

First Savings Financial Group Inc  
Form 10-Q  
August 14, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 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, 2015

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. 1-34155

**First Savings Financial Group, Inc.**  
(Exact name of registrant as specified in its charter)

**Indiana**

**37-1567871**

Edgar Filing: First Savings Financial Group Inc - Form 10-Q

(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

**501 East Lewis & Clark Parkway, Clarksville, Indiana 47129**  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code **1-812-283-0724**

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.

(Check one): Large Accelerated Filer  Accelerated Filer

Non-accelerated Filer  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

The number of shares outstanding of the registrant's common stock as of June 30, 2015 was 2,183,510.



FIRST SAVINGS FINANCIAL GROUP, INC.

INDEX

	<b>Page</b>
<b>Part I <u>Financial Information</u></b>	
Item 1. Financial Statements	
<u>Consolidated Balance Sheets as of June 30, 2015 and September 30, 2014 (unaudited)</u>	3
<u>Consolidated Statements of Income for the three months and nine months ended June 30, 2015 and 2014 (unaudited)</u>	4
<u>Consolidated Statements of Comprehensive Income for the three months and nine months ended June 30, 2015 and 2014 (unaudited)</u>	5
<u>Consolidated Statements of Changes in Stockholders' Equity for the nine months ended June 30, 2015 and 2014 (unaudited)</u>	6
<u>Consolidated Statements of Cash Flows for the nine months ended June 30, 2015 and 2014 (unaudited)</u>	7
<u>Notes to Consolidated Financial Statements (unaudited)</u>	8-42
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	43-54
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	55-57
<b><u>Item 4. Controls and Procedures</u></b>	58
<b>Part II <u>Other Information</u></b>	
<b><u>Item 1. Legal Proceedings</u></b>	59
<b><u>Item 1A. Risk Factors</u></b>	59
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	60
<b><u>Item 3. Defaults Upon Senior Securities</u></b>	60
<b><u>Item 4. Mine Safety Disclosures</u></b>	60
<b><u>Item 5. Other Information</u></b>	61

**Item 6. Exhibits**

61

**Signatures**

62

-2-

**PART I - FINANCIAL INFORMATION****FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS***(Unaudited)*

(In thousands, except share and per share data)	June 30, 2015	September 30, 2014
<b>ASSETS</b>		
Cash and due from banks	\$7,963	\$ 8,853
Interest-bearing deposits with banks	13,428	11,477
Total cash and cash equivalents	21,391	20,330
Interest-bearing time deposits	2,235	1,500
Trading account securities, at fair value	8,770	5,319
Securities available for sale, at fair value	180,087	184,697
Securities held to maturity	4,941	5,419
Loans held for sale	306	281
Loans, net	447,665	433,876
Federal Reserve Bank and Federal Home Loan Bank stock, at cost	6,647	6,517
Real estate development and construction	7,129	7,202
Premises and equipment	13,948	14,275
Other real estate owned, held for sale	558	953
Accrued interest receivable:		
Loans	1,263	1,276
Securities	1,561	1,235
Cash surrender value of life insurance	17,652	18,021
Goodwill	7,936	7,936
Core deposit intangibles	1,467	1,725
Other assets	7,369	2,567
Total Assets	\$730,925	\$ 713,129
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$67,479	\$ 56,092
Interest-bearing	461,476	477,102
Total deposits	528,955	533,194
Repurchase agreements	1,341	1,338

Edgar Filing: First Savings Financial Group Inc - Form 10-Q

Borrowings from Federal Home Loan Bank	94,626	79,548
Other long-term debt	4,678	4,812
Accrued interest payable	179	175
Advance payments by borrowers for taxes and insurance	641	748
Accrued expenses and other liabilities	8,551	6,234
Total Liabilities	638,971	626,049

STOCKHOLDERS' EQUITY

Preferred stock of \$.01 par value per share Authorized 982,880 shares; none issued	-	-
Senior Non-Cumulative Perpetual Preferred Stock, Series A, \$.01 par value; Authorized 17,120 shares; issued and outstanding 17,120 shares; aggregate liquidation preference of \$17,120	-	-
Common stock of \$.01 par value per share Authorized 20,000,000 shares; issued 2,542,042 shares; outstanding 2,183,510 shares (2,171,812 shares at September 30, 2014)	25	25
Additional paid-in capital - preferred	17,120	17,120
Additional paid-in capital - common	26,710	26,079
Retained earnings - substantially restricted	51,235	47,175
Accumulated other comprehensive income	3,460	3,853
Unearned ESOP shares	(239 )	(537 )
Unearned stock compensation	-	(162 )
Less treasury stock, at cost - 358,532 shares (370,230 shares at September 30, 2014)	(6,357 )	(6,473 )
Total Stockholders' Equity	91,954	87,080
Total Liabilities and Stockholders' Equity	\$730,925	\$ 713,129

See notes to consolidated financial statements.

**PART I - FINANCIAL INFORMATION****FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME***(Unaudited)*

(In thousands, except share and per share data)	Three Months Ended		Nine Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
<b>INTEREST INCOME</b>				
Loans, including fees	\$5,284	\$5,262	\$16,004	\$15,744
Securities:				
Taxable	996	1,147	3,080	3,400
Tax-exempt	546	445	1,506	1,289
Dividend income	77	58	223	186
Interest-bearing deposits with banks	12	10	35	27
Total interest income	6,915	6,922	20,848	20,646
<b>INTEREST EXPENSE</b>				
Deposits	594	589	1,834	1,799
Repurchase agreements	1	1	3	3
Borrowings from Federal Home Loan Bank	297	233	845	726
Loans payable	41	50	134	155
Total interest expense	933	873	2,816	2,683
Net interest income	5,982	6,049	18,032	17,963
Provision for loan losses	208	300	627	904
Net interest income after provision for loan losses	5,774	5,749	17,405	17,059
<b>NONINTEREST INCOME</b>				
Service charges on deposit accounts	317	322	993	919
Net gain on sales of available for sale securities	-	122	-	123
Net gain on trading account securities	45	210	205	572
Unrealized loss on derivative contract	-	(5	) (1	) (10
Net gain on sales of loans	86	72	220	191
Increase in cash surrender value of life insurance	119	133	364	364
Gain on life insurance	831	-	831	-
Commission income	92	77	260	217
Real estate lease income	164	157	465	418
Other income	283	203	789	983
Total noninterest income	1,937	1,291	4,126	3,777



Edgar Filing: First Savings Financial Group Inc - Form 10-Q

NONINTEREST EXPENSE

Compensation and benefits	2,989	2,742	8,627	8,451
Occupancy and equipment	675	626	1,931	1,901
Data processing	309	313	1,038	917
Advertising	159	134	412	274
Professional fees	282	310	797	942
FDIC insurance premiums	117	112	341	334
Net (gain) loss on other real estate owned	(38	) 82	(17	) 190
Other operating expenses	704	731	2,318	2,226
Total noninterest expense	5,197	5,050	15,447	15,235
Income before income taxes	2,514	1,990	6,084	5,601
Income tax expense	318	534	1,161	1,581
Net Income	\$2,196	\$1,456	\$4,923	\$4,020

Preferred stock dividends declared	43	43	129	129
Net Income Available to Common Shareholders	\$2,153	\$1,413	\$4,794	\$3,891

Net income per common share:

Basic	\$1.00	\$0.68	\$2.25	\$1.83
Diluted	\$0.95	\$0.64	\$2.14	\$1.74

Weighted average common shares outstanding:

Basic	2,149,931	2,092,938	2,133,557	2,130,599
Diluted	2,259,170	2,201,323	2,240,922	2,237,193

Dividends per common share	\$0.12	\$0.11	\$0.35	\$0.32
----------------------------	--------	--------	--------	--------

See notes to consolidated financial statements.

**PART I - FINANCIAL INFORMATION****FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME***(Unaudited)*

(In thousands)	Three Months Ended		Nine Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Net Income	\$ 2,196	\$ 1,456	\$ 4,923	\$ 4,020
<b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX</b>				
Unrealized gains (losses) on securities available for sale:				
Unrealized holding gains (losses) arising during the period	(2,767 )	2,086	(599 )	3,189
Income tax (expense) benefit	976	(743 )	206	(1,123 )
Net of tax amount	(1,791 )	1,343	(393 )	2,066
Less: reclassification adjustment for realized gains included in net income	-	(122 )	-	(123 )
Income tax expense	-	48	-	48
Net of tax amount	-	(74 )	-	(75 )
Other Comprehensive Income (Loss)	(1,791 )	1,269	(393 )	1,991
Comprehensive Income	\$ 405	\$ 2,725	\$ 4,530	\$ 6,011

See notes to consolidated financial statements.

**PART I - FINANCIAL INFORMATION****FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY***(Unaudited)*

<i>(In thousands, except share and per share data)</i>	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Stock Compensation and ESOP	Treasury Stock	Total
<b>Nine Months Ended June 30, 2014:</b>								
Balances at October 1, 2013	\$-	\$25	\$42,584	\$42,870	\$1,468	\$(1,287)	\$(3,407)	\$82,253
Net income	-	-	-	4,020	-	-	-	4,020
Other comprehensive income	-	-	-	-	1,991	-	-	1,991
Preferred stock dividends	-	-	-	(129 )	-	-	-	(129 )
Common stock dividends (\$0.32 per share)	-	-	-	(674 )	-	-	-	(674 )
Stock compensation expense	-	-	197	-	-	195	-	392
Shares released by ESOP trust	-	-	366	-	-	288	-	654
Purchase of 122,242 treasury shares	-	-	-	-	-	-	(2,844)	(2,844)
Balances at June 30, 2014	\$-	\$25	\$43,147	\$46,087	\$3,459	\$(804 )	\$(6,251)	\$85,663
<b>Nine Months Ended June 30, 2015:</b>								
Balances at October 1, 2014	\$-	\$25	\$43,199	\$47,175	\$3,853	\$(699 )	\$(6,473)	\$87,080
Net income	-	-	-	4,923	-	-	-	4,923
Other comprehensive loss	-	-	-	-	(393 )	-	-	(393 )
Preferred stock dividends	-	-	-	(129 )	-	-	-	(129 )
Common stock dividends (\$0.35 per share)	-	-	-	(734 )	-	-	-	(734 )
Stock compensation expense	-	-	243	-	-	162	-	405

Edgar Filing: First Savings Financial Group Inc - Form 10-Q

Shares released by ESOP trust	-	-	477	-	-	298	-	775
Stock options exercise - 20,972 shares	-	-	(89 )	-	-	-	367	278
Purchase of 9,274 treasury shares	-	-	-	-	-	-	(251 )	(251 )
Balances at June 30, 2015	\$-	\$25	\$43,830	\$51,235	\$3,460	\$(239 )	\$(6,357)	\$91,954

See notes to consolidated financial statements.

-6-

**PART I - FINANCIAL INFORMATION****FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS***(Unaudited)*

(In thousands)	Nine Months Ended June 30,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$4,923	\$4,020
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	627	904
Depreciation and amortization	1,081	1,084
Amortization of premiums and accretion of discounts on securities, net	557	466
Increase in trading account securities	(3,451 )	(2,044 )
Loans originated for sale	(7,178 )	(5,517 )
Proceeds on sales of loans	7,373	5,985
Net gain on sales of loans	(220 )	(191 )
Net realized and unrealized gain on other real estate owned	(29 )	(64 )
Net gain on sales of available for sale securities	-	(123 )
Unrealized loss on derivative contract	1	10
Gain on life insurance	(831 )	-
Increase in cash surrender value of life insurance	(364 )	(364 )
Deferred income taxes	(284 )	(118 )
ESOP and stock compensation expense	980	926
Increase in accrued interest receivable	(313 )	(353 )
Increase (decrease) in accrued interest payable	4	(21 )
Change in other assets and liabilities, net	164	135
Net Cash Provided By Operating Activities	3,040	4,735
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment in interest-bearing time deposits	(735 )	-
Purchase of securities available for sale	(19,096 )	(35,809 )
Proceeds from sales of securities available for sale	-	808
Proceeds from maturities of securities available for sale	8,417	6,233
Proceeds from maturities of securities held to maturity	367	409
Principal collected on securities	14,243	10,158
Net increase in loans	(14,647 )	(16,705 )
Purchase of Federal Reserve Bank stock	(945 )	-
Purchase of Federal Home Loan Bank stock	(461 )	(175 )
Proceeds from redemption of Federal Home Loan Bank stock	1,276	-
Investment in cash surrender value of life insurance	-	(5,000 )

Edgar Filing: First Savings Financial Group Inc - Form 10-Q

Investment in historic tax credit entity	(417 )	-
Proceeds from sale of other real estate owned	677	513
Investment in real estate development and construction	(73 )	(216 )
Purchase of premises and equipment	(350 )	(299 )
Net Cash Used In Investing Activities	(11,744 )	(40,083 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase (decrease) in deposits	(4,239 )	47,469
Net increase in repurchase agreements	3	2
Decrease in Federal Home Loan Bank line of credit	(4,922 )	(4,599 )
Proceeds from Federal Home Loan Bank advances	240,000	272,000
Repayment of Federal Home Loan Bank advances	(220,000)	(277,000)
Repayment of other long-term debt	(134 )	(118 )
Net decrease in advance payments by borrowers for taxes and insurance	(107 )	(172 )
Exercise of stock options	278	-
Purchase of treasury stock	(251 )	(2,861 )
Dividends paid on preferred stock	(129 )	(129 )
Dividends paid on common stock	(734 )	(674 )
Net Cash Provided By Financing Activities	9,765	33,918
Net Increase (Decrease) in Cash and Cash Equivalents	1,061	(1,430 )
Cash and cash equivalents at beginning of year	20,330	20,815
Cash and Cash Equivalents at End of Year	\$21,391	\$19,385

See notes to consolidated financial statements.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(Unaudited)*

**1. Presentation of Interim Information**

First Savings Financial Group, Inc. (the “Company”) is a financial holding company and the parent of First Savings Bank (the “Bank”) and First Savings Insurance Risk Management, Inc. (the “Captive”).

