Ben Franklin Financial, Inc.

2018 Annual Report

Ben Franklin Financial, Inc.
Annual Report
For the Year Ended
December 31, 2018

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Business

Forward-Looking Statements

This Annual Report contains forward-looking statements, which can be identified by the use of words such as "estimate," "project," "believe," "intend," "anticipate," "plan," "seek," "expect" and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic, regulatory and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- our ability to execute on our business strategy to increase our origination of loans;
- our ability to comply with our formal agreement entered into by Ben Franklin Bank of Illinois with the Office of the Comptroller of the Currency ("OCC"), as well as the individual minimum capital requirements imposed on us by the OCC;
- general economic conditions, either nationally or in our market areas, that are worse than expected, and our ability to manage operations in such economic conditions;
- changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses;
- fluctuations in real estate values and both residential and commercial real estate market conditions;
- demand for loans and deposits in our market area;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins and yields or reduce the fair value of financial instruments or reduce the origination levels in our lending business, or increase the level of defaults, losses and prepayments on loans we have made and make whether held in portfolio or sold in the secondary markets;
- adverse changes in the securities or secondary mortgage markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- the continuing impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the implementing regulations;
- our ability to manage market risk, credit risk and operational risk in the current economic conditions;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate any assets, liabilities, customers, systems and management personnel we have acquired or may acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto;

- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- changes in our organization, compensation and benefit plans;
- changes in the level of government support for housing finance;
- significant increases in our loan losses; and
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own.

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

Ben Franklin Financial, Inc.

Ben Franklin Financial, Inc., a Maryland corporation ("Ben Franklin Financial" or the "Company") was organized in September 2014. Upon completion of the mutual-to-stock conversion of Ben Franklin Financial, MHC in January 2015, Ben Franklin Financial became the holding company of Ben Franklin Bank of Illinois ("Ben Franklin Bank") and succeeded to all of the business and operations of Ben Franklin Financial, Inc., a Federal Corporation ("Ben Franklin-Federal") and each of Ben Franklin-Federal and Ben Franklin Financial, MHC ceased to exist. Since the completion of the mutual-to-stock conversion, the Company has not engaged in any significant business activity other than owning the common stock of and having deposits in the Bank. Our executive offices are located at 830 East Kensington Road, Arlington Heights, Illinois 60004, and our telephone number at that address is (847) 398-0990. Our Internet address is www.benfrankbank.com. Information on this website is not and should not be considered to be a part of this document.

Ben Franklin Bank of Illinois

Ben Franklin Bank of Illinois is a federally-chartered savings bank headquartered in Arlington Heights, Illinois. Ben Franklin Bank was originally founded in 1893 as a building and loan association.

Our principal business consists of attracting retail deposits from the general public in our market and investing those deposits, together with funds generated from operations, in one- to four-family residential mortgage loans, commercial real estate loans, multi-family real estate loans, home equity lines of credit and, to a much lesser extent, commercial business loans, construction loans, and consumer loans. We also invest in U.S. government sponsored entity mortgage-backed securities and other securities issued by U.S. government sponsored entities. Our revenues are derived principally from the interest on loans and securities, fees for loan origination services, loan fees, and fees levied on deposit accounts. Our primary sources of funds are deposits and principal and interest payments on loans and securities and to a lesser extent advances from the Federal Home Loan Bank.

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. Ben Franklin Bank's executive offices are located at 830 East Kensington Road, Arlington Heights, Illinois 60004, and our telephone number at that address is (847) 398-0990. Our Internet address is www.benfrankbank.com. Information on this website is not and should not be considered to be a part of this annual report.

Market Area

We conduct business through our main office located at 830 East Kensington Road, Arlington Heights, Illinois and our branch office located at 3266 Kirchoff Road, Rolling Meadows, Illinois.

Our offices are located in relatively affluent suburban communities located approximately 15 miles to the northwest of Chicago, Illinois, which is located in Cook County, Illinois. We believe that Arlington Heights and, to a lesser extent, Rolling Meadows may be classified as "mature" suburbs and that more rapid growth is occurring in the counties immediately surrounding Chicago.

Competition

We face intense competition within our market area both in making loans and attracting deposits. The Chicago metropolitan area has a high concentration of financial institutions, including large money center and regional banks, community banks and credit unions, all of which are our competitors to varying degrees. Most of our competitors are significantly larger institutions with greater financial resources than we have, and many offer products and services that we do not or cannot provide.

Our competition for loans and deposits comes principally from commercial banks, savings institutions, mortgage banking firms and credit unions. We face additional competition for deposits from short-term money market funds, brokerage firms, mutual funds and insurance companies. Our deposit sources are primarily concentrated in the communities surrounding our banking offices located in Arlington Heights and Rolling Meadows in Cook County, Illinois. As of June 30, 2018, the latest date for which FDIC data is available, we had approximately 1.69% of market share in Arlington Heights. As of that same date we had approximately 2.83% of market share in Rolling Meadows. Our market share in Cook County overall was 0.03%.

Management's Discussion and Analysis of Financial Condition and Results of Operation

Selected Financial Data

The following tables set forth selected consolidated historical financial and other data of the Company and subsidiaries for the years and at the dates indicated. The following information is only a summary, and should be read in conjunction with the business and financial information contained elsewhere in this annual report.

	At December 31, 2018	At December 31, 2017
	(In thousands)	
Selected Financial Condition Data:		
Total assets	$ 94,266	$ 101,166
Cash and cash equivalents	11,504	17,967
Loans receivable, net	74,535	74,910
Certificates of deposit in other financial institutions	-	245
Securities available for sale at fair value	5,559	5,691
Federal Home Loan Bank stock	212	188
Total deposits	74,896	88,824
Federal Home Loan Bank advances	7,000	4,000
Total equity	11,274	7,332

	For the Year Ended December 31, 2018	For the Year Ended December 31, 2017
	(In thousands)	
Selected Operating		
Interest income	$ 4,278	$ 3,766
Interest expense	718	566
Net interest income	3,560	3,200
Provision for loan losses	(98)	70
Net interest income after provision for loan losses	3,658	3,130
Non-interest income	86	109
Non-interest expense	4,050	4,291
Loss before income taxes	(306)	(1,052)
Income tax provision	-	(43)
Net loss	$ (306)	$ (1,009)

Selected Financial Ratios and Other Data:	At or For the Year Ended December 31, 2018	2017
Performance Ratios (1):		
Return on assets (ratio of net loss to average total assets)	(0.31)%	(1.08)%
Return on equity (ratio of net loss to average equity)	(2.90)%	(13.04)%
Interest rate spread (2)	3.65%	3.45%
Net interest margin (3)	3.78%	3.53%
Efficiency ratio (4)	111.08%	129.01%
Non-interest expense to average total assets	4.16%	4.58%
Average interest-earning assets to average interest-bearing liabilities	117.34%	113.24%
Loans to deposits	100.68%	85.41%
Average equity to average total assets	10.81%	8.26%
Asset Quality Ratios:		
Non-performing loans to gross loans	0.00%	0.71%
Non-performing assets to total assets	1.34%	1.29%
Allowance for loan losses to non-performing loans	3,110.71%	162.52%
Allowance for loan losses to total loans	1.16%	1.26%
Net (recoveries) charge-offs to average gross loans	(0.02)%	0.03%
Capital Ratios:		
Equity to total assets at end of period	11.96%	7.25%
Total capital (to risk-weighted assets) (5)	16.76%	11.06%
Common equity Tier I capital (to risk-weighted assets) (5)	15.51%	9.81%
Tier I capital (to risk-weighted assets) (5)	15.51%	9.81%
Tier I capital (to total adjusted assets) (5)	11.17%	6.59%
Other Data:		
Number of full service banking offices	2	2
Full-time equivalent employees	26	26

(1) All ratios are expressed as percentages.
(2) The interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities for the period.
(3) The net interest margin represents net interest income as a percent of average interest-earning assets for the period.
(4) The efficiency ratio represents noninterest expense divided by the sum of net interest income and noninterest income excluding net gains (losses) on the sale of other assets.
(5) Capital ratios are for Ben Franklin Bank only.

Business Strategy

Our principal objective is to build long-term value for our stockholders by operating a community-oriented financial institution. We understand the financial needs of our local customers and we offer a broad range of financial products and services specifically designed to meet those needs. To further this key strategy, we seek opportunities to deepen our existing customer relationships and to establish our brand in areas of the community where we are not yet well recognized. Our board of directors has also recently amended our strategic plan. Our primary objective is to increase our net interest income by growing our loan portfolio through a combination of our origination efforts and through the acquisition of loan pools from other sources.

Our strategic plan to increase income includes growing our loan portfolio through a combination of our internal origination efforts and participations in loans with other financial institutions. We believe we must continue to increase our level of higher interest earning assets to become profitable. Beginning in the fourth quarter of 2016, we have been able to generate loan growth needed to increase our interest income. However, during 2018 we were not able to continue that growth due to our focus on liquidity related to our Consent Order with the OCC that was terminated in February 2019 and is further discussed below. While under the Consent Order, we are unable to renew or rollover existing deposits that exceed 75 basis points above the national deposit rate published by the FDIC (the rate "Threshold"), as well as accept new deposits at interest rates that are above the Threshold. This impacted our ability to retain deposits during 2018 and attain our growth objectives.

During 2017, the board of directors engaged an outside investment banking firm to develop strategies that would enable the Bank to comply with the capital requirements of the Consent Order with the Office of the Comptroller of the Currency. Based on the options available, the board of directors determined that a capital raise through a private offering was

the best alternative to meet the Company's strategic plan. On January 31, 2018, the Company entered into securities purchase agreements with various purchasers under which it issued and sold a total of 600,000 shares of its common stock. The offering resulted in gross proceeds of $4.5 million, and commissions and other costs associated with the offering totaling $366,000. The board of directors realize that it will take a significant amount of time for us to accomplish our growth objective consistent with the successful implementation of our strategic plan. The Company deregistered with the SEC in January 2018, which reduced our operating costs beginning in 2018.

On February 5, 2019 the OCC terminated the Consent Order and entered into a formal agreement with the Bank. With the termination of the Consent Order, the Bank is no longer under the rate Threshold. With the termination of the Consent Order, we also agreed to an individual minimum capital requirement imposed by the OCC.

Based on the above, we do not anticipate net income until we experience significant growth in our earning assets base pursuant to our business plan. There can be no assurances, however, that we will successfully execute on our business plan and be able to return to profitability in the timeframe we expect or at all. If we are unable to successfully implement our strategic plan, we may explore other options, including the merger or sale of the Company.

