

Standard Financial Corp.  
Form 10-K  
December 19, 2013  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended September 30, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-34893

**STANDARD FINANCIAL CORP.**

(Exact Name of Registrant as Specified in its Charter)

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**Maryland**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**27-3100949**  
(I.R.S. Employer Identification No.)

**2640 Monroeville Boulevard, Monroeville,**  
**Pennsylvania**  
(Address of Principal Executive Offices)

**15146**  
(Zip Code)

**(412) 856-0363**

(Telephone Number, including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

| <b>Title of Each Class</b> | <b>Name of Each Exchange on Which Registered</b> |
|----------------------------|--|
| None                       | None   |

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No

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

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 o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of December 11, 2013, there were issued and outstanding 3,017,097 shares of the Registrant's Common Stock.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the last sales price on March 31, 2013 was \$62.8 million.

**DOCUMENTS INCORPORATED BY REFERENCE:**

| <b>Document</b>   | <b>Part of Form 10-K</b> |
|---|--------------------------|
| Proxy Statement for the 2014 Annual Meeting of Stockholders of the Registrant | Part III                 |

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**Standard Financial Corp.**  
**Annual Report on Form 10-K**  
**For The Year Ended**  
**September 30, 2013**

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**PART I**

**ITEM 1.**

**Business**

**Forward-Looking Statements**

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

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

These forward-looking statements are based on our current beliefs and expectations and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. We are under no duty to and unless required under the federal securities laws, we do not undertake any obligation to update any forward-looking statements after the date of this annual report.

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

- general economic conditions, either nationally or in our market areas, that are worse than expected;

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- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate acquired entities, if any;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission (the "SEC") and the Public Company Accounting Oversight Board;
- changes in our organization, compensation and benefit plans;
- changes in our financial condition or results of operations that reduce capital available to pay dividends; and
- changes in the financial condition or future prospects of issuers of securities that we own.

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

**Standard Financial Corp.**

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Standard Financial Corp. (the Company) is a Maryland corporation that owns all of the outstanding shares of common stock of Standard Bank (the Bank) upon completion of the mutual-to-stock conversion which occurred on October 6, 2010. Upon completion of the stock conversion on October 6, 2010, a total of 3,478,173 shares of common stock were issued in the offering of which 3,360,554 shares were subscribed for by depositors of Standard Bank, other investors in the subscription and community offerings and the Employee Stock Ownership Plan at a purchase price of \$10.00 per share. In addition, 117,619 shares were issued to Standard Charitable Foundation. The shares of common stock began trading on the Nasdaq Stock Market (the Nasdaq) under the trading symbol STND on October 7, 2010.

On September 6, 2013, the Company announced that its Board of Directors approved the voluntary delisting of its common stock from the Nasdaq and the deregistration of the Company as a reporting company with the SEC. The Company notified the



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Nasdaq of its intent to voluntarily delist its common stock and filed a notice on Form 25 with the SEC on September 16, 2013 to delist the common stock from Nasdaq and terminate the registration of the Company's common stock under Section 12 of the Securities Exchange Act of 1934 ( Exchange Act ). The termination of the Company's Section 12 reporting requirements will be complete 90 days after the Form 25 was filed. The Company's common stock was suspended from trading on the Nasdaq on September 26, 2013 and promptly thereafter began trading under the symbol STND on the OTCQB Marketplace, operated by OTC Markets Group. The Company also filed a Form 15 with the SEC on September 26, 2013 in order to suspend the Company's reporting requirements under Section 15(d) of the Exchange Act with the suspension to become effective 90 days after the filing of the Form 15. At such time, the Company's periodic reporting obligations under Sections 13 and 15(d) of the Exchange Act will be suspended, including its obligations to file annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

The Company's decision to delist and deregister the common stock comes in response to the adoption of the Jumpstart Our Business Startups Act (the JOBS Act ), which, among other things, allows banks and bank holding companies to deregister with the SEC if they have fewer than 1,200 stockholders of record. The Company's Board of Directors authorized the delisting and deregistration after concluding that the significant costs of remaining an SEC reporting company, including the regulatory compliance burden, outweighed the current benefits of being listed on Nasdaq. The Board of Directors believes that the expense reductions inherent in delisting and deregistering its stock will benefit the Company and its stockholders and serve to maximize the long term value of the Company. In addition, following deregistration, the Company's Board and management will be able to focus more on profitable operation of the Company as opposed to the considerable time and effort necessary to manage compliance with SEC reporting requirements. The Company will continue to be audited by an independent accounting firm and prepare and publish quarterly and annual financial results in its regular press releases.

On a consolidated basis, as of September 30, 2013, Standard Financial Corp. had total consolidated assets of \$436.9 million, total loans of \$297.5 million, total deposits of \$326.1 million and stockholders' equity of \$74.6 million. Our executive offices are located at 2640 Monroeville Boulevard, Monroeville, Pennsylvania 15146. Our telephone number at this address is (412) 856-0363.

**Standard Bank**

Standard Bank is a Pennsylvania chartered savings bank headquartered in Murrysville, Pennsylvania with executive offices in Monroeville, Pennsylvania. Standard Bank was organized in 1913, and reorganized into the mutual holding company structure in 1998. Following the completion of the stock conversion, Standard Bank became the wholly owned subsidiary of Standard Financial Corp. We provide financial services to individuals, families and businesses through ten banking offices located in the Pennsylvania counties of Allegheny, Westmoreland and Bedford and Allegany County, Maryland.

Standard Bank's business consists primarily of accepting deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in one- to four-family residential mortgage loans, commercial real estate loans, home equity loans and lines of credit, commercial business loans and investment securities. To a much lesser extent, we also originate construction loans and consumer loans. Standard Bank offers a variety of deposit accounts, including savings accounts, certificates of deposit, money market accounts, commercial and regular checking accounts and individual retirement accounts.

Standard Bank's executive offices are located at 2640 Monroeville Boulevard, Monroeville, Pennsylvania 15146. Our telephone number at this address is (412) 856-0363. Our website address is [www.standardbankpa.com](http://www.standardbankpa.com). Information on our website is not incorporated into this Annual Report and should not be considered part of this Annual Report.

**Market Area**

We conduct our operations from our ten branch offices located in the Pennsylvania counties of Allegheny, Westmoreland and Bedford and Allegany County, Maryland. Standard Bank considers its primary market area to be eastern Allegheny, Westmoreland, northern Fayette and southern Bedford counties in Pennsylvania and Allegany County, Maryland.

Our market area has a broad range of private employers, and has changed its focus from heavy industry to more specialized industries and service providers, including technology, health care, education and finance. Allegheny County, Pennsylvania is the headquarters for seven Fortune 500 companies, including H.J. Heinz, USX Corporation and Alcoa Inc. Westmoreland County is east of Allegheny County and is part of the Pittsburgh metropolitan area. Allegany County, Maryland is part of the Cumberland, Maryland-West Virginia metropolitan area, which is equidistant from Pittsburgh and Baltimore, and its economy includes information technology, biotechnology, medical services and manufacturing.

Our market area did not fully benefit from the national economic expansion during the period prior to the economic downturn, and as a result, it was not as severely affected during the economic downturn. The national unemployment rate has remained close to 8% as of September 30, 2013 and real estate prices across the country have declined substantially in many markets. In comparison to many areas throughout the country, real estate values in our market have not declined to the extent that other areas of

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the country have experienced during the past decade. Median household income levels in Standard Bank's market area have been mixed. Allegheny County, Pennsylvania and Allegany County, Maryland have trailed the median household income growth rate of their respective states and the nation over the last several years, while Westmoreland and Fayette Counties have outpaced it. However, the median household income in each of the counties within our market area is substantially less than their respective states and nationally.

**Competition**

We face intense competition in our market areas both in making loans and attracting deposits. We compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies and investment banking firms. Some of our competitors have greater name recognition and market presence that benefit them in attracting business, and offer certain services that we do not or cannot provide.

Our deposit sources are primarily concentrated in the communities surrounding our banking offices, located in the Pennsylvania counties of Allegheny, Westmoreland and Bedford and Allegany County, Maryland. As of June 30, 2013 (the latest date for which information is publicly available), we ranked 26th in deposit market share out of 35 bank and thrift institutions with offices in Allegheny County, Pennsylvania with a market share of less than 1.0%, 9th in deposit market share out of 23 bank and thrift institutions in Westmoreland County, Pennsylvania with a market share of 3.0%, 7th in deposit market share out of 10 bank and thrift institutions in Bedford County, Pennsylvania, with a market share of 3.4% and 5th in deposit market share out of 5 bank and thrift institutions in Allegany County, Maryland with a market share of 6.8%.

**Lending Activities**

Our primary lending activities are the origination of one- to four-family residential mortgage loans, commercial real estate loans, commercial business loans and home equity loans and lines of credit. To a lesser extent, we also originate construction loans and consumer loans.

**One- to Four-Family Residential Mortgage Loans.** At September 30, 2013, \$126.5 million, or 42.4%, of our total loan portfolio, consisted of one- to four-family residential mortgage loans. We offer fixed-rate and adjustable-rate residential mortgage loans with maturities up to 30 years. One- to four-family residential mortgage loans are generally underwritten according to secondary market guidelines, and we refer to loans that conform to such guidelines as conforming loans. We generally originate both fixed- and adjustable-rate mortgage loans in amounts up to the maximum conforming loan limits as established by the Office of Federal Housing Enterprise Oversight, which is currently \$417,000 for single-family homes. However, loans in excess of \$417,000 (which are referred to as jumbo loans) may be generally originated for retention in our loan portfolio, and not for sale in the secondary market. Our maximum loan amount for these loans is generally \$750,000. We underwrite jumbo loans in the same manner as conforming loans.

We will originate loans with loan-to-value ratios in excess of 80%, up to and including a loan-to-value ratio of 95%. We require private mortgage insurance for loans with loan-to-value ratios in excess of 85%. During the fiscal year ended September 30, 2013, we originated \$2.2 million of one- to four-family residential mortgage loans with loan-to-value ratios in excess of 80%. We offer special programs for low- and moderate-income home purchasers. The property must be located within our lending assessment area. Household income must be less than 80% of median income of the Metropolitan Statistical Area in order to qualify for the special low-to moderate-income program.

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We generally sell fixed rate conforming loans with terms greater than 15 years and retain the servicing rights on loans sold to generate fee income. For the fiscal year ended September 30, 2013, we recognized loan servicing fees of \$141,000. As of September 30, 2013, the principal balance of loans serviced for others totaled \$24.4 million.

Other than our loans for the construction of one- to four-family residential mortgage loans (described under *Construction Loans*) and home equity lines of credit (described under *Home Equity Loans and Lines of Credit*), we do not offer interest only mortgage loans on one- to four-family residential properties (where the borrower pays interest for an initial period, after which the loan converts to a fully amortizing loan). We also do not offer loans that provide for negative amortization of principal, such as *Option ARM* loans, where the borrower can pay less than the interest owed on the loan, resulting in an increased principal balance during the life of the loan. We do not offer subprime loans (loans that generally target borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios) or Alt-A loans (traditionally defined as loans having less than full documentation).

***Commercial Real Estate Loans.*** At September 30, 2013, \$95.8 million, or 32.1%, of our total loan portfolio, consisted of commercial real estate loans. Properties securing our commercial real estate loans primarily include business owner-occupied

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properties, small office buildings and office suites. We generally seek to originate commercial real estate loans with initial principal balances of up to \$3.0 million. Substantially all of our commercial real estate loans are secured by properties located in our primary market area. At September 30, 2013, our largest commercial real estate loan relationship had a principal balance of \$2.8 million and was secured by first mortgages on office and warehouse buildings. This loan was performing in accordance with its terms at September 30, 2013.

In the underwriting of commercial real estate loans, we generally lend up to the lower of 80% of the property's appraised value or purchase price. We base our decision to lend primarily on the economic viability of the property and the creditworthiness of the borrower. In evaluating a proposed commercial real estate loan, we emphasize the ratio of the property's projected net cash flow to the loan's debt service requirement (generally requiring a preferred ratio of 1.25x), computed after deduction for a vacancy factor and property expenses we deem appropriate. Personal guarantees are usually obtained from commercial real estate borrowers. We generally require title insurance, fire and extended coverage casualty insurance, and, if appropriate, flood insurance, in order to protect our security interest in the underlying property. Almost all of our commercial real estate loans are generated internally by our loan officers.

Commercial real estate loans generally carry higher interest rates and have shorter terms than one- to four-family residential mortgage loans. Commercial real estate loans, however, entail greater credit risks compared to the one- to four-family residential mortgage loans we originate, as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment of loans secured by income-producing properties typically depends on the successful operation of the property, as repayment of the loan generally is dependent, in large part, on sufficient income from the property to cover operating expenses and debt service. Changes in economic conditions that are not in the control of the borrower or lender could affect the value of the collateral for the loan or the future cash flow of the property. Additionally, any decline in real estate values may be more pronounced for commercial real estate than residential properties.

**Home Equity Loans and Lines of Credit.** In addition to traditional one- to four-family residential mortgage loans, we offer home equity loans and home equity lines of credit that are secured by the borrower's primary residence or secondary residence. At September 30, 2013, our home equity loans and lines of credit totaled \$61.6 million and represented 20.6% of our total loan portfolio. Our home equity loans are originated with fixed rates of interest and with terms of up to 20 years. Home equity lines of credit have a maximum term of 20 years. The borrower is permitted to draw against the line during the first ten years of the line of credit. During this draw period, repayments are made at 2% of the unpaid balance on a monthly basis. After this initial 10-year draw period, the borrower is required to make payments to principal based on a 10-year amortization. We also offer interest only lines of credit with a 5-year draw period in which interest is due monthly. After the initial 5-year draw period, the borrower is required to make principal payments based on a 10-year amortization. Our home equity lines of credit are currently originated with adjustable rates of interest. Home equity loans and lines of credit are generally underwritten with the same criteria that we use to underwrite one- to four-family residential mortgage loans. For a borrower's primary residence, home equity loans and lines of credit may be underwritten with a loan-to-value ratio of 85% when combined with the principal balance of the existing mortgage loan. For interest-only lines of credit, the maximum loan-to-value ratio on the second mortgage is generally limited to 75% when combined with the principal balance of the existing mortgage loan. We require appraisals on home equity loans and lines of credit. At the time we close a home equity loan or line of credit, we record a mortgage to perfect our security interest in the underlying collateral. At September 30, 2013 our in-house maximum limit for a home equity loan or a line of credit was \$250,000 without title insurance; any higher amounts require title insurance.

Home equity loans and lines of credit entail greater credit risks compared to the one- to four-family residential mortgage loans we originate, as they typically involve higher loan-to-value ratios. Therefore, any decline in real estate values may have a more detrimental effect on home equity loans and lines of credit compared to one- to four-family residential mortgage loans.

**Commercial Business Loans.** We make various types of secured and unsecured commercial business loans to customers in our market area for the purpose of working capital and other general business purposes. The terms of these loans generally range from less than one year to a

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maximum of ten years. The loans are either negotiated on a fixed-rate basis or carry adjustable interest rates indexed to a market rate index. We seek to originate loans to small- and medium-size businesses with principal balances between \$150,000 and \$750,000. At September 30, 2013, we had commercial business loans totaling \$11.5 million, or 3.9% of the total loan portfolio.

Commercial credit decisions are based upon our credit assessment of the loan applicant. We evaluate the applicant's ability to repay in accordance with the proposed terms of the loan and we assess the risks involved. Personal guarantees of the principals are typically obtained. In addition to evaluating the loan applicant's financial statements, we consider the adequacy of the primary and secondary sources of repayment for the loan or debt service coverage. Credit agency reports of the applicant's personal credit history supplement our analysis of the applicant's creditworthiness. Collateral supporting a secured transaction also is analyzed to determine its marketability. Commercial business loans generally have higher interest rates than residential loans of like duration because they

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have a higher risk of default since their repayment generally depends on the successful operation of the borrower's business and the sufficiency of any collateral. At September 30, 2013, our largest commercial business loan had a principal balance of \$1.5 million and was secured by the inventory and accounts receivable of the borrower's pharmacy businesses. This loan was performing in accordance with its terms at September 30, 2013.

**Construction Loans.** We make commercial construction loans for rental properties, commercial buildings and homes built by developers on speculative, undeveloped property. The terms of commercial construction loans are made in accordance with our commercial loan policy. Advances on construction loans are made in accordance with a schedule reflecting the cost of construction, but are generally limited to an 80% loan-to-completed-appraised-value ratio. Repayment of construction loans on non-residential properties is normally expected from the property's eventual rental income, income from the borrower's operating entity or the sale of the subject property. In the case of income-producing property, repayment is usually expected from permanent financing upon completion of construction. We typically provide the permanent mortgage financing on our construction loans on income-producing property. Construction loans are interest-only loans during the construction period, which typically do not exceed 12 months, and convert to permanent, amortizing financing following the completion of construction. At September 30, 2013, construction loans totaled \$1.2 million, or 0.4%, of total loans receivable. At September 30, 2013, the additional unadvanced portion of these construction loans totaled \$561,000.

Generally, before making a commitment to fund a construction loan, we require an appraisal of the property by a state-certified or state-licensed appraiser. We review and inspect properties before disbursement of funds during the term of the construction loan. Construction financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost is inaccurate, we may be required to advance additional funds beyond the amount originally committed in order to protect the value of the property. Moreover, if the estimated value of the completed project is inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment of the construction loan upon the sale of the property. In the event we make a land acquisition loan on property that is not yet approved for the planned development, there is the risk that approvals will not be granted or will be delayed. Construction loans also expose us to the risk that improvements will not be completed on time in accordance with specifications and projected costs. In addition, the ultimate sale or rental of the property may not occur as anticipated.

**Loan Originations, Sales, Participations and Servicing.** All loans that we originate are underwritten pursuant to our policies and procedures, which incorporate standard underwriting and secondary market guidelines. We originate both adjustable-rate and fixed-rate loans. Our loan origination and sales activity may be adversely affected by a rising interest rate environment that typically results in decreased loan demand. Most of our one- to four-family residential mortgage loan originations are generated by our loan officers.

In recent years, we have sold most of our longer term fixed rate loans to the Federal Home Loan Bank of Pittsburgh ( FHLB ), with loan servicing rights retained. During the fiscal years 2013 and 2012, we originated \$7.4 million and \$7.8 million, respectively, of fixed-rate loans primarily with terms of 15 years and longer which were sold to assist us in managing interest rate risk. We sell our loans with the servicing rights retained on residential mortgage loans, and we intend to continue this practice in the future, subject to the pricing of retaining such servicing rights. At September 30, 2013, we were servicing loans owned by others with a principal balance of \$24.4 million. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, contacting delinquent borrowers, supervising foreclosures and property dispositions in the event of defaults, making certain insurance and tax payments on behalf of the borrowers and generally administering the loans. We retain a portion of the interest paid by the borrower on the loans we service as consideration for our servicing activities.

From time to time, we enter into participations in commercial loans with other banks. In these circumstances, we will generally follow our customary loan underwriting and approval policies. At September 30, 2013 we had \$7.1 million in loan participations.

***Loan Approval Procedures and Authority.*** Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our Board of Directors. The loan approval process is intended to assess the borrower's ability to repay the loan and value of the property that will secure the loan. To assess the borrower's ability to repay, we review the borrower's employment and credit history and information on the historical and projected income and expenses of the borrower. We require full documentation on all of our loan applications. We require appraisals of all real property securing one- to four-family residential and commercial real estate loans and home equity loans and lines of credit. All appraisers are state-licensed or state-certified appraisers, and our practice is to have local appraisers approved by the Board of Directors annually.



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Our policies and loan approval limits are established by the Board of Directors. Loans in amounts up to \$200,000 (for consumer loans), \$1.0 million (for residential real estate loans), and \$1.0 million (for commercial loans) can be approved by designated individual officers or officers acting together with specific lending approval authority. Relationships in excess of these amounts require the approval of the Board of Directors or its Loan Committee.

**Investments**

Our Investment Committee, which is comprised of our Chief Executive Officer, our Chief Financial Officer and our Controller, has primary responsibility for implementing our investment policy, which is established by our Board of Directors. The general investment strategies are developed and authorized by the Investment Committee in consultation with our Board of Directors. The Investment Committee is responsible for the execution of specific investment actions. These officers are authorized to execute investment transactions without the Board of Directors prior approval (provided the transactions are within the scope of the established investment policy). The investment policy is reviewed annually by the Investment Committee, and any changes to the policy are subject to approval by the full Board of Directors. The overall objectives of the Investment Policy are to maintain a portfolio of high quality and diversified investments to maximize interest income over the long term and to minimize risk, to provide collateral for borrowings, to provide additional earnings when loan production is low, and, when appropriate, to reduce our tax liability. The policy dictates that investment decisions give consideration to the safety of principal, liquidity requirements and interest rate risk management. All securities transactions are reported to the Board of Directors on a monthly basis.

Our current investment policy permits investments in securities issued by the U.S. Government as well as mortgage-backed securities, municipal securities, corporate bonds and direct obligations of Fannie Mae, Freddie Mac and Ginnie Mae. The investment policy also permits, with certain limitations, investments in certificates of deposit, collateralized mortgage obligations, mutual funds and equity securities. Our current investment policy does not permit investment in stripped mortgage-backed securities or derivatives as defined in federal banking regulations or in other high-risk securities. Our investment policy expressly prohibits the use of our investment portfolio for market-oriented trading activities or speculative purposes unless otherwise approved by our Board of Directors. We do not currently have a trading account for investment securities.

We designate a security as either held to maturity, available for sale, or trading, based upon our ability and intent. Securities available for sale and trading securities are reported at market value and securities held to maturity are reported at amortized cost. A periodic review and evaluation of the available for sale and held to maturity securities portfolios is conducted to determine if the fair value of any security has declined below its carrying value and whether such decline is other-than-temporary. At September 30, 2013, all of our securities were classified as available for sale. Our securities portfolio at September 30, 2013, consisted primarily of securities with the following fair values: \$29.7 million of mortgage-backed securities issued by U.S. Government agencies and U.S. Government-sponsored enterprises; \$33.1 million of municipal obligations; \$22.4 million of U.S. government and agency obligations; \$7.0 million of corporate bonds and \$1.6 million of equity securities. At September 30, 2013, none of the collateral underlying our securities portfolio was considered subprime or Alt-A. See Item 7 - Management's Discussion of Financial Condition and Results of Operations Balance Sheet Analysis: September 30, 2013 and September 30, 2012 Investment Securities Portfolio for a discussion of the recent performance of our securities portfolio.

We purchase mortgage-backed securities insured or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. Historically, we have invested in mortgage-backed securities to achieve positive interest rate spreads with minimal administrative expense and to lower our credit risk as a result of the guarantees provided by Freddie Mac, Fannie Mae or Ginnie Mae. However, in September 2008, the Federal Housing Finance Agency placed Freddie Mac and Fannie Mae into conservatorship. The U.S. Treasury Department has established financing agreements to ensure that Freddie Mac and Fannie Mae meet their obligations to holders of mortgage-backed securities that they have issued or guaranteed. These actions have not affected the markets for mortgage-backed securities issued by Freddie Mac or Fannie Mae.

Mortgage-backed securities are securities issued in the secondary market that are collateralized by pools of mortgages. Certain types of mortgage-backed securities are commonly referred to as pass-through certificates because the principal and interest of the underlying loans is passed through to investors, net of certain costs, including servicing and guarantee fees. Mortgage-backed securities typically are collateralized by pools of one- to four-family or multifamily (loans on properties with 5 or more units) mortgages, although we invest primarily in mortgage-backed securities backed by one- to four-family mortgages. The issuers of such securities pool and resell the participation interests in the form of securities to investors such as Standard Bank. The interest rate on the security is lower than the interest rates on the underlying loans to allow for payment of servicing and guaranty fees. Ginnie Mae, a U.S. Government agency, and government sponsored enterprises, such as Fannie Mae and Freddie Mac, either guarantee the payments or guarantee the timely payment of principal and interest to investors. Mortgage-backed securities are more liquid than individual mortgage loans since there is an active trading market for such securities. In addition, mortgage-backed securities may be used to collateralize borrowings. Investments in mortgage-backed securities involve a risk that actual payments will be greater or less than the prepayment rate estimated at the time of purchase, which may require adjustments to the amortization of any premium or accretion of

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any discount relating to such interests, thereby affecting the net yield on our securities. Current prepayment speeds determine whether prepayment estimates require modification that could cause amortization or accretion adjustments.

**Sources of Funds**

**General.** Deposits traditionally have been our primary source of funds for our investment and lending activities. We also borrow from the FHLB to supplement cash flow needs. Our additional sources of funds are scheduled loan payments, maturing investments, loan repayments, customer repurchase agreements, income on other earning assets and the proceeds of loan sales.

**Deposits.** We accept deposits primarily from the areas in which our offices are located. We rely on our competitive pricing and products, convenient locations and quality 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 and regular checking accounts. 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.

**Borrowings.** Our borrowings consist of advances from the FHLB and funds borrowed from customers under repurchase agreements. At September 30, 2013, FHLB advances totaled \$28.9 million, or 8.0%, of total liabilities and our repurchase agreements totalled \$4.2 million, or 1.2%, of total liabilities. At September 30, 2013, we had access to additional FHLB advances of up to \$126.5 million. Advances from the FHLB are collateralized by certain qualifying collateral such as loans, with weighted average collateral values determined by the FHLB equal to at least the unpaid amount of outstanding advances. Repurchase agreements are secured by mortgage-backed securities.

**Subsidiary Activities**

Standard Bank has one subsidiary, Westmoreland Investment Company, which is a Delaware corporation that holds residential mortgage loans originated and serviced by Standard Bank.

**Expense and Tax Allocation**

Standard Bank has entered into an agreement with Standard Financial Corp. to provide it with certain administrative support services, whereby Standard Bank will be compensated at not less than the fair market value of the services provided. In addition, Standard Bank and Standard Financial Corp. have entered into an agreement to establish a method for allocating and for reimbursing the payment of their consolidated tax liability.

**Personnel**

As of September 30, 2013, we had 94 full-time equivalent employees. Our employees are not represented by any collective bargaining group. Management believes that we have a good working relationship with our employees.

## **SUPERVISION AND REGULATION**

### **General**

Standard Bank is supervised and examined by the Pennsylvania Department of Banking as the issuer of its charter, and by the FDIC as the insurer of its deposits and its primary federal regulator. Standard Bank also is regulated to a lesser extent by the Federal Reserve Board, governing reserves to be maintained against deposits and other matters. This system of state and federal regulation and supervision establishes a comprehensive framework of activities in which an institution may engage and is intended primarily for the protection of the FDIC's deposit insurance fund and depositors, and not for the protection of security holders. Standard Bank is periodically examined by the Pennsylvania Department of Banking and the FDIC to ensure that it satisfies applicable standards with respect to its capital adequacy, assets, management, earnings, liquidity and sensitivity to market interest rates. Following examinations, the Pennsylvania Department of Banking and the FDIC prepare reports for the consideration of Standard Bank's Board of Directors on any operating deficiencies. Standard Bank's relationship with its depositors also is regulated to a great extent by federal law and, to a much lesser extent, state law, especially in matters concerning the ownership of deposit accounts and the form and content of Standard Bank's loan documents.

As a bank holding company, Standard Financial Corp. is required to file certain reports with, is subject to examination by, and otherwise must comply with the rules and regulations of the Pennsylvania Department of Banking and the Federal Reserve Board.

Any change in these laws or regulations, whether by the FDIC, the Pennsylvania Department of Banking, the Federal Reserve Board or Congress, could have a material adverse impact on Standard Financial Corp., Standard Bank and their operations. Recently enacted regulatory reform legislation has, among other things, created a new Consumer Financial Protection Bureau,

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tightened capital standards, and resulted in new laws and regulations that are expected to increase our costs of operations. See Item 1A - Risk Factors. The Dodd-Frank Act may have a material impact on our operations and the cost of our operations.

Set forth below is a brief description of certain regulatory requirements that are applicable to Standard Bank and Standard Financial Corp. The description below is limited to certain material aspects of the statutes and regulations addressed, and is not intended to be a complete description of such statutes and regulations and their effects on Standard Bank and Standard Financial Corp.

