

Standard Financial Corp.
Form 10-Q
August 08, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from _____ to _____.

Commission File No. 001-34893

Standard Financial Corp.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

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

2640 Monroeville Boulevard, Monroeville, Pennsylvania 15146

(Address of principal executive offices)

412-856-0363

(Registrant's telephone number, including area code)

Not Applicable

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



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

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

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

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

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

Edgar Filing: Standard Financial Corp. - Form 10-Q

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 3,144,297 shares, par value \$0.01, at August 1, 2013.

Table of Contents

Standard Financial Corp.

Table of Contents

Part I Financial Information

<u>ITEM 1.</u>	<u>Financial Statements (Unaudited)</u>	1-21
	<u>Consolidated Statements of Financial Condition as of June 30, 2013 and September 30, 2012</u>	
	<u>Consolidated Statements of Income for the Three and Nine Months Ended June 30, 2013 and 2012</u>	
	<u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended June 30, 2013 and 2012</u>	
	<u>Consolidated Statement of Changes in Stockholder's Equity for the Nine Months Ended June 30, 2013</u>	
	<u>Consolidated Statements of Cash Flows for the Nine Months Ended June 30, 2013 and 2012</u>	
	<u>Notes to Consolidated Financial Statements</u>	
<u>ITEM 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21-27
<u>ITEM 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	27
<u>ITEM 4.</u>	<u>Controls and Procedures</u>	27
<u>PART II Other Information</u>		
<u>ITEM 1.</u>	<u>Legal Proceedings</u>	28
<u>ITEM 1A.</u>	<u>Risk Factors</u>	28
<u>ITEM 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
<u>ITEM 3.</u>	<u>Defaults Upon Senior Securities</u>	28
<u>ITEM 4.</u>	<u>Mine Safety Disclosures</u>	28
<u>ITEM 5.</u>	<u>Other Information</u>	28
<u>ITEM 6.</u>	<u>Exhibits</u>	29
	<u>Signatures</u>	30

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

(Dollars in thousands, except per share data)

(Unaudited)

	June 30, 2013	September 30, 2012
ASSETS		
Cash on hand and due from banks	\$ 2,243	\$ 1,729
Interest-earning deposits in other institutions	14,044	14,045
Federal funds sold		3,000
Cash and Cash Equivalents	16,287	18,774
Investment securities available for sale, at fair value	67,267	62,675
Mortgage-backed securities available for sale, at fair value	30,813	40,002
Federal Home Loan Bank stock, at cost	2,853	2,683
Loans receivable, net of allowance for loan losses of \$3,928 and \$4,474	290,100	291,113
Loans held for sale		905
Foreclosed real estate	607	463
Office properties and equipment, at cost, less accumulated depreciation and amortization	3,738	3,840
Bank-owned life insurance	13,611	10,282
Goodwill	8,769	8,769
Core deposit intangible	393	519
Accrued interest receivable and other assets	3,316	3,407
TOTAL ASSETS	\$ 437,754	\$ 443,432
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Deposits:		
Demand, savings and club accounts	\$ 193,472	\$ 192,266
Certificate accounts	132,074	138,033
Total Deposits	325,546	330,299
Federal Home Loan Bank advances	28,570	26,849
Securities sold under agreements to repurchase	4,533	3,232
Advance deposits by borrowers for taxes and insurance	586	635
Accrued interest payable and other liabilities	2,349	2,300
TOTAL LIABILITIES	361,584	363,315
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, 3,222,476 and 3,480,573 shares outstanding, respectively	32	35

Edgar Filing: Standard Financial Corp. - Form 10-Q

Additional paid-in-capital	27,280	31,839
Retained earnings	50,633	48,822
Unearned Employee Stock Ownership Plan (ESOP) shares	(2,529)	(2,644)
Accumulated other comprehensive income	754	2,065
TOTAL STOCKHOLDERS EQUITY	76,170	80,117
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 437,754	\$ 443,432

See accompanying notes to the unaudited consolidated financial statements.

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

(Dollars in thousands, except per share data)

(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
Interest and Dividend Income				
Loans, including fees	\$ 3,268	\$ 3,617	\$ 10,152	\$ 11,121
Mortgage-backed securities	168	282	543	832
Investments:				
Taxable	183	183	529	549
Tax-exempt	227	215	673	607
Interest-earning deposits and federal funds sold	1	1	4	4
Total Interest and Dividend Income	3,847	4,298	11,901	13,113
Interest Expense				
Deposits	818	896	2,514	2,738
Federal Home Loan Bank advances	115	194	397	575
Securities sold under agreements to repurchase	1	1	3	5
Total Interest Expense	934	1,091	2,914	3,318
Net Interest Income	2,913	3,207	8,987	9,795
Provision for Loan Losses		300	375	900
Net Interest Income after Provision for Loan Losses	2,913	2,907	8,612	8,895
Noninterest Income				
Service charges	452	388	1,314	1,195
Earnings on bank-owned life insurance	132	99	371	299
Net securities gains	28		41	55
Net loan sale gains	44	85	199	128
Annuity and mutual fund fees	56	38	144	102
Other income	32	5	55	21
Total Noninterest Income	744	615	2,124	1,800
Noninterest Expenses				
Compensation and employee benefits	1,530	1,446	4,672	4,306
Data processing	105	103	309	326
Premises and occupancy costs	287	279	865	818
Core deposit amortization	42	42	126	126
Automatic teller machine expense	79	75	230	235
Federal deposit insurance	65	69	204	217
Other operating expenses	583	437	1,409	1,353
Total Noninterest Expenses	2,691	2,451	7,815	7,381

Edgar Filing: Standard Financial Corp. - Form 10-Q

Income before Income Tax Expense	966	1,071	2,921	3,314
Income Tax Expense				
Federal	216	257	597	791
State	28	50	127	146
Total Income Tax Expense	244	307	724	937
Net Income	\$ 722	\$ 764	\$ 2,197	\$ 2,377
Earnings Per Share:				
Basic and diluted earnings per common share	\$ 0.25	\$ 0.24	\$ 0.73	\$ 0.75
Cash dividends paid per common share	\$ 0.045	\$ 0.045	\$ 0.135	\$ 0.135
Basic weighted average shares outstanding	2,888,451	3,158,685	3,010,171	3,173,589
Diluted weighted average shares outstanding	2,909,011	3,158,685	3,017,391	3,173,589

See accompanying notes to the unaudited consolidated financial statements.

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

(Dollars in thousands)

(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
Net Income	\$ 722	\$ 764	\$ 2,197	\$ 2,377
Other comprehensive income (loss):				
Change in unrealized gain on securities available for sale	(1,724)	805	(1,947)	499
Tax effect	586	(274)	663	(170)
Reclassification adjustment for gains realized in income	(28)		(41)	(55)
Tax effect	10		14	19
Total other comprehensive (loss) income	(1,156)	531	(1,311)	293
Total Comprehensive (Loss) Income	\$ (434)	\$ 1,295	\$ 886	\$ 2,670

See accompanying notes to the unaudited consolidated financial statements.

