

**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, 2011**

Note: This report is intended to be read in conjunction with our Annual Report for the year ended December 31, 2010. This report is dated September 30, 2011 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.**

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

	September 30, <u>2011</u>	December 31, <u>2010</u>
<b>ASSETS</b>		
Cash and due from banks	\$ 1,022	\$ 3,519
Interest-earning deposit accounts	118	2,740
Federal funds sold	<u>7,874</u>	<u>7,760</u>
Cash and cash equivalents	9,014	14,019
Securities available-for-sale	5,743	3,972
Loans receivable, net of allowance for loan losses of \$1,051 at September 30, 2011 and \$1,376 at December 31, 2010	86,913	94,119
Federal Home Loan Bank stock	1,337	1,337
Premises and equipment, net	837	917
Repossessed assets	2,011	796
Accrued interest receivable	321	362
Prepaid FDIC premiums	355	450
Other assets	<u>178</u>	<u>99</u>
 Total assets	 <u>\$ 106,709</u>	 <u>\$ 116,071</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Demand deposits - noninterest-bearing	\$ 2,422	\$ 2,467
Demand deposits - interest-bearing	8,528	7,873
Savings deposits	8,230	7,529
Money market deposits	15,167	16,397
Certificates of deposit	<u>58,338</u>	<u>68,097</u>
Total deposits	92,685	102,363
Advances from borrowers for taxes and insurance	676	308
Other liabilities	266	263
Common stock in ESOP subject to contingent purchase obligation	<u>33</u>	<u>41</u>
 Total liabilities	 93,660	 102,975
<b>Stockholders' equity</b>		
Common stock, par value \$0.01 per share; authorized 20,000,000 shares issued and outstanding, net of treasury shares, at:		
September 30, 2011 – 1,949,956 shares		
December 31, 2010 – 1,949,956 shares	20	20
Additional paid-in-capital	8,203	8,156
Treasury stock, at cost – 68,270 shares at September 30, 2011 and December 31, 2010	(462)	(462)
Retained earnings, substantially restricted	5,752	5,921
Unearned Employee Stock Ownership Plan (ESOP) shares	(520)	(559)
Accumulated other comprehensive income	89	61
Reclassification of ESOP shares	<u>(33)</u>	<u>(41)</u>
Total stockholders' equity	<u>13,049</u>	<u>13,096</u>
 Total liabilities and stockholders' equity	 <u>\$ 106,709</u>	 <u>\$ 116,071</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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Interest income				
Loans	\$ 1,137	\$ 1,288	\$ 3,545	\$ 4,020
Securities	35	23	92	68
Federal funds sold and other	<u>3</u>	<u>2</u>	<u>7</u>	<u>5</u>
	1,175	1,313	3,644	4,093
Interest expense				
Deposits	219	353	745	1,200
Federal Home Loan Bank advances	<u>-</u>	<u>-</u>	<u>-</u>	<u>39</u>
	219	353	745	1,239
<b>Net interest income</b>	956	960	2,899	2,854
Provision for loan losses	<u>87</u>	<u>280</u>	<u>459</u>	<u>522</u>
<b>Net interest income after provision for loan losses</b>	869	680	2,440	2,332
Non-interest income				
Service fee income	42	32	122	95
Gain (loss) on sale of other assets	(118)	-	(114)	(1)
Other	<u>13</u>	<u>3</u>	<u>30</u>	<u>8</u>
	(63)	35	38	102
Non-interest expense				
Compensation and employee benefits	419	377	1,205	1,147
Occupancy and equipment	150	138	503	407
Data processing services	63	61	193	189
Professional fees	82	78	336	290
FDIC insurance premiums	19	44	103	130
Reposessed asset expenses, net	41	76	120	102
Other	<u>71</u>	<u>61</u>	<u>205</u>	<u>210</u>
	845	835	2,665	2,475
<b>Income (loss) before income taxes</b>	(39)	(120)	(187)	(41)
Income tax (benefit)	<u>(1)</u>	<u>3</u>	<u>(18)</u>	<u>(10)</u>
<b>Net loss</b>	<u>\$ (38)</u>	<u>\$ (123)</u>	<u>\$ (169)</u>	<u>\$ (31)</u>
Loss per common share	(0.02)	(0.07)	(0.09)	(0.02)

See accompanying notes to consolidated financial statements

BEN FRANKLIN FINANCIAL, INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
(Dollars in thousands)  
For the Nine Months Ended September 30, 2011 and 2010 – (Unaudited)

