

Standard AVB Financial Corp.  
Form 10-Q  
September 29, 2017

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended December 31, 2016

**OR**

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF  
<sup>x</sup>1934

For the transition period from October 1, 2016 to December 31, 2016

**Commission File No. 333-215069**

**Standard AVB 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 Blvd.**

**Monroeville, Pennsylvania**

(Address of Principal Executive Offices)

**15146**

(Zip Code)

**(412) 856-0363**

(Registrant's Telephone Number, Including Area Code)

**Former Fiscal Year: September 30**

(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 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 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filers,"

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“accelerated filers,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
(Do not check if smaller reporting company) Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

4,781,323 shares of the Registrant’s common stock, par value \$0.01 per share, were issued and outstanding as of September 20, 2017.

**Standard AVB Financial Corp.**

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**EXPLANATORY NOTE**

On August 29, 2016, Standard Financial Corp. and Allegheny Valley Bancorp, Inc. (“Allegheny Valley”) entered into an Agreement and Plan of Merger, which contemplated that Allegheny Valley would merge with and into Standard Financial Corp., with Standard Financial Corp. as the surviving entity to be known as “Standard AVB Financial Corp.” (the “Company”). On April 7, 2017, Allegheny Valley merged with and into Standard Financial Corp. Accordingly, the Company is now referred to as “Standard AVB Financial Corp.” This Quarterly Report on Form 10-Q solely addresses the financial condition and operations of Standard Financial Corp. at and as of December 31, 2016, as the merger transaction with Allegheny Valley was consummated subsequent to the end of that quarter.

The unaudited consolidated financial statements and other financial information contained in this quarterly report on Form 10-Q should be read in conjunction with the audited financial statements of Standard Financial Corp. at and for the year ended September 30, 2016 contained in the Company’s definitive prospectus dated February 1, 2017 (the “Prospectus”) as filed with the Securities and Exchange Commission pursuant to Securities Act Rule 424(b)(3) on February 3, 2017.

On August 22, 2017 the Company changed its fiscal year end to December 31. As a result, the Company will file its Annual report on Form 10-K for the period ended December 31, 2017 and this transition Form 10-Q for the period ended December 31, 2016.

Table of Contents**PART I - FINANCIAL INFORMATION****ITEM 1. Financial Statements****Standard Financial Corp.****Consolidated Statements of Financial Condition**

(Dollars in thousands, except per share data)

	December 31, 2016 (Unaudited)	September 30, 2016
<b>ASSETS</b>		
Cash on hand and due from banks	\$ 1,924	\$ 1,786
Interest-earning deposits in other institutions	8,596	16,375
Cash and Cash Equivalents	10,520	18,161
Investment securities available for sale, at fair value	42,948	44,250
Mortgage-backed securities available for sale, at fair value	17,733	19,653
Certificate of deposit	500	500
Federal Home Loan Bank stock, at cost	3,171	3,161
Loans receivable, net of allowance for loan losses of \$3,837 and \$3,800	381,532	378,080
Loans held for sale	-	234
Foreclosed real estate	251	281
Office properties and equipment, at cost, less accumulated depreciation and amortization	3,209	3,155
Bank-owned life insurance	15,044	14,946
Goodwill	8,769	8,769
Accrued interest receivable and other assets	4,319	4,029
<b>TOTAL ASSETS</b>	<b>\$ 487,996</b>	<b>\$ 495,219</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
<b>Deposits:</b>		
Demand, savings and club accounts	\$ 224,630	\$ 231,378
Certificate accounts	137,557	137,256
<b>Total Deposits</b>	<b>362,187</b>	<b>368,634</b>

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Federal Home Loan Bank advances	47,668	48,856
Securities sold under agreements to repurchase	2,342	1,964
Advance deposits by borrowers for taxes and insurance	28	10
Accrued interest payable and other liabilities	2,781	2,743
<b>TOTAL LIABILITIES</b>	<b>415,006</b>	<b>422,207</b>
<b>Stockholders' Equity</b>		
Preferred stock, \$0.01 par value per share, 10,000,000 shares authorized, none issued	-	-
Common stock, \$0.01 par value per share, 40,000,000 shares authorized, 2,606,725 and 2,585,125 shares outstanding, respectively	26	26
Additional paid-in-capital	16,626	16,071
Retained earnings	59,107	58,810
Unearned Employee Stock Ownership Plan (ESOP) shares	(1,992 )	(2,031 )
Accumulated other comprehensive (loss) income	(777 )	136 )
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>72,990</b>	<b>73,012</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 487,996</b>	<b>\$ 495,219</b>

See accompanying notes to the unaudited consolidated financial statements.



Table of Contents**Standard Financial Corp.****Consolidated Statements of Income**

(Dollars in thousands, except per share data)

(Unaudited)

	Three Months Ended December 31,	
	2016	2015
Interest and Dividend Income		
Loans, including fees	\$ 3,726	\$ 3,553
Mortgage-backed securities	80	133
Investments:		
Taxable	72	98
Tax-exempt	209	222
Interest-earning deposits and federal funds sold	10	1
Total Interest and Dividend Income	4,097	4,007
Interest Expense		
Deposits	678	627
Federal Home Loan Bank advances	200	204
Securities sold under agreements to repurchase	1	1
Total Interest Expense	879	832
Net Interest Income	3,218	3,175
Provision for Loan Losses	40	-
Net Interest Income after Provision for Loan Losses	3,178	3,175
Noninterest Income		
Service charges	403	414
Earnings on bank-owned life insurance	124	122
Net securities gains (losses)	33	(2)
Net loan sale gains	37	19
Annuity and mutual fund fees	56	49
Other income	47	50
Total Noninterest Income	700	652
Noninterest Expenses		
Compensation and employee benefits	1,586	1,660
Data processing	117	112
Premises and occupancy costs	317	293
Core deposit amortization	-	15

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Automatic teller machine expense	90	82
Federal deposit insurance	39	57
Other operating expenses	469	370
Merger related expenses	307	-
Total Noninterest Expenses	2,925	2,589
Income before Income Tax Expense	953	1,238
Income Tax Expense		
Federal	377	328
State	17	44
Total Income Tax Expense	394	372
Net Income	\$ 559	\$ 866
Earnings Per Share:		
Basic earnings per common share	\$ 0.23	\$ 0.34
Diluted earnings per common share	\$ 0.23	\$ 0.33
Cash dividends paid per common share	\$ 0.110	\$ 0.085
Basic weighted average shares outstanding	2,393,328	2,547,021
Diluted weighted average shares outstanding	2,470,797	2,642,299

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**Standard Financial Corp.****Consolidated Statements of Comprehensive (Loss) Income**

(In thousands)

(Unaudited)

	Three Months Ended December 31,	
	2016	2015
Net Income	\$ 559	\$ 866
Other comprehensive loss:		
Change in unrealized gain on securities available for sale	(1,350 )	(85 )
Tax effect	459	29
Reclassification adjustment for losses (gains) realized in income	(33 )	2
Tax effect	11	(1 )
Total other comprehensive loss	(913 )	(55 )
Total Comprehensive (Loss) Income	\$ (354 )	\$ 811

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**Standard Financial Corp.****Consolidated Statement of Changes in Stockholders' Equity**

(Dollars in thousands, except per share data)

(Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, September 30, 2016	\$ 26	\$ 16,071	\$58,810	\$ (2,031 )	\$ 136	\$ 73,012
Net income	-	-	559	-	-	559
Other comprehensive loss	-	-	-	-	(913 )	(913 )
Cash dividends (\$0.11 per share)	-	-	(262 )	-	-	(262 )
Stock options exercised	-	396	-	-	-	396
Compensation expense on stock awards	-	112	-	-	-	112
Compensation expense on ESOP	-	47	-	39	-	86
Balance, December 31, 2016	\$ 26	\$ 16,626	\$59,107	\$ (1,992 )	\$ (777 )	\$ 72,990

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**Standard Financial Corp.****Consolidated Statements of Cash Flows**

(Dollars in thousands)

(Unaudited)