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

(Dollars in thousands, except per share data)

(Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income	Total Stockholders Equity
Balance, September 30, 2012	\$ 35	\$ 31,839	\$ 48,822	\$ (2,644)	\$ 2,065	\$ 80,117
Net income			2,197			2,197
Other comprehensive loss					(1,311)	(1,311)
Stock repurchases (258,097 shares)	(3)	(4,981)				(4,984)
Cash dividends (\$0.135 per share)			(386)			(386)
Compensation expense on stock awards		339				339
Compensation expense on ESOP		83		115		198
Balance, June 30, 2013	\$ 32	\$ 27,280	\$ 50,633	\$ (2,529)	\$ 754	\$ 76,170

See accompanying notes to the unaudited consolidated financial statements.

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

(Dollars in thousands)

(Unaudited)

	Nine Months Ended June 30,	
	2013	2012
Net income	\$ 2,197	\$ 2,377
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	675	673
Provision for loan losses	375	900
Net securities gains	(41)	(55)
Origination of loans held for sale	(5,581)	(5,166)
Proceeds from sale of loans held for sale	6,685	4,975
Net loan sale gains	(199)	(128)
Compensation expense on ESOP	198	169
Compensation expense on stock awards	339	
Deferred income taxes	27	200
Decrease in accrued interest receivable and other assets	155	372
Decrease in prepaid Federal deposit insurance	584	199
Earnings on bank-owned life insurance	(371)	(299)
Increase (decrease) in accrued interest payable and other liabilities	49	(8)
Other, net	(34)	105
Net Cash Provided by Operating Activities	5,058	4,314
Cash Flows Used in Investing Activities		
Net increase in loans receivable	(588)	(8,987)
Purchases of investment securities	(15,134)	(24,770)
Purchases of mortgage-backed securities	(1,003)	(9,510)
Proceeds from maturities/principal repayments/calls of investment securities	9,125	14,872
Proceeds from maturities/principal repayments/calls of mortgage-backed securities	9,197	8,769
Proceeds from sales of investment securities	176	6,110
Purchase of Federal Home Loan Bank stock	(425)	(218)
Redemption of Federal Home Loan Bank stock	255	277
Purchases of bank-owned life insurance	(3,000)	
Proceeds from sales of foreclosed real estate	1,160	981
Net purchases of office properties and equipment	(158)	(344)
Net Cash Used in Investing Activities	(395)	(12,820)
Cash Flows (Used in) Provided by Financing Activities		
Net increase in demand, savings and club accounts	1,206	308
Net (decrease) increase in certificate accounts	(5,959)	5,064
Net increase (decrease) in securities sold under agreements to repurchase	1,301	(698)
Repayments of Federal Home Loan Bank advances	(5,656)	(4,904)
Proceeds from Federal Home Loan Bank advances	7,377	8,002
Net (decrease) increase in advance deposits by borrowers for taxes and insurance	(49)	69
Dividends paid	(386)	(452)
Stock repurchases	(4,984)	(1,023)
Net Cash (Used in) Provided by Financing Activities	(7,150)	6,366
Net Decrease in Cash and Cash Equivalents	(2,487)	(2,140)
Cash and Cash Equivalents - Beginning	18,774	12,658

Edgar Filing: Standard Financial Corp. - Form 10-Q

Cash and Cash Equivalents - Ending	\$	16,287	\$	10,518
Supplementary Cash Flows Information				
Interest paid	\$	2,889	\$	3,305
Income taxes paid	\$	656	\$	617
Supplementary Schedule of Noncash Investing and Financing Activities				
Foreclosed real estate acquired in settlement of loans	\$	1,226	\$	871

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

STANDARD FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2013

(1) Consolidation

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

(2) Basis of Presentation

The accompanying consolidated financial statements were prepared in accordance with instructions to Form 10-Q, and therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles in the United States. All adjustments (consisting of normal recurring adjustments), which, in the opinion of management are necessary for a fair presentation of the financial statements and to make the financial statements not misleading have been included. These financial statements should be read in conjunction with the audited financial statements and the accompanying notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2012. The results for the three and nine month periods ended June 30, 2013 is not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2013 or any future interim period. Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation format. These reclassifications had no effect on stockholders' equity or net income.

(3) Earnings per Share

Basic earnings per share (EPS) is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. The following table sets forth the computation of basic and diluted EPS for the three and nine months ended June 30, 2013 and 2012 (dollars in thousands, except per share data):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
Net income available to common stockholders	\$ 722	\$ 764	\$ 2,197	\$ 2,377
Basic EPS:				
Weighted average shares outstanding	2,888,451	3,158,685	3,010,171	3,173,589

Edgar Filing: Standard Financial Corp. - Form 10-Q

Basic EPS	\$	0.25	\$	0.24	\$	0.73	\$	0.75
Diluted EPS:								
Weighted average shares outstanding		2,888,451		3,158,685		3,010,171		3,173,589
Diluted effect of common stock equivalents		20,560				7,220		
Total diluted weighted average shares outstanding		2,909,011		3,158,685		3,017,391		3,173,589
Diluted EPS	\$	0.25	\$	0.24	\$	0.73	\$	0.75

(4) **Recent Accounting Pronouncements**

In October, 2012, the FASB issued 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.

Table of Contents

STANDARD FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2013

(4) Recent Accounting Pronouncements (Continued)

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.

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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

Edgar Filing: Standard Financial Corp. - Form 10-Q

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 Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 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

Table of Contents**STANDARD FINANCIAL CORP.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2013

(4) Recent Accounting Pronouncements (Continued)

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.

(5) Investment Securities

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

	Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
June 30, 2013:							
U.S. government and agency obligations due:							
Beyond 1 year but within 5 years	\$ 11,997	\$	44	\$	(19)	\$	12,022
Beyond 5 years but within 10 years	13,999				(445)		13,554
Corporate bonds due:							
Beyond 1 year but within 5 years	7,001		47		(14)		7,034
Municipal obligations due:							
Beyond 1 year but within 5 years	5,069		141		(3)		5,207
Beyond 5 years but within 10 years	23,188		759		(155)		23,792
Beyond 10 years	3,993		194		(31)		4,156
Equity securities	1,344		174		(16)		1,502
	\$ 66,591	\$	1,359	\$	(683)	\$	67,267

	Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
September 30, 2012:							

Edgar Filing: Standard Financial Corp. - Form 10-Q

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 the three months ended June 30, 2013, gains on sales of investment securities were \$28,000 and proceeds from such sales were \$82,000. During the nine months ended June 30, 2013, gains on sales of investment securities were \$41,000 and proceeds from such sales were \$176,000. During the nine months ended June 30, 2012, gains on sales of investment securities were \$55,000 and proceeds from such sales were \$6.1 million.

