



*Ben Franklin  
Financial, Inc.*

***2010  
Annual Report***

## **To Our Shareholders:**

The past few years have presented many challenges to community banks everywhere, and our bank has been no exception. Many of our customers and their business have experienced problems as well during this slow time in our economy, and few people have been unaffected in some way. As 2011 gets underway and we enter the fourth year of the worst credit and housing crisis since the Great Depression, it is important that we recognize that the slow recovery continues to face headwinds from high unemployment, conflicting signals in the direction of both residential and commercial real estate values and interest rates and regulatory uncertainty.

Our income during 2010 before the provision for losses increased more than \$922,000 over the prior year. This increase reflects improvements in net interest income and, to a lesser extent, non-interest income and continued reductions in non-interest expenses. The impact of the severe economic recession that began in 2008, however, continued to impact our financial operations in 2010 as we reported a net loss of \$855,000. Economic conditions locally as in many parts of the country continued to impact real estate values and have negatively impacted our borrowers' ability to repay their loans in accordance with their original terms. As a result, we experienced higher non-performing assets which necessitated an increase in our provision for loan losses and valuation allowances.

The deposit environment showed stability. While deposit balances remained relatively unchanged, increases occurred primarily in the non-certificate balances as customers focused more on the liquid alternatives for their funds. This shift, along with the re-pricing of a large number of high cost certificate of deposit accounts, contributed significantly to the improvement in the net interest spread during the year.

While total assets decreased during 2010, the stability of our deposit account balances and our strong liquidity position permitted the repayment of the remaining outstanding Federal Home Loan Bank advances.

Despite the challenges of the past few years, our capital position remains strong. Our tangible common equity at December 31, 2010 was \$13.1 million or 11.3% of total assets and well in excess of all regulatory capital requirements.

We believe the long-term success of our company lies in our ability to leverage the skill, attitude and common sense of purpose of our employees. While much has changed in the past year, our customer oriented strategy remains unchanged. In embracing change, we are holding fast to a corporate culture that values people, integrity and performance.

In looking to the future, we anticipate a period of intensified competition for all retail financial institutions. In this environment, our continued focus on quality customer service will be critical.

We wish to thank our customers for their loyalty and trust; our employees for their outstanding effort and dedication; and most particularly our shareholders for their support.

Sincerely,

C. Steven Sjogren

**Ben Franklin Financial, Inc.**  
**Annual Report**  
**For The Year Ended**  
**December 31, 2010**

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## **Business**

### **Forward Looking Statements**

This Annual Report contains forward-looking statements, which can be identified by the use of such words as estimate, project, believe, intend, anticipate, plan, seek, expect and similar expressions. These forward-looking statements include:

- statements of our goals, intentions and expectations;
- statements regarding our business plans and prospects and 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 subject to significant risks, assumptions and uncertainties, including, among other things, the following important factors that could affect the actual outcome of future events:

- our ability to manage the risk in our loan portfolio including our construction and commercial real estate loans;
- significantly increased competition among depository and other financial institutions;
- our ability to execute our plan to grow our assets on a profitable basis;
- our ability to execute on a favorable basis any plan we may have to acquire other institutions or branches or establish new offices including a transaction assisted by the Federal Deposit Insurance Corporation;
- changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments and inflation;
- general economic conditions, either nationally or in our market area;
- adverse changes in the securities and national and local real estate markets (including real estate values);
- legislative or regulatory changes including Dodd-Frank that may adversely affect our business and increase our compliance costs;
- our ability to enter new markets successfully and take advantage of growth opportunities;
- changes in consumer spending, borrowing and savings habits;
- the effect of the stagnant economy on our lending portfolio including our construction, multi-family, commercial real estate, and automobile loans;
- the impact of the U.S. government's economic stimulus program;
- increases in our deposit insurance costs;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies and the authoritative accounting and auditing bodies; and
- changes in our bank regulator and organization, compensation and benefit plans.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

### **Ben Franklin Financial, MHC**

Ben Franklin Financial, MHC is the federally-chartered mutual holding company parent of Ben Franklin Financial, Inc. Ben Franklin Financial, MHC's only business is the ownership of 56.0% of the outstanding shares of common stock of Ben Franklin Financial, Inc. So long as Ben Franklin Financial,

MHC exists, it will own a majority of the voting stock of Ben Franklin Financial, Inc. At December 31, 2010, Ben Franklin Financial, MHC had assets of \$13.2 million. Ben Franklin Financial, MHC's executive office is located at 830 East Kensington Road, Arlington Heights, Illinois 60004, and its telephone number is (847) 398-0990.

### **Ben Franklin Financial, Inc.**

Ben Franklin Financial, Inc. (the "Company") is the mid-tier stock holding company for Ben Franklin Bank of Illinois. Ben Franklin Financial, Inc. is chartered under federal law and owns 100% of the outstanding shares of common stock of Ben Franklin Bank of Illinois. Ben Franklin Financial, Inc. has not engaged in any significant business activity other than owning all of the shares of common stock of Ben Franklin Bank of Illinois. At December 31, 2010, Ben Franklin Financial, Inc. had consolidated assets of \$116.1 million, total deposits of \$102.4 million and stockholders' equity of \$13.1 million. Ben Franklin Financial, Inc.'s net loss for the year ended December 31, 2010 was \$855,000. At December 31, 2010, apart from its ownership of shares of common stock of Ben Franklin Bank of Illinois, Ben Franklin Financial, Inc. had assets of \$3.5 million, which were invested primarily in a savings account and the employee stock ownership plan loan with Ben Franklin Bank of Illinois. On January 27, 2011, the Company filed a Form 15 with the Securities and Exchange Commission to deregister its common stock under the Securities Exchange Act of 1934, as amended. As a result, the Company will no longer be considered a public company with periodic reporting requirements. The executive offices of Ben Franklin Financial, Inc. are located at 830 East Kensington Road, Arlington Heights, Illinois 60004, and its telephone number is (847) 398-0990.

### **Ben Franklin Bank of Illinois**

Ben Franklin Bank of Illinois (the "Bank") is a federally-chartered savings bank headquartered in Arlington Heights, Illinois. Ben Franklin Bank of Illinois was originally founded in 1893 as a building and loan association. We conduct our business from our main office and one branch office. Both of our offices are located in the northwestern corridor of the Chicago metropolitan area. The executive offices of Ben Franklin Bank of Illinois are located at 830 East Kensington Road, Arlington Heights, Illinois 60004, and its telephone number is (847) 398-0990.

### **General**

Our principal business consists of attracting retail deposits from the general public in our market and investing those deposits, together with funds generated from operations and borrowings, in one- to four-family residential mortgage loans and, to a lesser extent, home equity lines-of-credit, commercial real estate loans, multi-family real estate loans, commercial business loans, construction and land loans and other loans. We also invest in mortgage-backed and other securities and automobile loans. Our revenues are derived principally from the interest on loans and securities, fees for loan origination services, loan fees, and fees levied on deposit accounts. Our primary sources of funds are deposits and principal and interest payments on loans and securities. A continuation of the current economic slowdown may impact the Company's lending operations by affecting origination volume and credit quality. Also the decline in real estate values may adversely affect the realizable value of the Company's real estate collateral.

Our website address is [www.benfrankbank.com](http://www.benfrankbank.com). Information on our website should not be considered a part of this annual report.

## **Market Area**

We conduct business through our main office located at 830 East Kensington Road, Arlington Heights, Illinois and our branch office located at 3148 Kirchoff Road, Rolling Meadows, Illinois.

Our offices are located in relatively affluent suburban communities located approximately 15 miles to the northwest of Chicago, Illinois. Over the last 20 years, these communities have experienced per capita income levels which are well above the state and national averages. However, we believe that Arlington Heights and, to a lesser extent, Rolling Meadows may be classified as “mature” suburbs and that more rapid growth is occurring in the collar counties surrounding Chicago.

Our market area has been affected by the current economic recession which has caused the real estate values to decline over the past several years. In our immediate area, the residential development contiguous to our main office which was scheduled to start in 2008, resumed during 2010 with several residential buildings under construction on the site which should provide an economic boost to the area surrounding the main office.

## **Competition**

We face intense competition within our market area both in making loans and attracting deposits. The Chicago metropolitan area has a high concentration of financial institutions including large money center and regional banks, community banks and credit unions. Some of our competitors offer products and services that we currently do not offer, such as trust services and private banking. As of the June 30, 2010, according to the Federal Deposit Insurance Corporation’s annual deposit report, our market share of deposits represented less than 1% of deposits in Cook County, Illinois.

Our competition for loans and deposits comes principally from commercial banks, savings institutions, mortgage banking firms and credit unions. We face additional competition for deposits from short-term money market funds, brokerage firms, mutual funds and insurance companies. Our primary focus is to develop and build profitable customer relationships across all lines of business while maintaining our role as a community bank.

## **Recent Legislation**

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) made extensive changes in the regulation of federal savings banks such as the Bank. Under the Dodd-Frank Act, the OTS will be eliminated. Responsibility for the supervision and regulation of federal savings banks will be transferred to the Office of the Comptroller of the Currency, which is the agency that is currently primarily responsible for the regulation and supervision of national banks. The Office of the Comptroller of the Currency will assume responsibility for implementing and enforcing many of the laws and regulations applicable to federal savings banks. The transfer of regulatory functions will take place over a transition period of up to one year from the Dodd-Frank Act enactment date of July 21, 2010, subject to a possible six-month extension. At the same time, responsibility for the regulation and supervision of savings and loan holding companies, such as the Company will be transferred to the Federal Reserve Board, which currently supervises bank holding companies.

Additionally, the Dodd-Frank Act creates a new Consumer Financial Protection Bureau as an independent bureau of the Federal Reserve Board. The Consumer Financial Protection Bureau will assume responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations, a function currently assigned to prudential regulators, and will have authority to impose new requirements. However, institutions of less than \$10 billion in assets, such as the Bank, will continue

to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the primary enforcement authority of, their prudential regulator rather than the Consumer Financial Protection Bureau.

