2012
Annual Report

To Our Shareholders:

The financial crisis that surfaced in 2007 has continued to have lasting effects on the U.S. economy and has resulted in what is perhaps the most significant wave of regulatory changes for the banking industry in many decades. These changes have brought heightened regulatory focus on a number of key areas such as compliance, risk management, strategic planning and operations to name a few. While our industry has always been highly regulated, the current banking regulatory environment is one of the most far-reaching and complex in history.

The slow recovery of our real estate market, weak loan demand, increased costs relating to impairments in the value of existing loans and repossessed assets, and ever rising costs of compliance continued to impact our financial operations in 2012.

Total assets decreased during the year by $5.2 million or 4.9% to $100.8 million at year end, primarily due to the $2.9 million decrease in our net loan portfolio, the $2.8 million decrease in our securities portfolio and the $770,000 decrease in our repossessed assets. These decreases were partially offset by the $1.5 million increase in our cash and cash equivalents.

Total deposits decreased $3.2 million or 3.5% to $89.4 million at December 31, 2012. Time deposit accounts decreased $4.6 million or 8.0%, while regular savings, demand, and money market account balances increased $1.4 million to $36.4 million at year-end.

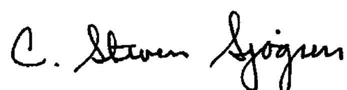
The allowance for loan losses was $2.1 million or 2.51% of total loans at year end. The increase in the balance of our allowance for loan losses was primarily due to the $1.9 million provision made during 2012. This increased provision was the result of both an increase in the number of loans classified as well as changes in the assumptions used to project cash flows for impaired loans.

Total stockholders' equity decreased $2.0 million or 16.0% to $10.5 million at year end. The decrease resulted from the net loss of $2.1 million in 2012 which was partially offset by decreases in the unrealized gain on available-for-sale securities, and an increase in stock incentive compensation amounts.

Due to the impact of the weak local economic conditions and increased costs, the Bank entered into a Consent Order with the Office of the Comptroller of the Currency. The Order outlines areas of weakness where the Bank is committed to make improvements. In response to the Order, the Bank has added additional senior staff to address the outlined issues and to develop a commercial business program as part of the Bank's strategy to diversify its loan portfolio and attract business customers in an effort to return to profitability.

While much around us 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 this environment, our continued focus on quality customer service remains 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
Chairman, President and Chief Executive Officer

Ben Franklin Financial, Inc.
Annual Report
For The Year Ended
December 31, 2012

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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;
- our ability to comply with the terms of the Consent Order with the Office of the Comptroller of the Currency dated December 19, 2012;
- 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;
- 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;
- 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 (the "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, 2012, Ben Franklin Financial, MHC had assets of $10.5 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 (the "Bank"). 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, 2012, Ben Franklin Financial, Inc. had consolidated assets of $100.8 million, total deposits of $89.4 million and stockholders' equity of $10.5 million. Ben Franklin Financial, Inc.'s net loss for the year ended December 31, 2012 was $2.1 million. At December 31, 2012, apart from its ownership of shares of common stock of Ben Franklin Bank of Illinois, Ben Franklin Financial, Inc. had assets of $2.1 million, which were invested primarily in a savings account at the Bank 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 is no longer 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 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.

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 downturn and slow recovery which has caused the real estate values to decline over the past several years. While the Chicago Primary Statistical Metropolitan Area median home price increased to $151,500 in December 2012 compared to $145,000 the prior year, the price is still below the market high of $247,800 in December 2007. In our immediate area, the residential townhouse development contiguous to our main office which started during 2011 has been completed. However, development of the remaining project has yet to begin. This activity is indicative of the general condition of the real estate market in our area.

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 June 30, 2012, 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.

Dodd Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2011 (the "Dodd-Frank Act") made extensive changes in the regulation of federal savings banks such as the Bank. Under the Dodd-Frank Act, the Office of Thrift Supervision, our former primary regulator, was eliminated. Responsibility for the supervision and regulation of federal savings banks was transferred to the Office of the Comptroller of the Currency, which is the agency that is primarily responsible for the regulation and supervision of national banks. The Office of the Comptroller of the Currency has assumed responsibility for implementing and enforcing many of the laws and regulations applicable to federal savings banks. The responsibility for the regulation and supervision of savings and loan holding companies, such as the Company and the MHC has been transferred to the Federal Reserve Board, which also supervises bank holding companies.

Additionally, the Dodd-Frank Act created a new Consumer Financial Protection Bureau as an independent bureau of the Federal Reserve Board. The Consumer Financial Protection Bureau assumed responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations, a function formerly 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 after a five year phase in period, 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 full 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 financial condition data at December 31, 2012 and 2011, and the operating data for the years ended December 31, 2012 and 2011 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.

	At December 31,	
	2012	2011
	(in thousands)	
Selected Financial Condition Data:		
Total assets	$ 100,782	$ 106,005
Cash and cash equivalents	12,236	10,771
Loans receivable, net	81,429	84,289
Securities	3,232	5,621
Deposits	89,407	92,561
Stockholders' Equity	10,482	12,536

	For the year ended December 31,	
	2012	2011
	(in thousands)	
Selected Operating Data:		
Interest income	$ 4,449	$ 4,784
Interest expense	703	954
Net interest income	3,746	3,830
Provision for loan losses	1,903	815
Net interest income after provision for loan losses	1,843	3,015
Non-interest income	90	87
Non-interest expense	4,040	3,815
Loss before income taxes	(2,107)	(713)
Income tax provision (benefit)	13	(10)
Net loss	$ (2,120)	$ (703)

	At or For the Year Ended December 31,	
	2012	2011
Selected Financial Ratios and Other Data:		
Performance Ratios:		
Return on assets (ratio of net income (loss) to average total assets)	(2.07)%	(0.64)%
Return on equity (ratio of net income (loss) to average equity)	(17.81)%	(5.32)%
Interest rate spread [(1)]	3.76%	3.60%
Net interest margin [(2)]	3.85%	3.70%
Efficiency ratio [(3)]	103.32%	94.52%
Non-interest expense to average total assets	3.95%	3.48%
Average interest-earning assets to average interest-bearing liabilities	111.12%	111.01%
Loans to deposits	90.33%	92.29%
Asset Quality Ratios:		
Non-performing assets and troubled debt restructurings to total assets	7.06%	8.31%
Non-performing loans to total loans	1.09%	2.08%
Non-performing loans and troubled debt restructurings to total loans	6.54%	7.48%
Allowance for loan losses to non-performing loans and troubled debt restructurings	38.36%	17.79%
Allowance for loan losses to total loans	2.51%	1.33%
Capital Ratios:		
Equity to total assets at end of year	10.40%	11.83%
Average equity to average assets	11.63%	12.04%
Other Data:		
Number of full service offices	2	2
Number of full time equivalent employees	22	22

(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 year.
(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, 2012 and December 31, 2011

General. Due to the slow recovery from the severe economic recession, real estate market values and loan demand continue to remain weak in our market area. .Our results for the year ended December 31, 2012 were impacted by the weak local economic conditions and increased costs relating to impairments in the value of existing loans and repossessed assets.

Due to our current financial condition, the Bank entered into a Consent Order (the "Order") with the Office of the Comptroller of the Currency (the "OCC") on December 19, 2012. The Order outlines areas of weakness that the Bank must improve related to: asset quality including valuations, classifications, monitoring, concentrations, and allowance for loan losses; capital and strategic planning; liquidity management; consumer compliance; and management and board structure along with time frames for completion. The Order mandated that the Bank maintain a total risk based capital ratio of at least 13% and a Tier 1 leverage ratio of at least 9% beginning on March 31, 2013. In response to the Order the Bank, in late 2012, hired two senior loan officers and a credit analyst to address the credit quality issues and to develop a commercial business program as part of the Bank's strategy to diversify its loan portfolio and attract business customers in an effort to return to profitability. In addition the Bank has engaged a number of consultants to assist the board and management in meeting other requirements of the Order. As a result of the Bank's strategy to comply with the Order, management anticipates higher non-interest expense in 2013. The Company contributed $1.0 million to the Bank during the first quarter of 2013 in order for the Bank to meet its capital requirements.

