have charge of the seal and the corporate books, shall sign or countersign such instruments as require his or her signature, shall maintain and preserve the Charter and Bylaws of the Corporation and the proceedings of regular and special meetings of the stockholders and the Board of Directors, and shall have such other duties, powers and authorities as are provided in these Bylaws, or as are from time to time assigned by the Board of Directors or the Chief Executive Officer, or as are usually incident to the office of Secretary. The Secretary, when present, shall act as Secretary of

each regular and special meeting of the Board of Directors and of the stockholders unless the Board of Directors or the Chief Executive Officer designates another person to perform such duties and functions.

Section 4.05 Chief Financial Officer/Treasurer. The Chief Financial Officer/Treasurer shall have charge of all monies and securities of the Corporation, other than monies and securities of any division of the Corporation which has a treasurer or chief financial officer appointed by the Board of Directors, and shall keep regular books of account. The Chief Financial Officer/Treasurer shall deposit the funds of the Corporation in the name of the Corporation with such banks or trust companies or other entities as the Board of Directors from time to time shall designate or otherwise approve. The Chief Financial Officer/Treasurer shall sign or countersign such instruments as require his or her signature, and shall have such other duties, powers and authorities as are provided in these Bylaws, or as are from time to time assigned by the Board of Directors or the Chief Executive Officer, or as are usually incident to the office of Chief Financial Officer/Treasurer.

Section 4.06 Vice-Presidents. The Corporation may have one or more classes of Vice-Presidents, including Executive Vice-Presidents, Senior Vice-Presidents, Vice-Presidents and Assistant Vice-Presidents. All Vice-Presidents shall have such duties as are provided in these Bylaws and as from time to time may be assigned by the Board of Directors or the Chief Executive Officer.

Section 4.07 Other Officers. The Board of Directors may designate and fill such other offices in its discretion and the persons holding such other offices shall have such powers and shall perform such duties as the Board of Directors or Chief Executive Officer may from time to time assign.

Section 4.08 Action with Respect to Securities of Other Corporations. Unless otherwise directed by the Board of Directors, the Chief Executive Officer, or any officer of the Corporation authorized by the Chief Executive Officer, shall have power to vote and otherwise act on behalf of the Corporation, in person or by proxy, at any meeting or otherwise with respect to any action of stockholders of any other corporation in which the Corporation may hold securities and otherwise to exercise any and all rights and powers which the Corporation may possess by reason of its ownership of securities in such other Corporation.

Article 5. Stock

Section 5.01 Certificates of Stock. Except as may be otherwise provided by the Board of Directors, stockholders of the Corporation are not entitled to certificates representing the shares of stock held by them. In the event that the Corporation issues shares of stock represented by certificates, such certificates shall be signed by the officers of the Corporation in the manner permitted by the MGCL and contain the statements and information required by the MGCL. In the event that the Corporation issues shares of stock without certificates, the Corporation shall provide to record holders of such shares a written statement of the information required by the MGCL to be included on stock certificates.

Section 5.02 Transfers of Stock. Transfers of stock shall be made only upon the transfer books of the Corporation kept at an office of the Corporation or by transfer agents designated to transfer shares of the stock of the Corporation. Except where a certificate is issued in accordance with Section 5.06, an outstanding certificate for the number of shares involved shall be surrendered for cancellation before a new certificate is issued therefor.

Section 5.03 Record Dates or Closing of Transfer Books. The Board of Directors may set, in advance, a record date for the purpose of determining stockholders entitled to notice of or to vote at any meeting of stockholders or determining stockholders entitled to receive payment of any dividend or the allotment of any other rights, or in order to make a determination of stockholders for any other proper purpose. Such date, in any case, shall not be prior to the close of business on the day the record date is fixed and shall be not more than 90 days and, in the case of a meeting of stockholders, not less than 10 days, before the date on which the meeting or particular action requiring such determination of stockholders of record is to be held or taken. In lieu of fixing a record date, the Board of Directors may provide that the stock transfer books shall be closed for a stated period but not longer than 20 days. If the stock transfer books are closed for the purpose of determining stockholders entitled to notice of or to vote at a meeting of stockholders, such books shall be closed for at least 10 days before the date of such meeting. If no record date is fixed and the stock transfer books are not closed for the determination of stockholders: (a) the record date for the determination of stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day on which the notice of meeting is mailed or the 30th day before the meeting, whichever is the closer date to the meeting; and (b) the record date for the determination of stockholders entitled to receive payment of a dividend or an allotment of any other rights shall be the close of business on the day on which the resolution of the Directors, declaring the dividend or allotment of rights, is adopted. When a determination of stockholders entitled to vote at any meeting of stockholders has been made as provided in this section, such determination shall apply to any adjournment thereof, except when the determination has been made through the closing of the transfer books and the stated period of closing has expired, or when the meeting is adjourned to a date more than 120 days after the record date fixed for the original meeting, in either of which case a new record date shall be determined as set forth herein.

Section 5.04 Stock Ledger. The Corporation shall maintain a stock ledger that contains the name and address of each stockholder and the number of shares of stock of each class that the stockholder holds. The stock ledger may be in written form or in any other form which can be converted within a reasonable time into written form for visual inspection. The original or a duplicate of the stock ledger shall be kept at the offices of a transfer agent for the particular class of stock or, if none, at the principal executive offices of the Corporation.

Section 5.05 Certification of Beneficial Owners. The Board of Directors may adopt by resolution a procedure by which a stockholder of the Corporation may certify in writing to the Corporation that any shares of stock registered in the name of the

stockholder are held for the account of a specified person other than the stockholder. The resolution shall set forth the class of stockholders who may certify; the purpose for which the certification may be made; the form of certification and the information to be contained in it; if the certification is with respect to a record date or closing of the stock transfer books, the time after the record date or closing of the stock transfer books within which the certification must be received by the Corporation; and any other provisions with respect to the procedure which the Board of Directors considers necessary or desirable. On receipt of a certification that complies with the procedure adopted by the Board of Directors in accordance with this Section, the person specified in the certification is, for the purpose set forth in the certification, the holder of record of the specified stock in place of the stockholder who makes the certification.

Section 5.06 Lost Stock Certificates. The Board of Directors of the Corporation may determine the conditions for issuing a new stock certificate in place of one that is alleged to have been lost, stolen, or destroyed, or the Board of Directors may delegate such power to any officer or officers of the Corporation. Any officer designated by the Board of Directors may direct a new certificate to be issued in place of any certificate previously issued by the Corporation alleged to have been lost, stolen or destroyed upon the making of an affidavit of that fact by the person claiming the certificate to be lost, stolen or destroyed. When authorizing the issuance of a new certificate, an officer designated by the Board of Directors may, in his or her discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or the owner's legal representative to advertise the same in such manner as he shall require and/or to give bond, with sufficient surety, to the Corporation to indemnify it against any loss or claim which may arise as a result of the issuance of a new certificate.

Section 5.07 Regulations. The issue, transfer, conversion and registration of certificates of stock shall be governed by such other regulations as the Board of Directors may establish.

Article 6. Finance

Section 6.01 Checks, Drafts and Other Instruments. All checks, drafts and orders for the payment of money, notes and other evidences of indebtedness, issued in the name of the Corporation, shall be signed by such officer of the Corporation as shall from time to time be determined by the Board of Directors. In the absence of such a determination by the Board of Directors, all such checks, drafts and orders for the payment of money, notes and other evidences of indebtedness, of the Corporation shall be signed by any two of the following officers: the Chief Executive Officer, the President, the Chief Financial Officer/Treasurer, or an Assistant Treasurer.

Section 6.02 Annual Statement of Affairs. The Chief Executive Officer or the Chief Financial Officer/Treasurer shall prepare annually a full and correct statement of the affairs of the Corporation, which shall include a balance sheet and a financial statement of operations for the preceding fiscal year. The statement of affairs shall be submitted at the annual meeting of the stockholders, and within 20 days after the meeting, placed on file at the Corporation's principal office.

Section 6.03 Fiscal Year. The fiscal year of the Corporation shall be the 12 calendar month period ending on December 31st of each year.

Section 6.04 Dividends. Distributions upon the stock of the Corporation, including dividends, may be authorized by the Board of Directors and may be paid in money, property or stock, subject to the provisions of the MGCL, any other applicable law and the Charter of the Corporation. If a stock dividend or stock split is not considered a distribution under the MGCL, it may be authorized by the Board of Directors in accordance with the provisions of the MGCL.

Section 6.05 Loans. No loans constituting borrowed money shall be contracted on behalf of the Corporation and no evidence of indebtedness for borrowed money shall be issued in its name unless authorized by the Board of Directors. Such authority may be general or confined to specific instances.

Section 6.06 Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in any of depositories as the Board of Directors may designate or approve.

Article 7. Miscellaneous

Section 7.01 Principal Office. The principal office of the Corporation in the State of Maryland shall be located at such place as the Board of Directors may designate.

Section 7.02 Additional Offices. The Corporation may have additional offices, including a principal executive office, at such places as the Board of Directors may from time to time determine or the business of the Corporation may require. The principal executive office of the Corporation shall be 15 W 060 North Frontage Road, Burr Ridge, Illinois 60527, unless the Board of Directors designates a different principal executive office.

Section 7.03 Facsimile Signatures. In addition to the provisions for use of facsimile signatures elsewhere specifically authorized in these Bylaws, facsimile signatures of any officer or officers of the Corporation may be used whenever and as authorized by the Board of Directors or a committee thereof.

Section 7.04 Corporate Seal. The Board of Directors may authorize the adoption of a seal by the Corporation. The seal shall contain the name of the Corporation and the year of its incorporation and the words "Incorporated Maryland." The Board of Directors may authorize one or more duplicate seals and provide for the custody thereof. Whenever the Corporation is permitted or required to affix its seal to a document, it shall be sufficient to meet the requirements of any law, rule or regulation relating to a seal to place the word "(SEAL)" adjacent to the signature of the person authorized to execute the document on behalf of the Corporation.

Section 7.05 Notices.

(a) *Notices to the Corporation.* All notices required to be given to the Corporation shall be given as provided in these Bylaws or as required by applicable law. If applicable law or these Bylaws do not specify the manner of giving notice to the Corporation in a specific situation, such notice shall be in writing and shall be sent by United States mail, personal delivery or private courier to the Corporation at its principal executive office, in each case addressed to the Chief Executive Officer and the Secretary of the Corporation. Unless these Bylaws or applicable law require otherwise, notices given to the Corporation by personal delivery, private courier or United States mail and addressed in the manner specified above shall be effective only upon actual receipt by the Corporation, and notices given to the Corporation by telephone, facsimile transmission, electronic mail or any other means shall be ineffective, whether or not actually received by the Corporation.

(b) *Other Notices.* All notices required to be given to any stockholder, director, officer, employee or agent of the Corporation may be effectively given by personal delivery, private courier or United States mail unless a different manner of notice is required by these Bylaws, the MGCL, any other applicable law or contract. The Corporation may also effectively give notice to a stockholder, director, officer, employee or agent of the Corporation by electronic mail or facsimile transmission provided that promptly after the transmission of such notice the Corporation sends a paper copy of such notice to the recipient by personal delivery, private courier or United States mail. All notices to any stockholder, director, officer, employee or agent shall be addressed to him, her or it at his, her or its last known address as the same appears on the books of the Corporation. All notices sent to any such stockholder, director, officer, employee or agent shall be deemed to be given if sent: (i) by personal delivery when personally delivered to the intended recipient; (ii) by United States mail, when deposited in the United States mail, properly addressed to the intended recipient, with postage thereon prepaid; (iii) by courier, when deposited with or delivered to a courier properly addressed to the intended recipient; (iv) by electronic mail, upon transmission of the message to the electronic mail address given by the intended recipient to the Corporation or appearing on its books and records, provided that a documentary copy of such notice is also sent to the recipient as provided herein; and (v) by facsimile transmission, upon completion of the transmission of the message to the number given by the intended recipient to the Corporation or appearing on its books and records and receipt of a completed answer-back indicating receipt, provided that a documentary copy of such notice is also sent to the recipient as provided herein.

Section 7.06 Waiver of Notice. A written waiver of any notice, signed by the corporation or a stockholder, director, officer, employee or agent, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to the notice required to be given to the Corporation or such stockholder, director, officer, employee or agent. Neither the business nor the purpose of any meeting need be specified in such a waiver. The attendance of any person at any meeting shall constitute a waiver of notice of such meeting, except where such person attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting was not lawfully called or convened.

Section 7.07 Time Periods. In applying any provision of these Bylaws which requires that an act be done or not be done a specified number of days prior to an event or that an act be done during a period of a specified number of days prior to an event,

calendar days shall be used, the day of the doing of the act shall be excluded and the day of the event shall be included.

Section 7.08 Control Share Acquisition Opt-out. Notwithstanding any other provision of the Charter of the Corporation or these Bylaws, Title 3, Subtitle 7 of the MGCL (or any successor statute) shall not apply to any acquisition by any person of shares of stock of the Corporation. This section may be repealed, in whole or in part, at any time, whether before or after an acquisition of control shares and, upon such repeal, shall, to the extent provided by any successor Bylaw, apply to any prior or subsequent control share acquisition.

Article 8. Amendments

Section 8.01. Amendments. The Board of Directors shall have the exclusive power to adopt, alter, amend, restate or repeal the Bylaws of the Corporation. Any adoption, alteration, amendment, restatement or repeal of the Bylaws of the Corporation by the Board of Directors shall be pursuant to a resolution approved by 2/3 of the Whole Board (rounded up to the nearest whole number).

INCORPORATED UNDER THE LAWS OF THE STATE OF MARYLAND

No.

BANKFINANCIAL CORPORATION

Shares

FULLY PAID AND NON-ASSESSABLE
PAR VALUE \$0.01 PER SHARE

THE SHARES REPRESENTED BY THIS
CERTIFICATE ARE SUBJECT TO
RESTRICTIONS, SEE REVERSE SIDE

THIS CERTIFIES that

is the owner of

SHARES OF COMMON STOCK
of
BankFinancial Corporation
a Maryland corporation

The shares evidenced by this certificate are transferable only on the books of BankFinancial Corporation by the holder hereof, in person or by attorney, upon surrender of this certificate properly endorsed. The capital stock evidenced hereby is not an account of an insurable type and is not insured by the Federal Deposit Insurance Corporation or any other Federal or state governmental agency.

IN WITNESS WHEREOF, BankFinancial Corporation has caused this certificate to be executed by the facsimile signatures of its duly authorized officers and has caused a facsimile of its seal to be hereunto affixed.

By _____
JAMES J. BRENNAN
EXECUTIVE VICE PRESIDENT AND CORPORATE
SECRETARY

[SEAL]

By _____
F. MORGAN GASIOR
CHAIRMAN OF THE BOARD, CHIEF EXECUTIVE OFFICER
AND PRESIDENT

The Board of Directors of BankFinancial Corporation (the "Company") is authorized by resolution or resolutions, from time to time adopted, to provide for the issuance of more than one class of stock, including preferred stock in series, and to fix and state the voting powers, designations, preferences, limitations and restrictions thereof. The Company will furnish to any stockholder upon request and without charge a full description of each class of stock and any series thereof.

The shares evidenced by this certificate are subject to a limitation contained in the Articles of Incorporation to the effect that in no event shall any record owner of any outstanding common stock which is beneficially owned, directly or indirectly, by a person who beneficially owns in excess of 10% of the outstanding shares of common stock (the "Limit") be entitled or permitted to any vote in respect of shares held in excess of the Limit.

The shares represented by this certificate may not be cumulatively voted on any matter. The Articles of Incorporation require the affirmative vote of the holders of at least two-thirds of the voting stock of the Company, voting together as a single class, to approve certain transactions and to amend the Articles of Incorporation, unless such transactions or amendments have been approved by at least two-thirds of the Board of Directors of the Company.

The following abbreviations when used in the inscription on the face of this certificate shall be construed as though they were written out in full according to applicable laws or regulations.

TEN COM	- as tenants in common	UNIF GIFT MIN ACT	-	_____	Custodian	_____
				(Cust)		(Minor)
TEN ENT	- as tenants by the entireties					
JT TEN	- as joint tenants with right of survivorship and not as tenants in common				Under Uniform Gifts to Minors Act	
					_____	(State)

Additional abbreviations may also be used though not in the above list

For value received, _____ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY NUMBER OR OTHER IDENTIFYING NUMBER

(please print or typewrite name and address including postal zip code of assignee)

Shares of the Common Stock represented by the within Certificate, and do hereby irrevocably constitute and appoint _____ Attorney to transfer the said shares on the books of the within named corporation with full power of substitution in the premises.

Dated, _____

In the presence of _____

Signature: _____

NOTE: THE SIGNATURE TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME OF THE STOCKHOLDER(S) AS WRITTEN UPON THE FACE OF THE CERTIFICATE, IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT, OR ANY CHANGE WHATSOEVER.

[Letterhead of Luse Gorman Pomerenk & Schick, P.C.]

(202) 274-2000

September 21, 2004

The Board of Directors
BankFinancial Corporation
15W060 North Frontage Road
Burr Ridge, Illinois 60527

Re: BankFinancial Corporation
Common Stock, Par Value \$0.01 Per Share

Gentlemen:

You have requested the opinion of this firm as to certain matters in connection with the offer and sale (the "Offering") of the shares of common stock, par value \$0.01 per share ("Common Stock") of DSA Financial Corporation (the "Company"). We have reviewed the Company's Articles of Incorporation, Registration Statement on Form S-1 (the "Form S-1"), as well as applicable statutes and regulations governing the Company and the offer and sale of the Common Stock.

We are of the opinion that the Common Stock is duly authorized and, upon the declaration of effectiveness of the Form S-1, the Common Stock, when sold, will be legally issued, fully paid and non-assessable.

We have relied on the laws of the State of Maryland in providing this opinion. We hereby consent to our firm being referenced under the caption "Legal Matters" and to the filing of this opinion as an exhibit to the Form S-1.

Very truly yours,

\s\ Luse Gorman Pomerenk & Schick, P.C.

LUSE GORMAN POMERENK & SCHICK
A PROFESSIONAL CORPORATION

[Form of Federal Tax Opinion]

(202) 274-2000

September __, 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 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

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 _____ 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 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 that 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 in the event of a "Change in Control" of the Bank, or the Company. For these purposes, "Change in Control" shall mean a change in control of a nature that: (i) would be required to be reported in response to Item 5.01 of the current report on Form 8-K, as in effect on the date hereof, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"); or (ii) results in a Change in Control of the Bank or the Company within the meaning of the Home Owners Loan Act, as amended ("HOLA"), and applicable rules and regulations promulgated thereunder, as in effect at the time of the Change in Control; or (iii) without limitation such a Change in Control shall be deemed to have occurred at such time as (a) any "person" (as the term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of Company's outstanding securities except for any securities purchased by the Bank's employee stock ownership plan or trust; or (b) individuals who constitute the Board on the date hereof (the "Incumbent Board") cease for any reason to constitute at least a majority thereof, *provided* that any person becoming a director subsequent to the date hereof whose election was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board, or whose nomination for election by the Company's stockholders was approved by the same Nominating Committee serving under an Incumbent Board, shall be, for purposes of this clause (b), considered as though he were a member of the Incumbent Board; or (c) a plan of reorganization, merger, consolidation, sale of all or substantially all the assets of the Bank or the Company or similar transaction in which the Bank or Company is not the surviving institution occurs; or (d) a proxy statement soliciting proxies from stockholders of the Company, by someone other than the current management of the Company, seeking stockholder approval of a plan of reorganization, merger or consolidation of the Company or similar transaction with one or more corporations as a result of which the outstanding shares of the class of securities then subject to the Plan are to be exchanged for or converted into cash or property or securities not issued by the Company; or (e) a tender offer is made for 25% or more of the voting securities of the Company

and the shareholders owning beneficially or of record 25% or more of the outstanding 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.

9.3-3 Upon a Change in Control described in 9.3-2, the Plan shall be terminated and the Plan Administrator shall direct the Trustee to sell a sufficient amount of Stock from the Unallocated Stock Fund to repay any outstanding Stock Obligation in full. The proceeds of such sale shall be used to repay such Stock Obligation. After repayment of the Stock Obligation, all remaining shares in the Unallocated Stock Fund (or the proceeds thereof, if applicable) shall be deemed to be earnings and shall be allocated in accordance with the requirements of Section 8.1.

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 Nonforfeitability.** 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 prohibited by a federal or state law 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 consist 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 12 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.

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.

BANKFINANCIAL, F.S.B.
EMPLOYEE STOCK OWNERSHIP PLAN

This Employee Stock Ownership Plan, executed on the _____ day of _____, 200_, by BankFinancial, F.S.B. a federally chartered stock savings bank (the "Bank"),

WITNESSETH THAT

WHEREAS, the board of directors of the Bank has resolved to adopt an employee stock ownership plan for eligible employees of the Bank and subsidiaries of the Bank, in accordance with the terms and conditions presented set forth herein;

NOW, THEREFORE, the Bank hereby adopts the following Plan setting forth the terms and conditions pertaining to contributions by the Employer and the payment of benefits to Participants and Beneficiaries.

IN WITNESS WHEREOF, the Bank has adopted this Plan and caused this instrument to be executed by its duly authorized officers as of the above date.

ATTEST:

Secretary

By: _____
President

*Bank*Financial, F.S.B.
Deferred Compensation Plan

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BankFinancial
DEFERRED COMPENSATION PLAN

Article I
Establishment, Objectives and Duration

1.01 Establishment of Plan. **BankFinancial**, F.S.B. (the "Company") hereby establishes a deferred compensation plan, to be known as the "**BankFinancial** Deferred Compensation Plan" (the "Plan") as set forth in this document, as amended from time to time.

1.02 Effective Date. The Plan shall become effective as of January 1, 2002. The Plan applies only to individuals who are eligible Employees or Directors of the Company or its Affiliates on or after that effective date. The Plan shall remain in effect until terminated as provided in Article VIII.

1.03 Objectives. The Plan is an unfunded deferred compensation arrangement for the Directors of the Company and its Affiliates and a select group of senior management Employees of the Company or its Affiliates. The Plan is intended to give Directors and participating eligible Employees the opportunity to defer compensation that is otherwise payable to them as Salary, Incentive Compensation, Bonus, and/or Directors' Fees.

Article II
Definitions

The following terms, when used in this Plan with initial capitals, shall have the meanings set forth below:

2.01 "Account" means any of the separate unfunded bookkeeping accounts maintained for a Participant representing the Participant's total credits under Article IV of the Plan, including a Participant's Deferral Account. The Plan Administrator may maintain such subaccounts within any Account as the Plan Administrator deems necessary or desirable.

2.02 "Affiliate" means a corporation or other business entity that directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, the Company.

2.03 "Board" means the Board of Directors of the Company.

2.04 "Bonus" means an Employee's annual bonus or other bonus payable under any applicable bonus program of the Company or an Affiliate or under any employment contract between the Employee and the Company and/or an Affiliate.

2.05 "Code" means the Internal Revenue Code of 1986, as amended from time to time.

2.06 "Company" means **BankFinancial**, F.S.B.

2.07 "Deferral" means a Participant's elective deferral of Salary, Bonus, Incentive Compensation and/or Director Fees under this Plan pursuant to Section 4.01.

- 2.08 "Deferral Account" means a Participant's Account maintained pursuant to Section 4.03.
- 2.09 "Deferral Credits" means credits to a Participant's Deferral Account.
- 2.10 "Deferral Election" means an election made pursuant to and in accordance with Section 4.02.
- 2.11 "Director" means any member of the Board of Directors of the Company or an Affiliate of the Company .
- 2.12 "Director Fees" means any fee or other compensation or remuneration paid to a Director in connection with his or her duties as a Director.
- 2.13 "Employee" means any common-law employee of the Company or any Affiliate.
- 2.14 "ERISA" means the Employee Retirement Security Act of 1974, as amended from time to time.
- 2.15 "Incentive Compensation" means all compensation earned by an Employee pursuant to any incentive compensation program now or hereafter maintained by the Company or an Affiliate.
- 2.16 "Participant" means a Director or Employee who is eligible to participate in the Plan in accordance with Section 3.01 and who elects to defer compensation under this Plan pursuant to Section 4.01.
- 2.17 "Plan Administrator" means the Company.
- 2.18 "Plan Year" means the fiscal year of the Company, which until changed is the year ending December 31 of each calendar year.
- 2.19 "Qualified Elective Deferral" mean elective deferrals to the Savings Plan as described in Section 402(g) of the Code.
- 2.20 "Salary" means an Employee's base salary, determined without including Bonuses or Incentive Compensation, and without excluding Qualified Elective Deferrals under the Savings Plan, elective deferrals under any cafeteria plan under Section 125 of the Code, or Deferrals under this Plan.
- 2.21 "Savings Plan" means the **BankFinancial** and Subsidiaries Associate Investment Plan, as amended from time to time.
- 2.22 "Self-Directed Brokerage Account" means a self-directed brokerage account either actually maintained by the Trustees, or maintained by the Plan Administrator solely by bookkeeping entries as a hypothetical account, in either case on such terms and conditions as the Plan Administrator shall determine or approve, for the purposes of determining the income or loss on a Participant's Account pursuant to Section 4.04.

2.23 "Trust" means a trust, if any, of the type commonly known as a "rabbi" trust, established in connection with this Plan pursuant to Section 8.02.

2.24 "Trustees" means the Trustees of the Trust.

2.25 "Valuation Date" means the last day of each Plan Year and such other dates as the Plan Administrator makes a determination of the value of Participants' Accounts.

Article III Participation

3.01 Eligibility. All Directors of the Company and its Affiliates shall be eligible to participate in this Plan. An Employee of the Company and/or an Affiliate shall be eligible to participate in this Plan if he or she (i) is a management or highly compensated employee within the meaning of Sections 201(2), 301(a)(3), and 401(a)(2) of ERISA, (ii) is in the top 10% of all Employees of the Company and Affiliates when ranked by annual rate of pay, and (iii) is affirmatively selected by the Company to participate in this Plan and notified by the Company of his or her eligibility pursuant to Section 3.02.

3.02 Participation. The Company shall advise each Director, and each eligible Employee who is selected for participation in this Plan, of his or her eligibility and afford him or her the opportunity to make Deferrals in accordance with Section 4.01. A Director or an eligible Employee shall become a Participant upon electing to make Deferrals.

3.03 Duration of Participation. An Employee who is a Participant shall continue to be a Participant until the Participant's termination of service as an Employee of the Company and all Affiliates. A Director who is a Participant shall continue to be a Participant until the Participant ceases to be a Director of the Company and all Affiliates. In either case the Director or Employee shall thereafter shall be an inactive Participant for so long as he or she is entitled to a benefit from the Plan. A Participant who remains an Employee or Director of the Company or an Affiliate but who for any reason does not meet all the requirements of Section 3.01 for a Plan Year shall be an inactive Participant for such Plan Year and shall not be entitled to make Deferrals in such year, but shall be eligible to again become an active Participant in any later Plan Year for which he or she meets those requirements.

Article IV Deferred Compensation

4.01 Deferrals. For each Plan Year, each Participant may elect to defer Salary, Bonus, Incentive Compensation and Director Fees as follows:

(a) Salary Deferral. A Participant may elect to defer any whole percentage up to and including 100% of his or her Salary.

(b) Bonus and Incentive Compensation Deferral. A Participant may elect to defer (i) any whole percentage up to and including 100% of his or her Bonus and/or Incentive Compensation, (ii) a stated dollar amount of his or her Bonus and/or Incentive Compensation, or (iii) all of his or her Bonus and/or Incentive Compensation (if any) in excess of a stated dollar amount. Notwithstanding such election, in no event will the

Deferral exceed the actual Bonus and Incentive Compensation to which he or she is entitled under the applicable Company or Affiliate plan(s) or policy(ies).

(c) Director Fees Deferral. A Participant may elect to defer (i) any whole percentage up to and including 100% of his or her Director Fees, (ii) a stated dollar amount of his or her Director Fees, or (iii) all of his or her Director Fees in excess of a stated dollar amount. Notwithstanding such election, in no event will the deferral exceed the actual Director Fees to which he or she is entitled under the applicable Company or Affiliate plan(s) or policy(ies).

Deferrals under Section 4.01 will be credited to a Deferral Account for the Participant at such time or times as the Salary, Bonus Incentive Compensation and/or Director Fees would otherwise have been paid to the Participant in cash.

4.02 Time of Election. A Participant's Deferral Election under Section 4.01 shall be made by completing and signing an election form on a form approved by the Plan Administrator and delivering such Deferral Election form to the Plan Administrator during the ninety-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 (the "Election Period"). If an individual becomes a Participant during a Plan Year, he or she may make a Deferral Election in like manner upon becoming a Participant, but only respecting Salary and/or Director Fees for services to be performed or Bonus and/or Incentive Compensation to be paid after he or she makes the election, within 30 days of the date he or she becomes a Participant. Once a Deferral Election has been made, a Participant may elect to increase, decrease, or cease his or her Deferral as of the first day of any later payroll period by making a new Deferral Election in like manner, but only respecting Salary and/or Director Fees for services to be performed or Bonus or Incentive Compensation to be determined and paid after he or she makes the Deferral Election. If a Participant does not change his or her Deferral Election within the Election Period for the following year, his or her last current year's election will continue in effect for the following year. Every Deferral Election under this Plan shall be effective only with respect to Salary, Director Fees, Bonus and Incentive Compensation not yet earned as of the date of the Deferral Election.

4.03 Suspension of Deferral for Hardship. In the event of an unforeseeable emergency that entitles the Participant to a distribution from his Account under Section 6.03, or in the event that the Participant applies for and receives a distribution by reason of hardship from the Savings Plan (determined under the provisions of that plan and applicable regulations under Section 401(k) of the Code), Deferral shall be cancelled with respect to any Salary, Bonus, Incentive Compensation and/or Director Fees that would not yet have been paid to the Participant in cash if the Participant had not made a Deferral Election. The Participant may make a new Deferral Election for the following year, subject to any restrictions on deferral in this Plan or the Savings Plan.

4.04 Investment Through Self-Directed Brokerage Account. For purposes of determining income (or loss) on a Participant's Account, a Participant's Account shall be deemed invested through a Self-Directed Brokerage Account in such publicly traded mutual funds (or cash) as the Participant may from time to time direct under procedures established by the Plan Administrator. Income or loss shall be determined as if such Self-Directed Brokerage Account is established and the broker had a reasonable time to execute investment directions,

whether or not such Self-Directed Brokerage Account is actually established and (if established) whether or not the Trustees, broker or other custodian actually invest the Self-Directed Brokerage Account as directed by the Participant.

4.05 Statements. The Plan Administrator or its designee shall give each Participant a statement of the value of his or her Account as of and as soon as reasonably practicable after the Valuation Date which falls on the last day of the Plan Year. The Plan Administrator may, but shall not be required to, provide directly or through its designee a similar statement as of any intervening Valuation Date. The value of a Participant's Account as of the applicable Valuation Date shown on any such statement shall be conclusive and binding on both the Company and the Participant absent bad faith or manifest error unless the Participant brings error to the attention of the Plan Administrator by filing a claim for clarification of his or her future rights to benefits pursuant to Section 7.03 within ninety (90) days after receiving that statement.

Article V Vesting

5.01 Vesting. A Participant shall be fully vested in his or her Deferral Account at all times.

Article VI Payment of Benefits

6.01 Distribution Options. Simultaneously with his or her election under Section 4.01, a Participant shall elect, on a form approved by the Plan Administrator, completed and signed by the Participant and delivered to the Plan Administrator, one of the following distribution methods for payment of his or her Account:

(a) Lump Sum. A distribution in a single lump sum.

(b) Installments. A distribution in annual installments over a period elected by the Participant but not exceeding such maximum period as the Plan Administrator may from time to time prescribe; with the amount of each annual installment being the balance of the Participant's Account subject to this distribution option as of the annual Valuation Date preceding payment divided by the number of installments (including the current installment) remaining to be paid.

In either case the lump sum payment or the first installment payment shall be made in January of the calendar year following the calendar year in which the Participant's employment terminates, and any remaining installment payments shall be made in January of each successive year until payments are completed.

6.02 Changes in Distribution Options. A Participant may change his or her previously elected distribution option on a new distribution election form completed and signed by the Participant and delivered to the Plan Administrator, but no change in a Participant's distribution option after his or her initial election of a distribution option will become effective (for distribution upon a subsequent termination of employment) until one year after the date the change of election is filed with the Plan Administrator. The form of distribution on a Participant's termination of employment shall therefore be determined by his or her most recent

distribution option election that meets the foregoing requirement, except as provided in Sections 6.03 and 6.04.

6.03 Unforeseeable Emergency. The Plan Administrator, upon request of a Participant and substantiation acceptable to the Plan Administrator in its sole discretion, may direct premature distribution of part or all of a Participant's Account either during employment or after his or her employment terminates, upon an unforeseeable emergency affecting the Participant. For this purpose, an unforeseeable emergency is a severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of a dependent (as defined in Section 152(a) of the Code) of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, as determined by the Plan Administrator taking into account the facts of each case. An unforeseeable emergency does not include the need to send a Participant's child to college or the desire to purchase a home. The amount distributable shall not exceed the amount necessary to relieve the hardship caused by the unforeseeable emergency after taking into consideration the extent to which such hardship is or may be relieved through reimbursement or compensation by insurance or otherwise, by liquidation of the Participant's assets (to the extent such liquidation would not itself cause severe financial hardship), or by cessation of compensation deferral under this Plan or elective deferrals under the Savings Plan.

6.04 Small Installments and Account Balances. If for any reason, at any time after a Participant's employment terminates, the balance of his or her Account (or portion of an Account payable to a single Beneficiary) is less than \$10,000, then notwithstanding anything in this Plan or any Participant's election to the contrary, the Participant's Account (or such portion) shall be distributed in a single lump sum as soon as practicable. If for any reason, at any time after a Participant's employment terminates, the amount of any annual installment payable to a Participant or Beneficiary is less than \$5,000, then notwithstanding anything in this Plan or any Participant's election to the contrary, each annual installment amount shall be \$5,000 and installments shall continue only until the Account is exhausted or the rule of the preceding sentence takes effect. If for any reason the distributee of benefits under this Plan is an estate, the Plan Administrator in its sole discretion may pay to the estate the entire balance of the Account that is distributable to the estate in a single lump sum.

6.05 Form of Payment. All benefits under this Plan shall be paid by negotiable check or other cash equivalent from the Trust or other general funds of the Company.

6.06 Beneficiary. A Participant may designate a Beneficiary or Beneficiaries (who may be named contingently or successively) to receive any amounts payable under this Plan after his or her death. Each designation of Beneficiary shall be on a form approved by the Plan Administrator completed and signed by the Participant and delivered to the Plan Administrator during the Participant's lifetime. A Participant may revoke such designation (without notice to or the consent of any Beneficiary) and make a new designation of Beneficiary by filing a new designation of Beneficiary form in like manner. A properly completed and executed designation of Beneficiary form shall take effect immediately upon being filed with the Plan Administrator during the Participant's lifetime. If upon a Participant's death no valid designation of Beneficiary is on file with the Plan Administrator, or if a Beneficiary dies before payments are completed and there are no living contingent or successive Beneficiaries, then any remaining payments under this Plan shall be made (1) to the Participant's surviving spouse, if any, or (2) if

there is no surviving spouse, then in equal shares to his or her children (with the then-living descendants of any deceased child taking that child's share per stirpes), or (3) if there are neither a surviving spouse nor surviving children or their descendants, then in accordance with the valid will of the last to die of the Participant and all designated Beneficiaries or if there is no valid will then in accordance with the laws of intestate succession applied to the last to die of the Participant and all designated Beneficiaries.

6.07 Rights of Beneficiary. The Beneficiary of a Participant who has died shall have the same right as the Participant to receive a statement under Section 4.05 for the Account (or portion of an Account) as to which he or she is a Beneficiary and, to the extent provided in the procedures established by the Plan Administrator pursuant to Section 4.04, to designate following the death of the Participant the investment of the Account (or the portion of the Account) as to which he or she is the Beneficiary.

6.08 Facility of Payment. In the event any distribution is payable under this Plan to a minor or other individual who is legally, physically or mentally incompetent to receive such payment, the Plan Administrator in its sole discretion shall pay such benefits to one or more of the following persons:

- (a) Directly to such minor or other person.
- (b) To the legal guardian or conservator of such minor or other person;
- (c) To the spouse, parent, brother, sister, child or other relative of such minor or other person for the use of such minor or other person.

The Plan Administrator shall not be required to see to the application of any distribution so made to any of such persons, but the receipt therefor shall be a full discharge of the liability of the Plan, the Plan Administrator, the Company, and the Trustee to such minor or other person.

Article VII Administration

7.01 Company as Plan Administrator. The Plan will be administered by the Company.

7.02 Power of the Plan Administrator. The Plan Administrator shall have the power and authority in its sole and absolute discretion:

- (a) To construe and interpret the Plan, determine the application of the Plan to situations where such application is unclear or disputable, and make equitable adjustments for any mistakes or errors made in the administration of the Plan.
- (b) To determine all questions arising in the administration of the Plan, including the power to determine the rights of Participants and their beneficiaries and the amount of their respective benefits;
- (c) To adopt such rules, regulations and forms as it may deem necessary for the proper and efficient administration of the Plan consistent with its purposes;

- (d) To enforce the Plan in accordance with its terms and the rules, regulations and forms adopted by the Plan Administrator;
- (e) To take such action and establish such procedures as it deems necessary or appropriate to coordinate deferrals and benefits under this Plan with the Savings Plan or the Trust;
- (f) To take such action and establish such procedures as it deems necessary or appropriate to implement hypothetical or actual Self-Directed Brokerage Accounts pursuant to Section 4.04.
- (g) To pay or to instruct the Trustee regarding payments from the Plan and to provide, amend, and supplement from time to time a schedule of payments to be made from the Trust for purposes of the Plan;
- (h) To employ such counsel, auditors, actuaries, or other specialists (who may be counsel, auditors, actuaries or other specialists for the Company) and to engage such clerical or other services to the extent such services are not provided by the Company;
- (i) To delegate such of its powers and authorities to such person or persons, with his, her, its or their consent, as the Plan Administrator may appoint;
- (j) To do all other things the Plan Administrator deems necessary or desirable for the advantageous administration of the Plan and to make the Plan fully effective in accordance with its terms and intent.