Table of Contents**STANDARD FINANCIAL CORP.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2013

(5) Investment Securities (Continued)

The following table shows the fair value and gross unrealized losses on investment securities and the length of time that the securities have been in a continuous unrealized loss position at June 30, 2013 and at September 30, 2012 (dollars in thousands):

	Less than 12 Months		June 30, 2013 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	\$ 17,536	\$ (464)	\$	\$	\$ 17,536	\$ (464)
Corporate bonds			3,986	(14)	3,986	(14)
Municipal obligations	6,600	(189)			6,600	(189)
Equity securities	819	(15)	6	(1)	825	(16)
Total	\$ 24,955	\$ (668)	\$ 3,992	\$ (15)	\$ 28,947	\$ (683)

	Less than 12 Months		September 30, 2012 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 June 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 the above, the Company considers all of the unrealized losses to be temporary impairment losses.

Table of Contents**STANDARD FINANCIAL CORP.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2013

(6) Mortgage-Backed Securities

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

	Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
June 30, 2013:							
Government pass-throughs:							
Ginnie Mae	\$ 11,949	\$	160	\$	\$		12,109
Fannie Mae	13,163		241		(30)		13,374
Freddie Mac	2,142		130				2,272
Private pass-throughs	116						116
Collateralized mortgage obligations	2,978		5		(41)		2,942
	\$ 30,348	\$	536	\$	(71)	\$	30,813

	Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair 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

During the three and nine months ended June 30, 2013 and 2012, there were no sales of mortgage-backed securities.

The following table shows the fair value and gross unrealized losses on mortgage-backed securities and the length of time that the securities have been in a continuous unrealized loss position at June 30, 2013 and at September 30, 2012 (dollars in thousands):

Edgar Filing: Standard Financial Corp. - Form 10-Q

	Less than 12 Months		June 30, 2013 12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fannie Mae	\$ 4,141	\$ (30)	\$	\$	\$ 4,141	\$ (30)
Collateralized mortgage obligations	2,719	(41)			2,719	(41)
Total	\$ 6,860	\$ (71)	\$	\$	\$ 6,860	\$ (71)

	Less than 12 Months		September 30, 2012 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)	\$	\$	\$ 3,943	\$ (22)
Private pass-throughs			122	(1)	122	(1)
Total	\$ 3,943	\$ (22)	\$ 122	\$ (1)	\$ 4,065	\$ (23)

Table of Contents

STANDARD FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2013

(6) Mortgage-Backed Securities (Continued)

At June 30, 2013, the Company held 5 mortgage-backed securities in an unrealized loss position. The decline in the fair value of these securities resulted primarily from interest rate fluctuations. The Company does not intend to sell these securities nor is it more likely than not that the Company would be required to sell these securities before their anticipated recovery, and the Company believes the collection of the investments and related interest is probable. Based on the above, the Company considers all of the unrealized loss to be temporary impairment loss.

Mortgage-backed securities with a carrying value of \$20.3 million and \$17.7 million were pledged to secure repurchase agreements and public fund accounts at June 30, 2013 and at September 30, 2012, respectively.

(7) Loans Receivable and Related Allowance for Loan Losses

The following table summarizes the primary segments of the loan portfolio as of June 30, 2013 and September 30, 2012 (dollars in thousands):

	Real Estate Loans						
	One-to-four- family Residential and Construction	Commercial Real Estate	Home Equity Loans and Lines of Credit	Commercial	Other Loans		Total
June 30, 2013:							
Collectively evaluated for impairment	\$ 129,787	\$ 88,473	\$ 58,330	\$ 13,406	\$ 1,761	\$	291,757
Individually evaluated for impairment		2,178		93			2,271
Total loans before allowance for loan losses	\$ 129,787	\$ 90,651	\$ 58,330	\$ 13,499	\$ 1,761	\$	294,028
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

Edgar Filing: Standard Financial Corp. - Form 10-Q

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

Management evaluates individual loans in the commercial and commercial real estate loan segments for possible impairment if the loan is in nonaccrual status or is risk rated Substandard, Doubtful or Loss and is greater than 90 days past due. Loans are considered to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The

Table of Contents**STANDARD FINANCIAL CORP.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2013

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

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 the three or nine month periods ended June 30, 2013 or 2012 nor did it have any TDRs within the preceding year where a concession had been made that then defaulted during the three or nine month periods ended June 30, 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 June 30, 2013 and September 30, 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
June 30, 2013:					
Commercial real estate	\$ 2,178	\$ 327	\$	\$ 2,178	\$ 2,178
Commercial	93	56		93	93
Total impaired loans	\$ 2,271	\$ 383	\$	\$ 2,271	\$ 2,271
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

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

Edgar Filing: Standard Financial Corp. - Form 10-Q

	Three months ended June 30,		Nine months ended June 30,	
	2013	2012	2013	2012
Average investment in impaired loans:				
Commercial real estate	\$ 2,072	\$ 2,312	\$ 2,228	\$ 2,491
Commercial	47	545	157	435
Total impaired loans	\$ 2,119	\$ 2,857	\$ 2,385	\$ 2,926
Interest income recognized on impaired loans:				
Accrual basis	\$	\$	\$	\$

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Bank has a structured loan rating process with several layers of internal and external oversight. Generally, consumer, residential real estate

Table of Contents**STANDARD FINANCIAL CORP.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2013

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

loans, home equity loans and lines of credit are included in the pass categories unless a specific action, such as delinquency, bankruptcy, repossession, or death occurs to raise awareness of a possible credit event. The Bank's commercial loan officers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. An annual loan review is performed for all commercial real estate and commercial loans for all commercial relationships greater than \$500,000. The Bank engages an external consultant to conduct loan reviews on at least an annual basis. Generally, the external consultant reviews commercial relationships greater than \$500,000 and all criticized relationships. Loans in the special mention, substandard or doubtful categories that are collectively evaluated for impairment are given separate consideration in the determination of the loan loss allowance.

The loan rating categories utilized by management generally follow bank regulatory definitions. The special mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a substandard classification. Loans in the substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered substandard. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets (or portions of assets) classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted and are charged off against the loan loss allowance. The pass category includes all loans not considered special mention, substandard, doubtful or loss.

