

BankFinancial CORP  
Form 10-K/A  
April 30, 2007

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-K/A**  
**Amendment No. 1**

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ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-51331

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**BANKFINANCIAL CORPORATION**

(Exact Name of Registrant as Specified in Charter)

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Maryland  
(State or Other Jurisdiction)

of Incorporation)

75-3199276  
(I.R.S. Employer

Identification No.)

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15W060 North Frontage Road, Burr Ridge, Illinois  
(Address of Principal Executive Offices)

60527  
(Zip Code)

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

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

<b>Title of Each Class:</b>	<b>Name of Each Exchange on Which Registered:</b>
Common Stock, par value \$0.01 per share	Nasdaq Global Market

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

None

Indicate by check mark whether the issuer is a well-known seasoned issuer as defined in Rule 405 of the Securities Act of 1933. Yes  No .

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act).

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

At March 31, 2007, there were 23,175,176 shares of common stock, \$0.01 par value, outstanding.

The aggregate market value of the registrant's outstanding voting common stock held by non-affiliates on June 30, 2006, determined using a per share closing price on that date of \$17.30, as quoted on The Nasdaq Stock Market, was \$385,423,205.

**DOCUMENTS INCORPORATED BY REFERENCE**

None

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**Explanatory Note**

The Company is filing this Amendment No. 1 on Form 10-K/A to its Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the Securities and Exchange Commission on March 15, 2007. In accordance with General Instruction G(3), we are now filing this amendment to include in the Form 10-K the information required to be filed pursuant to Part III of Form 10-K.

**PART III****ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The table below sets forth certain information, as of April 30, 2007, regarding the nominees and the continuing members of our Board of Directors, including their years of service, ages and terms of office. Except as indicated elsewhere in this Annual Report on Form 10-K/A, there are no arrangements or understandings between any of the directors or nominees and any other person pursuant to which such directors or nominees were selected.

Name	Age	Position(s) Held in the Company	Director Since (1)	Term of Class to Expire
John M. Hausmann, C.P.A.	52	Director	1990	2007
Glen R. Wherfel, C.P.A.	57	Director	2001	2007
F. Morgan Gasior	43	Chairman of the Board, Chief Executive Officer and President	1983	2008
Joseph A. Schudt	69	Director	1992	2008
Cassandra J. Francis	41	Director	2006	2009
Sherwin R. Koopmans	65	Director	2003	2009
Terry R. Wells	48	Director	1994	2009

(1) For each director, denotes the earlier of the year the individual became a director of the Bank or the year the individual became a director of the Company's predecessors, BankFinancial MHC and BankFinancial Corporation, the federal corporation. Except for Glen R. Wherfel and Cassandra J. Francis, each individual has served as a director of the Company since its formation in 2004. Mr. Wherfel was appointed to the Board of Directors of the Company on May 18, 2006, to fill the vacancy created by the death of Dr. Kenneth Cmiel, and Ms. Francis was appointed to the Board of Directors of the Company on September 27, 2006, to fill the vacancy created by the resignation of former Director Patrick I. Hartnett on September 14, 2006.

The business experience for at least the past five years of each member of the Board of Directors is set forth below.

**John M. Hausmann, C.P.A.** Mr. Hausmann 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 the Company since its formation in 2004, and of the Bank since 1990. He was a director of the Company's predecessors, BankFinancial MHC and BankFinancial Corporation, a federal corporation, from 1999 to 2005. Mr. Hausmann is the Chairman of the Audit Committees of the Company and the Bank, and is a member of the Executive Committees and the Human Resources Committees of the Company and the Bank.

**Glen R. Wherfel, C.P.A.** Mr. Wherfel 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 has been a director of the Company since 2006, and of the Bank since 2001. Mr. Wherfel is a member of the Asset Quality Committee of the Bank.

**F. Morgan Gasior.** Mr. Gasior has served as Chairman of the Board, Chief Executive Officer and President of the Company since its formation in 2004, and of the Bank since 1989, and as a director of the Bank since 1983.

He held the same positions with Company's predecessors, BankFinancial MHC and BankFinancial Corporation, a federal corporation, from 1999 to 2005. Mr. Gasior has been employed by the Bank 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 Committees of the Company and the Bank, and is a member of the Asset Quality Committee of the Bank. He was also a director and officer of Financial Assurance Services 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.

**Cassandra J. Francis.** Ms. Francis has served in various management positions with U.S. Equities Development, L.L.C. since 1995, and currently holds the office of Senior Vice President. Ms. Francis is a member of the American Institute of Certified Planners and is licensed as a real estate broker in the States of Illinois and Indiana. She is also a member of the Board of Directors of the Center for Urban Real Estate at the University of Illinois at Chicago. Ms. Francis became a director of the Company and Bank during 2006, and is a member of the Asset Liability Management Committee of the Bank and the Corporate Governance and Nominating Committee of the Company.

