

SFSB, Inc.

Financial Statements

December 31, 2010 and 2009



SFSB, Inc.

Table of Contents

December 31, 2010 and 2009

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Consolidated Statement of Financial Condition	2
Consolidated Statement of Income	3
Consolidated Statement of Shareholders' Equity	4
Consolidated Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6

Independent Auditors' Report

Board of Directors
SFSB, Inc.

We have audited the accompanying consolidated statement of financial condition of SFSB, Inc. and subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SFSB, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

ParenteBeard LLC

Harrisburg, Pennsylvania
April 21, 2011

SFSB, Inc.

Consolidated Statement of Financial Condition
(Dollars in Thousands, Except Share Data)
December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Cash and due from banks	\$ 2,737	\$ 2,683
Federal funds sold	28,549	13,060
Interest bearing deposits with banks	755	1,007
	<hr/>	<hr/>
Cash and cash equivalents	32,041	16,750
Time deposits with banks	5,352	502
Investment securities, available for sale	5,382	6,029
Mortgage backed securities, held to maturity (fair value of 2010 \$326; 2009 \$658)	316	652
Loans held for sale	1,306	1,017
Loans receivable, net of allowance for loan losses of 2010 \$1,733; 2009 \$1,520	146,918	163,392
Foreclosed real estate	3,458	2,388
Federal Home Loan Bank of Atlanta stock, at cost	1,792	2,006
Premises and equipment, net	4,682	4,872
Accrued interest receivable	664	762
Other assets	1,283	1,225
	<hr/>	<hr/>
Total assets	\$ 203,194	\$ 199,595
	<hr/>	<hr/>
Liabilities and Shareholders' Equity		
Liabilities		
Deposits	\$ 157,329	\$ 142,446
Short-term borrowings	-	12,000
Long-term debt	25,000	25,000
Advance payments by borrowers for taxes and insurance	454	477
Other liabilities	499	427
	<hr/>	<hr/>
Total liabilities	183,282	180,350
	<hr/>	<hr/>
Shareholders' Equity		
Preferred stock, no par value, 1,000,000 shares authorized, none issued and outstanding	-	-
Common stock, par value \$.01, 9,000,000 shares authorized, 2,975,625 shares issued at December 31, 2010 and 2009 and 2,668,683 and 2,661,682 shares outstanding at December 31, 2010 and 2009, respectively	30	30
Paid-in capital	12,859	12,893
Retained earnings (substantially restricted)	9,983	9,434
Unearned employee stock ownership plan shares	(816)	(875)
Treasury stock at cost, 2010 306,942 shares and 2009 313,943 shares	(2,324)	(2,377)
Accumulated other comprehensive income	180	140
	<hr/>	<hr/>
Total shareholders' equity	19,912	19,245
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$ 203,194	\$ 199,595
	<hr/>	<hr/>

See notes to consolidated financial statements

SFSB, Inc.

Consolidated Statement of Income
(Dollars in Thousands, Except Per Share Data)
Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Interest Income		
Interest and fees on loans	\$ 9,667	\$ 9,998
Interest and dividends on investment securities, taxable	180	264
Interest on mortgage backed securities	7	32
Other interest income	66	34
	<u>9,920</u>	<u>10,328</u>
Interest Expense		
Interest on deposits	3,488	4,002
Interest on short-term borrowings	3	52
Interest on long-term borrowings	1,001	1,001
	<u>4,492</u>	<u>5,055</u>
Net interest income	5,428	5,273
Provision for Loan Losses	299	521
Net interest income after provision for loan losses	<u>5,129</u>	<u>4,752</u>
Other Income		
Impairment charge on investment securities	-	(261)
Loss on foreclosed real estate	(278)	-
Realized gain on redemption of investment securities	37	18
Rental income	140	125
Gain on sale of loans	77	15
Other income	307	290
	<u>283</u>	<u>187</u>
Other Expenses		
Compensation and other related expenses	2,251	2,162
Occupancy expense	376	360
Advertising expense	186	194
Service bureau expense	277	275
Furniture, fixtures and equipment	146	151
Telephone, postage and delivery	82	84
Professional fees	127	195
OTS assessment	63	59
FDIC insurance	262	365
Other expenses	740	703
	<u>4,510</u>	<u>4,548</u>
Income before income tax provision	902	391
Income Tax Provision	353	300
Net income	<u>\$ 549</u>	<u>\$ 91</u>
Basic and Diluted Earnings per Share	<u>\$ 0.21</u>	<u>\$ 0.04</u>

See notes to consolidated financial statements

SFSB, Inc.**Consolidated Statement of Shareholders' Equity**
(Dollars in Thousands)
Years Ended December 31, 2010 and 2009

	<u>Common Stock</u>	<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Unearned Employee Stock Ownership Plan Shares</u>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
Balance, January 1, 2009	\$ 30	\$ 12,864	\$ 9,343	\$ (933)	\$ (2,167)	\$ -	\$ 19,137
Comprehensive income:							
Net income	-	-	91	-	-	-	91
Unrealized losses on investment securities available for sale, arising during the period, net of tax benefit of \$12	-	-	-	-	-	(18)	(18)
Reclassification adjustment for impairment charges included in net income, net of tax expense of \$103	-	-	-	-	-	158	158
Total comprehensive income							231
Compensation under stock based benefit plans	-	29	-	58	57	-	144
Purchase of treasury stock (53,552 shares)	-	-	-	-	(267)	-	(267)
Balance, December 31, 2009	30	12,893	9,434	(875)	(2,377)	140	19,245
Comprehensive income:							
Net income	-	-	549	-	-	-	549
Unrealized gains on investment securities available for sale, arising during the period, net of tax expense of \$26	-	-	-	-	-	40	40
Total comprehensive income							589
Compensation under stock based benefit plans	-	(34)	-	59	53	-	78
Balance, December 31, 2010	<u>\$ 30</u>	<u>\$ 12,859</u>	<u>\$ 9,983</u>	<u>\$ (816)</u>	<u>\$ (2,324)</u>	<u>\$ 180</u>	<u>\$ 19,912</u>