Assets. At December 31, 2012, total assets decreased by $5.2 million or 4.9% to $100.8 million compared to $106.0 million at December 31, 2011 primarily due to the $2.9 million decrease in our net loan portfolio, the $2.8 million decrease in our securities available for sale and Federal Home Loan Bank stock, and the $770,000 decrease in our repossessed assets. These decreases were partially offset by the $1.5 million increase in our cash and cash equivalents.

Our loan portfolio was $81.4 million at December 31, 2012 compared to $84.3 million at December 31, 2011 primarily due to repayments exceeding loan originations and purchases. During 2012, our loan origination and purchase activity for our portfolio, excluding home equity lines-of-credit, was $8.6 million compared to $12.5 million during 2011. Originations of our home equity-lines-of-credit loans were $2.1 million in 2012 compared to $4.3 million in 2011. The weak demand for loans contributed to a decrease of $2.2 million in our one- to four- family residential mortgage loans, a $2.2 million decrease in our multi-family loans, a $1.8 million decrease in our home equity line-of-credit loans, and an $825,000 decrease in our commercial business loans. These decreases were partially offset by a $1.9 million increase in our commercial business loans, a $1.4 million increase in our commercial real estate loans and a $1.0 million increase in our automobile loans as we resumed purchases of such loans from another financial institution. Management intends to develop and implement a commercial business loan strategy during the second half of 2013.

At December 31, 2012 our allowance for loan losses was $2.1 million or 2.51% of total loans compared to $1.1 million or 1.33% of total loans at December 31, 2011. The increase in the balance of our allowance for loan losses at December 31, 2012 was primarily due to the $1.9 million provision partially offset by net charge-offs totaling $945,000 during 2012. Our increase in the provision was primarily due to an increase in the number of loans classified as substandard and the increase in the allocated allowance due to changes in the assumptions used to project cash flows for our impaired loans, both as a result of our recent regulatory examination, and an increase in the historical loss factors applied to pools of performing loans. Our loans classified as substandard increased $1.7 million to $6.5 million at December 31, 2012 compared to $4.8 million at December 31, 2011. Our non-performing loans totaled $913,000 or 1.09% of total loans at December 31, 2012 compared to $1.8 million or 2.08% of total loans at December

31, 2011. Our loans classified as troubled debt restructurings totaled $4.5 million or 5.45% of total loans at December 31, 2012 compared to $4.6 million or 5.40% of total loans at December 31, 2011.

Our securities portfolio decreased $2.4 million to $3.2 million at December 31, 2012 compared to $5.6 million at the prior year end primarily due to the call of $3.0 million in U.S. government sponsored entities and repayments on our mortgage-backed securities. This decrease in securities was partially offset by the purchase of a $1.0 million U.S. government sponsored entity note. The balance of our Federal Home Loan Bank of Chicago stock decreased $416,000 due to the redemption of stock as the Federal Home Loan Bank resumed its redemption program during 2012.

Cash and cash equivalents increased $1.4 million to $12.2 million at December 31, 2012 from $10.8 million at December 31, 2011. We anticipate the level of cash and cash equivalents may remain high during 2013 in anticipation of increased loan production during the second half of the year.

The balance of our repossessed assets decreased $770,000 to $1.7 million at December 31, 2012 compared to $2.4 million at December 31, 2011. We sold $1.1 million of repossessed assets and had charge-offs that totaled $439,000 during 2012, partially offset by $639,000 of assets transferred from loans to repossessed assets and $83,000 of capitalized improvements.

Liabilities. Total deposits decreased $3.2 million or 3.5% to $89.4 million at December 31, 2012 compared to $92.6 million at December 31, 2011. Our certificate of deposit accounts decreased $4.6 million or 8.0% to $53.0 million at December 31, 2012 compared to $57.6 million at the prior year-end. Our savings, demand, and money market account balances increased $1.4 million to $36.4 million at December 31, 2012 compared to $35.0 million at the prior year-end.

Stockholders' Equity. Total stockholders' equity decreased $2.0 million or 16.0% to $10.5 million at December 31, 2012 compared to $12.5 million at December 31, 2011. The decrease resulted from the net loss of $2.1 million in 2012 and a $22,000 decrease in the unrealized gain on available-for-sale securities, partially offset by an $88,000 increase in ESOP and stock incentive compensation amounts.

As part of the Order with the OCC, the Bank is required to maintain Tier 1 and Total Risk Based capital ratios of 9% and 13% by March 31, 2013. In February 2013, the Company contributed an additional $1.0 million to the Bank to meet these minimum capital requirements.

Comparison of Operating Results for the Years Ended December 31, 2012 and December 31, 2011

General. Our net loss for the year ended December 31, 2012 was $2.1 million compared to a net loss of $703,000 for the prior year. The increase in our net loss was primarily due to the increase in our provision for loan losses and the increased costs related to our repossessed assess. Both reflect the impact of the economic downturn and slow recovery on the value of real estate collateral in our market area.

Interest Income. Interest income decreased $335,000 or 7.0% to $4.4 million for 2012. Interest income from loans decreased $306,000 or 6.6% to $4.3 million for the year ended December 31, 2012 compared to the prior year. This decrease was primarily due to the decrease in the average balance of our loan portfolio to $82.9 million during 2012 compared to $89.1 million in 2011. The decrease in the average balance of our loan portfolio was primarily due to decreases in the average balance of: $5.0 million in our one- to four- family real estate loans; $1.1 million in our home equity line-of-credit loans; and $682,000 in our multi-family loans. These decreases in the average balance of our loans were primarily due to the impact of the weak loan demand on originations and the repayment of loans. The average yield on loans for the year ended December 31, 2012 was 5.24% compared to 5.22% in the prior year.

Interest income from securities decreased $30,000 or 23.6% to $97,000 for the year ended December 31, 2012 compared to the prior year. The average balance of our securities portfolio for 2012 was $5.1 million compared to $6.4 million for the prior year primarily due to the call of $3.0 million of government sponsored entities during 2012 and the pay down of our mortgage-backed securities, partially offset by the purchase of a $1.0 million U.S. government sponsored entity note. The average yield on our securities portfolio for the year ended December 31, 2012 was 1.89% compared to 1.99% for the prior year. The average balance of our Federal Home Loan Bank of Chicago stock was $996,000 for the year ended December 31, 2012 compared to $1.3 million for the prior year due to the redemption of stock.

For the year ended December 31, 2012, interest from other interest-earning assets was $9,000 compared to $8,000 for the prior year. The average balance of other interest earning assets was $9.4 million for year ended December 31, 2012 compared to $8.0 million for the prior year.

Interest Expense. Interest expense for the year ended December 31, 2012 was $703,000, a decrease of $251,000 or 26.3% from the prior year. The decrease was primarily due to the decrease in the average cost of deposits to 0.81% for 2012 compared to 1.02% for 2011 as the average cost of our certificates of deposit decreased to 1.11% for the year ended December 31, 2012 compared to 1.39% for the prior year as the general low market interest rates led to the downward repricing of maturing certificate of deposit accounts. The average balance of our deposits decreased $6.0 million to $87.3 million for 2012 due to a decrease of $7.0 million in the average balance of our certificate of deposit accounts to $54.5 million, partially offset by a $1.0 million increase in the average balance of our savings, demand, and money market accounts to $32.8 million for the year ended December 31, 2012.

Net Interest Income. Net interest income for the year ended December 31, 2012 decreased $84,000 or 2.2% to $3.7 million from the prior year primarily due to the lower average balance of our interest earning assets. The average yield on interest-earning assets for 2012 was 4.57% compared to 4.62% for the prior year. The average cost of interest-bearing liabilities decreased to 0.81% in 2012 from 1.02% in 2011. The result was a net interest rate spread of 3.76% for the year ended December 31, 2012 compared to 3.60% for the prior year. Our net interest margin increased to 3.85% in 2012 compared to 3.70% in 2011 due to the increase in the net interest rate spread.