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

	Pass	Special Mention	Substandard	Doubtful	Total
June 30, 2013:					
First mortgage loans:					
One-to-four-family residential and construction	\$ 128,801	\$	\$ 986	\$	\$ 129,787
Commercial real estate	87,536		3,115		90,651
Home equity loans and lines of credit	58,305		25		58,330
Commercial loans	13,406		93		13,499
Other loans	1,753		3	5	1,761
Total	\$ 289,801	\$	\$ 4,222	\$ 5	\$ 294,028

September 30, 2012:

First mortgage loans:

Edgar Filing: Standard Financial Corp. - Form 10-Q

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

Table of Contents**STANDARD FINANCIAL CORP.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2013

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

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of June 30, 2013 and September 30, 2012 (dollars in thousands):

	Current	30-59 Days Past Due	60-89 Days Past Due	Non-Accrual (90 Days+)	90 Days Past Due & Accruing	Total Loans
June 30, 2013:						
First mortgage loans:						
One-to-four-family residential and construction						
	\$ 127,186	\$ 1,232	\$ 383	\$ 986		\$ 129,787
Commercial real estate	87,524	815	134	2,178		90,651
Home equity loans and lines of credit	57,987	252	66	25		58,330
Commercial loans	13,398	8		93		13,499
Other loans	1,741	12	3	5		1,761
Total	\$ 287,836	\$ 2,319	\$ 586	\$ 3,287		\$ 294,028
September 30, 2012:						
First mortgage loans:						
One-to-four-family residential 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 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

Edgar Filing: Standard Financial Corp. - Form 10-Q

Bank's historical loss amounts and has made reclassifications in the allowance for loan losses between loan segments. The historical net charge-off activity for the 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.

Table of Contents

STANDARD FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2013

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

The following tables summarize the primary segments of the ALL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment. Activity in the allowance is presented for the three and nine months ended June 30, 2013 and 2012 (dollars in thousands):

	Real Estate Loans						
	One-to-four-family Residential and Construction	Commercial Real Estate	Home Equity Loans and Lines of Credit	Commercial	Other Loans		Total
Three Months Ended:							
Balance at March 31, 2013	\$ 865	\$ 2,636	\$ 167	\$ 166	\$ 170	\$	\$ 4,004
Charge-offs	(81)		(14)	(2)	(2)		(99)
Recoveries	16	1	6				23
Provision	365	(775)	245	260	(95)		
Balance at June 30, 2013	\$ 1,165	\$ 1,862	\$ 404	\$ 424	\$ 73	\$	\$ 3,928
Balance at March 31, 2012							
Balance at March 31, 2012	\$ 688	\$ 2,898	\$ 141	\$ 354	\$ 187	\$	\$ 4,268
Charge-offs	(41)	(48)		(140)	(4)		(233)
Recoveries				2	1		3
Provision			50	250			300
Balance at June 30, 2012	\$ 647	\$ 2,850	\$ 191	\$ 466	\$ 184	\$	\$ 4,338
Nine Months Ended:							
Balance at September 30, 2012	\$ 826	\$ 2,846	\$ 173	\$ 454	\$ 175	\$	\$ 4,474
Charge-offs	(342)	(211)	(20)	(393)	(15)		(981)
Recoveries	16	2	6	28	8		60
Provision	665	(775)	245	335	(95)		375
Balance at June 30, 2013	\$ 1,165	\$ 1,862	\$ 404	\$ 424	\$ 73	\$	\$ 3,928
Balance at September 30, 2011							
Balance at September 30, 2011	\$ 682	\$ 3,024	\$ 173	\$ 452	\$ 190	\$	\$ 4,521
Charge-offs	(235)	(233)	(32)	(640)	(9)		(1,149)
Recoveries		59		4	3		66
Provision	200		50	650			900
Balance at June 30, 2012	\$ 647	\$ 2,850	\$ 191	\$ 466	\$ 184	\$	\$ 4,338

	Real Estate Loans						
	One-to-four-family Residential and Construction	Commercial Real Estate	Home Equity Loans and Lines of Credit	Commercial	Other Loans		Total

Edgar Filing: Standard Financial Corp. - Form 10-Q

Evaluated for Impairment:												
Individually	\$		\$	327	\$		\$	56	\$		\$	383
Collectively		1,165		1,535		404		368		73		3,545
Balance at June 30, 2013	\$	1,165	\$	1,862	\$	404	\$	424	\$	73	\$	3,928
Evaluated for Impairment:												
Individually	\$		\$	709	\$		\$	135	\$		\$	844
Collectively		826		2,137		173		319		175		3,630
Balance at September 30, 2012	\$	826	\$	2,846	\$	173	\$	454	\$	175	\$	4,474

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.

Table of Contents

STANDARD FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2013

(8) Employee Stock Ownership Plan

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

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

Compensation expense is equal to the fair value of the shares committed to be released and unallocated ESOP shares are excluded from outstanding shares for purposes of computing earnings per share. Compensation expense related to the ESOP of \$198,000 and \$169,000 was recognized during the nine months ended June 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 June 30, 2013, the ESOP held a total of 277,886 shares of the Company's stock, and there were 245,731 unallocated shares. The fair market value of the unallocated ESOP shares was \$4.7 million at June 30, 2013.

(9) 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:

Edgar Filing: Standard Financial Corp. - Form 10-Q

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

Table of Contents**STANDARD FINANCIAL CORP.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2013

(9) Fair Value of Assets and Liabilities (Continued)

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 June 30, 2013 and September 30, 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.

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

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
June 30, 2013:				
Investment securities available for sale:				
U.S. government and agency obligations	\$	\$ 25,576	\$	\$ 25,576
Corporate bonds		7,034		7,034
Municipal obligations		33,155		33,155
Equity securities	1,502			1,502
Total investment securities available for sale	1,502	65,765		67,267
Mortgage-backed securities available for sale		30,813		30,813
	\$ 1,502	\$ 96,578	\$	\$ 98,080

Edgar Filing: Standard Financial Corp. - Form 10-Q

Total recurring fair value
measurements

September 30, 2012:

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

Table of Contents**STANDARD FINANCIAL CORP.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2013

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

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

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
June 30, 2013:				
Foreclosed real estate	\$	\$	\$ 607	\$ 607
Impaired loans			1,888	1,888
Total nonrecurring fair value measurements	\$	\$	\$ 2,495	\$ 2,495
September 30, 2012:				
Foreclosed real estate	\$	\$	\$ 463	\$ 463
Impaired loans			1,969	1,969
Total nonrecurring fair value measurements	\$	\$	\$ 2,432	\$ 2,432

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):

	June 30, 2013	September 30, 2012	Valuation Techniques	Quantitative Information about Level 3 Fair Value Measurements		
				Unobservable Input	Range (Weighted Average)	
Foreclosed real estate	\$ 607	\$ 463	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to -40% (-25%)	
				Liquidation expenses (2)	0% to -10% (-5%)	
Impaired loans	\$ 1,888	\$ 1,969	Fair value of collateral (1),(3)	Appraisal adjustments (2)	0% to -40% (-25%)	
				Liquidation expenses (2)	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.

