Standard AVB Financial Corp.
Form 10-K
April 02, 2018
TABLE OF CONTENTS

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2017
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 number 333-215069

STANDARD AVB FINANCIAL CORP.
(Exact Name of Registrant as Specified in its Charter)

Maryland	27-3100949
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2640 Monroeville Boulevard, Monroeville, Pennsylvania	15146
(Address of Principal Executive Offices)	(Zip Code)

(412) 856-0363
(Telephone Number, including Area Code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
None	None

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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
Emerging growth company			

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

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

As of March 29, 2018, there were issued and outstanding 4,796,643 shares of the Registrant's Common Stock.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the last sales price on June 30, 2017 was $135.1 million.

DOCUMENTS INCORPORATED BY REFERENCE:

Document	Part of Form 10-K
Proxy Statement for the 2018 Annual Meeting of Stockholders of the Registrant	Part III

TABLE OF CONTENTS
Standard AVB Financial Corp.

Annual Report on Form 10-K
For The Year Ended
December 31, 2017

Table of Contents

TABLE OF CONTENTS

PART I

ITEM 1. Business

Forward-Looking Statements

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

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

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

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

- general economic conditions, either nationally or in our market areas, that are worse than expected;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate acquired entities, if any;
-

changes in consumer spending, borrowing and savings habits;

•
changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission (the “SEC”) and the Public Company Accounting Oversight Board;

•
changes in our organization, compensation and benefit plans;

•
changes in our financial condition or results of operations that reduce capital available to pay dividends; and

•
changes in the financial condition or future prospects of issuers of securities that we own.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.
1

TABLE OF CONTENTS

Standard AVB Financial Corp.

Standard AVB Financial Corp. ("Standard" or the "Company"), is a Maryland corporation that owns all of the outstanding shares of common stock of Standard Bank, a Pennsylvania chartered savings bank (the "Bank"). Standard's common stock is quoted on the OTCQX market place under the symbol "STND."

On August 29, 2016, Standard Financial Corp. and Allegheny Valley Bancorp, Inc. ("Allegheny Valley") entered into an Agreement and Plan of Merger, which contemplated that Allegheny Valley would merge with and into Standard Financial Corp., with Standard Financial Corp. as the surviving entity to be known as "Standard AVB Financial Corp." On April 7, 2017, Allegheny Valley merged with and into Standard Financial Corp. and the Company is now referred to as "Standard AVB Financial Corp." In conjunction with the merger and the filing of the Form S-4 Registration Statement, Standard AVB Financial Corp. became an SEC reporting company.

On August 22, 2017, the Company's Board of Directors ("the Board") amended the bylaws to change the Company's fiscal year end from September 30th to December 31st. The change in fiscal year end resulted in a three-month transition period which began on October 1, 2016 and ended on December 31, 2016. As a result of its change in fiscal year, Standard AVB filed a Transition Report on Form 10-Q with the SEC on September 29, 2017 which covered the transition period from October 1, 2016 to December 31, 2016. The separate audited financial statements required for the transition period are included in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K.

On a consolidated basis, as of December 31, 2017, Standard AVB Financial Corp. had total assets of $972.6 million, total loans receivable, net of $747.0 million, total deposits of $694.8 million and stockholders' equity of $134.0 million. Our executive offices are located at 2640 Monroeville Boulevard, Monroeville, Pennsylvania 15146. Our telephone number at this address is (412) 856-0363.

Standard Bank

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

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

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

Market Area

Standard AVB Financial Corp., with total assets of $972.6 million at December 31, 2017, is the parent company of Standard Bank, PaSB, a Pennsylvania chartered savings bank which operates seventeen offices serving individuals and small to mid-sized businesses in Allegheny, Westmoreland and Bedford Counties, in Pennsylvania and Allegany County in Maryland. Standard Bank is a member of the FDIC and an Equal Housing Lender.

Standard's market area has a broad range of private employers, and has changed its focus from heavy industry to more specialized industries and service providers, including technology, health care, education, energy and finance. Westmoreland County is east of Allegheny County and is part of the Pittsburgh

TABLE OF CONTENTS

metropolitan area. Allegany County, Maryland is part of the Cumberland, Maryland-West Virginia metropolitan area, which is equidistant from Pittsburgh and Baltimore, and its economy includes information technology, biotechnology, medical services and manufacturing.

Unemployment rates have continued to drop significantly in the Standard's market area. The Pittsburgh MSA unemployment rate is nearly even with that of the state. However, the unemployment rate in Allegany County, Maryland is substantially higher than that of the state of Maryland and the national unemployment rate continues to be better than that all of Standard's market.