In addition to eliminating the Office of Thrift Supervision and creating the Consumer Financial Protection Bureau, the Dodd-Frank Act, among other things, directs changes in the way that institutions are assessed for deposit insurance, mandates the imposition of consolidated capital requirements on savings and loan holding companies, requires originators of securitized loans to retain a percentage of the risk for the transferred loans, regulatory rate-setting for certain debit card interchange fees, repeals restrictions on the payment of interest on commercial demand deposits and contains a number of reforms related to mortgage originations. Many of the provisions of the Dodd-Frank Act are subject to delayed effective dates and/or require the issuance of implementing regulations. Their impact on operations cannot yet be fully assessed. However, there is significant possibility that the Dodd-Frank Act will, at a minimum, result in increased regulatory burden, compliance costs and interest expense for the Company.

### **Management’s Discussion and Analysis of Financial Condition and Results of Operations**

The summary information presented below at each date or for each of the periods presented is derived in part from the audited consolidated financial statements of Ben Franklin Financial, Inc. The financial condition data at December 31, 2010 and 2009, and the operating data for the years ended December 31, 2010 and 2009 are derived from the audited consolidated financial statements of Ben Franklin Financial, Inc.

The following information is only a summary, and should be read in conjunction with our audited consolidated financial statements and notes beginning on page 17 of this annual report.

	<b>At December 31,</b>	
	<b>2010</b>	<b>2009</b>
	(in thousands)	
<b>Selected Financial Condition Data:</b>		
Total assets.....	\$ 116,071	\$ 119,682
Cash and cash equivalents.....	14,019	7,796
Loans receivable, net.....	94,119	104,594
Securities.....	3,972	2,463
Deposits.....	102,363	103,113
FHLB advances.....	-	2,000
Stockholders’ Equity.....	13,096	13,829

**For the Year Ended  
December 31,**

	<b>2010</b>	<b>2009</b>
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(in thousands)

**Selected Operating Data:**

Interest income .....	\$ 5,360	\$ 5,850
Interest expense .....	1,578	2,882
Net interest income .....	3,782	2,968
Provision for loan losses .....	1,397	1,309
Net interest income after provision for loan losses .....	2,385	1,659
Non-interest income .....	174	150
Non-interest expense .....	3,416	3,500
Loss before income taxes .....	(857)	(1,691)
Income tax benefit .....	2	70
Net loss .....	\$ (855)	\$ (1,621)

**At or For the Years  
Ended  
December 31,**

	<b>2010</b>	<b>2009</b>
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**Selected Financial Ratios and Other Data:**

**Performance Ratios:**

Return on assets (ratio of net income (loss) to average total assets) .....	(0.73)%	(1.30)%
Return on equity (ratio of net income (loss) to average equity) .....	(6.07)%	(10.81)%
Interest rate spread <sup>(1)</sup> .....	3.27%	2.20%
Net interest margin <sup>(2)</sup> .....	3.42%	2.48%
Efficiency ratio <sup>(3)</sup> .....	86.33%	111.89%
Non-interest expense to average total assets .....	2.91%	2.80%
Average interest-earning assets to average interest-bearing liabilities .....	110.50%	111.48%
Loans to deposits .....	93.29%	102.35%

**Asset Quality Ratios:**

Non-performing assets and troubled debt restructurings to total assets .....	9.07%	5.49%
Non-performing loans and troubled debt restructurings to total loans .....	10.19%	5.29%
Allowance for loan losses to non-performing loans and troubled debt restructurings .....	14.14%	16.85%
Allowance for loan losses to total loans .....	1.44%	0.89%

**Capital Ratios:**

Equity to total assets at end of year .....	11.28%	11.55%
Average equity to average assets .....	11.99%	11.99%

**Other Data:**

Number of full service offices .....	2	2
Number of full time equivalent employees .....	22	23

(1) Represents the difference between the weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the year.

(2) Represents net interest income as a percent of average interest-earning assets for the period.

(3) Represents non-interest expense divided by the sum of net interest income and non-interest income excluding net gains (losses) on the sale of other assets.



## **Comparison of Financial Condition at December 31, 2010 and December 31, 2009**

**General.** During the year-ended December 31, 2010 we experienced a decrease in assets primarily due to a decrease in our loan portfolio due to repayments and lower loan originations as loan demand remained weak in the current economic environment. During the year, our deposit balance decreased slightly as we experienced a shift in depositor preference from certificates of deposit to more liquid alternatives such as money market accounts. We also used excess liquidity to pay off a maturing Federal Home Loan Bank advance at the end of June 2010.

**Assets.** At December 31, 2010, total assets decreased by \$3.6 million or 3.0% to \$116.1 million compared to \$119.7 million at December 31, 2009 primarily due to a decrease in our net loan portfolio of \$10.5 million. This decrease was partially offset by increases in our cash and cash equivalents of \$6.2 million and securities available for sale of \$1.5 million.

Our loan portfolio was \$94.1 million at December 31, 2010 compared to \$104.6 million at December 31, 2009 primarily due to lower loan originations and purchases, the transfer of \$971,000 of foreclosed loans to repossessed assets, and repayments. During 2010, our loan origination and purchase activity, excluding home equity lines-of-credit, was \$9.8 million compared to \$21.1 million during 2009 due to lower loan demand. Origination of our home equity-line-of-credit loans decreased \$3.6 million to \$1.4 million in 2010 compared to \$5.0 million in 2009 due to lower loan demand and changes in our product pricing. These factors contributed to a decrease of \$2.8 million in our automobile loans, a \$2.5 million decrease in our one- to four-family residential mortgage loans, a \$2.1 million decrease in our construction loans, a \$906,000 decrease in our commercial real estate loans, and a \$650,000 decrease in our commercial business loans for the comparative periods. During 2009 we purchased \$2.7 million of commercial loans to medical practitioners, originated by a private lending firm specializing in such loans, which are secured by medical equipment. The purchase of medical loans ended in September of 2009 as certain portfolio concentration limits were met.

At December 31, 2010 our allowance for loan losses was \$1.4 million or 1.44% of total loans compared to \$940,000 or 0.89% of total loans at December 31, 2009. The increase in our allowance reflected the decrease in value of collateral securing non-performing real estate loans and an increase in the loss factors applied to pools of performing loans due to the decline in real estate values. Net loan charge-offs totaled \$961,000 for the year ended December 31, 2010 compared to \$953,000 for the prior year. Our non-performing loans totaled \$6.0 million or 6.22% of total loans at December 31, 2010 compared to \$5.0 million or 4.77% of total loans at December 31, 2009. Our loans classified as troubled debt restructurings totaled \$3.8 million or 3.96% of total loans at December 31, 2010 which included three loans secured by multi-family properties totaling \$2.9 million, one commercial business loan totaling \$693,000, and one residential loan totaling \$196,000 compared to \$542,000 of troubled debt restructurings or 0.51% of total loans at December 31, 2009 which included one loan secured by a residential property. Our foreclosed assets totaled \$796,000 at December 31, 2010 compared to \$991,000 at December 31, 2009 declined primarily due to the sale of repossessed assets totaling \$1,069,000 partially offset by the transfer of repossessed assets, net of improvements and write-downs, totaling \$874,000. Two of the real estate owned properties are under contract and are scheduled to be sold in the first quarter of 2011. Our troubled debt restructurings, which account for \$3.2 million of the \$4.0 million increase in our non-performing assets for the year ended December 31, 2010, were all performing under their revised terms.

Our securities portfolio increased \$1.5 million to \$4.0 million at December 31, 2010 from \$2.5 million at the prior year end primarily due to the purchase of \$2.0 million in U.S. government sponsored entities with maturities between three and four years and yields ranging between 1.20% to 1.50%. This increase in securities was partially offset by payments on mortgage-backed securities. The balance of our Federal Home Loan Bank of Chicago stock remained unchanged from the prior year end at \$1.3 million. We may

increase the balance of our securities portfolio during 2011 to increase our interest income and deploy excess liquidity.

Cash and cash equivalents increased \$6.2 million to \$14.0 million at December 31, 2010 from \$7.8 million at December 31, 2009. We anticipate reducing the level of cash and cash equivalents during 2011 to increase our interest income.

The balance of our repossessed assets decreased \$195,000 to \$796,000 at December 31, 2010 and included a multi-family apartment with an outstanding balance of \$126,000 which is under contract to sell, a lot to build a single family residence with a balance of \$263,000 which is under contract to sell, and a commercial building with a balance of \$390,000. At December 31, 2010 we had one repossessed automobile carried at \$17,000.

**Liabilities.** Total deposits decreased during 2010 by \$750,000 or 0.7% to \$102.4 million at December 31, 2010 compared to \$103.1 million at December 31, 2009. Our savings, demand, and money market account balances increased \$6.9 million to \$34.3 million at December 31, 2010 compared to \$27.4 million at the prior year end. Our certificate of deposit accounts decreased \$7.6 million to \$68.1 million at December 31, 2010. With our excess liquidity, we paid off the remaining \$2.0 million in Federal Home Loan Bank advance at the end of June 2010.

**Stockholders' Equity.** Total stockholders' equity decreased \$733,000 or 5.3% to \$13.1 million at December 31, 2010 compared to \$13.8 million at December 31, 2009. The decrease resulted from the net loss of \$855,000 in 2010, partially offset by an increase of \$118,000 in ESOP and stock incentive compensation amounts and a \$3,000 increase in the unrealized gain on available-for-sale securities in 2010.

### **Comparison of Operating Results for the Years Ended December 31, 2010 and December 31, 2009**

**General.** Our net loss for the year ended December 31, 2010 was \$855,000 compared to a net loss of \$1.6 million for the prior year. The losses in both years were primarily due to our provision for loan losses which resulted from the decrease in real estate values during the severe economic recession during the past several years that impacted the collateral securing our loan portfolio. Our net loss for the year ended December 31, 2010 was lower than the prior year primarily due to an increase in our net interest income from lower interest expense and a decrease in our non-interest expense. Our tax benefit was primarily impacted by the change in our valuation allowance that we established in 2009 based on our tax losses in the previous two years.

**Interest Income.** Interest income decreased \$490,000 or 8.4% to \$5.4 million for 2010. Interest income from loans decreased \$455,000 or 8.0% to \$5.3 million for the year ended December 31, 2010 compared to the prior year. This decrease was primarily due to the decrease in the average balance of our loan portfolio to \$100.0 million during 2010 compared to \$106.8 million in 2009. The decrease in the average balance of our loan portfolio was primarily due to a \$3.2 million decrease in the average balance of our consumer loans to \$5.7 million; a \$3.0 million decrease in the average balance of our construction loans; and a \$979,000 decrease in the average balance of our one- to four-family real estate loans. These decreases in average balance were offset by an increase of \$436,000 in the average balance of our commercial business loans. In addition, the average yield on loans decreased nine basis points to 5.26% in 2010. Given current economic conditions, we anticipate origination activity to remain at current levels in 2011.