See notes to consolidated financial statements

SFSB, Inc.**Consolidated Statement of Cash Flows**
(Dollars in Thousands)
Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities		
Net income	\$ 549	\$ 91
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Non-cash compensation under stock based compensation plans and employee stock ownership plan	78	144
Net amortization of premiums and discounts of mortgage backed securities	5	16
Deferred tax benefit	(253)	(136)
Amortization of deferred loan fees	(205)	(379)
Provision for loan losses	299	521
Provision for losses on foreclosed real estate	282	-
Impairment charge on investment securities	-	261
Gain on redemption of investment securities	(37)	(18)
Gain on sale of loans	(77)	(15)
Gain on sale of foreclosed real estate	(4)	-
Loans originated for sale	(10,013)	(6,874)
Proceeds from loans sold	9,801	5,872
Provision for depreciation	212	210
(Increase) decrease in accrued interest receivable and other assets	274	(755)
Decrease (increase) in other liabilities	72	(446)
	<u>983</u>	<u>(1,508)</u>
Net cash provided by (used in) operating activities		
	<u>983</u>	<u>(1,508)</u>
Cash Flows from Investing Activities		
Proceeds from redemption of investment securities	750	1,000
Proceeds from sales of foreclosed real estate	1,100	-
Investment in foreclosed real estate	(531)	-
Principal collected on mortgage backed securities	331	847
Net (increase) decrease in loans originated	14,456	(7,517)
Net change in time deposits with banks	(4,850)	(502)
Purchase of Federal Home Loan Bank of Atlanta stock	-	(107)
Redemption of Federal Home Loan Bank of Atlanta stock	214	-
Purchases of premises and equipment	(22)	(103)
	<u>11,448</u>	<u>(6,382)</u>
Net cash provided by (used in) investing activities		
	<u>11,448</u>	<u>(6,382)</u>
Cash Flows from Financing Activities		
Net increase in deposits	14,883	19,243
Net change in short-term borrowings	(12,000)	1,700
Increase (decrease) in advance payments by borrowers for taxes and insurance	(23)	108
Purchase of treasury stock	-	(267)
	<u>2,860</u>	<u>20,784</u>
Net cash provided by financing activities		
	<u>2,860</u>	<u>20,784</u>
Increase in cash and cash equivalents	15,291	12,894
Cash and Cash Equivalents, Beginning of Year	<u>16,750</u>	<u>3,856</u>
Cash and Cash Equivalents, End of Year	<u>\$ 32,041</u>	<u>\$ 16,750</u>
Supplementary Cash Flows Information		
Income taxes paid	<u>\$ 525</u>	<u>\$ 485</u>
Interest paid	<u>\$ 4,496</u>	<u>\$ 5,057</u>
Non-cash transfer of loan to foreclosed real estate	<u>\$ 1,917</u>	<u>\$ 1,292</u>

See notes to consolidated financial statements

1. Organizational Structure and Summary of Significant Accounting Policies**Principles of Consolidation**

The consolidated financial statements include the accounts of SFSB, Inc. (“the Company”), its wholly-owned subsidiary, Slavia Federal Savings Bank (“the Bank”) and the Bank’s wholly-owned subsidiaries, Slavia Holdings, LLC (“Holdings”) and New Logic Properties, LLC (“New Logic”). The accompanying consolidated financial statements include the accounts and transactions of these companies on a consolidated basis. All intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Slavia Bancorp, MHC, a mutual holding company whose activity is not included in the accompanying consolidated financial statements, owns 61.33% and 61.49% of the outstanding common stock of the Company as of December 31, 2010 and 2009, respectively.

Business

The Company’s primary business is the ownership and operation of the Bank. The Bank’s primary business activity is the acceptance of deposits from the general public and the use of the proceeds for investments and loan originations. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulations of certain federal agencies and undergoes periodic examinations by those regulatory authorities.

Holdings, formed on August 18, 1999 as a Maryland limited liability company, was created to acquire and manage certain real property located at 1614 Churchville Road, Bel Air, Maryland. This property includes the main office and corporate headquarters of the Bank. In addition, the property houses mixed use office space, which is available for lease.

New Logic, formed on December 9, 2009 as a Maryland limited liability company, was created to acquire and manage real and personal properties, and is located at 1614 Churchville Road, Bel Air, Maryland.

Significant Group Concentrations of Credit Risk

Most of the Bank’s activities are with customers located within the greater Baltimore metropolitan area. Note 2 discusses the types of securities in which the Company invests. Note 3 discusses the types of lending in which the Company engages. The Bank does not have any significant concentrations to any one industry or customer.

Estimates

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of financial condition and revenues and expenses for the period. Actual results could differ significantly from those estimates. The material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, the valuation of foreclosed real estate, the valuation of deferred tax assets, and the determination of other than temporary impairment of investment and mortgage backed securities.

1. Organizational Structure and Summary of Significant Accounting Policies (Continued)**Subsequent Events**

The Company has evaluated events and transactions occurring subsequent to the statement of financial condition date of December 31, 2010, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through April 21, 2011, the date these financial statements were available to be issued.

Cash and Cash Equivalents

For the statement of cash flows, cash and cash equivalents include cash on hand, cash in banks, Federal Home Loan Bank overnight deposits, interest bearing deposits with banks, and federal funds sold. Generally, federal funds are sold for one day periods.

The Bank is required to maintain average reserve balances, in the form of cash and balances with the Federal Reserve Bank, against its deposit liabilities. For the years 2010 and 2009, the average amount of \$230,000 and \$290,000, respectively, was maintained as reserve balances.

Investments and Mortgage Backed Securities

Investment securities available-for-sale are carried at fair value. Unrealized gains and losses, net of tax, on available-for-sale securities are reported as accumulated other comprehensive income until realized. Other-than-temporary impairment charges and realized gains and losses on sales, determined using the specific identification method, are included in earnings.

Mortgage backed securities held-to-maturity are carried at amortized cost since management has the ability and intention to hold them to maturity. Amortization of related premiums and discounts are computed using the level yield method over the terms of the securities.

When the fair value of a held-to-maturity or available-for-sale security is less than its amortized cost basis, an assessment is made at the statement of financial condition date as to whether other-than-temporary impairment (OTTI) is present.

The Company considers numerous factors when determining whether a potential OTTI exists and the period over which the security is expected to recover. The principal factors considered are (1) the length of time and the extent to which the fair value has been less than the amortized cost basis, (2) the financial condition of the issuer (and guarantor, if any) and adverse conditions specifically related to the security, industry or geographic area, (3) failure of the issuer of the security to make scheduled interest or principal payments, (4) any changes to the rating of a security by a rating agency, and (5) the presence of credit enhancements, if any, including the guarantee of the federal government or any of its agencies.

For debt securities, OTTI is considered to have occurred if (1) the Company intends to sell the security, (2) it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis, or (3) if the present value of expected cash flows is not sufficient to recover the entire amortized cost basis.