7.03 Claims for Benefits. No claim shall be necessary for payments routinely due to begin under the terms of the Plan. Any claim for benefits not received or received in an improper amount or time, or any claim for clarification of a Participant's or Beneficiary's future rights to benefits, shall be made in writing to the Plan Administrator. The Plan Administrator shall decide each claim and give the person making the claim (a "Claimant") written notice of the disposition of the claim within 90 days after the claim is filed. If the Plan Administrator denies a claim, the notice of denial shall be in writing, shall contain the specific reason or reasons for the denial of the claim, shall contain a specific reference to the pertinent Plan provisions upon which the denial is based, shall contain a description of any additional material or information necessary for the claimant to perfect the claim along with an explanation why such material or information is necessary, and shall contain an explanation of the Plan's claims review procedures.

Within 60 days after receipt by the Claimant of a written notice of denial of a claim, the Claimant may file a written request with the Board for a full and fair review of the denial of the claim for benefits. In connection with a claimant's appeal of the denial of the benefit, the Claimant may review financial records pertaining to the participant's account and the funding and investment thereof and may submit issues and comments in writing. The Board shall deliver to the Claimant a written decision on the claim promptly, but not later than sixty days after the Claimant's request for review. Such decision shall be written in a manner calculated to be understood by the Claimant, shall include specific reasons for the decision, and shall contain specific references to the pertinent Plan provisions upon which the decision is based. The decision of the Board shall be final, conclusive and binding on all persons.

Article VIII
Miscellaneous

8.01 Funding Policy. The Accounts under this Plan are merely unfunded bookkeeping accounts of the Company and all payments under this Plan shall be deemed made by the Company from general assets available to all unsecured creditors of the Company in the event of its insolvency. A Participant's ability (if any) to directly and actually change the investment of his or her Self-Directed Brokerage Account shall not be deemed to give such Participant any beneficial interest in the assets of such Self-Directed Brokerage Account or of the Trust (if any) and the assets of such Self-Directed Brokerage Account and Trust (if any) shall at all times be general assets of the Company available to all unsecured creditors of the Company, including but not limited to such Participants. The Plan is merely a promise by the Company to make benefit payments in the future. It is the intent of the Company that the arrangements under this Plan be unfunded for tax purposes and for purposes of Title I of ERISA.

8.02 Trust. The Company may but shall not be required to create for purposes of this Plan a Trust of the type commonly referred to as a "rabbi" trust and in substantial conformity to the terms of the model trust published by the Internal Revenue Service in Rev. Proc. 92-64. If the Company creates a Trust, the Company shall transfer assets to the Trustee to hold and to make distributions under this Plan on behalf of the Company. The assets so held in trust shall remain the general assets of the Company, which is the grantor under the Trust. The rights of Participants and their Beneficiaries under this Plan and the Trust shall be exclusively unsecured contractual rights. No Participant or Beneficiary shall have any right, title or interest whatsoever in the Trust. In the event of any inconsistency between the terms of this plan and the terms of the trust, the terms of this plan shall control.

8.03 No Employment Rights. Nothing in this Plan shall confer any greater employment rights on a Participant than he or she otherwise may have.

8.04 Effect on Other Benefits. Except as otherwise required by law or the BankFinancial and Subsidiaries Associate Investment Plan, deferrals shall not be subtracted in determining compensation for purposes of calculating Bonus or any other employee benefit or fringe benefit to which a Participant is otherwise entitled. A distribution of a Participant's Deferral Account shall not be taken into account as compensation for purposes of calculating Bonus, Incentive Compensation or any other employee benefit or fringe benefit to which a Participant is otherwise entitled.

8.05 Withholding. The Company may withhold from amounts payable under this Plan any amounts as it reasonably deems required under any federal, state or local revenue law applying to such payments.

8.06 No Assignment. The Participant's rights to benefit payments under this Plan are not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge encumbrance, attachment or garnishment by creditors of the Participant or the Participant's beneficiary other than by a "qualified domestic relations order" (within the meaning of Section 206(d)(3)(B)(i) of ERISA).

8.07 Expenses. Expenses of administering the Plan shall be borne by the Company.

8.08 Amendment and Termination. The Company may amend or terminate this Plan at any time and in its sole discretion, by (and only by) written resolution of the Board. Any such amendment or termination shall be binding on the Company and all Participants and their Beneficiaries, even though it may be retroactive and applicable to Participants whose employment by the Company or Affiliates has terminated. However, no amendment or termination of the Plan shall adversely affect the right of a Participant to payment of a benefit to which he or she would be entitled (then or thereafter) under the terms of the Plan if his or her employment terminated immediately before the adoption of such amendment or termination of the Plan, unless such amendment or termination of the Plan in the reasonable judgment of the Plan Administrator is required to comply with applicable law or to preserve the tax treatment of benefits under this Plan for the Company or for the Participant, or is consented to by the affected Participant.

Notwithstanding anything in this Plan to the contrary, upon termination of the Plan the Company may in its sole discretion pay all Account balances to the Participants (or Beneficiaries) entitled thereto in a single lump sum.

8.9 Successors. All obligations of the Company under this Plan shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

8.10 Company Action. Except for matters on which this Plan specifically requires action by the Board, any action or decision the Company is required or permitted to take under this Plan will be properly done if done in writing over the signature of the Company's President.

8.11 Notice. Any notice that this Plan requires or permits the Company to receive will be properly given if sent by first class mail, postage paid and properly addressed, to the principal business address of the Company to the attention of the Company's Executive Vice President - Human Resources. Any notice, or any check in payment of benefits, that this Plan requires or permits a Participant to receive will be properly given and received if sent to a Participant who is an Employee by regular interoffice distribution channels; or sent to any Participant or Beneficiary by first class mail, postage paid and properly addressed, to the last known residence address of the Participant or Beneficiary appearing on the records of the Company.

8.12 Governing Law. This Plan is subject to Federal law under ERISA as applicable to plans described in Section 3(a) of ERISA but exempt from certain provisions of ERISA under Sections 201(2), 301(a)(3), and 401(a)(2) of ERISA, and is subject to the laws of the State of Illinois to the extent such laws are not pre-empted by ERISA.

IN WITNESS WHEREOF the Company has caused this BankFinancial Deferred Compensation Plan to be executed by an authorized officer as of 1st day of January, 2002.

BankFinancial, F.S.B.

By: _____ /s/ James Brennan
EVP

BANKFINANCIAL, F.S.B.
EMPLOYMENT AGREEMENT

THIS AGREEMENT (“Agreement”) is made effective as of March 20, 2003 (the “Effective Date”), by and between **BankFinancial, F.S.B.** (the “**Bank**”), a federally chartered stock savings bank having its principal office at 21110 South Western Avenue, Olympia Fields, Illinois, and **F. Morgan Gasior** (“**Executive**”).

WHEREAS, the Board of Directors of the Bank (the “Board”) considers the continued availability of Executive’s services to be important to the successful management and conduct of the Bank’s business, and wishes to assure the continued availability of Executive’s full-time services to the Bank as provided in this Agreement; and

WHEREAS, Executive is willing to continue to serve in the employ of the Bank 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 Bank and its parent companies, BankFinancial Corporation (“BFC”) and BankFinancial MHC, Inc. (“BFMHC”), and as a director and officer of each direct or indirect subsidiary of the Bank (ii) the Board agrees to appoint Executive as the President and Chief Executive Officer of the Bank, 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 Bank, and to cause and permit him to hold such position at all times during which Executive is a director of the Bank.

(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 Bank, 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 Bank.

(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, BFC or BFMHC; provided that, notwithstanding the foregoing, Executive may: (i) perform his obligations under any Employment Agreement between BFC and Executive (the “BFC Agreement”) and any Employment Agreement between BFMHC and Executive (the “BFMHC Agreement”); (ii) hold directorships, offices or other positions in one or more other organizations to the extent permitted by the Bank’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 March 31, 2004, as provided below) unless extended as provided herein. On or before March 31, 2004, and on or before March 31st 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 March 31, 2004, 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 Bank shall pay Executive the annual base salary that is reflected in the payroll records of the Bank 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 Bank 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 Bank. 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 Bank 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 Bank 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 Bank 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 Bank.

(e) Reimbursement of Expenses. The Bank shall pay or reimburse Executive in accordance with the standard policies and practices of the Bank for all reasonable expenses incurred by Executive during the Employment Period in connection with his employment hereunder or the business of the Bank.

(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 Bank as then applicable to senior executive officers of the Bank. 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 Bank, 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 Bank shall provide Executive with all other benefits that are now or hereafter provided uniformly to non-probationary full-time employees of the Bank 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 Bank (collectively, the “Core Plans”), and under any 401(k) plan that is now or hereafter sponsored by the Bank, in each case subject to the Bank’s policies concerning employee payments and contributions under such plans. The Bank 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 Bank 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 Bank 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 Bank in all respects as necessary or appropriate to enable the Bank to procure the Disability Policy, and the Bank 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 Bank'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 Bank of the receipt of Disability Payments.

(j) Life Insurance. During the Employment Period, the Bank 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 Bank shall pay all premiums on the Life Insurance Policy and Executive shall pay all income taxes that become due as a result of the Bank's payment of such premiums; provided, however, that the Bank 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 Bank for the Life Insurance Policy during that year) divided by (1 – Executive's income tax rate for that year). Executive shall cooperate with the Bank in all respects as necessary or appropriate to enable the Bank 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 Bank, 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 Bank now or hereafter provides uniformly to non-probationary full-time employees of the Bank during the Employment Period.

(k) Club Dues. In addition to any other compensation provided for under this Agreement, the Bank 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 BANK.

(a) Termination For Cause. The Board may terminate Executive's employment with the Bank "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 Bank'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 Bank For Cause if Executive's employment with BFC or BFMHC is terminated For Cause during the Employment Period in accordance with the requirements set forth in Section 4(a) of the BFC Agreement or the BFMHC Agreement, respectively.

(b) Termination for Disability. The Board, in its discretion, may terminate Executive's employment with the Bank at any time from and after the date on which a physician chosen by the Bank 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 Bank 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 Bank based on a "Disability Determination" if Executive's employment with BFC or BFMHC is terminated during the Employment Period based on a

“Disability Determination” in accordance with the requirements set forth in Section 4(b) of the BFC Agreement or the BFMHC Agreement, respectively.

(c) Termination Without Cause. The Board, in its discretion, may terminate Executive’s employment with the Bank “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 Bank Without Cause if Executive’s employment with BFC or BFMHC is terminated during the Employment Period “Without Cause” in accordance with the requirements set forth in Section 4(c) of the BFC Agreement or the BFMHC Agreement, respectively.

5. TERMINATION BY EXECUTIVE OR BY REASON OF DEATH.

(a) Termination By Resignation. Executive may, in his discretion, terminate his employment with the Bank “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 Bank, and to have terminated his employment with the Bank By Resignation, if Executive’s employment with BFC or BFMHC is terminated during the Employment Period By Resignation in accordance with the requirements set forth in Section 5(a) of the BFC Agreement or the BFMHC Agreement, respectively.

(b) Termination For Good Reason. Executive may terminate Executive’s employment with the Bank 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 Bank’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: (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 Bank, and if Executive is elected as a director of the Bank, as the Chairman of the Board of the Bank; (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 Bank, and if elected as a director of the Bank, as the Chairman of the Board of the Bank, or a decision by the Board to remove Executive from any such position; (iii) the failure of the Board to nominate Executive to serve as a director of the Bank, or of the Nominating Committee of the Board to recommend Executive’s election as a director of the Bank; (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 change in the composition of the Board such that the individuals who were members of the Board on the Effective Date (“Current Directors”) do not constitute a majority of the Board, except that individuals who are appointed to fill vacancies created by the death, resignation or removal of a

Current Director or any increase in the size of the Board shall be deemed to be a Current Director if such appointment was recommended or approved by each of the other Current Directors; (ix) a liquidation or dissolution of the Bank, (x) a material uncured breach of this Agreement by the Bank; (xi) Executive's termination of his employment with BFMHC for "Good Reason" as defined in the BFMHC Agreement; (xii) Executive's termination of his employment with BFC for "Good Reason" as defined in the BFC Agreement; (xiii) BFMHC's termination of Executive's employment with BFMHC "Without Cause" as defined in the BFMHC Agreement; or (xiv) BFC's termination of Executive's employment with BFC "Without Cause" as defined in the BFC Agreement. Executive shall have the right to elect to terminate his employment for Good Reason only by giving the General Counsel of the Bank a Notice of Termination (as defined below) within sixty (60) days after the act, omission or event giving rise to said right to elect. 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) if the Bank 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 Bank for Good Reason if Executive's employment with BFC or BFMHC is terminated during the Employment Period for Good Reason in accordance with the requirements set forth in Section 5(b) of the BFC Agreement or the BFMHC Agreement, respectively.

(c) Termination Upon Death. Executive's employment with the Bank 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 Bank 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 Bank 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(j)) 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 Bank'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 Bank 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 Bank's first regular payroll date after the effective date of termination and continuing through the Bank'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 Bank 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(j), 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 Bank'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 Bank 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 Bank. 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 Bank to Executive in such taxable year pursuant to Section 3(a) through (k) hereof, any director or committee fees paid by the Bank to Executive during such tax year, and any other taxable income paid by the Bank 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 Bank 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 Bank'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 Bank 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 Bank 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 Bank shall pay Executive the same amounts, and shall, subject to Section 6(j) 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 Bank 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 Bank 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 Bank'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 Bank is terminated during the Employment Period by reason of Executive's death, the Bank shall, subject to Section 6(j) 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 Bank based on a Disability Determination on the date of Executive's death (subject to the availability of such continued coverage through the Bank's

then-current insurance carrier). In addition, the Bank shall pay, as applicable, Executive's estate or trust, in accordance with the Bank'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; provided, however, that the Bank 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 the death benefits are paid to 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 Bank 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 Holding Companies or the Bank. 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 Bank's first regular payroll date after the date of death and continuing through the Bank'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 Bank, 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 Bank and any Contingent Insurance Stipend payable pursuant to Section 6(j), 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 Bank 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 Bank.

(h) Capital Limitations. Notwithstanding any other provisions of this Agreement: (i) in the event the Bank is not in compliance with its minimum capital requirements as established by applicable federal laws and regulations at the time any payment becomes due to Executive pursuant to Section 6 hereof, the Bank shall be entitled to defer such payment until such time as the Bank is in compliance with such minimum capital requirements; and (ii) if the Bank is in compliance with such minimum capital requirements at the time any such payment becomes due, but the making of any such payment would cause the Bank's capital to fall below such minimum capital requirements, the Bank shall be entitled to reduce the amount of such payment as necessary to enable the Bank to remain in compliance with such minimum capital requirements, subject to the Bank's obligation to pay the amount of any such reductions (or any portion thereof) as soon as such amount can be paid without causing the Bank's capital to fall below such minimum capital requirements.

(i) Section 280G Limitation. Notwithstanding any other provisions of this Agreement, in no event shall the aggregate payments or benefits to be made or afforded to Executive pursuant to Section 6 of this Agreement constitute an “excess parachute payment” under Section 280G of the Internal Revenue Code of 1986, as amended, or any successor thereto. In order to avoid such a result, such aggregate payments or benefits will be reduced, if necessary, to a lesser amount, the value of which is one dollar (\$1.00) less than an amount equal to three (3) times Executive’s “base amount” as determined in accordance with said Section 280G. The reduction shall be allocated among the components of such payments and benefits in the manner designated by Executive.

(j) Contingent Insurance Stipend. In the event that the continued medical insurance coverage that the Bank 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 Bank 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 Bank would have contributed for Executive’s benefit during the applicable period under the Bank’s Section 125 Cafeteria Plan if Executive had remained in the Bank’s employ during the applicable period. The stipend shall be payable in equal installments during the applicable period on dates coinciding with the Bank’s regular payroll dates.

(k) General Release. In consideration of the Bank’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 Bank a general release in favor of the Bank 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 Bank under this Agreement, or of BFC or BFMHC under their respective Employment Agreements with Executive.

7. NOTICE OF TERMINATION.

Any termination or purported termination by the Bank or Executive of Executive’s employment with the Bank 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 Bank shall be addressed and delivered to the principal headquarters office of the Bank, Attention: General Counsel, with a copy concurrently so delivered to General Corporate Counsel to the Bank, 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 Bank 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 Bank 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 Bank and any Affiliate (as defined below) of the Bank (collectively, "Banking Business") from a place that is located within five (5) miles of a place where the Bank 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 Bank 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 Bank. The following Legal Entities are Affiliates of the Bank as of the date of this Agreement: BankFinancial MHC, Inc.; BankFinancial Corporation; Financial Assurance Services, Inc.; SXNB Corporation; Success Bancshares, Inc. (a Delaware corporation in

dissolution); Success Capital Trust I; and (subject to regulatory approval) 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 Bank 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 Bank or an Affiliate any existing Banking Business between the Bank 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 Bank 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 Bank 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 Bank or an Affiliate any existing Banking Business between the Bank 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 Bank or any Affiliate, or to terminate or not renew or continue any contractual relationship with the Bank 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 Bank 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 Bank 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 Bank and its Affiliates are protected by state and federal law and the Privacy Principles of the Bank 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 Bank and its Affiliates and any plans for such business activities (collectively, "Proprietary Information") are valuable, special and unique assets of the Bank. 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 Bank or any Affiliate, or use any Protected Customer Information or Proprietary Information to the detriment of the Bank, 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 Bank 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 Bank 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 Bank as may reasonably be required by the Bank or any Affiliate of the Bank 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 Bank or any of its Affiliates is or may become a party or target, except for proceedings instituted against Executive by the Bank or any governmental or regulatory authority, or proceedings instituted by Executive against the Bank to enforce the terms of this Agreement or any other duties or obligations of the Bank to Executive. The Bank, 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 Bank 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 Bank that it will indemnify him for such actions to the fullest extent permitted by applicable law.

(e) Remedies. Executive and the Bank stipulate that irreparable injury will result to the Bank 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 Bank, 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 Bank or any Affiliate from pursuing any other remedies available to the Bank 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 Bank terminates this Agreement Without Cause or Executive terminates this Agreement for Good Reason, provided that, in either case, Executive executes and delivers to the Bank a writing, acceptable in form and substance to the Bank, that releases and waives any and all obligations that the Bank 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 Bank 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 Bank 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 Bank; 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 either or both of BFC and BFMHC, whether pursuant to the BFMHC Agreement or the BFC Agreement (collectively, the "Holding Company Contracts") or otherwise, such compensation payments and benefits paid by BFC and BFMHC shall be subtracted from any amounts due simultaneously to Executive under this Agreement. Payments due Executive pursuant to this Agreement and the Holding Company Contracts shall be allocated in proportion to the services rendered and time expended on such activities by Executive as determined by BFC, BFMHC and the Bank 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 Bank, and supersedes any prior offer of employment, employment letter or other agreements or understandings between the Bank 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 Bank, or to constitute an unsafe and unsound banking practice, Executive and the Bank 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 Bank may terminate Executive's employment at any time, but any termination by the Bank, 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) Suspension; Temporary Removal. If Executive is suspended and/or temporarily prohibited from participating in the conduct of the affairs of the Bank or an Affiliate by a notice served under Section 8(e)(3) or 8(g)(1) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1818(e)(3) or (g)(1), the Bank's obligations under this Agreement shall be suspended as of the date of service, unless stayed by appropriate proceedings. If the charges in the notice are dismissed, the Bank may in its discretion: (i) pay Executive all or part of the compensation withheld while the contract obligations were suspended; and (ii) reinstate (in whole or in part) any of the obligations which were suspended.

(c) Removal; Prohibition. If Executive is removed and/or permanently prohibited from participating in the conduct of the affairs of the Bank or an Affiliate by an order issued under Section 8(e)(4) or 8(g)(1) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1818(e)(4) or (g)(1), all obligations of the Bank under this Agreement shall terminate as of the effective date of the order, but vested rights of the contracting parties shall not be affected.

(d) Bank in Default. If the Bank is in default as defined in Section 3(x)(1) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1813(x)(1), all obligations of the Bank under this Agreement shall terminate as of the date of default, but this paragraph shall not affect any vested rights of the contracting parties.

(e) Regulatory Termination. All obligations under this Agreement shall be terminated, except to the extent determined that continuation of this Agreement is necessary for the continued operation of the institution: (i) by the Director of the OTS (or his designee) at the time the FDIC enters into an agreement to provide assistance to or on behalf of the Bank under the authority contained in Section 13(c) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1823(c); or (ii) by the Director of the OTS (or his designee) at the time the Director (or his designee) approves a supervisory merger to resolve problems related to the operations of the Bank or when the Bank is determined by the Director to be in an unsafe or unsound condition. Any rights of the parties that have already vested, however, shall not be affected by such action.

(f) Certain Payments. Any payments made to Executive pursuant to this Agreement, or otherwise, are subject to and conditioned upon compliance with 12 U.S.C. Section 1828(k) and 12 C.F.R. Section 545.121 and any rules and regulations promulgated thereunder.

(g) OTS Limitation. Notwithstanding anything to the contrary in this Agreement, in no case shall the total Departure Compensation (defined below) paid to Executive upon the termination of his employment with the Bank, regardless of the reason, exceed three (3) times Executive's Average Annual Regulatory Compensation (defined below). The term "Departure Compensation" shall mean payments and other things of value that the Bank makes or

provides to Executive upon the termination of Executive's employment with the Bank, but shall not mean or include any Prorated Incentive Compensation (defined above) that the Board determines was earned by Executive prior to the Effective Date of termination, any Earned Salary (defined above) or any Accrued Plan Contributions (defined above). The term "Average Annual Regulatory Compensation" shall mean the average of Executive's annual Regulatory Compensation (defined below) based on the most recent three (3) tax years, or if Executive was employed by the Bank for less than three (3) full tax years, based on such lesser number of tax years or portions thereof as Executive was employed by the Bank. The term "Regulatory Compensation" shall mean, for the purposes of the foregoing definition as it relates to any tax year, any payment of money or provision of any other thing of value by the Bank to Executive in consideration of Executive's employment, including, without limitation, Base Salary, commissions, bonuses, pension and profit-sharing plans, severance payments, retirement, director or committee fees, fringe benefits, payment of expense items without accountability or business purpose or that do not meet Internal Revenue Service requirements for deductibility by the association. In the event that the total Departure Compensation that becomes due to Executive under this Agreement exceeds three (3) times Executive's Average Annual Regulatory Compensation, the aggregate payments or other things of value constituting Departure Compensation shall be reduced to a lesser amount, the value of which shall be one dollar (\$1.00) less than three (3) times Executive's Average Annual Regulatory Compensation. In such a case, the reduction shall be allocated among the components of such payments and other things of value in the manner designated by Executive.

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 Bank 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 Bank or the termination or cessation of such employment (collectively, “Employment Claims”), whether asserted against the Bank, an Affiliate (as defined below), and/or an officer, director or employee of the Bank 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 Bank unless the arbitrator determines otherwise. The award rendered by the arbitrator(s) shall be final and binding upon Executive, the Bank 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 Bank 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 Bank 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) Indemnification, Advancement and Insurance. The Bank shall, subject to the conditions and findings set forth in 12 C.F.R. Section 545.121: (i) provide Executive (including his heirs, executors and administrators), at the Bank’s expense, with insurance under a directors’ and officers’ liability insurance policy that reasonably and adequately insures Executive for his acts and omissions as a director, officer or employee of the Bank and its subsidiaries; (ii)

indemnify Executive (and his heirs, executors and administrators) against all judgments entered and settlements made in any pending or threatened action and any appeal or other proceeding for review of such action, regardless of whether such action is a judicial or administrative proceeding, if such action was brought or threatened because Executive is or was a director, officer or employee of the Bank or any of its subsidiaries; (iii) indemnify Executive (and his heirs, executors and administrators) against all and reasonable costs and expenses, including reasonable attorney's fees, actually paid or incurred by Executive in defending or settling any such action, or in enforcing Executive's rights to indemnification under this Section 19; and (iv) to the extent that the Bank is not then authorized by applicable law to provide such indemnification, advance Executive his reasonable costs and expenses, including reasonable attorney's fees, arising from the settlement or defense of any such action, subject to the Bank's receipt of a written undertaking from Executive to repay all costs and expenses so advanced if Executive is later determined not to be entitled to indemnification. In the event that 12 C.F.R. Section 545.121 or the provisions of the Bank's bylaws or charter that relate to indemnification and the advancement of expenses are hereafter amended, such amendment shall apply to the Bank's obligations under this Section 19, but only to the extent that it increases the Bank's authority to indemnify or advance expenses to Executive beyond the authority that was provided, or reduces any limitations on such authority that were imposed, by 12 C.F.R. Section 545.121 and the provisions of the Bank's bylaws or charter on the Effective Date. Notwithstanding the foregoing and anything to the contrary in this Agreement, the Bank shall have no obligations under this Section 19 or under any provision of its charter or bylaws to provide indemnification or advance expenses to Executive in connection with any pending or threatened action, and any appeal or other proceeding for review of such action, regardless of whether such action is a judicial or administrative proceeding, if such action was brought or threatened because Executive is or was a director, officer or employee of a person or Legal Entity that is not or was not an Affiliate of the Bank, or because of any duty or alleged duty arising out of a past or present employment, contractual or other legal relationship between Executive and a Legal Entity that is or was not an Affiliate of the Bank. Any payments made to Executive pursuant to this Section 19 shall be subject to and conditioned upon compliance with the applicable provisions of 12 U.S.C. 1828(k), as amended, and 12 C.F.R. Section 545.121, as amended, and any rules or regulations promulgated in connection with therewith.

(b) Procedures. Any request for indemnity or the advancement of expenses shall be made in a written notice delivered by Executive to the General Counsel of the Bank. The notice shall 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 Bank to indemnify or advance expenses to him in connection with such claim. Following the delivery of such written notice, the Board shall, as soon as practicable and by no later than its next regularly scheduled Board meeting, adopt a resolution by the affirmative vote of not less than a majority of its members (i) determining in good faith and on the basis of reasonable evidence or other information whether or not Executive, in connection with such claim, was acting in good faith within the scope of his employment or authority as he perceived it under the circumstances and for a purpose he could reasonably have believed under the circumstances was in the best interests of the Bank, and (ii) determining whether or not the Bank will approve or deny Executive's request subject to any regulatory notification requirements; provided, however, that if the Board lacks sufficient evidence or other information at the time of such meeting to make the determination set forth in Subsection (i) of this Section 19(b), the Board shall adopt a resolution at such meeting by the affirmative vote of not less than a majority of its members determining whether or not the Bank will advance Executive the reasonable costs of defending or

settling such claim, subject to such undertakings by Executive as may be required by applicable law. The Board shall provide Executive with a copy of each such resolution promptly after its adoption.

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 Bank 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 Bank. 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 Bank 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 Bank, 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 Bank in connection with such dispute or controversy.

21. NO CONFLICTS.

Executive has heretofore advised the Bank 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 Bank 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 Bank 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 Bank and its successors and assigns. The Bank 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 Bank of such intention in writing and comply with any requirements of applicable law.

IN WITNESS WHEREOF, BankFinancial, F.S.B. has caused this Agreement to be executed by its duly authorized officers and directors, and Executive has signed this Agreement as of this 20th day of March 2003.

BANKFINANCIAL, F.S.B.

EXECUTIVE

By: /s/ James Brennan
Its EVP/Secretary

/s/ F. Morgan Gasior
F. Morgan Gasior

To: F. Morgan Gasior
From: James Brennan
Secretary to the Board
Re: Employment Agreement Annual Review
Date: April 5, 2004

I am pleased to confirm that, at a meeting held on March 31, 2004, the Board of Directors of BankFinancial, F.S.B. conducted the annual review referenced in Section 2(b) of your Employment Agreement. The Board concluded, after performing the review, to extend the Employment Period, as referenced in Section 2(a) of the Employment Agreement, for an additional one year so that the remaining term of the Employment Period will be thirty-six (36) months and will end on March 31, 2007; and to ratify the decision that the Board's Compensation Committee made earlier this year regarding your base salary and incentive compensation.

Kindly acknowledge your receipt and acceptance of this notice by signing it in the space indicated below and returning it to me.

/s/ F. Morgan Gasior

BANKFINANCIAL, F.S.B.
EMPLOYMENT AGREEMENT

THIS AGREEMENT (“Agreement”) is made effective as of March 20, 2003 (the “Effective Date”), by and between **BankFinancial, F.S.B.** (the “Bank”), a federally chartered stock savings bank having its principal office at 21110 South Western Avenue, Olympia Fields, Illinois, and **James J. Brennan** (“Executive”).

WHEREAS, the Board of Directors of the Bank (the “Board”) considers the continued availability of Executive’s services to be important to the successful management and conduct of the Bank’s business, and wishes to assure the continued availability of Executive’s full-time services to the Bank as provided in this Agreement; and

WHEREAS, Executive is willing to continue to serve in the employ of the Bank 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 General Counsel, Secretary and the Executive Vice President of the Corporate Affairs Division of the Bank and its parent companies, BankFinancial MHC, Inc. (“BFMHC”) and BankFinancial Corporation (“BFC”).

(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 Bank 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, BFC or BFMHC; provided that, notwithstanding the foregoing, Executive may: (i) perform his obligations under any Employment Agreement between BFC and Executive (the “BFC Agreement”) and any Employment Agreement between BFMHC and Executive (the “BFMHC Agreement”); (ii) hold directorships, offices or other positions in one or more other organizations to the extent permitted by the Bank’s Professional Responsibility Policy, as amended from time to time, or as otherwise approved by the Board or the Chairman and Chief Executive Officer, 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.

(d) Performance Standards. During the Employment Period, Executive shall perform his duties in accordance with the policies and procedures of the Bank, as amended from time to time, such reasonable performance standards as the Board or the Chief Executive Officer of the Bank has established or may hereafter establish in the exercise of good faith business judgment, including those set forth in the Bank's Personnel Manual, as amended from time to time, and such Business Plans as the Board or the Chief Executive Officer of the Bank 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 March 31, 2004, as provided below) unless extended as provided herein. On or before March 31, 2004, and on or before March 31st 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 March 31, 2004, 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 Bank shall pay Executive the annual base salary that is reflected in the payroll records of the Bank 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 Bank 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 Bank. 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 Bank 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 Bank 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 Bank 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 Bank.

(e) Reimbursement of Expenses. The Bank shall pay or reimburse Executive in accordance with the standard policies and practices of the Bank for all reasonable expenses incurred by Executive during the Employment Period in connection with his employment hereunder or the business of the Bank.

(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 Bank as then applicable to senior executive officers of the Bank. 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 Bank, 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 Bank shall provide Executive with all other benefits that are now or hereafter provided uniformly to non-probationary full-time employees of the Bank 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 Bank (collectively, the "Core Plans"), and under any 401(k) plan that is now or hereafter sponsored by the Bank, in each case subject to the Bank's policies concerning employee payments and contributions under such plans. The Bank 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 Bank 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 Bank 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 Bank in all respects as necessary or appropriate to enable the Bank to procure the Disability Policy, and the Bank 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 Bank'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 Bank of the receipt of Disability Payments.

(j) Life Insurance. During the Employment Period, the Bank 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 Bank shall pay all premiums on the Life Insurance Policy and Executive shall pay all income taxes that become due as a result of the Bank's payment of such premiums; provided, however, that the Bank 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 Bank for the Life Insurance Policy during that year) divided by $(1 - \text{Executive's income tax rate for that year})$. Executive shall cooperate with the Bank in all respects as necessary or appropriate to enable the Bank 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 Bank, 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 Bank now or hereafter provides uniformly to non-probationary full-time employees of the Bank during the Employment Period.

(k) Club Dues. In addition to any other compensation provided for under this Agreement, the Bank shall pay Executive an amount sufficient, on an after-tax basis, to maintain his membership at Riverside Golf Club during the Employment Period.

4. TERMINATION BY THE BANK.

(a) Termination For Cause. The Board may terminate Executive's employment with the Bank "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 Bank'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 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 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 Bank For Cause if Executive's employment with BFC or BFMHC is terminated For Cause during the Employment Period in accordance with the requirements set forth in Section 4(a) of the BFC Agreement or the BFMHC Agreement, respectively.

(b) Termination for Disability. The Board, in its discretion, may terminate Executive's employment with the Bank at any time from and after the date on which a physician chosen by the Bank 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 General Counsel and/or Acting Executive Vice President of the Corporate Affairs Division and/or Acting Secretary of the Bank 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 Bank based on a "Disability Determination" if Executive's employment with BFC or BFMHC is terminated

during the Employment Period based on a "Disability Determination" in accordance with the requirements set forth in Section 4(b) of the BFC Agreement or the BFMHC Agreement, respectively.

(c) Termination Without Cause. The Board, in its discretion, may terminate Executive's employment with the Bank "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 Bank Without Cause if Executive's employment with BFC or BFMHC is terminated during the Employment Period "Without Cause" in accordance with the requirements set forth in Section 4(c) of the BFC Agreement or the BFMHC Agreement, respectively.

5. TERMINATION BY EXECUTIVE OR BY REASON OF DEATH.

(a) Termination By Resignation. Executive may, in his discretion, terminate his employment with the Bank "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 Bank, and to have terminated his employment with the Bank By Resignation, if Executive's employment with BFC or BFMHC is terminated during the Employment Period By Resignation in accordance with the requirements set forth in Section 5(a) of the BFC Agreement or the BFMHC Agreement, respectively.

(b) Termination For Good Reason. Executive may terminate Executive's employment with the Bank 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 Bank'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: (i) a decision by the Board not to elect or re-elect or to appoint or re-appoint Executive to the offices of General Counsel, Secretary and Executive Vice President of the Corporate Affairs Division of the Bank, or a decision by the Board to remove Executive from any such position; (ii) a failure by the Board to elect or re-elect or to appoint or re-appoint Executive to the offices of General Counsel, Secretary and Executive Vice President of the Corporate Affairs Division of the Bank; (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 to which Executive is entitled to receive under Section 3(d) through (k) of this Agreement; (vi) a liquidation or dissolution of the Bank; (vii) a material uncured breach of this Agreement by the Bank; (viii) Executive's termination of his employment with BFMHC for "Good Reason" as defined in the BFMHC Agreement; (ix) Executive's termination of his employment with BFC for "Good Reason" as defined in the BFC Agreement; (x) BFMHC's termination of Executive's

employment with BFMHC “Without Cause” as defined in the BFMHC Agreement; or (xi) BFC’s termination of Executive’s employment with BFC “Without Cause” as defined in the BFC Agreement. Executive shall have the right to elect to terminate his employment for Good Reason only by giving the Chairman and Chief Executive Officer of the Bank a Notice of Termination (as defined below) within sixty (60) days after the act, omission or event giving rise to said right to elect. 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 General Counsel and/or Acting Secretary and/or Acting Executive Vice President of the Corporate Affairs Division of the Bank following a Disability Determination made in accordance with Section 4(b) of this Agreement, or (ii) if the Bank 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 Bank for Good Reason if Executive’s employment with BFC or BFMHC is terminated during the Employment Period for Good Reason in accordance with the requirements set forth in Section 5(b) of the BFC Agreement or the BFMHC Agreement, respectively.

(c) Termination Upon Death. Executive’s employment with the Bank 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 Bank 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 Bank 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(j)) 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 Bank'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 Bank 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 Bank's first regular payroll date after the effective date of termination and continuing through the Bank'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 Bank 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(j), 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 Bank'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 Bank 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 Bank. 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 Bank to Executive in such taxable year pursuant to Section 3(a) through (k) hereof, any director or committee fees paid by the Bank to Executive during such tax year, and any other taxable income paid by the Bank 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 Bank 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 Bank'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 Bank 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 Bank 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 Bank shall pay Executive the same amounts, and shall, subject to Section 6(j) 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 Bank 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 Bank 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 Bank'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 Bank is terminated during the Employment Period by reason of Executive's death, the Bank shall, subject to Section 6(j) 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 Bank based on a Disability Determination on the date of

Executive's death (subject to the availability of such continued coverage through the Bank's then-current insurance carrier). In addition, the Bank shall pay, as applicable, Executive's estate or trust, in accordance with the Bank'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; provided, however, that the Bank 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 the death benefits are paid to 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 Bank 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 Holding Companies or the Bank. 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 Bank's first regular payroll date after the date of death and continuing through the Bank'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 Bank, 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 Bank and any Contingent Insurance Stipend payable pursuant to Section 6(j), 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 Bank 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 Bank.

(h) Capital Limitations. Notwithstanding any other provisions of this Agreement: (i) in the event the Bank is not in compliance with its minimum capital requirements as established by applicable federal laws and regulations at the time any payment becomes due to Executive pursuant to Section 6 hereof, the Bank shall be entitled to defer such payment until such time as the Bank is in compliance with such minimum capital requirements; and (ii) if the Bank is in compliance with such minimum capital requirements at the time any such payment becomes due, but the making of any such payment would cause the Bank's capital to fall below such minimum capital requirements, the Bank shall be entitled to reduce the amount of such payment as necessary to enable the Bank to remain in compliance with such minimum capital requirements, subject to the Bank's obligation to pay the amount of any such reductions (or any portion thereof)

as soon as such amount can be paid without causing the Bank's capital to fall below such minimum capital requirements.

(i) Section 280G Limitation. Notwithstanding any other provisions of this Agreement, in no event shall the aggregate payments or benefits to be made or afforded to Executive pursuant to Section 6 of this Agreement constitute an "excess parachute payment" under Section 280G of the Internal Revenue Code of 1986, as amended, or any successor thereto. In order to avoid such a result, such aggregate payments or benefits will be reduced, if necessary, to a lesser amount, the value of which is one dollar (\$1.00) less than an amount equal to three (3) times Executive's "base amount" as determined in accordance with said Section 280G. The reduction shall be allocated among the components of such payments and benefits in the manner designated by Executive.

(j) Contingent Insurance Stipend. In the event that the continued medical insurance coverage that the Bank 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 Bank 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 Bank would have contributed for Executive's benefit during the applicable period under the Bank's Section 125 Cafeteria Plan if Executive had remained in the Bank's employ during the applicable period. The stipend shall be payable in equal installments during the applicable period on dates coinciding with the Bank's regular payroll dates.

(k) General Release. In consideration of the Bank'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 Bank a general release in favor of the Bank 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 Bank under this Agreement, or of BFC or BFMHC under their respective Employment Agreements with Executive.