Interest income from securities decreased \$32,000 or 25.4% to \$94,000 for the year ended December 31, 2010 compared to the prior year. The average balance of our securities portfolio for 2010 was \$2.7 million compared to \$3.0 million for the prior year as the pay down of our mortgage-backed securities offset the \$2.0 million in purchases of government sponsored entities notes during 2010. The average yield on our securities portfolio for the year ended December 31, 2010 was 3.46% compared to 4.22% for the prior year due to the downward pricing of the adjustable rate mortgage backed securities and the lower yield on the new purchases. The average balance of our stock in the Federal Home Loan Bank of Chicago remained unchanged at \$1.3 million. The Federal Home Loan Bank of Chicago dividend payments, which were not paid since 2007 due to their capital limitations, resumed in the first quarter of 2011.

For the year ended December 31, 2010, interest from other interest-earning assets decreased \$3,000 to \$7,000 primarily due to a decrease in the average balance to \$7.9 million for 2010 compared to \$9.8 million for the prior year. We anticipate interest income from other interest earning assets will remain low given current low market interest rates and future reductions in these balances.

**Interest Expense.** Interest expense for the year ended December 31, 2010 was \$1.6 million, a decrease of \$1.3 million or 45.3% from the prior year. This decrease was primarily from interest expense on deposit accounts which decreased \$1.1 million or 40.9% to \$1.5 million for the year ended December 31, 2010 compared to the prior year. The decrease was primarily due to the decrease in the average cost of deposits to 1.55% for 2010 compared to 2.57% for 2009 as the average cost of our certificate of deposits decreased to 1.97% for the year ended 2010 compared to 3.17% for the prior year as the general low market rates led to the downward repricing of maturing certificate of deposit accounts. The average balance of our deposits decreased \$2.3 million to \$99.1 million for 2010 due to a decrease of \$7.0 million in the average balance of our certificate of deposit accounts to \$70.2 million, partially offset by a \$4.7 million increase in the average balance of our savings, demand, and money market accounts to \$28.9 million for the year ended December 31, 2010. We anticipate a slight decrease in our average deposit cost for 2011 given current market rate levels.

Interest expense on advances from the Federal Home Loan Bank of Chicago decreased \$241,000 to \$39,000 for the year ended December 31, 2010 compared to the prior year. The average balance of advances decreased \$4.9 million during 2010 due to the repayments of advances. The average cost for Federal Home Loan Bank of Chicago advances decreased to 3.93% for the year ended December 31, 2010 from 4.79% for the prior year as we incurred an additional \$21,000 in interest expense for the repayment of a \$2.0 million advance at the end of 2009 that was scheduled to mature in March 2010.

**Net Interest Income.** Net interest income for the year ended December 31, 2010 increased \$814,000 or 27.4% to \$3.8 million from the prior year. The average yield on interest-earning assets for 2010 was 4.85% compared to 4.89% for the prior year. The average cost of interest-bearing liabilities decreased to 1.58% in 2010 from 2.69% in 2009. The result was a net interest rate spread of 3.27% for the year ended December 31, 2010 compared to 2.20% for the prior year. Our net interest margin increased to 3.42% in 2010 compared to 2.48% in 2009 due to the increase in the net interest rate spread.

**Provision for Loan Losses.** Our provision for loan losses was \$1.4 million for the year ended December 31, 2010 compared to \$1.3 million in 2009. Our loan charge-offs totaled \$989,000 for the year ended December 31, 2010 compared to \$995,000 for the prior year primarily due to the declines in the value of collateral securing non-performing loans. The general decline in real estate values also resulted in an increase in the estimated loss factors applied to certain performing loan segments in our portfolio. Our provision for 2010 included \$581,000 related to loans secured by commercial real estate, \$233,000 related to loans secured by our one- to four-family real estate, \$174,000 related to a construction loan, and \$172,000 related to loans secured by multi-family real estate. Our provision for 2009 included \$340,000

related to loans secured by commercial leases, \$190,000 related to a loan secured by multi-family real estate, \$355,000 related to construction loans, and \$164,000 related to commercial real estate.

**Non-interest Income.** Non-interest income increased \$24,000 or 16.0% to \$174,000 for the year ended December 31, 2010 compared to the prior year primarily due to the \$12,000 increase in fees for originating loans for other financial institutions.

**Non-interest Expense.** Non-interest expense totaled \$3.4 million for the year ended December 31, 2010, a decrease of \$84,000 or 2.4% from the prior year. Our compensation and employee benefits expense decreased \$169,000 to \$1.5 million in 2010 due to staff reductions. FDIC deposit insurance premiums decreased \$43,000 to \$174,000 for the year ended December 31, 2010 primarily due to the special assessment of approximately \$57,000 charged by the FDIC in 2009. These decreases were partially offset by a \$45,000 increase in our occupancy and equipment costs primarily due to real estate taxes and a \$74,000 increase in our professional fees primarily due to legal fees for foreclosure proceedings. All other expenses increased \$9,000 on a net basis. Management anticipates that professional fees and other non-interest expenses will be reduced in 2011 as a result of the deregistration of the Company's common stock.

**Income Tax Benefit.** The tax benefit was \$2,000 for the year ended December 31, 2010 compared to \$70,000 for the prior year. Our tax benefit was primarily impacted by the change in our valuation allowance that we established in 2009 based on our tax losses in the previous two years.

### **Analysis of Net Interest Income**

The following table sets forth average balance sheets, average yields and costs, and certain other information for the years indicated, as well as balances and average yields and costs as of December 31, 2010. All average balances are daily average balances. Non-accrual 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, discounts and premiums that are amortized or accreted to interest income.

	Year Ended December 31,					
	2010			2009		
	Average Outstanding Balance	Interest	Yield/ Cost	Average Outstanding Balance	Interest	Yield/ Cost
(Dollars in thousands)						
<b>Assets:</b>						
One- to four-family .....	\$ 37,874	\$ 1,961	5.18%	\$ 38,853	\$ 2,057	5.29%
Multi-family, commercial real estate and land .....	31,245	1,906	6.10	30,920	1,932	6.25
Construction .....	2,336	142	6.10	5,363	316	5.89
Commercial business .....	6,247	366	5.86	5,810	342	5.89
Home equity lines-of-credit ..	16,559	531	3.20	16,914	514	3.04
Automobile and other consumer .....	<u>5,749</u>	<u>353</u>	<u>6.13</u>	<u>8,902</u>	<u>553</u>	<u>6.22</u>
Total loans .....	100,010	5,259	5.26	106,762	5,714	5.35
Securities .....	2,706	94	3.46	2,990	126	4.22
Other interest-earning assets ..	<u>7,899</u>	<u>7</u>	<u>0.09</u>	<u>9,787</u>	<u>10</u>	<u>0.10</u>
Total interest-earning assets .....	110,615	<u>\$ 5,360</u>	4.85	119,539	<u>\$ 5,850</u>	4.89
Non-interest-earning assets ...	<u>6,805</u>			<u>5,523</u>		
Total assets .....	<u>\$ 117,420</u>			<u>\$ 125,062</u>		
<b>Liabilities and stockholders' equity:</b>						
Savings deposits .....	\$ 7,324	\$ 14	0.20%	\$ 7,303	\$ 21	0.30%
Money market/demand accounts .....	21,608	143	0.66	16,863	135	0.80
Certificates of deposit .....	<u>70,186</u>	<u>1,382</u>	<u>1.97</u>	<u>77,228</u>	<u>2,446</u>	<u>3.17</u>
Total interest-bearing deposits .....	99,118	1,539	1.55	101,394	2,602	2.57
FHLB advances .....	<u>987</u>	<u>39</u>	<u>3.93</u>	<u>5,838</u>	<u>280</u>	<u>4.79</u>
Total interest-bearing liabilities .....	100,105	1,578	1.58	107,232	2,882	2.69
Non-interest-bearing deposits	2,426			1,736		
Other liabilities .....	<u>805</u>			<u>1,104</u>		
Total liabilities .....	103,336			110,072		
Stockholders' equity .....	<u>14,084</u>			<u>14,990</u>		
Total liabilities and stockholders' equity .....	<u>\$ 117,420</u>			<u>\$ 125,062</u>		
Net interest income .....		<u>\$ 3,782</u>			<u>\$ 2,968</u>	
Net interest rate spread .....			<u>3.27%</u>			<u>2.20%</u>
Net interest-earning assets ...	<u>\$ 10,510</u>			<u>\$ 12,307</u>		
Net interest margin .....			<u>3.42%</u>			<u>2.48%</u>
Average of interest-earning assets to interest-bearing liabilities .....	<u>110.50%</u>			<u>111.48%</u>		

(1) Includes a \$21,000 penalty for the prepayment of a \$2.0 million advance scheduled to mature March 22, 2010.

## Rate/Volume Analysis

The following table presents the dollar amount of changes in interest income and interest expense for the major categories of our interest-earning assets and interest-bearing liabilities. Information is provided for each category of interest-earning assets and interest-bearing liabilities with respect to (i) changes attributable to changes in volume (i.e., changes in average balances multiplied by the prior-year average rate) and (ii) changes attributable to rate (i.e., changes in average rate multiplied by prior-year 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.

	<b>Year Ended December 31, 2010 vs. 2009</b>		
	<b>Increase (Decrease) Due to</b>		<b>Total</b>
	<b>Volume</b>	<b>Rate</b>	<b>Increase (Decrease)</b>
<b>(In thousands)</b>			
<b>Interest-earning assets:</b>			
Loans:			
One- to four-family .....	\$ (53)	\$ (43)	\$ (96)
Multi-family, commercial real estate, and land .....	20	(46)	(26)
Construction .....	(184)	10	(174)
Commercial business .....	26	(2)	24
Home equity lines-of- credit .....	(10)	27	17
Automobile and other consumer .....	(193)	(7)	(200)
Total loans .....	(394)	(61)	(455)
Securities .....	(11)	(21)	(32)
Interest-earning deposits .....	(2)	(1)	(3)
Total interest-earning assets .....	(407)	(83)	(490)
<b>Interest-bearing liabilities:</b>			
Savings deposits .....	-	(7)	(7)
Money market/demand accounts .....	34	(26)	8
Certificates of deposit .....	(206)	(858)	(1,064)
Total deposits .....	(172)	(891)	(1,063)
FHLB Advances .....	(43)	(198)	(241)
Total interest-bearing Liabilities .....	(215)	(1,089)	(1,304)
Change in net interest income .....	<u>\$ (192)</u>	<u>\$ 1,006</u>	<u>\$ 814</u>

## Originations, Purchases and Sales of Loans

The following table shows our loan origination, purchase, sale and principal repayment activity during the years indicated. Loans are presented net of loans in process and the allowance for loan losses.