	Three Months Ended December 31,	
	2016	2015
Net income	\$ 559	\$ 866
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	115	68
Provision for loan losses	40	-
Net losses (gains) on securities	(33)	2
Origination of loans held for sale	(2,215)	(1,272)
Proceeds from sale of loans held for sale	2,486	1,405
Net loan sale gains	(37)	(19)
Compensation expense on ESOP	86	93
Compensation expense on stock awards	112	113
Deferred income taxes	470	(33)
Increase in accrued interest receivable and other assets	(290)	(3)
Earnings on bank-owned life insurance	(124)	(122)
Increase (decrease) in accrued interest payable and other liabilities	38	(60)
Other, net	34	38
<b>Net Cash Provided by Operating Activities</b>	<b>1,241</b>	<b>1,076</b>
<b>Cash Flows Used in Investing Activities</b>		
Net increase in loans	(3,492)	(6,209)
Purchases of investment securities	(844)	(4,363)
Proceeds from maturities/principal repayments/calls of investment securities	948	3,170
Proceeds from maturities/principal repayments/calls of mortgage-backed securities	1,553	1,372
Proceeds from sales of investment securities	154	130
Purchase of Federal Home Loan Bank stock	(85)	(651)
Redemption of Federal Home Loan Bank stock	75	386
Proceeds from sales of foreclosed real estate	22	8
Net purchases of office properties and equipment	(108)	(123)
<b>Net Cash Used in Investing Activities</b>	<b>(1,777)</b>	<b>(6,280)</b>
<b>Cash Flows Provided by (Used in) Financing Activities</b>		
Net decrease in demand, savings and club accounts	(6,748)	(4,193)
Net increase (decrease) in certificate accounts	301	(564)
Net increase in securities sold under agreements to repurchase	378	156
Repayments of Federal Home Loan Bank advances	(1,188)	(7,189)
Proceeds from Federal Home Loan Bank advances	-	12,712

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Net increase in advance deposits by borrowers for taxes and insurance	18		11	
Dividends paid	(262	)	(218	)
Exercise of stock options	396		-	
Net Cash (Used in) Provided by Financing Activities	(7,105	)	715	
Net Decrease in Cash and Cash Equivalents	(7,641	)	(4,489	)
Cash and Cash Equivalents - Beginning	18,161		15,048	
Cash and Cash Equivalents - Ending	\$ 10,520		\$ 10,559	
Supplementary Cash Flows Information				
Interest paid	\$ 882		\$ 924	
Income taxes paid	\$ 168		\$ 426	

See accompanying notes to the consolidated unaudited financial statements.

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**STANDARD FINANCIAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)**

December 31, 2016

**(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.

**(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 for the fiscal year ended September 30, 2016 contained in the Company’s definitive prospectus dated February 1, 2017 (the “Prospectus”) as filed with the Securities and Exchange Commission pursuant to Securities Act Rule 424(b)(3) on February 3, 2017. The results for the three month period ended December 31, 2016 is not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2017 or any future interim period. Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation format. These reclassifications had no effect on stockholders’ equity or net income.

**(3) Earnings per Share**

Basic earnings per share (“EPS”) is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. The following table sets forth the computation of basic and diluted EPS for the three months ended December 31, 2016 and 2015 (dollars in thousands, except per share data):

	Three Months Ended December 31,	
	2016	2015
Net income available to common stockholders	\$ 559	\$ 866

## Basic EPS:

Weighted average shares outstanding	2,393,328	2,547,021
Basic EPS	\$ 0.23	\$ 0.34

## Diluted EPS:

Weighted average shares outstanding - Basic	2,393,328	2,547,021
Diluted effect of common stock equivalents	77,469	95,278
Weighted average shares outstanding - Diluted	2,470,797	2,642,299
Diluted EPS	\$ 0.23	\$ 0.33

**(4) Recent Accounting Pronouncements**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (a new revenue recognition standard). The Update's core principle is that a company will recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, this Update specifies the accounting for certain costs to obtain or fulfill a contract with a customer and expands disclosure requirements for revenue recognition. This Update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Because the guidance does not apply to revenue associated with financial instruments, including loans and securities, we do not expect the new standard, or any of the amendments, to result in a material change from our current accounting for revenue because the majority of the Company's financial instruments are not within the scope of Topic 606. However, we do expect that the standard will result in new disclosure requirements, which are currently being evaluated.



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**STANDARD FINANCIAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)**

December 31, 2016

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

In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this Update defer the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. All other entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company is evaluating the effect of adopting this new accounting Update.

In September 2015, the FASB issued ASU 2015-16, *Business Combinations (Topic 805)*. The amendments in this Update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this Update require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this Update require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This Update applies to all entities that hold financial assets or owe financial liabilities and is intended to provide more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. Among other things, this Update (a) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (d) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (e) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (f)

requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (g) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. All entities that are not public business entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. A short-term lease is defined as one in which (a) the lease term is 12 months or less and (b) there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For short-term leases, lessees may elect to recognize lease payments over the lease term on a straight-line basis. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently assessing the practical expedients it may elect at adoption, but does not anticipate the amendments will have a significant impact on the financial statements. Based on the Company's preliminary analysis of its

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**STANDARD FINANCIAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)**

December 31, 2016

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

current portfolio, the impact to the Company's balance sheet is estimated to result in less than a 1 percent increase in assets and liabilities. The Company also anticipates additional disclosures to be provided at adoption.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718)*. The amendments in this Update affect all entities that issue share-based payment awards to their employees. The standards in this Update provide simplification for several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as with equity or liabilities, and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. In addition to those simplifications, the amendments eliminate the guidance in Topic 718 that was indefinitely deferred shortly after the issuance of FASB Statement No. 123 (revised 2004), *Share-Based Payment*. This should not result in a change in practice because the guidance that is being superseded was never effective. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for any entity in any interim or annual period. This Update is not expected to have a significant impact on the Company's financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*, which changes the impairment model for most financial assets. This Update is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the Update is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be effected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019, and early adoption is permitted for annual and interim periods beginning after December 15, 2018. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. We expect to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, but cannot yet determine the magnitude of any such one-time adjustment or the overall impact of the new guidance on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which addresses eight specific cash flow issues with the objective of reducing diversity in practice. Among these include recognizing cash payments for debt prepayment or debt extinguishment as cash outflows for financing activities; cash proceeds received from the settlement of insurance claims should be classified on the basis of the related insurance coverage; and cash proceeds received from the settlement of bank-owned life insurance policies should be classified as cash inflows from investing activities while the cash payments for premiums on bank-owned policies may be classified as cash outflows for investing activities, operating activities, or a combination of investing and operating activities. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments in this Update should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company is currently evaluating the impact the adoption of the standard will have on the Company's statement of cash flows.

In October 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230)*, which requires that a statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are

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**STANDARD FINANCIAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)**

December 31, 2016

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

effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments in this Update should be applied using a retrospective transition method to each period presented. The Company is currently evaluating the impact the adoption of the standard will have on the Company's statement of cash flows.

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits (Topic 715)*. The amendments in this Update require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. This update is not expected to have a significant impact on the Company's financial statements.