Due to the broad diversification of industries and employers, Standard's market area was not severely affected by the economic downturn that began in 2008. Median household income levels in Standard's market area have been mixed. Allegheny, Westmoreland, Fayette and Butler Counties, Pennsylvania have outpaced the median household income growth for both Pennsylvania and the nation since 2010. In Allegany County in Western Maryland, median household income growth has done better than the state of Maryland and the percentage change for the United States. However, median household income in each of the counties within Standard's market area, with the exception of Allegheny County, Pennsylvania is substantially less than their respective states and nationally. Allegheny County, Pennsylvania is very close to matching the median household income for both the state and the nation.

The population growth in the Standard Bank's Pittsburgh market area has been relatively flat; similar to that of Pennsylvania. The population in Allegany County, Maryland has declined in contrast to the population growth in the state of Maryland. The median age throughout Standard's market area is substantially older than that of the nation and respective states. However, Allegheny County, Pennsylvania has seen what may be a reversal of that trend.

Competition

Standard faces intense competition in its market areas both in making loans and attracting deposits. Standard competes with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies and investment banking firms. Some of Standard's competitors have greater name recognition and market presence that benefit them in attracting business, and offer certain services that Standard does not or cannot provide.

Standard's deposit sources are primarily concentrated in the communities surrounding its community banking offices, located in the Pennsylvania counties of Allegheny, Westmoreland and Bedford and Allegany County, Maryland. As of June 30, 2017 (the latest date for which information is publicly available), Standard ranked 15th in deposit market share out of 31 bank and thrift institutions with offices in Allegheny County, Pennsylvania with a market share of 0.4%, 9th in deposit market share out of 20 bank and thrift institutions in Westmoreland County, Pennsylvania with a market share of 2.9%, 7th in deposit market share out of 9 bank and thrift institutions in Bedford County, Pennsylvania, with a market share of 3.5% and 4th in deposit market share out of 5 bank and thrift institutions in Allegany County, Maryland with a market share of 8.2%.

Lending Activities

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

Commercial Real Estate Loans. At December 31, 2017, $301.0 million, or 40.1%, of Standard's total loan portfolio, consisted of commercial real estate loans. Properties securing Standard's commercial real estate loans primarily include loans to lessors of residential buildings and dwellings, lessors of non-residential buildings, properties for single family home construction, small office buildings and office suites. Standard generally seeks to originate commercial real estate loans with initial principal balances of up to $6.0 million. Substantially all of Standard's commercial real estate loans are secured by properties located in its primary market area. At December 31, 2017, Standard's largest commercial real estate loan relationship (consisting of three separate commercial real estate loans) had a combined principal balance of $5.8 million and was secured by two commercial office buildings. These loans were performing in accordance with their terms and conditions at December 31, 2017.

TABLE OF CONTENTS

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

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

Commercial Business Loans.   Standard makes various types of secured and unsecured commercial business loans to customers in its market area for the purpose of working capital and other general business purposes. The terms of these loans generally range from less than one year to a maximum of ten years. The loans are either negotiated on a fixed-rate basis or carry adjustable interest rates indexed to a market rate index. Standard seeks to originate loans to small- and medium-size businesses with principal balances between $50,000 and $5.0 million. At December 31, 2017, Standard had commercial business loans totaling $56.1 million, or 7.5% of the total loan portfolio.

Commercial credit decisions are based upon Standard's credit assessment of the loan applicant. Standard evaluates the applicant's ability to repay in accordance with the proposed terms of the loan and Standard assesses the risks involved. Personal guarantees of the principals are typically obtained. In addition to evaluating the loan applicant's financial statements, Standard considers the adequacy of the primary and secondary sources of repayment for the loan and debt service coverage. Credit agency reports of the applicant's personal credit history supplement Standard's analysis of the applicant's creditworthiness. Collateral supporting a secured transaction is also analyzed to determine its value and marketability. Commercial business loans generally carry higher interest rates than residential loans of like duration due to a higher risk of default as repayment generally depends on the successful operation of the borrower's business and the sufficiency of any collateral. At December 31, 2017, Standard's largest commercial business loan was to a municipality, had a principal balance of $4.8 million and was secured by the full faith and credit and taxing authority of the borrower. This loan was performing in accordance with its terms and conditions at December 31, 2017.