	<b>Year Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
Total loans at beginning of period .....	\$ 104,594	\$ 109,759
Loans originated:		
Real estate:		
One- to four-family .....	3,155	7,101
Multi-family .....	1,760	5,737
Commercial .....	1,483	1,076
Construction .....	2,575	3,321
Land .....	75	150
Consumer and other loans:		
Commercial business .....	359	345
Other .....	<u>14</u>	<u>24</u>
Total loans originated .....	9,421	17,754
Loans purchased:		
Multi-family, commercial real estate, and construction .....	-	230
Commercial business .....	<u>415</u>	<u>3,078</u>
Total loans purchased .....	415	3,308
Add (Deduct)		
Principal repayments .....	(17,480)	(22,508)
Loan sales <sup>(1)</sup> .....	-	(1,000)
Home equity lines-of-credit net .....	(405)	(21)
Provision for loan losses .....	(1,397)	(1,309)
Transfer from loans to repossessed assets .....	(971)	(1,165)
Net other .....	<u>(58)</u>	<u>(224)</u>
Net loan activity .....	<u>(10,475)</u>	<u>(5,165)</u>
Total loans at end of period .....	<u>\$ 94,119</u>	<u>\$ 104,594</u>

<sup>(1)</sup> The sale in 2009 was a participation in a multi-family loan.

## Delinquent Loans

The following table sets forth our loan delinquencies by type and amount at the dates indicated.

	Loans Delinquent For						Total	
	30-59 Days		60-89 Days		90 Days and Over		Number	Amount
	Number	Amount	Number	Amount	Number	Amount		
	(Dollars in thousands)							
<u>At December 31, 2010</u>								
Real estate:								
One- to four-family....	1	94	—	—	9	1,780	10	1,874
Multi-family .....	1	935	—	—	2	851	3	1,786
Commercial .....	—	—	—	—	4	1,632	4	1,632
Construction .....	—	—	—	—	—	—	—	—
Land.....	—	—	1	135	2	767	3	902
Consumer and other								
loans:	—	—	—	—	—	—	—	—
Home equity lines-of-credit .....	—	—	—	—	—	—	—	—
Automobile.....	5	37	3	12	2	14	10	63
Commercial business.	—	—	—	—	3	907	3	907
Other.....	—	—	—	—	—	—	—	—
Total.....	<u>7</u>	<u>1,066</u>	<u>4</u>	<u>147</u>	<u>22</u>	<u>5,951</u>	<u>33</u>	<u>7,164</u>
<u>At December 31, 2009</u>								
Real estate:								
One- to four-family....	2	215	—	—	7	1,264	9	1,479
Multi-family .....	2	1,418	—	—	1	326	3	1,744
Commercial .....	—	—	—	—	2	1,927	2	1,927
Construction .....	—	—	—	—	1	653	1	653
Land.....	—	—	—	—	—	—	—	—
Consumer and other								
loans:	—	—	—	—	—	—	—	—
Home equity lines-of-credit .....	—	—	—	—	—	—	—	—
Automobile.....	6	59	1	11	—	—	7	70
Commercial business.	1	41	—	—	2	868	3	909
Other.....	—	—	—	—	—	—	—	—
Total.....	<u>11</u>	<u>1,733</u>	<u>1</u>	<u>11</u>	<u>13</u>	<u>5,038</u>	<u>25</u>	<u>6,782</u>



## Non-performing assets and troubled debt restructurings

The following table sets forth our non-performing assets and troubled debt restructurings by category at the dates indicated (dollars in thousands).

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
<u>Non-performing loans</u>				
One-to four-family	9	\$ 1,780	7	\$ 1,264
Multi-family	2	851	1	326
Land	2	767	-	-
Commercial real estate	4	1,632	2	1,927
Construction	-	-	1	653
Commercial business	3	907	2	868
Other	<u>2</u>	<u>14</u>	<u>-</u>	<u>-</u>
Total non-performing loans	22	5,951	13	5,038
<u>Troubled debt restructurings</u>				
One-to four-family	1	196	1	542
Multi-family	3	2,888	-	-
Commercial business	<u>1</u>	<u>693</u>	<u>-</u>	<u>-</u>
Total troubled debt restructurings	5	3,777	1	542
<u>Reposessed assets</u>				
Foreclosed real estate	3	779	2	963
Reposessed automobiles	<u>1</u>	<u>17</u>	<u>3</u>	<u>28</u>
Total non-performing assets	<u>4</u>	<u>796</u>	<u>5</u>	<u>\$ 991</u>
Total non-performing loans, troubled debt restructurings, and reposessed assets	<u>31</u>	<u>\$ 10,524</u>	<u>19</u>	<u>\$ 6,571</u>
Non-performing loans to total loans		6.23%		4.77%
Non-performing loans and troubled debt restructurings to total loans		10.19%		5.29%
Non-performing assets and troubled debt restructurings to total assets		9.07%		5.49%

## Management of Market Risk

Our asset/liability management strategy attempts to manage the impact on net interest income, our primary source of earnings, of changes in interest rates.

An important measure of interest rate risk is the amount by which the net present value of an institution's cash flow from assets, liabilities and off balance sheet items (the institution's net portfolio value or "NPV") changes in the event of a range of assumed changes in market interest rates. We have utilized the Office of Thrift Supervision net portfolio value model ("NPV") to provide an analysis of estimated changes in our NPV under the assumed instantaneous changes in the United States Treasury yield curve. The financial model uses a discounted cash flow analysis and an option-based pricing approach to measuring the interest rate sensitivity of the NPV. Set forth on the following page is an analysis of the estimated changes that would occur to our NPV as of December 31, 2010 in the event of designated changes in the United States Treasury yield curve.

Change in Interest Rates (basis points) (1)	Estimated NPV (2)	Estimated Increase (Decrease) in NPV		NPV as a Percentage of Present Value of Assets (3)	
		Amount	Percent	NPV Ratio (4)	Change in Basis Points

(Dollars in thousands)

+300	\$ 13,163	\$ (1,722)	(12)%	11.02%	(113)
+200	13,934	(951)	(6)	11.55	(60)
+100	14,545	(340)	(2)	11.95	(20)
0	14,885	-	-	12.15	-
-50	14,921	36	-	12.15	-
-100	15,265	380	3	12.39	24

- (1) Assumes an instantaneous uniform change in interest rates at all maturities.
- (2) NPV is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.
- (3) Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.
- (4) NPV Ratio represents NPV divided by the present value of assets.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurement. Modeling changes in net portfolio value requires making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the net portfolio value table presented assumes that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the net portfolio value table provides an indication of our interest rate risk exposure 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.

## Market Price

On January 27, 2011, Ben Franklin Financial, Inc. filed a Form 15 with the Securities and Exchange Commission to deregister its common stock under the Securities Exchange Act of 1934, as amended. As a result, the Company will no longer be considered a public company with periodic reporting requirements.

Our common stock is traded on the OTC Electronic Bulletin Board under the symbol “BFFI.OB.” The approximate number of holders of record of Ben Franklin Financial, Inc.’s common stock as of December 31, 2010 was 158. Certain shares of Ben Franklin Financial, Inc. are held in “nominee” or “street” name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number. The following table presents quarterly market information for Ben Franklin Financial, Inc.’s common stock for the last two years. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions. The following information was provided by the OTC Electronic Bulletin Board.

<b>Fiscal 2010</b>	<b>High Bid</b>	<b>Low Bid</b>	<b>Dividends</b>
Quarter ended December 31, 2010	\$ 3.30	\$ 2.00	\$ 0.00
Quarter ended September 30, 2010	3.30	3.00	0.00
Quarter ended June 30, 2010	3.50	2.10	0.00
Quarter ended March 31, 2010	2.60	2.00	0.00

  

<b>Fiscal 2009</b>	<b>High Bid</b>	<b>Low Bid</b>	<b>Dividends</b>
Quarter ended December 31, 2009	\$ 4.25	\$ 1.95	\$ 0.00
Quarter ended September 30, 2009	5.25	3.75	0.00
Quarter ended June 30, 2009	5.95	5.25	0.00
Quarter ended March 31, 2009	6.75	5.25	0.00

## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
Ben Franklin Financial, Inc.  
Arlington Heights, Illinois

We have audited the accompanying consolidated statements of financial condition of Ben Franklin Financial, Inc. (“the Company”) as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders’ equity, and cash flows for the years then ended. 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 auditing standards generally accepted in the United States of America. 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 Ben Franklin Financial, Inc. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Oak Brook, Illinois  
March 25, 2011

BEN FRANKLIN FINANCIAL, INC.  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION  
December 31, 2010 and 2009  
(Dollars in thousands except per share amounts)

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Cash and due from banks	\$ 3,519	\$ 1,016
Interest-earning deposit accounts	2,740	2,090
Federal funds sold	<u>7,760</u>	<u>4,690</u>
Cash and cash equivalents	14,019	7,796
Securities available-for-sale	3,972	2,463
Loans receivable, net of allowance for loan losses of \$1,376 and \$940 at December 31, 2010 and 2009	94,119	104,594
Federal Home Loan Bank stock	1,337	1,337
Premises and equipment, net	917	963
Repossessed assets	796	991
Accrued interest receivable	362	457
Prepaid FDIC premiums	450	613
Other assets	<u>99</u>	<u>468</u>
 Total assets	 <u>\$ 116,071</u>	 <u>\$ 119,682</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities		
Demand deposits - non-interest-bearing	\$ 2,467	\$ 1,835
Demand deposits - interest-bearing	7,873	7,332
Savings deposits	7,529	7,278
Money market deposits	16,397	11,002
Certificates of deposit	<u>68,097</u>	<u>75,666</u>
Total deposits	102,363	103,113
Advances from Federal Home Loan Bank	-	2,000
Advances from borrowers for taxes and insurance	308	433
Other liabilities	263	264
Common stock in ESOP subject to contingent purchase obligation	<u>41</u>	<u>43</u>
Total liabilities	102,975	105,853
Stockholders' equity		
Common stock, par value \$0.01 per share; authorized 20,000,000 shares; issued and outstanding, net of treasury shares, at:		
December 31, 2010 - 1,949,956 shares		
December 31, 2009 - 1,950,383 shares	20	20
Additional paid-in-capital	8,156	8,088
Treasury stock, at cost (68,270 shares at December 31, 2010 67,843 shares at December 31, 2009)	(462)	(461)
Retained earnings, substantially restricted	5,921	6,776
Unearned Employee Stock Ownership Plan (ESOP) shares	(559)	(609)
Accumulated other comprehensive income	61	58
Reclassification of ESOP shares	<u>(41)</u>	<u>(43)</u>
Total equity	<u>13,096</u>	<u>13,829</u>
 Total liabilities and stockholders' equity	 <u>\$ 116,071</u>	 <u>\$ 119,682</u>

