

**Ben Franklin Financial, Inc.**  
**830 E. Kensington Road**  
**Arlington Heights, IL 60004**  
**(847) 398-0990**

**Financial Report**  
**For the Three and Nine Months Ended September 30, 2012**

Note: This report is intended to be read in conjunction with our Annual Report for the year ended December 31, 2011. This report is dated September 30, 2012 and should not be read to cover any subsequent periods. We specifically disclaim any obligation to update this report.

This report has not been prepared in accordance with Securities and Exchange Commission rules applicable to public companies and is not intended to comply with such rules.

**Ben Franklin Financial, Inc.**  
**Quarterly Report**  
For The Three and Nine Months Ended  
September 30, 2012

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BEN FRANKLIN FINANCIAL, INC.  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION  
(Dollars in thousands except share data)  
(Unaudited)

	September 30, <u>2012</u>	December 31, <u>2011</u>
<b>ASSETS</b>		
Cash and due from banks	\$ 1,111	\$ 1,833
Interest-earning deposit accounts	1,003	458
Federal funds sold	<u>10,264</u>	<u>8,480</u>
Cash and cash equivalents	12,378	10,771
Securities available-for-sale	3,348	5,621
Loans receivable, net of allowance for loan losses of \$2,089 at September 30, 2012 and \$1,137 at December 31, 2011	79,961	84,289
Federal Home Loan Bank stock	921	1,337
Premises and equipment, net	729	806
Repossessed assets	1,844	2,422
Accrued interest receivable	291	318
Prepaid FDIC premiums	233	332
Other assets	<u>87</u>	<u>109</u>
 Total assets	 <u>\$ 99,792</u>	 <u>\$ 106,005</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities		
Demand deposits - noninterest-bearing	\$ 2,450	\$ 2,364
Demand deposits - interest-bearing	8,267	8,394
Savings deposits	8,403	8,116
Money market deposits	15,853	16,125
Certificates of deposit	<u>53,245</u>	<u>57,562</u>
Total deposits	88,218	92,561
Advances from Federal Home Loan Bank	-	-
Advances from borrowers for taxes and insurance	219	572
Other liabilities	303	310
Common stock in ESOP subject to contingent purchase obligation	<u>46</u>	<u>26</u>
 Total liabilities	 88,786	 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:		
September 30, 2012 – 1,949,956 shares	20	20
December 31, 2011 – 1,949,956 shares	20	20
Additional paid-in-capital	8,263	8,217
Treasury stock, at cost – 68,270 shares at September 30, 2012 and December 31, 2011	(462)	(462)
Retained earnings, substantially restricted	3,634	5,218
Unearned Employee Stock Ownership Plan (ESOP) shares	(469)	(507)
Accumulated other comprehensive income	66	76
Reclassification of ESOP shares	<u>(46)</u>	<u>(26)</u>
Total stockholders' equity	<u>11,006</u>	<u>12,536</u>
 Total liabilities and stockholders' equity	 <u>\$ 99,792</u>	 <u>\$ 106,005</u>

See accompanying notes to consolidated financial statements

BEN FRANKLIN FINANCIAL, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Dollars in thousands except per share amounts)  
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30,	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Interest income				
Loans	\$ 1,097	\$ 1,137	\$ 3,263	\$ 3,545
Securities	20	35	78	92
Federal funds sold and other	<u>1</u>	<u>3</u>	<u>6</u>	<u>7</u>
	1,118	1,175	3,347	3,644
Interest expense				
Deposits	<u>166</u>	<u>219</u>	<u>541</u>	<u>745</u>
	166	219	541	745
<b>Net interest income</b>	952	956	2,806	2,899
Provision for loan losses	<u>433</u>	<u>87</u>	<u>1,636</u>	<u>459</u>
<b>Net interest income after provision for loan losses</b>	519	869	1,170	2,440
Non-interest income				
Service fee income	33	42	117	122
Gain (loss) on sale of other assets	(49)	(118)	(73)	(114)
Other	<u>3</u>	<u>13</u>	<u>9</u>	<u>30</u>
	(13)	(63)	53	38
Non-interest expense				
Compensation and employee benefits	376	419	1,160	1,205
Occupancy and equipment	148	150	419	503
Data processing services	71	63	215	193
Professional fees	100	82	246	336
FDIC insurance premiums	34	19	104	103
Reposessed asset expenses, net	187	41	426	120
Other	<u>74</u>	<u>71</u>	<u>237</u>	<u>205</u>
	990	845	2,807	2,665
<b>Loss before income taxes</b>	(484)	(39)	(1,584)	(187)
Income tax (benefit)	<u>-</u>	<u>(1)</u>	<u>-</u>	<u>(18)</u>
<b>Net loss</b>	<u>\$ (484)</u>	<u>\$ (38)</u>	<u>\$ (1,584)</u>	<u>\$ (169)</u>
Loss per common share	(0.25)	(0.02)	(0.83)	(0.09)

See accompanying notes to consolidated financial statements

BEN FRANKLIN FINANCIAL, INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Nine Months Ended September 30, 2012 and 2011 – (Unaudited)  
(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Unearned ESOP Shares	Accumulated Other Compre- hensive Income	Amount Reclass- ified on ESOP Shares	Total	Comprehen- sive Income (Loss)
Balance at January 1, 2011	\$ 20	\$ 8,156	\$ (462)	\$ 5,921	\$ (559)	\$ 61	\$ (41)	\$ 13,096	
Comprehensive loss									
Net loss	-	-	-	(169)	-	-	-	(169)	\$ (169)
Unrealized gain on securities available- for-sale, net of deferred income taxes	-	-	-	-	-	28	-	28	<u>28</u>
Total comprehensive loss									<u>\$ (141)</u>
Earned ESOP shares and other stock based compensation	-	47	-	-	39	-	-	86	
Reclassification due to change in fair value of common stock in ESOP subject to contingent repurchase obligation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8</u>	<u>8</u>	
Balance at September 30, 2011	<u>\$ 20</u>	<u>\$ 8,203</u>	<u>\$ (462)</u>	<u>\$ 5,752</u>	<u>\$ (520)</u>	<u>\$ 89</u>	<u>\$ (33)</u>	<u>\$ 13,049</u>	
Balance at January 1, 2012	\$ 20	\$ 8,217	\$ (462)	\$ 5,218	\$ (507)	\$ 76	\$ (26)	\$ 12,536	
Comprehensive loss									
Net loss	-	-	-	(1,584)	-	-	-	(1,584)	\$ (1,584)
Unrealized gain on securities available for-sale, net of deferred income taxes	-	-	-	-	-	(10)	-	(10)	<u>(10)</u>
Total comprehensive loss									<u>\$ (1,594)</u>
Earned ESOP shares and other stock based compensation	-	46	-	-	38	-	-	84	
Reclassification due to change in fair value of common stock in ESOP subject to contingent repurchase obligation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20)</u>	<u>(20)</u>	
Balance at September 30, 2012	<u>\$ 20</u>	<u>\$ 8,263</u>	<u>\$ (462)</u>	<u>\$ 3,634</u>	<u>\$ (469)</u>	<u>\$ 66</u>	<u>\$ (46)</u>	<u>\$ 11,006</u>	