In determining whether OTTI has occurred for equity securities, the Company considers the applicable factors described above and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

1. Organizational Structure and Summary of Significant Accounting Policies (Continued)

For debt securities, credit-related OTTI is recognized in income while noncredit-related OTTI on securities not expected to be sold is recognized in other comprehensive income (OCI). Credit related OTTI is measured as the difference between the present value of an impaired security's expected cash flows and its amortized cost basis. Noncredit-related OTTI is measured as the difference between the fair value of the security and its amortized cost less any credit-related losses recognized. For securities classified as held-to-maturity, the amount of OTTI recognized in OCI is accreted to the credit-adjusted expected cash flow amounts of the securities over future periods. For equity securities, the entire amount of OTTI is recognized in income.

Federal Home Loan Bank of Atlanta Stock

Restricted stock, which represents a required investment in the common stock of a correspondent bank, is carried at cost and as of December 31, 2010 and 2009, consists of the common stock of the Federal Home Loan Bank (FHLB) of Atlanta. In 2010, the FHLB of Atlanta paid quarterly dividends totaling \$7,000 and repurchased capital stock totaling \$214,000.

Management evaluates the restricted stock for impairment. Management's determination of whether this investment is impaired is based on their assessment of the ultimate recoverability of the cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of the cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Management believes no impairment charge is necessary related to the FHLB stock as of December 31, 2010.

Reclassifications

Certain amounts in the 2009 consolidated financial statements have been reclassified to conform to the 2010 presentations. The reclassifications had no impact on the Company's financial position or results of operations.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value (LOCOM) in the aggregate. Gains and losses on loan sales (sales proceeds minus carrying value) are recorded in other income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in other income upon sale of the loan.

Loans Receivable

Loans receivable that management has the intent and ability to hold until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees and certain direct loan origination costs are deferred and recognized by the level yield method over the contractual life of the related loan as an adjustment of yield.

The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: construction, commercial mortgage, commercial non-mortgage, and land. Consumer loans consist of the following classes: 1-4 family residential mortgage, home equity, home improvement, and consumer loans.

1. Organizational Structure and Summary of Significant Accounting Policies (Continued)

For all classes of loans receivable, the accrual of interest is generally discontinued when contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectibility of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectibility of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is based on contractual due dates for loan payments.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for credit losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

1. Levels of and trends in delinquencies and nonaccruals
2. Levels of and trends in charge-offs and recoveries
3. Trends in the composition and quality of loans
4. Effects of any changes in lending policies and practices
5. The experience, ability and depth of management
6. National and local economic trends and conditions
7. Concentrations of credit
8. Loan review quality and oversight
9. External factors

1. Organizational Structure and Summary of Significant Accounting Policies (Continued)

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

A loan is considered impaired when, based on current information and events, it is probable that the Company 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 determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on 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. Impairment is measured on a loan by loan basis for commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral.

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable agings or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual residential mortgage loans, home equity loans and other consumer loans for impairment disclosures, unless such loans are the subject of a troubled debt restructuring agreement.

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

1. Organizational Structure and Summary of Significant Accounting Policies (Continued)

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans criticized as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loan not classified are rated pass.

In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is computed on the straight-line method, based on the useful lives of the respective assets.

Foreclosed Real Estate

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other expenses.

Income Taxes

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of the evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

1. Organizational Structure and Summary of Significant Accounting Policies (Continued)

The Company accounts for uncertain tax positions if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more-likely-than-not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment.

The Company entered into a tax sharing agreement (under the Internal Revenue Section 1552) between SFSB, Inc. and Slavia Federal Savings Bank. The agreement provides that the tax liability shall be apportioned among the entities in accordance with the ratio for which the portion of the consolidated taxable income attributed to each company realizing taxable income bears upon the consolidated taxable income. SFSB, Inc. had \$0- due to Slavia Federal Savings Bank at December 31, 2010 and 2009.

The Company had no significant income tax uncertainties and recognized no adjustment for unrecognized income tax benefits for the years ended December 31, 2010 and 2009. Interest and penalties on unrecognized tax benefits are reflected in the income tax provision in the Consolidated Statement of Income. The Company did not recognize any interest and penalties for the years ended December 31, 2010 and 2009. The Company's Federal and Maryland tax returns are subject to examination for the tax years 2007 through 2010.

Transfers of Financial Assets

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

Advertising Costs

Advertising costs are expensed as incurred.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the statement of financial condition when they are funded.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on investment securities available-for-sale, are reported as a separate component of the shareholders' equity section of the statement of financial condition, such items, along with net income, are components of comprehensive income.

1. Organizational Structure and Summary of Significant Accounting Policies (Continued)
Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the appropriate period. Unearned Employee Stock Ownership Plan shares are not included in outstanding shares. Weighted average shares outstanding were 2,573,291 and 2,573,739 in 2010 and 2009, respectively. Diluted earnings per share is computed by dividing net income by the weighted average shares outstanding as adjusted for the dilutive effect of outstanding stock options and unvested stock awards. Potential common shares related to stock options and unvested stock awards are determined based on the "treasury stock" method. There are 135,595 anti-dilutive shares at December 31, 2010 and 2009.

Share Based Compensation

The Company measures compensation expense of all stock-based awards at fair value on the date of grant and recognizes compensation expense over the vesting period for all awards granted. Compensation costs are recognized over the period that an employee provides service in exchange for the award.

Employee Stock Ownership Plan

The cost of shares issued to the ESOP but not yet allocated to participants is presented in the consolidated statement of financial condition as a reduction of shareholders' equity. Compensation expense is recorded based on the market price of the shares as they are committed to be released for allocation to participant accounts. The difference between the market price and the cost of shares committed to be released is recorded as an adjustment to paid-in capital. Dividends on allocated ESOP shares are recorded as a reduction of retained earnings; dividends on unallocated ESOP shares are reflected as a reduction of debt.

Shares are considered outstanding for earnings per share calculations when they are committed to be released; unallocated shares are not considered outstanding.

2. Investment and Mortgage Backed Securities
Investment Securities, Available-for-Sale

The amortized cost and fair value of available-for-sale investment securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
	2010			
Fixed income - Ultra Short Bond Fund	\$ 5,085	\$ 297	\$ -	\$ 5,382
	2009			
Fixed income - Ultra Short Bond Fund	\$ 5,798	\$ 231	\$ -	\$ 6,029

SFSB, Inc.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

2. Investment and Mortgage Backed Securities (Continued)

No impairment charge was recognized during 2010. The Company recognized impairment charges of \$261,000 related to the holdings of the AMF Ultra Short Mortgage Fund during 2009. The mutual funds have no stated maturity date.