One- to Four-Family Residential Mortgage Loans.   At December 31, 2017, $261.7 million, or 34.8%, of Standard's total loan portfolio, consisted of one- to four-family residential mortgage loans. Standard offers fixed-rate and adjustable-rate residential mortgage loans with maturities up to 30 years. One- to four-family residential mortgage loans are generally underwritten according to secondary market guidelines, and Standard refers to loans that conform to such guidelines as "conforming loans." Standard generally originates both fixed- and adjustable-rate mortgage loans in amounts up to the maximum conforming loan limits as established by the Federal Housing Finance Agency, which is currently $453,100 for single-family homes. However, loans in excess of $453,100 (which are referred to as "jumbo loans") may be generally originated for retention in Standard's loan portfolio or may be sold servicing released. Standard's portfolio maximum loan amount for these loans is generally $750,000. Standard underwrites jumbo portfolio loans in the same manner as conforming loans.

Standard will originate loans with loan-to-value ratios in excess of 80%, up to and including a loan-to-value ratio of 97%. Standard requires private mortgage insurance for loans with loan-to-value

TABLE OF CONTENTS

ratios in excess of 80%. During the fiscal ended December 31, 2017, Standard originated $25.7 million of one- to four-family residential mortgage loans with loan-to-value ratios in excess of 80%. Standard offers special programs for low- and moderate-income home purchasers within low to moderate income census tracts. The property must be located within Standard's lending assessment area. Household income must be less than 80% of median income of the Metropolitan Statistical Area in order to qualify for the special low-to moderate-income program. Loans under this program may be originated up to 100% loan to value.

Standard generally sells fixed rate conforming loans with terms greater than 15 years and retain the servicing rights on loans sold to generate fee income. For the year ended December 31, 2017, Standard recognized loan servicing fees of $210,000. As of December 31, 2017, the principal balance of loans serviced for others totaled $68.7 million.

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

Home Equity Loans and Lines of Credit. In addition to traditional one- to four-family residential mortgage loans, Standard offers home equity loans and home equity lines of credit that are secured by the borrower's primary residence or secondary residence. At December 31, 2017, Standard's home equity loans and lines of credit totaled $130.9 million and represented 17.4% of its total loan portfolio. Standard's home equity loans are originated with fixed rates of interest and with terms of up to 15 years. Home equity lines of credit have a maximum term of 20 years. Standard offers interest only lines of credit with a 10-year draw period in which interest is due monthly. After the initial 10-year draw period, the borrower is required to make principal payments based on a 10-year amortization. Standard's home equity lines of credit are currently originated with adjustable rates of interest. Home equity loans and lines of credit are generally underwritten with the same criteria that Standard uses to underwrite one- to four-family residential mortgage loans. For a borrower's primary residence, home equity loans and lines of credit may be underwritten with a loan-to-value ratio of 89.9% and 85%, respectively, when combined with the principal balance of the existing mortgage loan. At the time Standard closes a home equity loan or line of credit, Standard records a mortgage to perfect its security interest in the underlying collateral. At December 31, 2017 Standard's in-house maximum limit for home equity loans and lines of credit was $750,000. Loans over $400,000 require title insurance.

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

Construction Loans. Standard makes commercial construction loans for rental properties, commercial buildings and homes built by developers on speculative, undeveloped property. The terms of commercial construction loans are made in accordance with Standard's commercial loan policy. Advances on construction loans are made in accordance with a schedule reflecting the cost of construction, but are generally limited to an 80% loan-to-completed-appraised-value ratio. Repayment of construction loans on non-residential properties is normally expected from the property's eventual rental income, income from the borrower's operating entity or the sale of the subject property. In the case of income-producing property, repayment is usually expected from permanent financing upon completion of construction. Standard typically provides the permanent mortgage financing on its construction loans. Construction loans are interest-only loans during the construction period, which typically do not exceed 12 months, and convert to permanent, amortizing financing following the completion of construction.

TABLE OF CONTENTS

Standard makes residential construction loans for one- to four-family owner-occupied properties. Advances on residential construction loans are made in accordance with a schedule reflecting the cost of construction. The terms of residential construction loans are made in accordance with Standard's one- to four-family residential lending policy (described under "One- to Four-Family Residential Mortgage Loans"). At December 31, 2017, residential construction loans totaled $5.9 million and are included with one-to-four family residential and construction loans. At December 31, 2017, the additional un-advanced portion of these construction loans totaled $7.1 million.

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

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

During fiscal 2017 and 2016, Standard sold approximately 9.4% and 24%, respectively, of the longer term fixed rate loans to the Federal Home Loan Bank of Pittsburgh ("FHLB") through its Mortgage Partnership Finance ("MPF") program that were originated during the year, with loan servicing rights retained. During the fiscal years 2017 and 2016, Standard originated $5.3 million and $3.9 million, respectively, of fixed-rate loans primarily with terms greater than 15 years which were sold to assist Standard in managing interest rate risk. Standard sells its loans with the servicing rights retained on residential mortgage loans, and Standard intends to continue this practice in the future, subject to the pricing of retaining such servicing rights. At December 31, 2017, Standard was servicing loans owned by others with a principal balance of $68.7 million. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, contacting delinquent borrowers, supervising foreclosures and property dispositions in the event of defaults, making certain insurance and tax payments on behalf of the borrowers and generally administering the loans. Standard retains a portion of the interest paid by the borrower on the loans it services as consideration for its servicing activities.