See accompanying notes to financial statements

BEN FRANKLIN FINANCIAL, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
Years ended December 31, 2010 and 2009  
(Dollars in thousands except per share amounts)

	<u>2010</u>	<u>2009</u>
Interest income		
Loans	\$ 5,259	\$ 5,714
Securities	94	126
Federal funds sold	6	9
Interest-earning deposit accounts and other	<u>1</u>	<u>1</u>
	5,360	5,850
Interest expense		
Deposits	1,539	2,602
Federal Home Loan Bank advances	<u>39</u>	<u>280</u>
	<u>1,578</u>	<u>2,882</u>
<b>Net interest income</b>	3,782	2,968
Provision for loan losses	<u>1,397</u>	<u>1,309</u>
<b>Net interest income after provision for loan losses</b>	2,385	1,659
Non-interest income		
Service fees	165	146
Loss on sale of other assets, net	(1)	(10)
Other	<u>10</u>	<u>14</u>
	174	150
Non-interest expense		
Compensation and employee benefits	1,521	1,690
Occupancy and equipment	597	552
Data processing	255	234
Professional fees	382	308
FDIC insurance premiums	174	217
Repossessed assets expense, net	205	198
Other	<u>282</u>	<u>301</u>
	<u>3,416</u>	<u>3,500</u>
<b>Loss before income taxes</b>	(857)	(1,691)
Income tax benefit	<u>2</u>	<u>70</u>
<b>Net loss</b>	<u>\$ (855)</u>	<u>\$ (1,621)</u>
Loss per common share	\$ (0.45)	\$ (0.86)

See accompanying notes to financial statements

BEN FRANKLIN FINANCIAL, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
Years ended December 31, 2010 and 2009  
(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Amount Reclassified on ESOP Shares	Total	Comprehensive Income (Loss)
Balance at January 1, 2009	\$ 20	\$ 8,014	\$ (285)	\$ 8,397	\$ (665)	\$ 9	\$ (73)	\$ 15,417	
Comprehensive loss									
Net loss	-	-	-	(1,621)	-	-	-	(1,621)	\$ (1,621)
Unrealized gain on securities available for-sale, net of deferred income taxes	-	-	-	-	-	49	-	49	49
Total comprehensive loss									<u>\$ (1,572)</u>
Earned ESOP shares and other stock based compensation	-	74	-	-	56	-	-	130	
Purchase of common stock (29,359 shares)	-	-	(176)	-	-	-	-	(176)	
Reclassification due to change in fair value of common stock in ESOP subject to contingent repurchase obligation	-	-	-	-	-	-	30	30	
Balance at December 31, 2009	20	8,088	(461)	6,776	(609)	58	(43)	13,829	
Comprehensive loss									
Net loss				(855)				(855)	\$ (855)
Unrealized gain on securities available for-sale, net of deferred income taxes						3		3	3
Total comprehensive loss									<u>\$ (852)</u>
Earned ESOP shares and other stock based compensation		68			50			118	
Purchase of common stock (427 shares)			(1)					(1)	
Reclassification due to change in fair value of common stock in ESOP subject to contingent repurchase obligation							2	2	
Balance at December 31, 2010	<u>\$ 20</u>	<u>\$ 8,156</u>	<u>\$ (462)</u>	<u>\$ 5,921</u>	<u>\$ (559)</u>	<u>\$ 61</u>	<u>\$ (41)</u>	<u>\$ 13,096</u>	

See accompanying notes to financial statements

BEN FRANKLIN FINANCIAL, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years ended December 31, 2010 and 2009  
(Dollars in thousands)

	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities</b>		
Net loss	\$ (855)	\$ (1,621)
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation and amortization	124	110
ESOP and other stock based compensation	118	130
Amortization of premiums and discounts	20	35
Provision for loan losses	1,397	1,309
Loss on sale of repossessed assets, net	1	10
Write down of repossessed assets	118	134
Deferred income taxes	(2)	281
Prepaid FDIC insurance premium	163	(613)
Changes in:		
Deferred loan costs	61	162
Accrued interest receivable	95	103
Other assets	368	(323)
Other liabilities	<u>(1)</u>	<u>(22)</u>
Net cash from operating activities	1,607	(305)
<b>Cash flows from investing activities</b>		
Principal repayments on mortgage-backed securities	491	709
Net decrease in loans	8,032	5,811
Purchase of loans	-	(3,308)
Purchase of securities available for sale	(2,000)	(1,000)
Sale of other assets	1,068	49
Call of securities available for sale	-	1,000
Expenditures to improve other real estate owned	(21)	-
Expenditures for premises and equipment	<u>(78)</u>	<u>(16)</u>
Net cash from investing activities	7,492	3,245
<b>Cash flows from financing activities</b>		
Net increase (decrease) in deposits	(750)	1,648
Repayment of advances from the Federal Home Loan Bank	(2,000)	(4,500)
Purchase of treasury stock	(1)	(176)
Net change in advances from borrowers for taxes and insurance	<u>(125)</u>	<u>(66)</u>
Net cash from financing activities	<u>(2,876)</u>	<u>(3,094)</u>
Net change in cash and cash equivalents	6,223	(154)
Cash and cash equivalents at beginning of year	<u>7,796</u>	<u>7,950</u>
<b>Cash and cash equivalents at end of year</b>	<b><u>\$ 14,019</u></b>	<b><u>\$ 7,796</u></b>
Supplemental disclosures of cash flow information		
Interest paid	\$ 1,597	\$ 2,925
Income taxes paid (refunded)	-	(10)
Transfers from loans to repossessed assets	971	1,165

See accompanying notes to financial statements



BEN FRANKLIN FINANCIAL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2010 and 2009  
(Dollars in thousands, except per share data)

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Business and Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Ben Franklin Financial, Inc. ("the Company") and its wholly owned subsidiary Ben Franklin Bank of Illinois ("the Bank"). All significant intercompany transactions and balances are eliminated in consolidation.

The Company was organized on October 18, 2006 and is a majority-owned subsidiary of Ben Franklin Financial, MHC ("the MHC"). The financial statements do not include the transactions and balances of the MHC.

The Board of Directors of the Bank adopted a Plan of Reorganization and Stock Issuance ("the Plan") to reorganize the Bank into the mutual holding company structure under which the MHC would become the federal mutual holding company parent of the Company, a federal corporation, which in turn would own 100% of the stock of the Bank. Concurrently with the reorganization, the Company offered and sold 892,688 shares of its common stock in a public offering (including 77,763 shares sold to its employee stock ownership plan) representing 45% of its shares outstanding after the offering. The MHC retained 1,091,062 shares representing 55% of the outstanding shares of common stock of the Company. The common stock was offered on a priority basis to eligible depositors. The MHC will continue to own at least a majority of the common stock of the Company as long as the MHC exists.

Costs incurred in connection with the common stock offering (approximately \$852) were recorded as a reduction of the proceeds from the offering. Net proceeds from the common stock offering amounted to approximately \$8,100.

On January 27, 2011, the Company filed a Form 15 with the Securities and Exchange Commission to deregister its common stock under the Securities Exchange Act of 1934, as amended. As a result, the Company will no longer be considered a public company with periodic reporting requirements.

The Bank provides a full line of financial services to customers in the Cook County, Illinois area. Ben Franklin Bank of Illinois grants residential, commercial and consumer loans, substantially all of which are secured by specific items of collateral, including residences and consumer assets. The Bank is a federally chartered stock savings bank and a member of the Federal Home Loan Bank ("FHLB") system. The Bank maintains insurance on deposit accounts with the Deposit Insurance Fund ("DIF") of the Federal Deposit Insurance Corporation.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through March 25, 2011 which is the date the financial statements were available to be issued.

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period, and future results could differ. The allowance for loan losses, valuation allowance for deferred tax assets, carrying value of repossessed assets and fair values of financial instruments are particularly subject to change.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions with maturities of fewer than 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, and interest bearing deposits in other financial institutions.

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(Continued)

BEN FRANKLIN FINANCIAL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2010 and 2009  
(Dollars in thousands, except per share data)

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Loans: 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 deferred loan fees and costs, purchase premiums and discounts, and an allowance for loan losses. Interest income on mortgage and installment loans is recognized over the term of the loans based on the principal balance outstanding. Loan origination fees, net of certain direct loan origination costs, are deferred. The net deferred fee or cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans.

Interest income on mortgage and commercial loans 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 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 Loans Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Loan losses are charged to the allowance when management believes that 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.

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Commercial, construction, land, multi-family residential mortgage, 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 the fair value of collateral less cost to sell 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 evaluated for impairment and, accordingly, they are not separately identified for impairment disclosures.

Concentration of Credit Risk: Most of the Company's business activity is with customers located within Cook County and the surrounding collar counties. Therefore, the Company's exposure to credit risk is significantly affected by changes in the economy in these areas.

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, net of deferred income tax. Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-

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(Continued)

BEN FRANKLIN FINANCIAL, INC.  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment (“OTTI”) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) other-than-temporary impairment (OTTI) related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

FHLB Stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowing and other factors, and may invest in additional amounts. FHLB stock is carried at cost and classified as a restricted security. Because the stock is viewed as a long term investment, impairment is based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation. Buildings are depreciated using the straight-line method with useful lives of approximately 30 years.