See accompanying notes to consolidated financial statements

BEN FRANKLIN FINANCIAL, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Dollars in thousands)  
(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ (1,584)	\$ (169)
Adjustments to reconcile net income (loss) to net cash from operating activities		
Depreciation	98	100
ESOP and other stock based compensation	84	85
Amortization of premiums and discounts	3	10
Provision for loan losses	1,636	459
Loss on sale of repossessed assets	73	114
Write down of repossessed assets	249	-
Loans originated for sale	(19,301)	-
Proceeds from the sale of loans	17,475	-
Changes in:		
Deferred loan costs	(63)	5
Accrued interest receivable	27	41
Other assets	126	(1)
Other liabilities	(7)	3
Net cash from operating activities	(1,184)	647
<b>Cash flows from investing activities</b>		
Principal repayments on mortgage-backed securities	257	273
Proceeds from the sale of loans	187	-
Proceeds from the redemption of Federal Home Loan Bank stock	416	-
Calls of securities available for sale	3,000	1,000
Purchase of securities available for sale	(1,000)	(3,000)
Net decrease in loans	3,770	4,225
Sales of repossessed assets	961	1,180
Expenditures to improve repossessed assets	(83)	-
Expenditures for premises and equipment	(21)	(20)
Net cash from investing activities	7,487	3,658
<b>Cash flows from financing activities</b>		
Net increase (decrease) in deposits	(4,343)	(9,678)
Net change in advances from borrowers for taxes and insurance	(353)	368
Net cash from financing activities	(4,696)	(9,310)
Net change in cash and cash equivalents	1,607	(5,005)
Cash and cash equivalents at beginning of year	10,771	14,019
<b>Cash and cash equivalents at end of period</b>	<b>\$ 12,378</b>	<b>\$ 9,014</b>
Supplemental disclosures		
Interest paid	\$ 540	\$ 743
Transfers from loans to repossessed assets	622	2,510

See accompanying notes to consolidated financial statements

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### Note 1 – Basis of Financial Statement Presentation

The accompanying unaudited consolidated financial statements of Ben Franklin Financial, Inc. (the “Company”) and its wholly owned subsidiary Ben Franklin Bank of Illinois (the “Bank”) have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”). These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto that were included in the Company’s Annual Report for the year ended December 31, 2011. All significant intercompany transactions are eliminated in consolidation. In the opinion of the Company’s management, all adjustments necessary (i) for a fair presentation of the financial statements for the interim periods included herein and (ii) to make such financial statements not misleading have been made and are of a normal and recurring nature. Interim results are not necessarily indicative of results for a full year.

In preparing the financial statements, management is required to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the period. Actual results could differ from those estimates. For further information with respect to significant accounting policies followed by the Company in preparation of the financial statements, refer to the Company’s 2011 Annual Report.

We are not subject to the reporting requirements of the Securities Exchange Act of 1934 and accordingly this report has not been prepared in accordance with applicable Securities and Exchange Commission rules. This report is intended to cover the three and nine months ended September 30, 2012 and should not be read to cover any other periods.

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 (“FDIC”). Ben Franklin Financial, MHC (the “MHC”), a federally chartered mutual holding company, owns 1,091,062 shares of the Company’s common stock and will continue to own at least a majority of the Company’s common stock as long as the MHC exists.

### Note 2 – Securities Available-for-Sale

The following table sets forth the composition of our securities available for sale by type, at the dates indicated.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
<u>September 30, 2012</u>				
U.S. Government sponsored entities	\$ 2,000	\$ 24	\$ -	\$ 2,024
Residential mortgage-backed securities	<u>1,240</u>	<u>84</u>	<u>-</u>	<u>1,324</u>
Total	<u>\$ 3,240</u>	<u>\$ 108</u>	<u>\$ -</u>	<u>\$ 3,348</u>
<u>December 31, 2011</u>				
U.S. Government sponsored entities	\$ 4,000	\$ 35	\$ -	\$ 4,035
Residential mortgage-backed securities	<u>1,497</u>	<u>89</u>	<u>-</u>	<u>1,586</u>
Total	<u>\$ 5,497</u>	<u>\$ 124</u>	<u>\$ -</u>	<u>\$ 5,621</u>

Note 3 – Loans

The following table sets forth the composition of our loan portfolio by segment and class, at the dates indicated.

	<u>September 30, 2012</u>		<u>December 31, 2011</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
	(Dollars in thousands)			
First mortgage loans:				
One- to four- family.....	\$ 31,843	38.81%	\$ 35,402	39.27%
Multi-family .....	13,439	16.39	15,525	17.22
Commercial .....	13,179	16.07	12,221	12.77
Construction .....	553	0.67	-	2.37
Land.....	<u>386</u>	<u>0.47</u>	<u>783</u>	<u>1.23</u>
Total first mortgage loans.....	59,400	72.41	63,931	72.86
Commercial, consumer and other loans:				
Home equity lines-of-credit.....	13,891	16.94	15,586	16.93
Commercial business.....	3,004	3.66	3,635	5.51
Automobile.....	3,786	4.62	2,189	4.58
Other.....	<u>111</u>	<u>0.14</u>	<u>113</u>	<u>0.12</u>
Total commercial, consumer and other loans .....	<u>20,792</u>	<u>25.36</u>	<u>21,523</u>	<u>27.14</u>
Total loans held for investment .....	80,192	97.77	85,454	100.00
Loans available for sale .....	<u>1,826</u>	<u>2.23</u>	<u>-</u>	<u>-</u>
Total loans.....	82,018	100.00%	85,454	100.00%
Premiums and net deferred loan costs .....	32		(28)	
Allowance for loan losses.....	<u>(2,089)</u>		<u>(1,137)</u>	
Total loans, net .....	<u>\$ 79,961</u>		<u>\$ 84,289</u>	