Provision for Loan Losses. Our provision for loan losses was $1.9 million for the year ended December 31, 2012 compared to $815,000 in 2011. The increase was primarily due to the increase in the number of loans classified as substandard and the increase in the allocated allowance due to revisions in the assumptions used to project cash flows for our impaired loans, both as a result of our recent examination, and an increase in the historical loss factors applied to pools of performing loans. Our provision for loan losses for the year ended December 31, 2012 included $1.2 million related to our one-to-four family residential loans, $333,000 related to our commercial real estate loans, and $187,000 related to our multi-family loans, and $147,000 related to our home equity line-of-credit loans.

Non-interest Income. Non-interest income increased $3,000 or 3.4% to $90,000 for the year ended December 31, 2012 compared to the prior year. Our service fee income decreased $19,000 primarily due to a decrease in fees for originating loans for another financial institution and lower loan related charges. Our loss on sale of repossessed assets was $74,000 for the year ended December 31, 2012 compared to a loss of $119,000 for the prior year.

Non-interest Expense. Non-interest expense totaled $4.0 million for the year ended December 31, 2012, an increase of $225,000 or 5.9% from the prior year. Our repossessed asset expense increased $275,000 to $755,000 in 2012 compared to the prior year primarily due to write-downs of $439,000 reflecting the decline in value of the collateral. This total included $194,000 related to commercial real estate, $96,000

for land, $93,000 for one- to four- family real estate, $39,000 for multi-family real estate, and $17,000 for other assets. Our write-downs during 2011 consisted of $248,000 for commercial real estate and $61,000 for one- to four- family real estate. Regulatory fees increased $36,000. Data processing costs increased $21,000 due to the acquisition of additional software applications. Our FDIC insurance premium increased $11,000. Our compensation and employee benefits expense decreased $30,000 to $1.6 million in 2012. We anticipate our compensation and other employee benefits expense to increase in 2013 due to the increase in staff at the end of 2012. Occupancy expenses decreased $68,000 primarily due to certain one-time charges related to our leased office during 2011. Professional fees decreased $44,000 primarily due to a $72,000 decrease in foreclosure related legal fees partially offset by a $50,000 increase in third party consulting fees. Management anticipates an increase in professional fees in 2013 primarily due to the engagement of third party consultants to assist management in resolving issues related to the Order as well as ongoing compliance and audit costs. All other expenses decreased $6,000 on a net basis.

Income Tax (Benefit). Our tax provision was $13,000 for the year ended December 31, 2012 compared to a tax benefit of $10,000 for the prior year. Our income tax was primarily caused by the change in our valuation allowance that we established in 2009 for our deferred tax asset.

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. 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,					
	2012			2011		
	Average Outstanding Balance	Interest	Yield/ Cost	Average Outstanding Balance	Interest	Yield/ Cost
	(Dollars in thousands)					
Assets:						
One- to four-family	$ 30,471	$ 1,513	4.97%	$ 35,520	$ 1,770	4.98%
Multi-family, commercial real estate and land	28,457	1,748	6.14	29,138	1,845	6.33
Construction	429	32	7.35	299	22	7.35
Commercial business	5,411	328	6.07	5,176	297	5.74
Home equity lines-of-credit	14,654	520	3.55	15,804	516	3.27
Automobile and other consumer	3,428	202	5.89	3,186	199	6.24
Total loans	82,850	4,343	5.24	89,123	4,649	5.22
Securities [1]	5,149	97	1.89	6,382	127	1.99
Other interest-earning assets	9,368	9	0.09	8,018	8	0.10
Total interest-earning assets	97,367	$ 4,449	4.57	103,523	$ 4,784	4.62
Non-interest-earning assets	5,004			6,178		
Total assets	$ 102,371			$ 109,701		
Liabilities and stockholders' equity:						
Savings deposits	$ 8,322	$ 12	0.15%	$ 8,033	$ 12	0.15%
Money market/demand accounts	24,449	87	0.35	23,702	85	0.36
Certificates of deposit	54,502	604	1.11	61,522	857	1.39
Total interest-bearing deposits	87,273	703	0.81	93,257	954	1.02
FHLB advances	-	-	0.00	-	-	0.00
Total interest-bearing liabilities	87,273	703	0.81	93,257	954	1.02
Non-interest-bearing deposits	2,639			2,444		
Other liabilities	757			791		
Total liabilities	90,669			96,492		
Stockholders' equity	11,702			13,209		
Total liabilities and stockholders' equity	$ 102,371			$ 109,701		
Net interest income		$ 3,746			$ 3,830	
Net interest rate spread			3.76%			3.60%
Net interest-earning assets	$ 10,094			$ 10,266		
Net interest margin			3.85%			3.70%
Average of interest-earning assets to interest-bearing liabilities	111.57%			111.01%		

(1) Securities include Federal Home Loan Bank stock with an average balance of $996,000 and $1.3 million for the years ended December 31, 2012 and 2011 respectively, with an annual yield of 0.26% and 0.10% for 2012 and 2011, respectively.

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.

	Year Ended December 31, 2012 vs. 2011		
	Increase (Decrease) Due to		**Total Increase (Decrease)**
	Volume	**Rate**	
	(In thousands)		
Interest-earning assets:			
Loans:			
One- to four-family	$ (253)	$ (4)	$ (257)
Multi-family, commercial real estate, and land	(42)	(55)	(97)
Construction	10	-	10
Commercial business	14	17	31
Home equity lines-of-credit	(39)	43	4
Automobile and other consumer	15	(12)	3
Total loans	(295)	(11)	(306)
Securities	(13)	(17)	(30)
Interest-earning deposits	1	-	1
Total interest-earning assets	(331)	(4)	(335)
Interest-bearing liabilities:			
Savings deposits	-	-	-
Money market/demand accounts	3	(1)	2
Certificates of deposit	(91)	(162)	(253)
Total deposits	(88)	(163)	(251)
FHLB Advances	-	-	-
Total interest-bearing Liabilities	(88)	(163)	(251)
Change in net interest income	$ (243)	$ 159	$ (84)

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.

	Year Ended December 31,	
	2012	2011
	(In thousands)	
Total loans at beginning of year	$ 84,289	$ 94,119
Loans originated:		
Real estate:		
One- to four-family	5,015	5,527
Multi-family	1,283	2,740
Commercial	1,324	4,000
Construction	930	-
Land	-	-
Commercial, consumer and other loans:		
Commercial business	20	197
Other	8	8
Total loans originated	8,580	12,472
Loans purchased:		
One- to four-family	835	-
Automobile	3,105	-
Commercial business	1,150	-
Total loans purchased	5,090	-
Add (Deduct)		
Principal repayments	(15,000)	(17,803)
Commercial lines-of-credit net	2,765	-
Home equity lines-of-credit net	(1,661)	(576)
Provision for loan losses	(1,903)	(815)
Transfer from loans to repossessed assets	(639)	(3,232)
Net other	(92)	124
Net loan activity	(2,860)	(9,830)
Total loans at end of year	$ 81,429	$ 84,289

Non-performing assets and troubled debt restructurings

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

	December 31, 2012		December 31, 2011	
	Number	Amount	Number	Amount
Non-performing loans				
One-to four-family	4	$ 782	3	$ 961
Multi-family	-	-	-	-
Land	1	131	2	519
Commercial real estate	-	-	2	170
Home equity line-of-credit	-	-	1	125
Commercial business	-	-	-	-
Other	-	-	-	-
Total non-performing loans	5	913	8	1,775
Troubled debt restructurings				
One-to four-family	2	583	2	432
Multi-family	4	3,311	4	3,365
Commercial business (1)	2	654	2	819
Total troubled debt restructurings	8	4,548	8	4,616
Repossessed assets				
Foreclosed real estate	7	1,635	9	2,354
Repossessed automobiles	1	17	-	-
Repossessed other	-	-	2	68
Total non-performing assets	8	1,652	11	2,422
Total non-performing loans, troubled debt restructurings, and repossessed assets	21	$ 7,113	27	$ 8,813
Non-performing loans to total loans		1.09%		2.08%
Non-performing loans and troubled debt restructurings to total loans		6.54%		7.48%
Non-performing assets and troubled debt restructurings to total assets		7.06%		8.31%

(1) One commercial loan with a balance of $109 and $179 at December 31, 2012 and 2011 is considered non-accrual and a TDR and is reflected in the TDR section in the above table.

