

Standard Financial Corp.  
Form 10-Q  
August 10, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2011.

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from            to            .

Commission File No. 001-34893

**Standard Financial Corp.**

(Exact name of registrant as specified in its charter)

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**Maryland** **27-3100949**  
(State or other jurisdiction of **(I.R.S. Employer**  
**incorporation or organization)** **Identification No.)**  
**2640 Monroeville Boulevard, Monroeville, Pennsylvania 15146**

(Address of principal executive offices)

**412-856-0363**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):  Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 3,478,173 shares, par value \$0.01, at August 1, 2011.

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**Standard Financial Corp.**

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**Table of Contents****PART I - FINANCIAL INFORMATION****ITEM 1. Financial Statements****Standard Financial Corp.****Consolidated Statements of Financial Condition (Unaudited)****(Dollars in thousands, except per share data)**

	June 30, 2011	September 30, 2010
<b>ASSETS</b>		
Cash on hand and due from banks	\$ 2,040	\$ 2,052
Interest-earning deposits in other institutions	11,241	36,936
Cash and Cash Equivalents	13,281	38,988
Investment securities available for sale, at fair value	58,629	54,948
Mortgage-backed securities available for sale, at fair value	44,311	22,589
Federal Home Loan Bank stock, at cost	2,988	3,416
Loans receivable, net of allowance for loan losses of \$4,538 and \$3,989	289,873	286,066
Loans held for sale	124	461
Foreclosed real estate	523	884
Office properties and equipment, at cost, less accumulated depreciation and amortization	4,005	3,847
Bank-owned life insurance	9,687	9,419
Goodwill	8,769	8,769
Core deposit intangible	729	855
Prepaid federal deposit insurance	901	1,174
Accrued interest and other assets	3,875	3,687
<b>TOTAL ASSETS</b>	<b>\$ 437,695</b>	<b>\$ 435,103</b>
 <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Liabilities</b>		
<b>Deposits:</b>		
Demand, regular and club accounts	\$ 188,204	\$ 190,517
Certificate accounts	126,123	125,700
<b>Total Deposits</b>	<b>314,327</b>	<b>316,217</b>
Federal Home Loan Bank advances	36,924	37,805
Securities sold under agreements to repurchase	4,434	3,444
Advance deposits by borrowers for taxes and insurance	306	93
Stock subscriptions outstanding		29,461
Securities purchased not settled	1,160	
Accrued interest and other expenses	3,160	2,749
<b>TOTAL LIABILITIES</b>	<b>360,311</b>	<b>389,769</b>
 <b>Stockholders Equity</b>		

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Common Stock, \$0.01 par value per share, 40,000,000 shares authorized, 3,478,173 shares issued	35	
Additional paid-in capital	33,387	
Unearned Employee Stock Ownership Plan (ESOP) shares	(2,835)	
Retained earnings	45,742	44,051
Accumulated other comprehensive income	1,055	1,283
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>77,384</b>	<b>45,334</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 437,695</b>	<b>\$ 435,103</b>

See accompanying notes to the consolidated financial statements.

**Table of Contents****Standard Financial Corp.****Consolidated Statements of Income (Unaudited)****(Dollars in thousands, except per share data)**

	<b>Three Months Ended June 30,</b>		<b>Nine Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Interest and Dividend Income</b>				
Loans, including fees	\$ 3,918	\$ 3,986	\$ 11,856	\$ 11,986
Mortgage-backed securities	350	195	939	690
Investments:				
Taxable	219	206	680	643
Tax-exempt	155	110	455	320
Interest-earning deposits	1	11	7	29
<b>Total Interest and Dividend Income</b>	<b>4,643</b>	<b>4,508</b>	<b>13,937</b>	<b>13,668</b>
<b>Interest Expense</b>				
Deposits	905	1,127	2,863	3,523
Securities sold under agreements to repurchase	4	7	13	23
Federal Home Loan Bank advances	283	336	888	1,298
<b>Total Interest Expense</b>	<b>1,192</b>	<b>1,470</b>	<b>3,764</b>	<b>4,844</b>
<b>Net Interest Income</b>	<b>3,451</b>	<b>3,038</b>	<b>10,173</b>	<b>8,824</b>
<b>Provision for Loan Losses</b>	<b>425</b>	<b>350</b>	<b>1,200</b>	<b>779</b>
<b>Net Interest Income after Provision for Loan Losses</b>	<b>3,026</b>	<b>2,688</b>	<b>8,973</b>	<b>8,045</b>
<b>Noninterest Income</b>				
Service charges	401	420	1,208	1,266
Earnings on bank-owned life insurance	100	95	294	286
Net securities gains			2	8
Net loan sale gains	10	4	70	4
Annuity and mutual fund fees	79	89	149	178
Other income	6	9	26	26
<b>Total Noninterest Income</b>	<b>596</b>	<b>617</b>	<b>1,749</b>	<b>1,768</b>
<b>Noninterest Expenses</b>				
Compensation and employee benefits	1,383	1,342	4,111	3,769
Data processing	96	91	285	286
Premises and occupancy costs	259	224	741	691
Core deposit amortization	42	42	126	126
Automatic teller machine expense	82	75	231	211
Federal deposit insurance	80	110	299	326
Contribution to Standard Charitable Foundation			1,376	
Other operating expenses	446	337	1,271	980

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Total Noninterest Expenses	2,388	2,221	8,440	6,389
Income before Income Tax Expense	1,234	1,084	2,282	3,424
Income Tax Expense				
Federal	325	296	472	996
State	64	51	119	152
Total Income Tax Expense	389	347	591	1,148
Net Income	\$ 845	\$ 737	\$ 1,691	\$ 2,276
Earnings Per Share (since inception October 6, 2010):				
Basic earnings per common share	\$ 0.26	\$ N/A	\$ 0.53	\$ N/A
Diluted earnings per common share	\$ 0.26	\$ N/A	\$ 0.53	\$ N/A

See accompanying notes to the consolidated financial statements.

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**Standard Financial Corp.**

**Consolidated Statement of Changes in Stockholders Equity (Unaudited)**

**(Dollars in thousands)**

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
Balance, September 30, 2010	\$	\$	\$	\$ 44,051	\$ 1,283	\$ 45,334
Comprehensive Income (Loss):						
Net income				1,691		1,691
Net change in unrealized income (loss) on securities available for sale, net of reclassification adjustment, net of tax benefit					(228)	(228)
<b>Total Comprehensive Income (Loss)</b>				<b>1,691</b>	<b>(228)</b>	<b>1,463</b>
Issuance of common stock (3,478,173 shares)	35	33,340	(2,950)			30,425
Compensation expense on ESOP		47	115			162
Balance, June 30, 2011	\$ 35	\$ 33,387	\$ (2,835)	\$ 45,742	\$ 1,055	\$ 77,384

See accompanying notes to the consolidated financial statements.



**Table of Contents****Standard Financial Corp.****Consolidated Statements of Cash Flows (Unaudited)****(Dollars in thousands)**

	<b>Nine Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 1,691	\$ 2,276
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	294	208
Provision for loan losses	1,200	779
Amortization of core deposit intangible	126	126
Net amortization of premium/discount on securities	240	170
Net gain on securities	(2)	(8)
Origination of loans held for sale	(3,294)	(234)
Proceeds from sale of loans held for sale	3,701	238
Gain on sale of loans held for sale	(70)	(4)
Compensation expense on ESOP	162	
Stock contribution to Charitable Foundation	1,176	
Deferred income taxes	(623)	(413)
Decrease in accrued interest and other assets	(163)	(58)
Decrease (increase) in prepaid Federal deposit insurance	273	(1,276)
Earnings on bank-owned life insurance	(294)	(286)
Decrease in accrued interest payable	(40)	(134)
Decrease in other accrued expenses	451	1,271
Increase in accrued income taxes payable	13	287
Other, net	133	39
<b>Net Cash Provided by Operating Activities</b>	<b>4,974</b>	<b>2,981</b>
<b>Cash Flows from Investing Activities</b>		
Net increase in loans	(5,137)	(9,527)
Purchases of investment securities	(30,911)	(31,620)
Purchases of mortgage-backed securities	(27,977)	
Proceeds from maturities/principal repayments/calls of investment securities	27,559	26,417
Proceeds from maturities/principal repayments/calls of mortgage-backed securities	6,000	6,846
Proceeds from sales of investment securities	504	1,265
Proceeds from sales of mortgage-backed securities		848
Purchase of Federal Home Loan Bank stock	(60)	
Redemption of Federal Home Loan Bank stock	488	
Proceeds from sales of foreclosed real estate	383	143
Net purchases of office properties and equipment	(452)	(80)
<b>Net Cash Used in Investing Activities</b>	<b>(29,603)</b>	<b>(5,708)</b>
<b>Cash Flows from Financing Activities</b>		
Net (decrease) increase in demand, regular and club accounts	(1,400)	9,414
Net increase in certificate accounts	711	15,991
Net increase (decrease) in securities sold under agreements to repurchase	990	(315)
Additional stock proceeds less conversion expenses	457	
Purchase of ESOP shares	(1,168)	
Repayments of Federal Home Loan Bank advances	(8,633)	(19,545)