Table of Contents

STANDARD FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2013

(9) Fair Value of Assets and Liabilities (Continued)

Disclosures about Fair Value of Financial Instruments

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

Loans Receivable and Loans Held for Sale

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

Certificate Deposit Accounts

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

Federal Home Loan Bank advances

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

Other Financial Instruments

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

Table of Contents**STANDARD FINANCIAL CORP.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2013

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

	Carrying Amount	Total Fair Value	Fair Value Measurements Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2013:					
Financial Instruments - Assets:					
Cash on hand and due from banks	\$ 2,243	\$ 2,243	2,243	\$	\$
Interest-earning deposits in other institutions	14,044	14,044	14,044		
Investment securities	67,267	67,267	1,502	65,765	
Mortgage-backed securities	30,813	30,813		30,813	
Federal Home Loan Bank stock	2,853	2,853	2,853		
Loans receivable	290,100	297,786			297,786
Loans held for sale					
Bank-owned life insurance	13,611	13,611	13,611		
Accrued interest receivable	1,251	1,251	1,251		
Financial Instruments - Liabilities:					
Demand, savings and club accounts	193,472	193,472	193,472		
Certificate deposit accounts	132,074	136,278			136,278
Federal Home Loan Bank advances	28,570	28,747			28,747
Securities sold under agreements to repurchase	4,533	4,533	4,533		
Accrued interest payable	250	250	250		
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	
Federal Home Loan Bank stock	2,683	2,683	2,683		
Loans receivable	291,113	301,798			301,798
Loans held for sale	905	932	932		
Bank-owned life insurance	10,282	10,282	10,282		

Edgar Filing: Standard Financial Corp. - Form 10-Q

Accrued interest receivable	1,313	1,313	1,313
Financial Instruments - Liabilities:			
Demand, savings and club accounts	192,266	192,266	192,266
Certificate deposit 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

Table of Contents**(10) 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 the three months ended June 30, 2013:

	Net Unrealized Gains (Losses) on Investment Securities	Affected Line on the Consolidated Statement of Income
Accumulated Other Comprehensive Income - April 1, 2013	\$ 1,910	
Net unrealized losses arising during the period before tax	(1,724)	
Tax effect	586	
Net unrealized losses arising during the period after tax	(1,138)	
Reclassification adjustment for security gains realized in net income before tax	(28)	Net securities gains
Tax effect	10	Income tax expense
Reclassification adjustment for security gains realized in net income after tax	(18)	
Total other comprehensive loss	(1,156)	
Accumulated Other Comprehensive Income - June 30, 2013	\$ 754	

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

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

The Company's critical accounting policies involving the significant judgments and assumptions used in the preparation of the Consolidated Financial Statements as of June 30, 2013 have remained unchanged from the disclosures presented in the Company's Annual Report on Form 10-K for the year ended September 30, 2012 under the section Management's Discussion and Analysis of Financial Condition and Results of Operation.

Forward-looking statements in this report relating to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The information contained in this report should be read in conjunction with the Company's most recent annual report filed with the Securities and Exchange Commission on Form 10-K for the year ended September 30, 2012. Investors are cautioned that forward-looking statements include risks and uncertainties that could cause actual results to differ materially from those contemplated by such statements, including without limitation, the effect of regional and national general economic conditions; competition among depository and other financial institutions; inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments; adverse changes in the securities markets; changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements; our ability to enter new markets successfully and capitalize on growth opportunities; our ability to successfully integrate acquired entities, if any; changes in consumer spending, borrowing and savings habits; changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board; changes in our organization, compensation and benefit plans; changes in our financial condition or results of operations that reduce capital available to pay dividends; changes in the financial condition or future prospects of issuers of securities that we own. The

Edgar Filing: Standard Financial Corp. - Form 10-Q

Company does not assume any duty to update forward-looking statements.

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

Comparison of Financial Condition at June 30, 2013 and September 30, 2012

General. The Company's total assets decreased \$5.7 million, or 1.3%, to \$437.8 million at June 30, 2013 from \$443.4 million at September 30, 2012. The decrease was due primarily to a \$9.2 million decrease in mortgage-backed securities and a \$2.5 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 \$4.6 million in investment securities during the nine months ended June 30, 2013. Total liabilities decreased \$1.7 million, or 0.5%, to \$361.6 million at June 30, 2013 from \$363.3 million at September 30, 2012 due to net deposit outflows of \$4.8 million partly offset by a \$1.7 million increase in Federal Home Loan Bank advances and a \$1.3 million increase in securities sold under agreements to repurchase.

Table of Contents

Cash and Cash Equivalents. Cash and cash equivalents decreased \$2.5 million, or 13.3%, to \$16.3 million at June 30, 2013 from \$18.8 million at September 30, 2012 due mainly to deposit outflows, the purchase of additional bank owned life insurance and investment securities and funds used to repurchase the Company's common stock.

Loans. At June 30, 2013, net loans were \$290.1 million, or 66.5% of total assets compared to \$291.1 million, or 65.7% of total assets at September 30, 2012. The \$1.0 million, or 0.4% decrease, was due primarily to a decline in the one- to four-family residential real estate portfolio mostly offset by an increase in the home equity loan portfolio.

Investment Securities. Investment securities available for sale increased \$4.6 million to \$67.3 million at June 30, 2013 from \$62.7 million at September 30, 2012. Purchases of \$15.1 million of investment securities during the nine months ended June 30, 2013 consisted primarily of government agency bonds. The purchases were offset by calls of government agency bonds totaling \$9.1 million during the nine months ended June 30, 2013.

Mortgage-Backed Securities. The Company's mortgage-backed securities available for sale decreased \$9.2 million to \$30.8 million at June 30, 2013 from \$40.0 million at September 30, 2012 due mainly to repayments of mortgage-backed securities during the nine month period ended June 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. We do not accept brokered deposits. Interest rates, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market interest rates, liquidity requirements and our deposit growth goals.

Deposits decreased \$4.8 million, or 1.4%, to \$325.5 million at June 30, 2013 from \$330.3 million at September 30, 2012. The decrease resulted primarily from a \$6.0 million, or 4.3%, decrease in certificate of deposit accounts partly offset by a \$1.2 million, or 0.6%, increase in demand and savings accounts during the nine months ended June 30, 2013 due in part to changes in customer investment preferences and seasonal cash usage.

Borrowings. Our borrowings consist of advances from the Federal Home Loan Bank of Pittsburgh and funds borrowed under repurchase agreements. Total borrowings increased \$3.0 million to \$33.1 million at June 30, 2013 from \$30.1 million at September 30, 2012. The increase was due primarily to additional Federal Home Loan Bank advances of \$7.4 million partly offset by the repayment of \$5.7 million of maturing advances during the nine months ended June 30, 2013.

Stockholders' Equity. Stockholders' equity decreased \$3.9 million, or 4.9%, to \$76.2 million at June 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 \$5.0 million and a \$1.3 million other comprehensive loss due to a decrease in the market value of securities available for sale resulting from an increase in market interest rates. These decreases were partly offset by net income of \$2.2 million for the nine months ended June 30, 2013.

Average Balance and Yields

The following tables set forth average balance sheets, average yields and costs, and certain other information for the periods indicated. No tax-equivalent yield adjustments were made. 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.