The following table presents the activity in the allowance for loan losses by portfolio segment and class for the three and nine months ended September 30, 2012 and 2011

	First Mortgages					Commercial, Consumer and Other				Total
	One-to-four family	Multi-family	Commercial real estate	Land	Construction	Home equity lines-of-credit	Commercial	Automobile	Other Consumer	
(Dollars in thousands)										
<u>For the three months ended September 30, 2012</u>										
Allowance for loan losses										
Beginning balance	\$ 514	\$ 503	\$ 664	\$ 17	\$ 29	\$ 37	\$ 121	\$ 36	\$ -	\$ 1,921
Provision for loan losses	378	64	(8)	(4)	(1)	20	(12)	(4)	-	433
Loans charged-off	(263)	-	-	-	-	-	-	(2)	-	(265)
Recoveries	-	-	-	-	-	-	-	-	-	-
Total ending allowance balance September 30, 2012	<u>\$ 629</u>	<u>\$ 567</u>	<u>\$ 656</u>	<u>\$ 13</u>	<u>\$ 28</u>	<u>\$ 57</u>	<u>\$ 109</u>	<u>\$ 30</u>	<u>\$ -</u>	<u>\$ 2,089</u>
<u>For the three months ended September 30, 2011</u>										
Allowance for loan losses										
Beginning balance	\$ 367	\$ 299	\$ 188	\$ 7	\$ -	\$ 38	\$ 298	\$ 29	\$ 1	\$ 1,227
Provision for loan losses	(5)	(29)	30	-	-	-	99	(8)	-	87
Loans charged-off	(3)	(58)	-	-	-	-	(203)	-	(1)	(265)
Recoveries	-	-	-	-	-	-	-	1	1	2
Total ending allowance balance September 30, 2011	<u>\$ 359</u>	<u>\$ 212</u>	<u>\$ 218</u>	<u>\$ 7</u>	<u>\$ -</u>	<u>\$ 38</u>	<u>\$ 194</u>	<u>\$ 22</u>	<u>\$ 1</u>	<u>\$ 1,051</u>
<u>For the nine months ended September 30, 2012</u>										
Allowance for loan losses										
Beginning balance	\$ 270	\$ 253	\$ 315	\$ 115	\$ -	\$ 64	\$ 103	\$ 17	\$ -	\$ 1,137
Provision for loan losses	753	314	388	6	28	118	6	24	(1)	1,636
Loans charged-off	(444)	-	(47)	(108)	-	(125)	-	(11)	-	(735)
Recoveries	50	-	-	-	-	-	-	-	1	51
Total ending allowance balance September 30, 2012	<u>\$ 629</u>	<u>\$ 567</u>	<u>\$ 656</u>	<u>\$ 13</u>	<u>\$ 28</u>	<u>\$ 57</u>	<u>\$ 109</u>	<u>\$ 30</u>	<u>\$ -</u>	<u>\$ 2,089</u>
<u>For the nine months ended September 30, 2011</u>										
Allowance for loan losses										
Beginning balance	\$ 487	\$ 307	\$ 330	\$ 5	\$ 40	\$ 40	\$ 126	\$ 39	\$ 2	\$ 1,376
Provision for loan losses	189	(137)	147	2	(40)	1	292	7	(2)	459
Loans charged-off	(317)	(58)	(259)	-	-	(3)	(224)	(26)	(1)	(888)
Recoveries	-	100	-	-	-	-	-	2	2	104
Total ending allowance balance September 30, 2011	<u>\$ 359</u>	<u>\$ 212</u>	<u>\$ 218</u>	<u>\$ 7</u>	<u>\$ -</u>	<u>\$ 38</u>	<u>\$ 194</u>	<u>\$ 22</u>	<u>\$ 1</u>	<u>\$ 1,051</u>

The following table represents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and class based on the impaired method at the dates indicated. The recorded investment in loans excludes accrued interest and loan origination fees due to immateriality.

	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
(Dollars in thousands)						
<u>September 30, 2012</u>						
One-to-four-family	\$ 1,664	\$ 30,179	\$ 31,843	\$ 198	\$ 431	\$ 629
Multi-family	3,325	10,114	13,439	371	196	567
Commercial real estate	-	13,179	13,179	-	656	656
Land	131	255	386	-	13	13
Construction	-	553	553	-	28	28
Home equity lines of credit	-	13,891	13,891	-	57	57
Commercial	698	2,306	3,004	82	27	109
Automobile	-	3,786	3,786	-	30	30
Other consumer	-	111	111	-	-	-
Total	<u>\$ 5,818</u>	<u>\$ 74,374</u>	<u>\$ 80,192</u>	<u>\$ 651</u>	<u>\$ 1,438</u>	<u>\$ 2,089</u>
<u>December 31, 2011</u>						
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	<u>\$ 6,391</u>	<u>\$ 79,063</u>	<u>\$ 85,454</u>	<u>\$ 417</u>	<u>\$ 720</u>	<u>\$ 1,137</u>

The following table presents information related to loans individually evaluated for impairment by class of loans at the dates indicated.

	September 30, 2012			December 31, 2011		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
(Dollars in thousands)						
With no related allowance recorded						
One-to-four-family	\$ 450	\$ 450	\$ -	\$ 594	\$ 594	\$ -
Multi-family	-	-	-	-	-	-
Commercial real estate	-	-	-	-	-	-
Land	131	131	-	131	131	-
Construction	-	-	-	-	-	-
Home equity line of credit	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Automobile	-	-	-	-	-	-
Other consumer	-	-	-	-	-	-
Total with no related allowance recorded	581	581	-	725	725	-
With an allowance recorded						
One-to-four-family	1,214	1,214	198	800	800	100
Multi-family	3,325	3,325	371	3,365	3,365	71
Commercial real estate	-	-	-	170	170	47
Land	-	-	-	388	388	109
Construction	-	-	-	-	-	-
Home equity line of credit	-	-	-	125	125	26
Commercial	698	698	82	818	818	64
Automobile	-	-	-	-	-	-
Other consumer	-	-	-	-	-	-
Total with a related allowance recorded	5,237	5,237	651	5,666	5,666	417
Total	<u>\$ 5,818</u>	<u>\$ 5,818</u>	<u>\$ 651</u>	<u>\$ 6,391</u>	<u>\$ 6,391</u>	<u>\$ 417</u>

The following table presents the aging of the recorded investment in past due loans at the dates indicated by class of loans.