The Bank, which is a wholly-owned Indiana-chartered commercial bank subsidiary of the Company, provides a variety of banking services to individuals and business customers through fourteen locations in southern Indiana. The Bank attracts deposits primarily from the general public and uses those funds, along with other borrowings, primarily to originate commercial mortgage, residential mortgage, construction, commercial business and consumer loans, and to a lesser extent, to invest in mortgage-backed securities and other securities. The Bank has three wholly-owned subsidiaries: First Savings Investments, Inc., a Nevada corporation that manages a securities portfolio; FFCC, Inc., which is an Indiana corporation that participates in commercial real estate development and leasing; and Southern Indiana Financial Corporation, which is currently inactive.

The Captive, which is a wholly-owned insurance subsidiary of the Company formed during the fourth fiscal quarter of 2014, is a Nevada corporation that provides property and casualty insurance to the Company, the Bank and the Bank’s active subsidiaries. In addition, the Captive provides reinsurance to seven other third-party insurance captives for which insurance may not be currently available or economically feasible in the insurance marketplace.

In the opinion of management, the unaudited consolidated financial statements include all adjustments considered necessary to present fairly the financial position as of June 30, 2015, the results of operations for the three- and nine-month periods ended June 30, 2015 and 2014, and the cash flows for the nine-month periods ended June 30, 2015 and 2014. All of these adjustments are of a normal, recurring nature. Such adjustments are the only adjustments included in the unaudited consolidated financial statements. Interim results are not necessarily indicative of results for a full year.

The accompanying unaudited consolidated financial statements and notes have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial statements, conform to general practices within the banking industry and are presented as permitted by the instructions to Form 10-Q. Accordingly, they do not contain certain information included in the Company’s audited consolidated financial statements and related notes for the year ended September 30, 2014 included in the Company’s Annual Report on

Form 10-K.

The unaudited consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform with the current period presentation.

-8-



FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

**2. Investment Securities**

Agency bonds and notes, agency mortgage-backed securities and agency collateralized mortgage obligations (“CMO”) include securities issued by the Government National Mortgage Association (“GNMA”), a U.S. government agency, and the Federal National Mortgage Association (“FNMA”), the Federal Home Loan Mortgage Corporation (“FHLMC”) and the Federal Home Loan Bank (“FHLB”), which are U.S. government-sponsored enterprises. The Company also holds a pass-through asset-backed security guaranteed by the Small Business Administration (“SBA”) representing participating interests in pools of long-term debentures issued by state and local development companies certified by the SBA. Privately-issued CMO and asset-backed securities (“ABS”) are complex securities issued by non-government special-purpose entities that are collateralized by residential mortgage loans and residential home equity loans.

Investment securities have been classified according to management’s intent.

*Trading Account Securities*

The Company invests in small and medium lot, investment grade municipal bonds through a managed brokerage account. The brokerage account is managed by an investment advisory firm registered with the U.S. Securities and Exchange Commission. At June 30, 2015 and September 30, 2014, trading account securities recorded at fair value totaled \$8.8 million and \$5.3 million, respectively, and were comprised of investment grade municipal bonds. During the nine-month period ended June 30, 2015, the Company reported net gains on trading account securities of \$205,000, including net realized gains on the sale of securities of \$194,000, and net unrealized gains on securities still held as of the balance sheet date of \$11,000. During the three-month period ended June 30, 2015, the Company reported net gains on trading account securities of \$45,000, including net realized gains on the sale of securities of \$34,000 and net unrealized gains on securities still held as of the balance sheet date of \$11,000. During the nine-month period ended June 30, 2014, the Company reported net gains on trading account securities of \$572,000, including net realized gains on the sale of securities of \$577,000, partially offset by net unrealized losses on securities still held as of the balance sheet date of \$5,000. During the three-month period ended June 30, 2014, the Company reported net gains on trading account securities of \$210,000, including net realized gains on the sale of securities of \$159,000 and net unrealized gains on securities still held as of the balance sheet date of \$51,000.

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)**Securities Available for Sale and Held to Maturity*

The amortized cost of securities available for sale and held to maturity and their approximate fair values are as follows:

	<b>Gross Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
	<i>(In thousands)</i>			
<b>June 30, 2015:</b>				
Securities available for sale:				
Agency bonds and notes	\$7,573	\$ 8	\$ 62	\$7,519
Agency mortgage-backed	48,137	739	75	48,801
Agency CMO	21,431	98	85	21,444
Privately-issued CMO	3,104	495	-	3,599
Privately-issued ABS	4,994	1,448	-	6,442
SBA certificates	1,545	13	-	1,558
Municipal obligations	87,725	3,506	507	90,724
Total securities available for sale	\$174,509	\$ 6,307	\$ 729	\$180,087
Securities held to maturity:				
Agency mortgage-backed	\$357	\$ 34	\$ -	\$391
Municipal obligations	4,584	510	-	5,094
Total securities held to maturity	\$4,941	\$ 544	\$ -	\$5,485

**FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

	<b>Gross Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
	<i>(In thousands)</i>			
<b>September 30, 2014:</b>				
Securities available for sale:				
Agency bonds and notes	\$12,269	\$ 12	\$ 190	\$12,091
Agency mortgage-backed	51,845	518	108	52,255
Agency CMO	29,648	95	259	29,484
Privately-issued CMO	3,302	618	-	3,920
Privately-issued ABS	5,552	1,801	-	7,353
SBA certificates	1,753	9	-	1,762
Municipal obligations	74,148	3,818	134	77,832
Total securities available for sale	\$178,517	\$ 6,871	\$ 691	\$184,697
Securities held to maturity:				
Agency mortgage-backed	\$455	\$ 37	\$ -	\$492
Municipal	4,964	393	-	5,357
Total securities held to maturity	\$5,419	\$ 430	\$ -	\$5,849

The amortized cost and fair value of investment securities as of June 30, 2015 by contractual maturity are shown below. Expected maturities of mortgage-backed securities, CMO and ABS may differ from contractual maturities because the mortgages underlying the obligations may be prepaid without penalty.

	<b>Available for Sale</b>		<b>Held to Maturity</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Amortized Cost</b>	<b>Fair Value</b>
	<i>(In thousands)</i>			
Due within one year	\$530	\$532	\$ 604	\$ 644
Due after one year through five years	5,745	5,992	1,785	2,010
Due after five years through ten years	20,536	21,527	1,391	1,565
Due after ten years	68,487	70,192	804	875
	95,298	98,243	4,584	5,094

Edgar Filing: First Savings Financial Group Inc - Form 10-Q

CMO	24,535	25,043	-	-
ABS	4,994	6,442	-	-
SBA certificates	1,545	1,558	-	-
Mortgage-backed securities	48,137	48,801	357	391
	\$174,509	\$180,087	\$4,941	\$5,485

-11-

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

Information pertaining to investment securities with gross unrealized losses at June 30, 2015, aggregated by investment category and the length of time that individual securities have been in a continuous loss position, follows:

	Number of Investment Positions (Dollars in thousands)	Fair Value	Gross Unrealized Losses
Securities available for sale:			
Continuous loss position less than twelve months:			
Agency bonds and notes	2	\$4,467	\$ 33
Agency mortgage-backed	2	2,643	37
Agency CMO	1	1,639	4
Municipal obligations	43	25,903	456
Total less than twelve months	48	34,652	530
Continuous loss position more than twelve months:			
Agency bonds and notes	1	1,971	29
Agency mortgage-backed	2	2,081	38
Agency CMO	3	7,955	81
Municipal obligations	2	1,232	51
Total more than twelve months	8	13,239	199
Total securities available for sale	56	\$47,891	\$ 729

At June 30, 2015, the Company did not have any securities held to maturity with an unrealized loss.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The total available for sale debt securities in loss positions at June 30, 2015, which consisted of U.S. government agency notes, mortgage-backed securities and CMOs, and municipal bonds, had depreciated approximately 1.50% from their amortized cost basis and are fixed and variable rate securities with a weighted-average yield of 2.47% and a weighted-average coupon rate of 3.28% at June 30, 2015. All of the agency and municipal securities are issued by U.S. government-sponsored enterprises and municipal governments, and are generally secured by first mortgage loans and municipal project revenues.

-12-

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

The Company evaluates the existence of a potential credit loss component related to the decline in fair value of the privately-issued CMO and ABS portfolios each quarter using an independent third party analysis. At June 30, 2015, the Company held twenty privately-issued CMO and ABS securities acquired in a 2009 bank acquisition with an aggregate carrying value of \$2.7 million and fair value of \$3.9 million that have been downgraded to a substandard regulatory classification due to a downgrade of the security's credit quality rating by various rating agencies.

At June 30, 2015, there were no privately-issued CMOs or ABS in loss positions. Based on the independent third party analysis of the expected cash flows, management has determined that no other-than-temporary impairment is required to be recognized on the privately-issued CMO and ABS portfolios. While the Company did not recognize a credit-related impairment loss at June 30, 2015, additional deterioration in market and economic conditions may have an adverse impact on the credit quality in the future and therefore, require a credit-related impairment charge.

The unrealized losses on U.S. government agency notes, mortgage-backed securities and CMOs, and municipal bonds relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government, its agencies, or other governments, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities to maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other-than-temporary.

During the three- and nine-month periods ended June 30, 2015, the Company did not realize any gross gains or losses on sales of available for sale securities. During the three- and nine-month periods ended June 30, 2014, the Company realized gross gains on sales of available for sale U.S. government agency notes of \$122,000 and \$123,000, respectively.

Certain available for sale debt securities were pledged under repurchase agreements and to secure FHLB borrowings at June 30, 2015 and September 30, 2014, and may be pledged to secure federal funds borrowings.

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)***3. Loans and Allowance for Loan Losses**

Loans at June 30, 2015 and September 30, 2014 consisted of the following:

	<b>June 30, 2015</b>	<b>September 30, 2014</b>
	<i>(In thousands)</i>	
Real estate mortgage:		
1-4 family residential	\$ 182,454	\$ 182,743
Commercial	160,706	153,896
Multifamily residential	23,026	21,286
Residential construction	16,114	14,528
Commercial construction	14,151	8,354
Land and land development	11,608	11,290
Commercial business loans	33,164	28,448
Consumer:		
Home equity loans	18,572	17,903
Auto loans	5,579	5,619
Other consumer loans	2,135	2,320
Gross loans	467,509	446,387
Undisbursed portion of construction loans	(13,245 )	(6,271 )
Principal loan balance	454,264	440,116
Deferred loan origination fees and costs, net	(79 )	10
Allowance for loan losses	(6,520 )	(6,250 )
Loans, net	\$447,665	\$ 433,876

During the nine-month period ended June 30, 2015, there was no significant change in the Company's lending activities or methodology used to estimate the allowance for loan losses as disclosed in the Company's Annual Report on Form 10-K for the year ended September 30, 2014.



## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

The following table provides the components of the recorded investment in loans as of June 30, 2015:

	<b>Residential Real Estate</b>	<b>Commercial Real Estate</b>	<b>Multifamily</b>	<b>Construction</b>	<b>Land &amp; Land Development</b>	<b>Commercial Business</b>	<b>Consumer</b>	<b>Total</b>
	<i>(In thousands)</i>							
Recorded Investment in Loans:								
Principal loan balance	\$182,454	\$160,706	\$23,026	\$17,020	\$11,608	\$33,164	\$26,286	\$454,264
Accrued interest receivable	563	421	63	30	33	95	58	1,263
Net deferred loan origination fees and costs	294	(275 )	(28 )	(60 )	7	(15 )	(2 )	(79 )
Recorded investment in loans	\$183,311	\$160,852	\$23,061	\$16,990	\$11,648	\$33,244	\$26,342	\$455,448
Recorded Investment in Loans as Evaluated for Impairment:								
Individually evaluated for impairment	\$4,916	\$7,153	\$-	\$-	\$-	\$321	\$318	\$12,708
Collectively evaluated for impairment	178,004	153,699	23,061	16,990	11,648	32,923	25,993	442,318
Acquired with deteriorated credit quality	391	-	-	-	-	-	31	422

Edgar Filing: First Savings Financial Group Inc - Form 10-Q

Ending balance	\$183,311	\$160,852	\$23,061	\$16,990	\$11,648	\$33,244	\$26,342	\$455,448
----------------	-----------	-----------	----------	----------	----------	----------	----------	-----------

-15-

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

The following table provides the components of the recorded investment in loans as of September 30, 2014:

	<b>Residential Real Estate</b>	<b>Commercial Real Estate</b>	<b>Multifamily</b>	<b>Construction</b>	<b>Land &amp; Land Development</b>	<b>Commercial Business</b>	<b>Consumer</b>	<b>Total</b>
	<i>(In thousands)</i>							
Recorded Investment in Loans:								
Principal loan balance	\$ 182,743	\$ 153,896	\$ 21,286	\$ 16,611	\$ 11,290	\$ 28,448	\$ 25,842	\$ 440,116
Accrued interest receivable	590	384	53	44	31	111	63	1,276
Net deferred loan origination fees and costs	337	(252 )	(28 )	(54 )	4	(9 )	12	10
Recorded investment in loans	\$ 183,670	\$ 154,028	\$ 21,311	\$ 16,601	\$ 11,325	\$ 28,550	\$ 25,917	\$ 441,402
Recorded Investment in Loans as Evaluated for Impairment:								
Individually evaluated for impairment	\$ 4,866	\$ 5,705	\$ -	\$ -	\$ -	\$ 145	\$ 350	\$ 11,066
Collectively evaluated for impairment	178,298	148,323	21,311	16,601	11,325	28,405	25,535	429,798
Acquired with deteriorated credit quality	506	-	-	-	-	-	32	538

Edgar Filing: First Savings Financial Group Inc - Form 10-Q

Ending balance	\$183,670	\$154,028	\$21,311	\$16,601	\$11,325	\$28,550	\$25,917	\$441,402
----------------	-----------	-----------	----------	----------	----------	----------	----------	-----------