	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, 2010	\$ 20	\$ 8,088	\$ (461)	\$ 6,776	\$ (609)	\$ 58	\$ (43)	\$ 13,829	
Comprehensive income									
Net income	-	-	-	(31)	-	-	-	(31)	\$ (31)
Unrealized gain on securities available- for-sale, net of deferred income taxes	-	-	-	-	-	16	-	16	<u>16</u>
Total comprehensive loss									<u>\$ 15</u>
Earned ESOP shares and other stock based compensation	-	50	-	-	38	-	-	88	
Repurchase of common stock (427 shares)	-	-	(1)	-	-	-	-	(1)	
Reclassification due to change in fair value of common stock in ESOP subject to contingent repurchase obligation	-	-	-	-	-	-	(19)	(19)	
Balance at September 30, 2010	<u>\$ 20</u>	<u>\$ 8,138</u>	<u>\$ (462)</u>	<u>\$ 6,745</u>	<u>\$ (571)</u>	<u>\$ 74</u>	<u>\$ (62)</u>	<u>\$ 13,882</u>	
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	-	-	-	-	-	-	8	8	
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>	

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,	
	2011	2010
<b>Cash flows from operating activities</b>		
Net loss	\$ (169)	\$ (31)
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation	100	91
ESOP and other stock based compensation	85	88
Amortization of premiums and discounts	10	23
Provision for loan losses	459	522
(Gain) loss on sale of other assets	114	1
Write down of repossessed assets	-	65
Changes in:		
Deferred loan costs	5	59
Accrued interest receivable	41	83
Other assets	(1)	457
Other liabilities	3	(29)
Net cash from operating activities	647	1,329
<b>Cash flows from investing activities</b>		
Principal repayments on mortgage-backed securities	273	382
Net decrease in loans	4,225	4,552
Purchase of securities available for sale	(3,000)	(2,000)
Calls of securities available for sale	1,000	-
Sales of other assets	1,180	832
Expenditures to improve other real estate owned	-	(61)
Expenditures for premises and equipment	(20)	(70)
Net cash from investing activities	3,658	3,635
<b>Cash flows from financing activities</b>		
Net increase (decrease) in deposits	(9,678)	(1,478)
Purchase of treasury stock	-	(1)
Repayment of advances from the Federal Home Loan Bank	-	(2,000)
Net change in advances from borrowers for taxes and insurance	368	120
Net cash from financing activities	(9,310)	(3,359)
Net change in cash and cash equivalents	(5,005)	1,605
Cash and cash equivalents at beginning of year	14,019	7,796
<b>Cash and cash equivalents at end of period</b>	<b>\$ 9,014</b>	<b>\$ 9,401</b>
<b>Supplemental disclosures</b>		
Interest paid	\$ 743	\$ 1,255
Transfers from loans to repossessed assets	2,510	588

## 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, 2010. 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 2010 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 months and nine months ended September 30, 2011 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
<u>September 30, 2011</u>				
U.S. Government sponsored entities	\$ 4,000	\$ 46	\$ -	\$ 4,046
Residential mortgage-backed securities	<u>1,597</u>	<u>100</u>	<u>-</u>	<u>1,697</u>
Total	<u>\$ 5,597</u>	<u>\$ 146</u>	<u>\$ -</u>	<u>\$ 5,743</u>
<u>December 31, 2010</u>				
U.S. Government sponsored entities	\$ 2,000	\$ -	\$ 10	\$ 1,990
Residential mortgage-backed securities	<u>1,872</u>	<u>110</u>	<u>-</u>	<u>1,982</u>
Total	<u>\$ 3,872</u>	<u>\$ 110</u>	<u>\$ 10</u>	<u>\$ 3,972</u>

Note 3 – Loans

The following table sets forth the composition of our loan portfolio by type of loan, at the dates indicated. We had no loans held for sale at September 30, 2011 and December 31, 2010.

	<u>September 30, 2011</u>		<u>December 31, 2010</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
	(Dollars in thousands)			
Real Estate:				
One- to four- family.....	\$ 36,253	41.22%	\$ 37,503	39.27%
Multi-family .....	15,451	17.56	16,440	17.22
Commercial .....	12,368	14.06	12,197	12.77
Construction .....	-	0.00	2,260	2.37
Land.....	<u>1,165</u>	<u>1.32</u>	<u>1,179</u>	<u>1.23</u>
Total real estate .....	65,237	74.16	69,579	72.86
Consumer and other loans:				
Home equity lines-of-credit.....	15,505	17.62	16,164	16.93
Commercial business.....	4,486	5.10	5,266	5.51
Automobile.....	2,634	2.99	4,370	4.58
Other.....	<u>113</u>	<u>0.13</u>	<u>114</u>	<u>0.12</u>
Total consumer and other loans..	<u>22,738</u>	<u>25.84</u>	<u>25,914</u>	<u>27.14</u>
Total loans.....	87,975	100.00%	95,493	100.00%
Premiums and net deferred loan costs	(11)		2	
Allowance for loan losses.....	<u>(1,051)</u>		<u>(1,376)</u>	
Total loans, net .....	<u>\$ 86,913</u>		<u>\$ 94,119</u>	

## Non-performing Assets and Troubled Debt Restructurings

All non-performing loans were in non-accrual status at September 30, 2011 and December 31, 2010. No loans were past due ninety days or more and still accruing interest at September 30, 2011 or December 31, 2010.