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Proceeds from Federal Home Loan Bank advances	7,752	4,990
Increase (decrease) in advance deposits by borrowers for taxes and insurance	213	(579)
<b>Net Cash (Used in) Provided by Financing Activities</b>	<b>(1,078)</b>	<b>9,956</b>
Net (Decrease) Increase in Cash and Cash Equivalents	(25,707)	7,229
Cash and Cash Equivalents - Beginning	38,988	12,420
Cash and Cash Equivalents - Ending	\$ 13,281	\$ 19,649
<b>Supplementary Cash Flows Information</b>		
Interest paid	\$ 3,804	\$ 4,978
Income taxes paid	\$ 1,204	\$ 1,275
<b>Supplementary Schedule of Noncash Investing and Financing Activities</b>		
Foreclosed real estate acquired in settlement of loans	\$ 130	\$ 252
Issuance of common stock from stock subscription payable	\$ 28,759	\$
Issuance of common stock from use of customer deposit accounts	\$ 1,201	\$
Issuance of common stock for ESOP plan	\$ 1,782	\$
Securities purchased not settled	\$ 1,160	\$

See accompanying notes to the consolidated financial statements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2011

**(1) Consolidation**

The accompanying consolidated financial statements include the accounts of Standard Financial Corp. (the Company) and its direct and indirect wholly owned subsidiaries, Standard Bank, PaSB (the Bank), and Westmoreland Investment Company. All significant intercompany accounts and transactions have been eliminated in consolidation. Standard Financial Corp. owns all of the outstanding shares of common stock of Standard Bank upon completion of the mutual-to-stock conversion which occurred on October 6, 2010. Prior to the stock conversion, the holding company of the Bank was Standard Mutual Holding Company. A total of 3,478,173 shares of common stock were issued in the offering (3,360,554 shares were subscribed for by depositors of the Bank, other investors in the subscription and community offerings and the Employee Stock Ownership Plan at a purchase price of \$10.00 per share and 117,619 shares were issued to Standard Charitable Foundation). The shares of common stock began trading on the Nasdaq Capital Market under the trading symbol STND on October 7, 2010.

**(2) Basis of Presentation**

The accompanying consolidated financial statements were prepared in accordance with instructions to Form 10-Q, and therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles in the United States. All adjustments (consisting of normal recurring adjustments), which, in the opinion of management are necessary for a fair presentation of the financial statements and to make the financial statements not misleading have been included. These financial statements should be read in conjunction with the audited financial statements and the accompanying notes thereto included in the Company's Annual Report for the fiscal year ended September 30, 2010. The results for the three and nine month periods ended June 30, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2011 or any future interim period.

Certain amounts in the 2010 financial statements have been reclassified to conform with the 2011 presentation format. These reclassifications had no effect on stockholders' equity or net income.

**(3) Comprehensive Income (Loss)**

Recognized revenue, expenses, gains and losses are included in net income. However, certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of stockholders' equity in the Statements of Financial Condition. Such items, along with net income, are components of comprehensive income. The components of other comprehensive income (loss) and related tax effects for the three and nine months ended June 30, 2011 and 2010 are as follows (dollars in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Unrealized holding gain (loss) on available-for-sale securities	\$ 1,331	\$ 236	\$ (344)	\$ 23
Reclassification adjustment for gains realized in income			(2)	(8)
<b>Net Unrealized Gain (Loss)</b>	<b>1,331</b>	<b>236</b>	<b>(346)</b>	<b>15</b>
Income tax (expense) benefit	(453)	(80)	118	(5)
<b>Net of Tax Amount</b>	<b>\$ 878</b>	<b>\$ 156</b>	<b>\$ (228)</b>	<b>\$ 10</b>



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2011

**(4) Recent Accounting Pronouncements**

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends Subtopic 820-10 to clarify existing disclosures, require new disclosures, and includes conforming amendments to guidance on employers' disclosures about postretirement benefit plan assets. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The adoption of this guidance is not expected to have a significant impact on the Company's financial statements.

In July 2010, FASB issued ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. ASU 2010-20 is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. The Company has presented the necessary disclosures in the Note 7 herein.

In September, 2010, the FASB issued ASU 2010-25, *Plan Accounting - Defined Contribution Pension Plans*. The amendments in this ASU require that participant loans be classified as notes receivable from participants, which are segregated from plan investments and measured at their unpaid principal balance plus any accrued but unpaid interest. The amendments in this update are effective for fiscal years ending after December 15, 2010 and are not expected to have a significant impact on the Company's financial statements.

In October, 2010, the FASB issued ASU 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*. This ASU addresses the diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. The amendments are effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2011 and are not expected to have a significant impact on the Company's financial statements.

In December, 2010, the FASB issued ASU 2010-28, *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*. This ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating an impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments in this Update are effective for fiscal year, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities may early adopt the amendments using the effective date for public entities. This ASU is not expected to have a significant impact on the Company's financial statements.

In December 2010, the FASB issued ASU 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations*. The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination

included in the reported pro forma revenue and earnings. The

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2011

**(4) Recent Accounting Pronouncements (Continued)**

amendments in this Update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

In January 2011, the FASB issued ASU 2011-01, *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20*. The amendments in this Update temporarily delay the effective date of the disclosures about troubled debt restructurings in Update 2010-20, enabling public-entity creditors to provide those disclosures after the FASB clarifies the guidance for determining what constitutes a troubled debt restructuring. The deferral in this Update will result in more consistent disclosures about troubled debt restructurings. This amendment does not defer the effective date of the other disclosure requirements in Update 2010-20. In the proposed Update for determining what constitutes a troubled debt restructuring, the FASB proposed that the clarifications would be effective for interim and annual periods ending after June 15, 2011. For the new disclosures about troubled debt restructurings in Update 2010-20, those clarifications would be applied retrospectively to the beginning of the fiscal year in which the proposal is adopted. The adoption of this guidance is not expected to have a significant impact on the Company's financial statements.

In April 2011, the FASB issued ASU 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. The amendments in this Update provide additional guidance or clarification to help creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. The amendments in this Update are effective for the first interim or annual reporting period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning annual period of adoption. As a result of applying these amendments, an entity may identify receivables that are newly considered impaired. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. This ASU is not expected to have a significant impact on the Company's financial statements.

In April 2011, the FASB issued ASU 2011-03, *Reconsideration of Effective Control for Repurchase Agreements*. The main objective in developing this Update is to improve the accounting for repurchase agreements (repos) and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments in this Update remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. The amendments in this Update apply to all entities, both public and nonpublic. The amendments affect all entities that enter into agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity. The guidance in this Update is effective for the first interim or annual period beginning on or after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2011. Early application by public entities is not permitted. This ASU is not expected to have a significant impact on the Company's financial statements.





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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2011

**(4) Recent Accounting Pronouncements (Continued)**

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income. The amendments in this Update improve the comparability, clarity, consistency, and transparency of financial reporting and increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. GAAP and IFRS, the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. All entities that report items of comprehensive income, in any period presented, will be affected by the changes in this Update. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The amendments in this Update should be applied retrospectively, and early adoption is permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2011

**(5) Investment Securities**

Investment securities available for sale at June 30, 2011 and at September 30, 2010 were as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>June 30, 2011:</b>				
U.S. government and agency obligations due:				
Beyond 1 year but within 5 years	\$ 21,503	\$ 105	\$	\$ 21,608
Beyond 5 years but within 10 years	3,000		(2)	2,998
Corporate bonds due:				
Within 1 year	1,002	3		1,005
Beyond 1 year but within 5 years	6,253	14	(8)	6,259
Municipal obligations due:				
Within 1 year	3,500	16		3,516
Beyond 1 year but within 5 years	680	10		690
Beyond 5 years but within 10 years	12,717	343	(14)	13,046
Beyond 10 years	7,889	443	(6)	8,326
Equity securities:				
CRA Investment Fund	750	6		756
Freddie Mac common stock	10			10
Common stocks	372	59	(16)	415
	\$ 57,676	\$ 999	\$ (46)	\$ 58,629

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>September 30, 2010:</b>				
U.S. government and agency obligations due:				
Beyond 1 year but within 5 years	\$ 25,846	\$ 94	\$	\$ 25,940
Beyond 5 years but within 10 years	1,002	7		1,009
Corporate bonds due:				
Within 1 year	1,521	27		1,548
Beyond 1 year but within 5 years	6,255	16	(24)	6,247
Municipal obligations due:				
Within 1 year	2,402	13		2,415
Beyond 1 year but within 5 years	4,203	69		4,272
Beyond 5 years but within 10 years	3,864	232		4,096
Beyond 10 years	7,568	699		8,267
Equity securities:				
CRA Investment Fund	750	11		761

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Freddie Mac common stock	10			10
Common stocks	374	29	(20)	383
	\$ 53,795	\$ 1,197	\$ (44)	\$ 54,948

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2011

**(5) Investment Securities (Continued)**

During the nine months ended June 30, 2011, gains on sales of investment securities were \$2,000 and proceeds from such sales were \$504,000. During the nine months ended June 30, 2010, gains and losses on sales of investment securities netted to \$0 and proceeds from such sales were \$1.3 million.