From time to time, Standard enters into participations in commercial loans with other banks. In these circumstances, Standard will generally follow its customary loan underwriting and approval policies. At December 31, 2017 Standard had $48.4 million in loan participations which included $2.2 million related to lease financing.

Loan Approval Procedures and Authority. Standard's lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by its Board of Directors. The loan approval process is intended to assess the borrower's ability to repay the loan and the value of the collateral that will secure the loan. To assess the borrower's ability to repay, Standard reviews the borrower's employment and credit history, and historical and projected income and expenses. Standard requires "full documentation" on all of its loan applications. Standard requires a full appraisal of all real property securing 1st lien residential mortgage loans. Standard also requires appraisals on home equity

TABLE OF CONTENTS
loans and lines of credit and commercial real estate loans of $250,000 or greater. For loan amounts under $250,000 an appraisal may be required or other objective methods of property valuations are utilized. All appraisers are state-licensed or state-certified appraisers, and it's Bank practice to have local appraisers approved by the Board of Directors annually.

Standard's policies and loan approval limits are established by the Board of Directors. The approval authority necessary to decision all loan applications regardless of loan type is based on the resulting total exposure of the relationship. Secured loan requests with a relationship exposure of $3.0 million or less can be approved by designated individual officers, officers acting together with specific lending approval authority, and/or the Officer Loan Committee. Secured loan requests with a relationship exposure in excess of $3.0 million can be approved by the Board Loan Committee. Unsecured loan requests utilize a similar authority breakdown with the Board Loan Committee decisioning unsecured requests resulting in relationship exposures in excess of $750,000. The Board of Directors approves all loan requests subject to Regulation O, and those that result in a relationship exposure that exceeds the Bank's internal House Limit. The Bank's House Limit was $7.7 million at December 31, 2017.

Investments

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

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

We designate a security as either held to maturity, available for sale, or trading, based upon our ability and intent. Securities available for sale and trading securities are reported at market value and securities held to maturity are reported at amortized cost. A periodic review and evaluation of the available for sale and held to maturity securities portfolios is conducted to determine if the fair value of any security has declined below its carrying value and whether such decline is other-than-temporary. At December 31, 2017, all of our securities were classified as available for sale.

Our securities portfolio at December 31, 2017 consisted primarily of securities with the following fair values: $67.6 million of mortgage-backed securities issued by U.S. Government agencies and U.S. Government-sponsored enterprises; $50.8 million of municipal obligations; $8.3 million of U.S. government and agency obligations; $2.3 million of corporate bonds and $4.2 million of equity securities. At December 31, 2017, none of the collateral underlying our securities portfolio was considered subprime or Alt-A. See "Item 7 — Management's Discussion of Financial Condition and Results of Operations — Balance Sheet Analysis: December 31, 2017 and December 31, 2016 — Investment Securities Portfolio" for a discussion of the recent performance of our securities portfolio.

TABLE OF CONTENTS

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

Sources of Funds

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

Deposits. We accept deposits primarily from the areas in which our offices are located. We rely on our competitive pricing and products, convenient locations and quality customer service to attract and retain deposits. We offer a variety of deposit accounts with a range of interest rates and terms. Our deposit accounts consist of savings accounts, certificates of deposit and regular checking accounts. Interest rates, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market interest rates, liquidity requirements and our deposit growth goals.

Borrowings. Our borrowings consist of short-term borrowings and long term advances from the FHLB as well as funds borrowed from customers under repurchase agreements. At December 31, 2017, FHLB short-term borrowings and long-term advances totaled $27.0 million, or 3.2%, and $107.7 million, or 12.8%, of total liabilities, respectively. Repurchase agreements totalled $4.2 million, or 0.5%, of total liabilities. At December 31, 2017, we had access to additional FHLB borrowings of up to $286.9 million. Short-term borrowings and long-term advances from the FHLB are collateralized by certain qualifying collateral such as loans, with weighted average collateral values determined by the FHLB equal to a least the unpaid amount of outstanding borrowings. Repurchase agreements are secured by municipal and U.S. government obligations.