**Dodd-Frank Act**

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act), has significantly changed the bank regulatory structure and is affecting the lending, investment, trading and operating activities of depository institutions and their holding companies. The Dodd-Frank Act also requires the Federal Reserve Board to set minimum capital levels for depository institution holding companies that are as stringent as those required for the insured depository subsidiaries, and the components of Tier 1 capital would be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. The legislation also establishes a floor for capital of insured depository institutions that cannot be lower than the standards in effect today, and directs the federal banking regulators to implement new leverage and capital requirements within eighteen months from the enactment of Dodd-Frank that take into account off-balance sheet activities and other risks, including risks relating to securitized products and derivatives. Such regulations were issued in 2013 and become effective on January 1, 2015.

The Dodd-Frank Act also created a new Consumer Financial Protection Bureau with substantial power to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rulemaking authority for a wide range of consumer protection laws that apply to all banks and savings institutions such as Standard Bank, including the authority to prohibit unfair, deceptive or abusive acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than \$10 billion in assets. Banks and savings institutions with \$10 billion or less in assets, such as Standard Bank, will continue to be examined by their applicable bank regulators. The legislation also weakened the federal preemption available for national banks and federal savings associations, and gives state attorneys general the ability to enforce applicable federal consumer protection laws.

The legislation broadened the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor. The Dodd-Frank Act increased stockholder influence over boards of directors by requiring companies to give stockholders a non-binding vote on executive compensation and so-called golden parachute payments. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded. The Dodd-Frank Act provided for originators of certain securitized loans to retain a percentage of the risk for transferred loan, directed the Federal Reserve Board to regulate pricing of certain debit card interchange fees, contained a number of reforms related to mortgage origination and authorized depository institutions to pay interest on business checking accounts.

Many of the provisions of the Dodd-Frank Act have delayed effective dates and the legislation requires various federal agencies to promulgate numerous and extensive implementing regulations over the next several years. Although the substance and scope of these regulations cannot be completely determined at this time, it is expected that the legislation and implementing regulations will increase our operating and compliance costs.

## Banking Regulation

***Pennsylvania Savings Bank Law.*** The Pennsylvania Banking Code of 1965, as amended (the Banking Code ), contains detailed provisions governing the organization, operations, corporate powers, savings and investment authority, branching rights and responsibilities of directors, officers and employees of Pennsylvania savings banks. A Pennsylvania savings bank may locate or change the location of its principal place of business and establish an office anywhere in, or adjacent to, Pennsylvania, with the prior approval of the Pennsylvania Department of Banking. The Banking Code delegates extensive rulemaking power and administrative discretion to the Department of Banking in its supervision and regulation of state-chartered savings banks. The Pennsylvania Department of Banking may order any savings bank to discontinue any violation of law or unsafe or unsound business practice and may direct any trustee, officer, attorney, or employee of a savings bank engaged in an objectionable activity, after the Pennsylvania Department of Banking has ordered the activity to be terminated, to show cause at a hearing before the Pennsylvania Department of Banking why such person should not be removed.

***Capital Requirements.*** Under the FDIC s regulations, federally insured state-chartered banks that are not members of the Federal Reserve System ( state non-member banks ), such as Standard Bank, are required to comply with minimum leverage capital requirements. For an institution determined by the FDIC to not be anticipating or experiencing significant growth and to be, in general, a strong banking organization rated composite 1 under Uniform Financial Institutions Ranking System established by the

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Federal Financial Institutions Examination Council, the minimum capital leverage requirement is a ratio of Tier 1 capital to total assets of 3.0%. For all other institutions, the minimum leverage capital ratio is not less than 4.0%. Tier 1 capital is the sum of common stockholder's equity, noncumulative perpetual preferred stock (including any related surplus) and minority investments in certain subsidiaries, less intangible assets (except for certain servicing rights and credit card relationships) and certain other specified items.

In addition, FDIC regulations require state non-member banks to maintain certain ratios of regulatory capital to regulatory risk-weighted assets, or risk-based capital ratios. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet items to four risk-weighted categories ranging from 0.0% to 100.0%. State non-member banks must maintain a minimum ratio of total capital to risk-weighted assets of at least 8.0%, of which at least one-half must be Tier 1 capital. Total capital consists of Tier 1 capital plus Tier 2 or supplementary capital items, which include allowances for loan losses in an amount of up to 1.25% of risk-weighted assets, cumulative preferred stock and certain other capital instruments, and a portion of the net unrealized gain on equity securities. The includable amount of Tier 2 capital cannot exceed the amount of the institution's Tier 1 capital.

In July, 2013, the FDIC and the other federal bank regulatory agencies issued a final rule to revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets, to make them consistent with the agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The final rule applies to all depository institutions, top-tier bank holding companies with total consolidated assets of \$500 million or more, and top-tier savings and loan holding companies (banking organizations). Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets) and assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a capital conservation buffer consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets. The final rule becomes effective for Standard Bank on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective.

Standard Bank is also subject to capital guidelines of the Pennsylvania Department of Banking. Although not adopted in regulation form, the Pennsylvania Department of Banking requires 6% leverage capital and 10% risk-based capital. The components of leverage and risk-based capital are substantially the same as those defined by the FDIC.

**Prompt Corrective Action.** Under federal regulations, a bank is considered to be (i) well capitalized if it has total risk-based capital of 10.0% or more, Tier 1 risk-based capital of 6.0% or more, Tier 1 leverage capital of 5.0% or more, and is not subject to any written capital order or directive; (ii) adequately capitalized if it has total risk-based capital of 8.0% or more, Tier 1 risk-based capital of 4.0% or more and Tier 1 leverage capital of 4.0% or more (3.0% under certain circumstances), and does not meet the definition of well capitalized; (iii) undercapitalized if it has total risk-based capital of less than 8.0%, Tier 1 risk-based capital of less than 4.0% or Tier 1 leverage capital of less than 4.0% (3.0% under certain circumstances); (iv) significantly undercapitalized if it has total risk-based capital of less than 6.0%, Tier 1 risk-based capital less than 3.0%, or Tier 1 leverage capital of less than 3.0%; and (v) critically undercapitalized if its ratio of tangible equity to total assets is equal to or less than 2.0%. Federal regulations also specify circumstances under which a federal banking agency may reclassify a well capitalized institution as adequately capitalized, and may require an adequately capitalized institution to comply with supervisory actions as if it were in the next lower category (except that the FDIC may not reclassify a significantly undercapitalized institution as critically undercapitalized). As of September 30, 2013, Standard Bank was well-capitalized for this purpose and exceeded all applicable capital requirements. The previously referenced final rule that will increase regulatory capital requirements will revise the prompt corrective action categories accordingly.

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Generally, the FDIC is required to appoint a receiver or conservator for an institution that is critically undercapitalized within specific time frames. The law also provides for certain supervisory measures for undercapitalized institutions including restrictions on capital distributions and asset growth and the requirement that a capital restoration plan be filed with the FDIC within 45 days of the date an institution receives notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized. The criteria for an acceptable capital restoration plan include, among other things, the establishment of the methodology and assumptions for attaining adequately capitalized status on an annual basis, procedures for ensuring compliance with restrictions imposed by applicable federal regulations, the identification of the types and levels of activities the institution will engage in while the capital restoration plan is in effect, and assurances that the capital restoration plan will not appreciably increase the current risk profile of the institution. Any holding company for an institution required to submit a capital restoration plan must guarantee the lesser of an amount equal to 5% of the institution's assets at the time it was notified or deemed to be undercapitalized by the FDIC or the amount necessary to restore the institution to adequately capitalized status. This guarantee remains in place until the FDIC notifies the institution that it has maintained adequately capitalized status for each of four consecutive calendar quarters, and the FDIC has the authority to require payment and collect payment under the guarantee. Failure by a holding company to provide the required guarantee can result in certain operating restrictions on the institution such as restrictions on the ability to declare and pay



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dividends, pay executive compensation and management fees, and increase assets or expand operations. The FDIC may also take any one of a number of discretionary supervisory actions against undercapitalized institutions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

***Loans-to-One-Borrower Limitation.*** Under applicable regulations, with certain limited exceptions, a Pennsylvania chartered savings bank may lend to a single or related group of borrowers on an unsecured basis an amount equal to 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if such loan is secured by readily marketable collateral, which is defined to include certain securities and bullion, but generally does not include real estate. Our internal policy, however, is to make no loans either individually or in the aggregate to one entity in excess of \$4.5 million. However, in special circumstances this limit may be exceeded subject to the approval of the Board of Directors.

***Activities and Investments of Insured State-Chartered Banks.*** Federal law generally limits the equity investments of state-chartered banks insured by the FDIC to those that are permissible for national banks. Under regulations dealing with equity investments, an insured state bank generally may not, directly or indirectly, acquire or retain any equity investment of a type, or in an amount, that is not permissible for a national bank. An insured state bank is not prohibited from, among other things: (i) acquiring or retaining a majority interest in a subsidiary that is engaged in permissible activities; (ii) investing as a limited partner in a partnership the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation, or new construction of a qualified housing project, provided that such limited partnership investments may not exceed 2% of the bank's total assets; (iii) acquiring up to 10% of the voting stock of a company that solely provides or reinsures liability insurance for directors, trustees or officers, or blanket bond group insurance coverage for insured depository institutions; and (iv) acquiring or retaining the voting shares of a depository institution if certain requirements are met. The direct or indirect activities of a state bank are similarly generally limited to those of a national bank. Exceptions include where approval is received for the activity from the FDIC.

***Capital Distributions.*** The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the FDIC Improvement Act of 1991, a depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings. Federal banking regulators have the authority to prohibit banks and bank holding companies from paying a dividend if the regulators deem such payment to be an unsafe or unsound practice. Standard Bank is also subject to regulatory restrictions on the payment and amounts of dividends under the Banking Code. The Banking Code states, in part, that dividends may be declared and paid by Standard Bank only out of accumulated net earnings.

***Community Reinvestment Act and Fair Lending Laws.*** Under the Community Reinvestment Act of 1977 (CRA), the FDIC is required to assess the record of all financial institutions regulated by it to determine if such institutions are meeting the credit needs of the community (including low-and moderate-income areas) which they serve. CRA performance evaluations are based on a four-tiered rating system: Outstanding, Satisfactory, Needs to Improve and Substantial Noncompliance. CRA performance evaluations are considered in evaluating applications for such things as mergers, acquisitions and applications to open branches. Standard Bank has a CRA rating of Satisfactory.

***Transactions with Related Parties.*** Transactions between banks and their related parties or affiliates are limited by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. In a holding company context, the parent bank holding company and any companies which are controlled by such parent holding company are affiliates of the bank.

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Generally, Sections 23A and 23B of the Federal Reserve Act and Regulation W (i) limit the extent to which the bank or its subsidiaries may engage in covered transactions with any one affiliate to an amount equal to 10.0% of such institution's capital stock and surplus, and contain an aggregate limit on all such transactions with all affiliates to an amount equal to 20.0% of such institution's capital stock and surplus and (ii) require that all such transactions be on terms substantially the same, or at least as favorable, to the institution or subsidiary as those provided to non-affiliates. The term covered transaction includes the making of loans, purchase of assets, issuance of a guarantee and other similar transactions. In addition, loans or other extensions of credit by the financial institution to the affiliate are required to be collateralized in accordance with the requirements set forth in Section 23A of the Federal Reserve Act.

The Sarbanes-Oxley Act of 2002 generally prohibits loans by a company to its executive officers and directors. However, the law contains a specific exception for loans by a depository institution to its executive officers and directors in compliance with federal banking laws, assuming such loans are also permitted under the law of the institution's chartering state. Under such laws, the Standard Bank's authority to extend credit to executive officers, directors and 10% shareholders (insiders), as well as entities under such person's control, is limited. The law limits both the individual and aggregate amount of loans Standard Bank may make to insiders based, in part, on the Standard Bank's capital position and requires certain Board approval procedures to be followed. Such loans are required to be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely

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available to all employees of the institution and does not give preference to insiders over other employees. Loans to executive officers are further limited to specific categories.

**Standards for Safety and Soundness.** Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation, and other operational and managerial standards as the agency deems appropriate. Interagency guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to implement an acceptable compliance plan. Failure to implement such a plan can result in further enforcement action, including the issuance of a cease and desist order or the imposition of civil money penalties.

**Insurance of Deposit Accounts.** Standard Bank's deposits are insured up to applicable limits by the FDIC. Under the FDIC's risk-based assessment system, insured institutions are assigned to a risk category based on supervisory evaluations, regulatory capital levels and certain other risk factors. An institution is assigned an assessment based upon the risk category to which it is assigned and certain specified adjustments, with institutions perceived to present more risk paying higher assessments. The Dodd-Frank Act permanently raised the general deposit insurance limit to \$250,000 per depositor.

In February 2011, as required by the Dodd-Frank Act, the FDIC adopted the final rule which redefined the assessment base to consist of average consolidated total assets during the assessment period minus the average tangible equity during the assessment period. In addition, the revision eliminated the adjustment for secured borrowings and made certain other changes to the impact of unsecured borrowings and brokered deposits on an institution's deposit insurance assessment. The FDIC also adopted a new rate schedule that was effective April 1, 2011 and ranges from 2.5 to 45 basis points. In lieu of dividends, the FDIC adopted progressively lower assessment rate schedules that will take effect when the fund's reserve ratio exceeds 1.15 percent, 2 percent and 2.5 percent.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not currently know of any practice, condition or violation that may lead to termination of our deposit insurance.

In addition to the FDIC assessments, the Financing Corporation ( FICO ) is authorized to impose and collect, with the approval of the FDIC, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. For the quarter ended September 30, 2013, the annualized FICO assessment rate equaled 0.64 basis points of total assets less tangible capital. The bonds issued by the FICO are due to mature in 2017 through 2019.

**Federal Home Loan Bank System.** Standard Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions as well as other entities involved in home mortgage lending. As a member of the Federal Home Loan Bank of Pittsburgh, Standard Bank is required to acquire and hold shares of capital stock in the Federal Home Loan Bank. As of September 30, 2013, Standard Bank was in compliance with this requirement.

**Other Regulations**

Interest and other charges collected or contracted for by Standard Bank are subject to state usury laws and federal laws concerning interest rates. Standard Bank's operations are also subject to federal laws applicable to credit transactions.

**Bank Holding Company Regulation**

As a bank holding company, Standard Financial Corp. is subject to regulation and examination by the Pennsylvania Department of Banking and the Federal Reserve Board. Standard Financial Corp. is required to file with the Federal Reserve Board an annual report and such additional information as the Federal Reserve Board may require pursuant to the Bank Holding Company Act of 1956, as amended (the BHC Act). The BHC Act requires each bank holding company to obtain the approval of the Federal Reserve Board before it may acquire substantially all the assets of any bank, or before it may acquire ownership or control of any voting shares of any bank if, after such acquisition, it would own or control, directly or indirectly, more than five percent of the voting shares of such bank. Such a transaction may also require approval of the Pennsylvania Department of Banking. Pennsylvania law permits bank holding companies to control an unlimited number of banks.

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Pursuant to provisions of the BHC Act and regulations promulgated by the Federal Reserve Board thereunder, Standard Financial Corp. may only engage in or own companies that engage in activities deemed by the Federal Reserve Board to be so closely related to the business of banking or managing or controlling banks as to be a proper incident thereto, and the holding company must obtain permission from the Federal Reserve Board prior to engaging in most new business activities. A bank holding company that meets certain criteria may become a financial holding company and thereby engage in a broader range of financial activities. Standard Financial Corp. has not applied to become a financial holding company.

A bank holding company and its subsidiaries are subject to certain restrictions imposed by the BHC Act on any extensions of credit to the bank or any of its subsidiaries, investments in the stock or securities thereof, and on the taking of such stock or securities as collateral for loans to any borrower. A bank holding company and its subsidiaries are also prevented from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of services.

Federal banking regulators have adopted risk-based capital guidelines for bank holding companies with assets of \$500 million or greater. Currently, the required minimum ratio of total capital to risk-weighted assets (including off-balance sheet activities, such as standby letters of credit) is 8%. At least half of the total capital is required to be Tier 1 capital, consisting principally of common shareholders' equity, non-cumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries, less goodwill. The remainder (Tier 2 capital) may consist of a limited amount of subordinated debt and intermediate-term preferred stock, certain hybrid capital instruments and other debt securities, perpetual preferred stock and a limited amount of the general loan loss allowance.

In addition to the risk-based capital guidelines, the federal banking regulators established minimum leverage ratio (Tier 1 capital to total assets) guidelines for bank holding companies with assets of \$500 million or greater. These guidelines provide for a minimum leverage ratio of 3% for those bank holding companies which have the highest regulatory examination ratings and are not contemplating or experiencing significant growth or expansion. All other bank holding companies are required to maintain a leverage ratio of at least 4%. The Dodd-Frank Act requires the Federal Reserve Board to revise its holding company capital requirements so that they are no less stringent than those applicable to insured depository institutions. The previously referenced regulatory capital changes applicable to the institutions themselves will also apply to bank holding companies with assets of \$500 million or greater effective January 1, 2015.

The Federal Reserve Board has issued a policy statement regarding the payment of dividends by bank holding companies. In general, the Federal Reserve Board's policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the bank holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. The Federal Reserve Board's policies also require that a bank holding company serve as a source of financial strength to its subsidiary banks by standing ready to use available resources to provide adequate capital funds to those banks during periods of financial stress or adversity and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks where necessary. Under the prompt corrective action laws, the ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of Standard Financial Corp. to pay dividends or otherwise engage in capital distributions.

**Change in Control Regulations.** Under the Change in Bank Control Act, no person may acquire control of a bank holding company unless the Federal Reserve Board has been given 60 days' prior written notice and has not issued a notice disapproving the proposed acquisition, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition. Control, as defined under federal regulations, means ownership, control of or holding more than 25% of any class of voting stock, control in any manner of the election of a majority of the institution's directors, or a determination by the regulator that the acquirer has the power, directly or indirectly, to exercise a controlling influence over the management or policies of the institution. Acquisition of more than 10% of any class of a

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bank holding company's voting stock constitutes a rebuttable determination of control under the regulations under certain circumstances, including where the issuer has registered securities under Section 12 of the Securities Exchange Act of 1934. In addition, federal regulations provide that no company may acquire control of a bank holding company without the prior approval of the Federal Reserve Board. Any company that acquires such control becomes a bank holding company subject to registration, examination and regulation by the Federal Reserve Board.

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**Federal Securities Laws**

Prior to the termination of the registration of the Company's common stock under Section 12 of the Securities Exchange Act of 1934 in September 2013 (effective 90 days thereafter), we were subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934. The registration under the Securities Act of 1933 of shares of common stock issued in our initial public offering did not cover the resale of those shares. Shares of common stock purchased by persons who were not our affiliates may be resold without registration. Shares purchased by our affiliates were subject to the resale restrictions of Rule 144 under the Securities Act of 1933.

**Sarbanes-Oxley Act of 2002**

The Sarbanes-Oxley Act of 2002 addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. As directed by the Sarbanes-Oxley Act, our Chief Executive Officer and Chief Financial Officer are required to certify that our quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the SEC under the Sarbanes-Oxley Act have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal control over financial reporting; they have made certain disclosures to our auditors and the audit committee of the Board of Directors about our internal control over financial reporting; and they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal control over financial reporting or in other factors that could materially affect internal control over financial reporting.

**TAXATION**

**Federal Taxation**

**General.** Standard Financial Corp. and Standard Bank are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize material federal income tax matters and is not a comprehensive description of the tax rules applicable to Standard Financial Corp. and Standard Bank.

**Method of Accounting.** For federal income tax purposes, Standard Bank will file a consolidated tax return with Standard Financial Corp., will report its income and expenses on the accrual method of accounting and use a calendar year ending December 31st for filing their consolidated federal income tax returns.

**Minimum Tax.** The Internal Revenue Code of 1986, as amended, imposes an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences, referred to as alternative minimum taxable income. The alternative minimum tax is payable to the extent alternative minimum taxable income is in excess of an exemption amount. Net operating losses can, in general, offset no more than 90% of alternative minimum taxable income. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. At September 30, 2013, Standard Financial Corp. had no alternative minimum tax credit carryforward.

**Net Operating Loss Carryovers.** Generally, a financial institution may carry back net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. However, subject to certain limitations, the carryback period for net operating losses incurred in 2008 or 2009 (but not both years) has been expanded to five years. At September 30, 2013, we had no net operating loss carryforward for federal income tax purposes.

**Corporate Dividends.** Standard Financial Corp. will be able to exclude from its income 100% of dividends received from Standard Bank as a member of the same affiliated group of corporations.

**Audit of Tax Returns.** Our 2010 federal income tax return was audited by the Internal Revenue Service in 2012 with no changes to the return as filed. The 2010 federal tax return was the only return audited in the most recent five year period.

#### **State Taxation**

The Bank is subject to the Pennsylvania and Maryland Thrift Institutions tax which is allocated between the states and calculated at 11.5% and 8.25%, respectively, based on taxable income applicable to the individual states. Our state income tax returns, as applicable, have not been audited in the most recent five year period.

#### **ITEM 1A.**

#### **Risk Factors**

**Because we intend to continue to emphasize commercial real estate loan originations, our credit risk could increase and continued weakness in the local real estate market or economy could adversely affect our earnings.**



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We intend to continue our emphasis on originating commercial real estate loans. Commercial real estate loans totaled \$95.8 million or 32.1% of our total loan portfolio at September 30, 2013. Commercial real estate loans generally have more risk than the one- to four-family residential real estate loans. Because the repayment of commercial real estate loans depends on the successful management and operation of the borrower's properties or related businesses, repayment of such loans can be affected by adverse conditions in the local real estate market or economy. Commercial real estate loans may also involve relatively large loan balances to individual borrowers or groups of related borrowers. Any continued weakness or downturn in the real estate market or the local economy could adversely affect the value of properties securing the loan or the revenues from the borrower's business, thereby increasing the risk of nonperforming loans. As our commercial real estate portfolio increases, the corresponding risks and potential for losses from these loans may also increase.

**If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings will decrease.**

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to our allowance. Material additions to our allowance could materially decrease our net income.

In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our allowance for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities might have a material adverse effect on our financial condition and results of operations.

**Future changes in interest rates could reduce our profits.**

Our ability to make a profit largely depends on our net interest income, which could be negatively affected by changes in interest rates. Net interest income is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest expense we pay on our interest-bearing liabilities, such as deposits and borrowings.

The majority of our portfolio loans have fixed interest rates. Additionally, many of our securities investments have fixed interest rates. Like many financial institutions, our focus on deposit accounts as a source of funds, which have no stated maturity date or short contractual maturities, results in our liabilities having a shorter duration than our assets. This imbalance can create significant earnings volatility, because market interest rates change over time. In a period of rising interest rates, the interest income earned on our assets, such as loans and investments, may not increase as rapidly as the interest paid on our liabilities, such as deposits. In a period of declining interest rates, the interest income earned on our assets may decrease more rapidly than the interest paid on our liabilities, as borrowers prepay mortgage loans, and mortgage-backed securities and callable investment securities are called or prepaid, thereby requiring us to reinvest these cash flows at lower interest rates.

Changes in interest rates creates reinvestment risk, which is the risk that we may not be able to reinvest prepayments at rates that are comparable to the rates we earned on the prepaid loans or securities in a declining interest rate environment. Additionally, increases in interest rates may decrease loan demand and/or make it more difficult for borrowers to repay adjustable-rate loans. Changes in interest rates also affect the current

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fair value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At September 30, 2013, a rate shock analysis indicated that our net portfolio value (the difference between the present value of our assets and the present value of our liabilities) would decrease by approximately \$8.5 million, or 9.95%, if there was an instantaneous 200 basis point increase in market interest rates.

**Concentration of loans in our primary market area, which has experienced an economic downturn, may increase the risk of increased nonperforming assets.**

Our success depends primarily on the general economic conditions in the Pennsylvania counties of Allegheny, Westmoreland and Bedford and Allegany County, Maryland, as nearly all of our loans are to customers in these markets. Accordingly, the local economic conditions in these markets have a significant impact on the ability of borrowers to repay loans as well as our ability to originate new loans. A decline in real estate values would also lower the value of the collateral securing loans on properties in our markets. In addition, continued weakening in general economic conditions such as inflation, recession, unemployment or other factors beyond our control could negatively affect our financial results.

**Continued or sustained deterioration in the housing sector and related markets and prolonged elevated unemployment levels may adversely affect our business and financial results.**

Over recent years, general economic conditions remain relatively weak nationally as well as in our market area. While we did not invest in sub-prime mortgages and related investments, our lending business is tied significantly to the housing market.

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Declines in home prices, and increases in foreclosures and unemployment levels, have adversely impacted the credit performance of real estate loans, resulting in the write-down of some asset values. The gradual housing recovery may result in reduced demand for the construction of new housing, further declines in home prices, and increased delinquencies on construction, residential and commercial real estate loans. The ongoing concern about the economy in general has caused many lenders to reduce or cease providing funding to some borrowers. These conditions could cause a further reduction in loan demand, and increases in our non-performing assets, net charge-offs and provisions for loan losses. A worsening of these negative economic conditions could adversely affect our prospects for growth, asset and goodwill valuations and could result in a decrease in our interest income and a material increase in our provision for loan losses.

**Declines in the value of certain investment securities could require write-downs, which would reduce our earnings.**

Our securities portfolio includes securities that are subject to declines in value due to negative perceptions about the health of the financial sector in general and the lack of liquidity for securities that are real estate related. A prolonged decline in the value of these or other securities could result in an other-than-temporary impairment write-down which would reduce our earnings.

**Government responses to economic conditions may adversely affect our operations, financial condition and earnings.**

The Dodd-Frank Act has changed the bank regulatory framework with the creation of an independent Consumer Financial Protection Bureau that has assumed the consumer protection responsibilities of the various federal banking agencies, and has established more stringent capital standards for banks and bank holding companies. The legislation requires additional regulations affecting the lending, funding, trading and investment activities of banks and bank holding companies. Bank regulatory agencies also have been responding aggressively to concerns and adverse trends identified in examinations. Ongoing uncertainty and adverse developments in the financial services industry and the effect of new legislation and regulatory actions in response to these conditions, may adversely affect our operations by restricting our business operations, including our ability to originate or sell loans, modify loan terms, or foreclose on property securing loans. These events may have a significant adverse effect on our financial performance and operating flexibility. In addition, these factors could affect the performance and value of our loan and investment securities portfolios, which also would negatively affect our financial performance.

Furthermore, the Board of Governors of the Federal Reserve System, in an attempt to help the overall economy, has, among other things, kept interest rates low through its targeted federal funds rate and the purchase of mortgage-backed securities. If the Federal Reserve increases the federal funds rate, overall interest rates will likely rise, which may negatively impact the housing markets and the U.S. economic recovery. In addition, deflationary pressures, while possibly lowering our operating costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of underlying collateral securing loans, which could negatively affect our financial performance.

**We will become subject to more stringent capital requirements, which may adversely impact our return on equity, require us to raise additional capital, or constrain us from paying dividends or repurchasing shares.**

In July 2013, the FDIC approved a new rule that will substantially amend the regulatory risk-based capital rules applicable to Standard Bank. The final rule implements the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act.

The final rule includes new minimum risk-based capital and leverage ratios, which will be effective for Standard Bank on January 1, 2015, and refines the definition of what constitutes capital for purposes of calculating these ratios. The new minimum capital requirements will be: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4%. The final rule also establishes a capital conservation buffer of 2.5%, and will result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 to risk-based assets capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement would be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such actions.

The application of more stringent capital requirements for Standard Bank could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions such as the inability to pay dividends or repurchase shares if we were to be unable to comply with such requirements.

**The Dodd-Frank Act may have a material impact on our operations and the cost of our operations.**

The Dodd-Frank Act has significantly changed the current bank regulatory structure and affected the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and

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reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

The Dodd-Frank Act broadened the base for Federal Deposit Insurance Corporation deposit insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution, rather than deposits. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per account.

The Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called golden parachute payments. It also provides that the listing standards of the national securities exchanges shall require listed companies to implement and disclose clawback policies mandating the recovery of incentive compensation paid to executive officers in connection with accounting restatements. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not.

