

Standard Financial Corp.  
Form 10-Q  
February 11, 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 December 31, 2010.**

**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)**

**Maryland  
(State or other jurisdiction of  
incorporation or organization)**

**27-3100949  
(I.R.S. Employer  
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 February 1, 2011.



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**Standard Financial Corp.**  
**Consolidated Statements of Financial Condition (Unaudited)**  
**(Dollars in thousands)**

	<b>December 31, 2010</b>	<b>September 30, 2010</b>
<b>ASSETS</b>		
Cash on hand and due from banks	\$ 2,001	\$ 2,052
Interest-earning deposits in other institutions	7,144	36,936
Cash and Cash Equivalents	9,145	38,988
Investment securities available for sale, at fair value	59,147	54,948
Mortgage-backed securities available for sale, at fair value	40,930	22,589
Federal Home Loan Bank stock, at cost	3,246	3,416
Loans receivable, net of allowance for loan losses of \$4,181 and \$3,989	290,254	286,066
Loans held for sale		461
Foreclosed real estate	940	884
Office properties and equipment, at cost, less accumulated depreciation and amortization	3,874	3,847
Bank-owned life insurance	9,508	9,419
Goodwill	8,769	8,769
Core deposit intangible	813	855
Prepaid federal deposit insurance	1,071	1,174
Accrued interest and other assets	3,817	3,687
<b>TOTAL ASSETS</b>	<b>\$ 431,514</b>	<b>\$ 435,103</b>
 <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Liabilities</b>		
<b>Deposits:</b>		
Demand, regular and club accounts	\$ 187,868	\$ 190,517
Certificate accounts	124,227	125,700
Total Deposits	312,095	316,217
Federal Home Loan Bank advances	37,789	37,805
Securities sold under agreements to repurchase	4,250	3,444
Advance deposits by borrowers for taxes and insurance	112	93
Stock subscriptions outstanding		29,461
Accrued interest and other expenses	2,626	2,749

TOTAL LIABILITIES	356,872	389,769
Stockholders' Equity		
Common Stock, \$0.01 par value per share, 40,000,000 shares authorized, 3,478,173 shares issued as of December 31, 2010	35	
Paid-in-capital	33,352	
Unearned Employee Stock Ownership Plan (ESOP) shares	(2,912)	
Retained earnings	44,069	44,051
Accumulated other comprehensive income	98	1,283
 TOTAL STOCKHOLDERS' EQUITY	 74,642	 45,334
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 \$ 431,514	 \$ 435,103

See accompanying notes to the consolidated financial statements.

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

	<b>Three Months Ended</b>	
	<b>December</b>	<b>December</b>
	<b>31,</b>	<b>31,</b>
	<b>2010</b>	<b>2009</b>
Interest and Dividend Income		
Loans, including fees	\$ 3,983	\$ 4,018
Mortgage-backed securities	279	259
Investments:		
Taxable	238	217
Tax-exempt	140	106
Interest-earning deposits	11	9
<b>Total Interest and Dividend Income</b>	<b>4,651</b>	<b>4,609</b>
Interest Expense		
Deposits	1,024	1,242
Securities sold under agreements to repurchase	6	8
Federal Home Loan Bank advances	309	500
<b>Total Interest Expense</b>	<b>1,339</b>	<b>1,750</b>
<b>Net Interest Income</b>	<b>3,312</b>	<b>2,859</b>
Provision for Loan Losses	350	129
<b>Net Interest Income after Provision for Loan Losses</b>	<b>2,962</b>	<b>2,730</b>
Noninterest Income		
Service charges	423	434
Earnings on bank-owned life insurance	98	96
Net securities gains	2	
Net loan sale gains	49	1
Annuity and mutual fund fees	36	57
Other income	9	8
<b>Total Noninterest Income</b>	<b>617</b>	<b>596</b>
Noninterest Expenses		
Compensation and employee benefits	1,371	1,131
Data processing	91	99

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Premises and occupancy costs	226	218
Core deposit amortization	42	42
Automatic teller machine expense	76	68
Federal deposit insurance	111	108
Contribution to Standard Charitable Foundation	1,376	
Other operating expenses	398	328
Total Noninterest Expenses	3,691	1,994
(Loss) Income before Income Tax (Benefit) Expense	(112)	1,332
Income Tax (Benefit) Expense		
Federal	(128)	427
State	(2)	50
Total Income Tax (Benefit) Expense	(130)	477
Net Income	\$ 18	\$ 855
Earnings Per Share (since inception October 6, 2010):		
Basic earnings per common share	\$	\$ N/A
Diluted earnings per common share	\$	\$ 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	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 loss:						
Net income				18		18
Net change in unrealized loss on securities available for sale, net of reclassification adjustment, net of taxes					(1,185)	(1,185)
Total Comprehensive Loss				18	(1,185)	(1,167)
Issuance of common stock (3,478,173 shares)	35	33,340	(2,950)			30,425
Compensation expense on ESOP		12	38			50
Balance, December 31, 2010	\$ 35	\$ 33,352	\$ (2,912)	\$ 44,069	\$ 98	\$ 74,642

See accompanying notes to the consolidated financial statements.