Mortgage Backed Securities, Held-to-Maturity

The amortized cost and fair value of residential mortgage backed securities - held-to-maturity are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In Thousands)				
2010				
GNMA	\$ 316	\$ 10	\$ -	\$ 326
2009				
FHLMC	\$ 278	\$ -	\$ 1	\$ 277
GNMA	374	7	-	381
	<u>\$ 652</u>	<u>\$ 7</u>	<u>\$ 1</u>	<u>\$ 658</u>

The Company had no gross unrealized losses on mortgage backed securities at December 31, 2010. The following table shows the Company's gross unrealized losses and fair value of mortgage backed securities at December 31, 2009:

2009						
Continuous Unrealized Losses						
Less than 12 Months		12 Months or More		Total		
Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
(In Thousands)						
FHLMC, 1 security	\$ -	\$ -	\$ 277	\$ 1	\$ 277	\$ 1

There were no investment or mortgage backed securities pledged as collateral at December 31, 2010 and 2009.

SFSB, Inc.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

3. Loans Receivable

Loans receivable consist of the following:

	<u>2010</u>	<u>2009</u>
	(In Thousands)	
Mortgage loans 1- 4 family residential	\$ 90,302	\$ 107,292
Construction loans	4,259	12,599
Commercial mortgage loans	28,410	21,507
Commercial non-mortgage loans	2,165	2,193
Home equity loans	14,210	15,080
Land loans	13,411	11,529
Home improvement loans	7	24
Consumer loans	244	324
	<hr/>	<hr/>
Total gross loans receivable	153,008	170,548
Allowance for loan losses	(1,733)	(1,520)
Deferred loan fees	(261)	(410)
Loans in process	(4,096)	(5,226)
	<hr/>	<hr/>
Total loans receivable, net	<u>\$ 146,918</u>	<u>\$ 163,392</u>

Residential lending is generally considered to involve less risk than other forms of lending, although payment experience on these loans is dependent to some extent on economic and market conditions in the Bank's lending area. Commercial loan repayments are generally dependent on the operations of the related properties or the financial condition of its borrower or guarantor. Accordingly, repayment of such loans can be more susceptible to adverse conditions in the real estate market and the regional economy.

Directors and officers of the Company are permitted to borrow from the Bank to the extent permitted by applicable laws and regulations. The following table shows the activity in these related party loans during 2010 and 2009:

	<u>2010</u>	<u>2009</u>
	(In Thousands)	
Beginning balance	\$ 1,537	\$ 1,924
Loans made	679	7
Principal repayments	(566)	(394)
	<hr/>	<hr/>
Ending balance	<u>\$ 1,650</u>	<u>\$ 1,537</u>

Activity in the Bank's allowance for loan losses for the periods indicated is as follows:

	<u>2010</u>	<u>2009</u>
	(In Thousands)	
Balance at beginning of period	\$ 1,520	\$ 1,149
Provision for loan losses	299	521
Charge-offs	(86)	(155)
Recoveries	-	5
	<hr/>	<hr/>
Balance at end of period	<u>\$ 1,733</u>	<u>\$ 1,520</u>

SFSB, Inc.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

3. Loans Receivable (Continued)

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard, doubtful and loss within the Company's internal risk rating system as of December 31, 2010:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(In Thousands)					
Mortgage loans 1-4						
family residential	\$ 87,418	\$ -	\$ 2,884	\$ -	\$ -	\$ 90,302
Construction loans	3,856	-	403	-	-	4,259
Commercial mortgage loans	26,566	-	1,844	-	-	28,410
Commercial non-mortgage loans	834	-	1,233	-	98	2,165
Home equity loans	13,965	-	245	-	-	14,210
Land loans	9,586	826	2,999	-	-	13,411
Home improvement loans	7	-	-	-	-	7
Consumer loans	244	-	-	-	-	244
	<u>\$ 142,476</u>	<u>\$ 826</u>	<u>\$ 9,608</u>	<u>\$ -</u>	<u>\$ 98</u>	<u>\$ 153,008</u>

The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2010:

	2010				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(In Thousands)				
With no related allowance recorded:					
Mortgage loans 1-4 family residential	\$ 3,331	\$ 3,331	\$ -	\$ 3,338	\$ 150
Construction loans	403	403	-	344	9
Commercial mortgage loans	2,067	2,067	-	2,043	110
Commercial non-mortgage loans	1,233	1,233	-	1,224	121
Home equity loans	245	245	-	248	13
Land loans	1,721	1,721	-	2,085	67
With an allowance recorded:					
Mortgage loans 1-4 family residential	-	-	-	-	-
Construction loans	-	-	-	-	-
Commercial mortgage loans	-	-	-	-	-
Commercial non-mortgage loans	98	98	98	98	8
Home equity loans	-	-	-	-	-
Land loans	-	-	-	-	-

SFSB, Inc.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

3. Loans Receivable (Continued)

	2010				
	Recorded Investment	Unpaid Principal Balance	Related Allowance <small>(In Thousands)</small>	Average Recorded Investment	Interest Income Recognized
Total:					
Mortgage loans 1-4 family residential	\$ 3,331	\$ 3,331	\$ -	\$ 3,338	\$ 150
Construction loans	403	403	-	344	9
Commercial mortgage loans	2,067	2,067	-	2,043	110
Commercial non-mortgage loans	1,331	1,331	98	1,322	129
Home equity loans	245	245	-	248	13
Land loans	1,721	1,721	-	2,085	67

No additional funds are committed to be advanced in connection with impaired loans.

At December 31, 2009, the Company had \$4,024 of impaired loans without a valuation allowance, and \$99 of impaired loans with a valuation allowance of \$99. The average recorded investment in impaired loans was \$4,474 during 2009. Interest recognized for cash payments received on impaired loans was not significant during 2009.

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2010:

	2010 <small>(In Thousands)</small>
Mortgage loans 1-4 family residential	\$ 2,884
Construction loans	403
Commercial mortgage loans	1,608
Commercial non-mortgage loans	-
Home equity loans	245
Land loans	721
Home improvement loans	-
Consumer loans	-
	\$ 5,861

At December 31, 2009, the total recorded investment in loans on nonaccrual status amounted to \$4,842. There were no loans past due ninety days or more and still accruing interest at December 31, 2010 or 2009.