**Sherwin R. Koopmans.** Mr. 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 is currently retired. He 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 Human Resources Committee. Mr. Koopmans has been a director of the Company since its formation in 2004, and of the Bank since 2004. He was a director of the Company's predecessors, BankFinancial MHC and BankFinancial Corporation, a federal corporation, from 2003 to 2005. He also served as a director of Financial Assurance Services, a subsidiary of the Bank, from 2001 to 2003. Mr. Koopmans is the Chairman of the Asset Liability Management Committee of the Bank, and is the Chairman of the Corporate Governance and Nominating Committee of the Company, a member of the Human Resources Committees and Executive Committees of the Company and the Bank, and the Audit Committee of the Company.

**Joseph A. Schudt.** Mr. Schudt 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, from 1972 to 2004. Mr. Schudt currently serves as a Vice President of Joseph A. Schudt & Associates. Mr. Schudt is licensed as a professional engineer in seven states, including Illinois. He has been a director of the Company since its formation in 2004, and of the Bank since 1992. He was a director of the Company's predecessors, BankFinancial MHC and BankFinancial Corporation, a federal corporation, from 1999 to 2005. Mr. Schudt is the Chairman of the Asset Quality Committee of the Bank and of the Human Resources Committees of the Company and the Bank, a member of the Executive Committees of the Company and the Bank and is a member of the Corporate Governance and Nominating Committee of the Company.

**Terry R. Wells.** Mr. 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 serves on the Executive Committee of the South Suburban Mayors and Managers Association. He is also a member of the Board of Directors of Pace, a Division of the Regional Transportation Authority, and the Board of Trustees of South Suburban College. Mr. Wells has been a director of the Company since its formation in 2004, and of the Bank since 1994. He was a director of the Company's predecessors, BankFinancial MHC and BankFinancial Corporation, a federal corporation, from 1999 to 2005. Mr. Wells is a member of the Audit Committees and the Human Resources Committees of the Company and the Bank and is also a member of the Corporate Governance and Nominating Committee of the Company.

#### **Director Independence**

The Board of Directors has determined that, except for F. Morgan Gasior, who serves as the Chairman, Chief Executive Officer and President of the Company, each of the Company's directors is independent as defined in Rule 4200(a)(15) of the listing standards of the NASDAQ Stock Market.

### Executive Officers Who Are Not Directors

Set forth below is information, as of April 30, 2007, regarding the principal occupations for at least the past five years of the individuals who serve as executive officers of the Company and/or the Bank and who do not serve as directors of the Company or the Bank. All executive officers of the Company and the Bank are elected annually by their respective Boards of Directors and serve until their successors are elected and qualify. No executive officer identified below is related to any director or other executive officer of the Company or the Bank. Except as indicated elsewhere in this Annual Report on Form 10-K/A, there are no arrangements or understandings between any officer identified below and any other person pursuant to which any such officer was selected as an officer.

**Gregg T. Adams.** Age 48. Mr. Adams has served as the Executive Vice President of the Marketing and Sales Division of the Bank since 2001, and was the Senior Vice President of the Marketing and Sales Division from 2000 to 2001. Mr. Adams joined the Bank in 1986, and has served in various positions with the Bank and its former real estate subsidiary, Financial Properties, Inc., including as Vice President of Marketing Development.

**James J. Brennan.** Age 56. Mr. Brennan has served as the Secretary and General Counsel of the Company since its formation in 2004, and of the Bank, BankFinancial Corporation, a federal corporation, and BankFinancial MHC from 2000 to 2005. Mr. Brennan also serves as the Executive Vice President of the Corporate Affairs Division of the Company and the Bank. Mr. Brennan was a practicing attorney from 1975 until 2000. Prior to joining the Bank 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 and a member of its Management Committee. Mr. Brennan is also a director of Financial Assurance Services.

**Christa N. Calabrese.** Age 58. Ms. Calabrese has served as the President of the Bank's Northern Region since 2001. She served as the Chief Lending Officer of Success National Bank from 1992 until it was acquired by the Company in 2001, and during that time she 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.

**Paul A. Cloutier, C.P.A.** Age 43. Mr. Cloutier has served as the Chief Financial Officer and Treasurer of the Company since its formation in 2004, of the Bank since 1991, and of BankFinancial MHC and BankFinancial Corporation, a federal corporation, from 1999 to 2005. Mr. Cloutier also serves as the Executive Vice President of the Finance Division of the Company and the Bank. 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 the Bank and its parent companies, he was a Senior Tax Associate with Coopers & Lybrand.

**Mark W. Collins.** Age 56. Mr. Collins has served as the Executive Vice President of the Information Systems Division of the Bank since 2004. Mr. Collins joined the Bank on a full-time basis in 2002, and became a Vice President in the Information Systems Division in 2003. Prior to joining the Bank, 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.

**John G. Manos.** Age 46. Mr. Manos has served as the President of the Bank's Southern Region since 2006. He has held various positions with the Bank since 1999, including Senior Vice President and Vice President and Senior Vice President of Regional Commercial Banking. Prior to joining the Bank, Mr. Manos was the Manager - Commercial Lending for Preferred Mortgage Associates.