	30 -59 Days <u>Past due</u>	60 - 89 Days <u>Past due</u>	Greater than 90 Days Past Due <u>Still on Accrual</u> (Dollars in thousands)	<u>Nonaccrual</u>	<u>Loans Not Past Due</u>	<u>Total</u>
<u>September 30, 2012</u>						
One-to-four-family	\$ 360	\$ -	\$ -	\$ 799	\$ 30,684	\$ 31,843
Multi-family	-	-	-	-	13,439	13,439
Commercial real estate	-	-	-	-	13,179	13,179
Land	-	-	-	131	255	386
Construction	-	-	-	-	553	553
Home equity line of credit	-	-	-	-	13,891	13,891
Commercial	-	-	-	120	2,884	3,004
Automobile	11	-	-	-	3,775	3,786
Other consumer	-	-	-	-	111	111
Loans available for sale	-	-	-	-	1,826	1,826
Total	<u>\$ 371</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,050</u>	<u>\$ 80,597</u>	<u>\$ 82,018</u>
<u>December 31, 2011</u>						
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	<u>\$ 303</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,954</u>	<u>\$ 83,197</u>	<u>\$ 85,454</u>

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

## Credit Quality Indicators

The Bank categorizes loans into risk categories based on relevant information about the ability of a borrower to service his/her 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 is performed on a quarterly basis. Homogeneous loans are evaluated at origination and when a loan becomes delinquent.

### 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. The following table reflects the risk category by loans at the dates indicated.

	<u>Pass</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
	(Dollars in thousands)			
<u>September 30, 2012</u>				
One-to-four-family	\$ 30,030	\$ 1,813	\$ -	\$ 31,843
Multi-family	10,877	2,562	-	13,439
Commercial real estate	11,537	1,642	-	13,179
Land	255	131	-	386
Construction	553	-	-	553
Home equity lines of credit	13,891	-	-	13,891
Commercial	2,316	688	-	3,004
Automobile	3,786	-	-	3,786
Other consumer	<u>111</u>	<u>-</u>	<u>-</u>	<u>111</u>
Total	<u>\$ 73,356</u>	<u>\$ 6,836</u>	<u>\$ -</u>	<u>\$ 80,192</u>
<u>December 31, 2011</u>				
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	<u>113</u>	<u>-</u>	<u>-</u>	<u>113</u>
Total	<u>\$ 80,619</u>	<u>\$ 4,835</u>	<u>\$ -</u>	<u>\$ 85,454</u>

#### Note 4 - Non-Performing Assets and Troubled Debt Restructurings

There were two loans modified as troubled debt restructurings that occurred during the nine months ended September 30, 2012.

The Company has allocated \$561,000 and \$148,000 to specific reserves on \$4.9 million and \$4.6 million of loans to customers whose loan terms have been modified as troubled debt restructurings as of September 30, 2012 and December 31, 2011, respectively. The Company has not committed to lend additional amounts as of September 30, 2012 and December 31, 2011 to customers with outstanding loans that are classified as troubled debt restructurings.

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

	<u>September 30, 2012</u>		<u>December 31, 2011</u>	
	<u>Number</u>	<u>(Dollars in thousands)</u> <u>Amount</u>	<u>Number</u>	<u>Amount</u>
<u>Non-performing loans</u>				
One-to four-family	3	\$ 800	3	\$ 961
Multi-family	-	-	-	-
Land	1	131	2	519
Commercial real estate	-	-	2	170
Home equity lines-of-credit	-	-	<u>1</u>	<u>125</u>
Total non-performing loans	4	931	8	1,775
<u>Troubled debt restructurings</u>				
One-to four-family	4	864	2	432
Multi-family	4	3,325	4	3,365
Commercial business <sup>1</sup>	<u>2</u>	<u>688</u>	<u>2</u>	<u>819</u>
Total troubled debt restructurings	10	4,877	8	4,616
<u>Reposessed assets</u>				
Foreclosed real estate	7	1,812	9	2,354
Reposessed other	<u>3</u>	<u>32</u>	<u>2</u>	<u>68</u>
Total non-performing assets	<u>10</u>	<u>1,844</u>	<u>11</u>	<u>\$ 2,422</u>
Total non-performing loans, troubled debt restructurings, and reposessed assets	<u>24</u>	<u>\$ 7,652</u>	<u>27</u>	<u>\$ 8,813</u>
Non-performing loans to total loans		1.13%		2.08%
Non-performing loans and troubled debt restructurings to total loans		7.08%		7.48%
Non-performing assets and troubled debt restructurings to total assets		7.67%		8.31%

(1) One commercial loan with a balance of \$120,000 and \$179,000 at September 30, 2012 and December 31, 2011 respectively, was considered non-accrual and a TDR and was reflected in the TDR section in the above table.

#### Note 5 – Earnings (loss) Per Share

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

	For the Three Months Ended		For the Nine Months Ended	
	<u>September 30,</u> <u>2012</u>	<u>September 30,</u> <u>2011</u>	<u>September 30,</u> <u>2012</u>	<u>September 30,</u> <u>2011</u>
Net income (loss)	\$ (484,000)	\$ (38,000)	\$ (1,584,000)	\$ (169,000)
Weighted average common shares outstanding	1,902,425	1,897,351	1,901,165	1,896,094
Basic and diluted income (loss) per share	\$ (0.25)	\$ (0.02)	\$ (0.83)	\$ (0.09)

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

### Forward-Looking Statements

This quarterly report may contain statements relating to the future results of the Company (including certain projections and business trends) that are considered "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995 (the "PSLRA"). Such forward-looking statements, in addition to historical information, which involve risk and uncertainties, are based on the beliefs, assumptions and expectations of management. Words such as "expects," "believes," "should," "plans," "anticipates," "will," "potential," "could," "intend," "may," "outlook," "predict," "project," "would," "estimates," "assumes," "likely," and variations of such similar expressions are intended to identify such forward-looking statements. Examples of forward-looking statements include, but are not limited to: 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. For this presentation, the Company and its subsidiary claim the protection of the safe harbor for forward-looking statements contained in the PSLRA.