SFSB, Inc.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

3. Loans Receivable (Continued)

The performance and credit quality of the loan portfolio is also monitored by the analyzing the age of the loans receivable 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 past due status as of December 31, 2010:

	2010						Loans Receivable >90 Days and Accruing
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	
(In Thousands)							
Mortgage loans 1-4 family residential	\$ 1,112	\$ 341	\$ 2,884	\$ 4,337	\$ 85,965	\$ 90,302	\$ -
Construction loans	-	-	403	403	3,856	4,259	-
Commercial mortgage loans	733	4	1,608	2,345	26,065	28,410	-
Commercial non- mortgage loans	-	-	-	-	2,165	2,165	-
Home equity loans	47	-	245	292	13,918	14,210	-
Land loans	-	-	721	721	12,690	13,411	-
Home improvement loans	-	-	-	-	7	7	-
Consumer loans	-	-	-	-	244	244	-
	<u>\$ 1,892</u>	<u>\$ 345</u>	<u>\$ 5,861</u>	<u>\$ 8,098</u>	<u>\$ 144,910</u>	<u>\$ 153,008</u>	<u>\$ -</u>

Information pertaining to the allocation of the allowance for loan losses and balances of the allowance for loan losses and loans receivable based on individual and collective impairment evaluation by loan portfolio class as of December 31, 2010 follows:

	Allowance for Loan Losses			Loans Receivable		
	Balance	Balance Related to Loans Individually Evaluated for Impairment	Balance Related to Loans Collectively Evaluated for Impairment	Balance	Balance Individually Evaluated for Impairment	Balance Collectively Evaluated for Impairment
(In Thousands)						
Mortgage loans 1-4 family residential	\$ 860	\$ -	\$ 860	\$ 90,302	\$ 3,331	\$ 86,971
Construction loans	56	-	56	4,259	403	3,856
Commercial mortgage loans	377	-	377	28,410	2,067	26,343
Commercial non- mortgage loans	127	98	29	2,165	1,331	834
Home equity loans	134	-	134	14,210	245	13,965
Land loans	177	-	177	13,411	1,721	11,690
Home improvement loans	-	-	-	7	-	7
Consumer loans	2	-	2	244	-	244
Unallocated	-	-	-	-	-	-
	<u>\$ 1,733</u>	<u>\$ 98</u>	<u>\$ 1,635</u>	<u>\$ 153,008</u>	<u>\$ 9,098</u>	<u>\$ 143,910</u>

3. Loans Receivable (Continued)

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its customers. The financial instruments are limited to commitments to extend credit and involve, to varying degrees, elements of credit risk in excess of the amount recognized in the statement of financial position. The contract amounts of these instruments express the extent of involvement the Bank has in each class of financial instruments.

The Bank's exposure to credit loss from non-performance by the other party to the above-mentioned financial instruments is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. The credit risk involved in these financial instruments is essentially the same as that involved in extending loan facilities to customers.

Unless otherwise noted, the Bank does not require collateral or other security to support financial instruments with off-balance-sheet credit risk.

Financial Instruments Whose Contract Amount Represents Credit Risk	Contract Amount At December 31,	
	2010	2009
	(In Thousands)	
Lines of credit - commercial	\$ 5,670	\$ 6,221
Lines of credit - home equity	5,418	5,759
Lines of credit - overdraft checking	117	122
Mortgage loan commitments	754	128

Commercial lines of credit, include lines of credit collateralized by commercial real estate, and revolving lines of credit (RLOC). RLOC are typically used for short term working capital needs and are based most heavily on the accounts receivable and inventory components of the borrower's balance sheet. RLOC have terms of one year, are subject to annual reaffirmation and carry variable rates of interest. The Bank generally receives a one percent fee, based on the commitment amount.

For both types of credit facilities listed above, we evaluate each customer's credit worthiness on a case-by-case basis.

Home equity lines of credit are secured by second deeds of trust on residential real estate. They have fixed expiration dates as long as there is no violation of any condition established in the contract. We evaluate each customer's credit worthiness on a case-by-case basis.

Overdraft lines of credit on checking accounts are unsecured. Linked to any Bank personal checking account, the line will automatically make a deposit to the customer's checking account if the balance falls below the amount needed to pay an item presented for payment.

Our outstanding commitments to make mortgages are at fixed rates ranging from 4.500% to 7.500% and 6.375% to 7.500% at December 31, 2010 and 2009, respectively. Loan commitments expire 60 days from the date of the commitment.

For the year ended December 31, 2010, we engaged in no off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

SFSB, Inc.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

4. Premises and Equipment

Premises and equipment are summarized by major classification as follows:

	<u>Estimated Useful Lives</u>	<u>2010</u>	<u>2009</u>
		(Dollars in Thousands)	
Land	-	\$ 1,128	\$ 1,128
Office building	40	4,722	4,722
Furniture, fixtures and equipment	3 - 10	<u>1,409</u>	<u>1,387</u>
		7,259	7,237
Accumulated depreciation		<u>(2,577)</u>	<u>(2,365)</u>
		<u>\$ 4,682</u>	<u>\$ 4,872</u>

The provision for depreciation charged to operations for the years ended December 31, 2010 and 2009 amounted to \$212,000 and \$210,000, respectively.

Holdings has negotiated and rented office space to non-bank tenants in the Churchville Road property under various non-cancellable operating leases. Credit is extended based on an evaluation of the lessee's financial condition and, generally, collateral is not required. These leases included no commitments to provide for various tenant-finishing costs at December 31, 2010.

The cost and accumulated depreciation of the property, which is included in premises and equipment of the Company, was \$5,490,000 and \$1,188,000, respectively, at December 31, 2010.

Future minimum rentals to be received from non-Company tenants under noncancellable operating leases in effect at December 31, 2010, and in the aggregate, are as follows (in thousands):

2011	\$ 87
2012	82
2013	84
2014	<u>7</u>
	<u>\$ 260</u>

Rentals received in 2010 and 2009 were \$140,000 and \$125,000, respectively, and are recorded in other income.

SFSB, Inc.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

5. Deposits

The Bank has the following deposits:

	<u>2010</u>	<u>2009</u>
	(In Thousands)	
Non-interest bearing demand deposits	\$ 3,148	\$ 2,352
NOW and money market demand deposits	31,614	22,232
Savings deposits	5,943	6,381
Certificates of deposit	<u>116,609</u>	<u>111,468</u>
	157,314	142,433
Accrued interest on deposits	<u>15</u>	<u>13</u>
	<u>\$ 157,329</u>	<u>\$ 142,446</u>

The aggregate amount of certificates of deposit accounts with a minimum denomination of \$100,000 was \$51,833,000 and \$45,985,000 as of December 31, 2010 and 2009, respectively.