**Robert J. O' Shaughnessy.** Age 68. Mr. O' Shaughnessy has served as the Chief Credit Officer of the Company since its formation in 2004, of the Bank since 1999, and of BankFinancial MHC and BankFinancial Corporation, a federal corporation, from 1999 to 2005. Mr. O' Shaughnessy also serves as the Executive Vice President of the Operations Division of the Company and the Bank. 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 M. Smith.** Age 44. Ms. Smith has served as the Executive Vice President of the Human Resources Division of the Company since its formation in 2004, and of the Bank since 2002, and she was the Senior Vice President of the Human Resources Division of the Bank from 2001 to 2002. Before joining the Bank, Ms. Smith held various human resources positions with Old Kent Bank, and with Heritage Bank and its successor, First Midwest Bank.

**Donald F. Stelter.** Age 54. Mr. Stelter has served as the Executive Vice President of the General Services Division of the Bank since 2001, and was the Senior Vice President of the General Services Division of the Bank from 2000 to 2001. Mr. Stelter held various positions with Financial Properties, Inc., a former subsidiary of the Bank, between 1987 and 2001, 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 the Bank.

**Thad F. Stewart.** Age 45. Mr. Stewart has served as the Executive Vice President of the Internal Audit Division of the Company since its formation in 2004, of the Bank since 2001, and of BankFinancial MHC and BankFinancial Corporation, a federal corporation, from 2001 to 2005. He was the Senior Vice President of the Internal Audit Division of the Bank from 1997 to 2001, and of BankFinancial MHC and BankFinancial Corporation, a federal corporation, from 1999 to 2001. Prior to joining the Bank, Mr. Stewart was an internal audit officer with several Chicago area financial institutions.

#### **Audit Committee**

The Board of Directors has an Audit Committee comprised of Messrs. Hausmann (Chairman), Wells and Koopmans. Each is an independent director as defined in Rule 4200(a)(15) of the listing standards of the NASDAQ Stock Market and Rule 10A-3 of the Securities and Exchange Commission. The Board of Directors has determined that Messrs. Hausmann and Koopmans both qualify as an audit committee financial expert as currently defined in the regulations of the Securities and Exchange Commission.

#### **Section 16(a) Beneficial Ownership Reporting Compliance**

Our executive officers and directors, and beneficial owners of greater than 10% of the outstanding shares of our common stock are required to file reports with the Securities and Exchange Commission disclosing beneficial ownership and changes in beneficial ownership of our common stock. Securities and Exchange Commission rules require disclosure if an executive officer, director or 10% beneficial owner fails to file these reports on a timely basis. Based on our review of ownership reports required to be filed for the year ended December 31, 2006, no executive officer, director or 10% beneficial owner of shares of our common stock failed to file any required ownership report on a timely basis.

#### **Code of Ethics**

We have adopted a Code of Ethics for Senior Financial Officers that applies to our principal executive officer, principal financial officer, principal accounting officer, and persons performing similar functions. A copy of our Code of Ethics was previously filed as Exhibit 14 to our Annual Report on Form 10-K for the year ended December 31, 2005. We have also adopted a Code of Business Conduct, pursuant to the listing standards of the NASDAQ Stock Market, that applies generally to our directors, officers, and employees.

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**ITEM 11. EXECUTIVE COMPENSATION**

**COMPENSATION DISCUSSION AND ANALYSIS**

**Introduction**

This Compensation Discussion and Analysis describes BankFinancial Corporation's compensation philosophy and policies for 2006 as applicable to the executive officers named in the Summary Compensation Table. This section explains the structure and rationale associated with each material element of the named executive officers' compensation, and it provides context for the more detailed disclosure tables and specific compensation amounts provided in the following the section. It is important to note that the Company and the Bank share an executive management team, and except for awards made pursuant to the Company's 2006 Equity Incentive Plan (the 2006 EIP), the members of the executive management team are compensated by the Bank rather than the Company and the Company reimburses the Bank for their services to the Company through inter-company expense allocations. The compensation packages of the named executive officers are determined and approved by our Human Resources Committee based upon their performances and roles for both the Company and the Bank.

**Role of the Human Resources Committee of the Board of Directors**

Pursuant to its Charter, the Human Resources Committee is directly responsible for the execution of the Board of Director's responsibilities with respect to compensation, performance evaluation and succession planning for the Company's Chief Executive Officer and other executive officers. The Human Resources Committee is also responsible for the submission of an annual report on executive compensation to the Board of Directors for inclusion in the Company's annual proxy statement. During 2006, the Human Resources Committee was comprised of Messrs. Schudt (Chairman), Hausmann, Koopmans and Wells, each of whom is expected to serve on the committee through June 30, 2007. Each of the members is considered independent according to the listing standards of the NASDAQ Stock Market, an outside director pursuant to Section 162(m) of the Internal Revenue Code, and a non-employee director under Section 16 of the Securities Exchange Act of 1934.

**Compensation Philosophy and Objectives**

The overall objective of the Company's compensation program is to align executive officer compensation with the success of meeting strategic, financial and management objectives and goals. The programs are designed to create meaningful and appropriate incentives to manage the business successfully and to align executive officers' interests with those of our stockholders. The program is structured to accomplish the following:

encourage a consistent and competitive return to stockholders over the long-term, as the Company continues to deploy the capital raised in its 2005 initial public offering;

maintain a corporate environment that encourages stability and a long-term focus for the primary constituencies of the Company, including employees, stockholders, communities, clients and government regulatory agencies;

maintain a program that:

clearly motivates personnel to perform and succeed according to our current goals;

provides management with the appropriate empowerment to make decisions that benefit the primary constituents;

attracts and retains key personnel critical to our long-term success;



provides for management succession planning and related considerations;

encourages increased productivity;

provides for subjective consideration in determining incentive and compensation components; and

ensure that management:

fulfills its oversight responsibility to its primary constituents;

conforms its business conduct to the Company's established ethical standards;

remains free from any influences that could impair or appear to impair the objectivity and impartiality of its judgments or treatment of our constituents; and

continues to avoid any conflict between its responsibilities to the Company and each executive officer's personal interests.