-16-

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

An analysis of the allowance for loan losses as of June 30, 2015 is as follows:

	<b>Residential Real Estate</b>	<b>Commercial Real Estate</b>	<b>Multifamily</b>	<b>Construction</b>	<b>Land &amp; Land Development</b>	<b>Commercial Business</b>	<b>Consumer</b>	<b>Total</b>
	<i>(In thousands)</i>							
Ending Allowance Balance Attributable to Loans: Individually evaluated for impairment	\$11	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8	\$19
Collectively evaluated for impairment	604	3,855	170	549	375	841	107	6,501
Acquired with deteriorated credit quality	-	-	-	-	-	-	-	-
Ending balance	\$615	\$ 3,855	\$ 170	\$ 549	\$ 375	\$ 841	\$ 115	\$6,520

An analysis of the allowance for loan losses as of September 30, 2014 is as follows:

	<b>Residential Real Estate</b>	<b>Commercial Real Estate</b>	<b>Multifamily</b>	<b>Construction</b>	<b>Land &amp; Land Development</b>	<b>Commercial Business</b>	<b>Consumer</b>	<b>Total</b>
	<i>(In thousands)</i>							
Ending Allowance Balance Attributable to Loans: Individually evaluated for impairment	\$13	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8	\$21
Collectively evaluated for impairment	564	3,808	146	443	302	795	171	6,229
Acquired with deteriorated credit quality	-	-	-	-	-	-	-	-

Edgar Filing: First Savings Financial Group Inc - Form 10-Q

Ending balance	\$577	\$ 3,808	\$ 146	\$ 443	\$ 302	\$ 795	\$ 179	\$6,250
----------------	-------	----------	--------	--------	--------	--------	--------	---------

-17-

**FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

An analysis of the changes in the allowance for loan losses for the three months ended June 30, 2015 is as follows:

	Residential Real Estate	Commercial Real Estate	Multifamily	Construction	Land & Land Development	Commercial Business	Consumer	Total
	(In thousands)							
Changes in Allowance for Loan Losses:								
Beginning balance	\$457	\$ 4,109	\$ 163	\$ 455	\$ 316	\$ 886	\$ 128	\$6,514
Provisions	300	(254 )	7	94	59	3	(1 )	208
Charge-offs	(156)	-	-	-	-	(48 )	(30 )	(234 )
Recoveries	14	-	-	-	-	-	18	32
Ending balance	\$615	\$ 3,855	\$ 170	\$ 549	\$ 375	\$ 841	\$ 115	\$6,520

An analysis of the changes in the allowance for loan losses for the nine months ended June 30, 2015 is as follows:

	Residential Real Estate	Commercial Real Estate	Multifamily	Construction	Land & Land Development	Commercial Business	Consumer	Total
	(In thousands)							
Changes in Allowance for Loan Losses:								
Beginning balance	\$577	\$ 3,808	\$ 146	\$ 443	\$ 302	\$ 795	\$ 179	\$6,250
Provisions	298	47	24	106	73	93	(14 )	627
Charge-offs	(299)	-	-	-	-	(48 )	(103 )	(450 )
Recoveries	39	-	-	-	-	1	53	93
Ending balance	\$615	\$ 3,855	\$ 170	\$ 549	\$ 375	\$ 841	\$ 115	\$6,520

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

An analysis of the changes in the allowance for loan losses for the three months ended June 30, 2014 is as follows:

	<b>Residential Real Estate</b>	<b>Commercial Real Estate</b>	<b>Multifamily</b>	<b>Construction</b>	<b>Land &amp; Land Development</b>	<b>Commercial Business</b>	<b>Consumer</b>	<b>Total</b>
<i>(In thousands)</i>								
Changes in Allowance for Loan Losses:								
Beginning balance	\$ 626	\$ 3,440	\$ 271	\$ 222	\$ 356	\$ 907	\$ 238	\$ 6,060
Provisions	291	(587 )	(106 )	29	35	622	16	300
Charge-offs	(291)	144	-	-	-	(234 )	(14 )	(395 )
Recoveries	15	-	-	-	-	-	12	27
Ending balance	\$ 641	\$ 2,997	\$ 165	\$ 251	\$ 391	\$ 1,295	\$ 252	\$ 5,992

An analysis of the changes in the allowance for loan losses for the nine months ended June 30, 2014 is as follows:

	<b>Residential Real Estate</b>	<b>Commercial Real Estate</b>	<b>Multifamily</b>	<b>Construction</b>	<b>Land &amp; Land Development</b>	<b>Commercial Business</b>	<b>Consumer</b>	<b>Total</b>
<i>(In thousands)</i>								
Changes in Allowance for Loan Losses:								
Beginning balance	\$ 780	\$ 2,826	\$ 249	\$ 229	\$ 299	\$ 907	\$ 248	\$ 5,538
Provisions	230	(48 )	(84 )	22	92	622	70	904
Charge-offs	(388)	-	-	-	-	(234 )	(113 )	(735 )
Recoveries	19	219	-	-	-	-	47	285
Ending balance	\$ 641	\$ 2,997	\$ 165	\$ 251	\$ 391	\$ 1,295	\$ 252	\$ 5,992



## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(Unaudited)*

The following table presents impaired loans individually evaluated for impairment as of June 30, 2015 and for the three and nine months ended June 30, 2015 and 2014.

	At June 30, 2015			Three Months Ended June 30,				Nine Months Ended June 30,			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	2015	2015	2014	2014	2015	2015	2014	2014
			Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized	Interest Recognized
<i>(In thousands)</i>											
Loans with no related allowance recorded:											
Residential real estate	\$5,083	\$5,568	\$ -	\$5,643	\$ 36	\$5,614	\$ 33	\$5,663	\$ 109	\$5,976	\$ 98
Commercial real estate	7,130	7,165	-	6,047	55	5,816	65	5,842	168	5,896	176
Multifamily	-	-	-	-	-	2,214	27	-	-	2,227	83
Construction	-	-	-	-	-	-	-	-	-	-	-
Land and land development	-	-	-	-	-	-	-	-	-	-	-
Commercial business	321	304	-	305	-	164	-	242	1	333	1
Consumer	231	235	-	233	1	265	2	243	4	294	5
	\$12,765	\$13,272	\$ -	\$12,048	\$ 92	\$14,073	\$ 127	\$11,990	\$ 282	\$14,726	\$ 363
Loans with an allowance recorded:											
Residential real estate	\$75	\$73	\$ 11	\$73	\$ -	\$55	\$ -	\$129	\$ -	\$55	\$ -
Commercial real estate	23	22	-	22	-	-	-	9	-	-	-
Multifamily	-	-	-	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-	-	-	-
Land and land development	-	-	-	-	-	-	-	-	-	-	-

Edgar Filing: First Savings Financial Group Inc - Form 10-Q

Commercial business	-	-	-	12	-	-	-	5	-	-	-
Consumer	87	87	8	93	-	103	-	91	-	101	-
	\$185	\$182	\$19	\$200	\$-	\$158	\$-	\$234	\$-	\$156	\$-
Total:											
Residential real estate	\$5,158	\$5,641	\$11	\$5,536	\$36	\$5,669	\$33	\$5,792	\$109	\$6,031	\$98
Commercial real estate	7,153	7,187	-	6,069	55	5,816	65	5,851	168	5,896	176
Multifamily	-	-	-	-	-	2,214	27	-	-	2,227	83
Construction	-	-	-	-	-	-	-	-	-	-	-
Land and land development	-	-	-	-	-	-	-	-	-	-	-
Commercial business	321	304	-	317	-	164	-	247	1	333	1
Consumer	318	322	8	326	1	368	2	334	4	395	5
	\$12,950	\$13,454	\$19	\$12,248	\$92	\$14,231	\$127	\$12,224	\$282	\$14,882	\$363

The Company recognized \$5,000 and \$52,000 of interest income on impaired commercial real estate loans using the cash receipts method during the nine-month periods ended June 30, 2015 and 2014, respectively. The Company did not recognize any interest income using the cash receipts method during the three-month period ended June 30, 2015. The Company recognized \$11,000 of interest income on impaired commercial real estate loans using the cash receipts method during the three-month period ended June 30, 2014.

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

The following table presents impaired loans individually evaluated for impairment as of September 30, 2014.

	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>
	<i>(In thousands)</i>		
Loans with no related allowance recorded:			
Residential real estate	\$4,974	\$ 5,426	\$ -
Commercial real estate	5,705	5,739	-
Multifamily	-	-	-
Construction	-	-	-
Land and land development	-	-	-
Commercial business	145	133	-
Consumer	255	258	-
	<b>\$11,079</b>	<b>\$ 11,556</b>	<b>\$ -</b>
Loans with an allowance recorded:			
Residential real estate	\$167	\$ 166	\$ 13
Commercial real estate	-	-	-
Multifamily	-	-	-
Construction	-	-	-
Land and land development	-	-	-
Commercial business	-	-	-
Consumer	95	95	8
	<b>\$262</b>	<b>\$ 261</b>	<b>\$ 21</b>
Total:			
Residential real estate	\$5,141	\$ 5,592	\$ 13
Commercial real estate	5,705	5,739	-
Multifamily	-	-	-
Construction	-	-	-
Land and land development	-	-	-
Commercial business	145	133	-
Consumer	350	353	8

\$11,341 \$ 11,817 \$ 21

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

Nonperforming loans consist of nonaccrual loans and loans over 90 days past due and still accruing interest. The following table presents the recorded investment in nonperforming loans at June 30, 2015:

	<b>Loans 90+ Days Past Due Still Accruing</b>	<b>Total Nonperforming Loans</b>
	<i>(In thousands)</i>	
Residential real estate	\$2,352 \$ 178	\$ 2,530
Commercial real estate	1,919 -	1,919
Multifamily	- -	-
Construction	- -	-
Land and land development	- -	-
Commercial business	304 100	404
Consumer	189 -	189
Total	\$4,764 \$ 278	\$ 5,042

The following table presents the recorded investment in nonperforming loans at September 30, 2014:

	<b>Loans 90+ Days Past Due Still Accruing</b>	<b>Total Nonperforming Loans</b>
	<i>(In thousands)</i>	
Residential real estate	\$2,431 \$ 458	\$ 2,889
Commercial real estate	1,034 -	1,034
Multifamily	- -	-
Construction	- -	-
Land and land development	- -	-
Commercial business	123 -	123
Consumer	216 20	236

Total	\$3,804	\$ 478	\$ 4,282
-------	---------	--------	----------

-22-

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

The following table presents the aging of the recorded investment in past due loans at June 30, 2015:

	<b>30-59 Days Past Due</b>	<b>60-89 Days Past Due</b>	<b>90 + Days Past Due</b>	<b>Total Past Due</b>	<b>Current</b>	<b>Total Loans</b>
	<i>(In thousands)</i>					
Residential real estate	\$3,522	\$ 877	\$ 1,777	\$ 6,176	\$177,135	\$183,311
Commercial real estate	364	-	200	564	160,288	160,852
Multifamily	-	391	-	391	22,670	23,061
Construction	79	-	-	79	16,911	16,990
Land and land development	-	-	-	-	11,648	11,648
Commercial business	178	52	404	634	32,610	33,244
Consumer	41	31	20	92	26,250	26,342
Total	\$4,184	\$ 1,351	\$ 2,401	\$ 7,936	\$447,512	\$455,448

The following table presents the aging of the recorded investment in past due loans at September 30, 2014:

	<b>30-59 Days Past Due</b>	<b>60-89 Days Past Due</b>	<b>90 + Days Past Due</b>	<b>Total Past Due</b>	<b>Current</b>	<b>Total Loans</b>
	<i>(In thousands)</i>					
Residential real estate	\$4,493	\$ 1,639	\$ 1,823	\$ 7,955	\$175,715	\$183,670
Commercial real estate	115	54	59	228	153,800	154,028
Multifamily	297	-	-	297	21,014	21,311
Construction	-	-	-	-	16,601	16,601
Land and land development	6	205	-	211	11,114	11,325
Commercial business	259	-	123	382	28,168	28,550
Consumer	39	79	72	190	25,727	25,917
Total	\$5,209	\$ 1,977	\$ 2,077	\$ 9,263	\$432,139	\$441,402





FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, public information, historical payment experience, credit documentation, and current economic conditions and trends, among other factors. The Company classifies loans based on credit risk at least quarterly. The Company uses the following regulatory definitions for risk ratings:

*Special Mention:* Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date.

*Substandard:* Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

*Doubtful:* Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

*Loss:* Loans classified as loss are considered uncollectible and of such little value that their continuance on the Company's books as an asset is not warranted.

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass-rated loans. As of June 30, 2015, and based on the most recent analysis performed, the recorded investment in loans by risk category was as follows:

	Residential		Commercial		Land and	Commercial		Total
	Real Estate	Real Estate	Multifamily	Construction	Land Development	Business	Consumer	
	<i>(In thousands)</i>							
Pass	\$ 174,242	\$ 142,958	\$ 23,061	\$ 16,990	\$ 11,298	\$ 32,818	\$ 25,946	\$ 427,313
Special Mention	2,710	11,364	-	-	255	117	137	14,583
Substandard	5,992	6,530	-	-	95	309	251	13,177
Doubtful	367	-	-	-	-	-	8	375
Loss	-	-	-	-	-	-	-	-
Total	\$ 183,311	\$ 160,852	\$ 23,061	\$ 16,990	\$ 11,648	\$ 33,244	\$ 26,342	\$ 455,448

As of September 30, 2014, the recorded investment in loans by risk category was as follows:

	Residential		Commercial		Land and	Commercial		Total
	Real Estate	Real Estate	Multifamily	Construction	Land Development	Business	Consumer	
	<i>(In thousands)</i>							
Pass	\$ 172,822	\$ 138,854	\$ 21,311	\$ 16,601	\$ 11,206	\$ 28,127	\$ 25,471	\$ 414,392
Special Mention	4,233	10,226	-	-	6	278	89	14,832
Substandard	6,398	4,948	-	-	113	145	350	11,954
Doubtful	217	-	-	-	-	-	7	224
Loss	-	-	-	-	-	-	-	-

Edgar Filing: First Savings Financial Group Inc - Form 10-Q

Total	\$183,670	\$ 154,028	\$ 21,311	\$ 16,601	\$ 11,325	\$ 28,550	\$ 25,917	\$441,402
-------	-----------	------------	-----------	-----------	-----------	-----------	-----------	-----------

-25-

**FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)**Troubled Debt Restructurings*

Modification of a loan is considered to be a troubled debt restructuring (“TDR”) if the debtor is experiencing financial difficulties and the Company grants a concession to the debtor that it would not otherwise consider. By granting the concession, the Company expects to obtain more cash or other value from the debtor, or to increase the probability of receipt, than would be expected by not granting the concession. The concession may include, but is not limited to, reduction of the stated interest rate of the loan, reduction of accrued interest, extension of the maturity date or reduction of the face amount or maturity amount of the debt. A concession will be granted when, as a result of the restructuring, the Company does not expect to collect all amounts due, including interest at the original stated rate. A concession may also be granted if the debtor is not able to access funds elsewhere at a market rate for debt with similar risk characteristics as the restructured debt. The Company’s determination of whether a loan modification is a TDR considers the individual facts and circumstances surrounding each modification.