Subsidiary Activities

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

Expense and Tax Allocation

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

Personnel

As of December 31, 2017, we had 144 full-time equivalent employees. Our employees are not represented by any collective bargaining group. Management believes that we have a good working relationship with our employees.

TABLE OF CONTENTS

SUPERVISION AND REGULATION

General

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

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

Any change in the applicable laws or regulations, whether by the FDIC, the Pennsylvania Department of Banking and Securities, the Federal Reserve Board or Congress, could have a material adverse impact on Standard AVB Financial Corp., Standard Bank and their operations.

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

Dodd-Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), has significantly changed the bank regulatory structure and is affecting the lending, investment, trading and operating activities of depository institutions and their holding companies. See "Item 1A — Risk Factors — The Dodd-Frank Act may have a material impact on our operations and the cost of our operations." Many of the provisions of the Dodd-Frank Act had delayed effective dates and the legislation required various federal agencies to promulgate numerous and extensive implementing regulations over a period of years. Although the effect of all of these regulations cannot be completely determined at this time, it is expected that the legislation and implementing regulations will increase our operating and compliance costs.

Banking Regulation

Pennsylvania Savings Bank Law. The Pennsylvania Banking Code of 1965, as amended (the "Banking Code"), contains detailed provisions governing the organization, operations, corporate powers, savings and investment authority, branching rights and responsibilities of directors, officers and employees of Pennsylvania savings banks. A Pennsylvania savings bank may locate or change the location of its principal place of business and establish an office anywhere in, or adjacent to, Pennsylvania, with the prior approval of the Pennsylvania Department of Banking and Securities. The Banking Code delegates extensive rulemaking power and administrative discretion to the Department of Banking in its supervision and regulation of state-chartered savings banks. The Pennsylvania Department of Banking and Securities may order any savings bank to discontinue any violation of law or unsafe or unsound business practice and may direct any trustee, officer, attorney, or employee of a savings bank engaged in an objectionable activity, after

TABLE OF CONTENTS

the Pennsylvania Department of Banking and Securities has ordered the activity to be terminated, to show cause at a hearing before the Pennsylvania Department of Banking and Securities why such person should not be removed. The Department of Banking may also appoint a receiver or conservator for an institution in appropriate cases.

Capital Requirements. Federal regulations require federally insured depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8.0%, and a 4.0% Tier 1 capital to total assets leverage ratio. The existing capital requirements were effective January 1, 2015, and are the result of a final rule implementing recommendations of the Basel Committee on Banking Supervision and certain requirements of the Dodd-Frank Act.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, all assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. Common equity Tier 1 capital generally is defined as common stockholders' equity and retained earnings. Tier 1 capital generally is defined as common equity Tier 1 plus additional Tier 1 capital, such as certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and certain other items. In assessing an institution's capital adequacy, the FDIC takes into consideration, not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions when deemed necessary.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted asset above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement is being phased in beginning January 1, 2016, at 0.625% of risk-weighted assets and increasing each year until fully implemented at 2.5% on January 1, 2019. In calendar 2017, the capital conservation buffer was 1.25%. It increased to 1.875% on January 1, 2018.

Standard Bank is also subject to capital guidelines of the Pennsylvania Department of Banking and Securities. The Pennsylvania Department of Banking and Securities requires 4% leverage capital and incorporates the federal risk-based requirements. The components of capital are substantially the same as those defined by the FDIC.

Prompt Corrective Action. Under federal regulations, a bank is considered to be (i) "well capitalized" if it has total risk-based capital of 10.0% or more, Tier 1 risk-based capital of 8.0% or more, common equity Tier 1 risk-based capital of 6.5% or more and Tier 1 leverage capital of 5.0% or more and is not subject to any written capital order or directive; (ii) "adequately capitalized" if it has total risk-based capital of 8.0% or more, Tier 1 risk-based capital of 6.0% or more, common equity Tier 1 risk-based capital of 4.5% or more and Tier 1 leverage capital of 4.0% or more and does not meet the definition of "well capitalized"; (iii) "undercapitalized" if it has total risk-based capital of less than 8.0%, Tier 1 risk-based capital of less than 6.0%, common equity Tier 1 risk-based capital of 4.5% or less or Tier 1 leverage capital of less than 4.0%; (iv) "significantly undercapitalized" if it has total risk-based capital of less than 6.0%, Tier 1 risk-based capital less than 4.0% common equity Tier 1 risk-based capital of less than 3.0, or Tier 1 leverage capital of less than 3.0%; and (v) "critically undercapitalized" if its ratio of tangible equity to total assets is equal to or less than 2.0%. Federal regulations also specify circumstances under which a federal banking agency may reclassify a well capitalized institut