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 an internal model 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 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, 2012 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	$ 14,647	$ 2,859	24%	15.37%	370
+200	13,813	2,025	17	14.20	253
+100	12,851	1,063	9	12.95	128
0	11,788	-	-	11.67	-
-100	12,685	(1,420)	(12)	10.10	(157)

(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 is no longer 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, 2012 was 144. 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.

Fiscal 2012	High Bid	Low Bid	Dividends
Quarter ended December 31, 2012	$ 1.68	$ 1.25	$ 0.00
Quarter ended September 30, 2012	1.73	1.47	0.00
Quarter ended June 30, 2012	2.00	1.02	0.00
Quarter ended March 31, 2012	2.00	1.02	0.00

Fiscal 2011	High Bid	Low Bid	Dividends
Quarter ended December 31, 2011	$ 1.36	$ 1.02	$ 0.00
Quarter ended September 30, 2011	1.75	1.36	0.00
Quarter ended June 30, 2011	2.02	1.65	0.00
Quarter ended March 31, 2011	2.15	1.80	0.00

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Ben Franklin Financial, Inc. which comprise the consolidated statements of financial condition as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Regulatory Matter

As discussed in Note 2 to the financial statements, the Bank is operating under a Consent Order and has incurred losses during 2012 and 2011 due to impairments in the carrying value of loans and repossessed assets. These asset impairments have reduced the Bank's equity, earnings capacity, and regulatory capital ratios, and as a result, the Bank's regulator has imposed higher capital requirements and limitations on certain operations beginning on March 31, 2013. Management has described its plan to improve the Bank's equity, earnings capacity and regulatory capital ratios in Note 2 to the financial statements. Non-compliance with the Consent Order could lead to further adverse regulatory action. Our opinion is not modified with respect to this matter.

Crowe Horwath LLP

Oak Brook, Illinois
March 27, 2013

BEN FRANKLIN FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2012 and 2011
(Dollars in thousands except per share amounts)

	2012	2011
ASSETS		
Cash and due from banks	$ 1,161	$ 1,833
Interest-earning deposit accounts and federal funds sold	11,075	8,938
Cash and cash equivalents	12,236	10,771
Securities available-for-sale	3,232	5,621
Loans receivable, net of allowance for loan losses of $2,095 and $1,137 at December 31, 2012 and 2011	81,429	84,289
Federal Home Loan Bank stock	921	1,337
Premises and equipment, net	721	806
Repossessed assets	1,652	2,422
Accrued interest receivable	302	318
Prepaid FDIC premiums	201	332
Other assets	88	109
Total assets	$ 100,782	$ 106,005
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Demand deposits - non-interest-bearing	$ 2,871	$ 2,364
Demand deposits - interest-bearing	8,717	8,394
Savings deposits	8,302	8,116
Money market deposits	16,524	16,125
Certificates of deposit	52,993	57,562
Total deposits	89,407	92,561
Advances from borrowers for taxes and insurance	488	572
Other liabilities	355	310
Common stock in ESOP subject to contingent purchase obligation	50	26
Total liabilities	90,300	93,469
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, 2012 and 2011 - 1,949,956 shares	20	20
Additional paid-in-capital	8,278	8,217
Treasury stock, at cost (68,270 shares at December 31, 2012 and 2011)	(462)	(462)
Retained earnings, substantially restricted	3,098	5,218
Unearned Employee Stock Ownership Plan (ESOP) shares	(456)	(507)
Accumulated other comprehensive income	54	76
Reclassification of ESOP shares	(50)	(26)
Total equity	10,482	12,536
Total liabilities and stockholders' equity	$ 100,782	$ 106,005

See accompanying notes to financial statements

BEN FRANKLIN FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2012 and 2011
(Dollars in thousands except per share amounts)

	2012	2011
Interest income		
Loans	$ 4,343	$ 4,649
Securities	97	127
Federal funds sold and interest-earning deposit accounts	9	8
	4,449	4,784
Interest expense		
Deposits	703	954
	703	954
Net interest income	3,746	3,830
Provision for loan losses	1,903	815
Net interest income after provision for loan losses	1,843	3,015
Non-interest income		
Service fees	152	171
Loss on sale of repossessed assets, net	(74)	(119)
Other	12	35
	90	87
Non-interest expense		
Compensation and employee benefits	1,580	1,610
Occupancy and equipment	585	653
Data processing	285	264
Professional fees	365	409
FDIC insurance premiums	138	127
Repossessed assets expense, net	755	480
Other	332	272
	4,040	3,815
Loss before income taxes	(2,107)	(713)
Income tax provision (benefit)	13	(10)
Net loss	$ (2,120)	$ (703)
Loss per common share, basic and diluted	$ (1.11)	$ (0.37)

See accompanying notes to financial statements

BEN FRANKLIN FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Years ended December 31, 2012 and 2011

(Dollars in thousands except per share amounts)

	2012	2011
Net loss	$ (2,120)	$ (703)
Other comprehensive income		
Unrealized gains (losses) on securities		
Unrealized holding gains (losses) arising during the period	(35)	24
Reclassification adjustment for losses (gains) Included in net income	-	-
	(35)	24
Tax effect	(13)	9
Net of tax	(22)	15
Comprehensive loss	$ (2,142)	$ (688)

See accompanying notes to financial statements

BEN FRANKLIN FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2012 and 2011
(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income	Amount Reclassified on ESOP Shares	Total
Balance at January 1, 2010	$ 20	$ 8,156	$ (462)	$ 5,921	$ (559)	$ 61	$ (41)	$ 13,096
Net loss	-	-	-	(703)	-	-	-	(703)
Other comprehensive income	-	-	-	-	-	15	-	15
Earned ESOP shares and other stock based compensation	-	61	-	-	52	-	-	113
Reclassification due to change in fair value of common stock in ESOP subject to contingent repurchase obligation	-	-	-	-	-	-	15	15
Balance at December 31, 2011	20	8,217	(462)	5,218	(507)	76	(26)	12,536
Net loss	-	-	-	(2,120)	-	-	-	(2,120)
Other comprehensive loss	-	-	-	-	-	(22)	-	(22)
Earned ESOP shares and other stock based compensation	-	61	-	-	51	-	-	112
Reclassification due to change in fair value of common stock in ESOP subject to contingent repurchase obligation	-	-	-	-	-	-	(24)	(24)
Balance at December 31, 2012	$ 20	$ 8,278	$ (462)	$ 3,098	$ (456)	$ 54	$ (50)	$ 10,482

See accompanying notes to financial statements

BEN FRANKLIN FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2012 and 2011
(Dollars in thousands)

	2012	2011
Cash flows from operating activities		
Net loss	$ (2,120)	$ (703)
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation	132	132
ESOP and other stock based compensation	112	113
Amortization of premiums and discounts	6	12
Provision for loan losses	1,903	815
Loss on sale of repossessed assets, net	74	119
Write down of repossessed assets	439	309
Deferred income taxes	13	(10)
Prepaid FDIC insurance premium	131	118
Changes in:		
Deferred loan costs	(52)	20
Accrued interest receivable	16	44
Other assets	21	(9)
Other liabilities	45	47
Net cash from operating activities	720	1,007
Cash flows from investing activities		
Principal repayments on mortgage-backed securities	348	373
Purchase of securities available-for-sale	(1,000)	(3,000)
Call of securities available-for-sale	3,000	1,000
Proceeds from the sale of loans held for investment	187	-
Proceeds from the sale of Federal Home Loan Bank stock	416	-
Net decrease in loans	183	5,755
Sale of other assets	979	1,176
Expenditures to improve repossessed assets	(83)	-
Expenditures for premises and equipment	(47)	(21)
Net cash from investing activities	3,983	5,283
Cash flows from financing activities		
Net decrease in deposits	(3,154)	(9,802)
Net change in advances from borrowers for taxes and insurance	(84)	264
Net cash from financing activities	(3,238)	(9,538)
Net change in cash and cash equivalents	1,465	(3,248)
Cash and cash equivalents at beginning of year	10,771	14,019
Cash and cash equivalents at end of year	$ 12,236	$ 10,771
Supplemental disclosures of cash flow information		
Interest paid	$ 703	$ 954
Transfers from loans to repossessed assets	639	3,231

See accompanying notes to financial statements

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.