Loans modified in a TDR may be retained on accrual status if the borrower has maintained a period of performance in which the borrower’s lending relationship was not greater than ninety days delinquent at the time of restructuring and the Company determines the future collection of principal and interest is reasonably assured. Loans modified in a TDR that are placed on nonaccrual status at the time of restructuring will continue on nonaccrual status until the Company determines the future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate a period of performance according to the restructured terms of at least six consecutive months.

The following table summarizes the Company’s recorded investment in TDRs at June 30, 2015 and September 30, 2014. There was no specific reserve included in the allowance for loan losses related to TDRs at June 30, 2015 and September 30, 2014.

	<b>Accruing</b>	<b>Nonaccruing</b>	<b>Total</b>
	<i>(In thousands)</i>		
<b>June 30, 2015:</b>			
Residential real estate	\$2,806	\$ 214	\$3,020
Commercial real estate	5,234	-	5,234
Commercial business	17	-	17
Consumer	129	-	129

Total	\$8,186	\$ 214	\$8,400
-------	---------	--------	---------

**September 30, 2014:**

Residential real estate	\$2,710	\$ 214	\$2,924
-------------------------	---------	--------	---------

Commercial real estate	4,671	696	5,367
------------------------	-------	-----	-------

Commercial business	22	-	22
---------------------	----	---	----

Consumer	134	-	134
----------	-----	---	-----

Total	\$7,537	\$ 910	\$8,447
-------	---------	--------	---------

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

The following table summarizes information in regard to TDRs that were restructured during the three- and nine-month periods ended June 30, 2015 and 2014:

	Pre- Modification Principal Balance	Post- Modification Principal Balance
	Number of Loans	
	(In thousands)	
June 30, 2015:		
Three Months Ended June 30, 2015:		
Consumer	1 \$ 3	\$ 3
Total	1 \$ 3	\$ 3
Nine Months Ended June 30, 2015:		
Residential real estate	2 \$ 165	\$ 172
Consumer	1 3	3
Total	3 \$ 168	\$ 175
June 30, 2014:		
Three Months Ended June 30, 2014:		
Residential real estate	2 \$ 76	\$ 76
Total	2 \$ 76	\$ 76
Nine Months Ended June 30, 2014:		
Residential real estate	5 \$ 215	\$ 235
Commercial real estate	1 716	724
Total	6 \$ 931	\$ 959

For the TDRs listed above, the terms of modification included reduction of the stated interest rate and extension of the maturity date where the debtor was unable to access funds elsewhere at a market interest rate for debt with similar risk characteristics.

The Company had not committed to lend any additional amounts as of June 30, 2015 and September 30, 2014 to customers with outstanding loans classified as TDRs at such dates.

There were no principal charge-offs recorded as a result of TDRs during the nine-month periods ended June 30, 2015 and 2014. There was no specific allowance for loan losses related to TDRs modified during the nine-month periods ended June 30, 2015 and 2014. In the event that a TDR subsequently defaults, the Company evaluates the restructuring for possible impairment. As a result, the related allowance for loan losses may be increased or charge-offs may be taken to reduce the carrying amount of the loan.

During the nine-month period ended June 30, 2015, the Company did not have any TDRs that were modified within the previous twelve months and for which there was a payment default (defined as more than 90 days past due or in the process of foreclosure). During the nine-month period ended June 30, 2014, the Company had two TDRs totaling \$476,000 that were modified within the previous twelve months and for which there was a payment default. No charge-offs were recognized for TDRs with subsequent payment defaults for the nine-month periods ended June 30, 2015 and 2014.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

**4. Real Estate Development and Construction**

The Company is developing a parcel of land in New Albany, Indiana for retail purposes through the Bank's subsidiary, FFCC. The total cost of the development is expected to be approximately \$7.7 million, including the \$7.6 million paid as of June 30, 2015. The development costs were partially funded by a loan from another financial institution. The development is substantially completed, with only certain tenant improvements in a multi-tenant retail building to be completed for current and future lessees, and nine tenants have commenced occupancy as of June 30, 2015. The development plans provide for up to twelve tenants when fully occupied.

Depreciation expense of \$48,000 and \$146,000 was recognized for real estate development and construction for the three- and nine-month periods ended June 30, 2015, respectively. Depreciation expense of \$47,000 and \$141,000 was recognized for real estate development and construction for the three- and nine-month periods ended June 30, 2014, respectively.

As a result of the Bank's conversion to an Indiana-chartered commercial bank and entry in the Federal Reserve System on December 19, 2014, the Company is required under federal regulations to divest of its commercial real estate development by December 19, 2016 but may apply to the Federal Reserve System for extension of the conformance period for up to three additional years, in three one-year increments. The Company is required under Indiana statute to divest of its commercial real estate development within a ten-year period, or prior to December 19, 2024. In connection with its charter conversion, the Bank has committed under a plan of divestiture filed with the Indiana Department of Financial Institutions to divest of the commercial real estate development prior to December 31, 2017, which may require approval from the Federal Reserve System for extension of the federal conformance period beyond December 19, 2016.

**5. Investment in Historic Tax Credit Entity**

On October 15, 2014, the Company entered into an agreement to participate in the rehabilitation of a certified historic structure located in Louisville, Kentucky with a regional commercial developer. As part of the agreement, the Bank committed to invest \$4.2 million into a limited liability company organized in the state of Kentucky by the commercial developer, for which it received a 99% equity interest in the entity and will receive an allocation of 99% of the operating profit and losses and any historic tax credits generated by the entity. The tax credits expected to be allocated to the Bank include federal rehabilitation investment credits totaling \$4.6 million available under Internal



Revenue Code Section 47. The Bank invested \$417,000 on October 15, 2014 and has committed to invest an additional \$417,000 when the project is 50% completed and the remaining \$3.3 million when the project is fully completed and the certificate of occupancy is received. The project is expected to be fully completed in April 2016.

The Bank's investment in the historic tax credit entity is accounted for under the equity method of accounting. At June 30, 2015, the Bank's investment of \$4.2 million was included in other assets and its unfunded capital contribution commitment of \$3.8 million was included in other liabilities in the accompanying consolidated balance sheet.

**FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)***5. Supplemental Disclosure for Earnings  
Per Share**

When presented, basic earnings per share are computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect 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 entity. Earnings per share information is presented below for the three- and nine-month periods ended June 30, 2015 and 2014.

	<b>Three Months Ended June 30,</b>		<b>Nine Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<i>(Dollars in thousands, except per share data)</i>			
Basic:				
Earnings:				
Net income	\$2,196	\$1,456	\$4,923	\$4,020
Less: Preferred stock dividends declared	(43 )	(43 )	(129 )	(129 )
Net income available to common shareholders	\$2,153	\$1,413	\$4,794	\$3,891
Shares:				
Weighted average common shares outstanding	2,149,931	2,092,938	2,133,557	2,130,599
Net income per common share, basic	\$1.00	\$0.68	\$2.25	\$1.83
Diluted:				
Earnings:				
Net income	\$2,196	\$1,456	\$4,923	\$4,020
Less: Preferred stock dividends declared	(43 )	(43 )	(129 )	(129 )
Net income available to common shareholders	\$2,153	\$1,413	\$4,794	\$3,891
Shares:				
Weighted average common shares outstanding	2,149,931	2,092,938	2,133,557	2,130,599
Add: Dilutive effect of outstanding options	103,545	96,885	99,515	93,256
Add: Dilutive effect of restricted stock	5,694	11,500	7,850	13,338
Weighted average common shares outstanding as adjusted	2,259,170	2,201,323	2,240,922	2,237,193

Edgar Filing: First Savings Financial Group Inc - Form 10-Q

Net income per common share, diluted	\$0.95	\$0.64	\$2.14	\$1.74
--------------------------------------	--------	--------	--------	--------

Unearned ESOP and nonvested restricted stock shares are not considered as outstanding for purposes of computing weighted average common shares outstanding.

-29-

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)***7. Supplemental Disclosures of Cash Flow Information**

	<b>Nine Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
	<i>(In thousands)</i>	
Cash payments for:		
Interest	\$ 2,913	\$ 2,889
Taxes	894	1,351
Transfers from loans to foreclosed real estate	543	1,018
Proceeds from sales of foreclosed real estate financed through loans	290	496

**8. Fair Value Measurements and Disclosures about Fair Value of Financial Instruments**

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 820, *Fair Value Measurements*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC Topic 820 are described as follows:

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

Level 2: Inputs to the valuation methodology include quoted market prices for similar assets or liabilities in active markets; quoted market prices for identical or similar assets or liabilities in markets that are not active; or inputs that are derived principally from or can be corroborated by observable market data by correlation or other means.

Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 Level assets and liabilities include financial instruments whose value is determined using discounted cash flow 3: methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's financial assets carried at fair value or the lower of cost or fair value. The tables below present the balances of financial assets measured at fair value on a recurring and nonrecurring basis as of June 30, 2015 and September 30, 2014. The Company had no liabilities measured at fair value as of June 30, 2015 or September 30, 2014.

-30-

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

	<b>Carrying Value</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<i>(In thousands)</i>			
<b>June 30, 2015:</b>				
<i>Assets Measured - Recurring Basis:</i>				
Trading account securities	\$-	\$8,770	\$-	\$8,770
Securities available for sale:				
Agency bonds and notes	\$-	\$7,519	\$-	\$7,519
Agency mortgage-backed	-	48,801	-	48,801
Agency CMO	-	21,444	-	21,444
Privately-issued CMO	-	3,599	-	3,599
Privately-issued ABS	-	6,442	-	6,442
SBA certificates	-	1,558	-	1,558
Municipal	-	90,724	-	90,724
Total securities available for sale	\$-	\$180,087	\$-	\$180,087
<i>Assets Measured - Nonrecurring Basis:</i>				
Impaired loans:				
Residential real estate	\$-	\$-	\$5,147	\$5,147
Commercial real estate	-	-	7,153	7,153
Commercial business	-	-	321	321
Consumer	-	-	310	310
Total impaired loans	\$-	\$-	\$12,931	\$12,931
Loans held for sale	\$-	\$306	\$-	\$306
Other real estate owned, held for sale:				
Residential real estate	\$-	\$-	\$344	\$344
Commercial real estate	-	-	211	211
Land and land development	-	-	3	3
Total other real estate owned	\$-	\$-	\$558	\$558

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

	<b>Carrying Value</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<i>(In thousands)</i>			
<b>September 30, 2014:</b>				
<i>Assets Measured - Recurring Basis:</i>				
Trading account securities	\$-	\$5,319	\$-	\$5,319
Securities available for sale:				
Agency bonds and notes	\$-	\$12,091	\$-	\$12,091
Agency mortgage-backed	-	52,255	-	52,255
Agency CMO	-	29,484	-	29,484
Privately-issued CMO	-	3,920	-	3,920
Privately-issued ABS	-	7,353	-	7,353
SBA certificates	-	1,762	-	1,762
Municipal	-	77,832	-	77,832
Total securities available for sale	\$-	\$184,697	\$-	\$184,697
Interest rate cap contract	\$-	\$1	\$-	\$1
<i>Assets Measured - Nonrecurring Basis:</i>				
Impaired loans:				
Residential real estate	\$-	\$-	\$5,128	\$5,128
Commercial real estate	-	-	5,705	5,705
Commercial business	-	-	145	145
Consumer	-	-	342	342
Total impaired loans	\$-	\$-	\$11,320	\$11,320
Loans held for sale	\$-	\$281	\$-	\$281
Other real estate owned, held for sale:				
Residential real estate	\$-	\$-	\$518	\$518
Commercial real estate	-	-	377	377
Land and land development	-	-	58	58
Total other real estate owned	\$-	\$-	\$953	\$953

Fair value is based upon quoted market prices where available. If quoted market prices are not available, fair value is based on internally developed models or obtained from third parties that primarily use, as inputs, observable market-based parameters or a matrix pricing model that employs the Bond Market Association's standard calculations for cash flow and price/yield analysis and observable market-based parameters. Valuation adjustments may be made

to ensure that financial instruments are recorded at fair value, or the lower of cost or fair value. These adjustments may include unobservable parameters. Any such valuation adjustments have been applied consistently over time.

-32-



**FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. There were no changes in the valuation techniques and related inputs used for assets measured at fair value during the nine-month period ended June 30, 2015.

***Trading Account Securities and Securities Available for Sale.*** Securities classified as trading and available for sale are reported at fair value on a recurring basis. These securities are classified as Level 1 of the valuation hierarchy where quoted market prices from reputable third-party brokers are available in an active market. If quoted market prices are not available, the Company obtains fair value measurements from an independent pricing service. These securities are reported using Level 2 inputs and the fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, U.S. government and agency yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security's terms and conditions, among other factors. Changes in fair value of trading account securities are reported in noninterest income. Changes in fair value of securities available for sale are recorded in other comprehensive income, net of income tax effect.