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20)*. The amendments in this Update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity should apply the amendments in this Update on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

December 31, 2016

**(5) Investment Securities**

Investment securities available for sale at December 31, 2016 and at September 30, 2016 are as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2016:				
U.S. government and agency obligations due:				
Beyond 1 year but within 5 years	\$ 9,000	-	(66)	) 8,934
Corporate bonds due:				
Beyond 1 year but within 5 years	2,028	-	(18)	) 2,010
Beyond 5 years but within 10 years	506	9	-	515
Municipal obligations due:				
Beyond 1 year but within 5 years	7,942	441	(7)	) 8,376
Beyond 5 years but within 10 years	11,739	24	(213)	) 11,550
Beyond 10 years	9,756	11	(367)	) 9,400
Equity securities	2,050	234	(121)	) 2,163
	\$ 43,021	719	(792)	) 42,948
September 30, 2016:				
U.S. government and agency obligations due:				
Beyond 1 year but within 5 years	\$ 10,000	\$ 32	\$ (5)	) \$10,027
Corporate bonds due:				
Beyond 1 year but within 5 years	2,032	-	(7)	) 2,025
Beyond 5 years but within 10 years	507	2	-	509
Municipal obligations due:				
1 year or less	978	12	-	990
Beyond 1 year but within 5 years	3,784	294	-	4,078
Beyond 5 years but within 10 years	12,144	417	-	12,561
Beyond 10 years	11,769	185	(38)	) 11,916
Equity securities	2,052	207	(115)	) 2,144

\$ 43,266    \$ 1,149    \$ (165    ) \$44,250

During the three months ended December 31, 2016, gains on sales of investment securities were \$33,000 and proceeds from such sales were \$154,000. During the three months ended December 31, 2015, losses on sales of investment securities were \$2,000 and proceeds from such sales were \$130,000.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

December 31, 2016

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

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, 2016 and at September 30, 2016 (dollars in thousands):

	<b>December 31, 2016</b>					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government and agency obligations	\$8,934	\$ (66 )	\$ -	\$ -	\$8,934	\$ (66 )
Corporate bonds	2,009	(18 )	-	-	2,009	(18 )
Municipal obligations	12,225	(558 )	1,207	(29 )	13,432	(587 )
Equity securities	196	(22 )	949	(99 )	1,145	(121 )
<b>Total</b>	<b>\$23,364</b>	<b>\$ (664 )</b>	<b>\$ 2,156</b>	<b>\$ (128 )</b>	<b>\$25,520</b>	<b>\$ (792 )</b>

	<b>September 30, 2016</b>					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government and agency obligations	1,995	\$ (5 )	\$ -	\$ -	\$1,995	\$ (5 )
Corporate bonds	\$1,021	\$ (7 )	\$ -	\$ -	\$1,021	\$ (7 )
Municipal obligations	2,803	(38 )	-	-	2,803	(38 )
Equity securities	171	(13 )	570	(102 )	741	(115 )
<b>Total</b>	<b>\$5,990</b>	<b>\$ (63 )</b>	<b>570</b>	<b>(102 )</b>	<b>6,560</b>	<b>(165 )</b>

At December 31, 2016, the Company held 22 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 their 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.

Investment securities with a carrying value of \$18.8 million and \$25.9 million were pledged to secure repurchase agreements and public funds accounts at December 31, 2016 and September 30, 2016, respectively.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

December 31, 2016

**(6) Mortgage-Backed Securities**

Mortgage-backed securities available for sale at December 31, 2016 and at September 30, 2016 are as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2016:				
Government pass-throughs:				
Ginnie Mae	\$ 5,129	18	(54 )	5,093
Fannie Mae	5,403	93	(18 )	5,478
Freddie Mac	5,520	21	(20 )	5,521
Private pass-throughs	85	-	-	85
Collateralized mortgage obligations	1,571	1	(16 )	1,556
	\$ 17,708	\$ 133	\$ (108 )	\$ 17,733

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2016:				
Government pass-throughs:				
Ginnie Mae	\$ 5,695	\$ 37	\$ (17 )	\$ 5,715
Fannie Mae	5,806	211	-	6,017
Freddie Mac	6,051	113	-	6,164
Private pass-throughs	87	-	-	87
Collateralized mortgage obligations	1,663	\$ 9	\$ (2 )	\$ 1,670
	\$ 19,302	\$ 370	\$ (19 )	\$ 19,653

During the three months ended December 31, 2016 and 2015, there were no sales of mortgage-backed securities.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

December 31, 2016

**(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, 2016 and at September 30, 2016 (dollars in thousands):

	December 31, 2016					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Ginnie Mae	\$2,352	\$ (44 )	\$ 1,214	\$ (10 )	\$3,566	\$ (54 )
Fannie Mae	1,032	\$ (18 )	\$ -	\$ -	\$1,032	\$ (18 )
Freddie Mac	3,069	\$ (20 )	\$ -	\$ -	\$3,069	\$ (20 )
Collateralized mortgage obligations	1,494	\$ (16 )	\$ -	\$ -	\$1,494	\$ (16 )
Total	\$7,947	\$ (98 )	1,214	(10 )	9,161	\$ (108 )

	September 30, 2016					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Ginnie Mae	\$2,748	\$ (6 )	\$ 1,313	\$ (11 )	\$4,061	\$ (17 )
Private pass-throughs	-	-	604	(2 )	604	(2 )
Total	\$2,748	\$ (6 )	\$ 1,917	\$ (13 )	\$4,665	\$ (19 )

At December 31, 2016, the Company held seven mortgage-backed security 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 them before their 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 loss to be temporary impairment loss.

Mortgage-backed securities with a carrying value of \$6.0 million and \$6.5 million were pledged to secure repurchase agreements and public fund accounts at December 31, 2016 and at September 30, 2016, respectively.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

December 31, 2016

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

The following table summarizes the primary segments of the loan portfolio as of December 31, 2016 and September 30, 2016 (dollars in thousands):

	Real Estate Loans		Home Equity Loans		Other		Total
	One-to-four-family Residential and Construction	Commercial Real Estate	and Lines of Credit	Commercial	Loans		
December 31, 2016:							
Collectively evaluated for impairment	\$ 174,740	\$ 116,229	\$ 77,913	\$ 15,505	\$ 520		\$ 384,907
Individually evaluated for impairment	-	462	-	-	-		462
Total loans before allowance for loan losses	\$ 174,740	\$ 116,691	\$ 77,913	\$ 15,505	\$ 520		\$ 385,369
September 30, 2016:							
Collectively evaluated for impairment	\$ 167,512	\$ 119,412	\$ 79,157	\$ 14,779	\$ 553		\$ 381,413
Individually evaluated for impairment	-	467	-	-	-		467
Total loans before allowance for loan losses	\$ 167,512	\$ 119,879	\$ 79,157	\$ 14,779	\$ 553		\$ 381,880

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

Management evaluates individual loans in the commercial and commercial real estate loan segments for possible impairment if the loan is in nonaccrual status or is risk rated Substandard, Doubtful or Loss and is greater than 90 days past due. Loans are considered to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management

determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The Company does not separately evaluate individual consumer and residential real estate loans for impairment, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring ("TDR"). 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 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.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

December 31, 2016

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

Consistent with accounting and regulatory guidance, the Company recognizes a TDR when the Bank, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that would not normally be considered. Regardless of the form of concession granted, the Company's objective in offering a TDR is to increase the probability of repayment of the borrower's loan. To be considered a TDR, the borrower must be experiencing financial difficulties and the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that would not otherwise be considered. The Company did not have any TDRs at December 31, 2016 or September 30, 2016 nor did they have any TDRs within the preceding year where a concession had been made that then defaulted in the three month periods ending December 31, 2016 or 2015.

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, 2016 and September 30, 2016 (dollars in thousands):

	Impaired Loans With Allowance		Impaired Loans Without Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
December 31, 2016:					
Commercial real estate	\$ -	\$ -	\$ 462	\$ 462	\$ 462
Total impaired loans	\$ -	\$ -	\$ 462	\$ 462	\$ 462
September 30, 2016:					
Commercial real estate	\$ -	\$ -	\$ 467	\$ 467	\$ 467
Total impaired loans	\$ -	\$ -	\$ 467	\$ 467	\$ 467

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

Average investment in impaired loans:	Three months ended December 31,	
	2016	2015

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Commercial real estate	\$ 467	\$ 750
Total impaired loans	\$ 467	\$ 750
Interest income recognized on impaired loans:		
Accrual basis	\$ -	\$ -

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 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



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

December 31, 2016

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

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 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.