Factors that could cause future results to vary from current management expectations include, but are not limited to: our ability to manage the risk from our one-to four-family, home equity line-of-credit, multi-family, commercial real estate, construction, land, commercial business, and automobile lending including purchased loans; the future level of deposit insurance premiums applicable to us; 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; inflation; general economic conditions, both nationally and in our market area; adverse changes in the securities and national and local real estate markets (including loan demand, housing demand, and real estate values); our ability to originate a satisfactory amount of high quality loans in an unfavorable economic environment; legislative or regulatory changes that adversely affect our business including the effect of the Dodd-Frank Reform Act, our ability to enter new markets successfully and take advantage of growth opportunities; changes in consumer spending, borrowing and savings habits; changes in accounting policies and practices, as may be adopted by the bank regulatory agencies and the authoritative accounting bodies; the performance of our investment in FHLB of Chicago stock; changes in our organization, compensation and benefit plans; and other factors. The forward-looking statements are made as of the date of this report, and the Company assumes no obligation to update the forward-looking statements or to update the reasons why actual results could differ from those projected in the forward-looking statements.

### General

The Bank is a federally chartered savings bank headquartered in Arlington Heights, Illinois. The Bank 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.

Our principal business activity is attracting retail deposits from the general public in our market and investing those deposits, together with funds generated from operations and to a lesser extent 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, construction and land loans, and other loans. We have also invested in mortgage-backed securities and U.S. Government sponsored entity notes. Our primary sources of funds are deposits and principal and interest payments on loans and securities. The Bank offers a variety of deposit accounts, including checking, money market, savings, and certificates of deposit, and emphasizes personal and efficient service for its customers. We also use borrowings as necessary, primarily Federal Home Loan Bank of Chicago advances, to supplement cash flow needs, to lengthen the maturities of liabilities for interest rate risk purposes and to manage the cost of funds. Our competition for loans and deposits comes principally from commercial banks, savings institutions, mortgage banking firms and credit unions. Our primary focus is to develop and build profitable customer relationships across all lines of business while maintaining our focus as a community bank.

Our results of operations depend primarily on our net interest income. Net interest income is the difference between the interest income we earn on our interest-earning assets, consisting primarily of loans, mortgage-backed and other securities, and other interest-earning assets, and the interest paid on our interest-bearing liabilities, consisting primarily of savings and transaction accounts, certificates of deposit, and Federal Home Loan Bank of Chicago advances. Our results of operations also are affected by our provision for loan losses, non-interest income and non-interest expense. Non-interest income consists primarily of deposit service charges and loan origination service fees charged for loans funded by other institutions, gains and losses on the sale of securities and repossessed assets, and miscellaneous other income. Non-interest expense consists primarily of compensation and employee benefits, occupancy and equipment expenses, data processing, professional fees, FDIC insurance premiums and assessments, repossessed asset expenses, and other operating expenses. Our results of operations may be affected significantly by general and local economic and competitive conditions, changes in market interest rates, governmental policies and actions of regulatory authorities.

### Critical Accounting Policies

Certain of our accounting policies are important to the reporting of our financial results, since they require management to make difficult, complex and/or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Facts and circumstances which could affect these judgments include, but are not limited to, changes in interest rates, changes in performance of the local economy, changes in the financial condition of borrowers, and changes in value of loan collateral such as real estate. As discussed in the Company's Annual Report for the year ended December 31, 2011, management believes that its critical accounting policies include determining the allowance for loan losses, determination of the fair value of stock options and accounting for stock based compensation under the Company's Equity Incentive Plan, and accounting for deferred income taxes.

### Comparison of Financial Condition at September 30, 2012 and December 31, 2011

**General.** For the nine months ended September 30, 2012 we experienced a decrease in total assets primarily due to a decrease in the balance of our loan portfolio and securities available for sale. The weak loan demand in our local market has resulted in loan origination volume that has not kept pace with repayment and payoff activity. Our loan origination activity was supplemented in the first nine months of 2012 by the purchase of automobile loans from another financial institution. We have also entered into an arrangement with another financial institution to participate in one-to four-family residential loan purchases which are then sold into the secondary market generally within 30 days of origination. During the first nine months of 2012, we began the process of enhancing our business products and services, including changes to our online banking platform and the implementation of remote deposit services, in an effort to expand this segment of our business. In the third quarter of 2012, the Bank hired a senior lending officer to help develop our commercial business lending and deposit segment.

**Assets.** Total assets at September 30, 2012 were \$99.8 million compared to \$106.0 million at December 31, 2011, a decrease of \$6.2 million or 5.8%. This decrease was primarily due to the \$4.3 million decrease in our loan portfolio, a \$2.3 million decrease in our securities available for sale, and a \$578,000 decrease in the balance of our repossessed assets. These decreases were partially offset by the \$1.6 million increase in the balance of our cash and cash equivalents.

Our first mortgage loan portfolio decreased \$4.5 million or 7.1%, to \$59.4 million at September 30, 2012 compared to \$63.9 million at December 31, 2011 primarily due to the \$3.6 million decrease in our one- to four-family residential loans and the \$2.1 million decrease in our multi- family loans, partially offset by a \$1.0 million increase in our commercial real estate loans. Our commercial business, consumer and other loan balances decreased \$731,000 to \$20.8 million at September 30, 2012 compared to \$21.5 million at December 31, 2011 primarily due to the \$1.7 million decrease in our home equity line- of- credit loans, partially offset by the \$1.6 million increase in automobile loans due to purchases from another financial institution. We anticipate purchases of automobile loans will decrease through the remainder of 2012. Our purchases of loans originated for sale totaled \$19.3 million for the



nine months ended September 30, 2012 and sales of such loans totaled \$17.5 million during the period. Overall, we anticipate our loan portfolio balance will remain at current levels throughout the remainder of the year.

At September 30, 2012 our allowance for loan losses was \$2.1 million or 2.55% 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 September 30, 2012 was primarily due to the \$1.6 million provision partially offset by net charge-offs totaling \$684,000 during the first nine months of 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 revisions 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 \$2.0 million during the first nine months of 2012, however, our non-performing loans and trouble debt restructurings have decreased \$583,000 over the same period.

Our securities portfolio decreased \$2.3 million or 41.1% to \$3.3 million at September 30, 2012 compared to \$5.6 million at December 31, 2011 primarily due to the call of \$3.0 million of securities along with repayments on mortgage-backed securities, partially offset by the purchase of a \$1.0 million government sponsored entity note. The balance of our Federal Home Loan Bank of Chicago stock decreased \$416,000 due to the redemption of a portion of our excess stock as the Federal Home Loan Bank of Chicago was allowed to resume its repurchase program beginning in the first quarter of 2012. Cash and cash equivalents increased \$1.6 million to \$12.4 million at September 30, 2012. Given the weak loan demand we are currently experiencing and the low interest rate environment, we anticipate a continued strong liquidity position throughout the remainder of 2012.