Comparison of Financial Condition at December 31, 2018 and December 31, 2017

Assets. Total assets at December 31, 2018 were $94.3 million compared to $101.2 million at December 31, 2017, a decrease of $6.9 million or 6.8%. This decrease was primarily due to the $6.5 million decrease in our cash and cash equivalents balance and the $375,000 decrease in our loan portfolio balance, partially offset by the $525,000 increase in the balance of our repossessed assets.

At December 31, 2018 our loan portfolio balance was $74.5 million compared to $74.9 million at December 31, 2017. The decrease was due to the $803,000 decrease in our construction loan balance, the $632,000 decrease in our one-to-four family residential loan balance, and the $297,000 decrease in our home equity line-of-credit balance, partially offset by the $704,000 increase in our commercial real estate loan balance, the $336,000 increase in our multi-family loan balance, and the $246,000 increase in commercial business loan balance. Our loan origination decreased during 2018 compared to the prior year primarily due to the need to manage our liquidity.

At December 31, 2018 our allowance for loan losses was $871,000 or 1.16% of total loans compared to the $954,000 or 1.26% of total loans at December 31, 2017. Our allowance reflected a $98,000 credit for loan losses and recoveries of $15,000 for the year. The decrease in our allowance as a percentage of total loans is due to the improving credit quality of our loan portfolio and improving economic conditions in our local market which has been reflected in the decrease in our historical losses. Our loans classified as substandard or doubtful decreased to $28,000 or 0.04% of total loans at December 31, 2018 compared to $587,000 or 0.8% of total loans at December 31, 2017 primarily due to the transfer of a loan to other repossessed assets. Our loans classified as troubled debt restructurings ("TDRs") totaled $516,000 at December 31, 2018 of which $488,000 were accruing compared to $1.2 million of TDRs at December 31, 2017 of which $1.2 million were accruing. The decrease in our TDRs was primarily due to the payoff of one loan with a balance of $678,000 and regular payments.

Our securities portfolio decreased $132,000 or 2.3% to $5.6 million at December 31, 2018 primarily due to the repayments on a mortgage-backed security. Our cash and cash equivalents decreased $6.5 million or 36.0% to $11.5 million at December 31, 2018 primarily due to the decrease in our customer deposits.

Our repossessed assets increased $525,000 for the twelve months ended December 31, 2018, primarily due to the transfer to repossessed assets of a commercial real estate property totaling $590,000, partially offset by write downs totaling $65,000. At December 31, 2018, our repossessed assets consisted of a residential property with a recorded value of $664,000 and a commercial real estate property with a recorded value of $575,000.

Liabilities. Our total liabilities decreased $10.8 million or 11.6% to $83.0 million at December 31, 2018 primarily due to the $13.9 million decrease in our deposit balance, partially offset by the $3.0 million increase in our Federal Home Loan Bank advance balance. Our certificates of deposit balance decreased $13.5 million or 26.5% to $37.5 million at December 31, 2018 compared to $51.0 million at December 31, 2017. The decrease was primarily due to the Threshold on rates that we could offer which was 75 basis point above the national rate published by the FDIC due to the Consent Order. During 2018, the Threshold rates were lower than rates available in our market area. The balance of our Federal Home Loan Bank of Chicago advances increased $3.0 million to $7.0 million at December 31, 2018. The advance at the end of December was to meet anticipated liquidity needs.

Stockholders' Equity. Total stockholders' equity at December 31, 2018 was $11.3 million, an increase of $3.9 million or 53.8% from December 31, 2017. The increase was primarily due to the $4.1 million of net proceeds from the sale of 600,000 shares of our common stock in a private placement which closed on January 31, 2018, partially offset by the $306,000 loss for the year ended December 31, 2018.

Comparison of Operating Results for the Years ended December 31, 2018 and December 31, 2017

General. For the year ended December 31, 2018 our net loss was $306,000 compared to a net loss of $1.0 million for the year ended December 31, 2017. The improvement in our results of operations was primarily due to the increase in our net interest income, the credit for loan losses, and decrease in non-interest expense.

Interest Income. Interest income was $4.3 million for the year ended December 31, 2018, $512,000 or 13.6% higher than in 2017. Interest income from loans increased $430,000 or 12.2% to $4.0 million for the year ended December 31, 2018. The increase in interest income from loans was primarily due to the 35 basis point increase in the yield of our loan portfolio to 5.27% for the year ended December 31, 2018 and the $3.4 million increase in the average balance of our loan portfolio to $75.3 million for the year ended December 31, 2018. The increase in the yield on our portfolio was primarily due to interest recognized from early loan payoffs, recovery of interest from a foreclosed property transfer to repossessed assets, and the increase in market rates for commercial real estate loans that we closed during 2018.

Interest income from securities was $85,000 for the year ended December 31, 2018 compared to $106,000 the prior year. The average balance of our securities portfolio decreased $1.2 million to $5.8 million for the year ended December 31, 2018 compared to the prior year period. This decrease was primarily due to the sale of government sponsored entities notes during 2017 and payments on a mortgage-backed security. The average yield on securities for the year ended December 31, 2018 was 1.47% compared to 1.51% for the prior year period. Interest income from interest earning deposits increased to $227,000 for the year ended December 31, 2018 compared to $124,000 for the prior year period. The average balance of our interest earning deposits increased $1.4 million to $13.0 million for the year ended December 31, 2018 compared to 2017. The yield on our interest earning deposits was 1.74% for the year ended December 31, 2018 compared to 1.07% during 2017 due to the increase in market rates during the year as the Federal Open Market Committee ("FOMC") of the Federal Reserve increased the short term federal funds rate 100 basis points during 2018 and 75 basis point during 2017.

Interest Expense. Interest expense for the year ended December 31, 2018 was $718,000, an increase of $152,000 or 26.9% from 2017. This increase was primarily due to the increase in interest expense on deposits. The average balance of our interest bearing deposits for 2018 decreased $851,000 primarily due to the $1.1 million decrease in the average balance of our money market accounts to $9.7 million. The average cost of deposits increased to 0.85% for the year ended December 31, 2018 compared to 0.67% for 2017 primarily due to the increase in the cost of our certificates of deposit to 1.32% for the year ended December 31, 2018 compared to 1.07% the prior year period as these rates have been impacted by the actions of the FOMC as they have increased the short term federal funds interest rates over the past two years. Our interest expense from Federal Home Loan Bank borrowings increased by $20,000 as the average balance of our advances increased $1.1 million.

Net Interest Income. Net interest income for the year ended December 31, 2018 was $3.6 million compared to $3.2 million for the year ended December 31, 2017, an increase of $360,000 or 11.3%. For the year ended December 31, 2018, the average yield on interest-earning assets was 4.54% and the average cost of interest-bearing liabilities was 0.89% compared to 4.16% and 0.71%, respectively, for the year ended December 31, 2017. The increase in the average yield of our interest earning assets was primarily due to the increase in the interest income of our loan portfolio and the increase in the yield of our interest earning deposits. These changes resulted in increases in our net interest rate spread and net interest margin to 3.65% and 3.78%, respectively, for the year ended December 31, 2018 compared to a net interest rate spread of 3.45% and net interest margin of 3.53% for 2017.

Provision for Loan Losses. Our credit for loan losses was $98,000 for the year ended December 31, 2018 compared to a provision of $70,000 for the year ended December 31, 2017. The credit for 2018 was primarily due to the decrease in our historical losses resulting from the improving credit quality of our portfolio. Our provision for 2017 was primarily due to the increase in the balance of our loan portfolio.

Non-interest Income. For the year ended December 31, 2018, non-interest income was $86,000 compared to $109,000 for the year ended December 31, 2017. The decrease was primarily due to a $15,000 decrease in fees for originating loans for other financial institutions, a $13,000 decrease in income from other repossessed assets, and a $10,000 decrease in service fees. In addition, there were no gains or losses from the sale of repossessed assets for the year ended December 31, 2018 compared to the $17,000 loss in the prior year.

Non-interest Expense. For the year ended December 31, 2018, our non-interest expense totaled $4.1 million compared to $4.3 million for the year ended December 31, 2017, a decrease of $241,000 or 5.6%. Professional fees decreased $135,000 primarily due to the $66,000 decrease in legal fees and the $57,000 decrease in audit fees due to our deregistration from the SEC. Our other costs decreased $79,000 primarily due to the $63,000 decrease in problem assets costs. Our compensation and employee benefit costs decreased $31,000. Our repossessed asset expense increased $10,000 primarily due to $65,000 of partial write-downs for two real estate properties during 2018, partially offset by $55,000 of lower operating costs for foreclosed properties.

Income Tax. We recorded immaterial amounts for income taxes for the year ended December 31, 2018 and 2017. During December 2018, the Tax Cuts and Jobs Act was signed into law, which reduces the Company's federal tax rate from 34% to 21% effective in 2018. The Company was required to analyze, its deferred tax assets and liabilities using the enacted tax rate, the rate that deferred taxes are expected to be recovered or settled. Because the Company has a valuation allowance on its net deferred tax assets, a corresponding adjustment was made to the valuation allowance.

Average Balances and Yields

The following table sets forth average balance sheets, average yields and costs, and certain other information for the years indicated. No tax-equivalent yield adjustments were made, as we had non-taxable interest-earning assets during the years presented. All average balances are daily average balances. Nonaccrual loans were included in the computation of average balances, but have been reflected in the tables as loans carrying a zero yield. The yields set forth below include the effect of deferred loan fees, discounts and premiums that are amortized or accreted to interest income or interest expense.

	For the Years Ended December 31,					
	2018			2017		
	Average Outstanding Balance	Interest	Yield/ Cost	Average Outstanding Balance	Interest	Yield/ Cost
	(Dollars in thousands)					
Interest-earning assets:						
Loans	$ 75,318	$ 3,966	5.27%	$ 71,904	$ 3,536	4.92%
Available-for-sale securities	5,801	85	1.47%	7,030	106	1.51%
Other interest-earning assets (1)	13,031	227	1.74%	11,605	124	1.07%
Total interest-earning assets	94,150	4,278	4.54%	90,539	3,766	4.16%
Noninterest-earning assets	3,310			3,123		
Total assets	$ 97,460			$ 93,662		
Interest-bearing liabilities:						
Demand deposit accounts	$ 8,979	5	0.05%	$ 9,228	5	0.06%
Money market accounts	9,742	36	0.37%	10,803	16	0.15%
Savings accounts	13,033	20	0.15%	12,816	19	0.15%
Certificates of deposit	44,442	585	1.32%	44,199	474	1.07%
Total interest-bearing deposits	76,196	646	0.85%	77,046	514	0.67%
Federal Home Loan Bank advances	4,041	72	1.79%	2,904	52	1.79%
Total interest-bearing liabilities	80,237	718	0.89%	79,950	566	0.71%
Noninterest-bearing demand deposits	5,291			5,123		
Other liabilities	1,393			854		
Total liabilities	86,921			85,927		
Stockholders' equity	10,539			7,735		
Total liabilities and stockholders' equity	$ 97,460			$ 93,662		
Net interest income		$ 3,560			$ 3,200	
Net interest rate spread (2)			3.65%			3.45%
Net interest-earning assets (3)	$ 13,913			$ 10,589		
Net interest margin (4)			3.78%			3.53.%
Average interest-earning assets to interest-bearing liabilities	117.34%			113.24%		

(1) Consists of stock in the FHLB of Chicago, certificates of deposit in other financial institutions, and cash equivalents.
(2) Net interest spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
(3) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.
(4) Net interest margin represents net interest income divided by average total interest-earning assets.

Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The total column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated to the changes due to volume and the changes due to rate in proportion to the relationship of the absolute dollar amounts of change in each.

	For the Years Ended December 31, 2018 vs. 2017		
	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate	
		(In thousands)	
Interest-earning assets:			
Loans	$ 165	$ 265	$ 430
Investment securities	(18)	(3)	(21)
Other interest-earning assets	17	86	103
Total interest-earning assets	164	348	512
Interest-bearing liabilities:			
Demand deposit accounts	—	—	—
Money market accounts	(1)	21	20
Savings accounts	1	—	1
Certificates of deposit	3	108	111
Total interest-bearing deposits	3	129	132
Federal Home Loan Bank advances	20	—	20
Total interest bearing liabilities	23	129	152
Change in net interest income	$ 141	$ 219	$ 360

Origination, Sales and Purchases of Loans

The following table sets forth our loan origination, purchase, sale and principal repayment activity during the periods indicated.

	Years Ended December 31, 2018	Years Ended December 31, 2017
	(In thousands)	
Total loans, including loans held for sale, at beginning of period	$ 74,910	$ 62,348
Loans originated:		
Real estate loans:		
One- to four-family residential	$ 3,164	$ 7,824
Multi-family	2,130	3,852
Commercial	5,651	6,342
Construction	421	1,598
Total loans originated	11,366	19,616
Loans and participations purchased:		
Real estate loans:		
One- to four-family residential	$ 1,201	$ 3,948
Multi-family	562	—
Commercial	312	1,492
Commercial business loans	256	680
Construction	1,029	988
Total loans purchased	3,360	7,108
Add (Deduct):		
Principal repayments	$ (14,353)	$ (13,525)
Home equity lines of credit, net	(297)	397
Credit (provision) for loan losses	98	(70)
Transfer from loan to repossessed assets	(590)	(965)
Net other	41	1
Net loan activity	(375)	12,562
Total loans receivable, net, including loans held for sale, at end of period	$ 74,535	$ 74,910

Asset Quality

The following table sets forth the amounts and categories of our nonperforming assets at the dates indicated.

	At December 31	
	2018	2017
	(In thousands)	
Non-accrual loans (excluding troubled debt restructurings):		
Real estate loans:		
One- to four-family residential	$ —	$ —
Multi-family	—	—
Commercial	—	542
Land	—	—
Construction	—	—
Home equity lines of credit	—	—
Commercial business loans	—	—
Automobile loans	—	—
Other consumer loans	—	—
Total non-accrual loans	—	542
Loans 90 days or more past due and still accruing:		
Real estate loans:		
One- to four-family residential	—	—
Multi-family	—	—
Commercial	—	—
Land	—	—
Construction	—	—
Home equity lines of credit	—	—
Commercial business loans	—	—
Automobile loans	—	—
Other consumer loans	—	—
Total loans 90 days or more past due and still accruing	—	—
Non-accruing troubled debt restructurings:		
Real estate loans:		
One- to four-family residential	28	45
Multi-family	—	—
Commercial	—	—
Land	—	—
Construction	—	—
Home equity lines of credit	—	—
Commercial business loans	—	—
Automobile loans	—	—
Other consumer loans	—	—
Total non-accruing troubled debt restructured loans	28	45
Total non-performing loans	28	587
Repossessed Assets:		
Real estate loans:		
One- to four-family residential	664	714
Multi-family	—	—
Commercial	575	—
Land	—	—
Construction	—	—
Home equity lines of credit	—	—
Commercial business loans	—	—
Automobile loans	—	—
Other consumer loans	—	—
Total foreclosed assets	1,239	714
Total non-performing assets	$ 1,267	$ 1,301
Total accruing troubled debt restructured loans	$ 489	$ 1,188
Ratios:		
Non-performing loans and non-performing troubled-debt-restructurings to gross loans	0.04 %	0.77%
Non-performing assets to total assets	1.34 %	1.29%
Non-performing assets and accruing troubled debt restructurings to total assets	1.86 %	2.46%

Management of Market Risk

Our asset/liability management strategy attempts to manage the impact on net interest income, our primary source of earnings, of changes in interest rates. An important measure of interest rate risk is the amount by which the net present value of an institution's cash flow from assets, liabilities and off balance sheet items (the institution's net portfolio value or "NPV") changes in the event of a range of assumed changes in market interest rates. We have utilized an internal model to provide an analysis of estimated changes in our NPV under the assumed instantaneous changes in the United States Treasury yield curve. This financial model uses a discounted cash flow analysis for measuring the interest rate sensitivity of the NPV. Set forth below is an analysis of the estimated changes that would occur to our NPV as of December 31, 2018 in the event of designated changes in the United States Treasury yield curve.

At December 31, 2018					
		Estimated Increase (Decrease) in NPV		NPV as Percentage of Present Value of Assets [3]	
Changes in Interest Rates (basis points)[1]	Estimated NPV [2]	Amount	Percent	NPV Ratio[4]	Changes in Basis Points
		(Dollars in thousands)			
+300	$ 10,057	$ (918)	(8)%	11.55%	(0.26)%
+200	10,452	(523)	(5)	11.75	(0.06)
+100	10,822	(153)	(1)	11.89	0.08
0	10,975	—	—	11.81	—
-100	10,517	(458)	(4)	11.15	(0.66)
-200	11,276	301	3	11.74	(0.07)

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

Management also uses an internal model to forecast the impact of changes in market interest rates on the Bank's net interest income over a twelve month time horizon. Set forth below is an analysis of the estimated changes that would occur to our net interest income for the twelve months ended December 31, 2018 in the event of designated changes in the United States Treasury yield curve.

For the Twelve Months Ended December 31, 2018			
		Estimated Increase (Decrease) in Net Interest Income	
Changes in Interest Rates (basis points)[1]	Estimated Net Interest Income	Amount	Percent
	(Dollars in thousands)		
+300	$ 3,454	$ 158	5%
+200	3,418	122	4
+100	3,379	83	3
0	3,296	—	—
-100	3,236	(60)	(2)
-200	3,193	(103)	(3)

(1) Assumes an instantaneous uniform change in interest rates at all maturities.

Certain shortcomings are inherent in the methodology used in both of the interest rate risk measurement models above. Modeling changes in net portfolio value or net interest income requires making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the net portfolio value and net interest income tables presented above assume that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the net portfolio value and net interest income tables provide an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net portfolio value or net interest income, and the changes shown in the tables above will differ from actual results.

Market Price

The following table presents the high and low bid quotations for Company's common stock for the years ended December 31, 2018 and 2017. The stated high and low bid quotations reflect inter-dealer prices, without retail markup, markdown or commission, and may not represent actual transactions. We have never paid a dividend on our common stock.

	Bid Price Per Share	
	High	**Low**
Year Ending December 31, 2018		
Fourth quarter	$ 10.45	$ 9.14
Third quarter	9.50	8.25
Second quarter	8.39	7.65
First quarter	8.95	6.50
Year Ended December 31, 2017		
Fourth quarter	$ 11.50	$ 9.25
Third quarter	11.75	9.90
Second quarter	12.19	11.11
First quarter	11.75	10.70

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Ben Franklin Financial, Inc., which comprise the consolidated statements of financial condition as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ben Franklin Financial, Inc. as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe LLP

Crowe LLP

Oak Brook, Illinois

March 22, 2019

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

	December 31,	
	2018	2017
ASSETS		
Cash and due from banks	$ 893	$ 924
Interest-earning deposit accounts and federal funds sold	10,611	17,043
Cash and cash equivalents	11,504	17,967
Certificates of deposit in other financial institutions	-	245
Securities available-for-sale at fair value	5,559	5,691
Loans receivable, net (allowance for loan losses: 2018 - $871; 2017 - $954	74,535	74,910
Federal Home Loan Bank stock	212	188
Premises and equipment, net	856	1,019
Repossessed assets, net	1,239	714
Accrued interest receivable	225	236
Other assets	136	196
Total assets	$ 94,266	$ 101,166
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Non-interest-bearing	$ 5,337	$ 5,308
Interest bearing	69,559	83,516
Total deposits	74,896	88,824
Federal Home loan Bank advances	7,000	4,000
Advances from borrowers for taxes and insurance	726	641
Other liabilities	370	369
Total liabilities	82,992	93,834
Stockholders' equity		
Preferred stock, no par value; 1,000,000 authorized shares; no shares issued and outstanding 2018 and 2017	—	—
Common stock, par value $0.01 per share; authorized 30,000,000 shares; issued and outstanding, net of treasury shares – 1,307,195 shares at December 31, 2018 and 709,726 shares December 31, 2017	13	7
Additional paid-in-capital	14,481	10,317
Retained deficit	(2,752)	(2,446)
Unearned Employee Stock Ownership Plan (ESOP) shares	(371)	(435)
Accumulated other comprehensive loss	(97)	(111)
Total equity	11,274	7,332
Total liabilities and stockholders' equity	$ 94,266	$ 101,166

See accompanying notes to financial statements

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

	Year Ended December 31,	
	2018	2017
Interest income		
Loans	$ 3,966	$ 3,536
Securities	85	106
Federal funds sold and interest-earning deposit accounts	227	124
	4,278	3,766
Interest expense		
Deposits	646	514
Federal Home Loan Bank advances	72	52
	718	566
Net interest income	3,560	3,200
Provision (credit) for loan losses	(98)	70
Net interest income after provision (credit) for loan losses	3,658	3,130
Non-interest income		
Service fees	51	62
Gain (loss) on sale of repossessed assets, net	-	(17)
Other	35	64
	86	109
Non-interest expense		
Compensation and employee benefits	2,002	2,033
Occupancy and equipment	690	702
Data processing	301	295
Professional fees	407	542
FDIC insurance premiums	143	143
Repossessed assets expense, net	112	102
Other	395	474
	4,050	4,291
Loss before income taxes	(306)	(1,052)
Income tax benefit	-	(43)
Net loss	$ (306)	$ (1,009)
Weighted average common shares outstanding	1,231,152	677,001
Loss per common share, basic and diluted	$ (0.25)	$ (1.49)