Scheduled maturities of certificates of deposit are as follows (in thousands):

Years ending December 31:	
2011	\$ 60,916
2012	22,402
2013	8,472
2014	7,948
2015	<u>16,871</u>
	<u>\$ 116,609</u>

Directors and officers of the Company have deposits with the Bank to the extent permitted by applicable laws and regulations. The following table shows the activity in these related party deposits during 2010 and 2009:

	<u>2010</u>	<u>2009</u>
	(In Thousands)	
Beginning balance	\$ 628	\$ 415
Net change	<u>(220)</u>	<u>213</u>
Ending balance	<u>\$ 408</u>	<u>\$ 628</u>

Interest expense on deposits was as follows:

	<u>2010</u>	<u>2009</u>
	(In Thousands)	
NOW and money market demand deposits	\$ 268	\$ 189
Savings deposits	25	35
Certificates of deposit	<u>3,195</u>	<u>3,778</u>
	<u>\$ 3,488</u>	<u>\$ 4,002</u>

6. Borrowings

The Bank has a line of credit from the FHLB of Atlanta. The line is secured by the FHLB of Atlanta stock and a blanket lien on mortgages. The borrowing limit is defined as a percentage of total assets. Each borrowing is evaluated on a case-by-case basis by the lender. The FHLB unused credit line amounted to \$35.9 million and \$22.9 million at December 31, 2010 and 2009, respectively.

At December 31, 2010 and 2009, outstanding borrowings with the FHLB were \$25.0 million and \$37.0 million, respectively. Borrowings at December 31, 2010 and 2009 consisted of \$25.0 million long-term fixed rate FHLB advances with interest rates ranging from 3.63% to 4.59%. There was also a \$12.0 million short-term daily rate FHLB advance bearing an interest rate of 0.36% as of December 31, 2009.

The maturities of advances outstanding as of December 31, 2010 are as follows (in thousands):

2015	\$	18,500
Thereafter		<u>6,500</u>
	\$	<u>25,000</u>

7. 401(k) Plan and Deferred Compensation Agreement

The Bank maintains a 401(k) plan. The Bank will match 25% of employee's contribution up to the amount as permitted by law. The Bank's cost was \$15,000 and \$16,000 for the years ended December 31, 2010 and 2009, respectively.

The Bank also has a deferred compensation agreement with one of its former officers. The liability under this agreement was accrued by charges to other expense during prior periods. The liability balance was \$0- and \$12,000 at December 31, 2010 and 2009, respectively.

8. Stock Grants and Stock Option Plans

The compensation expense recognized pertaining to the stock-based compensation plans was \$60,000 and \$119,000 for the years ended December 31, 2010 and 2009, respectively. The related tax benefit was \$20,000 and \$34,000 for the years ended December 31, 2010 and 2009, respectively.

As of December 31, 2010, there was no unrecognized compensation cost or unvested shares granted under the plans.

Under the 2005 Stock Option Incentive Plan (the Plan), the directors and certain employees of the Company are eligible to receive options to purchase shares of common stock with an exercise price equal to the fair market value of a share of common stock on the grant date. Shares that may be issued under the Plan shall not exceed in the aggregate 102,061 shares. No additional options remain available for grant at December 31, 2010. Unless otherwise authorized by the Board of Directors, each grant shall vest over a five-year period and will expire no later than ten years from the date of the grant. No options were granted in 2010 and 2009.

Under the Plan, the Company recorded compensation cost of \$24,000 and \$48,000, which was credited to paid-in-capital for 2010 and 2009, respectively.

SFSB, Inc.Notes to Consolidated Financial Statements
December 31, 2010 and 2009**8. Stock Grants and Stock Option Plans (Continued)**

Information regarding the Company's stock option plan as of and for the years ended December 31, 2010 and 2009 is as follows:

	2010			
	Shares	Weighted Average Price	Weighted Average Remaining Life	Aggregate Intrinsic Value
Options outstanding, beginning of year	94,771	\$ 9.15	5.6	\$ -
Options granted	-	-	-	-
Options exercised	-	-	-	-
Options forfeited	1,458	-	-	-
Options outstanding, end of year	<u>93,313</u>	<u>\$ 9.15</u>	<u>4.6</u>	<u>\$ -</u>
Options exercisable, end of year	<u>93,313</u>	<u>\$ 9.15</u>	<u>4.6</u>	<u>\$ -</u>
2009				
Options outstanding, beginning of year	94,771	\$ 9.15	6.6	\$ -
Options granted	-	-	-	-
Options exercised	-	-	-	-
Options forfeited	-	-	-	-
Options outstanding, end of year	<u>94,771</u>	<u>\$ 9.15</u>	<u>5.6</u>	<u>\$ -</u>
Options exercisable, end of year	<u>75,816</u>	<u>\$ 9.15</u>	<u>5.6</u>	<u>\$ -</u>

Under the 2005 Recognition and Retention Stock Award Plan (the Award Plan), the directors and certain employees of the Company were eligible to receive shares of restricted stock. If a participant terminates employment for reasons other than death, disability, normal retirement or following a change of control, he or she forfeited all rights to the unvested shares. The awards vested over a five-year period and, therefore, the fair value of such awards was accrued ratably over the five-year period as compensation expense.

Under the Award Plan, the Company recorded vested shares compensation cost of \$36,000 and \$71,000 for 2010 and 2009, respectively.

SFSB, Inc.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

8. Stock Grants and Stock Option Plans (Continued)

Information regarding the Company's Award Plan as of and for the years ended December 31, 2010 and 2009 is as follows:

	2010	
	Shares	Weighted Average Grant Date Fair Value
Nonvested shares outstanding, beginning of year	4,863	\$ 9.40
Shares granted	-	-
Shares vested	(4,279)	9.40
Shares forfeited	(584)	9.40
Nonvested shares, end of year	-	\$ -
2009		
Shares	Weighted Average Grant Date Fair Value	
Nonvested shares outstanding, beginning of year	12,445	\$ 9.40
Shares granted	-	-
Shares vested	(7,582)	9.40
Shares forfeited	-	-
Nonvested shares, end of year	4,863	\$ 9.40

9. Common Stock

During the year ended December 31, 2010, the Company did not repurchase any shares of its stock. During the year ended December 31, 2009, the Company repurchased 53,552 shares of its stock at an average price of \$4.98 per share. Treasury Stock is recorded at cost and is shown as a reduction of stockholders' equity.