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, 2011</u>		<u>December 31, 2010</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
<u>Non-performing loans</u>				
One-to four-family	3	\$ 770	9	\$ 1,780
Multi-family	-	-	2	851
Land	2	767	2	767
Commercial real estate	2	170	4	1,632
Home equity lines-of-credit	1	125	-	-
Commercial business	2	469	3	907
Other	-	-	2	14
Total non-performing loans	<u>10</u>	<u>2,301</u>	<u>22</u>	<u>5,951</u>
<u>Troubled debt restructurings</u>				
One-to four-family	2	434	1	196
Multi-family	4	3,350	3	2,888
Commercial business	<u>1</u>	<u>668</u>	<u>1</u>	<u>693</u>
Total troubled debt restructurings	<u>7</u>	<u>4,452</u>	<u>5</u>	<u>3,777</u>
<u>Reposessed assets</u>				
Foreclosed real estate	7	2,011	3	779
Reposessed automobiles	-	-	1	17
Total non-performing assets	<u>7</u>	<u>2,011</u>	<u>4</u>	<u>\$ 796</u>
Total non-performing loans, troubled debt restructurings, and reposessed assets	<u>24</u>	<u>\$ 8,764</u>	<u>31</u>	<u>\$ 10,524</u>
Non-performing loans to total loans		2.62%		6.23%
Non-performing loans and troubled debt restructurings to total loans		7.68%		10.19%
Non-performing assets and troubled debt restructurings to total assets		8.03%		9.07%

## Note 4 – Allowance for Loan Losses

The following table sets forth the activity in our allowance for loan losses for the periods indicated:

	<b>For the Three Months Ended</b>		<b>For the Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(Dollars in thousands)</b>			
Balance at beginning of period.....	\$ 1,227	\$ 1,041	\$ 1,376	\$ 940
Total charge-offs.....	(265)	(452)	(888)	(605)
Total recoveries.....	2	1	104	13
Provision for loan losses.....	<u>87</u>	<u>280</u>	<u>459</u>	<u>522</u>
Balance at end of period.....	<u>\$ 1,051</u>	<u>\$ 870</u>	<u>\$ 1,051</u>	<u>\$ 870</u>

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Ratios:		
Allowance for loan losses to non-performing loans at end of period .....	41.68%	23.12%
Allowance for loan losses to total loans at end of period .....	1.19%	1.44%

#### Note 5 – Loss Per Share

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net loss	\$ (38,000)	\$ (123,000)	\$ (169,000)	\$ (31,000)
Weighted average common shares outstanding	1,897,351	1,892,673	1,896,094	1,891,439
Basic and diluted loss per share	\$ (0.02)	\$ (0.07)	\$ (0.09)	\$ (0.02)

## 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 and special assessments 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 recently enacted banking reform legislation by the U.S. Congress; 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, 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, gain/losses on the sale of securities and other 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 losses and carrying costs, 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, 2010, 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, 2011 and December 31, 2010

**General.** For the nine months ended September 30, 2011, the continued weak local economy has impacted our loan demand and, along with loan repayments, has resulted in a decrease in our loan portfolio. The low interest rate environment has resulted in a decrease in the balance of our certificate of deposit accounts as customers seek higher yields or liquid alternatives. With loan demand weak and investment yields low, we have focused on controlling deposit costs and reducing some of our excess liquidity. During the first nine months of 2011, foreclosure proceedings completed on several properties resulted in an increase in the balance of our repossessed assets, offset by several sales, as we work through the process to resolve our non-performing loans and assets. Our non-

performing loans have decreased during the first nine months of 2011 due to the foreclosure activity with only one new loan added during this period.

**Assets.** Total assets at September 30, 2011 were \$106.7 million compared to \$116.1 million at December 31, 2010, a decrease of \$9.4 million or 8.1%. This decrease was primarily due to the \$7.2 million net decrease in our loan portfolio balance and a \$5.0 million decrease in cash and cash equivalents, due to the decrease in the balance of our certificate of deposit accounts. These decreases were partially offset by the \$1.8 million increase in our securities available for sale and the \$1.2 million increase in the balance of our repossessed assets.