See accompanying notes to financial statements

BEN FRANKLIN FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Dollars in thousands)

	Year Ended December 31,	
	2018	2017
Net loss	$ (306)	$ (1,009)
Other comprehensive loss		
Unrealized holding gains arising during the period	14	21
Tax effect	-	44
Total net comprehensive loss	14	(23)
Comprehensive loss	$ (292)	$ (1,032)

See accompanying notes to financial statements

BEN FRANKLIN FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Retained Deficit	Unearned ESOP Shares	Accumulated Other Comprehensive Income (loss)	Total
Balance at January 1, 2017	$ 7	$ 10,260	$ (1,437)	$ (500)	$ (88)	$ 8,242
Net loss	—	—	(1,009)	—	—	(1,009)
Other comprehensive loss	—	—	—	—	(23)	(23)
Earned ESOP shares and other stock based Compensation (15,307 shares issued)	—	57	—	65	—	122
Balance at December 31, 2017	$ 7	$ 10,317	$ (2,446)	$ (435)	$ (111)	$ 7,332
Net loss	—	—	(306)	—	—	(306)
Other comprehensive income	—	—	—	—	14	14
Net proceeds from common stock offering (600,000 shares)	6	4,128	—	—	—	4,134
Purchase of common stock (2,531 shares)	—	(20)	—	—	—	(20)
Earned ESOP shares and other stock based compensation	—	56	—	64	—	120
Balance at December 31, 2018	$ 13	$ 14,481	$ (2,752)	$ (371)	$ (97)	$ 11,274

See accompanying notes to financial statements

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

	Year Ended December 31, 2018	Year Ended December 31, 2017
Cash flows from operating activities		
Net loss	$ (306)	$ (1,009)
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation	174	185
ESOP and other stock based compensation, net	120	122
Amortization of premiums	7	8
Provision (credit) for loan losses	(98)	70
Loss on sale of repossessed assets, net	—	17
Write down of repossessed assets	65	—
Deferred income taxes	—	(44)
Changes in:		
Deferred loan costs	(8)	(11)
Accrued interest receivable	11	(60)
Other assets	12	(112)
Other liabilities	1	(66)
Net cash from operating activities	(22)	(900)
Cash flows from investing activities		
Principal repayments on mortgage-backed securities	139	234
Proceeds from the sale of securities available-for-sale	—	2,328
Maturity of certificates of deposits in other financial institutions	245	3,430
Purchase of Federal Home Loan Bank stock	(24)	(16)
Redemption of Federal Home Loan Bank stock	—	749
Purchase of loans for investment	—	(3,509)
Net increase in loans	(61)	(10,077)
Sales of repossessed assets	—	642
Expenditures for premises and equipment	(11)	(23)
Net cash from investing activities	288	(6,242)
Cash flows from financing activities		
Net increase (decrease) in deposits	(13,928)	14,793
Proceeds from Federal Home Loan Bank advances	3,000	2,000
Net proceeds from common stock offering	4,134	—
Repurchase of ESOP shares subject to contingent repurchase obligation	(20)	—
Net change in advances from borrowers for taxes and insurance	85	84
Net cash from financing activities	(6,729)	16,877
Net change in cash and cash equivalents	(6,463)	9,735
Cash and cash equivalents at beginning of period	17,967	8,232
Cash and cash equivalents at end of period	$ 11,504	$ 17,967
Supplemental disclosures of cash flow information		
Interest paid	$ 721	$ 554
Transfers from loans to repossessed assets	590	965

See accompanying notes to financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Ben Franklin Financial ("Ben Franklin Federal") was organized on October 18, 2006 and was a majority-owned subsidiary of Ben Franklin Financial, MHC ("the MHC"). On September 8, 2014, the Board of Directors of the MHC and the Board of Directors of Ben Franklin Federal adopted a new Plan of Conversion and Reorganization (the "Plan"). Pursuant to the Plan, the Company was organized and the MHC converted from the mutual holding company form of organization to the fully public form on January 22, 2015. As part of the conversion, the MHC's ownership interest of Ben Franklin Federal was offered for sale in a public offering. The existing publicly held shares of Ben Franklin Federal, were exchanged for 0.3562 of new shares of common stock of the Company. The exchange ratio ensured that immediately after the conversion and public offering, the public stockholders of Ben Franklin Federal owned the same aggregate percentage of the Company common stock that they owned immediately prior to that time (excluding shares purchased in the stock offering and cash received in lieu of fractional shares). When the conversion and public offering was completed, the Company became the holding company of Ben Franklin Bank of Illinois and succeeded to all of the business and operations of the Ben Franklin Federal and each of Ben Franklin Federal and the MHC ceased to exist.

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

In January 2018, the Company deregistered with the Securities and Exchange Commission (SEC) and will cease filing financial statements with the SEC.

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period, and future results could differ.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through March 22, 2019, the date the financial statements were available to be issued.

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

Securities: Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available-for-sale when they might be sold before maturity. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive loss, net of deferred income tax. Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific-identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of purchase premiums and discounts, deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

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

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

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

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

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

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

First mortgage and commercial loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan’s existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

balance homogeneous loans, such as home equity lines of credit, automobile, and consumer loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

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

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

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

- First mortgage loans are affected by the local residential real estate market, the local economy, and movement in interest rates. The multi-family real estate class is affected by the local economy and real estate market.

  The commercial real estate loan class is dependent on the industries tied to these loans as well as the local commercial real estate market. First mortgage loans are secured by the real estate and appraisals are obtained to support the loan amount. The Company evaluates the borrower's repayment ability through a review of cash flows, credit scores, debt services ratios, and debt-to-income ratios.

- Commercial business, consumer, and other loans are dependent on the local economy and the strength of the related borrowers and for commercial loans, the success of their business. Consumer loans are generally secured by business and consumer assets, but may be unsecured. The Company evaluates the borrower's repayment ability through a review of credit scores, cash flows, and debt-to-income ratios.

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

Financial instruments that potentially subject the Bank to concentrations of credit risk include deposit accounts in other financial institutions. At December 31, 2018, the Bank had non-interest bearing deposits of $741 with Bankers Bank and interest bearing deposits of $3,400 with the Federal Reserve Bank. At December 31, 2017, the Bank had non-interest-bearing deposits of $706 with Bankers Bank and interest bearing deposits of $7,700 with the Federal Reserve Bank.

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Repossessed Assets: Foreclosed assets are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

At December 31, 2018 and 2017 we have $1,239 and $714, respectively of foreclosed real estate properties in the balance of our repossessed assets. At December 31, 2018 and 2017, there were no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process.

Employee Stock Ownership Plan: The cost of shares issued to the employee stock ownership plan (“ESOP”) but not yet allocated to participants is presented in the consolidated statement of financial condition as a reduction of stockholders’ equity. Compensation expense is recorded based on the fair value of the shares as they are committed to be released for allocation to participant accounts. Because participants may require the Company to purchase their ESOP shares upon termination of their employment, the fair value of the ESOP shares subject to the unrecorded put obligation is $127 at December 31, 2018.

Stock-Based Compensation: Compensation cost is recognized for stock options and restricted stock awards issued to employees based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company’s common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. There were no stock options or awards granted for the year ended December 31, 2018. During the year ended December 31, 2017, 54,666 of stock options or awards were granted.

Income Taxes: The provision for income taxes is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. A valuation allowance was established for our deferred tax asset based on our evaluation of our ability to realize the net deferred tax asset.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. The Company has not identified any material unrecognized tax benefits. The Company does not expect the total amount of unrecognized tax benefit to significantly change in the next twelve months. The Company recognizes interest related to income tax matters as interest expense and penalties related to tax matters as other expense. The Company did not have any amounts accrued for interest and penalties at December 31, 2018, or December 31, 2017.

Earnings Per Share: Basic earnings per common share is net loss divided by the weighted average number of common shares outstanding during the period, including allocated and committed-to-be released ESOP shares. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options using the treasury stock

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

method. Because of the Company's net loss for the years ended December 31, 2018 and December 31, 2017, all stock options were excluded from the computation of diluted loss per share as they were considered anti-dilutive.

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

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance-sheet credit instruments, such as unused lines of credit, commitments to make loans, and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss before considering customer collateral or ability to repay. Credit losses associated with off-balance-sheet commitments are reflected as a liability and are based on estimated collateral values, economic conditions, and other factors. Such financial instruments are recorded when they are funded. Loan commitment fees received for a commitment to originate or purchase a loan are deferred and, if the commitment is exercised, recognized over the life of the loan as an adjustment of yield or, if the commitment expires unexercised, recognized in income upon expiration of the commitment.

Comprehensive Income (Loss): Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available-for-sale net of deferred income tax, which are also recognized as separate components of stockholders' equity.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to stockholders. Additionally, the Bank is prohibited under the Consent Order (see Note 2) to pay dividends without prior approval of the regulators.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Operating Segments: While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Operating segments are aggregated into one, as operating results for all segments are similar. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Adoption of New Accounting Standards:
On January 1, 2018, the Company adopted ASU 2014-09 Revenue from Contracts with Customers and all subsequent amendments to the ASU (collectively "ASC 606"), which (i) creates a single framework for recognizing revenues from contract with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as OREO. The majority of the Company's revenues come from the interest income and other sources including loans and securities that are outside the scope of ASC 606. The Company's services that fall within the scope of ACC 606 are presented within non-interest income are recognized as revenue as the Company satisfies it obligation to the customer. Services within the scope of ASC 606 include the deposit service charges, interchange income, the sale of repossessed assets, and fees for originating loans to other financial institutions. Adoption of this ASU on January 1, 2019 did not result in a change to the Company's income recognition for 2019. The following describes the Company's revenue streams accounted for under the ASU.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Service Charges on Deposit Accounts
The Company earns fees from its deposit customers for transaction based, account maintenance, and overdraft services. Transaction based fees which include such services as ATM use fees and stop payment fees are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer request. Account maintenance fees are earned over the course of a month representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time the overdraft occurs.

Interchange Income
The Company earns interchange fees from dedicated cardholder transactions conducted through the MasterCard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily concurrently with the transaction processing services provided to the cardholder.

Gain/Loss on Sale of OREO
The Company records a gain or loss from the sale of OREO when the control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain or loss on sale if a significant financing component is present.

On January 5, 2016, the FASB issued an update (ASU No. 2016-01, Financial Instruments – Recognition and Measurement of Financial Assets and Liabilities). The new guidance is intended to improve the recognition and measurement of financial instruments by requiring: equity investments (other than equity method or consolidation) to be measured at fair value with changes in fair value recognized in net income; public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; and requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The Company adopted this new guidance in 2018 and accordingly reports the fair value of financial instruments using exit pricing methodology.