In 2004, the Bank reorganized to a federally chartered stock savings bank and established the ESOP for its employees. The ESOP acquired 116,630 shares of the Company's common stock with funds provided by a loan from the Company, to be repaid principally from the Bank's contributions to the ESOP with twenty equal annual installments through 2024, bearing interest at the Wall Street Journal prime rate adjusted monthly. Shares are released to participants proportionately as the loan is repaid. The Bank recognizes compensation expense as shares are committed for release from collateral at their current market price. Dividends on allocated shares are recorded as a reduction of retained earnings and dividends on unallocated shares are recorded as a reduction of debt. The compensation cost for the years ended December 31, 2010 and 2009 was \$18,000 and \$25,000, respectively. The ESOP holds the common stock in a trust for allocation among participating employees and on an annual basis a contribution is allocated from the Bank to the participants' accounts. There were 81,640 and 87,472 of unearned ESOP shares at December 31, 2010 and 2009, respectively. The fair value of unearned ESOP shares at December 31, 2010 is estimated to be \$286,000.

The total of released unearned ESOP shares was \$59,000 and \$58,000 at December 31, 2010 and 2009, respectively. The difference between the amounts released from unearned ESOP shares and the compensation cost was \$(40,000) and \$(33,000), and was charged to paid-in-capital in 2010 and 2009, respectively.

9. Common Stock (Continued)

All employees of the Bank who attain the age of 21 and complete one year of service with the Bank are eligible to participate in the ESOP. Each participant's vested interest under the ESOP is determined according to the following schedule: 0% for less than 5 years of service with the Company and 100% for more than 5 years of service. For vesting purposes, a year of service means any plan year in which an employee completes at least 1,000 hours of service (whether before or after the ESOP's January 1, 2004 effective date). Vesting accelerates to 100% upon a participant's attainment of normal retirement age 65, death or disability.

10. Regulatory Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting principles. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tangible and Core (leverage) capital (as defined) to average assets (as defined). Management believes, as of December 31, 2010 that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2010, the most recent notification from the Office of Thrift Supervision has categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based and Core (leverage) ratios as set forth in the table. There have been no conditions or events since that notification that management believes have changed the Bank's category.

The following table summarizes the Bank's regulatory capital position at December 31, 2010 and 2009:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollar in Thousands)						
2010						
Tangible (to adjusted total assets)	\$ 16,557	8.16 %	\$ ≥3,042	≥1.50 %	N/A	N/A
Tier 1 risk-based (to risk-weighted assets)	16,557	14.13	N/A	N/A	\$ ≥ 7,033	≥ 6.00 %
Core (leverage) (to adjusted total assets)	16,557	8.16	≥8,113	≥4.00	≥10,142	≥ 5.00
Total risk-based (to risk-weighted assets)	18,022	15.38	≥9,377	≥8.00	≥11,723	≥10.00

SFSB, Inc.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

10. Regulatory Requirements (Continued)

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollar in Thousands)						
2009						
Tangible (to adjusted total assets)	\$ 15,989	8.00 %	\$ ≥2,996	≥1.50 %	N/A	N/A
Tier 1 risk-based (to risk-weighted assets)	15,989	12.81	N/A	N/A	\$ ≥ 7,486	≥ 6.00 %
Core (leverage) (to adjusted total assets)	15,989	8.00	≥7,990	≥4.00	≥ 9,988	≥ 5.00
Total risk-based (to risk-weighted assets)	17,509	14.03	≥9,982	≥8.00	≥12,477	≥10.00

The following table provides a reconciliation of total shareholders' equity per the consolidated financial statements to total risk-based capital reflected in the above table:

	2010	2009
	(In Thousands)	
Total consolidated shareholders' equity	\$ 19,912	\$ 19,245
Adjustment for intangible assets	(32)	(48)
Adjustment for parent company equity in excess of its investment in the Bank	(3,323)	(3,208)
Tangible, Tier 1 and Core capital	16,557	15,989
Allowance for loan losses for risk-based capital	1,465	1,520
Total risk-based capital	<u>\$ 18,022</u>	<u>\$ 17,509</u>

11. Restrictions on Dividends, Loans and Advances

Federal and state banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to the Company. The total amount of dividends which may be paid at any date is generally limited to the retained earnings of the Bank based on the current and preceding two years net income, and loans or advances are limited to ten percent of the Bank's capital stock and surplus on a secured basis.

At December 31, 2010, based on current year net income, combined with net income of the preceding two years, any dividends would be subject to regulatory approval. Funds available for loans or advances by the Bank to the Company amounted to \$1,656,000 at December 31, 2010.

In addition, dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

SFSB, Inc.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

12. Income Taxes

The income tax provision consists of the following for the years ended December 31, 2010 and 2009.

	<u>2010</u>	<u>2009</u>
	(In Thousands)	
Current:		
Federal	\$ 482	\$ 352
State	124	84
	<u>606</u>	<u>436</u>
Deferred:		
Federal	(200)	(108)
State	(53)	(28)
	<u>(253)</u>	<u>(136)</u>
	<u>\$ 353</u>	<u>\$ 300</u>

The amounts computed by applying the statutory federal income tax rate to the income before taxes is less than the taxes provided for the following reasons:

	<u>2010</u>		<u>2009</u>	
	<u>Amount</u>	<u>% of Pre-Tax Income</u>	<u>Amount</u>	<u>% of Pre-Tax Income</u>
	(Dollars in Thousands)			
Federal tax at statutory rate	\$ 307	34.00 %	\$ 133	34.00 %
Increases (decreases) in taxes:				
State tax, net of federal income tax benefit	47	5.21	46	11.76
Increase in valuation allowance related to impairment charge on investment securities			103	26.34
Reversal of valuation allowance	(22)	(2.44)	-	-
Stock options and other employee compensation	2	0.22	27	6.90
Other	19	2.10	(9)	(2.27)
	<u>\$ 353</u>	<u>39.09 %</u>	<u>\$ 300</u>	<u>76.73 %</u>

SFSB, Inc.Notes to Consolidated Financial Statements
December 31, 2010 and 2009**12. Income Taxes (Continued)**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2010 and 2009 are presented below:

	<u>2010</u>	<u>2009</u>
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	\$ 684	\$ 599
Foreclosed real estate	108	-
Accrued bonus	40	-
Other than temporary impairment loss	1,058	1,080
Stock-based compensation	48	45
Other	14	6
	<u>1,952</u>	<u>1,730</u>
Deferred tax liabilities:		
Unrealized gain on available-for-sale securities	(117)	(91)
Federal Home Loan Bank of Atlanta stock dividends	(102)	(102)
Depreciation	(228)	(237)
	<u>(447)</u>	<u>(430)</u>
Valuation allowance	<u>(1,058)</u>	<u>(1,080)</u>
Net deferred tax assets	<u>\$ 447</u>	<u>\$ 220</u>

The other than temporary impairment losses of \$- and \$261,000 recorded during 2010 and 2009, respectively, as well as previous losses of \$2,421,000 relate to mutual funds which are considered to be capital assets. The Company has recorded a full valuation allowance related to the deferred tax asset of \$1,058,000 and \$1,080,000 at December 31, 2010 and 2009, respectively, generated by the impairment losses. The capital loss carry forward period begins as the Company redeems the mutual funds and expires five years from the redemption date. Should the Company be able to generate capital gains to offset such capital losses, the valuation allowance could be reversed.