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

	<b>Three Months Ended</b>	
	<b>December</b>	<b>December</b>
	<b>31,</b>	<b>31,</b>
	<b>2010</b>	<b>2009</b>
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 18	\$ 855
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	95	107
Provision for loan losses	350	129
Amortization of core deposit intangible	42	42
Net amortization of premium/discount on securities	93	79
Net gain on securities	(2)	
Origination of loans held for sale	(1,800)	(75)
Proceeds from sale of loans held for sale	2,310	76
Gain on sale of loans held for sale	(49)	(1)
Compensation expense on ESOP	50	
Stock contribution to Charitable Foundation	1,176	
Deferred income taxes	(468)	
Decrease in accrued interest and other assets	148	62
Decrease (increase) in prepaid Federal deposit insurance	103	(1,476)
Earnings on bank-owned life insurance	(98)	(96)
(Decrease) increase in accrued interest payable	(11)	1
Decrease in other accrued expenses	(150)	(46)
Increase in accrued income taxes payable	138	477
Other, net	8	11
<b>Net Cash Provided by Operating Activities</b>	<b>1,953</b>	<b>145</b>
<b>Cash Flows from Investing Activities</b>		
Net increase in loans	(4,594)	(4,888)
Purchases of investment securities available for sale	(14,896)	(4,000)
Purchases of mortgage-backed securities available for sale	(21,080)	
Proceeds from maturities/principal repayments/calls of:		
Investment securities available for sale	9,363	2,667
Mortgage-backed securities available for sale	2,182	2,036
Proceeds from sales of investment securities available for sale	4	
Redemption of Federal Home Loan Bank stock	170	
Proceeds from sales of foreclosed real estate		144
Net purchases of office properties and equipment	(122)	(143)
<b>Net Cash Used in Investing Activities</b>	<b>(28,973)</b>	<b>(4,184)</b>
<b>Cash Flows from Financing Activities</b>		
Net (decrease) increase in demand, regular and club accounts	(1,736)	4,796
Net (decrease) increase in certificate accounts	(1,185)	5,686

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Net increase (decrease) in securities sold under agreements to repurchase	806	(544)
Additional stock proceeds less conversion expenses	457	
Purchase of ESOP shares	(1,168)	
Repayments of Federal Home Loan Bank advances	(16)	(15)
Increase (decrease) in advance deposits by borrowers for taxes and insurance	19	(185)
Net Cash (Used) Provided by Financing Activities	(2,823)	9,738
Net (Decrease) Increase in Cash and Cash Equivalents	(29,843)	5,699
Cash and Cash Equivalents Beginning	38,988	12,420
Cash and Cash Equivalents Ending	\$ 9,145	\$ 18,119
Supplementary Cash Flows Information		
Interest paid	\$ 1,350	\$ 1,749
Income taxes paid	\$ 200	\$
Supplementary Schedule of Noncash Investing and Financing Activities		
Foreclosed real estate acquired in settlement of loans	\$ 56	\$ 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	\$

See accompanying notes to the consolidated financial statements.

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**STANDARD FINANCIAL CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
 December 31, 2010

**(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 month period ended December 31, 2010 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 months ended December 31, 2010 and 2009 are as follows (dollars in thousands):

	<b>Three Months Ended</b>	
	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Unrealized holding loss on available-for-sale securities	\$ (1,794)	\$ (224)
Reclassification adjustment for gains realized in income	(2)	
Net Unrealized Loss	(1,796)	(224)
Income tax benefit	611	76
Net of Tax Amount	\$ (1,185)	\$ (148)



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**STANDARD FINANCIAL CORP.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
December 31, 2010

**(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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**STANDARD FINANCIAL CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
December 31, 2010

**(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.

**(5) Investment Securities**

Investment securities available for sale at December 31, 2010 and at September 30, 2010 were as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2010:				
U.S. government and agency obligations due:				
Beyond 1 year but within 5 years	\$ 20,316	\$ 30	\$ (67)	\$ 20,279
Beyond 5 years but within 10 years	5,500		(144)	5,356
Corporate bonds due:				
Within 1 year	1,509	16		1,525
Beyond 1 year but within 5 years	6,254	13	(68)	6,199
Municipal obligations due:				
Within 1 year	4,267	31		4,298
Beyond 1 year but within 5 years	930	14		944
Beyond 5 years but within 10 years	8,716	151	(247)	8,620
Beyond 10 years	10,646	374	(246)	10,774
Equity securities:				
CRA Investment Fund	750		(6)	744
Freddie Mac common stock	10			10
Common stocks	372	38	(12)	398
	\$ 59,270	\$ 667	\$ (790)	\$ 59,147

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2010:				
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



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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
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)

December 31, 2010

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

During the three months ended December 31, 2010, losses on sales of investment securities were \$2,000 and proceeds from such sales were \$4,000. During the three months ended December 31, 2009, there were no sales of investment securities.