The following table shows the fair value and gross unrealized losses on investment securities and the length of time that the securities have been in a continuous unrealized loss position at June 30, 2011 and at September 30, 2010 (dollars in thousands):

	Less than 12 Months		June 30, 2011 12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government and agency obligations	\$ 2,998	\$ (2)	\$	\$	\$ 2,998	\$ (2)
Corporate bonds	4,992	(8)			4,992	(8)
Municipal obligations	3,563	(20)			3,563	(20)
Equity securities			64	(16)	64	(16)
<b>Total Temporarily Impaired Securities</b>	<b>\$ 11,553</b>	<b>\$ (30)</b>	<b>\$ 64</b>	<b>\$ (16)</b>	<b>\$ 11,617</b>	<b>\$ (46)</b>

	Less than 12 Months		September 30, 2010 12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate bonds	\$ 3,976	\$ (24)	\$	\$	\$ 3,976	\$ (24)
Equity securities			60	(20)	60	(20)
<b>Total Temporarily Impaired Securities</b>	<b>\$ 3,976</b>	<b>\$ (24)</b>	<b>\$ 60</b>	<b>\$ (20)</b>	<b>\$ 4,036</b>	<b>\$ (44)</b>

At June 30, 2011 and September 30, 2010, the Company held 13 and 7, respectively, securities in an unrealized loss position. The decline in the fair value of these securities resulted primarily from interest rate fluctuations. The Company does not intend to sell these securities nor is it more likely than not that the Company would be required to sell these securities before its anticipated recovery, and the Company believes the collection of the investment and related interest is probable. Based on the above, the Company considers all of the unrealized losses to be temporary impairment losses.



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2011

**(6) Mortgage-Backed Securities**

Mortgage-backed securities available for sale at June 30, 2011 and at September 30, 2010 were as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>June 30, 2011:</b>				
Government pass-throughs:				
Government National Mortgage Association	\$ 19,424	\$ 107	\$ (49)	\$ 19,482
Freddie Mac	5,270	329		5,599
Fannie Mae	18,367	347	(97)	18,617
Private pass-throughs	133		(1)	132
Collateralized mortgage obligations	471	10		481
	\$ 43,665	\$ 793	\$ (147)	\$ 44,311
<b>September 30, 2010:</b>				
Government pass-throughs:				
Government National Mortgage Association	\$ 6,665	\$ 69	\$	\$ 6,734
Freddie Mac	7,876	412		8,288
Fannie Mae	6,447	296		6,743
Private pass-throughs	139		(1)	138
Collateralized mortgage obligations	672	14		686
	\$ 21,799	\$ 791	\$ (1)	\$ 22,589

During the nine months ended June 30, 2011, there were no sales of mortgage-backed securities. During the nine months ended June 30, 2010, gains on sales of mortgage-backed securities totaled \$8,000 and proceeds from such sales were \$848,000.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2011

**(6) Mortgage-Backed Securities (Continued)**

The following table shows the fair value and gross unrealized losses on mortgage-backed securities and the length of time that the securities have been in a continuous unrealized loss position at June 30, 2011 and at September 30, 2010 (dollars in thousands):

	Less than 12 Months		June 30, 2011 12 Months or More		Total	
	Fair	Gross	Fair	Gross	Fair	Gross
	Value	Unrealized Losses	Value	Unrealized Losses	Value	Unrealized Losses
Government National Mortgage Association	\$ 10,137	\$ (49)	\$	\$	\$ 10,137	\$ (49)
Fannie Mae	9,991	(97)			9,991	(97)
Private pass-throughs	132	(1)			132	(1)
<b>Total Temporarily Impaired Securities</b>	<b>\$ 20,260</b>	<b>\$ (147)</b>	<b>\$</b>	<b>\$</b>	<b>\$ 20,260</b>	<b>\$ (147)</b>

  

	Less than 12 Months		September 30, 2010 12 Months or More		Total	
	Fair	Gross	Fair	Gross	Fair	Gross
	Value	Unrealized Losses	Value	Unrealized Losses	Value	Unrealized Losses
Private pass-throughs	\$	\$	\$ 138	\$ (1)	\$ 138	\$ (1)
<b>Total Temporarily Impaired Securities</b>	<b>\$</b>	<b>\$</b>	<b>\$ 138</b>	<b>\$ (1)</b>	<b>\$ 138</b>	<b>\$ (1)</b>

At June 30, 2011 and September 30, 2010, the Company held 6 and 1, respectively, mortgage-backed securities in an unrealized loss position. The decline in the fair value of these securities resulted primarily from interest rate fluctuations. The Company does not intend to sell these securities nor is it more likely than not that the Company would be required to sell these securities before its anticipated recovery, and the Company believes the collection of the investment and related interest is probable. Based on the above, the Company considers all of the unrealized losses to be temporary impairment losses.

Mortgage-backed securities with a carrying value of \$26.1 million and \$9.0 million were pledged to secure repurchase agreements and public fund accounts at June 30, 2011 and at September 30, 2010, respectively.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2011

**(7) - Loans Receivable and Related Allowance for Loan Losses**

The following table summarizes the primary segments of the loan portfolio as of June 30, 2011 and September 30, 2010 (dollars in thousands):

	Real Estate Loans					Other Loans (1)	Total
	One-to-four-family		Home Equity Loans and Lines of Credit	Commercial	Commercial		
	Residential and Construction	Commercial Real Estate					
<b>June 30, 2011:</b>							
Total loans before allowance for loan losses	\$ 146,442	\$ 87,328	\$ 46,277	\$ 11,888	\$ 2,476	\$ 294,411	
Individually evaluated for impairment	\$	\$ 2,165	\$	\$	\$	\$ 2,165	
Collectively evaluated for impairment	\$ 146,442	\$ 85,163	\$ 46,277	\$ 11,888	\$ 2,476	\$ 292,246	
<b>September 30, 2010:</b>							
Total loans before allowance for loan losses	\$ 143,513	\$ 86,051	\$ 47,523	\$ 9,956	\$ 3,012	\$ 290,055	
Individually evaluated for impairment	\$	\$ 1,379	\$	\$ 1,000	\$	\$ 2,379	
Collectively evaluated for impairment	\$ 143,513	\$ 84,672	\$ 47,523	\$ 8,956	\$ 3,012	\$ 287,676	

(1) Consists of automobile loans, consumer loans and loans secured by savings accounts.

The segments of the Bank's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. Real estate loans are disaggregated into three categories which include one-to-four family residential (including residential construction loans), commercial real estate (which are primarily first liens) and home equity loans and lines of credit (which are generally second liens). The commercial loan segment consists of loans made for the purpose of financing the activities of commercial customers. Other loans consist of automobile loans, consumer loans and loans secured by savings accounts.

Management evaluates individual loans in the commercial and commercial real estate loan segments for possible impairment if the loan is in nonaccrual status or is risk rated Substandard, Doubtful or Loss and is greater than 90 days past due. Loans are considered to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a 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. The Company does not separately evaluate individual consumer and residential real estate loans for impairment, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring agreement. Once the determination has been made that a loan is impaired, the determination of whether a specific allocation of the allowance is necessary is measured by comparing the recorded investment in the loan to the fair value of the loan using one of three methods: (a) the present value of expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable





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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2011

**(7) - Loans Receivable and Related Allowance for Loan Losses (Continued)**

market price; or (c) the fair value of the collateral less selling costs. The method is selected on a loan-by loan basis, with management primarily utilizing the fair value of collateral method. The evaluation of the need and amount of a specific allocation of the allowance and whether a loan can be removed from impairment status is made on a quarterly basis. The Company's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary at June 30, 2011 and September 30, 2010 (dollars in thousands):

	Impaired Loans With Allowance		Impaired Loans Without Allowance		Total Impaired Loans Unpaid Principal Balance
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	
<b>June 30, 2011:</b>					
Commercial real estate	\$ 2,165	\$ 650	\$	\$ 2,165	\$ 2,165
Commercial					
Total impaired loans	\$ 2,165	\$ 650	\$	\$ 2,165	\$ 2,165
<b>September 30, 2010:</b>					
Commercial real estate	\$ 1,379	\$ 414	\$	\$ 1,379	\$ 1,379
Commercial	1,000	300		1,000	1,000
Total impaired loans	\$ 2,379	\$ 714	\$	\$ 2,379	\$ 2,379

The following table presents the average recorded investment in impaired loans and related interest income recognized for the periods indicated (dollars in thousands):

	Three months ended June 30,		Nine months ended June 30,	
	2011	2010	2011	2010
<b>Average investment in impaired loans:</b>				
Commercial real estate	\$ 1,772	\$	\$ 1,513	\$
Commercial	489		823	

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Total impaired loans	\$	2,261	\$	\$	2,336	\$
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**Interest income recognized on impaired loans:**

Accrual basis	\$		\$	\$		\$
Cash basis	\$		\$	\$		\$

The loan rating categories utilized by management generally follow bank regulatory definitions. The special mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a substandard classification. Loans in the substandard