The Dodd-Frank Act created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit unfair, deceptive or abusive acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than \$10 billion in assets. Savings banks, such as Standard Bank, with \$10 billion or less in assets will continue to be examined for compliance with the consumer laws by their primary bank regulators. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws. The Dodd-Frank Act requires the implementation of regulations for bank and savings and loan holding companies which establish capital standards that are no less stringent than those applicable to depository institutions themselves. The Dodd-Frank Act also provided for originators of certain securitized loans to retain a percentage of the risk, directed the Federal Reserve Board to regulate pricing of certain debit card interchange fees, contained a number of reforms related to mortgage origination and authorized depository institutions to pay interest on business checking accounts. It is difficult to predict at this time what specific impact the Dodd-Frank Act and implementing rules and regulations will have on community banks. However, it is expected that at a minimum they will increase our operating and compliance costs.

**We are subject to extensive regulatory oversight.**

We and our subsidiaries are subject to extensive regulation and supervision. Regulators have intensified their focus on bank lending criteria and controls, and on the USA PATRIOT Act's anti-money laundering and Bank Secrecy Act compliance requirements. There also is increased scrutiny of our compliance practices generally and particularly with the rules enforced by the Office of Foreign Assets Control. It is possible that we are not in full compliance with these requirements. Our failure to comply with these and other regulatory requirements could lead to, among other remedies, administrative enforcement actions and legal proceedings. In addition, proposed future legislation and regulations are likely to have a significant effect on the financial services industry. Regulatory or legislative changes could make regulatory compliance more difficult or expensive for us, and could cause us to change or limit some of our products and services, or the way we operate our business.

**Strong competition within our market areas may limit our growth and profitability.**

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Competition in the banking and financial services industry is intense. In our market areas we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Some of our competitors have greater name recognition and market presence that benefits them in attracting business, and offer certain services that we do not or cannot provide. In addition, larger competitors may be able to price loans and deposits more aggressively than we do, which could affect our ability to grow and remain profitable on a long-term basis. Our profitability depends upon our continued ability to successfully compete in our market areas. If we must raise interest rates paid on deposits or lower interest rates charged on our loans, our net interest margin and profitability could be adversely affected. For additional information see Item 1 - Business - Standard Bank - Competition.

### **Legislative or regulatory responses to perceived financial and market problems could impair our rights against borrowers.**

Current and future proposals made by members of Congress would reduce the amount distressed borrowers are otherwise contractually obligated to pay under their mortgage loans, and may further limit the ability of lenders to foreclose on mortgage collateral. If proposals such as these, or other proposals limiting Standard Bank's rights as a creditor, were to be implemented, we could experience increased credit losses on our loans, or increased expense in pursuing our remedies as a creditor.

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**Our information systems may experience an interruption or security breach.**

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our internet banking, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the possible failure, interruption or security breach of our information systems, there can be no assurance that any such failure, interruption or security breach will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failure, interruption or security breach of our communications and information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny or expose us to civil litigation and possible financial liability.

**New regulations could restrict our ability to originate and sell mortgage loans.**

The Consumer Financial Protection Bureau has issued a rule designed to clarify for lenders how they can avoid monetary damages under the Dodd-Frank Act, which would hold lenders accountable for ensuring a borrower's ability to repay a mortgage. Loans that meet this qualified mortgage definition will be presumed to have complied with the new ability-to-repay standard. Under the Consumer Financial Protection Bureau's rule, a qualified mortgage loan must not contain certain specified features, including:

- excessive upfront points and fees (those exceeding 3% of the total loan amount, less bona fide discount points for prime loans);
- interest-only payments;
- negative-amortization; and
- terms longer than 30 years.

Also, to qualify as a qualified mortgage, a borrower's total monthly debt-to-income ratio may not exceed 43%. Lenders must also verify and document the income and financial resources relied upon to qualify the borrower for the loan and underwrite the loan based on a fully amortizing payment schedule and maximum interest rate during the first five years, taking into account all applicable taxes, insurance and assessments. The Consumer Financial Protection Bureau's rule on qualified mortgages could limit our ability or desire to make certain types of loans or loans to certain borrowers, or could make it more expensive and time consuming to make these loans, which could limit our growth or profitability.

**Our stock price may be volatile due to limited trading volume.**

Our common stock is quoted on the OTCQB Marketplace. However, the average daily trading volume in Standard Financial Corp.'s common stock has been relatively small. As a result, trades involving a relatively small number of shares may have a significant effect on the market price of the common stock, and it may be difficult for investors to acquire or dispose of large blocks of stock without significantly affecting the market price.

**ITEM 1B.**

**Unresolved Staff Comments**

None.

**ITEM 2.**

**Properties**

We operate from our ten full service branches located in the Pennsylvania counties of Allegheny, Westmoreland and Bedford and Allegany County, Maryland. Standard Bank considers its primary market area to be eastern Allegheny, Westmoreland, northern Fayette and southern Bedford counties in Pennsylvania and Allegany County, Maryland. The net book value of our premises, land and equipment was \$3.6 million at September 30, 2013. The following table sets forth information with respect to our full-service banking offices, including the expiration date of leases with respect to leased facilities.



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| <b>Branch Name</b>              | <b>Address</b>                                      | <b>Owned or Leased</b>      |
|---------------------------------|---|-----------------------------|
| Murrysville (Bank headquarters) | 4785 Old William Penn Hwy.<br>Murrysville, PA 15668 | Owned                       |
| Mount Pleasant                  | 659 W. Main Street<br>Mt. Pleasant, PA 15666        | Owned                       |
| Ligonier                        | 211 W. Main Street<br>Ligonier, PA 15658            | Owned                       |
| Monroeville (Executive office)  | 2640 Monroeville Blvd.<br>Monroeville, PA 15146     | Owned                       |
| Scottdale                       | 100 Pittsburgh Street<br>Scottdale, PA 15683        | Owned                       |
| Walmart (1)                     | 2100 Summit Ridge Plaza<br>Mt. Pleasant, PA 15666   | Leased (expires 10/31/2014) |
| Hyndman                         | 3945 Center Street<br>Hyndman, PA 15545             | Owned                       |
| Greensburg                      | 5150 Route 30<br>Greensburg, PA 15601               | Leased (expires 4/30/2016)  |
| LaVale                          | 1275 National Hwy.<br>LaVale, MD 21502              | Owned                       |
| Cumberland                      | 200 N. Mechanic Street<br>Cumberland, MD 21502      | Owned                       |

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(1) This lease will not be renewed and the office will be closed on February 5, 2014.

### **ITEM 3.**                      **Legal Proceedings**

From time to time, we are involved as plaintiff or defendant in various legal proceedings arising in the ordinary course of business. At September 30, 2013, we were not involved in any legal proceedings, the outcome of which would be material to our financial condition or results of operations.

### **ITEM 4.**                      **Mine Safety Disclosures**

Not Applicable.

PART II

**ITEM 5.**  
**Securities**

**Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity**

(a) **Market for Common Stock.** Our common stock began trading on October 7, 2010 on the NASDAQ Capital Market under the symbol STND. On September 6, 2013, the Company announced that its Board of Directors approved the voluntary delisting of its common stock from the Nasdaq and the deregistration of the Company as a reporting company with the SEC. The Company's common stock was suspended from trading on Nasdaq on September 26, 2013 and promptly thereafter began being quoted under the symbol STND on the OTCQB Marketplace, operated by OTC Markets Group.

As of September 30, 2013, Standard Financial Corp. had 3,111,297 shares of common stock outstanding and approximately 403 stockholders of record. Certain shares of the Company are held in nominee or street name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number.

The following table sets forth the high and low sales prices of the Company's common stock as of and during the quarterly periods presented as well as the quarterly cash dividends paid.

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| Quarter Ended      | Market Price |          |          | Dividend Information |                          |
|--------------------|--------------|----------|----------|----------------------|--------------------------|
|                    | High         | Low      | Close    | Payment Date         | Cash Dividends per Share |
| September 30, 2013 | \$ 19.50     | \$ 17.95 | \$ 18.25 | November 15, 2013    | \$ 0.045                 |
| June 30, 2013      | \$ 19.50     | \$ 18.45 | \$ 19.05 | August 15, 2013      | \$ 0.045                 |
| March 31, 2013     | \$ 20.45     | \$ 17.40 | \$ 19.50 | May 15, 2013         | \$ 0.045                 |
| December 31, 2012  | \$ 17.84     | \$ 16.37 | \$ 17.42 | February 15, 2013    | \$ 0.045                 |
| September 30, 2012 | \$ 17.25     | \$ 16.00 | \$ 16.85 | November 15, 2012    | \$ 0.045                 |
| June 30, 2012      | \$ 16.75     | \$ 14.11 | \$ 16.15 | August 15, 2012      | \$ 0.045                 |
| March 31, 2012     | \$ 16.49     | \$ 15.02 | \$ 15.87 | May 15, 2012         | \$ 0.045                 |
| December 31, 2011  | \$ 15.30     | \$ 13.49 | \$ 15.30 | February 15, 2012    | \$ 0.045                 |

Payment of dividends on our shares of common stock is subject to determination and declaration by the Board of Directors and will depend upon a number of factors, including capital requirements, regulatory limitations on the payment of dividends, our results of operation and financial condition, tax considerations and general economic conditions. No assurance can be given that dividends will continue to be declared or, if declared, what the amount of dividends will be.

Set forth below is information as of September 30, 2013 regarding equity compensation plans that have been approved by stockholders. The Company has no equity based benefit plans that were not approved by stockholders.

| Plan   | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted average exercise price | Number of securities available for future issuance under equity compensation plans |
|--|---|---------------------------------|--|
| Equity compensation plans approved by stockholders (1) | 486,943   | \$ 16.50                        | 97,568   |
| Equity compensation plans not approved by stockholders |   |                                 |  |

(1) Consists of options to purchase 278,075 shares of common stock under the Company's 2012 Equity Incentive Plan.

(b) **Use of Proceeds.** There were no unregistered sales of equity securities during the quarter ended September 30, 2013.

(c) **Issuer Purchases of Equity Securities.** The following table sets forth information with respect to purchases made by or on behalf of the Company of shares of common stock of the Company during the indicated periods.

| Period          | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum number of Shares That May Yet Be Purchased Under the Plans or Programs (1) |
|-----------------|----------------------------------|------------------------------|--|--|
| July 1-31, 2013 | 78,179                           | \$ 19.23                     | 78,179   | 242,824  |

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|                      |         |    |       |         |         |
|----------------------|---------|----|-------|---------|---------|
| August 1-31, 2013    | 10,000  |    | 18.99 | 10,000  | 232,824 |
| September 1-30, 2013 | 23,000  |    | 18.49 | 23,000  | 209,824 |
| Totals               | 111,179 | \$ | 19.06 | 111,179 |         |

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(1) On October 20, 2011, the Company announced that the Board of Directors authorized the repurchase of up to 347,000 shares, or approximately 10%, of the Company's outstanding common stock. On March 12, 2013, the Company announced that the Board of Directors authorized the repurchase of up to 341,000 shares, or approximately 10%, of the Company's outstanding common stock. The stock repurchase program may be carried out through open market purchases, block trades, negotiated private transactions or pursuant to a plan adopted in accordance with Rule 10b5-1 of the SEC's rules. The stock will be repurchased on an ongoing basis and will be subject to the availability of stock, general market conditions, the trading price of the stock, alternative uses for capital and the Company's financial performance.

Table of Contents**ITEM 6. Selected Financial Data**

The summary information presented below at the dates or for each of the years presented is derived from Standard Financial Corp. audited consolidated financial statements or its predecessor, Standard Mutual Holding Company for periods prior to October 6, 2010. The following information is only a summary, and should be read in conjunction with our audited consolidated financial statements and notes that appear elsewhere in this Annual Report.

| Selected Financial Condition Data:             | 2013           | 2012       | At September 30, |            |            |
|--|----------------|------------|------------------|------------|------------|
|  |                |            | 2011             | 2010       | 2009       |
|  | (In thousands) |            |                  |            |            |
| Total assets                                   | \$ 436,871     | \$ 443,432 | \$ 434,619       | \$ 435,103 | \$ 382,415 |
| Cash and cash equivalents                      | 15,991         | 18,774     | 12,658           | 38,988     | 12,420     |
| Securities available for sale                  | 93,753         | 102,677    | 105,754          | 77,537     | 69,244     |
| Loans receivable, net                          | 293,664        | 291,113    | 285,113          | 286,066    | 270,769    |
| Bank owned life insurance                      | 13,722         | 10,282     | 9,778            | 9,419      | 9,080      |
| Federal Home Loan Bank stock, at cost          | 2,757          | 2,683      | 2,839            | 3,416      | 3,416      |
| Deposits                                       | 326,125        | 330,299    | 320,322          | 316,217    | 286,934    |
| Federal Home Loan Bank advances                | 28,892         | 26,849     | 28,520           | 37,805     | 46,618     |
| Securities sold under agreements to repurchase | 4,194          | 3,232      | 2,897            | 3,444      | 3,866      |
| Total stockholders' equity                     | 74,557         | 80,117     | 78,716           | 45,334     | 42,168     |

| Selected Operating Data:   | 2013           | 2012      | Years Ended September 30, |           |           |
|--|----------------|-----------|---------------------------|-----------|-----------|
|  |                |           | 2011                      | 2010      | 2009      |
|  | (In thousands) |           |                           |           |           |
| Interest and dividend income                                     | \$ 15,741      | \$ 17,324 | \$ 18,412                 | \$ 18,201 | \$ 18,236 |
| Interest expense   | 3,824          | 4,361     | 4,919                     | 6,247     | 8,091     |
| Net interest income  | 11,917         | 12,963    | 13,493                    | 11,954    | 10,145    |
| Provision for loan losses  | 375            | 1,200     | 1,625                     | 1,179     | 1,100     |
| Net interest and dividend income after provision for loan losses | 11,542         | 11,763    | 11,868                    | 10,775    | 9,045     |
| Noninterest income   | 2,802          | 2,403     | 2,333                     | 2,265     | 1,798     |
| Noninterest expense (1)  | 10,485         | 10,022    | 10,839                    | 8,747     | 8,698     |
| Income before income tax expense                                 | 3,859          | 4,144     | 3,362                     | 4,293     | 2,145     |
| Income tax expense (2)   | 977            | 1,188     | 938                       | 1,378     | 1         |
| Net income   | \$ 2,882       | \$ 2,956  | \$ 2,424                  | \$ 2,915  | \$ 2,144  |

(1) Noninterest expense for the year ended September 30, 2011 included a \$1.4 million one-time contribution to Standard Charitable Foundation (\$908,000 after tax impact to net income). This contribution represented \$200,000 in cash and \$1.2 million or 3.5% of the stock issued in connection with Standard Bank's mutual to stock conversion on October 6, 2010.

(2) The income tax expense recorded for the year ended September 30, 2009 was impacted by the reversal of a \$510,000 valuation allowance related to impairment losses on Fannie Mae and Freddie Mac preferred stocks.

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| Selected Financial Ratios and Other Data:                               | At or For the Years Ended September 30, |         |         |         |         |
|---|---|---------|---------|---------|---------|
|   | 2013                                    | 2012    | 2011    | 2010    | 2009    |
| <b>Performance Ratios:</b>  |   |         |         |         |         |
| Return on average assets (ratio of net income to average total assets)  | 0.66%                                   | 0.67%   | 0.56%   | 0.73%   | 0.58%   |
| Return on average equity (ratio of net income to average equity)        | 3.71%                                   | 3.73%   | 3.18%   | 6.64%   | 5.27%   |
| Interest rate spread (1)  | 2.81%                                   | 3.00%   | 3.13%   | 3.16%   | 2.88%   |
| Net interest margin (2)   | 2.94%                                   | 3.15%   | 3.31%   | 3.25%   | 2.99%   |
| Efficiency ratio (3)  | 71.23%                                  | 65.22%  | 68.49%  | 61.52%  | 72.83%  |
| Noninterest expense to average total assets                             | 2.41%                                   | 2.27%   | 2.48%   | 2.20%   | 2.36%   |
| Average interest-earning assets to average interest-bearing liabilities | 113.99%                                 | 114.70% | 114.50% | 105.53% | 104.45% |
| Dividend payout ratio   | 17.94%                                  | 20.60%  | 0.00%   | 0.00%   | 0.00%   |
| Equity to assets  | 17.07%                                  | 18.07%  | 18.11%  | 10.77%  | 11.03%  |
| Tangible equity to tangible assets                                      | 15.30%                                  | 16.31%  | 16.29%  | 8.39%   | 8.69%   |
| Average equity to average assets  | 17.82%                                  | 17.96%  | 17.45%  | 11.05%  | 11.03%  |
| <b>Asset Quality Ratios:</b>  |   |         |         |         |         |
| Non-performing assets to total assets                                   | 0.60%                                   | 1.00%   | 1.24%   | 1.10%   | 0.61%   |
| Non-performing loans to total loans                                     | 0.68%                                   | 1.34%   | 1.62%   | 1.37%   | 0.49%   |
| Allowance for loan losses to non-performing loans                       | 192.7%                                  | 112.7%  | 97.7%   | 101.7%  | 233.0%  |
| Allowance for loan losses to total loans                                | 1.30%                                   | 1.51%   | 1.56%   | 1.38%   | 1.12%   |
| Net charge-offs to average loans  | 0.33%                                   | 0.42%   | 0.37%   | 0.10%   | 0.17%   |
| <b>Capital Ratios: (4)</b>  |   |         |         |         |         |
| Total capital (to risk-weighted assets)                                 | 23.13%                                  | 21.64%  | 21.70%  | 14.34%  | 14.09%  |
| Tier 1 capital (to risk-weighted assets)                                | 21.88%                                  | 20.38%  | 20.44%  | 13.08%  | 12.83%  |
| Tier 1 capital (to average assets)                                      | 14.10%                                  | 13.02%  | 12.45%  | 8.49%   | 8.32%   |
| <b>Other Data:</b>  |   |         |         |         |         |
| Number of offices   | 10                                      | 10      | 10      | 10      | 10      |
| Full time equivalent employees  | 94                                      | 92      | 96      | 88      | 89      |

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

(2) The net interest margin represents net interest income as a percent of average interest-earning assets for the year.

(3) The efficiency ratio represents noninterest expense divided by the sum of net interest income and noninterest income.

(4) Capital ratios are for Standard Bank unconsolidated.

**ITEM 7.****Management's Discussion and Analysis of Financial Condition and Results of Operations**

This section is intended to help potential investors understand our financial performance through a discussion of the factors affecting our financial condition at September 30, 2013 and 2012, and our consolidated results of operations for the fiscal years ended September 30, 2013 and 2012. This section should be read in conjunction with the audited consolidated financial statements and notes that appear elsewhere in this

Annual Report.

## Overview

Historically, we have operated as a traditional community savings bank. At September 30, 2013, \$126.5 million, or 42.4% of our loan portfolio, consisted of one- to four-family residential real estate loans, of which \$89.0 million, or 70.4%, were fixed rate loans and \$37.5 million, or 29.6% were adjustable rate loans. This resulted in our being particularly vulnerable to increases in interest rates, as our interest-bearing liabilities mature or reprice more quickly than our interest-earning assets. In recent years, we have increased our focus on the origination of commercial real estate loans, which generally provide higher yields than one- to four-family residential mortgage loans, have shorter durations and are usually originated with adjustable interest rates.

Other than our loans for the construction of one- to four-family residential properties and home equity lines of credit, we do not offer interest only mortgage loans on one- to four-family residential properties (where the borrower pays interest but no principal for an initial period, after which the loan converts to a fully amortizing loan). We also do not offer loans that provide for negative amortization of principal, such as

Option ARM loans, where the borrower can pay less than the interest owed on their loan, resulting in an increased principal balance during the life of the loan. We do not offer subprime loans (loans that generally target borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments,

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bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios) or Alt-A loans (traditionally defined as loans having less than full documentation). We also do not own any private label mortgage-backed securities that are collateralized by Alt-A, low or no documentation or subprime mortgage loans.

At September 30, 2013, 99.6% of our mortgage-backed securities have been issued by Freddie Mac, Fannie Mae or Ginnie Mae, U.S. government agencies or government-sponsored enterprises. These entities guarantee the payment of principal and interest on our mortgage-backed securities.

Our non-performing assets totaled \$2.6 million, or 0.60% of total assets at September 30, 2013, compared to \$4.4 million, or 1.00%, of total assets at September 30, 2012. We had \$2.6 million and \$4.9 million of loans delinquent 60 days or greater at September 30, 2013 and September 30, 2012, respectively. We provided \$375,000 for loan losses during the fiscal year ended September 30, 2013 and \$1.2 million during the fiscal year ended September 30, 2012.

**Business Strategy**

Our primary objective is to operate as a profitable, community-oriented financial institution serving customers in our market areas. We have sought to accomplish this objective by adopting a business strategy that is designed to maintain strong capital and high asset quality. This business strategy includes the following elements:

- ***Remaining a community-oriented financial institution while continuing to increase our customer base of small and medium-size businesses in our market area.*** We were established in 1913 and have operated continuously in the Pittsburgh Metropolitan Area since that date. In 2006, we acquired Hoblitzell National Bank ( HNB ), which expanded our branch network to Bedford County, Pennsylvania and Allegany County, Maryland. We are committed to meeting the financial needs of the communities in which we operate, and we are dedicated to providing quality personal service to our customers. We provide a broad range of consumer and business financial services from our ten banking offices, and have expanded our commercial real estate staff to enhance our capacity to serve small businesses in our market area.
- ***Increasing commercial real estate lending while maintaining our conservative loan underwriting standards.*** Our loan portfolio balance has increased in recent years due in part to the growth in our commercial real estate loan portfolio to \$95.8 million, or 32.1% of our gross loan portfolio at September 30, 2013, from \$76.9 million, or 27.9% of our gross loan portfolio at September 30, 2009. In growing our commercial real estate loan portfolio, we have emphasized maintaining strong asset quality by following conservative loan underwriting guidelines. We underwrite all of our loans in our main office to ensure uniformity and consistency in underwriting decisions.
- ***Emphasizing core deposits by attracting new customers and enhancing existing customer relationships.*** In an effort to grow our banking franchise, we have enhanced our direct marketing efforts to local businesses and established a stronger culture of cross-selling our products to our existing customers. In addition, we attract and retain deposits by offering enhanced technology, such as online banking and remote deposit capture, with a continued emphasis on quality customer service.



- ***Expanding our branch network, primarily through branch purchases and de novo branching.*** We currently operate from ten banking offices. We intend to evaluate additional branch expansion opportunities, primarily through branch purchases and de novo branches, to expand our presence in our current market area.
  
- ***Pursuing future expansion and acquisition opportunities with the capital obtained in the conversion, although we have no current arrangements or agreements with respect to any such acquisitions.*** We intend to evaluate acquisitions of other financial institutions, as opportunities present themselves.

#### **Critical Accounting Policies**

We consider accounting policies that require management to exercise significant judgment or discretion or make significant assumptions that have, or could have, a material impact on the carrying value of certain assets or on income, to be critical accounting policies. We consider the following to be our critical accounting policies.

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**Allowance for Loan Losses.** We maintain an allowance for loan losses in an amount we believe is appropriate to absorb probable losses inherent in the portfolio at a balance sheet date. Management's periodic determination of the adequacy of the allowance is based on the size and current risk characteristics of the loan portfolio, an assessment of individual problem loans and actual loss experience, current economic events in relevant industries and other pertinent factors such as regulatory guidance and general economic conditions. However, this evaluation is inherently subjective, as it requires an estimate of the loss content for each risk rating and for each impaired loan, an estimate of the amounts and timing of expected future cash flows, and an appraisal or other estimate of the value of collateral on impaired loans and estimated losses on pools of homogenous loans based on the balance of loans in each loan category, changes in the inherent credit risk due to portfolio growth, historical loss experience and consideration of current economic trends. Based on our estimate of the level of allowance for loan losses required, we record a provision for loan losses to maintain the allowance for loan losses at an appropriate level.

The determination of the allowance for loan losses is based on management's current judgments about the loan portfolio credit quality and management's consideration of all known relevant internal and external factors that affect loan collectability, as of the reporting date. We cannot predict with certainty the amount of loan charge-offs that will be incurred. We do not currently determine a range of loss with respect to the allowance for loan losses. In addition, various banking regulatory agencies, as an integral part of their examination processes, periodically review our allowance for loan losses. Such agencies may require that we recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examination. Accordingly, actual results could differ from those estimates.

**Other-Than-Temporary Impairment.** In estimating other-than-temporary impairment of investment securities, securities are evaluated periodically, and at least quarterly, to determine whether a decline in their value is other than temporary. We consider numerous factors when determining whether potential other-than-temporary impairment exists and the period over which a debt security is expected to recover. The principal factors considered are (1) the length of time and the extent to which the fair value has been less than the amortized cost basis, (2) the financial condition of the issuer (and guarantor, if any) and adverse conditions specifically related to the security, industry or geographic area, (3) failure of the issuer of the security to make scheduled interest or principal payments, (4) any changes to the rating of a security by a rating agency, and (5) the presence of credit enhancements, if any, including the guarantee of the federal government or any of its agencies.

For debt securities, other-than-temporary impairment is considered to have occurred if (1) we intend to sell the security, (2) it is more likely than not we will be required to sell the security before recovery of its amortized cost basis, or (3) if the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. In determining the present value of expected cash flows, we discount the expected cash flows at the effective interest rate implicit in the security at the date of acquisition or, for debt securities that are beneficial interests in securitized financial assets, at the current rate used to accrete the beneficial interest. In estimating cash flows expected to be collected, we use available information with respect to security prepayment speeds, expected deferral rates and severity, whether subordinated interests, if any, are capable of absorbing estimated losses and the value of any underlying collateral.

**Deferred Tax Assets.** We use an estimate of future earnings to support our position that the benefit of our deferred tax assets will be realized. If future income should prove non-existent or less than the amount of the deferred tax assets within the tax years to which they may be applied, the asset may not be realized and our net income will be reduced.

**Goodwill and Other Intangible Assets.** We must assess goodwill and other intangible assets for impairment. This assessment involves estimating the fair value of our reporting units. If the fair value of the reporting unit is less than its carrying value including goodwill, we would be required to take a charge against earnings to write down the assets to the lower value.

**Balance Sheet Analysis: September 30, 2013 and September 30, 2012**

**General.** The Company's total assets decreased \$6.6 million, or 1.5%, to \$436.9 million at September 30, 2013 from \$443.4 million at September 30, 2012. The decrease was due primarily to a \$10.3 million decrease in mortgage-backed securities and a \$2.8 million decrease in cash and cash equivalents. Partly offsetting these decreases were \$3.0 million of additional purchases of bank-owned life insurance and an increase of \$2.6 million in net loans receivable. Total liabilities decreased \$1.0 million, or 0.3%, to \$362.3 million at September 30, 2013 from \$363.3 million at September 30, 2012 due to net deposit outflows of \$4.2 million partly offset by a \$2.0 million increase in Federal Home Loan Bank advances and a \$1.0 million increase in securities sold under agreements to repurchase.

**Cash and Cash Equivalents.** Cash and cash equivalents decreased \$3.8 million, or 20.2%, to \$15.0 million at September 30, 2013 from \$18.8 million at September 30, 2012. This decrease was due mainly to funds used to repurchase the Company's common stock, deposit outflows, net loan originations and the purchase of additional bank owned life insurance.

**Loans.** At September 30, 2013, net loans were \$293.7 million, or 67.2% of total assets, an increase of \$2.6 million from \$291.1 million at September 30, 2012. This increase was primarily due to increases in home equity loans and commercial real estate loans.