Future Accounting Standards
In June 2017 the FASB issued accounting standards update 2016-13, Measurement of Credit Losses on Financial Instruments. The main objective of this update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this update replace the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments affect entities holding financial assets and net investment in leases that are accounted for at amortized cost. The amendments affect loans, debt securities classified as held to maturity, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. In addition, the amendments in this update require credit losses be presented as an allowance rather than as a write-down on AFS debt securities. The provisions of this update are effective beginning January 1, 2021. Management is identifying the loan data needed for adoption of this update; however, management has not yet determined the impacts of this update on the Company's financial position or results of operations.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In February 2017, the FASB issued accounting standards update 2016-02 Leases. The update requires all leases, with the exception of short-term leases that have contractual terms no greater than one year, to be recorded on the balance sheet. Under the provisions of the update, leases classified as operating will be reflected on the balance sheet with the recognition of both a right-of-use asset and a lease liability. Under the update, a distinction will exist between finance and operating type leases and the rules for determining which classification a lease will fall into are similar to existing rules. For public business entities, the amendments of this update are effective for interim and annual periods beginning after December 15, 2018. The update requires a modified retrospective transition under which comparative balance sheets from the earliest historical period presented will be revised to reflect what the financials would have looked like were the provisions of the update applied consistently in all prior periods. Based on lease commitments outstanding, we anticipate that total assets and liabilities will increase approximately $1.3 million.

NOTE 2 - RECURRING LOSSES

The Company has incurred losses since 2008 resulting from a combination of: declining net interest income, as our loan portfolio decreased, increased provisions for loan losses between 2009 and 2012; and increasing non-interest expense related to professional fees and repossessed asset write-downs and costs. The Company recently incurred net losses of $306 and $1,009 during the years ended December 31, 2018 and 2017. The decrease in the loss in 2018 reflects the increase in our interest income as we were able to increase the average balance of our loan portfolio during 2017 and 2018. In 2018, we had a credit provision for loan losses as our historical losses from loans decreased. Our non-interest expense decreased for the year ended December 31, 2018 due to lower professional fees.

In 2017 the Company engaged an investment banking firm to assist the Board of Directors in evaluating the strategic options that would enable the Bank to comply with the capital levels of the Consent Order and to execute on our business plan that contemplates significant growth. As a result, on January 31, 2018, the Company entered into securities purchase agreements with various purchasers under which it issued and sold a total of 600,000 shares of its common stock, par value $0.01, at a price of $7.50 per share. The shares were issued on January 31, 2018, in a private placement exempt from registration under Section 4(2) of the Securities Act of 1933, as amended, and Regulation D of the rules and regulations promulgated thereunder. The offering resulted in gross proceeds of $4.5 million, and commissions and other costs associated with the offering totaling $366,000, which included $285,000 of commissions and fees paid to the investment banking firm. A member of the Company's Board of Directors is a partner in the investment banking firm. On January 31, 2018, the Company made a capital contribution to the Bank of $4.0 million to enable the Bank to comply with the capital requirements of the Consent Order.

With the additional capital contribution, the Bank's total capital to total risk-weighted assets ratio and Tier 1 leverage capital to average assets ratio were 16.8% and 11.2% respectively, at December 31, 2018. Under the Consent Order with the Office of the Comptroller of the Currency (the "OCC"), we were required to maintain a Tier 1 leverage capital ratio of 8% and a total risk-based capital ratio of 12%. At December 31, 2018, the Bank was in compliance with the capital levels of the Consent Order, and at that date we were considered "adequately capitalized". See Note 8 of these Notes to Consolidated Financial Statements.

Under the Consent Order, the Bank was required to receive non-objection to a revised Capital and Strategic Plan (the "Strategic Plan"). On February 16, 2018, the Bank filed with the OCC separate Capital and Strategic Business plans for the three years ending December 31, 2020. In a letter dated April 5, 2018, the OCC informed the Bank that it would grant its non-objection to the Strategic Plan as submitted by the Bank. If the Bank was not able to comply with the requirements of the Consent Order regarding the Strategic Plan, the OCC may institute other corrective measures and has enforcement power to impose other restrictions on the Bank's operations, including seizure. Only the OCC has authority to determine whether or not the provisions of the Consent Order have been met.

While under the Consent Order we were unable to renew or rollover existing deposits that exceed 75 basis points above the national deposit rate published by the FDIC (the rate "Threshold"), as well as to accept new deposits at interest rates that are above the Threshold. During 2018, our certificates of deposit balanced decreased significantly due to local market rates exceeding the Threshold rates. At December 31, 2018, certificates of deposit scheduled to mature in one year or less totaled

NOTE 2 - RECURRING LOSSES (Continued)

$24.6 million, of which $12.3 million are at interest rates that are 75 basis point above the Threshold rate at the time they were originated.

On February 5, 2019, the OCC terminated the Consent Order and entered into a formal agreement with the Bank covering strategic planning, capital planning, reporting and corporate governance. Within 90 days from the date of this agreement, the Bank must submit revised Strategic and Capital plans to the OCC for its non-objection. On February 5, 2019, the Bank was notified by the OCC that it established individual minimum capital ratios for the Bank requiring it to maintain a Tier 1 capital to adjusted total assets ratio of 8% and a total risk-based capital to risk-weighted assets ratio of 12%. With the termination of the Consent Order, the Bank is no longer under the rate Threshold for new or renewed deposits.

NOTE 3 - SECURITIES AVAILABLE-FOR-SALE

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2018				
U.S. government-sponsored entities	$ 5,000	$ —	$ (79)	$ 4,921
Residential mortgage-backed	669	—	(31)	638
Total	$ 5,669	$ —	$ (110)	$ 5,559
December 31, 2017				
U.S. government-sponsored entities	$ 5,000	$ —	$ (100)	$ 4,900
Residential mortgage-backed	815	—	(24)	791
Total	$ 5,815	$ —	$ (124)	$ 5,691

There were no sales of securities available for sale for the year ended 2018. We sold $2.3 million of securities available for sale during the year ended December 31, 2017 resulting in $0 net gains and losses. Securities with a book value of $3.0 and $2.9 million were pledged to secure borrowings of the Company at December 31, 2018 and 2017.

NOTE 3 - SECURITIES AVAILABLE-FOR-SALE (Continued)

The amortized cost and fair value of available-for-sale securities are shown by contractual maturity at December 31, 2018. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	December 31, 2018	
	Amortized Cost	Fair Value
U.S. government-sponsored entities		
Within one year	$ 2,000	$ 1,977
One to five years	3,000	2,944
Five to ten years	—	—
Residential mortgage-backed	669	638
Total	$ 5,669	$ 5,559

Anticipated maturities on mortgage-backed securities are not readily determinable as borrowers have the right to prepay their obligation with or without penalties.

The following table summarizes securities with unrealized losses at December 31, 2018 and 2017, aggregated by major security type and length of time in a continuous unrealized loss position.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			(Dollars in thousands)			
December 31, 2018						
U.S. government sponsored entities	$ —	$ —	$ 4,921	$ (79)	$ 4,921	$ (79)
Residential mortgage-backed	—	—	638	(31)	638	(31)
Total	$ —	$ —	$ 5,559	$ (110)	$ 5,559	$ (110)
December 31, 2017						
U.S. government sponsored entities	$ —	$ —	$ 4,900	$ (100)	$ 4,900	$ (100)
Residential mortgage-backed	—	—	791	(24)	791	(24)
Total	$ —	$ —	$ 5,691	$ (124)	$ 5,691	$ (124)

As of December 31, 2018 and 2017, all of the Company’s securities available for sale were issued by U.S. government-sponsored entities and agencies which the government has affirmed its commitment to support.

Unrealized losses on securities have not been recognized into income because the issuer’s securities are of high credit quality (rated AA or higher), management does not intend to sell and it is not more likely than not that management would be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the securities approach maturity.

NOTE 4 - LOANS RECEIVABLE

Loans receivable are summarized as follows:

	December 31, 2018	December 31, 2017
First mortgage loans		
Secured by one-to-four-family residences	$ 34,006	$ 34,638
Secured by multi-family residences	12,086	11,750
Secured by commercial real estate	21,830	21,126
Secured by land	146	155
Construction loans	234	1,037
Total first mortgage loans	68,302	68,706
Commercial, consumer, and other loans		
Home equity lines of credit	5,470	5,767
Commercial business loans	1,699	1,453
Automobile loans	-	3
Other consumer loans	-	8
Total commercial, consumer, and other loans	7,169	7,231
Gross loans	75,471	75,937
Premiums and net deferred loan origination costs	(65)	(73)
Allowance for loan losses	(871)	(954)
	$ 74,535	$ 74,910

At December 31, 2018 and 2017, there was one loan to principal officers, directors and other affiliates with an outstanding balance of $110.

Activity in the allowance for loan losses is as follows:

	Year Ended December 31, 2018	Year Ended December 31, 2017
Beginning balance	$ 954	$ 904
Provision (credit) for loan losses	(98)	70
Loans charged off	-	(31)
Recoveries	15	11
Ending balance	$ 871	$ 954

(Continued)

NOTE 4 - LOANS RECEIVABLE (Continued)

The following table presents the activity in the allowance for loan losses by portfolio segment and class for the years ended 2018 and 2017:

	First Mortgages					Commercial, Consumer and Other				
	One-to-four-family	Multi-family	Commercial Real Estate	Land	Construction	Home Equity Lines-of-credit	Commercial Business	Automobile	Consumer	Total
December 31, 2018										
Beginning balance	$ 223	$ 144	$ 474	$ 4	$ 28	$ 62	$ 19	$ —	$ —	$ 954
Provision (credit) for loan losses	(45)	—	(16)	(1)	(29)	(7)	—	—	—	(98)
Loans charged off	—	—	—	—	—	—	—	—	—	—
Recoveries	—	8	—	—	7	—	—	—	—	15
Total ending allowance balance December 31, 2018	$ 178	$ 152	$ 458	$ 3	$ 6	$ 55	$ 19	$ —	$ —	$ 871
December 31, 2017										
Beginning balance	$ 261	$ 141	$ 386	$ 5	$ 15	$ 72	$ 13	$ 11	$ —	$ 904
Provision (credit) for loan losses	(38)	28	88	(1)	8	(10)	6	(11)	—	70
Loans charged off	—	(31)	—	—	—	—	—	—	—	(31)
Recoveries	—	6	—	—	5	—	—	—	—	11
Total ending allowance balance December 31, 2017	$ 223	$ 144	$ 474	$ 4	$ 28	$ 62	$ 19	$ —	$ —	$ 954

(Continued)