#### **Compensation Principles and Factors**

**Business Plan Objectives.** The Boards of Directors of the Company and the Bank periodically conduct a review of current and anticipated business conditions in the context of the Bank's financial and competitive position. The review period typically includes at least the previous two fiscal years and up to five years prospectively. In connection with this review, management submits a business plan to the Board of Directors that proposes strategic, financial and management objectives for the period covered, using multiple scenarios in response to a variety of stated assumptions. The Board of Directors then evaluates the proposed business plan, and modifies its provisions to the extent it deems appropriate. The business plan is updated by management and the Board of Directors periodically throughout the year to respond to changing circumstances and conditions.

**Corporate Performance and Benchmarking.** In establishing executive officer compensation, the Human Resources Committee measures the Company's performance compared to management's and the Board of Directors' goals and business objectives as well as to other financial institutions of comparable size and complexity. The Human Resources Committee believes that using the Company's performance as a factor in determining executive officer compensation levels is useful in helping to align the executive officers' interests with those of our stockholders. With that in mind, the Human Resources Committee focuses on Company performance versus key business plan financial performance criteria (using both GAAP and non-GAAP measurements) such as return on beginning equity, return on average assets, revenue growth, diluted earnings per share growth, capital adequacy, asset quality, liquidity, interest rate risk, and operating efficiency. As part of the evaluation and review of these criteria, the Human Resources Committee also takes into account the way in which various subjective issues, such as competition and general economic conditions, including the interest rate environment and its impact on performance, may affect the Company's performance.

For purposes of comparative analysis in assessing performance, the Company generally considers commercial banks and savings institutions of similar asset size. In addition, the Company also considers institutions that are similarly situated due to their recent conversion to public-company status. The group of comparative institutions used in 2006 generally included financial institutions with total assets of \$1 billion to \$10 billion, with a focus on commercial banks and savings institutions located in the Chicago metropolitan area as well as institutions throughout the country that recently converted to public-company status. Given the ever-changing landscape within the banking industry, there is no specifically defined group of companies that is utilized for this analysis.

The Human Resources Committee believes that benchmarking is useful in order to stay competitive in the marketplace and for attracting and retaining qualified executives. While the Human Resources Committee believes that it is prudent to consider benchmarking in determining compensation practices, it does not set strict parameters for using this data. Rather, the Human Resources Committee uses benchmarking data to ensure that executive compensation is not inconsistent with comparative organizations.

**Performance Reviews and Role of Executives in Committee Meetings.** Management reports to the Board of Directors at least annually on its progress in achieving the strategic, financial and management objectives established by the business plan. The Board of Directors then considers the overall performance of the Company and its executive officers in the context of these objectives, weighing numerous factors and conditions within and outside of management's control. Following this review, the Human Resources Committee reviews current and proposed compensation levels for the Chief Executive Officer and all other executive officers, and submits its conclusions to the Board of Directors for consideration and ratification. The Human Resources Committee relies in part upon the Chief Executive Officer's written assessment of each executive officer's individual performance, which considers each executive officer's efforts in achieving his or her individual goals each year, managing and developing employees and the enhancement of long-term relationships with customers, if applicable to his or her position. However, the Board of Directors and Human Resources Committee exclude the Chief Executive Officer and all other executive officers from its discussions and formal meetings concerning executive officer compensation, except to provide the results of the decisions made by the Human Resources Committee or the Board of Directors.

**Information Resources and Role of Compensation Consultants.** In reviewing current and proposed compensation levels for executive officers, the Human Resources Committee considers the organizational structure and composition of the Company and the Bank, external information from public sources on peer and competitor compensation practices and levels, and other information it deems relevant to its responsibilities. In 2006, the Human Resources Committee engaged Frederic W. Cook & Co. to assess the structure and reasonableness of the Company's 2006 EIP, which incorporates cash incentive and equity incentive components. Additionally, the Human Resources Committee has periodically consulted with external legal counsel.

### **Components of Executive Compensation**

**General.** All executive officers of the Company, including the Chief Executive Officer, are currently executive officers of the Bank. On May 19, 2006, the Company adopted the 2006 EIP, and it was subsequently approved by the Company's stockholders at the 2006 annual meeting. Except for awards made pursuant to the 2006 EIP, the Company does not separately compensate its executive officers. The compensation that the Bank pays to its executive officers, however, is taken into account in establishing the inter-company expense allocations that the Company pays to the Bank. Prior to our mutual-to-stock conversion, the Bank's compensation programs involved only cash compensation consisting of base salary, incentive compensation and traditional employee benefits. In connection with the mutual-to-stock conversion, the Bank also established a tax-qualified ESOP, and executive officers are eligible to participate in the ESOP subject to vesting and other requirements and limitations.