***Derivative Financial Instruments.*** Derivative financial instruments consist of an interest rate cap contract. As such, significant fair value inputs can generally be verified by counterparties and do not involve significant management judgments (Level 2 inputs).

***Impaired Loans.*** Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly. The fair value of impaired loans is classified as Level 3 in the fair value hierarchy.

Impaired loans are measured at the present value of estimated future cash flows using the loan's effective interest rate or the fair value of the collateral if the loan is a collateral-dependent loan. Collateral may be real estate and/or business assets, including equipment, inventory and/or accounts receivable, and its fair value is generally determined based on real estate appraisals or other independent evaluations by qualified professionals. The appraisals are generally then discounted by management in order to reflect management's estimate of the fair value of the collateral given the current market conditions and the condition of the collateral. At June 30, 2015 and September 30, 2014, the significant unobservable inputs used in the fair value measurement of impaired loans included a discount from appraised value ranging from 0.0% to 15.0% and estimated costs to sell the collateral ranging from 0.0% to 6.0%. During the

nine-month periods ended June 30, 2015 and 2014, the Company recognized provisions for loan losses of \$49,000 and \$2,000, respectively, for impaired loans. No provisions for loan losses were recognized for the three-month periods ended June 30, 2015 and 2014 for impaired loans.

-33-

**FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

**Loans Held for Sale.** Loans held for sale are carried at the lower of cost or market value. The portfolio is comprised of residential real estate loans and fair value is based on specific prices of underlying contracts for sales to investors. The fair value of loans held for sale is classified as Level 2 in the fair value hierarchy.

**Other Real Estate Owned.** Other real estate owned held for sale is reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly. The fair value of other real estate owned is classified as Level 3 in the fair value hierarchy.

Other real estate owned is reported at fair value less estimated costs to dispose of the property. The fair values are determined by real estate appraisals, which are then generally discounted by management in order to reflect management's estimate of the fair value of the property given current market conditions and the condition of the property. At June 30, 2015, the significant unobservable inputs used in the fair value measurement of other real estate owned included a discount from appraised value ranging from 15.0% to 56.5% with a weighted average of 21.3%. At September 30, 2014, the significant unobservable inputs used in the fair value measurement of other real estate owned included a discount from appraised value ranging from 13.3% to 50.0% with a weighted average of 18.7%. The Company did not recognize any charges to write down other real estate owned to fair value for the three months ended June 30, 2015. The Company recognized charges of \$33,000 to write down other real estate owned to fair value for the nine months ended June 30, 2015. The Company recognized charges of \$80,000 and \$181,000 to write down other real estate owned to fair value for the three and nine months ended June 30, 2014, respectively.

**Transfers Between Categories.** There were no transfers into or out of Level 3 financial assets for the nine-month periods ended June 30, 2015 and 2014. In addition, there were no transfers into or out of Levels 1 and 2 of the fair value hierarchy during the nine-month periods ended June 30, 2015 and 2014.

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

GAAP requires disclosure of fair value information about financial instruments for interim reporting periods, whether or not recognized in the consolidated balance sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. The carrying amounts and estimated fair values of the Company's financial instruments are as follows:

	Carrying Amount (In thousands)	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
June 30, 2015:				
Financial assets:				
Cash and due from banks	\$7,963	\$7,963	\$-	\$-
Interest-bearing deposits with banks	13,428	13,428	-	-
Interest-bearing time deposits	2,235	-	2,240	-
Trading account securities	8,770	-	8,770	-
Securities available for sale	180,087	-	180,087	-
Securities held to maturity	4,941	-	5,485	-
Loans, net	447,665	-	-	447,102
Loans held for sale	306	-	306	-
FRB and FHLB stock	6,647	-	6,647	-
Accrued interest receivable	2,824	-	2,824	-
Investment in historic tax credit entity (included in other assets)	4,169	-	4,169	-
Financial liabilities:				
Deposits	528,955	-	-	531,902
Short-term repurchase agreements	1,341	-	1,341	-
Borrowings from FHLB	94,626	-	96,119	-
Other long-term debt	4,678	-	4,678	-
Accrued interest payable	179	-	179	-
Advance payments by borrowers for taxes and insurance	641	-	641	-



## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

Carrying Amount    Fair Value Measurements Using:  
 Level 1    Level 2    Level 3  
 (In thousands)

**September 30, 2014:**

## Financial assets:

Cash and due from banks	\$8,853	\$8,853	\$-	\$-
Interest-bearing deposits with banks	11,477	11,477	-	-
Interest-bearing time deposits	1,500	-	1,496	-
Trading account securities	5,319	-	5,319	-
Securities available for sale	184,697	-	184,697	-
Securities held to maturity	5,419	-	5,849	-
Loans, net	433,876	-	-	434,023
Loans held for sale	281	-	281	-
FHLB stock	6,517	-	6,517	-
Accrued interest receivable	2,511	-	2,511	-
Interest rate cap (included in other assets)	1	-	1	-

## Financial liabilities:

Deposits	533,194	-	-	535,364
Short-term repurchase agreements	1,338	-	1,338	-
Borrowings from FHLB	79,548	-	79,455	-
Other long-term debt	4,812	-	4,812	-
Accrued interest payable	175	-	175	-
Advance payments by borrowers for taxes and insurance	748	-	748	-

The carrying amounts in the preceding tables are included in the consolidated balance sheets under the applicable captions. The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

**Cash and Cash Equivalents**

For cash and short-term instruments, including cash and due from banks and interest-bearing deposits with banks, the carrying amount is a reasonable estimate of fair value.

**Investment Securities and Interest-Bearing Time Deposits**

For debt securities and interest-bearing time deposits, the Company obtains fair value measurements from an independent pricing service and the fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, U.S. government and agency yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security's terms and conditions, among other factors. For FRB and FHLB stock, which are restricted equity securities, the carrying amount is a reasonable estimate of fair value because they are not marketable.

**Loans**

The fair value of loans, excluding loans held for sale, is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and terms. Impaired loans are valued at the lower of their carrying value or fair value, as previously described. The carrying amount of accrued interest receivable approximates its fair value.

The fair value of loans held for sale is estimated based on specific prices of underlying contracts for sales to investors, as previously described.

**Deposits**

The fair value of demand and savings deposits and other transaction accounts is the amount payable on demand at the balance sheet date. The fair value of fixed-maturity time deposits is estimated by discounting the future cash flows using the rates currently offered for deposits with similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

### **Borrowed Funds**

Borrowed funds include borrowings from the FHLB, repurchase agreements and other long-term debt. Fair value for FHLB advances and long-term repurchase agreements is estimated by discounting the future cash flows at current interest rates for FHLB advances of similar maturities. For short-term repurchase agreements, FHLB line of credit borrowings and other debt, the carrying value is a reasonable estimate of fair value.

-37-



## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)***9. Employee Stock Ownership Plan**

On October 6, 2008, the Company established a leveraged employee stock ownership plan (“ESOP”) covering substantially all employees. The ESOP trust acquired 203,363 shares of Company common stock at a cost of \$10.00 per share financed by a term loan with the Company. The employer loan and the related interest income are not recognized in the consolidated financial statements because the debt is serviced from Company contributions. Dividends payable on allocated shares are charged to retained earnings and are satisfied by the allocation of cash dividends to participant accounts or by utilizing the dividends as additional debt service on the ESOP loan. Dividends payable on unallocated shares are not considered dividends for financial reporting purposes. Shares held by the ESOP trust are allocated to participant accounts based on the ratio of the current year principal and interest payments to the total of the current year and future years’ principal and interest to be paid on the employer loan. Compensation expense is recognized based on the average fair value of shares released for allocation to participant accounts during the year with a corresponding credit to stockholders’ equity. Compensation expense recognized for the three- and nine-month periods ended June 30, 2015 amounted to \$122,000 and \$722,000, respectively. Compensation expense recognized for the three- and nine-month periods ended June 30, 2014 amounted to \$96,000 and \$617,000, respectively. Company common stock held by the ESOP trust at June 30, 2015 and September 30, 2014 was as follows:

	<b>June 30, 2015</b>	<b>September 30, 2014</b>
Allocated shares	160,750	132,339
Unearned shares	23,882	53,706
Total ESOP shares	184,632	186,045
Fair value of unearned shares	\$710,000	\$ 1,341,000

**10. Stock Based Compensation Plans**

The Company’s 2010 Equity Incentive Plan (“Plan”), which the Company’s shareholders approved in February 2010, provides for the award of stock options, restricted shares and performance shares. The aggregate number of shares of the Company’s common stock available for issuance under the Plan may not exceed 355,885 shares. The Company may grant both non-statutory and statutory (i.e., incentive) stock options that may not have a term exceeding ten years. An award of a performance share is a grant of a right to receive shares of the Company’s common stock contingent upon the achievement of specific performance criteria or other objectives set at the grant date. Awards granted under the Plan may be granted either alone, in addition to, or in tandem with any other award granted under

the Plan. The terms of the Plan include a provision whereby all unearned options and shares become immediately exercisable and fully vested upon a change in control.

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

In April 2010, the Company funded a trust, administered by an independent trustee, which acquired 101,681 common shares in the open market at a price per share of \$13.60 for a total cost of \$1.4 million. These acquired common shares were later granted to directors, officers and key employees in the form of restricted stock in May 2010 at a price per share of \$13.25 for a total of \$1.3 million. The difference between the purchase price and grant price of the common shares issued as restricted stock, totaling \$41,000, was recognized by the Company as a reduction of additional paid in capital. The restricted stock vests ratably over a five-year period from the grant date. Compensation expense is measured based on the fair market value of the restricted stock at the grant date and is recognized ratably over the period during which the shares are earned (the vesting period). Compensation expense related to restricted stock recognized for the three- and nine-month periods ended June 30, 2015 amounted to \$31,000 and \$162,000, respectively. Compensation expense related to restricted stock recognized for the three- and nine-month periods ended June 30, 2014 amounted to \$65,000 and \$195,000, respectively. A summary of the Company's nonvested restricted shares activity under the Plan as of June 30, 2015 and changes during the nine-month period then ended is presented below.

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Nonvested at October 1, 2014	19,610	\$ 13.25
Granted	-	-
Vested	(19,610)	\$ 13.25
Forfeited	-	-
Nonvested at June 30, 2015	-	\$ -

There were 19,610 and 19,620 restricted shares that vested during the nine-month periods ended June 30, 2015 and 2014, respectively. The total fair value of restricted shares that vested during the nine-month periods ended June 30, 2015 and 2014 were \$575,000 and \$479,000, respectively. At June 30, 2015, all restricted shares granted under the Plan were fully vested and therefore there was no unrecognized compensation expense related to nonvested restricted shares at that date.

Edgar Filing: First Savings Financial Group Inc - Form 10-Q

In May 2010, the Company awarded 177,549 incentive and 76,655 non-statutory stock options to directors, officers and key employees. The options granted vest ratably over five years and are exercisable in whole or in part for a period up to ten years from the date of the grant. Compensation expense is measured based on the fair market value of the options at the grant date and is recognized ratably over the period during which the shares are earned (the vesting period). The weighted average fair value at the grant date for options granted in 2010 was \$3.09, as determined at the date of grant using the Binomial option pricing model.

-39-

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

A summary of stock option activity under the Plan as of June 30, 2015, and changes during the nine-month period then ended is presented below.

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price Per Share</b>	<b>Weighted Average Remaining Contractual Term (years)</b>	<b>Aggregate Intrinsic Value</b>
	<i>(Dollars in thousands, except per share data)</i>			
Outstanding at October 1, 2014	234,232	\$ 13.25	5.6	\$ 2,743
Granted	-	-		
Exercised	(20,972 )	\$ 13.25		\$ 250
Forfeited or expired	-	-		
Outstanding at June 30, 2015	213,260	\$ 13.25	4.9	\$ 3,519
Exercisable at June 30, 2015	213,260	\$ 13.25	4.9	\$ 3,519

There were no stock options granted but 20,972 stock options were exercised during the nine-month period ended June 30, 2015. There were no stock options granted or exercised during the nine-month period ended June 30, 2014. The Company recognized compensation expense related to stock options of \$18,000 and \$95,000 for the three- and nine-month periods ended June 30, 2015, respectively. The Company recognized compensation expense related to stock options of \$38,000 and \$114,000 for the three- and nine-month periods ended June 30, 2014. At June 30, 2015, all stock options granted under the Plan were fully vested and therefore there was no unrecognized compensation expense related to nonvested stock options at that date.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

**11. Preferred Stock**

On August 11, 2011, the Company entered into a Securities Purchase Agreement (“Purchase Agreement”) with the United States Department of the Treasury, pursuant to which the Company issued 17,120 shares of its Senior Non-Cumulative Perpetual Preferred Stock, Series A (“Series A Preferred Stock”), having a liquidation amount per share equal to \$1,000, for a total purchase price of \$17,120,000. The Purchase Agreement was entered into, and the Series A Preferred Stock was issued, pursuant to the Small Business Lending Fund (“SBLF”) program, a \$30 billion fund established under the Small Business Jobs Act of 2010, that encourages lending to small businesses by providing Tier 1 capital to qualified community banks with assets of less than \$10 billion.