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**Loan Portfolio Composition.** The following table sets forth the composition of our loan portfolio at the dates indicated, excluding loans held for sale.

|                                       | 2013              |               | 2012              |               | At September 30,<br>2011 |               | 2010              |               | 2009              |               |
|---------------------------------------|-------------------|---------------|-------------------|---------------|--------------------------|---------------|-------------------|---------------|-------------------|---------------|
|                                       | Amount            | Percent       | Amount            | Percent       | Amount                   | Percent       | Amount            | Percent       | Amount            | Percent       |
| (Dollars in thousands)                |                   |               |                   |               |                          |               |                   |               |                   |               |
| <b>Real estate loans:</b>             |                   |               |                   |               |                          |               |                   |               |                   |               |
| One- to four-family residential       | \$ 126,480        | 42.4%         | \$ 141,018        | 47.5%         | \$ 141,265               | 48.7%         | \$ 141,710        | 48.7%         | \$ 134,958        | 49.0%         |
| Commercial                            | 95,771            | 32.1          | 92,027            | 31.0          | 88,096                   | 30.4          | 86,051            | 29.5          | 76,890            | 27.9          |
| Home equity loans and lines of credit | 61,587            | 20.6          | 47,999            | 16.2          | 45,594                   | 15.7          | 47,523            | 16.3          | 45,486            | 16.5          |
| Construction                          | 1,216             | 0.4           | 1,168             | 0.4           | 1,128                    | 0.4           | 3,240             | 1.1           | 2,145             | 0.8           |
| Commercial loans                      | 11,539            | 3.9           | 12,257            | 4.1           | 11,683                   | 4.0           | 9,956             | 3.4           | 12,414            | 4.5           |
| Other loans                           | 1,686             | 0.6           | 2,158             | 0.7           | 2,392                    | 0.8           | 3,012             | 1.0           | 3,261             | 1.2           |
| <b>Total loans</b>                    | <b>298,279</b>    | <b>100.0%</b> | <b>296,627</b>    | <b>100.0%</b> | <b>290,158</b>           | <b>100.0%</b> | <b>291,492</b>    | <b>100.0%</b> | <b>275,154</b>    | <b>100.0%</b> |
| <b>Other items:</b>                   |                   |               |                   |               |                          |               |                   |               |                   |               |
| Deferred loan costs (fees), net       | (179)             |               | (244)             |               | (128)                    |               | (118)             |               | (47)              |               |
| Loans in process                      | (561)             |               | (796)             |               | (396)                    |               | (1,319)           |               | (1,260)           |               |
| Allowance for loan losses             | (3,875)           |               | (4,474)           |               | (4,521)                  |               | (3,989)           |               | (3,078)           |               |
| <b>Total loans, net</b>               | <b>\$ 293,664</b> |               | <b>\$ 291,113</b> |               | <b>\$ 285,113</b>        |               | <b>\$ 286,066</b> |               | <b>\$ 270,769</b> |               |

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**Loan Portfolio Maturities and Yields.** The following table summarizes the scheduled repayments of our loan portfolio at September 30, 2013. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less.

| Due During the Twelve Months<br>Ending September 30, | One- to four-family residential<br>real estate |                          | Commercial real estate |                          | Home equity loans and lines of<br>credit |                          | Construction    |                          |
|--|--|--------------------------|------------------------|--------------------------|--|--------------------------|-----------------|--------------------------|
|  | Amount   | Weighted<br>Average Rate | Amount                 | Weighted<br>Average Rate | Amount                                   | Weighted<br>Average Rate | Amount          | Weighted<br>Average Rate |
|  | (Dollars in thousands)                         |                          |                        |                          |  |                          |                 |                          |
| 2014   | \$ 494   | 5.19%                    | \$ 3,370               | 3.97%                    | \$ 803                                   | 4.81%                    |                 |                          |
| 2015   | 81   | 6.26%                    | 4,182                  | 4.31%                    | 470                                      | 5.52%                    |                 |                          |
| 2016   | 73   | 5.24%                    | 963                    | 4.43%                    | 517                                      | 5.50%                    |                 |                          |
| 2017 to 2018   | 2,625  | 4.75%                    | 7,442                  | 4.37%                    | 2,495                                    | 4.62%                    |                 |                          |
| 2019 to 2023   | 22,883   | 3.76%                    | 17,875                 | 5.01%                    | 17,745                                   | 4.24%                    |                 |                          |
| 2024 to 2028   | 38,681   | 3.64%                    | 22,181                 | 4.76%                    | 35,597                                   | 3.84%                    |                 |                          |
| 2029 and beyond                                      | 61,643   | 4.71%                    | 39,758                 | 5.20%                    | 3,960                                    | 3.97%                    | 1,216           | 3.51%                    |
| <b>Total</b>   | <b>\$ 126,480</b>                              | <b>4.21%</b>             | <b>\$ 95,771</b>       | <b>4.91%</b>             | <b>\$ 61,587</b>                         | <b>4.04%</b>             | <b>\$ 1,216</b> | <b>3.51%</b>             |

| Due During the Twelve Months<br>Ending September 30, | Commercial             |                          | Other loans     |                          | Total             |                          |
|--|------------------------|--------------------------|-----------------|--------------------------|-------------------|--------------------------|
|  | Amount                 | Weighted<br>Average Rate | Amount          | Weighted<br>Average Rate | Amount            | Weighted<br>Average Rate |
|  | (Dollars in thousands) |                          |                 |                          |                   |                          |
| 2014   | \$ 2,796               | 4.09%                    | \$ 285          | 6.60%                    | \$ 7,748          | 4.27%                    |
| 2015   | 1,423                  | 4.91%                    | 437             | 8.45%                    | 6,593             | 4.82%                    |
| 2016   | 1,575                  | 4.57%                    | 371             | 10.20%                   | 3,499             | 5.28%                    |
| 2017 to 2018   | 5,183                  | 5.21%                    | 479             | 7.33%                    | 18,224            | 4.77%                    |
| 2019 to 2023   | 551                    | 4.47%                    | 114             | 3.65%                    | 59,168            | 4.29%                    |
| 2024 to 2028   | 11                     | 6.75%                    |                 |                          | 96,470            | 3.97%                    |
| 2029 and beyond                                      |                        |                          |                 |                          | 106,577           | 4.86%                    |
| <b>Total</b>   | <b>\$ 11,539</b>       | <b>4.78%</b>             | <b>\$ 1,686</b> | <b>7.88%</b>             | <b>\$ 298,279</b> | <b>4.44%</b>             |

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**Fixed and Adjustable Rate Loans.** The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at September 30, 2013 that are contractually due after September 30, 2014.

|                                       | Fixed     |                | Due After September 30, 2014<br>Adjustable<br>(In thousands) |                | Total             |
|---------------------------------------|-----------|----------------|--|----------------|-------------------|
| Real estate loans:                    |           |                |  |                |                   |
| One- to four-family residential       | \$        | 88,520         | \$   | 37,466         | \$ 125,986        |
| Commercial                            |           | 23,979         |  | 68,422         | 92,401            |
| Home equity loans and lines of credit |           | 60,784         |  |                | 60,784            |
| Construction                          |           | 976            |  | 240            | 1,216             |
| Commercial                            |           | 8,650          |  | 93             | 8,743             |
| Other loans                           |           | 1,401          |  |                | 1,401             |
| <b>Total loans</b>                    | <b>\$</b> | <b>184,310</b> | <b>\$</b>  | <b>106,221</b> | <b>\$ 290,531</b> |

**Investment Securities Portfolio.** The following table sets forth the composition of our investment securities portfolio at the dates indicated.

|   | 2013              |                  | At September 30,<br>2012 |                   | 2011              |                   |
|---|-------------------|------------------|--------------------------|-------------------|-------------------|-------------------|
|   | Amortized<br>Cost | Fair Value       | Amortized<br>Cost        | Fair Value        | Amortized<br>Cost | Fair Value        |
|   | (In thousands)    |                  |                          |                   |                   |                   |
| Municipal obligations                     | \$ 32,138         | \$ 33,052        | \$ 31,284                | \$ 33,076         | \$ 28,595         | \$ 29,980         |
| U.S. government and agency<br>obligations | 22,997            | 22,358           | 20,994                   | 21,155            | 24,493            | 24,654            |
| Corporate bonds                           | 7,000             | 7,047            | 7,253                    | 7,100             | 7,255             | 7,066             |
| Mortgage-backed securities:               |                   |                  |                          |                   |                   |                   |
| Ginnie Mae pass through certificates      | 10,443            | 10,504           | 15,159                   | 15,364            | 19,080            | 19,192            |
| Fannie Mae pass through certificates      | 14,047            | 14,276           | 18,151                   | 18,881            | 17,358            | 17,960            |
| Freddie Mac pass through<br>certificates  | 1,914             | 2,029            | 3,139                    | 3,376             | 4,755             | 5,071             |
| Collateralized mortgage obligations       | 2,871             | 2,779            | 2,231                    | 2,259             | 446               | 455               |
| Private pass through certificates         | 114               | 113              | 123                      | 122               | 131               | 130               |
| Equity securities                         | 1,468             | 1,595            | 1,214                    | 1,344             | 1,218             | 1,246             |
| <b>Total securities</b>                   | <b>\$ 92,992</b>  | <b>\$ 93,753</b> | <b>\$ 99,548</b>         | <b>\$ 102,677</b> | <b>\$ 103,331</b> | <b>\$ 105,754</b> |

At September 30, 2013 and September 30, 2012, all of our investment securities were classified as available for sale and recorded at current fair value. Purchases of securities during the fiscal year ended September 30, 2013 of \$18.3 million were offset by maturities, repayments, calls and sales of \$24.6 million.

At September 30, 2013 and September 30, 2012, the Company held 42 securities and 16 securities in unrealized loss positions of \$1.0 million and \$258,000, respectively. 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 this analysis, the Company considers all of the unrealized losses to be temporary impairment losses.



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**Portfolio Maturities and Yields.** The composition and maturities of the investment securities portfolio at September 30, 2013 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. State and municipal securities yields have not been adjusted to a tax-equivalent basis.

|  | One Year or Less       |                        | More than One Year |                        | More than Five Years |                        | More than Ten Years |                        | Total Securities |                  |                        |
|--|------------------------|------------------------|--------------------|------------------------|----------------------|------------------------|---------------------|------------------------|------------------|------------------|------------------------|
|  | Amortized Cost         | Weighted Average Yield | Amortized Cost     | Weighted Average Yield | Amortized Cost       | Weighted Average Yield | Amortized Cost      | Weighted Average Yield | Amortized Cost   | Fair Value       | Weighted Average Yield |
|  | (Dollars in thousands) |                        |                    |                        |                      |                        |                     |                        |                  |                  |                        |
| Municipal obligations                  | \$                     |                        | \$ 4,932           | 3.17%                  | \$ 25,498            | 3.47%                  | \$ 1,708            | 2.92%                  | \$ 32,138        | \$ 33,052        | 3.39%                  |
| U.S. government and agency obligations |                        |                        | 10,997             | 1.33%                  | 12,000               | 1.51%                  |                     |                        | 22,997           | 22,358           | 1.43%                  |
| Corporate bonds                        |                        |                        | 7,000              | 1.58%                  |                      |                        |                     |                        | 7,000            | 7,047            | 1.58%                  |
| Mortgage-backed securities:            |                        |                        |                    |                        |                      |                        |                     |                        |                  |                  |                        |
| Ginnie Mae pass through certificates   |                        |                        |                    |                        |                      |                        | 10,443              | 1.80%                  | 10,443           | 10,504           | 1.80%                  |
| Fannie Mae pass through certificates   | 50                     | 4.29%                  | 77                 | 4.50%                  | 2,944                | 2.71%                  | 10,976              | 2.12%                  | 14,047           | 14,276           | 2.27%                  |
| Freddie Mac pass through certificates  | 31                     | 4.00%                  | 194                | 4.50%                  | 1,689                | 4.52%                  |                     |                        | 1,914            | 2,029            | 4.51%                  |
| Collateralized mortgage obligations    |                        |                        |                    |                        | 126                  | 4.75%                  | 2,745               | 1.83%                  | 2,871            | 2,779            | 1.95%                  |
| Private pass through certificates      |                        |                        |                    |                        |                      |                        | 114                 | 0.88%                  | 114              | 113              | 0.88%                  |
| Equity securities                      |                        |                        |                    |                        |                      |                        | 1,468               | 2.72%                  | 1,468            | 1,595            | 2.72%                  |
| <b>Total</b>                           | <b>\$ 81</b>           | <b>4.18%</b>           | <b>\$ 23,200</b>   | <b>1.83%</b>           | <b>\$ 42,257</b>     | <b>2.91%</b>           | <b>\$ 27,454</b>    | <b>2.05%</b>           | <b>\$ 92,992</b> | <b>\$ 93,753</b> | <b>2.39%</b>           |



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**Bank Owned Life Insurance.** We invest in bank owned life insurance to provide us with a funding source for our benefit plan obligations. Bank owned life insurance also generally provides us noninterest income that is non-taxable. At September 30, 2013, we had invested \$13.7 million in bank owned life insurance of which \$3.0 million was purchased during the year ended September 30, 2013.

**Deposits.** We accept deposits primarily from the areas in which our offices are located. We have consistently focused on building broader customer relationships and targeting small business customers to increase our core deposits. We also rely on our 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. 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. We do not accept brokered deposits.

Deposits decreased \$4.2 million, or 1.3%, to \$326.1 million at September 30, 2013 from \$330.3 million at September 30, 2012. The decrease resulted from a \$7.5 million, or 5.5% decrease in certificate accounts partly offset by a \$3.4 million, or 1.7% increase in demand and savings accounts due to customer preferences for shorter term deposits.

At September 30, 2013, we had a total of \$130.5 million in certificates of deposit, of which \$30.1 million had remaining maturities of one year or less. Based on historical experience and current market interest rates, we believe we will retain upon maturity a large portion of our certificates of deposit with maturities of one year or less as of September 30, 2013.

The following table sets forth the distribution of total deposit accounts, by account type, at the dates indicated.

| [REDACTED]              |           |                |               |              |           |                |               |              |           |                |               |              |
|-------------------------|-----------|----------------|---------------|--------------|-----------|----------------|---------------|--------------|-----------|----------------|---------------|--------------|
| <b>Deposit type:</b>    |           |                |               |              |           |                |               |              |           |                |               |              |
| Savings accounts        | \$        | 107,611        | 33.0%         | 0.10%        | \$        | 107,399        | 32.5%         | 0.16%        | \$        | 112,270        | 35.0%         | 0.29%        |
| Certificates of deposit |           | 130,497        | 40.0          | 2.23%        |           | 138,033        | 41.8          | 2.31%        |           | 134,087        | 41.9          | 2.46%        |
| Money market accounts   |           | 8,658          | 2.7           | 0.13%        |           | 6,460          | 2.0           | 0.14%        |           | 7,898          | 2.5           | 0.22%        |
| Demand and NOW accounts |           | 79,359         | 24.3          | 0.10%        |           | 78,407         | 23.7          | 0.08%        |           | 66,067         | 20.6          | 0.14%        |
| <b>Total deposits</b>   | <b>\$</b> | <b>326,125</b> | <b>100.0%</b> | <b>0.95%</b> | <b>\$</b> | <b>330,299</b> | <b>100.0%</b> | <b>1.04%</b> | <b>\$</b> | <b>320,322</b> | <b>100.0%</b> | <b>1.15%</b> |

As of September 30, 2013, the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to \$100,000 was \$43.0 million. The following table sets forth the maturity of those certificates as of September 30, 2013.

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At September 30,  
2013  
(In thousands)

|                                      |    |        |
|--------------------------------------|----|--------|
| Three months or less                 | \$ | 769    |
| Over three months through six months |    | 4,826  |
| Over six months through one year     |    | 16,708 |
| Over one year to three years         |    | 8,060  |
| Over three years                     |    | 12,612 |
| Total                                | \$ | 42,975 |

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**Borrowings.** Our borrowings consist of advances from the FHLB and funds borrowed under repurchase agreements. At September 30, 2013, we had access to additional FHLB advances of up to \$126.5 million. During the fiscal year ended September 30, 2013, new FHLB advances totaling \$15.0 million were obtained which replaced \$12.9 million of advances that matured and were repaid.

The following table sets forth information concerning balances and interest rates on our repurchase agreements at the dates and for the years indicated.

|   | At or For the Years Ended September 30, |          |          |
|---|---|----------|----------|
|   | 2013                                    | 2012     | 2011     |
|   | (Dollars in thousands)                  |          |          |
| Balance at year end                         | \$ 4,194                                | \$ 3,232 | \$ 2,897 |
| Average balance outstanding during the year | \$ 3,436                                | \$ 3,397 | \$ 4,855 |
| Maximum amount outstanding at any month-end | \$ 4,533                                | \$ 4,197 | \$ 6,738 |
| Weighted average interest rate at year end  | 0.11%                                   | 0.19%    | 0.27%    |
| Average interest rate during the year       | 0.12%                                   | 0.21%    | 0.33%    |

**Total Stockholders Equity.** Stockholders equity decreased \$5.6 million, or 6.9%, to \$74.6 million at September 30, 2013 from \$80.1 million at September 30, 2012. The decrease was due primarily to the repurchase of the Company's common stock totaling \$7.1 million and an accumulated other comprehensive loss due to a decrease in the market value of securities resulting from an increase in market interest rates of \$1.6 million and dividends paid totaling \$517,000. These decreases were partly offset by net income of \$2.9 million for the fiscal year ended September 30, 2013.

Table of Contents**Average Balance and Yields**

The following table sets forth average balance sheets, average yields and costs, and certain other information for the years indicated. No tax-equivalent yield adjustments were made, as 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.

|   | For the Years Ended September 30, |           |             |                                   |           |             |
|---|-----------------------------------|-----------|-------------|-----------------------------------|-----------|-------------|
|   | 2013                              |           |             | 2012                              |           |             |
|   | Average<br>Outstanding<br>Balance | Interest  | Yield/ Rate | Average<br>Outstanding<br>Balance | Interest  | Yield/ Rate |
|   | (Dollars in thousands)            |           |             |                                   |           |             |
| <b>Interest-earning assets:</b>                                 |                                   |           |             |                                   |           |             |
| Loans   | \$ 293,879                        | \$ 13,429 | 4.57%       | \$ 296,232                        | \$ 14,684 | 4.96%       |
| Investment and mortgage-backed securities                       | 100,775                           | 2,307     | 2.29%       | 105,962                           | 2,635     | 2.49%       |
| Interest earning deposits                                       | 10,434                            | 5         | 0.05%       | 8,886                             | 5         | 0.06%       |
| Total interest-earning assets                                   | 405,088                           | 15,741    | 3.89%       | 411,080                           | 17,324    | 4.21%       |
| Noninterest-earning assets                                      | 30,641                            |           |             | 29,581                            |           |             |
| Total assets  | \$ 435,729                        |           |             | \$ 440,661                        |           |             |
| <b>Interest-bearing liabilities:</b>                            |                                   |           |             |                                   |           |             |
| Savings accounts  | \$ 109,471                        | 177       | 0.16%       | \$ 110,934                        | 199       | 0.18%       |
| Certificates of deposit   | 134,335                           | 3,079     | 2.29%       | 138,533                           | 3,352     | 2.42%       |
| Money market accounts   | 7,099                             | 10        | 0.14%       | 6,267                             | 9         | 0.14%       |
| Demand and NOW accounts   | 73,708                            | 62        | 0.08%       | 69,517                            | 50        | 0.07%       |
| Total deposits  | 324,613                           | 3,328     | 1.03%       | 325,251                           | 3,610     | 1.11%       |
| Federal Home Loan Bank advances                                 | 27,314                            | 492       | 1.80%       | 29,751                            | 744       | 2.50%       |
| Securities sold under agreements to repurchase                  | 3,436                             | 4         | 0.12%       | 3,397                             | 7         | 0.21%       |
| Total interest-bearing liabilities                              | 355,363                           | 3,824     | 1.08%       | 358,399                           | 4,361     | 1.22%       |
| Noninterest-bearing liabilities                                 | 2,736                             |           |             | 3,032                             |           |             |
| Total liabilities   | 358,099                           |           |             | 361,431                           |           |             |
| Stockholders equity   | 77,630                            |           |             | 79,230                            |           |             |
| Total liabilities and stockholders equity                       | \$ 435,729                        |           |             | \$ 440,661                        |           |             |
| Net interest income   |                                   | \$ 11,917 |             |                                   | \$ 12,963 |             |
| Net interest rate spread (1)                                    |                                   |           | 2.81%       |                                   |           | 3.00%       |
| Net interest-earning assets (2)                                 | \$ 49,725                         |           |             | \$ 52,681                         |           |             |
| Net interest margin (3)   |                                   |           | 2.94%       |                                   |           | 3.15%       |
| Average interest-earning assets to interest-bearing liabilities | 113.99%                           |           |             | 114.70%                           |           |             |

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- (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.

Table of Contents**Rate/Volume Analysis**

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

|  | For the Years Ended September 30, 2013 vs. 2012 |            |                |
|--|---|------------|----------------|
|  | Increase (Decrease) Due to                      |            | Total Increase |
|  | Volume  | Rate       | (Decrease)     |
|  | (In thousands)                                  |            |                |
| <b>Interest-earning assets:</b>                |   |            |                |
| Loans  | \$ (116)  | \$ (1,139) | \$ (1,255)     |
| Investment and mortgage-backed securities      | (125)   | (203)      | (328)          |
| Interest earning deposits                      | 1   | (1)        |                |
| Total interest-earning assets                  | (240)   | (1,343)    | (1,583)        |
| <b>Interest-bearing liabilities:</b>           |   |            |                |
| Savings accounts                               | (3)   | (19)       | (22)           |
| Certificates of deposit                        | (100)   | (173)      | (273)          |
| Money market accounts                          | 1   |            | 1              |
| Demand and NOW accounts                        | 3   | 9          | 12             |
| Total deposits                                 | (99)  | (183)      | (282)          |
| Federal Home Loan Bank advances                | (57)  | (195)      | (252)          |
| Securities sold under agreements to repurchase |   | (3)        | (3)            |
| Total interest-bearing liabilities             | (156)   | (381)      | (537)          |
| Change in net interest income                  | \$ (84)   | \$ (962)   | \$ (1,046)     |

**Comparison of Operating Results for the Fiscal Years Ended September 30, 2013 and 2012**

**General.** Net income for the fiscal year ended September 30, 2013 was \$2.9 million or \$0.97 per share compared to \$3.0 million or \$0.93 per share for the fiscal year ended September 30, 2012. Return on average assets and average equity were 0.66% and 3.71%, respectively, for the fiscal year ended September 30, 2013 compared to 0.67% and 3.73%, respectively, for the fiscal year ended September 30, 2012.

**Net Interest Income.** Net interest income declined \$1.0 million, or 8.1%, to \$11.9 million for the fiscal year ended September 30, 2013 from \$13.0 million for the fiscal year ended September 30, 2012. Our net interest rate spread and net interest margin were 2.81% and 2.94%, respectively for the fiscal year ended September 30, 2013 compared to 3.00% and 3.15% for the prior year. The decreases in the net interest rate spread and net interest margin were the result of the yield on interest-earning assets declining more rapidly than the cost of interest-bearing liabilities.

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**Interest and Dividend Income.** Total interest and dividend income of \$15.7 million for the fiscal year ended September 30, 2013 decreased \$1.6 million, or 9.1%, from the prior fiscal year. The decrease was due to a decline in the average yield on interest-earning assets and a decrease in the average balance of interest-earning assets. The average yield on interest-earning assets decreased to 3.89% for the fiscal year ended September 30, 2013 from 4.21% for the prior year. The average yield on all categories of interest earning assets decreased from the previous fiscal year due to the low interest rate environment. Average interest-earning assets decreased by \$6.0 million, or 1.5%, to \$405.1 million for the fiscal year ended September 30, 2013 from \$411.1 million for 2012 due mainly to declines in loans, investments and mortgage-backed securities.

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Interest income on loans decreased \$1.3 million or 8.5%, to \$13.4 million for the fiscal year ended September 30, 2013 from \$14.7 million for fiscal year ended September 30, 2012. The average yield on loans receivable decreased to 4.57% for the fiscal year ended September 30, 2013 from 4.96% for the fiscal year 2012. The decrease in the average yield on loans was primarily attributable to our variable rate loans adjusting downward as prime and short-term interest rates remained low as well as the origination of new loans in a generally lower interest rate environment and repayment/refinance of higher rate loans. Average loans receivable decreased by \$2.4 million, or 0.8%, to \$293.9 million for the fiscal year ended September 30, 2013 from \$296.2 million for the fiscal year 2012 due mainly to a heavy volume of repayments.

Interest income on investment and mortgage-backed securities decreased by \$328,000, or 12.4%, to \$2.3 million for the fiscal year ended September 30, 2013 from \$2.6 million for the fiscal year ended September 30, 2012. This decrease was due to a decrease in the average yield earned on investments and mortgage-backed securities to 2.29% for the fiscal year ended September 30, 2013 from 2.49% for the prior year due to new investments added in a lower interest rate environment, variable rate investments that adjusted downward and repayment and calls of higher yielding securities. Additionally, the average balance of investment and mortgage-backed securities decreased \$5.2 million, or 4.9%, to \$100.8 million for the fiscal year ended September 30, 2013 compared to the prior year due primarily to a lower level of investment and mortgage-backed security purchases during the year.

**Interest Expense.** Total interest expense decreased by \$537,000, or 12.3%, to \$3.8 million for the fiscal year ended September 30, 2013 from \$4.4 million for the fiscal year ended September 30, 2012. This decrease in interest expense was due to a decrease in the average cost of interest-bearing liabilities to 1.08% for fiscal 2013 from 1.22% for the prior fiscal year due to the continued low interest rate environment. Average interest-bearing liabilities decreased by \$3.0 million, or 0.8%, to \$355.4 million for the fiscal year ended September 30, 2013 from \$358.4 million for the fiscal year 2012.

Interest expense on deposits decreased by \$282,000, or 7.8%, to \$3.3 million for the fiscal year ended September 30, 2013 from \$3.6 million for the fiscal year ended September 30, 2012. The average cost of deposits declined from 1.11% for the fiscal year ended September 30, 2012 to 1.03% for the fiscal year ended September 30, 2013. The continued low level of market interest rates enabled us to reduce the rates of interest paid on deposit products. The average balance of deposits decreased by \$638,000, or 0.2%, for the fiscal year ended September 30, 2013 compared to the fiscal year ended September 30, 2012.

Interest expense on FHLB advances decreased \$252,000, or 33.9%, to \$492,000 for the fiscal year ended September 30, 2013 from \$744,000 for the fiscal year ended September 30, 2012. The average cost of advances decreased to 1.80% in fiscal year 2013 from 2.50% in fiscal year 2012 due to the low interest rate environment and the repayment of higher rate maturing advances. The average balance of advances decreased \$2.4 million, or 8.2%, to \$27.3 million for the fiscal year ended September 30, 2013. During the fiscal year ended September 30, 2013, \$15.0 million in new advances were obtained while \$12.9 million of maturing advances were repaid.

**Provision for Loan Losses.** The provision for loan losses decreased by \$825,000, or 68.8%, to \$375,000 for the fiscal year ended September 30, 2013 from \$1.2 million for the fiscal year ended September 30, 2012 due in part to an improvement in asset quality. Non-performing loans at September 30, 2013 were \$2.0 million or 0.68% of total loans compared to \$4.0 million or 1.34% of total loans at September 30, 2012. The allowance for loan losses to non-performing loans was 192.7% at September 30, 2013 compared to 112.7% at September 30, 2012. Management analyzes the allowance for loan losses as described in the section entitled Allowance for Loan Losses. 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. Management believes, to the best of their knowledge, that all known losses as of the balance sheet dates have been recorded.



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**Noninterest Income.** Noninterest income increased \$399,000, or 16.6%, to \$2.8 million for the fiscal year ended September 30, 2013 compared to the fiscal year ended September 30, 2012. The increase was due mainly to increased service fee income of \$172,000, increased earnings on bank-owned life insurance of \$100,000 and higher annuity and mutual fund fees of \$73,000.

**Noninterest Expense.** Noninterest expense increased by \$463,000, or 4.6%, to \$10.5 million for the fiscal year ended September 30, 2013 compared to the prior year. This increase was due primarily to higher compensation and employee benefit expenses of \$374,000, or 6.4%, which resulted from general cost and salary increases, grants of options and restricted stock under the stock based compensation plans which were implemented beginning in August 2012 and additional costs relating to employee medical benefits.

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**Income Tax Expense.** The provision for income taxes for the fiscal year ended September 30, 2013 was \$977,000 (effective tax rate of 25.3%) compared to \$1.2 million (effective tax rate of 28.7%) for the fiscal year ended September 30, 2012. This decrease in income tax expense was due in part to a higher level of nontaxable income related to tax exempt municipals and bank-owned life insurance.

**Non-Performing and Problem Assets**

When a residential mortgage loan, home equity loan or line of credit or consumer loan is past due, we send a late notice and contact the borrower to inquire as to why the loan is past due. When a loan is 30 days or more past due, we mail a second late notice and attempt additional personal, direct contact with the borrower to determine the reason for the delinquency and establish the procedures by which the borrower will bring the loan current. When the loan is 45 days past due, we explore the customer's situation and repayment options and inspect the collateral. In addition, when a loan reaches 90 days past due, our management determines and recommends to our Board of Directors whether to initiate foreclosure proceedings, which will be initiated by counsel if the loan is not brought current. Procedures for avoiding foreclosure can include restructuring the loan in a manner that provides concessions to the borrower to facilitate payment.