Our net loan portfolio balance decreased to \$86.9 million at September 30, 2011 compared to \$94.1 million at December 31, 2010 primarily due to loan repayments and payoffs and the transfer of \$2.5 million of loans to repossessed assets. The decreases to our loan portfolio included: a \$2.3 million decrease in the balance of our construction loans; a \$1.7 million decrease in our automobile loans; a \$1.3 million decrease in our one- to four-family residential loans; and a \$989,000 decrease in our multi-family residential loans. At the end of the second quarter of 2011 we hired a senior lending officer to develop our commercial business line. Overall, we anticipate our loan portfolio balance will decrease slightly throughout the remainder of 2011 as loan originations remain low due to weak demand.

At September 30, 2011 our allowance for loan losses was \$1.1 million or 1.19% of total loans compared to \$1.4 million or 1.44% of total loans at December 31, 2010. The decrease in the balance of our allowance for loan losses at September 30, 2011 was primarily due to net charge-offs totaling \$888,000 partially offset by our provision for loan losses which totaled \$459,000 and recoveries which totaled \$104,000. Our non-performing loans and troubled debt restructurings totaled \$6.8 million or 7.68% of total loans at September 30, 2011 compared to \$9.7 million or 10.19 % of total loans at December 31, 2010.

Our securities portfolio increased \$1.7 million or 42.50% to \$5.7 million at September 30, 2011 primarily due to the purchase of \$3.0 million of notes issued by U.S. government sponsored entities partially offset by the call of \$1.0 million of such notes and by repayments on mortgage-backed securities. Cash and cash equivalents decreased \$5.0 million to \$9.0 million at September 30, 2011 primarily due to the purchase of securities and the decrease in our deposit accounts.

Our repossessed assets increased \$1.2 million primarily due to increases totaling \$2.5 million including, \$1.4 million of commercial real estate, \$765,000 of single- family residences, \$340,000 of multi-family real estate, and \$47,000 of repossessed automobiles and other assets. These increases were partially offset by sales of other assets which totaled \$1.3 million.

**Liabilities.** Our customer deposits decreased by \$9.7 million or 9.5% to \$92.7 million at September 30, 2011 compared to \$102.4 million at December 31, 2010. Our certificate of deposit accounts decreased \$9.8 million or 14.4% to \$58.3 million at September 30, 2011 as customers moved funds to higher rate or more liquid alternatives. Our non-certificate of deposit accounts increased \$81,000 or 0.2% to \$34.3 million at September 30, 2011 primarily due to an increase in our savings and checking accounts.

**Equity.** Total stockholders' equity at September 30, 2011 was \$13.0 million, a decrease of \$47,000 or 0.4% from December 31, 2010. The decrease resulted primarily from our net loss of \$169,000 for the nine months ended September 30, 2011 partially offset by a \$28,000 increase due to the unrealized gains on available-for-sale securities and an increase of \$94,000 for ESOP and other stock based compensation.

#### Comparison of Operating Results for the Three Months Ended September 30, 2011 and 2010

**General.** For the three months ended September 30, 2011 our net loss was \$38,000 compared to a net loss of \$123,000 for the three months ended September 30, 2010. The decrease in our loss was primarily due to a \$193,000 decrease in our provision for loan losses, partially offset by a decrease of \$98,000 in our non-interest income.

**Interest Income.** Interest income was \$1.2 million for the three months ended September 30, 2011, \$138,000 or 10.5% less than the prior year period. Interest income from loans decreased \$151,000 or 11.7% to \$1.1 million for

the three months ended September 30, 2011 primarily due to a \$12.3 million or 12.4% decrease in the average balance of our loan portfolio to \$86.9 million for the three months ended September 30, 2011 compared to \$99.2 million for the prior year period. The decrease was reflected in all loan categories 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 5.24% for the third quarter of 2011 compared to 5.20% for the prior year period.

Interest income from securities increased \$12,000 to \$35,000 for the three months ended September 30, 2011 compared to the prior year period. The average balance of our securities portfolio increased \$3.3 million to \$7.0 million for the three months ended September 30, 2011 compared to the prior year period primarily due to the purchase of U.S. Government sponsored entity notes which totaled \$5.0 million beginning in the third quarter of 2010, partially offset by the call of a \$1.0 million note and repayments on mortgage-backed securities. The average yield of our securities portfolio for the three months ended September 30, 2011 was 2.04% compared to 2.40% for the prior year period primarily due to the downward repricing of our adjustable rate mortgage-backed securities and the lower yields on the security purchases. The Federal Home Loan Bank of Chicago paid a quarterly dividend during the third quarter of 2011 at an annualized rate of 0.10% compared to no dividend payment the prior year period. The average balance of our Federal Home Loan Bank stock was \$1.3 million for the comparative periods.