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 is no longer 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 27, 2012 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 and the effect of the change could be material to the financial statements.

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.

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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-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.

<u>Loans</u>: 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 purchase premiums and discounts, deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income on first mortgage, home equity lines of credit 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. Automobile and consumer loans are typically charged off no later than 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. A loan is moved to non-accrual status in accordance with the Company's policy, typically after 90 days of non-payment.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

<u>Allowance for Loan Losses:</u> The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired.

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 resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

First mortgage and commercial loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as home equity lines of credit, automobile, and consumer loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent three years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: first mortgage loans and consumer and other loans. The first mortgage portfolio segment is comprised of the following classes: one-to-four family, multifamily, commercial real estate, land, and construction. The commercial, consumer, and other portfolio segment is comprised of the following classes: home equity lines of credit, commercial, automobile, and other consumer loans.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company considers loan performance and collateral values in assessing risk in the loan portfolio. The primary risk factors for each loan segment are:

- First mortgage loans are affected by the local residential real estate market, the local economy, and movement in interest rates. The commercial real estate loan class is dependent on the industries tied to these loans as well as the local commercial real estate market. First mortgage loans are secured by the real estate and appraisals are obtained to support the loan amount. The Company evaluates the borrower's repayment ability through a review of cash flows, credit scores, debt services ratios, and debt to income ratios.
- Commercial, consumer, and other loans are dependent on the local economy and the strength of the related borrowers and for commercial loans, the success of their business. Consumer loans are generally secured by business and consumer assets, but may be unsecured. The Company evaluates the borrower's repayment ability through a review of credit scores, cash flows, and debt to income ratios.

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.

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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-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 tax asset 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, 2012 or 2011.

Earnings Per Share: Basic earnings per common share is net 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, 2012 and 2011, 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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net loss or stockholders' equity.

NOTE 2 - RECENT LOSSES AND MANAGEMENT'S PLANS

The Company incurred a net loss of $2,120 in 2012 and $703 in 2011. The losses are largely a result of loan and repossessed asset impairments. Despite these losses, the Bank's total capital to risk-based capital ratio and Tier 1 leverage capital to average assets ratio was 11.8% and 8.2% at December 31, 2012. Due to our current financial condition, the Bank entered into a Consent Order ("Order") with the Office of the Comptroller of the Currency ("OCC") on December 19, 2012. The Order outlines areas of weakness that the Bank must improve related to asset quality including valuations, classifications, monitoring, concentrations, and allowance for loan losses; capital and strategic planning; liquidity management; consumer compliance; and management and board structure along with time frames for completion. The Order mandated that the Bank maintain a total risk based capital ratio of at least 13% and a Tier 1 leverage ratio of at least 9% beginning on March 31, 2013.

Management has initiated specific plans to reduce credit risk and improve the Bank's regulatory capital ratios. The Company has $1,648 of cash at December 31, 2012 and intends to contribute $1,000 to the Bank in the first quarter of 2013 to support the Bank's regulatory capital ratios. If the Bank is unable to meet the capital requirements and other requirements of the Order, the OCC may institute other corrective measures and has enforcement powers to impose additional restrictions on the Bank's operations, including seizure. Although management believes that it will successfully achieve the required capital ratios, there can be no assurance that they will be able to do so, nor that they will be able to comply fully with the provisions of the Order. Only the OCC has the ability to determine whether or not the provisions of the Order have been met.

(Continued)

NOTE 3 - SECURITIES AVAILABLE-FOR-SALE

The amortized cost and fair value of securities available-for-sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2012				
U.S. Government sponsored entities	$ 2,000	$ 19	$ -	$ 2,019
Residential mortgage-backed	1,143	70	-	1,213
Total	$ 3,143	$ 89	$ -	$ 3,232
December 31, 2011				
U.S. Government sponsored entities	$ 4,000	$ 35	$ -	$ 4,035
Residential mortgage-backed	1,497	89	-	1,586
Total	$ 5,497	$ 124	$ -	$ 5,621

There were no sales of securities available-for-sale during the years ended December 31, 2012 and 2011. There were no securities pledged to secure any of the borrowings of the Company as of December 31, 2012 and 2011. 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.

There were no securities available-for-sale with unrealized losses at year-end 2012 and 2011.

As of December 31, 2012 and 2011, 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.

(Continued)

NOTE 4 - LOANS RECEIVABLE

Loans receivable at December 31 are summarized as follows:

	2012	2011
First mortgage loans		
Secured by one-to four-family residences	$ 33,181	$ 35,402
Secured by multi-family residences	13,356	15,525
Secured by commercial real estate	13,604	12,221
Secured by land	381	783
Construction loans	319	-
Total first mortgage loans	60,841	63,931
Commercial, consumer, and other loans		
Home equity lines of credit	13,800	15,586
Commercial loans	5,575	3,635
Automobile loans	3,205	2,189
Other consumer loans	79	113
Total commercial, consumer, and other loans	22,659	21,523
Gross loans	83,500	85,454
Premiums and net deferred loan origination costs	24	(28)
Allowance for loan losses	(2,095)	(1,137)
	$ 81,429	$ 84,289

Loans serviced for others totaled approximately $1,200 and $1,100 at December 31, 2012 and 2011, respectively.

As of December 31, 2012 and 2011 there were no loans outstanding to principal officers, directors and other affiliates.

Activity in the allowance for loan losses is as follows:

	2012	2011
Balance at beginning of year	$ 1,137	$ 1,376
Provision for loan losses	1,903	815
Loans charged off	(996)	(1,182)
Recoveries of loans previously charged off	51	128
	$ 2,095	$ 1,137

(Continued)

NOTE 4 - LOANS RECEIVABLE (Continued)

The following table presents the activity in the allowance for loan losses by portfolio segment and class for the years-ended 2012 and 2011:

2012

	First Mortgages					Commercial, Consumer and Other				
	One-to four-family	Multi-family	Commercial real estate	Land	Construction	Home equity lines-of-credit	Commercial	Automobile	Other Consumer	Total
Beginning balance	$ 270	$ 253	$ 315	$ 115	$ -	$ 64	$ 103	$ 17	$ -	$ 1,137
Provision for loan losses	1,165	187	333	24	14	147	5	29	(1)	1,903
Loans charged-off	(699)	-	(47)	(108)	-	(125)	-	(17)	-	(996)
Recoveries	50	-	-	-	-	-	-	-	1	51
Total ending allowance balance December 31, 2012	$ 786	$ 440	$ 601	$ 31	$ 14	$ 86	$ 108	$ 29	$ -	$ 2,095

2011

	One-to four-family	Multi-family	Commercial real estate	Land	Construction	Home equity lines-of-credit	Commercial	Automobile	Other Consumer	Total
Beginning balance	$ 487	$ 307	$ 330	$ 5	$ 40	$ 40	$ 126	$ 39	$ 2	$ 1,376
Provision for loan losses	160	(96)	237	110	(40)	27	415	5	(3)	815
Loans charged-off	(393)	(58)	(259)	-	-	(3)	(438)	(29)	(2)	(1,182)
Recoveries	16	100	7	-	-	-	-	2	3	128
Total ending allowance balance December 31, 2011	$ 270	$ 253	$ 315	$ 115	$ -	$ 64	$ 103	$ 17	$ -	$ 1,137

(Continued)

NOTE 4 - LOANS RECEIVABLE (Continued)

The following table represents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and class and based on impairment method as of years-end 2012 and 2011. The recorded investment in loans excludes accrued interest and loan origination fees due to immateriality.