Commercial business loans and commercial real estate loans are generally handled in the same manner as the loans discussed above. Additionally, when a loan is 30 days past due, we contact the borrower, visually inspect the property(ies) and inquire of the principals the status of the loan and what actions are being implemented to bring the loan current. Depending on the type of loan, the borrower's cash flow statements, internal financial statements, tax returns, rent rolls, new or updated independent appraisals, online databases and other relevant information in Bank and third-party loan reviews are analyzed to help determine a course of action. In addition, legal counsel is consulted and an approach for resolution is determined and aggressively pursued.

Loans are placed on non-accrual status when payment of principal or interest is 90 days or more delinquent. Loans are also placed on non-accrual status if collection of principal or interest in full is in doubt. When loans are placed on a non-accrual status, unpaid accrued interest is fully reversed, and further income is recognized only to the extent received. The loan may be returned to accrual status if payments are brought to less than 90 days delinquent and full payment of principal and interest is expected.

Impaired loans are commercial and commercial real estate loans for which it is probable that we will not be able to collect all amounts due according to the contractual terms of the loan agreement. We individually evaluate such loans for impairment rather than aggregate loans by major risk classifications. The definition of impaired loans is not the same as the definition of non-accrual loans, although the two categories overlap. We may choose to place a loan on non-accrual status due to payment delinquency or uncertain collectability, while not classifying the loan as impaired. Factors considered in determining impairment include payment status and collateral value. The amount of impairment for these types of impaired loans is determined by the difference between the present value of the expected cash flows related to the loan, using current interest rates, and its recorded value. In the case of collateralized loans, the impairment is the difference between the fair value of the collateral and the recorded amount of the loan. When foreclosure is probable, impairment is measured based on the fair value of the collateral. Mortgage loans on one- to four-family properties, home equity loans and lines of credit and consumer loans are generally considered as larger groups of homogeneous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as less than 90 days, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis, taking into consideration all circumstances surrounding the loan and the borrower including the length of the delay, the borrower's prior payment record and the amount of shortfall in relation to the principal and interest owed.

The table below sets forth the amounts and categories of our non-performing assets at the dates indicated. At September 30, 2013, 2012, 2011, 2010 and 2009, we had no troubled debt restructurings (loans for which a portion of interest or principal has been forgiven and loans modified at

interest rates materially less than current market rates).

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|  | 2013     | 2012     | At September 30,<br>2011<br>(Dollars in thousands) | 2010     | 2009     |
|--|----------|----------|--|----------|----------|
| <b>Non-accrual loans:</b>                                    |          |          |  |          |          |
| Real estate loans:   |          |          |  |          |          |
| One- to four-family residential and construction             | \$ 582   | \$ 1,089 | \$ 1,436   | \$ 1,056 | \$ 895   |
| Commercial   | 1,165    | 2,362    | 3,101  | 1,636    | 415      |
| Home equity loans and lines of credit                        | 224      | 66       | 47   | 216      | 7        |
| Commercial   | 40       | 451      | 39   | 1,000    |          |
| Other loans  |          | 3        | 3  | 14       | 4        |
| Total non-accrual loans                                      | 2,011    | 3,971    | 4,626  | 3,922    | 1,321    |
| Loans delinquent 90 days or greater and still accruing:      |          |          |  |          |          |
| Real estate loans:   |          |          |  |          |          |
| One- to four-family residential and construction             |          |          |  |          |          |
| Commercial   |          |          |  |          |          |
| Home equity loans and lines of credit                        |          |          |  |          |          |
| Commercial   |          |          |  |          |          |
| Other loans  |          |          |  |          |          |
| Total loans delinquent 90 days or greater and still accruing |          |          |  |          |          |
| Foreclosed real estate:                                      |          |          |  |          |          |
| One- to four-family residential and construction             | 527      | 47       | 743  | 884      | 1,002    |
| Commercial   | 80       | 416      |  |          |          |
| Home equity loans and lines of credit                        |          |          |  |          |          |
| Commercial   |          |          |  |          |          |
| Other loans  |          |          |  |          |          |
| Total foreclosed real estate                                 | 607      | 463      | 743  | 884      | 1,002    |
| Total non-performing assets                                  | \$ 2,618 | \$ 4,434 | \$ 5,369   | \$ 4,806 | \$ 2,323 |
| <b>Ratios:</b>   |          |          |  |          |          |
| Non-performing loans to total loans                          | 0.68%    | 1.34%    | 1.60%  | 1.37%    | 0.49%    |
| Non-performing assets to total assets                        | 0.60%    | 1.00%    | 1.24%  | 1.10%    | 0.61%    |

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**Delinquent Loans.** The following table sets forth certain information with respect to our loan portfolio delinquencies at the dates indicated.

|  | Loans Delinquent For |          |                            |                                  | Total  |          |
|--|----------------------|----------|----------------------------|----------------------------------|--------|----------|
|  | 60-89 Days<br>Number | Amount   | 90 Days and Over<br>Number | Amount<br>(Dollars in thousands) | Number | Amount   |
| <u>At September 30, 2013</u>                     |                      |          |                            |                                  |        |          |
| Real estate loans:                               |                      |          |                            |                                  |        |          |
| One- to four-family residential and construction | 6                    | \$ 467   | 10                         | \$ 582                           | 16     | \$ 1,049 |
| Commercial                                       |                      |          | 6                          | 1,165                            | 6      | 1,165    |
| Home equity loans and lines of credit            | 3                    | 81       | 3                          | 224                              | 6      | 305      |
| Commercial                                       | 1                    | 4        | 1                          | 40                               | 2      | 44       |
| Other loans                                      | 1                    | 5        |                            |                                  | 1      | 5        |
| Total loans                                      | 11                   | \$ 557   | 20                         | \$ 2,011                         | 31     | \$ 2,568 |
| <u>At September 30, 2012</u>                     |                      |          |                            |                                  |        |          |
| Real estate loans:                               |                      |          |                            |                                  |        |          |
| One- to four-family residential and construction | 8                    | \$ 711   | 13                         | \$ 1,089                         | 21     | \$ 1,800 |
| Commercial                                       | 2                    | 190      | 7                          | 2,362                            | 9      | 2,552    |
| Home equity loans and lines of credit            | 1                    | 7        | 2                          | 66                               | 3      | 73       |
| Commercial                                       | 1                    | 60       | 3                          | 451                              | 4      | 511      |
| Other loans                                      |                      | 1        | 1                          | 3                                | 1      | 4        |
| Total loans                                      | 12                   | \$ 969   | 26                         | \$ 3,971                         | 38     | \$ 4,940 |
| <u>At September 30, 2011</u>                     |                      |          |                            |                                  |        |          |
| Real estate loans:                               |                      |          |                            |                                  |        |          |
| One- to four-family residential and construction | 12                   | \$ 521   | 11                         | \$ 1,436                         | 23     | \$ 1,957 |
| Commercial                                       | 3                    | 348      | 10                         | 3,101                            | 13     | 3,449    |
| Home equity loans and lines of credit            | 1                    | 22       | 3                          | 47                               | 4      | 69       |
| Commercial                                       | 1                    | 81       | 1                          | 39                               | 2      | 120      |
| Other loans                                      |                      |          | 1                          | 3                                | 1      | 3        |
| Total loans                                      | 17                   | \$ 972   | 26                         | \$ 4,626                         | 43     | \$ 5,598 |
| <u>At September 30, 2010</u>                     |                      |          |                            |                                  |        |          |
| Real estate loans:                               |                      |          |                            |                                  |        |          |
| One- to four-family residential and construction | 10                   | \$ 1,303 | 12                         | \$ 1,056                         | 22     | \$ 2,359 |
| Commercial                                       | 3                    | 404      | 3                          | 1,636                            | 6      | 2,040    |
| Home equity loans and lines of credit            | 2                    | 7        | 3                          | 216                              | 5      | 223      |
| Commercial                                       |                      |          | 1                          | 1,000                            | 1      | 1,000    |
| Other loans                                      |                      |          | 2                          | 14                               | 2      | 14       |
| Total loans                                      | 15                   | \$ 1,714 | 21                         | \$ 3,922                         | 36     | \$ 5,636 |
| <u>At September 30, 2009</u>                     |                      |          |                            |                                  |        |          |
| Real estate loans:                               |                      |          |                            |                                  |        |          |
| One- to four-family residential and construction | 8                    | \$ 975   | 13                         | \$ 895                           | 21     | \$ 1,870 |

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|                                       |    |          |    |          |    |          |
|---------------------------------------|----|----------|----|----------|----|----------|
| Commercial                            | 3  | 242      | 3  | 415      | 6  | 657      |
| Home equity loans and lines of credit | 2  | 29       | 1  | 7        | 3  | 36       |
| Commercial                            |    |          |    |          |    |          |
| Other loans                           | 4  | 13       | 4  | 4        | 8  | 17       |
| Total loans                           | 17 | \$ 1,259 | 21 | \$ 1,321 | 38 | \$ 2,580 |

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**Foreclosed Real Estate.** Real estate acquired by us as a result of foreclosure or by deed in lieu of foreclosure is classified as foreclosed real estate. When property is acquired, it is recorded at estimated fair value at the date of foreclosure less the cost to sell, establishing a new cost basis. Estimated fair value generally represents the sales price a buyer would be willing to pay on the basis of current market conditions, including normal terms from other financial institutions. Holding costs and declines in estimated fair market value result in charges to expense after acquisition. At September 30, 2013, 2012, 2011, 2010 and 2009, we had foreclosed real estate of \$607,000, \$463,000, \$743,000, \$884,000, and \$1.0 million, respectively. Foreclosed real estate at September 30, 2013 consisted of five properties.

**Classification of Assets.** Our policies, consistent with regulatory guidelines, provide for the classification of loans and other assets that are considered to be of lesser quality as substandard, doubtful, or loss assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those assets characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. 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. Assets that do not expose us to risk sufficient to warrant classification in one of the aforementioned categories, but which possess potential weaknesses that deserve our close attention, are required to be designated as special mention. If our concerns about loans in the special mention category increase as to the ability of the borrower to comply with current loan repayment terms, the loan is reclassified to one of the aforementioned categories.

We maintain an allowance for loan losses at an amount estimated to equal all credit losses incurred in our loan portfolio that are both probable and reasonable to estimate at a balance sheet date. Our determination as to the classification of our assets is subject to review by our principal federal regulator, the Federal Deposit Insurance Corporation, and our State regulator, the Pennsylvania Department of Banking. We regularly review our asset portfolio to determine whether assets require classification in accordance with applicable regulations.

The following table sets forth our amounts of classified assets and criticized assets (classified assets and loans designated as special mention) at the dates indicated.

|                         | 2013     | At September 30,<br>2012 |           | 2011 |
|-------------------------|----------|--------------------------|-----------|------|
|                         |          | (In thousands)           |           |      |
| Classified assets:      |          |                          |           |      |
| Substandard             | \$ 3,545 | \$ 5,465                 | \$ 7,693  |      |
| Doubtful                | 1        | 2                        | 3         |      |
| Loss                    |          |                          |           |      |
| Total classified assets | 3,546    | 5,467                    | 7,696     |      |
| Special mention         | 1,270    | 2,543                    | 2,808     |      |
| Total criticized assets | \$ 4,816 | \$ 8,010                 | \$ 10,504 |      |

Total criticized assets of \$4.8 million at September 30, 2013 decreased \$3.2 million compared to September 30, 2012, of which most related to an improvement in the commercial and commercial real estate loan portfolios.

**Allowance for Loan Losses**

We provide for loan losses based upon the consistent application of our documented allowance for loan losses methodology. All loan losses are charged to the allowance for loan losses and all recoveries are credited to it. Additions to the allowance for loan losses are provided by charges to income based on various factors which, in our judgment, deserve current recognition in estimating probable losses. We regularly review the loan portfolio and make provisions for loan losses, if considered necessary. The allowance for loan losses consists primarily of two components:

(1) Specific allowances established for impaired loans. The amount of impairment provided for as a specific allowance is represented by the deficiency, if any, between the estimated fair value of the loan, or the loan's observable market price, if any, or the underlying collateral, if the loan is collateral dependent, and the carrying value of the loan. Impaired loans for which the estimated fair value of the loan, or the loan's observable market price or the fair value of the underlying collateral, if the loan is collateral dependent, exceeds the carrying value of the loan are not considered in establishing specific allowances for loan losses; and



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(2) General allowances established for loan losses on a portfolio basis for loans that do not meet the definition of impaired loans. The portfolio is grouped into similar risk characteristics, primarily loan type and regulatory classification. We apply an estimated loss rate to each loan group. The loss rates applied are based upon our loss experience adjusted, as appropriate, for the environmental factors discussed below. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions.

Actual loan losses may be significantly more than the allowance for loan losses we have established, which could have a material negative effect on our financial results. The adjustments to historical loss experience are based on our evaluation of several qualitative and environmental factors, including:

- changes in any concentration of credit (including, but not limited to, concentrations by geography, industry or collateral type);
- changes in the number and amount of non-accrual loans, criticized loans and past due loans;
- changes in national, state and local economic trends;
- changes in the types of loans in the loan portfolio;
- changes in the experience and ability of personnel and management in the mortgage loan origination and loan servicing departments;
- changes in the value of underlying collateral for collateral dependent loans;
- changes in lending strategies; and
- changes in lending policies and procedures.

In addition, we may establish an unallocated allowance to provide for probable losses that have been incurred as of the reporting date but are not reflected in the allocated allowance.

We evaluate the allowance for loan losses based upon the combined total of the specific and general components. Generally when the loan portfolio increases, absent other factors, the allowance for loan loss methodology results in a higher dollar amount of estimated probable losses than would be the case without the increase. Generally when the loan portfolio decreases, absent other factors, the allowance for loan losses methodology results in a lower dollar amount of estimated probable losses than would be the case without the decrease.

Commercial real estate and commercial loans generally have greater credit risks compared to the one- to four-family residential mortgage loans we originate, as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment experience on loans secured by income-producing properties typically depends on the successful operation of the related business and thus may be subject to a greater extent to adverse conditions in the real estate market and in the general economy.

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We evaluate the loan portfolio on a quarterly basis and the allowance is adjusted accordingly. While we use the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the information used in making the evaluations. In addition, as an integral part of their examination process, the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation will periodically review the allowance for loan losses. The Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation may require us to recognize additions to the allowance based on their analysis of information available to them at the time of their examination.

At September 30, 2013, the Company had five impaired loans totaling \$1.2 million (\$1.2 million of commercial real estate loans and \$40,000 of commercial loans). At September 30, 2012, the Company had eight impaired loans totaling \$2.8 million (\$2.4 million of commercial real estate loans and \$451,000 of commercial loans). The largest impaired loan at September 30, 2013 was a \$593,000 loan which was secured by commercial real estate and a restaurant in Maryland. The borrower on this loan has declared bankruptcy which has delayed foreclosure proceedings.

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

|                       | Number of Loans | Amount<br>(Dollars in thousands) | Percentage of Loans<br>Receivable |
|-----------------------|-----------------|----------------------------------|-----------------------------------|
| At September 30, 2013 | 20              | \$ 2,011                         | 0.68%                             |
| At September 30, 2012 | 26              | 3,971                            | 1.34                              |
| At September 30, 2011 | 26              | 4,626                            | 1.60                              |

Total interest income which would have been recognized had these loans paid in accordance with their contractual terms and actual interest income recognized on these loans as of the years indicated are summarized as follows:

|  | For the Years Ended September 30, |        |        |
|--|-----------------------------------|--------|--------|
|  | 2013                              | 2012   | 2011   |
|  | (In thousands)                    |        |        |
| Interest income due in accordance with contractual terms | \$ 116                            | \$ 269 | \$ 307 |
| Interest income recognized                               | 24                                | 41     | 118    |
| Interest income foregone                                 | \$ 92                             | \$ 228 | \$ 189 |

The following table sets forth activity in our allowance for loan losses for the fiscal years indicated.

|                                  | At or For the Years Ended September 30, |          |          |          |          |
|----------------------------------|---|----------|----------|----------|----------|
|                                  | 2013                                    | 2012     | 2011     | 2010     | 2009     |
|                                  | (Dollars in thousands)                  |          |          |          |          |
| Balance at beginning of the year | \$ 4,474                                | \$ 4,521 | \$ 3,989 | \$ 3,078 | \$ 2,426 |
| Charge-offs:                     |   |          |          |          |          |
| Real estate loans (1)            | 496                                     | 425      | 334      | 147      | 118      |
| Commercial (2)                   | 741                                     | 891      | 806      | 106      | 305      |
| Other loans (3)                  | 29                                      | 18       | 44       | 33       | 65       |
| Total charge-offs                | 1,266                                   | 1,334    | 1,184    | 286      | 488      |
| Recoveries:                      |   |          |          |          |          |
| Real estate loans (1)            | 21                                      | 19       | 12       | 7        |          |
| Commercial (2)                   | 259                                     | 65       | 62       | 4        | 6        |
| Other loans (3)                  | 12                                      | 3        | 17       | 7        | 34       |
| Total recoveries                 | 292                                     | 87       | 91       | 18       | 40       |
| Net charge-offs                  | (974)                                   | (1,247)  | (1,093)  | (268)    | (448)    |
| Provision for loan losses        | 375                                     | 1,200    | 1,625    | 1,179    | 1,100    |

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|  |    |         |    |         |    |        |    |         |    |         |
|--|----|---------|----|---------|----|--------|----|---------|----|---------|
| Balance at end of year   | \$ | 3,875   | \$ | 4,474   | \$ | 4,521  | \$ | 3,989   | \$ | 3,078   |
| Ratios:  |    |         |    |         |    |        |    |         |    |         |
| Net charge-offs to average loans outstanding                     |    | 0.33%   |    | 0.42%   |    | 0.37%  |    | 0.10%   |    | 0.17%   |
| Allowance for loan losses to non-performing loans at end of year |    | 192.69% |    | 112.67% |    | 97.73% |    | 101.71% |    | 233.01% |
| Allowance for loan losses to total loans at end of year          |    | 1.30%   |    | 1.51%   |    | 1.56%  |    | 1.38%   |    | 1.12%   |

---

(1) Includes one- to four- family residential, home equity loans and lines of credit and residential construction loans.

(2) Includes commercial real estate and commercial loans.

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

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**Allocation of Allowance for Loan Losses.** The following table sets forth the allowance for loan losses allocated by loan category and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

|                           | 2013                         |  | 2012                         |  | At September 30,<br>2011     |  | 2010                         |  | 2009                         |  |
|---------------------------|------------------------------|--|------------------------------|--|------------------------------|--|------------------------------|--|------------------------------|--|
|                           | Allowance for<br>Loan Losses | Percent of<br>Loans in<br>Each<br>Category to<br>Total Loans | Allowance for<br>Loan Losses | Percent of<br>Loans in<br>Each<br>Category to<br>Total Loans | Allowance for<br>Loan Losses | Percent of<br>Loans in<br>Each<br>Category to<br>Total Loans | Allowance for<br>Loan Losses | Percent of<br>Loans in<br>Each<br>Category to<br>Total Loans | Allowance for<br>Loan Losses | Percent of<br>Loans in<br>Each<br>Category to<br>Total Loans |
| Real estate loans         |                              |  |                              |  |                              |  |                              |  |                              |  |
| (1)                       | \$ 1,642                     | 63.4%  | \$ 999                       | 64.1%  | \$ 855                       | 64.8%  | \$ 829                       | 66.1%  | \$ 1,064                     | 66.3%  |
| Commercial (2)            | 2,185                        | 36.0   | 3,300                        | 35.2   | 3,476                        | 34.4   | 2,943                        | 32.9   | 1,943                        | 32.5   |
| Other loans (3)           | 48                           | 0.6  | 175                          | 0.7  | 190                          | 0.8  | 217                          | 1.0  | 71                           | 1.2  |
| Total allocated allowance | 3,875                        | 100.0  | 4,474                        | 100.0  | 4,521                        | 100.0  | 3,989                        | 100.0  | 3,078                        | 100.0  |
| Unallocated               |                              |  |                              |  |                              |  |                              |  |                              |  |
| Total                     | \$ 3,875                     | 100.0%   | \$ 4,474                     | 100.0%   | \$ 4,521                     | 100.0%   | \$ 3,989                     | 100.0%   | \$ 3,078                     | 100.0%   |

(Dollars in thousands)

(1) Includes one- to four- family residential, home equity loans and lines of credit and residential construction loans.

(2) Includes commercial real estate and commercial loans.

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

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**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 September 30, 2013.

We regularly monitor and adjust our investments in liquid assets based upon our assessment of:

- expected loan demand;
- expected deposit flows and borrowing maturities;
- yields available on interest-earning deposits and securities; and
- the objectives of our asset/liability management program.

Our most liquid assets are cash and cash equivalents. The level of these assets is dependent on our operating, financing, lending and investing activities during any given period. At September 30, 2013, cash and cash equivalents totaled \$15.0 million. Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Consolidated Statements of Cash Flows included in our Consolidated Financial Statements.

At September 30, 2013, we had \$15.9 million in loan commitments outstanding, \$15.5 million of which were for commercial real estate loans and \$376,000 of which were for one- to four-family loans. In addition to commitments to originate loans, we had \$13.9 million in unused lines of credit to borrowers and \$561,000 in undisbursed funds for construction loans in process. Certificates of deposit due within one year of September 30, 2013 totalled \$30.1 million, or 9.2% 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 FHLB advances. We believe, however, based on historical experience and current market interest rates, we will retain upon maturity a large portion of our certificates of deposit with maturities of one year or less.

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Our primary investing activity is originating loans. During the fiscal years ended September 30, 2013 and 2012, we originated \$87.8 million and \$80.8 million of loans, respectively. During these years, we purchased \$18.3 million and \$35.4 million of securities, respectively.

Financing activities generally consist of activity in deposit accounts and FHLB advances. We experienced a net decrease in deposits of \$4.2 million during the fiscal year ended September 30, 2013 and a net increase in deposits of \$10.0 million during the fiscal year ended September 30, 2012. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors, and by other factors. Additionally, funds of \$7.1 million and \$1.7 million were used during the fiscal years ended September 30, 2013 and September 30, 2012, respectively, to repurchase shares of our common stock under the stock repurchase program.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the FHLB, which provides an additional source of funds. FHLB advances increased by \$2.0 million during the fiscal year ended September 30, 2013 and decreased by \$1.7 million during the fiscal year ended September 30, 2012. At September 30, 2013, we had the ability to borrow up to an additional \$126.5 million from the FHLB.

Standard Bank is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At September 30, 2013, Standard Bank exceeded all regulatory capital requirements. Standard Bank is considered well capitalized under regulatory guidelines. See Item 1 Business-Supervision and Regulation Banking Regulation Capital Requirements and Note 10 of the Notes to the Consolidated Financial Statements.

Table of Contents**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 potential 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. In addition, we enter into commitments to sell mortgage loans.

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

The following table summarizes our significant fixed and determinable contractual obligations and other funding needs by payment date at September 30, 2013. The payment amounts represent those amounts due to the recipient and do not include any unamortized premiums or discounts or other similar carrying amount adjustments.

| Contractual Obligations                        | Payments Due by Period |                                   |   |                      | Total      |
|--|------------------------|-----------------------------------|---|----------------------|------------|
|  | One year or less       | More than one year to three years | More than three years to five years<br>(In thousands) | More than five years |            |
| Long-term debt                                 | \$ 7,990               | \$ 11,843                         | \$ 9,059  | \$                   | \$ 28,892  |
| Operating leases                               | 120                    | 139                               |   |                      | 259        |
| Securities sold under agreements to repurchase | 4,194                  |                                   |   |                      | 4,194      |
| Certificates of deposit                        | 30,069                 | 58,048                            | 11,298  | 31,082               | 130,497    |
| Total  | \$ 42,373              | \$ 70,030                         | \$ 20,357   | \$ 31,082            | \$ 163,842 |

**Impact of Inflation and Changing Prices**

Our consolidated financial statements and related notes have been prepared in accordance with U.S. generally accepted accounting principles which require the measurement of financial condition and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

**ITEM 7A.****Quantitative and Qualitative Disclosures About Market Risk**



**Management of Market Risk**

**General.** Our most significant form of market risk is interest rate risk because, as a financial institution, the majority of our assets and liabilities are sensitive to changes in interest rates. Therefore, a principal part of our operations is to manage interest rate risk and limit the exposure of our net interest income to changes in market interest rates. Our Board of Directors has established an Asset/Liability Management Committee, which is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the Board of Directors.

Historically, we operated as a traditional savings bank. Therefore, the majority of our assets consist of longer-term, fixed rate residential mortgage loans and mortgage backed securities, which we funded primarily with checking and savings accounts and short-term borrowings. In an effort to improve our earnings and to decrease our exposure to interest rate risk, we generally sell fixed rate residential loans with terms of 15 years and over. In addition, we have shifted our focus to originating more commercial real estate loans, which generally have shorter maturities than one- to four-family residential mortgage loans, and are usually originated with adjustable interest rates.

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In addition to the above strategies with respect to our lending activities, we have used the following strategies to reduce our interest rate risk:

- increasing our personal and business checking accounts, which are less rate-sensitive than certificates of deposit and which provide us with a stable, low-cost source of funds;
- repaying short-term borrowings; and
- maintaining relatively high levels of capital.

We have not conducted hedging activities, such as engaging in futures, options or swap transactions, or investing in high-risk mortgage derivatives, such as collateralized mortgage obligation residual interests, real estate mortgage investment conduit residual interests or stripped mortgage backed securities.

In addition, changes in interest rates can affect the fair values of our financial instruments. During the fiscal years ended September 30, 2013 and September 30, 2012, low market interest rates were the primary factors in the increases in the fair values of our loans, deposits and Federal Home Loan Bank advances. For additional information, see Note 15 to the Notes to our Consolidated Financial Statements.

**Net Portfolio Value.** The table below sets forth, as of September 30, 2013, the estimated changes in our net portfolio value ( NPV ) that would result from the designated instantaneous changes in the interest rate yield curve. The NPV is the difference between the present value of an institution's assets and liabilities (the institution's NPV) would change in the event of a range of assumed changes in market interest rates. The simulation model uses a discounted cash flow analysis and an option-based pricing approach to measure the interest rate sensitivity of net portfolio value. Historically, the model estimated the economic value of each type of asset, liability and off-balance sheet contract using the current interest rate yield curve with instantaneous increases or decreases of 100 to 300 basis points in 100 basis point increments. A basis point equals one-hundredth of one percent, and 100 basis points equals one percent. An increase in interest rates from 3% to 4% would mean, for example, a 100 basis point increase in the Change in Interest Rates column below. Given the current relatively low level of market interest rates, an NPV calculation for an interest rate decrease of greater than 100 basis points has not been prepared.

| Change in Interest Rates (basis points) (1) | Estimated NPV (2)<br>(Dollars in thousands) | Estimated Increase (Decrease) in NPV |          | NPV as a Percentage of Present Value of Assets (3) |                                    |
|---|---|--------------------------------------|----------|--|------------------------------------|
|   |   | Amount                               | Percent  | NPV Ratio (4)                                      | Increase (Decrease) (basis points) |
| +300  | \$ 70,872                                   | \$ (14,458)                          | (16.94)% | 17.42%   | (177)                              |
| +200  | 76,840                                      | (8,490)                              | (9.95)   | 18.31  | (88)                               |
| +100  | 82,505                                      | (2,825)                              | (3.31)   | 19.08  | (11)                               |
| 0   | 85,330                                      |                                      |          | 19.19  |                                    |
| -100  | 81,096                                      | (4,234)                              | (4.96)   | 18.01  | (118)                              |

(1) Assumes interest rate changes (up and down) in increments of 100 basis points.

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- (2) NPV is the discounted present value of expected cash flows from assets and liabilities.
- (3) Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.
- (4) NPV Ratio represents NPV divided by the present value of assets.

The table above indicates that at September 30, 2013, in the event of a 200 basis point increase in interest rates, we would experience a 9.95% decrease in net portfolio value. In the event of a 100 basis point decrease in interest rates, we would experience a 4.96% decrease in net portfolio value.

Certain shortcomings are inherent in the methodologies used in determining interest rate risk through changes in net portfolio value. Modeling changes in net portfolio value require making certain assumptions that may or may not reflect the manner in which actual yields and costs, or loan repayments and deposit decay, respond to changes in market interest rates. In this regard, the net portfolio value table presented assumes that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assume that a particular

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change in interest rates is reflected across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the net portfolio value table provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income and will differ from actual results.