NOTE 4 - LOANS RECEIVABLE (Continued)

The following tables represents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and class based on the impairment method as of December 31, 2018 and 2017:

	Loan Balance			Allowance		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Recorded Investment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
2018						
One-to-four-family	$ 517	$ 33,489	$ 34,006	$ 14	$ 164	$ 178
Multi-family	—	12,086	12,086	—	152	152
Commercial real estate	—	21,830	21,830	—	458	458
Land	—	146	146	—	3	3
Construction	—	234	234	—	6	6
Home equity lines of credit	—	5,470	5,470	—	55	55
Commercial business	—	1,699	1,699	—	19	19
Total	$ 517	$ 74,954	$ 75,471	$ 14	$ 857	$ 871

	Loan Balance			Allowance		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Recorded Investment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
2017						
One-to-four-family	$ 556	$ 34,082	$ 34,638	$ 19	$ 204	$ 223
Multi-family	678	11,072	11,750	—	144	144
Commercial real estate	542	20,584	21,126	—	474	474
Land	—	155	155	—	4	4
Construction	—	1,037	1,037	—	28	28
Home equity lines of credit	—	5,767	5,767	—	62	62
Commercial business	—	1,453	1,453	—	19	19
Automobile	—	3	3	—	—	—
Other consumer	—	8	8	—	—	—
Total	$ 1,776	$ 74,161	$ 75,937	$ 19	$ 935	$ 954

(Continued)

NOTE 4 - LOANS RECEIVABLE (Continued)

The following tables present information related to impaired loans by class of loans as of and for the years ended December 31, 2018 and 2017:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recorded	Cash Basis Interest Recorded
2018						
With no related allowance recorded						
One-to-four-family	$ 165	$ 28	$ —	$ 36	$ —	$ —
Multi-family	—	—	—	445	26	26
Commercial real estate	—	—	—	135	—	—
Land	—	—	—	—	—	—
Construction	—	—	—	—	—	—
Home equity line of credit	—	—	—	—	—	—
Commercial business	—	—	—	—	—	—
Total with no related allowance recorded	165	28	—	616	26	26
With an allowance recorded						
One-to-four-family	489	489	14	499	24	24
Multi-family	—	—	—	—	—	—
Commercial real estate	—	—	—	—	—	—
Land	—	—	—	—	—	—
Construction	—	—	—	—	—	—
Home equity line of credit	—	—	—	—	—	—
Commercial business	—	—	—	—	—	—
Total with a related allowance recorded	489	489	14	499	24	24
Total	$ 654	$ 517	$ 14	$ 1,115	$ 50	$ 50

(Continued)

NOTE 4 - LOANS RECEIVABLE (Continued)

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recorded	Cash Basis Interest Recorded
2017						
With no related allowance recorded						
One-to-four-family	$ 182	$ 45	$ —	$ 174	$ —	$ —
Multi-family	678	678	—	468	17	17
Commercial real estate	542	542	—	542	—	—
Land	—	—	—	—	—	—
Construction	—	—	—	—	—	—
Home equity line of credit	—	—	—	100	—	—
Commercial business	—	—	—	—	—	—
Total with no related allowance recorded	1,402	1,265	—	1,284	17	17
With an allowance recorded						
One-to-four-family	511	511	19	517	23	23
Multi-family	—	—	—	291	17	17
Commercial real estate	—	—	—	—	—	—
Land	—	—	—	—	—	—
Construction	—	—	—	—	—	—
Home equity line of credit	—	—	—	—	—	—
Commercial business	—	—	—	—	—	—
Total with a related allowance recorded	511	511	19	808	40	40
Total	$ 1,913	$ 1,776	$ 19	$ 2,092	$ 57	$ 57

NOTE 4 - LOANS RECEIVABLE (Continued)

The following table presents the aging of the recorded investment in past due loans as of December 31, 2018 and 2017 by class of loans.

	30 - 59 Days Past due	60 - 89 Days Past due	90 Days or Greater Past Due Still on Accrual	Nonaccrual	Loans Not Past Due	Total
2018						
One-to-four-family	$ —	$ —	$ —	$ 28	$ 33,978	$ 34,006
Multi-family	—	—	—	—	12,086	12,086
Commercial real estate	—	—	—	—	21,830	21,830
Land	—	—	—	—	146	146
Construction	—	—	—	—	234	234
Home equity line of credit	—	—	—	—	5,470	5,470
Commercial business	—	—	—	—	1,699	1,699
Total	$ —	$ —	$ —	$ 28	$ 75,443	$ 75,471

	30 - 59 Days Past due	60 - 89 Days Past due	90 Days or Greater Past Due Still on Accrual	Nonaccrual	Loans Not Past Due	Total
2017						
One-to-four-family	$ —	$ —	$ —	$ 45	$ 34,593	$ 34,638
Multi-family	—	—	—	—	11,750	11,750
Commercial real estate	—	—	—	542	20,584	21,126
Land	—	—	—	—	155	155
Construction	—	—	—	—	1,037	1,037
Home equity line of credit	—	—	—	—	5,767	5,767
Commercial business	—	—	—	—	1,453	1,453
Automobile	—	—	—	—	3	3
Other consumer	—	—	—	—	8	8
Total	$ —	$ —	$ —	$ 587	$ 75,350	$ 75,937

Nonperforming loans (nonaccrual loans and loans past due 90 days and still on accrual) include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

NOTE 4 - LOANS RECEIVABLE (Continued)

Credit Quality Indicators

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

Substandard

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

Doubtful

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. As of December 31, 2018, and December 31, 2017 and based on the most recent analysis performed, the risk category by loans is as follows:

	Pass	Substandard	Doubtful	Total
December 31, 2018				
One-to-four-family	$ 33,978	$ 28	$ —	$ 34,006
Multi-family	12,086	—	—	12,086
Commercial real estate	21,830	—	—	21,830
Land	146	—	—	146
Construction	234	—	—	234
Home equity lines of credit	5,470	—	—	5,470
Commercial business	1,699	—	—	1,699
Total	$ 75,443	$ 28	$ —	$ 75,471
December 31, 2017				
One-to-four-family	$ 34,593	$ 45	$ —	$ 34,638
Multi-family	11,750	—	—	11,750
Commercial real estate	20,584	542	—	21,126
Land	155	—	—	155
Construction	1,037	—	—	1,037
Home equity lines of credit	5,767	—	—	5,767
Commercial business	1,453	—	—	1,453
Automobile	3	—	—	3
Other consumer	8	—	—	8
Total	$ 75,350	$ 587	$ —	$ 75,937

(Continued)

NOTE 4 - LOANS RECEIVABLE (Continued)

Troubled Debt Restructurings

Our troubled debt restructurings totaled $517 and $1,233 at December 31, 2018 and 2017. There were no loans modified as troubled debt restructurings during the years ended December 31, 2018 and 2017.

There was one loan modified as troubled debt restructurings with a balance of $28 and $45 which is being reported as nonaccrual as of December 31, 2018 and 2017.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. During the year ended December 31, 2018, there were no troubled debt restructurings with payments in default. During the year ended December 31, 2017, one loan totaling $284 secured by a multi-family building had payments in default and was transferred to repossessed assets during 2017.

At December 31, 2018, the Company has allocated $14 to specific reserves on $488 of loans to customers whose loan terms have been modified in troubled debt restructurings. As of December 31, 2017, the Company has allocated $19 to specific reserves on $511 of loans to customers whose loan terms have been modified in troubled debt restructurings. The Company has not committed to lend additional amounts as of December 31, 2018 and December 31, 2017 to customers with outstanding loans that are classified as troubled debt restructurings.

NOTE 5 - PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

	December 31, 2018	December 31, 2017
Leasehold improvements	$ 1,578	$ 1,578
Furniture and fixtures	653	642
	2,231	2,220
Accumulated depreciation	(1,375)	(1,201)
	$ 856	$ 1,019

NOTE 6 - DEPOSITS

Deposit accounts with balances greater than $250 totaled $8,849 and $9,464 at December 31, 2018, and December 31, 2017. Time deposits that meet or exceed $250 at year-end 2018 and 2017 were $4,250 and $5,313.

The scheduled maturities of certificates of deposit are as follows for the twelve months ending:

	December 31, 2018
2019	$ 24,573
2020	10,748
2021	1,311
2020	348
2023	481
	$ 37,461

Deposits from principal officers, directors and other affiliates were $100 at December 31, 2018 and $98 at December 31, 2017. At December 31, 2018 and 2017, $19.8 million and $30.8 million of our certificates of deposit were at an interest rate that is 75 basis points above the national deposit rate published by the FDIC and are considered "brokered" deposits. The $19.8 million of certificates of deposit mature as follows: $12.3 million in 2019, and $7.5 million in 2020.

NOTE 7 - ADVANCES FROM FHLB

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

Maturity Date	Type	Call Date	Interest Rate	December 31 2018	December 31 2017
December 23, 2019	Fixed rate	N/A	1.78%	$ 2,000	$ 2,000
July 20, 2020	Fixed rate	N/A	1.73%	2,000	2,000
December 27, 2021	Fixed rate	N/A	2.80%	3,000	—
			2.20%	$ 7,000	$ 4,000

Each advance is payable at maturity and includes a prepayment penalty. The advances were collateralized by $18.9 and $6.7 million of first mortgage loans under a collateral agreement at year-end 2018 and 2017. Based on the collateral and the Bank's holdings of FHLB stock, the Bank is eligible to borrow up to a total of $9.1 million at year-end 2018.

NOTE 8 - REGULATORY CAPITAL MATTERS

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel Ill rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

Effective as of January 1, 2016, financial institutions are required to maintain a capital conservation buffer to avoid restrictions on capital distributions and other payments. If a financial institution's capital conservation buffer falls below the minimum requirement, its maximum payout amount for capital distributions and discretionary payments declines to a set percentage of eligible retained income based on the size of the buffer. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will be phased in over a three year period, increasing by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019. As of December 31, 2018, the Bank's required capital conservation buffer stood at 1.875%.

Quantitative measures established by regulation to help ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier I capital as defined in the regulations to risk-weighted assets as defined and of Tier I capital to adjusted total assets as defined. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios. On November 25, 2015 the Bank entered into a Consent Order with the OCC. The Consent Order required the Bank to maintain a minimum Tier 1 leverage capital ratio of 8% and a minimum total risk-based capital ratio of 12%. As a result of entering into the Consent Order, the Bank's capital classification under the Prompt Corrective Action rules was "less than adequately capitalized" at December 31, 2017. As a result of the Bank being "less than adequately capitalized" at December 31, 2017, the Bank was precluded from paying dividends and from accepting or renewing brokered deposits.