7. NOTICE OF TERMINATION.

Any termination or purported termination by the Bank or Executive of Executive's employment with the Bank 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 Bank shall be addressed and delivered to the principal headquarters office of the Bank, Attention: General Counsel, with a copy concurrently so delivered to General Corporate Counsel to the Bank, 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 Bank 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 Bank 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 Bank and any Affiliate (as defined below) of the Bank (collectively, "Banking Business") from a place that is located within five (5) miles of a place where the Bank 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 Bank 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 Bank. The following Legal Entities are Affiliates of the Bank as of the date of this Agreement: BankFinancial MHC, Inc.; BankFinancial Corporation; Financial Assurance Services, Inc.; SXNB Corporation; Success Bancshares, Inc. (a Delaware corporation in dissolution); Success Capital Trust I; and (subject to regulatory approval) 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 Bank 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 Bank or an Affiliate any existing Banking Business between the Bank 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 Bank 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 Bank 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 Bank or an Affiliate any existing Banking Business between the Bank 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 Bank or any Affiliate, or to terminate or not renew or continue any contractual relationship with the Bank 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 Bank 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 Bank 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 Bank and its Affiliates are protected by state and federal law and the Privacy Principles of the Bank 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 Bank and its Affiliates and any plans for such business activities (collectively, "Proprietary Information") are valuable, special and unique assets of the Bank. 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 Bank or any Affiliate, or use any Protected Customer Information or Proprietary

Information to the detriment of the Bank, 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 Bank 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 Bank 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 Bank as may reasonably be required by the Bank or any Affiliate of the Bank 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 Bank or any of its Affiliates is or may become a party or target, except for proceedings instituted against Executive by the Bank or any governmental or regulatory authority, or proceedings instituted by Executive against the Bank to enforce the terms of this Agreement or any other duties or obligations of the Bank to Executive. The Bank, 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 Bank 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 Bank that it will indemnify him for such actions to the fullest extent permitted by applicable law.

(e) Remedies. Executive and the Bank stipulate that irreparable injury will result to the Bank 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 Bank, 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 Bank or any Affiliate from pursuing any other remedies available to the Bank 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 Bank 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 Bank terminates this Agreement Without Cause or Executive terminates this Agreement for Good Reason, provided that, in either case, Executive executes and delivers to the Bank a writing, acceptable in form and substance to the Bank, that releases and waives any and all obligations that the Bank 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 Bank 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 Bank 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 Bank; 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 either or both of BFC and BFMHC, whether pursuant to the BFMHC Agreement or the BFC Agreement (collectively, the "Holding Company Contracts") or otherwise, such compensation payments and benefits paid by BFC and BFMHC shall be subtracted from any amounts due simultaneously to Executive under this Agreement. Payments due Executive pursuant to this Agreement and the Holding Company Contracts shall be allocated in proportion to the services rendered and time expended on such activities by Executive as determined by BFC, BFMHC and the Bank 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 Bank, and supersedes any prior offer of employment, employment letter or other agreements or understandings between the Bank 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 Bank, or to constitute an unsafe and unsound banking practice, Executive and the Bank 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 Bank may terminate Executive's employment at any time, but any termination by the Bank, 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) Suspension; Temporary Removal. If Executive is suspended and/or temporarily prohibited from participating in the conduct of the affairs of the Bank or an Affiliate by a notice served under Section 8(e)(3) or 8(g)(1) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1818(e)(3) or (g)(1), the Bank's obligations under this Agreement shall be suspended as of the date of service, unless stayed by appropriate proceedings. If the charges in the notice are dismissed, the Bank may in its discretion: (i) pay Executive all or part of the compensation withheld while the contract obligations were suspended; and (ii) reinstate (in whole or in part) any of the obligations which were suspended.

(c) Removal; Prohibition. If Executive is removed and/or permanently prohibited from participating in the conduct of the affairs of the Bank or an Affiliate by an order issued under Section 8(e)(4) or 8(g)(1) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1818(e)(4) or (g)(1), all obligations of the Bank under this Agreement shall terminate as of the effective date of the order, but vested rights of the contracting parties shall not be affected.

(d) Bank in Default. If the Bank is in default as defined in Section 3(x)(1) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1813(x)(1), all obligations of the Bank under this Agreement shall terminate as of the date of default, but this paragraph shall not affect any vested rights of the contracting parties.

(e) Regulatory Termination. All obligations under this Agreement shall be terminated, except to the extent determined that continuation of this Agreement is necessary for the continued operation of the institution: (i) by the Director of the OTS (or his designee) at the time the FDIC enters into an agreement to provide assistance to or on behalf of the Bank under the authority contained in Section 13(c) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1823(c); or (ii) by the Director of the OTS (or his designee) at the time the Director (or his designee) approves a supervisory merger to resolve problems related to the operations of the Bank or when the Bank is determined by the Director to be in an unsafe or unsound condition. Any rights of the parties that have already vested, however, shall not be affected by such action.

(f) Certain Payments. Any payments made to Executive pursuant to this Agreement, or otherwise, are subject to and conditioned upon compliance with 12 U.S.C. Section 1828(k) and 12 C.F.R. Section 545.121 and any rules and regulations promulgated thereunder.

(g) OTS Limitation. Notwithstanding anything to the contrary in this Agreement, in no case shall the total Departure Compensation (defined below) paid to Executive upon the termination of his employment with the Bank, regardless of the reason, exceed three (3) times Executive's Average Annual Regulatory Compensation (defined below). The term "Departure Compensation" shall any mean payments and other things of value that the Bank makes or provides to Executive upon the termination of Executive's employment with the Bank, but shall not mean or include any Prorated Incentive Compensation (defined above) that the Board determines was earned by Executive prior to the Effective Date of termination, any Earned Salary (defined above) or any Accrued Plan Contributions (defined above). The term "Average Annual Regulatory Compensation" shall mean the average of Executive's annual Regulatory Compensation (defined below) based on the most recent three (3) tax years, or if Executive was employed by the Bank for less than three (3) full tax years, based on such lesser number of tax years or portions thereof as Executive was employed by the Bank. The term "Regulatory

Compensation” shall mean, for the purposes of the foregoing definition as it relates to any tax year, any payment of money or provision of any other thing of value by the Bank to Executive in consideration of Executive’s employment, including, without limitation, Base Salary, commissions, bonuses, pension and profit-sharing plans, severance payments, retirement, director or committee fees, fringe benefits, payment of expense items without accountability or business purpose or that do not meet Internal Revenue Service requirements for deductibility by the association. In the event that the total Departure Compensation that becomes due to Executive under this Agreement exceeds three (3) times Executive’s Average Annual Regulatory Compensation, the aggregate payments or other things of value constituting Departure Compensation shall be reduced to a lesser amount, the value of which shall be one dollar (\$1.00) less than three (3) times Executive’s Average Annual Regulatory Compensation. In such a case, the reduction shall be allocated among the components of such payments and other things of value in the manner designated by Executive.

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 Bank 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 Bank or the termination or cessation of such employment (collectively, “Employment Claims”), whether asserted against the Bank, an Affiliate (as defined below), and/or an officer, director or employee of the Bank 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 Bank unless the arbitrator determines otherwise. The award rendered by the arbitrator(s) shall be final and binding upon Executive, the Bank 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 Bank 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 Bank 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) Indemnification, Advancement and Insurance. The Bank shall, subject to the conditions and findings set forth in 12 C.F.R. Section 545.121: (i) provide Executive (including his heirs, executors and administrators), at the Bank's expense, with insurance under a directors' and officers' liability insurance policy that reasonably and adequately insures Executive for his acts and omissions as a director, officer or employee of the Bank and its subsidiaries; (ii) indemnify Executive (and his heirs, executors and administrators) against all judgments entered and settlements made in any pending or threatened action and any appeal or other proceeding for review of such action, regardless of whether such action is a judicial or administrative proceeding, if such action was brought or threatened because Executive is or was a director, officer or employee of the Bank or any of its subsidiaries; (iii) indemnify Executive (and his heirs, executors and administrators) against all and reasonable costs and expenses, including reasonable attorney's fees, actually paid or incurred by Executive in defending or settling any such action, or in enforcing Executive's rights to indemnification under this Section 19; and (iv) to the extent that the Bank is not then authorized by applicable law to provide such indemnification, advance Executive his reasonable costs and expenses, including reasonable attorney's fees, arising from the settlement or defense of any such action, subject to the Bank's receipt of a written undertaking from Executive to repay all costs and expenses so advanced if Executive is later determined not to be entitled to indemnification. In the event that 12 C.F.R. Section 545.121 or the provisions of the Bank's bylaws or charter that relate to indemnification and the advancement of expenses are hereafter amended, such amendment shall apply to the Bank's obligations under this Section 19, but only to the extent that it increases the Bank's authority to indemnify or advance expenses to Executive beyond the authority that was provided, or reduces any limitations on such authority that were imposed, by 12 C.F.R. Section 545.121 and the provisions of the Bank's bylaws or charter on the Effective Date. Notwithstanding the foregoing and anything to the contrary in this Agreement, the Bank shall have no obligations under this Section 19 or under any provision of its charter or bylaws to provide indemnification or advance expenses to Executive in connection with any pending or threatened action, and any appeal or other proceeding for review of such action, regardless of whether such action is a judicial or administrative proceeding, if such action was brought or threatened because Executive is or was a director, officer or employee of a person or Legal Entity that is not or was not an Affiliate of the Bank, or because of any duty or alleged duty arising out of a past or present employment, contractual or other legal relationship between Executive and a Legal Entity that is or was not an Affiliate of the Bank. Any payments made to Executive pursuant to this Section 19 shall be subject to and conditioned upon compliance with the applicable provisions of 12 U.S.C. 1828(k), as amended, and 12 C.F.R. Section 545.121, as amended, and any rules or regulations promulgated in connection with therewith.

(b) Procedures. Any request for indemnity or the advancement of expenses shall be made in a written notice delivered by Executive to the General Counsel of the Bank. The notice shall 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 Bank to indemnify or advance expenses to him in connection with such claim. Following the delivery of such written notice, the Board shall, as soon as practicable and by no later than its next regularly scheduled Board meeting, adopt a resolution by the affirmative vote of not less than a majority of its members (i) determining in good faith and on the basis of reasonable evidence or other information whether or not Executive, in connection with such claim, was acting in good faith within the scope of his employment or authority as he perceived it under the circumstances

and for a purpose he could reasonably have believed under the circumstances was in the best interests of the Bank, and (ii) determining whether or not the Bank will approve or deny Executive's request subject to any regulatory notification requirements; provided, however, that if the Board lacks sufficient evidence or other information at the time of such meeting to make the determination set forth in Subsection (i) of this Section 19(b), the Board shall adopt a resolution at such meeting by the affirmative vote of not less than a majority of its members determining whether or not the Bank will advance Executive the reasonable costs of defending or settling such claim, subject to such undertakings by Executive as may be required by applicable law. The Board shall provide Executive with a copy of each such resolution promptly after its adoption.

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 Bank 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 Bank. 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 Bank 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 Bank, 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 Bank in connection with such dispute or controversy.

21. NO CONFLICTS.

Executive has heretofore advised the Bank 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 Bank 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 Bank 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 Bank and its successors and assigns. The Bank 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 Bank of such intention in writing and comply with any requirements of applicable law.

IN WITNESS WHEREOF, BankFinancial, F.S.B. 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 March 2003.

BANKFINANCIAL, F.S.B.

EXECUTIVE

By: /s/ F. Morgan Gasior

/s/ James J. Brennan

Its President/CEO

Name: James J. Brennan

To: James J. Brennan
From: F. Morgan Gasior
Chairman of the Board
Re: Employment Agreement Annual Review
Date: April 5, 2004

I am pleased to confirm that, at a meeting held on March 31, 2004, the Board of Directors of BankFinancial, F.S.B. conducted the annual review referenced in Section 2(b) of your Employment Agreement. The Board concluded, after performing the review, to extend the Employment Period, as referenced in Section 2(a) of the Employment Agreement, for an additional one year so that the remaining term of the Employment Period will be thirty-six (36) months and will end on March 31, 2007; and to ratify the decision that the Board's Compensation Committee made earlier this year regarding your base salary and incentive compensation.

Kindly acknowledge your receipt and acceptance of this notice by signing it in the space indicated below and returning it to me.

/s/ James Brennan

BANKFINANCIAL, F.S.B.
EMPLOYMENT AGREEMENT

THIS AGREEMENT (“Agreement”) is made effective as of March 21, 2003 (the “Effective Date”), by and between **BankFinancial, F.S.B.** (the “**Bank**”), a federally chartered stock savings bank having its principal office at 21110 South Western Avenue, Olympia Fields, Illinois, and **Paul A. Cloutier** (“**Executive**”).

WHEREAS, the Board of Directors of the Bank (the “Board”) considers the continued availability of Executive’s services to be important to the successful management and conduct of the Bank’s business, and wishes to assure the continued availability of Executive’s full-time services to the Bank as provided in this Agreement; and

WHEREAS, Executive is willing to continue to serve in the employ of the Bank 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 Chief Financial Officer and the Executive Vice President of the Finance Division of the Bank and its parent companies, BankFinancial MHC, Inc. (“BFMHC”) and BankFinancial Corporation (“BFC”).

(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 Bank 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, BFC or BFMHC; provided that, notwithstanding the foregoing, Executive may: (i) perform his obligations under any Employment Agreement between BFC and Executive (the “BFC Agreement”) and any Employment Agreement between BFMHC and Executive (the “BFMHC Agreement”); (ii) hold directorships, offices or other positions in one or more other organizations to the extent permitted by the Bank’s Professional Responsibility Policy, as amended from time to time, or as otherwise approved by the Board or the Chairman and Chief Executive Officer, and (iii) engage in sports officiating 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 Bank, as amended from time to time, such reasonable performance standards as the Board or the Chief Executive Officer of the Bank has established or may hereafter establish in the exercise of good faith business judgment, including those set forth in the Bank's Personnel Manual, as amended from time to time, and such Business Plans as the Board or the Chief Executive Officer of the Bank 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 March 31, 2004, as provided below) unless extended as provided herein. On or before March 31, 2004, and on or before March 31st 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 March 31, 2004, 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 Bank shall pay Executive the annual base salary that is reflected in the payroll records of the Bank 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 Bank 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 Bank. 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 Bank 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 Bank 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 Bank 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 Bank.

(e) Reimbursement of Expenses. The Bank shall pay or reimburse Executive in accordance with the standard policies and practices of the Bank for all reasonable expenses incurred by Executive during the Employment Period in connection with his employment hereunder or the business of the Bank.

(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 Bank as then applicable to senior executive officers of the Bank. 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 Bank, 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 Bank shall provide Executive with all other benefits that are now or hereafter provided uniformly to non-probationary full-time employees of the Bank 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 Bank (collectively, the "Core Plans"), and under any 401(k) plan that is now or hereafter sponsored by the Bank, in each case subject to the Bank's policies concerning employee payments and contributions under such plans. The Bank 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 Bank 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 Bank 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 Bank in all respects as necessary or appropriate to enable the Bank to procure the Disability Policy, and the Bank 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 Bank'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 Bank of the receipt of Disability Payments.

(j) Life Insurance. During the Employment Period, the Bank 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 Bank shall pay all premiums on the Life Insurance Policy and Executive shall pay all income taxes that become due as a result of the Bank's payment of such premiums; provided, however, that the Bank 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 Bank for the Life Insurance Policy during that year) divided by $(1 - \text{Executive's income tax rate for that year})$. Executive shall cooperate with the Bank in all respects as necessary or appropriate to enable the Bank 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 Bank, 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 Bank now or hereafter provides uniformly to non-probationary full-time employees of the Bank during the Employment Period.

(k) Club Dues. In addition to any other compensation provided for under this Agreement, the Bank shall pay Executive an amount sufficient, on an after-tax basis, to maintain his membership at Edgewood Valley Country Club during the Employment Period.

4. TERMINATION BY THE BANK.

(a) Termination For Cause. The Board may terminate Executive's employment with the Bank "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 Bank'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 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 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 Bank For Cause if Executive's employment with BFC or BFMHC is terminated For Cause during the Employment Period in accordance with the requirements set forth in Section 4(a) of the BFC Agreement or the BFMHC Agreement, respectively.

(b) Termination for Disability. The Board, in its discretion, may terminate Executive's employment with the Bank at any time from and after the date on which a physician chosen by the Bank 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 Chief Financial Officer and/or Acting Executive Vice President of the Finance Division of the Bank 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 Bank based on a "Disability Determination" if Executive's employment with BFC or BFMHC is terminated

during the Employment Period based on a "Disability Determination" in accordance with the requirements set forth in Section 4(b) of the BFC Agreement or the BFMHC Agreement, respectively.

(c) Termination Without Cause. The Board, in its discretion, may terminate Executive's employment with the Bank "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 Bank Without Cause if Executive's employment with BFC or BFMHC is terminated during the Employment Period "Without Cause" in accordance with the requirements set forth in Section 4(c) of the BFC Agreement or the BFMHC Agreement, respectively.

5. TERMINATION BY EXECUTIVE OR BY REASON OF DEATH.

(a) Termination By Resignation. Executive may, in his discretion, terminate his employment with the Bank "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 Bank, and to have terminated his employment with the Bank By Resignation, if Executive's employment with BFC or BFMHC is terminated during the Employment Period By Resignation in accordance with the requirements set forth in Section 5(a) of the BFC Agreement or the BFMHC Agreement, respectively.

(b) Termination For Good Reason. Executive may terminate Executive's employment with the Bank 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 Bank'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: (i) a decision by the Board not to elect or re-elect or to appoint or re-appoint Executive to the offices of Chief Financial Officer and Executive Vice President of the Finance Division of the Bank, or a decision by the Board to remove Executive from any such position; (ii) a failure by the Board to elect or re-elect or to appoint or re-appoint Executive to the offices of Chief Financial Officer and Executive Vice President of the Finance Division of the Bank; (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 to which Executive is entitled to receive under Section 3(d) through (k) of this Agreement; (vi) a liquidation or dissolution of the Bank; (vii) a material uncured breach of this Agreement by the Bank; (viii) Executive's termination of his employment with BFMHC for "Good Reason" as defined in the BFMHC Agreement; (ix) Executive's termination of his employment with BFC for "Good Reason" as defined in the BFC Agreement; (x) BFMHC's termination of Executive's employment with

BFMHC "Without Cause" as defined in the BFMHC Agreement; or (x) BFC's termination of Executive's employment with BFC "Without Cause" as defined in the BFC Agreement. Executive shall have the right to elect to terminate his employment for Good Reason only by giving the Chairman and Chief Executive Officer of the Bank a Notice of Termination (as defined below) within sixty (60) days after the act, omission or event giving rise to said right to elect. 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 Chief Financial Officer and/or Acting Executive Vice President of the Finance Division of the Bank following a Disability Determination made in accordance with Section 4(b) of this Agreement, or (ii) if the Bank 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 Bank for Good Reason if Executive's employment with BFC or BFMHC is terminated during the Employment Period for Good Reason in accordance with the requirements set forth in Section 5(b) of the BFC Agreement or the BFMHC Agreement, respectively.

(c) Termination Upon Death. Executive's employment with the Bank 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 Bank 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 Bank 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(j)) 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 Bank'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 Bank 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 Bank's first regular payroll date after the effective date of termination and continuing through the Bank'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 Bank 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(j) hereof, 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 Bank'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 Bank 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 Bank. 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 Bank to Executive in such taxable year pursuant to Section 3(a) through (k) hereof, any director or committee fees paid by the Bank to Executive during such tax year, and any other taxable income paid by the Bank 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 Bank 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 Subsections (ii) and (v) of this Section 6(c) shall be paid in equal installments over the period beginning on the Bank'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 Bank 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 Bank 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 Bank shall pay Executive the same amounts, and shall, subject to Section 6(j) 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 Bank 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 Bank 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 Bank'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 Bank is terminated during the Employment Period by reason of Executive's death, the Bank shall, subject to Section 6(j) 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 Bank based on a Disability Determination on the date of

Executive's death (subject to the 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 Bank's then-current insurance carrier). In addition, the Bank shall pay, as applicable, Executive's estate or trust, in accordance with the Bank'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; provided, however, that the Bank 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 the death benefits are paid to 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 Bank 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 Holding Companies or the Bank. Except as provided in Section 6(b) and Section 6(g) hereof, any amounts payable under this Section 6(f) shall be paid in equal installments over the period beginning on the Bank's first regular payroll date after the date of death and continuing through the Bank'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 Bank, 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 Bank and any Contingent Insurance Stipend payable pursuant to Section 6(j), 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 Bank 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 Bank.

(h) Capital Limitations. Notwithstanding any other provisions of this Agreement: (i) in the event the Bank is not in compliance with its minimum capital requirements as established by applicable federal laws and regulations at the time any payment becomes due to Executive pursuant to Section 6 hereof, the Bank shall be entitled to defer such payment until such time as the Bank is in compliance with such minimum capital requirements; and (ii) if the Bank is in compliance with such minimum capital requirements at the time any such payment becomes due, but the making of any such payment would cause the Bank's capital to fall below such minimum capital requirements, the Bank shall be entitled to reduce the amount of such payment as necessary to enable the Bank to remain in compliance with such minimum capital requirements,

subject to the Bank's obligation to pay the amount of any such reductions (or any portion thereof) as soon as such amount can be paid without causing the Bank's capital to fall below such minimum capital requirements.

(i) Section 280G Limitation. Notwithstanding any other provisions of this Agreement, in no event shall the aggregate payments or benefits to be made or afforded to Executive pursuant to Section 6 of this Agreement constitute an "excess parachute payment" under Section 280G of the Internal Revenue Code of 1986, as amended, or any successor thereto. In order to avoid such a result, such aggregate payments or benefits will be reduced, if necessary, to a lesser amount, the value of which is one dollar (\$1.00) less than an amount equal to three (3) times Executive's "base amount" as determined in accordance with said Section 280G. The reduction shall be allocated among the components of such payments and benefits in the manner designated by Executive.

(j) Contingent Insurance Stipend. In the event that the continued medical insurance coverage that the Bank 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 Bank 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 Bank would have contributed for Executive's benefit during the applicable period under the Bank's Section 125 Cafeteria Plan if Executive had remained in the Bank's employ during the applicable period. The stipend shall be payable in equal installments during the applicable period on dates coinciding with the Bank's regular payroll dates.

(k) General Release. In consideration of the Bank'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 Bank a general release in favor of the Bank 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 Bank under this Agreement, or of BFC or BFMHC under their respective Employment Agreements with Executive.

7. NOTICE OF TERMINATION.

Any termination or purported termination by the Bank or Executive of Executive's employment with the Bank 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. Unless otherwise specified herein, notices to the Bank shall be addressed and delivered to the principal headquarters office of the Bank, Attention: General Counsel, with a copy concurrently so delivered to General Corporate Counsel to the Bank, 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 Bank 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 Bank 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 Bank and any Affiliate (as defined below) of the Bank (collectively, "Banking Business") from a place that is located within five (5) miles of a place where the Bank 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 Bank 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 public accounting 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 public accounting. 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 Bank. The following Legal Entities are Affiliates of the Bank as of the date of this Agreement: BankFinancial MHC, Inc.; BankFinancial Corporation; Financial Assurance Services, Inc.; SXNB Corporation; Success Bancshares, Inc. (a Delaware corporation in dissolution); Success Capital Trust I; 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 Bank 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 Bank or an Affiliate any existing Banking Business between the Bank 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 Bank 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 Bank 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 Bank or an Affiliate any existing Banking Business between the Bank 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 Bank or any Affiliate, or to terminate or not renew or continue any contractual relationship with the Bank 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 Bank 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 Bank 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 Bank and its Affiliates are protected by state and federal law and the Privacy Principles of the Bank 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 Bank and its Affiliates and any plans for such business activities (collectively, "Proprietary Information") are valuable, special and unique assets of the Bank. 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 Bank of any Affiliate, or use any Protected Customer Information or Proprietary Information to the detriment of the Bank, 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 Bank 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 Bank 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 Bank as may reasonably be required by the Bank or any Affiliate of the Bank 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 Bank or any of its Affiliates is or may become a party or target, except for proceedings instituted against Executive by the Bank or any governmental or regulatory authority, or proceedings instituted by Executive against the Bank to enforce the terms of this Agreement or any other duties or obligations of the Bank to Executive. The Bank, 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 Bank 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 Bank that it will indemnify him for such actions to the fullest extent permitted by applicable law.

(e) Remedies. Executive and the Bank stipulate that irreparable injury will result to the Bank 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 Bank, 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 Bank or any Affiliate from pursuing any other remedies available to the Bank 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 Bank 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 Bank terminates this Agreement Without Cause or Executive terminates this Agreement for Good Reason, provided that, in either case, Executive executes and delivers to the Bank a writing, acceptable in form and substance to the Bank, that releases and waives any and all obligations that the Bank 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 Bank 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 Bank 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 Bank; 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 either or both of BFC and BFMHC, whether pursuant to the BFMHC Agreement or the BFC Agreement (collectively, the "Holding Company Contracts") or otherwise, such compensation payments and benefits paid by BFC and BFMHC shall be subtracted from any amounts due simultaneously to Executive under this Agreement. Payments due Executive pursuant to this Agreement and the Holding Company Contracts shall be allocated in proportion to the services rendered and time

expended on such activities by Executive as determined by BFC, BFMHC and the Bank 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 Bank, and supersedes any prior offer of employment, employment letter or other agreements or understandings between the Bank 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 Bank, or to constitute an unsafe and unsound banking practice, Executive and the Bank 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 Bank may terminate Executive's employment at any time, but any termination by the Bank, 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) Suspension; Temporary Removal. If Executive is suspended and/or temporarily prohibited from participating in the conduct of the affairs of the Bank or an Affiliate by a notice served under Section 8(e)(3) or 8(g)(1) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1818(e)(3) or (g)(1), the Bank's obligations under this Agreement shall be suspended as of the date of service, unless stayed by appropriate proceedings. If the charges in the notice are dismissed, the Bank may in its discretion: (i) pay Executive all or part of the compensation withheld while the contract obligations were suspended; and (ii) reinstate (in whole or in part) any of the obligations which were suspended.

(c) Removal; Prohibition. If Executive is removed and/or permanently prohibited from participating in the conduct of the affairs of the Bank or an Affiliate by an order issued under Section 8(e)(4) or 8(g)(1) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1818(e)(4) or (g)(1), all obligations of the Bank under this Agreement shall terminate as of the effective date of the order, but vested rights of the contracting parties shall not be affected.

(d) Bank in Default. If the Bank is in default as defined in Section 3(x)(1) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1813(x)(1), all obligations of the Bank under this Agreement shall terminate as of the date of default, but this paragraph shall not affect any vested rights of the contracting parties.

(e) Regulatory Termination. All obligations under this Agreement shall be terminated, except to the extent determined that continuation of this Agreement is necessary for the continued operation of the institution: (i) by the Director of the OTS (or his designee) at the time the FDIC enters into an agreement to provide assistance to or on behalf of the Bank under the authority contained in Section 13(c) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1823(c); or (ii) by the Director of the OTS (or his designee) at the time the Director (or his designee) approves a supervisory merger to resolve problems related to the operations of the Bank or when the Bank is determined by the Director to be in an unsafe or unsound condition. Any rights of the parties that have already vested, however, shall not be affected by such action.

(f) Certain Payments. Any payments made to Executive pursuant to this Agreement, or otherwise, are subject to and conditioned upon compliance with 12 U.S.C. Section 1828(k) and 12 C.F.R. Section 545.121 and any rules and regulations promulgated thereunder.

(g) OTS Limitation. Notwithstanding anything to the contrary in this Agreement, in no case shall the total Departure Compensation (defined below) paid to Executive upon the termination of his employment with the Bank, regardless of the reason, exceed three (3) times Executive's Average Annual Regulatory Compensation (defined below). The term "Departure Compensation" shall mean payments and other things of value that the Bank makes or provides to Executive upon the termination of Executive's employment with the Bank, but shall not mean or include any Prorated Incentive Compensation (defined above) that the Board determines was earned by Executive prior to the Effective Date of termination, any Earned Salary (defined above) or any Accrued Plan Contributions (defined above). The term "Average Annual Regulatory Compensation" shall mean the average of Executive's annual Regulatory

Compensation (defined below) based on the most recent three (3) tax years, or if Executive was employed by the Bank for less than three (3) full tax years, based on such lesser number of tax years or portions thereof as Executive was employed by the Bank. The term "Regulatory Compensation" shall mean, for the purposes of the foregoing definition as it relates to any tax year, any payment of money or provision of any other thing of value by the Bank to Executive in consideration of Executive's employment, including, without limitation, Base Salary, commissions, bonuses, pension and profit-sharing plans, severance payments, retirement, director or committee fees, fringe benefits, payment of expense items without accountability or business purpose or that do not meet Internal Revenue Service requirements for deductibility by the association. In the event that the total Departure Compensation that becomes due to Executive under this Agreement exceeds three (3) times Executive's Average Annual Regulatory Compensation, the aggregate payments or other things of value constituting Departure Compensation shall be reduced to a lesser amount, the value of which shall be one dollar (\$1.00) less than three (3) times Executive's Average Annual Regulatory Compensation. In such a case, the reduction shall be allocated among the components of such payments and other things of value in the manner designated by Executive.

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 Bank 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 Bank or the termination or cessation of such employment (collectively, “Employment Claims”), whether asserted against the Bank, an Affiliate (as defined below), and/or an officer, director or employee of the Bank 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 Bank unless the arbitrator determines otherwise. The award rendered by the arbitrator(s) shall be final and binding upon Executive, the Bank 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 Bank 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 Bank 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) Indemnification, Advancement and Insurance. The Bank shall, subject to the conditions and findings set forth in 12 C.F.R. Section 545.121: (i) provide Executive (including his heirs, executors and administrators), at the Bank's expense, with insurance under a directors' and officers' liability insurance policy that reasonably and adequately insures Executive for his acts and omissions as a director, officer or employee of the Bank and its subsidiaries; (ii) indemnify Executive (and his heirs, executors and administrators) against all judgments entered and settlements made in any pending or threatened action and any appeal or other proceeding for review of such action, regardless of whether such action is a judicial or administrative proceeding, if such action was brought or threatened because Executive is or was a director, officer or employee of the Bank or any of its subsidiaries; (iii) indemnify Executive (and his heirs, executors and administrators) against all and reasonable costs and expenses, including reasonable attorney's fees, actually paid or incurred by Executive in defending or settling any such action, or in enforcing Executive's rights to indemnification under this Section 19; and (iv) to the extent that the Bank is not then authorized by applicable law to provide such indemnification, advance Executive his reasonable costs and expenses, including reasonable attorney's fees, arising from the settlement or defense of any such action, subject to the Bank's receipt of a written undertaking from Executive to repay all costs and expenses so advanced if Executive is later determined not to be entitled to indemnification. In the event that 12 C.F.R. Section 545.121 or the provisions of the Bank's bylaws or charter that relate to indemnification and the advancement of expenses are hereafter amended, such amendment shall apply to the Bank's obligations under this Section 19, but only to the extent that it increases the Bank's authority to indemnify or advance expenses to Executive beyond the authority that was provided, or reduces any limitations on such authority that were imposed, by 12 C.F.R. Section 545.121 and the provisions of the Bank's bylaws or charter on the Effective Date. Notwithstanding the foregoing and anything to the contrary in this Agreement, the Bank shall have no obligations under this Section 19 or under any provision of its charter or bylaws to provide indemnification or advance expenses to Executive in connection with any pending or threatened action, and any appeal or other proceeding for review of such action, regardless of whether such action is a judicial or administrative proceeding, if such action was brought or threatened because Executive is or was a director, officer or employee of a person or Legal Entity that is not or was not an Affiliate of the Bank, or because of any duty or alleged duty arising out of a past or present employment, contractual or other legal relationship between Executive and a Legal Entity that is or was not an Affiliate of the Bank. Any payments made to Executive pursuant to this Section 19 shall be subject to and conditioned upon compliance with the applicable provisions of 12 U.S.C. 1828(k), as amended, and 12 C.F.R. Section 545.121, as amended, and any rules or regulations promulgated in connection with therewith.

(b) Procedures. Any request for indemnity or the advancement of expenses shall be made in a written notice delivered by Executive to the General Counsel of the Bank. The notice shall 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 Bank to indemnify or advance expenses to him in connection with such claim. Following the delivery of such written notice, the Board shall, as soon as practicable and by no later than its next regularly scheduled Board meeting, adopt a resolution by the affirmative vote of not less than a majority of its members (i) determining in good faith and on the basis of reasonable evidence or other information whether or not Executive, in connection with such claim, was acting in good faith within the scope of his employment or authority as he perceived it under the circumstances

and for a purpose he could reasonably have believed under the circumstances was in the best interests of the Bank, and (ii) determining whether or not the Bank will approve or deny Executive's request subject to any regulatory notification requirements; provided, however, that if the Board lacks sufficient evidence or other information at the time of such meeting to make the determination set forth in Subsection (i) of this Section 19(b), the Board shall adopt a resolution at such meeting by the affirmative vote of not less than a majority of its members determining whether or not the Bank will advance Executive the reasonable costs of defending or settling such claim, subject to such undertakings by Executive as may be required by applicable law. The Board shall provide Executive with a copy of each such resolution promptly after its adoption.

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 Bank 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 Bank. 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 Bank 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 Bank, 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 Bank in connection with such dispute or controversy.

21. NO CONFLICTS.

Executive has heretofore advised the Bank 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 Bank 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 Bank shall survive the termination or expiration of this Agreement 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 Bank and its successors and assigns. The Bank 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 Bank of such intention in writing and comply with any requirements of applicable law.

IN WITNESS WHEREOF, BankFinancial, F.S.B. has caused this Agreement to be executed by its duly authorized officers and directors, and Executive has signed this Agreement as of this 21st day of March 2003.

BANKFINANCIAL, F.S.B.

EXECUTIVE

By: /s/ F. Morgan Gasior

/s/ Paul A. Cloutier

Name: Paul A. Cloutier

Its Chief Executive Officer

To: Paul A. Cloutier
From: James Brennan
Secretary to the Board
Re: Employment Agreement Annual Review
Date: April 5, 2004

I am pleased to confirm that, at a meeting held on March 31, 2004, the Board of Directors of BankFinancial, F.S.B. conducted the annual review referenced in Section 2(b) of your Employment Agreement. The Board concluded, after performing the review, to extend the Employment Period, as referenced in Section 2(a) of the Employment Agreement, for an additional one year so that the remaining term of the Employment Period will be thirty-six (36) months and will end on March 31, 2007; and to ratify the decision that the Board's Compensation Committee made earlier this year regarding your base salary and incentive compensation.

Kindly acknowledge your receipt and acceptance of this notice by signing it in the space indicated below and returning it to me.

/s/ Paul A. Cloutier

BANKFINANCIAL, F.S.B.
EMPLOYMENT AGREEMENT

THIS AGREEMENT (“Agreement”) is made effective as of March 21, 2003 (the “Effective Date”), by and between **BankFinancial, F.S.B.** (the “**Bank**”), a federally chartered stock savings bank having its principal office at 21110 South Western Avenue, Olympia Fields, Illinois, and **Robert J. O’Shaughnessy** (“**Executive**”).

WHEREAS, the Board of Directors of the Bank (the “Board”) considers the continued availability of Executive’s services to be important to the successful management and conduct of the Bank’s business, and wishes to assure the continued availability of Executive’s full-time services to the Bank as provided in this Agreement; and

WHEREAS, Executive is willing to continue to serve in the employ of the Bank 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 Chief Credit Officer and the Executive Vice President of the Operations Division of the Bank and its parent companies, BankFinancial MHC, Inc. (“BFMHC”) and BankFinancial Corporation (“BFC”).

(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 Bank 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, BFC or BFMHC; provided that, notwithstanding the foregoing, Executive may: (i) perform his obligations under any Employment Agreement between BFC and Executive (the “BFC Agreement”) and any Employment Agreement between BFMHC and Executive (the “BFMHC Agreement”); and (ii) hold directorships, offices or other positions in one or more other organizations to the extent permitted by the Bank’s Professional Responsibility Policy, as amended from time to time, or as otherwise approved by the Board or the Chairman and Chief Executive Officer.

(d) Performance Standards. During the Employment Period, Executive shall perform his duties in accordance with the policies and procedures of the Bank, as amended from time to time, such reasonable performance standards as the Board or the Chief Executive Officer of the

Bank has established or may hereafter establish in the exercise of good faith business judgment, including those set forth in the Bank's Personnel Manual, as amended from time to time, and such Business Plans as the Board or the Chief Executive Officer of the Bank 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 March 31, 2004, as provided below) unless extended as provided herein. On or before March 31, 2004, and on or before March 31st 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 March 31, 2004, 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 Bank shall pay Executive the annual base salary that is reflected in the payroll records of the Bank 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 Bank 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 Bank. 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 Bank 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 Bank 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 Bank 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 Bank.

(e) Reimbursement of Expenses. The Bank shall pay or reimburse Executive in accordance with the standard policies and practices of the Bank for all reasonable expenses incurred by Executive during the Employment Period in connection with his employment hereunder or the business of the Bank.

(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 Bank as then applicable to senior executive officers of the Bank. 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 Bank, 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 Bank shall provide Executive with all other benefits that are now or hereafter provided uniformly to non-probationary full-time employees of the Bank 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 Bank (collectively, the "Core Plans"), and under any 401(k) plan that is now or hereafter sponsored by the Bank, in each case subject to the Bank's policies concerning employee payments and contributions under such plans. The Bank 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 Bank 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 Bank 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 Bank in all respects as necessary or appropriate to enable the Bank to procure the Disability Policy, and the Bank 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 Bank'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 Bank of the receipt of Disability Payments.

(j) Life Insurance. During the Employment Period, the Bank 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 Bank shall pay all premiums on the Life Insurance Policy and Executive shall pay all income taxes that become due as a result of the Bank's payment of such premiums; provided, however, that the Bank 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 Bank for the Life Insurance Policy during that year) divided by $(1 - \text{Executive's income tax rate for that year})$. Executive shall cooperate with the Bank in all respects as necessary or appropriate to enable the Bank 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 Bank, 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 Bank now or hereafter provides uniformly to non-probationary full-time employees of the Bank during the Employment Period.

(k) Club Dues. In addition to any other compensation provided for under this Agreement, the Bank shall pay Executive an amount sufficient, on an after-tax basis, to maintain his membership at the Union League Club during the Employment Period.