**Interest Expense.** Interest expense for the three months ended September 30, 2011 was \$219,000, a decrease of \$134,000 or 38.0% from the prior year period due to the decrease in interest expense on deposits. Interest expense on deposits decreased primarily due to the decrease in the average cost of deposits and the decrease in the average balance of our certificate of deposit accounts. The average cost of our deposits was 0.97% for the three months ended September 30, 2011 compared to 1.44% for the prior year period. The average cost of our certificates of deposit accounts decreased to 1.33% for the third quarter of 2011 compared to 1.82% for the prior year period due to the repricing of maturing certificates at the low market interest rates. The average cost of our demand and money market accounts decreased to 0.36% for the third quarter of 2011 compared to 0.70% in the prior year period due to the general low market interest rates. The average balance of our interest bearing deposits decreased \$7.6 million to \$90.4 million for the third quarter of 2011 compared to the prior year period primarily due to a \$9.7 million decrease in the average balance of our certificate of deposit accounts to \$58.6 million. The average balance of our non-certificate of deposit accounts increased \$2.1 million to \$31.8 million for the third quarter of 2011 compared to \$29.7 million for the prior year period.

**Net Interest Income.** Net interest income for the three months ended September 30, 2011 was \$956,000 compared to \$960,000 for the three months ended September 30, 2010. For the three months ended September 30, 2011, the average yield on interest-earning assets was 4.64% and the average cost of interest-bearing liabilities was 0.97% compared to 4.80% and 1.44%, respectively, for the three months ended September 30, 2010. These changes resulted in an increase in our net interest rate spread to 3.67% and net interest margin to 3.77% for the third quarter of 2011 compared to a net interest rate spread of 3.36% and net interest rate margin of 3.51% for the third quarter of 2010.

**Provision for Loan Losses.** Our provision for loan losses was \$87,000 for the three months ended September 30, 2011 compared to \$280,000 for the three months ended September 30, 2010. Our provision for the three months ended September 30, 2011 was primarily related to commercial business loans. Our provision for the three months ended September 30, 2010 was primarily related to the decrease in value of collateral securing non-performing real estate loans, \$161,000 of which related to a construction loan to build a single-family residence, \$47,000 of which related to two new non-performing loans during the third quarter of 2010, and \$54,000 of which related to a loan secured by commercial real estate.

**Non-interest Income.** For the three months ended September 30, 2011, non-interest income was \$(63,000) compared to \$35,000 for the three months ended September 30, 2010 primarily due to a \$118,000 increase in the loss on the sale of other assets. These losses were partially offset by a \$9,000 increase in fees to originate loans for other institutions and \$13,000 from rent on repossessed real estate.

**Non-interest Expense.** For the three months ended September 30, 2011, non-interest expense totaled \$845,000 compared to \$835,000 for the three months ended September 30, 2010, an increase of 1.2%. Compensation and employee benefit expense increased \$42,000 primarily due to the increase in certain senior officer salaries to pre-May 2009 levels and the addition of a senior lending officer. Our occupancy costs increased \$12,000. Our

repossessed asset costs decreased \$35,000 for the third quarter of 2011 compared to the prior year period primarily due to a \$65,000 write-down on two real estate properties in the third quarter of 2010. FDIC insurance premiums decreased \$25,000 primarily due to changes in the assessment rate. All other expenses increased \$16,000 on a net basis.

**Income Tax (Benefit).** Since the third quarter of 2009, we have maintained a valuation allowance for substantially all of our deferred tax assets. Our review of the deferred tax asset for the three months ended September 30, 2011 resulted in a \$1,000 income tax benefit compared to a \$3,000 income tax provision for the three months ended September 30, 2010.

#### Comparison of Operating Results for the Nine Months Ended September 30, 2011 and 2010

**General.** Our results for the first nine months of 2011 continued to reflect the impact of the weak economy on the real estate market as reflected by our ongoing legal costs for foreclosure proceedings and the losses incurred from the sale of our real estate owned properties. The weak loan demand in our market has hampered our ability to take advantage of our improving net interest margin to further increase our net interest income.

For the nine months ended September 30, 2011, our net loss was \$169,000 compared to a net loss of \$31,000 for the nine months ended September 30, 2010. The increase in loss was primarily due to a \$190,000 increase in non-interest expense and a \$64,000 decrease in our non-interest income, partially offset by a \$63,000 decrease in our provision for loan losses, and a \$45,000 increase in our net interest income.

**Interest Income.** Interest income was \$3.6 million for the nine months ended September 30, 2011, \$449,000 or 11.0% less than the prior year period. Interest income from loans decreased \$475,000 or 11.8% for the nine months ended September 30, 2011 to \$3.5 million primarily due to an \$11.0 million decrease in the average balance of our loan portfolio to \$90.1 million for the nine months ended September 30, 2011 compared to \$101.1 million for the prior year period. The decrease was reflected in all loan categories 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 5.25% for the first nine months of 2011 compared to 5.31% for the prior year period.