Leasehold improvements are amortized on a straight-line basis over the estimated useful lives of the improvements or the remaining term of the leases, whichever is shorter. Furniture and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 7 years. The cost and accumulated depreciation of assets retired or sold are eliminated from the financial statements, and the gain or loss on disposition is credited or charged to operations when incurred.

Repossessed Assets: Real estate acquired through foreclosure and other repossessed assets are carried at fair value less estimated costs to sell. Expenditures to improve real estate are capitalized to the extent they do not exceed the fair value less estimated costs to sell. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed. Losses on disposition, including expenses incurred in connection with the disposition, are charged to operations.

Employee Stock Ownership Plan: The cost of shares issued to the employee stock ownership plan (“ESOP”) but not yet allocated to participants is presented in the consolidated statement of financial condition as a reduction of stockholders’ equity. Compensation expense is recorded based on the market price of the shares as they are committed to be released for allocation to participant accounts. Because participants may require the Company to purchase their ESOP shares upon termination of their employment, the appraised fair value of all earned and allocated ESOP shares is reclassified from stockholders’ equity.

Stock-Based Compensation: Compensation cost is recognized for stock options and restricted stock awards issued to employees based on the fair value of these awards at the date of grant. A Black-

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(Continued)

BEN FRANKLIN FINANCIAL, INC.  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Income Taxes: The provision for income taxes is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases 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. A valuation allowance was established for our deferred net tax asset as of December 31, 2009 based on our evaluation of our ability to realize the net deferred tax asset.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. The Company does not expect the total amount of unrecognized tax benefit to significantly change in the next twelve months. The Company recognizes interest related to income tax matters as interest expense and penalties related to tax matters as other expense. The Company did not have any amounts accrued for interest and penalties at December 31, 2010 or 2009.

Earnings Per Share: Basic earnings per common share is net income (loss) divided by the weighted average number of common shares outstanding during the period, including allocated and committed-to-be released ESOP shares. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options using the treasury stock method. Because of the Company's net loss for the years ended December 31, 2010 and 2009, all stock options were excluded from the computation of diluted loss per share as they were considered anti-dilutive.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an option or an agreement to repurchase them before their maturity.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance-sheet credit instruments, such as unused lines of credit, 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. Credit losses associated with off-balance sheet commitments are reflected as a liability and are based on estimated collateral values, economic conditions, and other factors. Such financial instruments are recorded when they are funded. Loan commitment fees received for a commitment to originate or purchase a loan are deferred and, if the commitment is exercised, recognized over the life of the loan as an adjustment of yield or, if the commitment expires unexercised, recognized in income upon expiration of the commitment.

Comprehensive Income: Comprehensive income (loss) consists of net income (loss) and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities

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BEN FRANKLIN FINANCIAL, INC.  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

available-for-sale, net of deferred income tax, which are also recognized as separate components of stockholders' equity.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market 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.

**NOTE 2 - SECURITIES AVAILABLE-FOR-SALE**

The amortized cost and fair value of securities available-for-sale (consisting of U.S government sponsored entities and residential mortgage backed securities) and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<u>December 31, 2010</u>				
U.S. Government sponsored entities	\$ 2,000	\$ -	\$ 10	\$ 1,990
Residential mortgage-backed securities	<u>1,872</u>	<u>110</u>	<u>-</u>	<u>1,982</u>
Total	<u>\$ 3,872</u>	<u>\$ 110</u>	<u>\$ 10</u>	<u>\$ 3,972</u>
<u>December 31, 2009</u>				
Residential mortgage-backed securities	\$ 2,369	\$ 94	\$ -	\$ 2,463
Total	<u>\$ 2,369</u>	<u>\$ 94</u>	<u>\$ -</u>	<u>\$ 2,463</u>

There were no sales of securities available-for-sale during the years ended December 31, 2010 and 2009. There were no securities pledged to secure any of the borrowings of the Company as of December 31, 2010 and 2009. The U.S. government sponsored enterprise securities are set to mature in one to five years. Anticipated maturities on mortgage-backed securities are not readily determinable as borrowers have the right to prepay their obligation with or without penalties.

Securities available-for-sale with unrealized losses at year-end not recognized in income are as follows:

	<u>Less Than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
<u>2010</u>						
U.S. government sponsored entities	\$ 1,990	\$ (10)	\$ -	\$ -	\$ 1,990	\$ (10)
Total temporarily impaired	<u>\$ 1,990</u>	<u>\$ (10)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,990</u>	<u>\$ (10)</u>

(Continued)

BEN FRANKLIN FINANCIAL, INC.  
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**NOTE 2 - SECURITIES AVAILABLE-FOR-SALE** (Continued)

As of December 31, 2010 and 2009, all of the Company's securities available-for-sale were issued by U.S. government sponsored entities and agencies which the government has affirmed its commitment to support.

**NOTE 3 - LOANS RECEIVABLE**

Loans receivable at December 31 are summarized as follows:

	<u>2010</u>	<u>2009</u>
First mortgage loans		
Secured by one-to-four-family residences	\$ 37,503	\$ 40,051
Secured by multi-family residences	16,440	16,933
Secured by commercial real estate	12,197	13,103
Secured by land	1,179	1,139
Construction loans	<u>2,260</u>	<u>4,393</u>
Total first mortgage loans	69,579	75,619
Consumer and other loans		
Home equity lines of credit	16,164	16,589
Commercial loans	5,266	5,916
Automobile loans	4,370	7,214
Other consumer loans	<u>114</u>	<u>121</u>
Total consumer and other loans	25,914	29,840
Gross loans	95,493	105,459
Premiums and net deferred loan origination costs	2	75
Allowance for loan losses	<u>(1,376)</u>	<u>(940)</u>
	<u>\$ 94,119</u>	<u>\$ 104,594</u>

Loans serviced for others totaled approximately \$1,100 at December 31, 2010 and 2009, respectively.

As of December 31, 2010 and 2009 there were no loans outstanding to principal officers, directors and other affiliates.

Activity in the allowance for loan losses is as follows:

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 940	\$ 584
Provision for loan losses	1,397	1,309
Loans charged off	(989)	(995)
Recoveries of loans previously charged off	<u>28</u>	<u>42</u>
	<u>\$ 1,376</u>	<u>\$ 940</u>

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(Continued)

BEN FRANKLIN FINANCIAL, INC.  
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**NOTE 3 - LOANS RECEIVABLE (Continued)**

Individually impaired loans are as follows

	<u>2010</u>	<u>2009</u>
Loans without allocated allowance for loan losses	\$ 4,265	\$ 4,794
Loans with allocated allowance for loan losses	<u>5,449</u>	<u>1,592</u>
Total	<u>\$ 9,714</u>	<u>\$ 6,386</u>

	<u>2010</u>	<u>2009</u>
Allowance allocated to impaired loans at year-end	729	366
Average of individually impaired loans during the year	\$ 8,300	\$ 4,734
Interest income recognized during impairment	186	-
Cash basis interest income recognized during impairment	-	-

Nonperforming loans were as follows:

	<u>2010</u>	<u>2009</u>
Loans past due over 90 days still on accrual	\$ -	\$ -
Non-accrual loans	5,951	5,038

Nonperforming loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The Company has allocated \$29 and \$0 to specific reserves on \$3,777 and \$542 of loans to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2010 and 2009 respectively. The Company has not committed to lend additional amounts as of December 31, 2010 and 2009 to customers with outstanding loans that are classified as troubled debt restructurings.

**NOTE 4 - PREMISES AND EQUIPMENT**

Premises and equipment consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
Leasehold improvements	\$ 884	\$ 884
Furniture and fixtures	<u>1,164</u>	<u>1,086</u>
	2,048	1,970
Accumulated depreciation	<u>(1,131)</u>	<u>(1,007)</u>
	<u>\$ 917</u>	<u>\$ 963</u>

Depreciation expense for the years ended December 31, 2010 and 2009 was \$124 and \$110, respectively.

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BEN FRANKLIN FINANCIAL, INC.  
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**NOTE 5 - DEPOSITS**

Deposit accounts with balances greater than \$100 totaled \$28,850 and \$24,879 at December 31, 2010 and 2009, respectively.

The scheduled maturities of certificates of deposit are as follows at December 31:

2011	\$ 46,730
2012	17,142
2013	3,308
2014	267
2015	<u>650</u>
	<u>\$ 68,097</u>

Interest expense on deposits is summarized as follows at December 31:

	<u>2010</u>	<u>2009</u>
Demand-interest-bearing	\$ 17	\$ 23
Savings	14	21
Money market	126	112
Certificates of deposit	<u>1,382</u>	<u>2,446</u>
	<u>\$ 1,539</u>	<u>\$ 2,602</u>

Deposits from principal officers, directors and other affiliates were \$215 and \$191 at December 31, 2010 and 2009, respectively.

**NOTE 6 - ADVANCES FROM FHLB**

Advances from the FHLB of Chicago at year end are summarized as follows:

<u>Maturity Date</u>	<u>Type</u>	<u>Call Date</u>	<u>Interest Rate</u>	<u>December 31</u>	
				<u>2010</u>	<u>2009</u>
June 30, 2010	Fixed rate	N/A	3.88%	\$ -	\$ 2,000
				<u>\$ -</u>	<u>\$ 2,000</u>

The Bank has adopted a collateral pledge agreement whereby the Bank has agreed to keep on hand, free of all other pledges, liens, and encumbrances, first mortgages with unpaid principal balances aggregating no less than 166% of the outstanding secured advances from the FHLB. All FHLB stock is also pledged to secure these advances.

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**NOTE 7 - REGULATORY CAPITAL MATTERS**

The Bank is subject to various 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 operations and 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 the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to help ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier I capital as defined in the regulations to risk-weighted assets as defined and of Tier I capital to adjusted total assets as defined. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios. The Bank was categorized as well capitalized at December 31, 2010 and 2009. There are no conditions or events since that notification that management believes have changed the Bank's category. Management believes as of December 31, 2010, the Bank meets all capital adequacy requirements to which it subject.

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 undercapitalized, asset growth and expansion are limited and plans for capital restoration are required.