Our repossessed assets decreased \$578,000 during the first nine months of 2012 primarily due to sales that totaled \$1.0 million and write-downs that totaled \$249,000. These decreases were partially offset by increases from the transfer of real estate and automobiles from loans that totaled \$621,000 and capital improvements that totaled \$83,000. Our repossessed balance at September 30, 2012 consisted of \$333,000 in one- to- four family residential properties, \$873,000 of commercial real estate properties, \$606,000 of land, and \$32,000 of other repossessed assets.

**Liabilities.** Our deposits decreased by \$4.4 million or 4.8 % to \$88.2 million at September 30, 2012 compared to \$92.6 million at December 31, 2011, primarily due to the \$4.3 million or 7.5% decrease in our certificate of deposit accounts to \$53.2 million at September 30, 2012.

**Stockholder Equity.** Total stockholders' equity at September 30, 2012 was \$11.0 million, a decrease of \$1.5 million or 12.2% from December 31, 2011. The decrease resulted primarily from the net loss of \$1.6 million for the nine months ended September 30, 2012 and the \$10,000 decrease in the unrealized gains on available-for-sale securities partially offset by an increase of \$64,000 for ESOP and other stock based compensation.

#### Comparison of Operating Results for the Three Months Ended September 30, 2012 and 2011

**General.** For the three months ended September 30, 2012 our net loss was \$484,000 compared to a net loss of \$38,000 for the three months ended September 30, 2011. The increase in our net loss was primarily due to the increase in our provision for loan losses, the decrease in our net interest income, and the increase in our non-interest expense, partially offset by the decrease in our loss on the sale of repossessed assets.

**Interest Income.** Interest income was \$1.1 million for the three months ended September 30, 2012, \$57,000 or 4.9% less than the prior year period. Interest income from loans decreased \$40,000 or 3.5% for the three months ended September 30, 2012 primarily due to a \$4.1 million decrease in the average balance of our loan portfolio to \$82.8 million for the three months ended September 30, 2012 compared to \$86.9 million for the prior year period. The decrease in the average balance of loans was due to repayments, pay-offs, transfers of loans to repossessed assets, and low origination volume. The average yield of our loan portfolio was 5.28% for the third quarter of 2012 compared to 5.24% for the prior year period.

Interest income from securities decreased \$15,000 to \$20,000 for the three months ended September 30, 2012. The average balance of our securities portfolio decreased \$2.8 million to \$4.2 million for the three months ended September 30, 2012 compared to the prior year period primarily due to the calls of securities during 2012 and 2011,

the redemption of Federal Home Loan Bank of Chicago stock, and repayments on mortgage-backed securities. The average yield on securities for the three months ended September 30, 2012 was 1.86% compared to 2.04% for the prior year period primarily due to the higher yielding called securities.

**Interest Expense.** Interest expense for the three months ended September 30, 2012 was \$166,000, a decrease of \$53,000 or 24.2% from the prior year period due to the decrease in interest expense on deposits. The average cost of deposits decreased to 0.77% for the three months ended September 30, 2012 compared to 0.97% for the prior year period as the average cost of our certificate of deposit accounts decreased to 1.05% for the three months ended September 30, 2012 compared to 1.33% for the prior year period due to the general low market interest rates. The average balance of our certificate of deposit accounts decreased \$5.3 million to \$53.3 million while the average balance of our non-certificate of deposit accounts increased \$438,000 to \$32.2 million for the third quarter of 2012 compared to the prior year period.

**Net Interest Income.** Net interest income for the three months ended September 30, 2012 was \$952,000 compared to \$956,000 for the three months ended September 30, 2011. For the three months ended September 30, 2012, the average yield on interest-earning assets was 4.69% and the average cost of interest-bearing liabilities was 0.77% compared to 4.64% and 0.97%, respectively, for the three months ended September 30, 2011. These changes resulted in an increase in our net interest rate spread and net interest margin to 3.92% and 4.00% respectively for the third quarter of 2012 compared to a net interest rate spread of 3.67% and net interest margin of 3.77% for the third quarter of 2011. Further improvement in our net interest rate spread may be limited as our deposit costs have approached current market rates.

**Provision for Loan Losses.** Our provision for loan losses was \$433,000 for the three months ended September 30, 2012 compared to a provision of \$87,000 for the three months ended September 30, 2011. Our provision for the three months ended September 30, 2012 was primarily due to an increase in the loss factors applied to pools of performing loans specifically the \$378,000 provision related to our one- to four- family residential loans due to the increase in charge-offs during the quarter. Our provision for the three months ended September 30, 2011 was primarily related to the \$99,000 provision for our commercial business loans.

**Non-interest Income.** For the three months ended September 30, 2012, non-interest income was a loss of \$13,000 compared to a loss of \$63,000 for the three months ended September 30, 2011 primarily due to the loss on sale of repossessed assets. Our loss on the sale of repossessed assets for the three months ended September 30, 2012 was \$49,000 on the sale of \$840,000 of assets compared to \$118,000 on the sale of \$866,000 of assets for the prior year period.

**Non-interest Expense.** For the three months ended September 30, 2012, non-interest expense totaled \$990,000 compared to \$845,000 for the three months ended September 30, 2011, an increase of 17.2%. Our repossessed asset costs increased \$146,000 primarily due to write-downs totaling \$154,000 on owned real estate for the three months ended September 30, 2012. Professional fees increased \$18,000 primarily due to the \$26,000 increase in third party consulting fees. Our FDIC insurance premium increased \$15,000 primarily due to the change in our assessment rate. These increases were partially offset by a \$43,000 decrease in our compensation and employee benefit expense due to staffing reductions. We anticipate our compensation and employee expense will increase in the future due to the addition of a senior lending officer. All other expenses increased \$9,000 on a net basis.

**Income Tax.** Our review of the deferred tax asset for the three months ended September 30, 2012 resulted in no provision or benefit for income taxes compared to a \$1,000 benefit for the three months ended September 30, 2011.

#### Comparison of Operating Results for the Nine Months Ended September 30, 2012 and 2011

**General.** For the nine months ended September 30, 2012, our net loss was \$1.6 million compared to a net loss of \$169,000 for the nine months ended September 30, 2011. The increase in our net loss was primarily due to the increase in our provision for loan losses, the increase in our non-interest expenses and the decrease in our net interest income, partially offset by the increase in our non-interest income.