Interest income from securities increased \$24,000 to \$92,000 for the nine months ended September 30, 2011 compared to the prior year period. The average balance of our securities portfolio increased \$2.6 million to \$6.2 million for the nine months ended September 30, 2011 compared to the prior year period primarily due to the purchase of \$5.0 million of U.S. Government sponsored entity notes beginning in the third quarter of 2010, partially offset by the call of a \$1.0 million note and repayments on mortgage-backed securities. The average yield of our securities portfolio for the nine months ended September 30, 2011 was 1.99% compared to 2.49% for the prior year period primarily due to the downward repricing of our adjustable rate mortgage-backed securities and the lower yields on the security purchases. In the first quarter of 2011, the Federal Home Loan Bank of Chicago resumed its quarterly dividend payment at an annualized rate of 0.10% compared to no dividend payment the prior year. The average balance of our Federal Home Loan Bank stock was \$1.3 million for the comparative periods.

**Interest Expense.** Interest expense for the nine months ended September 30, 2011 was \$745,000, a decrease of \$494,000 or 40.0% from the prior year period due to the decrease in interest expense on deposits and on our Federal Home Loan Bank advances. Interest expense on deposits decreased \$455,000 primarily due to the decrease in the average cost of deposits and the decrease in the average balance of our certificate of deposit accounts. The average cost of our deposits was 1.06% for the nine months ended September 30, 2011 compared to 1.66% for the prior year period. The average cost of our certificates of deposit accounts decreased to 1.44% for the first nine months of 2011 compared to 2.04% for the prior year period due to the repricing of maturing certificates at the low market rates. The average cost of our demand and money market accounts decreased to 0.36% for the nine months ended September 30, 2011 compared to 0.73% for the prior year period due to the general low market interest rates. The average balance of our interest bearing deposits decreased \$4.3 million to \$94.3 million for the first nine months of 2011 compared to the prior year period primarily due to a \$7.8 million decrease in the average balance of our certificate of deposit accounts to \$62.7 million. The average balance of our non-certificate of deposit accounts increased \$3.5 million to \$31.6 million for the first nine months of 2011 compared to \$28.1 million for the prior year period.

There was no interest expense on advances from the Federal Home Loan Bank of Chicago for the nine months ended September 30, 2011 compared to \$39,000 for the prior year period primarily due to a \$1.3 million decrease in the average balance of our advances due to the repayments in the second quarter of 2010.

**Net Interest Income.** Net interest income for the nine months ended September 30, 2011 increased \$45,000 to \$2.9 million compared to the prior year period. For the nine months ended September 30, 2011, the average yield on interest-earning assets was 4.67% and the average cost of interest-bearing liabilities was 1.06% compared to 4.88% and 1.66%, respectively, for the nine months ended September 30, 2010. These changes resulted in an increase in our net interest rate spread to 3.61% and a net interest margin to 3.72% for the first nine months of 2011 compared to a net interest rate spread of 3.22% and a net interest rate margin of 3.40% for the comparative period in 2010.

**Provision for Loan Losses.** Our provision for loan losses was \$459,000 for the nine months ended September 30, 2011 compared to \$522,000 for the nine months ended September 30, 2010. Our provision for the nine months ended September 30, 2011 included \$137,000 related to our troubled debt restructurings, \$289,000 related to commercial business loans, \$107,000 related to residential loans, and an increase in the loss factors applied to pools of performing loans, partially offset by a \$100,000 recovery from a multi-family property previously charged-off. Our provision for the nine months ended September 30, 2010 reflected the decrease in value of collateral securing non-performing real estate loans, \$161,000 of which related to a construction loan to build a single-family residence; \$121,000 of which related to a loan secured by a multi-family residence; \$54,000 related to a loan secured by commercial real estate; \$47,000 related to two non-performing loans during the third quarter; and the decline in collateral value for other non-performing loans which resulted in an increase in estimated loss factors applied to various performing loan segments of our portfolio.

**Non-interest Income.** For the nine months ended September 30, 2011, non-interest income was \$38,000 compared to \$102,000 for the nine months ended September 30, 2010 primarily due to a \$113,000 increase in the loss on the sale of other assets. These losses were partially offset by a \$34,000 increase in fees to originate loans for other institutions and \$27,000 from rent on repossessed real estate.