Edgar Filing: Standard Financial Corp. - Form 10-Q

Table of Contents

	For the Three Months Ended June 30,					
	2013			2012		
	Average Outstanding Balance	Interest	Yield/ Rate (Dollars in thousands)	Average Outstanding Balance	Interest	Yield/ Rate
Interest-earning assets:						
Loans	\$ 291,222	\$ 3,268	4.49%	\$ 298,455	\$ 3,617	4.85%
Investment and mortgage-backed securities	102,285	578	2.26%	111,472	680	2.44%
Interest earning deposits	10,308	1	0.04%	8,301	1	0.05%
Total interest-earning assets	403,815	3,847	3.81%	418,228	4,298	4.11%
Noninterest-earning assets	32,438			27,169		
Total assets	\$ 436,253			\$ 445,397		
Interest-bearing liabilities:						
Savings accounts	\$ 109,979	44	0.16%	\$ 110,305	46	0.17%
Certificates of deposit	133,006	758	2.28%	139,824	837	2.39%
Money market accounts	7,467	3	0.16%	6,260	1	0.06%
Demand and NOW accounts	74,276	13	0.07%	71,224	12	0.07%
Total deposits	324,728	818	1.01%	327,613	896	1.09%
Federal Home Loan Bank advances	28,576	115	1.61%	32,086	194	2.42%
Securities sold under agreements to repurchase	3,440	1	0.12%	2,765	1	0.14%
Total interest-bearing liabilities	356,744	934	1.05%	362,464	1,091	1.20%
Noninterest-bearing liabilities	2,871			3,280		
Total liabilities	359,615			365,744		
Stockholders' equity	76,638			79,653		
Total liabilities and stockholders' equity	\$ 436,253			\$ 445,397		
Net interest income		\$ 2,913			\$ 3,207	
Net interest rate spread (1)			2.76%			2.91%
Net interest-earning assets (2)	\$ 47,071			\$ 55,764		
Net interest margin (3)			2.89%			3.07%
Average interest-earning assets to interest-bearing liabilities	113.19%			115.38%		

(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.

Edgar Filing: Standard Financial Corp. - Form 10-Q

Table of Contents

	For the Nine Months Ended June 30,					
	2013			2012		
	Average Outstanding Balance	Interest	Yield/ Rate (Dollars in thousands)	Average Outstanding Balance	Interest	Yield/ Rate
Interest-earning assets:						
Loans	\$ 293,029	\$ 10,152	4.62%	\$ 296,041	\$ 11,121	5.01%
Investment and mortgage-backed securities	101,973	1,745	2.28%	105,660	1,988	2.51%
Interest earning deposits	9,358	4	0.06%	10,407	4	0.05%
Total interest-earning assets	404,360	11,901	3.92%	412,108	13,113	4.24%
Noninterest-earning assets	32,068			28,359		
Total assets	\$ 436,428			\$ 440,467		
Interest-bearing liabilities:						
Savings accounts	\$ 109,672	115	0.14%	\$ 111,770	155	0.18%
Certificates of deposit	135,359	2,353	2.32%	138,691	2,541	2.44%
Money market accounts	7,051	7	0.13%	6,262	6	0.13%
Demand and NOW accounts	73,131	39	0.07%	68,464	36	0.07%
Total deposits	325,213	2,514	1.03%	325,187	2,738	1.12%
Federal Home Loan Bank advances	26,599	397	1.99%	30,002	575	2.56%
Securities sold under agreements to repurchase	3,478	3	0.12%	3,363	5	0.20%
Total interest-bearing liabilities	355,290	2,914	1.09%	358,552	3,318	1.23%
Noninterest-bearing liabilities	2,584			2,977		
Total liabilities	357,874			361,529		
Stockholders equity	78,554			78,938		
Total liabilities and stockholders equity	\$ 436,428			\$ 440,467		
Net interest income		\$ 8,987			\$ 9,795	
Net interest rate spread (1)			2.83%			3.01%
Net interest-earning assets (2)	\$ 49,070			\$ 53,556		
Net interest margin (3)			2.96%			3.17%
Average interest-earning assets to interest-bearing liabilities	113.81%			114.94%		

(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

Comparison of Operating Results for the Three Months Ended June 30, 2013 and 2012

General. Net income for the quarter ended June 30, 2013 was \$722,000 compared to \$764,000 for the quarter ended June 30, 2012, a decrease of \$42,000, or 5.5%. The decrease was primarily the result of a decline in net interest income of \$294,000, or 9.2% and higher noninterest expenses of \$240,000, or 9.8%. Partially offsetting these items were a lower provision for loan losses of \$300,000, or 100.0%, higher noninterest income of \$129,000, or 21.0%, and lower income tax expense of \$63,000, or 20.5%.

Net Interest Income. Net interest income for the quarter ended June 30, 2013 was \$2.9 million compared to \$3.2 million for the quarter ended June 30, 2012. Our net interest rate spread and net interest margin were 2.76% and 2.89%, respectively, for the three months ended June 30, 2013 compared to 2.91% and 3.07% for the same period in the prior year. The decrease in the net interest rate spread and net interest margin was the result of the yield on interest-earning assets declining more rapidly than the cost of interest-bearing liabilities.

Interest and Dividend Income. Total interest and dividend income decreased by \$451,000, or 10.5%, to \$3.8 million for the three months ended June 30, 2013 compared to the same period in the prior year. The decrease was primarily due to a decrease in the average yield on interest-earning assets. The average yield on interest-earning assets decreased to 3.81% for the three months ended June 30, 2013 from 4.11% for the same period in the prior year. Additionally, average interest-earning assets decreased to \$403.8 million for the three months ended June 30, 2013 from \$418.2 million for the same period in 2012.

Interest income on loans decreased \$349,000, or 9.6%, to \$3.3 million for the three months ended June 30, 2013 compared to the three months ended June 30, 2012. The average yield on loans receivable decreased to 4.49% for the three months ended June 30, 2013 from 4.85% for the same period in the prior year. The decrease in average yield 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 \$7.2 million, or 2.4%, to \$291.2 million for the three months ended June 30, 2013 from \$298.5 million for the same period in the prior year resulting from increased loan repayments.

Interest income on investment and mortgage-backed securities decreased by \$102,000, or 15.0%, to \$578,000 for the three months ended June 30, 2013 from \$680,000 for the same period in the prior year. This decrease was due to a decrease in the average yield earned on investments and mortgage-backed securities to 2.26% for the three months ended June 30, 2013 from 2.44% for the same period in the prior year due to new investments added in a lower interest rate environment, variable rate investments that adjusted downward and calls and repayments of higher rate securities. Average investments and mortgage-backed securities decreased by \$9.2 million, or 8.2%, to \$102.3 million for the three months ended June 30, 2013 from \$111.5 million for the same period in the prior year resulting from repayments on mortgage-backed securities and calls of investment securities.