2012

	Loan Balance			Allowance		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Recorded Investment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Recorded Investment
One-to four-family	$ 1,365	$ 31,816	$ 33,181	$ 129	$ 657	$ 786
Multi-family	3,311	10,045	13,356	262	178	440
Commercial real estate	-	13,604	13,604	-	601	601
Land	131	250	381	25	6	31
Construction	-	319	319	-	14	14
Home equity lines of credit	-	13,800	13,800	-	86	86
Commercial	654	4,921	5,575	78	30	108
Automobile	-	3,205	3,205	-	29	29
Other consumer	-	79	79	-	-	-
Total	$ 5,461	$ 78,039	$ 83,500	$ 494	$ 1,601	$ 2,095

2011

	Loan Balance			Allowance		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Recorded Investment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Recorded Investment
One-to four-family	$ 1,394	$ 34,008	$ 35,402	$ 100	$ 170	$ 270
Multi-family	3,365	12,160	15,525	71	182	253
Commercial real estate	170	12,051	12,221	47	268	315
Land	519	264	783	109	6	115
Construction	-	-	-	-	-	-
Home equity lines of credit	125	15,461	15,586	26	38	64
Commercial	818	2,817	3,635	64	39	103
Automobile	-	2,189	2,189	-	17	17
Other consumer	-	113	113	-	-	-
Total	$ 6,391	$ 79,063	$ 85,454	$ 417	$ 720	$ 1,137

(Continued)

NOTE 4 - LOANS RECEIVABLE (Continued)

The following table presents information related to loans individually evaluated for impairment by class of loans as of years-ended 2012 and 2011.

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recorded	Cash Basis Interest Recorded
2012						
With no related allowance recorded						
One-to four-family	$ 781	$ 781	$ -	$ 1,157	$ 8	$ -
Multi-family	-	-	-	-	-	-
Commercial real estate	-	-	-	-	-	-
Land	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Home equity line of credit	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Automobile	-	-	-	-	-	-
Other consumer	-	-	-	-		-
Total with no related allowance recorded	781	781	-	1,157	$ 8	$ -
With an allowance recorded						
One-to four-family	584	584	129	532	19	$ -
Multi-family	3,311	3,311	262	3,336	158	-
Commercial real estate	-	-	-	14	-	-
Land	131	131	25	131	-	-
Construction	-	-	-	-	-	-
Home equity line of credit	-	-	-	21	-	-
Commercial	654	654	78	726	32	-
Automobile	-	-	-	-	-	-
Other consumer	-	-	-	-		-
Total with a related allowance recorded	4,680	4,680	494	4,760	209	-
Total	$ 5,461	$ 5,461	$ 494	$ 5,917	$ 217	$ -

(Continued)

NOTE 4 - LOANS RECEIVABLE (Continued)

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recorded	Cash Basis Interest Recorded
2011						
With no related allowance recorded						
One-to four-family	$ 594	$ 594	$ -	$ 272	$ 11	$ -
Multi-family	-	-	-	-	-	-
Commercial real estate	-	-	-	-	-	-
Land	131	131	-	33	-	-
Construction	-	-	-	-	-	-
Home equity line of credit	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Automobile	-	-	-	-	-	-
Other consumer	-	-	-	-		-
Total with no related allowance recorded	725	725	-	305	$ 11	$ -
With an allowance recorded						
One-to four-family	800	800	100	1,211	8	$ -
Multi-family	3,365	3,365	71	3,699	180	-
Commercial real estate	170	170	47	369	-	-
Land	388	388	109	703	-	-
Construction	-	-	-	-	-	-
Home equity line of credit	125	125	26	52	-	-
Commercial	818	818	64	1,462	56	-
Automobile	-	-	-	-	-	-
Other consumer	-	-	-	-		-
Total with a related allowance recorded	5,666	5,666	417	7,496	244	-
Total	$ 6,391	$ 6,391	$ 417	$ 7,801	$ 255	$ -

(Continued)

NOTE 4 - LOANS RECEIVABLE (Continued)

The following table presents the aging of the recorded investment in past due loans as of years-ended 2012 and 2011 by class of loans.

2012	30 -59 Days Past due	60 - 89 Days Past due	Greater than 90 Days Past Due Still on Accrual	Nonaccrual	Loans Not Past Due	Total
One-to four-family	$ 25	$ -	$ -	$ 781	$ 32,375	$ 33,181
Multi-family	-	-	-	-	13,356	13,356
Commercial real estate	318	-	-	-	13,286	13,604
Land	-	-	-	131	250	381
Construction	-	-	-	-	319	319
Home equity line of credit	-	-	-	-	13,800	13,800
Commercial	-	-	-	109	5,466	5,575
Automobile	-	-	-	-	3,205	3,205
Other consumer	-	-	-	-	79	79
Total	$ 343	$ -	$ -	$ 1,021	$ 82,136	$ 83,500

2011	30 -59 Days Past due	60 - 89 Days Past due	Greater than 90 Days Past Due Still on Accrual	Nonaccrual	Loans Not Past Due	Total
One-to four-family	$ 277	$ -	$ -	$ 961	$ 34,164	$ 35,402
Multi-family	-	-	-	-	15,525	15,525
Commercial real estate	-	-	-	170	12,051	12,221
Land	-	-	-	519	264	783
Construction	-	-	-	-	-	-
Home equity line of credit	18	-	-	125	15,443	15,586
Commercial	-	-	-	179	3,456	3,635
Automobile	8	-	-	-	2,181	2,189
Other consumer	-	-	-	-	113	113
Total	$ 303	$ -	$ -	$ 1,954	$ 83,197	$ 85,454

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

(Continued)

NOTE 4 - LOANS RECEIVABLE (Continued)

Credit Quality Indicators

The Bank categorizes loans into risk categories based on relevant information about the ability of borrower to service their debt such as; current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. The analysis includes the non-homogeneous loans, such as multi- family, commercial real estate, construction, and commercial loans. The analysis performed on a quarterly basis. Homogeneous loans are monitored based on the past due status of the loan. The risk category of these loans is evaluated at origination, when a loan becomes delinquent or when a borrower requests a concession.

Substandard
Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful
Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. As of the years-ended 2012 and 2011 and based on the most recent analysis performed, the risk category by loans is as follows:

2012

	Pass	Substandard	Doubtful	Total
One-to four-family	$ 31,627	$ 1,554	$ -	$33,181
Multi-family	10,804	2,552	-	13,356
Commercial real estate	11,976	1,628	-	13,604
Land	250	131	-	381
Construction	319	-	-	319
Home equity lines of credit	13,800	-	-	13,800
Commercial	4,921	654	-	5,575
Automobile	3,205	-	-	3,205
Other consumer	79	-	-	79
Total	$ 76,981	$ 6,519	$ -	$83,500

(Continued)

NOTE 4 - LOANS RECEIVABLE (Continued)

2011

	Pass	Substandard	Doubtful	Total
One-to four-family	$ 34,289	$ 1,113	$ -	$35,402
Multi-family	13,435	2,090	-	15,525
Commercial real estate	12,051	170	-	12,221
Land	264	519	-	783
Construction	-	-	-	-
Home equity lines of credit	15,461	125	-	15,586
Commercial	2,817	818	-	3,635
Automobile	2,189	-	-	2,189
Other consumer	113	-	-	113
Total	$ 80,619	$ 4,835	$ -	$85,454

Troubled Debt Restructurings

During the years ending December 31, 2012 and 2011, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from 12 months to five years. Modifications involving an extension of the maturity date were for periods of two years to three years.