4. TERMINATION BY THE BANK.

(a) Termination For Cause. The Board may terminate Executive's employment with the Bank "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 Bank'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 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 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 Bank For Cause if Executive's employment with BFC or BFMHC is terminated For Cause during the Employment Period in accordance with the requirements set forth in Section 4(a) of the BFC Agreement or the BFMHC Agreement, respectively.

(b) Termination for Disability. The Board, in its discretion, may terminate Executive's employment with the Bank at any time from and after the date on which a physician chosen by the Bank 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 Chief Credit Officer and/or Acting Executive Vice President of the Operations Division of the Bank 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 Bank based on a "Disability Determination" if Executive's employment with BFC or BFMHC is terminated during the Employment Period based on a "Disability Determination" in accordance with the requirements set forth in Section 4(b) of the BFC Agreement or the BFMHC Agreement, respectively.

(c) Termination Without Cause. The Board, in its discretion, may terminate Executive's employment with the Bank "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 Bank Without Cause if Executive's employment with BFC or BFMHC is terminated during the Employment Period "Without Cause" in accordance with the requirements set forth in Section 4(c) of the BFC Agreement or the BFMHC Agreement, respectively.

5. TERMINATION BY EXECUTIVE OR BY REASON OF DEATH.

(a) Termination By Resignation. Executive may, in his discretion, terminate his employment with the Bank "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 Bank, and to have terminated his employment with the Bank By Resignation, if Executive's employment with BFC or BFMHC is terminated during the Employment Period By Resignation in accordance with the requirements set forth in Section 5(a) of the BFC Agreement or the BFMHC Agreement, respectively.

(b) Termination For Good Reason. Executive may terminate Executive's employment with the Bank 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 Bank'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: (i) a decision by the Board not to elect or re-elect or to appoint or re-appoint Executive to the offices of Chief Credit Officer and Executive Vice President of the Operations Division of the Bank, or a decision by the Board to remove Executive from any such position; (ii) a failure by the Board to elect or re-elect or to appoint or re-appoint Executive to the offices of Chief Credit Officer and Executive Vice President of the Operations Division of the Bank; (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 to which Executive is entitled to receive under Section 3(d) through (k) of this Agreement; (vi) a liquidation or dissolution of the Bank; (vii) a material uncured breach of this Agreement by the Bank; (viii) Executive's termination of his employment with BFMHC for "Good Reason" as defined in the BFMHC Agreement; (ix) Executive's termination of his employment with BFC for "Good Reason" as defined in the BFC Agreement; (x) BFMHC's termination of Executive's employment with BFMHC "Without Cause" as defined in the BFMHC Agreement; or (xi) BFC's termination of Executive's employment with BFC "Without Cause" as defined in the BFC Agreement. Executive shall have the right to elect to terminate his employment for Good Reason only by giving the Chairman and Chief Executive Officer of the Bank a Notice of Termination (as defined below) within sixty

(60) days after the act, omission or event giving rise to said right to elect. 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 Chief Credit Officer and/or Acting Executive Vice President of the Operations Division of the Bank following a Disability Determination made in accordance with Section 4(b) of this Agreement, or (ii) if the Bank 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 Bank for Good Reason if Executive's employment with BFC or BFMHC is terminated during the Employment Period for Good Reason in accordance with the requirements set forth in Section 5(b) of the BFC Agreement or the BFMHC Agreement, respectively.

(c) Termination Upon Death. Executive's employment with the Bank 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 Bank 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 Bank 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(j)) 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 Bank'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 Bank 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 Bank's first regular payroll date after the effective date of termination and continuing through the Bank'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 Bank 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(j) hereof, 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 Bank'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 Bank 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 Bank. 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 Bank to Executive in such taxable year pursuant to Section 3(a) through (k) hereof, any director or committee fees paid by the Bank to Executive during such tax year, and any other taxable income paid by the Bank 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 Bank 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 Subsections (ii) and (v) of this Section 6(c) shall be paid in equal installments over the period

beginning on the Bank'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 Bank 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 Bank 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 Bank shall pay Executive the same amounts, and shall, subject to Section 6(j) 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 Bank 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 Bank 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 Bank'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 Bank is terminated during the Employment Period by reason of Executive's death, the Bank shall, subject to Section 6(j) 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 Bank based on a Disability Determination on the date of Executive's death (subject to the 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 Bank's then-current insurance carrier). In addition, the Bank shall pay, as applicable, Executive's estate or trust, in accordance with the Bank'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; provided, however, that the Bank 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 the death benefits are paid to 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 Bank 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 Holding Companies or the Bank. Except as provided in Section 6(b) and Section 6(g) hereof, any amounts payable under this Section 6(f) shall be paid in equal installments over the period beginning on the Bank's first regular payroll date after the date of death and continuing through the Bank'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 Bank, 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 Bank and any Contingent Insurance Stipend payable pursuant to Section 6(j), 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 Bank 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 Bank.

(h) Capital Limitations. Notwithstanding any other provisions of this Agreement: (i) in the event the Bank is not in compliance with its minimum capital requirements as established by applicable federal laws and regulations at the time any payment becomes due to Executive pursuant to Section 6 hereof, the Bank shall be entitled to defer such payment until such time as the Bank is in compliance with such minimum capital requirements; and (ii) if the Bank is in compliance with such minimum capital requirements at the time any such payment becomes due, but the making of any such payment would cause the Bank's capital to fall below such minimum capital requirements, the Bank shall be entitled to reduce the amount of such payment as necessary to enable the Bank to remain in compliance with such minimum capital requirements, subject to the Bank's obligation to pay the amount of any such reductions (or any portion thereof) as soon as such amount can be paid without causing the Bank's capital to fall below such minimum capital requirements.

(i) Section 280G Limitation. Notwithstanding any other provisions of this Agreement, in no event shall the aggregate payments or benefits to be made or afforded to Executive pursuant to Section 6 of this Agreement constitute an “excess parachute payment” under Section 280G of the Internal Revenue Code of 1986, as amended, or any successor thereto. In order to avoid such a result, such aggregate payments or benefits will be reduced, if necessary, to a lesser amount, the value of which is one dollar (\$1.00) less than an amount equal to three (3) times Executive’s “base amount” as determined in accordance with said Section 280G. The reduction shall be allocated among the components of such payments and benefits in the manner designated by Executive.

(j) Contingent Insurance Stipend. In the event that the continued medical insurance coverage that the Bank 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 Bank 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 Bank would have contributed for Executive’s benefit during the applicable period under the Bank’s Section 125 Cafeteria Plan if Executive had remained in the Bank’s employ during the applicable period. The stipend shall be payable in equal installments during the applicable period on dates coinciding with the Bank’s regular payroll dates.

(k) General Release. In consideration of the Bank’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 Bank a general release in favor of the Bank 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 Bank under this Agreement, or of BFC or BFMHC under their respective Employment Agreements with Executive.

7. NOTICE OF TERMINATION.

Any termination or purported termination by the Bank or Executive of Executive’s employment with the Bank 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. Unless otherwise specified herein, notices to the Bank shall be addressed and delivered to the principal headquarters office of the Bank, Attention: General Counsel, with a copy concurrently so delivered to General Corporate Counsel to the Bank, 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 Bank 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 Bank 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 Bank and any Affiliate (as defined below) of the Bank (collectively, "Banking Business") from a place that is located within five (5) miles of a place where the Bank 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 Bank 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 loan consulting and review 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 loan consulting and review. 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 Bank. The following Legal Entities are Affiliates of the Bank as of the date of this Agreement: BankFinancial MHC, Inc.; BankFinancial Corporation; Financial Assurance Services, Inc.; SXNB Corporation; Success Bancshares, Inc. (a Delaware corporation in dissolution); Success Capital Trust I; 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 Bank 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 Bank or an Affiliate any existing Banking Business between the Bank 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 Bank 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 Bank 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 Bank or an Affiliate any existing Banking Business between the Bank 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 Bank or any Affiliate, or to terminate or not renew or continue any contractual relationship with the Bank 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 Bank 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 Bank 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 Bank and its Affiliates are protected by state and federal law and the Privacy Principles of the Bank 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 Bank and its Affiliates and any plans for such business activities (collectively, "Proprietary Information") are valuable, special and unique assets of the Bank. 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 Bank or any Affiliate, or use any Protected Customer Information or Proprietary Information to the detriment of the Bank, 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 Bank 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 Bank 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 Bank as may reasonably be required by the Bank or any Affiliate of the Bank 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 Bank or any of its Affiliates is or may become a party or target, except for proceedings instituted against Executive by the Bank or any governmental or regulatory authority, or proceedings instituted by Executive against the Bank to enforce the terms of this Agreement or any other duties or obligations of the Bank to Executive. The Bank, 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 Bank 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 Bank that it will indemnify him for such actions to the fullest extent permitted by applicable law.

(e) Remedies. Executive and the Bank stipulate that irreparable injury will result to the Bank 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 Bank, 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 Bank or any Affiliate from pursuing any other remedies available to the Bank 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 Bank 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 Bank terminates this Agreement Without Cause or Executive terminates this Agreement for Good Reason, provided that, in either case, Executive executes and delivers to the Bank a writing, acceptable in form and substance to the Bank, that releases and waives any and all obligations that the Bank 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 Bank 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 Bank 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 Bank; 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 either or both of BFC and BFMHC, whether pursuant to the BFMHC Agreement or the BFC Agreement (collectively, the "Holding Company Contracts") or otherwise, such compensation payments and benefits paid by BFC and BFMHC shall be subtracted from any amounts due simultaneously to Executive under this Agreement. Payments due Executive pursuant to this Agreement and the Holding Company Contracts shall be allocated in proportion to the services rendered and time expended on such activities by Executive as determined by BFC, BFMHC and the Bank 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 Bank, and supersedes any prior offer of employment, employment letter or other agreements or understandings between the Bank 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 Bank, or to constitute an unsafe and unsound banking practice, Executive and the Bank 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 Bank may terminate Executive's employment at any time, but any termination by the Bank, 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) Suspension; Temporary Removal. If Executive is suspended and/or temporarily prohibited from participating in the conduct of the affairs of the Bank or an Affiliate by a notice served under Section 8(e)(3) or 8(g)(1) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1818(e)(3) or (g)(1), the Bank's obligations under this Agreement shall be suspended as of the date of service, unless stayed by appropriate proceedings. If the charges in the notice are dismissed, the Bank may in its discretion: (i) pay Executive all or part of the compensation withheld while the contract obligations were suspended; and (ii) reinstate (in whole or in part) any of the obligations which were suspended.

(c) Removal; Prohibition. If Executive is removed and/or permanently prohibited from participating in the conduct of the affairs of the Bank or an Affiliate by an order issued under Section 8(e)(4) or 8(g)(1) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1818(e)(4) or (g)(1), all obligations of the Bank under this Agreement shall terminate as of the effective date of the order, but vested rights of the contracting parties shall not be affected.

(d) Bank in Default. If the Bank is in default as defined in Section 3(x)(1) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1813(x)(1), all obligations of the Bank under this Agreement shall terminate as of the date of default, but this paragraph shall not affect any vested rights of the contracting parties.

(e) Regulatory Termination. All obligations under this Agreement shall be terminated, except to the extent determined that continuation of this Agreement is necessary for the continued operation of the institution: (i) by the Director of the OTS (or his designee) at the time the FDIC enters into an agreement to provide assistance to or on behalf of the Bank under the authority contained in Section 13(c) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1823(c); or (ii) by the Director of the OTS (or his designee) at the time the Director (or his designee) approves a supervisory merger to resolve problems related to the operations of the Bank or when the Bank is determined by the Director to be in an unsafe or unsound condition. Any rights of the parties that have already vested, however, shall not be affected by such action.

(f) Certain Payments. Any payments made to Executive pursuant to this Agreement, or otherwise, are subject to and conditioned upon compliance with 12 U.S.C. Section 1828(k) and 12 C.F.R. Section 545.121 and any rules and regulations promulgated thereunder.

(g) OTS Limitation. Notwithstanding anything to the contrary in this Agreement, in no case shall the total Departure Compensation (defined below) paid to Executive upon the termination of his employment with the Bank, regardless of the reason, exceed three (3) times Executive's Average Annual Regulatory Compensation (defined below). The term "Departure Compensation" shall any mean payments and other things of value that the Bank makes or provides to Executive upon the termination of Executive's employment with the Bank, but shall not mean or include any Prorated Incentive Compensation (defined above) that the Board determines was earned by Executive prior to the Effective Date of termination, any Earned Salary (defined above) or any Accrued Plan Contributions (defined above). The term "Average Annual Regulatory Compensation" shall mean the average of Executive's annual Regulatory Compensation (defined below) based on the most recent three (3) tax years, or if Executive was employed by the Bank for less than three (3) full tax years, based on such lesser number of tax years or portions thereof as Executive was employed by the Bank. The term "Regulatory

Compensation” shall mean, for the purposes of the foregoing definition as it relates to any tax year, any payment of money or provision of any other thing of value by the Bank to Executive in consideration of Executive’s employment, including, without limitation, Base Salary, commissions, bonuses, pension and profit-sharing plans, severance payments, retirement, director or committee fees, fringe benefits, payment of expense items without accountability or business purpose or that do not meet Internal Revenue Service requirements for deductibility by the association. In the event that the total Departure Compensation that becomes due to Executive under this Agreement exceeds three (3) times Executive’s Average Annual Regulatory Compensation, the aggregate payments or other things of value constituting Departure Compensation shall be reduced to a lesser amount, the value of which shall be one dollar (\$1.00) less than three (3) times Executive’s Average Annual Regulatory Compensation. In such a case, the reduction shall be allocated among the components of such payments and other things of value in the manner designated by Executive.

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 Bank 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 Bank or the termination or cessation of such employment (collectively, “Employment Claims”), whether asserted against the Bank, an Affiliate (as defined below), and/or an officer, director or employee of the Bank 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 Bank unless the arbitrator determines otherwise. The award rendered by the arbitrator(s) shall be final and binding upon Executive, the Bank 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 Bank 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 Bank 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) Indemnification, Advancement and Insurance. The Bank shall, subject to the conditions and findings set forth in 12 C.F.R. Section 545.121: (i) provide Executive (including his heirs, executors and administrators), at the Bank's expense, with insurance under a directors' and officers' liability insurance policy that reasonably and adequately insures Executive for his acts and omissions as a director, officer or employee of the Bank and its subsidiaries; (ii) indemnify Executive (and his heirs, executors and administrators) against all judgments entered and settlements made in any pending or threatened action and any appeal or other proceeding for review of such action, regardless of whether such action is a judicial or administrative proceeding, if such action was brought or threatened because Executive is or was a director, officer or employee of the Bank or any of its subsidiaries; (iii) indemnify Executive (and his heirs, executors and administrators) against all and reasonable costs and expenses, including reasonable attorney's fees, actually paid or incurred by Executive in defending or settling any such action, or in enforcing Executive's rights to indemnification under this Section 19; and (iv) to the extent that the Bank is not then authorized by applicable law to provide such indemnification, advance Executive his reasonable costs and expenses, including reasonable attorney's fees, arising from the settlement or defense of any such action, subject to the Bank's receipt of a written undertaking from Executive to repay all costs and expenses so advanced if Executive is later determined not to be entitled to indemnification. In the event that 12 C.F.R. Section 545.121 or the provisions of the Bank's bylaws or charter that relate to indemnification and the advancement of expenses are hereafter amended, such amendment shall apply to the Bank's obligations under this Section 19, but only to the extent that it increases the Bank's authority to indemnify or advance expenses to Executive beyond the authority that was provided, or reduces any limitations on such authority that were imposed, by 12 C.F.R. Section 545.121 and the provisions of the Bank's bylaws or charter on the Effective Date. Notwithstanding the foregoing and anything to the contrary in this Agreement, the Bank shall have no obligations under this Section 19 or under any provision of its charter or bylaws to provide indemnification or advance expenses to Executive in connection with any pending or threatened action, and any appeal or other proceeding for review of such action, regardless of whether such action is a judicial or administrative proceeding, if such action was brought or threatened because Executive is or was a director, officer or employee of a person or Legal Entity that is not or was not an Affiliate of the Bank, or because of any duty or alleged duty arising out of a past or present employment, contractual or other legal relationship between Executive and a Legal Entity that is or was not an Affiliate of the Bank. Any payments made to Executive pursuant to this Section 19 shall be subject to and conditioned upon compliance with the applicable provisions of 12 U.S.C. 1828(k), as amended, and 12 C.F.R. Section 545.121, as amended, and any rules or regulations promulgated in connection with therewith.

(b) Procedures. Any request for indemnity or the advancement of expenses shall be made in a written notice delivered by Executive to the General Counsel of the Bank. The notice shall 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 Bank to indemnify or advance expenses to him in connection with such claim. Following the delivery of such written notice, the Board shall, as soon as practicable and by no later than its next regularly scheduled Board meeting, adopt a resolution by the affirmative vote of not less than a majority of its members (i) determining in good faith and on the basis of reasonable evidence or other information whether or not Executive, in connection with such claim, was acting in good faith within the scope of his employment or authority as he perceived it under the circumstances

and for a purpose he could reasonably have believed under the circumstances was in the best interests of the Bank, and (ii) determining whether or not the Bank will approve or deny Executive's request subject to any regulatory notification requirements; provided, however, that if the Board lacks sufficient evidence or other information at the time of such meeting to make the determination set forth in Subsection (i) of this Section 19(b), the Board shall adopt a resolution at such meeting by the affirmative vote of not less than a majority of its members determining whether or not the Bank will advance Executive the reasonable costs of defending or settling such claim, subject to such undertakings by Executive as may be required by applicable law. The Board shall provide Executive with a copy of each such resolution promptly after its adoption.

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 Bank 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 Bank. 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 Bank 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 Bank, 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 Bank in connection with such dispute or controversy.

21. NO CONFLICTS.

Executive has heretofore advised the Bank 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 Bank 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 Bank shall survive the termination or expiration of this Agreement 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 Bank and its successors and assigns. The Bank 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 Bank of such intention in writing and comply with any requirements of applicable law.

IN WITNESS WHEREOF, BankFinancial, F.S.B. has caused this Agreement to be executed by its duly authorized officers and directors, and Executive has signed this Agreement as of this 21st day of March 2003.

BANKFINANCIAL, F.S.B.

EXECUTIVE

By: /s/ F. Morgan Gasior

/s/ Robert J. O'Shaughnessy

Name: Robert J. O'Shaughnessy

Its Chief Executive Officer

To: Robert O'Shaughnessy
From: James Brennan
Secretary to the Board
Re: Employment Agreement Annual Review
Date: April 5, 2004

I am pleased to confirm that, at a meeting held on March 31, 2004, the Board of Directors of BankFinancial, F.S.B. conducted the annual review referenced in Section 2(b) of your Employment Agreement. The Board concluded, after performing the review, to extend the Employment Period, as referenced in Section 2(a) of the Employment Agreement, for an additional one year so that the remaining term of the Employment Period will be thirty-six (36) months and will end on March 31, 2007; and to ratify the decision that the Board's Compensation Committee made earlier this year regarding your base salary and incentive compensation.

Kindly acknowledge your receipt and acceptance of this notice by signing it in the space indicated below and returning it to me.

/s/ Robert O'Shaughnessy

EMPLOYMENT AGREEMENT

This Employment Agreement (this "Agreement") is made and entered into as of August 1, 2004 (the "Effective Date"), by and between BankFinancial, F.S.B. ("Employer"), and Christa N. Calabrese ("Employee").

WHEREAS, Employer and Employee desire to enter into an employment agreement governed by the terms and conditions set forth below.

NOW, THEREFORE, in consideration of the provisions and undertakings set forth herein, the parties, intending to be legally bound, hereby agree as follows:

1. EMPLOYMENT.

1.1 Employment. Employer hereby retains and employs, and Employee accepts such retention and employment, to provide services hereunder as the Regional President of the Northern Region of Employer during the Employment Period (as defined in Section 3.1(a) below).

1.2 Duties and Obligations. Employee shall have and exercise such duties, responsibilities, privileges, powers and authority in such position as the Chief Executive Officer or the Board of Directors of Employer (the "Board") has assigned or may hereafter assign to Employee.

1.3 Proprietary Property. Employee acknowledges that in the course of her employment with Employer, Employer will provide Employee with, or access to, non-public information about Employer's customers, operations, plans, strategies and performance, including confidential customer information, customer lists, memoranda, files, records, trade secrets and such other proprietary information and property (collectively, the "Proprietary Property") as is necessary or desirable to assist Employee in her duties. Employee acknowledges that the Proprietary Property is the sole and exclusive property of Employer and is not available to the public at large. Employee agrees that she shall not, while in the employ of Employer or thereafter, communicate or divulge to, or use for the benefit of herself or any other person, firm or corporation, without the prior written consent of Employer, any Proprietary Property or information relating to the Proprietary Property. Upon termination of Employee's employment with Employer, Employee shall thereupon return all documentary and electronically stored Proprietary Property in her possession or control to Employer. Employee also acknowledges that certain state and federal privacy laws and regulations and Employer's Privacy Principles expressly prohibit the disclosure and restrict the use of confidential customer information and agrees that she will abide by such Privacy Principles, laws and regulations at all times.

1.4 Performance. During the Employment Period, Employee shall devote her full business time and attention to performing her duties in accordance with the policies and procedures of Employer, as amended from time to time, such reasonable performance standards as the Board or the Chief Executive Officer of Employer has established or may hereafter establish in the exercise of good faith business judgment, including those set forth in Employer's Personnel Manual, as amended from time to time, and such Business Plans as the Board or the

Chief Executive Officer of Employer has established or may hereafter establish in the exercise of good faith business judgment.

2. FINANCIAL ARRANGEMENTS.

2.1 Compensation. As Employee's compensation for services provided hereunder during the Employment Period, Employer shall do the following:

(a) Salary. Employer shall pay Employee an annual base salary in the amount that is reflected in the payroll records of Employer on the Effective Date ("Base Salary"). Employee's Base Salary shall be payable in accordance with the regular payroll practices of Employer.

(b) Incentive Compensation. The Board or the Chief Executive Officer of Employer shall establish an incentive compensation program for Employee for each fiscal year during the Employment Period. Employee shall be entitled to receive, in addition to Employee's Base Salary, the incentive compensation earned by Employee pursuant to each such annual program.

(c) Expenses. Employee shall be reimbursed on a monthly basis for all reasonable business expenses incurred by her in the performance of her duties as the Regional President of Employer's Northern Region, to the extent such expenses are substantiated and are consistent with the general policies of Employer relative to expense reimbursement.

(d) Benefits. In addition to the compensation provided for in the other provisions of this Section 2, Employee shall be entitled to participate in and receive benefits under Employer's 401(k) plan and Employer's medical, life, dental, vision and disability insurance plans (collectively, the "Core Plans") as are uniformly provided to non-probationary full-time employees of Employer during the Employment Period in accordance with the terms and conditions of such plans.

(e) Paid Time Off. Employee shall be entitled to four (4) weeks of paid time off during each full calendar year during the Employment Period in accordance with Employer's normal personnel policies and practices.

(f) Allowances. During the Employment Period, Employer shall continue to provide Employee with the use of the Cadillac automobile that was previously purchased for Employee's use, and shall continue to insure and pay for the maintenance of such automobile. Employer shall also pay Employee an annual allowance of \$9,000 for club dues and fuel. Employer shall have the option to elect to provide Employee with a replacement automobile equivalent in value to the current automobile, or alternatively, to increase the foregoing annual allowance to \$18,000 in lieu of providing Employee with the use of an automobile. An election by Employer to increase Employee's annual allowance in lieu of providing her with the use of an automobile would be intended to provide Employee with additional funds for her use in leasing or purchasing and insuring another automobile.

(g) Disability Insurance. During the Employment Period, Employer may, in its discretion, provide Employee with a disability insurance policy with coverage sufficient to provide Employee with annual disability insurance payments in an amount equal to not less than sixty percent (60%) of Employee's Base Salary for a period at least equal to the then remaining

term of the Employment Period (the "Disability Policy"). If a Disability Policy is so provided, Employee shall be responsible for the payment of all premiums on the Disability Policy and shall cooperate with Employer in all respects as necessary or appropriate to enable Employer to procure the Disability Policy, and Employer shall provide Employee with an annual allowance in an amount sufficient, on an after-tax basis, to equal the annual premiums for the Disability Policy.

(h) Life Insurance. During the Employment Period, Employer may, in its discretion, provide Employee with a term life insurance policy with coverage sufficient to provide a death benefit in an amount not less than three (3) times Employee'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 Employee's failure to cooperate in obtaining the same or Employee is uninsurable. If a Life Insurance Policy is so provided, Employer shall pay all premiums on the Life Insurance Policy and Employee shall pay all income taxes that become due as a result of Employer's payment of such premiums; provided, however, that in such event, Employer shall provide Employee with an annual Life Insurance Policy allowance in an amount calculated as follows: (the amount of the annual premiums paid by Employer for the Life Insurance Policy during that year) divided by $(1 - \text{Employee's income tax rate for that year})$. Employee shall cooperate with Employer in all respects as necessary or appropriate to enable Employer to procure the Life Insurance Policy. Employee shall own and have exclusive authority to designate one or more beneficiaries under the Life Insurance Policy. Employee 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 Employee's employment with Employer, 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 Employee. The Life Insurance Policy shall be in addition to any life insurance benefits that Employer now or hereafter provides uniformly to non-probationary full-time employees of Employer during the Employment Period.

3. TERM AND TERMINATION.

3.1 Term.

(a) Employment Period. The term of this Agreement shall commence as of the Effective Date and shall thereafter continue for a period of thirty-six (36) months. All references herein to the "Employment Period" shall mean, for all purposes of this Agreement, the term of this Agreement as initially established by this Section 3.1(a), and as such term may subsequently be extended pursuant to Section 3.2(b). This Agreement shall automatically terminate upon the expiration of the Employment Period.

(b) Annual Review. The Board shall review this Agreement and the compensation arrangements provided for herein or before March 31, 2005, and on or before March 31st of each succeeding calendar year during the Employment Period (each an "Anniversary Date"). As part of each annual review, the Board shall determine, in its discretion, whether or not to increase Employee's Base Salary, and whether or not to extend the Employment Period so that the remaining term of the Employment Period shall then be thirty-six (36) months. 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 such review was conducted.

3.2 Termination. This Agreement may be terminated prior to the expiration of the Employment Period on the first to occur of any of the following events:

(a) Mutual Agreement. Employee and Employer mutually agree in writing to terminate this Agreement.

(b) Resignation. Employee may terminate this Agreement and her employment with Employer “By Resignation” during the Employment Period, subject to the notification requirements set forth in Section 3.3. A termination “By Resignation” shall mean Employee’s termination of her employment for any reason other than a “Good Reason” as such term is defined in Section 3.2(g).

(c) Disability or Death. In the event Employee becomes disabled, to the extent that she is physically or materially incapacitated for more than six (6) months in the aggregate over a period of twelve (12) months so that Employee is unable to perform her essential duties and functions hereunder, this Agreement and Employee’s employment may be terminated by Employer upon written notice to Employee. This Agreement will automatically terminate upon Employee’s death.

(d) For Cause. Employer may terminate this Agreement and Employee’s employment with Employer “For Cause” at any time during the Employment Period. A termination “For Cause” shall mean Employer’s termination of Employee’s full-time employment hereunder because of Employee’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 this Agreement, a repeated and material failure of Employee to meet reasonable performance standards established in accordance with this Agreement, or a material breach of any provision of this Agreement.

(e) Without Cause. Employer may terminate this Agreement and Employee’s employment with Employer “Without Cause” at any time during the Employment Period, subject to the notification requirements set forth in Section 3.3. A termination “Without Cause” shall mean Employer’s termination of Employee’s employment for any reason other than a termination For Cause or a termination based on Employee’s.

(f) Good Reason. Employee may terminate this Agreement and her employment with Employer for “Good Reason,” subject to the requirements set forth in this Section 3.2(g) and the notification requirements set forth in Section 3.3. A termination for “Good Reason” shall mean Employee’s resignation from Employer’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 Employee’s prior written express consent: (i) a decision by the Board not to elect or re-elect or to appoint or re-appoint Employee as the Regional President of Employer’s Northern Region, or a decision by the Board to remove Employee from any such position; (ii) the failure of the Board to extend the Employment Period during an annual review conducted

pursuant to Section 3.1(b) so that the remaining term of the Employment Period at such time will be thirty-six (36) months; (iii) the Board's relocation of Employee's principal place of employment to a place that is more than fifteen (15) miles from the city limits of Chicago, Illinois; or (iv) a reduction in Employee's Base Salary; (v) a liquidation or dissolution of Employer; and (vi) a material uncured breach of this Agreement by Employer. Employee shall have the right to elect to terminate her employment for Good Reason only by giving the Chief Executive Officer of Employer a Notice of Termination (as defined in Section 3.3 below) within sixty (60) days after the act, omission or event giving rise to said right to elect. Notwithstanding the foregoing, Employee shall not have a right to elect to terminate her employment based on the events set forth in this Section 3.2(g) solely on the basis of the Board's appointment of an Acting Regional President of Employer's Northern Region if Employee becomes disabled, if the Board fails to increase Employee's Base salary during an annual review conducted pursuant to Section 3.1(b), if Employer changes Employee's duties, responsibilities, authorities or the geographic configuration of Employer's Northern Region, or if Employer fully rescinds or cures, within ten (10) days after its receipt of Employee's Notice of Termination, the act, omission or event giving rise to Employee's right to elect to terminate her employment for Good Reason.

3.3 Notice of Termination. Any termination or purported termination by Employer or Employee of this Agreement or Employee's employment 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 Employee'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 Employee'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, in the manner provided in Section 3.2(g) in the case of a Termination for Good Reason, and in all other cases not less than thirty (30) days prior to the effective date of termination. Unless otherwise specified herein, notices to Employer shall be addressed and delivered to the principal headquarters office of Employer, Attention: Chief Executive Officer and General Counsel, with a copy concurrently so delivered to 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 Employee shall be sent to the address set forth below.

3.4 Effects of Termination.

(a) Mutual Agreement, Resignation or For Cause. In the event that Employee's employment is terminated during the Employment Period pursuant to Section 3.2(a), Section 3.2(b) or Section 3.2(d), Employer shall pay Employee the unpaid balance of Employee's Base Salary through the effective date of the termination of Employee's employment ("Earned Salary"), but Employee shall receive no bonus or incentive compensation for the current year (all such amounts shall remain unearned and unvested), and, except for any rights that Employee has under Section 2.1(h) to assume the Life Insurance Policy, Employee shall receive no compensation or other benefits for any period after the effective date of the termination of Employee's employment.

(b) Disability or Death. In the event that Employee's employment is terminated during the Employment Period pursuant to Section 3.2(c), Employer shall (i) pay Employee (or her estate or trust in the event of her death) her Earned Salary (as defined above); (ii) pay Employee (or her estate or trust in the event of her death) an amount equal to the annual average of any cash incentive compensation and bonus that Employee 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 Employee's employment ("Prorated Incentive Compensation"); (iii) make, for the benefit of Employee, the matching 401(k) plan contribution that Employee 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 Employee's employment ("Accrued Plan Contribution"), (iv) subject to the Disability Insurance Adjustment and the Life Insurance Adjustment (each defined below), pay Employee (or her estate or trust in the event of her death) the Base Salary that Employee would have been paid pursuant to Section 2.1(a) from the effective date of termination through the date the Employment Period would have expired if Employee's employment had not been terminated prior to the expiration of the term of this Agreement ("Salary Continuation Payments"); and (v) provide Employee (or upon her death, her surviving spouse, if any) with the same coverage under the Core Plans (or if applicable, a Contingent Insurance Stipend, as defined below) that Employee would have been provided from the effective date of termination through the date the Employment Period would have expired if Employee's employment had not been terminated prior to the expiration of the term of this Agreement, in each case subject to Employee'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 Employer's then-current insurance carrier.

(c) Without Cause or For Good Reason. In the event that Employee's employment is terminated during the Employment Period pursuant to Section 3.2(f) or Section 3.2(g), Employer shall (i) pay Employee her Earned Salary (as defined above); (ii) pay Employee her Prorated Incentive Compensation (as defined above); (iii) make, for the benefit of Employee, the Accrued Plan Contribution (as defined above); (iv) provide Employee (or upon her death, her surviving spouse, if any) with coverage under the Core Plans (or if applicable, a Contingent Insurance Stipend as defined below) for a period of thirty-six (36) months from the effective date of the termination of Employee's employment, in each case subject to Employee'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 Employer's then-current insurance carrier; and (v) pay Employee an amount equal to three (3) times Employee's Average Annual Compensation. The term "Average Annual Compensation" shall mean the average of Employee's annual Compensation based on the most recent three (3) taxable years. 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, and any other taxable income paid by Employer to Employee during such tax year, but excluding any payments or benefits provided to Employee pursuant to any plan or program established or maintained by Employer's parent company or companies.

4. Payment of Any Amounts Due on Termination

4.1 No Other Payments. Except as expressly provided in Section 3, Employer shall have no obligation to provide Employer with any compensation or benefits following a termination of this Agreement or Employee's employment with Employer.

4.2 Installment Payments; Lump Sum Payment Election. Any amounts that become payable to Employee under Section 3 upon the termination of her employment other than Earned Salary shall be paid in equal installments except as provided in this Section 4.2. The installments shall be payable over the period beginning on Employer's first regular payroll date after the effective date of termination, and ending, in the case of a termination pursuant to Section 3.2(c), on Employer's first regular payroll date after the date the Employment Period would have expired if Employee's employment had not been terminated pursuant to Section 3.2(c) prior to the expiration of the term of this Agreement, and ending, in the case of a termination pursuant to Section 3.2(f) or 3.2(g), on first the regular payroll date after the third anniversary of the effective date of termination. At the election of Employer, all amounts payable in installments may be paid in a single lump sum within forty-five (45) days of the effective date of the termination of Employee's employment. For the purpose of calculating the amount of the lump sum payment, all amounts payable to Employee under Section 3, other than Earned Salary, any cash incentive compensation payments, Core Plan contributions and any Contingent Insurance Stipend due Employee, 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 Employer desires to make such an election, it shall be required to do so in a writing delivered to Employee or if applicable, the executor or personal representative of Employee's estate or the trustee of Employee's trust, within forty-five (45) days of the effective date of the termination of Employee's employment.

4.3 Disability Insurance Adjustment. If Employee receives disability benefits under the Disability Policy or any Core Plan or receives federal Social Security disability benefits (collectively, "Disability Payments"), Employer's obligation to pay Employee her Base Salary under this Agreement shall be reduced, as of the date the Disability Payments are first received by Employee, to an amount equal to the difference between Employee's Base Salary and the Disability Payments that Employee received during each applicable payroll period. The Employee shall make reasonable good faith efforts to notify Employer of the receipt of Disability Payments.

4.4 Life Insurance Adjustment. If this Agreement and Employee's employment terminate pursuant to Section 3.2(c) by reason of Employee's death, Employer shall have no obligation to pay Employee the Salary Continuation Payments if it procures and causes Employee to be insured under the Life Insurance Policy in the amount specified in, and otherwise in accordance with, Section 2.1(h), and the death benefits are paid to the beneficiaries under the Life Insurance Policy in accordance with Section 2.1(h).

4.5 Contingent Insurance Stipend. In the event that any continued medical insurance coverage that Employer is obligated to provide pursuant to Section 3 of this Agreement is not then available, Employer shall pay Employee (or upon her death, her spouse), during the applicable period, a stipend in an amount sufficient, on an after-tax basis, to equal the amount that Employer would have contributed for Employee's benefit during the applicable period under Employer's Section 125 Cafeteria Plan if Employee had remained in Employer's employ during the applicable period. The stipend shall be payable in equal installments during the applicable period on dates coinciding with Employer's regular payroll dates.

4.5 General Release. In consideration of Employer's agreements with respect to the monetary payments and benefits provided for in Section 3 of this Agreement (which payments exceed the nature and scope of that to which Employee would have been legally entitled to receive absent this Agreement), and as a condition precedent to Employee's receipt of such payments, Employee (or in the event of Employee's death, Employee'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 Employer a general release in favor of Employer and its officers, directors, employees and affiliates, releasing all claims, demands, causes of actions and liabilities arising out of this Agreement, Employee'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 Employee 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 Employer under this Agreement.

5. REGULATORY PROVISIONS.

In the event any provisions of this Agreement are in conflict with the provisions of this Section 5, this Section 5 shall prevail.

5.1 Employee's Rights Not Prejudiced. The Employer may terminate Employee's employment at any time, but any termination by Employer, other than For Cause, shall not prejudice any right of Employee to compensation or other benefits under this Agreement. Employee shall not have the right to receive compensation or other benefits for any period after a termination For Cause.

5.2 Suspension; Temporary Removal. If Employee is suspended and/or temporarily prohibited from participating in the conduct of the affairs of Employer or an Affiliate by a notice served under Section 8(e)(3) or 8(g)(1) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1818(e)(3) or (g)(1), Employer's obligations under this Agreement shall be suspended as of the date of service, unless stayed by appropriate proceedings. If the charges in the notice are dismissed, Employer may in its discretion: (i) pay Employee all or part of the compensation withheld while the contract obligations were suspended; and (ii) reinstate (in whole or in part) any of the obligations which were suspended.

5.3 Removal; Prohibition. If Employee is removed and/or permanently prohibited from participating in the conduct of the affairs of Employer or an Affiliate by an order issued under Section 8(e)(4) or 8(g)(1) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1818(e)(4) or (g)(1), all obligations of Employer under this Agreement shall terminate as of the effective date of the order, but vested rights of the contracting parties shall not be affected.

5.4 Employer in Default. If Employer is in default as defined in Section 3(x)(1) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1813(x)(1), all obligations of Employer under this Agreement shall terminate as of the date of default, but this paragraph shall not affect any vested rights of the contracting parties.

5.5 Regulatory Termination. All obligations under this Agreement shall be terminated, except to the extent determined that continuation of this Agreement is necessary for the continued operation of the institution: (i) by the Director of the OTS (or her designee) at the time the FDIC enters into an agreement to provide assistance to or on behalf of Employer under the authority contained in Section 13(c) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1823(c); or (ii) by the Director of the OTS (or her designee) at the time the Director (or her designee) approves a supervisory merger to resolve problems related to the operations of Employer or when Employer is determined by the Director to be in an unsafe or unsound condition. Any rights of the parties that have already vested, however, shall not be affected by such action.

5.6 Certain Payments. Any payments made to Employee pursuant to this Agreement, or otherwise, are subject to and conditioned upon compliance with 12 U.S.C. Section 1828(k) and 12 C.F.R. Section 545.121 and any rules and regulations promulgated thereunder.