Interest Expense. Total interest expense decreased by \$157,000, or 14.4%, to \$934,000 for the three months ended June 30, 2013 from \$1.1 million for the same period in the prior year. This decrease in interest expense was primarily due to a decrease in the average cost of interest-bearing liabilities to 1.05% for the three months ended June 30, 2013 from 1.20% for the same prior year period. Additionally, the average balance of interest-bearing liabilities decreased \$5.7 million, or 1.6%, to \$356.7 million for the three months ended June 30, 2013 from \$362.5 million for the same period in the prior year.

Edgar Filing: Standard Financial Corp. - Form 10-Q

Interest expense on deposits decreased by \$78,000, or 8.7%, to \$818,000 for the three months ended June 30, 2013 from \$896,000 for the same period in the prior year. The average cost of deposits declined from 1.09% for the three months ended June 30, 2012 to 1.01% for the three months ended June 30, 2013. The continued low level of market interest rates enabled us to reduce the rates of interest paid on deposit products.

Interest expense on Federal Home Loan Bank advances decreased \$79,000, or 40.7%, to \$115,000 for the three months ended June 30, 2013 from \$194,000 for the same period in the prior year. The average balance of advances decreased \$3.5 million, or 10.9%, to \$28.6 million for the three months ended June 30, 2013 compared to the same period in the prior year. In addition, the average cost of advances decreased to 1.61% for the quarter ended June 30, 2013 from 2.42% for the quarter ended June 30, 2012 as higher rate advances matured and were repaid.

Provision for Loan Losses. There was no provision for loan losses for the three months ended June 30, 2013 compared to a \$300,000 provision for the same period in the prior year due in part to an improvement in delinquency trends. Non-performing loans at June 30, 2013 were \$3.3 million or 1.12% of total loans, \$4.0 million or 1.34% of total loans at September 30, 2012 and \$4.1 million or 1.39% of total loans at June 30, 2012. The provision that was recorded was sufficient, in management's judgment, to bring the allowance for loan losses to a level that reflects the losses inherent in our loan portfolio relative to loan mix, economic conditions and historical loss experience. See **Non-Performing and Problem Assets** for additional information.

Noninterest Income. Noninterest income increased \$129,000, or 21.0%, to \$744,000 for the three months ended June 30, 2013 from \$615,000 for the same period in 2012. The increase was due mainly to higher service charge income of \$64,000 and increased earnings on bank-owned life insurance of \$33,000.

Noninterest Expenses. Noninterest expenses increased by \$240,000, or 9.8%, to \$2.7 million for the three months ended June 30, 2013 compared to the same period in the prior year. Compensation and employee benefits increased \$84,000 for the quarter ended June 30, 2013 compared to the same period in the prior year due to mainly to the stock award expense for the grants of stock options and restricted stock

Table of Contents

that were made on July 26, 2012. Other operating expenses increased by \$146,000 for the quarter ended June 30, 2013 compared to the quarter ended June 30, 2012 due to general cost increases and a \$75,000 one-time charitable contribution made to receive state tax credits.

Income Tax Expense. The Company recorded a provision for income tax of \$244,000 for the three months ended June 30, 2013 compared to \$307,000 for the three months ended June 30, 2012. The effective tax rate was 25.3% for the three months ended June 30, 2013 and 28.7% for the three months ended June 30, 2012, which was lower due in part to a higher level of nontaxable income.

Comparison of Operating Results for the Nine Months Ended June 30, 2013 and 2012

General. Net income for the nine months ended June 30, 2013 was \$2.2 million compared to \$2.4 million for the nine months ended June 30, 2012, a decrease of \$180,000, or 7.6%. The decrease was primarily the result of a decline in net interest income of \$808,000, or 8.3% and higher noninterest expenses of \$434,000, or 5.9%. Partially offsetting these items were a lower provision for loan losses of \$525,000, or 58.3%, higher noninterest income of \$324,000, or 18.0%, and lower income tax expense of \$213,000, or 22.8%.

Net Interest Income. Net interest income for the nine months ended June 30, 2013 was \$9.0 million compared to \$9.8 million for the nine months ended June 30, 2012. Our net interest rate spread and net interest margin were 2.83% and 2.96%, respectively for the nine months ended June 30, 2013 compared to 3.01% and 3.17% for the same period in the prior year. The decrease in the net interest rate spread and net interest margin was the result of the yield on interest-earning assets declining more rapidly than the cost of interest-bearing liabilities.

Interest and Dividend Income. Total interest and dividend income decreased by \$1.2 million, or 9.2%, to \$11.9 million for the nine months ended June 30, 2013 compared to the same period in the prior year. The decrease was due primarily to a decrease in the average yield on interest-earning assets. The average yield on interest-earning assets decreased to 3.92% for the nine months ended June 30, 2013 from 4.24% for the same period in the prior year. Average interest-earning assets decreased to \$404.4 million for the nine months ended June 30, 2013 from \$412.1 million for the same period in the prior year.

Interest income on loans decreased \$969,000, or 8.7%, to \$10.2 million for the nine months ended June 30, 2013 due to a decrease in the average yield on loans. The average yield on loans receivable decreased to 4.62% for the nine months ended June 30, 2013 from 5.01% for the same period in the prior year. The decrease in average yield 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.

Interest income on investment and mortgage-backed securities decreased by \$243,000, or 12.2%, to \$1.7 million for the nine months ended June 30, 2013 compared to the same period in the prior year. This decrease was due in part to a decrease in the average yield earned on investments and mortgage-backed securities to 2.28% for the nine months ended June 30, 2013 from 2.51% for the same period in the prior year due to new investments added in a lower interest rate environment, variable rate investments that adjusted downward and calls and repayments of higher rate securities. Additionally, the average balance of investment and mortgage-backed securities decreased by \$3.7 million, or 3.5%, to \$102.0 million for the nine months ended June 30, 2013 from \$105.7 million for the same period in the prior year.

Edgar Filing: Standard Financial Corp. - Form 10-Q

Interest Expense. Total interest expense decreased by \$404,000, or 12.2%, to \$2.9 million for the nine months ended June 30, 2013 from \$3.3 million for the same period in the prior year. This decrease in interest expense was due primarily to a decrease in the average cost of interest-bearing liabilities to 1.09% for the nine months ended June 30, 2013 from 1.23% for the same prior year period. The average balance of interest-bearing liabilities of \$355.3 million for the nine months ended June 30, 2013 declined \$3.2 million compared to the nine months ended June 30, 2012.