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, 2016 and September 30, 2016 (dollars in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2016:					
First mortgage loans:					
One-to-four-family residential and construction	\$ 174,196	\$ -	\$ 544	\$ -	\$ 174,740
Commercial real estate	116,229	-	462	-	116,691
Home equity loans and lines of credit	77,812	-	101	-	77,913
Commercial loans	15,505	-	-	-	15,505
Other loans	512	-	8	-	520
Total	\$384,254	\$ -	\$ 1,115	\$ -	\$385,369
September 30, 2016:					
First mortgage loans:					
One-to-four-family residential and construction	\$ 166,996	\$ -	\$ 516	\$ -	\$ 167,512
Commercial real estate	119,412	-	467	-	119,879
Home equity loans and lines of credit	79,084	-	73	-	79,157
Commercial loans	14,779	-	-	-	14,779
Other loans	553	-	-	-	553

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Total	\$380,824	\$ -	\$ 1,056	\$ -	\$381,880
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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

December 31, 2016

**(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, 2016 and September 30, 2016 (dollars in thousands):

	Current	30-59 Days Past Due	60-89 Days Past Due	Non-Accrual (90 Days+)	90 Days Past Due & Accruing	Total Loans
December 31, 2016:						
First mortgage loans:						
One-to-four-family residential and construction	\$173,138	\$ 739	\$ 319	\$ 544	\$ -	\$174,740
Commercial real estate	116,478	53	60	100	-	116,691
Home equity loans and lines of credit	77,289	460	63	101	-	77,913
Commercial loans	15,505	-	-	-	-	15,505
Other loans	510	2	-	8	-	520
Total	\$382,920	\$ 1,254	\$ 442	\$ 753	\$ -	\$385,369
September 30, 2016:						
First mortgage loans:						
One-to-four-family residential and construction	\$166,136	\$ 566	\$ 294	\$ 516	\$ -	\$167,512
Commercial real estate	119,638	80	61	100	-	119,879
Home equity loans and lines of credit	78,888	115	81	73	-	79,157
Commercial loans	14,779	-	-	-	-	14,779
Other loans	550	3	-	-	-	553
Total	\$379,991	\$ 764	\$ 436	\$ 689	\$ -	\$381,880

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

Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are modified by other qualitative factors. Management tracks the historical net charge-off activity for the loan segments which may be adjusted for qualitative factors. Pass rated credits are segregated from criticized credits for the application of qualitative factors. Loans in the criticized pools, which possess certain qualities or characteristics that may lead to collection and loss issues, are closely monitored by management and subject to additional qualitative factors.

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

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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

December 31, 2016

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

The following tables summarize the primary segments of the ALL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment. Activity in the allowance is presented for the three months ended December 31, 2016 and 2015 (dollars in thousands):

	Real Estate Loans		Home			
	One-to-four-	Commercial	Equity Loans			
	family Residential	Real	and Lines		Other	
	and	Estate	of Credit	Commercial	Loans	Total
	Construction	Real Estate				
Balance at September 30, 2016	\$ 1,250	\$ 1,786	\$ 547	\$ 211	\$ 6	\$3,800
Charge-offs	-	-	-	-	(4 )	(4 )
Recoveries	-	1	-	-	-	1
Provision	30	-	-	-	10	40
Balance at December 31, 2016	\$ 1,280	\$ 1,787	\$ 547	\$ 211	\$ 12	\$3,837
Balance at September 30, 2015	\$ 1,122	\$ 1,867	\$ 457	\$ 411	\$ 22	\$3,879
Charge-offs	(46 )	-	(4 )	(4 )	(19 )	(73 )
Recoveries	-	1	4	-	-	5
Provision	-	-	-	-	-	-
Balance at December 31, 2015	\$ 1,076	\$ 1,868	\$ 457	\$ 407	\$ 3	\$3,811

	Real Estate Loans		Home			
	One-to-four-	Commercial	Equity Loans			
	family Residential	Real	and Lines		Other	
	and	Estate	of Credit	Commercial	Loans	Total
	Construction	Real Estate				
Evaluated for Impairment:						
Individually	\$-	\$ -	\$ -	\$ -	\$ -	\$-
Collectively	1,280	1,787	547	211	12	3,837
Balance at December 31, 2016	\$ 1,280	\$ 1,787	\$ 547	\$ 211	\$ 12	\$3,837

Evaluated for Impairment:						
Individually	\$-	\$ -	\$ -	\$ -	\$ -	\$-

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Collectively	1,250	1,786	547	211	6	3,800
Balance at September 30, 2016	\$ 1,250	\$ 1,786	\$ 547	\$ 211	\$ 6	\$ 3,800

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

**(8) Foreclosed Real Estate**

Foreclosed assets acquired in the settlement of loans are carried at fair value less estimated costs to sell. As of December 31, 2016, included within the foreclosed assets is \$221,000 of residential property acquired upon foreclosure of consumer residential mortgages prior to the period end and \$30,000 of commercial property acquired upon foreclosure of a commercial mortgage prior to the period end. As of December 31, 2016, the Company had initiated formal foreclosure procedures on \$170,000 of consumer residential mortgages.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

December 31, 2016

**(9) Stock Based Compensation**

In 2012, the Standard Financial Corp.’s stockholders approved the 2012 Equity Incentive Plan (the “2012 Plan”). The purpose of the 2012 Plan is to provide officers, employees and directors with additional incentives to promote growth and performance of Standard Financial Corp. The 2012 Plan authorizes the granting of options to purchase shares of the Company’s stock, which may be nonqualified stock options or incentive stock options, and restricted stock which is subject to vesting conditions and other restrictions. The 2012 Plan reserved an aggregate number of 486,943 shares of which 347,817 may be issued in connection with the exercise of stock options and 139,126 may be issued as restricted stock.

On July 25, 2012, certain directors and officers of the Company were awarded an aggregate of 278,075 options to purchase shares of common stock and 111,300 restricted shares of common stock. The awards vest over five years at the rate of 20% per year and the stock options have a ten year contractual life from the date of grant. The Company recognizes expense associated with the awards over the five year vesting period. Remaining shares available to be issued under the stock option and restricted stock plans are 69,742 and 27,826, respectively.

The Company’s common stock closed at \$16.50 per share on July 25, 2012, which is the exercise price of the options granted on that date. The estimated fair value of the stock options was \$423,000, before the impact of income taxes. The per share weighted-average fair value of stock options granted with an exercise price equal to the market value on July 25, 2012 was \$1.52 using the following Black-Scholes option pricing model assumptions: expected life of 7.5 years, expected dividend rate of 1.13%, risk-free interest rate of 1.10% and an expected volatility of 9.5% based on historical results of the stock prices of a bank peer group. Compensation expense on the options was \$20,000, with a related tax benefit recorded of \$2,000 for the three months ended December 31, 2016. As of December 31, 2016, there was \$50,000 of total unrecognized compensation cost related to non-vested options which is expected to be recognized ratably over the weighted average remaining service period of 7 months.

The following table summarizes transactions regarding the options under the Plan:

	Options	Weighted Average Exercise Price
Outstanding at September 30, 2016	278,075	\$ 16.50
Granted	-	\$ -
Exercised	(24,000 )	16.50

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Forfeited	(6,000 )	16.50
Outstanding at December 31, 2016	248,075	\$ 16.50
Exercisable at December 31, 2016	198,460	16.50

On July 25, 2012, the date of grant, the fair value of the restricted stock awards was approximately \$1.8 million, before the impact of income taxes. Compensation expense on the grants was \$92,000, with a related tax benefit recorded of \$31,000 for the three months ended December 31, 2016. As of December 31, 2016, there was \$196,000 of total unrecognized compensation cost related to non-vested grants which is expected to be recognized ratably over the weighted average remaining service period of 7 months.

The following table summarizes transactions regarding restricted stock under the Plan:

	Number of Restricted Shares	Weighted Average Grant Date Price Per Share
Non-vested shares at September 30, 2016	22,260	\$ 16.50
Granted	-	-
Vested	-	-
Forfeited	(2,400 )	16.50
Non-vested shares at December 31, 2016	19,860	\$ 16.50



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)**

December 31, 2016

**(10) Employee Stock Ownership Plan**

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

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

Compensation expense is equal to the fair value of the shares committed to be released and unallocated ESOP shares are excluded from outstanding shares for purposes of computing earnings per share. Compensation expense related to the ESOP of \$86,000 and \$93,000 was recognized during the three months ended December 31, 2016 and 2015, respectively. Dividends on unallocated shares are not treated as ordinary dividends and are instead used to pay down the ESOP loan and recorded as compensation expense.

As of December 31, 2016, the ESOP held a total of 268,455 shares of the Company’s stock, and there were 202,367 unallocated shares. The fair market value of the unallocated ESOP shares was \$5.1 million at December 31, 2016.