**Base Salary.** Generally, base salary levels are established based on job descriptions and responsibilities, either temporary or permanent in nature (including any revisions or proposed revisions thereto), competitive conditions and general economic trends in the context of the Bank's financial and franchise condition and performance.

In 2006, the base salary for the Chief Executive Officer and the other named executive officers increased by an amount equal to the increase in the 12-month Consumer Price Index as reported by the U.S. Treasury Department in October, 2005 (this index was used uniformly throughout the Company for cost-of-living adjustments to base compensation). For 2007, the Chief Executive Officer and the named executive officers requested that the Human Resources Committee maintain their base salaries equal to their 2006 base salary levels and the Human Resources Committee and the Board of Directors accepted that request.

Name	Position	2006 Base Salary(1)	2007 Base Salary(1)	Percentage Change from 2006 to 2007
F. Morgan Gasior	Chairman of the Board, Chief Executive Officer and President	\$ 395,906	\$ 395,906	0%
Paul A. Cloutier	Executive Vice President and Chief Financial Officer	\$ 247,046	\$ 247,046	0%
James J. Brennan	Executive Vice President, Corporate Secretary and General Counsel	\$ 295,610	\$ 295,610	0%
Robert J. O Shaughnessy	Executive Vice President and Chief Credit Officer	\$ 252,350	\$ 252,350	0%
Christa N. Calabrese	Regional President	\$ 216,300	\$ 216,300	0%

(1) Base salary is effective as of April 1 of a calendar year.

**Annual Cash Incentive Compensation.** Annual cash incentive compensation reflects the relative achievement of the strategic, financial and management objectives established by the business plan, together with management's responses to unforeseen circumstances or conditions that materially differ from those originally assumed. Annual cash incentive compensation is generally established as a range of possible awards based on a percentage of base salary. Other factors considered in establishing annual cash incentive compensation include recent changes or proposed changes to base salary or other compensation elements, as well as competitive considerations.

In general, the Company's business plan assumptions include a total annual cash incentive compensation pool between 10% and 20% of base salary for executive officers, including the Chief Executive Officer. Absent extraordinary circumstances, annual cash incentive compensation typically will not exceed 20% of an executive officer's base salary. Provided that the Company's overall financial performance was generally consistent with the overall projected business plan results (taking into consideration factors both within and outside of the Company's control), the annual performance review process results in an award based on each executive officer's relative achievement in percentage terms of the applicable established strategic, financial and management business plan objectives.

**Equity-Based Compensation.** The 2006 EIP established a mechanism by which awards of restricted stock or stock options could be utilized to further align the financial interests of employees, including the executive officers, with stockholders and, in the future, provide an additional means to attract, retain and reward individuals who can and do contribute to the success of the Company. The Human Resources Committee established share ownership guidelines (as described below) for executive officers applicable both to personally-acquired shares and shares acquired pursuant to the 2006 EIP. The Human Resources Committee also considers the significant financial investment required of a participant who retains all shares granted under the 2006 EIP because such participant must pay current income tax obligations with respect to such shares without having the benefit of selling any of the shares to generate cash amounts to cover such tax liability. Given these linkages to stockholder interests, the Human Resources Committee granted long-term equity-based compensation awards (consisting of both restricted stock and stock options) to certain executive officers in 2006. Consistent with the purpose of aligning management financial interests with stockholder interests, the Human Resources Committee established a framework for the Chief Executive Officer's implementation of the 2006 EIP for individuals other than the executive officers of the Company or the Bank. In general, the delegation limits grants to an aggregate of 120,000 restricted shares and 360,000 stock options, and to a maximum per individual of 10,000 restricted shares and 25,000 stock options.

The Human Resources Committee believes that the Company's present market valuation is most closely aligned with its capital strength, asset quality and core deposit franchise and that a key objective for the Chief Executive Officer is to preserve these strengths throughout the deployment of the Company's excess capital and the execution of its business objectives. Consequently, the Human Resources Committee conditioned the vesting of certain restricted stock and stock option awards on the achievement of tangible capital ratios and asset quality ratios at the end of each calendar year (as certified by the Human Resources Committee based on the Company's annual audited financial statements).

**Share Ownership Guidelines.** In the absence of difficult personal circumstances, the Human Resources Committee encourages the Chief Executive Officer and the other named executive officers of the Company to acquire and hold a position in Company shares equal to 100% of the executive's three-year average annual cash compensation. The Human Resources Committee also encourages other executive officers of the Company and the Bank to acquire and hold a position in Company shares equal to 20% of the executive's three-year average annual cash incentive compensation. At December 31, 2006, all elements of the Human Resources Committee's share ownership guidelines were met. In addition, the Human Resources Committee encourages executive officers to retain all shares granted under the 2006 EIP. At December 31, 2006, the Company's executive officers had retained 100% of their vested 2006 EIP restricted shares.