**ITEM 8. Financial Statements and Supplementary Data**

**MANAGEMENT'S REPORTS TO STANDARD FINANCIAL CORP. SHAREHOLDERS**

**Management's Report on Financial Statements and Practices**

Standard Financial Corp. is responsible for the preparation, integrity and fair presentation of the consolidated financial statements included in this annual report. The consolidated financial statements and notes included in this annual report have been prepared in conformity with United States generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgments.

The system of internal control over financial reporting as it relates to the financial statements is evaluated for effectiveness by management and tested for reliability through a program of internal audits. Actions are taken to correct potential deficiencies as they are identified. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control could be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

The Audit Committee, consisting entirely of independent directors, meets regularly with management, internal auditors and the independent registered public accounting firm and reviews audit plans and results, as well as management's actions taken in discharging responsibilities for accounting, financial reporting and internal control. S.R. Snodgrass A.C., independent registered public accounting firm and the internal auditors have direct and confidential access to the Audit Committee at all times to discuss the results of their examinations.

**Report on Management's Assessment of Internal Control over Financial Reporting**

We, as management of Standard Financial Corp., are responsible for establishing and maintaining effective internal control over financial reporting that is designed to produce reliable financial statements in conformity with United States generally accepted accounting principles. Management assessed the Company's system of internal control over financial reporting as of September 30, 2013, in relation to criteria for effective internal control over financial reporting as described in the 1992 Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concludes that, as of September 30, 2013, its system of internal control over financial reporting is effective and meets the criteria of the Internal Control Integrated Framework.

/s/ Timothy K. Zimmerman  
Timothy K. Zimmerman  
President and Chief Executive Officer

/s/ Colleen M. Brown  
Colleen M. Brown  
Senior Vice President and Chief Financial Officer

December 17, 2013

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders

Standard Financial Corp.

We have audited the accompanying consolidated statements of financial condition of Standard Financial Corp. (the Company) and subsidiaries as of September 30, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Standard Financial Corp. and subsidiaries as of September 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ S.R. Snodgrass, A.C.

Wexford, Pennsylvania  
December 17, 2013

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

(Dollars in thousands except share and per share data)

|  | September 30,     |                   |
|--|-------------------|-------------------|
|  | 2013              | 2012              |
| <b>ASSETS</b>  |                   |                   |
| Cash on hand and due from banks  | \$ 2,559          | \$ 1,729          |
| Interest-earning deposits in other institutions  | 12,432            | 14,045            |
| Federal funds sold   |                   | 3,000             |
| Cash and Cash Equivalents  | 14,991            | 18,774            |
| Certificates of deposit  | 1,000             |                   |
| Investment securities available for sale   | 64,052            | 62,675            |
| Mortgage-backed securities available for sale  | 29,701            | 40,002            |
| Federal Home Loan Bank stock, at cost  | 2,757             | 2,683             |
| Loans receivable, net of allowance for loan losses of \$3,875 and \$4,474  | 293,664           | 291,113           |
| Loans held for sale  |                   | 905               |
| Foreclosed real estate   | 607               | 463               |
| Office properties and equipment, net   | 3,586             | 3,840             |
| Bank-owned life insurance  | 13,722            | 10,282            |
| Goodwill   | 8,769             | 8,769             |
| Core deposit intangible  | 351               | 519               |
| Accrued interest receivable and other assets   | 3,671             | 3,407             |
| <b>TOTAL ASSETS</b>  | <b>\$ 436,871</b> | <b>\$ 443,432</b> |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                   |                   |
| Liabilities  |                   |                   |
| Deposits:  |                   |                   |
| Demand, savings and club accounts  | \$ 195,628        | \$ 192,266        |
| Certificate accounts   | 130,497           | 138,033           |
| <b>Total Deposits</b>  | <b>326,125</b>    | <b>330,299</b>    |
| Federal Home Loan Bank advances  | 28,892            | 26,849            |
| Securities sold under agreements to repurchase   | 4,194             | 3,232             |
| Advance deposits by borrowers for taxes and insurance  | 547               | 635               |
| Accrued interest payable and other liabilities   | 2,556             | 2,300             |
| <b>TOTAL LIABILITIES</b>   | <b>362,314</b>    | <b>363,315</b>    |
| Stockholders Equity  |                   |                   |
| 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, 3,111,297 and 3,480,573 shares outstanding, respectively | 31                | 35                |
| Additional paid-in-capital   | 25,327            | 31,839            |
| Retained earnings  | 51,187            | 48,822            |
| Unearned Employee Stock Ownership Plan (ESOP) shares   | (2,490)           | (2,644)           |
| Accumulated other comprehensive income   | 502               | 2,065             |
| <b>TOTAL STOCKHOLDERS EQUITY</b>   | <b>74,557</b>     | <b>80,117</b>     |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>   | <b>\$ 436,871</b> | <b>\$ 443,432</b> |

See accompanying notes to the consolidated financial statements.



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

(Dollars in thousands except share and per share data)

|   | Years Ended September 30, |           |
|---|---------------------------|-----------|
|   | 2013                      | 2012      |
| Interest and Dividend Income                        |                           |           |
| Loans, including fees                               | \$ 13,429                 | \$ 14,684 |
| Mortgage-backed securities                          | 701                       | 1,081     |
| Investment securities:                              |                           |           |
| Taxable   | 706                       | 725       |
| Tax-exempt  | 900                       | 829       |
| Interest-earning deposits and federal funds sold    | 5                         | 5         |
| Total Interest and Dividend Income                  | 15,741                    | 17,324    |
| Interest Expense                                    |                           |           |
| Deposits  | 3,328                     | 3,610     |
| Federal Home Loan Bank advances                     | 492                       | 744       |
| Securities sold under agreements to repurchase      | 4                         | 7         |
| Total Interest Expense                              | 3,824                     | 4,361     |
| Net Interest Income                                 | 11,917                    | 12,963    |
| Provision for Loan Losses                           | 375                       | 1,200     |
| Net Interest Income after Provision for Loan Losses | 11,542                    | 11,763    |
| Noninterest Income                                  |                           |           |
| Service charges                                     | 1,762                     | 1,590     |
| Earnings on bank-owned life insurance               | 496                       | 396       |
| Net securities gains                                | 79                        | 56        |
| Net loan sale gains                                 | 205                       | 205       |
| Annuity and mutual fund fees                        | 194                       | 121       |
| Other income  | 66                        | 35        |
| Total Noninterest Income                            | 2,802                     | 2,403     |
| Noninterest Expenses                                |                           |           |
| Compensation and employee benefits                  | 6,210                     | 5,836     |
| Data processing                                     | 421                       | 425       |
| Premises and occupancy costs                        | 1,158                     | 1,097     |
| Core deposit amortization                           | 168                       | 168       |
| Automatic teller machine expense                    | 313                       | 312       |
| Federal deposit insurance                           | 258                       | 287       |
| Other operating expenses                            | 1,957                     | 1,897     |
| Total Noninterest Expenses                          | 10,485                    | 10,022    |
| Income before Income Tax Expense                    | 3,859                     | 4,144     |
| Income Tax Expense                                  |                           |           |
| Federal   | 823                       | 1,007     |
| State   | 154                       | 181       |
| Total Income Tax Expense                            | 977                       | 1,188     |

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|   |    |           |    |           |
|---|----|-----------|----|-----------|
| Net Income                                  | \$ | 2,882     | \$ | 2,956     |
| Basic and diluted earnings per common share | \$ | 0.97      | \$ | 0.93      |
| Cash dividends paid per common share        | \$ | 0.18      | \$ | 0.18      |
| Basic weighted average shares outstanding   |    | 2,966,107 |    | 3,163,773 |
| Diluted weighted average shares outstanding |    | 2,975,372 |    | 3,163,773 |

See accompanying notes to the consolidated financial statements.

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**Standard Financial Corp.**

**Consolidated Statements of Comprehensive Income**

(Dollars in thousands)

|   | Years Ended September 30, |          |
|---|---------------------------|----------|
|   | 2013                      | 2012     |
| Net Income  | \$ 2,882                  | \$ 2,956 |
| Other comprehensive income (loss):                                |                           |          |
| Change in unrealized (loss) gain on securities available for sale | (2,289)                   | 761      |
| Tax effect  | 778                       | (259)    |
| Reclassification adjustment for gains realized in income          | (79)                      | (56)     |
| Tax effect  | 27                        | 19       |
| Total other comprehensive (loss) income                           | (1,563)                   | 465      |
| Total Comprehensive Income  | \$ 1,319                  | \$ 3,421 |

See accompanying notes to the consolidated financial statements.

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

(Dollars in thousands except share and per share data)

|  | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Unearned<br>ESOP<br>Shares | Accumulated<br>Other<br>Comprehensive<br>Income | Total<br>Stockholders<br>Equity |
|--|-----------------|----------------------------------|----------------------|----------------------------|---|---------------------------------|
| Balance, September 30, 2011                          | \$ 35           | \$ 33,403                        | \$ 46,475            | \$ (2,797)                 | \$ 1,600  | \$ 78,716                       |
| Net income   |                 |                                  | 2,956                |                            |   | 2,956                           |
| Other comprehensive income                           |                 |                                  |                      |                            | 465   | 465                             |
| Stock repurchases (108,900 shares)                   | (1)             | (1,714)                          |                      |                            |   | (1,715)                         |
| Cash dividends (\$0.18 per share)                    |                 |                                  | (609)                |                            |   | (609)                           |
| Issuance of restricted stock                         | 1               | (1)                              |                      |                            |   |                                 |
| Compensation expense on stock awards                 |                 | 75                               |                      |                            |   | 75                              |
| Compensation expense on ESOP                         |                 | 76                               |                      | 153                        |   | 229                             |
| Balance, September 30, 2012                          | 35              | 31,839                           | 48,822               | (2,644)                    | 2,065   | 80,117                          |
| Net income   |                 |                                  | 2,882                |                            |   | 2,882                           |
| Other comprehensive loss                             |                 |                                  |                      |                            | (1,563)   | (1,563)                         |
| Stock repurchases (369,276 shares)                   | (4)             | (7,100)                          |                      |                            |   | (7,104)                         |
| Cash dividends (\$0.18 per share)                    |                 |                                  | (517)                |                            |   | (517)                           |
| Excess tax benefits from stock based<br>compensation |                 | 22                               |                      |                            |   | 22                              |
| Compensation expense on stock awards                 |                 | 452                              |                      |                            |   | 452                             |
| Compensation expense on ESOP                         |                 | 114                              |                      | 154                        |   | 268                             |
| Balance, September 30, 2013                          | \$ 31           | \$ 25,327                        | \$ 51,187            | \$ (2,490)                 | \$ 502  | \$ 74,557                       |

See accompanying notes to the consolidated financial statements.

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

(Dollars in thousands)

|   | Years Ended September 30, |                  |
|---|---------------------------|------------------|
|   | 2013                      | 2012             |
| <b>Cash Flows from Operating Activities</b>                                       |                           |                  |
| Net income  | \$ 2,882                  | \$ 2,956         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |                  |
| Depreciation and amortization   | 875                       | 827              |
| Provision for loan losses   | 375                       | 1,200            |
| Net gain on securities  | (79)                      | (56)             |
| Origination of loans held for sale  | (7,358)                   | (7,779)          |
| Proceeds from sale of loans held for sale   | 8,468                     | 7,179            |
| Net loan sale gains   | (205)                     | (205)            |
| Compensation expense on ESOP  | 268                       | 229              |
| Compensation expense on stock awards  | 452                       | 75               |
| Deferred income taxes   | 241                       | 176              |
| (Increase) decrease in accrued interest receivable and other assets               | (283)                     | 128              |
| Decrease in prepaid Federal deposit insurance                                     | 584                       | 262              |
| Earnings on bank-owned life insurance   | (496)                     | (396)            |
| Increase (decrease) in accrued interest payable and other liabilities             | 256                       | (283)            |
| Other, net  | (21)                      | 158              |
| <b>Net Cash Provided by Operating Activities</b>                                  | <b>5,959</b>              | <b>4,471</b>     |
| <b>Cash Flows Provided by (Used in) Investing Activities</b>                      |                           |                  |
| Net increase in loans receivable  | (4,152)                   | (8,031)          |
| Purchases of certificates of deposit  | (1,000)                   |                  |
| Purchases of investment securities  | (15,309)                  | (25,935)         |
| Purchases of mortgage-backed securities   | (2,992)                   | (9,510)          |
| Proceeds from maturities/principal repayments/calls of investment securities      | 12,228                    | 19,642           |
| Proceeds from maturities/principal repayments/calls of mortgage-backed securities | 12,074                    | 12,194           |
| Proceeds from sales of investment securities                                      | 265                       | 6,142            |
| Purchase of Federal Home Loan Bank stock  | (760)                     | (250)            |
| Redemption of Federal Home Loan Bank stock  | 686                       | 406              |
| Purchases of bank-owned life insurance  | (3,000)                   | (150)            |
| Proceeds from sales of foreclosed real estate                                     | 1,160                     | 1,055            |
| Net purchases of office properties and equipment                                  | (86)                      | (282)            |
| <b>Net Cash Used in Investing Activities</b>                                      | <b>(886)</b>              | <b>(4,719)</b>   |
| <b>Cash Flows Provided by (Used in) Financing Activities</b>                      |                           |                  |
| Net increase in demand, savings and club accounts                                 | 3,362                     | 6,031            |
| Net (decrease) increase in certificate accounts                                   | (7,536)                   | 3,946            |
| Net increase in securities sold under agreements to repurchase                    | 962                       | 335              |
| Repayments of Federal Home Loan Bank advances                                     | (12,925)                  | (9,673)          |
| Proceeds from new Federal Home Loan Bank advances                                 | 14,968                    | 8,002            |
| (Decrease) increase in advance deposits by borrowers for taxes and insurance      | (88)                      | 47               |
| Excess tax benefits from stock based compensation                                 | 22                        |                  |
| Dividends paid  | (517)                     | (609)            |
| Stock repurchases   | (7,104)                   | (1,715)          |
| <b>Net Cash (Used in) Provided by Financing Activities</b>                        | <b>(8,856)</b>            | <b>6,364</b>     |
| <b>Net (Decrease) Increase in Cash and Cash Equivalents</b>                       | <b>(3,783)</b>            | <b>6,116</b>     |
| <b>Cash and Cash Equivalents - Beginning</b>                                      | <b>18,774</b>             | <b>12,658</b>    |
| <b>Cash and Cash Equivalents - Ending</b>   | <b>\$ 14,991</b>          | <b>\$ 18,774</b> |

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Supplementary Cash Flows Information

|  |    |       |    |       |
|--|----|-------|----|-------|
| Interest paid  | \$ | 3,865 | \$ | 4,404 |
| Income taxes paid  | \$ | 917   | \$ | 950   |
| Supplementary Schedule of Noncash Investing and Financing Activities |    |       |    |       |
| Foreclosed real estate acquired in settlement of loans               | \$ | 1,226 | \$ | 831   |

See accompanying notes to the consolidated financial statements.

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**STANDARD FINANCIAL CORP.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 1 Summary of Significant Accounting Policies**

The following comprise the significant accounting policies which Standard Financial Corp. and subsidiaries (the Company) follow in preparing and presenting their consolidated financial statements:

*Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of Standard Financial Corp. (the Company) and its direct and indirect wholly owned subsidiaries, Standard Bank, PaSB (the Bank), and Westmoreland Investment Company. All significant intercompany accounts and transactions have been eliminated in consolidation. Standard Financial Corp. owns all of the outstanding shares of common stock of the Bank.

*Nature of Operations*

The Company's primary asset is the stock of its wholly owned subsidiary, the Bank, a Pennsylvania-chartered state savings bank with deposits insured by the Federal Deposit Insurance Corporation (FDIC). The Bank is a retail-oriented financial institution, which offers traditional deposit and loan products through its ten offices in Allegheny, Westmoreland, and Bedford Counties of Pennsylvania and Northern Allegany County of Maryland. Westmoreland Investment Company is a Delaware subsidiary, holding residential mortgage loans as the majority of its assets.

*Financial Statements*

The accompanying consolidated financial statements have been prepared on a September 30 fiscal-year basis. For regulatory and income tax reporting purposes, the Company reports on a December 31 calendar-year basis.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Statements of Financial Condition and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, valuation of deferred taxes, and the valuation of intangible assets.

*Significant Group Concentrations of Credit Risk*

Most of the Bank's activities are with customers located within Allegheny, Westmoreland, and Bedford Counties of Pennsylvania and Allegany County of Maryland. Notes 2 and 3 discuss the types of securities in which the Company invests. Note 4 details the types of lending in which the Company engages. The Company does not have any significant concentrations in any one industry or customer.

*Cash and Cash Equivalents*

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and due from banks, Federal funds sold and interest-earning deposits in other institutions with original maturities of less than 90 days.



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**STANDARD FINANCIAL CORP.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 1 Summary of Significant Accounting Policies (Continued)**

*Investment and Mortgage-Backed Securities*

The Company accounts for investment and mortgage-backed securities by classifying them into three categories: securities held to maturity; securities available for sale; and trading securities.

Securities held to maturity are carried at cost adjusted for amortization of premium and accretion of discount over the term of the related investments using the interest method.

Securities available for sale are carried at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income as a part of stockholders' equity. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating the other-than-temporary impairment losses, management considers the length of time and the extent to which the fair value has been less than cost, the financial condition of the underlying issuer, the ability of the issuer to meet contractual obligations, and the intent to sell the security or whether it is more likely than not that the Company would be required to sell the security before its anticipated recovery in market value. Realized gains and losses determined on the basis of the cost of the specific securities sold are reported in earnings.

Securities bought and held principally for the purpose of selling them in the near term are classified as trading and are reported at fair value, with unrealized gains and losses included in earnings.

*Federal Home Loan Bank Stock*

Federal law requires a member institution of the Federal Home Loan Bank system to hold stock of its district Federal Home Loan Bank according to a predetermined formula. The restricted stock is carried at cost and classified separately on the statement of financial condition.

The Bank is a member of the Federal Home Loan Bank of Pittsburgh ( FHLB ) and, as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB. The stock is bought from and sold to the FHLB based upon its \$100 par value. The stock does not have a readily determinable fair value and, as such, is classified as restricted stock, carried at cost, and evaluated for impairment as needed. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared with the capital stock amount and the length of time this situation has persisted, (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance, (c) the impact of legislative and regulatory changes on the customer base of the FHLB, and (d) the liquidity position of the FHLB. There was no impairment of the FHLB stock at September 30, 2013 or 2012.

### *Loans Receivable*

Loans are stated at their unpaid principal balances net of deferred origination fees less allowances for losses. Monthly payments are scheduled to include interest. Interest on loans is credited to income as earned. Interest earned on loans for which no payments were received during the month is accrued. An allowance is established for accrued interest deemed to be uncollectible, generally when a loan is 90 days or more delinquent. Such interest ultimately collected is credited to income in the period received. Amortization of premiums and accretion of discounts are recognized over the term of the loan as an adjustment to the loan's yield using the interest method and cease when a loan becomes nonperforming. Loan origination fees, net of certain direct origination costs, are deferred and recognized over the contractual life of the related loan as a yield adjustment.

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**STANDARD FINANCIAL CORP.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 1 Summary of Significant Accounting Policies (Continued)**

*Allowance for Loan Losses*

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

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

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. The general component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors.

Impaired loans are commercial and commercial real estate loans for which it is probable that we will not be able to collect all amounts due according to the contractual terms of the loan agreement. We individually evaluate such loans for impairment rather than aggregate loans by major risk classifications. The definition of impaired loans is not the same as the definition of non-accrual loans, although the two categories overlap. Factors considered in determining impairment include payment status and collateral value. The amount of impairment for these types of impaired loans is determined by the difference between the present value of the expected cash flows related to the loan, using current interest rates, and its recorded value. In the case of collateralized loans, the impairment is the difference between the fair value of the collateral and the recorded amount of the loan. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

Mortgage loans on one- to four-family properties, home equity loans and lines of credit and consumer loans are large groups of smaller balance homogeneous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as less than 90 days, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis, taking into consideration all circumstances surrounding the loan and the borrower including the length of the delay, the borrower's prior payment record and the amount of shortfall in relation to the principal and interest owed.

*Mortgage Loans Held for Sale and Mortgage Loan Servicing*

Mortgage loans held for sale are valued at the lower of cost or fair value as determined by current investor yield requirements calculated on an aggregate basis. The Company acquires mortgage servicing rights through the origination and sale of mortgage loans. These rights are recognized as separate assets by allocating the total costs of the mortgage loans to the mortgage servicing rights and the loans (without the mortgage servicing rights) based on their relative fair values when the respective loans are sold.

The Company measures the impairment of the mortgage servicing rights based on their current fair value, estimated using discounted cash flows and prepayment assumptions. For purposes of measuring impairment, servicing rights are stratified by interest rates. If the carrying value of an individual stratum exceeds its fair value, a valuation allowance is established.

*Foreclosed Real Estate*

Foreclosed real estate consists of property acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure. Foreclosed real estate is initially recorded at fair value, net of estimated selling costs, at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Revenues and expenses from operations and changes in the valuation allowance are included in earnings.

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**STANDARD FINANCIAL CORP.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 1 Summary of Significant Accounting Policies (Continued)**

*Office Properties and Equipment*

Office properties and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. Estimated lives are 40 to 50 years for buildings and 3 to 10 years for furniture and equipment. Amortization of leasehold improvements is computed on the straight-line method over the shorter of the estimated useful life or term of the related lease.

*Bank-Owned Life Insurance*

The Company owns insurance on the lives of certain key employees. The policies were purchased to help offset the cost of increases in various fringe benefit plans, including healthcare. The cash surrender value of these policies is shown on the Consolidated Statements of Financial Condition, and any increases in the cash surrender value are recorded as noninterest income on the Consolidated Statements of Income, net of administrative expenses. In the event of the death of an insured individual under these policies, the Company would receive a death benefit.

*Goodwill and Core Deposit Intangible*

Goodwill represents the excess of the purchase price over the cost of net assets purchased. Goodwill is not amortized, but is evaluated for impairment. At least annually, management reviews goodwill and evaluates events or changes in circumstances that may indicate impairment in the carrying amount of goodwill. If the sum of the expected undiscounted future cash flows is less than the carrying amount of the net assets, an impairment loss will be recognized. Impairment, if any, is measured on a discounted future cash flow basis. For September 30, 2013 and 2012, no impairment existed; however, for any future period the Company determines that there has been impairment in the carrying value of goodwill, the Company would record a charge to earnings, which could have a material adverse effect on net income.

The Company has core deposit intangible assets relating to a 2006 acquisition. These intangible assets are being amortized on a straight-line basis over a ten year period and also continue to be subject to impairment testing. The balance of core deposit intangibles at September 30, 2013 and 2012 was \$351,000 and \$519,000, respectively, net of accumulated amortization of \$1.7 million at September 30, 2013 and \$1.5 million at September 30, 2012. Amortization expense of \$168,000 was recorded in each of the years ended September 30, 2013 and 2012. Amortization expense is estimated to be \$168,000 in 2014 through 2015, and \$15,000 in 2016.

***Income Taxes***

Deferred taxes are provided on the liability method, whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

***Off-Balance Sheet Financial Instrument***

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the Consolidated Statements of Financial Condition when they are funded.

***Advertising Expense***

The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the years ended September 30, 2013 and 2012 totaled \$115,000 and \$99,000, respectively, which is included in other operating expenses in the Consolidated Statements of Income.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 1 Summary of Significant Accounting Policies (Continued)***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 years ended September 30, 2013 and 2012 (dollars in thousands except per share data):

|   | <b>2013</b> |           | <b>2012</b> |           |
|---|-------------|-----------|-------------|-----------|
| Net income available to common stockholders       | \$          | 2,882     | \$          | 2,956     |
| <b>Basic EPS:</b>                                 |             |           |             |           |
| Weighted average shares outstanding               |             | 2,966,107 |             | 3,163,773 |
| Basic EPS   | \$          | 0.97      | \$          | 0.93      |
| <b>Diluted EPS:</b>                               |             |           |             |           |
| Weighted average shares outstanding               |             | 2,966,107 |             | 3,163,773 |
| Diluted effect of common stock equivalents        |             | 9,265     |             |           |
| Total diluted weighted average shares outstanding |             | 2,975,372 |             | 3,163,773 |
| Diluted EPS                                       | \$          | 0.97      | \$          | 0.93      |

There were no anti-dilutive options as of September 30, 2013. Options to purchase 278,075 shares of common stock with an exercise price of \$16.50 were outstanding as of September 30, 2012 but were not included in the computation of diluted earnings per common share because to do so would be anti-dilutive.

As of September 30, 2013 and 2012, there were 85,330 and 111,300 shares of restricted stock outstanding, respectively, with a grant price of \$16.50 not included in the computation of diluted earnings per common share because to do so would be anti-dilutive.

*Reclassifications*

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Certain comparative amounts for the prior year have been reclassified to conform to current-year classifications. Such reclassifications had no effect on net income or stockholders' equity.

### ***Recent Accounting Pronouncements***

In October, 2012, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2012-06, *Business Combinations (Topic 805) - Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution*. ASU 2012-06 requires that when a reporting entity recognizes an indemnification asset (in accordance with Subtopic 805-20) as a result of a government assisted acquisition of a financial institution and subsequently a change in the cash flows expected to be collected on the indemnification asset occurs (as a result of a change in cash flows expected to be collected on the assets subject to indemnification), the reporting entity should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement (that is, the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets). ASU 2012-06 is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2012. Early adoption is permitted. The amendments should be applied prospectively to any new indemnification assets acquired after the date of adoption and to indemnification assets existing as of the date of adoption arising from a government-assisted acquisition of a financial institution. This ASU is not expected to have a significant impact on the Company's financial statements.



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**STANDARD FINANCIAL CORP.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 1 Summary of Significant Accounting Policies (Continued)**

***Recent Accounting Pronouncements***

In January 2013, the FASB issued ASU 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. The amendments clarify that the scope of Update 2011-11 applies to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. An entity is required to apply the amendments for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the required disclosures retrospectively for all comparative periods presented. The effective date is the same as the effective date of Update 2011-11. This ASU is not expected to have a significant impact on the Company's financial statements.

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The amendments in this Update require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. For nonpublic entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. The Company adopted this standard on January 1, 2013. The effect of adopting this standard increased the disclosure surrounding reclassification items out of accumulated other comprehensive income.

In February 2013, the FASB issued ASU 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date*. The objective of the amendments in this Update is to provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. generally accepted accounting principles (GAAP). Examples of obligations within the scope of this Update include debt arrangements, other contractual obligations, and settled litigation and judicial rulings. U.S. GAAP does not include specific guidance on accounting for such obligations with joint and several liability, which has resulted in diversity in practice. Some entities record the entire amount under the joint and several liability arrangement on the basis of the concept of a liability and the guidance that must be met to extinguish a liability. Other entities record less than the total amount of the obligation, such as an amount allocated, an amount corresponding to the proceeds received, or the portion of the amount the entity agreed to pay among its co-obligors, on the basis of the guidance for contingent liabilities. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2014, and interim periods and annual periods thereafter. This ASU is not expected to have a significant impact on the Company's financial statements.

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In July 2013, the FASB issued ASU 2013-10, *Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*. The amendments in this Update permit the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to UST and LIBOR. The amendments also remove the restriction on using different benchmark rates for similar hedges. The amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. This ASU is not expected to have a significant impact on the Company's financial statements.