The following table presents loans by class modified as troubled debt restructurings that occurred during the years ending December 31, 2012 and 2011:

2012

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
One-to four-family	2	$ 581	$ 581

2011

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
One-to four-family	1	$ 245	$ 245
Multi-family	3	2,535	2,535
Commercial	2	1,102	852
Total	6	$ 3,882	$ 3,632

(Continued)

NOTE 4 - LOANS RECEIVABLE (Continued)

The troubled debt restructurings described above increased the allowance for loan losses by $129 and $129 for the years ending December 31, 2012 and 2011 and resulted in charge offs of $0 and $250 during the years ending December 31, 2012 and 2011.

There was one loan modified as troubled debt restructuring with a balance of $106 for which is in default and is being reported as non-accrual as of December 31, 2012. There were no other loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the years ending December 31, 2012 and 2011.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

The Company has allocated $469 and $148 to specific reserves on $4,655 and $4,616 of loans to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2012 and 2011 respectively. The Company advanced $83 on loans classified as trouble debt restructurings during the year ending December 31, 2011. The Company has not committed to lend additional amounts as of December 31, 2012 and 2011 to customers with outstanding loans that are classified as troubled debt restructurings.

NOTE 5 - PREMISES AND EQUIPMENT

Premises and equipment consist of the following at December 31:

	2012	2011
Leasehold improvements	$ 884	$ 884
Furniture and fixtures	543	507
	1,427	1,391
Accumulated depreciation	(706)	(585)
	$ 721	$ 806

Depreciation expense for the years ended December 31, 2012 and 2011 was $132 and $132, respectively.

NOTE 6 - DEPOSITS

Deposit accounts with balances greater than $100 totaled $31,086 and $30,928 at December 31, 2012 and 2011, respectively.

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

2013	$ 21,850
2014	15,029
2015	4,225
2016	4,670
2017	7,219
	$ 52,993

(Continued)

NOTE 6 - DEPOSITS (Continued)

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

	2012	2011
Demand-interest-bearing	$ 11	$ 11
Savings	12	12
Money market	76	74
Certificates of deposit	604	857
	$ 703	$ 954

Deposits from principal officers, directors and other affiliates were $235 and $237 at December 31, 2012 and 2011, respectively.

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, 2011. On December 19, 2012, the Bank entered into the Order with the OCC which among other things included a requirement to maintain a total risk-based capital ratio of at least 13% and a minimum Tier 1 leverage capital ratio of at least 9% beginning on March 31, 2013. As a result of entering into the Order to achieve and maintain specific capital levels, the Bank's capital classification under the Prompt Corrective Action rules was "adequately capitalized" at December 31, 2012. The Bank intends to meet the requirements of the minimum capital ratios by an additional capital contribution of $1,000 from the Company during the first quarter of 2013.

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.

(Continued)

NOTE 7 - REGULATORY CAPITAL MATTERS (Continued)

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

	2012	2011
Total stockholders' equity	$ 8,349	$ 8,958
Deferred tax asset limitation	-	-
Unrealized gain on securities available-for-sale, net of deferred income tax	(54)	(76)
Tier I capital	8,295	8,882
Allowance for loan losses	967	1,017
Total regulatory capital	$ 9,262	$ 9,899

The allowance for loan losses is limited to 1.25% of risk weighted assets. As of December 31, 2012 and 2011, $1,128 and $120 respectively, was excluded from the allowance for loan losses in the calculation of total regulatory capital.

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

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required By the Current Order (effective March 31, 2013)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2012						
Total capital (to risk-weighted assets)	$ 9,262	11.8%	$ 6,413	8.0%	$10,062	13.0%
Tier 1 (core) capital (to risk-weighted assets)	8,295	10.9	3,096	4.0	N/A	N/A
Tier 1 (core) capital (to adjusted total assets)	8,295	8.2	4,027	4.0	9,061	9.0

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required to Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2011						
Total capital (to risk-weighted assets)	$ 9,899	12.2%	$ 6,512	8.0%	$ 8,140	10.0%
Tier 1 (core) capital (to risk-weighted assets)	8,882	10.9	3,256	4.0	4,884	6.0
Tier 1 (core) capital (to adjusted total assets)	8,882	8.4	4,235	4.0	5,293	5.0

(Continued)

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 2012 and 2011, the Company made contributions to the ESOP of $69 and $69 respectively and the ESOP made the annual principal and interest payments on the loan of $69 and $69 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 2012 and 2011, no ESOP shares were distributed to participants.

The ESOP has a plan year end of December 31. Expense related to the ESOP was $8 and $8 for the years ended December 31, 2012 and 2011 respectively.

Shares held by the ESOP at December 31, 2012 and 2011 respectively were as follows:

	2012	2011
Shares committed to be released	5,070	5,070
Allocated shares	25,230	20,160
Unearned ESOP shares	45,625	50,695
Total ESOP shares	75,925	75,925
Fair value of unearned ESOP shares	$ 76	$ 52
Fair value of allocated shares subject to repurchase obligation	$ 50	$ 26

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, 2012 and 2011. The options have no intrinsic value as of December 31, 2012 and 2011.

(Continued)

NOTE 8 - EMPLOYEE BENEFITS (Continued)

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 2012 and 2011. Stock option expense was $40 for the years ended December 31, 2012 and 2011 respectively. As of December 31, 2012, there was $12 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 0.3 years.

A summary of the activity in the stock option plan for 2012 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2012	86,740	$ 9.36	6.3	$ -
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited or expired	-	-	-	-
Outstanding at December 31, 2012	86,740	$ 9.36	5.3	$ -
Fully vested and expected to vest	86,740	9.36	5.3	$ -
Exercisable at December 31, 2012	70,364	$ 9.36	5.3	$ -

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, 2012 there were 21,465 restricted stock awards vested and none forfeited. At December 31, 2011 there were 13,792 restricted stock awards vested and none forfeited. Restricted stock award expense was $65 for the years ended December 31, 2012 and 2011 respectively. As of December 31, 2012, there was $19 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 0.3 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.

NOTE 8 - EMPLOYEE BENEFITS (Continued)

A summary of changes in the Company's nonvested shares for 2012 follows:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2011	13,011	$ 9.36
Granted	-	-
Vested	(6,507)	9.36
Forfeited	-	-
Nonvested at December 31, 2012	6,504	$ 9.36

The total fair value of shares vested in 2012 and 2011 was $11 and $13.

NOTE 9 - INCOME TAXES

The income tax benefit consists of the following:

	2012	2011
Currently refundable taxes		
Federal	$ -	$ 1
State	-	-
Total refundable taxes	$	$ 1
Deferred tax benefit	862	261
Change in valuation allowance for deferred tax assets	(875)	(252)
Income tax benefit (expense)	$ (13)	$ 10

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:

	2012		2011	
	Amount	Percent	Amount	Percent
Income tax computed at the statutory federal rate	$ 716	34.0%	$ 242	34.0%
State tax and other items	146	5.7	20	2.8
Change in valuation allowance	(875)	(40.3)	(252)	(35.3)
	$ (13)	(0.6%)	$ 10	1.5%

(Continued)

NOTE 9 - INCOME TAXES (Continued)

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

	2012	2011
Deferred tax assets		
Accumulated depreciation	$ 212	$ 168
Bad debts	844	445
Deferred loan fees	16	19
Federal net operating loss carryforwards	513	312
Illinois net operating loss carryforwards	202	171
ESOP	30	28
Deferred rent	52	46
Stock options and awards	33	28
Repossessed asset valuation allowance	247	121
Deferred tax liabilities		
Unrealized gain on securities available for sale	(35)	(48)
FHLB stock dividends	(92)	(130)
	2,022	1,160
Valuation allowance for deferred tax assets	(2,022)	(1,160)
Net deferred tax asset	$ -	$ -

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 $3,535 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 2012 and 2011 of $1,391 and $831 respectively, are being carried forward to reduce taxable income in future years. These federal net operating loss carryforwards will begin to expire in 2030.

The Company is subject to federal income tax as well as income tax of the state of Illinois. The Company is no longer subject to examination by taxing authorities for years before 2009.