Interest expense on deposits decreased by \$224,000, or 8.2%, to \$2.5 million for the nine months ended June 30, 2013 from \$2.7 million for the same period in the prior year. The average cost of deposits declined from 1.12% for the nine months ended June 30, 2012 to 1.03% for the nine months ended June 30, 2013. The continued low level of market interest rates enabled us to reduce the rates of interest paid on deposit products. The average balances of deposits for the nine month periods remained unchanged at \$325.2 million

Interest expense on Federal Home Loan Bank advances decreased \$178,000, or 31.0%, to \$397,000 for the nine months ended June 30, 2013 from \$575,000 for the same period in the prior year. The average balance of advances decreased \$3.4 million, or 11.3%, to \$26.6 million for the nine months ended June 30, 2013 compared to the same period in the prior year. In addition, the average cost of advances decreased to 1.99% for the nine months ended June 30, 2013 from 2.56% for the nine months ended June 30, 2012 as higher rate advances matured and were repaid.

Provision for Loan Losses. The provision for loan losses decreased by \$525,000 to \$375,000 for the nine months ended June 30, 2013 from \$900,000 for the same period in the prior year due in part to an improvement in delinquency trends. Non-performing loans at June 30, 2013 were \$3.3 million or 1.12% of total loans, \$4.0 million or 1.34% of total loans at September 30, 2012 and \$4.1 million or 1.39% of total loans at June 30, 2012. The provision that was recorded was sufficient, in management's judgment, to bring the allowance for loan losses to a level that reflects the losses inherent in our loan portfolio relative to loan mix, economic conditions and historical loss experience. See Non-Performing and Problem Assets for additional information.

Noninterest Income. Noninterest income increased \$324,000, or 18.0%, to \$2.1 million for the nine months ended June 30, 2013 from \$1.8 million for the same period in the prior year. The increase was due mainly to increased service fee income of \$119,000, increased earnings on bank-owned life insurance of \$72,000 and higher net loan sale gains of \$71,000 resulting from a higher volume of loan sales.

Table of Contents

Noninterest Expenses. Noninterest expenses increased by \$434,000, or 5.9%, to \$7.8 million for the nine months ended June 30, 2013 compared to the same period in the prior year. Compensation and employee benefits increased \$366,000, or 8.5%, for the nine months ended June 30, 2013 compared to the same period in the prior year due mainly to stock award expense for the grants of stock options and restricted stock that were issued in July 2012.

Income Tax Expense. The Company recorded a provision for income tax of \$724,000 for the nine months ended June 30, 2013 compared to \$937,000 for the nine months ended June 30, 2012. The effective tax rate was 24.8% for the nine months ended June 30, 2013 and 28.3% for the nine months ended June 30, 2012, which was lower due in part to a higher level of nontaxable income.

Non-Performing and Problem Assets

There were no loans in arrears 90 days or more and still accruing interest at June 30, 2013. Loans in arrears 90 days or more or in process of foreclosure (non-accrual loans) were as follows:

	Number of Loans	Amount (Dollars in thousands)	Percentage of Loans Receivable
June 30, 2013	23	\$ 3,287	1.12%
September 30, 2012	26	3,971	1.34

At June 30, 2013 and September 30, 2012, the Company had impaired loans totaling \$2.3 million and \$2.8 million, respectively. The largest impaired loan at both dates was a \$900,000 loan representing a 6% interest in a participation loan that was secured by commercial real estate and a mall in West Virginia. Foreclosure on this loan was initiated by the participating banks but a declaration of bankruptcy by the borrower has caused a delay in this process. The second largest impaired loan at both dates was a \$700,000 loan which was secured by commercial real estate and a restaurant in Maryland. The borrower on this loan has declared bankruptcy which also delayed foreclosure proceedings.

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 June 30, 2013.

Edgar Filing: Standard Financial Corp. - Form 10-Q

At June 30, 2013, we had \$15.0 million in loan commitments outstanding of which \$13.9 million were for commercial loans and \$1.1 million for one-to four-family residential loans. In addition to commitments to originate loans, we had \$13.9 million in unused lines of credit to borrowers and \$1.1 million in undisbursed funds for construction loans in process. Certificates of deposit due within one year of June 30, 2013 totaled \$30.4 million, or 9.3 % of total deposits. If these deposits do not remain with us, we may be required to seek other sources of funds, including loan and securities sales, repurchase agreements and Federal Home Loan Bank advances. The maximum borrowing capacity at the FHLB at June 30, 2013 was \$127.6 million.

Current regulatory requirements specify that the Bank and similar institutions must maintain leverage capital equal to 4% of adjusted total assets and risk-based capital equal to 8% of risk-weighted assets. The Federal Deposit Insurance Corporation (FDIC) may require higher core capital ratios if warranted, and institutions are to maintain capital levels consistent with their risk exposures. The FDIC reserves the right to apply this higher standard to any insured financial institution when considering an institution s capital adequacy. At June 30, 2013, Standard Bank was in compliance with all regulatory capital requirements with leverage and risk-based capital ratios of 13.76% and 21.89%, respectively, and was considered well capitalized under regulatory guidelines.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable to smaller reporting companies.

ITEM 4. Controls and Procedures

The Company s management evaluated, with the participation of the Company s Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company s disclosure controls and procedures, as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures are

Table of Contents

effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

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

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

At June 30, 2013, the Company is not involved in any pending legal proceedings other than non-material legal proceedings undertaken in the ordinary course of business.

ITEM 1A. Risk Factors

Not applicable to smaller reporting companies.

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

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)
April 1-30, 2013		\$		321,003
May 1-31, 2013				321,003
June 1-30, 2013				321,003
Totals				

Edgar Filing: Standard Financial Corp. - Form 10-Q

(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 and 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.

ITEM 3. **Defaults Upon Senior Securities**

Not Applicable

ITEM 4. **Mine Safety Disclosures**

Not Applicable

ITEM 5. **Other Information**

None

Table of Contents

ITEM 6 Exhibits

3.1	Articles of Incorporation of Standard Financial Corp.*
3.2	Bylaws of Standard Financial Corp.*
4	Form of Common Stock Certificate of Standard Financial Corp.*
10.1	Form of Standard Bank, PaSB Employee Stock Ownership Plan*
10.2	Form of Standard Financial Corp. and Standard Bank, PaSB Three-Year Employment Agreement*
10.3	Form of Standard Financial Corp. and Standard Bank, PaSB Two-Year Employment Agreement*
10.4	Form of Standard Bank, PaSB Change in Control Agreement*
10.5	Form of Phantom Stock Agreement for Officers*
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 **
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
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document ***
101.SCH	XBRL Taxonomy Extension Schema Document ***
101.CAL	XBRL Taxonomy Calculation Linkbase Document ***
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document ***
101.LAB	XBRL Taxonomy Label Linkbase Document ***
101.PRE	XBRL Taxonomy Presentation Linkbase Document ***

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

** 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. We advise users of this data that pursuant to Rule 406T of Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

Table of Contents

SIGNATURES

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

STANDARD FINANCIAL CORP.

Signatures	Title	Date
/s/ Timothy K. Zimmerman Timothy K. Zimmerman	President, Chief Executive Officer and Director (Principal Executive Officer)	August 8, 2013
/s/ Colleen M. Brown Colleen M. Brown	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	August 8, 2013