Holders of the Series A Preferred Stock are entitled to receive non-cumulative dividends, payable quarterly, on each January 1, April 1, July 1 and October 1, beginning October 1, 2011. The dividend rate, as a percentage of the liquidation amount, can fluctuate on a quarterly basis during the first ten quarters during which the Series A Preferred Stock is outstanding and may be adjusted between 1.0% and 5.0% per annum, to reflect the amount of change in the Bank’s level of Qualified Small Business Lending (“QSBL”) (as defined in the Purchase Agreement) over the baseline level calculated under the terms of the Purchase Agreement (“Baseline”). In addition to the dividend, in the event the Bank’s level of QSBL has not increased relative to the Baseline, at the beginning of the tenth calendar quarter, the Company will be subject to an additional lending incentive fee equal to 2.0% per annum. For the eleventh dividend period through the eighteenth dividend period, inclusive, and that portion of the nineteenth dividend period before, but not including, the four and one half (4½) year anniversary of the date of issuance, the dividend rate will be fixed at between 1.0% and 7.0% per annum based upon the increase in QSBL as compared to the Baseline. After four and one half (4½) years from issuance, the dividend rate will increase to nine 9.0%. Based upon the Bank’s level of QSBL over the Baseline for purposes of calculating the dividend rate for the initial dividend period, the dividend rate for the initial dividend period ended September 30, 2011 was 4.84%. The dividend rate for the sixteenth dividend period ended June 30, 2015 was 1.0% and the weighted average dividend rate for the nine-month period ended June 30, 2015 was 1.0%. The dividend rate for the seventeenth dividend period through the eighteenth dividend period will be 1.0%.

The Series A Preferred Stock is non-voting, except in limited circumstances. In the event that the Company fails to timely make five dividend payments, whether or not consecutive, the holder of the Series A Preferred Stock will have the right, but not the obligation, to appoint a representative as an observer on the Company’s board of directors.

The Series A Preferred Stock may be redeemed at any time at the Company’s option, at a redemption price of one hundred percent (100%) of the liquidation amount plus accrued but unpaid dividends to the date of redemption for the

current period, subject to the approval of its federal banking regulator.

The Series A Preferred Stock was issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. The Company has agreed to register the Series A Preferred Stock under certain circumstances set forth in the Purchase Agreement. The Series A Preferred Stock is not subject to any contractual restrictions on transfer.

-41-

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## 12. Recent Accounting Pronouncements

The following are summaries of recently issued accounting pronouncements that impact the accounting and reporting practices of the Company:

In January 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-04, *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40), Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. The objective of the amendments in this update is to reduce diversity by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendments in the update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor, and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in the update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The adoption of this update is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The update provides a five-step revenue recognition model for all revenue arising from contracts with customer and affects all entities that enter into contracts to provide goods or services to their customers (unless the contracts are included in the scope of other standards). The guidance requires an entity to recognize the revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. For public entities, the guidance was originally effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. However, in July 2015 the FASB affirmed its proposal to defer the effective date of ASU 2014-09 by one year, making the amendments effective for public entities for annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods. Companies have the option to apply ASU 2014-09 as of the original effective date. Early adoption is not permitted. Management is evaluating the new guidance, but does not expect the adoption of this guidance to have a material impact on the Company's consolidated financial position or



results of operations.

-42-

FIRST SAVINGS FINANCIAL GROUP, INC.

**PART I - ITEM 2**

**MANAGEMENT'S DISCUSSION AND  
ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS**

Safe Harbor Statement for Forward-Looking Statements

This report may contain forward-looking statements within the meaning of the federal securities laws. These statements are not historical facts; rather they are statements based on the Company's current expectations regarding its business strategies and their intended results and its future performance. Forward-looking statements are preceded by terms such as "expects," "believes," "anticipates," "intends" and similar expressions.

Forward-looking statements are not guarantees of future performance. Numerous risks and uncertainties could cause or contribute to the Company's actual results, performance and achievements being materially different from those expressed or implied by the forward-looking statements. Factors that may cause or contribute to these differences include, without limitation, general economic conditions, including changes in market interest rates and changes in monetary and fiscal policies of the federal government; legislative and regulatory changes; the quality and composition of the loan and investment securities portfolio; loan demand; deposit flows; competition; and changes in accounting principles and guidelines. Additional factors that may affect our results are discussed herein and in our Annual Report on Form 10-K for the year ended September 30, 2014 under "Part II, Item 1A. Risk Factors." These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company assumes no obligation and disclaims any obligation to update any forward-looking statements.

**Critical Accounting Policies**

During the nine-month period ended June 30, 2015, there was no significant change in the Company's critical accounting policies or the application of critical accounting policies as disclosed in the Company's Annual Report on Form 10-K for the year ended September 30, 2014.

**Comparison of Financial Condition at June 30, 2015 and September 30, 2014**

***Cash and Cash Equivalents.*** Cash and cash equivalents increased \$1.1 million, from \$20.3 million at September 30, 2014 to \$21.4 million at June 30, 2015.

***Loans.*** Net loans receivable increased \$13.8 million, from \$433.9 million at September 30, 2014 to \$447.7 million at June 30, 2015, due primarily to increases in commercial real estate and commercial business loans of \$6.8 million and \$4.7 million, respectively.

FIRST SAVINGS FINANCIAL GROUP, INC.

**PART I - ITEM 2**

**MANAGEMENT'S DISCUSSION AND**

**ANALYSIS OF FINANCIAL CONDITION AND**

**RESULTS OF OPERATIONS**

**Trading Account Securities.** Trading account securities increased \$3.5 million, from \$5.3 million at September 30, 2014 to \$8.8 million at June 30, 2015. Trading account securities are comprised of investment grade municipal bonds and the portfolio is managed by an investment advisory firm registered with the U.S. Securities and Exchange Commission.

**Securities Available for Sale.** Securities available for sale decreased \$4.6 million, from \$184.7 million at September 30, 2014 to \$180.1 million at June 30, 2015, due primarily to maturities of \$8.4 million and principal repayments of \$14.1 million, which more than offset purchases of \$19.1 million. The decrease in securities available for sale, primarily in U.S. government agency and sponsored enterprises securities, including mortgage-backed securities and CMOs, was due primarily to principal repayments.

**Securities Held to Maturity.** Investment securities held-to-maturity decreased \$478,000, from \$5.4 million at September 30, 2014 to \$4.9 million at June 30, 2015. There were no purchases of securities held to maturity, and partial calls and principal repayments on mortgage-backed securities totaled \$473,000 during the nine-month period ended June 30, 2015.

**Other Assets.** Other assets increased \$4.8 million, from \$2.6 million at September 30, 2014 to \$7.4 million at June 30, 2015, due primarily to the Bank's \$4.2 million commitment to invest in a historic tax credit entity. See Note 5 of the Notes to Consolidated Financial Statements beginning on page 8 of this quarterly report for additional information regarding the investment in the historic tax credit entity.

**Deposits.** Total deposits decreased \$4.2 million, from \$533.2 million at September 30, 2014 to \$529.0 million at June 30, 2015, due primarily to decreases in money market accounts and certificates of deposit of \$15.4 million and \$9.7 million, respectively, which more than offset increases in noninterest-bearing demand deposit accounts, interest-bearing demand deposit accounts and savings accounts of \$11.4 million, \$7.3 million and \$2.2 million, respectively, during the period. The decrease in money market accounts and the increase in interest-bearing demand

deposit accounts are due primarily to the reclassification of a single depository relationship of \$13.4 million from money market accounts to interest-bearing demand deposit accounts. The decrease in retail certificates of deposit is primarily attributed to maturities that customers are investing in more liquid deposit accounts given the low interest rate environment. Management continues to utilize brokered certificates of deposit in order to take advantage of historically low interest rates, provide short-term liquidity, replace attrition of retail certificates of deposit and provide funding for loan originations. Brokered certificates of deposit totaled \$57.8 million at June 30, 2015 and September 30, 2014.

***Borrowings.*** Borrowings from the FHLB increased \$15.1 million, from \$79.5 million at September 30, 2014 to \$94.6 million at June 30, 2015. Borrowings from the FHLB have increased in order to provide funding for loan originations.

FIRST SAVINGS FINANCIAL GROUP, INC.

**PART I - ITEM 2**

**MANAGEMENT'S DISCUSSION AND**

**ANALYSIS OF FINANCIAL CONDITION AND**

**RESULTS OF OPERATIONS**

**Stockholders' Equity.** Stockholders' equity increased \$4.9 million, from \$87.1 million at September 30, 2014 to \$92.0 million at June 30, 2015. Retained earnings increased \$4.1 million due to net income available to common shareholders of \$4.8 million, partially offset by common stock cash dividends of \$734,000. Accumulated other comprehensive income decreased \$393,000 as a result of a decrease in net unrealized gains on securities available for sale, which is due to changes in the yield curve and long-term rate forecasts. Book value (common stockholders' equity) per common share was \$34.27 at June 30, 2015 as compared to \$32.21 at September 30, 2014. Tangible book value (common stockholders' equity, less goodwill and core deposit intangibles) per common share was \$29.97 at June 30, 2015 as compared to \$27.76 at September 30, 2014.

**Results of Operations for the Nine Months Ended June 30, 2015 and 2014**

**Overview.** The Company reported net income of \$4.9 million and net income available to common shareholders of \$4.8 million, or \$2.14 per diluted share, for the nine-month period ended June 30, 2015 compared to net income of \$4.0 million and net income available to common shareholders of \$3.9 million, or \$1.74 per diluted share, for the nine-month period ended June 30, 2014. The increase in net income and net income available to common shareholders was due primarily to a gain on life insurance of \$831,000 recognized in the 2015 period. The annualized return on average assets, average equity and average common stockholders' equity were 0.91%, 7.28% and 8.98%, respectively, for the nine-month period ended June 30, 2015. The annualized return on average assets, average equity and average common stockholders' equity were 0.78%, 6.40% and 8.04%, respectively, for the nine-month period ended June 30, 2014.

**Net Interest Income.** Net interest income increased \$69,000, or 0.4%, for the nine-month period ended June 30, 2015 compared to the same period in 2014. Average interest-earnings assets increased \$27.2 million and average interest-bearing liabilities increased \$14.3 million when comparing the two periods. The tax-equivalent interest rate spread was 3.74% for 2015 compared to 3.87% for 2014.

## Edgar Filing: First Savings Financial Group Inc - Form 10-Q

Total interest income increased \$202,000, or 1.0%, when comparing the two periods due primarily to an increase in the average balance of interest-earning assets of \$27.2 million, from \$630.7 million for 2014 to \$657.9 million for 2015, which more than offset the change in interest income due to a decrease in the average tax-equivalent yield on interest-earning assets from 4.52% for 2014 to 4.40% for 2015. The average balance of loans and interest-bearing deposits with banks increased \$21.9 million and \$4.0 million, respectively, when comparing the two periods.

Total interest expense increased \$133,000, or 4.9%, due primarily to an increase in the average balance of interest-bearing liabilities of \$14.3 million, from \$551.2 million for 2014 to \$565.5 million for 2015, and a slight increase in the average tax-equivalent yield on interest-bearing liabilities from 0.65% for 2014 to 0.66% for 2015. The average balance of total interest-bearing deposits increased \$10.4 million and the average balance of borrowings increased \$3.9 million when comparing the two periods.

FIRST SAVINGS FINANCIAL GROUP, INC.

**PART I - ITEM 2****MANAGEMENT'S DISCUSSION AND****ANALYSIS OF FINANCIAL CONDITION AND****RESULTS OF OPERATIONS**

**Average Balance Sheets.** The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs for the nine-month periods ended June 30, 2015 and 2014. The yields and costs for the periods indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. Nonaccrual loans are included in average balances only. Loan fees are included in interest income on loans and are not material. Tax exempt income on loans and investment securities has been calculated on a tax equivalent basis using a federal marginal tax rate of 34%.

	<b>Nine Months Ended June 30, 2015</b>			<b>2014</b>			
	<b>Average Balance</b>	<b>Interest and Dividends</b>	<b>Yield/ Cost</b>	<b>Average Balance</b>	<b>Interest and Dividends</b>	<b>Yield/ Cost</b>	
	<i>(Dollars in thousands)</i>						
<b>Assets:</b>							
Interest-bearing deposits with banks	\$ 16,253	\$ 35	0.29	% \$ 12,257	\$ 27	0.29	%
Loans	449,641	16,070	4.77	427,752	15,808	4.93	
Investment securities	135,102	4,584	4.52	136,410	4,589	4.49	
Agency mortgage-backed securities	49,825	778	2.08	48,599	764	2.10	
FRB and FHLB stock	7,068	223	4.21	5,644	186	4.39	
Total interest-earning assets	657,889	21,690	4.40	630,662	21,374	4.52	
Non-interest-earning assets	66,747			59,564			
Total assets	\$ 724,636			\$ 690,226			
<b>Liabilities and equity:</b>							
NOW accounts	\$ 114,000	\$ 170	0.20	% \$ 116,108	\$ 181	0.21	%
Money market deposit accounts	79,581	170	0.28	72,810	181	0.33	
Savings accounts	71,628	34	0.06	69,636	33	0.06	
Time deposits	201,101	1,460	0.97	197,383	1,404	0.95	
Total interest-bearing deposits	466,310	1,834	0.52	455,937	1,799	0.53	



Edgar Filing: First Savings Financial Group Inc - Form 10-Q

Borrowings (1)	99,223	982	1.32	95,276	884	1.24
Total interest-bearing liabilities	565,533	2,816	0.66	551,213	2,683	0.65
Non-interest-bearing deposits	59,603			50,649		
Other non-interest-bearing liabilities	9,326			4,562		
Total liabilities	634,462			606,424		
Total equity	90,174			83,802		
Total liabilities and equity	\$724,636			\$690,226		
Net interest income		\$ 18,874			\$ 18,691	
Interest rate spread			3.74 %			3.87 %
Net interest margin			3.83 %			3.95 %
Average interest-earning assets to average interest-bearing liabilities			116.33 %			114.41 %

(1) Includes FHLB borrowings, repurchase agreements and other long-term debt.

FIRST SAVINGS FINANCIAL GROUP, INC.

**PART I - ITEM 2****MANAGEMENT'S DISCUSSION AND****ANALYSIS OF FINANCIAL CONDITION AND****RESULTS OF OPERATIONS**

**Rate/Volume Analysis.** The following table sets forth the effects of changing rates and volumes on our net interest income for the nine-month periods ended June 30, 2015 and 2014. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. Changes attributable to changes in both rate and volume have been allocated proportionally based on the absolute dollar amounts of change in each.