**Interest Income.** Interest income was \$3.3 million for the nine months ended September 30, 2012, \$297,000 or 8.2% less than the prior year period. Interest income from loans decreased \$282,000 or 8.0% to \$3.3 million for the nine months ended September 30, 2012 primarily due to the \$6.7 million decrease in the average balance of our loan portfolio to \$83.4 million for the nine months ended September 30, 2012 compared to \$90.1 million for the prior year period primarily due to repayments and pay-offs, transfers of loans to repossessed assets, and lower origination volume. The average yield of our loan portfolio was 5.22% for the nine months ended September 30, 2012 compared to 5.25% for the prior year period.

Interest income from investment securities decreased \$14,000 to \$78,000 for the nine months ended September 30, 2012. The average balance of our securities portfolio decreased \$718,000 to \$5.5 million for the nine months ended September 30, 2012 compared to the prior year period primarily due to the calls of securities, the redemption of Federal Home Loan Bank stock, and repayments on mortgage-backed securities. The average yield on securities for the nine months ended September 30, 2012 was 1.90% compared to 1.99% for the prior year period primarily due to the higher yielding called securities.

**Interest Expense.** Interest expense for the nine months ended September 30, 2012 was \$541,000, a decrease of \$204,000 or 27.4% compared to the prior year period primarily due to the decrease in the average balance of our deposits. The average balance of our interest bearing deposits decreased \$6.7 million to \$87.6 million for the first nine months of 2012 compared to the prior year period primarily due to the \$7.7 million decrease in the average balance of our certificate of deposit accounts to \$55.0 million. The average balance of our non-certificate of deposit accounts increased \$1.0 million to \$32.6 million for the first nine months of 2012 compared to \$31.6 million from the prior year period. The average cost of our deposits was 0.82% for the nine months ended September 30, 2012 compared to 1.06% for the prior year period. The average cost of our certificates of deposit accounts decreased to 1.13% for the first nine months of 2012 compared to 1.44% for the prior year period due to the general low market interest rates.

**Net Interest Income.** Net interest income for the nine months ended September 30, 2012 decreased \$93,000 to \$2.8 million compared to the prior year period. For the nine months ended September 30, 2012, the average yield on interest-earning assets was 4.59% and the average cost of interest-bearing liabilities was 0.82% compared to 4.67% and 1.06%, respectively, for the nine months ended September 30, 2011. These changes resulted in an increase in our net interest rate spread to 3.77% and our net interest margin to 3.85% for the first nine months of 2012 compared to our net interest rate spread of 3.61% and our net interest margin of 3.72% for the comparative period in 2011. Further improvement in our net interest rate spread may be limited as our deposit costs have approached current market rates.

**Provision for Loan Losses.** Our provision for loan losses was \$1.6 million for the nine months ended September 30, 2012 compared to \$459,000 for the nine months ended September 30, 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 nine months ended September 30, 2011 included \$189,000 related to our one-to-four family residential loans, \$147,000 related to commercial real estate loans, and \$292,000 related to commercial business loans, partially offset by a \$137,000 recovery related to our multi-family loans.

**Non-interest Income.** For the nine months ended September 30, 2012, our non-interest income increased \$15,000 or 39.5% to \$53,000 compared to \$38,000 for the nine months ended September 30, 2011 primarily due to a \$41,000 decrease in losses on the sale of repossessed assets, partially offset by a \$27,000 decrease in rent from our foreclosed real estate. Our loss on the sale of repossessed assets for the nine months ended September 30, 2012 was \$73,000 on the sale of \$1.0 million of assets compared to \$114,000 on the sale of \$1.3 million of assets for the prior year period.

**Non-interest Expense.** For the nine months ended September 30, 2012, non-interest expense totaled \$2.8 million, an increase of \$142,000 or 5.3% compared to the nine months ended September 30, 2011. Our repossessed asset costs increased \$306,000 primarily due to write-downs that totaled \$249,000 and repairs that totaled \$83,000 on our owned real estate for the nine months ended September 30, 2012. Our other expenses increased \$32,000 primarily due to the increase in our regulatory fees. Our professional fees decreased \$90,000 primarily due to the decrease in

foreclosure related legal fees. Our occupancy costs decreased \$84,000 primarily due to certain charges for our leased main office for the first nine months of 2011. Our compensation and employee benefit expense decreased \$45,000 due to staffing reductions. We anticipate our compensation and employee expense will increase in the future due to the addition of a senior lending officer. All other expenses increased \$23,000 on a net basis.

***Income Tax (Benefit).*** Our review of the deferred tax asset for the nine months ended September 30, 2012 resulted in no income tax provision or benefit compared to an \$18,000 income tax benefit for the nine months ended September 30, 2011.

## Analysis of Net Interest Income

Net interest income represents the difference between the income we earn on interest-earning assets and the interest expense we pay on interest-bearing liabilities. Net interest income also depends upon the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rates earned or paid on them.

The following tables set forth average balance sheets, average yields and costs, and certain other information for the periods 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.

	Three Months Ended September 30,					
	2012			2011		
	Average Outstanding Balance	Interest	Yield/Cost	Average Outstanding Balance	Interest	Yield/Cost
	(Dollars in thousands)					
<b>Assets:</b>						
Loans:						
One- to four-family .....	\$ 32,125	\$ 405	5.05%	\$ 35,196	\$ 441	5.02%
Multi-family, commercial real estate, and land .....	28,661	445	6.17	28,340	456	6.45
Construction .....	517	9	6.59	-	-	-
Commercial business.....	3,230	52	6.43	5,021	70	5.59
Home equity lines-of-credit.....	14,259	129	3.59	15,462	125	3.22
Automobile and other consumer.....	<u>3,976</u>	<u>57</u>	<u>5.72</u>	<u>2,882</u>	<u>45</u>	<u>6.29</u>
Total loans .....	82,768	1,097	5.28	86,901	1,137	5.24
Securities (1) .....	4,209	20	1.86	6,983	35	2.04
Other interest-earning assets.....	<u>8,007</u>	<u>1</u>	<u>0.09</u>	<u>7,547</u>	<u>3</u>	<u>0.09</u>
Total interest-earning assets .....	94,984	\$ 1,118	4.69	101,431	\$ 1,175	4.64
Non-interest-earning assets .....	<u>5,360</u>			<u>5,995</u>		
Total assets .....	<u>\$ 100,344</u>			<u>\$ 107,426</u>		
<b>Liabilities and stockholders' equity:</b>						
Savings deposits .....	\$ 8,246	\$ 3	0.15	\$ 8,168	\$ 3	0.15
Money market/demand deposits .....	23,974	23	0.36	23,613	22	0.36
Certificates of deposit.....	<u>53,290</u>	<u>140</u>	<u>1.05</u>	<u>58,609</u>	<u>194</u>	<u>1.33</u>
Total deposits .....	85,510	<u>166</u>	0.77	90,390	219	0.97
Non-interest-bearing deposits.....	2,564			2,486		
Other liabilities .....	<u>652</u>			<u>934</u>		
Total liabilities.....	88,726			93,810		
Stockholders' equity .....	<u>11,618</u>			<u>13,616</u>		
Total liabilities and stockholders' equity .....	<u>\$ 100,344</u>			<u>\$ 107,426</u>		
Net interest income.....		<u>\$ 952</u>			<u>\$ 956</u>	
Net interest rate spread .....			<u>3.92%</u>			<u>3.67%</u>
Net interest-earning assets .....	<u>\$ 9,474</u>			<u>\$ 11,041</u>		
Net interest margin .....			<u>4.00%</u>			<u>3.77%</u>
Average of interest-earning assets to interest-bearing Liabilities.....			<u>111.07%</u>			<u>112.21%</u>