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2011

**(7) - Loans Receivable and Related Allowance for Loan Losses (Continued)**

category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered substandard. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets (or portions of assets) classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted and are charged off against the loan loss allowance. The pass category includes all loans not considered special mention, substandard, doubtful or loss.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Bank has a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential real estate loans are included in the pass categories unless a specific action, such as delinquency, bankruptcy, repossession, or death occurs to raise awareness of a possible credit event. The Bank's commercial loan officers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. An annual loan review is performed for all commercial real estate and commercial loans for all commercial relationships greater than \$500,000. The Bank engages an external consultant to conduct loan reviews on at least an annual basis. Generally, the external consultant reviews commercial relationships greater than \$500,000 and all criticized relationships. Loans in the special mention, substandard or doubtful categories that are collectively evaluated for impairment are given separate consideration in the determination of the loan loss allowance.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2011

**(7) - Loans Receivable and Related Allowance for Loan Losses (Continued)**

The following table presents the classes of the loan portfolio summarized by the aggregate pass and the criticized categories of special mention, substandard and doubtful within the internal risk rating system as of June 30, 2011 and September 30, 2010 (dollars in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
<b>June 30, 2011:</b>					
First mortgage loans:					
One-to-four-family residential and construction	\$ 145,570	\$	\$ 872	\$	\$ 146,442
Commercial real estate	80,836	2,958	3,534		87,328
Home equity loans and lines of credit	46,205		72		46,277
Commercial loans	10,849		1,039		11,888
Other loans (1)	2,469		4	3	2,476
Total	\$ 285,929	\$ 2,958	\$ 5,521	\$ 3	\$ 294,411
<b>September 30, 2010:</b>					
First mortgage loans:					
One-to-four-family residential and construction	\$ 142,457	\$	\$ 1,056	\$	\$ 143,513
Commercial real estate	79,023	5,392	1,636		86,051
Home equity loans and lines of credit	47,307		216		47,523
Commercial loans	8,956		1,000		9,956
Other loans (1)	2,998			14	3,012
Total	\$ 280,741	\$ 5,392	\$ 3,908	\$ 14	\$ 290,055

(1) Consists of automobile loans, consumer loans and loans secured by savings accounts.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2011

**(7) - Loans Receivable and Related Allowance for Loan Losses (Continued)**

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of June 30, 2011 and September 30, 2010 (dollars in thousands):

	Current	30-59 Days Past Due	60-89 Days Past Due	Non-Accrual (90 Days+)	Total Loans
<b>June 30, 2011:</b>					
First mortgage loans:					
One-to-four-family residential and construction	\$ 142,938	\$ 1,214	\$ 1,416	\$ 874	\$ 146,442
Commercial real estate	81,890	2,213	990	2,235	87,328
Home equity loans and lines of credit	46,147	34	25	71	46,277
Commercial loans	11,753	50	85		11,888
Other loans (1)	2,463	6	4	3	2,476
<b>Total</b>	<b>\$ 285,191</b>	<b>\$ 3,517</b>	<b>\$ 2,520</b>	<b>\$ 3,183</b>	<b>\$ 294,411</b>
<b>September 30, 2010:</b>					
First mortgage loans:					
One-to-four-family residential and construction	\$ 138,312	\$ 2,842	\$ 1,303	\$ 1,056	\$ 143,513
Commercial real estate	81,750	2,261	404	1,636	86,051
Home equity loans and lines of credit	47,016	284	7	216	47,523
Commercial loans	8,956			1,000	9,956
Other loans (1)	2,976	22		14	3,012
<b>Total</b>	<b>\$ 279,010</b>	<b>\$ 5,409</b>	<b>\$ 1,714</b>	<b>\$ 3,922</b>	<b>\$ 290,055</b>

(1) Consists of automobile loans, consumer loans and loans secured by savings accounts.

An allowance for loan losses ( ALL ) is maintained to absorb losses from the loan portfolio. The ALL is based on management's continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of non-performing loans.

Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are modified by other qualitative

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factors. Management tracks the historical net charge-off activity for the loan segments which may be adjusted for qualitative factors. Pass rated credits are segregated from criticized credits for the application of qualitative factors. Loans in the criticized pools, which possess certain qualities or characteristics that may lead to collection and loss issues, are closely monitored by management and subject to additional qualitative factors.

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June 30, 2011

**(7) - Loans Receivable and Related Allowance for Loan Losses (Continued)**

Management has identified a number of additional qualitative factors which it uses to supplement the historical charge-off factor because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The additional factors are evaluated using information obtained from internal, regulatory, and governmental sources such as national and local economic trends and conditions; levels of and trends in delinquency rates and non-accrual loans; trends in volumes and terms of loans; effects of changes in lending policies; value of underlying collateral; and concentrations of credit from a loan type, industry and/or geographic standpoint.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL. Management utilizes an internally developed spreadsheet to track and apply the various components of the allowance.

The following table summarizes the primary segments of the ALL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of June 30, 2011 and September 30, 2010. Activity in the allowance is presented for the three and nine months ended June 30, 2011 (dollars in thousands):



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2011

**(7) - Loans Receivable and Related Allowance for Loan Losses (Continued)**

	Real Estate Loans					Total
	One-to-four-family Residential and Construction	Commercial Real Estate	Home Equity Loans and Lines of Credit	Commercial	Other Loans (1)	
<b>Three Months Ended June 30,</b>						
Balance at March 31, 2011	\$ 908	\$ 2,722	\$ 227	\$ 454	\$ 227	\$ 4,538
Charge-offs	(84)	(284)	(26)	(39)	(18)	(451)
Recoveries				23	3	26
Provision	85	256	21	42	21	425
Balance at June 30, 2011	\$ 909	\$ 2,694	\$ 222	\$ 480	\$ 233	\$ 4,538
<b>Nine Months Ended June 30,</b>						
Balance at September 30, 2010	\$ 609	\$ 2,460	\$ 220	\$ 483	\$ 217	\$ 3,989
Charge-offs	(109)	(476)	(26)	(85)	(36)	(732)
Recoveries	12	31		26	12	81
Provision	397	679	28	56	40	1,200
Balance at June 30, 2011	\$ 909	\$ 2,694	\$ 222	\$ 480	\$ 233	\$ 4,538
Individually evaluated for impairment	\$	\$ 650	\$	\$	\$	\$ 650
Collectively evaluated for impairment	\$ 909	\$ 2,044	\$ 222	\$ 480	\$ 233	\$ 3,888

(1) Consists of automobile loans, consumer loans and loans secured by savings accounts.

The ALL is based on estimates and actual losses will vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALL that is representative of the risk found in the components of the loan portfolio at any given date.

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June 30, 2011

**(8) Contribution to Standard Charitable Foundation**

The Company made a \$1.4 million one-time contribution to Standard Charitable Foundation during the quarter ended December 31, 2010 in connection with the stock conversion. This contribution represented \$1.2 million or 3.5% of the stock issued on October 6, 2010 and \$200,000 in cash. The after tax impact on net income of this one-time contribution was net expense of \$908,000 (net of income tax benefit of \$468,000).

**(9) Employee Stock Ownership Plan**

The Company established a tax qualified Employee Stock Ownership Plan ( ESOP ) for the benefit of its employees in conjunction with the stock conversion on October 6, 2010. Eligible employees begin to participate in the plan after one year of service and become 20% vested in their accounts after two years of service, 40% after three years of service, 60% after four years of service, 80% after five years of service and 100% after six years of service or, if earlier, upon death, disability or attainment of normal retirement age.

In connection with the stock conversion, the purchase of the 278,254 shares of the Company stock by the ESOP was funded by a loan from the Company through the Bank. Unreleased ESOP shares collateralize the loan payable, and the cost of the shares is recorded as a contra-equity account in the stockholders' equity of the Company. Shares are released as debt payments are made by the ESOP to the loan. The ESOP's sources of repayment of the loan can include dividends, if any, on the unallocated stock held by the ESOP and discretionary contributions from the Company to the ESOP and earnings thereon.

Compensation is recognized under the shares released method and compensation expense is equal to the fair value of the shares committed to be released and unallocated ESOP shares are excluded from outstanding shares for purposes of computing EPS. Compensation expense related to the ESOP of \$55,000 and \$162,000 was recognized during the three and nine months ended June 30, 2011.

As of December 31, 2010 (the ESOP's plan year end), the ESOP held a total of 278,254 shares of the Company's stock, and there were 274,640 unallocated shares. The fair market value of the unallocated ESOP shares was \$3,804,000 at December 31, 2010. During the year ended December 31, 2010, a partial year allocation of 3,614 shares was released for allocation.

**(10) Fair Value Measurements**

The Company provides disclosures about assets and liabilities carried at fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and lowest priority to unobservable inputs. The three broad levels of the fair value hierarchy are described below:

- Level I: Inputs to the valuation methodology are unadjusted quoted prices are available for identical assets or liabilities in active markets that the Company has the ability to access.
- Level II: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by corroborated or other means. If the asset or liability has a specified (contractual) term, the Level II input must be observable for substantially the full term of the asset or liability.