On January 31, 2018, the Company entered into securities purchase agreements with various purchasers under which it issued and sold a total of 600,000 shares of its common stock, par value $0.01, at a price of $7.50 per share. The offering raised proceeds of $4,134, which is net of $366 in offering costs. On January 31, 2018, the proceeds of the offering were used to contribute $4,000 to the Bank to enable it to comply with the capital requirements of the Consent Order. With the additional

(Continued)

NOTE 8 - REGULATORY CAPITAL MATTERS (Continued)

contribution, the Bank's capital classification under the Prompt Corrective Action rules was "adequately capitalized" at December 31, 2018

On February 5, 2019, the OCC terminated the Consent Order and entered into a formal agreement with the Bank covering strategic planning, capital planning, reporting and corporate governance. Within 90 days from the date of this agreement, the Bank must submit revised Strategic and Capital plans to the OCC for its non-objection. On February 5, 2019, the Bank was notified by the OCC that it established individual minimum capital ratios for the Bank requiring it to maintain a Tier 1 capital to adjusted total assets ratio of 8% and a total risk-based capital to risk-weighted assets ratio of 12%. As a result of the February 2019 termination of the Consent Order, the Bank is no longer deemed to be adequately capitalized and has regulatory capital levels consistent with the "well capitalized" classification.

The Company's board adopted resolutions requested by the Federal Reserve Board which prohibits us from paying dividends, increasing our debt, or redeeming shares of the Company without prior written approval from the Federal Reserve Board.

The prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If undercapitalized, asset growth and expansion are limited and plans for capital restoration are required.

The allowance for loan losses is limited to 1.25% of risk weighted assets. As of December 31, 2018, and December 31, 2017, $56 and $134 was excluded from the allowance for loan losses in the calculation of total regulatory capital.

Actual capital levels and minimum required levels for the Bank were:

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required By the Order	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2018						
Total capital (to risk-weighted assets)	$ 11,206	16.8%	$ 5,353	8.0%	$ 8,029	12.0%
Common equity Tier 1 capital (to risk-weighted assets)	10,369	15.5	3,011	4.5	N/A	N/A
Tier 1 (core) capital (to risk-weighted assets)	10,369	15.5	4,014	6.0	N/A	N/A
Tier 1 (core) capital (to average total assets)	10,369	11.2	3,712	4.0	7,425	8.0
December 31, 2017						
Total capital (to risk-weighted assets)	$ 7,424	11.1%	$ 5,368	8.0%	$ 8,052	12.0%
Common equity Tier 1 capital (to risk-weighted assets)	6,584	9.8	3,019	4.5	N/A	N/A
Tier 1 (core) capital (to risk-weighted assets)	6,584	9.8	4,026	6.0	N/A	N/A
Tier 1 (core) capital (to average total assets)	6,584	6.6	3,997	4.0	7,995	8.0

NOTE 9 - EMPLOYEE BENEFITS

Employee Stock Ownership Plan

On October 18, 2006, the Company adopted an employee stock ownership plan ("the ESOP") for the benefit of substantially all employees. The ESOP borrowed $778 from the Company and used those funds to acquire 27,699 shares of the Company's stock in connection with the reorganization at a price of $28.07 per share. On January 22, 2015, the ESOP borrowed $273 from the Company and used those funds to acquire 27,333 shares of the Company's stock in connection with the reorganization at a price of $10.00 per share.

Shares purchased by the ESOP with the loan proceeds are held in a suspense account and are allocated to ESOP participants on a pro rata basis as principal and interest payments are made by the ESOP to the Company. The loan is secured by shares purchased with the loan proceeds and will be repaid by the ESOP with funds from the Company's discretionary contributions to the ESOP and earnings on ESOP assets. During the years ended December 31, 2018 and 2017, the Company made contributions to the ESOP of $88 and $88 and the ESOP made the annual principal and interest payments on the loan of $91 and $88.

As shares are released from collateral, the Company reports compensation expense equal to the current market price of the shares and the shares become outstanding for earnings-per-share computations. Dividends on allocated ESOP shares reduce retained earnings; dividends on unearned ESOP shares reduce accrued interest. Because participants may require the Company to purchase their ESOP shares upon termination of their employment, the fair value of all earned and allocated ESOP shares may become a liability. During the year ended December 31, 2018 2,531 ESOP shares were distributed to participants. During the year ended December 31, 2017 no ESOP shares were distributed to participants.

The ESOP has a plan year end of December 31. Expense related to the ESOP was $27 and $34 for the years ended December 31, 2018 and 2017.

Shares held by the ESOP were as follows:

	December 31, 2018	December 31, 2017
Shares committed to be released	3,172	3,172
Allocated shares	18,513	17,872
Unearned ESOP shares	27,285	30,457
Total ESOP shares	48,970	51,501
Fair value of unearned ESOP shares	$ 187	$ 292
Fair value of allocated shares subject to repurchase obligation	$ 127	$ 171

Equity Incentive

On March 26, 2008, stockholders of the Company approved the Ben Franklin Financial, Inc. Equity Incentive Plan (the "Plan") which provides officers, employees, and directors of the Company and the Bank with stock based incentives to promote our growth and performance. The Plan shall remain in effect as long as any awards are outstanding provided, however, that no awards be granted under the plan after ten years from the date of adoption. The Plan authorizes the issuance of up to 48,473 shares of Company common stock pursuant to grants of incentive and non-statutory stock options, stock appreciation rights, and restricted stock awards. No more than 13,849 shares may be issued as restricted stock awards. No more than 34,624 shares may be issued pursuant to stock options and stock appreciation rights, all of which may be granted pursuant to the exercise of incentive stock options. On April 17, 2008, the Company granted restricted stock awards for 12,275 common shares and stock options for 30,896 common shares under the Plan, all of which vest over a five-year period. Awards under the Plan may also fully vest upon the participant's death or disability or change in control of the Company. All of the options granted have an exercise price of $26.28 per share, which was the closing price of the stock on the grant date, adjusted to reflect the conversion offering exchange ratio of .3562. On April 17, 2018, these options expired in accordance with the terms of the Plan.

(Continued)

NOTE 9 - EMPLOYEE BENEFITS (Continued)

On May 25, 2017, stockholders of the Company approved the Ben Franklin Financial, Inc. 2017 Equity Incentive Plan (the "2017 Plan") which provides officers, employees, and directors of the Company and the Bank with stock based incentives to promote our growth and performance. The Plan shall remain in effect as long as any awards are outstanding provided, however, that no awards be granted under the plan after ten years from the date of adoption. The Plan authorizes the issuance of up to 54,666 shares of Company common stock pursuant to grants of incentive and non-statutory stock options, stock appreciation rights, and restricted stock awards. No more than 15,619 shares may be issued as restricted stock awards. No more than 39,047 shares may be issued pursuant to stock options and stock appreciation rights, all of which may be granted pursuant to the exercise of incentive stock options. On January 24, 2017, the Company granted restricted stock awards for 15,619 common shares and stock options for 39,047 common shares under the Plan, all of which vest over a three year period. Awards under the Plan may also fully vest upon the participant's death or disability or change in control of the Company. All of the options granted have an exercise price of $10.70 per share, which was the closing price of the stock on the grant date.

No options have been exercised or forfeited as of December 31, 2018, and December 31, 2017. The options have no intrinsic value as of December 31, 2018, and December 31, 2017.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Company's expected volatility was based on historical stock price for the past two years. The expected term represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The fair value of each option granted in 2017 was $2.98 and was determined using the following weighted-average assumptions as of grant date.

Risk free interest rate	2.27%
Expected term	7 Years
Expected stock price volatility	20%
Dividend yield	-0-%

Stock option expense was $39 and $36 for the years ended December 31, 2018 and 2017. As of December 31, 2018, there was $41 of unrecognized compensation cost related to the stock options granted under the 2018 Plan. The cost is expected to be recognized over a weighted average period of 1.1 years.

A summary of the activity in the stock option plan for 2018 follows:

	Share	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2018	68,210	$ 17.36	1.3	$ —
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited or expired	29,163	26.28	—	—
Outstanding at December 31, 2018	39,047	$ 10.70	1.1	$ —
Fully vested and expected to vest	39,047	10.70	1.1	$ —
Exercisable at December 31, 2018	13,015	$ 10.70	1.1	$ —

(Continued)

NOTE 9 - EMPLOYEE BENEFITS (Continued)

A summary of the activity in the restricted stock plan for 2018 follows:

	Share	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2018	12,275	$ 26.28
Granted	—	—
Vested	5,101	10.70
Forfeited	—	—
Outstanding at December 31, 2018	17,376	$ 10.70

The fair value of the 2018 restricted stock awards was $10.70 per share, which was the closing price of the stock on the January 24, 2017 grant date. The value of stock options and restricted stock awards as of the grant date were expensed over the vesting period of the awards. The total fair value of shares vested during the years ended December 31, 2018 and 2017 was $51 and $0.

Restricted stock award expense was $54 and $52 for the years ended December 31, 2018 and 2017. As of December 31, 2018, there was $58 of unrecognized compensation cost related to the non-vested shares granted under the 2017 Plan. The cost is expected to be recognized over a weighted average period of 1.1 years.

NOTE 10 - INCOME TAXES

The income tax expense consists of the following:

	Year Ended December 31,	
	2018	2017
Currently refundable taxes		
Federal	$ —	$ —
State	—	—
Total refundable taxes	—	—
Deferred tax expense from tax reform	—	(1,220)
Deferred tax benefit	79	251
Change in valuation allowance for deferred tax assets	(79)	1,012
Income tax benefit (expense)	$ —	$ 43

The income tax (expense) benefit differs from the amounts determined by applying the statutory U.S. federal income tax rate of 21% at December 31, 2018 and 34% at December 31, 2017 to the loss before income taxes as a result of the following items:

	December 31, 2018		December 31, 2017	
	Amount	Percent	Amount	Percent
Income tax benefit computed at the statutory federal rate	$ 64	21.0%	$ 358	34.0%
State tax and other items	15	4.9	(1,327)	(126.1)
Change in valuation allowance	(79)	(25.9)	1,012	96.2
	$ —	0.0%	$ 43	(4.1)%

NOTE 10 - INCOME TAXES (Continued)

The net deferred tax asset consists of the following:

	December 31, 2018	December 31, 2017
Deferred tax assets		
Accumulated depreciation	$ 272	$ 233
Bad debts	238	266
Reserve for off-balance-sheet loss	6	6
Deferred loan fees	18	21
Federal net operating loss carryforwards	1,754	1,705
Illinois net operating loss carryforwards	518	498
ESOP	16	18
Deferred rent	33	36
Stock options and awards	17	28
Unrealized loss on securities available-for-sale	13	13
Repossessed asset valuation allowance	18	—
Deferred tax liabilities		
FHLB stock dividends	(12)	(12)
	2,891	2,812
Valuation allowance for deferred tax assets	(2,891)	(2,812)
Net deferred tax asset	$ —	$ —

During December 2017, the Tax Cuts and Jobs Act was signed into law, which reduces the Company's federal tax rate from 34% to 21% effective in 2018. The Company was required to re-measure, through income tax expense, its deferred tax assets and liabilities using the enacted tax rate, the rate that deferred taxes are expected to be recovered or settled. Because the Company has a valuation allowance on its net deferred tax assets, a corresponding adjustment was made to the valuation allowance. This re-measurement of the deferred taxes resulted in no net additional income tax expense during 2017, consisting of a $1,220 adjustment to deferred tax assets and liabilities and an offsetting $1,220 adjustment to the valuation allowance.