**Deferred Compensation Plan.** The Bank previously maintained a deferred compensation plan for the benefit of directors and certain senior executive officers designated to participate in the plan. Participation in the plan was voluntary, and the one individual who elected to participate in the plan did not receive any compensation beyond the compensation this individual would have received had he not participated in the plan. Under the plan, an employee was able to defer up to 100% of his salary or incentive compensation. A director was able to defer up to 100% of his director fees. There were no Company matching contributions made to the plan. The Bank's Board of Directors terminated the Deferred Compensation Plan as of December 31, 2006, and all distributions therefrom were completed in accordance with the plan's terms by that date.

**401(k) Plan.** The Company has a tax-qualified defined contribution retirement plan covering all of its eligible employees. The plan is a 401(k) and profit-sharing plan. Employees are eligible to participate in the plan after attainment of age 21 and completion of one year of service. Prior to April 1, 2007, the Company matched employee contributions up to 5% of an employee's wages. The Company could also contribute an additional amount annually at the discretion of the Board of Directors. Contributions totaling \$728,000 were made for 2006. Effective April 1, 2007, the Board of Directors amended the match component of the plan to provide a fixed match in the amount of 50% of the first 6% of compensation deferred under the plan. The Board of Directors amended the match formula after considering the significant benefit provided to all eligible employees under the ESOP.

**Employee Stock Ownership Plan and Trust.** The Bank implemented the ESOP in connection with our mutual-to-stock conversion, effective as of January 1, 2004. Employees with at least one year of employment with the Bank are eligible to participate. As part of the mutual-to-stock conversion, the ESOP trust borrowed funds from the Company and used those funds to purchase 1,957,300 shares of common stock. The shares of common stock purchased by the ESOP are the collateral for the loan. The loan will be repaid principally from the Bank through discretionary contributions to the ESOP over a period of up to 20 years. The loan documents provide that the loan may be repaid over a shorter period, without penalty for prepayments. 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 ESOP are held in a suspense account for allocation among participants as the loan is repaid.

Contributions to the ESOP and shares released from the suspense account in an amount proportional to the repayment of the ESOP loan are allocated among ESOP participants on the basis of compensation in the year of allocation. Benefits under the plan become fully vested upon completion of five years of credited service, with credit given to participants for years of credited service with the Bank prior to the adoption of the plan. A participant's interest in his account under the plan also fully vests in the event of termination of service due to a participant's early or normal retirement, death, disability, or upon a change of control (as defined in the plan). Vested benefits are payable in the form of shares of common stock and/or cash. Any unvested benefits will be forfeited following termination of employment in accordance with the terms of the ESOP. Such forfeited benefits remain in the ESOP and are reallocated to remaining participants in accordance with the terms of the ESOP. The Bank's contributions to the ESOP are discretionary, subject to the loan terms and tax law limits. The ESOP will terminate in the event of a change of control as defined in the plan.

**All Other Compensation and Perquisites.** The Human Resources Committee reviews and monitors the level of other compensation and perquisites offered to the named executive officers in the context of current business operations and general market practices.

In addition to participation in the standard life and disability insurance benefits available to all full-time employees, the Company also requested the Chief Executive Officer and the insurable named executive officers to obtain additional life, accidental death and disability insurance coverage in an amount equal to the death benefit payable under their respective employment agreements. In the event of the death or disability of one of these executive officers, the Bank's obligations under their employment agreements are reduced on a dollar-for-dollar basis by the insurance proceeds received by the executive officer's named beneficiary. In exchange, the Bank reimburses the participant for the after-tax cost of the annual insurance premium for the additional coverage. The Human Resources Committee believes that the additional insurance coverage is a very cost-effective means of protecting the Bank and the Company against the immediate financial consequences of the death or disability of any of the executive officers.

Excluding the effects of the Bank's contributions for the health, vacation, 401(k) and ESOP benefits available to all full-time employees and the Bank's reimbursement of the after-tax premium costs for additional life and disability insurance coverages, the Human Resources Committee generally believes that other compensation and perquisites should not exceed 10% of each named executive officer's total annual cash compensation. The Company's perquisite policy was amended in 2007 to reflect this limitation. As of December 31, 2006, the Company's compensation practices with respect to other compensation and perquisites met this standard with respect to all but one named executive officer, Mr. Cloutier.

#### **Conclusions for Year Ended December 31, 2006**

This section describes the decisions made by the Human Resources Committee with respect to the compensation for the named executive officers for 2006 and 2007.

**Executive Summary.** The following is a brief summary of the compensation decisions the Human Resources Committee affected for 2006 and 2007:

we increased base salaries for the named executive officers, on average, by 3% for 2006 and 0% for 2007;

aggregate annual cash incentive payments to named executive officers for 2006 decreased from the aggregate annual cash incentives paid for 2005;

we implemented the 2006 EIP to further align the financial interests of the executive officers with stockholders and to strengthen our retention tools for executive officers and other key senior officers; and

other benefits and perquisites remained substantially similar between 2005 and 2006 and we expect that they may decrease moderately in 2007.