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Level III: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2011

**(10) Fair Value Measurements (Continued)**

The following table presents the assets reported on the balance sheet at their fair value as of June 30, 2011 and September 30, 2010 by level within the fair value hierarchy (dollars in thousands):

	June 30, 2011			Total
	Level I	Level II	Level III	
<b>Assets measured at fair value on a recurring basis:</b>				
U.S. government and agency obligations	\$	\$ 24,606	\$	\$ 24,606
Corporate bonds		7,264		7,264
Municipal obligations		25,578		25,578
Equity securities	1,181			1,181
Mortgage-backed securities		44,311		44,311
<b>Assets measured at fair value on a non-recurring basis:</b>				
Impaired loans			1,515	1,515
Foreclosed real estate			523	523
Loans held for sale		124		124
	\$ 1,181	\$ 101,883	\$ 2,038	\$ 105,102

	September 30, 2010			Total
	Level I	Level II	Level III	
<b>Assets measured at fair value on a recurring basis:</b>				
U.S. government and agency obligations	\$	\$ 26,949	\$	\$ 26,949
Corporate bonds		7,795		7,795
Municipal obligations		19,050		19,050
Equity securities	1,154			1,154
Mortgage-backed securities		22,589		22,589
<b>Assets measured at fair value on a non-recurring basis:</b>				
Impaired loans			1,665	1,665
Foreclosed real estate			884	884
Loans held for sale		461		461
	\$ 1,154	\$ 76,844	\$ 2,549	\$ 80,547

No liabilities are carried at fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. Fair values for U.S. government and agency obligations, corporate bonds, municipal obligations and mortgage-backed securities are valued at observable market data for similar assets. Equity securities are valued at the closing price reported on

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the active market on which the individual securities are traded. Impaired loans are valued on a loan by loan basis using one of three methods: a) the present value of expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral less selling costs.

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June 30, 2011

**(11) Fair Value of Financial Instruments**

Disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial condition, is required for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be sustained by comparison of independent markets and, in many cases, could not be realized in immediate settlement of the instrument. Certain financial instruments and all nonfinancial instruments are excluded from disclosure requirements. Accordingly, the aggregate fair value amounts do not represent the underlying value of the Company. The carrying amounts reported in the consolidated statements of financial condition approximate fair value for the following financial instruments: cash on hand and due from banks, interest-earning deposits in other institutions, Federal Home Loan Bank stock, accrued interest receivable, bank-owned life insurance, and accrued interest payable.

Fair values for investment securities and mortgage-backed securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments with similar credit, maturity, and interest rate characteristics. The fair values for one-to-four-family and other residential loans are estimated using current market inputs at which loans with similar terms and qualities would be made to borrowers of similar credit quality. Where quoted prices were available, such market rates were utilized. The carrying amount of construction loans approximates its fair value given their short-term nature. The fair values of loans secured by savings accounts, consumer loans, second mortgage loans, automobile, home equity, commercial loans, and loans for real estate sold on contract are estimated using discounted cash flow analyses, using interest rates currently being offered for loans in the current market with similar terms to borrowers of similar creditworthiness. The estimated fair value of nonperforming loans is the as is appraised value of the underlying collateral.

The fair values of deposits with no stated maturities, which include non-interest-bearing checking, NOW accounts, regular passbook, club accounts, and money market demand accounts, are equal to the amount payable on demand at the repricing date (i.e., their carrying amounts). Fair values of certificate accounts are estimated using a discounted cash flow calculation that applies a comparable market interest rate to the aggregated weighted-average maturity of time deposits.

Fair values of borrowed funds are estimated using a discounted cash flow calculation that applies a comparable FHLB advance rate to the weighted average maturity of the borrowings.

Fair value of off-balance sheet items is based on the current fees or costs that would be charged to enter into or terminate such arrangements and are considered nominal.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2011

**Note 11 Fair Value of Financial Instruments (Continued)**

The carrying amounts and estimated fair value of the Company's financial assets and financial liabilities at June 30, 2011 and September 30, 2010 (dollars in thousands):

	June 30, 2011		September 30, 2010	
	Fair Value	Carrying Value	Fair Value	Carrying Value
<b>Financial Assets:</b>				
Cash on hand and due from banks	\$ 2,040	2,040	\$ 2,052	\$ 2,052
Interest-earning deposits in other institutions	11,241	11,241	36,936	36,936
Investment securities	58,629	58,629	54,948	54,948
Mortgage-backed securities	44,311	44,311	22,589	22,589
Loans receivable	298,741	289,873	296,430	286,066
Loans held for sale	124	124	461	461
Accrued interest receivable	1,382	1,382	1,399	1,399
Federal Home Loan Bank stock	2,988	2,988	3,416	3,416
Bank-owned life insurance	9,687	9,687	9,419	9,419
<b>Financial Liabilities:</b>				
Deposits	318,498	314,327	321,630	316,217
Federal Home Loan Bank advances	37,936	36,924	39,417	37,805
Securities sold under agreements to repurchase	4,434	4,434	3,444	3,444
Accrued interest payable	283	283	323	323
<b>Off-balance sheet financial instruments:</b>				
Commitment to extend credit and letters of credit				

**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis provides further detail to the financial condition and results of operations of the Company. The section should be read in conjunction with the notes and financial statements presented elsewhere in this report.

The Company's critical accounting policies involving the significant judgments and assumptions used in the preparation of the unaudited Consolidated Financial Statements as of June 30, 2011 have remained unchanged from the disclosures presented in the Company's Annual Report on Form 10-K for the year ended September 30, 2010 under the section Management's Discussion and Analysis of Financial Condition and Results of Operation.

Forward-looking statements in this report relating to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The information contained in this report should be read in conjunction with the Company's most recent annual report filed with the Securities and Exchange Commission on Form 10-K for the year ended September 30, 2010. Investors are cautioned that forward-looking statements include risks and uncertainties that

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could cause actual results to differ materially from those contemplated by such statements, including without limitation, the effect of regional and national general economic conditions; competition among depository and other financial institutions; inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments; adverse changes in the securities markets; changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements; our ability to



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enter new markets successfully and capitalize on growth opportunities; our ability to successfully integrate acquired entities, if any; 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 and the Public Company Accounting Oversight Board; changes in our organization, compensation and benefit plans; changes in our financial condition or results of operations that reduce capital available to pay dividends; changes in the financial condition or future prospects of issuers of securities that we own. The Company does not assume any duty to update forward-looking statements.

Standard Financial Corp. is a Maryland corporation that provides a wide array of retail and commercial financial products and services to individuals, families and businesses through ten banking offices located in the Pennsylvania counties of Allegheny, Westmoreland and Bedford and Allegany County, Maryland through its wholly-owned subsidiary Standard Bank.

**Comparison of Financial Condition at June 30, 2011 and September 30, 2010**

**General.** The Company's total assets increased \$2.6 million, or 0.60%, to \$437.7 million at June 30, 2011 from \$435.1 million at September 30, 2010. Total assets increased due to an increase in mortgage-backed securities available for sale of \$21.7 million or 96.2%, an increase in net loans of \$3.8 million or 1.3% and an increase in investment securities of \$3.7 million or 6.7% which was offset by a decrease in cash and cash equivalents of \$25.7 million or 65.9%. The increases in mortgage-backed securities, investment securities and net loans and the offsetting decrease in cash and cash equivalents were the result of the Company investing the net proceeds received in the stock conversion.

Total liabilities of the Company decreased \$29.5 million or 7.6% to \$360.3 million at June 30, 2011 from \$389.8 million at September 30, 2010. The decrease was due primarily to the proceeds received from the stock offering of \$29.5 million held at September 30, 2010 which were used to issue stock on October 6, 2010.

Stockholders' equity increased \$32.1 million or 70.7% to \$77.4 million at June 30, 2011 from \$45.3 million at September 30, 2010. The increase was due primarily to an increase in paid-in-capital of \$33.4 million as a result of the completion of the stock conversion and an increase in retained earnings of \$1.7 million. The increase was partially offset by a decrease in unearned employee stock ownership plan of \$2.8 million which represented the unallocated employee stock ownership plan shares and a decrease in accumulated other comprehensive income of \$228,000.

**Cash and Cash Equivalents.** At June 30, 2011, cash and cash equivalents consisted of cash on hand and due from banks and interest-earning deposits. Cash and cash equivalents decreased \$25.7 million or 65.9% to \$13.3 million at June 30, 2011 from \$39.0 million at September 30, 2010. This decrease was due primarily to a decrease in interest-earning deposits as proceeds from the stock conversion were used to purchase securities and fund loans.

**Loans.** At June 30, 2011, net loans were \$289.9 million, or 66.2% of total assets, an increase of \$3.8 million from \$286.1 million or 65.8% of total assets at September 30, 2010. This increase was primarily due to increases of \$3.2 million in the commercial and commercial real estate portfolios and \$2.9 million in the one- to four-family residential and construction portfolio, partially offset by a decrease of \$1.3 million in the home equity portfolio.