The following is a reconciliation of the Bank's stockholders' equity under U.S. generally accepted accounting principles ("GAAP") to regulatory capital at December 31:

	<u>2010</u>	<u>2009</u>
Total stockholders' equity	\$ 9,607	\$ 10,413
Deferred tax asset limitation	-	-
Unrealized loss (gain) on securities available-for-sale, net of deferred income tax	<u>(61)</u>	<u>(58)</u>
Tier I capital	9,546	10,355
Allowance for loan losses	<u>1,141</u>	<u>940</u>
Total regulatory capital	<u>\$ 10,687</u>	<u>\$ 11,295</u>

The allowance for loan losses is limited to 1.25% of risk weighted assets. As of December 31, 2010, \$235 was excluded from the allowance for loan losses in the calculation of total regulatory capital.

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BEN FRANKLIN FINANCIAL, INC.  
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**NOTE 7 - REGULATORY CAPITAL MATTERS** (Continued)

At year end, actual capital levels and minimum required levels for the Bank were:

	<u>Actual</u>		<u>Minimum Required for Capital Adequacy Purposes</u>		<u>Minimum Required to Be Well Capitalized Under Prompt Corrective Action Regulations</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>December 31, 2010</u>						
Total capital (to risk-weighted assets)	\$ 10,067	11.7%	\$ 7,299	8.0%	\$ 9,124	10.0%
Tier 1 (core) capital (to risk-weighted assets)	9,546	10.5	3,650	4.0	5,475	6.0
Tier 1 (core) capital (to adjusted total assets)	9,546	8.2	4,644	4.0	5,805	5.0
<u>December 31, 2009</u>						
Total capital (to risk-weighted assets)	\$ 11,295	11.5%	\$ 7,867	8.0%	\$ 9,834	10.0%
Tier 1 (core) capital (to risk-weighted assets)	10,355	10.5	3,934	4.0	5,900	6.0
Tier 1 (core) capital (to adjusted total assets)	10,355	8.7	4,783	4.0	5,979	5.0

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**NOTE 8 - EMPLOYEE BENEFITS**

On October 18, 2006, the Company adopted an employee stock ownership plan (“the ESOP”) for the benefit of substantially all employees. The ESOP borrowed \$778 from the Company and used those funds to acquire 77,763 shares of the Company’s stock in connection with the reorganization at a price of \$10.00 per share.

Shares purchased by the ESOP with the loan proceeds are held in a suspense account and are allocated to ESOP participants on a pro rata basis as principal and interest payments are made by the ESOP to the Company. The loan is secured by shares purchased with the loan proceeds and will be repaid by the ESOP with funds from the Company’s discretionary contributions to the ESOP and earnings on ESOP assets. In 2010 and 2009, the Company made contributions to the ESOP of \$69 and \$76 respectively and the ESOP made the annual principal and interest payments on the loan of \$69 and \$76 respectively.

As shares are released from collateral, the Company reports compensation expense equal to the current market price of the shares and the shares become outstanding for earnings-per-share computations. Dividends on allocated ESOP shares reduce retained earnings; dividends on unearned ESOP shares reduce accrued interest. Because participants may require the Company to purchase their ESOP shares upon termination of their employment, the fair value of all earned and allocated ESOP shares may become a liability. In 2010, the ESOP distributed 1,343 shares to participants that terminated their employment, of which 427 shares were repurchased by the Company upon exercise by the participant of their put option and placed in treasury. In 2009, the ESOP distributed 117 shares to participants that terminated their employment, of which 59 shares were repurchased by the Company and placed in treasury.

The ESOP has a plan year end of December 31. Expense related to the ESOP was \$14 and \$26 for the years ended December 31, 2010 and 2009 respectively.

Shares held by the ESOP at December 31, 2010 and 2009 respectively were as follows:

	<u>2010</u>	<u>2009</u>
Shares committed to be released	5,070	5,610
Allocated shares	15,090	10,823
Unearned ESOP shares	<u>55,765</u>	<u>60,835</u>
Total ESOP shares	<u>75,925</u>	<u>77,268</u>
Fair value of unearned ESOP shares	<u>\$ 114</u>	<u>\$ 158</u>
Fair value of allocated shares subject to repurchase obligation	<u>\$ 41</u>	<u>\$ 43</u>

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**NOTE 8 - EMPLOYEE BENEFITS** (Continued)

On March 26, 2008, stockholders of the Company approved the Ben Franklin Financial, Inc. Equity Incentive Plan (the "Plan") which provides officers, employees, and directors of the Company and the Bank with stock based incentives to promote our growth and performance. The Plan shall remain in effect as long as any awards are outstanding provided, however, that no awards be granted under the plan after ten years from the date of adoption. The Plan authorizes the issuance of up to 136,085 shares of our common stock pursuant to grants of incentive and non-statutory stock options, stock appreciation rights, and restricted stock awards. No more than 38,881 shares may be issued as restricted stock awards. No more than 97,204 shares may be issued pursuant to stock options and stock appreciation rights, all of which may be granted pursuant to the exercise of incentive stock options. On April 17, 2008, we granted restricted stock awards for 34,476 common shares and stock options for 86,740 common shares under the Plan, all of which vest over a five year period. Awards under the Plan may also fully vest upon the participant's death or disability or change in control of the Company. All of the options granted have an exercise price of \$9.36 per share, which was the closing price of the stock on the grant date. No options have been exercised or forfeited as of December 31, 2010 and 2009. The options have no intrinsic value as of December 31, 2010 and 2009.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes). Since the Company stock had been outstanding less than two years at the time of the grant, expected volatilities as of the April 17, 2008 grant date were based on historical stock price volatilities of other micro cap banks and bank holding companies. The expected term represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

No stock options were granted in 2010 and 2009. Stock option expense was \$40 for the years ended December 31, 2010 and 2009 respectively. As of December 31, 2010, there was \$90 of unrecognized compensation cost related to stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of approximately 2.3 years.

A summary of the activity in the stock option plan for 2010 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2010	86,740	\$ 9.36	8.3	\$ -
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited or expired	-	-	-	-
Outstanding at December 31, 2010	<u>86,740</u>	<u>\$ 9.36</u>	<u>7.3</u>	<u>\$ -</u>
Fully vested and expected to vest	86,740	9.36	7.3	\$ -
Exercisable at December 31, 2010	<u>34,696</u>	<u>\$ 9.36</u>	<u>7.3</u>	<u>\$ -</u>

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**NOTE 8 - EMPLOYEE BENEFITS** (Continued)

The fair value of the restricted stock awards was \$9.36 per share, which was the closing price of the stock on the April 17, 2008 grant date. At December 31, 2010 there were 13,792 restricted stock awards vested and none forfeited. At December 31, 2009 there were 6,896 restricted stock awards vested and none forfeited. Restricted stock award expense was \$65 for the years ended December 31, 2010 and 2009 respectively. As of December 31, 2010, there was \$147 of unrecognized compensation cost related to non vested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of approximately 2.3 years.

The value of stock options and restricted stock awards as of the grant date are expensed over the five year vesting period. Forfeitures of stock options and restricted stock awards are expected to be insignificant.

A summary of changes in the Company's nonvested shares for 2010 follows:

<u>Nonvested Shares</u>	<u>Shares</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Nonvested at January 1, 2010	27,580	\$ 9.36
Granted	-	-
Vested	6,896	9.36
Forfeited	<u>-</u>	-
Nonvested at December 31, 2010	<u>20,684</u>	\$ 9.36

The total fair value of shares vested in 2010 and 2009 was \$14 and \$38.

**NOTE 9 - INCOME TAXES**

The income tax benefit consists of the following:

	<u>2010</u>	<u>2009</u>
Currently refundable taxes		
Federal	\$ (1)	\$ 351
State	-	-
Total refundable taxes	<u>\$ (1)</u>	<u>\$ 351</u>
Deferred tax benefit	333	297
Change in valuation allowance for deferred tax assets	<u>(330)</u>	<u>(578)</u>
Income tax benefit	<u>\$ 2</u>	<u>\$ 70</u>

BEN FRANKLIN FINANCIAL, INC.  
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**NOTE 9 - INCOME TAXES** (Continued)

The income tax benefit differs from the amounts determined by applying the statutory U.S. federal income tax rate of 34% to the loss before income taxes as a result of the following items:

	<u>2010</u>		<u>2009</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Income tax computed at the statutory federal rate	\$ 291	34.0%	\$ 575	34.0%
State tax and other items	41	4.8	73	4.3
Change in valuation allowance	<u>(330)</u>	<u>(38.5)</u>	<u>(578)</u>	<u>(34.2)</u>
	<u>\$ 2</u>	<u>0.3%</u>	<u>\$ 70</u>	<u>4.1%</u>

The net deferred tax asset consists of the following at December 31:

	<u>2010</u>	<u>2009</u>
Deferred tax assets		
Accumulated depreciation	\$ 132	\$ 101
Bad debts	534	365
Deferred loan fees	25	36
Federal net operating loss carryforwards	122	-
Illinois net operating loss carryforwards	132	117
ESOP	27	26
Deferred rent	39	28
Stock options and awards	24	18
Reposessed asset valuation allowance	46	52
Deferred tax liabilities		
Mortgage servicing rights	(5)	-
Unrealized gain on securities available for sale	(39)	(36)
FHLB stock dividends	<u>(129)</u>	<u>(129)</u>
	908	578
Valuation allowance for deferred tax assets	<u>(908)</u>	<u>(578)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

We established a valuation allowance for our net deferred tax assets based on our assessment of our ability to realize our deferred tax asset primarily based on the tax losses incurred in recent years and under current law, our inability to recover any additional taxes paid in prior years. State net operating losses of \$2,750 are being carried forward and will be available to reduce future taxable income. These state net operating loss carryforwards will expire beginning in 2014 through 2021 if not utilized to reduce future taxable income.

The Company's net operating losses for federal income taxes in 2010 of \$313 are being carried forward to reduce taxable income in future years. These federal net operating loss carryforwards will expire in 2030. The Company's net operating losses for federal income taxes in 2009, 2008, and 2007 were each carried back to reduce taxable income reported in prior years.