**Nine Months Ended June 30, 2015****Compared to****Nine Months Ended June 30, 2014****Increase (Decrease)**

	<b>Due to</b>		
	<b>Rate</b>	<b>Volume</b>	<b>Net</b>
	<i>(In thousands)</i>		
Interest income:			
Interest-bearing deposits with banks	\$ -	\$ 8	\$ 8
Loans	(454 )	716	262
Investment securities	11	(16 )	(5 )
Agency mortgage-backed securities	(9 )	23	14
Other interest-earning assets	(7 )	44	37
Total interest-earning assets	(459 )	775	316
Interest expense:			
Deposits	(179 )	214	35
Borrowings (1)	60	38	98
Total interest-bearing liabilities	(119 )	252	133
Net increase (decrease) in net interest income	\$ (340 )	\$ 523	\$ 183

(1) Includes FHLB borrowings, repurchase agreements and other long-term debt.

**Provision for Loan Losses.** The provision for loan losses was \$627,000 for the nine-month period ended June 30, 2015 compared to \$904,000 for the same period in 2014. The decrease in the provision for loans losses for 2015 as compared to the prior period was due primarily to an improvement in asset quality and a decrease in net charge-offs when comparing the two periods.

The Company recognized net charge-offs of \$357,000 for the nine-month period ended June 30, 2015 compared to net charge-offs of \$450,000 for the same period in 2014.

The recorded investment in nonperforming loans was \$5.0 million at June 30, 2015 compared to \$4.3 million at September 30, 2014 and \$4.9 million at June 30, 2014. Nonperforming loans at June 30, 2015 include nonaccrual loans of \$4.8 million and loans totaling \$278,000 that are over 90 days past due but still accruing interest. These loans are still accruing interest because the estimated value of the collateral and collection efforts are deemed sufficient to ensure their full recovery. The increase in nonperforming loans from September 30, 2014 to June 30, 2015 is due primarily to a single commercial real estate loan with an outstanding balance of \$1.5 million that was placed on nonaccrual status as of June 30, 2015. At June 30, 2015, this loan was current but in that month the borrower requested a six-month payment deferral beginning in July 2015. Although a restructuring of this loan did not occur as of the balance sheet date, it was placed on nonaccrual status.

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**PART I - ITEM 2**

**MANAGEMENT'S DISCUSSION AND**

**ANALYSIS OF FINANCIAL CONDITION AND**

**RESULTS OF OPERATIONS**

Gross loans receivable increased \$31.7 million from \$435.8 million at June 30, 2014 to \$467.5 million at June 30, 2015, primarily due to increases in permanent commercial real estate, commercial real estate construction and residential real estate construction, and commercial business loans of \$19.7 million, \$8.2 million, \$3.2 million and \$2.6 million respectively, which more than offset a decrease in multi-family loans of \$4.2 million. The increase in commercial real estate loans when comparing the two periods is due primarily to an increase in loans originated to high net worth individuals that are secured by low loan-to-value, single-tenant commercial properties located outside of the Company's primary market area and that are primarily leased to investment grade national-brand retailers. At June 30, 2015, \$47.8 million, or 29.7% of the commercial real estate loan portfolio and 10.2% of the total loan portfolio, consisted of these loans as compared to \$27.1 million, or 19.2%, of the commercial real estate loan portfolio and 6.2% of the total loan portfolio, at June 30, 2014.

The allowance for loan losses was \$6.5 million at June 30, 2015 compared to \$6.3 million at September 30, 2014 and \$6.0 million at June 30, 2014. Management has deemed these amounts as adequate on those dates based on its best estimate of probable known and inherent loan losses. The consistent application of management's allowance for loan losses methodology resulted in an increase in the level of the allowance for loan losses consistent with changes in the loan portfolio and overall economic conditions.

**Noninterest Income.** Noninterest income increased \$349,000 for the nine-month period ended June 30, 2015 as compared to the same period in 2014. The increase was due primarily to the gain on life insurance of \$831,000, which more than offset decreases in net gain on sale of trading account securities, other income and net gain on sales of available for sale securities of \$367,000, \$194,000 and \$123,000, respectively. The Company did not sell any available for sale securities during the 2015 period. The decrease in other income is due primarily to a litigation settlement of \$277,000 received in the March 2014 quarter as a partial recovery of losses on commercial bond investments recognized by Community First Bank in 2008.

**Noninterest Expense.** Noninterest expenses increased \$212,000 for the nine-month period ended June 30, 2015 as compared to the same period in 2014. The increase was due primarily to increases in compensation and benefits expense, advertising and data processing of \$176,000, \$138,000 and \$121,000, respectively, which more than offset decreases in losses and expenses related to other real estate owned and professional fees of \$207,000 and \$145,000, respectively. The increase in compensation and benefits expense is due primarily to normal salary, wages and benefits increases; increased incentive compensation based on Company performance; and increased staffing as a result of the Company's enhanced focus on U.S. Small Business Administration program lending. The increase in data processing expense is due primarily to contract termination costs of \$68,000 incurred during the 2015 period. The decrease in professional fees expense is due primarily to \$257,000 of expense incurred in the 2014 period for consulting services related to a revenue enhancement and operating expense efficiencies project.

**Income Tax Expense.** The Company recognized income tax expense of \$1.2 million for the nine months ended June 30, 2015, for an effective tax rate of 19.1%, compared to income tax expense of \$1.6 million, for an effective tax rate of 28.2%, for the same period in 2014. The decreases in income tax expense and the effective tax rate for the 2015 period were due primarily to a higher level of nontaxable income as a result of the gain on life insurance and the Company's captive insurance subsidiary, which was formed in September 2014.

FIRST SAVINGS FINANCIAL GROUP, INC.

**PART I - ITEM 2**

**MANAGEMENT'S DISCUSSION AND**

**ANALYSIS OF FINANCIAL CONDITION AND**

**RESULTS OF OPERATIONS**

**Results of Operations for the Three Months Ended June 30, 2015 and 2014**

**Overview.** The Company reported net income and net income available to common shareholders of \$2.2 million, or \$0.95 per diluted share, for the three-month period ended June 30, 2015 compared to net income of \$1.5 million and net income available to common shareholders of \$1.4 million, or \$0.64 per diluted share, for the three-month period ended June 30, 2014. The increase in net income and net income available to a common shareholders was due primarily to the gain on life insurance of \$831,000 recognized in the 2015 period. The annualized return on average assets, average equity and average common stockholders' equity were 1.21%, 9.60% and 11.82%, respectively, for the three-month period ended June 30, 2015. The annualized return on average assets, average equity and average common stockholders' equity were 0.83%, 6.88% and 8.62%, respectively, for the three-month period ended June 30, 2014.

**Net Interest Income.** Net interest income decreased \$67,000, or 1.1%, for the three-month period ended June 30, 2015 compared to the same period in 2014. Average interest-earnings assets increased \$16.4 million and the tax-equivalent interest rate spread was 3.72% for 2015 as compared to 3.84% for 2014.

Total interest income decreased \$7,000, or 0.1%, when comparing the two periods due primarily to a decrease in the average tax-equivalent yield on interest-earning assets from 4.46% for 2014 to 4.38% for 2015, which more than offset the change in interest income due to an increase in the average balance of interest-earning assets of \$16.4 million, from \$643.4 million for 2014 to \$659.8 million for 2015. The average balance of loans and interest-bearing deposits with banks increased \$19.0 million and \$4.9 million, respectively, which more than offset a decrease in the average balance of total investment securities of \$9.0 million, when comparing the two periods.

Total interest expense increased \$60,000, or 6.7%, due primarily to an increase in the average cost of interest-bearing liabilities from 0.62% for 2014 to 0.66% for 2015. The average balance of interest-bearing liabilities was \$561.8 million for both the 2014 and 2015 periods. The average balance of borrowings increased \$2.1 million and the average

balance of total interest-bearing deposits decreased \$2.2 million when comparing the two periods.

FIRST SAVINGS FINANCIAL GROUP, INC.

**PART I - ITEM 2****MANAGEMENT'S DISCUSSION AND****ANALYSIS OF FINANCIAL CONDITION AND****RESULTS OF OPERATIONS**

**Average Balance Sheets.** The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs for the three-month periods ended June 30, 2015 and 2014. The yields and costs for the periods indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. Nonaccrual loans are included in average balances only. Loan fees are included in interest income on loans and are not material. Tax exempt income on loans and investment securities has been calculated on a tax equivalent basis using a federal marginal tax rate of 34%.

	Three Months Ended June 30, 2015			2014		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
	<i>(Dollars in thousands)</i>					
Assets:						
Interest-bearing deposits with banks	\$17,708	\$ 12	0.27 %	\$12,788	\$ 10	0.31 %
Loans	452,324	5,306	4.69	433,291	5,284	4.88
Investment securities	134,616	1,569	4.66	141,111	1,551	4.40
Agency mortgage-backed securities	48,039	254	2.11	50,532	270	2.14
FRB and FHLB stock	7,157	77	4.30	5,675	58	4.09
Total interest-earning assets	659,844	7,218	4.38	643,397	7,173	4.46
Non-interest-earning assets	67,549			62,004		
Total assets	\$727,393			\$705,401		
Liabilities and equity:						
NOW accounts	\$115,114	\$ 57	0.20 %	\$115,828	\$ 59	0.20 %
Money market deposit accounts	77,890	45	0.23	74,794	61	0.33
Savings accounts	73,500	12	0.07	71,354	12	0.07
Time deposits	203,303	480	0.94	209,998	457	0.87
Total interest-bearing deposits	469,807	594	0.51	471,974	589	0.50



Edgar Filing: First Savings Financial Group Inc - Form 10-Q

Borrowings (1)	92,003	339	1.47	89,873	284	1.26
Total interest-bearing liabilities	561,810	933	0.66	561,847	873	0.62
Non-interest-bearing deposits	63,870			53,794		
Other non-interest-bearing liabilities	10,260			5,049		
Total liabilities	635,940			620,690		
Total equity	91,453			84,711		
Total liabilities and equity	\$727,393			\$705,401		
Net interest income		\$ 6,285			\$ 6,300	
Interest rate spread			3.72 %			3.84 %
Net interest margin			3.81 %			3.92 %
Average interest-earning assets to average interest-bearing liabilities			117.45 %			114.51 %

(1) Includes FHLB borrowings, repurchase agreements and other long-term debt.

FIRST SAVINGS FINANCIAL GROUP, INC.

**PART I - ITEM 2****MANAGEMENT'S DISCUSSION AND****ANALYSIS OF FINANCIAL CONDITION AND****RESULTS OF OPERATIONS**

**Rate/Volume Analysis.** The following table sets forth the effects of changing rates and volumes on our net interest income for the three-month periods ended June 30, 2015 and 2014. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. Changes attributable to changes in both rate and volume have been allocated proportionally based on the absolute dollar amounts of change in each.

	<b>Three Months Ended June 30, 2015</b>		
	<b>Compared to</b>		
	<b>Three Months Ended June 30, 2014</b>		
	<b>Increase (Decrease)</b>		
	<b>Due to</b>		
	<b>Rate</b>	<b>Volume</b>	<b>Net</b>
		<i>(In thousands)</i>	
Interest income:			
Interest-bearing deposits with banks	\$ (1 )	\$ 3	\$ 2
Loans	(171 )	193	22
Investment securities	82	(64 )	18
Agency mortgage-backed securities	(4 )	(12 )	(16 )
Other interest-earning assets	3	16	19
Total interest-earning assets	(91 )	136	45
Interest expense:			
Deposits	7	(2 )	5
Borrowings (1)	48	7	55
Total interest-bearing liabilities	55	5	60
Net increase (decrease) in net interest income	\$ (146 )	\$ 131	\$ (15 )

(1) Includes FHLB borrowings, repurchase agreements and other long-term debt.

***Provision for Loan Losses.*** The provision for loan losses was \$208,000 for the three-month period ended June 30, 2015 compared to \$300,000 for the same period in 2014. The decrease in the provision for loans losses for 2015 as compared to the prior period was due primarily to an improvement in asset quality and a decrease in net charge-offs when comparing the two periods.

The Company recognized net charge-offs of \$202,000 for the three-month period ended June 30, 2015 compared to net charge-offs of \$368,000 for the same period in 2014.

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**PART I - ITEM 2**

**MANAGEMENT'S DISCUSSION AND**

**ANALYSIS OF FINANCIAL CONDITION AND**

**RESULTS OF OPERATIONS**

**Noninterest Income.** Noninterest income increased \$646,000 for the three-month period ended June 30, 2015 as compared to the same period in 2014. The increase was due primarily to the \$831,000 gain on life insurance, which more than offset decreases in net gain on trading account securities and net gain on sales of available for sale securities of \$165,000 and \$122,000, respectively. The Company did not sell any available for sale securities during the 2015 period.

**Noninterest Expense.** Noninterest expenses increased \$147,000 for the three-month period ended June 30, 2015 as compared to the same period in 2014. The increase was due primarily to an increase in compensation and benefits expense of \$247,000, which more than offset a decrease in net loss on other real estate owned of \$120,000. The increase in compensation and benefits expense is due primarily to normal salary, wages and benefits increases; increased incentive compensation based on Company performance; and increased staffing as a result of the Company's enhanced focus on U.S. Small Business Administration program lending. The decrease in net loss on other real estate owned is due primarily to \$181,000 in provisions for losses on other real estate owned during the 2014 period as compared to \$33,000 in provisions for losses for the 2015 period.

**Income Tax Expense.** The Company recognized income tax expense of \$318,000 for the three months ended June 30, 2015, for an effective tax rate of 12.6%, compared to income tax expense of \$534,000, for an effective tax rate of 26.8%, for the same period in 2014. The decreases in income tax expense and the effective tax rate for the three months ended June 30, 2015 were due primarily to a higher level of nontaxable income as a result of the gain on life insurance and the Company's captive insurance subsidiary, which was formed in September 2014.

FIRST SAVINGS FINANCIAL GROUP, INC.