5.7 OTS Limitation. Notwithstanding anything to the contrary in this Agreement, in no case shall the total Departure Compensation (defined below) paid to Employee upon the termination of her employment with Employer, regardless of the reason, exceed three (3) times Employee's Average Annual Regulatory Compensation (defined below). The term "Departure Compensation" shall mean payments and other things of value that Employer makes or provides to Employee upon the termination of Employee's employment with Employer, but shall not mean or include any Prorated Incentive Compensation (defined above) that the Board determines was earned by Employee prior to the Effective Date of termination, any Earned Salary (defined above) or any Accrued Plan Contributions (defined above). The term "Average Annual Regulatory Compensation" shall mean the average of Employee's annual Regulatory Compensation (defined below) based on the most recent three (3) tax years, or if Employee was employed by Employer for less than three (3) full tax years, based on such lesser number of tax years or portions thereof as Employee was employed by Employer. The term "Regulatory Compensation" shall mean, for the purposes of the foregoing definition as it relates to any tax year, any payment of money or provision of any other thing of value by Employer to Employee in consideration of Employee's employment, including, without limitation, Base Salary, commissions, bonuses, pension and profit-sharing plans, severance payments, retirement, director or committee fees, fringe benefits, payment of expense items without accountability or business purpose or that do not meet Internal Revenue Service requirements for deductibility by the association. In the event that the total Departure Compensation that becomes due to Employee under this Agreement exceeds three (3) times Employee's Average Annual Regulatory Compensation, the aggregate payments or other things of value constituting Departure Compensation shall be reduced to a lesser amount, the value of which shall be one dollar (\$1.00) less than three (3) times Employee's Average Annual Regulatory Compensation. In such a case, the reduction shall be allocated among the components of such payments and other things of value in the manner designated by Employee.

5.8 Section 280G. Notwithstanding any other provisions of this Agreement, in no event shall the aggregate payments or benefits to be made or afforded to Employee under this Agreement or otherwise constitute or contribute to Employee's receipt of an "excess parachute payment" under Section 280G of the Internal Revenue Code of 1986, as amended, or any successor thereto. In order to avoid such a result, such aggregate payments or benefits will be reduced, if necessary, to a lesser amount, the value of which is one dollar (\$1.00) less than an amount equal to three (3) times Employee's "base amount" as determined in accordance with said Section 280G. The reduction shall be allocated among the components of such payments and benefits in the manner designated by Employee.

5.9 Capital Limitations. Notwithstanding any other provisions of this Agreement: (i) in the event Employer is not in compliance with its minimum capital requirements as established by applicable federal laws and regulations at the time any payment becomes due to Employee pursuant to Section 3, Employer shall be entitled to defer such payment until such time as Employer is in compliance with such minimum capital requirements; and (ii) if Employer is in compliance with such minimum capital requirements at the time any such payment becomes due, but the making of any such payment would cause Employer's capital to fall below such minimum capital requirements, Employer shall be entitled to reduce the amount of such payment as necessary to enable Employer to remain in compliance with such minimum capital requirements, subject to Employer's obligation to pay the amount of any such reductions (or any portion thereof) as soon as such amount can be paid without causing Employer's capital to fall below such minimum capital requirements.

6. INDEMNIFICATION

6.1 Indemnification, Advancement and Insurance. The Employer shall, subject to the conditions and findings set forth in 12 C.F.R. Section 545.121: (i) provide Employee (including her heirs, executors and administrators), at Employer's expense, with insurance under a directors' and officers' liability insurance policy that reasonably and adequately insures Employee for her acts and omissions as a director, officer or employee of Employer and its subsidiaries; (ii) indemnify Employee (and her heirs, executors and administrators) against all judgments entered and settlements made in any pending or threatened action and any appeal or other proceeding for review of such action, regardless of whether such action is a judicial or administrative proceeding, if such action was brought or threatened because Employee is or was a director, officer or employee of Employer or any of its subsidiaries; (iii) indemnify Employee (and her heirs, executors and administrators) against all and reasonable costs and expenses, including reasonable attorney's fees, actually paid or incurred by Employee in defending or settling any such action, or in enforcing Employee's rights to indemnification under this Section 6.1; and (iv) to the extent that Employer is not then authorized by applicable law to provide such indemnification, advance Employee her reasonable costs and expenses, including reasonable attorney's fees, arising from the settlement or defense of any such action, subject to Employer's receipt of a written undertaking from Employee to repay all costs and expenses so advanced if Employee is later determined not to be entitled to indemnification. In the event that 12 C.F.R. Section 545.121 or the provisions of Employer's bylaws or charter that relate to indemnification and the advancement of expenses are hereafter amended, such amendment shall apply to Employer's obligations under this Section 6.1, but only to the extent that it increases Employer's authority to indemnify or advance expenses to Employee beyond the authority that was provided,

or reduces any limitations on such authority that were imposed, by 12 C.F.R. Section 545.121 and the provisions of Employer's bylaws or charter on the Effective Date. Notwithstanding the foregoing and anything to the contrary in this Agreement, Employer shall have no obligations under this Section 6.1 or under any provision of its charter or bylaws to provide indemnification or advance expenses to Employee in connection with any pending or threatened action, and any appeal or other proceeding for review of such action, regardless of whether such action is a judicial or administrative proceeding, if such action was brought or threatened because Employee is or was a director, officer or employee of a person or legal entity that is not or was not an affiliate of Employer, or because of any duty or alleged duty arising out of a past or present employment, contractual or other legal relationship between Employee and a legal entity that is or was not an Affiliate of Employer. Any payments made to Employee pursuant to this Section 6.1 shall be subject to and conditioned upon compliance with the applicable provisions of 12 U.S.C. 1828(k), as amended, and 12 C.F.R. Section 545.121, as amended, and any rules or regulations promulgated in connection with therewith.

6.2 Procedures. Any request for indemnity or the advancement of expenses shall be made in a written notice delivered by Employee to the General Counsel of Employer. The notice shall describe with reasonable particularity the claim that has been made or threatened against Employee and the reasons why Employee believes that it is lawful and appropriate for Employer to indemnify or advance expenses to him in connection with such claim. Following the delivery of such written notice, the Board shall, as soon as practicable and by no later than its next regularly scheduled Board meeting, adopt a resolution by the affirmative vote of not less than a majority of its members (i) determining in good faith and on the basis of reasonable evidence or other information whether or not Employee, in connection with such claim, was acting in good faith within the scope of her employment or authority as he perceived it under the circumstances and for a purpose he could reasonably have believed under the circumstances was in the best interests of Employer, and (ii) determining whether or not Employer will approve or deny Employee's request subject to any regulatory notification requirements; provided, however, that if the Board lacks sufficient evidence or other information at the time of such meeting to make the determination set forth in Subsection (i) of this Section 6.2, the Board shall adopt a resolution at such meeting by the affirmative vote of not less than a majority of its members determining whether or not Employer will advance Employee the reasonable costs of defending or settling such claim, subject to such undertakings by Employee as may be required by applicable law. The Board shall provide Employee with a copy of each such resolution promptly after its adoption.

7. NON-SOLICITATION/NON-COMPETITION

7.1 Non-Solicitation. Employee shall not, during the term of Employee's employment and for a period of eighteen (18) months after the effective date of the termination of Employee's employment (the "Non-Solicitation Period"), directly or indirectly, either as an individual for Employee's own account, or as an employee, agent, independent contractor, officer, director or member of any association, corporation, partnership, limited liability company, firm or any other business entity of any type (each an "Entity"): (a) call upon, solicit, divert or take away any person or entity that was or is a customer of Success National Bank, Employer or any subsidiary or other affiliate of either at any time between January 1, 2001 and the last day of the Non-Solicitation Period; (b) solicit or induce any such customer to terminate any loan, deposit

account, financial advisory relationship, or any other business or contractual relationship with Employer or any subsidiary or other affiliate of either; (c) hire, assist any Entity in hiring, or cause any Entity to hire any person who was or is an employee of Success National Bank, Employer or any subsidiary or other affiliate of either between January 1, 2001 and the last day of the Non-Solicitation Period; (d) solicit or induce any such employee to terminate her or her employment with Employer or any subsidiary or other affiliate of either; or (e) attempt to do, or conspire with or aid and abet others in doing or attempting to do, any of the foregoing.

7.2 Non-Competition. Employee shall not, during the term of Employee's employment and during the Non-Competition Period (defined below), directly or indirectly, within ten (10) miles of Employer's existing banking facility located at 3443 West Touhy, Lincolnwood, Illinois: (a) engage in any business or activity that competes with the business of Employer; (b) enter into the employ of any person engaged in any business or activity that competes with the business of Employer or render any services to any person for use in competing with the business of Employer; or (c) have an interest in any person engaged in any business or activity that competes with the business of Employer, directly or indirectly, in any capacity, including, without limitation, as an individual, partner, shareholder, officer, director, principal, agent, employee, trustee, member, manager, creditor or consultant or any other relationship or capacity (other than Employee's ownership of shares of stock representing less than two percent (2%) of the issued and outstanding shares of stock of an Entity if such shares are listed on a national stock exchange). The term "Non-Competition Period" shall mean: (i) the greater of (A) six (6) months after the effective date of the termination of Employee's employment, and (B) any period of time during which Employee is entitled to receive payments or benefits pursuant to Section 3 of this Agreement on account of a termination Without Cause or for Good Reason or based on Employee's disability, which period shall be determined without regard to any election made by Employer to make any payments in a single lump sum; and (ii) six (6) months from the effective date of the termination of Employee's employment if such employment is terminated For Cause, By Resignation or With Cause.

7.3 Remedies Upon Breach. Employee acknowledges and agrees that (a) Employer shall be irreparably injured in the event of a breach by Employee of any of Employer's obligations under this Section 7.3; (b) monetary damages shall not be an adequate remedy for any such breach; (c) Employer shall be entitled to injunctive relief, in addition to any other remedy which it may have, in the event of any such breach; and (d) the existence of any claims which Employee may have against Employer, whether under this Agreement or otherwise, shall not be a defense to the enforcement by Employer of any of its rights under this Section 7.3.

7.4 Enforcement. The covenants and obligations of Employee contained in this Section 7.4 shall be in addition to, and not in lieu of, any covenants and obligations which Employee may have with respect to the subject matter hereof, whether by contract, as a matter of law or otherwise, and such covenants and obligations, and their enforceability, shall survive the termination of this Agreement.

7.5 Survival. The provisions of this Section 7 shall survive: (a) with respect to Section 7.1, until the expiration of the Non-Solicitation Period, and (b) with respect to Section 7.2, until the expiration of the Non-Competition Period.

8. MISCELLANEOUS

8.1 Assignment. This Agreement and all rights and benefits hereunder are personal to Employee and to Employer. Accordingly, no rights, interests or benefits hereunder shall be sold, transferred or assigned without the prior written consent of the other party; provided that the legal effect of a merger between Employer and another entity shall not be considered an assignment of this Agreement

8.2 Employment Status of Employee. It is expressly acknowledged that Employee, in the performance of her services hereunder, is an employee of Employer. Accordingly, Employer shall deduct from the compensation paid to Employee any sums for income tax, social security or any other withholding taxes as are required by law.

8.3 Modification. 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 Bank, or to constitute an unsafe and unsound banking practice, Employee and Employer 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.

8.4 Entire Agreement. This Agreement contains the entire understanding between the parties hereto with respect to Employee's employment with Employer, and supersedes any prior offer of employment, employment letter or other agreements or understandings between Employer and Employee, whether oral or written, with respect thereto, except that this Agreement shall not affect or operate to reduce any benefit or compensation inuring to Employee of a kind provided for in any Core Plan or any separate plan or program established for the benefit of Employer employees generally, or any separate plan or program established after the date of this Agreement for the specific benefit of Employee.

8.5 Notices. Notice required herein shall be effective when delivered in person or sent by United States Certified Mail, postage prepaid and addressed to BankFinancial, F.S.B., 15W060 North Frontage Road, Burr Ridge, Illinois, 60527, and of Employee to be 1278 N. Wellington, Palatine, Illinois. :

8.6 Governing Law. This Agreement shall be interpreted, construed and enforced in accordance with the internal laws of Illinois.

8.7 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 7 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.

8.8 Waiver of Breach. The waiver by either party of a breach or violation of any provision hereof shall not operate as a waiver of any subsequent breach of the same or any other provision hereof.

8.9 Survival. Any obligations of Employer or Employee under this Agreement that are continuing or contemplate future performance shall survive the termination of this Agreement.

8.10 Payments to Estate or Trust. Any amounts due Employee hereunder shall be paid to Employee's estate in the event of Employee's death except as expressly provided herein; provided that, notwithstanding the foregoing, Employee may, in her discretion, provide for the payment of some or all of such amounts to a trust established by Employee, and may provide for the payment of amounts payable under the Life Insurance Policy to the beneficiaries designated by Employee. In the event that Employee desires that such amounts be paid to a trust, Employee shall notify Employer of such intention in writing and comply with any requirements of applicable law.

8.11 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.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date referenced above.

EMPLOYER: BANKFINANCIAL, F.S.B.

EMPLOYEE:

/s/ F. Morgan Gasior

/s/ Christa N. Calabrese

By: Its duly authorized officer

Name: Christa N. Calabrese

LOAN AGREEMENT

by and among

BANKFINANCIAL CORPORATION

FINANCIAL FEDERAL MHC, INC.

and

AMERICAN NATIONAL BANK AND TRUST COMPANY OF CHICAGO

DATED AS OF: November 16, 2001

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REVOLVING NOTE

SIGNATURE AUTHORIZATION CERTIFICATE

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LOAN AGREEMENT

This LOAN AGREEMENT (this "Agreement"), dated as of November 16, 2001, is entered into by and among BANKFINANCIAL CORPORATION, a federal corporation and a subsidiary savings and loan holding company (the "Borrower"), FINANCIAL FEDERAL MHC, INC., a federally chartered mutual holding company and the parent of Borrower ("Parent"), and AMERICAN NATIONAL BANK AND TRUST COMPANY OF CHICAGO, a national banking association (the "Lender").

RECITALS:

- A. The Borrower has entered into a Merger Agreement (as hereinafter defined) by and among Borrower, Parent, BFIN Acquisition Corporation, a Delaware corporation and a wholly owned subsidiary of Borrower, and Success Bancshares, Inc., a Delaware corporation ("Bancorp").
- B. The Merger Agreement provides for the acquisition of Bancorp, and its wholly owned subsidiary, Success National Bank, through a series of transactions.
- C. Borrower desires to borrow from Lender an aggregate principal amount of up to Twenty Million Dollars (\$20,000,000) consisting of a term loan in the principal amount of Fifteen Million Dollars (\$15,000,000) and a line of credit up to a maximum principal amount of Five Million Dollars (\$5,000,000).
- D. Borrower owns 100% of the issued and outstanding capital stock of BankFinancial, F.S.B., an FDIC-insured federal savings association, consisting of 1000 shares of common stock (the "Bank Shares").
- E. Borrower has agreed to pledge its interest in the Bank Shares to Lender as collateral for the loans, and Parent has agreed to guaranty Borrower's payment of the loans to Lender.
- F. The Lender is willing to lend to the Borrower up to Twenty Million Dollars (\$20,000,000) in accordance with the terms, subject to the conditions and in reliance on the representations, warranties and covenants set forth herein and in the other agreements, documents and instruments entered into or delivered in connection with or relating to the loans contemplated in this Agreement.

NOW, THEREFORE, in consideration of the mutual representations, warranties, covenants and agreements hereinafter set forth, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. DEFINITIONS.

1.1 General Terms. When used herein, the following terms shall have the following meanings:

“Acquisition” shall mean the series of transactions contemplated in the Merger Agreement including and resulting in the Merger, the dissolution and liquidation of Bancorp into Borrower, the Bank Merger and the actions contemplated in Section 6.1(c) of the Merger Agreement with respect to the Trust Preferred Securities.

“Advance” shall mean an advance under this Agreement made by Lender to Borrower, representing a portion of the Revolving Loan or the Term Loan which shall be either a Prime Rate Advance or a LIBOR Rate Advance .

“Affiliate” shall mean any Person (a) that directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with Borrower, (b) that directly or beneficially owns or holds 5% or more of any class of the voting stock of Borrower, or (c) 5% or more of the voting stock (or in the case of a Person which is not a corporation, 5% or more of the equity interest) of which is owned directly or beneficially or held by Borrower.

“Authorized Officer” shall mean, at any time, an individual whose signature has been certified to Lender on behalf of Borrower pursuant to a Signature Authorization Certificate actually received by Lender at such time and whose authority has not been revoked prior to such time in the manner prescribed in such Signature Authorization Certificate.

“Average Assets” shall have the meaning given to it in subsection 5.17.

“Average Total Assets” shall have the meaning given to it in subsection 5.13.

“Bancorp” shall mean Success Bancshares, Inc., a Delaware corporation and the parent bank holding company for Bancorp Bank.

“Bancorp Bank” shall mean Success National Bank, a national bank that is wholly owned by Bancorp with its main office located at One Marriott Drive, Lincolnshire, Illinois 60069.

“Bank” shall mean BankFinancial, F. S. B., a federally chartered stock savings bank that is wholly owned by Borrower, with its main office located at 21110 South Western Avenue, Olympia Fields, Illinois 60461.

“Bank Merger” shall mean the merger of Bancorp Bank with and into the Bank as described in Section 7.9 of the Merger Agreement, with the Bank being the surviving entity in such merger.

“Bank Shares” shall mean all of the issued and outstanding shares of common stock of the Bank.

“Business Day” shall mean a day, other than a Saturday or Sunday, on which banks in Chicago, Illinois are open for the transaction of banking business and in the case of the

borrowing, continuation, conversion, payment or interest rate selection of a LIBOR Rate Advance, on which dealing in Dollars is carried on between banks in the London interbank market.

“Collateral” shall have the meaning assigned to such term in the Pledge Agreement.

“Comptroller” shall mean the Office of the Comptroller of the Currency.

“Current Borrower Subsidiaries” shall mean the Bank, the MergerSub (until such time as the Acquisition is completed), Financial Assurance Services, Inc. (“FAS”), and SXNB Corporation, formerly known as Financial Properties, Inc. (“SXNB”).

“Default” shall mean the occurrence or existence of any one or more of the events described in subsection 7.1 hereof.

“Dollars” and the sign “\$” shall mean freely transferable lawful money of the United States.

“ERISA” shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, and any successor statute.

“ERISA Affiliate” shall mean, with respect to any Person, any (i) corporation or other business entity which is a member of the same controlled group of corporations (within the meaning of Section 414(b) of the Internal Revenue Code) as such Person; (ii) partnership, trade or business under common control (within the meaning of Section 414(c) of the Internal Revenue Code) with such Person; and (iii) solely for purposes of liability under Section 412(c) (11) of the Internal Revenue Code, for the lien created under Section 412(n) of the Internal Revenue Code or for a tax imposed for failure to meet minimum funding standards under Section 4971 of the Internal Revenue Code, member of the same affiliated service group (within the meaning of Section 414(m) of the Internal Revenue Code) as such Person, any corporation described in clause (i) above or any partnership, trade or business described in clause (ii) above.

“Event of Default” shall mean an event which through the passage of time (e.g., beyond any applicable cure period described in subsection 7.1 hereof) or the giving of notice or both would mature into a Default.

“Financing Agreements” shall mean, collectively, all agreements, instruments and documents, including, without limitation, this Agreement, the Guaranty, the Pledge Agreement, and any loan agreements, notes, guarantees, intercreditor agreements, reimbursement agreements, and all other written matter whether heretofore, now or hereafter executed by or on behalf of Borrower, Parent or any other guarantor of any part of the Liabilities and delivered to Lender, together with all agreements, documents and instruments referred to therein or contemplated thereby.

“Fiscal Year” shall mean the fiscal year of Borrower which shall begin on January 1 of each year and end on December 31.

“FDIC” shall mean the Federal Deposit Insurance Corporation.

“FRB” shall mean the Board of Governors of the Federal Reserve System.

“GAAP” shall mean generally accepted accounting principles as in effect on the date hereof and as applied in preparation of the Financial Statements.

“Governmental Authority” shall mean any nation or government, any state or other political subdivision thereof, any entity exercising executive, legislative, judicial or regulatory or administrative functions of or pertaining to government, including without limitation the FRB, the Comptroller, the FDIC, or the OTS.

“Guaranty” shall mean that certain Guaranty dated as of November 16, 2001 from Parent to Lender, substantially in the form of Exhibit D hereto, as the same may be modified or amended from time to time.

“HOLA” shall mean the Home Owners’ Loan Act, as amended.

“Interest Period” shall mean with respect to any LIBOR Rate Advance, a period of one month or three months, as selected by Borrower in accordance with this Agreement, commencing on a Business Day. Each such Interest Period shall commence on the date a LIBOR Rate Advance is made or continued as a LIBOR Rate Advance, as the case may be, or the date on which an outstanding Advance is converted into a LIBOR Rate Advance, as applicable, and end on (but exclude) the date which numerically corresponds to such date three months thereafter, provided, however, that if there is no such numerically corresponding day in such third succeeding month, such Interest Period shall end on the last Business Day of such third succeeding month. If any Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the next succeeding Business Day, provided, however, that if said next succeeding Business Day falls in a new calendar month, such Interest Period shall end on the immediately preceding Business Day.

“Internal Revenue Code” shall mean the Internal Revenue Code of 1986, as amended from time to time, and any successor statute.

“Lender” shall have the meaning given that term in the preamble hereto and shall include Lender’s successors and permitted assigns.

“Leverage Ratio” shall have the meaning given to it in subsection 5.13.

“Liabilities” shall mean all of Borrower’s liabilities, obligations and indebtedness to Lender of any and every kind and nature, whether heretofore, now or hereafter owing, arising, due or payable and howsoever evidenced, created, incurred, acquired or owing, whether primary, secondary, direct, contingent, fixed or otherwise (including obligations of performance), arising or existing under this Agreement and the other Financing Agreements.

“LIBOR Base Rate” shall mean, with respect to a LIBOR Advance for the relevant Interest Period, the offered rate for the period equal to or next greater than the Interest Period for U.S. Dollar deposits of not less than \$1,000,000.00 as of 11:00 a.m. (City of London, England time) two (2) Business Days prior to the first day of the Interest Period as shown on the display designated as “British Bankers Association Interest Settlement Rates” on Reuters Screen FRDB,

or such other screen as may replace such screen on Reuters for the purpose of displaying such rate. In the event that such rate is not available on Reuters, then such offered rate shall be otherwise independently determined by Lender in its reasonable judgment from an alternate, substantially similar independent source available to Lender or shall be calculated by Lender by a substantially similar methodology as that theretofore used to determine such offered rate.

“LIBOR Rate Advance” shall mean an Advance bearing interest calculated by reference to the LIBOR Rate.

“LIBOR Rate” shall mean, with respect to a LIBOR Advance for the relevant Interest Period, the quotient of (a) the LIBOR Base Rate applicable to such Interest Period, divided by (b) one *minus* the Reserve Requirement (expressed as a decimal) applicable to such Interest Period.

“Lien(s)” shall mean any lien, claim, charge, pledge, security interest, deed of trust, mortgage or other encumbrance of any kind or other arrangement having the practical effect of the foregoing or other preferential arrangement of any other kind and shall include the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement.

“Material Adverse Effect” shall mean an effect that is or could reasonably be expected to be material and adverse to the condition (financial or otherwise), assets, or results of operations of Parent, Borrower and the Subsidiaries, taken as a whole, or to the Bank, individually.

“Material Subsidiaries” shall mean the Bank and MergerSub (until such time as the Acquisition is completed), and shall also include Financial Assurance Services, Inc. (“FAS”), SXNB Corporation, formerly known as Financial Properties, Inc. (“SXNB”), and any other subsidiary of Borrower now or hereafter existing, but only if the total equity capital of FAS, SXNB and such other subsidiaries exceeds in the aggregate \$2,500,000.

“Merger” shall mean the merger of MergerSub with and into Bancorp pursuant to Article II of the Merger Agreement, which provides, among other things that Bancorp will be the surviving corporation.

“MergerSub” shall mean BFIN Acquisition Corporation, a Delaware corporation that is wholly owned by Borrower and was organized by Borrower solely for the purpose of facilitating the Merger.

“Merger Agreement” shall mean the Agreement and Plan of Reorganization dated as of May 21, 2001 by and among Borrower, Parent, MergerSub and Bancorp.

“Multiemployer Plan” shall mean, with respect to any Person, an employee benefit plan defined in Section 4001(a)(3) of ERISA which is, or within the immediately preceding six (6) years was, contributed to by such Person or an ERISA Affiliate of such Person.

“Net Income”, with respect to the Bank, shall have the meaning given to it in subsection 5.16.

“Non-Performing Assets” shall have the meaning given to it in subsection 5.14.

“Non-Performing Loans” shall have the meaning given to it in subsection 5.15.

“OTS” shall mean the Office of Thrift Supervision.

“Pension Benefit Guaranty Corporation” shall mean the Pension Benefit Guaranty Corporation and any Person succeeding to the functions thereof.

“Person” shall mean any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, limited liability company, corporation, institution, entity, party or government (whether national, federal, state, provincial, county, city, municipal or otherwise, including, without limitation, any instrumentality, division, agency, body or department thereof).

“Plan” shall mean, with respect to any Person, any employee benefit plan defined in Section 3(3) of ERISA in respect of which such Person or any ERISA Affiliate of such Person is, or at any time within the immediately preceding six years was, an “employer” as defined in Section 3(5) of ERISA.

“Pledge Agreement” shall mean that certain Pledge Agreement dated as of November 16, 2001 between Borrower and Lender, substantially in the form of Exhibit C hereto, as the same may be modified or amended from time to time.

“Prime Rate” shall mean a rate per annum equal to the corporate base rate or prime rate of interest (which is not necessarily the lowest rate charged to its customers) announced by Lender or by its parent, Bank One Corporation, from time to time, changing when and as said corporate base rate or prime rate changes. Any change in the Prime Rate shall be effective as of the effective date stated in the announcement by Lender of such change.

“Prime Rate Advance” shall mean an Advance bearing interest calculated by reference to the Prime Rate.

“Regulation D” shall mean Regulation D of the FRB as from time to time in effect and any successor thereto or other regulation or official interpretation of the FRB relating to reserve requirements applicable to member banks of the Federal Reserve System.

“Regulatory Approvals” shall mean the approval, non-objection or waiver of the OTS, FRB, the U. S. Department of Justice, and any other Governmental Authority having jurisdiction over any aspect of the Acquisition.

“Reserve Requirement” shall mean, with respect to an Interest Period, the maximum aggregate reserve requirement (including all basic, supplemental, marginal and other reserves) which is imposed under Regulation D on Eurocurrency liabilities.

“Risk-Weighted Assets” shall have the meaning given to it in subsection 5.13.

“SAIF” shall mean the Savings Association Insurance Fund administered by the FDIC.

“Signature Authorization Certificate” shall mean a certificate substantially in the form attached hereto as Exhibit E now or hereafter executed on behalf of Borrower and delivered to Lender.

“Subsidiary” shall mean any corporation, association, partnership, joint venture or other entity of which more than fifty percent (50%) of the outstanding capital stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether at the time stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency), or other equity interests in case of Persons other than corporations, is at the time, directly or indirectly, owned or controlled by Parent.

“Tangible Equity Capital” shall have the meaning given to it in subsection 5.11.

“Termination Date” shall have the meaning given in subsection 1.2.

“Tier 1 Capital” shall have the meaning given to it in subsection 5.13.

“Tier 2 Capital” shall have the meaning given to it in subsection 5.13.

“Tier 1 Capital Ratio” shall have the meaning given to it in subsection 5.13.

“Total Assets” shall have the meaning given to it in subsection 5.12.

“Total Risk Based Capital Ratio” shall have the meaning given to it in subsection 5.13.

“Trust Agreement” shall mean that certain Amended and Restated Trust Agreement among Bancorp, Bankers Trust Company, as property trustee, and Bankers Trust (Delaware), as Delaware trustee, dated as of May 19, 1998, with respect to Success Capital Trust I.

“Trust Preferred Securities” shall mean the preferred securities issued pursuant to the Trust Agreement.

1.2 “Termination Date” shall mean the date which is eighteen months after the date of this Agreement or such earlier date on which the Revolving Credit Commitment shall be terminated or reduced to zero and the Term Loan shall be paid in full in accordance with the terms of this Agreement.

1.3 Accounting Terms. Any accounting terms used in this Agreement which are not specifically defined herein shall have the meanings customarily given them in accordance with GAAP and as used in reports filed with the OTS, FRB, the Comptroller and the FDIC.

1.4 Other Definitional Provisions. Whenever the context so requires, the neuter gender includes the masculine and feminine, the singular number includes the plural, and vice versa. The words “hereof,” “herein” and “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and references to any Article, Section, subsection, Annex, Schedule, Exhibit and like references are references to this Agreement unless otherwise specified. References in this Agreement to any Person shall include such Person’s successors and permitted assigns.

2. CREDIT.

2.1 Line of Credit

(A) Line of Credit Commitment. Subject to the provisions of Section 3 below, and subject to the other provisions and conditions of this Agreement, the Lender shall advance to the Borrower before the Termination Date on a revolving credit basis (such advances being herein referred to, collectively, as the "Revolving Loan"), up to an aggregate principal amount not to exceed \$5,000,000 (the "Revolving Credit Commitment"). Each advance to the Borrower under this subsection 2.1(A) shall be in integral multiples of \$100,000, subject to subsection 2.8 regarding LIBOR Rate Advances. The Revolving Loan made by the Lender to the Borrower under this subsection 2.1(A) shall be evidenced, in part, by a promissory note of even date herewith in the form attached hereto as Exhibit A (the "Revolving Note") with the blanks appropriately filled. The Liabilities evidenced by the Revolving Note shall become immediately due and payable as provided in subsection 7.1 hereof, and, without notice or demand, upon the occurrence of the Termination Date.

(B) Repayments and Prepayments.

(i) The aggregate outstanding principal balance of the Revolving Loan shall not at any time exceed the Revolving Credit Commitment. Borrower shall, if at any time any such excess shall arise, promptly pay to Lender such amount for application to the Liabilities as may be necessary to eliminate the excess.

(ii) Borrower may prepay all or any part of the Revolving Loan at any time upon at least three (3) Business Days' prior irrevocable written notice to Lender of the amount of the principal prepayment, the application as between any LIBOR Rate Advance and Prime Rate Advance and the Business Day for prepayment; provided, further, however, that no prepayment or payment of any LIBOR Rate Advance may be made on any day other than the last day of the Interest Period with respect thereto or if an Event of Default or Default has occurred and is continuing or would occur as a result of such prepayment or payment.

(iii) Borrower will pay to Lender in immediately available funds, at its office at the address specified in subsection 8.12, or such other address as Lender shall specify in writing, all amounts payable to it under the terms of the Revolving Note and all other Liabilities, without any presentation of such Revolving Note. All Liabilities evidenced by the Revolving Note, including the unpaid principal balance of the Revolving Loan, shall become immediately due and payable on the Termination Date.

(iv) Lender may, if it so determines, make notation of each payment of principal on a schedule to the Revolving Note, and it will promptly make such notation if Borrower shall so request. The failure to record any such amount on such schedule, however, shall not limit or otherwise affect the obligations of Borrower hereunder or under the Revolving Note. Lender may also, if it so determines, make notation on the face of the Revolving Note or elsewhere of any modification, amendment, alteration, guaranty or assumption of the Revolving Note.

(v) If any payment to be made by Borrower hereunder shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day (unless said next succeeding Business Day falls in a new calendar month, in which case such Interest Period shall end on the immediately preceding Business Day), and such extension of time shall be included in computing any interest in respect of such payment.

(C) Commitment Fee. Borrower shall pay to Lender a commitment fee in the amount of one-quarter of one percent (0.25%) per annum on the average daily unused portion of the Revolving Credit Commitment, commencing on February 15, 2002. Such fee shall be payable quarterly in arrears not later than the last day of each March, June, September and December, for the three month period then ending, with the first such payment to occur on March 31, 2002, and on termination of this Agreement.

2.2 Term Loan Facility.

(A) Term Loan. Subject to the provisions of Section 3 below, Lender agrees, immediately following the execution of this Agreement, to extend to Borrower a term loan in the principal amount of \$15,000,000 (the "Term Loan"). The Term Loan shall be evidenced, in part, by and shall be repayable in accordance with the terms of a note (the "Term Note") in the form attached hereto as Exhibit B with the blanks appropriately filled.

(B) Mandatory Payments and Prepayments.

(i) Borrower shall pay the principal portion of the Term Loan on the Termination Date. Except as otherwise provided in subsection 2.4 with respect to LIBOR Rate Advances, Borrower shall pay interest on the outstanding principal amount of the Term Loan in quarterly installments, in arrears, on the last day of each March, June, September and December, for the three month period then ending, with the first such payment to occur on March 31, 2002. All Liabilities evidenced by the Term Note, including the unpaid principal balance of the Term Loan, shall become immediately due and payable on the Termination Date.

(ii) Borrower may prepay all or any part of the Term Loan at any time upon at least three (3) Business Days' prior irrevocable written notice to Lender of the amount of the principal prepayment, the application as between any LIBOR Rate Advance and Prime Rate Advance and the Business Day for prepayment; provided, however, that no payment of any LIBOR Rate Advance may be made on any day other than the last day of the Interest Period with respect thereto or if an Event of Default or Default has occurred and is continuing or would occur as a result of such payment, and any partial prepayment shall be in an aggregate minimum amount of \$100,000 or an integral multiple thereof.

(iii) Borrower will pay to Lender in immediately available funds, at its office at the address specified in subsection 8.12, or such other address as Lender shall specify in writing, all amounts payable to it under the terms of the Term Note and all other Liabilities, without any presentation of such Term Note. Lender may, if it so determines,

make notation of each payment of principal on the Term Note, and it will promptly make such notation if Borrower shall so request. The failure to record any such amount on such schedule, however, shall not limit or otherwise affect the obligations of Borrower hereunder or under the Term Note. Lender may also, if it so determines, make notation on the face of the Term Note or elsewhere of any modification, amendment, alteration, guaranty or assumption of the Term Note.

2.3 Borrower's Loan Account. Lender may maintain a loan account (the "Loan Account") on its internal data control systems in which shall be recorded (i) all loans and advances made by Lender to Borrower pursuant to this Agreement, (ii) all payments made by Borrower on all such loans and advances and (iii) all other appropriate debits and credits as provided in this Agreement, including, without limitation, all fees, charges, expenses and interest. All entries in Borrower's Loan Account shall be made in accordance with Lender's customary accounting practices as in effect from time to time.

2.4 Interest. Borrower shall pay to Lender interest on the outstanding principal balance of (i) Prime Rate Advances at a fluctuating rate per annum equal to the Prime Rate as from time to time in effect, minus one half of one percent (0.50%), and (ii) LIBOR Rate Advances, during each Interest Period applicable thereto, at a rate per annum equal to the LIBOR Rate for such Interest Period plus two percent (2.00%), it being expressly understood and agreed that interest with respect to any LIBOR Rate Advance shall be computed by charging interest for the first day in the applicable Interest Period but not for the last day in such Interest Period; provided, however, that following the occurrence and during the continuance of a Default, Borrower shall pay to Lender interest from the date of such Default at the rate set forth above for each of the Liabilities plus an additional three percent (3.00%) per annum on the outstanding principal balance of the Liabilities. Interest in respect of Liabilities other than LIBOR Rate Advances shall be payable (i) quarterly in arrears not later than the last calendar day of each quarter, (ii) on the termination of this Agreement, and (iii) upon and during the continuance of a Default and after maturity, as provided above or, if sooner, upon demand of Lender. Interest in respect of LIBOR Rate Advances shall be payable (i) at the end of the applicable Interest Period, (ii) on the termination of this Agreement and, (iii) upon and during the continuance of a Default and after maturity, as provided above or, if sooner, upon demand of Lender. Interest under this Agreement shall be computed on the basis of a 360-day year for the actual number of days elapsed.

2.5 Use of Proceeds. The proceeds of the Revolving Loan shall be used for Borrower's general corporate purposes. The proceeds of the Term Loan shall be used to finance the Acquisition.

2.6 Term of this Agreement. This Agreement shall terminate (except for provisions which are stated by their terms to survive such termination) upon payment and performance in full of the Term Loan, upon termination of the Revolving Credit Commitment and payment and performance in full of the Revolving Loan, and upon payment and performance in full of all other Liabilities and termination of all other Financing Agreements.

2.7 Loan Types. The Revolving Loan and the Term Loan shall consist of either Prime Rate Advances or LIBOR Rate Advances (the "Types of Advances"), as duly

requested by Borrower pursuant to this Agreement. In addition, at any time prior to the occurrence of a Default or an Event of Default, Borrower may request with respect to the Revolving Loan and the Term Loan the continuation of a LIBOR Rate Advance or the conversion of any Advance from one Type of Advance to another pursuant to this Agreement; provided, that continuations and conversions of all or any portion of a LIBOR Rate Advance may be made only as of the last date of the Interest Period applicable thereto; and provided, further such continuation or conversion would not violate any other provisions of this Agreement.

2.8 Method of Requesting LIBOR Rate Advances, Conversions and Continuations. LIBOR Rate Advances, continuations of LIBOR Rate Advances and conversions of any Prime Rate Advance to a LIBOR Rate Advance with respect to the Revolving Loan and the Term Loan, may be made upon irrevocable written notice (in substantially the form of Exhibit G hereto) given to Lender by Borrower no later than 12:00 noon, Chicago time, three (3) Business Days prior to the commencement of the Interest Period applicable thereto. In each such notice, Borrower shall specify the amount of the Advance to be so continued or converted, and the first and last day of the Interest Period, each of which shall be a Business Day. In the event that a Prime Rate Advance is to be converted into a LIBOR Rate Advance or a LIBOR Rate Advance is continued or converted into another LIBOR Rate Advance, such conversion or continuation shall be automatic on the date specified by Borrower. LIBOR Rate Advances shall automatically continue as LIBOR Rate Advances at the end of the applicable Interest Period unless Borrower gives the requisite notice in accordance with procedures set forth above to convert the same to Prime Rate Advances. Borrower shall not be entitled to request, convert to or continue a LIBOR Rate Advance if the provisions of this Agreement would require Borrower to repay or prepay any portion of such LIBOR Rate Advance prior to the end of the Interest Period applicable to such LIBOR Rate Advance.