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**NOTE 10 - EARNINGS PER SHARE**

The following table presents the components used to compute basic and diluted earnings (loss) per share:

	<u>For the year ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Net loss available to common stockholders	\$ (855)	\$ (1,621)
Weighted average common shares outstanding	1,891,973	1,893,279
Dilutive effect of non-vested stock awards and assumed exercises of stock options	-	-
Basic and diluted loss per share	\$ (0.45)	\$ (0.86)

**NOTE 11 - COMMITMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK**

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist of commitments to make loans and fund unused lines of credit and loans in process. The Bank follows the same credit policy to make such commitments as is followed for those loans recorded on the statement of financial condition. These financial instruments are summarized as follows:

	<u>Contractual Amount</u>	
	<u>December 31</u>	
	<u>2010</u>	<u>2009</u>
Financial instruments whose contract amounts represent credit risk		
Unused lines of credit	\$ 15,733	\$ 15,627
Commitments to make loans	2,967	1,233

The contractual amount of fixed rate commitments to make loans at December 31, 2010 and 2009 was \$2,917 and \$911 respectively. Commitments to make loans are generally made for 60 days or less.

Financial instruments that potentially subject the Bank to concentrations of credit risk include deposit accounts in other financial institutions. At December 31, 2010, the Bank had interest-bearing deposits amounting to \$2,674 with the Federal Home Loan Bank of Chicago and non-interest-bearing deposits of \$3,320 and federal funds sold of \$7,760 with JP Morgan Chase Bank.

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**NOTE 11 - COMMITMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK**  
(Continued)

The Bank leases its main office facility under a noncancelable fifteen-year operating lease that matures in 2022. The Bank leases its branch facility under a noncancelable three-year operating lease that matures on November 30, 2015. Minimum rental commitments under the leases are as follows as of December 31, 2010:

2011	\$ 231
2012	239
2013	240
2014	181
2015	184
Thereafter	<u>1,406</u>
	<u>\$ 2,481</u>

Rent expense for the years ended December 31, 2010 and 2009 was \$301 and \$300, respectively.

**NOTE 12 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

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

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the



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**NOTE 12 - FAIR VALUE OF FINANCIAL INSTRUMENTS** (Continued)

comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Repossessed Assets: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned (OREO) and repossessed automobiles are measured at the lower of carrying amount or fair value, less costs to sell. Fair values for OREO are generally based on third party appraisals of the property, while fair values for automobiles are based on published values of comparable models, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Assets Measured on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below:

	<u>Balance</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>December 31, 2010</u>				
Assets				
Securities available for sale				
U.S. government sponsored entities	\$ 1,990	\$ -	\$ 1,990	\$ -
Residential mortgaged-backed	<u>1,982</u>	<u>\$ -</u>	<u>\$ 1,982</u>	<u>\$ -</u>
	\$ 3,972	\$ -	\$ 3,972	\$ -
 <u>December 31, 2009</u>				
Assets				
Securities available for sale				
Residential mortgaged-backed	\$ 2,463	\$ -	\$ 2,463	\$ -

BEN FRANKLIN FINANCIAL, INC.  
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**NOTE 12 - FAIR VALUE OF FINANCIAL INSTRUMENTS** (Continued)

Assets Measured on a Non-Recurring Basis

Assets measured at fair value on a non-recurring basis are summarized below:

	<u>Balance</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>December 31, 2010</u>				
Assets				
Impaired loans	\$ 3,179	\$ -	\$ -	\$ 3,179
Repossessed assets	796	-	-	\$ 796
<u>December 31, 2009</u>				
Assets				
Impaired loans	\$ 2,841	\$ -	\$ -	\$ 2,841
Repossessed assets	991	-	-	\$ 991

Impaired loans, which are measured for impairment using the fair value of the collateral (less cost to sell) for collateral dependent loans, had a cost basis of \$3,796 with a \$617 valuation allowance at December 31, 2010. The provision for loan losses applicable to these loans was \$542 for the year ended December 31, 2010. At December 31, 2009, impaired loans had an aggregate balance of \$3,144, with a \$303 valuation allowance resulting in an additional provision for loan losses of \$768 for the year ended December 31, 2009. The fair value of collateral is based on appraisals for impaired loans less sales commissions, legal fees, and other closing costs.

Repossessed assets, consisting of other real estate owned and repossessed automobiles are measured at the lower of cost or fair value less costs to sell. Repossessed assets were carried at a cost of \$796 at December 31, 2010, consisting of the cost basis of \$892 and a valuation allowance of \$96, and \$991 at December 31, 2009 consisting of the cost basis of \$1,125 and a valuation allowance of \$134.

BEN FRANKLIN FINANCIAL, INC.  
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**NOTE 12 - FAIR VALUE OF FINANCIAL INSTRUMENTS** (Continued)

The carrying amounts and estimated fair values of the Company's financial instruments are as follows:

	December 31, 2010		December 31, 2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<u>Financial assets</u>				
Cash and cash equivalents	\$ 14,019	\$ 14,019	\$ 7,796	\$ 7,796
Securities available-for-sale	3,972	3,972	2,463	2,463
Loans receivable, net	94,119	97,394	104,594	108,811
FHLB stock	1,337	N/A	1,337	N/A
Accrued interest receivable	362	362	457	457
<u>Financial liabilities</u>				
Demand, money market, and savings	\$ 34,266	34,266	\$ 27,447	\$ 27,447
Certificates of deposits	68,097	69,018	75,666	76,734
FHLB advances	-	-	2,000	2,034
Accrued interest payable	1	1	21	21

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The methods and assumptions used to determine fair values for each class of financial instrument not previously discussed are presented below.

The estimated fair values for: cash and cash equivalents; accrued interest receivable; demand, money market, and savings deposits; and accrued interest payable approximate their carrying values. It was not practicable to determine the fair value of FHLB stock due to the restriction placed on transferability. The estimated fair value for loans is based on current market rates for similar loans, applied for the time period until estimated payment. The estimated fair value of certificates of deposit is based on current market rates for such deposits, applied for the time period until maturity. The fair value of FHLB advances is based on current rates for similar financing. Loan commitments are not included in the table above as their estimated fair value is immaterial.

While the above estimates are based on management's judgment of the most appropriate factors, there is no assurance that were the Bank to have disposed of these items on December 31, 2010 and 2009, the fair values would have been achieved, because the market value may differ depending on the circumstances.

**NOTE 13 - OTHER COMPREHENSIVE INCOME**

Other comprehensive income components and related taxes were as follows:

	<u>2010</u>	<u>2009</u>
Unrealized holding gains on securities available-for-sale	\$ 6	\$ 80
Less reclassification adjustments for gains and losses recognized in income	-	-
	<u>6</u>	<u>80</u>
Deferred income tax effect	<u>3</u>	<u>31</u>
Other comprehensive income	<u>\$ 3</u>	<u>\$ 49</u>

BEN FRANKLIN FINANCIAL, INC.  
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**NOTE 14 - PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION**

Condensed financial information of Ben Franklin Financial, Inc. is as follows:

**CONDENSED BALANCE SHEETS**  
**December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,899	\$ 2,779
Investment in bank subsidiary	9,607	10,413
ESOP loan	628	675
Other assets	<u>5</u>	<u>5</u>
Total assets	<u>\$ 13,139</u>	<u>\$ 13,872</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities	\$ 2	\$ -
Common stock in ESOP subject to contingent purchase obligation	41	43
Stockholders' equity	<u>13,096</u>	<u>13,829</u>
Total liabilities and stockholders' equity	<u>\$ 13,139</u>	<u>\$ 13,872</u>

**CONDENSED STATEMENTS OF INCOME**  
**For the years ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Income</b>		
Interest on ESOP loan	\$ 22	\$ 32
Other interest income	<u>5</u>	<u>8</u>
Total income	27	40
<b>Expense</b>		
Non-interest expense	<u>73</u>	<u>80</u>
<b>Loss before income taxes and undistributed subsidiary loss</b>	(46)	(40)
Income tax benefit	-	-
Equity in undistributed subsidiary loss	<u>(809)</u>	<u>(1,581)</u>
<b>Net loss</b>	<u>\$ (855)</u>	<u>\$ (1,621)</u>

BEN FRANKLIN FINANCIAL, INC.  
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**NOTE 14 - PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION** (Continued)

**CONDENSED STATEMENTS OF CASH FLOWS**  
For the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities</b>		
Net loss	\$ (855)	\$ (1,621)
Adjustments		
Earned ESOP shares and other stock based Compensation	118	130
Equity in undistributed subsidiary loss	809	1,581
Change in other assets	-	24
Change in other liabilities	<u>2</u>	<u>(21)</u>
Net cash from operating activities	74	93
 <b>Cash flows from investing activities</b>		
Payments on ESOP loan	<u>47</u>	<u>40</u>
Net cash from investing activities	47	40
 <b>Cash flows from financing activities</b>		
Purchase of common stock	<u>(1)</u>	<u>(176)</u>
Net cash from financing activities	<u>(1)</u>	<u>(176)</u>
 Net change in cash and cash equivalents	120	(43)
Beginning cash and cash equivalents	<u>2,779</u>	<u>2,822</u>
 <b>Ending cash and cash equivalents</b>	<u>\$ 2,899</u>	<u>\$ 2,779</u>



# Ben Franklin Financial, Inc.

## Directors & Officers

### **C. Steven Sjogren**

Chairman, President and  
Chief Executive Officer

### **Robert E. DeCelles**

Director; retired real estate manager

### **Bernadine Dziedzic**

Director, Assistant Vice President  
and Corporate Secretary

### **John R. Perkins**

Director;  
Treasurer, Perkins & Associates LLC

### **Nicholas J. Raino**

Director;  
Chairman, Dale Smith & Associates

### **James M. Reninger**

Director;  
Owner, Whitfield & Reninger, Ltd.

### **Robin L. Jenkins**

Senior Vice President and  
Chief Lending Officer

### **Glen A. Miller**

Vice President and  
Chief Financial Officer

### **Angie Plesiotis**

Vice President and  
Chief Operations Officer

## Corporate Information

### **Corporate Headquarters**

830 East Kensington Road  
Arlington Heights, IL 60004  
Phone: (847) 398-0990  
Fax: (847) 398-1362

### **Special Counsel**

Luse Gorman Pomerenk & Schick  
5335 Wisconsin Ave. NW Suite 780  
Washington, D.C. 20015

### **Auditors**

Crowe Horwath LLP  
One Mid America Plaza  
Oak Brook, IL 60522

### **Transfer Agent & Registrar**

Registrar and Transfer Company  
10 Commerce Drive  
Cranford, NJ 07016

### **Stock Listing**

The common stock of Ben Franklin  
Financial, Inc. is quoted on the Over-  
the-counter Bulletin Board and  
traded under the symbol "BFFI".



*Ben Franklin*  
*Financial, Inc.*