(Continued)

NOTE 10 - EARNINGS PER SHARE

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

	For the year ended December 31, 2012	2011
Net loss available to common stockholders	$ (2,120)	$ (703)
Weighted average common shares outstanding	1,901,809	1,896,733
Dilutive effect of non-vested stock awards and assumed exercises of stock options	-	-
Basic and diluted loss per share	$ (1.11)	$ (0.37)

The outstanding options and restricted shares are considered antidilutive because of the net losses.

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:

	Contractual Amount December 31	
	2012	2011
Financial instruments whose contract amounts represent credit risk		
Unused lines of credit	$ 14,067	$ 15,103
Commitments to make loans	-	2,152

The contractual amount of fixed rate commitments to make loans at December 31, 2012 and 2011 was $0 and $1,762 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, 2012, the Bank had non-interest-bearing deposits amounting to $856 Bankers Bank and interest bearing deposits of $6,709 with the Federal Reserve Bank and federal funds sold of $3,300 with JP Morgan Chase Bank.

(Continued)

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, 2013. Minimum rental commitments under the leases are as follows as of December 31, 2012:

2013	$ 240
2014	180
2015	185
2016	189
2017	194
Thereafter	1,023
	$ 2,011

Rent expense for the years ended December 31, 2012 and 2011 was $304 and $311, respectively.

NOTE 12 - FAIR VALUE MEASURES

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 recent 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 independent appraisers to adjust for differences between the 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. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial

(Continued)

NOTE 12 - FAIR VALUE MEASURES (Continued)

statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Repossessed Assets: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than annually. 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 independent appraisers to adjust for differences between the 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. Other real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by certified appraisers whose qualifications and licenses have been reviewed and verified by the Company. Once received, management reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. Upon sale of collateral, the Company compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value for the remaining assets carried at fair value.

Assets Measured on a Recurring Basis

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

		Fair Value Measurements Using		
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2012				
Assets				
Securities available for sale				
U.S. government sponsored entities	$ 2,019	$ -	$ 2,019	$ -
Residential mortgaged-backed	1,213	$ -	$ 1,213	$ -
	$ 3,232	$ -	$ 3,232	$ -
December 31, 2011				
Assets				
Securities available for sale				
U.S. government sponsored entities	$ 4,035	$ -	$ 4,035	$ -
Residential mortgaged-backed	1,586	$ -	$ 1,586	$ -
	$ 5,621	$ -	$ 5,621	$ -

(Continued)

NOTE 12 - FAIR VALUE MEASURES (Continued)

Assets Measured on a Non-Recurring Basis

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

		Fair Value Measurements Using		
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2012				
Assets				
Impaired loans				
One-to four-family	$ 455	$ -	$ -	$ 455
Land	106	-	-	106
Total impaired loans	$ 561	$ -	$ -	$ 561
Repossessed assets				
One-to four-family	$ 310	$ -	$ -	$ 310
Commercial real estate	745	-	-	745
Land	580	-	-	580
Automobile	17	-	-	17
Total repossessed assets	$ 1,652	$ -	$ -	$ 1,652
December 31, 2011				
Assets				
Impaired loans				
One-to-four-family	$ 519	$ -	$ -	$ 519
Commercial real estate	123	-	-	123
Home equity lines of credit	100	-	-	100
Land	279	-	-	279
Total impaired loans	$ 1,021	$ -	$ -	$ 1,021
Repossessed assets				
One-to-four-family	$ 568	$ -	$ -	$ 568
Multi-family	340	-	-	340
Commercial real estate	797	-	-	797
Land	649	-	-	649
Commercial	68	-	-	68
Total repossessed assets	$ 2,422	$ -	$ -	$ 2,422

(Continued)

NOTE 12 - FAIR VALUE MEASURES (Continued)

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 $715 with a $154 valuation allowance at December 31, 2012. The provision for loan losses applicable to these loans was $154 for the year ended December 31, 2012. At December 31, 2011, impaired loans had an aggregate balance of $1,290, with a $269 valuation allowance resulting in an additional provision for loan losses of $269 for the year ended December 11, 2011.

Repossessed assets, consisting of other real estate owned, repossessed automobiles, and other repossessed assets are measured at the lower of cost or fair value less costs to sell. Repossessed assets were carried at $1,652 at December 31, 2012, consisting of the cost basis of $1,308 and a valuation allowance of $344, and $2,422 at December 31, 2011 consisting of the cost basis of $2,731 and a valuation allowance of $309.

(Continued)

NOTE 12 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2012:

	Fair Value	Valuation Technique	Unobservable Inputs	Range
Impaired loans				
One-to four-family	$ 455	Sales comparison approach	Adjustment for differences between the comparable sales	7.0% - 15.0%
Land	$ 106	Sales comparison approach	Adjustment for differences between the comparable sales	0.0% - 50.0%
Other real estate owned				
One-to four-family	$ 310	Sales comparison approach	Adjustment for differences between the comparable sales	(10.0%) – 7.8%
Commercial real estate	$ 745	Sales comparison approach	Adjustment for differences between the comparable sales	10.1% – 21.6%
Land	$ 580	Sales comparison approach	Adjustment for differences between the comparable sales	(10.0%) – (30.0%)

(Continued)

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, 2012		December 31, 2011	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets				
Cash and cash equivalents	$ 12,236	$ 12,236	$ 10,771	$ 10,771
Securities available-for-sale	3,232	3,232	5,621	5,621
Loans receivable, net	81,429	81,792	84,289	84,384
FHLB stock	921	N/A	1,337	N/A
Accrued interest receivable	302	302	318	318
Financial liabilities				
Demand, money market, and savings	$ 36,414	36,414	$ 34,999	$ 34,999
Certificates of deposits	52,993	53,562	57,562	58,602
Accrued interest payable	-	-	1	1

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, 2012 and 2011, the fair values would have been achieved, because the market value may differ depending on the circumstances.

(Continued)

NOTE 13 - PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

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

CONDENSED BALANCE SHEETS
December 31, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$ 1,648	$ 3,019
Investment in bank subsidiary	8,349	8,958
ESOP loan	530	579
Other assets	5	6
Total assets	$ 10,532	$ 12,562
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities	$ -	$ -
Common stock in ESOP subject to contingent purchase obligation	50	26
Stockholders' equity	10,482	12,536
Total liabilities and stockholders' equity	$ 10,532	$ 12,562

CONDENSED STATEMENTS OF INCOME
For the years ended December 31, 2012 and 2011

	2012	2011
Income		
Interest on ESOP loan	$ 18	$ 20
Other interest income	4	4
Total income	22	24
Expense		
Non-interest expense	54	63
Loss before income taxes and undistributed subsidiary loss	(32)	(39)
Income tax benefit	-	-
Equity in undistributed subsidiary loss	(2,088)	(664)
Net loss	$ (2,120)	$ (703)

(Continued)

NOTE 13 - PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Net loss	$ (2,120)	$ (703)
Adjustments		
Earned ESOP shares and other stock based Compensation	112	113
Equity in undistributed subsidiary loss	2,089	664
Change in other assets	(1)	(1)
Change in other liabilities	-	(2)
Net cash from operating activities	80	71
Cash flows from investing activities		
Additional capital contribution to subsidiary bank	(1,500)	-
Payments on ESOP loan	49	49
Net cash from investing activities	(1,451)	49
Cash flows from financing activities		
Purchase of common stock	-	-
Net cash from financing activities	-	-
Net change in cash and cash equivalents	(1,371)	120
Beginning cash and cash equivalents	3,019	2,899
Ending cash and cash equivalents	$ 1,648	$ 3,019

Ben Franklin Financial, Inc.

Directors & Officers

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Chairman, President and
Chief Executive Officer

Robert E. DeCelles
Director; retired real estate manager

Bernadine Dziedzic
Director, Assistant Vice President
and Corporate Secretary

Nicholas J. Raino
Director; retired marketing executive

James M. Reninger
Director;
Owner, Whitfield & Reninger, Ltd.

Robin L. Jenkins
Senior Vice President and
Chief Lending Officer

Steven D. Olson
Senior Vice President - Commercial Lending

Glen A. Miller
Vice President and
Chief Financial Officer

Angie Plesiotis
Vice President and
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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.OB".**