(i) Each notice described in this subsection 2.8 shall be given by an Authorized Officer of Borrower either by telephone (but only if Lender so permits in its sole discretion), telecopy, telex, or cable, and, if by telephone promptly confirmed in writing, which shall be irrevocable by and binding on Borrower.

(ii) Lender shall be entitled to rely conclusively on each Authorized Officer's authority to convert or continue Advances on behalf of Borrower. Lender shall have no duty to verify the authenticity of the signature appearing on any notice or other writing delivered pursuant to this subsection 2.8 and, with respect to an oral request for the conversion or continuation of an Advance, Lender shall have no duty to verify the identity of any individual representing himself as an Authorized Officer. Lender shall not incur any liability to Borrower as a result of acting upon any telephonic notice referred to in this subsection 2.8 which notice Lender believes in good faith to have been given by an Authorized Officer or other individual authorized to convert or continue an Advance on behalf of Borrower or for otherwise acting in good faith under this subsection 2.8 and, upon the conversion or continuation of an Advance by Lender in accordance with this Agreement, pursuant to any such telephonic notice, Borrower shall be deemed to have or converted or continued such Advance hereunder.

2.9 Determination of Interest Period. By giving notice as set forth in subsection 2.8 with respect to a LIBOR Rate Advance or with respect to a conversion into or continuation of a LIBOR Rate Advance, Borrower shall, subject to the other provisions of this Section 2, specify the applicable Interest Period. The determination of the Interest Period shall be subject to the following provisions:

- (i) the initial Interest Period for any LIBOR Rate Advance shall commence on the date of such LIBOR Rate Advance which shall be a Business Day and each Interest Period (if any) occurring thereafter for such LIBOR Rate Advance shall commence on the day on which the next preceding Interest Period for such LIBOR Rate Advance expires;
- (ii) there shall be no more than five (5) Interest Periods in effect with respect to the Revolving Loan and the Term Loan at any one time; and
- (iii) no Interest Period may be selected which expires more than ninety (90) days after the Termination Date.

Notwithstanding the obligation of Borrower to send written confirmation of any notice given pursuant to subsection 2.8 of this Agreement made by telephone, in the event that Lender agrees to accept such notice made by telephone, such notice shall be binding on Borrower whether or not written confirmation is sent by Borrower or requested by Lender. Lender may act prior to the receipt of any requested written confirmation, without any liability whatsoever, based upon telephonic notice believed by Lender in good faith to be from Borrower or its Authorized Officer. Lender's records of the terms of any telephonic notices given pursuant to subsection 2.8 of this Agreement shall be conclusive on Borrower in the absence of gross negligence or willful misconduct on the part of Lender in connection therewith.

2.10 Additional Costs, Etc. With Respect to LIBOR Rate Advances; Indemnification.

(A) If, in the determination of Lender, any applicable "law," which expression, as used in this subsection 2.10, includes statutes, rules and regulations thereunder and interpretations thereof by any competent court or by any Governmental Authority or other regulatory body or official charged with the administration or the interpretation thereof and requests, directives, instructions and notices at any time or from time to time hereafter made upon or otherwise issued to Lender by any central bank or other fiscal, monetary or other authority (whether or not having the force of law), adopted, becoming effective, or any change in the interpretation or administration thereof, or compliance by Lender maintaining any LIBOR Rate Advance, in each case after the date hereof, shall:

- (i) subject Lender to any tax, levy, impost, duty, charge, fee, deduction or withholding of any nature with respect to LIBOR Rate Advances (other than taxes imposed on or measured by the overall net income of Lender), or
- (ii) change the taxation of payments to Lender of principal or interest on or any other amount relating to any LIBOR Rate Advances (other than taxes imposed on or measured by the overall net income of Lender), or

(iii) impose or increase or render applicable any special deposit, assessment, insurance charge, reserve or liquidity or other similar requirement (whether or not having the force of law) against assets held by, or deposits in or for the account of, or loans by Lender, or

(iv) impose on Lender any other conditions or requirements with respect to LIBOR Rate Advances,

and the result of any of the foregoing is:

(a) to increase the cost to Lender of making, funding or maintaining its LIBOR Rate Advances, or

(b) to reduce the amount of principal, interest or other amount payable to Lender hereunder on account of LIBOR Rate Advances, or

(c) to require Lender to make any payment or to forego any interest or other sum payable under this Agreement,

then, and in each such case, Borrower will, upon demand made by Lender at any time and from time to time and as often as the occasion therefor may arise, pay to Lender such additional amounts as will be sufficient to compensate Lender for such additional cost, reduction, payment or foregone interest or other sum.

(B) Lender shall not in any event be responsible to Borrower in any way if Lender is not able for any reason beyond its control to quote a LIBOR Rate with respect to any proposed Interest Period. If, on any proposed date of determination of a LIBOR Rate, Lender shall determine (which determination shall be conclusive and binding on Borrower) that it is unable to determine the LIBOR Rate with respect to any proposed Interest Period, Lender shall promptly notify Borrower of such determination. In such event, any then pending notice by Borrower requesting (i) the conversion of any Prime Rate Advance to a LIBOR Rate Advance or continuation of any LIBOR Rate Advance shall be deemed and shall constitute a request for conversion to a Prime Rate Advance and (ii) the making of any LIBOR Rate Advance shall constitute a request for a Prime Rate Advance.

(C) If Lender determines that either maintenance of a LIBOR Rate Advance would violate any applicable law, or that deposits of a type and maturity appropriate to match fund any LIBOR Rate Advance do not accurately reflect the cost of making or maintaining such a LIBOR Rate Advance, then Lender shall suspend the availability of LIBOR Rate Advances so long as any such condition exists, and all affected LIBOR Rate Advances outstanding shall be immediately repaid upon notice to Borrower from Lender to do so or at Lender's election converted to Prime Rate Advances without further action by Borrower.

2.11 Indemnification for Losses. Without limiting any of the other provisions of this Agreement, Borrower will, on demand by Lender, at any time and from time to time and as often as the occasion therefor may arise, indemnify Lender against any losses, costs or expenses which Lender at any time or from time to time sustains or incurs with respect to LIBOR Rate Advances as a consequence of:

(A) the failure by Borrower to borrow, convert to or continue any LIBOR Rate Advance on the date of borrowing, conversion or continuation designated by Borrower, or

(B) the failure by Borrower to pay, punctually on the due date thereof, any amount payable by Borrower under this Agreement, or

(C) the accelerated payment of Borrower's obligations under this Agreement as a result of a Default, or

(D) any voluntary or mandatory repayment or voluntary or mandatory prepayment of any principal of any LIBOR Rate Advance on a date other than the last day of the Interest Period relating to the principal so repaid or prepaid or so converted.

Such losses, costs or expenses will include, but will not be limited to, the reimbursement for any loss, expense or cost in liquidating or employing deposits acquired to fund any affected LIBOR Rate Advance.

2.12 Taxes.

(A) Any and all payments by Borrower hereunder with respect to the Revolving Loan and the Term Loan which are made to or for the benefit of Lender shall be made without setoff or counterclaim and free and clear of and without deduction for any and all present or future taxes, levies, imposts, duties, charges, fees, deductions, withholdings, compulsory loans, restrictions or conditions of any nature, penalties, interest and all other liabilities with respect thereto ("Taxes"), excluding taxes imposed on Lender's net income or capital and franchise taxes imposed on it by the jurisdiction under the laws of which Lender is organized or any political subdivision thereof (all such nonexcluded Taxes being hereinafter referred to as "Covered Taxes"). If Borrower or Lender shall be required by law to deduct any Covered Taxes from or in respect of any sum payable hereunder, or the Revolving Loan, the Revolving Note, the Term Loan or the Term Note, or any Person who acquires any interest in this Agreement, the Revolving Note, the Revolving Loan, the Term Loan or the Term Note pursuant to the provisions hereof, or Lender changes the office in which the Revolving Loan or the Term Loan is made, accounted for or booked (any such Person or Lender in that event being referred to as a "Tax Transferee"), (i) the sum payable shall be increased as may be necessary so that after making all required deductions of Covered Taxes (including deductions of Covered Taxes applicable to additional sums payable under this subsection 2.12) Lender or such Tax Transferee, as the case may be, receives an amount equal to the sum it would have received had no such deductions been made, (ii) Borrower shall make such deductions and (iii) Borrower shall pay the full amount so deducted to the relevant taxation authority or other authority in accordance with applicable law.

(B) In addition, Borrower agrees to pay any present or future stamp, documentary, excise, privilege, intangible or similar levies that arise at any time or from time to time (i) from any payment made under any and all Financing Agreements, (ii) from the transfer (including without limitation any participation) of the rights of Lender under any Financing Agreements to any transferee, or (iii) from the execution or delivery by Borrower of, or from the filing or recording or maintenance of, or otherwise with respect to the exercise by Lender of its rights under, any and all Financing Agreements (hereinafter referred to as "Other Taxes").

(C) Borrower will indemnify Lender and any Tax Transferee for the full amount of (i) Covered Taxes imposed on or with respect to amounts payable hereunder, and (ii) Other Taxes, and any liability (including penalties, interest and expenses) to the extent arising therefrom or with respect thereto. Payment of this indemnification shall be made within thirty (30) days from the date Lender or such Tax Transferee provides Borrower with a certificate, certifying and setting forth in reasonable detail the calculation thereof as to the amount and type of such Taxes. Any such certificate submitted by Lender or such Tax Transferee to Borrower shall, absent manifest error, be final, conclusive and binding on all parties.

(D) Within 30 days after having received a receipt for payment of Covered Taxes or Other Taxes, Borrower will furnish to Lender, at its address referred to in subsection 8.12, the original or a certified copy of a receipt evidencing payment thereof.

(E) Without prejudice to the survival of any other agreement of Borrower hereunder, the agreements and obligations of Borrower contained in subsections 2.10, 2.11 and 2.12 shall survive the payment in full of the Liabilities and termination of this Agreement.

2.13 Capital Adequacy. If either (i) the introduction of or any change in or in the interpretation of any law or (ii) compliance by Lender with any guideline or request from any central bank or Governmental Authority (whether or not having the force of law) (a) affects or would affect the amount of capital required or expected to be maintained by Lender and Lender determines that the amount of such capital is increased by or based upon the existence of the LIBOR Rate Advances then, upon demand by Lender, Borrower shall immediately pay to Lender from time to time as specified by Lender additional amounts sufficient to compensate Lender in light of such circumstances, to the extent that Lender determines such increase in capital to be allocable to the existence of LIBOR Rate Advances or (b) has or would have the effect of reducing the rate of return on the capital or assets of Lender or any Person controlling Lender as a consequence of, as determined by Lender in its sole discretion, the existence of Lender's commitments or obligations under this Agreement or any of the other Financing Agreements, then, upon demand by Lender, Borrower immediately shall pay to Lender, from time to time as specified by Lender, additional amounts sufficient to compensate Lender in light of such circumstances. The obligations of Borrower under this subsection 2.13 shall survive payment of the Liabilities and termination of this Agreement.

2.14 Certificate. A certificate signed by an officer of Lender, setting forth any additional amount required to be paid by Borrower to Lender under any provision of subsections 2.10, 2.11, 2.12 and 2.13 and the computations made by Lender, to determine such additional amount, shall be submitted by Lender to Borrower in connection with each demand made at any time by Lender upon Borrower under any of such provisions. Such certificate, in the absence of manifest error, shall be conclusive as to the additional amount owed.

2.15 Collateral. As collateral security for the Liabilities, the Borrower shall grant to Lender a security interest in the Bank Shares pursuant to the terms of a Pledge and Security Agreement between Borrower and Lender in the form attached hereto as Exhibit C.

2.16 Guaranty. Parent shall guaranty the payment of the Liabilities pursuant to the terms of a Guaranty Agreement entered into between Parent and Lender in the form attached hereto as Exhibit D.

3. CONDITIONS

(A) Conditions to Advances. Notwithstanding any other provisions contained in this Agreement, the making of the initial Term Loan and the initial Advance under the Revolving Credit Commitment, and each other Advance, the continuation of any LIBOR Rate Advance and the conversion of any Prime Rate Advance to a LIBOR Rate Advance shall be conditioned upon the following, both before and after giving effect thereto, in each case to the satisfaction of Lender (and each request for an Advance or continuation or conversion of an Advance shall constitute a representation and warranty by each of Borrower and Parent that on the date of such Advance, continuation or conversion, both immediately before and after giving effect thereto, all of the following statements are true and correct and all of the following conditions have been satisfied):

(i) Notice. As to any LIBOR Rate Advance (including, without limitation, the continuation of any LIBOR Rate Advance and the conversion of a Prime Rate Advance to a LIBOR Rate Advance), the Lender shall have received written notice of the type required by subsection 2.8 within the time period required by subsection 2.8; and (ii) as to any Prime Rate Advance, the Lender shall have received by 12:00 Noon (Chicago time) on the date such advance is to be made a written request (or telephonic request promptly confirmed in writing) from an Authorized Officer of the Borrower for such an advance specifying the principal amount thereof. In addition prior to continuing or converting any Advance, Lender shall have received notice as required by subsection 2.8 hereof within the time period required by subsection 2.8 and copies of all other documents required to be delivered to Lender under subsection 5.1 hereof.

(ii) Financial Condition. No material adverse change, as determined by Lender in its sole discretion, in the financial condition or operations of Parent, Borrower, Bank or any other Material Subsidiary shall have occurred (A) at any time or times subsequent to the most recent annual financial statements provided pursuant to subsection 5.1 hereof, and (B) prior to the receipt of the first of such statements, at any time subsequent to December 31, 2000.

(iii) No Default. There shall not have occurred and be continuing any Default or Event of Default.

(iv) Representations and Warranties True and Correct. The representations and warranties of each of Borrower and Parent contained in this Agreement and in the other Financing Agreements to which Borrower or Parent is a party shall be true and correct in all material respects on and as of the date of the initial funding of the Term Loan, the making of any Advance and the continuation of a LIBOR Rate Advance or the conversion of a Prime Rate Advance to a LIBOR Rate Advance, as the case may be, as though made on and as of such date.

4. WARRANTIES.

Borrower and Parent jointly and severally represent and warrant as follows:

4.1 Organization.

(A) Each of Borrower and Parent is a corporation duly organized, validly existing and in good standing under the laws of the United States and has all requisite power and authority, corporate and otherwise, to own, operate and lease its assets, properties and businesses and to carry on its businesses substantially as they have been and are now being conducted. Each of Borrower and Parent is duly qualified to do business and is in good standing in each jurisdiction where the character of the properties owned or leased by it or the nature of the business transacted by it requires that it be so qualified except where the failure to so qualify would not have a Material Adverse Effect. Each of Borrower and Parent has all requisite corporate power and authority to enter into this Agreement and the Financing Agreement to which it is a party and, upon the receipt of all Regulatory Approvals, to consummate the Acquisition. Parent is a federally chartered mutual holding company and is duly registered as a mutual savings and loan holding company under HOLA and the rules and regulations of the OTS thereunder. Borrower is a subsidiary savings and loan holding company and is duly registered as a savings and loan holding company under HOLA and the rules and regulations of the OTS thereunder. The Bank is a federally-chartered stock savings bank duly organized and in existence under the laws of the United States and its deposits are insured by the FDIC through the SAIF to the full extent permitted under the Federal Deposit Insurance Act, as amended. The Bank is a "qualified thrift lender," as that term is used in Section 10(m) of HOLA. To the extent applicable, the Bank is duly qualified to do business and is in good standing in each jurisdiction where the character of the properties owned or leased by it or the nature of the business transacted by it requires that it be so qualified.

(B) Borrower is a wholly owned Subsidiary of Parent. All of the outstanding shares of capital stock of Borrower are duly authorized, validly issued, fully paid and non-assessable and are owned by Parent free and clear of all pledges, liens, security interests, charges and encumbrances. None of the outstanding shares of capital stock of Borrower has been issued in violation of any shareholder's preemptive rights. There are no outstanding options, rights, or warrants obligating the Borrower to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of its capital stock. Parent has no direct or indirect Subsidiaries other than Borrower and the Current Borrower Subsidiaries. As of the date of this Agreement, Borrower has no direct or indirect Subsidiaries other than the Current Borrower Subsidiaries. Each of the Current Borrower Subsidiaries is wholly owned by either the Borrower or the Bank. Each Current Borrower Subsidiary other than the Bank is a duly organized and validly existing corporation in good standing under the laws of the State of Illinois or Delaware, with corporate power and authority to own, operate and lease its assets and properties, and carry on its business substantially as it has been and is now being conducted.

(C) Borrower, Parent and the Subsidiaries have made payment of all franchise and similar taxes and in all jurisdictions, except for any such taxes: (i) which are not yet due and payable, (ii) where the failure to pay such taxes will not have a Material Adverse Effect, (iii) the validity of which is being contested in good faith by appropriate proceedings diligently conducted, and (iv) for which proper reserves have been set aside on the books of Borrower, Parent and the Subsidiaries.

(D) Schedule 4.1 correctly sets forth: (a) all states in which Borrower, Parent or Bank conducts its businesses, except for such states where the failure to qualify to do business as a foreign corporation would not have a Material Adverse Effect; (b) all direct or indirect Subsidiaries of Parent and Borrower; and (c) each class of stock of each of Parent and Borrower, together with the issued and outstanding shares of each class and the ownership thereof. All of the Bank Shares are duly authorized, validly issued, fully paid and non-assessable. The Bank Shares are owned by Borrower free and clear of all pledges, liens, security interests, charges and encumbrances, except for the pledge in favor of Lender pursuant to the Pledge Agreement. None of the Bank Shares have been issued in violation of any shareholder's preemptive rights. There are no outstanding options, rights, or warrants obligating the Bank to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of its capital stock.

4.2 Financial Statements. Borrower has delivered to Lender copies of the (A) consolidated financial statements of Parent, Borrower, and the Subsidiaries as of and for the year or other period ending December 31, 2000, audited by its certified public accountants; (B) the unaudited consolidated statements of Parent, Borrower, and the Subsidiaries as of and for the nine month period ending September 30, 2001; and (C) unaudited statements for Borrower and Bank, on an unconsolidated basis as of and for the nine month period ending September 30, 2001 (collectively, the "2000 Statements"). All of these financial statements are true and correct, are in accordance with the respective books of account and records of such Persons and have been prepared in accordance with GAAP applied on a basis consistent with prior periods, and fairly and accurately present the financial condition of such Persons and their assets and liabilities and the results of their operations as of such date. Since December 31, 2000, there has been no material adverse change in the financial condition, business, properties or operations of Borrower, Parent or any of the Material Subsidiaries. In addition, Borrower has delivered to Lender copies of the reports of condition and income (hereinafter referred to as "call reports") filed by the Bank for the period ending December 31, 2000, and copies of H-(b)11 Reports filed by Parent and Borrower for the period ending September 30, 2001 (such call reports and H-(b)11 Reports, together with the 2000 Statements, the "Financial Statements"). Each of such reports filed by Parent, Borrower, or the Bank with any Governmental Authority is true and correct and is in accordance with the respective books of account and records of Borrower, Parent and the Bank, and has been prepared in accordance with applicable banking regulations, rules and guidelines on a basis consistent with prior periods, and fairly and accurately presents in all material respects the financial condition of Borrower, Parent and the Bank and their respective assets and liabilities and the results of their respective operations as of such date. The Financial Statements contain and reflect provisions for taxes, reserves and other liabilities of Borrower, Parent and the Subsidiaries in accordance with GAAP. Neither Borrower nor Parent nor any of the Subsidiaries has any material debt, liability or obligation of any nature (whether accrued, contingent, absolute or otherwise) which is not provided for or disclosed in the Financial Statements.

4.3 Transaction is Legal and Authorized. The Term Loan and each Advance under the Revolving Note, the execution and delivery of this Agreement and the other Financing Agreements and compliance by Borrower and Parent with all of the provisions of this Agreement

and of the other Financing Agreements are within the corporate and other powers of Borrower and Parent. This Agreement and the other Financing Agreements have been duly authorized, executed and delivered by each of Borrower and Parent that is a party thereto and each of this Agreement and the other Financing Agreements is the legal, valid and binding obligation of each of Borrower and Parent that is a party thereto, enforceable against such Persons in accordance with their respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the rights of creditors generally, and general principles of equity.

4.4 No Defaults or Restrictions. Neither the execution and delivery of any of the Financing Agreements nor compliance with their terms and conditions will conflict with or result in breach of, or constitute a default under, any of the terms, obligations, covenants, conditions or provisions of any corporate restriction or of any indenture, mortgage, deed of trust, pledge, bank loan or credit agreement, corporate charter, bylaw or any other agreement or instrument to which Borrower, Parent or any of the Subsidiaries is now a party or by which any of them or any of their properties may be bound or affected, or any judgment, order, writ, injunction, decree or demand of any court, arbitrator, grand jury, or Governmental Authority, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any property or asset of Borrower, Parent or any of the Subsidiaries under the terms or provisions of any of the foregoing. Neither Borrower nor Parent nor any of the Subsidiaries is in material default in the performance, observance or fulfillment of any of the terms, obligations, covenants, conditions or provisions contained in any indenture or other agreement creating, evidencing or securing indebtedness of any kind or pursuant to which any such indebtedness is issued, or other agreement or instrument to which Borrower, Parent or any of the Subsidiaries is a party or by which, Parent or any of the Subsidiaries or any of their respective properties may be bound or affected.

4.5 Governmental Consent. No governmental orders, permissions, consents, approvals or authorizations are required to be obtained and no registrations or declarations are required to be filed in connection with, or in contemplation of, the execution, delivery or performance of this Agreement or any of the other Financing Agreements, which have not been obtained or filed.

4.6 Taxes. Borrower, Parent and each of the Subsidiaries have filed all United States income tax returns and all state and municipal tax returns which are required to be filed, and have paid, or made provision for the payment of, all material taxes which have become due pursuant to said returns or to any assessment received by Borrower, Parent or any of the Subsidiaries, except such taxes, if any, as are being contested in good faith and as to which adequate reserves have been provided. Neither Borrower nor Parent is aware of any audit, assessment or other proposed action or inquiry of the Internal Revenue Service or any other taxing authority with respect to any tax liability of Borrower, Parent or any of the Subsidiaries, except as disclosed on Schedule 4.6.

4.7 Compliance with Law. Borrower, Parent and each of the Subsidiaries have complied with all applicable statutes, rules, regulations, orders and restrictions of any domestic or foreign government or any instrumentality or agency thereof, having jurisdiction over the conduct of their respective businesses or the ownership of their respective properties, except where any such failure would not have a Material Adverse Effect.

4.8 Restrictions. Neither Borrower nor Parent nor any of the Subsidiaries is a party, nor is bound by, any contract or agreement or instrument, or subject to any charter or other corporate restriction which would have a Material Adverse Effect.

4.9 No Material Adverse Change. There has been no material adverse change to the business, operations, properties or assets of Borrower, Parent or any of the Material Subsidiaries since September 30, 2001.

4.10 Reserve for Possible Loan and Lease Losses. The reserve for possible loan and lease losses shown on the September 30, 2001 call report of the Bank is adequate in all respects to provide for the Bank's possible or specific losses, net of recoveries relating to loans previously charged off, on loans outstanding, and contains an additional amount of unallocated reserves for unanticipated future losses at a level considered adequate based upon generally accepted safe and sound banking practices.

4.11 Regulatory Enforcement Actions. Except for certain post-closing requirements set forth in the approval order for the Acquisition, which order is attached hereto as Exhibit H, none of Borrower, Parent, any of the Subsidiaries or any of their respective officers or directors is now operating under any currently effective written restrictions agreed to by Borrower, Parent or any of the Subsidiaries, or agreements, memoranda, or written commitments by Borrower, Parent or any of the Subsidiaries (other than restrictions of general application) imposed or required by any Governmental Authority nor are any such restrictions threatened or agreements, memoranda or commitments being sought by any Governmental Authority.

4.12 Pending Litigation. Except as otherwise stated in Schedule 4.12, neither Borrower nor Parent nor any of the Subsidiaries is party to or has received notice of any actions, suits, proceedings or written agreements pending, nor, to the best knowledge of each of Borrower and Parent, have any such actions, suits, proceedings or written agreements been threatened or proposed, against Borrower, Parent or any of the Subsidiaries at law or in equity or before or by any federal, state, municipal, or other governmental department, commission, board, or other administrative agency, domestic or foreign which are reasonably likely to have a Material Adverse Effect; and neither Borrower nor Parent nor any of the Subsidiaries is in default with respect to any order, writ, injunction, or decree of, or any written agreement with, any court, commission, board or agency, domestic or foreign.

4.13 No Burdensome Agreements. Except for the Financing Agreements, neither Borrower nor Parent nor any of the Material Subsidiaries is a party to any agreement, instrument or undertaking or subject to any other restriction: (a) which presently has a Material Adverse Effect or (b) under or pursuant to which Borrower, Parent or any of the Material Subsidiaries is or will be required to place (or under which any other Person may place) a Lien upon any of its properties securing indebtedness either upon demand or upon the happening of a condition, with or without such demand, except for tax liens with respect to real estate taxes not yet due and payable and liens on assets of the Bank created in the ordinary course of the Bank's business, consistent with safe and sound banking practices and applicable laws and regulations.

4.14 No Misstatement. No information, exhibit, report or document furnished by Borrower, Parent or any of the Subsidiaries to Lender in connection with the negotiation or execution of this Agreement or any of the other Financing Agreements contained any material misstatement of fact or omitted to state a material fact or any fact necessary to make the statements contained therein not misleading, all as of the date when furnished to Lender.

4.15 Liens. Except for liens permitted under subsection 6.2, all property and interests in property of each of Borrower, Parent and the Material Subsidiaries is and will continue to be owned by each of Borrower, Parent and the Material Subsidiaries, has been fully paid for and is free and clear of all Liens.

4.16 Margin Stock. Borrower does not own any "margin security" as such term is defined in Regulation G of the Board of Governors of the Federal Reserve System and none of the loans advanced or other credit provided to Borrower hereunder will be used for the purpose of purchasing or carrying any margin security or for the purpose of reducing or retiring any indebtedness which was originally incurred to purchase any margin security or for any other purpose not permitted by Regulation U of the Board of Governors of the Federal Reserve System.

4.17 Hazardous Materials. Neither Borrower nor the Bank is in violation of any applicable statute, regulation, ordinance or policy of any governmental entity relating to the ecology, human health, safety or the environment and no Hazardous Material (as defined in this Section 4.17) is located on any real property owned or leased by the Borrower or the Bank or has been discharged from or to, or penetrated into, any real property (or surface or subsurface rivers or streams crossing or adjoining any real property) owned or leased by Borrower, Bank or the aquifer underlying any real property owned or leased by Borrower or the Bank, except insofar as the fines, penalties, liabilities and damages that could result therefrom in the aggregate would not have a Material Adverse Effect. "Hazardous Material" as used herein means any asbestos, polychlorinated byphenyls and petroleum products, solid wastes, ureaformaldehyde, discharges of sewer or effluent, paint containing lead and any other hazardous or toxic material, substance or waste which is defined, determined or identified by those or similar terms or is regulated as such under any statute, law, ordinance, rule or regulation or by any local, state or federal authority (whether as the result of any judicial or administrative interpretation of any such statute, law, ordinance, rule or regulation or otherwise) including, but not limited to, any material, substance or waste which is a hazardous substance within the meaning of 33 U.S.C. §125 1 et seq., as amended, or 42 U.S.C. §9601 et seq., as amended, or is a hazardous waste within the meaning of 42 U.S.C. §6901 et seq., as amended.

4.18 Collateral. All of the Collateral, except for liens of current taxes not yet due and payable and as set forth on Schedule 6.2, and other property and interests in property of Borrower is and will continue to be owned by Borrower, has been fully paid for and is free and clear of all Liens.

4.19 Chief Place of Business. As of the execution hereof, the principal place of business, the chief executive office and designated domicile of Borrower is located at the location identified in subsection 8.12. If any change in any such location occurs, Borrower promptly shall notify Lender thereof in accordance with subsection 6.9 hereof.

4.20 Other Names. Borrower has not used any partnership, corporate, company or fictitious name other than “Financial Equity, Inc.” and “BankFinancial Corporation” to conduct material business activities.

4.21 Pledged Collateral. The Bank Shares have been duly authorized and validly issued and are fully paid and non-assessable. Borrower is the legal and beneficial owner of the Collateral free and clear of any Lien or option, except for the security interest created by the Pledge Agreement. The pledge of the Bank Shares pursuant to the Pledge Agreement creates a valid and perfected first priority security interest in the Collateral, securing the payment of the Liabilities. Except for Regulatory Approvals already obtained, no consent of any other Person and no authorization, approval, or other action by, and no notice to or filing with, any Governmental Authority is required (i) for the pledge by Borrower of the Collateral pursuant to the Pledge Agreement or for the execution, delivery or performance of the Pledge Agreement by Borrower, (ii) for the perfection or maintenance of the security interest created thereby (including the first priority nature of such security interest) or (iii) for the exercise by Lender of the voting or other rights provided for in the Pledge Agreement or the remedies in respect of the Collateral pursuant to the Pledge Agreement (except as may be required in connection with any disposition of any portion of the Collateral by laws affecting the offering and sale of securities generally). The Bank Shares constitute one hundred percent (100%) of the issued and outstanding shares of common stock of the Bank.

4.22 ERISA. Neither Borrower nor any ERISA Affiliate of Borrower maintains or contributes to any Plan other than a Plan listed on Schedule 4.22 attached hereto. Each Plan which is intended to be a qualified plan under Section 401(a) of the Internal Revenue Code has been determined by the Internal Revenue Service to be so qualified and each trust related to any such Plan has been determined to be exempt from federal income tax under Subsection 501(a) of the Internal Revenue Code. Neither Borrower nor any ERISA Affiliate of Borrower maintains or contributes to any employee welfare benefit plan within the meaning of Subsection 3(1) of ERISA which provides lifetime medical benefits to retirees. Each Plan has been administered in all material respects in accordance with its terms and the terms of ERISA, the Internal Revenue Code and all other statutes and regulations applicable thereto. Neither Borrower nor any ERISA Affiliate of Borrower has breached any of the responsibilities, obligations or duties imposed on it by ERISA or regulations promulgated thereunder with respect to any Plan. No accumulated funding deficiency (as defined in Section 302(a)(2) of ERISA and Section 412(a) of the Internal Revenue Code) exists in respect to any Benefit Plan. Neither Borrower nor any ERISA Affiliate of Borrower nor any fiduciary of any Plan which is not a Multiemployer Plan (i) has engaged in a nonexempt “prohibited transaction” described in Section 406 of ERISA or Section 4975 of the Internal Revenue Code, or (ii) has taken any action which would constitute or result in a Termination Event with respect to any Plan. Neither Borrower nor any ERISA Affiliate of Borrower has incurred any material liability to the PBGC which remains outstanding. Neither Borrower nor any ERISA Affiliate of Borrower has (i) failed to make a required contribution or payment to a Multiemployer Plan, or (ii) made or expects to make a complete or partial withdrawal under Sections 4203 or 4205 of ERISA from a Multiemployer Plan for which Borrower or any ERISA Affiliate of Borrower has any material liability. Neither Borrower nor any ERISA Affiliate of Borrower has failed to make a required installment under Subsection (m) of Section 412 of the Internal Revenue Code or any other payment required under Section 412 of the Internal Revenue Code on or before the due date for such installment or

other payment. Neither Borrower nor any ERISA Affiliate of Borrower is required to provide security to a Plan under Section 401(a) (29) of the Internal Revenue Code due to a Plan amendment that results in an increase in current liability for the plan year. The present value of the benefits of each Benefit Plan of Borrower and each ERISA Affiliate of the Borrower as of the last day of the year for such plan, as determined by such Benefit Plan's independent actuaries, does not exceed the aggregate value, as determined by such actuaries, of all assets under such Benefit Plan. Borrower is not required to contribute to any Multiemployer Plan except as set forth on Schedule 4.22 hereto.

4.23 Survival of Warranties. All representations and warranties contained in this Agreement or any of the other Financing Agreements shall survive the execution and delivery of this Agreement.

5. AFFIRMATIVE COVENANTS.

Borrower and Parent hereby jointly and severally covenant and agree that, so long as any Liabilities remain outstanding, and (even if there shall be no Liabilities outstanding) so long as this Agreement remains in effect:

5.1 Financial Statements. Borrower shall furnish and deliver to Lender:

(i) as soon as available, but in any event not more than ninety (90) days after the close of each Fiscal Year of each of Borrower, consolidated audited financial statements for Parent, Borrower and the Subsidiaries and unaudited financial statements for Borrower on an unconsolidated basis, including in each a balance sheet and related profit and loss statement, prepared in accordance with GAAP consistently applied throughout the periods reflected therein by independent certified public accountants reasonably acceptable to Lender, with such accountants' unqualified opinion with respect to such audited financial statements (which opinion shall be accompanied by a letter from the accountants to Lender that expressly acknowledges that Lender intends to rely on such opinion and the financial statements referenced therein);

(ii) as soon as available, but in no event later than forty-five (45) days after the end of each calendar quarter, a copy of: (1) the balance sheet, profit and loss statement, for each of Parent, Borrower and the Subsidiaries, on a consolidated basis, prepared in accordance with GAAP consistently applied (but excluding footnotes as may be required by GAAP); and (2) all financial statements, including, but not limited to, all call reports, filed with any state or federal bank regulatory authority by Parent, Borrower or the Bank;

(iii) to the extent permitted by law, promptly after the same are available, copies of: (A) each annual report, proxy or financial statement or other material report or communication sent by Parent, Borrower or the Bank to the stockholders or members of Borrower, Parent or the Bank, as the case may be; (B) each registration statement which Borrower, Parent or the Bank may file with any Governmental Authority or with any securities exchange; (C) all annual, regular, periodic and special reports which Borrower, Parent or the Bank may file or be required to file with any Governmental Authority or

with any securities exchange that relate to the overall financial condition or results of operations of Borrower, Parent or any of the Subsidiaries; and (D) each call report with respect to the Bank;

(iv) promptly after receiving knowledge thereof, notice in writing of all charges, assessments, actions, suits and proceedings (as well as notice of the outcome of any such charges, assessments, orders, actions, suits and proceedings) that are proposed or initiated by, or brought before, any court or governmental department, commission, board or other administrative agency, in connection with Borrower, Parent or any of the Subsidiaries, other than ordinary course of business litigation not involving any Governmental Authority, which, if adversely decided, would not have a Material Adverse Effect;

(v) if requested by Lender at any time when non-performing assets of Bank are more than 2.75% of its loans plus other real estate owned, copies of the then current loan/asset watch list, the classified loan/asset list, the nonperforming loan/asset list and other real estate owned list of Bank;

(vi) promptly upon receipt thereof, one copy of each written report submitted to Parent by its independent auditors, and promptly after the occurrence thereof, notice of any other matter which has resulted in, or which reasonably could be expected to result in, a Material Adverse Effect;

(vii) promptly after the disclosure of the adoption or approval of a plan of conversion is lawfully permitted, a copy of the written conversion plan; and

(viii) promptly after Lender shall request the same, such other information respecting the Borrower, Parent or any Subsidiary, as the Lender may request.

5.2 Confidentiality. Lender shall exercise reasonable efforts to keep all information acquired as a result of any inspection conducted in accordance with subsections 5.1(v) and (vii) and 5.6 hereof, confidential, provided that Lender may communicate such information (i) to any other Person in accordance with the customary practices of commercial banks relating to routine trade inquiries, (ii) to any regulatory authority having jurisdiction over Lender, (iii) to any other Person in connection with Lender's sale of any participations in the Liabilities or assignment of any of Lender's rights and obligations under this Agreement or any of the other Financing Agreements, (iv) to any other Person in connection with the exercise of Lender's rights hereunder or under any of the other Financing Agreements or (v) to any Person if Lender believes in its reasonable discretion that disclosure is necessary or appropriate to comply with any applicable law, rule or regulation or in response to a subpoena, order or other legal process or informal investigative demand, whether issued by a court, judicial or administrative or legislative body or committee or other governmental authority. Notwithstanding the foregoing, information shall not be deemed to be confidential to the extent such information (i) is available in the public domain, (ii) becomes available in the public domain other than as a result of unauthorized disclosure by Lender or (iii) is acquired from a Person not known by Lender to be in breach of an obligation of secrecy to Borrower, Parent or any Subsidiary. Each of Borrower and Parent authorizes Lender, upon notice to Borrower, to discuss the financial condition of

Parent Borrower and any Subsidiary with such Borrower's independent certified public accountants, and Borrower shall cause and authorize such certified public accountants to discuss such condition with Lender.

5.3 Regulatory Capital. Borrower shall cause each of Parent, Borrower and Bank to maintain such capital as is necessary to cause Parent, Borrower, and Bank to be "well capitalized" in accordance with the regulations of all applicable Governmental Authorities as are now or may hereafter be in effect and applicable to Borrower, Parent or Bank, and any other requirements or conditions that any Governmental Authorities have imposed or may impose on Parent, Borrower or the Bank, provided, that Lender acknowledges that on the date of this Agreement neither Parent nor Borrower are subject to any such regulations or requirements.

5.4 Taxes, Assessments, Etc. Each of Borrower and Parent shall, and shall cause each of the Subsidiaries to, promptly pay and discharge all taxes, assessments and other governmental charges imposed upon Borrower, Parent or any of the Subsidiaries or upon the income, profits, or property of Borrower, Parent or any of the Subsidiaries and all claims for labor, material or supplies which, if unpaid, might by law become a Lien upon the property of Borrower, Parent or any of the Subsidiaries, except for tax liens with respect to real estate taxes not yet due and payable. Neither Borrower nor Parent nor any of the Subsidiaries shall be required to pay any such tax, assessment, charge or claim, so long as the validity thereof shall be contested in good faith by appropriate proceedings, and adequate reserves therefor shall be maintained on the books of Borrower, Parent and the Subsidiaries.

5.5 Insurance. Each of Borrower and Parent shall, and shall cause each of the Subsidiaries to, maintain bonds and insurance with responsible and reputable insurance companies or associations in such amounts and covering such risks as are usually carried by owners of similar businesses and properties in the same general area in which Borrower, Parent and the Subsidiaries operate, and such additional bonds and insurance as may reasonably be required by Lender.