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. This Update applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 1 Summary of Significant Accounting Policies (Continued)***Recent Accounting Pronouncements*

would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

**Note 2 Investment Securities**

Investment securities available for sale at September 30, 2013 and 2012 are as follows (dollars in thousands):

|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
| September 30, 2013:                         |                   |                              |                               |               |
| U.S. government and agency obligations due: |                   |                              |                               |               |
| Beyond 1 year but within 5 years            | \$ 10,997         | \$ 26                        | \$ (47)                       | \$ 10,976     |
| Beyond 5 years but within 10 years          | 12,000            |                              | (618)                         | 11,382        |
| Corporate bonds due:                        |                   |                              |                               |               |
| Beyond 1 year but within 5 years            | 7,000             | 54                           | (7)                           | 7,047         |
| Municipal obligations due:                  |                   |                              |                               |               |
| Beyond 1 year but within 5 years            | 4,932             | 152                          |                               | 5,084         |
| Beyond 5 years but within 10 years          | 25,498            | 940                          | (134)                         | 26,304        |
| Beyond 10 years                             | 1,708             |                              | (44)                          | 1,664         |
| Equity securities                           | 1,468             | 145                          | (18)                          | 1,595         |
|   | \$ 63,603         | \$ 1,317                     | \$ (868)                      | \$ 64,052     |

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|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
| September 30, 2012:                         |                   |                              |                               |               |
| U.S. government and agency obligations due: |                   |                              |                               |               |
| Beyond 1 year but within 5 years            | \$ 13,994         | \$ 112                       | \$                            | \$ 14,106     |
| Beyond 5 years but within 10 years          | 7,000             | 49                           |                               | 7,049         |
| Corporate bonds due:                        |                   |                              |                               |               |
| Within 1 year                               | 251               | 3                            |                               | 254           |
| Beyond 1 year but within 5 years            | 7,002             | 60                           | (216)                         | 6,846         |
| Municipal obligations due:                  |                   |                              |                               |               |
| Beyond 1 year but within 5 years            | 2,421             | 145                          |                               | 2,566         |
| Beyond 5 years but within 10 years          | 23,876            | 1,321                        | (8)                           | 25,189        |
| Beyond 10 years                             | 4,987             | 334                          |                               | 5,321         |
| Equity securities                           | 1,214             | 141                          | (11)                          | 1,344         |
|   | \$ 60,745         | \$ 2,165                     | \$ (235)                      | \$ 62,675     |

During 2013, gains on sales of investment securities totaled \$85,000 and losses totaled \$6,000 with total proceeds from sales of \$265,000. During 2012, gains on sales of investment securities totaled \$56,000 with no losses and proceeds from such sales were \$6.1 million. At September 30, 2013, and 2012, no securities were held in the trading portfolio.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 2 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 September 30, 2013 and 2012 (dollars in thousands):

|  | Less than 12 Months |                         | September 30, 2013<br>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 | \$ 17,335           | \$ (665)                | \$                                      | \$                      | \$ 17,335  | \$ (665)                |
| Corporate bonds                        |                     |                         | 1,993                                   | (7)                     | 1,993      | (7)                     |
| Municipal obligations                  | 5,164               | (178)                   |   |                         | 5,164      | (178)                   |
| Equity securities                      | 904                 | (17)                    | 6                                       | (1)                     | 910        | (18)                    |
| Total                                  | \$ 23,403           | \$ (860)                | \$ 1,999                                | \$ (8)                  | \$ 25,402  | \$ (868)                |

|                       | Less than 12 Months |                         | September 30, 2012<br>12 Months or More |                         | Total      |                         |
|-----------------------|---------------------|-------------------------|---|-------------------------|------------|-------------------------|
|                       | Fair Value          | Gross Unrealized Losses | Fair Value                              | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| Corporate bonds       | \$                  | \$                      | \$ 4,784                                | \$ (216)                | \$ 4,784   | \$ (216)                |
| Municipal obligations | 1,443               | (8)                     |   |                         | 1,443      | (8)                     |
| Equity securities     | 49                  | (4)                     | 82                                      | (7)                     | 131        | (11)                    |
| Total                 | \$ 1,492            | \$ (12)                 | \$ 4,866                                | \$ (223)                | \$ 6,358   | \$ (235)                |

At September 30, 2013, the Company held 36 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 this, the Company considers all of the unrealized losses to be temporary impairment losses.

Investment securities with a carrying value of \$7.4 million were pledged to secure repurchase agreements and public funds accounts at September 30, 2013. No investment securities were pledged at September 30, 2012.



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 3 Mortgage-Backed Securities**

Mortgage-backed securities available for sale of September 30, 2013 and 2012 are as follows (dollars in thousands):

|                                     | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|-------------------------------------|-------------------|------------------------------|-------------------------------|---------------|
| September 30, 2013:                 |                   |                              |                               |               |
| Government pass-throughs:           |                   |                              |                               |               |
| Ginnie Mae                          | \$ 10,443         | \$ 66                        | \$ (5)                        | \$ 10,504     |
| Fannie Mae                          | 14,047            | 273                          | (44)                          | 14,276        |
| Freddie Mac                         | 1,914             | 115                          |                               | 2,029         |
| Private pass-throughs               | 114               |                              | (1)                           | 113           |
| Collateralized mortgage obligations | 2,871             | 4                            | (96)                          | 2,779         |
|                                     | \$ 29,389         | \$ 458                       | \$ (146)                      | \$ 29,701     |

|                                     | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|-------------------------------------|-------------------|------------------------------|-------------------------------|---------------|
| September 30, 2012:                 |                   |                              |                               |               |
| Government pass-throughs:           |                   |                              |                               |               |
| Ginnie Mae                          | \$ 15,159         | \$ 227                       | \$ (22)                       | \$ 15,364     |
| Fannie Mae                          | 18,151            | 730                          |                               | 18,881        |
| Freddie Mac                         | 3,139             | 237                          |                               | 3,376         |
| Private pass-throughs               | 123               |                              | (1)                           | 122           |
| Collateralized mortgage obligations | 2,231             | 28                           |                               | 2,259         |
|                                     | \$ 38,803         | \$ 1,222                     | \$ (23)                       | \$ 40,002     |

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 September 30, 2013 and 2012 (dollars in thousands):

|            | Less than 12 Months |                               | September 30, 2013<br>12 Months or More |                               | Total         |                               |
|------------|---------------------|-------------------------------|---|-------------------------------|---------------|-------------------------------|
|            | Fair<br>Value       | Gross<br>Unrealized<br>Losses | Fair<br>Value                           | Gross<br>Unrealized<br>Losses | Fair<br>Value | Gross<br>Unrealized<br>Losses |
| Ginnie Mae | \$ 2,707            | \$ (5)                        | \$                                      | \$                            | \$ 2,707      | \$ (5)                        |

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|                                     |          |          |          |          |
|-------------------------------------|----------|----------|----------|----------|
| Fannie Mae                          | 3,902    | (44)     | 3,902    | (44)     |
| Private pass-throughs               | 113      | (1)      | 113      | (1)      |
| Collateralized mortgage obligations | 2,589    | (96)     | 2,589    | (96)     |
| Total                               | \$ 9,311 | \$ (146) | \$ 9,311 | \$ (146) |

|                       | Less than 12 Months |                         | September 30, 2012<br>12 Months or More |                         | Total      |                         |
|-----------------------|---------------------|-------------------------|---|-------------------------|------------|-------------------------|
|                       | Fair Value          | Gross Unrealized Losses | Fair Value                              | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| Ginnie Mae            | \$ 3,943            | \$ (22)                 | \$ 122                                  | \$ (1)                  | \$ 3,943   | \$ (22)                 |
| Private pass-throughs |                     |                         |   |                         | 122        | (1)                     |
| Total                 | \$ 3,943            | \$ (22)                 | \$ 122                                  | \$ (1)                  | \$ 4,065   | \$ (23)                 |



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 3 Mortgage-Backed Securities (Continued)**

At September 30, 2013, the Company held 6 mortgage-backed securities in an unrealized loss position, respectively. 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 this, the Company considers all of the unrealized losses to be temporary impairment losses.

During 2013 and 2012, there were no sales of mortgage-backed securities. Mortgage-backed securities with a carrying value of \$11.3 million and \$17.7 million were pledged to secure repurchase agreements and public funds accounts at September 30, 2013 and 2012, respectively.

**Note 4 Loans Receivable**

Loans receivable at September 30, 2013 and 2012 and the method the Company uses to evaluate these loans within their allowance for loan losses are summarized as follows (dollars in thousands):

|  | Real Estate Loans   |                              |  |            |                |            |
|--|---|------------------------------|--|------------|----------------|------------|
|  | One-to-four-<br>family<br>Residential and<br>Construction | Commercial<br>Real<br>Estate | Home<br>Equity Loans<br>and Lines<br>of Credit | Commercial | Other<br>Loans | Total      |
| September 30, 2013:                          |   |                              |  |            |                |            |
| Collectively evaluated for impairment        | \$ 126,956  | \$ 94,606                    | \$ 61,587                                      | \$ 11,499  | \$ 1,686       | \$ 296,334 |
| Individually evaluated for impairment        |   | 1,165                        |  | 40         |                | 1,205      |
| Total loans before allowance for loan losses | \$ 126,956  | \$ 95,771                    | \$ 61,587                                      | \$ 11,539  | \$ 1,686       | \$ 297,539 |
| September 30, 2012:                          |   |                              |  |            |                |            |
| Collectively evaluated for impairment        | \$ 141,146  | \$ 89,665                    | \$ 47,999                                      | \$ 11,806  | \$ 2,158       | \$ 292,774 |
| Individually evaluated for impairment        |   | 2,362                        |  | 451        |                | 2,813      |
| Total loans before allowance for loan losses | \$ 141,146  | \$ 92,027                    | \$ 47,999                                      | \$ 12,257  | \$ 2,158       | \$ 295,587 |

Total loans at September 30, 2013 and 2012 were net of deferred loan fees of \$179,000 and \$244,000, respectively. The Company's primary business activity is with customers located within its local trade area. Although the Company has a diversified loan portfolio at September 30, 2013 and 2012, loans outstanding to individual and businesses are dependent upon the local economic conditions in its immediate trade area.

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 and are typically not collateralized by real estate. 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.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 4 Loans Receivable (Continued)**

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 original 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.

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. The Company did not modify any loans as TDRs during years ended September 30, 2013 or 2012 nor did it have any TDRs within the preceding year where a concession had been made that then defaulted during 2013 or 2012.

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 September 30, 2013 and 2012 (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 |  |
| September 30, 2013:    |                               |                   |                                  |                     |                          |  |
| Commercial real estate | \$ 1,165                      | \$ 175            | \$                               | \$ 1,165            | \$ 1,165                 |  |
| Commercial             | 40                            | 6                 |                                  | 40                  | 40                       |  |
| Total impaired loans   | \$ 1,205                      | \$ 181            | \$                               | \$ 1,205            | \$ 1,205                 |  |

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September 30, 2012:

|                        |    |       |    |     |    |       |    |       |
|------------------------|----|-------|----|-----|----|-------|----|-------|
| Commercial real estate | \$ | 2,362 | \$ | 709 | \$ | 2,362 | \$ | 2,362 |
| Commercial             |    | 451   |    | 135 |    | 451   |    | 451   |
| Total impaired loans   | \$ | 2,813 | \$ | 844 | \$ | 2,813 | \$ | 2,813 |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 4 Loans Receivable (Continued)**

The following table presents the average recorded investment in impaired loans and related interest income recognized for the years ended September 30, 2013 and 2012 (dollars in thousands):

|   | 2013 |       | 2012 |       |
|---|------|-------|------|-------|
| Average investment in impaired loans:         |      |       |      |       |
| Commercial real estate                        | \$   | 2,016 | \$   | 2,466 |
| Commercial                                    |      | 134   |      | 438   |
| Total impaired loans                          | \$   | 2,150 | \$   | 2,904 |
| Interest income recognized on impaired loans: |      |       |      |       |
| Accrual basis                                 | \$   | 12    | \$   | 32    |

Interest income forgone on non-accrual loans was \$92,000 and \$228,000 for the years ended September 30, 2013 and 2012, respectively.

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, residential real estate loans, home equity loans, and lines of credit are included in the pass category unless a specific action, such as delinquency greater than 90 days, 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 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.



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 4 Loans Receivable (Continued)**

The following table presents the classes of the loan portfolio summarized by the aggregate pass and the criticized categories of special mention, substandard and doubtful within the internal risk rating system as of September 30, 2013 and 2012 (dollars in thousands):

|   | Pass       | Special<br>Mention | Substandard | Doubtful | Total      |
|---|------------|--------------------|-------------|----------|------------|
| September 30, 2013:                             |            |                    |             |          |            |
| First mortgage loans:                           |            |                    |             |          |            |
| One-to-four-family residential and construction | \$ 126,374 | \$                 | \$ 582      | \$       | \$ 126,956 |
| Commercial real estate                          | 93,683     |                    | 2,088       |          | 95,771     |
| Home equity loans and lines of credit           | 61,363     |                    | 224         |          | 61,587     |
| Commercial loans                                | 10,229     | 1,270              | 40          |          | 11,539     |
| Other loans                                     | 1,681      |                    | 5           |          | 1,686      |
| Total   | \$ 293,330 | \$ 1,270           | \$ 2,939    | \$       | \$ 297,539 |
| September 30, 2012:                             |            |                    |             |          |            |
| First mortgage loans:                           |            |                    |             |          |            |
| One-to-four-family residential and construction | \$ 140,057 | \$                 | \$ 1,089    | \$       | \$ 141,146 |
| Commercial real estate                          | 86,091     | 2,543              | 3,393       |          | 92,027     |
| Home equity loans and lines of credit           | 47,933     |                    | 66          |          | 47,999     |
| Commercial loans                                | 11,806     |                    | 451         |          | 12,257     |
| Other loans                                     | 2,153      |                    | 3           | 2        | 2,158      |
| Total   | \$ 288,040 | \$ 2,543           | \$ 5,002    | \$ 2     | \$ 295,587 |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 4 Loans Receivable (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. At September 30, 2013 and 2012, there were no loans on non-accrual that were less than 90 days 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 September 30, 2013 and 2012 (dollars in thousands):

|  | Current    | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | Non-Accrual<br>(90 Days+) | 90 Days Past<br>Due & Accruing | Total<br>Loans |
|--|------------|------------------------|------------------------|---------------------------|--------------------------------|----------------|
| September 30, 2013:                                |            |                        |                        |                           |                                |                |
| First mortgage loans:                              |            |                        |                        |                           |                                |                |
| One-to-four-family residential<br>and construction | \$ 124,249 | \$ 1,658               | \$ 467                 | \$ 582                    | \$                             | \$ 126,956     |
| Commercial real estate                             | 93,534     | 1,072                  |                        | 1,165                     |                                | 95,771         |
| Home equity loans and lines<br>of credit           | 60,998     | 284                    | 81                     | 224                       |                                | 61,587         |
| Commercial loans                                   | 11,354     | 141                    | 4                      | 40                        |                                | 11,539         |
| Other loans  | 1,670      | 11                     | 5                      |                           |                                | 1,686          |
| Total  | \$ 291,805 | \$ 3,166               | \$ 557                 | \$ 2,011                  | \$                             | \$ 297,539     |
| September 30, 2012:                                |            |                        |                        |                           |                                |                |
| First mortgage loans:                              |            |                        |                        |                           |                                |                |
| One-to-four-family residential<br>and construction | \$ 137,817 | \$ 1,529               | \$ 711                 | \$ 1,089                  | \$                             | \$ 141,146     |
| Commercial real estate                             | 88,342     | 1,133                  | 190                    | 2,362                     |                                | 92,027         |
| Home equity loans and lines<br>of credit           | 47,611     | 315                    | 7                      | 66                        |                                | 47,999         |
| Commercial loans                                   | 11,696     | 50                     | 60                     | 451                       |                                | 12,257         |
| Other loans  | 2,126      | 28                     | 1                      | 3                         |                                | 2,158          |
| Total  | \$ 287,592 | \$ 3,055               | \$ 969                 | \$ 3,971                  | \$                             | \$ 295,587     |

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. In the past, management supplemented its historical loss trends with peer data due to the lack of historical loss trends for the Bank. Because a loss history has been established, management now uses the Bank's historical loss amounts and has made reclassifications in the ALL between loan segments. The historical net charge-off activity for the



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loan segments are adjusted for other 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

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 4 Loans Receivable (Continued)**

The following table summarizes the primary segments of the ALL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of September 30, 2013 and 2012, as well as the activity in the ALL for years ended September 30, 2013 and 2012 (dollars in thousands):

|                               | Real Estate Loans                               |                        |                                       |            |             |          | Total |
|-------------------------------|---|------------------------|---------------------------------------|------------|-------------|----------|-------|
|                               | One-to-four-family Residential and Construction | Commercial Real Estate | Home Equity Loans and Lines of Credit | Commercial | Other Loans |          |       |
| Balance at September 30, 2012 | \$ 826  | \$ 2,846               | \$ 173                                | \$ 454     | \$ 175      | \$ 4,474 |       |
| Charge-offs                   | (342)   | (299)                  | (154)                                 | (442)      | (29)        | (1,266)  |       |
| Recoveries                    | 16  | 230                    | 5                                     | 29         | 12          | 292      |       |
| Provision                     | 685   | (1,013)                | 433                                   | 380        | (110)       | 375      |       |
| Balance at September 30, 2013 | \$ 1,185  | \$ 1,764               | \$ 457                                | \$ 421     | \$ 48       | \$ 3,875 |       |
| Evaluated for Impairment:     |   |                        |                                       |            |             |          |       |
| Individually                  | \$  | \$ 175                 | \$                                    | \$ 6       | \$          | \$ 181   |       |
| Collectively                  | \$ 1,185  | \$ 1,589               | \$ 457                                | \$ 415     | \$ 48       | \$ 3,694 |       |
| Balance at September 30, 2011 | \$ 682  | \$ 3,024               | \$ 173                                | \$ 452     | \$ 190      | \$ 4,521 |       |
| Charge-offs                   | (256)   | (238)                  | (169)                                 | (653)      | (18)        | (1,334)  |       |
| Recoveries                    |   | 60                     | 19                                    | 5          | 3           | 87       |       |
| Provision                     | 400   |                        | 150                                   | 650        |             | 1,200    |       |
| Balance at September 30, 2012 | \$ 826  | \$ 2,846               | \$ 173                                | \$ 454     | \$ 175      | \$ 4,474 |       |
| Evaluated for Impairment:     |   |                        |                                       |            |             |          |       |
| Individually                  | \$  | \$ 709                 | \$                                    | \$ 135     | \$          | \$ 844   |       |
| Collectively                  | \$ 826  | \$ 2,137               | \$ 173                                | \$ 319     | \$ 175      | \$ 3,630 |       |

A large impaired loan with a specific reserve was resolved during the year ended September 30, 2013 combined with a decrease in loans classified as special mention which resulted in an allocated ALL that was no longer required for commercial real estate loans. With this improvement in the credit quality in commercial real estate loans and other loan portfolios, the provision was reallocated between the various loan categories. The ALL is based on estimates and actual losses will vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALL that is representative of the risk found in the components of the loan portfolio at any given date.

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Loans serviced for others were \$24.4 million and \$19.4 million, at September 30, 2013 and 2012, respectively. These loans serviced for others are not assets of the Company and are appropriately excluded from the Company's consolidated financial statements. Mortgage servicing rights were \$125,000 and \$85,000 at September 30, 2013 and 2012, respectively, and are included on the Consolidated Statements of Financial Condition in other assets. Mortgage servicing rights are recorded by allocating the total cost of acquired mortgage loans to the mortgage servicing rights and the loans (without the mortgage servicing rights) based on their relative fair values. Mortgage servicing rights are deferred and amortized in proportion to and over the period of estimated net service fee income. The estimated fair value of mortgage servicing rights was \$236,000 and \$127,000, at September 30, 2013 and 2012, respectively, based on the present value of expected, future cash flows using a market discount rate. The Company periodically evaluates its mortgage servicing rights for impairment based on the fair value of those rights. Impairment, if any, would be recognized through a valuation allowance for each loan portfolio stratum for the recorded amount that exceeds fair value. Strata are defined based on predominant risk characteristics of the underlying loans such as loan type and within type, by loan rate intervals. No impairment reserves were deemed necessary as of September 30, 2013 and 2012.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 5 Office Properties and Equipment**

Office properties and equipment at September 30, 2013 and 2012 are summarized by major classifications as follows (dollars in thousands):

|   | <b>2013</b> |              | <b>2012</b> |              |
|---|-------------|--------------|-------------|--------------|
| Land                                      | \$          | 1,104        | \$          | 1,109        |
| Office buildings and improvements         |             | 5,638        |             | 5,634        |
| Furniture, fixtures, and equipment        |             | 1,940        |             | 1,971        |
| <b>Total, at Cost</b>                     |             | <b>8,682</b> |             | <b>8,714</b> |
| Accumulated depreciation and amortization |             | (5,096)      |             | (4,874)      |
|   | \$          | 3,586        | \$          | 3,840        |

Depreciation and amortization expense was \$340,000 and \$345,000 for the years ended September 30, 2013 and 2012, respectively. Rent expense was \$126,000 for both years ended September 30, 2013 and 2012. Future minimum lease payments under rental agreements are \$120,000 in 2014, \$89,000 in 2015 and \$50,000 in 2016.

**Note 6 Deposits**

Deposit balances at September 30, 2013 and 2012 are summarized as follows (dollars in thousands):

|  | <b>2013</b> |         | <b>2012</b> |         |
|--|-------------|---------|-------------|---------|
|  | Amount      | Percent | Amount      | Percent |
| Savings accounts   | \$ 107,611  | 33.0%   | \$ 107,399  | 32.5%   |
| Demand and NOW accounts,<br>including non-interest bearing<br>deposits of \$25,690 in 2013 and<br>\$35,124 in 2012 | 79,359      | 24.3    | 78,407      | 23.7    |
| Money market accounts  | 8,658       | 2.7     | 6,460       | 2.0     |
|  | 195,628     | 60.0    | 192,266     | 58.2    |
| Certificates of deposit:   |             |         |             |         |

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|               |            |        |            |        |
|---------------|------------|--------|------------|--------|
| 0.00 to 1.99% | 69,385     | 21.3   | 61,467     | 18.6   |
| 2.00 to 3.99% | 39,783     | 12.2   | 63,887     | 19.4   |
| 4.00 to 5.99% | 21,329     | 6.5    | 12,668     | 3.8    |
| 6.00 to 7.99% |            |        | 11         |        |
|               | 130,497    | 40.0   | 138,033    | 41.8   |
|               | \$ 326,125 | 100.0% | \$ 330,299 | 100.0% |

A summary of certificate accounts by maturity at September 30, 2013, is as follows (dollars in thousands):

**2013**

|                     |            |
|---------------------|------------|
| One year or less    | \$ 30,069  |
| One to two years    | 40,944     |
| Two to three years  | 17,104     |
| Three to four years | 7,686      |
| Four to five years  | 3,612      |
| After five years    | 31,082     |
|                     | \$ 130,497 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 6 Deposits (Continued)**

Interest expense by deposit category for the years ended September 30, 2013 and 2012, is as follows (dollars in thousands):

|                           | 2013     | 2012     |
|---------------------------|----------|----------|
| NOW accounts              | \$ 62    | \$ 50    |
| Money market accounts     | 10       | 9        |
| Savings and club accounts | 177      | 199      |
| Certificates accounts     | 3,079    | 3,352    |
|                           | \$ 3,328 | \$ 3,610 |

The aggregate amount of time certificates of deposit including Individual Retirement Accounts with a minimum denomination of \$100,000 at September 30, 2013 and 2012 is \$43.0 million and \$42.8 million, respectively.

**Note 7 Federal Home Loan Bank Advances**

Advances from the FHLB of Pittsburgh are collateralized by certain qualifying collateral such as loans, with weighted-average collateral values determined by the FHLB equal to at least the unpaid amount of outstanding advances. At September 30, 2013 and 2012, advances from the FHLB consisted of the following (dollars in thousands):

| Stated Maturity | Rate  | 2013  | 2012     |
|-----------------|-------|-------|----------|
| 12/18/2012      | 4.13% | \$    | \$ 2,471 |
| 3/25/2013       | 3.34  |       | 3,130    |
| 7/11/2013       | 4.03  |       | 2,249    |
| 8/30/2013       | 1.06  |       | 3,000    |
| 9/9/2013        | 2.52  |       | 2,000    |
| 1/21/2014       | 2.31  | 4,990 | 4,990    |
| 6/20/2014       | 1.05  | 1,000 | 1,000    |
| 8/14/2014       | 0.19  | 2,000 |          |
| 1/26/2015       | 1.86  | 2,413 | 2,413    |
| 3/27/2015       | 0.44  | 2,500 |          |

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|           |      |           |           |
|-----------|------|-----------|-----------|
| 6/22/2015 | 1.52 | 1,339     | 1,339     |
| 7/31/2015 | 0.55 | 3,000     |           |
| 8/14/2015 | 0.43 | 2,591     |           |
| 10/5/2015 | 6.51 | 180       | 255       |
| 2/29/2016 | 0.84 | 4,002     |           |
| 3/28/2016 | 0.62 | 2,500     |           |
| 3/20/2017 | 0.68 | 2,377     | 4,002     |
|           |      | \$ 28,892 | \$ 26,849 |

Contractual maturities of FHLB advances at September 30, 2013, were as follows (dollars in thousands):

|                     | <b>2013</b> |        |
|---------------------|-------------|--------|
| One year or less    | \$          | 8,070  |
| One to two years    |             | 11,928 |
| Two to three years  |             | 6,517  |
| Three to four years |             | 2,377  |
|                     | \$          | 28,892 |

The maximum borrowing capacity from the FHLB at September 30, 2013 is \$155.4 million.

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FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 8 Securities Sold Under Agreement to Repurchase**

Short-term borrowings consist of borrowings from securities sold under agreements to repurchase. Average amounts outstanding during the year represent daily average balances, and average interest rates represent interest expense divided by the related average balance.

The outstanding balances and related information for short-term borrowings at or for the year ended September 30, 2013 and 2012 are summarized as follows (dollars in thousands):

|   | <b>2013</b> |       | <b>2012</b> |       |
|---|-------------|-------|-------------|-------|
| Balance at year end                         | \$          | 4,194 | \$          | 3,232 |
| Average balance outstanding during the year |             | 3,436 |             | 3,397 |
| Maximum amount outstanding at any month-end |             | 4,533 |             | 4,197 |
| Weighted average interest rate at year end  |             | 0.11% |             | 0.19% |
| Average interest rate during the year       |             | 0.12  |             | 0.21  |

**Note 9 Income Taxes**

Total income tax expense for the years ended September 30, 2013 and 2012 is as follows (dollars in thousands):

|                | <b>2013</b> |     | <b>2012</b> |       |
|----------------|-------------|-----|-------------|-------|
| Federal:       |             |     |             |       |
| Current        | \$          | 582 | \$          | 831   |
| Deferred       |             | 241 |             | 176   |
|                | \$          | 823 | \$          | 1,007 |
| State, current | \$          | 154 | \$          | 181   |

The difference between the expected and actual tax provision expressed as percentage of earnings before income tax provision are as follows:



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|   | 2013         | 2012         |
|---|--------------|--------------|
| Expected federal tax rate               | 34.0%        | 34.0%        |
| State taxes, net of federal tax benefit | 2.6          | 2.9          |
| Nontaxable interest income              | (8.1)        | (6.1)        |
| Bank-owned life insurance               | (3.9)        | (2.9)        |
| Other items, net                        | 0.7          | 0.8          |
| <b>Effective Tax Rate</b>               | <b>25.3%</b> | <b>28.7%</b> |

The Bank is subject to the Pennsylvania and Maryland Thrift Institutions tax which is allocated between the states and calculated at 11.5% and 8.25%, respectively, based on taxable income applicable to the individual states.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 9 Income Taxes (Continued)**

The net deferred tax asset consisted of the following components as of September 30, 2013 and 2012 (dollars in thousands):

|                                       | 2013            | 2012           |
|---------------------------------------|-----------------|----------------|
| Deferred Tax Assets:                  |                 |                |
| Allowance for loan losses             | \$ 1,317        | \$ 1,521       |
| Employee benefits                     | 566             | 561            |
| Impairment reserves                   | 54              | 86             |
| Charitable donations                  | 19              | 85             |
| Other, net                            | 100             | 164            |
| <b>Total Deferred Tax Assets</b>      | <b>2,056</b>    | <b>2,417</b>   |
| Deferred Tax Liabilities:             |                 |                |
| Unrealized gain on securities         | (258)           | (1,064)        |
| Premises and equipment                | (144)           | (228)          |
| Purchase accounting                   | (87)            | (136)          |
| Other, net                            | (42)            | (29)           |
| <b>Total Deferred Tax Liabilities</b> | <b>(531)</b>    | <b>(1,457)</b> |
| <b>Net Deferred Tax Assets</b>        | <b>\$ 1,525</b> | <b>\$ 960</b>  |

U.S. generally accepted accounting principles prescribe a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Bank recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statements of Income. The Bank's federal and Pennsylvania and Maryland state tax returns for taxable years through 2008 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania and Maryland taxing authorities. During 2012, The Internal Revenue Service conducted an examination of the Company's 2010 federal tax return with no changes to the tax return as filed and therefore that year has been closed by the Internal Revenue Service.