**(11) Pension Information**

The Company sponsors a pension plan which is a noncontributory defined benefit retirement plan. Effective August 1, 2005, the annual benefit provided to employees under this defined benefit pension plan was frozen by Standard Bank. Freezing the plan eliminated all future benefit accruals; however, the accrued benefit as of August 1, 2005 remained.

Net periodic pension benefit was as follows:

	Three Months Ended December 31,	
	2016	2015
Interest cost	\$ -	\$ (38 )
Expected return on plan assets	-	37
Net periodic pension benefit	\$ -	\$ (1 )

**(12) Fair Value of Assets and Liabilities**

**Fair Value Hierarchy**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants at the measurement date. GAAP established a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available. A contractually binding sales price also provides reliable evidence of fair value.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are

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**STANDARD FINANCIAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)**

December 31, 2016

**(12) Fair Value of Assets and Liabilities** (continued)

not active; or inputs to the valuation methodology that utilize model-based techniques for which all significant assumptions are observable in the market.

Inputs to the valuation methodology are unobservable and significant to the fair value measurement; inputs to Level 3: the valuation methodology that utilize model-based techniques for which significant assumptions are not observable in the market; or inputs to the valuation methodology that requires significant management judgment or estimation, some of which may be internally developed.

Management maximizes the use of observable inputs and minimizes the use of unobservable inputs when determining fair value measurements. Management reviews and updates the fair value hierarchy classifications of the Company's assets and liabilities on a quarterly basis.

**Assets Measured at Fair Value on a Recurring Basis**

**Investment and Mortgage-Backed Securities Available for Sale**

Fair values of investment and mortgage-backed securities available for sale were primarily measured using information from a third-party pricing service. This service provides pricing information by utilizing evaluated pricing models supported with market data information. Standard inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data from market research publications. Level 1 securities are comprised of equity securities. As quoted prices were available, unadjusted, for identical securities in active markets, these securities were classified as Level 1 measurements. Level 2 securities were primarily comprised of debt securities issued by government agencies, states and municipalities, corporations, as well as mortgage-backed securities issued by government agencies. Fair values were estimated primarily by obtaining quoted prices for similar assets in active markets or through the use of pricing models. In cases where there may be limited or less transparent information provided by the Company's third-party pricing service, fair value may be estimated by the use of secondary pricing services or through the use of non-binding third-party broker quotes.

On a quarterly basis, management reviews the pricing information received from the Company's third-party pricing service. This review process includes a comparison to non-binding third-party broker quotes, as well as a review of market-related conditions impacting the information provided by the Company's third-party pricing service. Management primarily identifies investment securities which may have traded in illiquid or inactive markets by identifying instances of a significant decrease in the volume or frequency of trades, relative to historical levels, as well as instances of a significant widening of the bid-ask spread in the brokered markets. Securities that are deemed to have been trading in illiquid or inactive markets may require the use of significant

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

December 31, 2016

**(12) Fair Value of Assets and Liabilities (Continued)**

unobservable inputs. As of December 31, 2016 and September 30, 2016, management did not make adjustments to prices provided by the third-party pricing service as a result of illiquid or inactive markets. On a quarterly basis, management also reviews a sample of securities priced by the Company's third-party pricing service to review significant assumptions and valuation methodologies used. Based on this review, management determines whether the current placement of the security in the fair value hierarchy is appropriate or whether transfers may be warranted.

The following table presents the assets measured at fair value on a recurring basis as of December 31, 2016 and September 30, 2016 by level within the fair value hierarchy (dollars in thousands):

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2016:				
Investment securities available for sale:				
U.S. government and agency obligations	\$ -	\$ 8,934	\$ -	\$ 8,934
Corporate bonds	-	2,525	-	2,525
Municipal obligations	-	29,326	-	29,326
Equity securities	2,163	-	-	2,163
Total investment securities available for sale	2,163	40,785	-	42,948
Mortgage-backed securities available for sale	-	17,733	-	17,733
Total recurring fair value measurements	\$ 2,163	\$ 58,518	\$ -	\$ 60,681
September 30, 2016:				
Investment securities available for sale:				
U.S. government and agency obligations	\$ -	\$ 10,027	\$ -	\$ 10,027
Corporate bonds	-	2,534	-	2,534
Municipal obligations	-	29,545	-	29,545
Equity securities	2,144	-	-	2,144
Total investment securities available for sale	2,144	42,106	-	44,250
Mortgage-backed securities available for sale	-	19,653	-	19,653

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Total recurring fair value measurements	\$ 2,144	\$ 61,759	\$ -	\$63,903
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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

December 31, 2016

**(12) Fair Value of Assets and Liabilities (Continued)****Assets Measured at Fair Value on a Nonrecurring Basis**

The following table presents the assets measured at fair value on a nonrecurring basis as of December 31, 2016 and September 30, 2016 by level within the fair value hierarchy (dollars in thousands):

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2016:				
Foreclosed real estate	\$ -	\$ -	\$ 251	\$251
Impaired loans	-	-	462	462
Total nonrecurring fair value measurements	\$ -	\$ -	\$ 713	\$713
September 30, 2016:				
Foreclosed real estate	\$ -	\$ -	\$ 281	\$281
Impaired loans	-	-	467	467
Total nonrecurring fair value measurements	\$ -	\$ -	\$ 748	\$748

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis for which the Company uses level 3 inputs to determine fair value (dollars in thousands):

	December 31, 2016	September 30, 2016	Quantitative Information about Level 3 Fair Value Measurements	
			Valuation Techniques	Unobservable Input Range (Weighted Average)
Foreclosed real estate	\$ 251	\$ 281	Appraisal of collateral (1)	Appraisal adjustments (2) 0% to -40% (-25%) 0% to -10% (-5%)

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				Liquidation expenses (2)	
Impaired loans	\$ 462	\$ 467	Fair value of collateral (1), (3)	Appraisal adjustments (2) Liquidation expenses (2)	0% to -40% (-25%) 0% to -10% (-5%)

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various level 3 inputs which are not identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

(3) Includes qualitative adjustments by management and estimated liquidation expenses.



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**STANDARD FINANCIAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)**

December 31, 2016

**(12) Fair Value of Assets and Liabilities (Continued)**

**Disclosures about Fair Value of Financial Instruments**

The assumptions used below are expected to approximate those that market participants would use in valuing the following financial instruments.

**Loans Receivable and Loans Held for Sale**

The fair value of the Company's loans was estimated by discounting the expected future cash flows using the current interest rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans were first segregated by type such as commercial, real estate, and home equity, and were then further segmented into fixed and variable rate and loan quality categories. Expected future cash flows were projected based on contractual cash flows, adjusted for estimated prepayments. The fair value of loans held for sale was estimated based on the price committed to sell the loan in the secondary market.

**Certificate Accounts**

The fair values of the Company's certificate deposit accounts were estimated using discounted cash flow analyses. The discount rates used were based on rates currently offered for deposits with similar remaining maturities. The fair values of the Company's certificate deposit accounts do not take into consideration the value of the Company's long-term relationships with depositors, which may have significant value.

**Federal Home Loan Bank advances**

The fair value of Federal Home Loan Bank advances was calculated using a discounted cash flow approach that applies a comparable FHLB advance rate to the weighted average maturity of the borrowings.