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 December 31, 2010 and at September 30, 2010 (dollars in thousands):

	Less than 12 Months		December 31, 2010 12 Months or More		Total	
	Fair	Gross	Fair	Gross	Fair	Gross
	Value	Unrealized Losses	Value	Unrealized Losses	Value	Unrealized Losses
U.S. government and agency obligations	\$ 10,789	\$ (211)	\$	\$	\$ 10,789	\$ (211)
Corporate bonds	5,932	(68)			5,932	(68)
Municipal obligations	10,440	(493)			10,440	(493)
Equity securities	744	(6)	68	(12)	812	(18)
<b>Total Temporarily Impaired Securities</b>	<b>\$ 27,905</b>	<b>\$ (778)</b>	<b>\$ 68</b>	<b>\$ (12)</b>	<b>\$ 27,973</b>	<b>\$ (790)</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
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 December 31, 2010 and September 30, 2010, the Company held 30 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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**STANDARD FINANCIAL CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
December 31, 2010

**(6) Mortgage-Backed Securities**

Mortgage-backed securities available for sale at December 31, 2010 and at September 30, 2010 were as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2010:				
Government pass-throughs:				
Government National Mortgage Association	\$ 16,965	\$ 48	\$ (61)	\$ 16,952
Freddie Mac	6,914	334		7,248
Fannie Mae	16,064	237	(298)	16,003
Private pass-throughs	138		(1)	137
Collateralized mortgage obligations	579	11		590
	\$ 40,660	\$ 630	\$ (360)	\$ 40,930
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2010:				
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 three months ended December 31, 2010 and 2009, there were no sales of mortgage-backed securities.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

December 31, 2010

**(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 December 31, 2010 and at September 30, 2010 (dollars in thousands):

	Less than 12 Months		December 31, 2010 12 Months or More		Total	
	Fair	Gross	Fair	Gross	Fair	Gross
	Value	Unrealized Losses	Value	Unrealized Losses	Value	Unrealized Losses
Government National Mortgage Association	\$ 10,301	\$ (61)	\$	\$	\$ 10,301	\$ (61)
Fannie Mae	10,263	(298)			10,263	(298)
Private pass-throughs			137	(1)	137	(1)
<b>Total Temporarily Impaired Securities</b>	<b>\$ 20,564</b>	<b>\$ (359)</b>	<b>\$ 137</b>	<b>\$ (1)</b>	<b>\$ 20,701</b>	<b>\$ (360)</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 December 31, 2010 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 \$12,813,000 and \$9,030,000 were pledged to secure repurchase agreements and public fund accounts at December 31, 2010 and at September 30, 2010, respectively.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

December 31, 2010

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

The following table summarizes the primary segments of the loan portfolio as of December 31, 2010 and September 30, 2010 (dollars in thousands):

	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)	
December 31, 2010:						
Total loans before allowance for loan losses	\$ 146,281	\$ 86,970	\$ 46,595	\$ 11,698	\$ 2,891	\$ 294,435
Individually evaluated for impairment		1,389		991		2,380
Collectively evaluated for impairment	146,281	85,581	46,595	10,707	2,891	292,055
September 30, 2010:						
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 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 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)**  
December 31, 2010

**(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 December 31, 2010 and September 30, 2010 (dollars in thousands):

	Impaired Loans With Allowance		Impaired Loans Without Allowance	Total Impaired Loans Unpaid	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Principal Balance
December 31, 2010:					
Commercial real estate	\$ 1,389	\$ 625	\$	\$ 1,389	\$ 1,389
Commercial	991	297		991	991
Total impaired loans	\$ 2,380	\$ 922	\$	\$ 2,380	\$ 2,380
September 30, 2010:					
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 December 31,	
	2010	2009
Average investment in impaired loans:		
Commercial real estate	\$ 1,384	\$
Commercial	996	
Total impaired loans	\$ 2,380	\$

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 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



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December 31, 2010

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

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.

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 December 31, 2010 and September 30, 2010 (dollars in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2010:					
First mortgage loans:					
One-to-four-family residential and construction	\$ 145,358	\$	\$ 923	\$	\$ 146,281
Commercial real estate	81,096	4,275	1,599		86,970
Home equity loans and lines of credit	46,458		137		46,595
Commercial loans	10,707		991		11,698
Other loans (1)	2,871			20	2,891
<b>Total</b>	<b>\$ 286,490</b>	<b>\$ 4,275</b>	<b>\$ 3,650</b>	<b>\$ 20</b>	<b>\$ 294,435</b>
September 30, 2010:					
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
<b>Total</b>	<b>\$ 280,741</b>	<b>\$ 5,392</b>	<b>\$ 3,908</b>	<b>\$ 14</b>	<b>\$ 290,055</b>

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

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**(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 December 31, 2010 and September 3