The Bank was allowed a special bad debt deduction at various percentages of otherwise taxable income for various years through December 31, 1987. If the amounts, which qualified as deductions for federal income tax purposes prior to December 31, 1987, are later used for purposes other than to absorb loan losses, including distributions in liquidations, they will be subject to federal income tax at the then current corporate rate and mortgage loans must be maintained at the December 31, 1987 level to receive current tax deductions for loan losses. Retained earnings at December 31, 2010 and 2009 include \$1,580,000, for which no provision for federal income tax has been provided. The unrecorded deferred income tax liability on the above amount was approximately \$610,000.

13. Fair Value Measurements and Fair Values for Financial Instruments

Management uses its best judgment in estimating the fair value of the Company's assets and liabilities; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all assets and liabilities, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in sale transactions on the dates indicated. The estimated fair value amounts have been measured as of December 31, 2010 and 2009 and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these assets and liabilities subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

The fair value hierarchy prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 - Quoted prices for identical instruments in active markets.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are active, and model derived valuations in which significant inputs or significant drivers are observable in active markets.

Level 3 - Valuations derived from valuation techniques in which one or more significant inputs or significant drivers are unobservable.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2010 and 2009 are as follows:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
	2010			
Fixed income - Ultra Short Bond Fund	\$ 5,382	\$ 5,382	\$ -	\$ -
	2009			
Fixed income - Ultra Short Bond Fund	\$ 6,029	\$ 6,029	\$ -	\$ -

SFSB, Inc.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

13. Fair Value Measurements and Fair Values for Financial Instruments (Continued)

For assets measured at fair value on a non-recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2010 and 2009 are as follows:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
	2010			
Foreclosed real estate	\$ 1,070	\$ -	\$ -	\$ 1,070
	2009			
Foreclosed real estate	\$ 1,292	\$ -	\$ -	\$ 1,292

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's assets and liabilities at December 31, 2010 and 2009:

Cash and Cash Equivalents (Carried at Cost)

The carrying value for cash and short-term instruments approximate those assets' fair values.

Time Deposits with Banks (Carried at Cost)

The carrying amount of time deposits with banks approximates fair value.

Investment and Mortgage Backed Securities

The fair value of investment securities available-for-sale (carried at fair value) and held-to-maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

FHLB of Atlanta Stock (Carried at Cost)

The carrying value of FHLB of Atlanta stock approximates fair value based on redemption provisions of the FHLB of Atlanta.

13. Fair Value Measurements and Fair Values for Financial Instruments (Continued)**Loans Receivable (Carried at Cost)**

The fair values of loans (excluding impaired loans) are estimated using discounted cash flow analyses, using market rates at the statement of financial condition date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans which reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Impaired Loans (Generally Carried at Fair Value)

Impaired loans are those for which the Company has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of a loan balance of \$98,000 and \$99,000 as of December 31, 2010 and 2009, respectively, net of a valuation allowance of \$98,000 and \$99,000 for the same year end dates, respectively, for a Level 3 value of \$-0-.

Accrued Interest Receivable and Payable (Carried at Cost)

The carrying values of accrued interest receivable and accrued interest payable approximate their fair values.

Loans Held for Sale (Carried at Lower of Cost or Fair Value)

Fair value for loans held for sale are based on existing commitments from investors or prevailing market prices.

Foreclosed Real Estate (Carried at Lower of Cost or Fair Value Less Estimated Selling Costs)

Fair values of foreclosed assets are based on independent third party appraisals of the properties or discounted cash flows based upon the expected sales proceeds upon disposition of the assets. These values were generally determined based on the sales prices of similar properties in the proximate vicinity. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurement.

Deposit Liabilities (Carried at Cost)

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-Term Borrowings (Carried at Cost)

The carrying amounts of short-term borrowings approximate their fair values.

13. Fair Value Measurements and Fair Values for Financial Instruments (Continued)
Long-Term Debt (Carried at Cost)

Fair values of FHLB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Off-Balance Sheet Financial Instruments (Disclosed at Cost)

Fair values for the Company's off-balance sheet financial instruments (lending commitments) are based on fees currently charged in the market to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. At December 31, 2010 and 2009 such fees were not material.

The estimated fair values of the Company's financial instruments at December 31, 2010 and 2009 were as follows:

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial assets:				
Cash and cash equivalents	\$ 32,041	\$ 32,041	\$ 16,750	\$ 16,750
Time deposits with banks	5,352	5,352	502	502
Investment securities available-for-sale	5,382	5,382	6,029	6,029
Mortgage backed securities held-to-maturity	316	326	652	658
Federal Home Loan Bank of Atlanta stock	1,792	1,792	2,006	2,006
Loans held for sale	1,306	1,306	1,017	1,017
Loans receivable, net	146,918	151,160	163,392	167,802
Accrued interest receivable	664	664	762	762
Financial liabilities:				
Deposits	157,329	158,543	142,446	143,496
Borrowings	25,000	25,368	37,000	35,913
Accrued interest payable	70	70	74	74
Off-balance sheet financial instruments	-	-	-	-

14. Related Party Transactions

Since August 2003, Mr. J. Benson Brown, a Director of the Bank, has provided the Bank with real estate consulting services. For the years ended December 31, 2010 and 2009, the Bank paid Mr. Brown \$6,000 and \$2,000, respectively, for these services.

Mr. Thomas L. Drechsler, a director of the Company, currently serves as the Bank's general counsel through Kearney, Drechsler & Awalt, LLC, of which Mr. Drechsler is a 33% owner. Through other firms, Mr. Drechsler has served as the Bank's general counsel since 2000. For the years ended December 31, 2010 and 2009, the Bank paid Kearney, Drechsler & Awalt, LLC \$29,000 and \$18,000, respectively, for legal services. Through Sage Title Group, LLC, Mr. Drechsler also provides settlement related services to the Bank's borrowers in connection with loans originated by the Bank. In those circumstances, Sage Title Group, LLC is compensated by the borrower. For the years ended December 31, 2010 and 2009, borrowers paid Sage Title Group, LLC \$62,000 and \$51,000, respectively, for those services.