**Non-interest Expense.** For the nine months ended September 30, 2011, non-interest expense totaled \$2.7 million compared to \$2.5 million for the nine months ended September 30, 2010, an increase of 7.7%. Our occupancy costs increased \$96,000 primarily due to certain charges for our leased main office which were not anticipated to be recurring in nature. Compensation and employee benefit expense increased \$58,000 primarily due to the increase in certain senior officer salaries to pre-May 2009 levels and the addition of a senior lending officer. Professional fees increased \$46,000 primarily due to a \$96,000 increase in legal fees primarily related to foreclosure activity, partially offset by a \$51,000 decrease in audit related fees due to the deregistration of the Company. For the nine months ended September 30, 2011, professional fees included \$20,000 for legal and advisory fees to assess a potential bid for a financial institution in an FDIC assisted transaction and \$8,000 for fees related to the deregistration of the Company. Professional fees for the period ended September 30, 2010 included \$27,000 for legal and advisory fees related to our bid for a financial institution in an FDIC assisted transaction. Our repossessed asset costs increased \$18,000 in the first nine months of 2011 compared to the prior year period. FDIC insurance premiums decreased \$27,000 primarily due to changes in the assessment rate.

**Income Tax Benefit.** Since the third quarter of 2009, we have maintained a valuation allowance for substantially all of our deferred tax assets. Our review of the deferred tax asset for the nine months ended September 30, 2011 resulted in an \$18,000 income tax benefit compared to a \$10,000 income tax benefit for the nine months ended September 30, 2010.

## 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,					
	2011			2010		
	Average Outstanding Balance	Interest	Yield/Cost	Average Outstanding Balance	Interest	Yield/Cost
	(Dollars in thousands)					
<b>Assets:</b>						
Loans:						
One- to four-family .....	\$ 35,196	\$ 441	5.02%	\$ 37,536	\$ 472	5.03%
Multi-family, commercial real estate, and land .....	28,340	456	6.45	31,165	476	6.12
Construction .....	-	-	-	2,309	32	5.61
Commercial business.....	5,021	70	5.59	6,203	91	5.90
Home equity lines-of-credit.....	15,462	125	3.22	16,678	136	3.27
Automobile and other consumer.....	<u>2,882</u>	<u>45</u>	<u>6.29</u>	<u>5,333</u>	<u>81</u>	<u>6.13</u>
Total loans .....	86,901	1,137	5.24	99,224	1,288	5.20
Securities (1) .....	6,983	35	2.04	3,710	23	2.40
Other interest-earning assets.....	<u>7,547</u>	<u>3</u>	<u>0.09</u>	<u>6,635</u>	<u>2</u>	<u>0.10</u>
Total interest-earning assets .....	101,431	\$ 1,175	4.64	109,569	\$ 1,313	4.80
Non-interest-earning assets .....	<u>5,995</u>			<u>6,005</u>		
Total assets .....	<u>\$ 107,426</u>			<u>\$ 115,574</u>		
<b>Liabilities and stockholders' equity:</b>						
Savings deposits .....	\$ 8,168	\$ 3	0.15	\$ 7,393	\$ 4	0.20
Money market/demand deposits .....	23,613	22	0.36	22,355	39	0.70
Certificates of deposit.....	<u>58,609</u>	<u>194</u>	<u>1.33</u>	<u>68,272</u>	<u>310</u>	<u>1.82</u>
Total deposits .....	90,390	219	0.97	98,020	353	1.44
FHLB advances .....	-	-	-	-	-	-
Total interest-bearing liabilities.....	90,390	<u>219</u>	0.97	98,020	<u>353</u>	1.44
Non-interest-bearing deposits.....	2,486			2,528		
Other liabilities .....	<u>934</u>			<u>820</u>		
Total liabilities.....	93,810			101,368		
Stockholders' equity .....	<u>13,616</u>			<u>14,206</u>		
Total liabilities and stockholders' equity.....	<u>\$ 107,426</u>			<u>\$ 115,574</u>		
Net interest income.....		<u>\$ 956</u>			<u>\$ 960</u>	
Net interest rate spread .....			<u>3.67%</u>			<u>3.36%</u>
Net interest-earning assets .....	<u>\$ 11,041</u>			<u>\$ 11,549</u>		
Net interest margin .....			<u>3.77%</u>			<u>3.51%</u>
Average of interest-earning assets to interest-bearing Liabilities.....			<u>112.21%</u>			<u>111.78%</u>

1 Securities include Federal Home Loan Bank stock with an average balance of \$1.3 million for the three months ended September 30, 2011 and 2010 with an annual yield of 0.10% and 0.00% for the three months ended September 30, 2011 and 2010, respectively.