Retained income at September 30, 2013, includes \$3.9 million of base year reserves for which no tax provision has been made. This amount represents deductions for bad debt reserves for tax purposes, which were only allowed to savings institutions that met certain definitional tests prescribed by the Internal Revenue Code of 1986, as amended. The Small business Job Protection Act of 1996 eliminated the special bad debt deduction granted solely to thrifts. Under the terms of the Act, there would be no recapture of the pre-1988 (base year) reserves. However, these pre-1998 reserves would be subject to recapture under the rules of the Internal Revenue Code if the Bank itself pays a cash dividend in excess of earnings and profits, or liquidates. The Act also provides for the recapture of deductions arising from applicable excess reserve defined as the total amount of reserve over the period base year reserve. The Bank's total reserve exceeds the base year reserve and deferred taxes have been provided for this excess.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**Note 10 Regulatory Capital Requirements**

The Company is required to maintain a cash reserve balance in vault cash or with the Federal Reserve Bank. The total of this reserve was \$1.8 million at September 30, 2013 and September 30, 2012.

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. The Company's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the following table) of total Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of September 30, 2013, that the Company meets all capital adequacy requirements of which it is subject.

As of September 30, 2013 and 2012, the FDIC categorized the Company as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Company's category.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 10 Regulatory Capital Requirements (Continued)**

|   | Actual    |        | For Capital Adequacy Purposes |       | To Be Well Capitalized Under Prompt Corrective Action Provisions |        |
|---|-----------|--------|-------------------------------|-------|--|--------|
|   | Amount    | Ratio  | Amount                        | Ratio | Amount   | Ratio  |
| September 30, 2013:                             |           |        |                               |       |  |        |
| <u>Total Capital (To Risk Weighted Assets)</u>  |           |        |                               |       |  |        |
| Consolidated                                    | \$ 68,415 | 25.08% | \$ 21,827                     | 8.00% | \$ 27,284  | 10.00% |
| Standard Bank                                   | 62,878    | 23.13  | 21,745                        | 8.00  | 27,181   | 10.00  |
| <u>Tier 1 Capital (To Risk Weighted Assets)</u> |           |        |                               |       |  |        |
| Consolidated                                    | 64,936    | 23.80  | 10,914                        | 4.00  | 16,370   | 6.00   |
| Standard Bank                                   | 59,474    | 21.88  | 10,872                        | 4.00  | 16,308   | 6.00   |
| <u>Tier 1 Capital (To Average Assets)</u>       |           |        |                               |       |  |        |
| Consolidated                                    | 64,936    | 15.22  | 17,064                        | 4.00  | 21,330   | 6.00   |
| Standard Bank                                   | 59,474    | 14.10  | 16,877                        | 4.00  | 21,096   | 5.00   |
| September 30, 2012:                             |           |        |                               |       |  |        |
| <u>Total Capital (To Risk Weighted Assets)</u>  |           |        |                               |       |  |        |
| Consolidated                                    | \$ 72,282 | 26.21% | \$ 22,143                     | 8.00% | \$ 27,679  | 10.00% |
| Standard Bank                                   | 59,554    | 21.64  | 22,012                        | 8.00  | 27,514   | 10.00  |
| <u>Tier 1 Capital (To Risk Weighted Assets)</u> |           |        |                               |       |  |        |
| Consolidated                                    | 68,764    | 24.94  | 11,072                        | 4.00  | 16,607   | 6.00   |
| Standard Bank                                   | 56,078    | 20.38  | 11,006                        | 4.00  | 16,509   | 6.00   |
| <u>Tier 1 Capital (To Average Assets)</u>       |           |        |                               |       |  |        |
| Consolidated                                    | 68,764    | 15.92  | 17,277                        | 4.00  | 21,597   | 6.00   |
| Standard Bank                                   | 56,078    | 13.02  | 17,226                        | 4.00  | 21,532   | 5.00   |

**Note 11 Stock Based Compensation**

In 2012, the Company'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

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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.

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 \$85,000 and \$14,000, respectively, with a related tax benefit recorded of \$8,000 and \$1,000, respectively, for the years ended September 30, 2013 and 2012. As of September 30, 2013, there was \$324,000 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 3.8 years. At September 30, 2013, future compensation related to the options is expected to be \$85,000 in each of the years 2014 through 2016 and \$69,000 in 2017.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 11 Stock Based Compensation (Continued)**

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

|                                   | Options | Weighted Average<br>Exercise Price |
|-----------------------------------|---------|------------------------------------|
| Outstanding at September 30, 2012 | 278,075 | \$ 16.50                           |
| Granted                           |         |                                    |
| Exercised                         |         |                                    |
| Forfeited                         |         |                                    |
| Outstanding at September 30, 2013 | 278,075 | \$ 16.50                           |
| Exercisable at September 30, 2013 | 55,615  | 16.50                              |
| Outstanding at September 30, 2011 |         |                                    |
| Granted                           | 278,075 | \$ 16.50                           |
| Exercised                         |         |                                    |
| Forfeited                         |         |                                    |
| Outstanding at September 30, 2012 | 278,075 | \$ 16.50                           |
| Exercisable at September 30, 2012 |         |                                    |

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 \$367,000 and \$61,000, respectively, with a related tax benefit recorded of \$125,000 and \$21,000, respectively for the years ended September 30, 2013 and 2012. As of September 30, 2013, there was \$1.4 million 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 3.8 years. At September 30, 2013, future compensation related to the grants is expected to be \$367,000 in each of the years 2014 through 2016 and \$306,000 in 2017.

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

|   | Number of<br>Restricted Shares | Weighted Average<br>Grant Date Price Per<br>Share |
|---|--------------------------------|---|
| Non-vested shares at September 30, 2012 | 111,300                        | \$ 16.50  |
| Granted                                 |                                |   |
| Vested                                  | (22,260)                       | 16.50   |
| Forfeited                               |                                |   |
| Non-vested shares at September 30, 2013 | 89,040                         | \$ 16.50  |

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|   |         |    |       |
|---|---------|----|-------|
| Non-vested shares at September 30, 2011 |         | \$ |       |
| Granted                                 | 111,300 |    | 16.50 |
| Vested                                  |         |    |       |
| Forfeited                               |         |    |       |
| Non-vested shares at September 30, 2012 | 111,300 | \$ | 16.50 |



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 12 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 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 Stockholders' Equity. 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 \$268,000 and \$229,000 was recognized during the years ended September 30, 2013 and 2012, respectively. Dividends on unallocated shares are not treated as ordinary dividends and are instead used to repay the ESOP loan and recorded as compensation expense.

As of September 30, 2013, the ESOP held a total of 275,738 shares of the Company's stock, and there were 245,731 unallocated shares. As of September 30, 2012, the ESOP held a total of 277,886 shares of the Company's stock, and there were 260,186 unallocated shares. The fair market value of the unallocated ESOP shares was \$4.5 million at September 30, 2013 and \$4.4 million at September 30, 2012. During both years ended September 30, 2013 and 2012, 14,455 shares were released for allocation.

**Note 13 Employee Benefit Plans**

The Company participates in the Pentegra Defined Benefit Plan for Financial Institutions Retirement Fund ( the Pentegra DB Plan ), a tax-qualified multi-employer pension plan. The Pentegra DB Plan provided defined pension benefits to substantially all of the Company's employees. Effective August 1, 2005, the annual benefit provided to employees under this defined benefit pension plan was frozen by Standard Bank. Freezing the plan eliminates all future benefit accruals; however, the accrued benefit as of August 1, 2005 remains. In December 2008, management approved the decision to withdraw from the Pentegra Defined Benefit Plan; however, due to declines in market interest rates used to calculate the pension withdrawal liability, management has postponed the withdrawal until interest rates become more favorable. At that time, management determined that the Company's withdrawal from the plan was probable; however, only a range of the estimated cost to exit the plan could be determined. The Company has recorded a liability of approximately \$1.2 million, which is the minimum cost expected to be

incurred as a result of the withdrawal.

The Pentegra DB Plan's Employer Identification Number is 13-5645888 and the Plan Number is 333. The Pentegra DB Plan operates as a multi-employer plan under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. There are no collective bargaining agreements in place that require contributions to the Pentegra DB Plan. The Pentegra DB Plan is a single plan under Internal Revenue Code Section 413(c) and, as a result, all of the assets stand behind all of the liabilities. Accordingly, under the Pentegra DB Plan contributions made by a participating employer may be used to provide benefits to participants of other participating employers. The funded status (market value of the Plan assets divided by funding target) based on an actuarial valuation report was 93.76% and 98.51%, respectively, as of July 1, 2013 and July 1, 2012. The market value of the Plan assets reflects any contributions received through September 30, 2013. Total contributions made to the Pentegra DB Plan, as reported on Form 5500, were \$196.5 million and \$299.7 million for the plan years ending June 30, 2012 and June 30, 2011, respectively. The Company's contributions to the Pentegra DB Plan are not more than 5% of the total contributions to the Pentegra DB Plan. During the years ended September 30, 2013 and 2012, the Company recognized \$152,000 and \$165,000, respectively, as pension expense and made \$89,000 and \$141,000, respectively, as contributions to the Pentegra DB Plan.

The Company participates in the Pentegra Financial Institutions Thrift Plan, a multi-employer 401(k) plan, which provides benefits to substantially all of the Company's employees. Employees' contributions to the plan are matched by the Company.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 13 Employee Benefit Plans (Continued)**

up to a maximum of 3 percent of such employees' pretax salaries. Expense recognized for the plans was \$87,000 and \$91,000 for the years ended September 30, 2013 and 2012, respectively.

On January 1, 2002, the Company adopted a nonqualified phantom stock appreciation rights plan for key officers and directors. This plan was an incentive-driven benefit plan with payout deferred until the end of the tenth plan year. This plan was frozen effective September 30, 2010 in connection with the Company's stock conversion with no further benefits accruing. Payouts under this plan began on January 1, 2012. For the years ended September 30, 2013 and 2012, \$19,000 and \$17,000, respectively, of interest expense was recognized on the benefits accrued. The accrued liability relating to this plan was \$240,000 and \$387,000 at September 30, 2013 and September 30, 2012, respectively.

**Note 14 Financial Instruments With Off-Balance Sheet Risk**

In the normal course of business, the Company extends credit in the form of loan commitments and undisbursed home equity lines of credit. These off-balance sheet instruments involve, to various degrees, elements of credit and interest rate risk not reported in the statement of financial condition.

The Company's exposure to credit loss in the event of nonperformance by the other party to these financial instruments is represented by the contract amount of the financial instrument. The Company uses the same credit policies in making commitments for off-balance sheet financial instrument as it does for on-balance sheet instruments.

Financial instruments with off-balance sheet risk as of September 30, 2013 and 2012 are presented in the following table (dollars in thousands):

|   | 2013   |    | 2012   |
|---|--------|----|--------|
| One-to-four family dwellings:                   |        |    |        |
| Loan commitments                                | \$ 376 | \$ | 2,278  |
| Undisbursed home equity lines of credit         | 13,376 |    | 13,316 |
| Undisbursed funds-construction loans in process | 561    |    | 796    |
| Commercial loan commitments                     | 15,528 |    | 12,157 |
| Other   | 484    |    | 667    |

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Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, by the Company upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but generally includes real estate property. The majority of commitments to originate loans at September 30, 2013 and 2012 were for fixed rate loans. The Company grants loan commitments at prevailing market rates of interest.

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**STANDARD FINANCIAL CORP.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 15 - 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 not active; or inputs to the valuation methodology that utilize model-based techniques for which all significant assumptions are observable in the market.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement; inputs to 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 unobservable inputs. As of September 30, 2013 and 2012, 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.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 15 - Fair Value of Assets and Liabilities (Continued)**

The following table presents the assets measured at fair value on a recurring basis as of September 30, 2013 and 2012 by level within the fair value hierarchy (dollars in thousands):

|  | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>or Liabilities<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total      |
|--|---|---|--|------------|
| <b>September 30, 2013:</b>                     |   |   |  |            |
| Investment securities available for sale:      |   |   |  |            |
| U.S. government and agency obligations         | \$  | \$  | 22,358   | \$ 22,358  |
| Corporate bonds                                |   | 7,047   |  | 7,047      |
| Municipal obligations                          |   | 33,052  |  | 33,052     |
| Equity securities                              | 1,595   |   |  | 1,595      |
| Total investment securities available for sale | 1,595   | 62,457  |  | 64,052     |
| Mortgage-backed securities available for sale  |   | 29,701  |  | 29,701     |
| Total recurring fair value measurements        | \$ 1,595  | \$ 92,158   | \$   | \$ 93,753  |
|  | (Level 1)   | (Level 2)   | (Level 3)  | Total      |
| <b>September 30, 2012:</b>                     |   |   |  |            |
| Investment securities available for sale:      |   |   |  |            |
| U.S. government and agency obligations         | \$  | \$  | 21,155   | \$ 21,155  |
| Corporate bonds                                |   | 7,100   |  | 7,100      |
| Municipal obligations                          |   | 33,076  |  | 33,076     |
| Equity securities                              | 1,344   |   |  | 1,344      |
| Total investment securities available for sale | 1,344   | 61,331  |  | 62,675     |
| Mortgage-backed securities available for sale  |   | 40,002  |  | 40,002     |
| Total recurring fair value measurements        | \$ 1,344  | \$ 101,333  | \$   | \$ 102,677 |

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

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The following table presents the assets measured at fair value on a nonrecurring basis as of September 30, 2013 and 2012 by level within the fair value hierarchy (dollars in thousands):

|  | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>or Liabilities<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total    |
|--|---|---|--|----------|
| <b>September 30, 2013:</b>                 |   |   |  |          |
| Foreclosed real estate                     | \$  | \$  | \$ 607   | \$ 607   |
| Impaired loans                             |   |   | 1,024  | 1,024    |
| Total nonrecurring fair value measurements | \$  | \$  | \$ 1,631   | \$ 1,631 |
| <b>September 30, 2012:</b>                 |   |   |  |          |
| Foreclosed real estate                     | \$  | \$  | \$ 463   | \$ 463   |
| Impaired loans                             |   |   | 1,969  | 1,969    |
| Total nonrecurring fair value measurements | \$  | \$  | \$ 2,432   | \$ 2,432 |



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 15 - Fair Value of Assets and Liabilities (Continued)**

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):

| September 30,          |          |          | Quantitative Information about Level 3 Fair Value Measurements |   |                                       |
|------------------------|----------|----------|--|---|---------------------------------------|
|                        |          |          | Valuation Techniques   | Unobservable Input                                    | Range (Weighted Average)              |
| Foreclosed real estate | \$ 607   | \$ 463   | Appraisal of collateral (1)                                    | Appraisal adjustments (2)<br>Liquidation expenses (2) | 0% to -40% (-25%)<br>0% to -10% (-5%) |
| Impaired loans         | \$ 1,024 | \$ 1,969 | Fair value of collateral (1), (3)                              | Appraisal adjustments (2)<br>Liquidation expenses (2) | 0% to -40% (-25%)<br>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.

**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 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 certificate of 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 certificate of deposit accounts do not take into consideration the value of the Company's long-term relationships with depositors, which may have significant value.

**FHLB Advances** - The fair value of FHLB 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, FHLB stock, accrued interest receivable, bank-owned life insurance, demand, regular and club accounts, securities sold under agreements to repurchase and accrued interest payable. For short-term financial assets such as cash and cash equivalents, 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 and regular 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 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

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 15 - 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 September 30, 2013 and 2012 (dollars in thousands):

|   | Fair Value Measurements |                        |   |   |  |
|---|-------------------------|------------------------|---|---|--|
|   | Carrying<br>Amount      | Total<br>Fair<br>Value | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>or Liabilities<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| September 30, 2013:                             |                         |                        |   |   |  |
| Financial Instruments - Assets:                 |                         |                        |   |   |  |
| Cash on hand and due from banks                 | \$ 2,559                | \$ 2,559               | \$ 2,559  | \$  | \$   |
| Interest-earning deposits in other institutions | 13,432                  | 13,432                 | 13,432  |   |  |
| Investment securities                           | 64,052                  | 64,052                 | 1,595   | 62,457  |  |
| Mortgage-backed securities                      | 29,701                  | 29,701                 |   | 29,701  |  |
| Loans receivable                                | 293,664                 | 301,505                |   |   | 301,505  |
| Accrued interest receivable                     | 1,169                   | 1,169                  | 1,169   |   |  |
| Federal Home Loan Bank stock                    | 2,757                   | 2,757                  | 2,757   |   |  |
| Bank-owned life insurance                       | 13,722                  | 13,722                 | 13,722  |   |  |
| Financial Instruments - Liabilities:            |                         |                        |   |   |  |
| Demand, regular and club accounts               | 195,628                 | 195,628                | 195,628   |   |  |
| Certificate accounts                            | 130,497                 | 134,397                |   |   | 134,131  |
| Federal Home Loan Bank advances                 | 28,892                  | 29,063                 |   |   | 29,063   |
| Securities sold under agreements to repurchase  | 4,194                   | 4,194                  | 4,194   |   |  |
| Accrued interest payable                        | 184                     | 184                    | 184   |   |  |
| September 30, 2012:                             |                         |                        |   |   |  |
| Financial Instruments - Assets:                 |                         |                        |   |   |  |
| Cash on hand and due from banks                 | \$ 1,729                | \$ 1,729               | \$ 1,729  | \$  | \$   |
| Interest-earning deposits in other institutions | 14,045                  | 14,045                 | 14,045  |   |  |
| Federal funds sold                              | 3,000                   | 3,000                  | 3,000   |   |  |
| Investment securities                           | 62,675                  | 62,675                 | 1,344   | 61,331  |  |
| Mortgage-backed securities                      | 40,002                  | 40,002                 |   | 40,002  |  |
| Loans receivable                                | 291,113                 | 301,798                |   |   | 301,798  |
| Loans held for sale                             | 905                     | 932                    | 932   |   |  |
| Accrued interest receivable                     | 1,313                   | 1,313                  | 1,313   |   |  |
| Federal Home Loan Bank stock                    | 2,683                   | 2,683                  | 2,683   |   |  |
| Bank-owned life insurance                       | 10,282                  | 10,282                 | 10,282  |   |  |

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Financial Instruments - Liabilities:

|  |         |         |         |
|--|---------|---------|---------|
| Demand, regular and club accounts              | 192,266 | 192,266 | 192,266 |
| Certificate accounts                           | 138,033 | 145,059 | 145,059 |
| Federal Home Loan Bank advances                | 26,849  | 27,330  | 27,330  |
| Securities sold under agreements to repurchase | 3,232   | 3,232   | 3,232   |
| Accrued interest payable                       | 225     | 225     | 225     |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 16 - Accumulated Other Comprehensive Income**

The following table presents the significant amounts reclassified out of accumulated other comprehensive income and the changes in accumulated other comprehensive income by component for year ended September 30, 2013:

|  | <b>Net Unrealized<br/>Gains (Losses) on<br/>Investment Securities</b> | <b>Affected Line on<br/>the Consolidated<br/>Statements of Income</b> |
|--|---|---|
| Accumulated Other Comprehensive Income - October 1, 2012                         | \$ 2,065  |   |
| Net unrealized losses arising during the period before tax                       | (2,289)   |   |
| Tax effect   | 778   |   |
| Net unrealized losses arising during the period after tax                        | (1,511)   |   |
| Reclassification adjustment for security gains realized in net income before tax | (79)  | Net securities gains  |
| Tax effect   | 27  | Income tax expense  |
| Reclassification adjustment for security gains realized in net income after tax  | (52)  |   |
| Total other comprehensive loss   | (1,563)   |   |
| Accumulated Other Comprehensive Income - September 30, 2013                      | \$ 502  |   |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 17 Standard Financial Corp. Condensed Financial Statements (Parent Company Only)**

Following are condensed financial statements for the parent company as of and for the years ended September 30, 2013 and 2012:

**Condensed Statements of Financial Condition**

(Dollars in thousands)

|  | September 30, |           |
|--|---------------|-----------|
|  | 2013          | 2012      |
| Cash                                       | \$ 812        | \$ 309    |
| Investment securities available for sale   | 856           | 552       |
| Investment in bank subsidiary              | 69,015        | 67,368    |
| Loan receivable from bank subsidiary       | 3,500         | 12,500    |
| Other assets                               | 389           | 143       |
| Total Assets                               | \$ 74,572     | \$ 80,872 |
| Total Liabilities                          | \$ 15         | \$ 755    |
| Total Stockholders' Equity                 | 74,557        | 80,117    |
| Total Liabilities and Stockholders' Equity | \$ 74,572     | \$ 80,872 |

**Condensed Statements of Income**

(Dollars in thousands)

|   | Years Ended September 30, |        |
|---|---------------------------|--------|
|   | 2013                      | 2012   |
| Interest on loan receivable   | \$ 268                    | \$ 433 |
| Dividends on investment securities                                      | 21                        | 17     |
| Net securities gains  | 58                        | 26     |
| Total Income  | 347                       | 476    |
| Operating Expenses  | 827                       | 424    |
| (Loss) Income before Income Tax Benefit                                 | (480)                     | 52     |
| Income Tax Benefit  | (125)                     | (4)    |
| (Loss) Income before equity in undistributed net income of subsidiaries | (355)                     | 56     |

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|  |    |       |    |       |
|--|----|-------|----|-------|
| Equity in undistributed net income of subsidiaries |    | 3,237 |    | 2,900 |
| Net Income   | \$ | 2,882 | \$ | 2,956 |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 17 Standard Financial Corp. Condensed Financial Statements (Parent Company Only) (Continued)****Condensed Statements of Cash Flows**

(Dollars in thousands)

|   | Years Ended September 30, |          |
|---|---------------------------|----------|
|   | 2013                      | 2012     |
| Cash Flows from Operating Activities  |                           |          |
| Net income  | \$ 2,882                  | \$ 2,956 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: |                           |          |
| Equity in undistributed net income of subsidiaries  | (3,237)                   | (2,900)  |
| Net gain on securities  | (58)                      | (26)     |
| Net change in intercompany account  | (894)                     | 1,187    |
| Other, net  | 637                       | 218      |
| Net Cash (Used in) Provided by in Operating Activities                                      | (670)                     | 1,435    |
| Cash Flows Provided by Investing Activities   |                           |          |
| Repayment of loan from bank subsidiary  | 9,000                     | 1,000    |
| Purchases of investment securities  | (440)                     | (82)     |
| Proceeds from sales of investment securities  | 234                       | 112      |
| Net Cash Provided by Investing Activities   | 8,794                     | 1,030    |
| Cash Flows Used in Financing Activities   |                           |          |
| Dividends paid  | (517)                     | (609)    |
| Stock repurchases   | (7,104)                   | (1,715)  |
| Net Cash Used in Financing Activities   | (7,621)                   | (2,324)  |
| Net Increase in Cash and Cash Equivalents   | 503                       | 141      |
| Cash and Cash Equivalents - Beginning   | 309                       | 168      |
| Cash and Cash Equivalents - Ending  | \$ 812                    | \$ 309   |



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**Note 18 Quarterly Financial Data (unaudited)**

Following are quarterly condensed consolidated statements of income for the years ended September 30, 2013 and 2012. Quarterly earnings per share data may vary from annual earnings per share due to rounding.

| (Dollars in thousands, except per share data)       | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|---|------------------|-------------------|------------------|-------------------|
| <b>2013</b>   |                  |                   |                  |                   |
| Interest and dividend income                        | \$ 4,058         | \$ 3,996          | \$ 3,847         | \$ 3,840          |
| Interest expense                                    | 1,018            | 962               | 934              | 910               |
| Net interest income                                 | 3,040            | 3,034             | 2,913            | 2,930             |
| Provision for loan losses                           | 225              | 150               |                  |                   |
| Net interest income after provision for loan losses | 2,815            | 2,884             | 2,913            | 2,930             |
| Noninterest income                                  | 686              | 694               | 744              | 678               |
| Noninterest expenses                                | 2,445            | 2,679             | 2,691            | 2,670             |
| Income before income tax expense                    | 1,056            | 899               | 966              | 938               |
| Income tax expense                                  | 302              | 178               | 244              | 253               |
| Net income  | \$ 754           | \$ 721            | \$ 722           | \$ 685            |
| Earnings Per Share                                  | \$ 0.24          | \$ 0.24           | \$ 0.25          | \$ 0.24           |
| <b>2012</b>   |                  |                   |                  |                   |
| Interest and dividend income                        | \$ 4,441         | \$ 4,374          | \$ 4,298         | \$ 4,211          |
| Interest expense                                    | 1,125            | 1,102             | 1,091            | 1,043             |
| Net interest income                                 | 3,316            | 3,272             | 3,207            | 3,168             |
| Provision for loan losses                           | 300              | 300               | 300              | 300               |
| Net interest income after provision for loan losses | 3,016            | 2,972             | 2,907            | 2,868             |
| Noninterest income                                  | 594              | 591               | 615              | 603               |
| Noninterest expenses                                | 2,418            | 2,512             | 2,451            | 2,641             |
| Income before income tax expense                    | 1,192            | 1,051             | 1,071            | 830               |
| Income tax expense                                  | 361              | 269               | 307              | 251               |
| Net income  | \$ 831           | \$ 782            | \$ 764           | \$ 579            |
| Earnings Per Share                                  | \$ 0.26          | \$ 0.25           | \$ 0.24          | \$ 0.18           |



**ITEM 10.**

**Directors, Executive Officers and Corporate Governance**

Information concerning directors and executive officers of Standard Financial Corp. is incorporated herein by reference from our definitive Proxy Statement (the "Proxy Statement"), specifically the section captioned "Proposal 1 Election of Directors."

**ITEM 11.**

**Executive Compensation**

Information concerning executive compensation is incorporated herein by reference from our Proxy Statement, specifically the section captioned "Proposal 1 Election of Directors."



## Edgar Filing: Standard Financial Corp. - Form 10-K

|         |  |
|---------|--|
| 10.5    | Form of Phantom Stock Agreement for Officers*  |
| 10.6    | Form of Phantom Stock Agreement for Directors*   |
| 10.7    | Chief Financial Officer Performance Based Compensation Plan*   |
| 10.8    | Chief Commercial Lending Officer Performance Based Compensation Plan*  |
| 10.9    | Non-Compete Agreement between Standard Bank, PaSB and David C. Mathews*  |
| 10.10   | 2012 Equity Incentive Plan **  |
| 21      | Subsidiaries of Registrant*  |
| 31.1    | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2    | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32      | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                |
| 101.INS | XBRL Instance Document ***   |
| 101.SCH | XBRL Taxonomy Extension Schema Document ***  |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document ***  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document ***   |
| 101.LAB | XBRL Taxonomy Label Linkbase Document ***  |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document ***   |

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

\*\* Incorporated by reference to Appendix A to the proxy statement for the Company's Annual Meeting of Stockholders (File No. 001-34893), filed by the Company with the Securities and Exchange Commission on Schedule 14A on January 18, 2012.

\*\*\* We have attached these documents formatted in XBRL (Extensible Business Reporting Language) as Exhibit 101 to this report.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**STANDARD FINANCIAL CORP.**

By: /s/ Timothy K. Zimmerman  
Timothy K. Zimmerman  
President, Chief Executive Officer and Director  
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signatures                                       | Title   | Date              |
|--|---|-------------------|
| /s/ Timothy K. Zimmerman<br>Timothy K. Zimmerman | President, Chief Executive Officer and Director<br>(Principal Executive Officer)                  | December 17, 2013 |
| /s/ Colleen M. Brown<br>Colleen M. Brown         | Senior Vice President and Chief Financial Officer<br>(Principal Financial and Accounting Officer) | December 17, 2013 |
| /s Terence L. Graft<br>Terence L. Graft          | Chairman of the Board   | December 17, 2013 |
| /s/ Dale A. Walker<br>Dale A. Walker             | Vice Chairman of the Board  | December 17, 2013 |
| /s/ Horace G. Cofer<br>Horace G. Cofer           | Director  | December 17, 2013 |
| /s/ William T. Ferri<br>William T. Ferri         | Director  | December 17, 2013 |
| /s/ David C. Mathews<br>David C. Mathews         | Director  | December 17, 2013 |
| /s/ Thomas J. Rennie<br>Thomas J. Rennie         | Director  | December 17, 2013 |