5.6 Inspection. Each of Borrower and Parent shall, and shall cause each Subsidiary to, permit Lender through its employees, attorneys, accountants or other agents, to inspect any of the properties and the corporate and financial books and records of Borrower, Parent and each Subsidiary at such times and as often as Lender reasonably may request.

5.7 Information. Each of Borrower and Parent shall, and shall cause each Subsidiary to, provide Lender with such information concerning the business, operations, financial condition and regulatory status of Borrower, Parent and the each Subsidiary as Lender may from time to time reasonably request.

5.8 Maintenance of Existence. Each of Borrower and Parent shall, and shall cause each Subsidiary to, do or cause to be done all things necessary to maintain, preserve and renew their respective existence and rights and franchises, and comply with all related laws applicable to each of Borrower, Parent and each Subsidiary, except where any such failure would not have a Material Adverse Effect.

5.9 Compliance with Laws. Except where any failure to comply could not, individually or in the aggregate, result in a Material Adverse Effect, each of Borrower and Parent shall, and shall cause each Subsidiary to, comply with all applicable statutes, rules, regulations, orders and restrictions in respect of the conduct of their respective businesses and the ownership of their respective properties.

5.10 Notice of Defaults. Each of Borrower and Parent shall promptly notify Lender, to the extent permitted by law, of the occurrence of any Default or Event of Default, regardless of the materiality thereof.

5.11 Lender's Closing Costs and Expenses. Borrower shall reimburse Lender on demand for all reasonable expenses and fees paid or incurred in connection with the documentation, negotiation and closing of the loans and other extensions of credit described herein, including, without limitation, lien search, filing and recording fees and taxes and the reasonable fees and expenses of Lender's attorneys and paralegals (whether such attorneys and paralegals are employees of Lender or are separately engaged by Lender), whether such expenses and fees are incurred prior to or after the date hereof.

5.12 Tangible Equity Capital. Borrower shall cause the Bank to maintain Tangible Equity Capital at all times in an amount of One Hundred and Five Million Dollars (\$105,000,000). "Tangible Equity Capital" shall mean the sum of common stock, surplus and retained earnings, reduced by the amount of any goodwill, in each case as of the last day of the previous quarterly calendar period.

5.13 Primary Capital Ratio. Borrower shall cause the Bank to maintain a ratio of Tangible Equity Capital, plus loan loss reserves, to Total Assets of Bank at all times of no less than six and one-half percent (6.5%). For the purposes of this subsection 5.12, "Total Assets" shall mean consolidated total assets of the Bank, in each case as of the last day of the previous quarterly period.

5.14 Tier 1 Leverage and Risk Based Capital Ratios. Borrower shall cause the Bank to maintain (i) a "Leverage Ratio" (Tier 1 Capital to Average Total Assets) in excess of five percent (5%), (ii) a "Total Risk Based Capital Ratio" (the sum of Tier 1 Capital and Tier 2 Capital to Risk-Weighted Assets) in excess of ten percent (10%), and (iii) a "Tier 1 Capital Ratio" (Tier 1 Capital to Risk-Weighted Assets) in excess of six percent (6%), in each case as of the last day of the previous quarterly calendar period. Parent and Borrower shall cause the Bank to comply (calculated on a quarterly basis as of the end of each calendar quarter) with all risk-based capital guidelines established by the OTS. For purposes of this subsection 5.13, "Tier 1 Capital", "Tier 2 Capital" and "Risk-Weighted Assets" shall be determined in accordance with the rules and regulations of the appropriate banking regulatory authority, as amended from time to time, and "Average Total Assets" shall refer to the average total assets as set forth in the relevant call report for the applicable quarterly period.

5.15 Non-Performing Assets Ratio. Borrower shall cause the Bank to maintain a ratio of Non-Performing Assets to total loans and real estate owned of less than two and three quarters percent (2.75%) at all times. For purposes of this subsection 5.14, "Non-Performing Assets" shall mean the sum of all real estate owned, non-accrual loans, restructured loans and

loans on which any payment is ninety (90) or more days past due, in each case as of the last day of the previous quarterly calendar period. Upon receipt of a written request from Borrower and such information as Lender may require in connection therewith in its sole discretion, Lender shall consider, in its sole discretion, for purposes of calculating the ratio in this subsection 5.15, a credit to the amount of Non-Performing Assets in an amount not greater than the amount of private mortgage insurance coverage available for loans included in such Non-Performing Assets.

5.16 Loan Loss Reserve Ratio. Borrower shall cause the Bank to maintain a ratio of the loan and lease loss reserve to the total Non-Performing Loans of more than eighty percent (80%) at all times. For the purposes of this subsection 5.15 "Non-Performing Loans" shall mean the sum of all non-accrual loans, restructured loans and loans on which any payment is ninety (90) more days past due, in each case as of the last day of the previous quarterly calendar period. Upon receipt of a written request from Borrower and such information as Lender may require in connection therewith in its sole discretion, Lender shall consider, in its sole discretion, for purposes of calculating the ratio in this subsection 5.16, a credit to the amount of Non-Performing Loans in an amount not greater than the amount of private mortgage insurance coverage available for loans included in such Non-Performing Loans.

5.17 Net Income. Borrower shall cause the Bank to maintain annualized Net Income of at least Three Million Dollars (\$3,000,000), at the end of each calendar quarter commencing with the quarter ending June 30, 2002. "Net Income" shall mean the consolidated net income of the Bank computed in accordance with GAAP.

5.18 Return on Average Assets. Borrower shall cause Bank to maintain an annualized ratio of the Net Income to the Average Assets at the end of each calendar quarter, commencing with the quarter ending June 30, 2002, of (A) not less than two tenths of one percent (0.20%) for each quarter during the fiscal year ending December 31, 2002; and (B) three and one half tenths of one percent (0.35%) for each quarter during the fiscal year ending on December 31, 2003. For the purposes of this subsection 5.17, "Average Assets" shall mean for any calendar quarter the daily average of total assets for such quarter.

5.19 Compliance Certificate. Parent and Borrower shall prepare and execute a Financial Covenant Compliance Certificate, substantially in the form of Exhibit F hereto, within forty-five (45) days of the end of each quarterly calendar period.

6. NEGATIVE COVENANTS.

Borrower and Parent jointly and severally covenant and agree that so long as any Liabilities remain outstanding, and (even if there shall be no Liabilities outstanding) so long as this Agreement remains in effect (unless Lender shall give its prior written consent thereto):

6.1 Indebtedness. Except for indebtedness listed on Schedule 6.1 annexed hereto, and, in the case of the Bank, indebtedness incurred in the ordinary course of business and in accordance with safe and sound banking practices and applicable laws and regulations, Borrower and Parent shall not, and shall not permit Bank to, create, assume, incur, have outstanding, or in any manner become liable in respect of any indebtedness for borrowed money

in excess of \$500,000 in the aggregate. For purposes of this Agreement, the phrase "indebtedness" shall mean and include: (i) all items arising from the borrowing of money, which according to GAAP then in effect, would be included in determining total liabilities as shown on the balance sheet; (ii) all indebtedness secured by any Lien on property owned by Borrower, Parent or any Subsidiary whether or not such indebtedness shall have been assumed; (iii) all guarantees and similar contingent liabilities in respect to indebtedness of others; and (iv) all other interest-bearing obligations evidencing indebtedness to others.

6.2 Liens. Borrower and Parent shall not, and shall not permit the Bank to (A) create, assume, incur, suffer or permit to exist any Lien of any kind or character upon or with respect to any of their assets or properties whether owned at the date hereof or hereafter acquired, other than (i) liens on assets of the Bank, created in the ordinary course of the Bank's business and in accordance with applicable laws and regulations and safe and sound banking practices, (ii) tax liens with respect to real estate taxes not yet due and payable; and (iii) other Liens listed on Schedule 6.2 annexed hereto, or (B) assign or otherwise convey any right to receive income.

6.3 Disposal of Assets. Borrower and Parent shall not, and shall not permit Bank to, dispose of, other than in the ordinary course of business (which shall include sales of loans in the secondary market, release of liens on assets securing loans, the disposition of assets in connection with the closing of branch or corporate office locations or the determination not to proceed with a new branch location, and sales of property received upon foreclosure of loans, all in the ordinary course of business) and in accordance with applicable laws and regulations and safe and sound banking practices (which includes, but is not limited to, the sale of real estate owned), by sale, assignment, lease or otherwise, property or assets now owned or hereafter acquired without the prior written consent of Lender, which consent shall not be unreasonably withheld or delayed.

6.4 Mergers or Consolidations. Except for transactions contemplated as part of the Acquisition, Borrower and Parent shall not, and shall not permit any Subsidiary to, purchase the assets of, merge into or consolidate with or into, any other person, entity or corporation without the prior written consent of Lender, which consent shall not be unreasonably withheld or delayed; provided, however, that Parent, Borrower and any Subsidiary may (i) acquire assets or capital stock of Persons without Lender's consent to the extent that the total purchase (including assumed liabilities) of all related transactions is less than \$500,000 in the aggregate, and (ii) merge or consolidate with each other, provided that in the case of any merger or consolidation involving the Parent or the Borrower, the Parent or the Borrower, as the case may be, is the survivor thereof and provided further, that any such merger or consolidation is not in connection with the purchase of assets of any other Person, which purchase is not otherwise permitted in clause (i) of this subsection 6.4.

6.5 Margin Stock. Borrower and Parent shall not, and shall not permit any Subsidiary to, use any part of the proceeds of the Revolving Loan or the Term Loan: (i) directly or indirectly to purchase or carry any security or reduce or retire any indebtedness originally incurred to purchase any such security within the meaning of Regulation G of the FRB; or (ii) so as to involve Borrower, Parent or Lender in a violation of Regulation T, U or X of the FRB.

6.6 Dividends. Except for dividends in an amount not to exceed \$100,000 in any Fiscal Year, Borrower shall not declare or pay any cash dividend or make any other distribution in respect of its common stock without the prior written consent of Lender, which consent shall not be unreasonably withheld or delayed.

6.7 Options. Borrower shall not, and Borrower shall not permit the Bank to, sell, transfer, issue, reissue, exchange or grant any option with respect to the Bank Shares.

6.8 Affiliate Transactions. Parent and Borrower shall not, and shall not permit any of the Subsidiaries to, enter into any transaction, except in accordance with applicable laws and regulations.

6.9 Name; Places of Business; Charter Amendments; Plan of Conversion. Borrower shall not change its name except upon thirty (30) days prior written notice to Lender together with execution and delivery to Lender of such UCC financing statements executed by Borrower which Lender may request prior to the effectiveness of such change. Borrower shall not make any change to the location of its principal place of business, chief executive office or books and records unless prior to the effective date of such change in location, Borrower gives Lender thirty (30) days prior written notice thereof and delivers to Lender such UCC financing statements executed by Borrower which Lender may request to reflect such change in location. Borrower shall deliver such other documents and instruments as Lender may request in connection with such change in name or location within ten (10) days of the effectiveness of such change or Lender's request therefore. Borrower shall not vote in favor of any amendment to, or change of, the charter of Bank that would result in or be required in connection with a conversion of the Bank to a depository institution charter other than a federal savings institution charter, or that would otherwise affect the Bank's status as a "qualified thrift lender" as that term is used in Section 10(m) of HOLA, provided, that, neither the adoption of a plan of conversion nor the undertaking of actions to implement the plan of conversion shall constitute a violation of this Section 6.9 so long as (i) Lender has complied with Section 5.1(vii) and (ii) such plan provides for and contemplates the repayment in full in cash of all of the Liabilities and the termination of Lender's obligation to make further Advances hereunder simultaneously with the consummation of the conversion transaction.

7. DEFAULT, RIGHTS AND REMEDIES OF LENDER.

7.1 Defaults. If any of the following events ("Defaults") shall occur:

(A) Borrower fails to pay any of its Liabilities when such Liabilities are due or are declared due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) and, with respect to payments of interest and fees, such failure shall continue for three (3) consecutive days;

(B) subject to and not in contravention of subsection 7.1(A), Borrower or Parent (i) fails or neglects to perform, keep or observe any of its covenants, conditions or agreements contained in any of the subsections of this Agreement (other than those in Section 6, subsections 5.1(ii), 5.6, 5.7 or 5.10 of this Agreement) and such failure shall continue for fifteen (15) consecutive days, or (ii) fails or neglects to perform, keep or observe any of the covenants,

conditions or agreements contained in Section 6, subsections 5.1(ii), 5.6, 5.7 or 5.10 of this Agreement or any of the covenants, conditions or agreements contained in any of the other Financing Agreements;

(C) (i) any warranty or representation (other than those contained in subsections 4.1, 4.3, 4.9, 4.12, 4.13, 4.18, 4.21 or 4.23) now or hereafter made by Borrower or Parent to Lender is untrue or incorrect in any material respect when made, or any schedule or certificate (other than those related to subsections 4.1, 4.3, 4.9, 4.12, 4.13, 4.18, 4.21 or 4.23) is untrue or incorrect in any material respect, on the date as of which the facts set forth therein are stated or certified, or any of the foregoing omits to state a fact necessary to make the statements therein contained not misleading in any material respect; and such warranty, representation, schedule or certificate shall not be corrected by appropriate remedial action taken by Borrower or Parent, as the case may be, within fifteen (15) calendar days of the date when so made, which remedial action shall make the representation, warranty, schedule or certificate true in its original form, as of the date such action is completed; or (ii) any representation or warranty contained in subsections 4.1, 4.3, 4.9, 4.12, 4.13, 4.18, 4.21 or 4.23, or any schedule or certificate delivered in connection therewith or relating thereto, is untrue or incorrect in any material respect when made, or omits to state a fact necessary to make the statements therein not misleading in any material respect;

(D) a judgment or order requiring payment in excess of \$500,000 (after taking into account insurance or bond coverage available as determined by Lender in Lender's sole discretion) shall be rendered against Parent, Borrower or any Subsidiary and such judgment or order shall remain unsatisfied or undischarged and in effect for thirty (30) consecutive days without a stay of enforcement or execution;

(E) a notice of lien, levy or assessment in an amount in excess of \$500,000 is filed or recorded with respect to all or a substantial part of the assets of Parent, Borrower or any Subsidiary by the United States, or any department, agency or instrumentality thereof, or by any state, county, municipality or other governmental agency or any taxes or debts owing at any time or times hereafter to any one or more of them become a lien upon all or a substantial part of the Collateral, and (i) such lien, levy or assessment is not discharged or released or the enforcement thereof is not stayed within thirty (30) days of the notice or attachment thereof, or (ii) if the enforcement thereof is stayed, such stay shall cease to be in effect, provided that this subsection 7.1(E) shall not apply to any liens, levies or assessments which relate to current taxes not yet due and payable;

(F) a proceeding under any bankruptcy, reorganization, arrangement of debt, insolvency, readjustment of debt or receivership law or statute is filed (i) against Borrower, Parent or any Subsidiary and an adjudication or appointment is made or order for relief is entered, or such proceeding remains undismissed for a period in excess of thirty (30) days, or (ii) by Borrower, Parent or any Subsidiary or Borrower, Parent or any Subsidiary makes an assignment for the benefit of creditors or takes any corporate action to authorize any of the foregoing;

(G) Borrower, Parent or the Bank, or any entity that is not a wholly-owned Subsidiary of Parent, Borrower or Bank voluntarily or involuntarily dissolves or is dissolved, terminates or is terminated; provided, that the dissolution of Bancorp into Borrower as contemplated in the Acquisition shall not be a Default;

(H) Borrower, Parent or any Subsidiary becomes insolvent or fails generally to pay its debts as they become due;

(I) Borrower, Parent, or any Subsidiary is enjoined, restrained, or in any way prevented by the order of any court or any administrative or regulatory agency from conducting all or any material part of its business affairs;

(J) Parent shall, or shall attempt to, terminate or revoke any of its obligations under the Guaranty or a Default (as such term is defined in the Guaranty) shall have occurred, or the Guaranty shall cease to be in full force and effect;

(K) the "Collateral" is attached, seized, subjected to a writ of distress warrant, or is levied upon and becomes subject to any lien or comes within possession of any receiver, trustee, custodian or assignee for the benefit of creditors;

(L) the Pledge Agreement shall cease to be in full force and effect or a Default (as such term is defined in the Pledge Agreement) shall have occurred;

(M) if the FRB, the FDIC, the OTS or any other Governmental Authority charged with the regulation of financial holding companies or depository institutions: (i) issues to Borrower or Parent or any Subsidiary, or initiates through formal proceedings any action, suit or proceeding to obtain against, impose on or require from Borrower, Parent or any Subsidiary, a cease and desist order or similar regulatory order, the assessment of civil monetary penalties, articles of agreement, a memorandum of understanding, a capital directive, a capital restoration plan, restrictions that prevent or as a practical matter impair the payment of dividends by any Subsidiary or the payments of any debt by Borrower or Parent, or restrictions that make the payment of the dividends by any Subsidiary or the payment of debt by Borrower or Parent subject to prior regulatory approval, a notice or finding under subsection 8(a) of the Federal Deposit Insurance Act, as amended, or any similar enforcement action, measure or proceeding; or (ii) proposes or issues to any executive officer or director of Borrower, Parent or any Subsidiary, or initiates any action, suit or proceeding to obtain against, impose on or require from any such officer or director, a cease and desist order or similar regulatory order, a removal order or suspension order, or the assessment of civil monetary penalties, unless any such orders or penalties would not reasonably be expected to have a Material Adverse Effect;

(N) if Parent, Borrower or the Bank is notified that it is considered an institution in "troubled condition" within the meaning of 12 U.S.C. Section 1831 and the regulations promulgated thereunder, or if a conservator or receiver is appointed for Borrower, Parent or any Subsidiary;

(O) if Borrower, Parent or any Subsidiary continues to be in default in any payment of principal or interest in excess of \$200,000 in the aggregate at any one time, taking any and all such defaults together, for any other obligation, or in default in the performance of any other term, condition or covenant contained in any agreement (including, but not limited to, an agreement in connection with the acquisition of capital equipment on a title retention or net

lease basis), under which any such obligation is created the effect of which default in performance is to cause or permit the holder of such obligation to cause such obligation to become due prior to its stated maturity; or

(P) a Change in Control shall occur or Parent shall cease to own and control all of the issued and outstanding capital stock of Borrower, or Borrower shall cease to own all of the issued and outstanding capital stock of the Bank and each other Subsidiary, or Parent shall consummate a mutual to stock conversion transaction without the simultaneous repayment in full in cash of all of the Liabilities and the simultaneous termination of Lender's obligation to make further Advances hereunder (as used herein, the term "Change of Control" shall mean at any time that (a) any individual or entity, either individually or as part of a "person" (as such term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) shall own, beneficially or of record, ten percent (10%) or more of the issued and outstanding common stock of Parent or ten percent (10%) or more of the voting interests of Parent and for purposes of this definition, "beneficial ownership" shall have the meaning set forth in Rule 13d-3 of the Exchange Act;

then Lender may, upon notice to Borrower, (i) terminate the Revolving Credit Commitment and Lender's obligation to make, continue and convert advances to Borrower pursuant to this Agreement and/or (ii) declare all of the Liabilities to be immediately due and payable, whereupon all of the Liabilities shall become immediately due and payable, except that in the event a Default described in subsection 7.1(F) hereof shall exist or occur, all of the Liabilities shall automatically, without notice of any kind, be immediately due and payable.

7.2 Waiver of Demand. Demand, presentment, protest and notice of nonpayment are hereby waived by Borrower and Parent. Borrower and Parent also waive the benefit of all valuation, appraisal and exemption laws.

8. MISCELLANEOUS.

8.1 Waiver. Lender's failure, at any time or times hereafter, to require strict performance by Borrower or Parent of any provision of this Agreement or any of the other Financing Agreements shall not waive, affect or diminish any right of Lender thereafter to demand strict compliance and performance therewith. Any suspension or waiver by Lender of a Default under this Agreement or any of the other Financing Agreements shall not suspend, waive or affect any other Default under this Agreement or any of the other Financing Agreements, whether the same is prior or subsequent thereto and whether of the same or of a different kind or character. None of the undertakings, agreements, warranties, covenants and representations of Borrower and Parent contained in this Agreement or any of the other Financing Agreements and no Default under this Agreement or any of the other Financing Agreements shall be deemed to have been suspended or waived by Lender unless such suspension or waiver is in writing signed by an officer of Lender, and directed to Borrower specifying such suspension or waiver. All Defaults shall continue until the same are waived by Lender in accordance with the preceding sentence.

8.2 Costs and Attorneys' Fees. If at any time or times hereafter Lender employs counsel in connection with any matters contemplated by or arising out of this Agreement or any of the other Financing Agreements, whether (a) to prepare, negotiate or execute (i) any amendment to or modification or extension of this Agreement, any other Financing Agreements or any instrument, document or agreement executed by any Person in connection with the transactions contemplated by this Agreement, (ii) any new or supplemental Financing Agreements, or any instrument, document or agreement to be executed by any Person in connection with the transactions contemplated by this Agreement, or (iii) any instrument, document or agreement in connection with any sale or attempted sale of any interest herein to any participant, (b) to commence, defend, or intervene in any litigation or to file a petition, complaint, answer, motion or other pleadings, (c) to take any other action in or with respect to any suit or proceeding (bankruptcy or otherwise), (d) to consult with officers of Lender to advise Lender, or (e) to enforce any rights of Lender, then in any of such events, all of the reasonable attorneys' fees arising from such services, and any expenses, costs and charges relating thereto, including, without limitation, all reasonable fees of all paralegals and other staff employed by such attorneys, together with interest following demand for payment thereof at the from time to time rate prescribed in subsection 2.4 hereof for Liabilities constituting Prime Rate Advances, shall be part of the Liabilities, payable on demand.

8.3 Reliance by Lender. All covenants, agreements, representations and warranties made herein by each of Borrower and Parent shall, notwithstanding any investigation by Lender, be deemed to be material to and to have been relied upon by Lender.

8.4 Parties. Whenever in this Agreement there is reference made to any of the parties hereto, such reference shall be deemed to include, wherever applicable, a reference to the successors and assigns of Borrower and Parent and the successors and assigns of Lender, as the case may be, and the provisions of this Agreement shall be binding upon and shall inure to the benefit of said successors and assigns. Notwithstanding anything herein to the contrary, neither Borrower nor Parent may assign or otherwise transfer its rights or obligations under this Agreement without the prior written consent of Lender. Without in any way limiting Lender's rights, Lender may sell participations in the Liabilities or sell or assign its rights hereunder and under the other Financing Agreements, in whole or in part, on such terms as Lender may determine, but not to any Person that is not an Affiliate of Lender without Borrower's prior written consent thereto which consent may not be unreasonably withheld or delayed.

8.5 CHOICE OF LAW. THIS AGREEMENT SHALL BE DEEMED TO BE EXECUTED AND HAS BEEN DELIVERED AND ACCEPTED IN CHICAGO, ILLINOIS BY SIGNING AND DELIVERING IT THERE. ANY DISPUTE BETWEEN THE PARTIES HERETO ARISING OUT OF, CONNECTED WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED BETWEEN THEM IN CONNECTION WITH THIS AGREEMENT, AND WHETHER ARISING IN CONTRACT, TORT, EQUITY, OR OTHERWISE, SHALL BE RESOLVED IN ACCORDANCE WITH THE INTERNAL LAWS AND NOT THE CONFLICTS OF LAW PROVISIONS OF THE STATE OF ILLINOIS.

8.6 CONSENT TO JURISDICTION. LENDER, PARENT AND BORROWER AGREE THAT ALL DISPUTES BETWEEN THEM ARISING OUT OF, CONNECTED WITH, RELATED TO OR INCIDENTAL TO THE RELATIONSHIP

ESTABLISHED BETWEEN THEM IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS, AND WHETHER ARISING IN CONTRACT, TORT, EQUITY OR OTHERWISE, SHALL BE RESOLVED ONLY BY STATE OR FEDERAL COURTS LOCATED IN COOK COUNTY, ILLINOIS, BUT LENDER, PARENT AND BORROWER ACKNOWLEDGE THAT ANY APPEALS FROM THOSE COURTS MAY HAVE TO BE HEARD BY A COURT LOCATED OUTSIDE OF COOK COUNTY, ILLINOIS. BORROWER AND PARENT WAIVE IN ALL DISPUTES ANY OBJECTION THAT IT MAY HAVE TO THE LOCATION OF THE COURT CONSIDERING THE DISPUTE.

8.7 SERVICE OF PROCESS. EACH OF PARENT AND BORROWER HEREBY WAIVES PERSONAL SERVICE OF ANY AND ALL PROCESS UPON IT AND IRREVOCABLY APPOINTS CT CORPORATION SYSTEM, 208 S. LASALLE STREET, CHICAGO, ILLINOIS 60604, PARENT'S AND BORROWER'S AGENT, AS PARENT'S AND BORROWER'S AGENT FOR THE PURPOSE OF ACCEPTING SERVICE OF PROCESS WITHIN THE STATE OF ILLINOIS. LENDER AGREES TO PROMPTLY FORWARD BY REGISTERED MAIL (NO RETURN RECEIPT REQUIRED) A COPY OF ANY PROCESS SO SERVED UPON SAID AGENT TO BORROWER AT ITS ADDRESS SET FORTH IN SUBSECTION 8.12 HEREOF. PARENT AND BORROWER HEREBY CONSENT TO SERVICE OF PROCESS AS AFORESAID. EACH OF PARENT AND BORROWER FURTHER IRREVOCABLY CONSENT TO THE SERVICE OF PROCESS OUT OF THE COURTS REFERRED TO IN SUBSECTION 8.6 HEREOF IN ANY SUCH ACTION OR PROCEEDING BY MAILING COPIES OF SUCH SERVICE BY REGISTERED MAIL, POSTAGE PREPAID TO IT AT SAID ADDRESS. NOTHING IN THIS AGREEMENT SHALL AFFECT THE RIGHT OF LENDER TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW BUT ANY FAILURE TO RECEIVE SUCH COPY SHALL NOT AFFECT IN ANY WAY THE SERVICE OF SUCH PROCESS.

8.8 WAIVER OF JURY TRIAL. PARENT, BORROWER AND LENDER WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE, BETWEEN LENDER AND EITHER OR BOTH OF PARENT AND BORROWER ARISING OUT OF, CONNECTED WITH, RELATED TO OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED BETWEEN THEM IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith OR THE TRANSACTIONS RELATED HERETO OR THERETO. PARENT, BORROWER AND LENDER HEREBY AGREE AND CONSENT THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT ANY PARTY MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

8.9 SEVERABILITY. WHEREVER POSSIBLE, EACH PROVISION OF THIS AGREEMENT SHALL BE INTERPRETED IN SUCH MANNER AS TO BE EFFECTIVE AND VALID UNDER APPLICABLE LAW, BUT IF ANY PROVISION OF THIS AGREEMENT SHALL BE PROHIBITED BY OR INVALID UNDER APPLICABLE

LAW, SUCH PROVISION SHALL BE INEFFECTIVE ONLY TO THE EXTENT OF SUCH PROHIBITION OR INVALIDITY, WITHOUT INVALIDATING THE REMAINDER OF SUCH PROVISION OR THE REMAINING PROVISIONS OF THIS AGREEMENT.

8.10 Payments Set Aside. To the extent that Borrower or Parent makes a payment or payments to Lender or Lender exercises its rights of setoff, and such payment or payments or the proceeds of such enforcement or setoff or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then, to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

8.11 Section Titles. The section and subsection titles contained in this Agreement shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreement between the parties.

8.12 Notices. Except as otherwise expressly provided herein, any notice required or desired to be served, given or delivered hereunder shall be in writing, and shall be deemed to have been validly served, given or delivered (i) three (3) days after deposit in the United States mails, with proper postage prepaid, (ii) when sent after receipt of confirmation or answerback if sent by telecopy, or other similar facsimile transmission, (iii) one (1) Business Day after deposited with a reputable overnight courier with all charges prepaid, or (iv) when delivered, if hand-delivered by messenger, all of which shall be properly addressed to the party to be notified and sent to the address or number indicated as follows:

(i) If to Lender at:

American National Bank and
Trust Company of Chicago
120 S. LaSalle Street
Chicago, Illinois 60603
Attention: Marc T. Nelson, Vice President
Facsimile: 312/661-9511
Confirmation: 312/661-6812

(ii) If to Borrower or Parent at:

BankFinancial Corporation/ Financial Federal MHC, Inc.
1200 Internationale Parkway, Suite 101
Woodridge, IL 6-517
Attention: James J. Brennan, Executive Vice President, General Counsel
Facsimile: 630/972-3633
Confirmation: 630/972-3636

or to such other address or number as each party designates to the other in the manner herein prescribed.

8.13 Equitable Relief. Borrower recognizes that, in the event Borrower fails to perform, observe or discharge any of its obligations or liabilities under this Agreement, any remedy at law may prove to be inadequate relief to Lender; therefore, Borrower agrees that Lender, if Lender so requests, shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving actual damages and the granting of any such relief shall not preclude Lender from pursuing any other relief or remedies for such breach.

8.14 Indemnification. Borrower and Parent jointly and severally agree to defend, protect, indemnify and hold harmless Lender and each of its officers, directors, employees, attorneys, consultants and agents (collectively, the "Indemnitees") from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, expenses and disbursements of any kind or nature whatsoever (including, without limitation, the reasonable fees and disbursements of counsel for and consultants of such Indemnitees in connection with any investigative, administrative or judicial proceeding, whether or not such Indemnitees shall be designated a party thereto), which may be imposed on, incurred by, or asserted against such Indemnitees (whether direct, indirect, or consequential and whether based on any federal or state laws or other statutory regulations, including, without limitation, securities, environmental and commercial laws and regulations, under common law or at equitable cause or on contract or otherwise) in any manner relating to or arising out of this Agreement or the other Financing Agreements, or any act, event or transaction related or attendant thereto, the agreements of Lender contained herein, the making of the Revolving Loan or the Term Loan, the management of the Revolving Loan or the Term Loan or the use or intended use of the proceeds of the Revolving Loan or the Term Loan (collectively, the "Indemnified Matters"); provided that Borrower and Parent shall have no obligation to any Indemnitee hereunder with respect to Indemnified Matters to the extent caused by or resulting from the willful misconduct or gross negligence of such Indemnitee, provided, however, that neither Borrower nor Parent shall be liable for any taxes owing by Lender and not otherwise expressly stated to be the obligation of Borrower or Parent in subsections 2.10 or 2.12. To the extent that the undertaking to indemnify, pay and hold harmless set forth in this subsection 8.14 may be unenforceable because it is violative of any law or public policy, Borrower and Parent shall contribute the maximum portion which it is permitted to pay and satisfy under applicable law, to the payment and satisfaction of all Indemnified Matters incurred by the Indemnitees. Parent's and Borrower's obligations hereunder shall survive any termination of this Agreement and the other Financing Agreements and the payment in full of the Liabilities for a period of one year.

8.15 Counterparts. This Agreement may be executed and accepted in any number of counterparts, each of which shall be an original with the same effect as if the signatures were on the same instrument. The delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be effective as delivery of a manually executed counterpart of this Agreement.

IN WITNESS WHEREOF, this Agreement has been duly executed as of the day and year first above written.

BANKFINANCIAL CORPORATION

By: /s/ F. Morgan Gasior

Title: Chief Executive Officer

FINANCIAL FEDERAL MHC, INC.

By: /s/ F. Morgan Gasior

Title: Chief Executive Officer

Accepted and agreed to in
Chicago, Illinois on this
16th day of November, 2001:

AMERICAN NATIONAL BANK AND
TRUST COMPANY OF CHICAGO

By: /s/ Marc T. Nelson

Title: Vice President

FIRST AMENDMENT TO LOAN AGREEMENT

This Amendment ("Amendment") is entered into as of this 30th day of October, 2002, by and between, **BankFinancial Corporation**, a federal corporation and a subsidiary savings and loan holding company ("Borrower"), **Financial Federal MHC, Inc.**, a federally chartered mutual holding company and the parent of Borrower ("Parent"), and **American National Bank and Trust Company of Chicago**, a national banking association ("Lender").

WHEREAS, the Borrower has executed in favor of Lender that certain Loan Agreement dated as of November 16, 2001, by and among Borrower, Parent, and Lender (the "Loan Agreement");

WHEREAS, the parties hereto desire to have and agreed to enter into this amendment in order to amend certain terms and conditions of the Loan Agreement; and

NOW, THEREFORE, in consideration of the above recitals the mutual promises and agreements of the parties set forth herein and other good and valuable consideration, the receipt is sufficiency of which is hereby acknowledged, the parties hereto agree to amend the Loan Agreement as follows:

1. **Section 1.1. DEFINITIONS.** The following definition of "Termination Date" shall be amended as follows:

"Termination Date" shall mean December 31, 2003, or such earlier date on which the Revolving Credit Commitment shall be terminated or reduced to zero and the Term Loan shall be paid in full in accordance with the terms of this Agreement.
2. Capitalized terms not defined herein shall have the meaning ascribed in the Loan Agreement.
3. This Agreement shall be incorporated into and be part of the Loan Agreement and the other Financing Agreements.
4. All terms and provisions of the Financing Agreements, except as expressly modified herein, shall continue in full force and effect, and Borrower and Parent hereby confirm each and every one of their obligations under the Financing Agreements as amended herein including, without limitation, all obligations of Parent under the Guaranty, all of which are hereby ratified and reaffirmed, and Borrower and Parent acknowledge and agree that Lender does not waive any of its rights or remedies under the Financing Agreements except as amended herein.
5. This Agreement shall be governed by and construed in accordance with, the internal laws of the State of Illinois and not its law of conflicts.
6. This Amendment shall inure to the benefit of the Lender's successors and assigns and shall be binding upon Borrower's and Parents' successors and assigns.

IN WITNESS WHEREOF, the parties shall hereto have executed this Amendment as the day and year first written above.

BankFinancial Corporation

By: /s/ F. Morgan Gasior

Its: Chief Executive Officer

Financial Federal MHC, Inc.

By: /s/ F. Morgan Gasior

Its: Chief Executive Officer

**American National Bank and
Trust Company of Chicago**

By: /s/ John L. Spalding

Its: First Vice President

SECOND AMENDMENT

TO

LOAN AGREEMENT

BY AND AMONG

BANK ONE, NA

**(successor in interest to
American National Bank and Trust Company of Chicago),**

BANKFINANCIAL CORPORATION

AND

**BANKFINANCIAL MHC, INC.
(formerly known as Financial Federal MHC, Inc.)**

AMENDMENT PROVISIONS:

	PAGE
A. Amendments to Certain Provisions of Subsection 1.1 of the 2001 Loan Agreement	1
B. Amendment to Subsection 1.2 of the 2001 Loan Agreement	2
C. Amendment to Subsection 2.1(A) of the 2001 Loan Agreement	2
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E. Amendment to Subsection 2.5 of the 2001 Loan Agreement	3
F. Amendments to Certain Provisions of Section 5, Section 8 and Exhibit F of the 2001 Loan Agreement	3
G. Representations and Warranties	5
H. Ratification of Guaranty and Pledge	5
I. Conditions	5
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EXHIBITS:

EXHIBIT A - Form of Restated Revolving Promissory Note

EXHIBIT B - Form of Restated Term Promissory Note

EXHIBIT C - Form of Legal Opinion

SECOND AMENDMENT TO LOAN AGREEMENT

This SECOND AMENDMENT TO LOAN AGREEMENT (this "*Second Amendment*"), dated as of November 7, 2003, is entered into by and between BANKFINANCIAL CORPORATION, a federal corporation and a subsidiary savings and loan holding company (the "*Borrower*"), BANKFINANCIAL CORPORATION MHC, INC. (formerly known as FINANCIAL FEDERAL MHC, INC.), a federally chartered mutual holding company and the parent of Borrower (the "*Parent*"), and Bank One, NA (successor in interest to American National Bank and Trust Company of Chicago), a national banking association (the "*Lender*").

RECITALS:

A. The parties hereto have entered into that certain Loan Agreement, dated as of November 16, 2001, as previously amended, restated, supplemented or modified from time to time (including without limitation by that certain First Amendment to Loan Agreement dated as of October 30, 2002, the "*2001 Loan Agreement*").

B. The parties hereto desire to amend and modify the 2001 Loan Agreement in accordance with the terms and subject to the conditions set forth in this Second Amendment. As amended and modified by this Second Amendment, the 2001 Loan Agreement may be referred to as the "*Agreement*."

C. The parties desire to amend the terms of the 2001 Loan Agreement to: (i) increase the amount of the Term Loan (such additional amount, the "*Increase*"); (ii) extend the Termination Date; and (iii) modify or eliminate certain financial covenants. The parties agree to undertake such modifications in accordance with the terms, subject to the conditions, and in reliance upon the recitals, representations, warranties, and covenants set forth herein, in the Agreement, and in the other Financing Agreements, irrespective of whether entered into or delivered on or after November 16, 2001.

D. Capitalized terms used but not otherwise defined in this Second Amendment shall have the meanings respectively ascribed to them in the 2001 Loan Agreement.

NOW, THEREFORE, in consideration of the mutual representations, warranties, covenants, and agreements hereinafter set forth, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

AGREEMENT:

A. Amendments to Certain Provisions of Subsection 1.1 of the 2001 Loan Agreement.

(i) The following terms are hereby deleted in their entirety from subsection 1.1 of the 2001 Loan Agreement: "*Non-Performing Loans*"; "*Tangible Equity Capital*"; and "*Total Assets*".

(ii) The term “*Net Income*” is hereby deleted from subsection 1.1 of the 2001 Loan Agreement and replaced in its entirety with the following:

“ “*Net Income*”, with respect to the Bank, shall have the meaning given to it in subsection 5.18.”

(iii) The following shall be added in its entirety to subsection 1.1, of the 2001 Loan Agreement:

“ “*Redemption*” shall mean the redemption by BankFinancial Corporation of all its outstanding 8.95% unsecured junior subordinated deferrable interest debentures due May 19, 2028 (aggregate principal amount of \$15,463,917.52) in connection with the redemption of the 8.95% Cumulative Trust Preferred Securities (aggregate liquidation amount of \$15,000,000) issued by Success Capital Trust.”

(iv) The term “*Termination Date*” is hereby deleted from subsection 1.1 of the 2001 Loan Agreement and replaced in its entirety with the following:

“ “*Termination Date*” shall have the meaning given to it in subsection 1.2.”