**Investment Securities.** At June 30, 2011, the Company's investment securities available for sale portfolio increased \$3.7 million or 6.7% to \$58.6 million at June 30, 2011 from \$54.9 million at September 30, 2010. Purchases during the nine months ended June 30, 2011 of \$30.9 million were offset by maturities, repayments and calls of \$27.6 million and sales of \$504,000 of investment securities and net unrealized losses of \$200,000.

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***Mortgage-Backed Securities.*** At June 30, 2011, the Company's mortgage-backed securities available for sale portfolio increased \$21.7 million or 96.1% to \$44.3 million at June 30, 2011 from \$22.6 million at September 30, 2010. Purchases of mortgage-backed securities during the nine months ended June 30, 2011 were \$28.0 million utilizing proceeds from the stock conversion. Partially offsetting these increases were repayments on mortgage-backed securities of \$6.0 million and net unrealized losses of \$144,000.

***Deposits.*** We accept deposits primarily from the areas in which our offices are located. We have consistently focused on building broader customer relationships and targeting small business customers to increase our core deposits. We also rely on our enhanced technology and our customer service to attract and retain deposits. We offer a variety of deposit accounts with a range of interest rates and terms. Our deposit accounts consist of savings accounts, certificates of deposit, money market accounts, commercial and regular checking accounts and individual retirement accounts. We do not accept brokered deposits.

Interest rates, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market interest rates, liquidity requirements and our deposit growth goals.

Our deposits decreased \$1.9 million, or 0.60%, to \$314.3 million at June 30, 2011 from \$316.2 million at September 30, 2010. The decrease resulted from a \$7.5 million, or 5.7%, decrease in savings and money market accounts, partially offset by an increase in demand and NOW accounts of \$5.2 million or 8.8% and an increase in certificate of deposit accounts of \$423,000 or 0.34%. The decrease was due in part to depositors using funds from their accounts to purchase stock in the stock offering.

***Borrowings.*** Our borrowings consist of advances from the Federal Home Loan Bank of Pittsburgh and funds borrowed under repurchase agreements. Total borrowings increased \$109,000 or 0.26% to \$41.3 million at June 30, 2011 from \$41.2 million at September 30, 2010. The slight increase was due to new advances totaling \$7.7 million and a \$1.0 million increase in repurchase agreements with commercial deposit customers, substantially offset by repayments of advances of \$8.6 million.

***Stockholders' Equity.*** Stockholders' equity increased \$32.1 million or 70.7% to \$77.4 million at June 30, 2011 from \$45.3 million at September 30, 2010. The increase was due primarily to an increase in paid-in-capital of \$33.4 million as a result of the completion of the stock conversion and earnings for the nine month period ended June 30, 2011 of \$1.7 million. The increase was partially offset by a decrease in unearned employee stock ownership plan shares of \$2.8 million which represented the unallocated employee stock ownership plan shares and a decrease in accumulated other comprehensive income of \$228,000.

## **Average Balance and Yields**

The following tables set forth average balance sheets, average yields and costs, and certain other information for the periods indicated. No tax-equivalent yield adjustments were made, as the effect thereof was not material. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or expense.

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	For the Three Months Ended June 30,					
	2011			2010		
	Average Outstanding Balance	Interest	Yield/ Rate (Dollars in thousands)	Average Outstanding Balance	Interest	Yield/ Rate
<b>Interest-earning assets:</b>						
Loans	\$ 295,502	\$ 3,918	5.30%	\$ 282,419	\$ 3,986	5.65%
Investment and mortgage-backed securities	101,789	724	2.85%	66,271	511	3.08%
Interest earning deposits	12,190	1	0.03%	14,536	11	0.30%
<b>Total interest-earning assets</b>	<b>409,481</b>	<b>4,643</b>	<b>4.54%</b>	<b>363,226</b>	<b>4,508</b>	<b>4.96%</b>
Noninterest-earning assets	28,278			32,568		
<b>Total assets</b>	<b>\$ 437,759</b>			<b>\$ 395,794</b>		
<b>Interest-bearing liabilities:</b>						
Savings accounts	\$ 120,291	106	0.35%	\$ 125,807	269	0.86%
Certificates of deposit	125,470	782	2.49%	122,245	821	2.69%
Money market accounts	6,076	3	0.20%	5,644	9	0.64%
Demand and NOW accounts	62,154	14	0.09%	56,908	28	0.20%
<b>Total deposits</b>	<b>313,991</b>	<b>905</b>	<b>1.15%</b>	<b>310,604</b>	<b>1,127</b>	<b>1.45%</b>
Federal Home Loan Bank advances	38,236	283	2.96%	33,816	336	3.97%
Securities sold under agreements to repurchase	5,792	4	0.28%	3,373	7	0.83%
<b>Total interest-bearing liabilities</b>	<b>358,019</b>	<b>1,192</b>	<b>1.33%</b>	<b>347,793</b>	<b>1,470</b>	<b>1.69%</b>
Noninterest-bearing liabilities	3,297			3,855		
<b>Total liabilities</b>	<b>361,316</b>			<b>351,648</b>		
Stockholders' equity	76,443			44,146		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 437,759</b>			<b>\$ 395,794</b>		
<b>Net interest income</b>		<b>\$ 3,451</b>			<b>\$ 3,038</b>	
Net interest rate spread <sup>(1)</sup>			3.20%			3.27%
Net interest-earning assets <sup>(2)</sup>	\$ 51,462			\$ 15,433		
Net interest margin <sup>(3)</sup>			3.37%			3.35%
Average interest-earning assets to interest-bearing liabilities	114.37%			104.44%		

(1) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(2) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.

(3) Net interest margin represents net interest income divided by average total interest-earning assets.

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	For the Nine Months Ended June 30,					
	2011			2010		
	Average Outstanding Balance	Interest	Yield/ Rate (Dollars in thousands)	Average Outstanding Balance	Interest	Yield/ Rate
<b>Interest-earning assets:</b>						
Loans	\$ 294,674	\$ 11,856	5.36%	\$ 279,381	\$ 11,986	5.72%
Investment and mortgage-backed securities	97,587	2,074	2.83%	67,942	1,653	3.24%
Interest earning deposits	15,103	7	0.06%	14,940	29	0.26%
<b>Total interest-earning assets</b>	<b>407,364</b>	<b>13,937</b>	<b>4.56%</b>	<b>362,263</b>	<b>13,668</b>	<b>5.03%</b>
Noninterest-earning assets	28,555			30,527		
<b>Total assets</b>	<b>\$ 435,919</b>			<b>\$ 392,790</b>		
<b>Interest-bearing liabilities:</b>						
Savings accounts	\$ 121,415	418	0.46%	\$ 124,033	934	1.00%
Certificates of deposit	124,878	2,391	2.55%	116,898	2,492	2.84%
Money market accounts	6,247	11	0.23%	5,425	16	0.39%
Demand and NOW accounts	60,956	43	0.09%	54,557	81	0.20%
<b>Total deposits</b>	<b>313,496</b>	<b>2,863</b>	<b>1.22%</b>	<b>300,913</b>	<b>3,523</b>	<b>1.56%</b>
Federal Home Loan Bank advances	37,955	888	3.12%	41,904	1,298	4.13%
Securities sold under agreements to repurchase	5,197	13	0.33%	3,480	23	0.88%
<b>Total interest-bearing liabilities</b>	<b>356,648</b>	<b>3,764</b>	<b>1.41%</b>	<b>346,297</b>	<b>4,844</b>	<b>1.87%</b>
Noninterest-bearing liabilities	3,763			3,026		
<b>Total liabilities</b>	<b>360,411</b>			<b>349,323</b>		
Stockholders' equity	75,508			43,467		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 435,919</b>			<b>\$ 392,790</b>		
<b>Net interest income</b>		<b>\$ 10,173</b>			<b>\$ 8,824</b>	
Net interest rate spread <sup>(1)</sup>			3.15%			3.17%
Net interest-earning assets <sup>(2)</sup>	\$ 50,716			\$ 15,966		
Net interest margin <sup>(3)</sup>			3.33%			3.25%
Average interest-earning assets to interest-bearing liabilities	114.22%			104.61%		

(1) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(2) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.

(3) Net interest margin represents net interest income divided by average total interest-earning assets.

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**Table of Contents****Comparison of Operating Results for the Three Months Ended June 30, 2011 and 2010**

**General.** Net income for the quarter ended June 30, 2011 was \$845,000, an increase of \$108,000 or 14.7%, from \$737,000 for the quarter ended June 30, 2010. The increase in net income was primarily the result of an increase in net interest income of \$413,000 or 13.6%, partially offset by increases in the provision for loan losses of \$75,000 and non-interest expenses of \$167,000.

**Net Interest Income.** Net interest income increased by \$413,000 or 13.6%, to \$3.5 million for the three months ended June 30, 2011 from \$3.0 million for the three months ended June 30, 2010 due mainly to higher interest-earning assets. Our net interest rate spread and net interest rate margin were 3.20% and 3.37%, respectively for the three months ended June 30, 2011 compared to 3.27% and 3.35% for the same period in the prior year.