**Nine Months Ended September 30,**

	2011			2010		
	Average Outstanding Balance	Interest	Yield/Cost	Average Outstanding Balance	Interest	Yield/Cost
(Dollars in thousands)						
<b>Assets:</b>						
Loans:						
One- to four-family .....	\$ 35,695	\$ 1,351	5.05%	\$ 38,196	\$ 1,495	5.22%
Multi-family, commercial real estate, and land .....	29,277	1,395	6.37	31,316	1,450	6.19
Construction .....	350	21	7.84	2,567	117	6.10
Commercial business.....	5,421	234	5.78	6,300	279	5.92
Home equity lines-of-credit.....	15,939	384	3.22	16,635	399	3.21
Automobile and other consumer.....	<u>3,445</u>	<u>160</u>	<u>6.23</u>	<u>6,111</u>	<u>280</u>	<u>6.14</u>
Total loans .....	90,127	3,545	5.25	101,125	4,020	5.31
Securities (1) .....	6,210	92	1.99	3,627	68	2.49
Other interest-earning assets.....	<u>7,772</u>	<u>7</u>	<u>0.10</u>	<u>7,198</u>	<u>5</u>	<u>0.09</u>
Total interest-earning assets .....	104,109	\$ 3,644	4.67	111,950	\$ 4,093	4.88
Non-interest-earning assets .....	<u>6,660</u>			<u>5,230</u>		
Total assets .....	<u>\$ 110,769</u>			<u>\$ 117,180</u>		
<b>Liabilities and stockholders' equity:</b>						
Savings deposits .....	\$ 8,007	\$ 9	0.15	\$ 7,313	\$ 11	0.20
Money market/demand deposits .....	23,612	64	0.36	20,819	113	0.73
Certificates of deposit.....	<u>62,652</u>	<u>672</u>	<u>1.44</u>	<u>70,455</u>	<u>1,076</u>	<u>2.04</u>
Total deposits .....	94,271	745	1.06	98,587	1,200	1.63
FHLB advances .....	-	-	-	<u>1,319</u>	<u>39</u>	<u>3.93</u>
Total interest-bearing liabilities.....	94,271	<u>745</u>	1.06	99,906	<u>1,239</u>	1.66
Non-interest-bearing deposits.....	2,517			2,422		
Other liabilities .....	<u>762</u>			<u>757</u>		
Total liabilities.....	97,550			103,085		
Stockholders' equity .....	<u>13,219</u>			<u>14,095</u>		
Total liabilities and stockholders' equity.....	<u>\$ 110,769</u>			<u>\$ 117,180</u>		
Net interest income.....		<u>\$ 2,899</u>			<u>\$ 2,854</u>	
Net interest rate spread .....			<u>3.61%</u>			<u>3.22%</u>
Net interest-earning assets .....	<u>\$ 9,838</u>			<u>\$ 12,044</u>		
Net interest margin .....			<u>3.72%</u>			<u>3.40%</u>
Average of interest-earning assets to interest-bearing liabilities.....			<u>110.44%</u>			<u>112.06%</u>

1 Securities include Federal Home Loan Bank stock with an average balance of \$1.3 million for the nine months ended September 30, 2011 and 2010 with an annual yield of 0.10% and 0.00% for the nine months ended September 30, 2011 and 2010, 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, 2011 vs. 2010			Nine Months Ended September 30, 2011 vs. 2010		
	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.....	\$ (30)	\$ (1)	\$ (31)	\$ (96)	\$ (48)	\$ (144)
Multi-family, commercial real estate, and land .....	(45)	25	(20)	(96)	41	(55)
Construction .....	(32)	-	(32)	(123)	27	(96)
Commercial business.....	(17)	(4)	(21)	(38)	(7)	(45)
Home equity lines-of- credit.....	(9)	(2)	(11)	(17)	2	(15)
Automobile and other consumer .....	<u>(38)</u>	<u>2</u>	<u>(36)</u>	<u>(124)</u>	<u>4</u>	<u>(120)</u>
Total loans .....	(171)	20	(151)	(494)	19	(475)
Securities .....	17	(5)	12	40	(16)	24
Other interest-earning assets.....	<u>1</u>	<u>-</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>2</u>
Total interest-earning assets .....	<u>(153)</u>	<u>15</u>	<u>(138)</u>	<u>(453)</u>	<u>4</u>	<u>(449)</u>
<b>Interest-bearing liabilities:</b>						
Savings deposits.....	-	(1)	(1)	1	(3)	(2)
Money market/demand accounts .....	2	(19)	(17)	14	(63)	(49)
Certificates of deposit .....	<u>(40)</u>	<u>(76)</u>	<u>(16)</u>	<u>(111)</u>	<u>(293)</u>	<u>(404)</u>
Total deposits.....	(38)	(96)	(134)	(96)	(359)	(455)
FHLB Advances .....	<u>-</u>	<u>-</u>	<u>-</u>	<u>(39)</u>	<u>-</u>	<u>(39)</u>
Total interest-bearing Liabilities .....	<u>(38)</u>	<u>(96)</u>	<u>(134)</u>	<u>(135)</u>	<u>(359)</u>	<u>(494)</u>
Change in net interest income.....	<u>\$ (115)</u>	<u>\$ 111</u>	<u>\$ (4)</u>	<u>\$ (318)</u>	<u>\$ 363</u>	<u>\$ 45</u>