(v) The term “*Tier 1 Capital*” is hereby deleted from subsection 1.1 of the 2001 Loan Agreement and replaced in its entirety with the following:

“ “*Tier 1 Capital*” shall have the meaning set forth at 12 C.F.R. § 565.2(g) (which cross-references 12 C.F.R. § 567.5(a)) of the regulations of the OTS. The resulting amount of Tier 1 Capital of the Bank is reflected in Schedule CCR of the Bank’s Thrift Financial Reports that are filed with the OTS.”

B. Amendment to Subsection 1.2 of the 2001 Loan Agreement. Subsection 1.2 of the 2001 Loan Agreement is hereby deleted and replaced in its entirety with the following:

“ “*Termination Date*” shall mean December 31, 2004, or such earlier date on which the Revolving Credit Commitment shall be terminated or reduced to zero and the Term Loan shall be paid in full in accordance with the terms of this Agreement.”

C. Amendment to Subsection 2.1(A) of the 2001 Loan Agreement. The third sentence of subsection 2.1(A) of the 2001 Loan Agreement is hereby deleted and replaced in its entirety with the following:

“The Revolving Loan made by the Lender to the Borrower under this subsection 2.1(A) shall be evidenced, in part, by and shall be repayable in accordance with the terms of a promissory note of even date herewith in the form attached hereto as Exhibit A (the “*Revolving Note*”, which shall also include any and all other documents delivered in substitution or exchange therefor) with the blanks appropriately filled.”

D. Amendment to Subsection 2.2 of the 2001 Loan Agreement. The first paragraph of Section 2.2 of the 2001 Loan Agreement is hereby deleted and replaced in its entirety with the following:

“(A) Term Loan. Subject to the provisions of Section 3 below, Lender agrees, immediately following the execution of this Agreement, to extend to Borrower a term loan in the principal amount of \$30,000,000 (the “*Term Loan*”), \$15,000,000 of which was funded on November 16, 2001, and \$15,000,000 of which shall be funded in an Advance on the date of the Redemption, which Advance (i) the Borrower shall request in accordance with subsection 2.8 and (ii) shall be subject to the conditions set forth in this Agreement. The Term Loan made by the Lender to the Borrower under this subsection 2.2(A) shall be evidenced, in part, by and shall be repayable in accordance with the terms of a promissory note of even date herewith in the form attached hereto as Exhibit B (the “*Term Note*”, which shall also include any and all other documents delivered in substitution or exchange therefor) with the blanks appropriately filled.”

E. Amendment to Subsection 2.5 of the 2001 Loan Agreement. Subsection 2.5 of the 2001 Loan Agreement is hereby deleted and replaced in its entirety with the following:

“2.5 Use of Proceeds. The proceeds of the Revolving Loan and the Term Loan shall be used for Borrower’s general corporate purposes (including, without limitation, the Redemption).”

F. Amendments to Certain Provisions of Section 5, Section 8 and Exhibit F of the 2001 Loan Agreement.

(i) Subsection 5.12 of the 2001 Loan Agreement is hereby deleted and replaced in its entirety with the following:

“5.12 Tier 1 Capital. Borrower shall cause the Bank to maintain Tier 1 Capital at all times in an amount not less than One Hundred Million Dollars (\$100,000,000). “*Tier 1 Capital*” shall have the meaning given in subsection 5.14.”

(ii) Subsection 5.13 of the 2001 Loan Agreement is hereby deleted in its entirety.

(iii) Subsection 5.16 of the 2001 Loan Agreement is hereby deleted in its entirety.

(iv) Subsection 5.17 of the 2001 Loan Agreement is hereby deleted in its entirety.

(v) Subsection 5.18 of the 2001 Loan Agreement is hereby deleted and replaced in its entirety with the following:

“5.18 Return on Average Assets. Borrower shall cause Bank to maintain a ratio of Net Income to Average Assets (A) for the calendar year ending December 31, 2003, of not less than thirty-five hundredths of one percent (0.35%); and (B) on an annualized

basis for each calendar quarter during each Fiscal Year ending after December 31, 2003, of not less than one half of one percent (0.50%). For the purposes of this subsection 5.18, "Net Income" shall mean the consolidated net income of the Bank computed in accordance with GAAP, but which shall exclude the effect of charges (not to exceed \$20,000,000, in the aggregate, on a pretax basis) associated with FHLB restructuring undertaken by the Bank during 2003, and "Average Assets" shall mean for any yearly or quarterly period the daily average of total assets for such year or quarter, as the case may be."

(vi) Subsections 8.12(i) and (ii) of the 2001 Loan Agreement are hereby deleted and replaced in its entirety with the following:

"(i) If to Lender at:

Bank One, NA
120 South LaSalle Street
Chicago, Illinois 60603
Attention: John L. Spalding, First Vice President
Facsimile: (312) 661-9511
Confirmation: (312) 661-6875

(ii) If to Borrower or Parent at:

BankFinancial Corporation/BankFinancial MHC, Inc.
15 W060 North Frontage Road
Burr Ridge, Illinois 60527
Attention: F. Morgan Gasior, Chairman and Chief Executive Officer
and James J. Brennan, Executive Vice President, General Counsel
Facsimile: (630) 242-7569
Confirmation: (630) 242-7070"

(vii) Exhibit F to the 2001 Loan Agreement is hereby amended as follows:

(i) The line "Calculation of Tangible Equity Capital, as required in subsection 5.12 of the Agreement" is hereby deleted and replaced in its entirety with "Calculation of Tier 1 Capital, as required in subsection 5.12 of the Agreement"

(ii) The line "Calculation of Primary Capital Ratio, as required in subsection 5.13 of the Agreement" is hereby deleted.

(iii) The line "Calculation of Loan Loss Reserve Ratio, as required in subsection 5.16 of the Agreement" is hereby deleted.

(iv) The line "Calculation of Net Income, as required in subsection 5.17 of the Agreement" is hereby deleted.

G. Representations and Warranties. Borrower and Parent each hereby represents and warrants to the Lender as follows:

(i) No Default has occurred and is continuing (or would result from entering into the amendment contemplated hereby).

(ii) The execution, delivery and performance by the Borrower and Parent of this Second Amendment have been duly authorized by all necessary corporate and other action and do not and will not require any registration with, consent or approval of, or notice to or action by, any Person (including any Governmental Authority) in order to be effective and enforceable.

(iii) This Second Amendment, and the other Financing Agreements (as amended by this Second Amendment) constitute the legal, valid and binding obligations of the Borrower and Parent, as applicable, enforceable against each of the Borrower and Parent, as applicable, in accordance with their respective terms.

(iv) All representations and warranties of the Borrower and Parent in the Financing Agreements are true and correct in all material respects, except to the extent (a) such representations and warranties in Sections 4.2, 4.9 and 4.10 of the 2001 Loan Agreement expressly refer to an earlier date, in which case all references to (1) December 31, 2000 shall be hereby deemed to refer to December 31, 2002 and (2) September 30, 2001 shall be hereby deemed to refer to June 30, 2003, and (b) reflected in the updated disclosure schedules attached to the Secretary's Certificate delivered pursuant to Section 1(iv) of this Second Amendment, which updated disclosure schedules the Lender hereby accept, for all purposes under the Agreement, in substitution for the corresponding disclosure schedules attached to the 2001 Loan Agreement.

(v) The proceeds of the Increase shall be used for the Redemption.

H. Ratification of Guaranty and Pledge. As herein amended, each of the Financing Agreements shall remain in full force and effect and each of the agreements, pledges, guarantees and obligations contained therein (including, without limitation, all of Parent's obligations under each of the Guaranty and the Pledge), as amended hereby, is hereby ratified and confirmed in all respects.

I. Conditions. Notwithstanding anything to the contrary contained elsewhere in the Agreement, the obligation of the Lender to increase the amount of the Term Loan, extend the Termination Date and amend the financial covenants as contemplated by this Second Amendment shall be subject to (i) the performance by the Borrower prior to the date on which this Second Amendment is completely executed (the "*Amendment Closing Date*") of all of its agreements theretofore to be performed under the Agreement, (ii) the representations and warranties herein being true, correct and complete in all respects, and (iii) to the satisfaction of the following conditions precedent. The obligations to continue to make Advances under the Revolving Loan and Term Loan as contemplated by this Second Amendment are, and shall remain, subject to the conditions precedent in the 2001 Loan Agreement and to the receipt by the

Lender of all the following in form and substance satisfactory to the Lender and its counsel, and, where appropriate, duly executed and dated the Amendment Closing Date:

- (i) the restated Revolving Note, substantially in the form of Exhibit A attached hereto;
- (ii) the restated Term Note, substantially in the form of Exhibit B attached hereto;
- (iii) copies, certified by the Secretary of Parent, of the (a) resolutions duly adopted by the Board of Directors of Parent authorizing the execution, delivery and performance of this Second Amendment and the other documents to be delivered pursuant hereto (the “*Amendment-Related Documents*”) to be executed by the Parent, (b) the Bylaws of the Parent as currently in effect, and (c) the Charter of the Parent as currently in effect;
- (iv) copies, certified by the Secretary of the Borrower, of the (a) resolutions duly adopted by the Board of Directors of Borrower authorizing the execution, delivery and performance of this Second Amendment and the Amendment-Related Documents to be executed by the Borrower, (b) the Bylaws of the Borrower as currently in effect, and (c) the Charter of the Borrower as currently in effect;
- (v) a Signature Authorization Certificate; and
- (vi) a written opinion of counsel for the Parent and Borrower, addressed to the Lender, substantially in the form of Exhibit C attached hereto.

J. Additional Terms.

(i) Acknowledgment of Indebtedness under Agreement. The Parent and the Borrower each acknowledges and confirms that, as of the date hereof, the Borrower is indebted to the Lender, without defense, setoff, right of recoupment, abatement or counterclaim under the Agreement and any other Financing Document, in the aggregate principal amount of Fifteen Million and No/100 Dollars (\$15,000,000.00) under the Term Loan made under the 2001 Loan Agreement. As of the date hereof, there is no amount outstanding under the Revolving Loan.

(ii) The Agreement. All references in the 2001 Loan Agreement to the term “Agreement” shall be deemed to refer to the Agreement referenced in this Second Amendment.

(iii) The Notes. All references in the 2001 Loan Agreement and the other Financing Agreements to the term “*Term Note*” or “*Revolving Note*” shall be deemed to refer to the restated Revolving Note or restated Term Note, as the case may be, referenced in, and executed pursuant to, this Second Amendment.

(iv) Second Amendment and 2001 Loan Agreement to be Read Together. This Second Amendment supplements and is hereby made a part of the 2001 Loan Agreement, and the 2001 Loan Agreement and this Second Amendment shall from and after the date hereof be read together and shall constitute the Agreement. Except as otherwise set forth herein, the 2001 Loan Agreement shall remain in full force and effect.

(v) Financing Agreements. The term “*Financing Agreements*,” as used in the Agreement, shall from and after the date hereof include the Amendment-Related Documents.

(vi) Counterparts. This Second Amendment may be executed by facsimile in one or more counterparts, each of which shall be deemed an original and all of which taken together shall constitute one and the same document.

(vii) Cross-References to Section 5. The parties acknowledge that certain of the cross-references to subsections of Section 5 appearing in subsection 1 and in Section 5 of the 2001 Loan Agreement are intended, and shall be deemed, to refer to the immediately succeeding subsection (*i.e.*, a cross-reference to subsection 5.13 shall be deemed to refer to subsection 5.14), where appropriate.

(viii) Government Regulation. Neither Borrower nor Parent shall (a) be or become subject at any time to any law, regulation, or list of any government agency (including, without limitation, the U.S. Office of Foreign Asset Control list) that prohibits or limits Bank from making any advance or extension of credit to Borrower or from otherwise conducting business with either Borrower or Parent, or (b) fail to provide documentary or other evidence of Borrower’s or Parent’s identity as may be requested by the Bank at any time to enable the Bank to verify Borrower’s or Parent’s identity or to comply with any applicable law or regulation, including, without limitation, Section 326 of the USA Patriot Act of 2001, 31 U.S.C. Section 5318.

(Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Borrower and the Lender have executed this Second Amendment as of the date first written above.

BANKFINANCIAL CORPORATION

By: /s/ F. Morgan Gasior

Name: F. Morgan Gasior
Title: Chairman and CEO

BANKFINANCIAL MHC, INC.

By: /s/ F. Morgan Gasior

Name: F. Morgan Gasior
Title: Chairman and CEO

BANK ONE, NA

By: /s/ John L. Spalding

Name: John L. Spalding
Title: First Vice President

THIRD AMENDMENT TO LOAN AGREEMENT

This THIRD AMENDMENT TO LOAN AGREEMENT (this "Third Amendment"), dated as of June 11, 2004, is entered into by and between BANKFINANCIAL CORPORATION, a federal corporation and a subsidiary savings and loan holding company (the "Borrower"), BANKFINANCIAL CORPORATION MHC, INC. (formerly known as Financial Federal MHC, Inc.), a federally chartered mutual holding company and the parent of Borrower (the "Parent"), and BANK ONE, NA (successor in interest to American National Bank and Trust Company of Chicago), a national banking association (the "Lender").

RECITALS:

A. The parties hereto have entered into that certain Loan Agreement, dated as of November 16, 2001, as previously amended, restated, supplemented or modified from time to time, including without limitation by that certain First Amendment to Loan Agreement dated as of October 30, 2002, and that certain Second Amendment to Loan Agreement dated as of November 7, 2003 (collectively, the "2001 Loan Agreement").

B. The parties hereto desire to amend and modify the 2001 Loan Agreement in accordance with the terms and subject to the conditions set forth in this Third Amendment. As amended and modified by this Third Amendment, the 2001 Loan Agreement may be referred to as the "Agreement."

C. The parties desire to amend the terms of the 2001 Loan Agreement to modify the definition of "Net Income" as set forth in subsection 5.18 of the 2001 Loan Agreement. The parties agree to undertake this modification in accordance with the terms, subject to the conditions, and in reliance upon the recitals, representations, warranties, and covenants set forth herein, in the Agreement, and in the other Financing Agreements, irrespective of whether entered into or delivered on or after November 16, 2001.

D. Capitalized terms used but not otherwise defined in this Third Amendment shall have the meanings respectively ascribed to them in the 2001 Loan Agreement.

NOW, THEREFORE, in consideration of the mutual representations, warranties, covenants, and agreements hereinafter set forth, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

AGREEMENT:

A. Amendment to Subsection 5.18 of the 2001 Loan Agreement.

(i) Subsection 5.18 of the 2001 Loan Agreement is hereby deleted and replaced in its entirety with the following:

"5.18 Return on Average Assets. Borrower shall cause Bank to maintain a ratio of Net Income to Average Assets on an annualized basis for each calendar quarter during each Fiscal Year ending after December 31, 2003, of not less than one half of one percent (0.50%). For the purposes of this subsection 5.18, "Net Income" shall mean the consolidated net income of the Bank computed in accordance with GAAP, but which shall exclude the effect of charges associated with FHLB restructuring that was undertaken by the Bank during 2003, and provided the Bank remains in compliance with

the minimum Tier 1 Capital amount set forth in subsection 5.12 of the Agreement and the minimum Tier 1 Leverage and Risk-Based Capital Ratios set forth in subsection 5.14 of the Agreement, the effect of charges for any losses realized or recognized, including charges relating to any sale or impairment, in connection with the shares of Federal National Mortgage Corporation and the Federal Home Loan Mortgage Corporation preferred securities that are described more fully on Schedule 5.18 hereto. "Average Assets" shall mean for any yearly or quarterly period the daily average of total assets for such year or quarter, as the case may be.

B. Representations and Warranties. Borrower and Parent each hereby represents and warrants to the Lender as follows:

(i) No Default has occurred and is continuing (or would result from entering into the amendment contemplated hereby).

(ii) The execution, delivery and performance by the Borrower and Parent of this Third Amendment have been duly authorized by all necessary corporate and other action and do not and will not require any registration with, consent or approval of, or notice to or action by, any Person (including any Governmental Authority) in order to be effective and enforceable.

(iii) This Third Amendment and the other Financing Agreements constitute the legal, valid and binding obligations of the Borrower and Parent, as applicable, enforceable against each of the Borrower and Parent, as applicable, in accordance with their respective terms.

(iv) All representations and warranties of the Borrower and Parent in the Financing Agreements are true and correct in all material respects, except to the extent such representations and warranties in Sections 4.2, 4.9 and 4.10 of the 2001 Loan Agreement expressly refer to an earlier date, in which case all references to (a) December 31, 2000 shall be hereby deemed to refer to December 31, 2003 and (b) September 30, 2001 shall be hereby deemed to refer to March 31, 2004.

C. Ratification of Guaranty and Pledge. As herein amended, each of the Financing Agreements shall remain in full force and effect and each of the agreements, pledges, guarantees and obligations contained therein (including, without limitation, all of Parent's obligations under each of the Guaranty and the Pledge), as amended hereby, is hereby ratified and confirmed in all respects.

D. Conditions. Notwithstanding anything to the contrary contained elsewhere in the Agreement, the obligation of the Lender to amend the definition of "Net Income" as set forth in subsection 5.18 of the 2001 Loan Agreement, as contemplated by this Third Amendment, shall be subject to (i) the performance by the Borrower prior to the date on which this Third Amendment is completely executed (the "Amendment Closing Date") of all of its agreements theretofore to be performed under the Agreement, (ii) the representations and warranties herein being true, correct and complete in all respects, and (iii) to the satisfaction of the following conditions precedent. The obligations to continue to make Advances under the Revolving Loan and Term Loan shall remain subject to the conditions precedent in the 2001 Loan Agreement and to the receipt by the Lender of all the following in form and substance satisfactory to the Lender and its counsel, and, where appropriate, duly executed and dated the Amendment Closing Date:

(i) copies, certified by the Secretary of Parent, of the (a) resolutions duly adopted by the Board of Directors of Parent authorizing the execution, delivery and performance of this Third Amendment and any other documents to be delivered pursuant hereto (the "Amendment-Related Documents") to be executed by the Parent, (b) the Bylaws of the Parent as currently in effect, and (c) the Charter of the Parent as currently in effect;

(ii) copies, certified by the Secretary of the Borrower, of the (a) resolutions duly adopted by the Board of Directors of Borrower authorizing the execution, delivery and performance of this Third Amendment and any Amendment-Related Documents to be executed by the Borrower, (b) the Bylaws of the Borrower as currently in effect, and (c) the Charter of the Borrower as currently in effect; and

(iii) a Signature Authorization Certificate.

E. Additional Terms.

(i) Acknowledgment of Indebtedness under Agreement. The Parent and the Borrower each acknowledges and confirms that, as of the date hereof, the Borrower is indebted to the Lender, without defense, setoff, right of recoupment, abatement or counterclaim under the Agreement and any other Financing Document, in the aggregate principal amount of Thirty Million and No/100 Dollars (\$30,000,000.00) under the Term Loan made under the 2001 Loan Agreement. As of the date hereof, there is no amount outstanding under the Revolving Loan.

(ii) The Agreement. All references in the 2001 Loan Agreement to the term “Agreement” shall be deemed to refer to the Agreement referenced in this Third Amendment.

(iii) Third Amendment and 2001 Loan Agreement to be Read Together. This Third Amendment supplements and is hereby made a part of the 2001 Loan Agreement, and the 2001 Loan Agreement and this Third Amendment shall from and after the date hereof be read together and shall constitute the Agreement. Except as otherwise set forth herein, the 2001 Loan Agreement shall remain in full force and effect.

(iv) Financing Agreements. The term “Financing Agreements,” as used in the Agreement, shall from and after the date hereof include the Amendment-Related Documents.

(v) Counterparts. This Third Amendment may be executed by facsimile in one or more counterparts, each of which shall be deemed an original and all of which taken together shall constitute one and the same document.

(vi) Government Regulation. Neither Borrower nor Parent shall (a) be or become subject at any time to any law, regulation, or list of any government agency (including, without limitation, the U.S. Office of Foreign Asset Control list) that prohibits or limits Bank from making any advance or extension of credit to Borrower or from otherwise conducting business with either Borrower or Parent, or (b) fail to provide documentary or other evidence of Borrower’s or Parent’s identity as may be requested by the Bank at any time to enable the Bank to verify Borrower’s or Parent’s identity or to comply with any applicable law or regulation, including, without limitation, Section 326 of the USA Patriot Act of 2001, 31 U.S.C. Section 5318.

IN WITNESS WHEREOF, the Borrower and the Lender have executed this Second Amendment as of the date first written above.

BankFinancial Corporation

By: /s/ F. Morgan Gasior

Name: F. Morgan Gasior
Title: Chairman and Chief Executive Officer

BankFinancial MHC, Inc.

By: /s/ F. Morgan Gasior

Name: F. Morgan Gasior
Title: Chairman and Chief Executive Officer

Bank One, NA

By: /s/ John L. Spalding

Name: John L. Spalding
Title: First Vice President

Schedule 5.18

ISSUE	PURCHASE DATE	CUSIP	PAR AMT	COUPON	# OF SHARES	GAIN/ (LOSS)	CALL/ RESET	RESET RATE
FHLMC 5.81%	12/1/2000	313400889	\$ 5,000,000	5.810%	100,000	\$ 300,000	30 Days Notice	Fixed
FHLMC 4.50% (FRE **)	3/23/2001	313400764	\$ 25,000,000	1.141%	500,000	\$ (2,500,000)	3/31/05	12MO LIBOR -20BP
FNMA 6.295% (FNM F)	2/14/2001	313586703	\$ 5,500,000	1.370%	110,000	\$ (1,265,000)	3/31/06	2YR CMT - 16BP
FNMA 6.023% (FNM G)	8/8/2000	313586802	\$ 20,000,000	1.830%	400,000	\$ (4,000,000)	9/30/04	2YR CMT - 18BP
FHLMC 4.817% (FRE M)	1/29/2001	313400780	\$ 25,000,000	1.660%	500,000	\$ (4,375,000)	3/31/05	2YR CMT + 10BP
FHLMC 4.48% (FRE Q)	6/19/2001	313400756	\$ 25,000,000	1.580%	500,000	\$ (4,500,000)	6/30/05	2YR CMT + 20BP

Subsidiaries Of The Registrant

The following is a list of the subsidiaries of BankFinancial Corporation following the conversion:

<u>Name</u>	<u>State of Incorporation</u>
BankFinancial, F.S.B.	Federal
Financial Assurance Services	Illinois
BankFinancial Asset Recovery Corporation	Illinois

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the use in this Registration Statement on Form S-1 filed with the Securities and Exchange Commission and 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 this Registration Statement on Form S-1 and Form AC.

/s/ Crowe Chizek and Company LLC

Oak Brook, Illinois
September 21, 2004

RP® FINANCIAL, LC.

Financial Services Industry Consultants

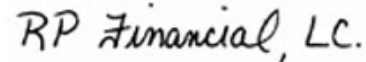
September 20, 2004

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

Washington Headquarters

Rosslyn Center
1700 North Moore Street, Suite 2210
Arlington, VA 22209
www.rpfinancial.com

Telephone: (703) 528-1700
Fax No.: (703) 528-1788
Toll-Free No.: (866) 723-0594
E-Mail: mail@rpfinancial.com

RP FINANCIAL, LC.
Financial Services Industry Consultants

March 25, 2004

Mr. F. Morgan Gasior
Chairman, President and Chief Executive Officer
BankFinancial Corporation
21110 South Western Avenue
Olympia Fields, Illinois 60461-1929

Dear Mr. Gasior:

This letter sets forth the agreement between BankFinancial Corporation, Olympia Fields, Illinois (the "Company") and RP Financial, LC. ("RP Financial") for independent appraisal services should the Board of Directors of the Company decide to proceed with a stock offering (the "Stock Offering"). The specific appraisal services to be rendered by RP Financial are described below. These appraisal services will be rendered by a team of two to three senior consultants on staff and will be directed by the undersigned.

Description of Conversion Appraisal Services

Prior to preparing the valuation report, RP Financial will conduct a financial due diligence, including on-site interviews of senior management and reviews of financial and other documents and records, to gain insight into the Company's operations, financial condition, profitability, market area, risks and various internal and external factors which impact the pro forma value of the Company. RP Financial will prepare a written detailed valuation report of the Company that will be fully consistent with applicable regulatory guidelines and standard pro forma valuation practices. The appraisal report will include an in-depth analysis of the Company's financial condition and operating results, as well as an assessment of the Company's interest rate risk, credit risk and liquidity risk. The appraisal report will describe the Company's business strategies, market area, prospects for the future and the intended use of proceeds both in the short term and over the longer term. A peer group analysis relative to publicly-traded savings institutions will be conducted for the purpose of determining appropriate valuation adjustments relative to the group.

We will review pertinent sections of the applications and offering documents to obtain necessary data and information for the appraisal, including the impact of key deal elements on the appraised value, such as dividend policy, use of proceeds and reinvestment rate, tax rate, conversion expenses and characteristics of stock plans. The appraisal report will conclude with a midpoint pro forma value which will establish the range of value, and reflect the Stock Offering size determined by the Company's Board of Directors. The appraisal report may be periodically updated throughout the conversion process and there will be at least one updated valuation prepared at the time of the closing of the Stock Offering.

Washington Headquarters

Rosslyn Center
1700 North Moore Street, Suite 2210
Arlington, VA 22209
www.rpfinancial.com

Telephone: (703) 528-1700
Fax No.: (703) 528-1788
Toll-Free No.: (866) 723-0594
E-Mail: wpommerening@rpfinancial.com

RP Financial agrees to deliver the valuation appraisal and subsequent updates, in writing, to the Company at the above address in conjunction with the filing of the regulatory application. Subsequent updates will be filed promptly as certain events occur which would warrant the preparation and filing of such valuation updates. Further, RP Financial agrees to perform such other services as are necessary or required in connection with the regulatory review of the appraisal and respond to the regulatory comments, if any, regarding the valuation appraisal and subsequent updates.

Fee Structure and Payment Schedule

The Company agrees to pay RP Financial a fixed fee of \$90,000 for preparation and delivery of the original appraisal report, a fee upon delivery of each appraisal update as described below, plus reimbursable expenses. Payment of these fees shall be made according to the following schedule:

\$10,000 upon execution of the letter of agreement engaging RP Financial's appraisal services;

\$80,000 upon delivery of the completed original appraisal report; and

\$10,000 upon delivery of each updated appraisal (there will be at least one updated appraisal prepared concurrent with the end of the offering).

The Company will reimburse RP Financial for out-of-pocket expenses incurred in preparation of the valuation. Such out-of-pocket expenses will likely include travel, printing, telephone, facsimile, shipping, computer and data services. RP Financial will agree to limit reimbursable expenses in connection with this engagement and in connection with the preparation of a regulatory business plan as described in the accompanying letter to \$10,000, subject to written authorization from the Company to exceed such level.

In the event the Company shall, for any reason, discontinue the proposed Stock Offering prior to delivery of the completed documents set forth above and payment of the respective progress payment fees, the Company agrees to compensate RP Financial according to RP Financial's standard billing rates for consulting services based on accumulated and verifiable time expenses, not to exceed the respective fee caps noted above, after giving full credit to the initial retainer fee. RP Financial's standard billing rates range from \$75 per hour for research associates to \$275 per hour for managing directors.

If during the course of the proposed transaction, unforeseen events occur so as to materially change the nature or the work content of the services described in this contract, the terms of said contract shall be subject to renegotiation by the Company and RP Financial. Such unforeseen events shall include, but not be limited to, major changes in the conversion regulations, appraisal guidelines or processing procedures as they relate to appraisals, major changes in management or procedures, operating policies or philosophies, and excessive delays or suspension of processing of conversion applications by the regulators such that completion of the transaction requires the preparation by RP Financial of a new appraisal or financial projections.

Representations and Warranties

The Company and RP Financial agree to the following:

1. The Company agrees to make available or to supply to RP Financial such information with respect to its business and financial condition as RP Financial may reasonably request in order to provide the aforesaid valuation. Such information heretofore or hereafter supplied or made available to RP Financial shall include: annual financial statements, periodic regulatory filings and material agreements, debt instruments, off balance sheet assets or liabilities, commitments and contingencies, unrealized gains or losses and corporate books and records. All information provided by the Company to RP Financial shall remain strictly confidential (unless such information is otherwise made available to the public), and if the Stock Offering is not consummated or the services of RP Financial are terminated hereunder, RP Financial shall upon request promptly return to the Company the original and any copies of such information.

2. The Company hereby represents and warrants to RP Financial that any information provided to RP Financial does not and will not, to the best of the Company's knowledge, at the times it is provided to RP Financial, contain any untrue statement of a material fact or fail to state a material fact necessary to make the statements therein not false or misleading in light of the circumstances under which they were made.

3. (a) The Company agrees that it will indemnify and hold harmless RP Financial, any affiliates of RP Financial, the respective directors, officers, agents and employees of RP Financial or their successors and assigns who act for or on behalf of RP Financial in connection with the services called for under this agreement (hereinafter referred to as "RP Financial"), from and against any and all losses, claims, damages and liabilities (including, but not limited to, all losses and expenses in connection with claims under the federal securities laws) attributable to (i) any untrue statement or alleged untrue statement of a material fact contained in the financial statements or other information furnished or otherwise provided by the Company to RP Financial, either orally or in writing; (ii) the omission or alleged omission of a material fact from the financial statements or other information furnished or otherwise made available by the Company to RP Financial; or (iii) any action or omission to act by the Company, or the Company's respective officers, Directors, employees or agents which action or omission is willful or negligent. The Company will be under no obligation to indemnify RP Financial hereunder if a court determines that RP Financial was negligent or acted in bad faith with respect to any actions or omissions of RP Financial related to a matter for which indemnification is sought hereunder. Any time devoted by employees of RP Financial to situations for which indemnification is provided hereunder, shall be an indemnifiable cost payable by the Company at the normal hourly professional rate chargeable by such employee.

(b) RP Financial shall give written notice to the Company of such claim or facts within thirty days of the assertion of any claim or discovery of material facts upon which RP

Financial intends to base a claim for indemnification hereunder. In the event the Company elects, within ten business days of the receipt of the original notice thereof, to contest such claim by written notice to RP Financial, RP Financial will be entitled to be paid any amounts payable by the Company hereunder within five days after the final determination of such contest either by written acknowledgement of the Company or a final judgment (including all appeals therefrom) of a court of competent jurisdiction. If the Company does not so elect, RP Financial shall be paid promptly and in any event within thirty days after receipt by the Company of the notice of the claim.

(c) The Company shall pay for or reimburse the reasonable expenses, including attorneys' fees (with such fees limited to one attorney or firm), incurred by RP Financial in advance of the final disposition of any proceeding within thirty days of the receipt of such request if RP Financial furnishes the Company: (1) a written statement of RP Financial's good faith belief that it is entitled to indemnification hereunder; and (2) a written undertaking to repay the advance if it ultimately is determined in a final adjudication of such proceeding that it or he is not entitled to such indemnification. The Company may assume the defense of any claim (as to which notice is given in accordance with 3(b)) with counsel reasonably satisfactory to RP Financial, and after notice from the Company to RP Financial of its election to assume the defense thereof, the Company will not be liable to RP Financial for any legal or other expenses subsequently incurred by RP Financial (other than reasonable costs of investigation and assistance in discovery and document production matters). Notwithstanding the foregoing, RP Financial shall have the right to employ its own counsel in any action or proceeding if RP Financial shall have concluded that a conflict of interest exists between the Company and RP Financial which would materially affect the effective representation of RP Financial. In the event that RP Financial concludes that a conflict of interest exists, RP Financial shall have the right to select counsel reasonably satisfactory to the Company which will represent RP Financial in any such action or proceeding and the Company shall reimburse RP Financial for the reasonable legal fees and expenses of such counsel and other expenses reasonably incurred by RP Financial. In no event shall the Company be liable for the fees and expenses of more than one counsel, separate from its 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 allegations or circumstances. The Company will not be liable under the foregoing indemnification provision in respect of any compromise or settlement of any action or proceeding made without its consent, which consent shall not be unreasonably withheld.

(d) In the event the Company does not pay any indemnified loss or make advance reimbursements of expenses in accordance with the terms of this agreement, RP Financial shall have all remedies available at law or in equity to enforce such obligation.

It is understood that, in connection with RP Financial's above-mentioned engagement, RP Financial may also be engaged to act for the Company in one or more additional capacities, and that the terms of the original engagement may be incorporated by reference in one or more separate agreements. The provisions of Paragraph 3 herein shall apply to the original engagement, any such additional engagement, any modification of the original engagement or such additional engagement and shall remain in full force and effect following the completion or termination of RP Financial's engagement(s). This agreement constitutes the entire understanding of the Company and RP Financial concerning the subject matter addressed herein, and such contract

shall be governed and construed in accordance with the laws of the Commonwealth of Virginia. This agreement may not be modified, supplemented or amended except by written agreement executed by both parties.

The Company and RP Financial are not affiliated, and neither the Company nor RP Financial has an economic interest in, or is held in common with, the other and has not derived a significant portion of its gross revenues, receipts or net income for any period from transactions with the other.

Please acknowledge your agreement to the foregoing by signing as indicated below and returning to RP Financial a signed copy of this letter, together with the initial retainer fee of \$10,000.

Sincerely,

\s\ William E. Pommerening

William E. Pommerening
Chief Executive Officer and Managing Director

Agreed To and Accepted By:

\s\ F. Morgan Gasior

F. Morgan Gasior
Chairman, President and Chief Executive Officer

Upon Authorization by the Board of Directors For:

BankFinancial Corporation
Olympia Fields, Illinois

Date Executed: _____

RP® FINANCIAL, LC.
Financial Services Industry Consultants

September 20, 2004

Board of Directors
BankFinancial, MHC, Inc.
BankFinancial Corporation
BankFinancial, F.S.B.
15W060 North Frontage Road
Burr Ridge, Illinois 60527

Re: Plan of Conversion: Subscription Rights
BankFinancial, F.S.B.

Members of the Board of Directors:

All capitalized terms not otherwise defined in this letter have the meanings given such terms in the plan of conversion and reorganization adopted by the respective Boards of Directors of BankFinancial MHC, Inc., (the "MHC") and BankFinancial Corporation, Burr Ridge, Illinois (the "Holding Company"), whereby the organization will convert from the federally chartered mutual holding company form of organization to the fully stock form and simultaneously sell all of its capital stock to the public. The MHC will be merged into BankFinancial, F.S.B. (the "Bank"), and the Holding Company 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 the Holding Company and all of the Holding Company's capital stock will be owned by public stockholders.

We understand that in accordance with the plan of conversion and reorganization, subscription rights to purchase shares of common stock in the Holding Company are to be issued to: (1) Eligible Account Holders; (2) Tax-Qualified Plans; (3) Supplemental Eligible Account Holders; and (4) Other Members. Based solely upon our observation that the subscription rights will be available to such parties without cost, will be legally non-transferable and of short duration, and will afford such parties the right only to purchase shares of common stock at the same price as will be paid by members of the general public in the community offering, but without undertaking any independent investigation of state or federal law or the position of the Internal Revenue Service with respect to this issue, we are of the belief that, as a factual matter:

- (1) the subscription rights will have no ascertainable market value; and,
- (2) the price at which the subscription rights are exercisable will not be more or less than the pro forma market value of the shares upon issuance.

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 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 Bank's value alone. Accordingly, no assurance can be given that persons who subscribe to shares of common stock in the subscription offering will thereafter be able to buy or sell such shares at the same price paid in the subscription offering.

Sincerely,

RP Financial, LC.

RP® FINANCIAL, LC

Washington Headquarters
Rosslyn Center
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Arlington, VA 22209
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Telephone: (703) 528-1700
Fax No.: (703) 528-1788
Toll-Free No.: (866) 723-0594
E-Mail: mail@rpfinancial.com

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 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 common stock issued in the offering. 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 will be reinvested in the investment funds of the Plan. The amount that cannot be applied to the purchase of common stock in the offering and any interest your account earned, pending investment in common stock, will be reinvested in accordance with your then existing investment election (in proportion to your investment direction for future contributions). 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, you must purchase at least 25 shares in the offering through the Plan. 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 purchase at least 25 shares through the Plan. 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 ½ 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 to 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

<i>Stock Funds</i>	<i>Monthly Return</i>	<i>Year to Date</i>	<i>Last 12 Months</i>	<i>5 Calendar Years Annualized</i>	<i>10 Calendar Years Annualized</i>
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: The Fund Manager 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 the Fund Manager - 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 the Fund Manager.

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 VI. 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: The Fund Manager 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 the Fund Manager – 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 the Fund Manager.

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. After the stock offering, the trustee of the Plan will, to the extent practicable, use all amounts held by it in the BankFinancial Corporation Stock Fund, including cash dividends paid on the Common Stock held in the fund, to purchase additional shares of common stock of BankFinancial Corporation.

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 the 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 ½, 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__

	Beginning of Year	End of Year
Assets	\$ _____	\$ _____
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	\$
Investment Expense	\$
Net Investment Income	\$
Contributions	\$
<hr/>	
Total Additions	\$
Benefits paid:	
Withdrawals	\$
Increase in Net Assets	\$
Net Assets Available for Plan	
Benefits: Beginning of Year	\$
<hr/>	
End of Year	\$

(202) 274-2007

nquint@luselaw.com

September 23, 2004

VIA EDGAR

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: BankFinancial Corporation
Registration Statement on Form S-1

Ladies and Gentlemen:

Pursuant to Rule 101 of Regulation S-T and on behalf of BankFinancial Corporation (the "Registrant"), we are transmitting by EDGAR under the Securities Act of 1933 (the "Securities Act") the Registrant's Registration Statement on Form S-1, including exhibits (the "Registration Statement"). The registration fee of \$25,135 has been calculated in accordance with Section 6(b) of the Securities Act and Rule 457 promulgated thereunder, and was transmitted to the Securities and Exchange Commission by wire transfer in accordance with Rule 13 of Regulation S-T.

The Registration Statement relates to the initial public offering by the Registrant of its shares of common stock, par value \$0.01 per share, in connection with the mutual-to-stock conversion of BankFinancial MHC, Inc. (the "MHC"). As part of the mutual-to-stock conversion, the Registrant will become the holding company for BankFinancial, F.S.B., a federally chartered savings bank. The transaction is subject to the approval of the Office of Thrift Supervision.

If you have any questions or comments, please contact the undersigned at (202) 274-2007 or Robert B. Pomerenk at (202) 274-2011.

Very truly yours,

/s/ Ned Quint

Ned Quint

Enclosures

cc: F. Morgan Gasior, Chairman,
Chief Executive Officer and President
Robert B. Pomerenk, Esq.
Eric Luse, Esq.