### **Other Financial Instruments**

The carrying amounts reported in the Consolidated Statements of Financial Condition approximate fair value for the following financial instruments (Level 1): cash on hand and due from banks, interest-earning deposits in other institutions, Federal Home Loan Bank stock, accrued interest receivable, bank-owned life insurance, demand, savings and club accounts, securities sold under agreements to repurchase and accrued interest payable. For short-term financial assets such as certificates of deposit, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For financial liabilities such as interest and noninterest-bearing demand, savings and club accounts, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity. For financial liabilities such as the Company's securities sold under agreements to repurchase which are with commercial deposit customers, the carrying amount is a reasonable estimate of fair value due to the short time nature of the agreement.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

December 31, 2016

**(12) Fair Value of Assets and Liabilities (Continued)**

The following table presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments as of December 31, 2016 and September 30, 2016 (dollars in thousands):

	Carrying Amount	Total Fair Value	Fair Value Measurements		
			Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2016:					
Financial Instruments - Assets:					
Cash on hand and due from banks	\$ 1,924	\$ 1,924	\$ 1,924	\$ -	\$ -
Interest-earning deposits in other institutions	8,596	8,596	8,596	-	-
Certificate of deposit	500	500	500	-	-
Investment securities	42,948	42,948	2,163	40,785	-
Mortgage-backed securities	17,733	17,733	-	17,733	-
Federal Home Loan Bank stock	3,171	3,171	3,171	-	-
Loans receivable	381,532	387,056	-	-	387,056
Bank-owned life insurance	15,044	15,044	15,044	-	-
Accrued interest receivable	1,155	1,155	1,155	-	-
Financial Instruments - Liabilities:					
Demand, savings and club accounts	224,630	224,630	224,630	-	-
Certificate accounts	137,557	138,552	-	-	138,552
Federal Home Loan Bank advances	47,668	47,768	-	-	47,768
Securities sold under agreements to repurchase	2,342	2,342	2,342	-	-
Accrued interest payable	191	191	191	-	-
September 30, 2016:					
Financial Instruments - Assets:					
Cash on hand and due from banks	\$ 1,786	\$ 1,786	\$ 1,786	\$ -	\$ -
Interest-earning deposits in other institutions	16,375	16,375	16,375	-	-

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Certificate of deposit	500	500	500	-	-
Investment securities	44,250	44,250	2,144	42,106	-
Mortgage-backed securities	19,653	19,653	-	19,653	-
Federal Home Loan Bank stock	3,161	3,161	3,161	-	-
Loans receivable	378,080	384,161	-	-	384,161
Loans held for sale	234	238	238	-	-
Bank-owned life insurance	14,946	14,946	14,946	-	-
Accrued interest receivable	1,098	1,098	1,098	-	-
Financial Instruments - Liabilities:					-
Demand, savings and club accounts	231,378	231,378	231,378	-	-
Certificate accounts	137,256	140,728	-	-	140,728
Federal Home Loan Bank advances	48,856	49,843	-	-	49,843
Securities sold under agreements to repurchase	1,964	1,964	1,964	-	-
Accrued interest payable	194	194	194	-	-

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

December 31, 2016

**(13) Accumulated Other Comprehensive (Loss) Income**

The following tables present the significant amounts reclassified out of accumulated other comprehensive (loss) income and the changes in accumulated other comprehensive income (loss) by component for the three and six months ended December 31, 2016 and 2015:

	Unrealized Gains on Available for Sale Securities	Unrecognized Pension Costs	Total
Balance as of September 30, 2016	\$ 881	\$ (745)	) \$136
Other comprehensive loss before reclassification	(891)	) -	(891)
Amount reclassified from accumulated other comprehensive (loss) income	(22)	) -	(22 )
Total other comprehensive loss	(913)	) -	(913)
Balance as of December 31, 2016	\$ (32)	) \$ (745)	) \$(777)

	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line on the Consolidated Statements of Income
Three months ended December 31, 2016:		
Unrealized gains on available for sale securities	\$ 33	Net securities gains (losses)
	(11)	) Income tax expense
	\$ 22	Net of tax
Total reclassification for the period	\$ 22	Net income

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

December 31, 2016

**(13) Accumulated Other Comprehensive (Loss) Income (continued)**

	Unrealized Gains on Available for Sale Securities	Unrecognized Pension Costs	Total
Balance as of September 30, 2015	\$ 760	\$ (583)	) \$177
Other comprehensive loss before reclassification	(56)	)	(56)
Amount reclassified from accumulated other comprehensive (loss) income	1	-	1
Total other comprehensive loss	(55)	)	(55)
Balance as of December 31, 2015	\$ 705	\$ (583)	) \$122

	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line on the Consolidated Statements of Income
Three months ended December 31, 2015		
Unrealized gains on available for sale securities	\$ (2)	) Net securities gains (losses)
	1	Income tax expense
	\$ (1)	) Net of tax
Total reclassification for the period	\$ (1)	) Net income

**(14) Subsequent Events**

On August 29, 2016, Standard Financial Corp. and Allegheny Valley Bancorp, Inc. entered into an Agreement and Plan of Merger, which contemplated that Allegheny Valley would merge with and into Standard Financial Corp., with Standard Financial Corp. as the surviving entity to be known as “Standard AVB Financial Corp.” On April 7, 2017, Allegheny Valley merged with and into Standard Financial Corp. Accordingly, the Company is now referred to as “Standard AVB Financial Corp.”

Under the terms of the Merger Agreement, each outstanding share of Allegheny Valley Bancorp common stock was converted into the right to receive 2.083 shares of Standard AVB Financial common stock and cash in lieu of fractional shares (the “Merger Consideration”). As of the closing date, there were 1,040,923 outstanding shares of Allegheny Valley Bancorp common stock and resulted in a total of 2,168,097 shares of Standard AVB Financial common stock issued for exchange, subject to adjustment for fractional shares. Cash for any fractional shares of Standard AVB Financial common stock was based on \$26.60 for each whole share, based on the average closing price of Standard AVB Financial common stock for the five trading days immediately preceding the merger date. In addition, each option to purchase Allegheny Valley Bancorp common stock was converted into an option to Standard AVB Financial common stock at the same terms and conditions as were applicable prior to the Holding Company merger, except that the number of shares of Standard AVB Financial common stock issuable upon exercise of a converted option will be adjusted by multiplying the number of shares of Allegheny Valley Bancorp common stock subject to the Allegheny Valley Bancorp stock option

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**STANDARD FINANCIAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)**

December 31, 2016

**(14) Subsequent Events (continued)**

by 2.083 and the exercise price per share of a converted option will be adjusted by dividing the exercise price per share of the Allegheny Valley Bancorp option by 2.083. Additionally, at the consummation of the Holding Company Merger, each Allegheny Valley Bancorp restricted stock award became fully vested and was converted into the right to receive the Merger Consideration.

The acquired assets and assumed liabilities were measured at estimated fair values. Management made significant estimates and exercised significant judgement in accounting for the acquisition. Management measured loan fair values based on loan file reviews, appraised collateral values, expected cash flows, historical loss factors of Allegheny Valley and charge-off statistics published by the FDIC. The Company also recorded an identifiable intangible asset representing the core deposit base of Allegheny Valley based on management's evaluation of the cost of deposits relative to alternative funding sources. Management used significant estimates including the average lives of depository accounts, future interest rate levels, and the cost of servicing various depository products. Management used market quotations to determine the fair value of investment securities.

The merger resulted in the acquisition of loans with and without evidence of credit quality deterioration. The fair value of the loan portfolio included separate adjustments to reflect a credit risk and marketability component and a yield component reflecting the differential between portfolio and market yields. Allegheny Valley loans were deemed impaired at the acquisition date if the Company did not expect to receive all contractually required payments at the acquisition date. At the acquisition date, the Company recorded \$2,467,000 of purchased credit impaired loans. These loans were reserved at 100% given the unlikelihood of collection of the principal and interest on the loans.

Allegheny Valley's loans without evidence of credit deterioration were fair valued by discounting both expected principal and interest cash flows using observable discount rates for similar instruments that a market participant would consider in determining fair value. Additionally, consideration was given to management's best estimates of default rates and payment speeds. At acquisition date, Allegheny Valley's loan portfolio without evidence of deterioration totaled \$316,448,000 and was recorded at a fair value of \$311,736,000, which included an interest rate adjustment of \$861,000 and a general credit adjustment of \$3,851,000.

On August 22, 2017, the Board of Directors approved an amendment to the Company's bylaws to change the Company's fiscal year end to December 31.





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

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

The Company's critical accounting policies involving the significant judgments and assumptions used in the preparation of the Consolidated Financial Statements as of December 31, 2016 have remained unchanged from the disclosures presented in the Company's audited financial statements for the year ended September 30, 2016 contained in the Company's Prospectus.