**Chief Executive Officer.** The Human Resources Committee reviewed the Chief Executive Officer's performance in 2006 in the context of the approved business plan and the extent to which established strategic, financial and management objectives were realized. The Human Resources Committee also evaluated the overall state of the Company's franchise and its strategic position, capabilities and direction consistent with the Chief Executive Officer's execution of his leadership and planning responsibilities. At a meeting attended solely by Human Resources Committee members, the Human Resources Committee determined that the Chief Executive Officer generally performed at the higher end of the expectations of the Board of Directors in 2006. The Human Resources Committee noted specifically that management responded appropriately to adverse interest rate and competitive conditions, resulting in relatively consistent performance metrics compared to 2005. The Committee also noted the successful integration of University National Bank, the conduct of long-range acquisition analyses

and other planning activities, and the completion of several due diligence reviews of institutions offered for sale, either privately or publicly. Finally, the Committee noted that the pace of innovation increased in 2006, with several new functions, products and services designed to meet the growing competition in its markets. In recognition of the foregoing, the Human Resources Committee concluded that the Chief Executive Officer should receive a cash incentive compensation award for 2006 of \$57,656, compared to \$65,156 for 2005.

**Other Named Executive Officers.** The Chief Executive Officer submitted performance review information for the other named executive officers of the Company, together with current and proposed base salary and annual cash incentive compensation information. At a meeting attended solely by Human Resources Committee members, the Human Resources Committee reviewed and evaluated the information provided by the Chief Executive Officer. The Committee determined that certain revisions (generally minor in nature) to the presentations were appropriate and directed the Chief Executive Officer to implement the revisions. For 2006, cash incentive compensation for the named executive officers (other than the Chief Executive Officer) ranged from \$28,500 to \$56,000 compared to \$37,500 to \$58,000 for 2005.

### **Reasonableness of Compensation**

After considering all components of the compensation program for the named executive officers, the Human Resources Committee has determined that such compensation is reasonable and appropriate.

In making this determination, we considered many factors, including the following:

management has positioned the Company for future success through the planning and execution of the strategic, financial and management objectives of the Company's business plan;

the Company's total stockholder return since its initial public offering has exceeded published market indices relevant to the Company's stockholders;

the Company is increasingly well positioned in the communities it serves as a result of the management's focus and execution of the Company's community bank mission; and

the grants made to the named executive officers were intended to cover a multi-year period, both past and future, and no additional grants are expected to be made to the named executive officers in 2007 and 2008 absent extraordinary circumstances that are not presently foreseeable.

### **Tax and Accounting Treatment**

**Section 162(m) of the Internal Revenue Code.** Section 162(m) of the Internal Revenue Code limits the tax deduction to \$1 million for compensation paid to certain executive officers of public companies. The limitations on the deductibility of executive compensation imposed under Section 162(m) did not affect the Company during 2006 because the compensation paid to the Company's executive officers in 2006 did not exceed these limitations. The 2006 EIP provides the Human Resources with flexibility to address issues that may arise under Section 162(m), and contains provisions that could be utilized to reduce its potential adverse effects. The Human Resources Committee intends to continue to evaluate the potential adverse impact that Section 162(m) could have on the Company in the future.

**American Jobs Creation Act of 2004.** The Human Resources Committee has monitored regulatory developments under Section 409A of the Internal Revenue Code, which was enacted as part of the American Jobs Creation Act of 2004 and deals with specific tax rules for non-qualified deferred compensation plans. The Company revised certain payment provisions in its employment agreements with certain officers to address potential issues that could arise under the transitional guidance that has been issued with respect to Section 409A. Further amendment of such agreements may be required to comply with the final Treasury Regulations under Section 409A, which were issued on April 10, 2007. The 2006 EIP provides the Human Resources with flexibility to address issues that may arise under Section 409A, and contains provisions that could be utilized to reduce its potential adverse effects. The Human Resources Committee intends to continue to evaluate the potential adverse impact that

Section 409A could have on the Company in the future and is currently evaluating the potential impact of the final Treasury Regulations on the Company.

**Other Taxation Issues.** The Human Resources Committee believes that, as the Company's compensation structures become more complex, the effects of the alternative minimum tax and other taxation issues could affect the net intended effect of the Company's compensation plans. Although no specific action is warranted at this time, the Human Resources Committee intends to monitor the effects of the alternative minimum tax and other taxation issues on the Company and its directors, officers and associates when evaluating various compensation principles, practices and plans.

**Accounting for Stock-Based Compensation.** The Financial Accounting Standards Board has adopted Statement of Financial Accounting Standards 123(R) ( FAS 123(R) ), which requires companies to record the compensation cost for stock options that are provided to employees in return for employment service. The cost is measured at the fair value of the options when granted, and this cost is expensed over the employment service period, which is normally the vesting period of the options. FAS 123(R) applies to awards granted or modified in years beginning in 2006 and thus will apply to the 2006 EIP. The Human Resources Committee has evaluated, and intends to continue to evaluate, the potential adverse impact of FAS 123(R) on future compensation expense.

#### **HUMAN RESOURCES COMMITTEE REPORT**

We have reviewed and discussed the foregoing Compensation Discussion and Analysis with management. Based on our review and discussion with management, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K/A for the year ended December 31, 2006 and in BankFinancial Corporation's Proxy Statement for the 2007 annual meeting of stockholders.