**Interest and Dividend Income.** Total interest and dividend income increased by \$135,000 to \$4.6 million for the three months ended June 30, 2011 as compared to the same period in the prior year. Total interest and dividend income increased due to an increase in the average balance of interest earning assets which was partially offset by a decrease in the average yield on interest earning assets. Average interest earning assets increased by \$46.3 million, or 12.7% to \$409.5 million for the three months ended June 30, 2011 from \$363.2 million for the same period in 2010. The average yield on interest earning assets decreased to 4.54% for the three months ended June 30, 2011 from 4.96% for the same period in the prior year. The average yield on all categories of interest earning assets decreased from the same period in the prior year due to historically low market interest rates.

Interest income on loans decreased \$68,000, or 1.7%, to \$3.9 million for the three months ended June 30, 2011 due to a decrease in the average yield on loans. The average yield on loans receivable decreased to 5.30% for the three months ended June 30, 2011 from 5.65% for the same period in the prior year. The decrease in average yield was primarily attributable to our variable rate loans adjusting downward as well as the origination of new loans in a generally lower interest rate environment and repayment/refinance of higher rate loans. Average loans receivable increased by \$13.1 million, or 4.6%, to \$295.5 million for the three months ended June 30, 2011 from \$282.4 million for the same period in the prior year. This increase was primarily attributable to continued loan demand throughout our market area.

Interest income on investment and mortgage-backed securities increased by \$213,000, or 41.7%, to \$724,000 for the three months ended June 30, 2011 from \$511,000 for the same period in the prior year. This increase was due primarily to an increase in the average balance of investment and mortgage-backed securities, which increased by \$35.5 million, or 53.6%, to \$101.8 million for the three months ended June 30, 2011 from \$66.3 million for the same period in the prior year. The increase in the average balance of investment and mortgage backed securities was due to the investment of the net proceeds from the stock conversion. This increase was partially offset by a decrease in the average yield earned on investments and mortgage-backed securities, which decreased to 2.85% for the three months ended June 30, 2011 from 3.08% for the same period in the prior year due to new investments added in a lower interest rate environment and variable rate investments that adjusted downward.

**Interest Expense.** Total interest expense decreased by \$278,000, or 18.9%, to \$1.2 million for the three months ended June 30, 2011 from \$1.5 million for the same period in 2010. This decrease in interest expense was due to a decrease in the average cost of interest-bearing liabilities to 1.33% for the three months ended June 30, 2011 from 1.69% for the prior year period, which was partially offset by an increase in the average balance of interest-bearing liabilities. Average interest-bearing liabilities increased by \$10.2 million, or 2.9%, to \$358.0 million for the three months ended June 30, 2011 from \$347.8 million for the same period in the prior year.

Interest expense on deposits decreased by \$222,000, or 19.7%, to \$905,000 for the three months ended June 30, 2011 from \$1.1 million for the same period in the prior year. This was primarily the result of

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a decrease in interest expense on savings accounts of \$163,000 or 60.6% and a decrease in interest expense on certificates of deposit of \$39,000 or 4.8%. The average cost of deposits declined from 1.45% for the three months ended June 30, 2010 to 1.15% for the three months ended June 30, 2011. The continued low level of market interest rates enabled us to reduce the rates of interest paid on deposit products. In addition, the average balance of savings accounts decreased \$5.5 million or 4.4% to \$120.3 million for the three months ended June 30, 2011 compared to the same period in 2010. Partially offsetting these decreases was an increase in the average balance of certificates of deposit which increased \$3.3 million, or 2.7%, to \$125.5 million for the three months ended June 30, 2011 from \$122.2 million for the same period in 2010, and an increase in the average balance of demand and NOW accounts of \$5.2 million or 9.2% to \$62.2 million for the three months ended June 30, 2011 compared to the same period in 2010.

Interest expense on Federal Home Loan Bank advances decreased \$53,000 or 15.8%, to \$283,000 for the three months ended June 30, 2011 from \$336,000 for the same period during 2010. The average cost of Federal Home Loan Bank advances decreased to 2.96% for the quarter ended June 30, 2011 from 3.97% for the quarter ended June 30, 2010. Partially offsetting this decrease was an increase in the average balance of Federal Home Loan Bank advances of \$4.4 million or 13.1% to \$38.2 million for the three months ended June 30, 2011 compared to the same period in the prior year.

**Provision for Loan Losses.** The provision for loan losses increased by \$75,000, or 21.4%, to \$425,000 for the three months ended June 30, 2011 from \$350,000 for the same period in 2010. Non-performing loans at June 30, 2011 were \$3.2 million or 1.1% of total loans compared to \$1.4 million or 0.48% of total loans at June 30, 2010. The increase in non-performing loans from the prior year was due primarily to two commercial loan participations with outstanding balances totaling \$1.9 million at June 30, 2011. The provision that was recorded is sufficient, in management's judgment, to bring the allowance for loan losses to a level that reflects the losses inherent in our loan portfolio relative to loan mix, economic conditions and historical loss experience. Management believes, to the best of their knowledge, that all known losses as of the balance sheet dates have been recorded.

**Noninterest Income.** Noninterest income decreased \$21,000 or 3.4%, to \$596,000 for the three months ended June 30, 2011 from \$617,000 for the same period in the prior year due mainly to lower overdraft fee income.

**Noninterest Expense.** Noninterest expense increased by \$167,000 or 7.5%, to \$2.4 million for the three months ended June 30, 2011 compared to the same period in 2010. The increase was due primarily to increased compensation and employee benefits, a portion relating to compensation expense on the ESOP, and other operating expenses, a portion of which were due to operating as a public company and additional expenses associated with managing and selling real estate owned properties.

**Income Tax Expense.** The Company recorded income tax expense of \$389,000 for the three months ended June 30, 2011 at an effective tax rate of 31.5% compared to \$347,000 for the same period in the prior year at an effective tax rate of 32.0%.

**Comparison of Operating Results for the Nine Months Ended June 30, 2011 and 2010**

**General.** Net income for the nine months ended June 30, 2011 was \$1.7 million, a decrease of \$585,000 or 25.7%, from \$2.3 million for the nine months ended June 30, 2010. The decrease in net income was due to a \$1.4 million one-time contribution to Standard Charitable Foundation (\$908,000 after tax impact). This contribution represented \$200,000 in cash and \$1.2 million or 3.5% of the stock issued on October 6, 2010. Excluding the after tax impact of the contribution, net income would have been \$2.6 million for the nine months ended June 30, 2011, an increase of \$323,000 or 14.2% compared to the prior year period. The increase was primarily the result of an increase in net interest income of \$1.3 million or 15.3% partially offset by increases in the provision for loan losses of \$421,000 and higher non-interest expenses (excluding the one-time charitable contribution) of \$675,000.

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**Net Interest Income.** Net interest income increased by \$1.3 million or 15.3%, to \$10.2 million for the nine months ended June 30, 2011 from \$8.8 million for the nine months ended June 30, 2010. Our net interest rate spread and net interest rate margin were 3.15 and 3.33%, respectively for the nine months ended June 30, 2011 compared to 3.17% and 3.25% for the same period in the prior year.

**Interest and Dividend Income.** Total interest and dividend income increased by \$269,000 to \$13.9 million for the nine months ended June 30, 2011 as compared to the same period in the prior year. Total interest and dividend income improved due to an increase in the average balance of interest earning assets which was partially offset by a decrease in the average yield on interest earning assets. Average interest earning assets increased by \$45.1 million, or 12.4% to \$407.4 million for the nine months ended June 30, 2011 from \$362.3 million for the same period in 2010. The average yield on interest earning assets decreased to 4.56% for the nine months ended June 30, 2011 from 5.03% for the same period in the prior year. The average yield on all categories of interest earning assets decreased from the same period in the prior year due to historically low market interest rates.

Interest income on loans decreased \$130,000, or 1.1%, to \$11.9 million for the nine months ended June 30, 2011 due to a decrease in the average yield on loans. The average yield on loans receivable decreased to 5.36% for the nine months ended June 30, 2011 from 5.72% for the same period in the prior year. The decrease in average yield was primarily attributable to our variable rate loans adjusting downward as well as the origination of new loans in a generally lower interest rate environment and repayment/refinance of higher rate loans. Average loans receivable increased by \$15.3 million, or 5.5%, to \$294.7 million for the nine months ended June 30, 2011 from \$279.4 million for the same period in the prior year. This increase was primarily attributable to continued loan demand throughout our market area.

Interest income on investment and mortgage-backed securities increased by \$421,000, or 25.5%, to \$2.1 million for the nine months ended June 30, 2011 from \$1.7 million for the same period in the prior year. This increase was due primarily to an increase in the average balance of investment and mortgage-backed securities, which increased by \$29.6 million, or 43.6%, to \$97.6 million for the nine months ended June 30, 2011 from \$67.9 million for the same period in the prior year. The increase in the average balance of investment and mortgage-backed securities was due to the investment of the net proceeds from the stock conversion. This increase was partially offset by a decrease in the average yield earned on investments and mortgage-backed securities, which decreased to 2.83% for the nine months ended June 30, 2011 from 3.24% for the same period in the prior year due to new investments added in a lower interest rate environment and variable rate investments that adjusted downward.