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

**Comparison of Financial Condition at December 31, 2016 and September 30, 2016**

**General.** The Company's total assets decreased \$7.2 million, or 1.45%, to \$488.0 million at December 31, 2016 from \$495.2 million at September 30, 2016. The decrease was due primarily to a decrease in cash and cash equivalents due to deposit outflows. Total liabilities decreased \$7.2 million, or 1.71%, to \$415.0 million at December 31, 2016 from \$422.2 million at September 30, 2016 due to a decrease in deposits and the repayment of Federal Home Loan Bank advances.

**Cash and Cash Equivalents.** Cash and cash equivalents decreased \$7.6 million, or 42.3%, to \$10.5 million at December 31, 2016 from \$18.2 million at September 30, 2016 due to deposit outflows and funds used to repay maturing Federal Home Loan Bank advances.

**Loans.** At December 31, 2016, net loans were \$381.5 million, or 78.2% of total assets compared to \$378.1 million, or 76.3% of total assets at September 30, 2016. The \$3.5 million, or 0.9% increase, was due to increases in 1-4 family residential and construction loans of \$7.2 million and commercial loans of \$700,000, offset by decreases in commercial real estate loans of \$3.2 million and home equity and lines of credit of \$1.2 million.

**Investment Securities.** Investment securities available for sale decreased \$1.3 million to \$42.9 million at December 31, 2016 from \$44.2 million at September 30, 2016. The decrease primarily resulted from calls and maturities of municipals and government agency bonds totaling \$948,000 million. In addition, sales of investment securities were \$154,000 during the three months ended December 31, 2016.

**Mortgage-Backed Securities.** The Company's mortgage-backed securities available for sale decreased \$1.9 million to \$17.7 million at December 31, 2016 from \$19.7 million at September 30, 2016 due primarily to repayments of mortgage-backed securities of \$1.6 million during the current quarter.

**Deposits.** The Company accepts deposits primarily from the areas in which our offices are located. We have consistently focused on building broader customer relationships and targeting small business customers to increase our core deposits. We also rely on our customer service to attract and retain deposits. We offer a variety of deposit accounts with a range of interest rates and terms. Our deposit accounts consist of savings accounts, certificates of deposit, money market accounts, commercial and regular checking accounts and individual retirement accounts. We do not accept brokered deposits. Interest rates, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market interest rates, liquidity requirements and our deposit growth goals.

Deposits decreased \$6.4 million, or 1.7%, to \$362.2 million at December 31, 2016 from \$368.6 million at September 30, 2016. The decrease resulted primarily from a \$6.7 million, or 2.9%, decrease in demand and savings accounts.

**Borrowings.** Our borrowings consist of advances from the Federal Home Loan Bank of Pittsburgh and funds borrowed under repurchase agreements. Total borrowings decreased \$810,000, or 1.60%, to \$50.0 million at December 31, 2016 from \$50.8 million at September 30, 2016. The decrease was due primarily to the repayment of \$1.2 million of maturing Federal Home Loan Bank advances partly offset by a \$378,000 increase in repurchase agreements during the three months ended December 31, 2016.

**Stockholders' Equity.** Stockholders' equity was \$73 million at December 31, 2016, unchanged from \$73 million at September 30, 2016. Net income of \$559,000 for the three months ended December 31, 2016 and the exercise of stock options valued at \$396,000 were offset by dividends paid as of the three months ended December 31, 2016 of \$262,000 and other comprehensive loss of \$913,000.

#### **Average Balance and Yields**

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

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	For the Three Months Ended December 31,							
	2016				2015			
	Average		Average		Average		Average	
	Outstanding	Interest	Yield/	Rate	Outstanding	Interest	Yield/	Rate
	Balance				Balance			
	(Dollars in thousands)							
Interest-earning assets:								
Loans	\$382,186	\$3,726	3.90	%	\$354,775	\$3,553	4.01	%
Investment and mortgage-backed securities	62,406	361	2.31	%	69,187	453	2.62	%
Interest earning deposits	12,180	10	0.33	%	8,786	1	0.05	%
Total interest-earning assets	456,772	4,097	3.58	%	432,748	4,007	3.70	%
Noninterest-earning assets	34,212				32,412			
Total assets	\$490,984				\$465,160			
Interest-bearing liabilities:								
Savings accounts	\$101,495	37	0.15	%	\$104,805	37	0.14	%
Certificates of deposit	137,863	593	1.72	%	123,927	568	1.83	%
Money market accounts	27,866	23	0.33	%	8,907	2	0.09	%
Demand and NOW accounts	75,699	25	0.13	%	66,054	20	0.12	%
Total deposits	342,923	678	0.79	%	303,693	627	0.83	%
Federal Home Loan Bank advances	48,288	200	1.66	%	58,680	204	1.39	%
Securities sold under agreements to repurchase	1,949	1	0.21	%	1,657	1	0.24	%
Total interest-bearing liabilities	393,160	879	0.89	%	364,030	832	0.91	%
Noninterest-bearing deposits	22,185				22,939			
Noninterest-bearing liabilities	2,601				3,334			
Total liabilities	417,946				390,303			
Stockholders' equity	73,038				74,857			
Total liabilities and stockholders' equity	\$490,984				\$465,160			
Net interest income		\$3,218				\$3,175		
Net interest rate spread <sup>(1)</sup>			2.69	%			2.79	%
Net interest-earning assets <sup>(2)</sup>	\$63,612				\$68,718			
Net interest margin <sup>(3)</sup>			2.82	%			2.93	%
Average interest-earning assets to interest-bearing liabilities	116.18	%			118.88	%		

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

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

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

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**Comparison of Operating Results for the Three Months Ended December 31, 2016 and 2015**

**General.** Net income for the quarter ended December 31, 2016 was \$559,000 compared to \$866,000 for the quarter ended December 31, 2015, a decrease of \$307,000, or 35.4%. The decrease was primarily due to merger related expenses of \$307,000 and a higher provision for loan losses of \$40,000.

**Net Interest Income.** Net interest income was \$3.2 million for the quarters ended December 31, 2016 and 2015, respectively. Our net interest rate spread and net interest margin were 2.69% and 2.82%, respectively for the three months ended December 31, 2016 compared to 2.79% and 2.93% for the same periods in the prior year. The decrease in the net interest rate spread and net interest rate margin was the result of the yield on interest-earning assets declining more rapidly than the cost of interest-bearing liabilities.

**Interest and Dividend Income.** Total interest and dividend income increased by \$90,000, or 2.3%, to \$4.1 million for the three months ended December 31, 2016 compared to the same period in the prior year. The increase was due to an increase in the average balance of interest earning assets, partially offset by a decline in the average yield on interest-earning assets. Average interest-earning assets increased to \$456.8 million for the three months ended December 31, 2016 from \$432.8 million for the same period in 2015. The average yield on interest-earning assets decreased to 3.59% for the three months ended December 31, 2016 from 3.70% for the same period in the prior year.

Interest income on loans increased \$173,000, or 4.9%, to \$3.7 million for the three months ended December 31, 2016. The average yield on loans receivable decreased to 3.90% for the three months ended December 31, 2016 from 4.01% for the same period in the prior year. The decrease in average yield was primarily attributable to the origination of new loans in a generally lower interest rate environment and repayment/refinance of higher rate loans. Average loans receivable increased by \$27.4 million, or 7.7%, to \$382.2 million for the three months ended December 31, 2016 from \$354.8 million for the same period in the prior year due mainly to an increase in originations of one-to-four family residential and commercial loans.

Interest income on investment and mortgage-backed securities decreased by \$92,000, or 20.3%, to \$361,000 for the three months ended December 31, 2016 from \$453,000 for the same period in the prior year. The decrease was due to a decline in the average balance of investment and mortgage backed securities of \$6.8 million or 9.8% to \$62.4 million for the three months ended December 31, 2016 compared to the prior period due to calls and maturities of municipals and government agency bonds. In addition, the average yield earned on investments and mortgage-backed securities declined to 2.31% for the three months ended December 31, 2016 from 2.62% for the same period in the prior year.