Submitted by:

Joseph A. Schudt, Chairman

John M. Hausmann

Sherwin R. Koopmans

Terry R. Wells

Members of the Human Resources Committee

### EXECUTIVE COMPENSATION

The following table sets forth information concerning the compensation of our Chief Executive Officer, Chief Financial Officer and our other three most highly compensated executive officers who serve in such capacities during 2006:

#### Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Stock Awards(1)	Option Awards(1)	All Other Compensation(2)	Total Compensation
<b>F. Morgan Gasior</b>							
Chairman of the Board, Chief Executive Officer and President	2006	\$ 393,245	\$ 57,656	\$ 881,000	\$ 74,850	\$ 64,242	\$ 1,470,993
<b>Paul A. Cloutier</b>							
Executive Vice President and Chief Financial Officer	2006	\$ 245,385	\$ 35,978	\$ 440,500	\$ 25,449	\$ 72,083	\$ 819,395
<b>James J. Brennan</b>							
Executive Vice President, Corporate Secretary and General Counsel	2006	\$ 293,623	\$ 56,000	\$ 440,500	\$ 25,449	\$ 75,369	\$ 890,941
<b>Robert O. Shaughnessy</b>							
Executive Vice President and Chief Credit Officer	2006	\$ 250,654	\$ 48,000	\$ 374,425	\$ 31,811	\$ 63,254	\$ 768,144
<b>Christa N. Calabrese</b>							
Regional President	2006	\$ 214,846	\$ 28,500	\$ 88,100	\$ 25,449	\$ 53,936	\$ 410,831

(1) The amounts set forth in the Stock Awards column and the Option Awards column reflect the dollar amount recognized for financial statement reporting purposes for the year ended December 31, 2006 in accordance with FAS 123(R). Amounts recognized may vary from individual-to-individual under the rules of FAS 123(R).

(2) All other compensation for the named executive officers is summarized below:

Name	Perquisites(i)	Insurance(ii)	Tax Reimbursement (iii)	401(k) Match	ESOP Contribution(iv)	Total All Other Compensation
F. Morgan Gasior	\$ 21,494	\$ 6,574	\$ 3,188	\$ 11,000	\$ 21,986	\$ 64,242
Paul A. Cloutier	\$ 33,831	\$ 2,651	\$ 2,615	\$ 11,000	\$ 21,986	\$ 72,083
James J. Brennan	\$ 30,574	\$ 7,812	\$ 3,997	\$ 11,000	\$ 21,986	\$ 75,369
Robert J. O. Shaughnessy	\$ 22,162	\$ 2,299	\$ 5,807	\$ 11,000	\$ 21,986	\$ 63,254
Christa N. Calabrese	\$ 11,650	\$ 4,965	\$ 4,335	\$ 11,000	\$ 21,986	\$ 53,936

(i) Includes use of an automobile or an automobile allowance, and in the case of Messrs. Gasior, Brennan and Cloutier, club dues. Also includes a payment of \$8,778 to Mr. Cloutier related to mandatory special assessments required to maintain a club membership.

(ii) Consists of premiums paid by the Company during the fiscal year with respect to additional life, accidental death and disability, and short and long-term disability insurance. Certain amounts were paid by the executive and reimbursed by the Company under employment agreement provisions that reduce, on a dollar-for-dollar basis, the Bank's obligations under such executive's employment agreement in the event of the executive's death or disability by the amount of insurance proceeds received by the executive's named beneficiary.



(iii) Reflects reimbursement for income and employment taxes incurred by the executive as a result of the insurance premiums paid by the executive and reimbursed by the Company. See note (ii) above and discussion below for additional information.

(iv) Includes the Bank's contribution to the executive's ESOP account plus any amounts reallocated as a result of forfeitures by terminated ESOP participants.

**Grants of Plan-Based Awards**

The 2006 EIP was adopted by the Board of Directors on May 19, 2006, subject to stockholder approval, to promote the long-term financial success of the Company, attract, retain and reward persons who can and do contribute to such success, and further align the participants' interests with those of the Company's stockholders. The 2006 EIP was approved by the Company's stockholders at the 2006 annual meeting. The 2006 EIP is administered by the Human Resources Committee, which, either directly or through delegations to the Chief Executive Officer, selects award recipients from the eligible participants, determines the types of awards to be granted, and determines the applicable terms, conditions, performance criteria, restrictions and other provisions of such awards, including any vesting or accelerated vesting requirements or conditions applicable to an award or awards.

The 2006 EIP incorporates a broad variety of cash- and equity-based incentive compensation elements to provide the Board of Directors and the Human Resources Committee with significant flexibility to appropriately address the requirements and limitations of recently applicable legal, regulatory and financial accounting standards in a manner mutually consistent with the purposes of the 2006 EIP and stockholder interests.

Upon the occurrence of a change of control of the Company, unless otherwise stated in an award agreement, all outstanding options and SARs then held by a participant who is employed by, or providing services to, the Company or its subsidiaries at the time of such change of control will become fully exercisable and all stock awards or cash incentive awards shall be fully earned and vested (subject to limitations on performance-based awards).

Name	Grant Date	Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: # of Shares of Stock/Units(2)	All Other Option Awards: # of Securities Underlying Options(3)	Exercise/ Base Price of Option Awards (\$/Sh)	Grant date fair value of stock and option awards(4)
		Threshold	Target	Maximum				
F. Morgan Gasior	9/5/2006				125,000			\$ 2,202,500
	9/5/2006							