1 Securities include Federal Home Loan Bank stock with an average balance of \$921,000 and \$1.3 million for the three months ended September 30, 2012 and 2011, respectively.

**Nine Months Ended September 30,**

	2012			2011		
	Average Outstanding Balance	Interest	Yield/Cost	Average Outstanding Balance	Interest	Yield/Cost
(Dollars in thousands)						
<b>Assets:</b>						
Loans:						
One- to four-family .....	\$ 32,383	\$ 1,198	4.93%	\$ 35,695	\$ 1,351	5.05%
Multi-family, commercial real estate, and land .....	28,771	1,333	6.19	29,277	1,395	6.37
Construction .....	369	22	7.85	350	21	7.84
Commercial business.....	3,534	165	6.25	5,421	234	5.78
Home equity lines-of-credit.....	14,974	395	3.52	15,939	384	3.22
Automobile and other consumer.....	<u>3,404</u>	<u>150</u>	<u>5.88</u>	<u>3,445</u>	<u>160</u>	<u>6.23</u>
Total loans .....	83,435	3,263	5.22	90,127	3,545	5.25
Securities (1) .....	5,492	78	1.90	6,210	92	1.99
Other interest-earning assets.....	<u>8,415</u>	<u>6</u>	<u>0.09</u>	<u>7,772</u>	<u>7</u>	<u>0.10</u>
Total interest-earning assets .....	97,342	\$ 3,347	4.59	104,109	\$ 3,644	4.67
Non-interest-earning assets .....	<u>5,564</u>			<u>6,660</u>		
Total assets .....	<u>\$ 102,906</u>			<u>\$ 110,769</u>		
<b>Liabilities and stockholders' equity:</b>						
Savings deposits .....	\$ 8,340	\$ 9	0.15	\$ 8,007	\$ 9	0.15
Money market/demand deposits .....	24,286	67	0.37	23,612	64	0.36
Certificates of deposit.....	<u>54,978</u>	<u>465</u>	<u>1.13</u>	<u>62,652</u>	<u>672</u>	<u>1.44</u>
Total deposits .....	87,604	<u>541</u>	0.82	94,271	745	1.06
Non-interest-bearing deposits.....	2,631			2,517		
Other liabilities .....	<u>769</u>			<u>762</u>		
Total liabilities.....	91,004			97,550		
Stockholders' equity .....	<u>11,902</u>			<u>13,219</u>		
Total liabilities and stockholders' equity.....	<u>\$ 102,906</u>			<u>\$ 110,769</u>		
Net interest income.....		<u>\$ 2,806</u>			<u>\$ 1,943</u>	
Net interest rate spread .....			<u>3.77%</u>			<u>3.61%</u>
Net interest-earning assets .....	<u>\$ 9,738</u>			<u>\$ 9,838</u>		
Net interest margin .....			<u>3.85%</u>			<u>3.72%</u>
Average of interest-earning assets to interest-bearing liabilities.....			<u>111.11%</u>			<u>110.44%</u>

1 Securities include Federal Home Loan Bank stock with an average balance of \$1.0 million and \$1.3 million for the nine months ended September 30, 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 Ben Franklin Financial, Inc.'s interest-earning assets and interest-bearing liabilities. Information is provided for each category of interest-earning assets and interest-bearing liabilities with respect to (i) changes attributable to changes in volume (i.e., changes in average balances multiplied by the prior-period average rate) and (ii) changes attributable to rate (i.e., changes in average rate multiplied by prior-period average balances). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate.

	Three Months Ended September 30, 2012 vs. 2011			Nine Months Ended September 30, 2012 vs. 2011		
	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate		Volume	Rate	
(Dollars in thousands)						
<b>Interest-earning assets:</b>						
Loans:						
One- to four-family.....	\$ (39)	\$ 3	\$ (36)	\$ (121)	\$ (32)	\$ (153)
Multi-family, commercial real estate, and land .....	6	(17)	(11)	(24)	(38)	(62)
Construction .....	9	-	9	1	-	1
Commercial business.....	(27)	9	(18)	(87)	18	(69)
Home equity lines-of- credit.....	(10)	14	4	(24)	35	11
Automobile and other consumer .....	<u>16</u>	<u>(4)</u>	<u>12</u>	<u>(2)</u>	<u>(8)</u>	<u>(10)</u>
Total loans .....	(45)	5	(40)	(257)	(25)	(282)
Securities .....	(13)	(2)	(15)	(5)	(9)	(14)
Other interest-earning assets.....	<u>-</u>	<u>(2)</u>	<u>(2)</u>	<u>(1)</u>	<u>-</u>	<u>(1)</u>
Total interest-earning assets .....	<u>(58)</u>	<u>1</u>	<u>(57)</u>	<u>(263)</u>	<u>(34)</u>	<u>(297)</u>
<b>Interest-bearing liabilities:</b>						
Savings deposits.....	-	-	-	-	-	-
Money market/demand accounts .....	1	-	1	1	2	3
Certificates of deposit .....	<u>(16)</u>	<u>(38)</u>	<u>(54)</u>	<u>(75)</u>	<u>(132)</u>	<u>(207)</u>
Total deposits.....	<u>(15)</u>	<u>(38)</u>	<u>(53)</u>	<u>(74)</u>	<u>(130)</u>	<u>(204)</u>
Change in net interest income .....	<u>\$ (43)</u>	<u>\$ 39</u>	<u>\$ (4)</u>	<u>\$ (189)</u>	<u>\$ 96</u>	<u>\$ (93)</u>