**Interest Expense.** Total interest expense decreased by \$1.1 million, or 22.3%, to \$3.8 million for the nine months ended June 30, 2011 from \$4.8 million for the same period in 2010. This decrease in interest expense was due to a decrease in the average cost of interest-bearing liabilities to 1.41% for the nine months ended June 30, 2011 from 1.87% for the prior year period, which was partially offset by an increase in the average balance of interest-bearing liabilities. Average interest-bearing liabilities increased by \$10.3 million, or 3.0%, to \$356.6 million for the nine months ended June 30, 2011 from \$346.3 million for the same period in the prior year.

Interest expense on deposits decreased by \$660,000, or 18.7%, to \$2.9 million for the nine months ended June 30, 2011 from \$3.5 million for the same period in the prior year. This was primarily the result of a decrease in interest expense on savings accounts of \$516,000 or 55.2%. The average cost of deposits declined from 1.56% for the nine months ended June 30, 2010 to 1.22% for the nine months ended June 30, 2011. The continued low level of market interest rates enabled us to reduce the rates of interest paid on deposit products. Partially offsetting this decrease in interest expense was an increase in the average balance of certificates of deposit which increased \$8.0 million, or 6.8%, to \$124.9 million for the nine months ended June 30, 2011 from \$116.9 million for the same period in 2010, and an increase in the average balance of demand and NOW accounts of \$6.4 million or 11.7% for the nine months ended June 30, 2011 compared to the same period in 2010.

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Interest expense on Federal Home Loan Bank advances decreased \$410,000 or 31.6%, to \$888,000 for the nine months ended June 30, 2011 from \$1.3 million for the same period during 2010. The average balance of Federal Home Loan Bank advances decreased \$3.9 million or 9.4% to \$38.0 million for the nine months ended June 30, 2011 compared to the same period in the prior year. In addition, the average cost of Federal Home Loan Bank advances decreased to 3.12% for the nine months ended June 30, 2011 from 4.13% for the nine months ended June 30, 2010.

**Provision for Loan Losses.** The provision for loan losses increased by \$421,000, or 54.0%, to \$1.2 million for the nine months ended June 30, 2011 from \$779,000 for the same period in 2010. Non-performing loans at June 30, 2011 were \$3.2 million or 1.1% of total loans compared to \$1.4 million or 0.48% of total loans at June 30, 2010. The increase in non-performing loans from the prior year was due primarily to two commercial loan participations with outstanding balances totaling \$1.9 million at June 30, 2011. The provision that was recorded is sufficient, in management's judgment, to bring the allowance for loan losses to a level that reflects the losses inherent in our loan portfolio relative to loan mix, economic conditions and historical loss experience. Management believes, to the best of their knowledge, that all known losses as of the balance sheet dates have been recorded.

**Noninterest Income.** Noninterest income was \$1.8 million for both the nine months ended June 30, 2011 and 2010. Gains from loan sales were offset by lower overdraft fee income and lower annuity and mutual fund fees.

**Noninterest Expense.** Noninterest expense increased by \$2.1 million or 32.1%, to \$8.4 million for the nine months ended June 30, 2011 compared to the same period in 2010. The increase was due to a \$1.4 million one-time contribution to Standard Charitable Foundation during the nine months ended June 30, 2011. Excluding the one-time charitable contribution, noninterest expenses increased \$675,000 or 10.6% due primarily to increased compensation and employee benefits, a portion relating to compensation expense on the ESOP, and other operating expenses, a portion of which were due to operating as a public company and additional expenses associated with managing and selling real estate owned properties.

**Income Tax Expense.** The Company recorded a provision for income tax of \$591,000 for the nine months ended June 30, 2011 compared to a provision for income tax of \$1.1 million for the same period in the prior year. The tax effect of the charitable foundation contribution was a benefit of \$468,000.

**Non-Performing and Problem Assets**

There were no loans in arrears 90 days or more and still accruing interest. Loans in arrears 90 days or more or in process of foreclosure (non-accrual loans) were as follows:

	Number of Loans	Amount (Dollars in Thousands)	Percentage of Loans Receivable
June 30, 2011	18	\$ 3,183	1.10%
September 30, 2010	20	3,922	1.37

At June 30, 2011, impaired loans consisted of three loans totaling \$2.2 million of which two of the impaired loans totaling \$1.9 million were commercial participation loans. One of the participation loans with a current balance of \$1.1 million (after a \$284,000 write-down) represented a 6.4% interest in a \$21.4 million loan secured by commercial real estate and a mall in West Virginia. The second commercial participation loan totaling \$832,000 represented a one third interest in a \$2.4 million loan secured by rental properties located near a college campus in Pennsylvania.



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The related allowance for loan losses on impaired loans at June 30, 2011 and September 30, 2010 was \$650,000 and \$714,000, respectively. The average recorded investment in impaired loans during the quarter and nine months ended June 30, 2011 was \$2.3 million and the Company recognized no interest income on impaired loans during those respective periods.

## **Liquidity and Capital Resources**

Liquidity is the ability to meet current and future financial obligations. Our primary sources of funds consist of deposit inflows, loan repayments, advances from the Federal Home Loan Bank of Pittsburgh, repurchase agreements and maturities, principal repayments and the sale of available-for-sale securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. We believe that we have enough sources of liquidity to satisfy our short- and long-term liquidity needs as of June 30, 2011.

At June 30, 2011, we had \$13.9 million in loan commitments outstanding, \$13.3 million of which were for commercial real estate loans and \$576,000 of which were for one- to four-family residential loans. In addition to commitments to originate loans, we had \$12.8 million in unused lines of credit to borrowers and \$724,000 in undisbursed funds for construction loans in process. Certificates of deposit due within one year of June 30, 2011 totalled \$33.3 million, or 10.6% of total deposits. If these deposits do not remain with us, we may be required to seek other sources of funds, including loan and securities sales, repurchase agreements and Federal Home Loan Bank advances.

Current regulatory requirements specify that the Bank and similar institutions must maintain leverage capital equal to 4% of adjusted total assets and risk-based capital equal to 8% of risk-weighted assets. The Federal Deposit Insurance Corporation ( FDIC ) may require higher core capital ratios if warranted, and institutions are to maintain capital levels consistent with their risk exposures. The FDIC reserves the right to apply this higher standard to any insured financial institution when considering an institution's capital adequacy. At June 30, 2011, Standard Bank was in compliance with all regulatory capital requirements with leverage and risk-based capital ratios of 12.28% and 20.14%, respectively and was considered well-capitalized under FDIC regulations.

## **ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable to smaller reporting companies.

## **ITEM 4. Controls and Procedures**

The Company's management evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures, as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There were no changes in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**PART II OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

At June 30, 2011, the Company is not involved in any pending legal proceedings other than non-material legal proceedings undertaken in the ordinary course of business.

**ITEM 1A. Risk Factors**

Not applicable to smaller reporting companies.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None

**ITEM 3. Defaults Upon Senior Securities**

None

**ITEM 4. (Removed and Reserved)**

**ITEM 5. Other Information**

(a) Not Applicable

(b) Not Applicable

**ITEM 6 Exhibits**

- 3.1 Articles of Incorporation of Standard Financial Corp.\*
- 3.2 Bylaws of Standard Financial Corp.\*
- 4 Form of Common Stock Certificate of Standard Financial Corp.\*
- 10.1 Form of Standard Bank, PaSB Employee Stock Ownership Plan\*
- 10.2 Form of Standard Financial Corp. and Standard Bank, PaSB Three-Year Employment Agreement\*
- 10.3 Form of Standard Financial Corp. and Standard Bank, PaSB Two-Year Employment Agreement\*
- 10.4 Form of Standard Bank, PaSB Change in Control Agreement\*
- 10.5 Form of Phantom Stock Agreement for Officers\*

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10.6	Form of Phantom Stock Agreement for Directors*
10.7	Chief Financial Officer Performance Based Compensation Plan*
10.8	Chief Commercial Lending Officer Performance Based Compensation Plan*
10.9	Non-Compete Agreement between Standard Bank, PaSB and David C. Mathews*
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema Document**
101.CAL	XBRL Taxonomy Calculation Linkbase Document**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document**
101.LAB	XBRL Taxonomy Label Linkbase Document**
101.PRE	XBRL Taxonomy Presentation Linkbase Document**

\* Incorporated by reference to the Registration Statement on Form S-1 of Standard Financial Corp. (File No. 333-167579), originally filed with the Securities and Exchange Commission on June 17, 2010, as amended.

\*\* We have attached these documents formatted in XBRL (Extensible Business Reporting Language) as Exhibit 101 to this report. We advise users of this data that pursuant to Rule 406T of Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**STANDARD FINANCIAL CORP.**

Signatures	Title	Date
/s/ Timothy K. Zimmerman		<u>August 10, 2011</u>
Timothy K. Zimmerman	President, Chief Executive Officer and Director (Principal Executive Officer)	
/s/ Colleen M. Brown		<u>August 10, 2011</u>
Colleen M. Brown	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	