The Company established a valuation allowance for net deferred tax assets based on management's assessment of the ability to realize the deferred tax asset primarily based on the tax losses incurred in recent years and, under current law, the inability to recover any additional taxes paid in prior years. As of December 31, 2018, state net operating losses of $6,891 are being carried forward and will be available to reduce future taxable income. These state net operating loss carryforwards will expire beginning in 2019 through 2030 if not utilized to reduce future taxable income.

The Company's net operating losses for federal income taxes were $8,341 and $8,120 as of December 31, 2018 and 2017 of which $8,341 are being carried forward to reduce taxable income in future years. These federal net operating loss carryforwards will begin to expire in 2030.

The Company is subject to federal income tax as well as income tax of the state of Illinois. The Company is no longer subject to examination by taxing authorities for years before 2015.

(Continued)

NOTE 11 - EARNINGS PER SHARE

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

	For the Year Ended December 31, 2018	For the Year Ended December 31, 2017
Net loss available to common stockholders	$ (306)	$ (1,009)
Weighted average common shares outstanding	1,231,152	677,001
Dilutive effect of non-vested stock awards and assumed exercises of stock options	—	—
Basic and diluted loss per share	$ (0.25)	$ (1.49)

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

NOTE 12 - COMMITMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

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

	December 31, 2018		December 31, 2017	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$ —	$ —	$ —	$ —
Unused lines of credit	—	7,081	—	7,076

The Bank leases its main office facility under a noncancelable fifteen-year operating lease that matures in 2022. The Bank leases its branch facility under a noncancelable ten -year operating lease that matures in 2027. Future contractual lease payments are as follows:

	December 31,
2019	$ 279
2020	284
2021	290
2022	279
2023	94
Thereafter	243
	$ 1,469

Rent expense for the years ended December 31, 2018 and 2017 was $317 and $315.

NOTE 13 - FAIR VALUE MEASURES

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

> Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3 – Significant unobservable inputs that reflect a company’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

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

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower’s financial statements, or aging reports, adjusted or discounted based on management’s historical knowledge, changes in market conditions from the time of the valuation, and management’s expertise and knowledge of the client and client’s business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Repossessed Assets: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Other real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

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

(Continued)

NOTE 13 - FAIR VALUE MEASURES (Continued)

Assets Measured on a Recurring Basis

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

	Balance	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
Assets				
Securities available-for-sale				
U.S. government-sponsored entities	$ 4,921	$ —	$ 4,921	$ —
Residential mortgaged-backed	638	—	638	—
	$ 5,559	$ —	$ 5,559	$ —

	Balance	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Assets				
Securities available-for-sale				
U.S. government-sponsored entities	$ 4,900	$ —	$ 4,900	$ —
Residential mortgaged-backed	791	—	791	—
	$ 5,691	$ —	$ 5,691	$ —

There were no transfers between Level 1, Level 2, and Level 3 during the year ended December 31, 2018, or the year ended December 31, 2017.

(Continued)

NOTE 13 - FAIR VALUE MEASURES (Continued)

Assets Measured on a Non-Recurring Basis

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

		Fair Value Measurements Using		
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
Assets				
Repossessed assets				
One-to-four-family	$ 664	—	—	$ 664
Commercial real estate	575	—	—	$ 575
Total repossessed assets	$ 1,239	$ —	$ —	$ 1,239

		Fair Value Measurements Using		
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Assets				
Impaired loans				
Multi-family	$ 678	$ —	$ —	$ 678
Total impaired loans	$ 678	$ —	$ —	$ 678
Repossessed assets				
One-to-four-family	$ 714	—	—	$ 714
Total repossessed assets	$ 714	$ —	$ —	$ 714

Impaired loans, which are measured for impairment using the fair value of the collateral (less cost to sell) for collateral dependent loans, had an aggregate balance of $678 with a $0 valuation allowance at December 31, 2017. The impaired loans resulted in $0 provision for loan loss for the year ended December 31, 2018 and 2017.

Repossessed assets, consisting of other real estate owned, repossessed automobiles, and other repossessed assets are measured at the lower of cost or fair value less costs to sell. Repossessed assets were carried at $1,239 at December 31, 2018 consisting of the cost basis of $1,304 and a valuation allowance of $65. Repossessed assets were carried at $714 at December 31, 2017 consisting of the cost basis of $714 and a valuation allowance of $0. Write-downs on repossessed assets were $65 for the year ended December 31, 2018.

NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2018 and December 31, 2017:

December 31, 2018

	Fair Value	Valuation Technique	Unobservable Inputs	Range
Other real estate owned				
One-to-four –family	$ 664	Sales comparison approach	Adjustment for differences between the comparable sales	(18.83)% – 1.54%
Commercial real estate	575	Sales comparison approach	Adjustment for differences between the comparable sales	(15.95)% –31.40%

December 31, 2017

	Fair Value	Valuation Technique	Unobservable Inputs	Range
Impaired loans				
Multi-family	678	Sales comparison approach	Adjustment for differences between the comparable sales	(2.18)% – 4.51%
Other real estate owned				
One-to-four –family	$ 714	Sales comparison approach	Adjustment for differences between the comparable sales	(8.57)% – 21.50%

NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The carrying amounts and estimated fair values of the Company's financial instruments measured using exit pricing at December 31, 2018 are as follows:

	Carrying Amount	Fair Value Measurements at December 31, 2018 Using: Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 11,504	$ 11,504	$ —	$ —	$ 11,504
Securities available-for-sale	5,559	—	5,559	—	5,559
Loans receivable, net	74,535	—	—	72,975	72,975
FHLB stock	212	N/A	N/A	N/A	N/A
Accrued interest receivable	225	1	9	215	225
Financial liabilities					
Demand, money market, and savings	$ 37,435	$ 37,435	$ —	$ —	$ 37,435
Certificates of deposits	37,461	—	37,146	—	37,146
Federal Home Loan Bank advances	7,000	—	6,977	—	6,977
Advances by borrowers for taxes and insurance	726	726	—	—	726
Accrued interest payable	11	4	7	—	11

	Carrying Amount	Fair Value Measurements at December 31, 2017 Using: Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 17,967	$ 17,967	$ —	$ —	$ 17,967
Certificates of deposit in other financial institutions	245	—	245	—	245
Securities available-for-sale	5,691	—	5,691	—	5,691
Loans receivable, net	74,910	—	—	74,049	74,049
FHLB stock	188	N/A	N/A	N/A	N/A
Accrued interest receivable	236	3	16	217	236
Financial liabilities					
Demand, money market, and savings	$ 37,848	$ 37,848	$ —	$ —	$ 37,848
Certificates of deposits	50,976	—	51,503	—	51,503
Federal Home Loan Bank advances	4,000	—	3,950	—	3,950
Advances by borrowers for taxes and insurance	641	641	—	—	641
Accrued interest payable	14	—	14	—	14

(Continued)

NOTE 14 - PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

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

CONDENSED BALANCE SHEETS

	December 31	
	2018	2017
ASSETS		
Cash and cash equivalents	$ 586	$ 364
Investment in bank subsidiary	10,273	6,474
ESOP loan	428	497
Other assets	4	5
Total assets	$ 11,291	$ 7,340
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities	$ 17	$ 8
Stockholders' equity	11,274	7,332
Total liabilities and stockholders' equity	$ 11,291	$ 7,340

CONDENSED STATEMENTS OF INCOME

	Year Ended December 31,	
	2018	2017
Income		
Interest on ESOP loan	$ 21	$ 20
Total income	21	20
Expense		
Non-interest expense	112	157
Loss before income taxes and undistributed subsidiary loss	(91)	(137)
Income tax	—	—
Equity in undistributed subsidiary loss	(215)	(872)
Net loss	$ (306)	$ (1,009)

(Continued)

NOTE 14 - PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2018	Year Ended December 31, 2017
Cash flows from operating activities		
Net loss	$ (306)	$ (1,009)
Adjustments		
Earned ESOP shares and other stock based compensation	120	122
Equity in undistributed subsidiary loss	215	871
Change in other assets	1	(2)
Change in other liabilities	9	(1)
Net cash from operating activities	39	(19)
Cash flows from investing activities		
Additional capital contribution to subsidiary bank	(4,000)	—
Payments on ESOP loan	69	69
Net cash from investing activities	(3,931)	69
Cash flows from financing activities		
Net proceeds from common stock offering	4,134	—
Repurchase ESOP shares subject to contingent repurchase obligation	(20)	—
Net cash from financing activities	4,114	—
Net change in cash and cash equivalents	222	50
Beginning cash and cash equivalents	364	314
Ending cash and cash equivalents	$ 586	$ 364

Ben Franklin Financial, Inc.

Directors & Officers

C. Steven Sjogren
Chairman, President, and
Chief Executive Officer

Robert A. Kotecki
Director, Principal FIG Partners

Nicholas J. Raino
Director; retired marketing executive

James M. Reninger
Director; retired CPA

David R. Stafseth
Director; Vice President
Sedgwick Advisers, LLC

Steven D. Olson
President – Ben Franklin Bank of Illinois

Glen A. Miller
Senior Vice President and
Chief Financial Officer

Angie Plesiotis
Senior Vice President and
Chief Operations Officer

Joseph E. Shultz
Senior Vice President and
Chief Lending Officer - Ben Franklin Bank of Illinois

Bernadine Dziedzic
Assistant Vice President
and Corporate Secretary

Corporate Information

Corporate Headquarters
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Arlington Heights, IL 60004
Phone: (847) 398-0990
Fax: (847) 398-1362

Special Counsel
Luse Gorman , PC
5335 Wisconsin Ave. NW Suite 780
Washington, D.C. 20015

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

Transfer Agent & Registrar
Computershare Inc.
250 Royall St
Canton, MA 02021

Stock Listing
The common stock of Ben Franklin Financial, Inc. is quoted on the Over-the-Counter Bulletin Board and traded under the symbol **“BFFI”.**