**PART I - ITEM 2**

**MANAGEMENT'S DISCUSSION AND  
ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS**

**Liquidity and Capital Resources**

***Liquidity Management.*** Liquidity is the ability to meet current and future financial obligations of a short-term nature. The Bank's primary sources of funds are customer deposits, proceeds from loan repayments, maturing securities and FHLB borrowings. While loan repayments and maturities are a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by market interest rates, general economic conditions and competition. At June 30, 2015, the Bank had cash and cash equivalents of \$21.4 million, trading account securities with a fair value of \$8.8 million and securities available-for-sale with a fair value of \$180.1 million. If the Bank requires funds beyond its ability to generate them internally, it has additional borrowing capacity with the FHLB, borrowing capacity on a federal funds purchased line of credit facility with another financial institution and additional collateral eligible for repurchase agreements.

The Bank's primary investing activity is the origination of commercial real estate and one-to-four family mortgage loans and, to a lesser extent, consumer, multi-family, commercial business and residential and commercial real estate construction loans. The Bank also invests in U.S. government agency and sponsored enterprises securities, mortgage-backed securities and collateralized mortgage obligations issued by U.S. government agencies and sponsored enterprises, and municipal bonds.

The Bank must maintain an adequate level of liquidity to ensure the availability of sufficient funds to support loan growth and deposit withdrawals, to satisfy financial commitments and to take advantage of investment opportunities. Historically, the Bank has been able to retain a significant amount of its deposits as they mature. If these maturing deposits do not remain with the Bank, we will be required to seek other sources of funds, including other certificates of deposit and borrowings.

The Company is a separate legal entity from the Bank and must provide for its own liquidity to pay its operating expenses and other financial obligations, to pay any dividends and to repurchase any of its outstanding common stock.

The Company's primary source of income is dividends received from the Bank. The amount of dividends that the Bank may declare and pay to the Company in any calendar year cannot exceed net income for that year to date plus retained net income (as defined) for the preceding two calendar years. During the nine months ended June 30, 2015 the Bank declared and paid dividends to the Company totaling \$8.5 million. At June 30, 2015, the Company (unconsolidated basis) had liquid assets of \$15.2 million.

**Capital Management.** The Bank is required to maintain specific amounts of capital pursuant to regulatory requirements. As of June 30, 2015, the Bank was in compliance with all regulatory capital requirements that were effective as of such date, with Tier 1 capital (to average total assets), common equity Tier 1 capital (to risk-weighted assets), Tier 1 capital (to risk-weighted assets) and total capital (to risk-weighted assets) ratios of 8.58%, 11.79%, 11.79% and 13.04%, respectively. The regulatory requirements at that date were 5.0%, 6.5%, 8.0% and 10.0%, respectively, in order to be categorized as "well capitalized" under applicable regulatory guidelines. At June 30, 2015, the Bank was considered "well-capitalized" under applicable regulatory guidelines.

FIRST SAVINGS FINANCIAL GROUP, INC.

**PART I - ITEM 2**

**MANAGEMENT'S DISCUSSION AND  
ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS**

**Off-Balance Sheet Arrangements**

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with GAAP, are not recorded on the Company's financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are primarily used to manage customers' requests for funding and take the form of loan commitments and letters of credit. A further presentation of the Company's off-balance sheet arrangements is presented in the Company's Annual Report on Form 10-K for the year ended September 30, 2014.

For the nine-months ended June 30, 2015, the Company did not engage in any off-balance sheet transactions reasonably likely to have a material effect on the Company's financial condition, results of operations or cash flows.

FIRST SAVINGS FINANCIAL GROUP, INC.

**PART I – ITEM 3**

**QUANTITATIVE AND QUALITATIVE DISCLOSURES**

**ABOUT MARKET RISK**

**Qualitative Aspects of Market Risk.** Market risk is the risk that the estimated fair value of our assets, liabilities, and derivative financial instruments will decline as a result of changes in interest rates or financial market volatility, or that our net income will be significantly reduced by interest rate changes.

The Company's principal financial objective is to achieve long-term profitability while reducing its exposure to fluctuating market interest rates by operating within acceptable limits established for interest rate risk and maintaining adequate levels of funding and liquidity. The Company has sought to reduce the exposure of its earnings to changes in market interest rates by attempting to manage the mismatch between asset and liability maturities and interest rates. In order to reduce the exposure to interest rate fluctuations, the Company has developed strategies to manage its liquidity, shorten its effective maturities of certain interest-earning assets and decrease the interest rate sensitivity of its asset base. Management has sought to decrease the average maturity of its assets by emphasizing the origination of short-term residential mortgage, commercial mortgage and commercial business loans, all of which are retained by the Company for its portfolio. The Company relies on retail deposits as its primary source of funds. Management believes the primary use of retail deposits, complimented with a modest allocation of brokered certificates of deposit and FHLB borrowings, reduce the effects of interest rate fluctuations because they generally represent a more stable source of funds.

**Quantitative Aspects of Market Risk.** Potential cash flows, sales, or replacement value of many of our assets and liabilities, especially those that earn or pay interest, are sensitive to changes in the general level of interest rates. This interest rate risk arises primarily from our normal business activities of gathering deposits and extending loans. Many factors affect our exposure to changes in interest rates, such as general economic and financial conditions, customer preferences, historical pricing relationships, and re-pricing characteristics of financial instruments. Our earnings can also be affected by the monetary and fiscal policies of the U.S. Government and its agencies, particularly the Federal Reserve Board. Furthermore, the Company does not engage in hedging activities or purchase high-risk derivative instruments and also is not subject to foreign currency exchange rate risk or commodity price risk.

An element in our ongoing process is to measure and monitor interest rate risk using a Net Interest Income at Risk simulation to model the interest rate sensitivity of the balance sheet and to quantify the impact of changing interest rates on the Company. The model quantifies the effects of various possible interest rate scenarios on projected net interest income over a one-year horizon. The model assumes a semi-static balance sheet and measures the impact on



net interest income relative to a base case scenario of hypothetical changes in interest rates over twelve months and provides no effect given to any steps that management might take to counter the effect of the interest rate movements. The scenarios include prepayment assumptions, changes in the level of interest rates, the shape of the yield curve, and spreads between market interest rates in order to capture the impact from re-pricing, yield curve, option, and basis risks.

-55-

FIRST SAVINGS FINANCIAL GROUP, INC.

**PART I – ITEM 3****QUANTITATIVE AND QUALITATIVE DISCLOSURES****ABOUT MARKET RISK**

Results of our simulation modeling, which assumes an immediate and sustained parallel shift in market interest rates, project that the Company's net interest income could change as follows over a one-year horizon, relative to our base case scenario.

Immediate Change in the Level of Interest Rates	At June 30, 2015 One Year Horizon		At September, 2014 One Year Horizon	
	Dollar Change	Percent Change	Dollar Change	Percent Change
	(Dollars in thousands)			
300bp	\$1,619	3.37 %	\$ (1,754 )	(7.04 )%
200bp	1,104	2.30	(1,132 )	(4.54 )
100bp	471	0.98	(552 )	(2.22 )
Static	-	-	-	-
(100)bp	(1,562)	(3.25 )	(239 )	(0.96 )

At June 30, 2015, our simulated exposure to an increase in interest rates shows that an immediate and sustained increase in rates of 1.00% will increase our net interest income by \$471,000 or 0.98% over a one year horizon compared to a flat interest rate scenario. Furthermore, rate increases of 2.00% and 3.00% would cause net interest income to increase by 2.30% and 3.37%, respectively.

The Company also has longer term interest rate risk exposure, which may not be appropriately measured by Net Interest Income at Risk modeling, and therefore uses an Economic Value of Equity ("EVE") interest rate sensitivity analysis in order to evaluate the impact of its interest rate risk on earnings and capital. This is measured by computing the changes in net EVE for its cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. EVE modeling involves discounting present values of all cash flows for on and off balance sheet items under different interest rate scenarios and provides no effect given to any steps that management might take to counter the effect of the interest rate movements. The discounted present value of all cash flows represents the Company's EVE and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. The amount of base case EVE and its sensitivity to shifts in interest rates provide a measure of the longer term re-pricing and option risk in the balance sheet.



FIRST SAVINGS FINANCIAL GROUP, INC.

**PART I – ITEM 3****QUANTITATIVE AND QUALITATIVE DISCLOSURES****ABOUT MARKET RISK**

Results of our simulation modeling, which assumes an immediate and sustained parallel shift in market interest rates, project that Company's EVE could change as follows, relative to our base case scenario.

<b>Immediate Change in the Level of Interest Rates</b>	<b>Economic Value of Equity</b>			<b>Economic Value of Equity as a Percent of Present Value of Assets</b>		
	<b>Dollar Amount</b>	<b>Dollar Change</b>	<b>Percent Change</b>	<b>EVE Ratio</b>	<b>Change</b>	
	At June 30, 2015 (Dollars in thousands)					
300bp	\$113,358	\$(4,265 )	(3.63 )%	17.27	%	110 bp
200bp	119,957	2,334	1.98	17.55		138 bp
100bp	123,140	5,517	4.69	17.37		120 bp
Static	117,623	-	-	16.17		- bp
(100)bp	106,368	(11,255)	(9.57 )	14.40		(177 )bp

<b>Immediate Change in the Level of Interest Rates</b>	<b>Economic Value of Equity</b>			<b>Economic Value of Equity as a Percent of Present Value of Assets</b>		
	<b>Dollar Amount</b>	<b>Dollar Change</b>	<b>Percent Change</b>	<b>EVE Ratio</b>	<b>Change</b>	
	At September 30, 2014 (Dollars in thousands)					
300bp	\$106,910	\$(14,317)	(11.81 )%	16.91	%	(28 )bp
200bp	114,585	(6,642 )	(5.48 )	17.44		25 bp
100bp	122,696	1,469	1.21	17.92		73 bp
Static	121,227	-	-	17.19		- bp
(100)bp	111,206	(10,021)	(8.27 )	15.52		(167 )bp

The previous table indicates that at June 30, 2015, the Company would expect an increase in its EVE in the event of a sudden and sustained 100 to 200 basis point increase but a decrease in EVE in the event of a sudden and sustained 300 basis point increase and/or a 100 basis point decrease in prevailing interest rates. The expected decrease in the Company's EVE given a larger increase in rates is primarily attributable to the relatively high percentage of fixed-rate loans in the Company's loan portfolio, which at June 30, 2015 comprised approximately 44.5% of the loan portfolio.

The models are driven by expected behavior in various interest rate scenarios and many factors besides market interest rates affect the Company's net interest income and EVE. For this reason, we model many different combinations of interest rates and balance sheet assumptions to understand its overall sensitivity to market interest rate changes. Therefore, as with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing tables and it's recognized that the model outputs are not guarantees of actual results. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates of deposit could deviate significantly from those assumed in calculating the table.

FIRST SAVINGS FINANCIAL GROUP, INC.

**PART I - ITEM 4**

**CONTROLS AND PROCEDURES**

**Controls and Procedures**

The Company's management, including the Company's principal executive officer and the Company's principal financial officer, have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended. Based on their evaluation, the principal executive officer and the principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that information required to be disclosed in reports that the Company files or submits under the Exchange Act with the SEC (1) is recorded, processed, summarized, and reported within the time periods specified in the SEC's Rules and Forms and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

During the quarter ended June 30, 2015, there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

-58-

FIRST SAVINGS FINANCIAL GROUP, INC.

PART II

## **OTHER INFORMATION**

### **Item 1. Legal Proceedings**

The Company is not a party to any legal proceedings. Periodically, there have been various claims and lawsuits involving the Bank, mainly as a plaintiff, such as claims to enforce liens, condemnation proceedings on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans and other issues incident to the Bank's business. The Bank is not a party to any pending legal proceedings that it believes would have a material adverse effect on its financial condition or results of operations.

### **Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended September 30, 2014 which could materially affect our business, financial condition or future results. There have been no material changes to the risk factors described in our Annual Report on Form 10-K, however, these are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or results of operations.

-59-

## FIRST SAVINGS FINANCIAL GROUP, INC.

## PART II

## OTHER INFORMATION

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table presents information regarding the Company's stock repurchase activity during the quarter ended June 30, 2015:

<b>Period</b>	<b>(a) Total number of shares (or units) purchased</b>	<b>(b) Average price paid per share (or unit)</b>	<b>(c) Total number of shares (or units) purchased as part of publicly announced plans or programs (1)</b>	<b>(d) Maximum number (or appropriate dollar value) of shares (or units) that may yet be purchased under the plans or programs</b>
April 1, 2015 through April 30, 2015	-	\$ -	-	83,073
May 1, 2015 through May 31, 2015	4,483	\$ 29.50	4,483	78,590
June 1, 2015 through June 30, 2015	-	\$ -	-	78,590
Total	-	\$ -	-	78,590

(1) On November 16, 2012, the Company announced that its Board of Directors authorized a stock repurchase program to acquire up to 230,217 shares, or 10.0% of the Company's outstanding common stock. Under the program, repurchases are to be conducted through open market purchases or privately negotiated transactions, and are to be made from time to time depending on market conditions and other factors. There is no guarantee as to the exact number of shares to be repurchased by the Company. Repurchased shares will be held in treasury.

## Item 3. Defaults upon Senior Securities



Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

-60-

FIRST SAVINGS FINANCIAL GROUP, INC.

PART II

**OTHER INFORMATION**

**Item 5. Other Information**

None.

**Item 6. Exhibits**

31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer

31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer

32.1 Section 1350 Certification of Chief Executive Officer

32.2 Section 1350 Certification of Chief Financial Officer

The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the 101 Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statement of Changes in Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) related notes

-61-

**SIGNATURES**

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

FIRST SAVINGS FINANCIAL GROUP,  
INC.  
(Registrant)

**Dated August 14, 2015** **BY:** /s/ Larry W. Myers  
Larry W. Myers  
President and Chief Executive Officer

**Dated August 14, 2015** **BY:** /s/ Anthony A. Schoen  
Anthony A. Schoen  
Chief Financial Officer