**Interest Expense.** Total interest expense increased by \$47,000, or 5.7%, to \$879,000 for the three months ended December 31, 2016 from \$832,000 for the same period in the prior year. This increase in interest expense was due to an increase in the average balance of interest-bearing liabilities of \$29.1 million, or 8.0%, to \$393.2 million for the three months ended December 31, 2016 from \$364.0 million for the same period in the prior year, offset by a decrease in the average cost of interest-bearing liabilities to 0.89% for the three months ended December 31, 2016 from 0.91% for the same prior year period.

Interest expense on deposits increased by \$51,000, or 8.1%, to \$678,000 for the three months ended December 31, 2016 from \$627,000 for the same period in the prior year. The average balance of deposits increased \$39.2 million or 12.9% for the three months ended December 31, 2016, compared to the prior period. The increase is due to net inflows in certificates of deposits as customer preferences from short-term deposits to longer term certificates shifted, and an increase in money market accounts due to a deposit relationship established with the Commonwealth of Pennsylvania. The average cost of deposits declined from 0.83% for the three months ended December 31, 2015 to 0.79% for the three months ended December 31, 2016, due primarily to higher yielding, maturing certificates of deposit being replaced by lower yielding certificate products.

**Provision for Loan Losses.** A provision for loan losses of \$40,000 was recorded for the three months ended December 31, 2016, compared to no provision recorded for the three months ended December 31, 2015. Non-performing loans at December 31, 2016 were \$1.1 million or 0.29% of total loans, \$1.1 million or 0.28% of total loans at September 30, 2016 and \$1.3 million or 0.36% of total loans at December 31, 2015. The provision that was recorded was sufficient, in management's judgment, to bring the allowance for loan losses to a level that reflects the losses inherent in our loan portfolio relative to loan mix, economic conditions and historical loss experience. See "Non-Performing and Problem Assets" for additional information.

**Noninterest Income.** Noninterest income increased \$48,000, or 7.4%, to \$700,000 for the three months ended December 31, 2016 from \$652,000 for the same period in the prior year. The increase was due mainly to higher gains from securities sales of \$35,000 and higher net loan sale gains of \$18,000.

**Noninterest Expenses.** Noninterest expenses increased by \$336,000, or 13.0%, to \$2.9 million for the three months ended December 31, 2016 compared to the same period in 2015. The increase was due primarily to merger-related expenses of \$307,000. Other operating expenses increased \$99,000 for the quarter ended December 31, 2016 compared to the same period due primarily to higher expenses relating to foreclosed real estate properties compared to the prior year and gains recognized on the final disposition of the real estate owned properties in the prior year period.

**Income Tax Expense.** The Company recorded a provision for income tax of \$394,000 for the three months ended December 31, 2016 compared to \$372,000 for the three months ended December 31, 2015. The effective tax rate was 41.3% for the three months ended

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December 31, 2016 and 30.0% for the three months ended December 31, 2015. The increase in the effective tax rate is due to a lower level of nontaxable income and certain nondeductible merger-expenses.

## Non-Performing and Problem Assets

There were no loans in arrears 90 days or more and still accruing interest at December 31, 2016. Loans in arrears 90 days or more or in process of foreclosure (non-accrual loans) were as follows:

	Number of Loans (Dollars in thousands)	Amount	Percentage of Loans Receivable	
December 31, 2016	14	\$ 753	0.20	%
September 30, 2016	13	689	0.18	

At December 31, 2016 and September 30, 2016, the Company had impaired loans totaling \$462,000 million and \$467,000, respectively. The largest impaired loan was a commercial real estate secured loan with a balance of \$362,000 and \$367,000 at December 31, 2016 and September 30, 2016, respectively. Although not over 90 days delinquent at December 31, 2016 and September 30, 2016, the loan was considered impaired based on the recent delinquency issues and an analysis of the borrower's financial performance.

## Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations. Our primary sources of funds consist of deposit inflows, loan repayments and sales, advances from the Federal Home Loan Bank of Pittsburgh, repurchase agreements and maturities, principal repayments and the sale of available-for-sale securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. Our Asset/Liability Management Committee, under the direction of our Chief Financial Officer, is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers as well as unanticipated contingencies. We believe that we have enough sources of liquidity to satisfy our short- and long-term liquidity needs as of December 31, 2016.



Certificates of deposit due within one year of December 31, 2016 totaled \$17.8 million, or 4.9% of total deposits. If these deposits do not remain with us, we may be required to seek other sources of funds, including loan and securities sales, repurchase agreements and Federal Home Loan Bank advances. Standard believes, however, based on historical experience and current market interest rates, it will retain upon maturity a large portion of its certificates of deposit with maturities of one year or less. The maximum borrowing capacity at the FHLB at December 31, 2016 was \$209.5 million.

Our stockholder's equity amounted to \$73.0 million at December 31, 2016, unchanged from \$73.0 million at September 30, 2016. Net income of \$559,000 for the three months ended December 31, 2016 and the exercise of stock options valued at \$396,000 were offset by dividends paid as of the three months ended December 31, 2016 of \$262,000 and other comprehensive loss of \$913,000.

Current regulatory requirements specify that the Bank and similar institutions must maintain regulatory capital sufficient to meet tier leverage, common equity tier 1 capital, tier 1 risk-based and total risk-based capital ratios of at least 4.00%, 4.50%, 6.00% and 8.00%, respectively. At December 31, 2016, Standard Bank was in compliance with all regulatory capital requirements ratios of 13.62%, 20.37%, 20.37% and 21.62%, respectively, and was considered "well capitalized" under regulatory guidelines.

#### **Off-Balance Sheet Arrangements and Aggregate Contractual Obligations**

**Commitments.** As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. At December 31, 2016, Standard had \$49.9 million in loan commitments outstanding, \$9.8 million of which were for commercial real estate loans and \$5.5 of which were for one- to four-family loans. In addition to commitments to originate loans, Standard had \$13.7 million in unused lines of credit to borrowers and \$7.4 million in undisbursed funds for construction loans in process. Certificates of deposit due within one year of December 31, 2016 totalled \$17.8 million, or 4.9% of total deposits. If these deposits do not remain with Standard, Standard may be required to seek other sources of funds, including loan and securities sales, repurchase agreements and FHLB advances. Standard believes, however, based on historical experience and current market interest rates, it will retain upon maturity a large portion of its certificates of deposit with maturities of one year or less.

**Contractual Obligations.** In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include data processing services, operating leases for premises and equipment, agreements with respect to borrowed funds and deposit liabilities.

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ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable to smaller reporting companies.

ITEM 4. Controls and Procedures

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

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

**PART II – OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

At December 31, 2016, the Company is not involved in any pending legal proceedings other than non-material legal proceedings undertaken in the ordinary course of business.

**ITEM 1A. Risk Factors**

In addition to the other information set forth in this quarterly report, you should carefully consider the factors discussed under the heading "Risk Factors" contained in the Joint Proxy Statement/Prospectus filed with the SEC on

February 3, 2017. The Company's evaluation of the risk factors applicable to it has not changed materially from those disclosed in the Joint Proxy Statement/Prospectus.

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

None.

ITEM 3. Defaults Upon Senior Securities

Not Applicable

ITEM 4. Mine Safety Disclosures

Not Applicable

ITEM 5. Other Information

None

ITEM 6 Exhibits

3.1 Articles of Incorporation of Standard AVB Financial Corp., as amended (1)

3.2 Bylaws of Standard AVB Financial Corp., as amended (2)

31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 Written Statement of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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101.0 The following materials for the quarter ended December 31, 2016, formatted in XBRL (Extensible Business Reporting Language): (i) Statements of Financial Condition, (ii) Statements of Income, (iii) Statements of Comprehensive Income, (iv) Statements of Changes in Stockholder's Equity, (v) Statements of Cash Flows, and (vi) Notes to Financial Statements

(1) Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-4, as amended (Commission File No. 333-215069).

(2) Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-4, as amended (Commission File No. 333-215069).

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SIGNATURES

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

**STANDARD AVB FINANCIAL CORP.**

<b>Signatures</b>	<b>Title</b>	<b>Date</b>
/s/ Timothy K. Zimmerman Timothy K. Zimmerman	Chief Executive Officer and Director (Principal Executive Officer)	September 29, 2017
/s/ Susan A. Parente Susan A. Parente	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	September 29, 2017